

Current State of Globalization

Roberta Piermartini
(World Trade Organization)

Luiss PhD Summer School
5 June 2024

Outline

1. Latest about trade and trade policy
2. Change of narrative about globalisation
3. Increasing trade tensions
4. Visible effect of fragmentation on trade flows
5. Risks of decoupling
6. What do people sometime take as granted?
7. What trade policy and WTO do we need to:
 1. Boost resilience
 2. Create jobs
 3. Address concerns with (“unfair”) China’s competition

Outline

1. Latest about trade and trade policy
2. Change of narrative about globalisation
3. Increasing trade tensions
4. Visible effect of fragmentation on trade flows
5. Risks of decoupling
6. What do people sometime take as granted?
7. What trade policy and WTO do we need to:
 1. Boost resilience
 2. Create jobs
 3. Address concerns with (“unfair”) China’s competition

Highlights of Global Trade Outlook and Statistics, April 2024



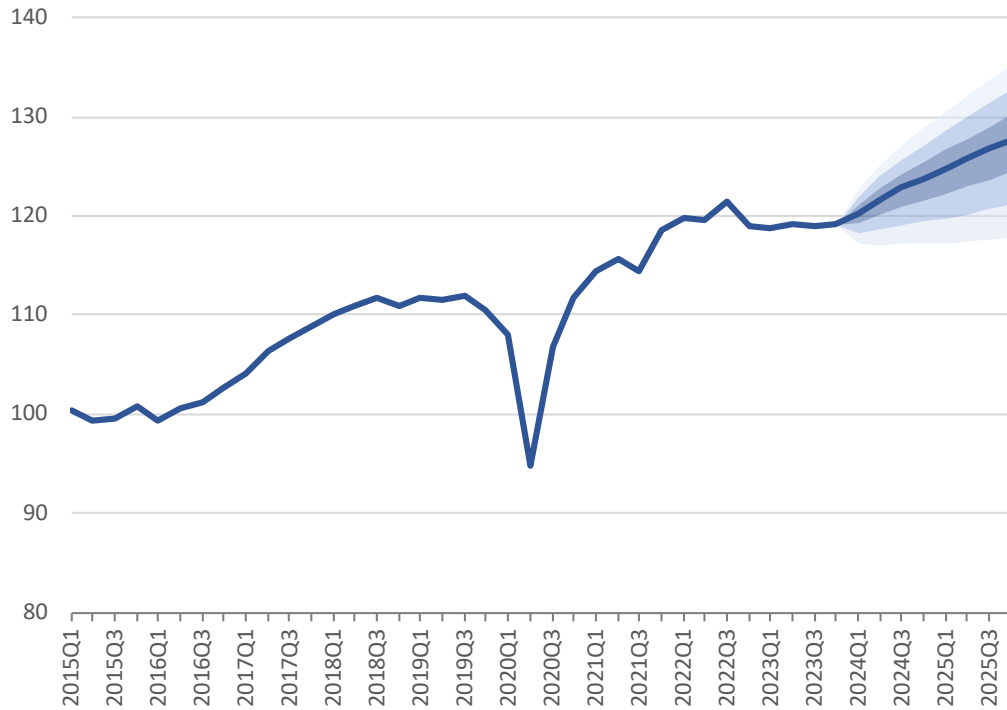
WTO OMC

- World merchandise trade volume should increase by 2.6% in 2024 and 3.3% in 2025 after falling 1.2% in 2023.
- Lower inflation in 2024 is expected to lead to a rebound in consumption of manufactured goods, which should boost merchandise trade volume growth in 2024 and 2025.
- However, regional conflicts, geopolitical tensions and economic policy uncertainty pose significant downside risks to the outlook.

The small downturn in trade volume in 2023 obscures strong regional variation, with Europe weighing down imports

Chart 1: Volume of world merchandise trade, 2015Q1-2024Q4

Seasonally-adjusted volume index, 2015=100

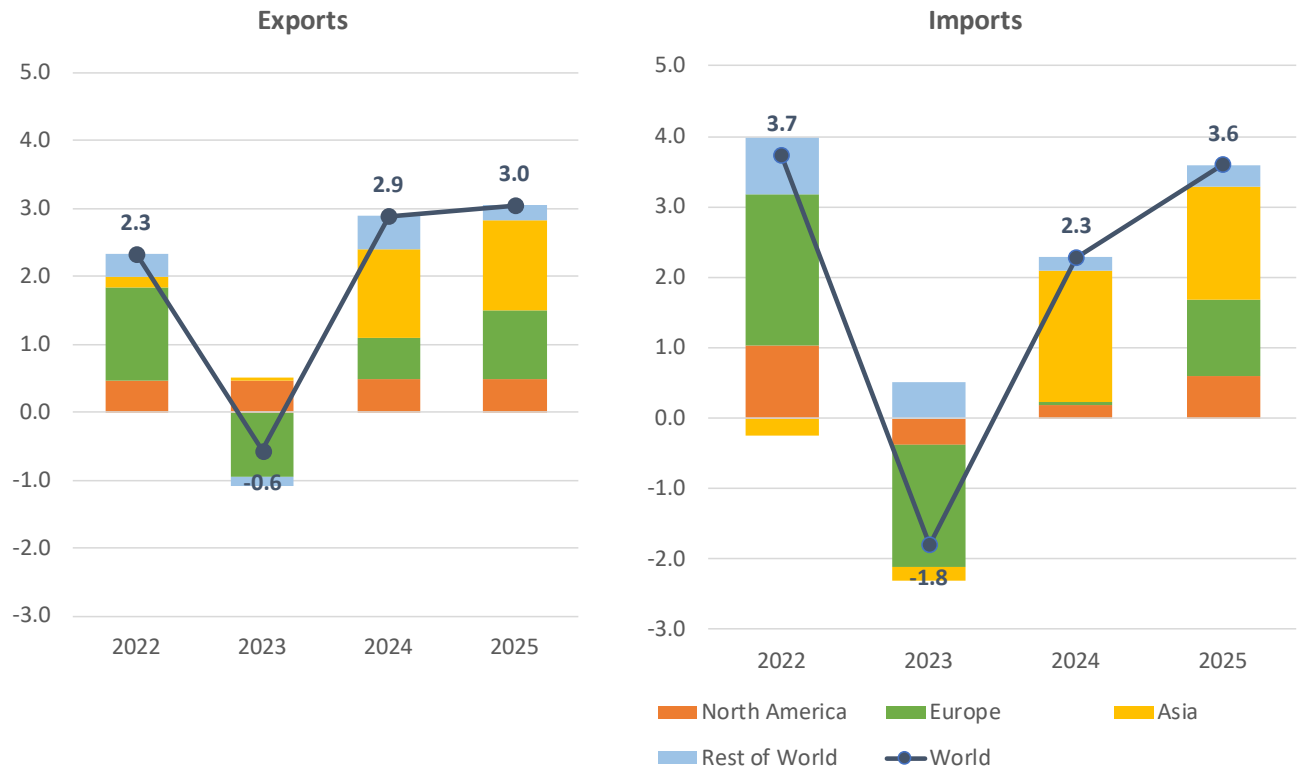


Source: WTO and UNCTAD for historical data, WTO Secretariat estimates for forecasts.

Note: The shaded region represents both random variation and subjective assessment of risk.

Chart 7: Contributions to world trade volume growth by region, 2022-2024

Annual % change



Source: WTO-UNCTAD.

US applied MFN and additional Section 301 tariff duties, %



The White House announced on **14 May 2024** that it will raise tariffs on \$18 billions of Chinese goods in strategic sectors.

Product category	MFN tariff, 2024	Previous Section 301 tariffs	Section 301 modifications announced in May 2024	Application date of the Section 301 modifications announced in May 2024
Battery parts (Non-lithium-ion Batteries)	3.5	7.5	25	01-Aug-24
Electric Vehicles	2 - 2.5	25	100	01-Aug-24
Facemasks	7	7.5	25	01-Aug-24
Lithium-ion Electrical Vehicle Batteries	3.4	7.5	25	01-Aug-24
Lithium-ion Non-electrical Vehicle Batteries	3.4	7.5	25	01-Jan-26
Medical Gloves	0	7.5	25	01-Jan-26
Natural Graphite	0	0	25	01-Jan-26
Other Critical Minerals	0 - 7	0	25	01-Aug-24
Permanent Magnets	2.1	0	25	01-Jan-26
Semiconductors	0	25	50	01-Jan-25
Ship-to-Shore Cranes	0	0	25	01-Aug-24
Solar Cells (whether or not assembled into modules)	0	25	50	01-Aug-24
Steel and Aluminium Products	0 - 6.5	7.5	25	01-Aug-24
Syringes and Needles	0	0	50	01-Aug-24

Rationale and risks of retaliation



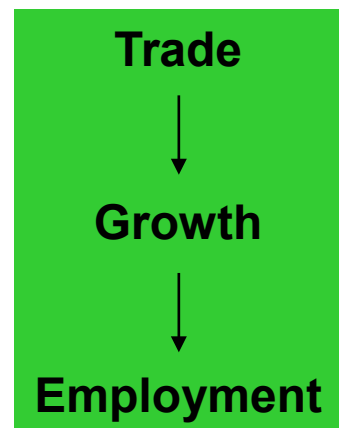
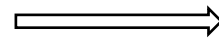
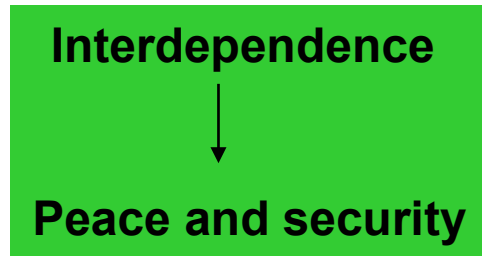
- The rationale behind the tariff increases seems to be based
 - Mitigate risks that could disrupt American supply chains
 - Protect American workers and companies against Chin's policy-driven overcapacity (unfair trade practices such as forced technology transfers)
- Importantly, the tariff increases could invite trade retaliation.
 - China has already signalled that it will retaliate against trade barriers imposed by the US and the EU
- In parallel, the EU is conducting anti-subsidy investigations into the imports in the green sector.
 - The European Commission began an anti-subsidy inquiry into Chinese electric vehicles in October last year, which may trigger countervailing duties. In April, the EU initiated probes into two Chinese solar panel manufacturers that it accused of benefiting from market-distorting subsidies.
 - Politically, prohibitive US tariffs place enormous pressure on the EU to apply its own.

Outline

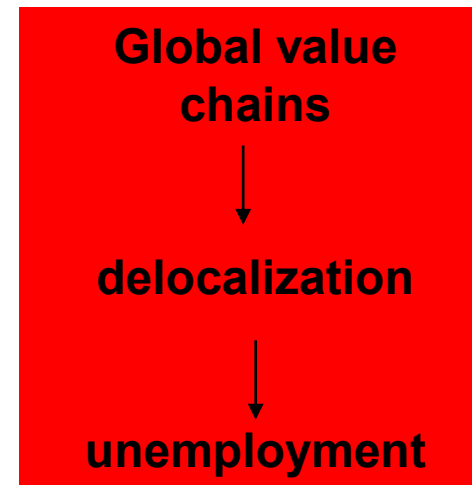
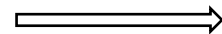
1. Latest about trade and trade policy
2. Change of narrative about globalisation
3. Increasing trade tensions
4. Visible effect of fragmentation on trade flows
5. Risks of decoupling
6. What do people sometime take as granted?
7. What trade policy and WTO do we need to:
 1. Boost resilience
 2. Create jobs
 3. Address concerns with (“unfair”) China’s competition

Change of narrative about globalization

- Covid
- Ukraine war
- Red Sea crisis



“China’s shock”



Greater emphasis on economic independence

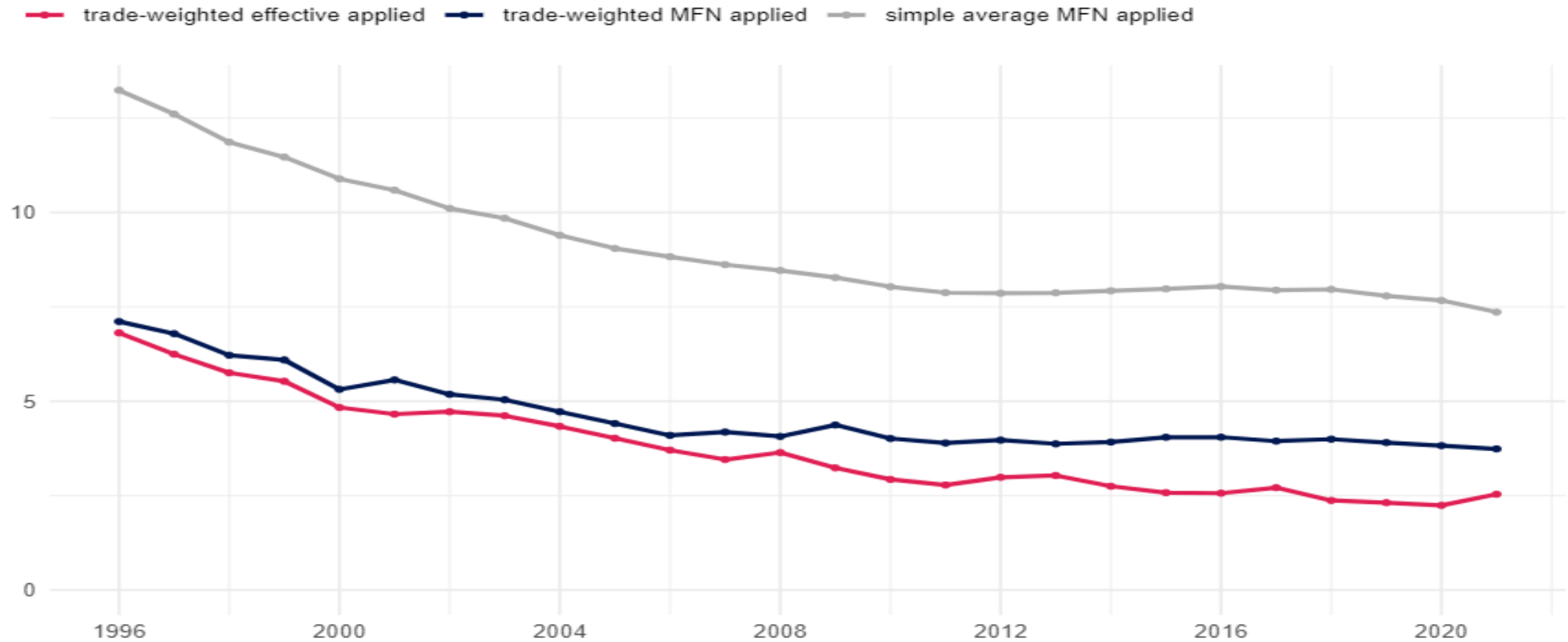
Outline

1. Latest about trade and trade policy
2. Change of narrative about globalisation
3. **Increasing trade tensions**
4. Visible effect of fragmentation on trade flows
5. Risks of decoupling
6. What do people sometime take as granted?
7. What trade policy and WTO do we need to:
 1. Boost resilience
 2. Create jobs
 3. Address concerns with (“unfair”) China’s competition

From falling tariffs ...

Figure 1: WTO members' average applied tariffs, 1996-2021

Average in percentage

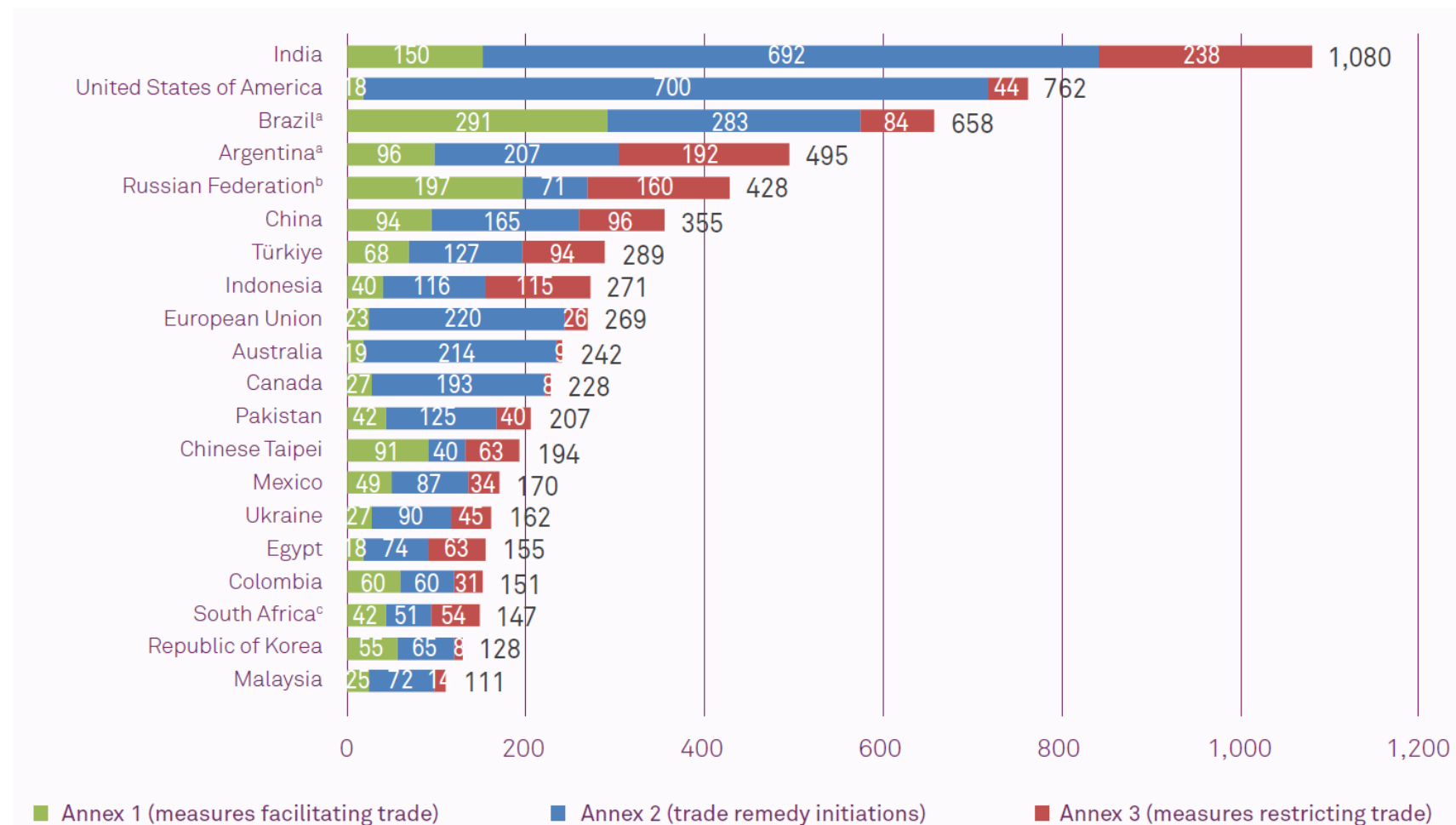


Note: The calculations are based on available tariff and import data from 74 WTO members (counting the European Union as one, and excluding intra-EU trade), which account for 93 per cent of total world imports. The effective applied tariffs are the lowest of the MFN and preferential tariffs applied by one member to another. For some WTO members, missing annual tariffs or trade or *ad valorem* equivalent (AVE) data were replaced by the data of the closest year available. For more information, visit <https://stats.wto.org/>.

Data source: WTO Analytical Database.

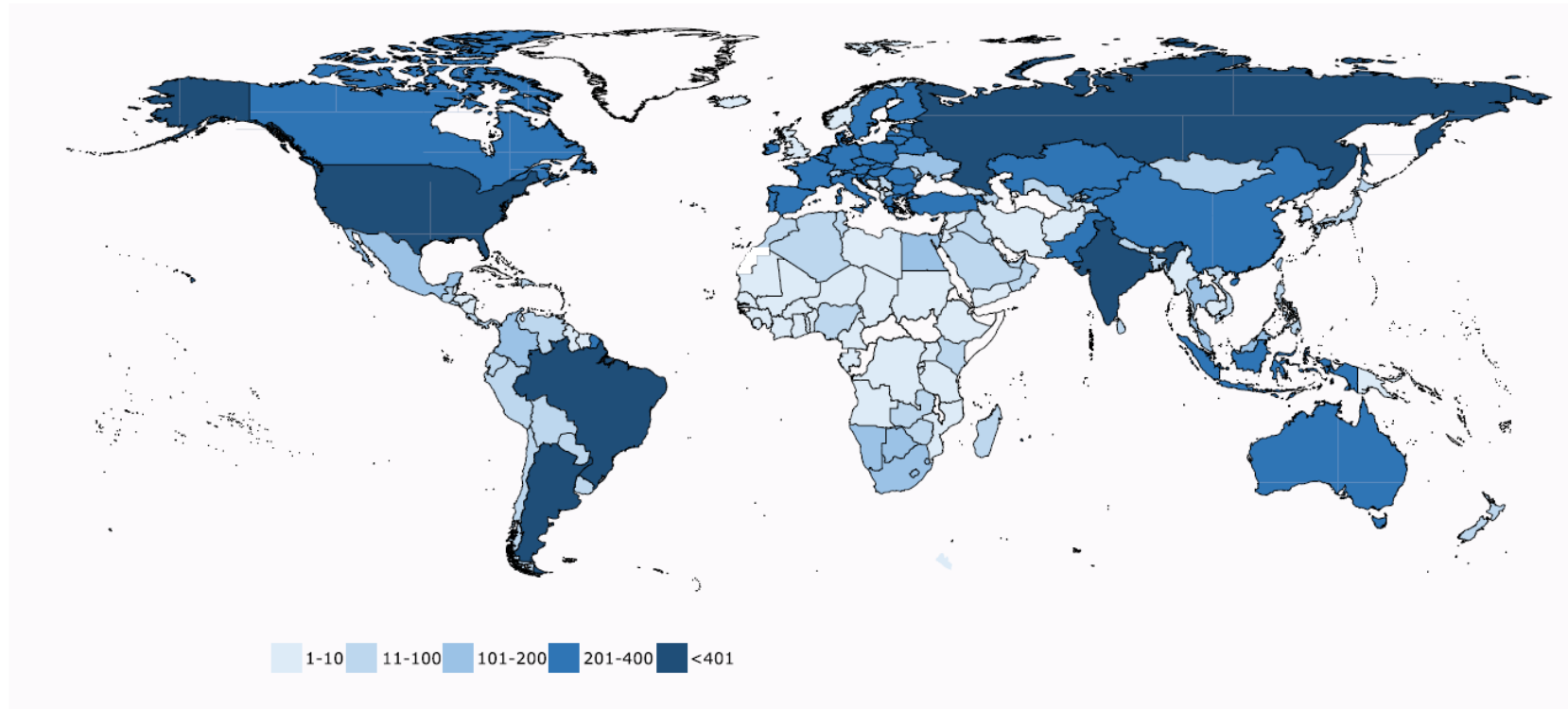
... to increasing protectionism

Chart 1) Top twenty Members by number of measures on goods recorded in the TMDB (mid-October 2008 to mid-May 2023)



and widespread protectionism

Chart 2) Geographic overview of measures in the TMDB (mid-October 2008 to mid-May 2023)

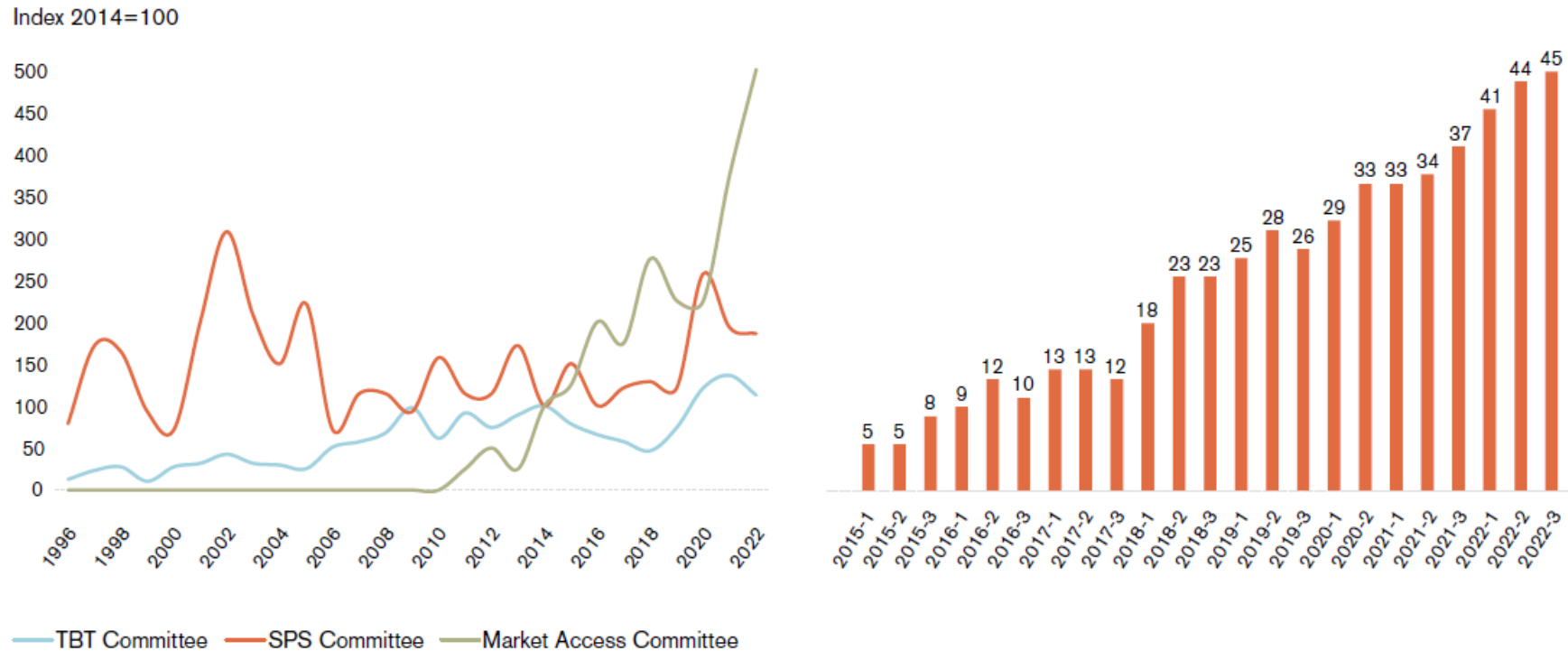


Note: The Chart does not include trade remedy terminations.

Source: WTO – TMDB.

Trade tensions are rising

Figure B.1: Trade concerns raised in the Market Access, SPS and TBT Committees, 1996-2022 (left), and the number of trade concerns raised in the Council for Trade in Goods by meeting, 2015-22 (right)

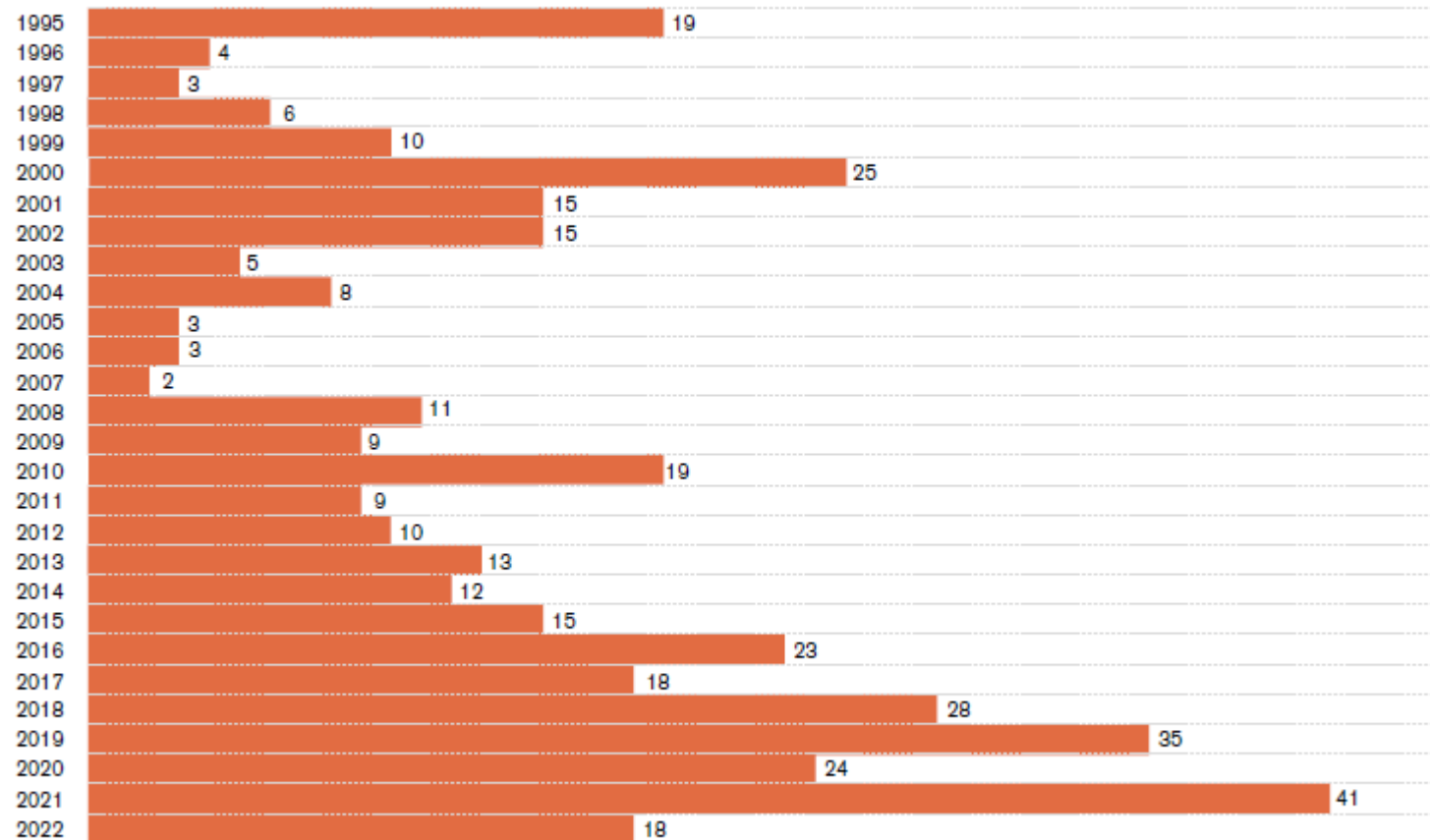


Source: WTO.

Note: The figure includes both new and repeatedly raised concerns.

... concerns with the rapid increase in the use of subsidies

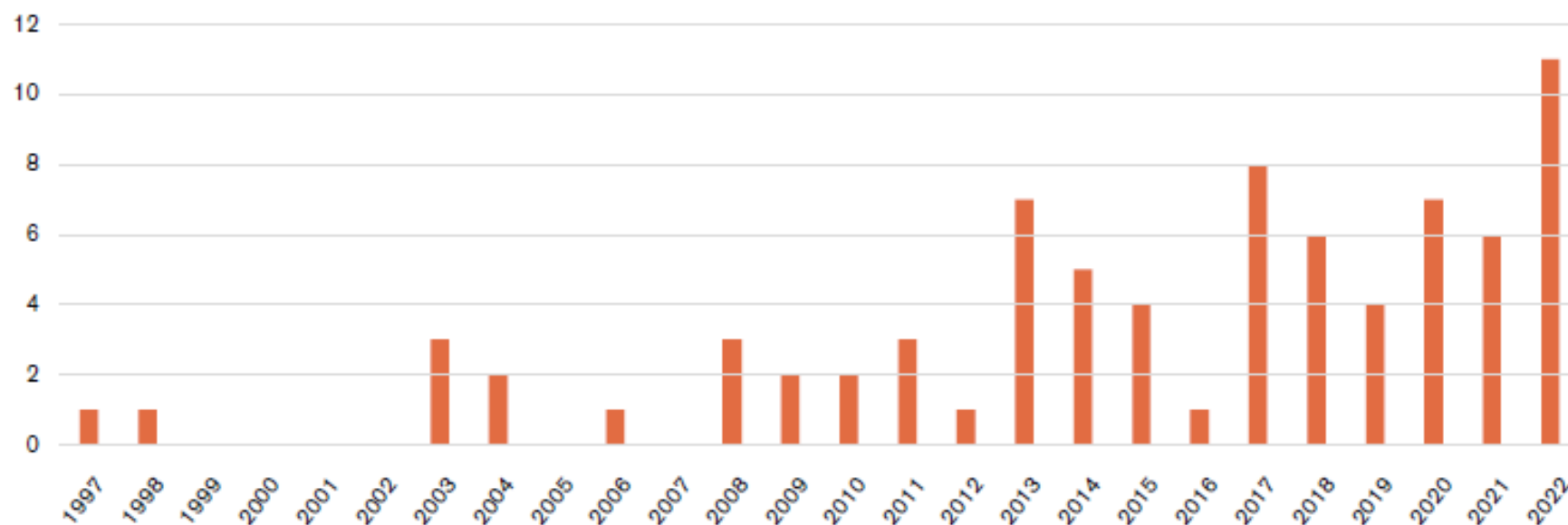
Figure B.2: The number of newly imposed countervailing measures, 1995-2022



Source: WTO.

Trade is increasingly affected by security considerations

Figure C.2: National security-related trade concerns raised in WTO committees are rising



Notes: Figure C.2 depicts the number of specific trade concerns (STC) relating to national security between 1997 and 2022 raised in the Market Access and Import Licensing Committees and in the Committees on Sanitary and Phytosanitary (SPS) Measures and on Technical Barriers to Trade (TBT). Trade concerns raised before the Council for Trade in Goods (CTG) are not reported in the STC Database.

Source: WTO STC Database. <https://tradeconcerns.wto.org/en>

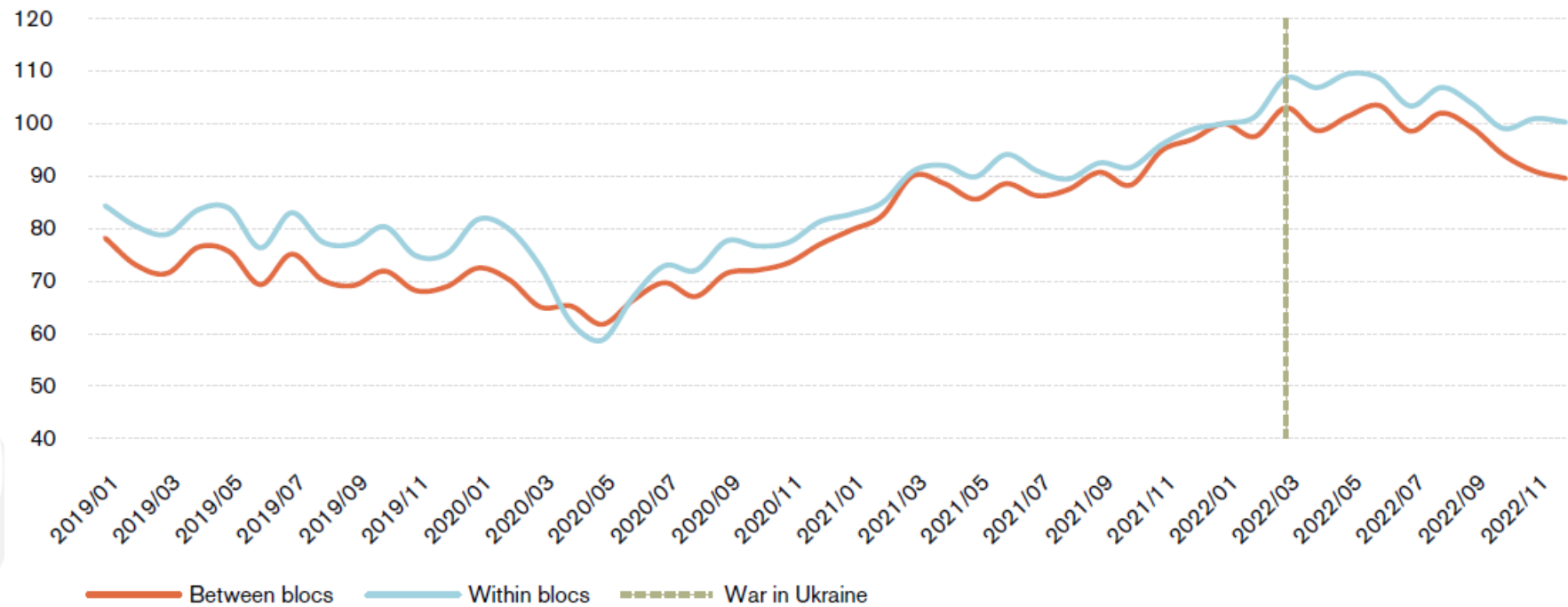
Outline

1. Latest about trade and trade policy
2. Change of narrative about globalisation
3. Increasing trade tensions
4. **Visible effect of fragmentation on trade flows**
5. Risks of decoupling
6. What do people sometime take as granted?
7. What trade policy and WTO do we need to:
 1. Boost resilience
 2. Create jobs
 3. Address concerns with (“unfair”) China’s competition

First signs of fragmentation at the global level

Figure B.9: Trade within and between hypothetical geopolitical blocs, January 2019 to December 2022

Index January 2022=100



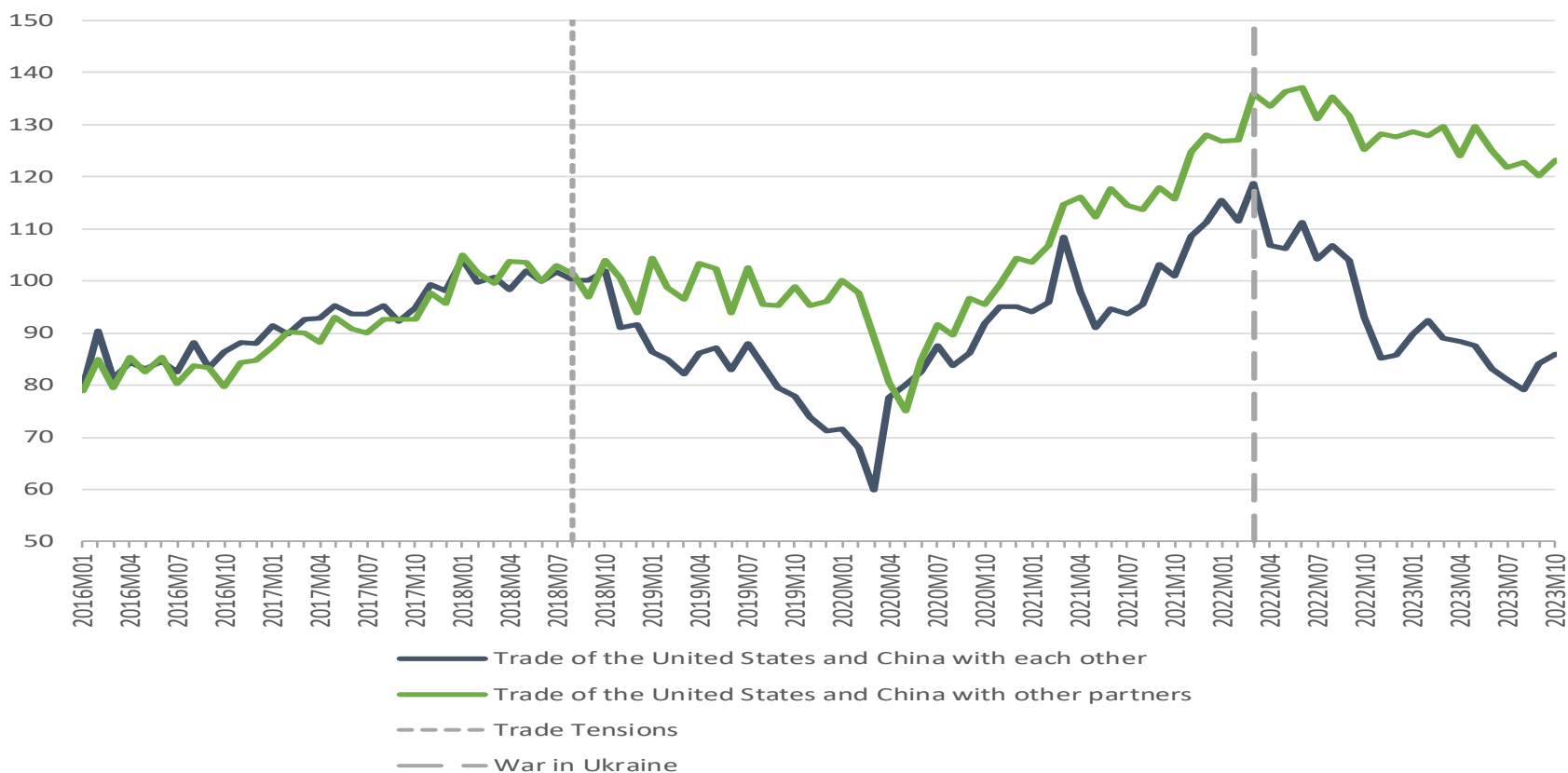
Source: WTO Secretariat calculations based on Trade Data Monitor.

Note: Seasonally adjusted series.

Evidence of shifting trade patterns in response to geopolitical concerns is discernible in trade data

Chart 27: Trade between the United States and China and with other partners, 2016-2023

Index, June 2018=100

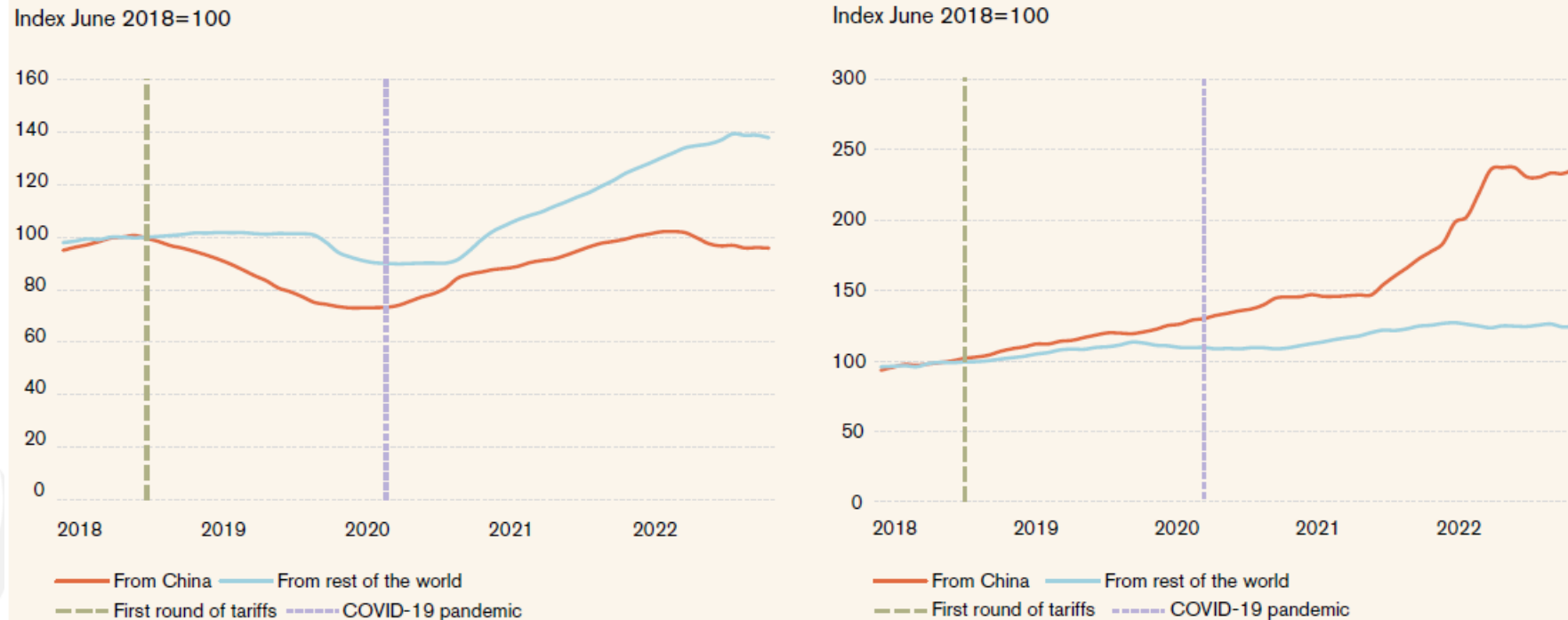


Source: Blanga-Gubbay and Rubínová (2023)

Note: Data are seasonally adjusted. Russian Federation, Belarus, and Ukraine are excluded. The red line shows the evolution of trade flows between China and the United States. The blue line shows the evolution of trade flows between the United States and partners other than China, and between China and partners other than the United States.

Re-orientation of China-US trade

Figure B.8: US imports of products affected by 25 per cent import tariffs (left), and products not affected by tariffs (right)



Source: WTO Secretariat calculations based on Trade Data Monitor and Bown (2022).

Outline

1. Latest about trade and trade policy
2. Change of narrative about globalisation
3. Increasing trade tensions
4. Visible effect of fragmentation on trade flows
5. **Risks of decoupling**
6. What do people sometime take as granted?
7. What trade policy and WTO do we need to:
 1. Boost resilience
 2. Create jobs
 3. Address concerns with (“unfair”) China’s competition

Decoupling would lead to divergence



- Should the US and China engage in a trade war, there is a substantial risk of the global economy fragmenting into geopolitical blocs, which would be very costly. WTO economists estimate that a split into two blocs based on voting practices in the United Nations, with a third group of non-aligned countries not choosing sides, would generate global GDP losses of about 3%, whereas a split into two exclusive blocks would result in even larger global GDP losses surpassing 5%.
- Larger losses for developing countries – 10%

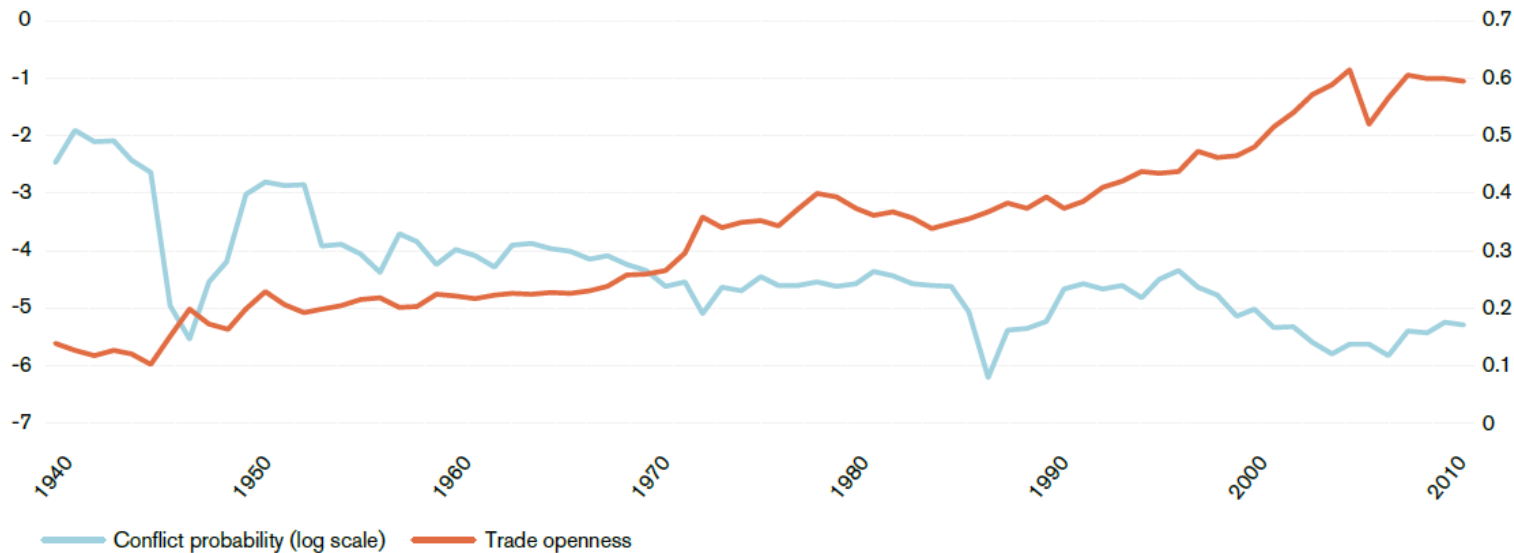
Outline

1. Latest about trade and trade policy
2. Change of narrative about globalisation
3. Increasing trade tensions
4. Visible effect of fragmentation on trade flows
5. Risks of decoupling
6. **What do people sometime take as granted?**
7. What trade policy and WTO do we need to:
 1. Boost resilience
 2. Create jobs
 3. Address concerns with (“unfair”) China’s competition

Trade negatively correlates with conflict probability – rules are central to this debate



Figure C.8: There is a strong correlation between trade openness and lower conflict probability



Notes: Trade openness is defined as the sum of world imports and exports divided by world GDP. Conflict probability is defined as the occurrence of dyadic militarized interstate disputes, excluding threats to use force and lower levels of hostility, divided by the number of countries.

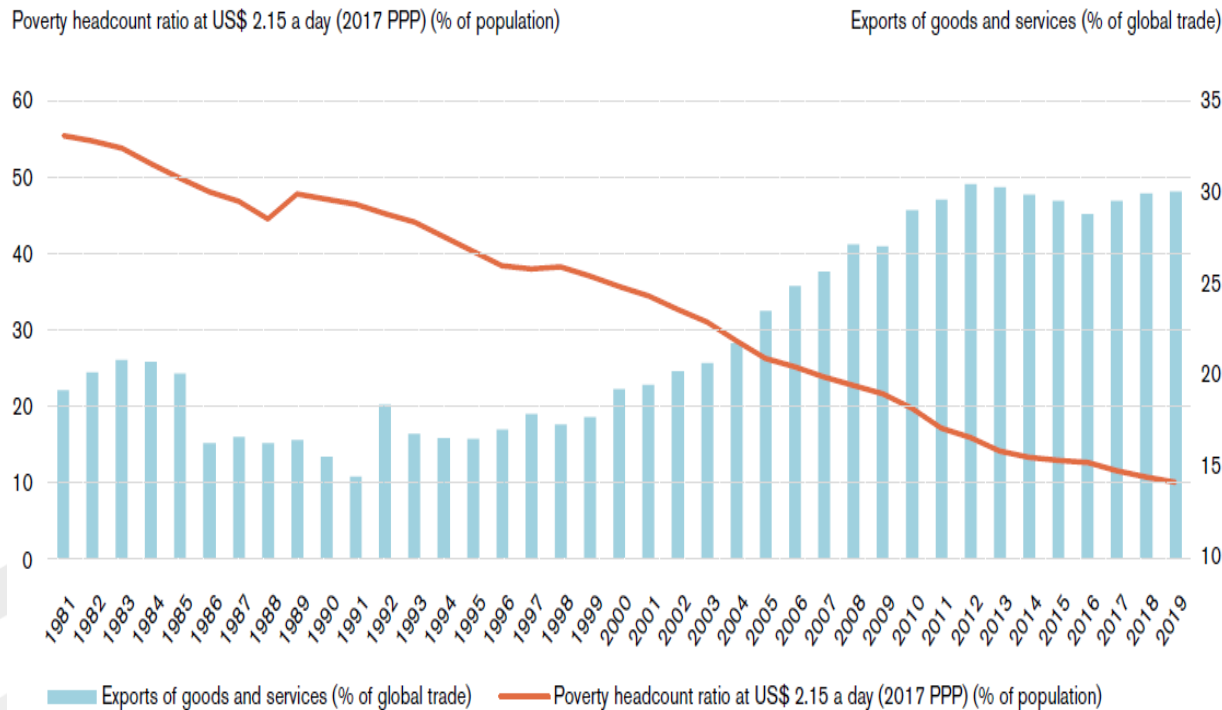
Source: Feenstra, Inklaar and Timmer (2015) and Klasing and Milionis (2014) for trade openness, and Maoz et al. (2019) and the Correlates of War Project (2017) for conflict probability.

At the launch of the GATT negotiations, Roosevelt made the case before Congress for why US participation was so important, noting that “the purpose of the whole effort is to eliminate economic warfare, to make practical international cooperation effective on as many fronts as possible, and so to lay the economic basis for the secure and peaceful world we all desire.”

Trade helped reduce extreme poverty and fostered shared prosperity

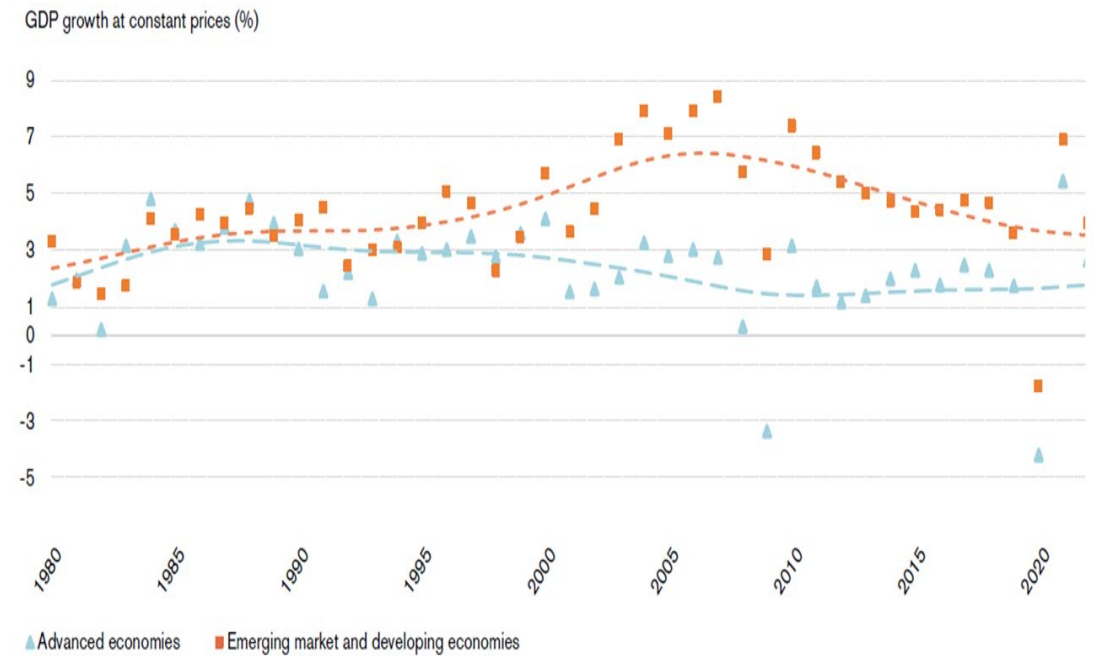


Figure D.3: International trade has contributed to reducing extreme poverty



Source: Authors' calculations, based on World Bank's World Development Indicators.

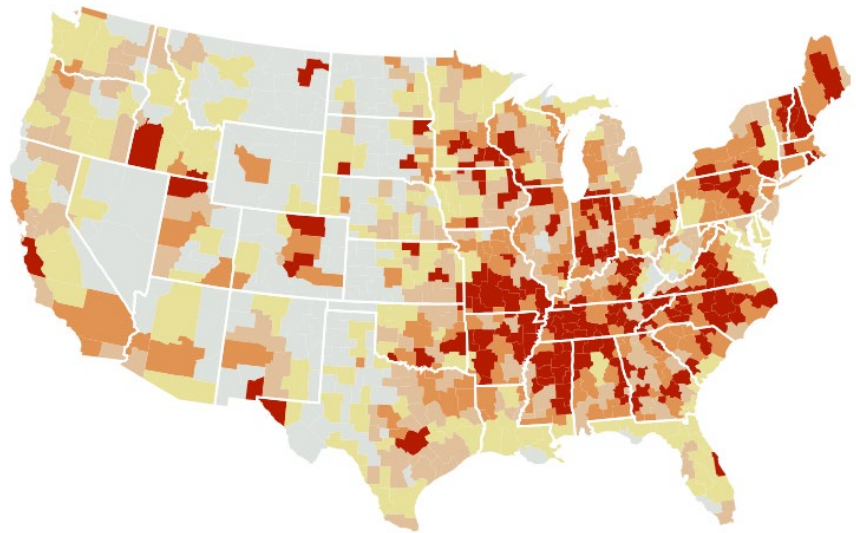
Figure D.1: The pace of economic convergence has slowed down in recent years



Source: Authors' calculations, based on IMF World Economic Outlook data.

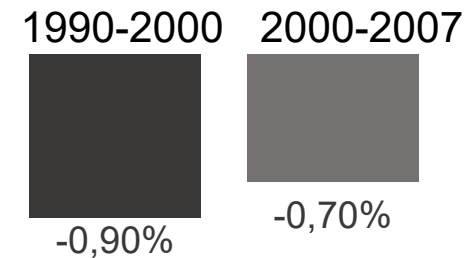
Note: The dashed lines represent the respective smoothed trends estimated by applying the Hodrick-Prescott (HP) filter to annual growth rates.

Yes, there are losers – impact in local labour markets



Increase in Chinese imports per worker (90-07)
Least affected Most affected

- US trade-exposed workers tended to experience:
 - longer/permanent unemployment
 - loss of job income
 - change job in other trade-exposed sector
 - limited interregional migration
- Estimated effect of an \$1000 per worker increase in imports from China during 1990-2007 on manufacturing employment share:

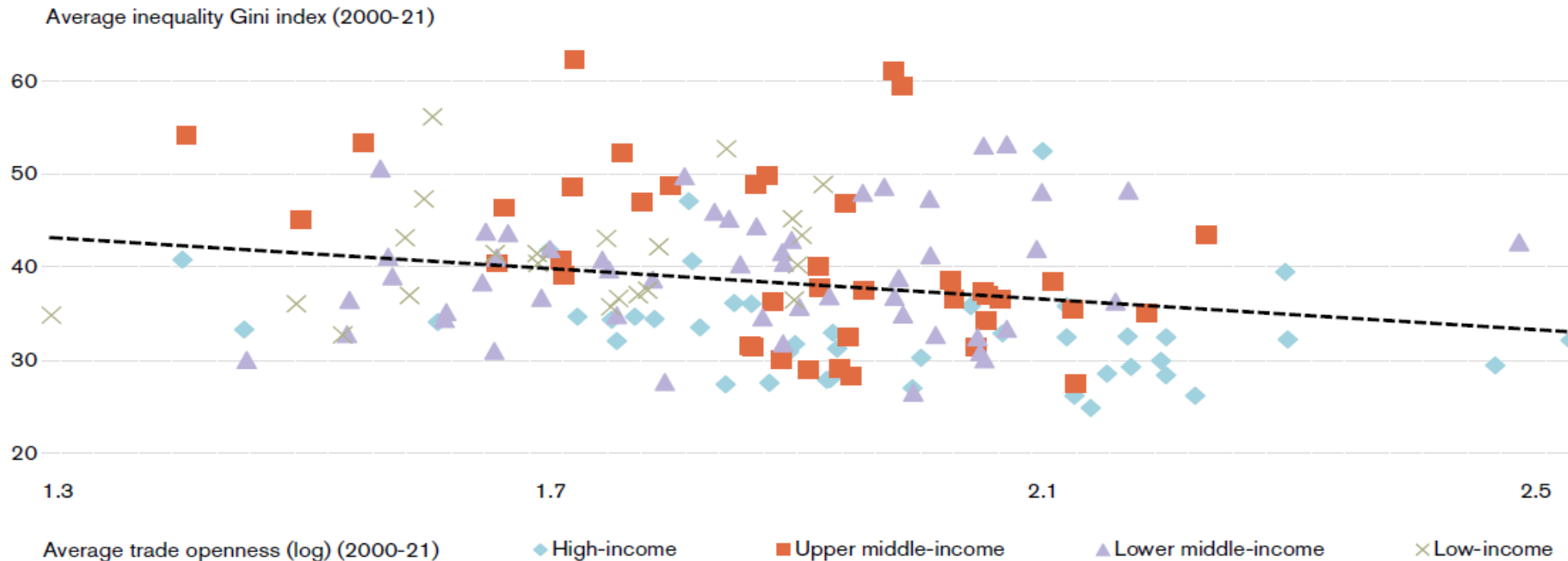


- Estimated effects much more severe for non-college adults

Source: Autor et al. (2016)

But Openness compatible with inclusiveness

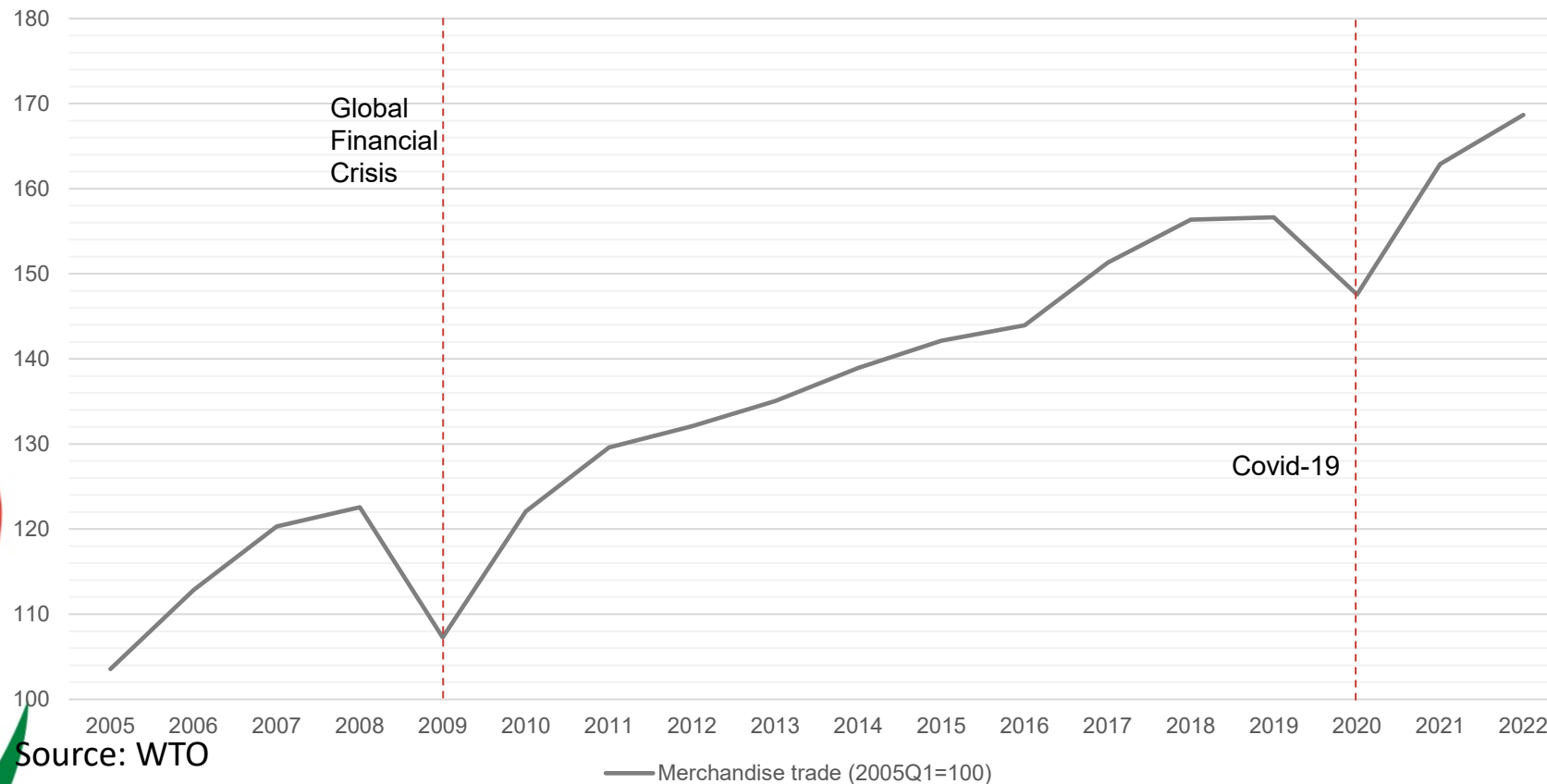
Figure D.2: Trade openness can go hand in hand with economic inclusion



Source: Authors' calculations, based on the World Bank's World Development Indicators.

Note: Trade openness corresponds to the ratio between the sum of exports and imports and gross domestic product (GDP). The Gini coefficient measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality. The average trade openness and Gini coefficients are calculated for the period 2000 to 2021, or a shorter period, based on data availability. The linear trend is represented by the dashed black line, which is statistically different from zero.

Despite disruptions, evidence shows that trade and global supply chains are highly resilient.



Outline

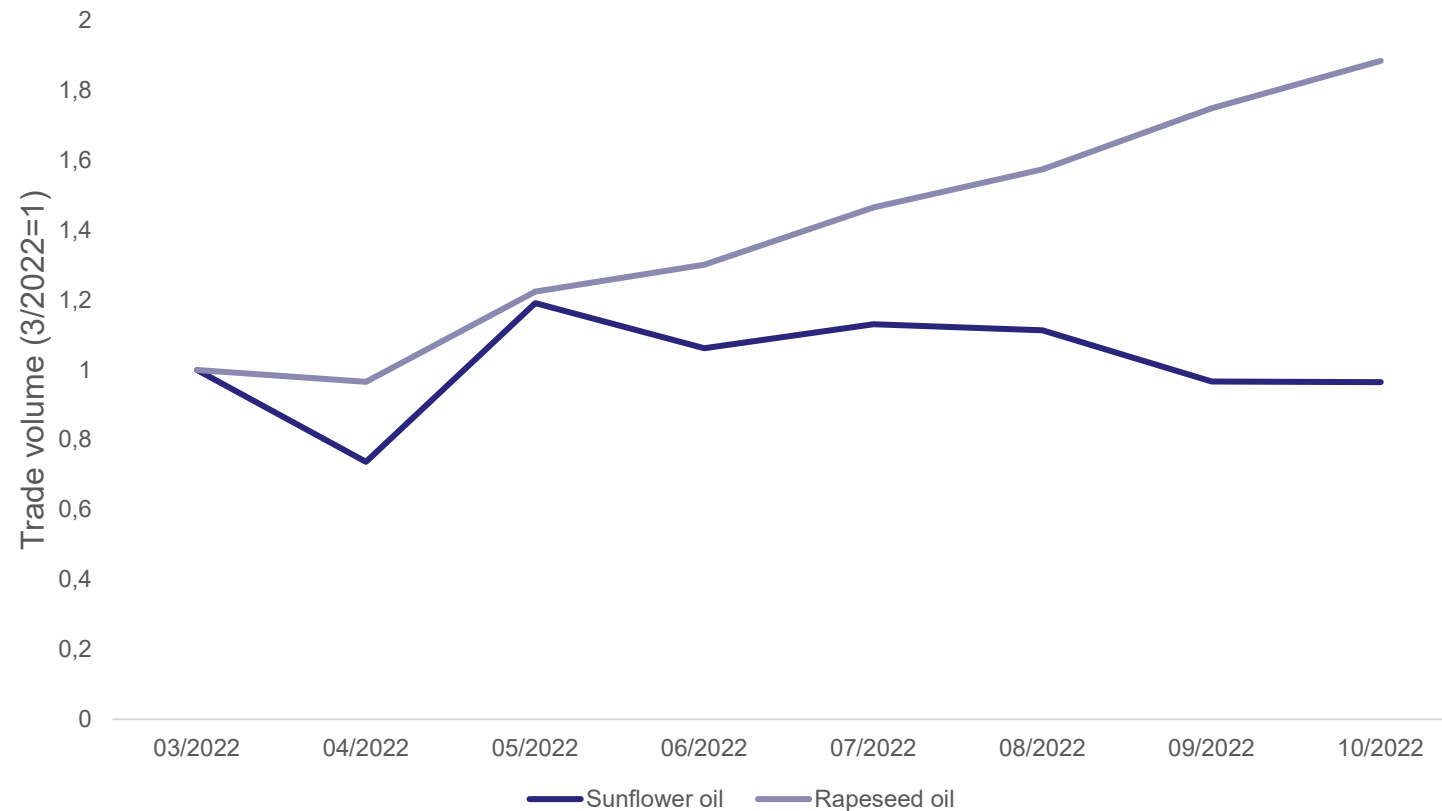
1. Latest about trade and trade policy
2. Change of narrative about globalisation
3. Increasing trade tensions
4. Visible effect of fragmentation on trade flows
5. Risks of decoupling
6. What do people sometime take as granted?
7. **What trade policy and WTO do we need to:**
 - a. **Boost resilience**
 - b. Create jobs
 - c. Address concerns with (“unfair”) China’s competition

How do GVCs support resilience ?

- **Due to scale requirements, supply chains are particularly crucial to respond to demand volatility.**
 - Trade in medical goods exhibited a yearly growth rate of 14.4 per cent between 2019 and 2021. In 2020, world exports of personal protective products alone rose by 44.6 per cent (WTO, 2022).
- **Due to technological requirements, supply chains are particularly crucial to distribute high-tech and novel products.**
 - Exports of COVID-19 vaccine doses increased from nearly zero in 2020 to 4.4 billion in all of 2021 (World Bank and WTO, 2022).

How do GVCs support resilience ? They provide OPTIONS

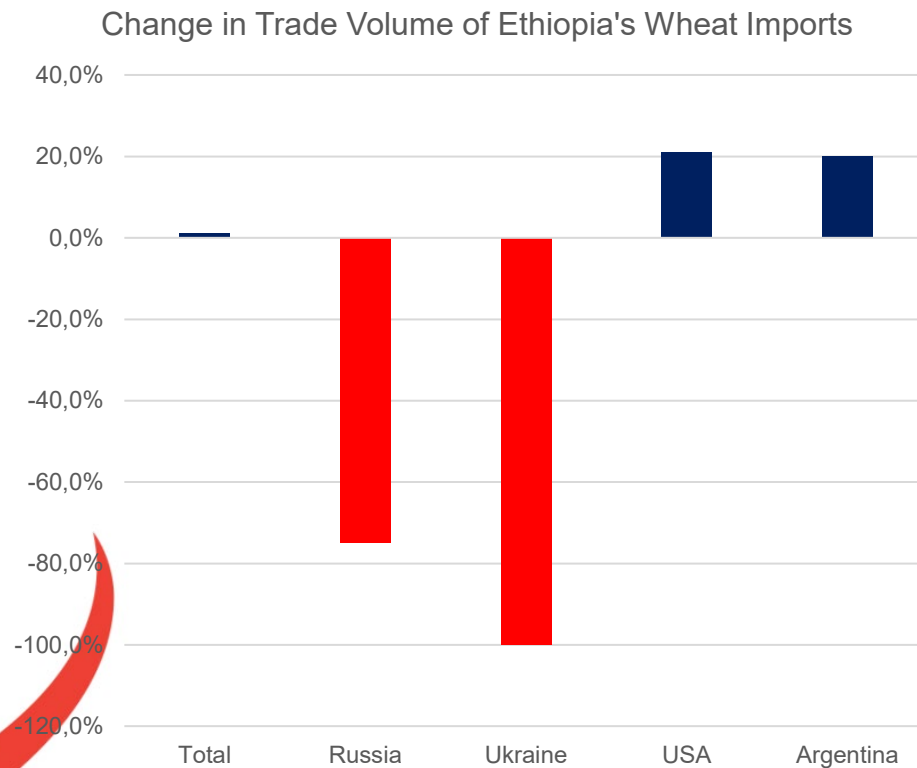
They do so by providing options for substitution across products...



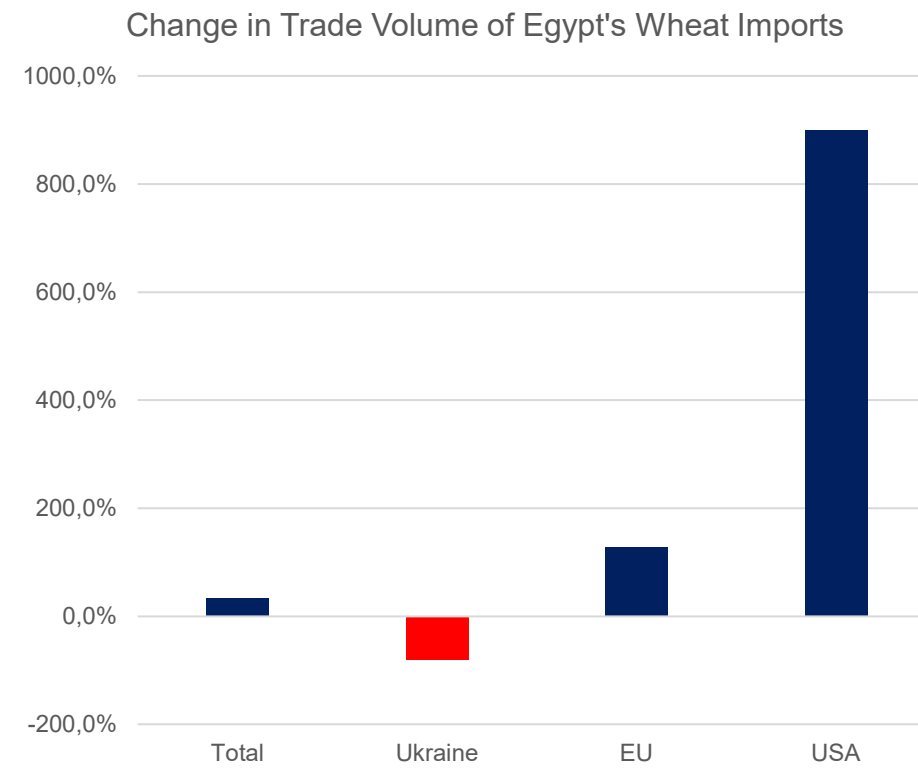
Source: WTO

How do GVCs support resilience ?

... and across exporters, especially via the multilateral trading system.



Source: WTO



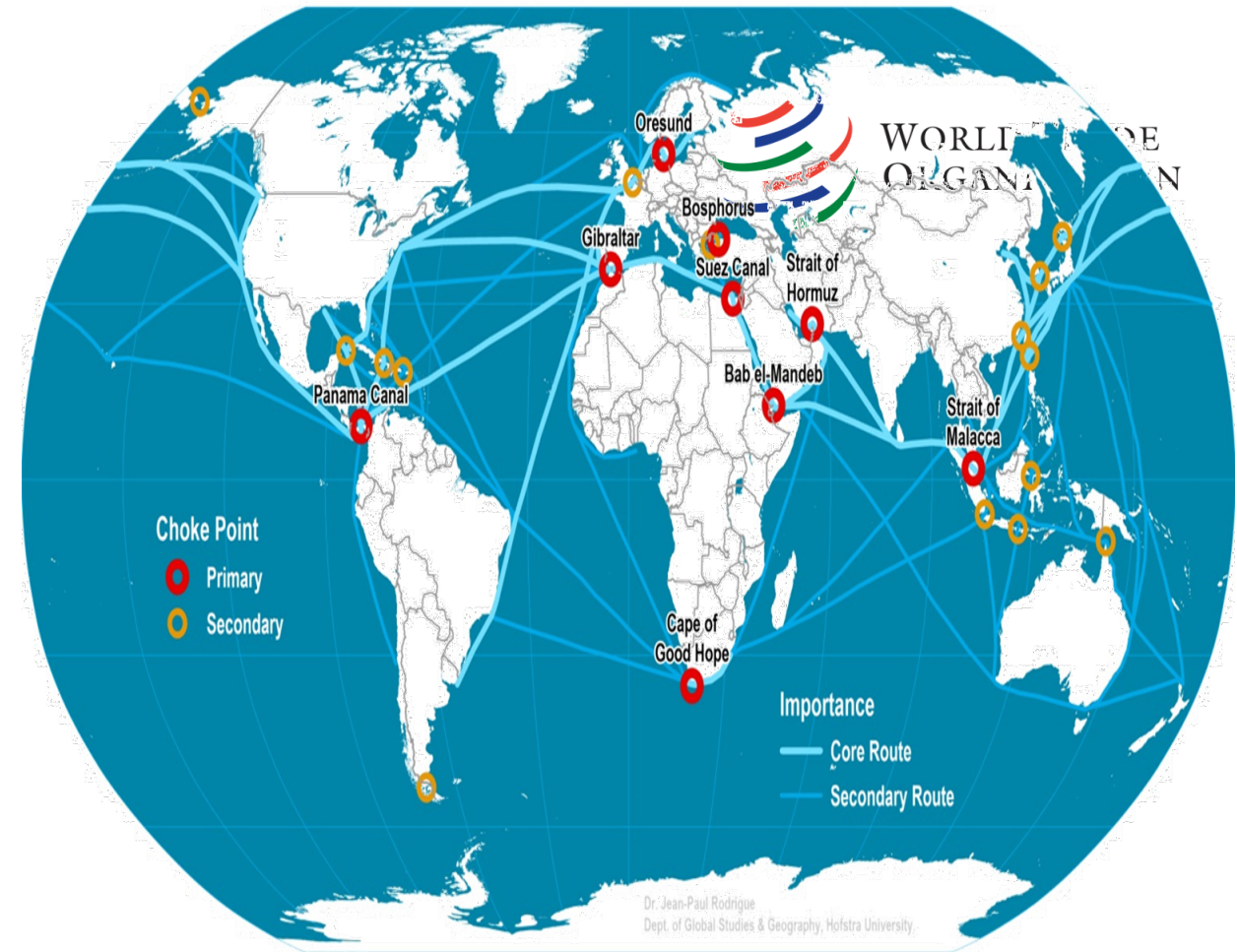
So, what causes disruptions?

• Inappropriate/uncoordinated policies

- NTMs such as port of entry requirements severely aggravated the impact of the pandemic on Indonesian exporters (Ghose and Montfaucon, 2023).
- Underinvestment in central infrastructure and regulatory issues can create bottlenecks (Baldwin and Evenett, 2020)... port congestions
- High concentration of production severely aggravated the 2022 infant formula crisis in the United States (WTO, 2023).
- Uncoordinated policy responses (export restriction) aggravated the impact of the pandemic (Baldwin and Evenett, 2020).. (e.g. medical gears and food security)

Risk factors

- port infrastructure
- chock points in shipping routes



- NTMs such as port of entry requirements severely aggravated the impact of the pandemic on Indonesian exporters (Ghose and Montfaucon, 2023).
- Underinvestment in central infrastructure and regulatory issues can create bottlenecks (Baldwin and Evenett, 2020)... port congestions

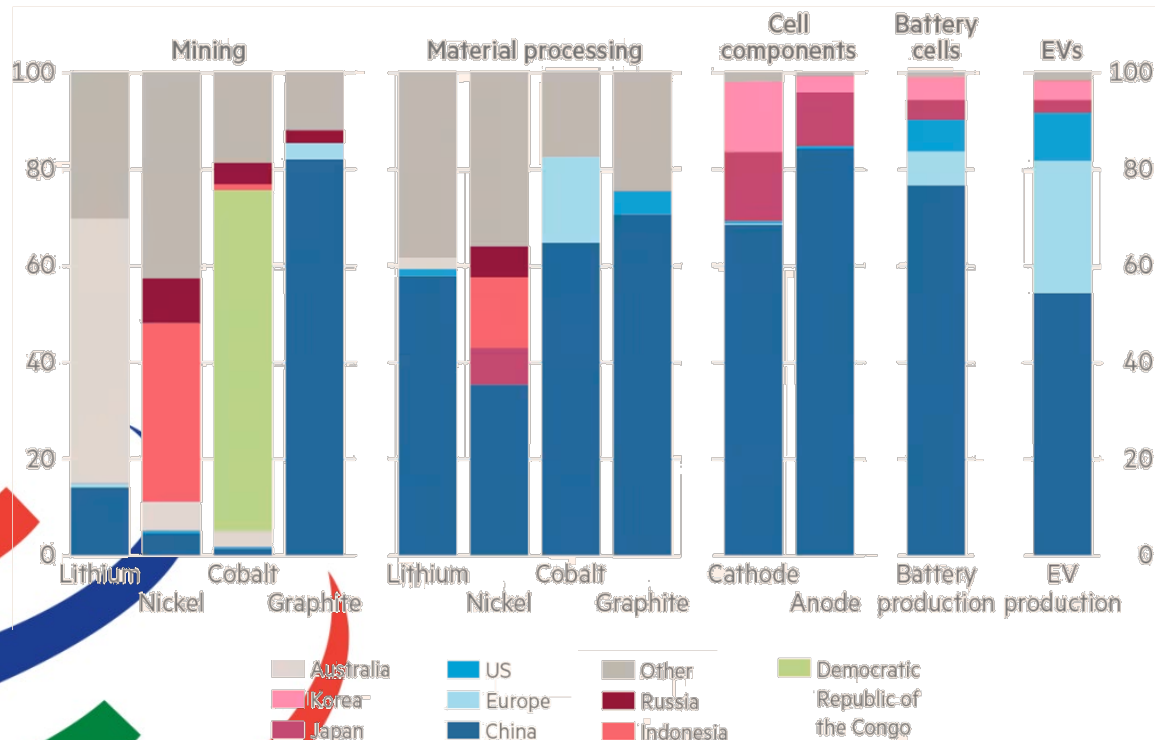
So, what causes disruptions?

• Inappropriate/uncoordinated policies

- NTMs such as port of entry requirements severely aggravated the impact of the pandemic on Indonesian exporters (Ghose and Montfaucon, 2023).
- Underinvestment in central infrastructure and regulatory issues can create bottlenecks (Baldwin and Evenett, 2020)... port congestions
- High concentration of production aggravated the Red-sea crisis in some sectors (WTO, 2023).
- Uncoordinated policy responses (export restriction) aggravated the impact of the pandemic (Baldwin and Evenett, 2020).. (e.g. medical gears and food security)

Excessive concentration: choke points in production

Geographical distribution share of global electric vehicle battery supply chain (2022)



Source: FT

- **Just-in-time and make-to-order production and delivery in Europe more exposed to delays**
 - Temporary suspended **car production** (e.g. Suzuki Motor, Tatar Motor and Tesla)
 - Delayed delivery of **apparel and footwear, cosmetics, furniture, IT equipment, medicines**, (e.g. Adidas, Dr. Martens, IKEA, Logitech, Next)
- **Delayed delivery of some global commodities**
 - **Oil** (from Irak and Saudi Arabia) and **liquefied natural gas** (from Qatar)
 - **Metals** (e.g. aluminum from UAE)
 - **Timber** (from Europe)
 - **Food and beverages** (e.g. Apples from Europe, Tetley Tea)

So, what causes disruptions?



• Inappropriate/uncoordinated policies

- NTMs such as port of entry requirements severely aggravated the impact of the pandemic on Indonesian exporters (Ghose and Montfaucon, 2023).
- Underinvestment in central infrastructure and regulatory issues can create bottlenecks (Baldwin and Evenett, 2020)... port congestions
- High concentration of production aggravated the Red-sea crisis in some sectors (WTO, 2023).
- Uncoordinated policy responses (export restriction) aggravated the impact of the pandemic (Baldwin and Evenett, 2020).. (e.g. medical gears and food security)

Solutions



WORLD TRADE
ORGANIZATION

To address bottlenecks and concentration different solutions exist
diversification (WTO, 2021), inventories (Lafrogne-Joussier, 2023)

Cooperative solutions are the most efficient means of diversification

- Investing in the multilateral trading system to provide importers and exporters as many options as possible during crises.
 - Lowering trade costs multilaterally e.g. WTO TFA
 - Raising trade costs selectively to force diversification tends to reduce options.
- **Addressing infrastructure and regulatory bottlenecks** identified during the pandemic.
- **Increasing information flow** and transparency and set up robust crisis response mechanisms.

Outline

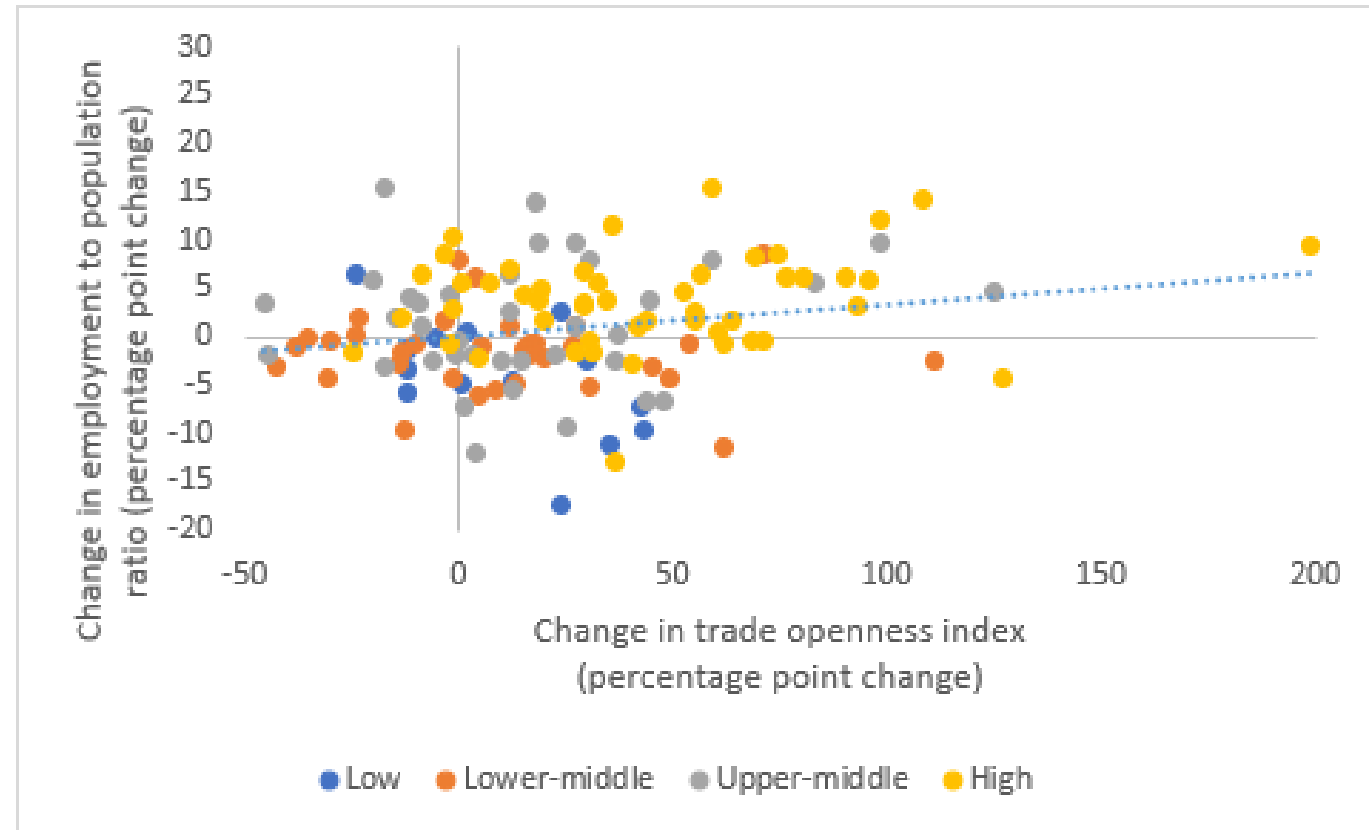
1. Latest about trade and trade policy
2. Change of narrative about globalisation
3. Increasing trade tensions
4. Visible effect of fragmentation on trade flows
5. Risks of decoupling
6. What do people sometime take as granted?
7. What trade policy and WTO do we need to:
 1. Boost resilience
 2. **Create jobs**
 3. Address concerns with (“unfair”) China’s competition

Restrictive trade policy do no bring jobs back

Anne Krueger,

“it is estimated that the annual cost of one job ‘saved’ in the steel industry [following Trumps tariffs] is about \$900,000.

Automation lead to jobless growth

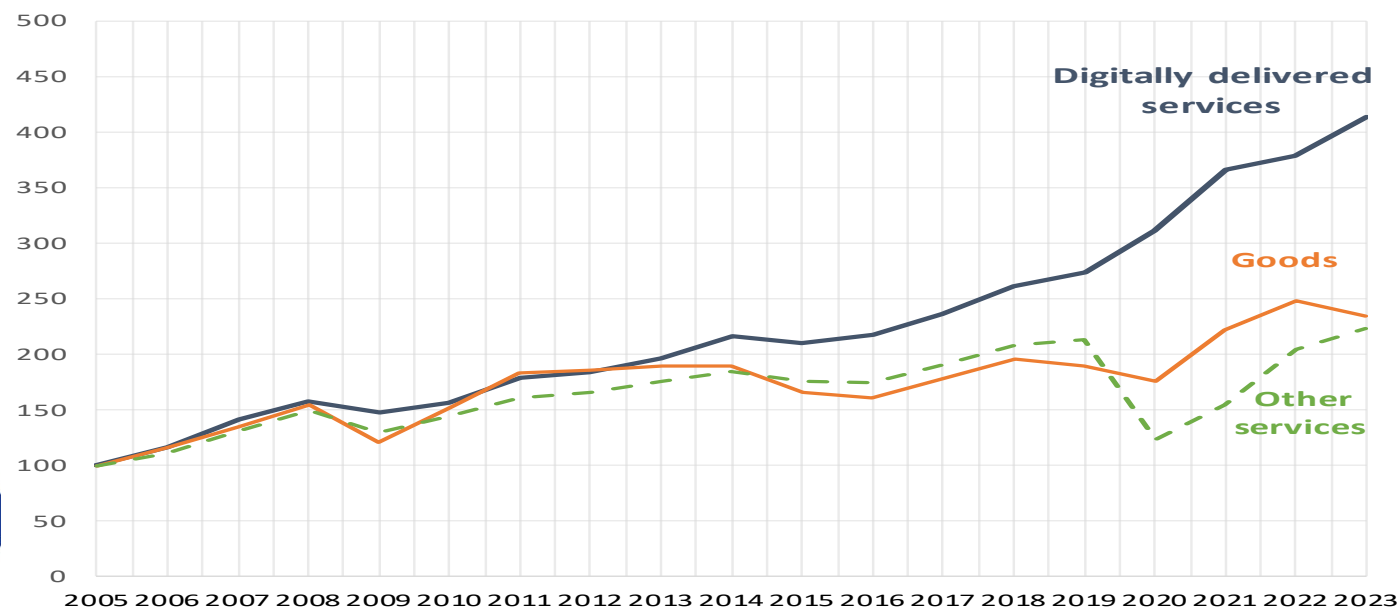


Future of trade is digital: new employment opportunities

Digitally delivered services again outpaced both goods trade and other services last year

Chart 19: Global exports of digitally delivered services, 2005-2023

Index 2005=100



Source: WTO estimates.

Outline

1. Latest about trade and trade policy
2. Change of narrative about globalisation
3. Increasing trade tensions
4. Visible effect of fragmentation on trade flows
5. Risks of decoupling
6. What do people sometime take as granted?
7. What trade policy and WTO need to do to:
 1. Boost resilience
 2. Create jobs
 3. Address concerns with (“unfair”) China’s competition

Arguments



- **Recall:** Biden's tariffs and subsidies are justified to
 - Mitigate risks of American supply chains disruption
 - Studies (based on Trump's tariffs) show the most important effect of bilateral tariffs was to lengthen supply chains, not to shrink overall global trade or to reduce the United States' fundamental reliance on Chinese-sourced critical inputs. More Chinese parts now head to Malaysia, Thailand, and Vietnam—and to a more modest degree, Mexico—for final assembly.
 - Protect American workers and companies against Chin's policy-driven overcapacity (unfair trade practices such as forced technology transfers)
 - Infant industry

Infant industry arguments

- Import-substituting industrialization was a trade policy adopted by many low- and middle-income countries before the 1980s.
- The policy aimed to encourage domestic industries by limiting competing imports.
- The principal justification of this policy was/is the *infant industry argument*:
 - Countries may have a potential comparative advantage in some industries, but these industries cannot initially compete with well-established industries in other countries.
 - To allow these industries to establish themselves, governments should temporarily support them until they have grown strong enough to compete internationally.

Infant Industry: issue

- In practice, correcting market failures can be difficult.
 - If the capital market does not lend because it does not think the firm will be profitable in the future, why should the government know better?
 - Evidence of learning by doing spillovers is scarce
 - Short-term losses may exceed long-term benefits
 - Government failures: implementation is difficult, rent seeking, political economy
 - Temporary protection tends to turn into permanent protection
- Instead of import substitution, several economies in East Asia adopted trade policies that promoted exports in targeted industries generating high import and export ratios (to GDP)

Industrial Policy: what are the issues?



Industrial Policy: Any government intervention aimed at developing or supporting *specific firms, industries, or economic activities* to achieve economic or non-economic objectives

Industrial policy's basic **trade-off**:

- Industrial policies can help address **market failures** (e.g., externalities, information asymmetries)
- Yet measures are costly, can induce **rent seeking** and involve **cross-border spillovers**
- **Can trigger a subsidy race/retaliations**

What's the way forward?



- **Reform WTO:**

- Rules foster peace and security
- WTO not perfect, needs to be made more effective in all its functions (negotiations, monitoring and dispute settlement)
- updating the rulebook to take into account the growing share of services and digital trade

- **Foster Dialogue to fix sources of trade tensions:**

- **Boost resilience** through cooperation
- **Foster Inclusiveness:** stronger domestic policies to share the benefits of trade
- **Discuss industrial policies:** Using data and analysis to foster common understanding and best practices among and between governments

THANK YOU

