



Brookings Papers on Economic Activity (BPEA), Spring 2023

Discussion of Goldberg and Reed's:

**“Is the Global Economy Deglobalizing?
And If So, Why? And What is Next?”**

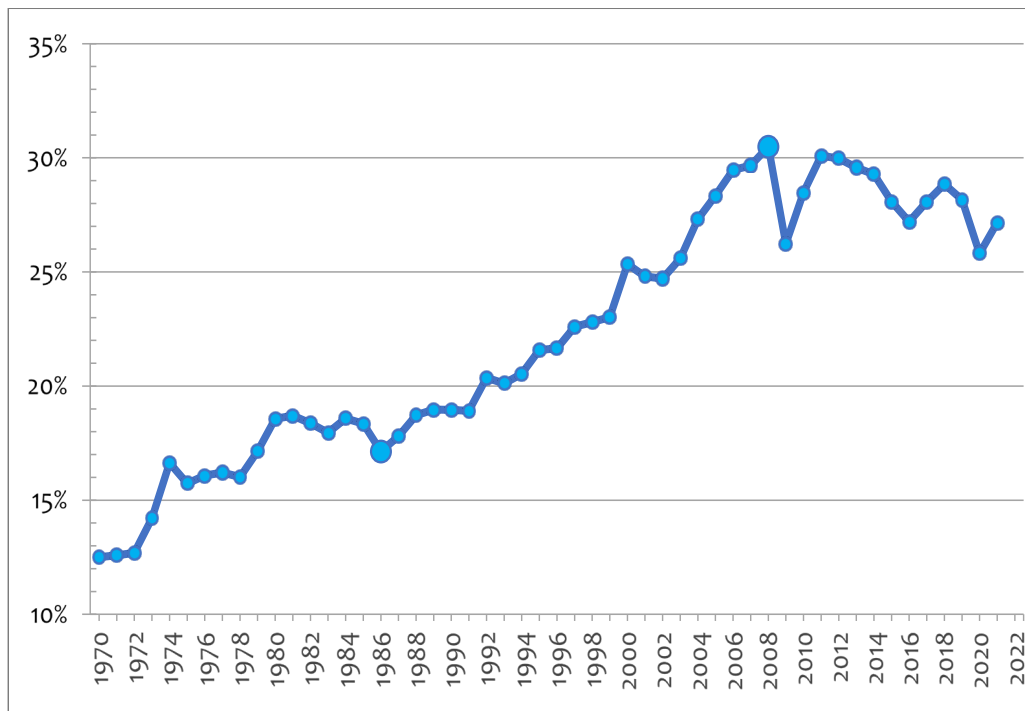
by Pol Antràs (Harvard)

Overview

- Goldberg and Reed make three main points in their article:
 1. The world economy **does not** appear to be deglobalizing
 2. Global trade was remarkably **resilient** in the face of COVID, a drastic challenge to the functioning of the global economy
 3. Authors identify a recent significant change in the policy environment (particularly after Russia's invasion of Ukraine) that foretells a **highly uncertain future** for globalization

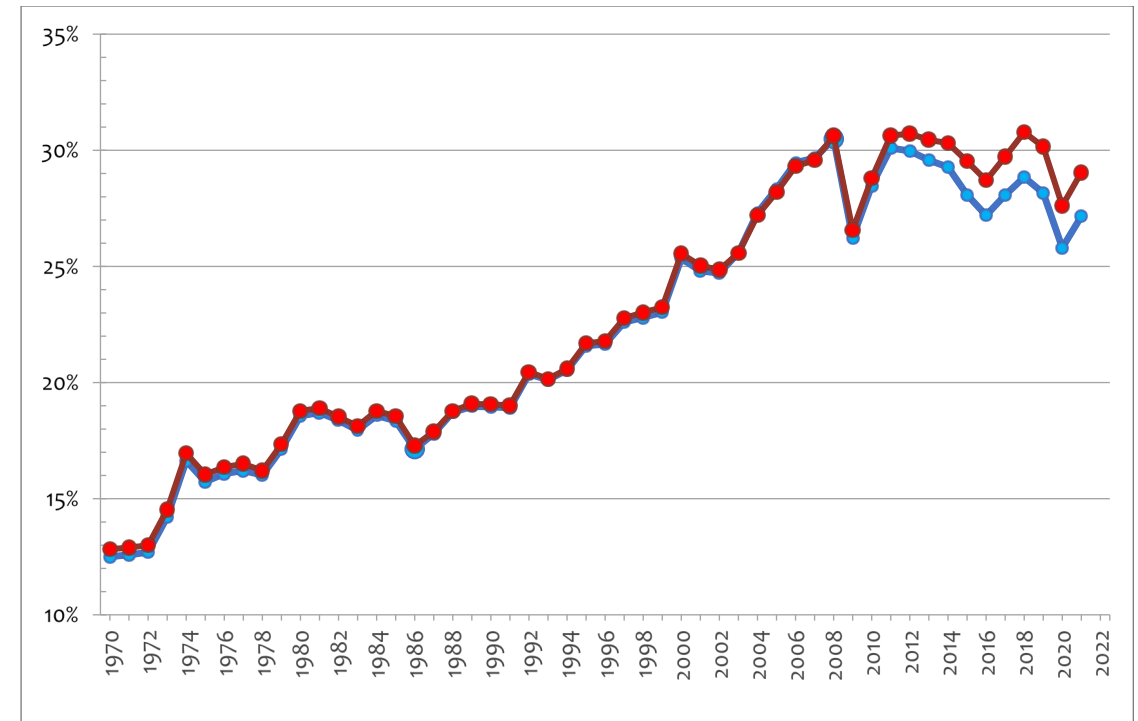
The Facts: Slowbalization, not De-Globalization

Chart 1. World Trade over World GDP (1970-2021)



Source: World Bank's World Development Indicators ([link](#))

Chart 1'. World Trade over World GDP (1970-2021) excluding China



Source: World Bank's World Development Indicators ([link](#))

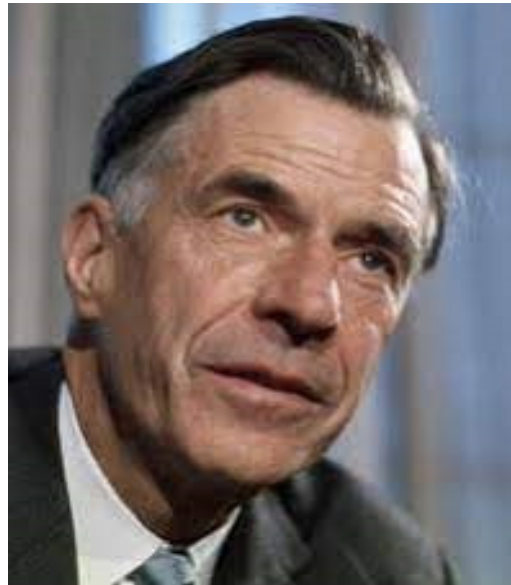
“You can see the deglobalization age everywhere but in international trade statistics”

It Hasn't Happen, But Will It Happen?



“Prediction is very difficult, especially if it’s about the future“

Niels Bohr (1885-1962)



“The only function of economic forecasting is to make astrology look respectable.”

John Kenneth Galbraith (1908-2006)

My Views

- I agree with much of what is in Goldberg and Reed's paper
 - I will focus on outlining five aspects in which my views depart a bit
- 1. Resiliency is costly
- 2. The role of interest rates
- 3. Russia versus China
- 4. Beyond goods markets: Deglobalization in labor markets
- 5. Needed: A multi-disciplinary approach

#1: Resiliency is Costly

- Sunk costs associated with formation of GVCs generate hysteresis, but they also naturally lead to low levels of diversification
 - “China plus one” strategies are very costly

Table 1. Number of Source Countries Per Imported Product by US Firms

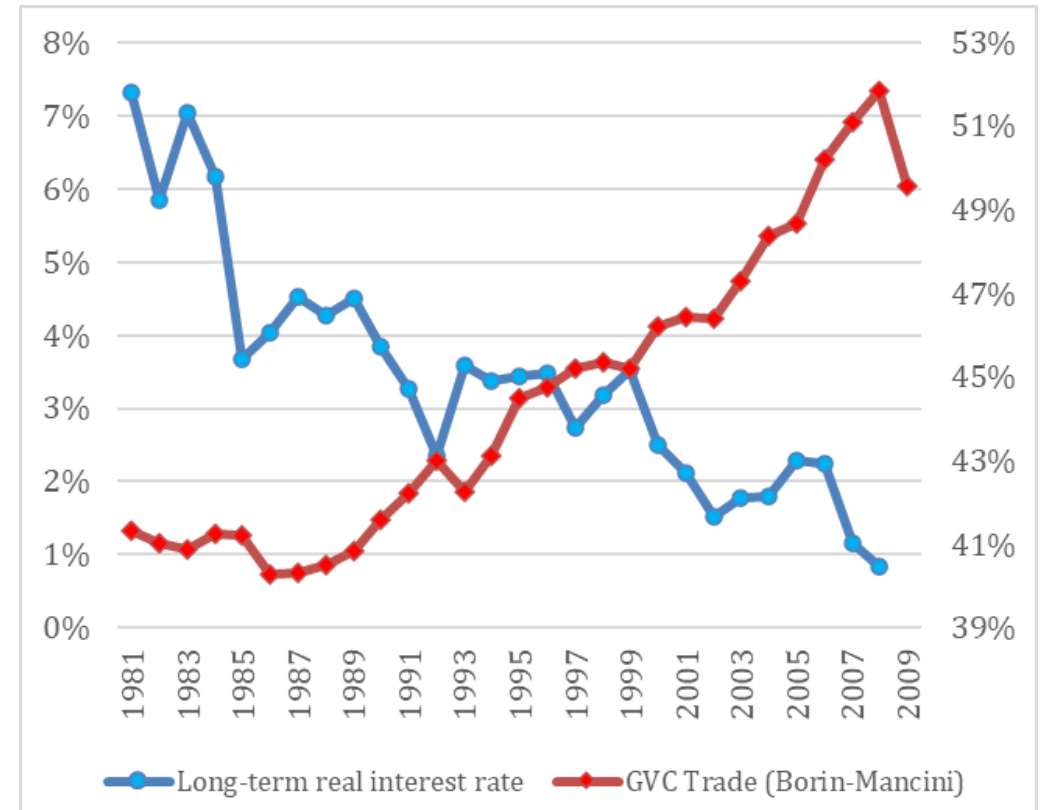
	Firm Level		
	Mean	Median	Max
Mean	1.11	1.03	1.78
Median	1.00	1.00	1.00
95th percentile	1.61	1.00	4.00

Source: Antràs, Fort and Tintelnot (2017). Table reports statistics on the number of countries from which a firm imports the same HS10 product for the year 2007.

#2: The Role of Interest Rates

- Hyperglobalization period witnessed a substantial decline in real interest rates
- Formation of GVCs entailed significant set up costs, which were cheaper to finance in an era of low interest rates
- Because many of these costs were sunk in nature, a hypothetical reorganization of GVCs would again entail the need for significant **new investments**
 - but maybe facing higher interest rates!

Real Interest Rates and the Expansion of GVC (1981-2009)

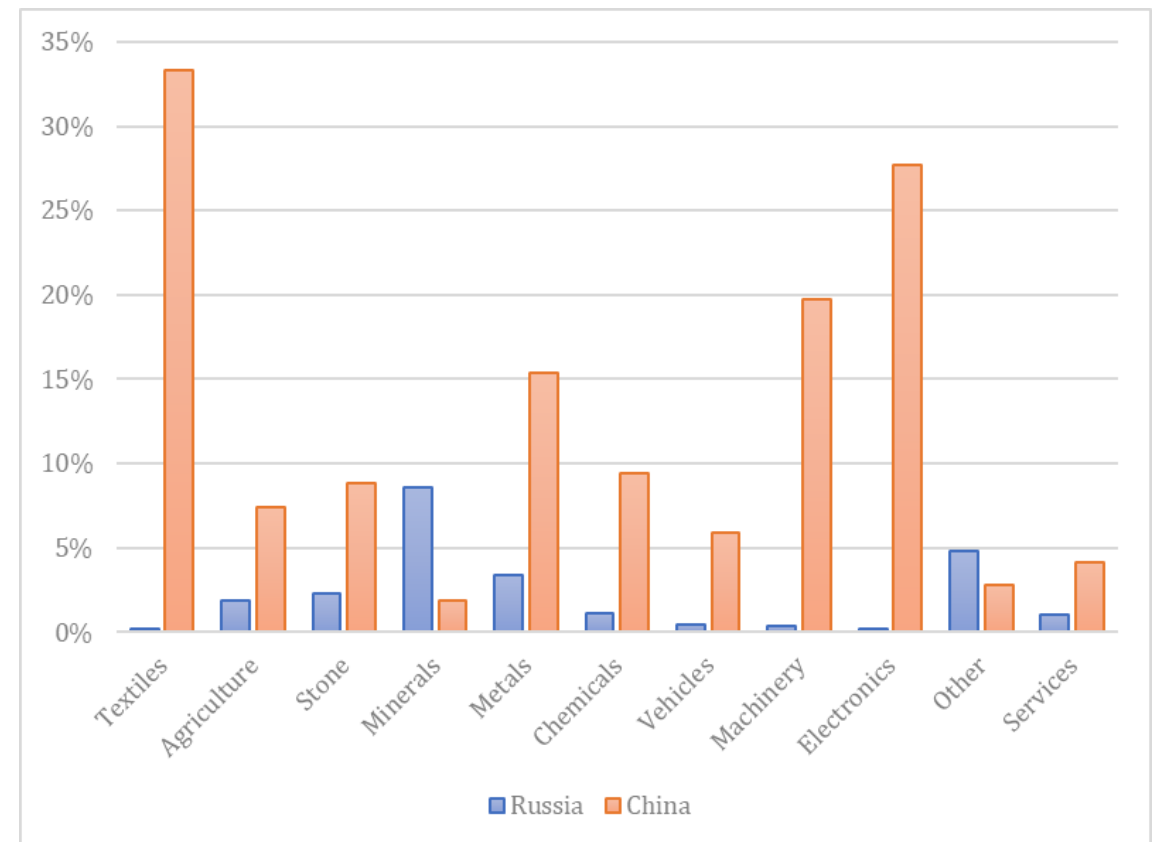


Sources: Borin and Mancini (2019) and Farhi and Gourio (2019)

#3: Russia versus China

- ❑ Implications of a “decoupling” of Russia from the global trade system would be relatively minor
- ❑ A counterfactual without the February 2022 invasion would’ve still witnessed rising geopolitical tensions
- ❑ I’m increasingly concerned about China
 - **Common view:** decoupling would be too costly for China (semiconductors)
 - But who would go along with China?

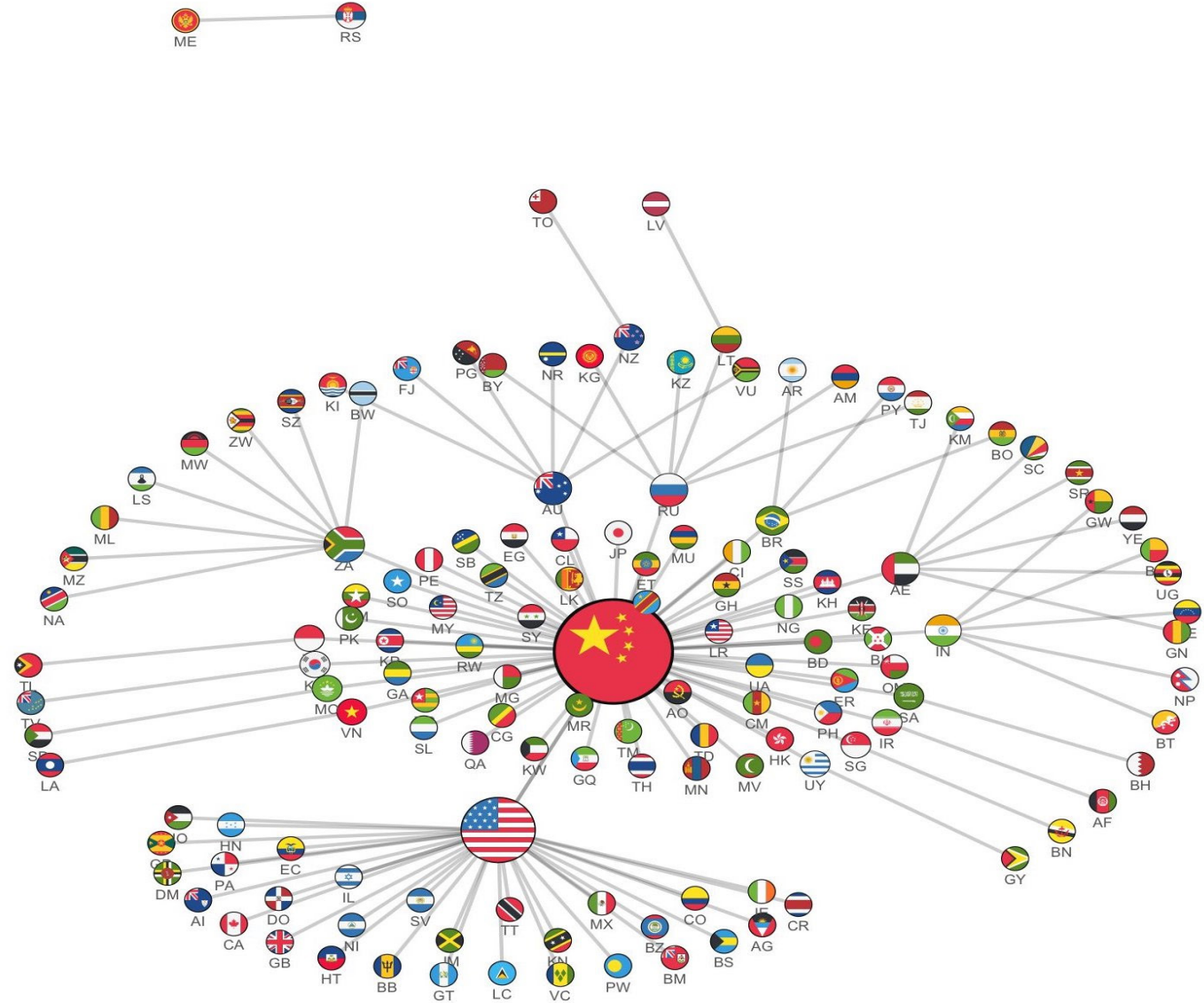
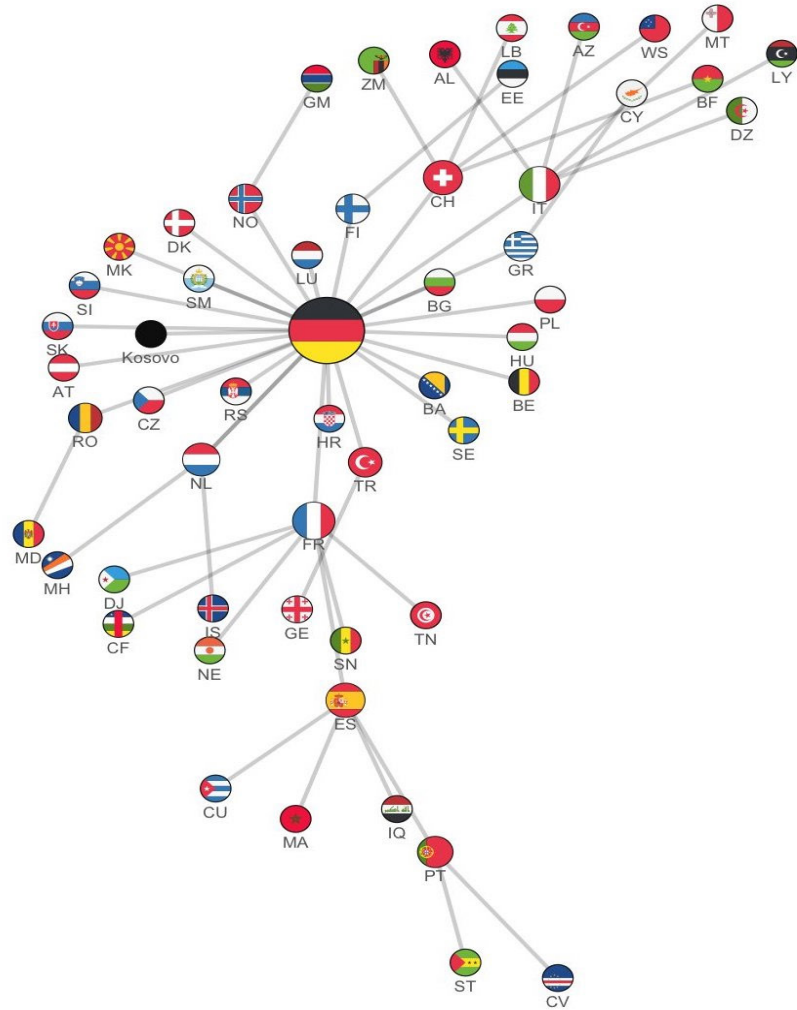
Russia’s and China’s Global Market Share in Exports by Sector



Source: Atlas of Economic Complexity (<https://atlas.cid.harvard.edu>) for the year 2019

Countries connected to their primary trading partner in 2020

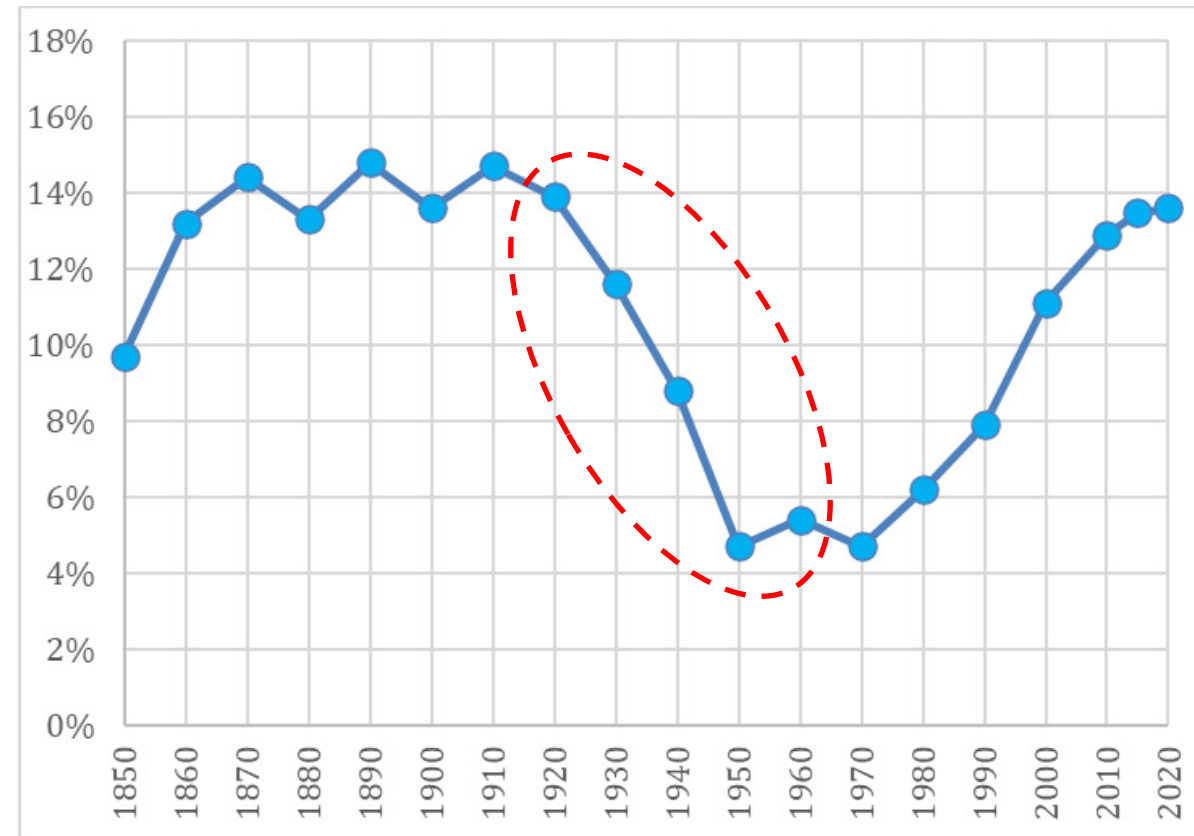
Exports + imports. Data: International Monetary Fund. Flags were not available for countries in black.



#4: Deglobalization in Labor Markets

- Little evidence that migration flows have significantly slowed down or decreased
 - But important role of refugees
- Deglobalization in goods markets often triggers deglobalization in labor markets
- Real income and welfare implications of lower migration would be orders of magnitude larger

Foreign-Born Population as a Percentage of the U.S. Population (1850-2020)



Source: United States Census Bureau

#5: Needed: A Multi-Disciplinary Approach

- Quantitative revolution in international trade
 - We are now able to quickly produce projections for how world trade and world income will respond to various counterfactuals
 - Eppinger et al. (2021), Bonadio et al. (2021), Çakmaklı et al. (2021), Bachmann et al. (2022)
- I have qualms about this quantitative revolution in the field of international trade
 - too high a ratio of calibration to estimation; problem of overfitting
 - Need to look more at IO and less to Macro
- Need to look beyond Economics
 - Our modeling of governments is quite distinct from how International Relations scholars view them (as players trying to flex their *power* in Hobbesian anarchy of the international arena)