It was better when it was worse. Or not? The impact of deglobalizing value chains

Topic: The Reconfiguration of Global Value Chains in an Era of Growing Uncertainties
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Globalization is under attack (van Bergeijk, 2019). Systemic events like the US-China trade war, Brexit, Covid-19, and the recent Russia-Ukraine conflict have compromised the functioning of global value chains (GVCs) and catapulted the risk issue in global supply chains to the top of policy agendas. Some authors have seen an opportunity from shortening GVCs to increase the resilience of domestic production systems (Gereffi, 2020). Others warned that turning away from the internationalization of production may harm firms’ productivity and innovation dynamics (Miroudot, 2020).

However, beyond the debate on the pros and cons of decoupling from GVCs (Coveri et al. 2020), there is broad agreement that GVCs may experience a persistent shift in the near deglobalized future (Antrâ’s, 2020). The impact such changes would have on the economy and the geography of the global production network is still understudied. This paper aims to fill the gap by evaluating the economic impact of three different deglobalization scenarios.

The contribution of this work is twofold. First, we measure how a return to a less globalized production network would impact the world economy. Second, focusing on the European region, we evaluate how the European single market (ESM) would respond to two opposite deglobalization policies: (i) the European (EU) strategic autonomy, simulated by a full regionalization of trade flows; (ii) the hyper-globalization of ESM countries’ trade flows.

Measuring the impact of deglobalization is a challenging issue. There are several questions that are difficult to answer. What is deglobalization? How will it manifest? Which countries and sectors will it affect? Therefore, the first effort we must make is on definitions.

A natural way to imagine deglobalization is to think about a retreat from globalization. Although even the concept of globalization is complex and multifaceted (Livesey, 2018), there is a broad consensus around the definition of globalization as the rise in international flows of intermediate goods and services (Hummels et al. 1998). Thus, in our first attempt to model deglobalization, we imagine a reduction in the trade of intermediates on a global level. More specifically, in the first scenario, we turn back the clock on globalization to measure how today’s value-added would change if it could be produced with the past’s production schemes and trade patterns.

In the second and third scenarios, we focus on the European region and model a selective deglobalization, i.e. a decoupling from global value chains generated by two alternative trade policies implemented by ESM countries. More specifically, in the second scenario, we imagine a complete regionalization of the ESM. In this hypothetical world, the imports of intermediate inputs from extra-ESM countries are replaced by intra-ESM inputs. The third scenario models the opposite situation: the hyper-globalization of ESM countries. Here, we imagine that intra-ESM intermediate flows are completely replaced by extra-ESM inputs.

We model the three scenarios by employing the hypothetical extraction method and some of its extensions (Dietzenbacher and Lahr, 2013; Dietzenbacher et al., 2019) as this is a standard input-output tool widely used in the recent GVCs literature for studying how the value-added of a sector, a region, or a country, changes following the perturbation of the input requirements matrix.
(Los et al., 2017; Chen et al., 2018; Giammetti et al., 2020; Giammetti et al., 2022).


Our results show that deglobalization generates winners and losers. Specifically, the analysis suggests that encouraging and promoting globalization (van Bergeijk, 2018) has proved to be a double-edged sword for developed economies. The Western world is the loser of globalization. These findings add useful elements to the debate on the shift of anti-globalization movements from developing to developed countries, and, more generally, to the advance of political deglobalization - Trump’s protectionist agenda, Brexit, the rise of nationalist parties in Europe (see James, 2018).