OXFORD ECONOMICS AUSTRALIA

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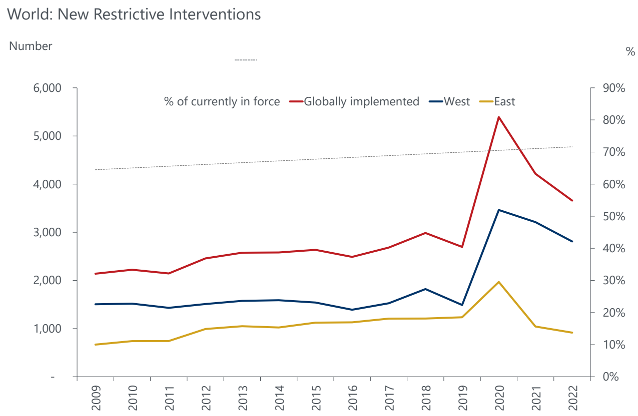
Research Briefing | Global

Deglobalisation, is it in the room with us?

- **While decoupling in specific industries is a concern for global trade, deglobalisation at a larger scale presents a small but rising risk. Target measures against the trade of information and technology may continue to increase, given rising geopolitical tension, but there are few signs of this spilling over into the broader trade environment.**
- **Reshoring represents a costly enterprise in the short term due to the cost of implementation and current economies of scale available in global markets.**
- **There has been a spike in tariff measures and other restrictions in the years since 2018, and an average of 68% of new trade-restrictive interventions implemented since 2009 remain active.**
- **We have seen a slowdown in world trade growth relative to global GDP growth in recent years. Increasing interventions is a concern as the most intervention targeted sectors cover 55% of global trade in real dollar values in 2022.**

We attribute the fears of deglobalisation to a heightened sense of geopolitical risk and stress within global supply chains highlighted by the Covid pandemic and the Russia-Ukraine. While fears have been growing about a retreat in global trade volumes, we observe slower trade growth rather than a decrease in absolute terms. Decoupling in specific industries, such as technology and energy, remains a risk to GDP growth if interventions continue to increase, especially between China and the United States. The latest Global Trade Alert (GTA) data has shown a spike in tariff measures and other restrictions in the years since 2018 with a majority of these being implemented by the "West" (Chart 1). Upon closer inspection we see that these are linked to pandemic related measures and an average of 68% of new harmful interventions implemented since 2009 are currently in force.

Chart 1: Number of new restrictive interventions implemented between 2009-2022



Note: Implementors of restrictive trade measures have been categorised into Western World and Eastern World. West comprises of Americas, Europe and Oceania; East includes Asia, Middle East and Africa.

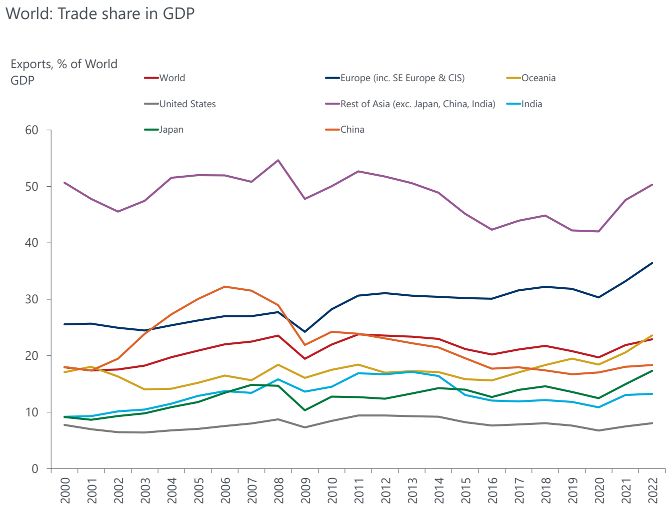
Source: Global Trade Alert

The impact of the pandemic on interventionist policy growth has been significant and has led to higher barriers to trade but the full impact of these interventions on global trade are not evident in the short term. While growth in the exports of goods as a share of world GDP has slowed, this indicates a decrease in the speed of trade growth but not an overall decline (Chart 2). This is consistent with the view that we are not yet seeing the effects of current protectionist policies in world trade share numbers as we would expect during a deglobalisation event.

Niti Gupta - Economist - ngupta@oxfordeconomics.com

Sebastien Tillett - Graduate Economist - stillett@oxfordeconomics.com

Chart 2: Trade Share in GDP



Source: Oxford Economics/UN Comtrade

As we see increasing barriers to trade between the US and China in specific sectors, we do not see efforts towards 'reshoring' in the short term across the global environment. However, with the recent implementation of policies such as the CHIPS and IRA acts in the US, we do see long-term risks in advanced manufacturing and technology, including advanced wireless, artificial intelligence, biotechnology, microelectronics and semiconductors, quantum information science, and clean energy innovation. In other industries we would need to see much larger and wider trade restrictions implemented as the Chinese market remains attractive to global firms and while the geopolitical risk is rising, we have seen rising engagement in China not less. This is exhibited by the growth in Chinese inward foreign direct investment which has been rebounding since 2019 and is approaching its peak of 2013. Below, we look deeper into the trade landscape to highlight affected areas and to understand any potential implications.

Sector-level breakdown of the recent increase in interventions

The sector level breakdown highlights the predominance of covid linked goods, those that were deemed in short supply and those required to recover from the shock, amongst sectors experiencing interventions, suggesting a short termism to much of the newly introduced sanctions since 2019. Table 1 lists the top sectors impacted by increasing interventions with pharmaceuticals standing out. Considering the boom in trade measures towards pharmaceutical products at the beginning of the pandemic, which tails off over time as the need for vaccines and PPE fell off, this helps to explain why we see a drop off in new sanction and active sanctions after the initial increase.

Table 1: Top sectors experiencing new interventions

Top Affected Sectors	Percentage of total interventions implemented since 2009	Percentage of active restrictive interventions by sector	Percentage of active restrictive interventions implemented by sector between 2020-2022
Products of iron or steel	9%	50%	18%
Motor vehicles, trailers & semi-trailers; parts	8%	45%	16%
Other fabricated metal products	8%	48%	19%
Other special-purpose machinery & parts	7%	40%	14%

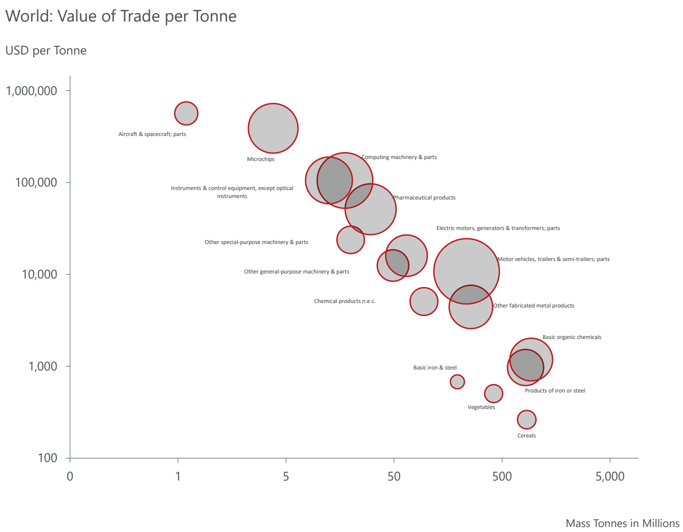
Top Affected Sectors	Percentage of total interventions implemented since 2009	Percentage of active restrictive interventions by sector	Percentage of active restrictive interventions implemented by sector between 2020-2022
Pharmaceutical products	7%	39%	18%
Chemical products n.e.c.	6%	37%	13%
Basic organic chemicals	6%	46%	13%
Other general-purpose machinery & parts	6%	38%	13%
Cereals	6%	47%	17%
Electric motors, generators & transformers; parts	6%	40%	15%
Computing machinery & parts	6%	35%	15%
Instruments & control equipment, except optical instruments	6%	39%	18%
Basic iron & steel	5%	55%	25%
Electronic valves & tubes; electronic components; parts (Microchips)	5%	41%	18%
Vegetables	5%	47%	21%
Aircraft & spacecraft; parts	4%	74%	19%

Source: Global Trade Alert

Products of iron and steel have been hit the most since 2009 with a high share of restrictive interventions in force. In addition to the trade measures, in March 2022, the Biden Administration announced that the domestic content threshold specific to federal procurement would increase from 55% to 60% later in the year, to 65% in 2024, and to 75% in 2029. This reflects the ongoing concerns in the steel sector. Anti-dumping continues to be the most frequent trade remedy action in terms of initiations and terminations.

However, we do see potential cause for concern in the long run as the affected sectors together account for about half of world trade in real dollar terms and 18% of mass tonnes as of 2022, which implies potentially very different outcomes for the shipping companies. This highlighting the risk if these interventions were going to ramp up rather than recede. With these sectors representing 55% of global trade in real dollar values (2015 USD), continued barriers in these areas would in the long-term cause significant impact to prices and potentially cause a reshaping of trade patterns. Considering the value of trade per tonne (Chart 3), sectors such as aircraft and parts, semiconductor and computing industries are high value commodities (on a per tonne basis) exposed to greater risks in the long-term if trade war fears rise.

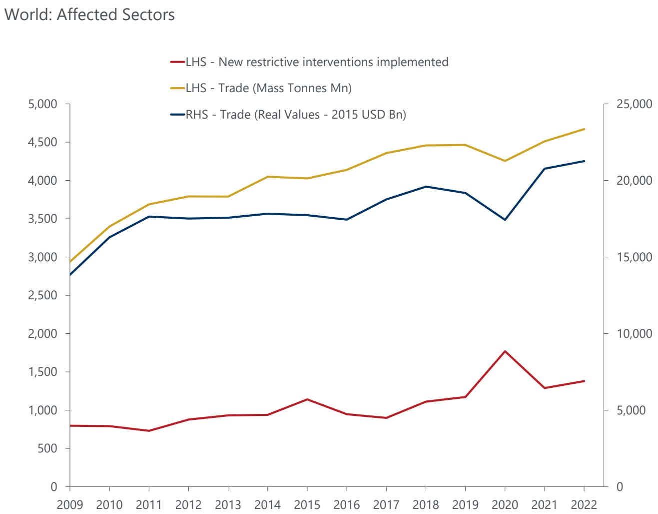
Chart 3: Affected Sectors Share of Global Trade and Value of Trade per Tonne



Source: Oxford Economics/UN Comtrade

We are also seeing a year-on-year decline in the growth of real dollar value trade in these affected sectors reinforcing the risk of longer-term interventions. Chart 4 highlights the hit in trade the pandemic brought in the short term but also the immediate rebound in trade volumes and values. This is to say that we haven't observed a sustained shift to lower trade volumes in the wake of Covid.

Chart 4: New trade measures and their effect on dollar (2015 USD) and volume trade amounts



Source: Global Trade Alert/Oxford Economics/UN Comtrade

Outside these key sectors, earlier this year, we explored the risk of a broadening and accelerating technological decoupling due to new export controls from Biden administration announced in October 2022 targeting China's semiconductor and computing industries. Technology is a largely interconnected industry with a complicated supply chain so growing sanctions in this sector will result in a more damaging decoupling scenario.

Technology sharing, and the export of high-technology intensive products such as semiconductors, computing industries, electrical equipment represent a highly inter-related industry and Chinese reliance on exports in this sector exposes it to intervention risk (Chart 5). Considering that interventions are a lever

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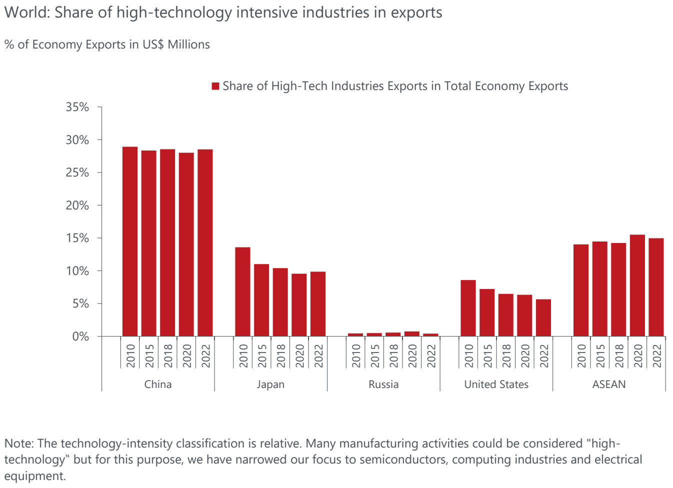
nations pull in response to shocks such as trade wars and conflicts, continued shocks and rising geopolitical tensions present a risk to Chinese GDP growth but this is not a phenomenon we are seeing negatively impact global trade volumes yet.

Chart 5: High-technology intensive products represent a large share of total exports in China

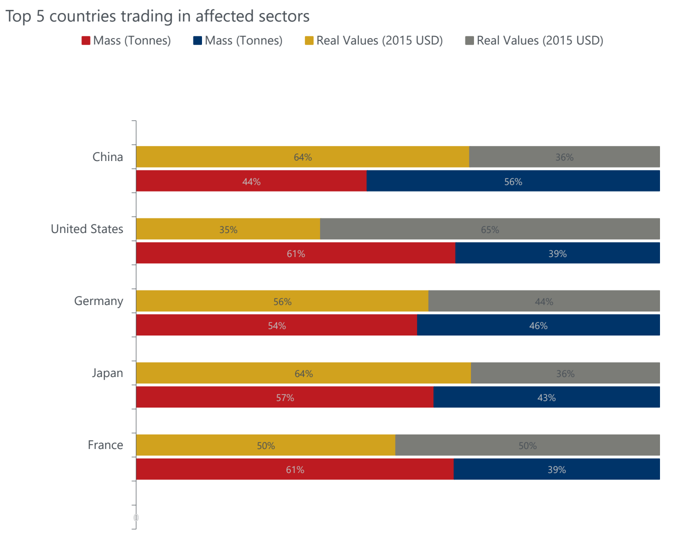


Source: Oxford Economics/UN Comtrade

Country View

Taking a country level view on deglobalisation, we see that China, the US, Japan, and the large EU trade partners are most at risk in the affected sectors of trade. These nations represent large amounts of global trade in terms of both tonnes and value, highlighting the potential downsides continued growth in interventions would cause predominately on exports. The exception to this is the US, which is facing more impact on its imports, leading to potentially higher costs on goods (Chart 6).

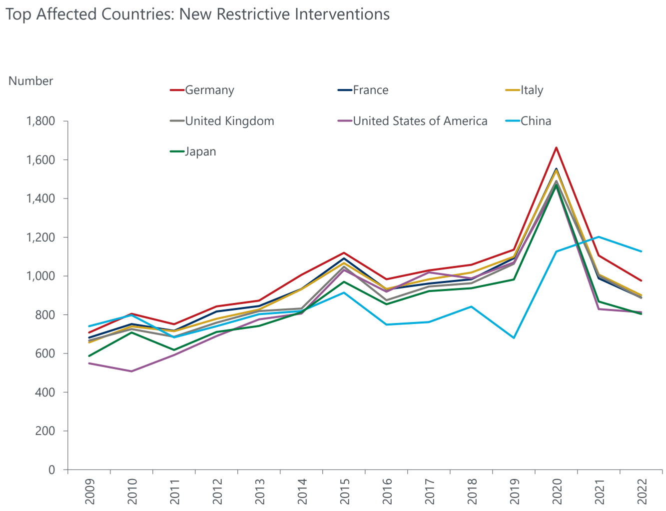
Chart 6: Top 5 countries exposed to risk in affected sectors



Source: Oxford Economics/UN Comtrade

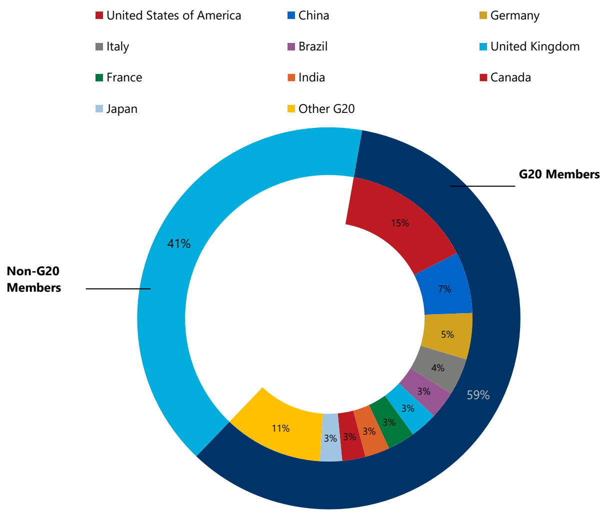
We also observe that the major countries implementing these interventions are those most affected by the protectionist policies. This is due more to the size of the countries involved rather than an active trade war as we observe more broad style interventions than targeted measures. We find that growth has been largest amongst the EU and the US with China tending to run below the other players, with the notable exception of post covid (Chart 7). The Chinese governments long delay to abandoning the zero covid policy has forced a longer lifespan on procurement policies and is reason we see little to no drop in new interventions compared to the other major players. G20 nations account for 59% of all new restrictive interventions since 2019 highlighting the top-down nature in these interventions (Chart 8). Much of the growth in interventions as of late can be attributed to large nations exerting their strength to hold on to goods during the covid pandemic. These short-term procurement and protectionist policies to soften shocks is what was seen in response to the China-US trade war of 2018 and the Russia-Ukraine conflict. The current crop of sanctions is not an indicator of realignment of trade patterns but a short-term reaction to world events, highlighting the risk that shocks can have on trade.

Chart 7: Countries affected by new harmful interventions since 2009



Source: Global Trade Alert

Chart 8: Major implementors of new interventions since 2019



Source: Global Trade Alert

Conclusion

We see continued geopolitical shocks to be the largest risk to trade volumes in real dollar and tonnage terms globally as we only currently observe short-term interventions being implemented and their impact on global trade volumes to be minimal in the near-term. However, it is likely that we are entering a low trade growth environment and the risk of higher barriers to trade is increasing, evidenced by the tension between the United States and China. Continued actions looking to restrain free trade are a concern but without broader intervention growth, the largest risk remains technology specific decoupling that could cause damage to individual nations long term growth prospects.