

The Global Outlook, International Trade and Resilience

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*The views are my own and do not represent the views of the Bank of England or the MPC

Outline

1. The Global Outlook

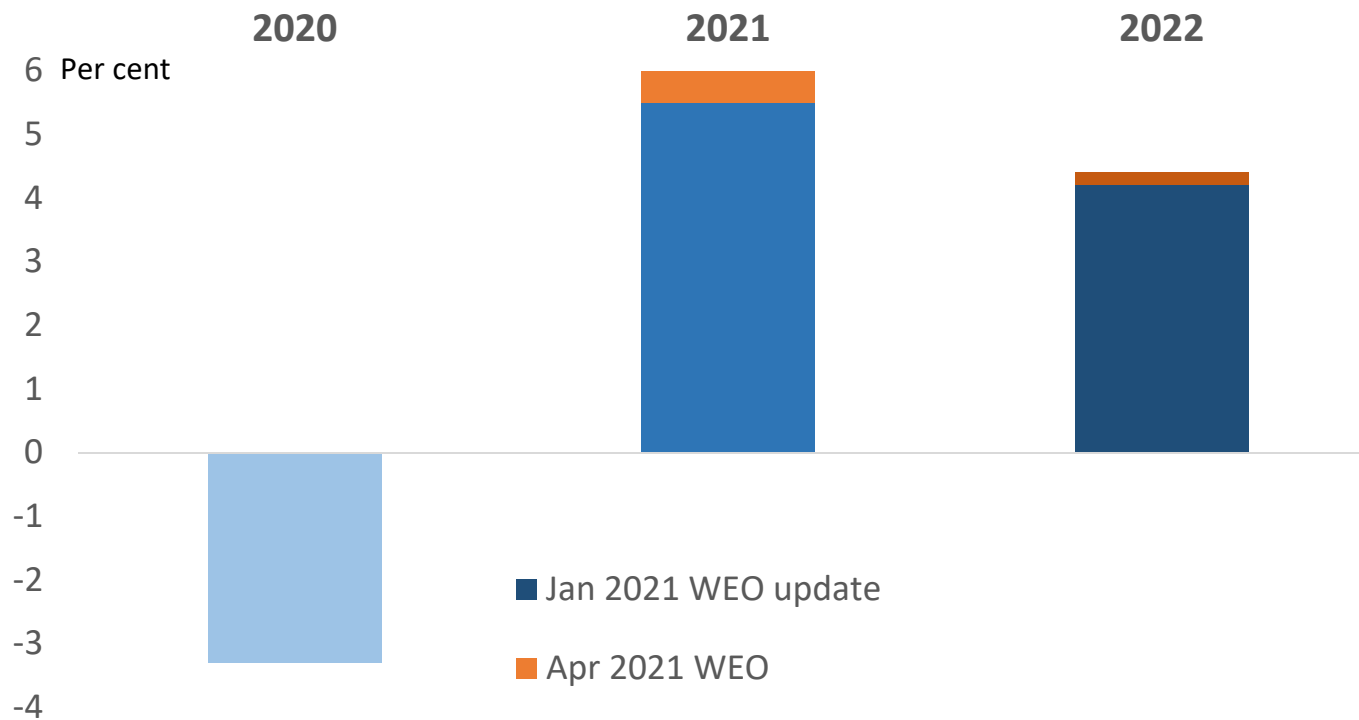
- Vaccine-driven recovery.
- But divergence across countries:
 - In economic outlook
 - And in virus prevalence, and risks of further lockdown-related disruption

2. The Globalization Question

- A Protectionist Narrative
 - “Self-reliance to build resilience”
- But concentration on domestic production can be a riskier strategy

1. The Global Outlook

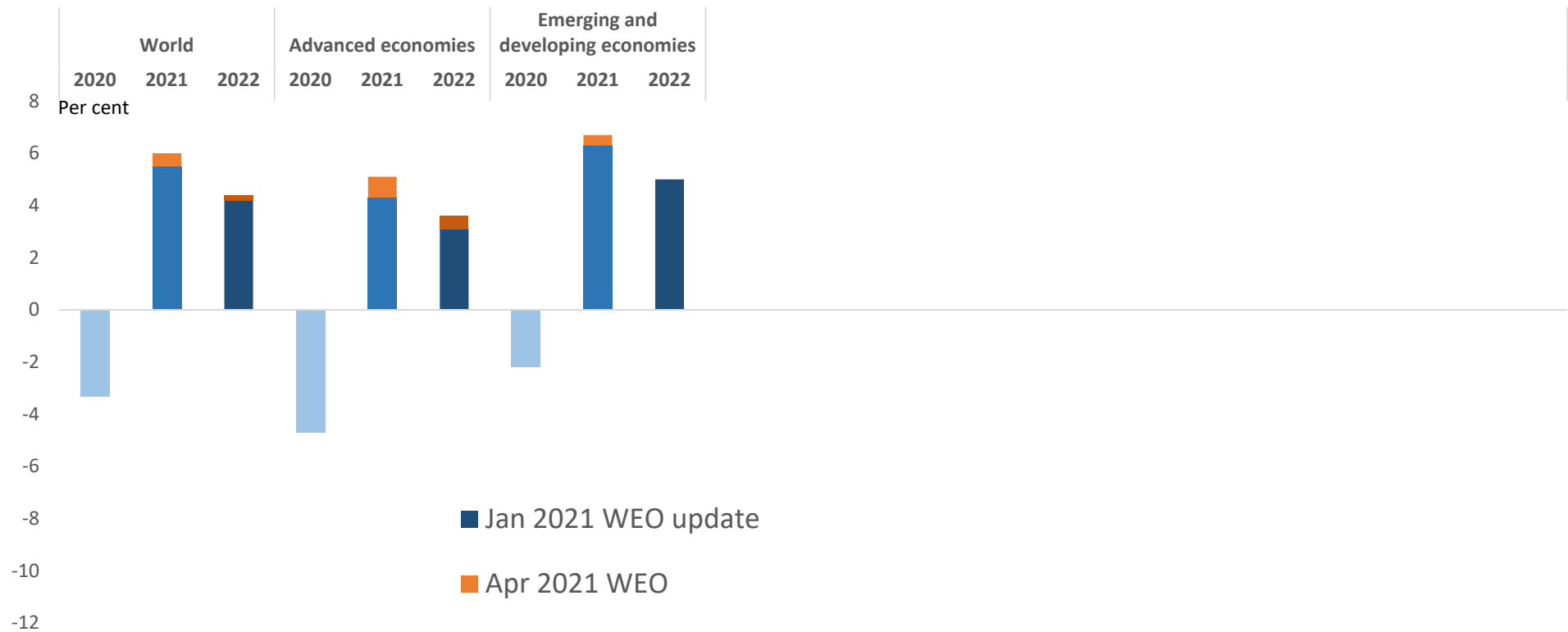
- IMF and other forecasters have been revising up global **GDP growth** forecasts.



Source: IMF April 2021 World Economic Outlook

1. The Global Outlook

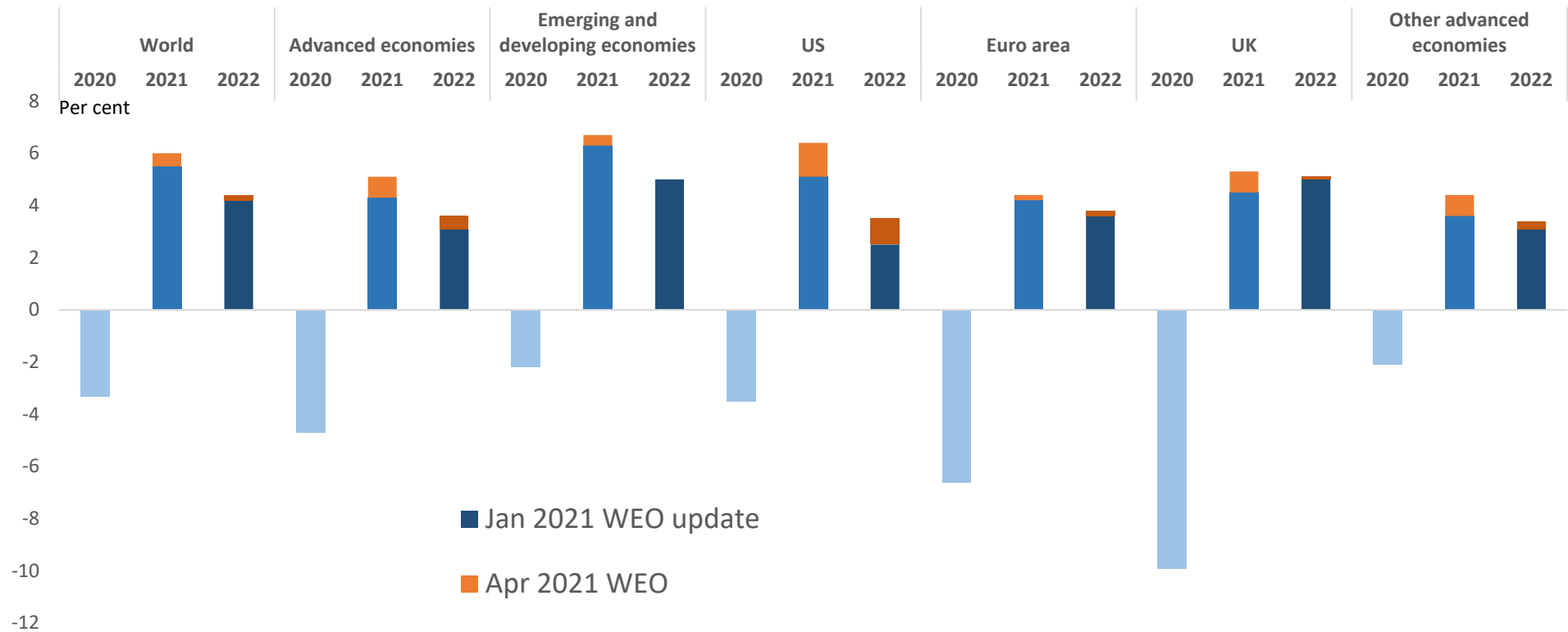
- But larger upgrades in advanced economies than emerging and developing economies.



Source: IMF April 2021 World Economic Outlook

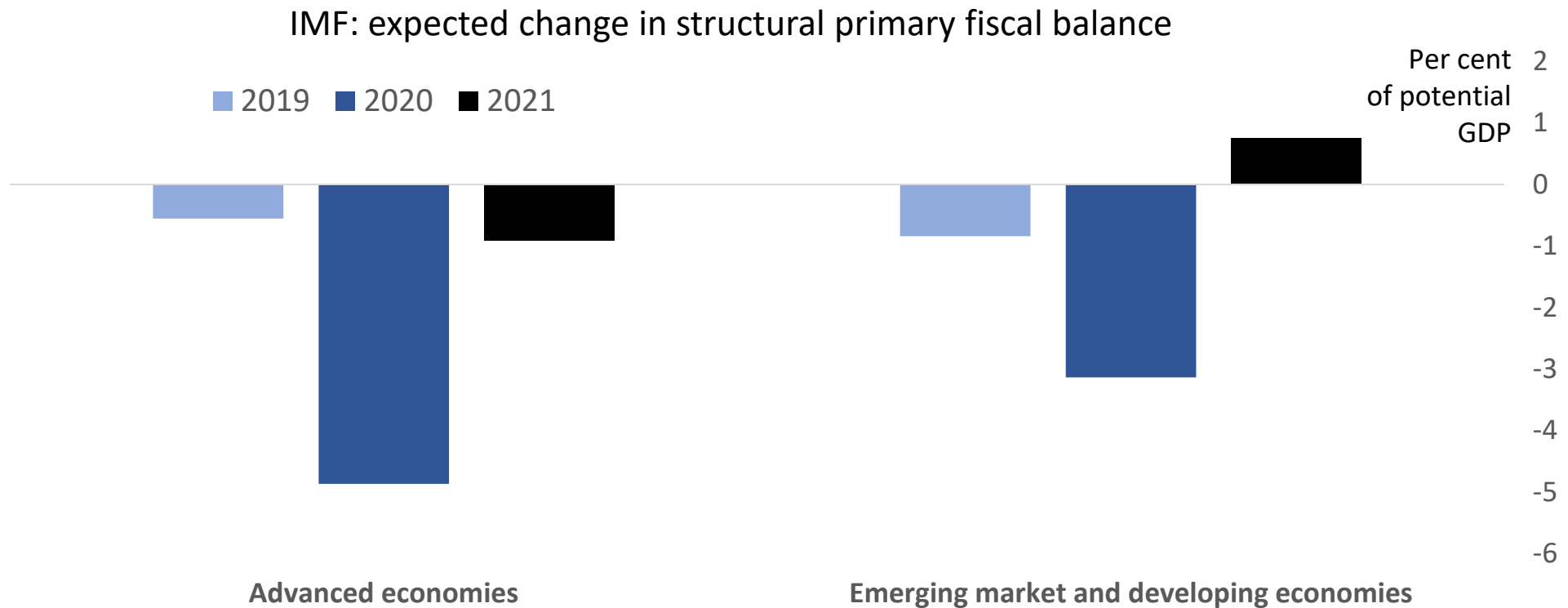
1. The Global Outlook

- And heterogeneity even within advanced economies – strongest upgrades in the US.



Source: IMF April 2021 World Economic Outlook

1. The Global Outlook



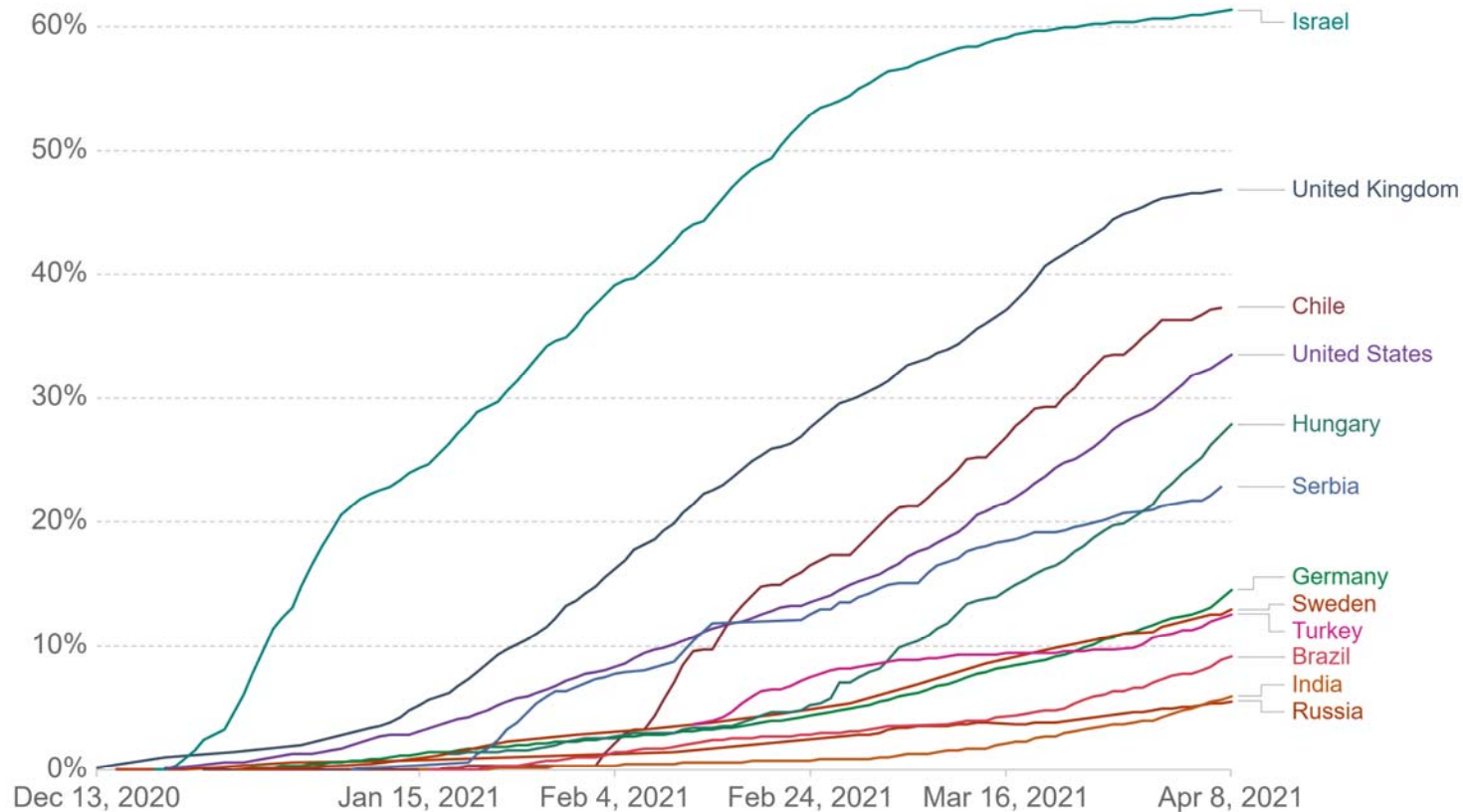
Source: IMF April 2021 World Economic Outlook

- Heterogeneous outlook partly due to differences in policy response.

1. The Global Outlook

Share of people who received at least one dose of COVID-19 vaccine

Share of the total population that received at least one vaccine dose. This may not equal the share that are fully vaccinated if the vaccine requires two doses.



Source: Official data collated by Our World in Data

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- ...and partly different speeds of vaccine rollout.
- Continued high virus prevalence in many countries.
- May lead to further lockdowns, trade and supply chain disruption.

2. The Globalization Question: How does openness to trade affect volatility?

- The Policy answer:
 - Seems to assume “increase”
- Our research (Caselli, Koren, Lisicky and Tenreyro, 2020):
 - Studies two key mechanisms
 - Sectoral specialization
 - Country-wide diversification
 - Quantifies change in volatility caused by trade

Specialisation Mechanism

- Trade induces specialization, increasing exposure to sectoral shocks
- Implications consistent with standard view
 - Trade tends to increase volatility
- Caveat: not quite so! Which sectors the economy specialises in? Var-cov of sectoral and country shocks.

Diversification Mechanism

- Trade can act as a hedge against shocks
- Implications contrary to conventional view
 - Allows firms and countries to diversify suppliers as well as buyers
 - By diversifying sources of supply and demand, trade tends to reduce volatility
 - Allows countries to access technologies developed abroad to combat risks

Quantitative Results:
change in volatility
due to changes in
trade barriers from
the 1970

	Volatility change due to changes in trade barriers (1)	Volatility change due to diversification (2)	Volatility change due to specialization (3)
Australia	-2.2%	-0.6%	-1.6%
Austria	-43.3%	-117.6%	74.3%
Belgium and Luxembourg	-66.1%	-106.7%	40.6%
Canada	-72.9%	-100.3%	27.4%
China	1.4%	0.5%	0.9%
Colombia	-43.7%	-65.1%	21.5%
Denmark	-78.0%	-40.1%	-37.8%
Finland	-37.9%	-66.6%	28.7%
France	-25.5%	26.5%	-52.0%
Germany	-53.3%	-49.0%	-4.4%
Greece	-21.9%	8.9%	-30.8%
India	-16.2%	-6.1%	-10.1%
Ireland	-59.0%	-69.0%	10.0%
Italy	-27.7%	21.8%	-49.5%
Japan	-3.1%	8.0%	-11.1%
Mexico	-56.8%	-92.9%	36.1%
Netherlands	-72.9%	-133.2%	60.3%
Norway	-33.1%	-90.0%	56.9%
Portugal	-6.2%	-60.3%	54.2%
ROW	1.1%	-1.5%	2.6%
South Korea	-1.3%	-9.8%	8.5%
Spain	-80.5%	-43.8%	-36.7%
Sweden	-41.6%	-27.0%	-14.5%
United Kingdom	-60.6%	-29.6%	-31.0%
United States	-1.7%	8.2%	-9.8%
Average	-36.1%	-41.4%	5.3%

Takeaways from our research:

- Theoretical
 - Trade increases or reduces volatility depending on the variance-covariance structure of all countries' and sectors' shocks.
- Quantitative
 - increased openness contributed to a decline in volatility in 1970-2007 in most countries
 - sectoral specialization channel generally small
 - Heterogeneity: signs and quantities vary across countries

Implications for today

- Call for reshoring and de-globalisation a risky strategy
 - “Don’t put all your eggs in one basket” (Miguel de Cervantes’s Don Quixote, 1605)
 - “Don’t trust all goods to one ship”
 - If the goal is resilience and stability, diversifying suppliers remains a good strategy.
- Of course there might be other arguments
 - Some argue: “Globalization increases the size of the pie, but leads to more inequality.”
 - Economic theory: international trade is “Pareto-improving” if there is a system of transfers that can compensate those who lose (e.g. through re-skilling).
 - Often the “if” clause got lost.
 - But de-globalization not the solution: it will create new losers and winners, with a smaller pie.