
The Future of the Global Trading System

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Globalization: In the Spotlight

Transportation Costs + Policy Barriers + Technological Change

- **Optimism of 1990s-2000s: Globalization** improves **efficiency** by allowing firms to perform stages/procure inputs in different locations → Opportunities for growth and development (WB, 2020)
- **Concerns of 2010s-20s: Globalization** expose s firms and countries to **disruption risks** →“Favoring the friendshoring of supply chains ... will lower the risks to our economy” (Yellen, 2022):

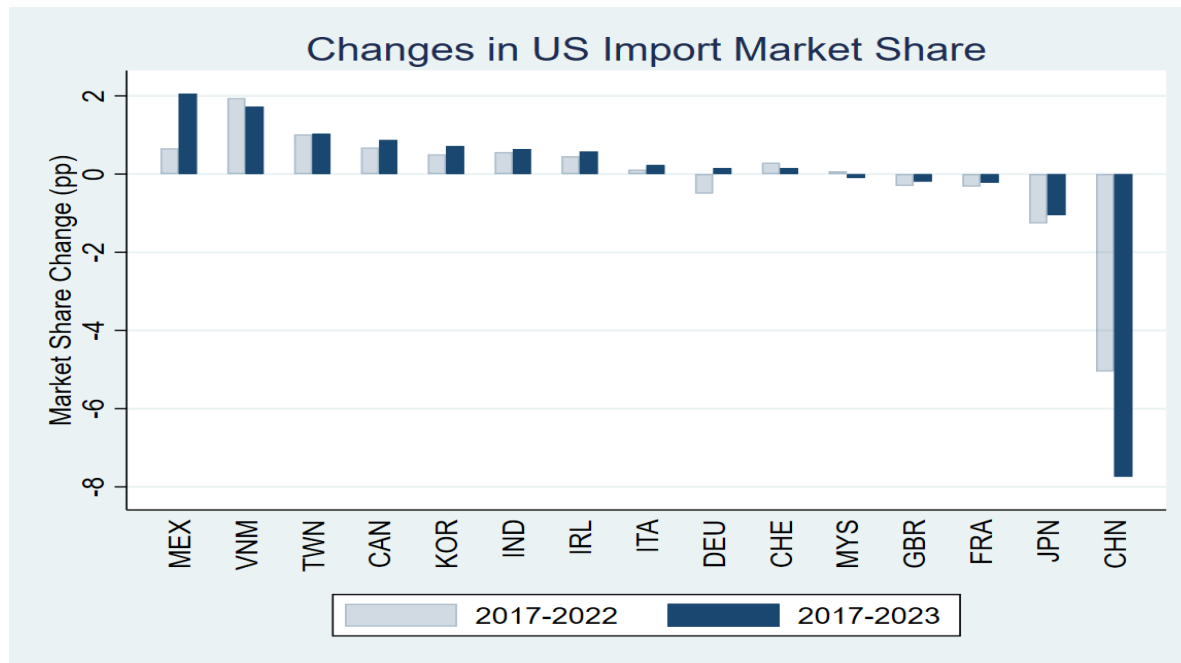
Comments:

- I. **+ The Great Reallocation:** GVC reconfiguration
 - Clean Energy + Energy Independence
 - Modes of Entry-Trade and FDI
 - FDI: Consistent with the “benefits” narrative (Jobs)... harder to Measure
- II. **- The Backlash:** Public Opinion in Developed Countries
 - Role of China/Jobs + Loss of Anchor (Globalization process: about sovereigns)
- III. **? The Savior:** Trade in Services

The Positive

Globalization: The Great Reallocation

- The Great Reallocation: GVC reconfiguration (Alfaro and Chor, 2023; Antràs, 2021; Baldwin, 2022; Freund et al., 2023; Aiyar et al. 2023; Goldberg and Reed 2023; Bown, 2022; Grossman et al., 2023; Fajgelbaum et al., 2023; IMF, 2023; Gopinath et al., 2024)

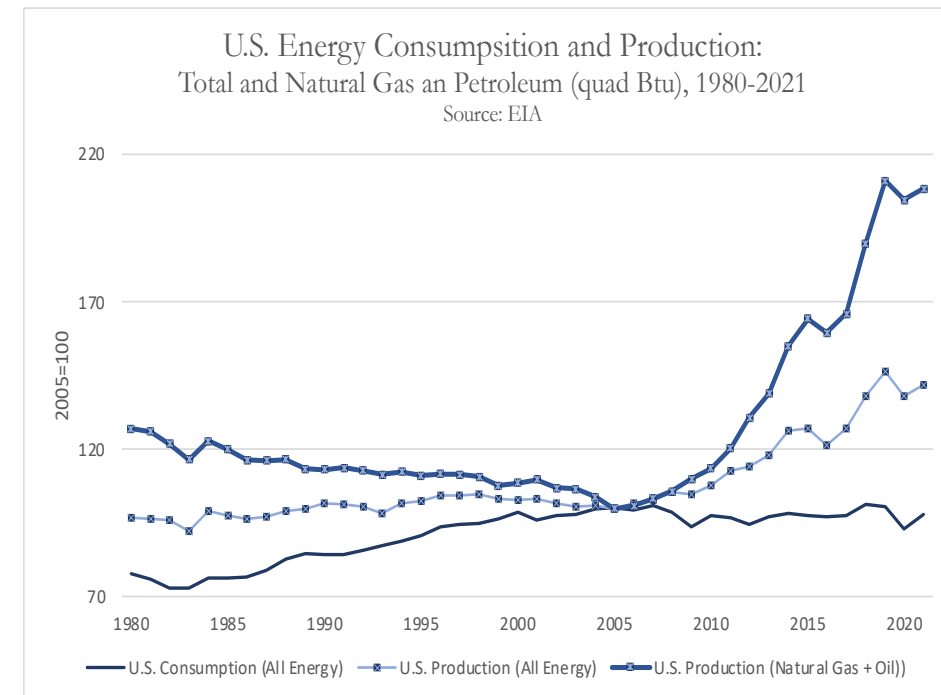
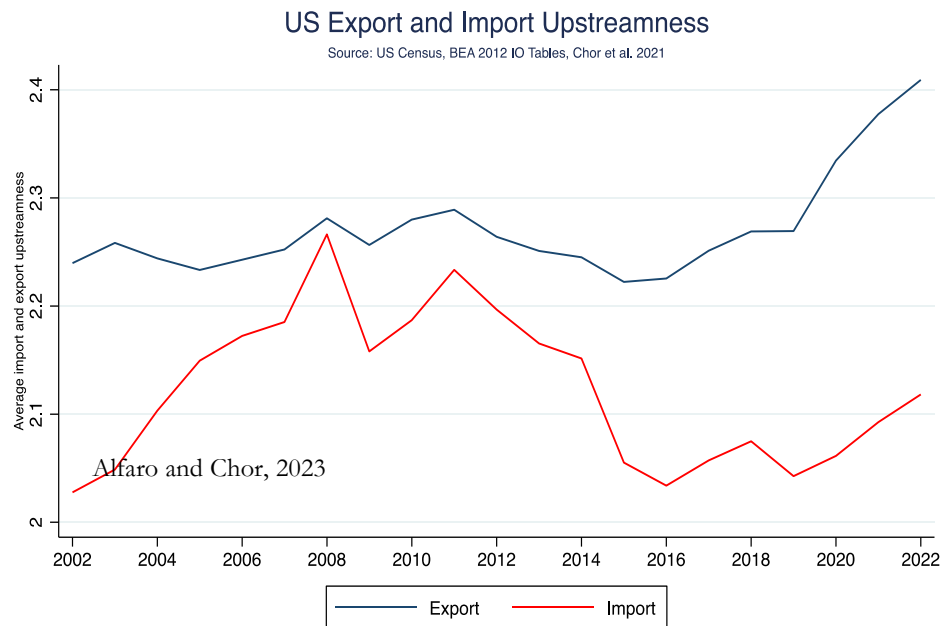


Update by Chor to Alfaro and Chor, 2023

Globalization: The Great Reallocation

Green Energy & Energy Independence

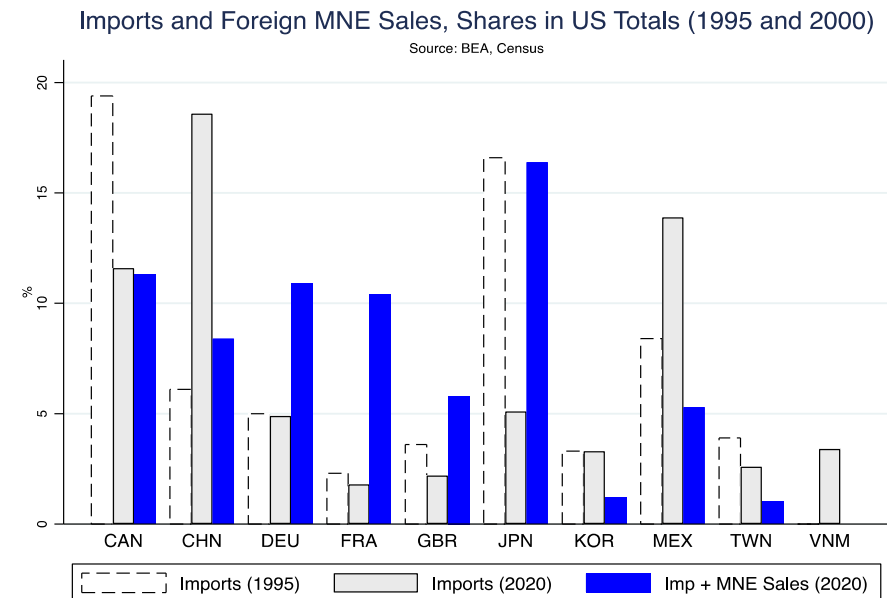
- The Great Reallocation: GVC reconfiguration
- “60% of the decline was due to a reduction in the **value** of commodities trade, all of which was due to a decline in prices from the mid-2010s to 2020.” (Baldwin, 2020).
 - Green Energy & Energy Independence



Globalization: The Great Reallocation

Modes of Entry: Trade And FDI


- Distinct aspects of globalization: complements or substitutes:
 - Trade flow and market share changes do not necessarily indicate de-globalization: firms may access a domestic market through a different “mode.”
- **FDI**: strategy for **navigating** host-country **restrictions** on trade and mitigating the effects of rising production costs at home.
 - Japanese firms’ response to policy restrictions:
 - Boosting production in the US
 - Relocating to lower-cost countries
- FDI will remain a form of engagement
 - “Narrative” Compatible
 - Fiscal and Financial Incentives



Globalization: The Great Reallocation

FDI: Incentives are “Narrative” Compatible

Capital + Technology + Management Skills

- 
- Capital/**Jobs**
 - Productivity gains
 - Employee Training
 - Accelerated diffusion of new technologies
 - Introduction of new products and processes
 - Access to new markets and production networks
- Externalities, Spillovers, Linkages, Agglomeration, Coordination
 - Low volatility compared to other Capital Flows

Globalization: The Great Reallocation

FDI & MNC: Harder to Measure

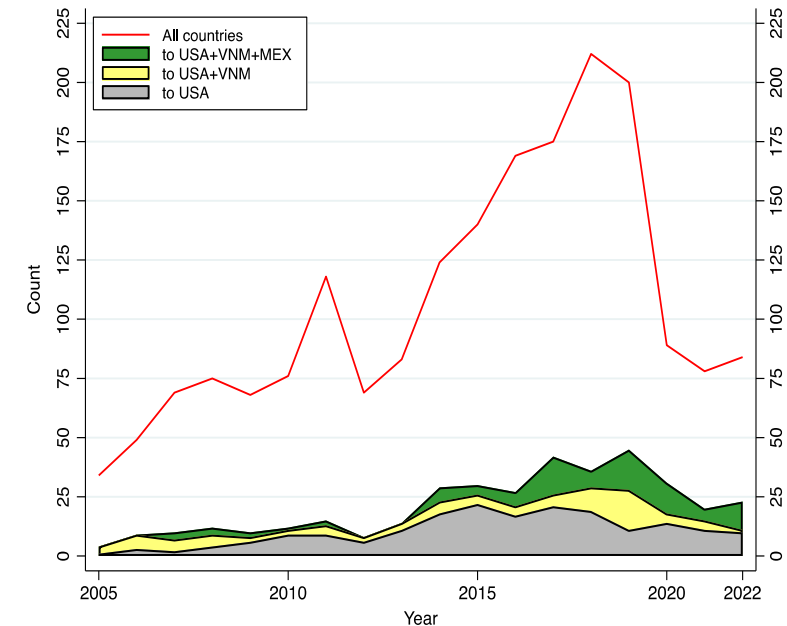
Economic Activity + Control + Across Borders: Always Difficult to Measure

- Complexity of Modern **Economic Activity**
 - Type of value created (e.g., manufacturing vs. services, IP); Measurement: 20th-century bias
- Complexity of **Control & Ownership** Structures
 - Government, public, private, M&A, SPV, Vanguard (tax structures, regulation)
- + Complexity of **Globalization**:
 - Where is value created? (Auerbach, 2021)
 - + **sovereigns** (opaqueness), quasi-sovereign; residency/nationality; more tax and regulation (Desai, 2009; Desai, Foley, Hines; Alfaro et al. 2014; Horn, Trebesch, Reinhart, 2019; Guvenen, Mataloni Jr., Rassier, Ruhl, 2022; Maggiori, Neiman, Schreger. 2022)
- + **New Tech change**: e.g. crypto (Graf-von-Luckner, Reinhart, and. Rogoff, 2023)
- ... And then there is the actual measurement: changes to national accounts (software, 1999; IP, 2013) + BPM5 (assets/liabilities; macro analysis) to BPM6 in 2009 (**directional**, inbound/outbound; **parent-affiliate: influence**)
 - Different adoption times; effect trends? (accounts for reduced labor shares; Koh et al. 2020)
 - Lagged/revised. Real-Time: M&A, Announcements (FT Markets): Not necessarily what will end in BOP
 - MNC activities: firm-level; BOP/Firm-Level (surveys)/ **Related party trade** (Alfaro, Conconi, Kamal, Kroff, Ramondo, 2024)

Globalization: The Great Reallocation

FDI: Beyond the Measurement Difficulties

- Geopolitical climate: It is **unlikely China** will be able to emulate the speed, scale, and scope of the Japanese US-based production approach.
- But Chinese firms have been expanding their FDI in third countries (Alfaro and Chor, 2023; IMF, 2023, 2024)
- US could remain **indirectly connected** to China:
 - “Foreign” ownership does somewhat **mitigate** the concerns of the “ultimate owner” :
 - **Domestic/host country jobs** (“political reason” to provide incentives)



Alfaro and Chor, 2023

The Negative

Globalization: The Backlash

- Backlash in developed nations (Colantone et al., 2022; Alfaro, Chen and Chor, 2023)

US Nationally Representative Surveys: 2018-2022

(Alfaro, Chen and Chor, 2023)

SURVEY:	Round 1, 2018-19 (N=2,277)	Round 2, 2020 (N=6,009)	Round 3, 2021 (N=4,058)	Round 4, 2022 (N=6,005)
Do you support placing more limits on imports?	0.57 [0.49]	0.62 [0.49]	0.59 [0.49]	0.58 [0.49]
Would you support an increase in the US tariff rate?	0.28 [0.45]	0.25 [0.43]	0.25 [0.43]	0.32 [0.47]
Prefer: Higher tariff rates on foreign countries?	0.44 [0.50]	0.50 [0.50]	0.47 [0.50]	0.48 [0.50]
Prefer: More progressive taxes?	0.68 [0.46]	0.65 [0.48]	0.68 [0.47]	0.68 [0.47]
Would you support signing more FTAs?	0.68 [0.47]	0.65 [0.48]	0.65 [0.48]	0.64 [0.48]
Would you support a minimum wage?	0.78 [0.41]	0.80 [0.40]	0.74 [0.44]	0.78 [0.42]

The Backlash: Can Information Change Public Opinion?

Pessimistic: Trade (+/-) Worsens Perceptions (Alfaro, Chen, Chor, 2023)

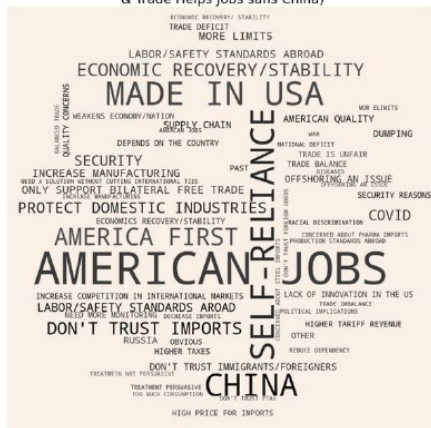
- Evidence-based information in shaping individuals' preferences for trade policies through representative annual surveys (2018-2022): randomized facts on how openness to trade has affected labor market outcomes or goods prices.
 - Positive and negative research-based information** on the link between jobs/price and trade: limits trade

Trade Policy Qns	(1) More limits on imports Logit	(2) US tariff increase Logit	(3) Support higher tariff Logit	(4) Support more FTAs Logit	(5) Most Pref.: More limits on imports Logit	(6) First prin. component OLS	(7) Did info affect views? Ord. Logit	(8) Impact of trade on Americans Ord. Logit
Treatment Dummies:								
Trade Hurts Jobs	0.091*** [0.017]	0.071*** [0.015]	0.036** [0.017]	-0.038** [0.018]	0.033** [0.015]	0.242*** [0.043]	0.048*** [0.015]	-0.248*** [0.016]
Trade Helps Jobs	0.023 [0.018]	0.023 [0.015]	0.026 [0.018]	-0.006 [0.019]	0.009 [0.015]	0.081* [0.044]	0.030* [0.016]	-0.025* [0.015]
Trade Helps Prices	0.057*** [0.017]	0.027* [0.014]	-0.005 [0.017]	-0.001 [0.017]	0.031** [0.015]	0.109*** [0.042]	0.028* [0.015]	-0.058*** [0.015]
Tariff Hurts Prices	0.040** [0.017]	0.020 [0.014]	0.017 [0.017]	-0.004 [0.017]	0.023 [0.016]	0.099** [0.042]	0.046*** [0.016]	-0.164*** [0.016]
Randomization Order				-0.011*** [0.002]	-0.019*** [0.006]			
Supported Democrat	0.003 [0.014]	0.006 [0.011]	-0.042*** [0.016]	0.124*** [0.014]	-0.040*** [0.012]	-0.141*** [0.035]	0.093*** [0.013]	0.089*** [0.012]
Supported Republican	0.193*** [0.016]	0.122*** [0.013]	0.143*** [0.015]	-0.037** [0.015]	0.141*** [0.015]	0.625*** [0.040]	0.084*** [0.013]	-0.002 [0.013]
Individual, County, Week Controls?	Y	Y	Y	Y	Y	Y	Y	Y
Observations	9,275	9,275	9,275	9,275	9,275	9,275	9,275	9,275
(Pseudo) R-squared	0.0766	0.0801	0.0471	0.0698	0.0796	0.153	0.0488	0.0569

The Backlash: Public Opinion Mechanism: Jobs and China (Alfaro, Chen, Chor, 2023)

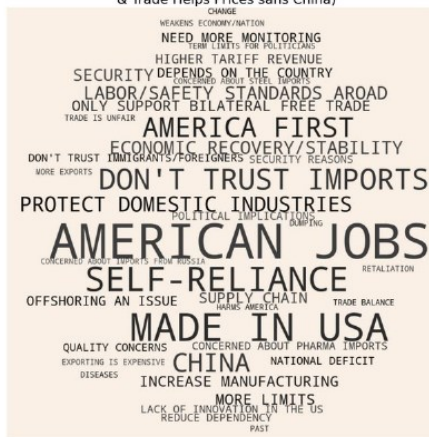
Treatments about Jobs

Why MP limit imports: Other (Trade Hurts Jobs,
Trade Hurts jobs sans China, Trade Helps Jobs,
& Trade Helps Jobs sans China)



Treatments about Prices

Why MP limit imports: Other (Trade Helps Prices
& Trade Helps Prices sans China)



With “China” in the treatment wording

Which Countries to limit imports from? (Trade Hurts Jobs,
Trade Helps Jobs, & Trade Helps Prices)



“Sans China” in the treatment wording

Which Countries to limit imports from? (Trade Hurts Jobs sans China,
Trade Helps Jobs sans China, & Trade Helps Prices sans China)



The Backlash: Public Opinion

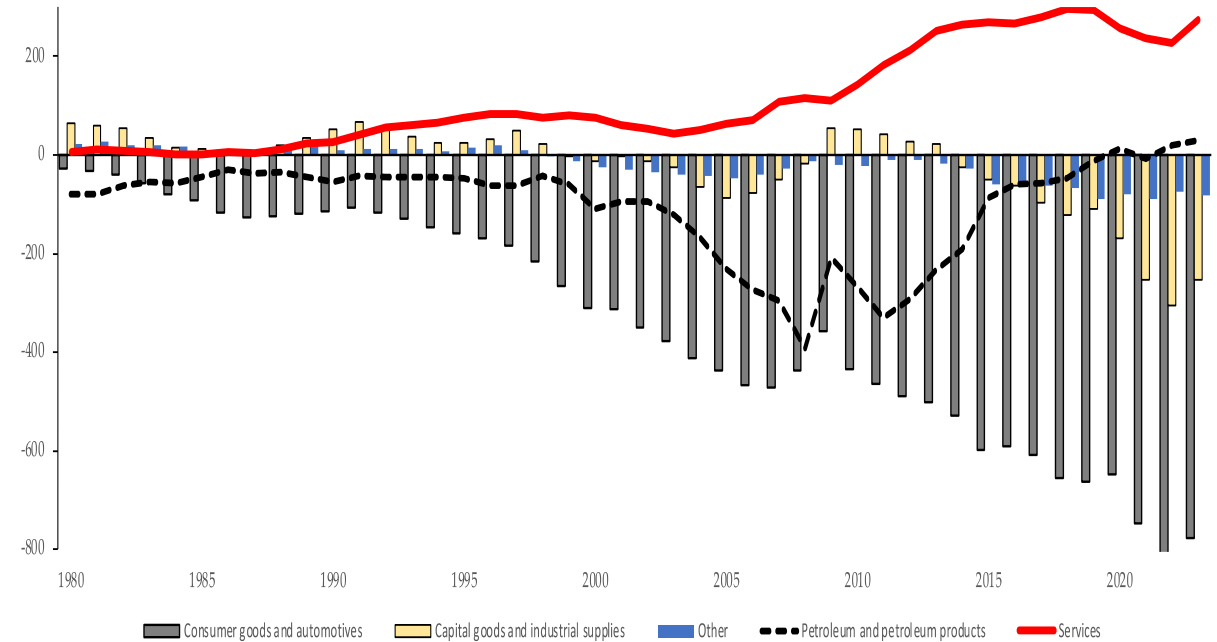
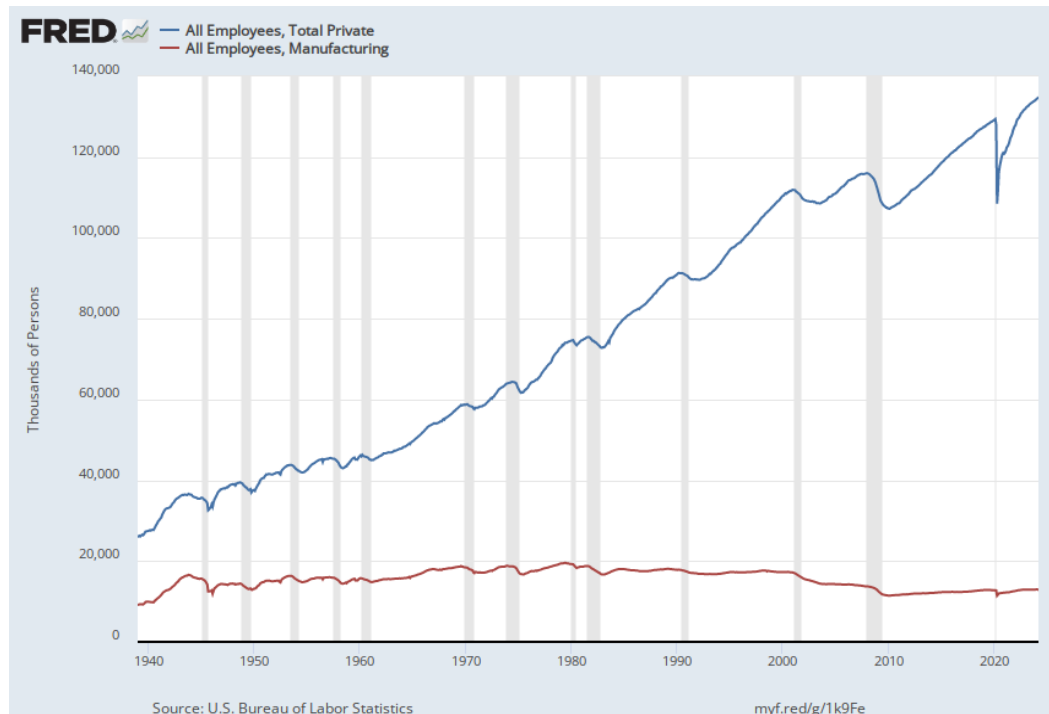
Jobs + China = Tariffs + Industrial Policy

- Randomized **research-based information** on link between trade & manufacturing job losses or **positive information on trades' job price benefits** (or the cost of tariffs): **protectionist** policy choices.
- Mechanism? Direct question (Alfaro, Chen and Chor, 2023)
 - Individuals' trade policy preferences are not a symmetric function of the expected gains and losses from trade but instead shaped by **concerns on US-China relations, jobs** , and political priors
- Implications?
 - Government: actions to explicitly reduce this dependence (China) fueled by sentiment (fear of jobs)
 - → **rise in trade barriers**
 - + **Industrial Policy** (Neutralization Chemical Reaction)
 - **Loss of “anchor” of multilateralism**
 - At the core, globalization process (trade and capital flows) has always been geopolitical (“Sovereigns”)

The Future?

Globalization: Can Services Save (the) US?

- “The future of globalization is not goods but services – in particular, intermediate services (‘telemigration’). **Trade in services has not peaked in the way goods trade has.**” Baldwin (2022)



U.S. Trade Balance by Sector, 1980-2023 (US\$ billions)
BEA National Data Tables 4.2.5A and 4.2.5B..

Globalization: Can Services Save (the) US?

Transportation Costs + Policy Barriers + Technological Change

- MNCs drive trade in Services: FDI Navigate Policy Restriction ✓
- “The Paradox of a modern metropolis: proximity has become more valuable as the cost of connecting across distance has fallen” (Glaeser, 2011, p.6)
 - Proximity that helps deliver inputs & goods, eases the flow of ideas: FDI “Narrative” ✓
- **New Technological Change (Post Covid):** Work From Home, AI
 - Spatial Reallocation: Cities?
 - Will this trigger more location-based /industrial policy (save St. Louise)?
 - AI Tech-Shock: Is it happening too fast (China Shock in steroids)
 - Background: loss of learning (Covid) + outsourcing process of learning
- Financial Crisis: policymakers tend to fight the last battle
 - Saving 20th-century jobs (instead of fixing schools/learning)

Thanks

