VoxEU: Trade and growth in the age of global value chains

Amid global protectionist moves, there are many warnings about how a rise in trade barriers could weigh on growth. Here, **Carlo Altomonte, Laura Bonacorsi and Italo Colantone** for VoxEU look at the important role of deep-water ports as main hubs for trade and illustrate how becoming embedded in global value chains is a powerful determinant of growth

A deep water port in Singapore

The recent protectionist moves by President Trump and the Brexit negotiations have revamped the debate about the benefits of trade. Many observers are warning about the negative effects that a rise in trade barriers could have on growth, especially on the grounds that national economies have become deeply connected through global value chains (GVCs) (Blanchard 2017, de Gortari 2018, Dhingra et al. 2017, Head and Mayer 2016). Yet, we still know little about the growth implications of GVCs. Indeed, none of the available studies investigating the causal effect of international trade on growth focuses on this issue.

As production processes are sliced up across different countries through GVCs, the gross exports of any country embody an increasing share of foreign value added. Moreover, there is substantial double counting in trade figures, as intermediate inputs cross borders multiple times before consumption takes place. Finally, countries are different in the extent to which they participate in global value chains, and also in their positioning within them, i.e. from assembling to more upstream stages of the production chain. In a recent paper (Altomonte et al. 2018), we set out to investigate the implications of these phenomena for the trade-growth nexus.

You can read the full article here. Here is a key quote.

"We find that gross trade has a positive effect on GDP per capita, both in levels (with an elasticity of around 0.3) and in growth terms. We obtain similar results both when focusing on the 40 countries included in WIOD (2013 Release), for which gross exports can be decomposed thanks to the availability of harmonised input-output tables, and when enlarging the sample to all countries worldwide for which trade and GDP data are available. We also provide evidence on the microeconomic channels behind this effect, in terms of productivity growth and capital deepening. Specifically, we detect a positive effect of trade on both value added and capital per worker, not only at the country level but also at the industry level."

This article first appeared on VoxEU.