



V Banco de España Annual Research Conference

“De-Globalization? Global Value Chains in the Post-COVID-19 Age”

Pol Antràs (Harvard)

Road Map

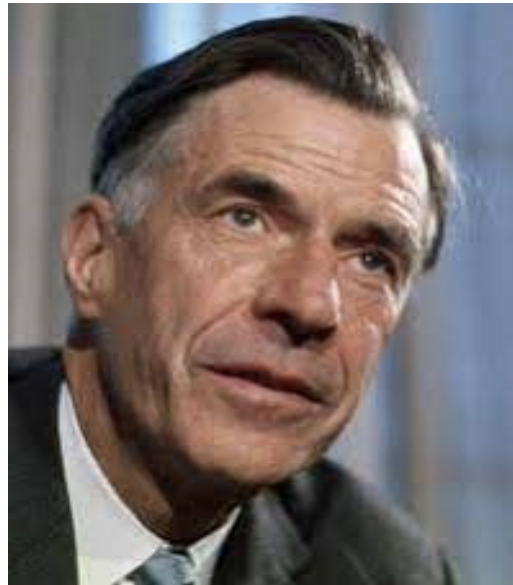
- Review recent trends in the global economy
 - Have we entered a phase of de-globalization?
 - Are global value chains retrenching?
- Speculate on the future of globalization and of GVCs
- I will structure presentation around 10 points
 - More in background paper: “De-Globalisation? GVCs in the Post-COVID-19 Age”
 - But I am somewhat more pessimistic than in October of 2020

Some Caveats



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

Niels Bohr (1885-1962)



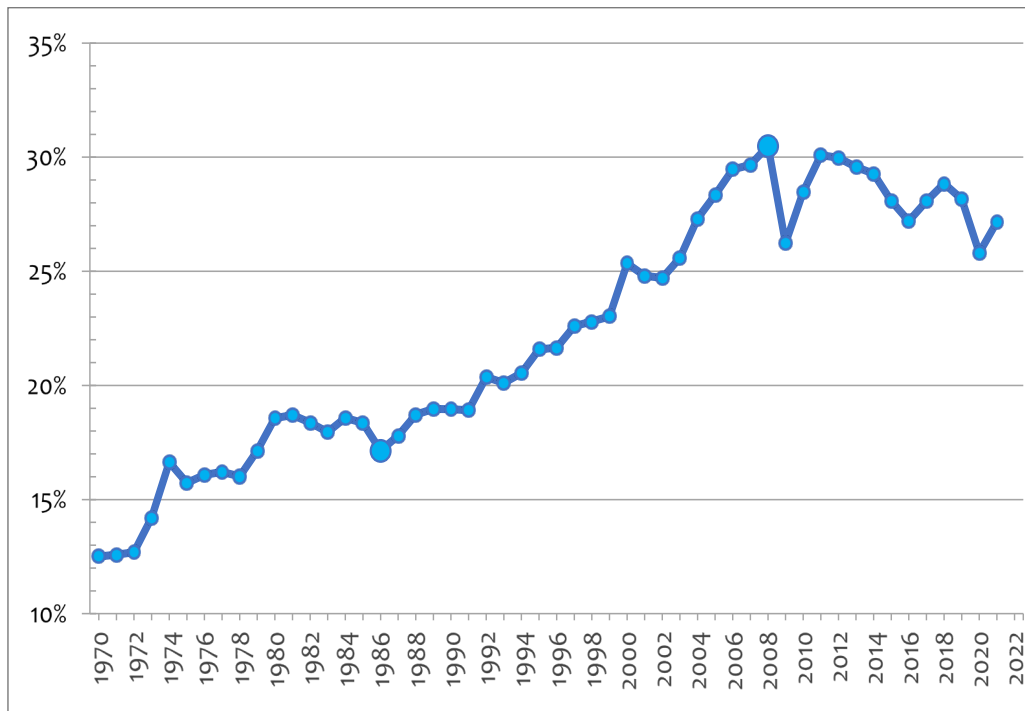
“The only function of economic forecasting is to make astrology look respectable.”

John Kenneth Galbraith (1908-2006)

De-Globalization? The Facts

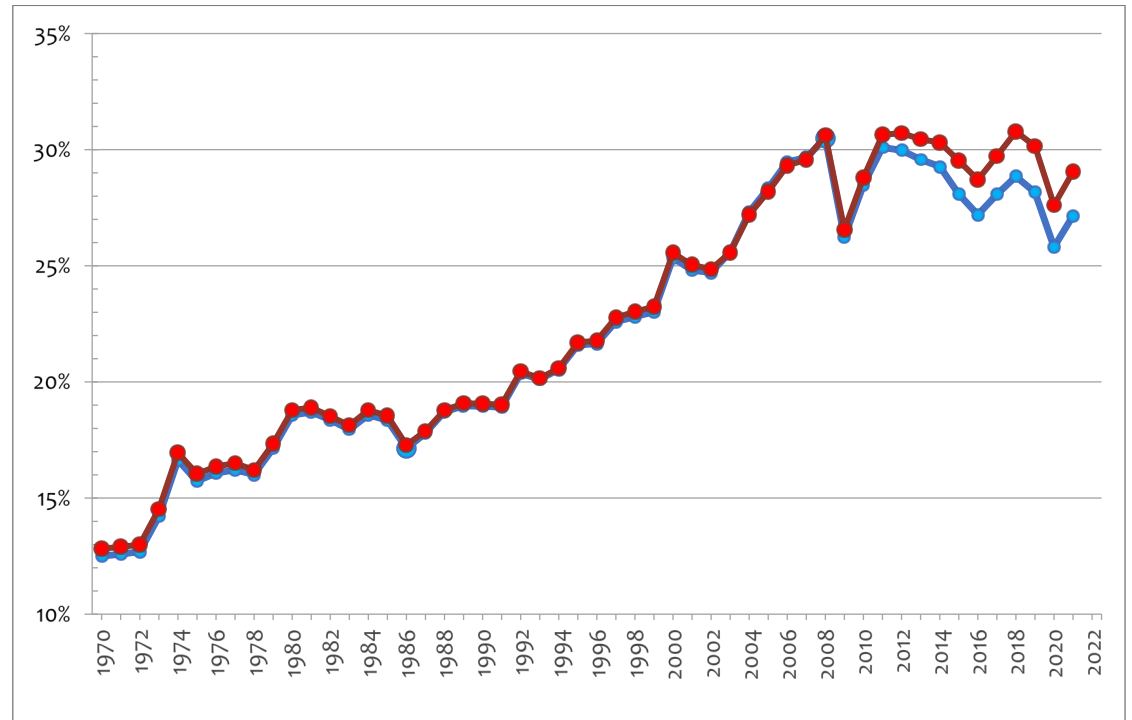
Point #1: Slowbalization, not De-Globalization

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



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

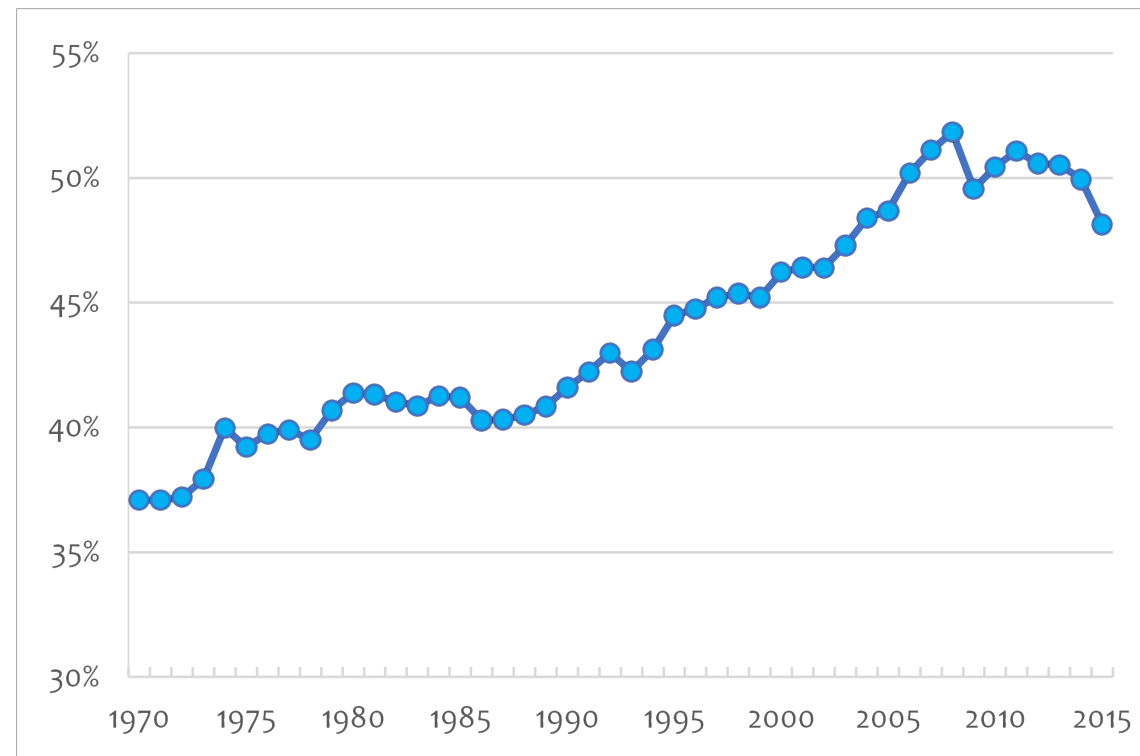
Chart 1'. World Trade over World GDP (1970-2021) excluding China



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

Slowbalization also for Global Value Chains

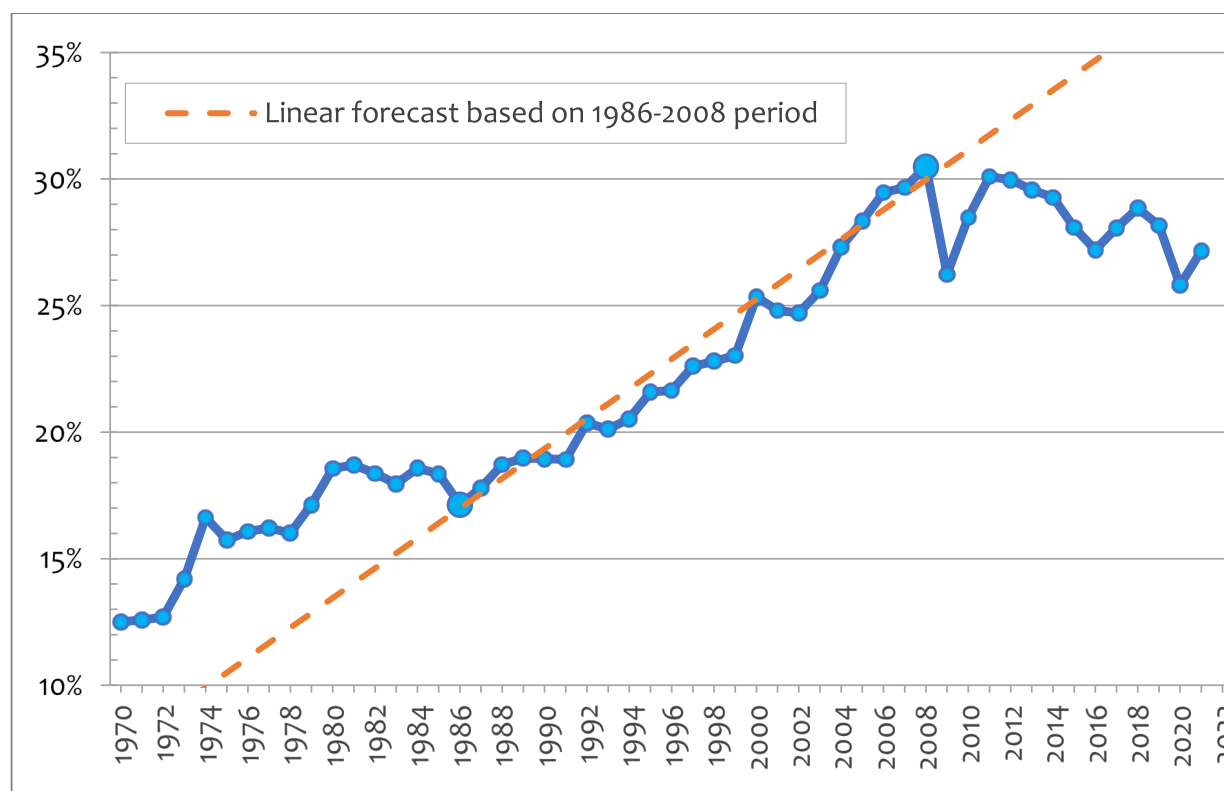
Chart 2. GVC Trade as Percentage of World Trade



Source: Borin and Mancini (2019), as reported in World Development Report (2020)

Point #2: Slowbalization Was Inevitable

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



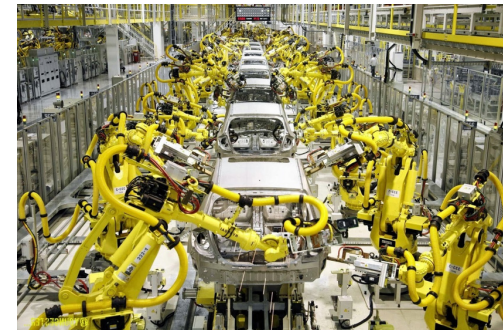
Source: World Bank's World Development Indicators ([link](#))

The Period of Hyperglobalization

Point #3: Four Key Drivers of Hyperglobalization

1. **Technology:** Information and Communication Technology Revolution
 2. **Policy:** Acceleration in multilateral and regional trade liberalization
 3. **Politics:** Political developments that brought about a remarkable increase in capitalist “labor” force
 4. **Cost of Capital:** Declining Interest Rates
- **Implication:** Disintegration of production across borders

De-Globalization and Technological Factors



Point #4: Technology Will Continue to Foster Trade

- ❑ Past technical change (the ICT revolution included) certainly did
 - Though progress in ICTs seems to be stalling (Bloom et al., 2020)
- ❑ Significant new technological developments:
 - Digital technologies
 - Open distributed ledgers (Blockchain)
 - Automation / Industrial Robots
 - 3D Printing
- ❑ Although some appear to substitute for labor, they tend to generate increased demand for traded goods (e.g., automation)

The Case of Automation

- At first glance, it seems it is a substitute for globalization
- But robots do not produce goods out of thin air
- Automation reduces marginal costs, increases optimal scale and the demand for inputs
- Existing empirical studies (Artuc et al., 2018; Stapleton and Webb, 2020; Cilekoglu et al., 2021; Wang, 2022) suggest a **positive** effect of automation on intermediate input trade flows

Point #5: GVCs are Sticky Due to Sunk Costs

- Fixed costs of offshoring generate scale economies → firms end up with “lean” global strategies (reason for lack of diversification)
 - Low interest rates facilitated the formation of these GVCs
- Fixed costs are also often **sunk in nature**
- This has important implications:
 - *Ex-ante* decision to offshore \neq *ex-post* decision to reshore
 - Only persistent shocks generate large relocation
- **But:** uncertainty (and higher interest rates) depress new investments abroad

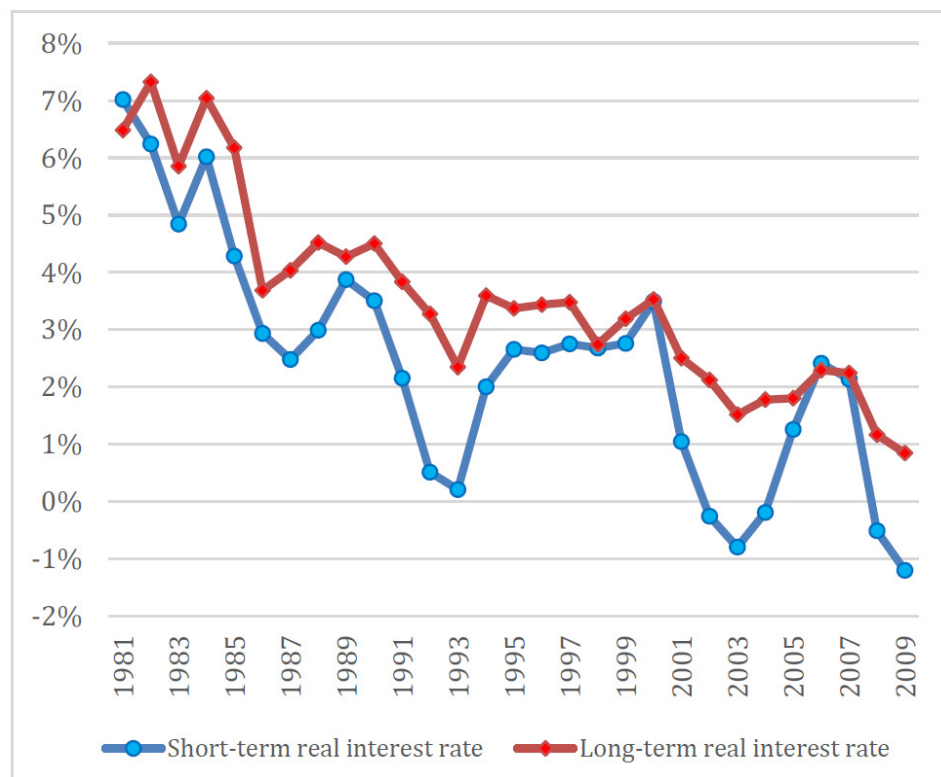
De-Globalization and Other Long-Term Factors

Other Possible De-Globalizing Long-Run Factors

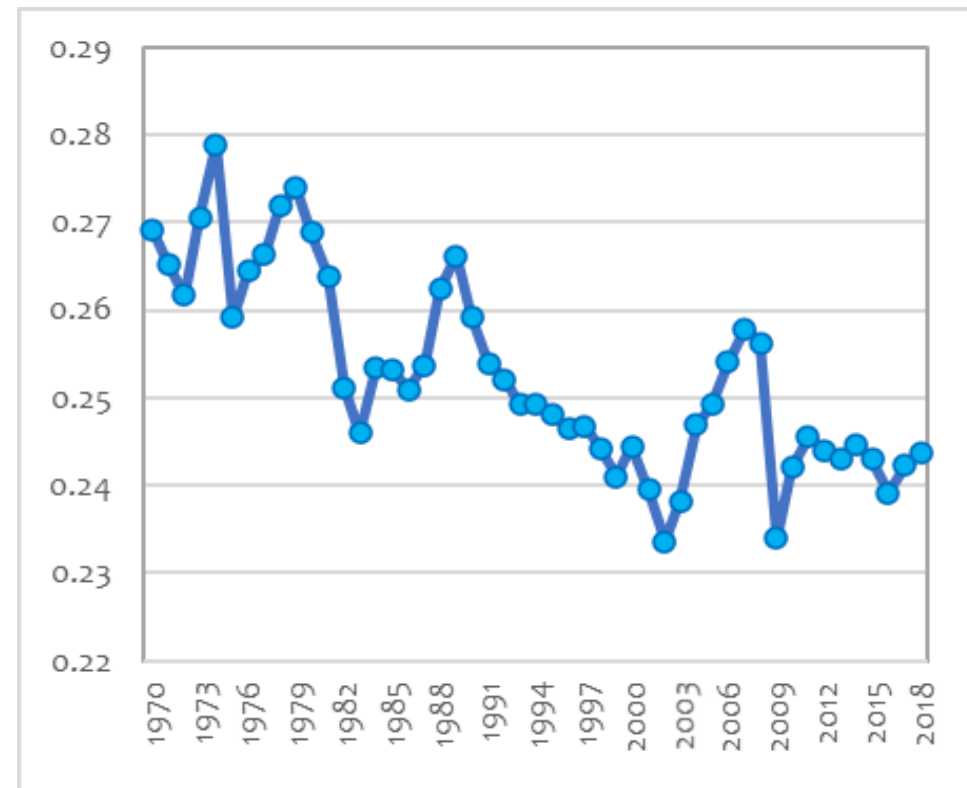
- ❑ Rising wages in LDCs participating in GVCs (World Bank, 2020)
- ❑ Rising weight of services in the world economy
- ❑ Lower growth of more open economies
- ❑ Declining investment rates
- ❑ Rising interest rates worldwide

Point #6: Cost of Capital and Investment Rates

Panel A. U.S. Real Interest Rates



Panel B. World Investment Rate
(World Gross Capital Formation as % of World GDP)



De-Globalization and Policy Factors





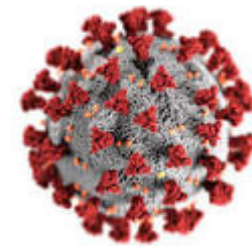
Point #7: There Are Signs of Growing Protectionism

- Three particularly worrisome developments:
 1. Multilateral liberalization agenda under the umbrella of the WTO is at an impasse
 2. Process of regional liberalization has also largely stalled, and shows signs of being in retreat (Brexit, USMCA)
 3. Recent U.S.-China trade war

Point #8: Underlying Forces Will **Not** Go Away

- ❑ Easy to blame idiosyncratic factors/politicians (Trump, G. Brown,...)
- ❑ Backlash against globalization largely caused by rise in inequality
- ❑ We are likely to continue to see trade-induced inequality
 - Automation, digital technologies might give globalization a second wind, but they will also increase inequality
- ❑ Will the “safety net” do a better job of cushioning the blow for the losers from globalization? Unlikely

The Covid-19 Crisis and the Future of GVCs



Point #9: Covid-19 Halted Trade but Fast Recovery

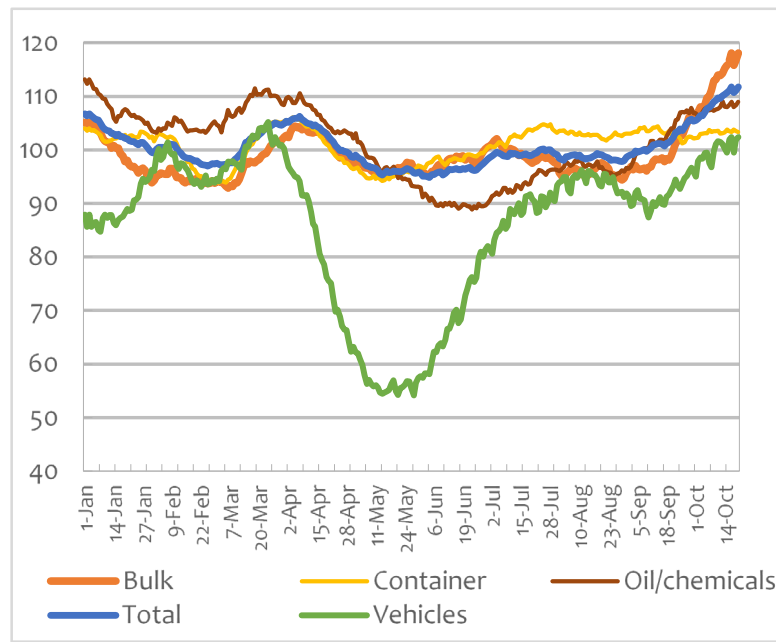
Chart 16. The Impact of COVID-19 On World Trade

Panel A. World Trade and World Industrial Production
(Index July 2019 = 100)



Source: CPB World Trade Monitor ([link](#))

Panel B. Estimated Metric Tons of World Exports
(30-day moving average in ratio to 2017-19 average)



Source: Cerdeiro, Komaromi, Liu and Saeed (2020); AIS data collected by MarineTraffic ([link](#))

- Covid-19, *per se*, will not be a de-globalizing shock
- It is a huge but transitory shock (remember the relevance of sunk costs)

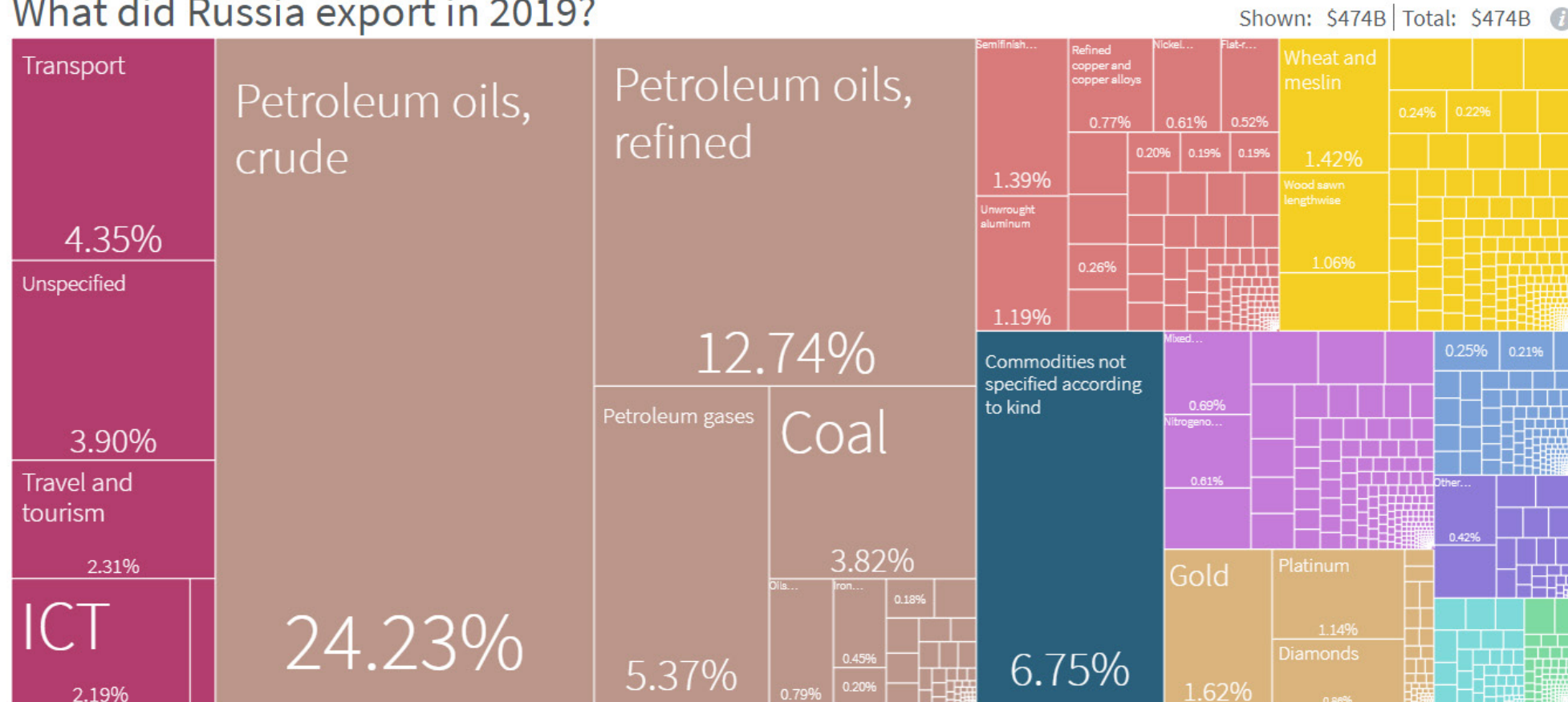
De-Globalization and Geopolitical Tensions

Point #10: Geopolitical Situation Very Worrisome

- Geopolitical landscape post Covid-19 is more alarming
- It was delicate to begin with, but Covid-19 has:
 - Increased diplomatic tensions (“China/Wuhan Virus”, EU tensions)
 - Exacerbated previous inequality trends (which is likely to foster more populism)
- Having said this, I am perhaps less pessimistic than others
 - my view is that Russia has largely shot itself in the foot
 - China’s pragmatic reaction to the recent geopolitical conflicts indicates a commitment to “make globalization work”

Russia in Global Value Chains

What did Russia export in 2019?



Conclusions

- ❑ Not obvious that world economy is de-globalizing, though there are clear signs of “slowbalization”
- ❑ Hard to conclude that technological developments or Covid-19 are likely to fuel an era of de-globalization
- ❑ Main challenge for the future of globalization is likely to be institutional and geopolitical in nature