Protectionism Is Failing to Achieve Its Goals and Threatens the Future of Critical Industries

Since 1990, global trade has increased incomes by 24 percent worldwide, and by 50 percent for the poorest 40 percent of the population. This growth has lifted more than 1 billion people out of poverty. Trade has also played a pivotal role in shaping the global economy and promoting positive socioeconomic outcomes.

Today, however, protectionist measures are on the rise. And trade tensions and geopolitical challenges are raising concerns about the trajectory of globalization.

As a result, deglobalization—the process of reducing global economic interdependence—has been at the forefront of current policy discussions. At a recent Policy Research Talk, World Bank Research Manager Daria Taglioni discussed the fundamental transformations taking place in the global trading system and how they relate to patterns of industrial organization. Moves toward regionalization, reshoring, or other forms of deglobalization threaten the intertwined facets of the modern economy: economic complexity and interdependence. Preserving their benefits in terms of economic growth, poverty reduction, and technological innovation in the face of an increasingly fractured system of global economic governance presents one of the most challenging terrains for trade policy in decades.

“In trade discussions, regulators need to appreciate that specialization and scale characterize the modern economy,” said Taglioni. “The problem is not too much globalization, but excessively narrow regulation. It is more important than ever to come to a new consensus on a global set of rules that extend beyond trade, i.e. on taxes and competition policies, data flows, critical infrastructure, and security, that all countries can comply with and benefit from.”
Is the Global Economy Deglobalizing? And If So, Why? And What Is Next?
Pinelopi K. Goldberg and Tristan Reed, Policy Research Working Paper 10392, April 2023

Profound changes in the policy environment and public sentiment in the largest economies over the past five years suggest the beginning of a new era for globalization. Anxiety about the labor market effects of import competition from low-wage countries laid the groundwork for these arguments. Following this, the COVID pandemic provided new arguments against free trade based on global supply chain resilience. Then, Russia’s invasion of Ukraine raised new concerns about national security and the exposure of supply chains to geopolitical risk. This was followed by demands to diversify away from “non-friendly” countries. The future of globalization is now highly uncertain, but these new policies will likely slow global growth, innovation, and poverty reduction overall. No matter what form globalization takes in the future, great care will have to be taken to address its potential effects on within-country inequality in advanced economies, the risks associated with high import concentration in critical product markets, and national security concerns.

Also see: Cited on the Ezra Klein Show »

Massive Modularity: Understanding Industry Organization in the Digital Age — The Case of Mobile Phone Handsets

Digitization is transforming the organization and geography of industries. Once digitized, information can be generated, collected, stored, monitored, analyzed, and processed in ways not previously possible. This paper makes three contributions to the field of technology management and innovation, global value chains (GVCs), industry standards, and industrial policy in the post-“Washington Consensus” era: 1) it develops a broader view of modular and platform ecosystems; 2) it focuses on the multiplicity of standards that bind modular ecosystems together; and 3) it draws attention to the geographic and geopolitical implications of what it calls Massive Modular Ecosystems (MMEs). Finally, the analysis shared in the paper serves as a guide for research methodology. Given a policy focus on resolving the political tensions arising from MMEs, analysis of the geographic and ownership features of MMEs in a range of “critical” industries is urgently needed.

The US-China Trade War and Global Reallocations

In 2018 and 2019, the US and China engaged in a trade war. How did the US-China trade war, which ultimately covered approximately $450 billion in trade flows, affect global trade? Surprisingly, exports of products taxed by US or China increased from “bystander” countries to the rest of the world. The paper finds that countries whose exports substitute US or China are among the larger beneficiaries of the trade war. Export growth of products impacted by tariffs varied significantly across countries. This variation can be mostly explained by factors specific to each country, such as how sensitive their exports were to changes in tariffs, rather than differences in the types of products they specialized in. Rather than simply shifting trade across destinations, the trade war created trade opportunities.
Measuring Exposure to Risk in Global Value Chains

Alessandro Borin, Michele Mancini, and Daria Taglioni, Policy Research Working Paper 9785, September 2021

How exposed are countries and sectors to Global Value Chain (GVC) risks? This paper proposes a new comprehensive method to measure GVC participation using Inter-Country Input-Output (ICIO) linkages in both trade and output. Exposure to shocks is complex: in most countries and sectors, output is simultaneously exposed to supply and demand shocks. Deeper GVC integration decreases the exposure to domestic shocks and to shocks related to traditional trade, but it increases that to global shocks. Higher forward participation in GVCs is associated with a larger exposure to demand shocks originating downstream the production chain, while backward participation is associated with larger exposure to supply shocks originating upstream. In addition, countries and sectors more engaged in the intermediate stages of GVCs are exposed to both demand and supply shocks.

Trade, Internal Migration, and Human Capital: Who Gains from India's IT Boom?


New economic opportunities that arise from globalization are often accompanied by rising demand for different types of skills. Inequalities in local access to education and jobs, along with mobility frictions, make it costly for individuals in some regions to acquire education or pursue better job opportunities. In this paper, the researcher analyzes the effects of trade on welfare and inequality when education choice is endogenous and when there are mobility frictions to access both education and work. Without higher education choice, estimated aggregate welfare gains from the IT boom would be about a third as large, and estimated regional inequality would have been twice as large. Restricting individuals to go to college only in their home districts increases regional inequality by about 1.45 times. Thus, policy interventions in both the education and labor markets have the potential to reduce regional inequality as well as increase aggregate welfare.

Protectionism and Gender Inequality in Developing Countries


How do tariffs impact gender inequality? In this paper, the researchers examine the differential impacts of tariffs on earnings and cost of living of male and female-headed households. The findings indicate that female-headed households bear the brunt of tariffs and experience a greater negative impact. Among the 54 countries studied, protectionism has an anti-female real income bias and worsens gender income inequality in 42 countries. On average, tariffs lead to a 0.6 percentage point reduction in the real incomes of female-headed households compared to male-headed ones. This is because female-headed households derive a smaller share of their income from and spend a larger share of their budget on agricultural products, which are usually subject to high tariffs in developing countries. The anti-female bias is particularly strong in countries where female-headed households are underrepresented in agricultural production, depend more on remittances, and allocate a larger share of their budgets to food compared to male-headed households.
How Resilient Was Trade to COVID-19?

Maria Bas, Ana Margarida Fernandes, and Caroline Paunov, Economics Letters, 111080, April 2023 | Working Paper

Due to the sudden onset of the COVID-19 shock in early 2020, restrictions aimed at reducing virus spread resulted in substantial disruptions to trade. Relying on global monthly product-level exports to the United States, Japan, and 27 European Union countries from January 2018 to December 2021, this paper provides stylized facts on the short-run resilience of exports to the COVID-19 pandemic. The stylized facts are as follows. First, countries with higher COVID-19 incidence decrease more of their exports of products whose foreign supply is highly concentrated in a few countries or dominated by China. Second, countries with higher COVID-19 incidence increase their exports of products relying more on robots for production. Third, product characteristics played different roles mediating export responses at different stages of the COVID-19 crisis.

Beyond Trade: How Deep Trade Agreements Shape Non-Trade Outcomes

Edited by Ana Margarida Fernandes, Nadia Rocha, and Michele Ruta, CEPR-World Bank eBook, June 2023

In an increasingly tumultuous and fragmented global landscape, preferential trade agreements (PTAs) are emerging as a means to tackle social and environmental challenges and as potential blueprints for future global trade arrangements. PTAs have undergone significant transformation over the past fifty years, shifting from a focus on enhancing market access to increasingly include disciplines aimed at achieving non-trade objectives such as: promoting FDI, technology transfers, workers’ movements, but also improving labor conditions, environmental quality, and achieving other broader social goals. In this eBook, a group of leading economists investigates the economic rationale for including nontrade objectives in trade agreements and whether these disciplines achieve their intended goals. The evidence shows some successes, along with the limits of regulating non-trade policy areas in trade agreements, especially with regards to social outcomes.

The Economics of Deep Trade Agreements

Nadia Rocha, Michele Ruta, and Ana Margarida Fernandes, CEPR–World Bank eBook, June 2021 | Column | Data, Tool, and Analysis

The nature of international trade has changed significantly in recent years. While multilateral trade negotiations have suffered setbacks, bilateral and regional agreements have increased. Starting in the early 1990s, the number of preferential trade agreements (PTAs) has increased from 50 to more than 300 within three decades. This shift is redefining the complexities of international trade, as the growing number of regional agreements no longer focus predominantly or exclusively on trade, but affect a range of other policy areas, such as the international flows of investment and labor, and the protection of intellectual property rights and the environment. This growth in ‘deep trade agreements’ (DTAs) has raised important questions about their wider impact and influence on how countries transact, invest, work, and, ultimately, develop. As DTAs become increasingly widespread, fully understanding and accurately measuring their complex effects on a range of policy areas will be essential for policymakers and trade negotiations in the future. This eBook covers four main areas of analysis focusing on the economic impact of deep trade agreements, their political economy and institutional design, the role of DTAs in regulating border and behind-the-border measures, and nontrade issues in trade agreements.
UPCOMING EVENTS FROM THE DEVELOPMENT RESEARCH GROUP

- **September 21–22, 2023:** [5th World Bank/IFS/ODI Research Conference](#) | The Political Economy of Public Finances | London, UK
- **October 2–3, 2023:** [16th International Conference on Migration and Development](#) | Boston, MA
- **October 24–25, 2023:** [9th Annual IMF/World Bank/WTO Trade Research Conference](#) | Washington, DC
- **Fall 2023:** [Microeconomics Seminar Series](#) | Washington, DC and Online
- **Fall 2023:** [Macroeconomics, Trade, and Finance Seminar Series](#) | Washington, DC and Online

See more [events](#) | Sign up for event [email notifications](#).

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PUBLICATION HIGHLIGHT: THE SYRIAN REFUGEE LIFE STUDY

The world is now facing the highest levels of displacement in recorded history, with over 100 million people displaced globally. Protracted conflicts have become the norm, with 80% of affected people experiencing displacement for at least five years (UNHCR 2022). Host communities struggle under the increased strain on resources and many are unable to meet the growing needs of displaced communities. But understanding how to best allocate scarce resources and support vulnerable people is challenging given the lack of longitudinal data.

[Results Summary](#) | [Study Context & Design](#) | [Syrian Refugee Life Study: First Glance](#) | [More Research from Sandra Rozo](#)

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BLOGS

**Trade promotion organizations in times of crisis**

[Ana Fernandes, Arti Grover, Leonardo Iacovone, Yewon Choi, Marcelo Olarreaga](#) | Let’s Talk Development | July 28, 2023

“The COVID-19 pandemic was a major shock to the global economy. Global trade declined dramatically at the onset of the pandemic but bounced back sharply in 2020. The importance of outward-looking trade policies, which emphasize refraining from trade protectionism, is increasingly emphasized. Despite the key role that Trade Promotion Organizations (TPOs) play in promoting trade, as highlighted in a recent survey (2020), little is known about COVID-19’s impact on their activities. To address this gap, the World Bank carried out a survey of TPOs in 57 countries from Fall 2021 to Spring 2022 to better understand how they responded to COVID-19, as well as their work more broadly.”

[Read the blog](#)

**What can (or should) we expect from public works?**

[Emanuela Galasso, Kathleen Beegle](#) | Development Impact | July 25, 2023

Public employment programs have a long history as a counter-cyclical policy instrument to reach and protect the poor in times of crisis or during the lean season. Simply put (and perhaps this is World Bank-speak) public works have traditionally been about protection, and not promotion. In his review of the evidence from the early experience of guarantee schemes in South Asia that preceded the NGREGA program in India, Ravallion 1991 noted that “rural public works have had a long and generally successful
history as an instrument of seasonal stabilization and famine relief in India,” and that there is “ample evidence from South Asia that relief work can save the rural poor from potentially disastrous effects of a sudden contraction in real incomes from other sources”.

Read the blog

Six Questions with Morgan Hardy
David McKenzie | Development Impact | July 21, 2023
“Morgan Hardy is an Assistant Professor of Economics at NYU Abu Dhabi. She has extensively worked on firms and labor markets in sub-Saharan African countries, with a particular focus on Ghana.

1. When and how did you first get interested in development questions? What led you to end up spending so much research time in Hohoe, Ghana?
   I wasn’t really aware of development issues nor the possibility of a development research career until my early twenties. I grew up in a small rural town in upstate New York, where I had minimal exposure to subjects beyond math and English during public schooling.”

Read the blog

What works in getting students to take-up online education? System level interventions vs Teacher and Student-level nudges
David McKenzie | Development Impact | July 20, 2023
“The COVID-19 pandemic accelerated interest in scaling up interactive online education. However, the experience of many of the pre-pandemic massive open online courses (MOOCs) has been for very low course completion rates, with fewer than 10-20 percent of those starting completing courses. Online platforms like Coursera, edX and Khan academy use a mix of student-level reminders, reward badges, gamification, and other behavioral nudges to try to engage students. But perhaps these are less needed when we move from voluntary learners to making online education part of compulsory schooling, and student participation could also depend on the actions of teachers and system-level management by the Education Ministry.”

Read the blog

Mobile Phone Technology Could Expand Equitable Access to Financial Services in Ethiopia
Leora Klapper, Marlon Rolston Rawlins | African Can End Poverty | July 18, 2023
“Data from the Global Findex Database indicate that the percentage of adults with bank accounts in Ethiopia has more than doubled since 2014 to reach 46%. However, despite this growth, financial equity in the population has decreased. In particular, there are significant disparities in account ownership based on gender, income, and education. As of 2022, women are 16 percentage points less likely than men to have an account, while adults in the poorest 40% of households face a 20-percentage point income gap. Additionally, there is a substantial education gap of 41 percentage points among adults with a primary education or less.”

Read the blog

The heat is on: How high temperatures are impacting workers and the global economy
In July, the world experienced the hottest days and week on record, with extreme and dangerous heat occurring in the Southern and Southwestern United States, North Africa, Southern Europe, and India at the end of June. This follows a spring where Spain and North Africa set new records for high temperatures. These heat waves highlight that exposure to extreme temperatures will be one of the most widespread consequences of climate change, affecting billions of people around the world in the coming decades. The most severe heat will occur in some of the most populated parts of the world.

Seven ways to improve statistical power in your experiment without increasing n

“One of the more frequent sets of questions I receive about designing impact evaluations concerns what can be done to improve power with a relatively small n experiment (with similar questions also arising for prospective RDD, DiD etc studies). The number of experimental units n is often limited due to budget constraints, to capacity constraints of the implementing organization, or naturally limited by the number of villages eligible for a program or number of people or firms that apply. Here are some of my main thoughts/tips on approaches to try in order to improve statistical power.”

Opportunities and Challenges of Parenting Programs in FCV Settings

“We recently led a session on designing, implementing, and evaluating parenting programs in fragile, conflict, and violence affected (FCV) settings for a group of World Bank Early Learning Partnership (ELP) grantees. As the number of ongoing, mostly civil conflicts throughout the world steadily rises each year, operating in these settings is likely to become normative in the near future. Below we will summarize the discussions that took place during the session as well as the most important takeaways.”

Six Questions with Tavneet Suri

“Tavneet Suri is the Louis E. Seley Professor of Applied Economics and a Professor of Applied Economics at the MIT Sloan School of Management. She was until recently the editor-in-chief at VoxDev, and has worked extensively on issues around technology adoption and usage in sub-Saharan Africa.”

Curated Miscellanea: Interviews, Advice, Policy Debates, and Commonly Referred to Posts

“This set of links collects together some of the other various series we have done over the years which are not included in our curated links on technical topics and methodology, or in our curated posts on survey methods. It serves to collate some of the other material we find ourselves going back to look for, or that our readers request links to frequently. Last update July 24, 2023”
Survey methods — curated blogs
Florence Kondylis, David McKenzie | Development Impact | July 6, 2023

“This list is a companion to our curated list on technical topics. It puts together our posts on issues of measurement, survey design, sampling, survey checks, managing survey teams, reducing attrition, and all the behind-the-scenes work needed to get the data needed for impact evaluations. updated through July 6, 2023”

Read the blog

A Curated List of Our Postings on Technical Topics – Your One-Stop Shop for Methodology
Florence Kondylis, David McKenzie | Development Impact | June 29, 2023

“This is a curated list of our technical postings, to serve as a one-stop shop for your technical reading. I’ve focused here on our posts on methodological issues in impact evaluation – we also have a whole lot of posts on how to conduct surveys and measure certain concepts curated here. It is currently updated up to July 20, 2023”

Read the blog

Is it time for development economists to start considering the welfare of non-human animals?
Berk Özler | Development Impact | June 28, 2023

“In my last post, we proposed a welfare index that has desirable axiomatic properties but is also easy to understand and communicate. But that welfare index has a major shortcoming. You’re probably saying, yes, of course, that welfare index is income (or consumption) based and we all know that poverty (or wellbeing) is multidimensional in ways that cannot be captured by a money-metric index. And you would be right. But that’s not the major shortcoming I am thinking about…

That social welfare function, even if it were multi-dimensional, would be concerned only with the wellbeing of humans. But, we’re not alone in the world to experience wellbeing and suffering, or to have conscious experiences and preferences — see, for example, the Cambridge Declaration on Consciousness. If the goal is a better future with reduced suffering and for everyone to reach their potential and live good lives, shouldn’t we also include the wellbeing of non-human animals (animals from hereon for brevity) when we consider development policy?

Read the blog

Expanding the benefits of financial services
Leora Klapper, Saniya Ansar, Dorothe Singer | All About Finance | June 28, 2023

“Having a financial account is essential for adults to save, borrow, make payments, and manage unexpected expenses. However, financial products come with risks, especially for those with limited financial knowledge or living in countries with poor consumer protection systems. Inexperienced account owners are vulnerable to fraud, over-indebtedness, and misunderstandings about account terms and fee structures.

While increasing account ownership among unbanked individuals is a necessary first step towards expanding financial inclusion, it is not enough to ensure they benefit from financial access. They need to be able to use their accounts safely and to their benefit. Unfortunately, many unbanked and underbanked adults lack the education or exposure that gives them financial experience, making the benefits of financial access uncertain.”

Read the blog
The air pollution burden in Tbilisi, Georgia, is unequally distributed
Sebastian Molineus, Alan Fuchs Tarlovsky, Sandra Baquie, Patrick Behrer, Natsuko Kiso Nozaki | Eurasian Perspectives | June 26, 2023

“In Tbilisi, the capital of Georgia, air pollution levels exceed international standards, significantly surpassing other cities in the region. An innovative study conducted by the World Bank provides new evidence that air pollution adversely affects the health, labor productivity, and economic outcomes of Tbilisi’s residents. This research demonstrates that the impact of air pollution is not evenly distributed, with poorer and less-educated households more exposed to air pollution and having lower adaptive capacity. As such, the findings of our study emphasize the importance of considering socioeconomic impacts when designing pollution reduction policies. We also show that better knowledge of the effects of air pollution and access to monitoring devices as well as protective measures are likely to help households in Tbilisi take adaptive actions in the short-term.”

Read the blog

To read more of our blogs, see: Let's Talk Development | Development Impact | All About Finance
To read previous editions of the newsletter, see: Research Newsletter Archive

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