

Future of Globalization

Stephen J. Redding

Princeton University, NBER and CEPR

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
 - World Trade Organization (WTO)
 - North American Free Trade Agreement (NAFTA) / United States-Mexico-Canada Agreement (USMCA)
 - Technological innovation
 - Containerization, computer, satellite phone and internet
 - Geopolitical and institutional changes
 - Domestic reform and opening up in China
 - Fall of the Iron Curtain
 - Indian's liberalization
- Distinctive feature of post-WWII globalization
 - Global Value Chains (GVCs)
 - Spreading of stages of production across national borders
 - Example of the iPad
 - 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

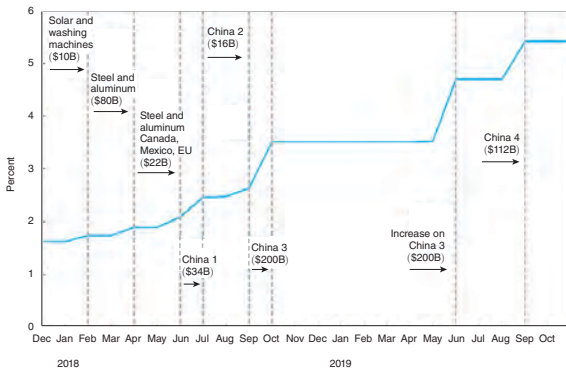
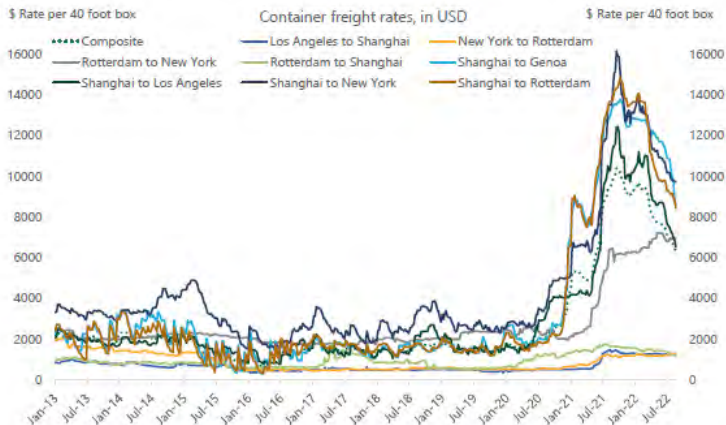


FIGURE I. AVERAGE US TARIFFS BY WAVE OF THE 2018–2019 TRADE WAR

- Amiti, Redding and Weinstein (2020) “Who’s Paying for the US Tariffs? A Longer-Term Perspective,” *American Economic Review*, 110, 541-546
- 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



Threats to Globalization

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

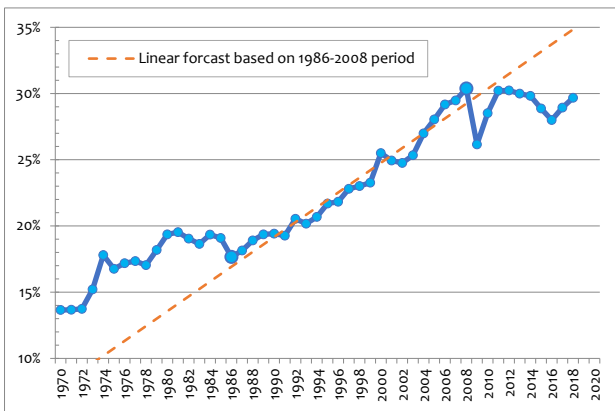


- Rise of industrial policy
 - Markets unlikely to fully internalize national security concerns
 - How to trade-off the gains from globalization with national security?
 - Distributional consequences of globalization (but just like any other technological change)
- Challenges for such policies
 - Indirect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

Chart 1. World Trade over World GDP (1970-2018)

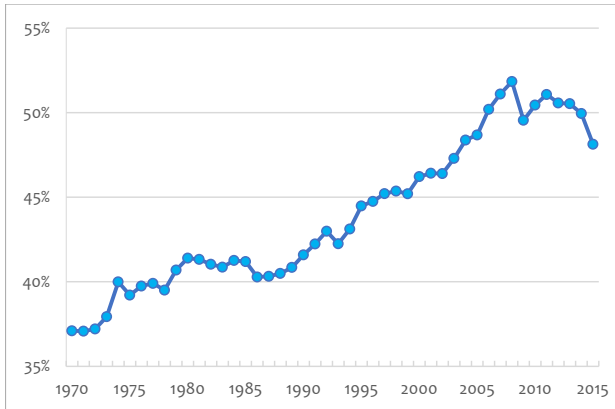


- Antràs (2020) “De-Globalization? Global Value Chains in the Post-Covid-19 Age,” *NBER Working Paper*, 28115
- But technological advances likely to increase scope for services trade

DeGlobalization?

- Evidence of a slowdown in the growth of GVC trade

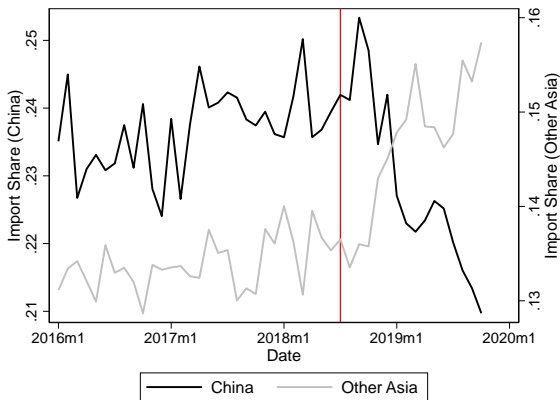
Chart 2. GVC Trade as Percentage of World Trade



- Antràs (2020) “De-Globalization? Global Value Chains in the Post-Covid-19 Age,” *NBER Working Paper*, 28115

Great Reallocation

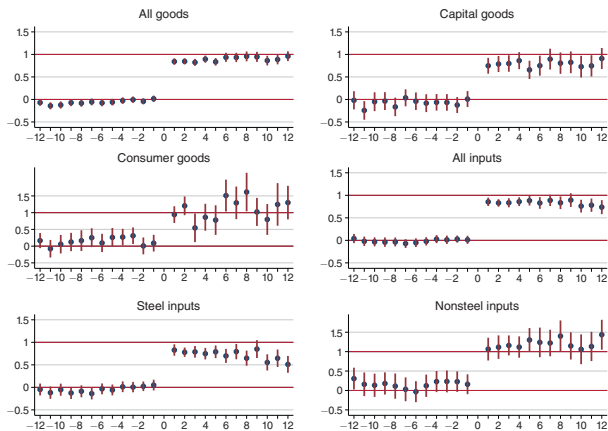
- Evidence of a reallocation of U.S. sourcing patterns to Other Asia



- Grossman, Helpman and Redding (2023) “When Tariffs Disrupt Global Supply Chains,” Princeton University
- Alfaro and Chor (2023) “Global Supply Chains: The Looming “Great Reallocation,” Harvard University

Costs of Deglobalization

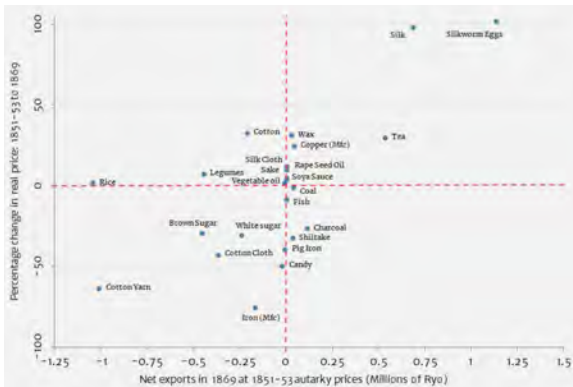
- Recent U.S. tariffs passed through to U.S. firms and consumers in the form of higher import prices (inclusive of the tariff)



- Amiti, Redding and Weinstein (2020) “Who’s Paying for the US Tariffs? A Longer-Term Perspective,” *American Economic Review*, 110, 541-546

Lessons from the Past

- Bernhofen, Daniel M. and John C. Brown (2005) “An Empirical Assessment of the Comparative Advantage Gains from Trade: Evidence from Japan,” *American Economic Review*, 95(1), 208-25



- 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