Future of Globalization

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Motivation

• The period since the Second World War saw increased globalization
  – Rise in the ratio of world trade to world GDP

• Episodes of past globalization (late-19th century)
• Retreats from globalization (inter-war period of 1930s)
New Versus Old Globalization

• Three key forces driving post-WWII globalization
  – Multilateral and regional trade policy integration
    o World Trade Organization (WTO)
  – Technological innovation
    o Containerization, computer, satellite phone and internet
  – Geopolitical and institutional changes
    o Domestic reform and opening up in China
    o Fall of the Iron Curtain
    o Indian’s liberalization

• Distinctive feature of post-WWII globalization
  – Global Value Chains (GVCs)
    o Spreading of stages of production across national borders
  – Example of the iPad
    o Designed in California, parts made in East Asia, and assembled in China
Threats to Globalization

- Return of protectionist trade policies
  - U.S.-China trade war


- Brexit in the U.K. and threats to the WTO
Threats to Globalization

- Covid-19 pandemic
  - Resilience of supply chains for critical equipment versus role of GVCs in the development of new vaccines
  - Large-scale transportation disruptions

The costs of transporting goods are normalizing across all types of transportation, see charts below.

For example, the dry van spot rate per mile has declined over the past six months from $3 to $2. This is all pointing downward pressure on inflation and costs of production.
Threats to Globalization

• Geopolitical concerns
  – US-China geopolitical rivalry and the Russia-Ukraine war

• Rise of industrial policy
  – Markets unlikely to fully internalize national security concerns
  – How to trade-off the gains from globalization with national security?
  – Distributional consequences of globalization (but just like any other technological change)

• Challenges for such policies
  – Indirect exposure to shocks in foreign countries
  – Onshoring does not necessarily reduce exposure to shocks
**DeGlobalization?**

- Evidence of a slowdown in the growth of world goods trade


- But technological advances likely to increase scope for services trade
DeGlobalization?

- Evidence of a slowdown in the growth of GVC trade

Chart 2. GVC Trade as Percentage of World Trade

Great Reallocation

- Evidence of a reallocation of U.S. sourcing patterns to Other Asia

4 Therefore, although in principle firms could adopt a “wait and see” strategy to ascertain how permanent the change in trade policy is, there is substantial evidence that a reorganization of supply chains has already occurred.

This relocation of U.S. import sourcing after the introduction of the Trump tariffs is visually clear in the aggregate data. In Figure 1, we display the shares of China and a group of 13 other low-cost Asian countries (henceforth, “Other Asia”) in the total value of U.S. imports.

After the first wave of tariffs on China in July 2018 (marked by the red vertical line), we see a sharp decline in China’s share of U.S. imports of around 3 percent (left scale), and a corresponding rise in Other Asia’s share of U.S. imports of a strikingly similar magnitude (right scale).

Figure 1: Share of China and Other Asia in U.S. Imports

Note: Black solid line shows share of U.S. imports from China; gray solid line shows share of U.S. imports from Other Asia (Bangladesh, Cambodia, Hong Kong, India, Indonesia, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, and Vietnam); red vertical line shows the date of the first Trump tariff wave on China; both series seasonally adjusted by removing month-fixed effects.

We also find evidence of supply-chain reorganization at the micro level. In Table 1, we use monthly U.S. customs data for total imports and for imports excluding consumer goods at the HTS10-country-of-origin level for the period from January 2016 through October 2019 and apply a difference-in-difference methodology similar to the one proposed by Amiti et al. (2019, 2020) in their investigations of the price and volume effects of the Trump tariffs.

See also Figure B.4 in Online Appendix B. There, we provide evidence that relocation of U.S. imports from China to Other Asia took place on the product extensive margin. To draw that figure, we began with the set of products that were imported from China before the first wave of Trump administration tariffs on China (from January 2017 through June 2018). We extracted the subset of these products that were not imported from Other Asia during this period.

- Alfaro and Chor (2023) “Global Supply Chains: The Looming “Great Reallocation,” Harvard University
Costs of Deglobalization

- Recent U.S. tariffs passed through to U.S. firms and consumers in the form of higher import prices (inclusive of the tariff).

Lessons from the Past


- Gains from Japan’s opening to trade after a long period of autarky represented about 7% of GDP
Conclusions

• Pace of globalization has slowed

• Largest current threats to globalization are geopolitical concerns

• We are already witnessing a “great reallocation” — a reorientation of U.S. sourcing patterns away from China

• Important to keep in mind the aggregate gains from globalization

• How to enjoy the benefits from globalization while taking account of national security concerns?

• How to mitigate the distributional consequences of globalization (just like any other technological change)?
Thank You