

25th Global Economy Lecture: Pol Antràs on “Globalization and Pandemics”

Compiled by Maria Silgoner¹

On November 26, 2020, the Oesterreichische Nationalbank (OeNB) hosted the 25th Global Economy Lecture², which was delivered by *Pol Antràs*, Robert G. Ory Professor of Economics at Harvard University. Renowned for his research in the fields of international economics and applied theory, Pol Antràs focused on the relationship between globalization and pandemics, investigating both directions of the link.

In his introductory remarks, OeNB Governor *Robert Holzmann* raised the question whether the world is undergoing a period of de-globalization and whether the COVID-19 pandemic may reinforce this trend. While the current crisis will not be a game changer, it may well alter our views on how to position our economies within global value chains. To prevent supply bottlenecks, future strategic decisions may be guided by safety and resilience considerations rather than being solely based on efficiency grounds.

Antràs started out by describing recent trends in world trade. Since the global financial crisis, world trade in percent of global GDP has remained broadly stable, having discontinued the steep upward trend of the preceding decades. While some analysts refer to this development as “de-globalization,” Pol Antràs would rather describe it as “slowbalization.” According to him, world trade was set to decelerate at some point given that the fast pace of growth seen in the past would be unsustainable in the longer term.

The period of “hyper-globalization” from the second half of the 1980s to the beginning of the new century had three main drivers: (1) *technology*, with the information and communication technology (ICT) revolution facilitating outsourcing to lower-wage countries; (2) *policy*, with the acceleration in multilateral and regional trade liberalization making offshoring cheaper; and (3) *politics*, with the opening-up of Central and Eastern Europe, China and India substantially increasing the labor supply at the global level.

The first factor, technology, will, according to Antràs, continue to foster trade: New technologies such as industrial robots, 3D printing or distributed ledgers often require input components that are not locally produced and that will therefore need to be imported, with positive effects on trade. What may, however, be a threat to globalization is growing protectionism, which has its roots in mounting income inequalities. Digitalization and offshoring reduce local labor demand – at least in the short term. So far, redistributive efforts aimed at compensating the losers from globalization have been rare. We can thus expect continued trade-induced inequality and therefore growing support for protectionist policies. Ambitious redistributive policies would provide a way out.

As to the current COVID-19 pandemic, Antràs’s own research finds that globalization increases the likelihood and severity of pandemics if countries are

¹ Oesterreichische Nationalbank, Foreign Research Division, maria.silgoner@oenb.at.

² The Global Economy Lecture is an annual event organized jointly by the OeNB and The Vienna Institute for International Economic Studies (wiiw).

sufficiently symmetric. Deepening global integration can lead to multiple waves of infections – even in the absence of lockdowns or social distancing. The pandemic itself is most likely to have only temporary effects on trade and global value chains, as shown by the fast trade recovery over the summer months, but it will not lead to de-globalization. This is due to the fact that the offshoring of production comes with substantial initial fixed costs, such as looking for alternative suppliers and learning about the rules and culture of partner countries. These costs are usually sunk costs and generate scale economies, so that a reversal of past offshoring decisions, i.e. a re-shoring, is often not worthwhile. As changing supply chains is costly, only persistent shocks would generate large relocations.

A policy or health shock, such as the COVID-19 pandemic, would not provoke such a global shift but bring about a swift recovery of trade instead. The ongoing decline in face-to-face interactions is likely to persist, with technical change helping improve virtual ways of interacting and thus replacing face-to-face communication. The main challenge for the future of globalization is institutional and political in nature rather than technological. If the current health crisis aggravates policy tensions across countries, it may darken the prospects of globalization.

The discussion following the Global Economy Lecture focused inter alia on the environmental aspects of globalization. According to Pol Antràs, globalization has certainly overshot its optimal level, but the optimal level itself may increase if policymakers set the right incentives, e.g. via taxation. Globalization does not necessarily have to have a negative impact on the environment, as is, for instance, illustrated by China’s increasing interest in a clean environment, as the country grows richer. Antràs moreover believes that the potential in services trade is underestimated. He expects to see a rise in the remote provision of health and entertainment services. And last, but not least, he pointed out that traded goods often entail additional services, such as maintenance or training.