

THEMATIC



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Trade in services continued to increase faster than global GDP in the 2010s

A few reasons why the Covid crisis may lead to less deglobalisation than thought

It is a widespread view that the Covid crisis will accelerate trade deglobalisation, including through industrial reshoring and shorter value chains. However, the most likely scenario is more complex, as trade in services may grow even more globalised, while the reshoring of manufacturing activities may run into a number of practical, yet also political, obstacles.

That the Covid crisis should accelerate a “deglobalisation” trend already observed since the GFC is a widespread theme. While several economic and political rationales may underpin forecasts of further “deglobalisation” under various definitions, a prominent view focuses on the consequences of the crisis on global manufacturing value chains following: 1/ shortages of essential supplies at the height of the pandemic seen as revealing an excessive reliance on foreign (mainly Chinese) production and increasing the desire for national (or regional, in the case of Europe) autonomy; 2/ stronger than ever public concerns over social inequalities, the rise of which is closely associated in public opinion (at least in advanced economies) with the pains of deindustrialisation; and 3/ government promises of reindustrialisation, whether limited to strategic sectors or broader, in response to the two concerns above. Under this lens, deglobalisation could accelerate through reshoring and more domestic or regional value chains.

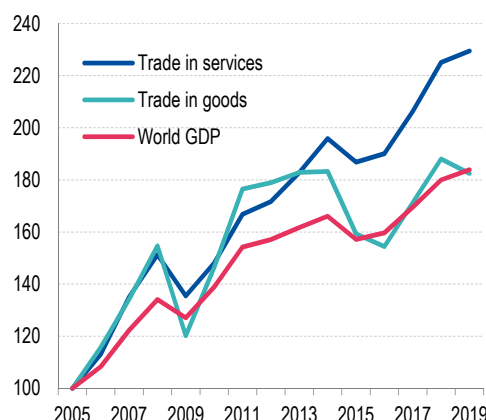
While this view certainly has some ground, a few caveats and counter-arguments nonetheless deserve to be stressed:

First, manufacturing value chains are only a part of the globalisation vs. deglobalisation story, even when limited to trade circuits. More specifically, focusing on these chains

may lead to exaggerate conclusions that deglobalisation already began in the 2010s, even though trade in services painted a different picture. The deceleration of world trade relative to world GDP (a sharp reversal of the trend observed in previous decades) attracted a lot of attention. So did the very visible political developments of the erosion of the role of the WTO vs. regional institutions and, late in the period, Donald Trump’s protectionism. However, these figures and events related first and foremost to trade in goods. Trade in services, for its part, continued to increase faster than global GDP. While some services were also subject to protectionist attempts, these were less spectacular than for goods and had little in terms of multilateral free trade regimes to target¹. Looking forward, it is possible that the Covid crisis could be, at the margin, a lasting negative for trade in services. Possible channels (across the very diverse services spectrum) include, among others, the desire for national or regional autonomy, reinforcing the attempts to tame the role of Big Tech or Big Data players, or work-from-home habits and strengthened environmental concerns weighing on cross-border travel. However, whether these will be enough to offset the very powerful structural forces supporting cross-border trade in those activities is

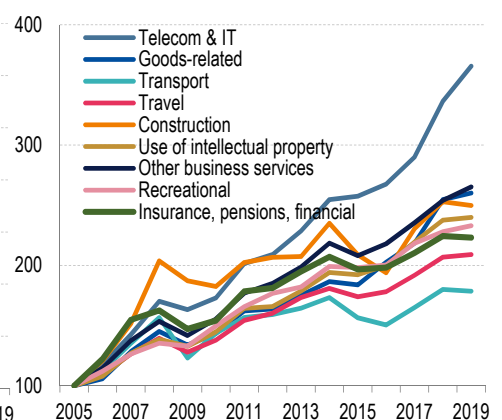
¹ Brexit is an important exception of trade in services likely to be restricted, yet more as a consequence of other intentions than as the initial goal.

1/ World GDP vs global trade in goods and services Basis 100 in 2005, nominal (USD) terms



Source: UNCTAD, Amundi Research, Data as of 31/12/2019

2/ Trade in services by sector Basis 100 in 2005, nominal (USD) terms



Source: UNCTAD, Amundi Research, Data as of 31/12/2019

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Reshoring production may not be the best way to ensure the security of supply chains

Reindustrialisation is at the intersection of many rationalities

Towards a complex globalisation vs. deglobalisation tug-of-war

highly uncertain, to say the least. For instance, better customer information may continue to generate high demand for the most efficient Internet-based services, wherever the providers are located; or the rising middle-class in emerging economies may continue to fuel rapidly growing demand for international tourism. More generally, global value chains limited to the services sector could become increasingly stretched and sophisticated. In any case, when it comes to services, there is not much of a pre-existing deglobalisation trend to build upon, except the abrupt (but presumably short-lived) interruption of some sectors' activities (notably travel) by regulatory decision during the crisis itself.

Second, once the fog of the crisis and the sense of emergency dissipate, the notion of national or regional autonomy may shift towards a somewhat more "dynamic" definition, under which reshoring may often not appear as the preferred solution. International "market-friendly" organisations are already bringing forward a number of arguments². These include, notably, that no national industrial capacity, however big, could have prevented shortages of emergency supplies as serious as those experienced in the early days of the Covid crisis. China itself, despite its industrial might, did face major shortages in Q1 2020 and obtained supplies from other countries. Moreover, the advantages of global value chains (economies of scale, specialisation, reactivity to a quickly changing environment) finally proved to be instrumental in supplying equipment and tests (as well as, possibly, vaccines soon) to the entire world more quickly than national production capacities could probably have (especially if they were used to living under protective trade barriers and were therefore presumably less adaptive). Finally, vulnerabilities of global value chains to specific "black swan" events, should always be kept in perspective with their long-term advantages (again, economies of scale and specialisation). Therefore, identifying and monitoring those vulnerabilities in advance, as well as preparing emergency adaptive scenarios (sponsored by governments and international organisations to maximise the chances of cooperative behaviours) may be a more productive way of reducing risk than systematically opting for reshoring strategies. Of course, the same observers acknowledge that the best way to reduce supply risks may be very different depending on sectors and the size of each country with, in specific cases, national or regional production autonomy (and, at least, the building up of emergency

stockpiles) making sense. Nonetheless, careful studies of advantages vs. drawbacks may lead governments and corporations to also conclude that the Covid economic shock is not a sufficient reason to shrink global value chains in general.

Third, even if limited to manufacturing, the reshoring of activities may quickly run into obstacles of conflicting priorities. The theme of reindustrialisation, while popular in public opinion, lies at the intersection of many rationalities. In addition to being viewed as a way to guarantee supplies in times of emergency it also finds justification in terms of geopolitical (control of sensitive technologies), social (providing relatively well-paid employment) and territorial (factories are seen as a way to maintain activity hubs in mid-size cities) strategies. However, policies and projects that would best pursue each of these goals may be very different, if not incompatible. For instance, governments may have a hard time deciding whether to prioritise the protection of existing manufacturing jobs in remote regions or to further enrich large competitive cities' ecosystem by attracting high-skilled foreign engineers in new sectors. In addition to their direct financial costs for corporations, reindustrialisation strategies may therefore be hindered by hesitations, shifts in direction, and intense lobbying from various vested interests.

These practical and political implementation difficulties make it therefore questionable whether reshoring and reindustrialisation efforts will be pursued as strongly as sometimes stated today, all the more so if their justification gradually appears less strong when the crisis-induced sense of emergency gives way to calmer studies. Moreover, it is not certain whether a shrinking of global manufacturing value chains, even if it happened, would be enough to offset (in total trade terms) the rapid rise in global trade in services. While many other factors will obviously be at play in the globalisation vs. deglobalisation tug of war over the coming years, these observations only hint that **this process will be complex, with contradictory developments across sectors and diverging trends towards more domestic, but also more regional and sometimes even more global, trade circuits.**

Finalised on 24/11/2020

² Extensive discussion of these arguments can be found in: *COVID-19 and global value chains: Policy options to build more resilient production networks*, OECD, June 2020 and in *Resilience versus robustness in global value chains: Some policy implications* Sébastien Miroudot, OECD, as part of *COVID 19 and Trade Policy: Why Turning Inward Won't Work*, CEPR Press.

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