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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

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

Source: World Bank’s World Development Indicators (link)
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

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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?

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

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)