13 March 2023

Research Global

Deglobalisation – is it really happening?

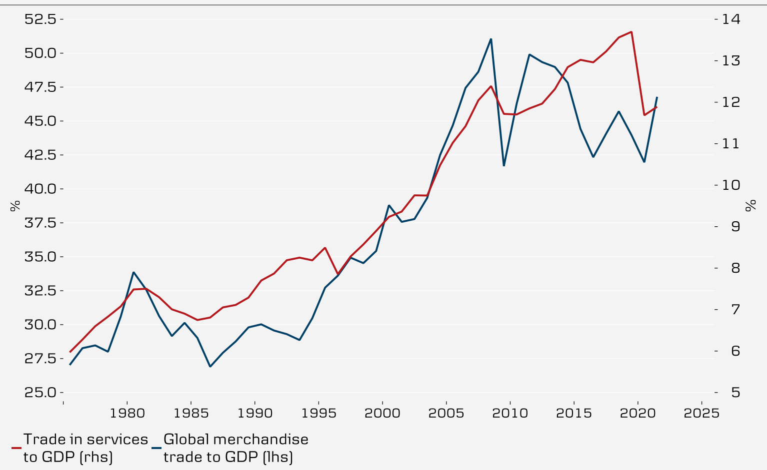
- **In the aftermath of the pandemic and amidst rising geopolitical tensions, the future of globalisation has been called into question and the most common argument is that we are entering an era of less economic integration.**
- **We find no evidence of trade losing in importance, but rather changes in trading patterns and direction of flows. The US has become less reliant on trade thanks to the shale boom, while south-south trade led by China has definitely increased.**

With the US-China trade war, the pandemic and rising geopolitical tensions, risks related to complex global supply chains to some extent materialised and quite legitimately, many seem to think that business leaders' priorities have changed for good. Conclusions on whether we are past the 'peak globalisation' vary to some extent but often the message is the same: the golden years of globalisation have passed and we are entering an era of less economic integration. But is it, really?

The laziest argument for deglobalisation is that *trade intensity*, i.e. trade as a share of global GDP, has stalled after the global financial crisis. This is true, on the surface, if you look at merchandise trade (see Chart 1). Then again, growth in services trade continued to increase starkly until the pandemic disrupted the world's travel, which accounts for app 10% of the total value of traded services. In 2021, global travel was yet to recover. Trade growth in ICT services, in turn, only accelerated in 2021, as did air freight services (see Chart 2). Even with traded goods, simply looking at trade-to-GDP ratios misses two key aspects: 1) changes in regional trends, and 2) changes in relative prices.

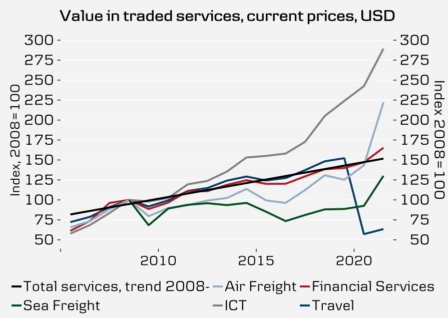
Regional breakdown of the data suggests that goods trade **intensity did not peak globally around the GFC,** and even today, trade appears to have **peaked only in certain regions**. In China, goods trade peaked already in 2006, while in the US, the same happened in 2011.

Chart 1. Growth in global trade seems to have stalled since the GFC



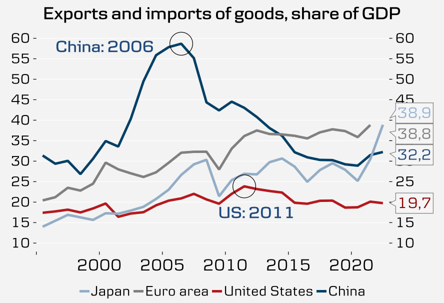
Source: World Bank, Macrobond Financial

Chart 2. Value in selected categories of traded services



Source: WTO, Macrobond Financial

Chart 2. Trade growth may have peaked in China and the US but not in Europe or Japan



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Then again, trade in both the euro area and Japan still seems to be trending upwards. These regional trends reflect a natural pattern where China has moved up in global value chains, initially increasing its trade exposure, then gradually building its domestic production capacities and raising its income level to create a viable domestic market for its products.

Secondly, trade to GDP is not an accurate measure of globalisation because of the distorting impact from relative prices. While the global GDP is dominated by services, goods comprise more than 75 % of world trade. Moreover, goods trade is heavily dominated by manufactures with the rest roughly equally split between agricultural and mining products. Chart 3 illustrates how the broader downward trend in the traded value of goods largely reflects the decline in commodity products trade, which in turn was affected by the decline in prices (rather than volumes) due to deleveraging in China.

Furthermore, the headline development could hide changes in regional trends of global trade. As a case-in-point, China's foreign trade in early 2000s was more concentrated to the largest developed economies. While growth in trade value to the likes of US and Japan has slowed or even stalled ever since, the relative importance of for example Latin America, or the key commodity import source Australia has risen.

Trade - the US has turned inwards

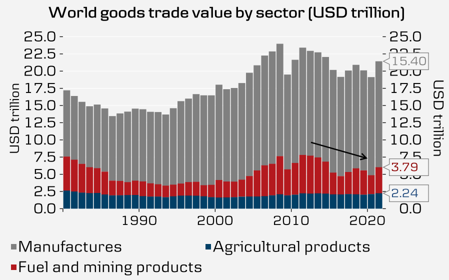
One way to measure globalisation is through global manufacturing value chain participation. If businesses are actively either sourcing for inputs – parts and components – abroad or contributing to domestic value added for inputs that are being sent to third economies for further processing, their participation in global value chains (GVCs) is higher than in a scenario where such action is limited. If there are signs of participation in GVCs waning globally that could be one signal that countries and regions are turning inwards and that *deglobalisation* or *slowbalisation* is really happening.

For GVC participation, one can consider both the buyers' and the sellers' perspective. Backward participation refers to the buyers' side by showing the share of exported manufacturing products that include foreign inputs. **Interestingly, a cross-regional comparison of backward participation shows that exporting businesses in the US seem to source less from abroad compared to pre-GFC** (Chart 5). However, around 1.9%-points of the 2.5%-point decline in foreign value added to total exports between 2011 and 2018 was explained by the decline and eventual reversal of US net oil imports. During the war in Ukraine, the past increases in the US fossil fuel supply have provided the EU with an important diversifying source of energy, which again reflects changes in geographical trends and direction of trade flows, rather than a slowdown in global trade.

Businesses in the EU overall seem to be just as active in sourcing inputs and components from abroad as they were in 2008. The same goes for China and a bit surprisingly to the UK where businesses' backward participation in GVCs is around the 2008 levels.

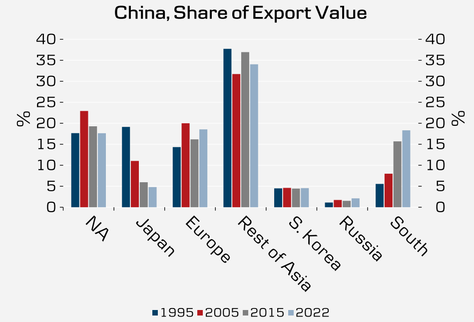
Looking at forward participation in GVCs, i.e. the domestic value added embodied country's exports, again the US stands out from the rest. **Not only do US businesses source less from abroad but they also contribute more in terms of domestic value added into the country's exports. Hence, the US businesses have become increasingly important sellers to global value chains.** Interestingly, trade patterns in the UK and in China since 2015 follow a similar trend. In fact, forward participation in GVCs only seems to have decreased in the EU, meaning that EU businesses have some catching up to do in terms of supplying the global manufacturing industry with products including domestic value added.

Chart 3. Value of trade in mining goods and fuels has declined



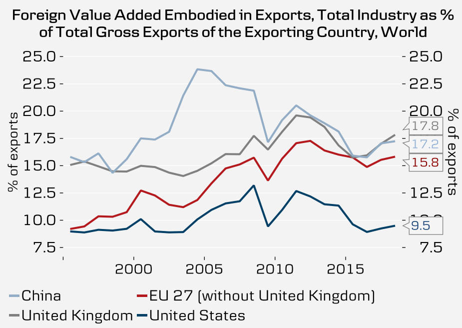
Source: World Bank, Macrobond Financial

Chart 4. China has diversified its export markets from DM to south



Source: Macrobond Financial, China General Administration of Customs. South = LatAm, Africa, Vietnam, Oceania

Chart 5. Buyer perspective - US businesses source less from abroad (GVC backward participation)



Source: OECD, Macrobond Financial

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Minna Kuusisto, Director and Antti Ilvonen, Analyst.

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None.

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Report completed: 10 March 2023, 14:30 CET

Report first disseminated: 13 March 2023, 06:00 CET