Discussion of Deglobalisation? The reorganisation of GVCs in a changing world by A. Jaax, S. Miroudot, E. Van Lieshout

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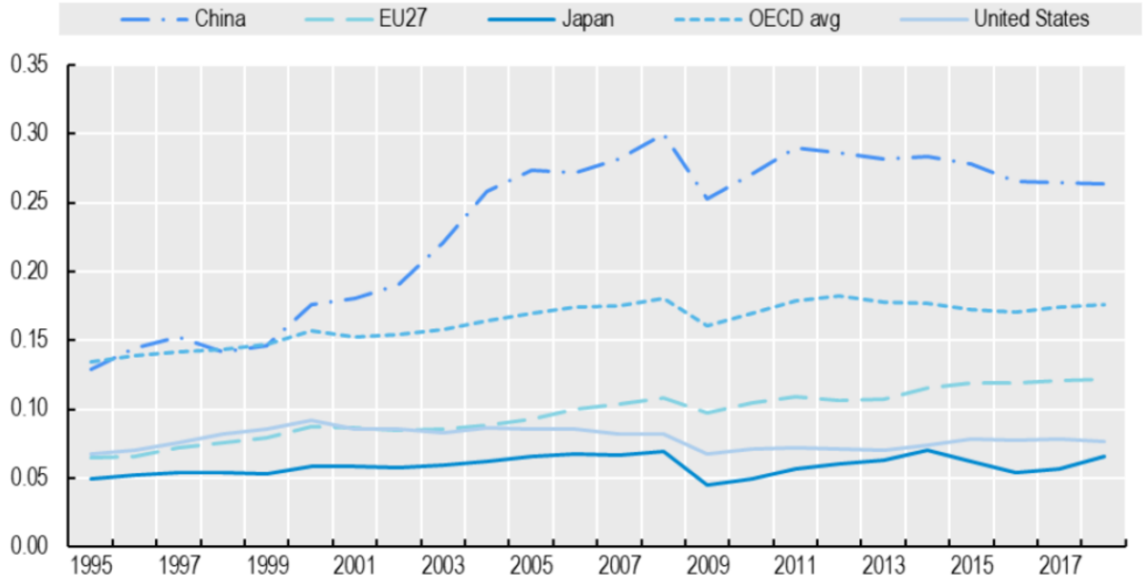
Main messages

- **No deglobalisation**, fragmentation of production remains at historically high levels (NB: data are **before Covid pandemic and before the war**)[only survey data can help to address the impact of Covid 19 or war]
- **High heterogeneity at country and sector level** (China reshore more than the EU, ICT, air transport, reshore more than railroad, shipbuilding etc)
- Results differ if data are in current or constant prices; **importance of using constant prices** (especially in a periodo of low raw material prices, such as after 2011): **2018 is a peak of fragmentation of production** in constant prices
- Structural decomposition shows that **changes in bilateral trade costs play an important role** (but can be compensated by offsetting changes of other components e.g. imports from countries with lower costs)
- NB: **First to use newly released I-O tables** (TiVA- Nov 2021) 1995-2018

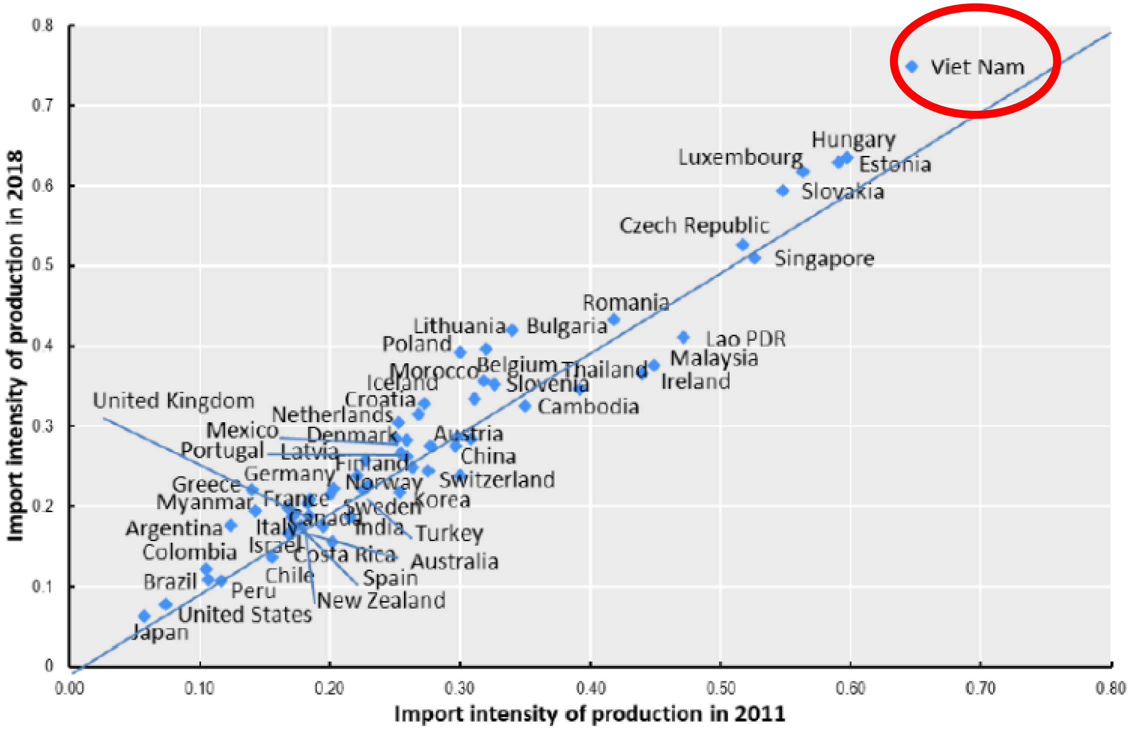
Heterogeneity: country level

Figure 4. Import intensity of production, main economies, 1995-2018



Note: Data are in constant prices, base year 1995. Unweighted average for OECD countries.
Source: Authors' calculations based on OECD ICIO tables in previous year's prices.

Figure 5. Import intensity of production, all TiVA economies, 2018 versus 2011



Note: Data are in constant prices, base year 1995. Industries are weighted based on their share in final demand with the same weights (2011) for both years.
Source: Authors' calculations based on OECD ICIO tables in previous year's prices.

Figures on import intensity in constant prices over time and in 2018 vs 2011 for the 66 countries in TiVA

Before the pandemic, no reshoring nor nearshoring (excluding China)

- Indicators used: ratio of foreign to domestic stages of production; number of production stages; **China value chains are «more domestic»** (possible explanations, only the first briefly considered: **shift to higher value added**? I would inquiry into the role of Vietnam; **Role of the Belt and road initiative**? Building infrastructructures could help exports? **China explicit policy: role of domestic demand**?)
- Also **no clear sign of regionalization of GVCs** (except partially for EU/ depends on initial level, specialization of the participating countries etc)
- Large debate (not dealt with) after pandemic: did Covid (disruptions of GVCs) trigger reshoring (nearshoring)? with survey data (and a calibrated model based on Antras, 2020) we show that **if the shock is transitory or perceived as such no substantial changes in behaviours**.

Role of trade costs (& uncertainty)

- **New indicator of bilateral trade costs** (cumulative trade costs on intermediate defined by country and industry of final production): shows increase (may also suggest the existence of a threshold above which there is no convenience to fragment production)
- Interesting **descriptive evidence of difference amongst countries** (**EU higher**, but also intraEU trade included, if considering components: ease of trade, trade policy, uncertainty, other– **ease of trade higher** but for utilities):
- **Interesting decomposition into two components, further disaggregated** (**structure of GVCs** – share of intermediate inputs in total output, change in sourcing mix either country or industry- and **trade costs**) highlights that **ease of trade and uncertainty contribute to the increase in cumulative costs along the value chains** (different developments can offset each others e.g. Japan: increase in bilateral trade costs but shift to countries with a lower bilaterl costs- sourcing country mix)
- Costs for services are higher than for manufacturing: given servicification of GVCs, this could be a problem
- **Question mark on future development of trade policy (mixed signals after Pandemic, probably some protectionism)**
- **Role of uncertainty**

In summary

- Interesting contribution
- New data (TiVA), new indicators, new viewpoints and perpectives
- Highlights the role of mix of source countries and industries (different costs and different resilience depending on diversification)
- Some unsolved – important- issues (which need different data, i.e. surveys and a theoretical model –Antras?):
- **The main issue is the different implications of temporary versus permanent shocks**
- Let me briefly address these issues

Temporary versus permanent shocks

- **Temporary shocks can have long-lasting effects, if very large**. If the relevant time-horizon is long enough (and the discount factor small), temporary shocks may be insignificant.
- **Permanent shocks even if small induce behavioural changes**. **Firms are more likely change their internationalization strategy if they perceive a shock as permanent**. **Even the anticipation of a permanent shock may be enough as, e.g. "tariff scares", can reduce trade even if they never actually materialize**
- In general, we can say that fix and sunk costs, and specific investments make GVC sticky and less responsive to change and that **history matters**. **The incentives to undo previously made choices are low** because the upfront costs have been paid & changing the current patterns implies new additional investments. This makes the **status quo relatively more appealing even against adverse shocks**.
- Furthermore, in the presence of uncertainty **firms may choose to postpone investment decisions**
- **Because the impact and the response to temporary and permanent shocks can be very different, the challenge ahead for GVC firms is to understand what kind scenario is more likely in a post-covid (post war) world**.

Pandemic & war….

- The pandemic caused widespread supply disruptions by **shifting demand from services to goods** while preventing workers from producing and distributing them, leading to elevated shipping costs and congested ports. But was mainly perceived as **short lived (transitory)**
- **The war in Ukraine has intensified these disruptions by making energy, metals, and agricultural products scarcer** (and is **perceived as more permanent**)
- The perceived permanent shock can change behaviours and trigger more reshoring/nearshoring (friendshoring?)

Firms can diversify their sources..

- Firms can **diversify their supplier relationships to source more components from different countries**, **which would reduce reliance on any single country** (including the home country) and provide established relationships that can be tapped during a crisis
- More **internationally diversified sourcing would reduce the economic impact of a supply disruption in a large supplier country by almost half in the average receiving country.**
- **Debate: Diversification versus Reshoring**
- Interesting…. Need to wait to "know"….**as for now uncertainty wins!**

Thanks