On the Future of Regional Integration in the Euro-Med Area: How COVID-19 will Affect Global Value Chains?

Osservatorio Economie Emergenti
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Presentation based on papers which are joint work with
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Outline

- Review of the recent trends in the global economy
  - **Q1: Have we entered a phase of de-globalisation?**
- The Covid crisis in countries of the South shore of the Mediterranean.
  - **Q2: Can we "see" it? Yes!**
- What are the consequences for GVCs (still a way to internationalize for emerging & developing countries)?
  - **Q3: Are GVCs and Covid crisis negatively correlated? Are open countries hit harder? Is the relationship affected by position along the GVC?**
- Trade and GVC dynamics during the COVID-19 crisis

(euro-med, south shore: Tunisia, Morocco, Jordan & Egypt; North shore: Italy, Greece, Spain)

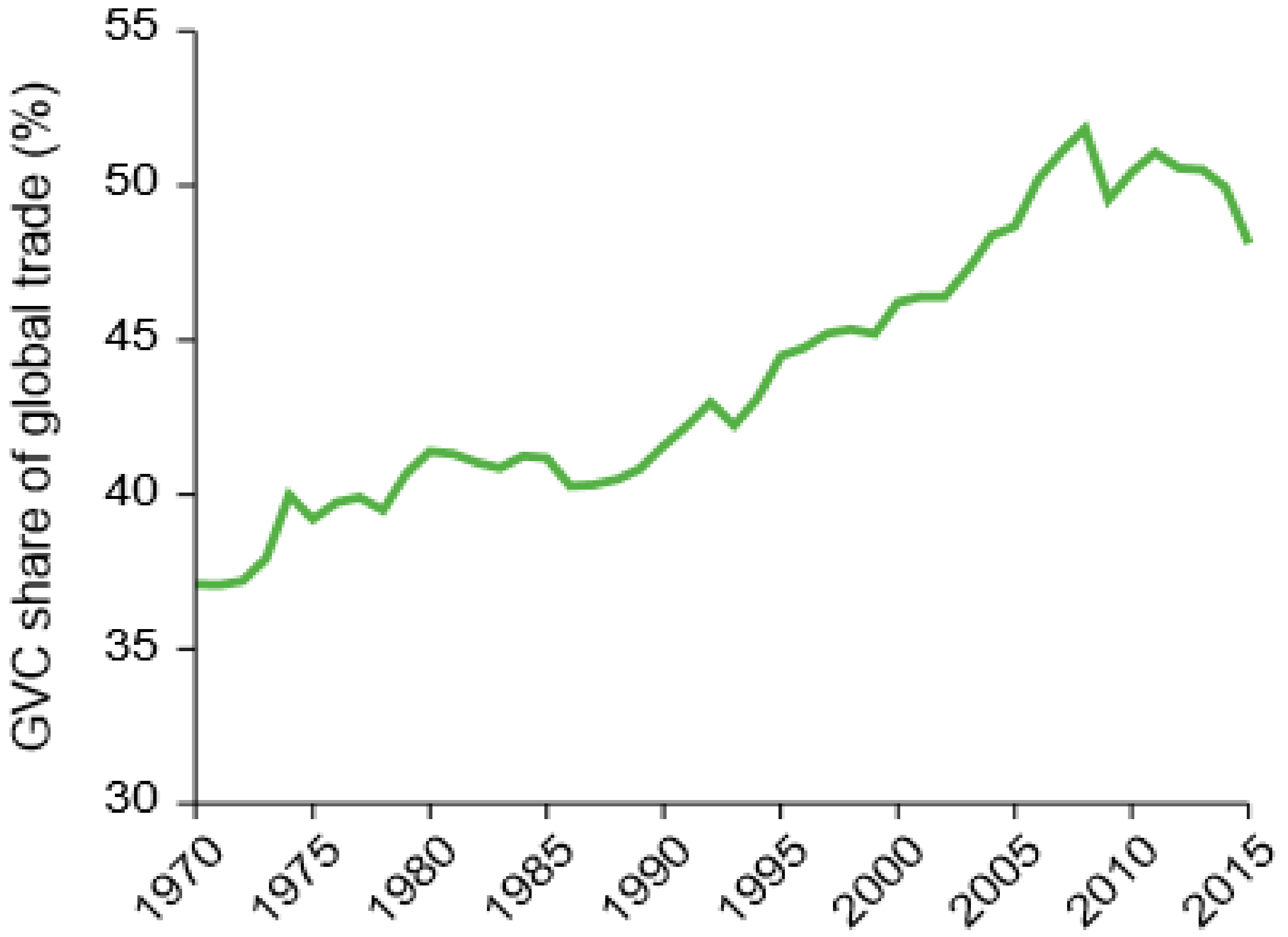
  - **Q4: Are global value chains retrenching?**
- *Firms internationalize through GVCs: does their behavior change?*
- Some speculation on the debate on **reshoring/nearshoring;** the first wave of Covid.19 and **possible opportunities for Med countries**

Antràs: not de-globalisation but "slowbalisation"

- **Probable causes of the GVC level-off (since 2008-09)**
  - **High integration of emerging markets in global supply chains**
  - No further decline in transportation and communication costs
  - Reversion of the trend of protectionist measures reduction

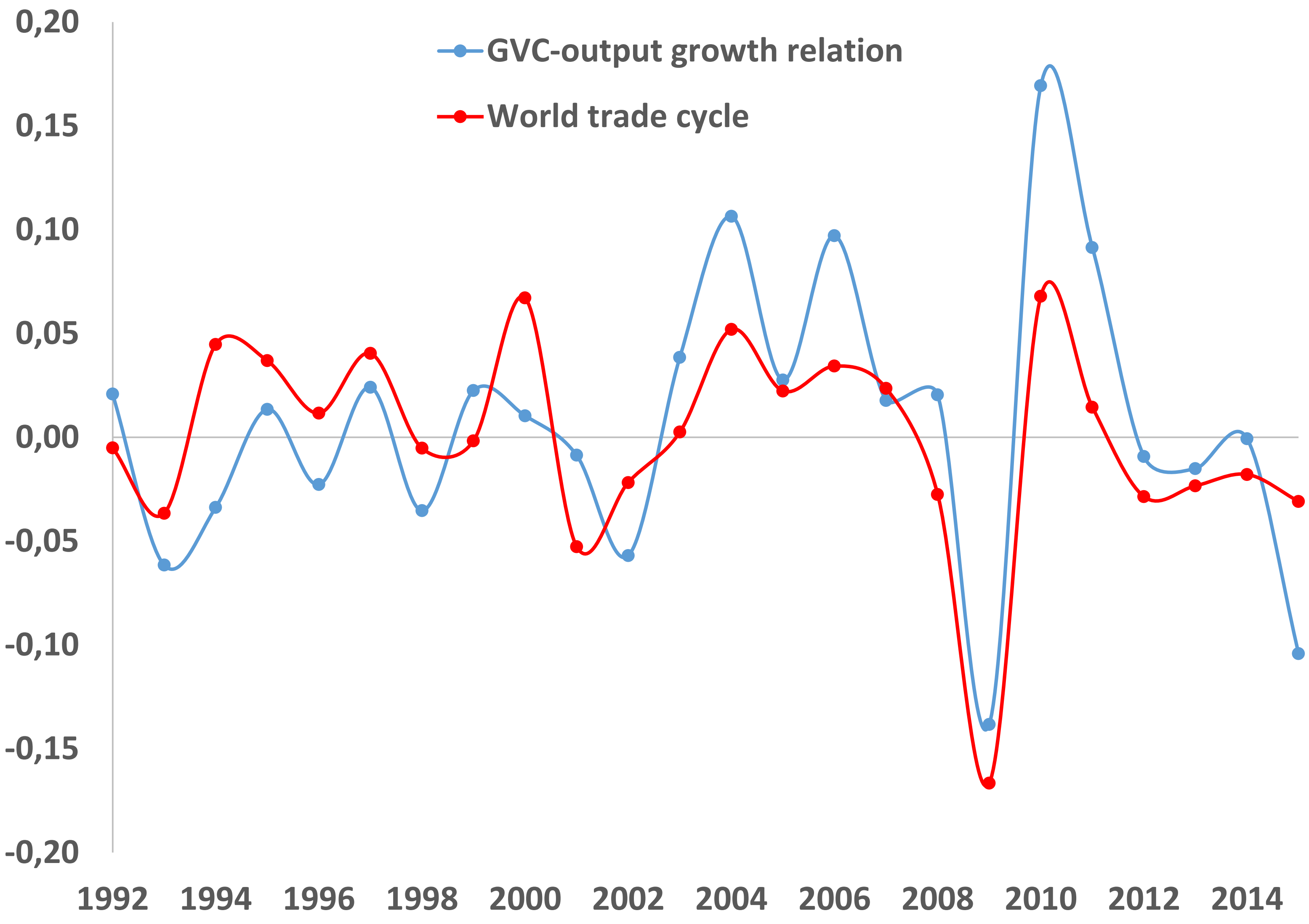
→**Automation and 3d printing could have favoured this «slowbalization/deglobalization»** (could be an alternative to offshoring)

[Blockchains enhance verification and monitoring in firm-to-firm relationships, therefore lowering informational frictions, could stimulate GVCs/RVCs]



Sources: WDR 2020 team, using data from Eora26 database; Borin and Mancini (2019); and Johnson and Noguera (2017). See appendix A for a description of the databases used in this Report.

GVCs are pro-cyclical…

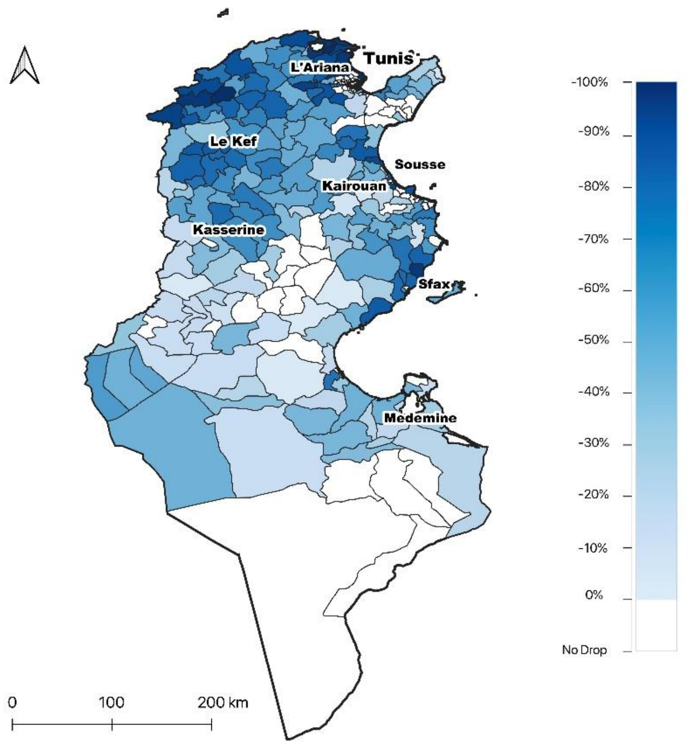


Sectoral output growth rate regressed on sectoral GVC-output share, with country and sector fixed effects. Data source: EORA.

Answer to Q1: Have we entered a phase of de-globalisation?

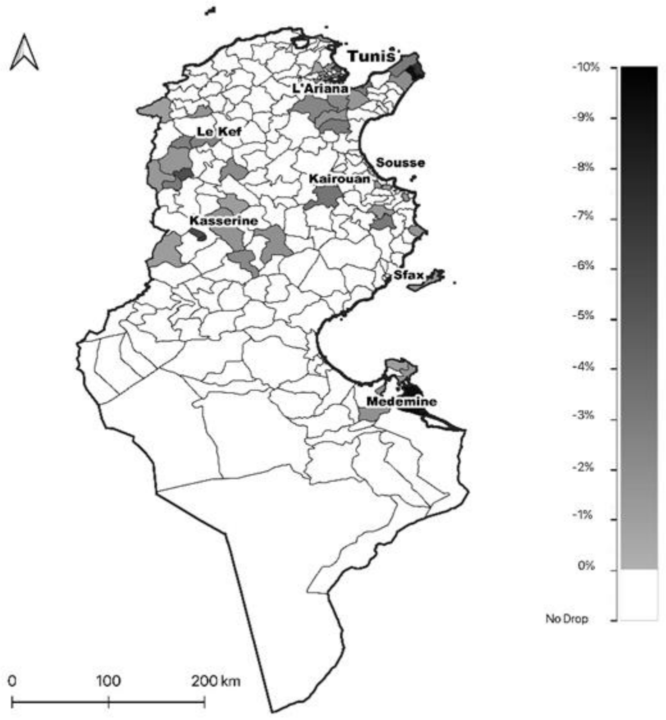
- «slowbalization» had started in 2008-09
- Covid 19 crisis in a situation of slowbalization
- How can we measure the extent of the crisis?
- Economic data are lagging behind;
- We could use night lights or emissions (these data are available in short time)
- Can we than «see» the crisis?
- I'll show some maps of «night lights» reduction

Can we «see» the impact of Covid 19? Tunisia



NO_2 Variation in Tunisia

strong reduction registered in NO_2 emissions seems to be consistent and severe across all the Tunisian country, with an average NO_2 emission reduction of approximately -29.77%.

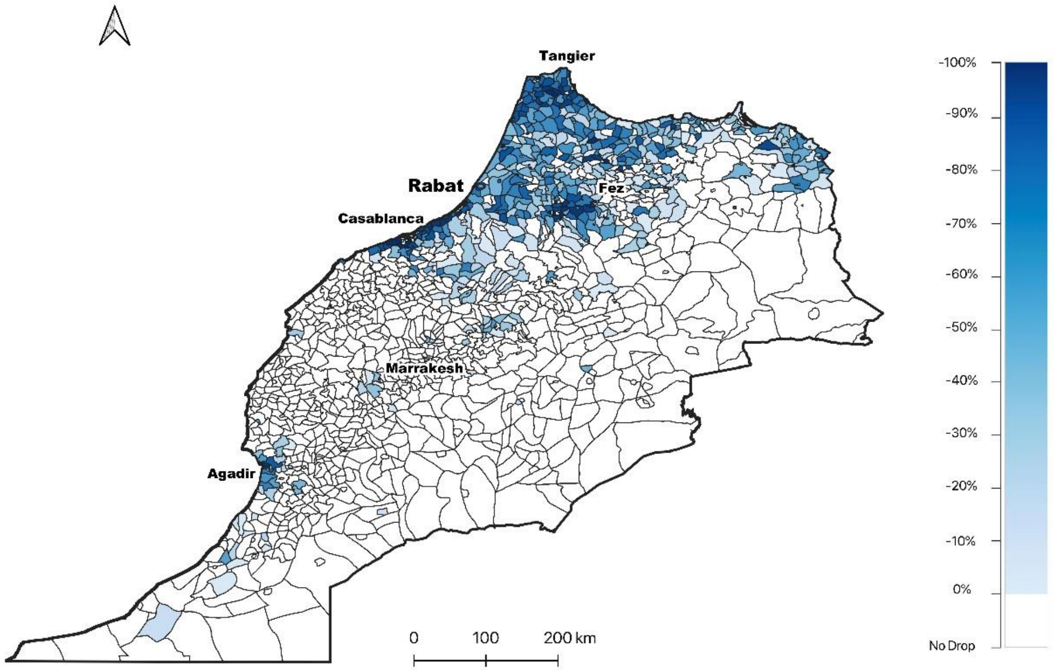


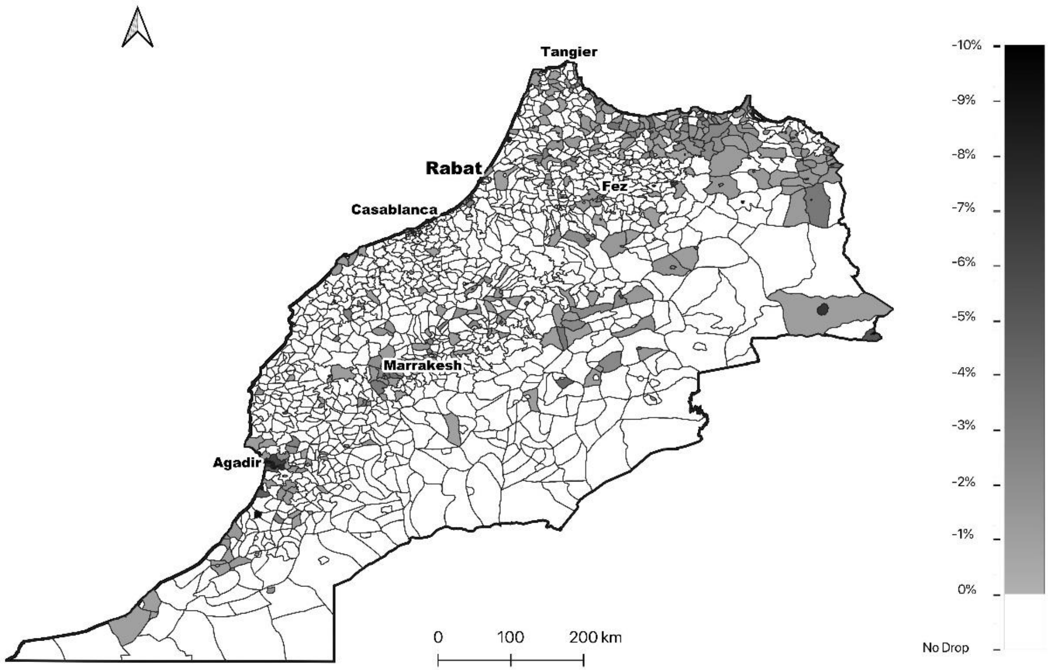
NTLs Variation in Tunisia

the main touristic destinations are the most severely damaged by the lockdown. Tourism is the second-largest contributor to the Tunisian economy, the complete shutdown of all the premises may have devastating consequences in terms of economic and social recovery.

Source of all the maps, Bigi, Giovannetti, Perra, UNDP WP 2020

Can we «see» the impact of Covid 19? Morocco





NTLs Variation in Morocco

NO_2 Variation in Morocco

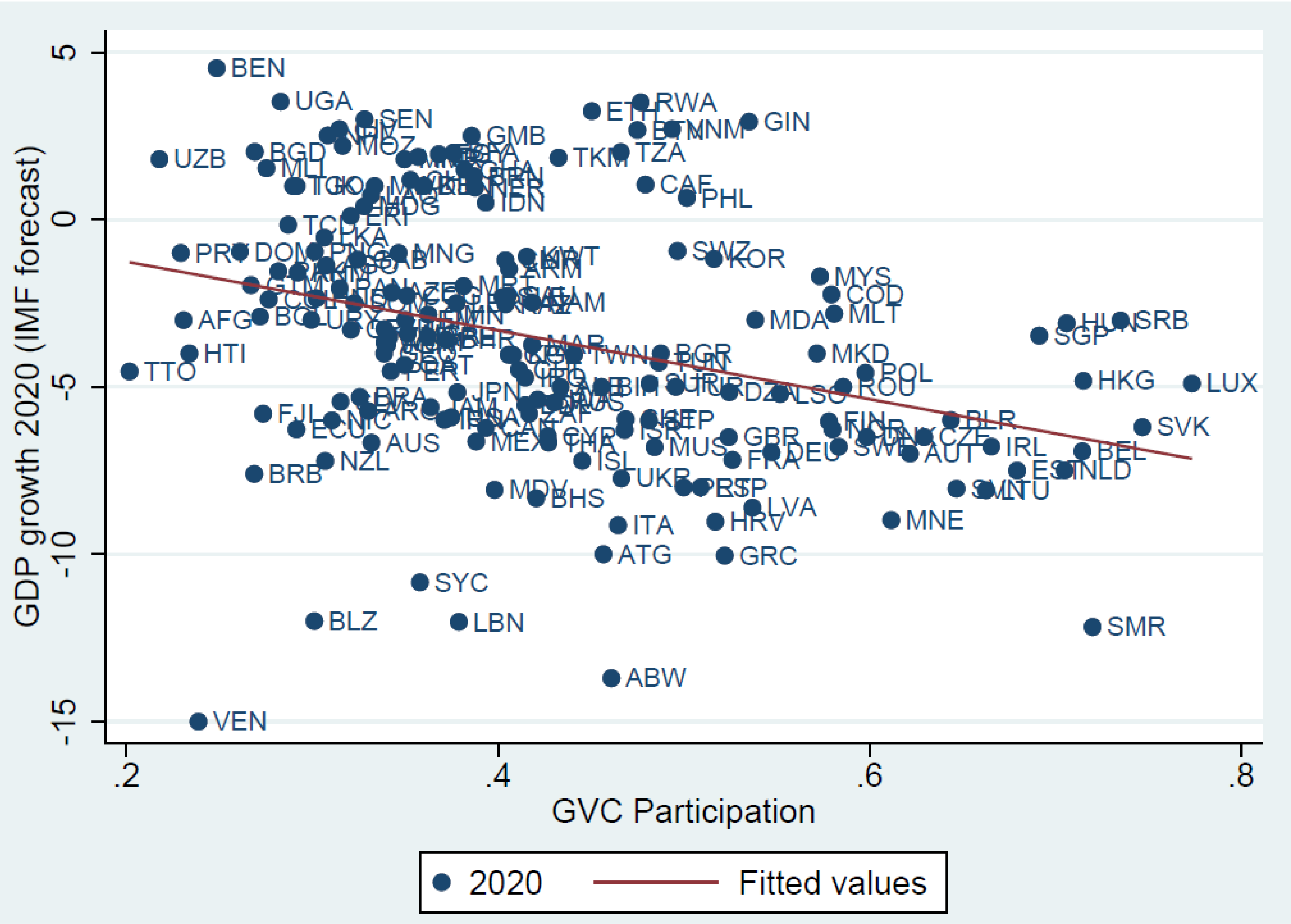
NO2 emissions have experienced a generalised and significant drop for all the Moroccan territory, averaging -39.28%. Variation more severe and concentrated in the main cities of Rabat, Tangier, Casablanca and Marrakesh. **The perceived drop in NTLs (less drastic than in Tunisia) around 1%, even though in some areas the registered drop is up to 6.3%.** The most affected places are the major population centers and major tourist destinations.

Source of all the maps, Bigi, Giovannetti, Perra, UNDP WP 2020

Answer to Q2: Can we «see» the crisis?

- Yes, **we can «see» the crisis with a sharp reduction of emission and night lights**
- These data could be used also to predict GDP reduction
- The Question we are interested in however is **«which countries are more affected by the crisis»?**
- In the Great Financial crisis: more open countries were hit harder
- What about now?
- Is this crisis different or not?
- How can we measure «openess»? In what follows we shall focus on **GVC related trade**

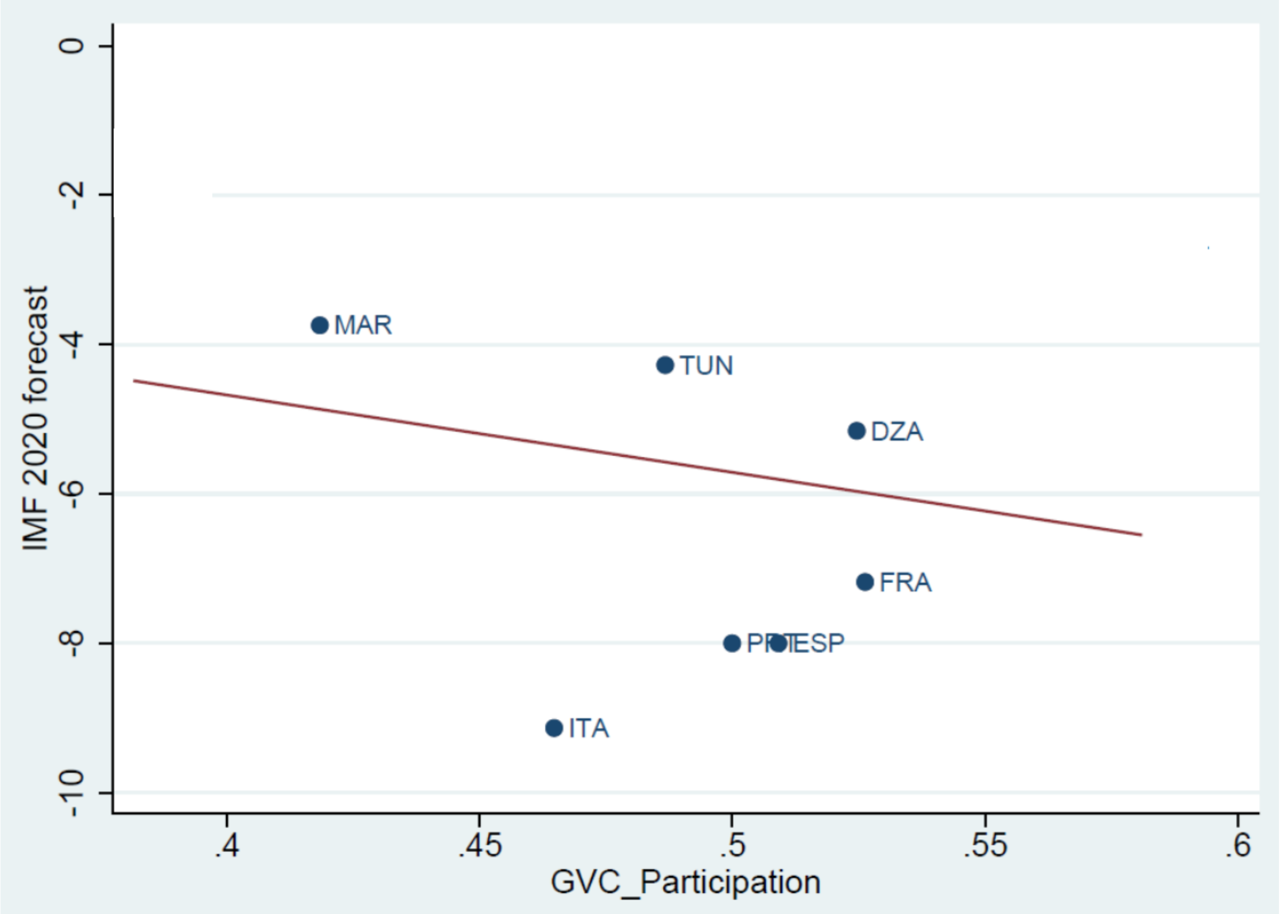
Are countries more involved in GVC more vulnerable?



Negative correlation

But in previous crisis (e.g. great Financial crisis) slope substantially higher

GVCs seem to be negatively correlated to the Covid shock



Data: Eora I-O tables

Negative correlation but substantial differences amongst countries

France vs Algeria
Italy vs Tunisia, similar GVC involvement, different drop in GDP

Answer to Q3 seems to be «less than in previous crisis»

South shore countries less integrated than North shore

We compute where the **value is originally added** and **where it is absorbed into final demand**. **The South shore countries are not very integrated and are concentrated upstream**

This information is crucial to identify the actual exposure to economic shocks through GVC: origin and destination of VA track effective (i.e. direct and indirect) **supply and demand linkages** even between countries that would appear unrelated by only looking at bilateral gross trade flows.

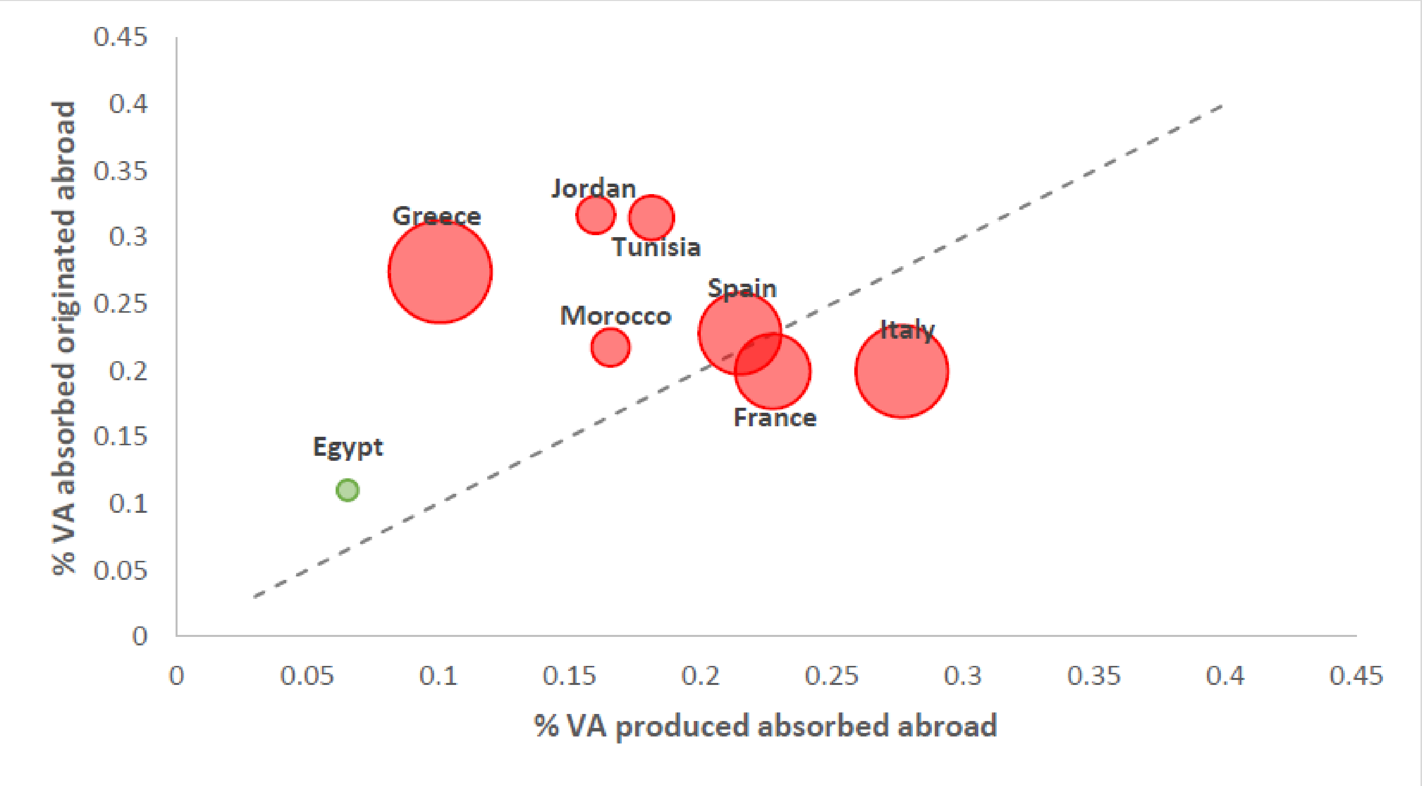
Table: Export decomposition and GVCs participation

	Egypt	Jordan	Morocco	Tunisia	Italy	Greece	Spain	France
Gross exports (million $; GEXP)	22120	7313	22717	12947	924361	38331	471226	967415
of which								
Domestic content (%; DC)	88.81	77.54	83.86	74.49	72.49	65.85	68.36	69.89
Foreign content (%; FC)	**11.19**	**22.46**	**16.14**	**25.51**	**27.51**	**34.15**	**31.64**	**30.11**
Total (%)	100	100	100	100	100	100	100	100
GVC-related trade (%; GVC)	36.82	34.03	41.84	48.67	**46.47**	**52.21**	**50.91**	**52.62**
of which								
GVC-backward (%; GVCB)	**11.20**	**22.47**	**16.15**	**25.52**	**28.06**	**34.19**	**32.03**	**30.91**
GVC-forward (%; GVCF)	25.62	11.56	25.68	23.15	18.42	18.02	18.88	21.72

GVC Integration & foreign exposure, selected countries

- All countries but France and Italy are more exposed on the **origin side**.
- **France&Italy are net suppliers of VA along GVCs**.
- Spain almost lays on the 45 degree line
- The relatedness of these countries singles out a **high degree of concentration of North shore countries.**
- **Greece is an exception**, having a much larger ratio of origin over destination VA, as well as a much lower extent of total exposure.
- **Egypt is by far the least exposed country** and interestingly the only one in the whole sample with positive GDP growth forecasts.

Figure 1: Countries' Foreign Exposure



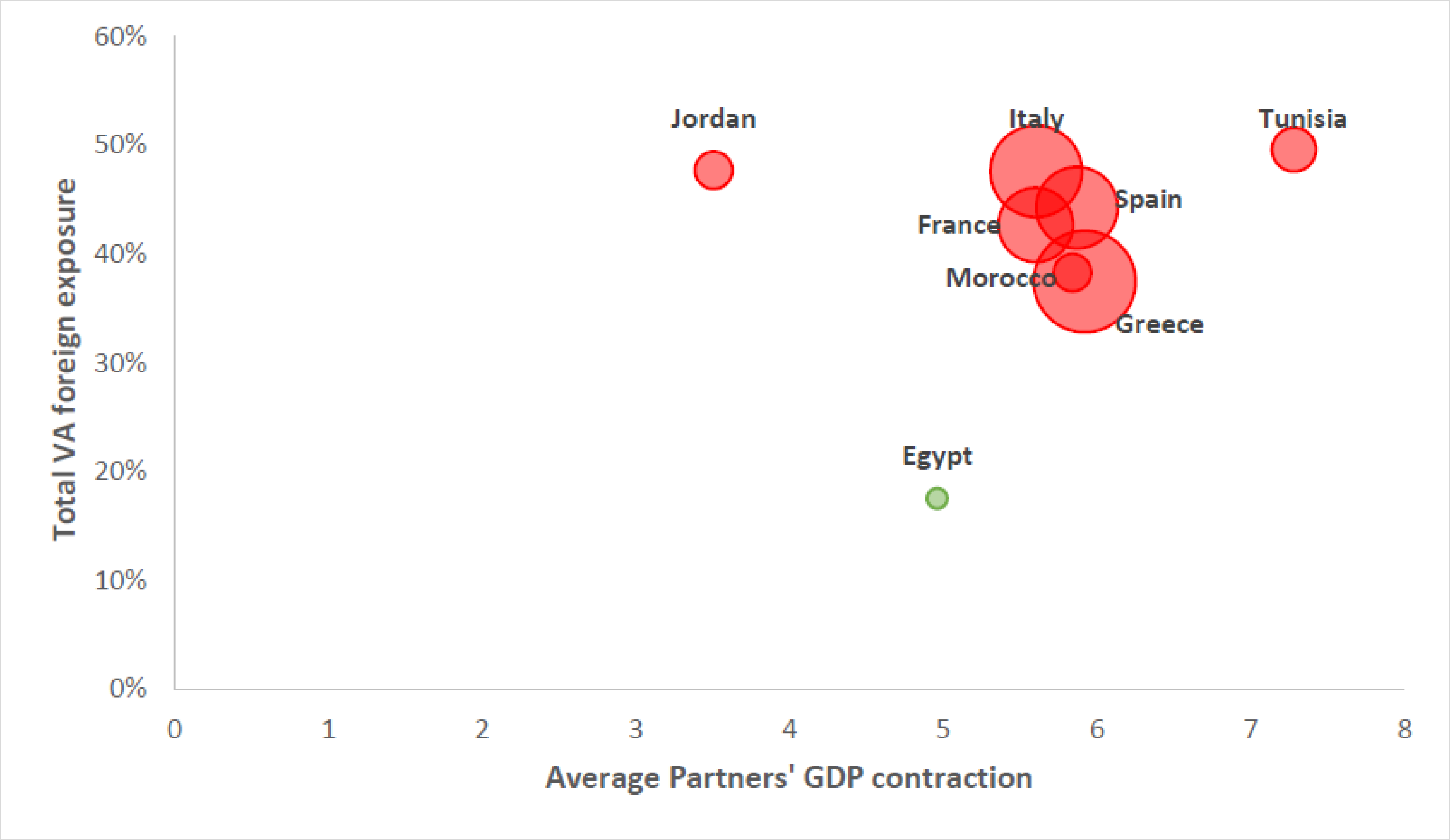
Source: Authors' own elaboration using EORA dataset.

Notes: Bubble size denotes own GDP contraction. Bubble colour denote sign of GDP change: red denotes GDP contraction, green denotes GDP growth. GDP forecasts are sourced from IMF, April 2020.

Covid exposure (Partners GDP contraction)

Jordan mitigates the high VA exposure through the lowest level of partners shock; on the contrary, Tunisian partners network is expected to have the highest GDP contraction in the sample, thus making the country the most exposed. Average partner GDP reduction computed as weighted average of main 10 partners

Figure 2: Countries COVID-19 international exposure



Source: Authors' own elaboration using EORA dataset.

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To get a better insight, now firm level analysis

- WBES: Covid 19 follow up
- Three countries of interest for us
- Italy (North shore) [a bank of Italy survey, more detailed data also on sourcing]
- Morocco & Jordan (South shore)

Q: Will firms' strategies change after COVID?

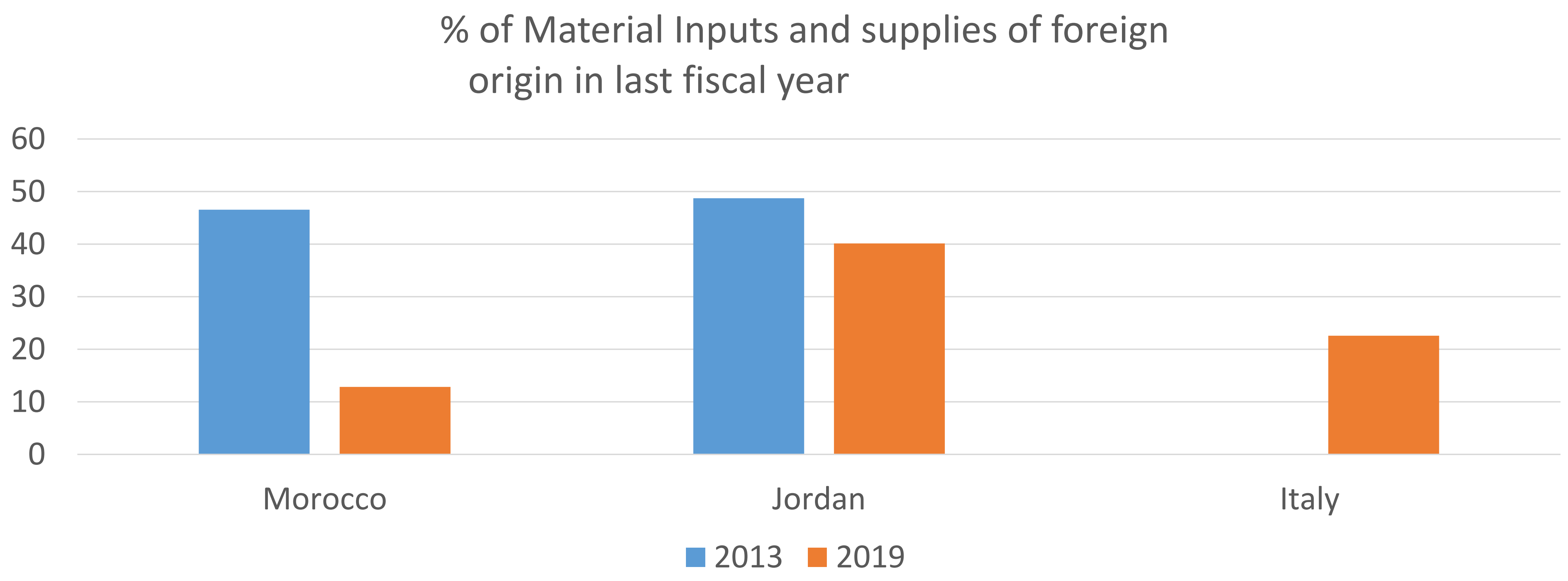
Need to address differently **the trade-off between efficiency and risk management** (aspects of exposure to and transmission of shocks in GVC; Issue of GVC stickiness, possibility that ex ante decisions to offshore are different for ex post decisions to reshore)

Possible strategies (some discussed in the recent literature):

- Closing down plants
- Relocation to **regional value chains (shortening)**
- Replication of the production facilities
- **Diversification of sourcing**
- **Re-shoring** (EU reshoring Monitor, till 2018)

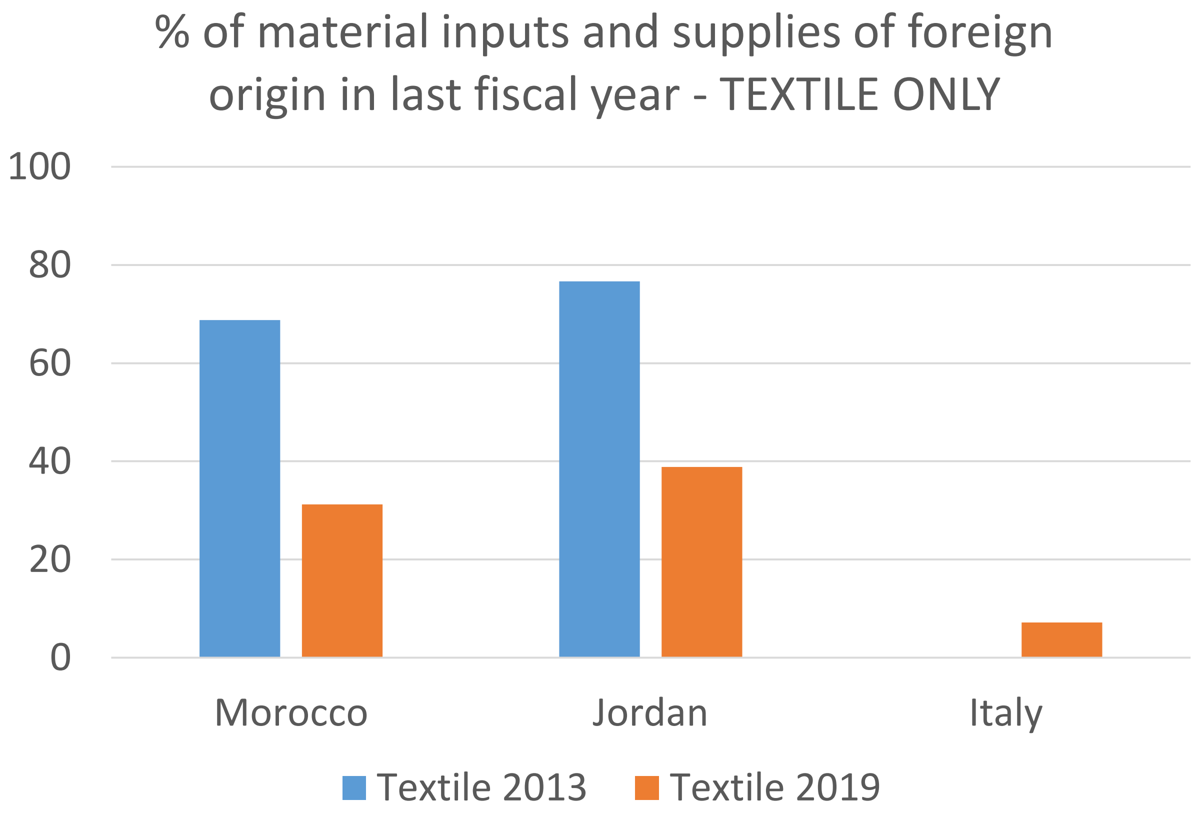
Most of the policy **debate is on re-shoring**

Percentage of foreign inputs, 2013-2019: significant decrease in Morocco

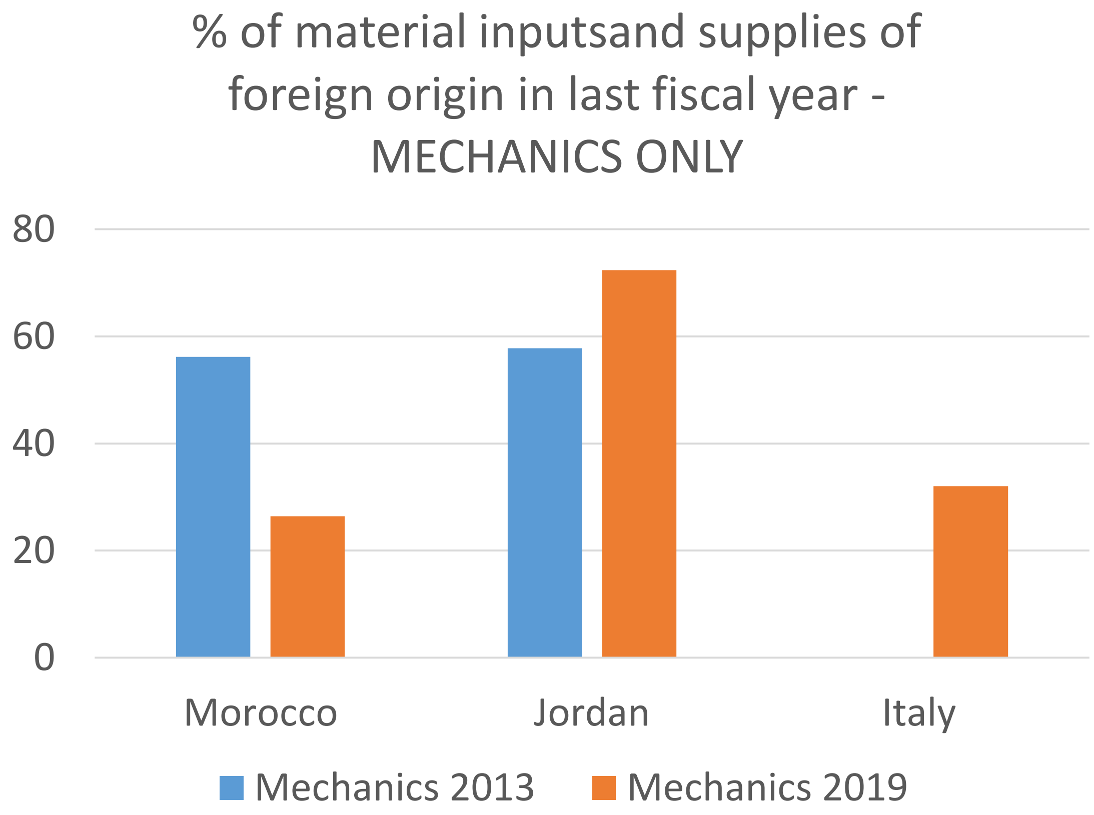


Sector heterogeneity: Textile and mechanics: different developments

Textiles

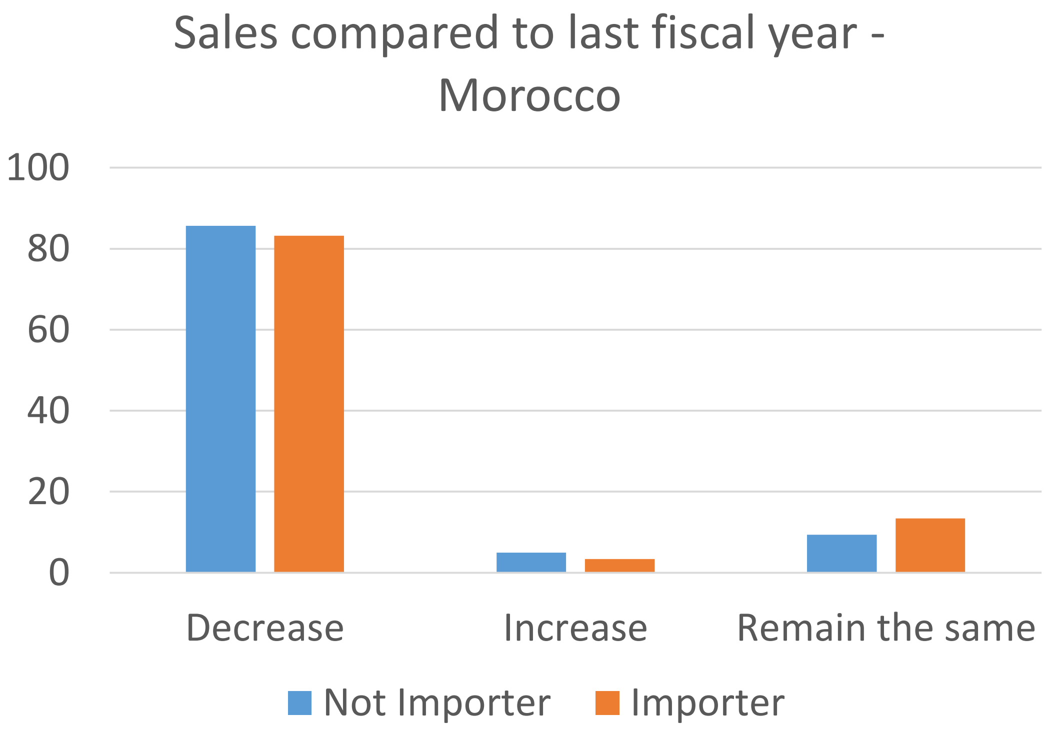


Mechanics

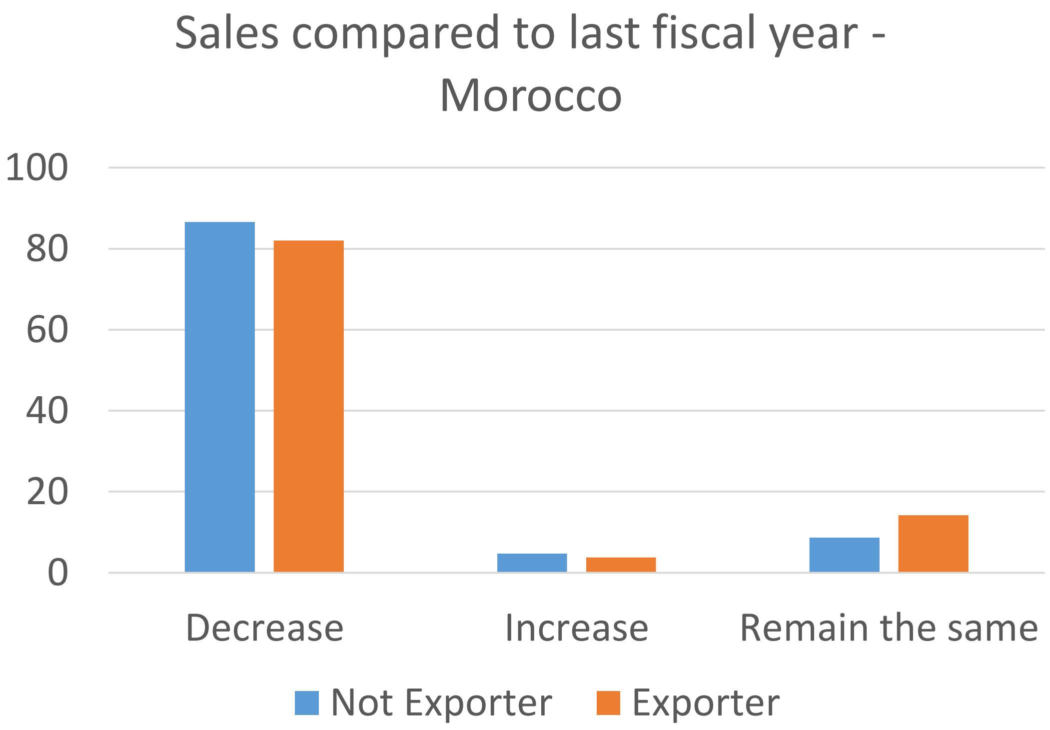


Sales, Morocco, international firms seem to perform better (less decrease, more «remain»)

importer

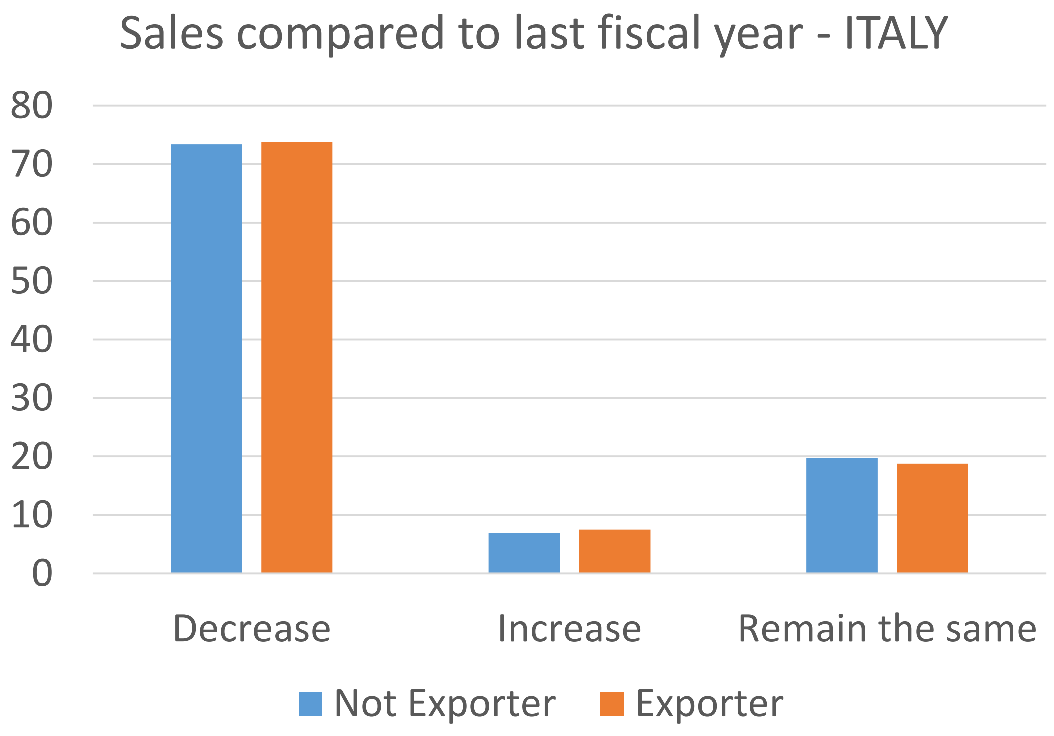


exporter

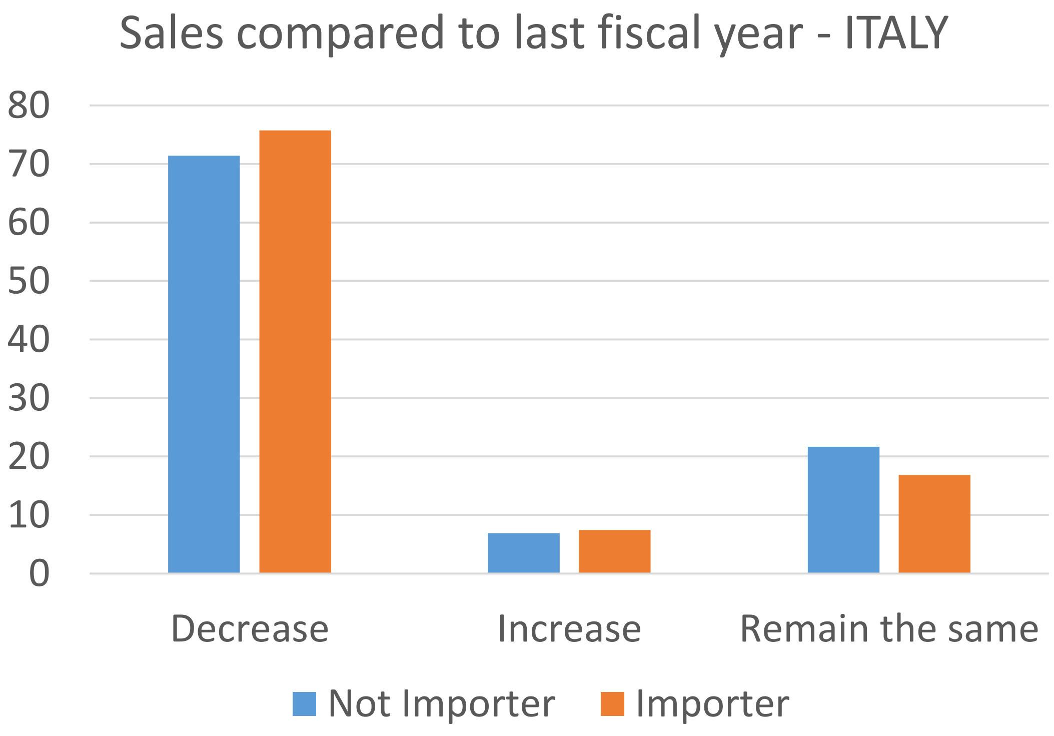


Sales: Italy, results are not clearcut, need more study

Exporters



Importers



Lesson 1: each shock has its peculiarity; policies should account for this

- Covid.19 has badly affected all countries though with different impact (in terms of GDP and employment) especially at sectoral level: [Tourism, transports, Hotel&restaurants (services) more affected]
- In the countries of Southern shore, also oil/gas shock (Libya, Algeria)
- Twin shocks
- Different Mediterranean countries have taken different measures to return to a path of economic growth and employment
- Can **Regional Global Chains** play a role? Nearshoring?

Can Regional Value Chains help recovery?

- What are Regional Value Chains, how they differ from Global Value Chains? GVCs imply complex production relations between firms operating in different countries. **So do RVCs but "geographically closer"**
- Related international activities (offshoring and trade of intermediate goods) bring about **efficiency gains** by means of further division of labor and increased specialization, they also imply **higher international interconnectedness and possibly higher exposure to shocks**
- Did the current shock (COVID-19) imply relocation and reshoring? Should also study imports; estensive margin **etc [on going work]**
- Are countries in the South shore of the Mediterranean potential candidates for near-shoring? Most likely yes (specialization, comparative advantages)
- If yes, in **which sectors**? [**on going research**]
- What makes/can make them better than other countries?

Wrapping up & questions for discussion

- **The COVID crisis is different from previous crises**
- Let' consider Italy & Morocco
  - Italy: Potential contraction of external demand of 6 pp but **more open sectors and sector involved in GVCs seem less affected (GDP reduction around 10%)**
  - **Sectors most affected by Covid.19 crisis are services**
  - **Italian firms are not changing (much) their sourcing and production choices** (stickiness of GVC? Relations with sunk costs? caveat: several firms are branch of foreign MNEs…they may not take decisions… but rather « accept » decisions)
  - Morocco: **international firms seem to perform better, not penalised by partner GDP reduction**
- Policy questions and further research:
  - How to mitigate the pro-cyclicality of GVC? **The role of diversification**.
  - Network centrality, main hubs and shocks propagation mechanisms (firm to firm micro data)

Thanks