

Trade, Protectionist Challenges and Global Value Chains

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Historical background and impacts

A tale of two unbundlings (R. Baldwin)

- The key role of technological change, removal of political and economic barriers and multinational corporations
- Impact on capital flows (direct and portfolio investment)

Impacts

- The balance of power has changed in disfavour of advanced economies, nonetheless, they have retained the high-value added stages of production [▶ Smiley curve](#)
- Most developed countries witnessed a shift in labour demand towards more-skilled workers, with an increase in wage and income inequality
- Higher resilience to small shocks but cascading effects can occur in the event of targeted attacks to central nodes

Historical background and impacts

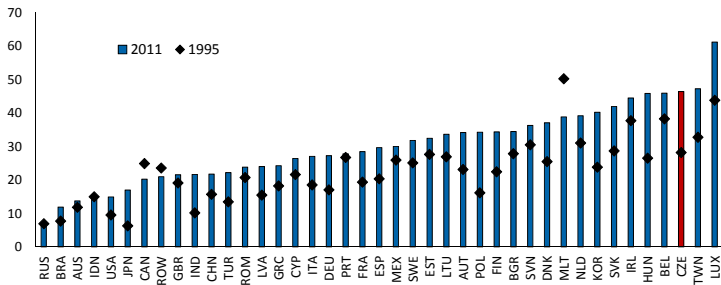
Impact on economic analysis

- Gross trade flows are much less meaningful indicators
- ... and also all derived indicators (market shares, real effective exchange rates, etc.)
- Bilateral trade balances are misleading, only balances versus the rest of the world are useful
- The reorganization of firms has led to the emergence of superstars

Central and Eastern European Countries

CEECs are strongly engaged (FVAiX, WIOD)

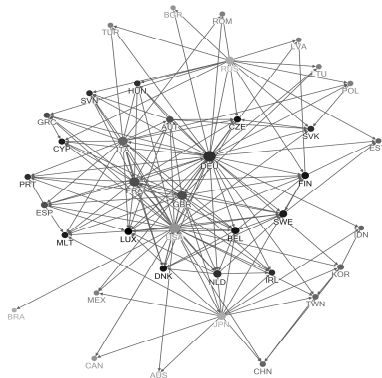
Foreign Value Added in Exports of Goods and Services
(Percentage of total exports)



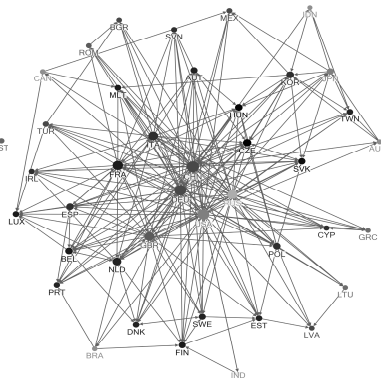
Central and Eastern European Countries

CEECs play a central role (Amador & Cabral (2016), The World Economy)

1995



2011



International trade of Services

Why do services trade expand?

- Productivity grows less than in manufacturing (Baumol)
- Tourism and labour mobility
- GVC supporting services (logistics, transport, assistance)
- Technological progress and liberalization (third unbundling)

A services society

- From mass production to mass customization (many varieties) and then towards the emerging paradigm of personalization.
- The vital role of communication and computing technologies.

Wrong diagnosis and dangerous prescriptions

Inequality

- Inequality has increased in developed economies and across the world in general (Piketty)
- Failure to understand that international trade is a positive sum game
- The absence of redistribution policies is the true problem (challenges regarding taxation)

Environment

- Climate changes are already visible
- Externalities caused by economic activity, multinationals and international transportation are important
- Failure to understand that externalities can be corrected
- International environmental cooperation is warranted

Wrong diagnosis and dangerous prescriptions

Protectionism is not the solution for these problems

- Public opinion's mistrust emerges in periods of crisis
- Adjustment to shocks in comparative advantages is painful in rigid economies
- Tariffs, quotas and other barriers may promote domestic production and create employment but consumers pay higher prices (also less variety) and lose welfare
- Tariffs imply larger costs for imported intermediates
- Tariffs may lead to retaliation

Dirigism is not a solution either

- There is always the temptation of picking the winners
- Successful interventions are highlighted but many more failures exist

Wrong diagnosis and dangerous prescriptions

Trade policy

- International trade negotiations have been successful
- The EU is an example of a project built on the basis of free trade (initially a customs union)
- Important challenges remain regarding non-tariff barriers and services trade

Correct solutions

- Promote the right conditions for firms to operate
- Reinforce redistribution and correct (environmental) externalities
- Increase flexibility in the economy and spur innovation (human capital is warranted for both purposes)
- Prepare for the challenges emerging from automation

Research

Driver

Today, research in international trade is more necessary than ever and it is also important to communicate basic concepts to policy-makers and to public opinion.

The use of new data sources

- We came a long way since aggregate sectoral data was the norm
- Firm-level databases (comparable, balance sheet, credit registry, employer-employee, trade, B2B)
- Merging databases (big data)
- Global input-output matrices are key for GVC research

Research

Mapping and modelling GVCs

- GVCs and the impact of trade in the environment
- GVCs role on the development of poorer countries
- GVCs impact on macroeconomics (e.g. inflation spillovers across countries: Auer, Levchenko and Sauré)
- The key role of networks to study resilience to shocks and the entire set of linkages between countries (network theory)

Research

Mapping and modelling GVCs

- Firms decisions regarding participation in GVCs (Pol Antràs)
- The role of transaction costs between firms (A. Bernard)
- Complex supply-chain management

Trade policy issues

- The redistributive impact of tariffs
- The impact of break-up of trade agreements (Brexit)

Thank you very much for your attention . . .

Smiley curve

