

MEASURING GEOGRAPHIC RE-GLOBALIZATION

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Trade as part of the solution

- It is increasingly argued that trade is part of the problem when it comes to building a more secure, inclusive, and sustainable world.
- The evidence suggests that trade is part of the solution if it is extended to more economies, people, and issues – a process we call "re-globalization".
- Geographic re-globalization - the diversification of supply chains towards marginalized economies – is also a major opportunity for emerging markets.



Re-globalization for a more secure, inclusive, and sustainable future

- **(Economic) security:** Trade was an important source of resilience during the pandemic, providing many of us with critical medical supplies. However, there were also supply chain disruptions, highlighting the need for more diversified trade.
- **Inclusiveness:** Trade has been a powerful driver of inclusiveness, lifting hundreds of millions out of poverty. However, many economies remain left behind, with around one-third of low- and middle-income economies diverging from high-income economies.
- **Sustainability:** Specialization according to environmental comparative advantage brings about large environmental gains from trade. However, these gains need to be unlocked by supportive environmental policies and complementary green infrastructure investments.



Signs of fragmentation

- There are signs of fragmentation, the re-orientation of trade along geopolitical lines.

Figure 1: Trade between geopolitically non-aligned blocs grew slower than trade within the blocs



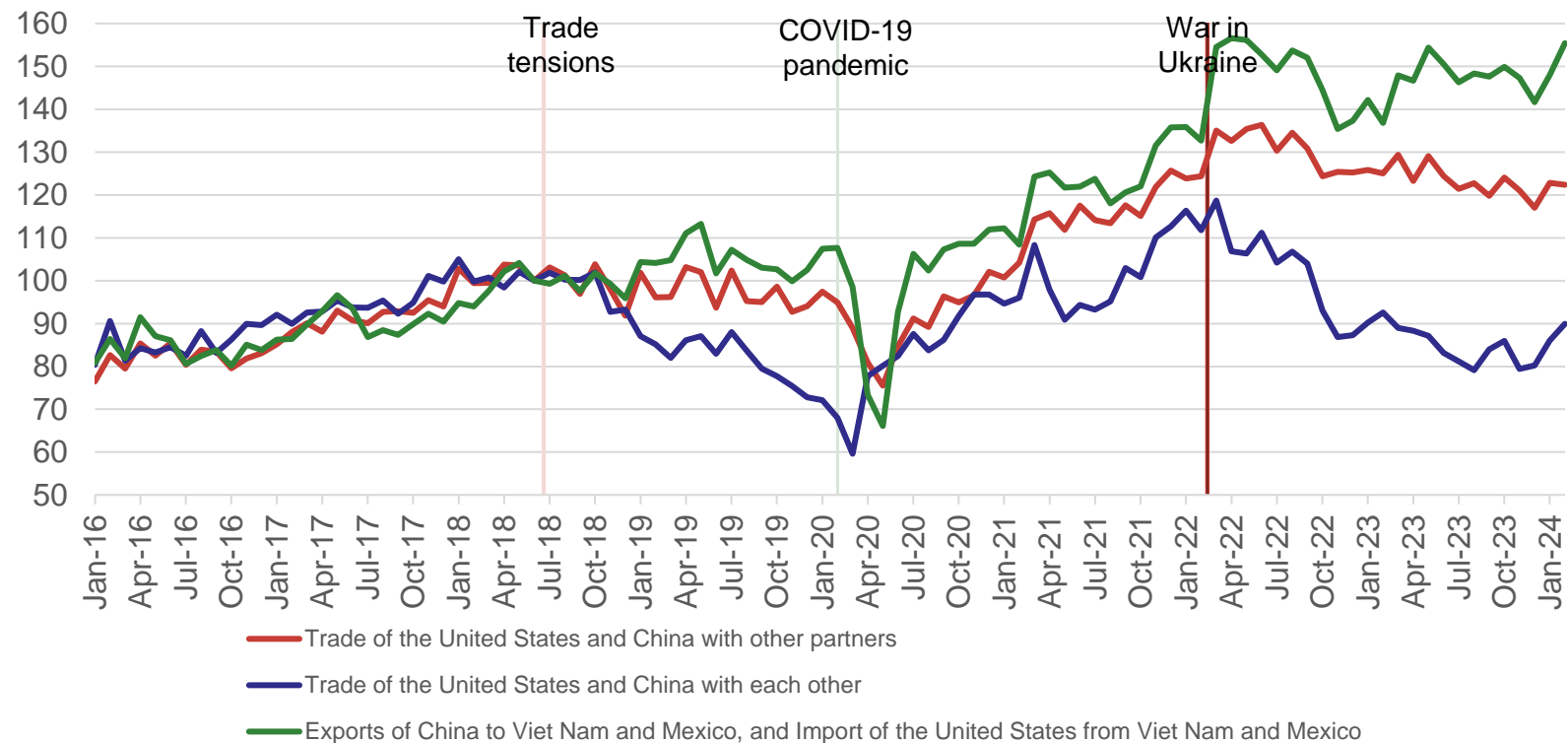
Source: Blanga-Gubbay and Rubínová (2024), based on Trade Data Monitor.

Note: Seasonally adjusted series. Russian Federation, Belarus and Ukraine are excluded. Left-hand series indexed at 100 in January 2022. Right-hand series indexed at 0 in January 2022.

Evidence for diversification

- So far, the main beneficiaries are EMDEs already well-integrated into global trade, like Mexico or Viet Nam. FDI data shows similar trends.

Figure 4: Decoupling between US and China and the potential mitigating role played by "connecting" economies



Source: Blanga-Gubbay and Rubínová (2024), based on Trade Data Monitor.

Note: Seasonally adjusted series. Russian Federation, Belarus and Ukraine are excluded. Series indexed at 100 in June 2018.

No clear evidence for re-globalization

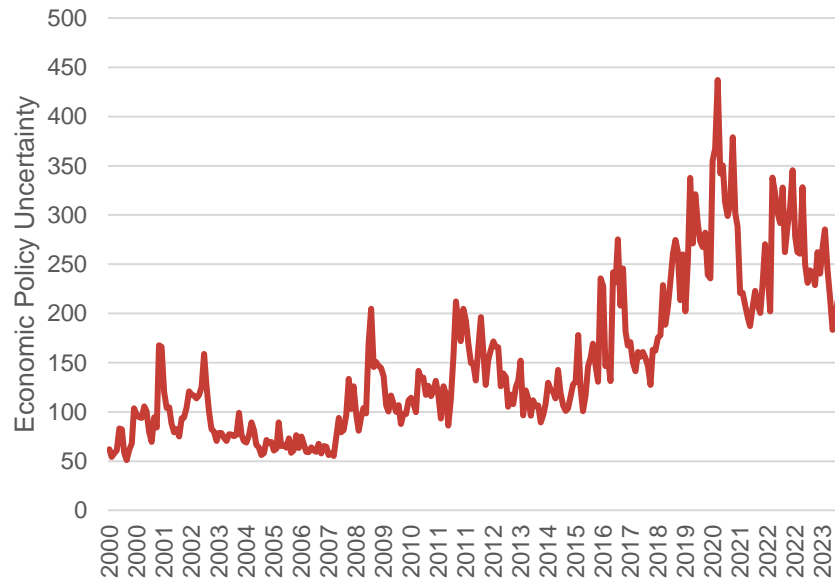
- However, there is no clear evidence of broader geographic re-globalization:
 - The share of marginalized regions in trade grew recently, but mostly due to the value of mineral fuel exports.
 - Economies have increased the number of partners they source products from, but these new partners fail to gain relevant market shares.
 - Indicators of market concentration have fallen but the number of products with highly concentrated supply structures continues to grow.
- This is not too surprising, as it takes time and effort to re-orient supply chains.



Potential reasons for why we don't see broader re-globalization yet

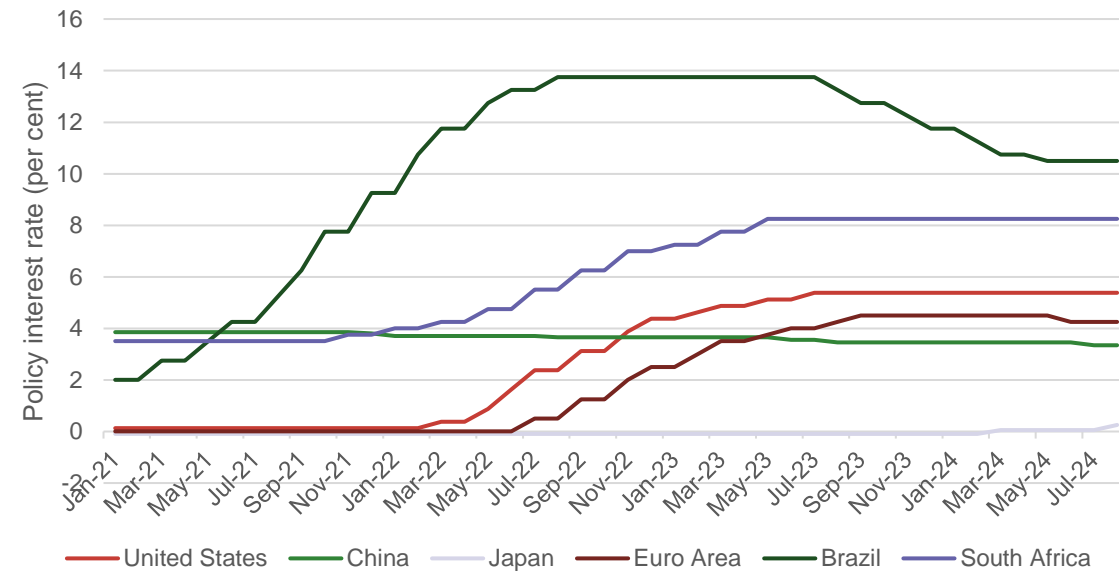
- Policy uncertainty is high and the macroeconomic environment challenging.

Figure 9: Economic policy uncertainty remains elevated



Source: Davis (2016).

Figure 11: Interest rates remain high in many economies

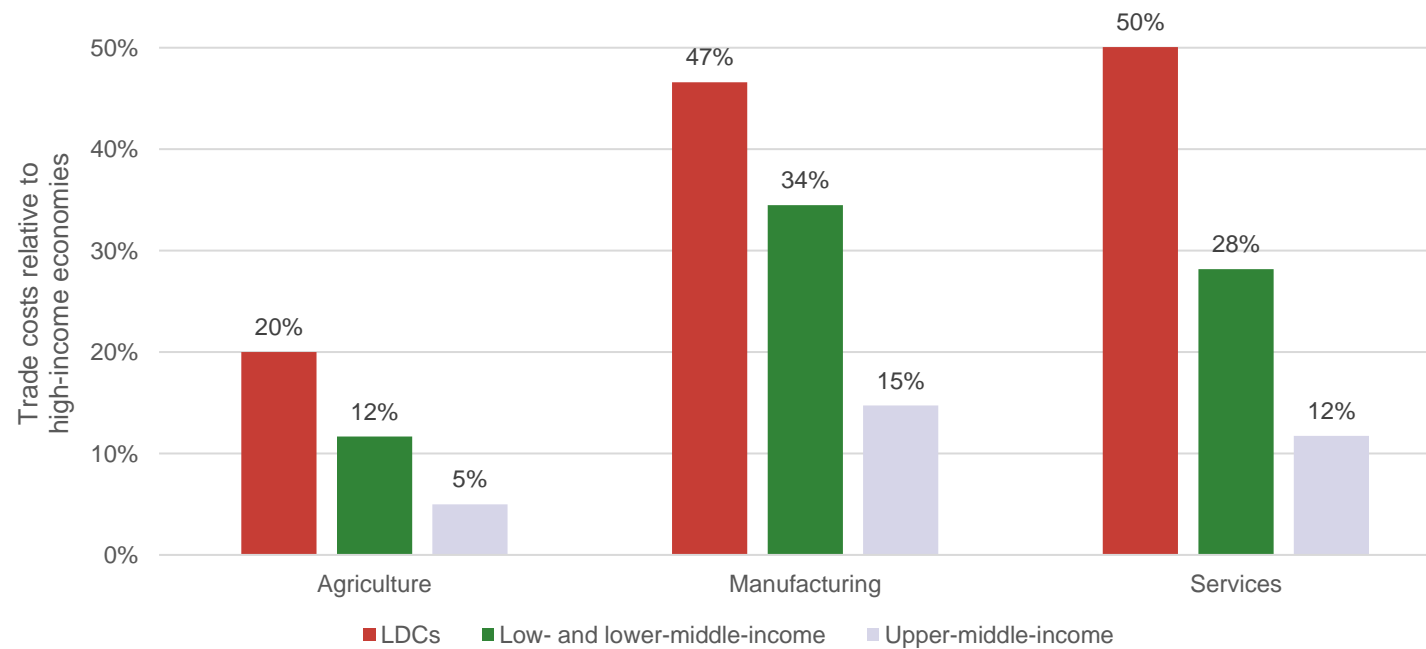


Source: Bank for International Settlements.

Potential reasons for why we don't see broader re-globalization yet

- Structural (e.g. underdeveloped infrastructure) and trade policy obstacles (e.g. high tariffs, low TFA implementation) imply higher trade costs for EMDEs.

Figure 12: Trade costs in EMDEs are substantially higher than in advanced economies



Source: WTO (2024).

Further reading

