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Speaker: Rebecca Freeman, Research Economist at the Bank of England
Moderator: Michael G. Plummer**,** Johns Hopkins University SAIS Europe, Italy

Unpacking Global Value Chain Trade in the Age of Covid-19
International Economics Series

The Bologna Institute for Policy Research (BIPR) hosted a virtual seminar on Unpacking Global Value Chain Trade amidst a global pandemic, hosted by Director Michael Plummer. Director Plummer set the scene by introducing Rebecca Freeman as an expert in the area, and emphasized that the views expressed during her presentation were her own and should not be attributable to the Bank of England.

Freeman begins by describing the evolution of global trade over the past few decades, originally consisting of the exchange of final goods among countries but increasingly composed of trade in intermediate inputs. Looking at data from the World Trade Organization, economists underscore the rising international flow of intermediate inputs, with regional hubs in China in Asia, as well as the United States in North America and Germany in Europe. What is the reasoning behind this shift? Freeman points to "key unbundlings", as described in Richard Baldwin's 2016 book, *The Great Convergence*. During the first unbundling, there were large improvements in international shipping, lowering the cost of moving goods between countries. The second key unbundling was in the 1990s when information communications technology (ICT) rapidly advanced, making it easier for countries to share not only goods but ideas such as the blueprint of an automobile.

To better understand global value chains, Freeman uses the example of a bike—highlighted in the 2020 Word Bank WDR—whose individual parts originate from all over the world according to their specific niche expertise but once assembled are branded as Italian, despite being in effect and international effort. Through this, she points out that production from various countries frequently rely on indirect trade, like Japanese brakes being placed on the bike then shipped to the UK. This indirect trade can represent a more important share of the total trade value than the direct trade component between two countries. Manufacturing production is more reliant on imported intermediate inputs as production processes have become more fragmented across borders. In terms of trade costs, as confirmed in the gravity model literature, bilateral distance is an obvious barrier to trade, but regional trading agreements can help to reduce costs especially in goods in which global value chains are important.

Addressing COVID-19 and its impact on global value chains, Freeman notes that the decline in exports this year is due decreased production in economies under lockdown but there has been also a significant decrease in imports due to lower rates of consumption. The global pandemic hit a highly interconnected global economy, vastly reducing manufacturing inputs and outputs; however, firms with existing supply chain links were better equipped to handle the shock of the virus. Freeman stresses the importance of firms' looking beyond a country or even a region to enhance productivity; putting up walls inside the global factory could hinder the health of the global economy. This is especially true, since the reliance among countries has drastically increased over the past decade. Protectionist approaches during the pandemic have been widely shown to be self-defeating in this highly interconnected economy, as they have the potential to break up intermediate trade in global value chains necessary for PPE exports. To conclude, Freeman restates the importance of global value chains, not only in terms of coordinating activity to produce vital supplies to fight the pandemic, but also in terms of aggregate, economy-wide outcomes and firm level gains overall.