

**AFCO hearing**

**"Globalisation trilemma: how to reconcile  
globalisation, democracy and welfare -  
lessons for the EU".**

**The globalization 'mirage'**

**Remarks by Daniel Gros**

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# Globalization over-rated?

- Globalisation often defined as increase in volume of trade (relative to GDP), but welfare gains from trade arise from elimination of trade barriers.
- **More trade increases welfare only if it is the result of lowering barriers.**
- These barriers have changed little over last decades (tariffs low among advanced economies since 1990s, transport cost little changed).

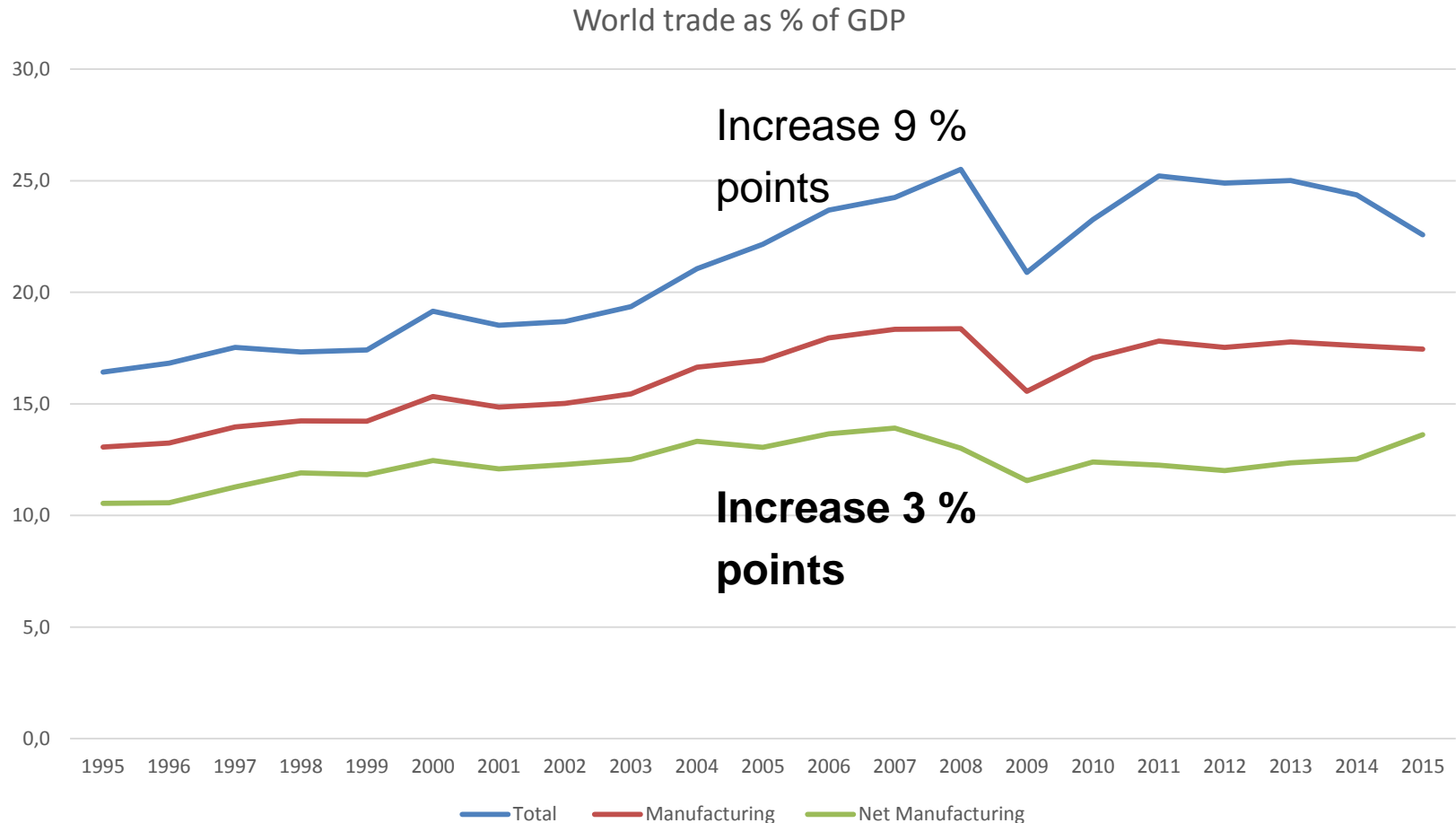
# Why do we talk about Globalisation?

- Expansion of trade (in goods) relative to GDP has been driven by temporary special factors (oil prices and dispersion of growth) over the **last two decades**. No need to appeal to lower transport costs, or policy, or something else.
- The impression of globalization arises because a shrinking part of the economy (manufacturing) has become more open.
- Problem is juxtaposition of small very 'globalized' manufacturing (15 % of economy) and the remainder 85 %, which remains largely closed.

# Globalisation as a trend?

- Exhibit 1 is often the ratio of trade to GDP.
- Driven by oil and raw material prices over last 20 years.
- Higher oil prices boost immediately value of global trade even at constant volumes.
- Higher oil prices means importers have to export more manufactures to pay for their fuel bill.
- => increase in trade/GDP ratio largely (not totally) driven by raw materials.
- Trade net of raw materials and exports to pay for them increased much less.

# Trade without (effect of) raw materials much less dynamic



# For manufacturing globalization is not a mirage

Trade (in manufacturing) has not increased much relative to GDP.

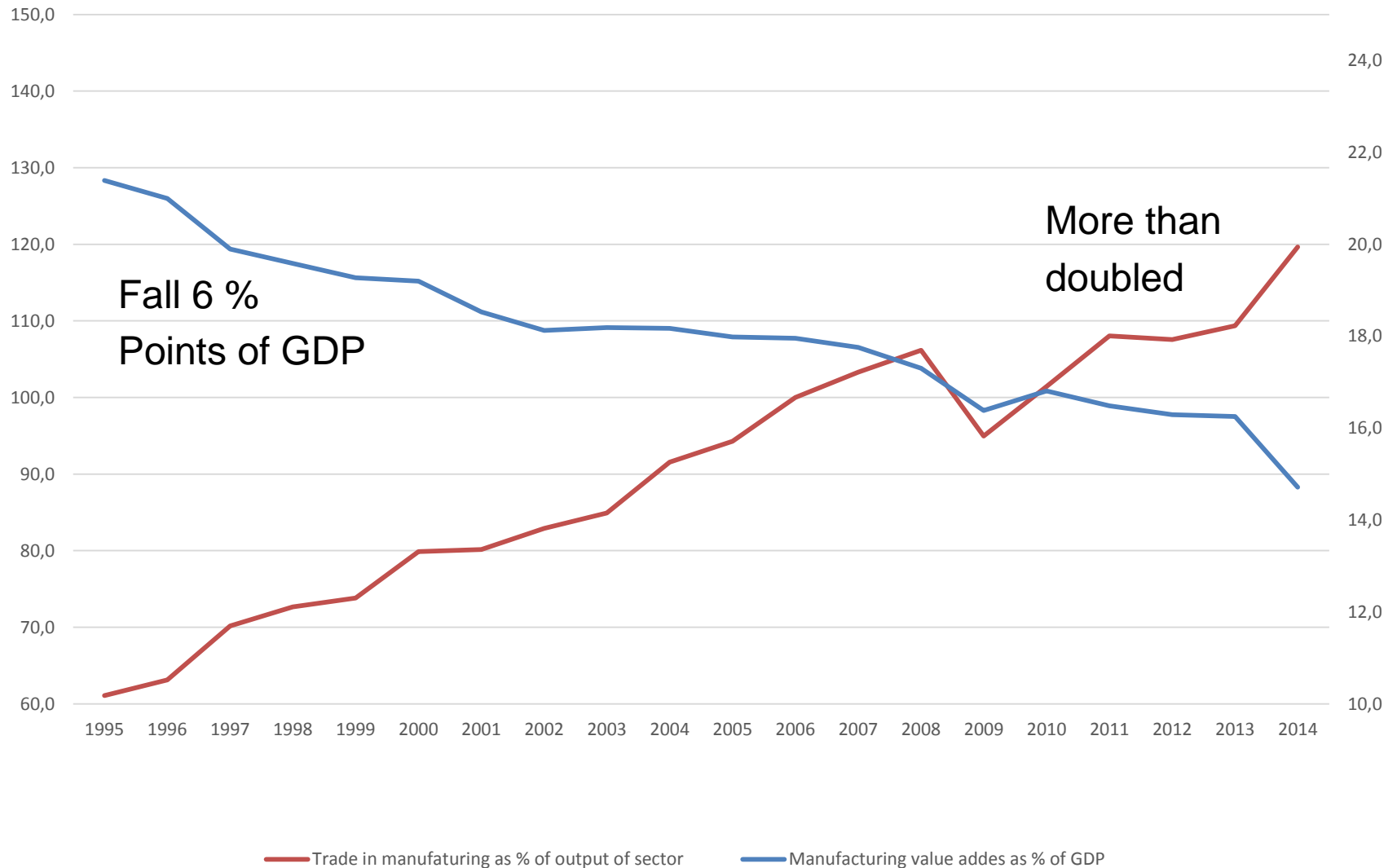
But trade in manufacturing has increased in relation to the output of the sector.

⇒ Impression of CEOs of manufacturing firms that they are globalizing is correct.

But the share of manufacturing in the overall economy is declining.

Difference between manufacturing and rest of economy increases, voters at large care less about the needs of this shrinking sector.

# Trade: an expanding part of a declining sector



# Where globalization is real II: Global (regional) value chains

Increase in manufacturing trade driven partly by growing importance of 'Global Value Added Chains'.

In reality these are mostly regional chains.

Value added chains across border key in three regions:

1. 'Factory Europe' (around Germany)
2. 'Factory North America' (NAFTA: low wage Mexico-US, automotive CAN-US).
3. 'Factory Asia' (around low wage coastal China)

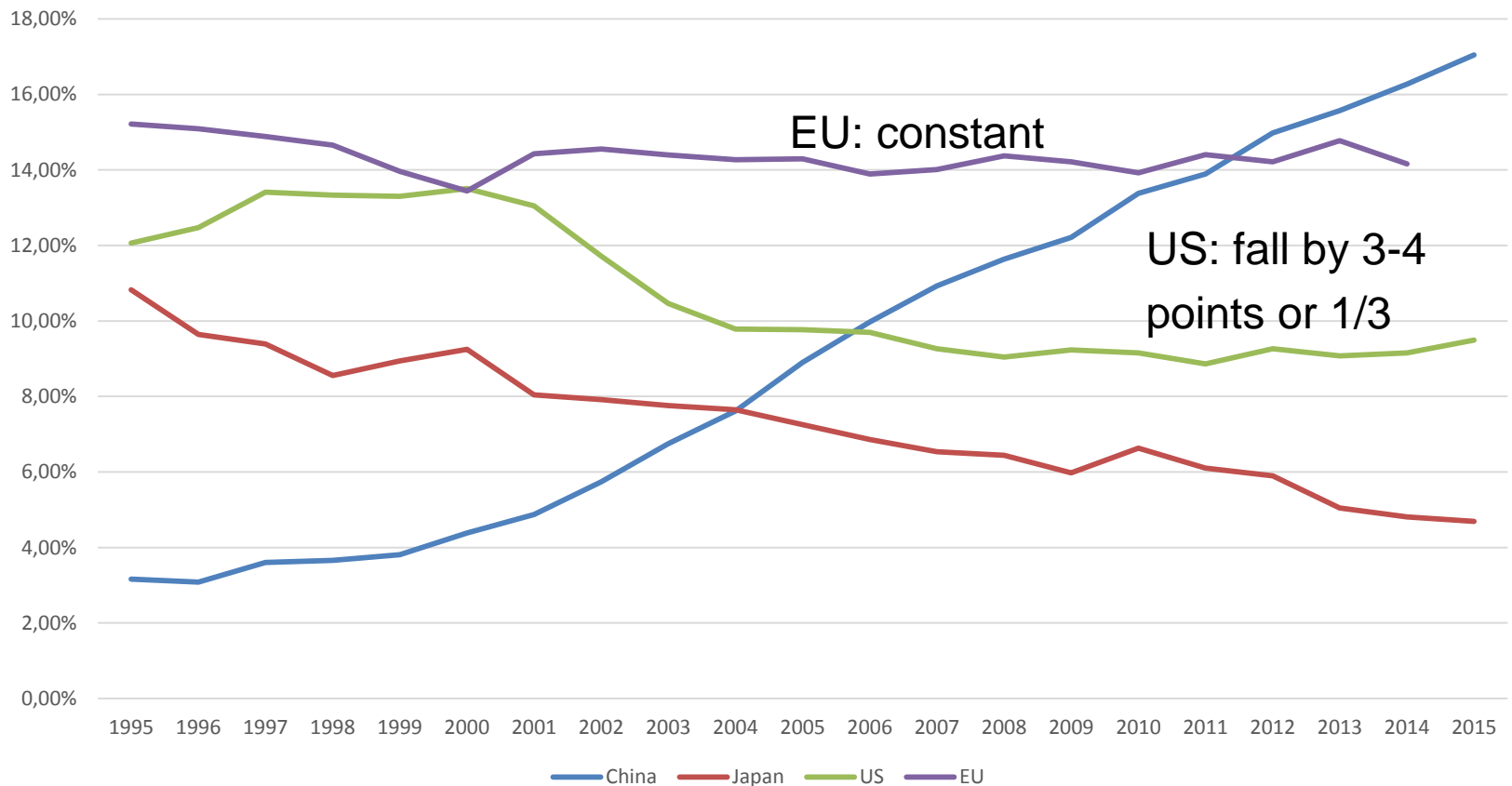
Outside these regional 'factories' domestic value added in exports > 85-90 % (and little changed since 1995).

+ Role of China changing rapidly



# Why Europe remains relatively pro? It is doing well in manufacturing exports

## Shares in global manufacturing exports



# Concluding remarks

Globalisation (and its welfare benefits) have been hyped.

EU relatively open and successful exporter.

Exports have stabilised employment in face of higher raw material prices (important until 2014) and have cushioned weak domestic demand (important since 2012).

=> No trilemma?

# Long-term changes in leadership of global trading system

