

Global Value Chains and COVID: evidence on Italian firms

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Paper (Italian only): **Giovannetti, Mancini, Marvasi, Vannelli, Il ruolo delle catene globali del valore nella pandemia: effetti sulle imprese italiane, Rivista di Politica Economica, 2020(2).**

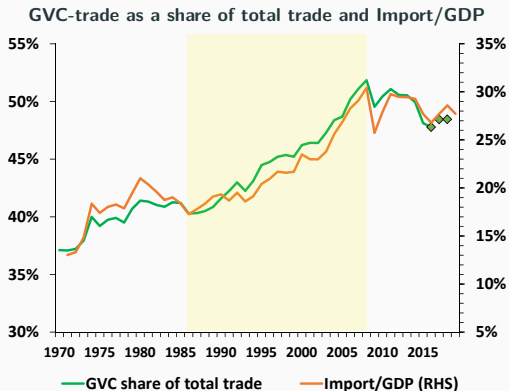
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GVCs before COVID

The end of an era? From hyper- to *slow*balization

From mid-1980s: 'ICT made it possible, wage differences made it profitable' (Baldwin, 2006).

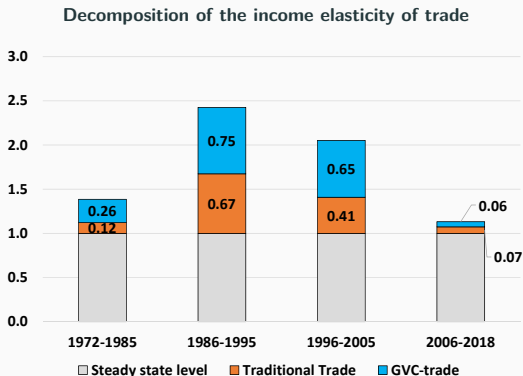
Financial integration and supportive trade policies.



Source: own elaboration. Update of Borin and Mancini (2019) and World Bank WDR 2020.

The end of an era? From hyper- to *slow*balization

GVCs boosted trade during the hyper-globalization period.



Source: own elaboration. Update of Borin, Di Nino, Mancini, Sbracia (2018).

The causes: towards a new equilibrium

GVC level-off is, at least in part, natural:

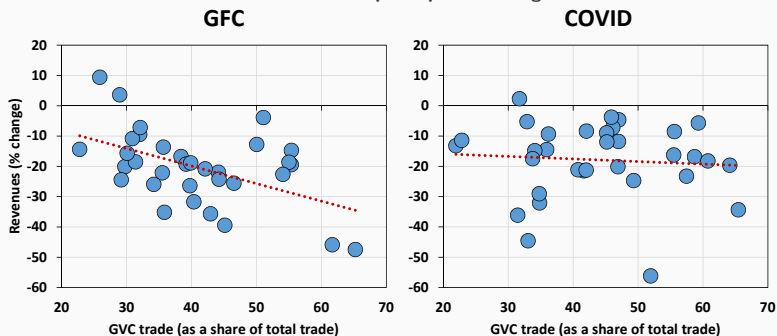
- Transition from a steady state...
 1. **Production process**: **low** degree of fragmentation.
 2. **Trade barriers**: **high**.
 3. **Emerging markets**: **marginal** role in the global economy.
- ...to a new one.
 1. **Production process**: **very fragmented**.
 2. **Trade barriers**: **low** (and stable).
 3. **Emerging markets**: most of them **integrated** in the global economy.

References: ECB IRC Trade Task Force (2016), Antràs (2020).

The COVID shock

Compared to GFC, COVID hit less GVC-intensive sectors.

Sectoral revenues and GVC participation during the two crises

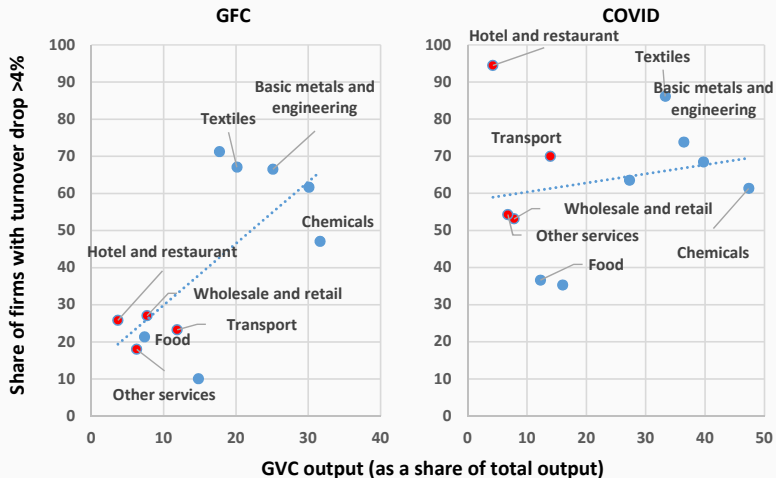


Source: our elaborations on data from firmlevelrisk.com and EIKON and ADM MRIO.

COVID vs GFC: focus on Italy

Italy is no exception.

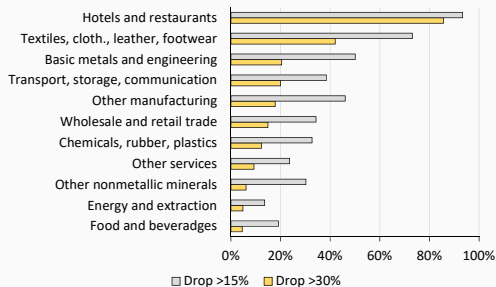
Sectoral revenues and GVC participation during the two crises



Source: our elaborations on Bank of Italy Business Outlook Survey.

Disruptions very heterogenous across sectors and firm-level GVC participation.

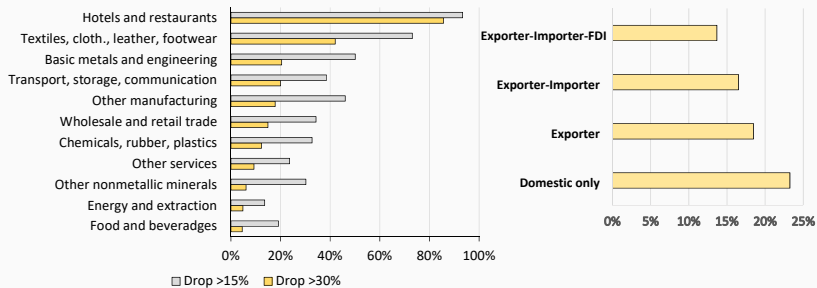
Share of firms recording turnover drops (2020 Q1-Q3 wrt 2019 Q1-Q3)



Source: our elaborations on Bank of Italy Business Outlook Survey.

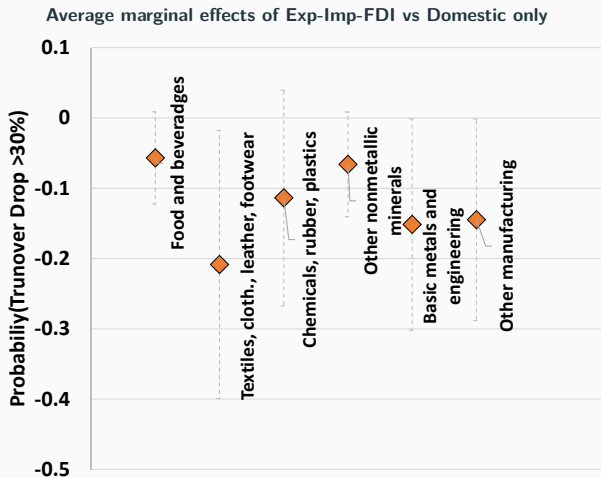
Disruptions very heterogenous across sectors and firm-level GVC participation.

Share of firms recording turnover drops (2020 Q1-Q3 wrt 2019 Q1-Q3)



Source: our elaborations on Bank of Italy Business Outlook Survey.

Participation in GVC is associated with lower probability of losses.



Source: our elaborations on Bank of Italy Business Outlook Survey. Probit regression includes controls for sector, region and employment level.

GVC after COVID

The future of GVCs

- Deceleration of GVC already ongoing, in part this is natural.
- However, COVID re-opened the debate on the **trade-off between efficiency and risk management**.
- During hyper-globalization firms mostly focused on efficiency.
- Now firms will enact more risk control strategies to increase resilience and/or robustness (McKinsey, 2020).
- According to UNCTAD (2020) four key trajectories will reshape international production in the coming years:
 - Re-shoring
 - Regionalization
 - Diversification
 - Replication

Re-shoring?

In the beginning of 2020, most of the debate focused on re-shoring.

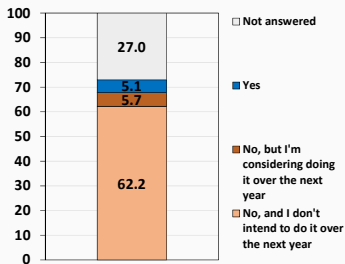
However, 'Coronavirus-induced "reshoring" is not happening' (FT, 30 Sept. 2020).

- Theoretically, **relations are sticky and sunk costs are large** (Antràs, 2020). In addition, re-shoring would increase reliance from domestic inputs, exacerbating the effects of domestic disruptions (Bonadio et al., 2020).
- Empirically, survey evidence seems to suggest that firms might **not bring productions back home**: Bank of Italy Business Outlook Survey, AmCham China Survey, AmCham Shanghai Survey, Confederation of Swedish Enterprise. However, some GVC **reconfiguration** will happen (McKinsey, 2020).

The future of GVCs: insights from survey data (Sept-Oct 2020)

Q: Has your firm closed one or more production facilities abroad over the last three years?

Results for Italian firms with production plants abroad:

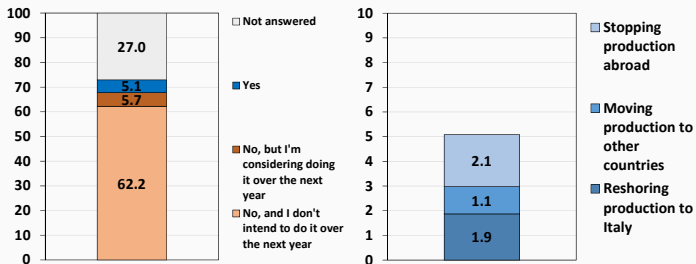


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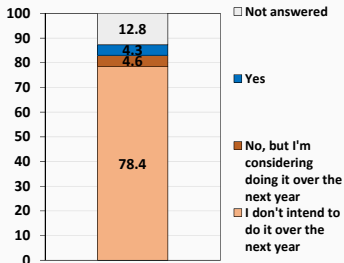


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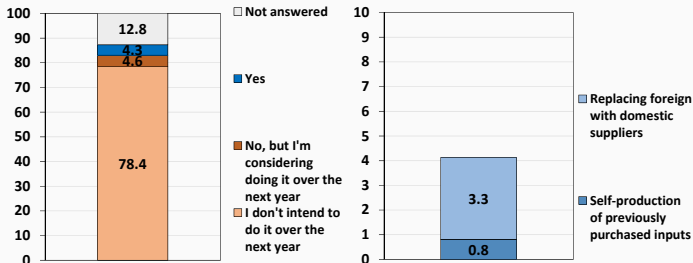


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The future of GVCs

Not COVID, but technology and geopolitics will shape the configuration of GVCs.

- **Automation** and **3D printing** overall impact on GVC is not clear-cut (McKinsey, 2019; Artuc et al., 2018; Freund et al., 2018), but re-organization of the production/re-location of tasks. →Further shift income from labor to capital.
- **Digitalization** increases tradability of services (OECD, 2019).
- **Anti-trade policies** curb GVCs, and might be long-lasting. →Protectionism was the endogenous outcome of the hyper-globalization period and of the GFC and Sovereign Debt Crisis (Guiso et al, 2019; Borin et al., 2020).
- **US-China security and technology decoupling**: reconfiguration of GVCs due to export-import controls, supply chain security, financial untangling, censorship and bans.

**How to reach an equilibrium with a sustainable globalization,
mitigating the transition?**

COVID as a wake up call? An agenda for the EU.

How to reach an equilibrium with a sustainable globalization, mitigating the transition?

Targeted policies to reduce the demand for inward-looking policies.

Short-run: mitigate the **negative economic effects** of the COVID shock.

Long-run: compensate the losers from **automation** and **globalization**, and promote their social inclusion.

COVID as a wake up call? An agenda for the EU.

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Broad-based long-term policies

Structural policies to **promote GVC participation** and retain/attract firms (rule of law, infrastructure, education...).