

Slowbalisation and International Trade

By Michele Tronconi

***Past President of Euratex
and Sistema Moda Italia***

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Starting Questions

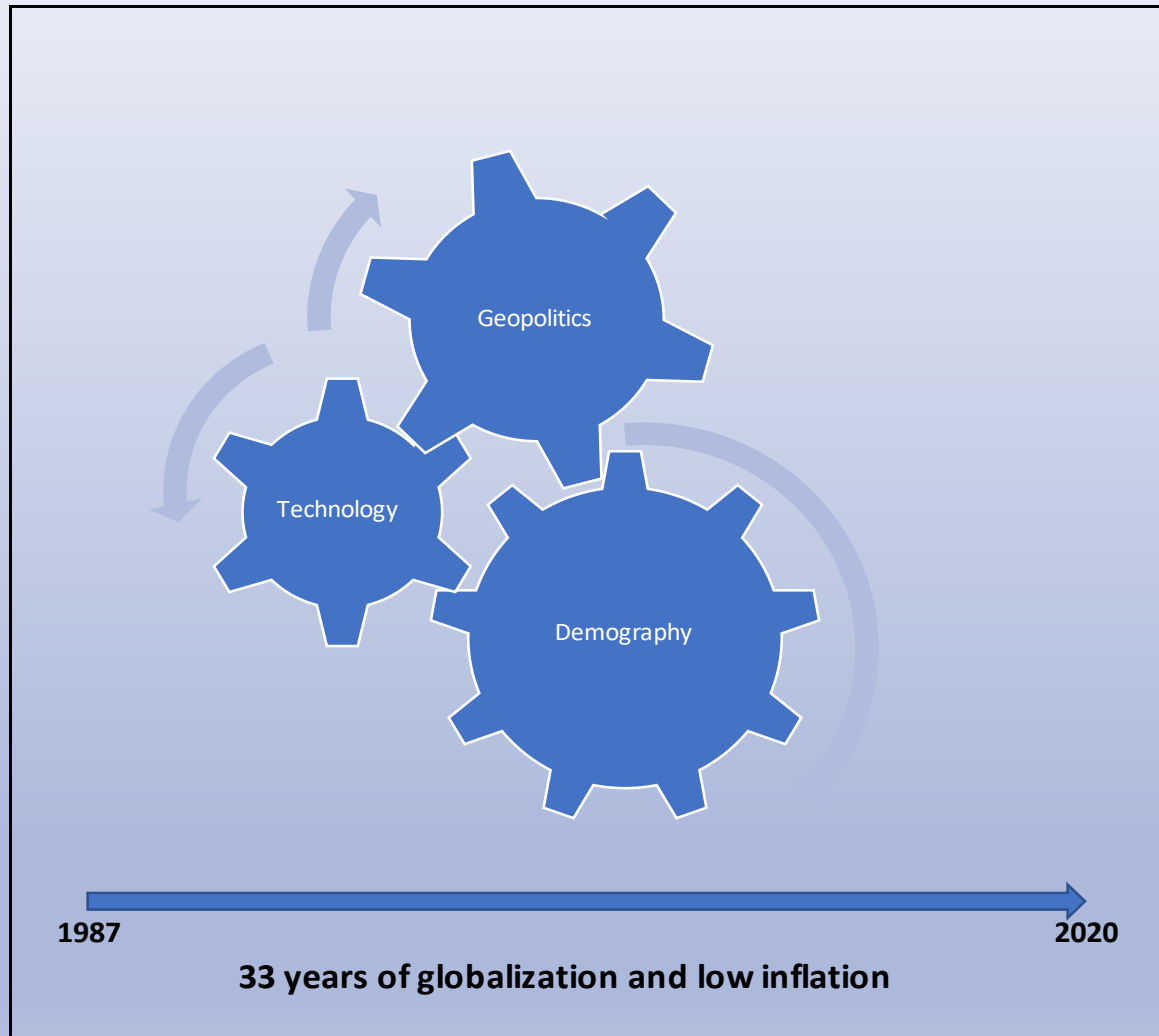
What is globalization?

Prices depends only by markets?

Are we facing de-globalization?

What's next?

Big drivers



What is Globalization?

If we consider the economic integration worldwide
Globalization is taking place if we can observe
commodity price convergence.

This happens if transport costs (*technology*)
and trade barriers (*politics*), like tariffs,
decline more and more.

Let's consider a stylized view of trade
between some home country
and the rest of the world.

International Trade

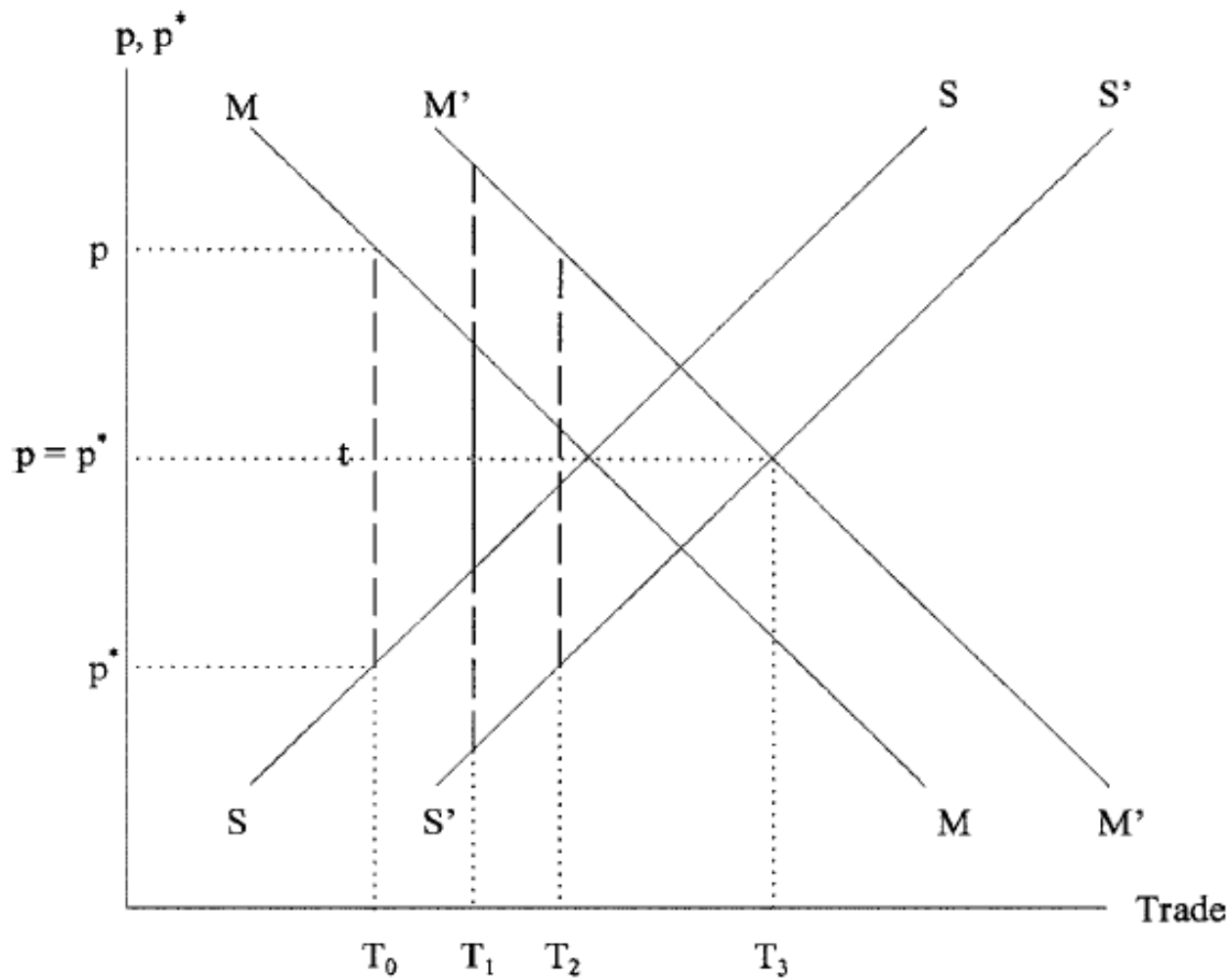


Figure 1. *Explaining the world trade boom.*

From O'Rourke and Williamson, 2000

A decline in the wedge

MM is the home import demand function
(domestic demand minus domestic supply);

SS is the foreign export supply function
(foreign supply minus foreign demand);

**Home market price (p) can be higher of the price abroad (p^*)
if there are obstacles to trade.**

In fact, **transport costs and protection (tariffs) drive a wedge (t)**
between export and import prices.

Globalization is generated and generate a decline in the wedge
so that prices tend to be the same at home and abroad.

Commodity price convergence move hand in hand with the
increase of trade volumes as a share of world production (GDP).

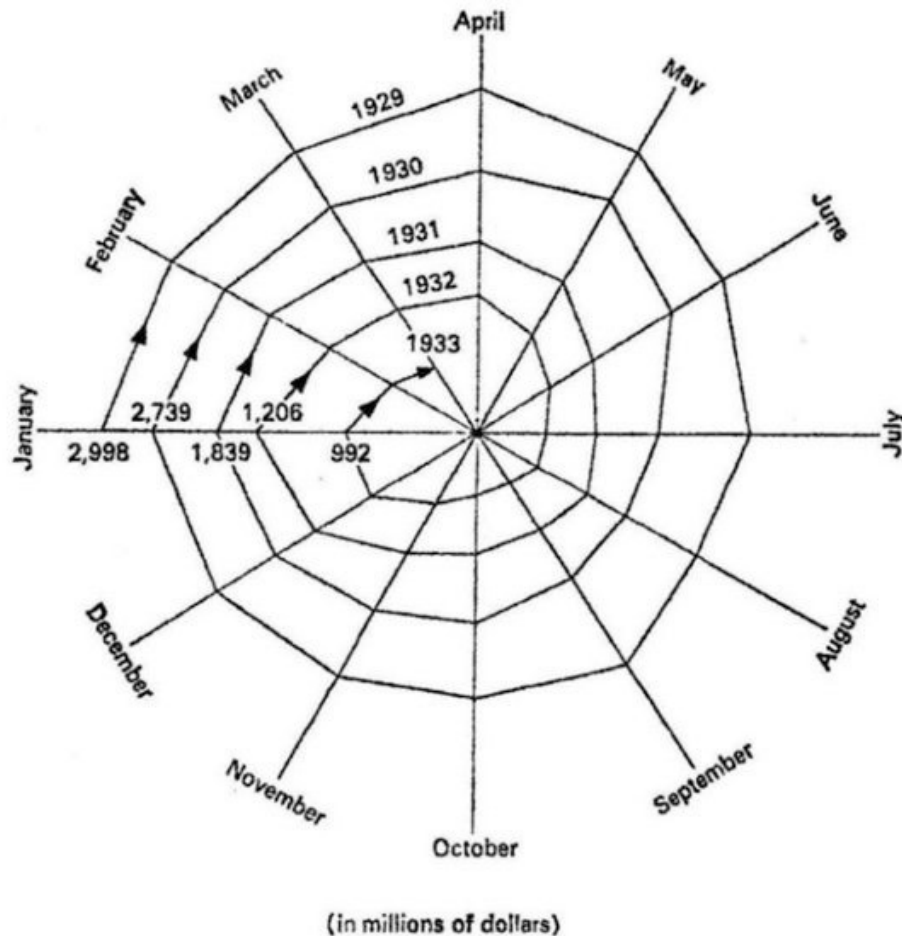
Two Globalization periods

Global merchandise trade as a share of world GDP (%)



War means stop trading

*The contracting spiral of world trade, January 1929–
March 1933: Total imports of 75 countries (monthly values in
terms of old U.S. gold dollars [millions]).*



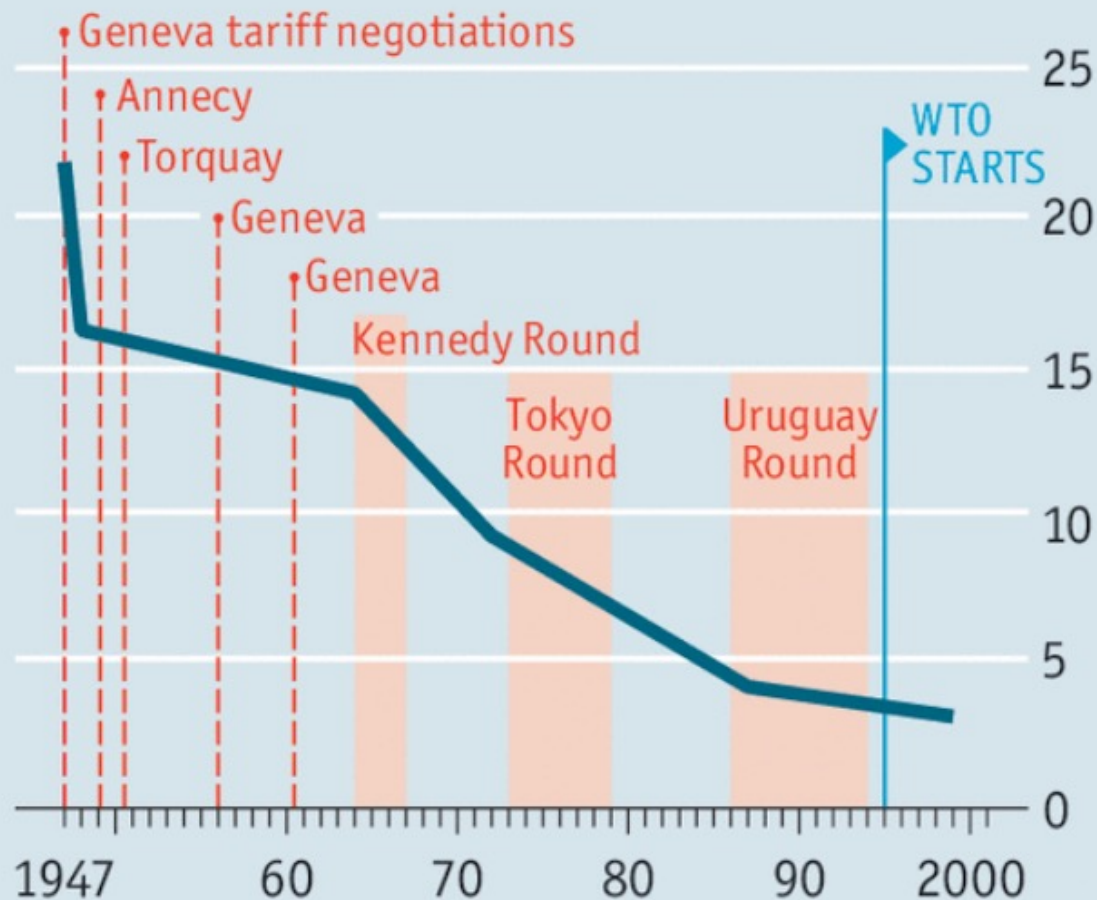
The wedge
became higher
and higher

Peace helps agreements

Fall of duty

2

GATT average tariff rates for US, EU and Japan, %



Source: Chad P. Bown and Douglas A. Irwin

Two kind of Globalization

We had two main periods of Globalization:

From 1820 to 1914 (pax Britannica)

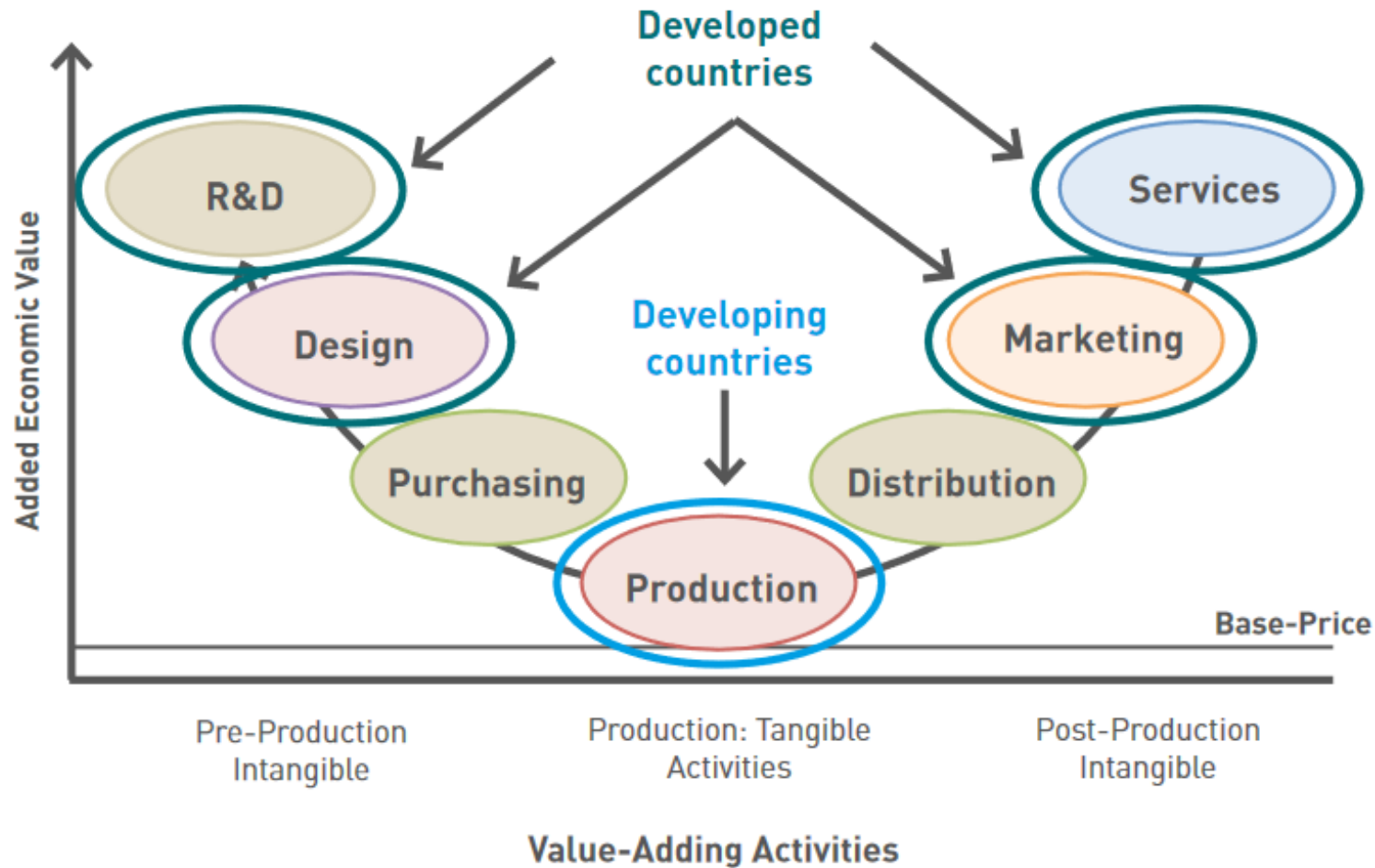
From 1945 to 2022 (pax Americana)

The second one was characterized by the *great unbundling* in the production process.

This fueled the *Global Value Chains* (GVC).

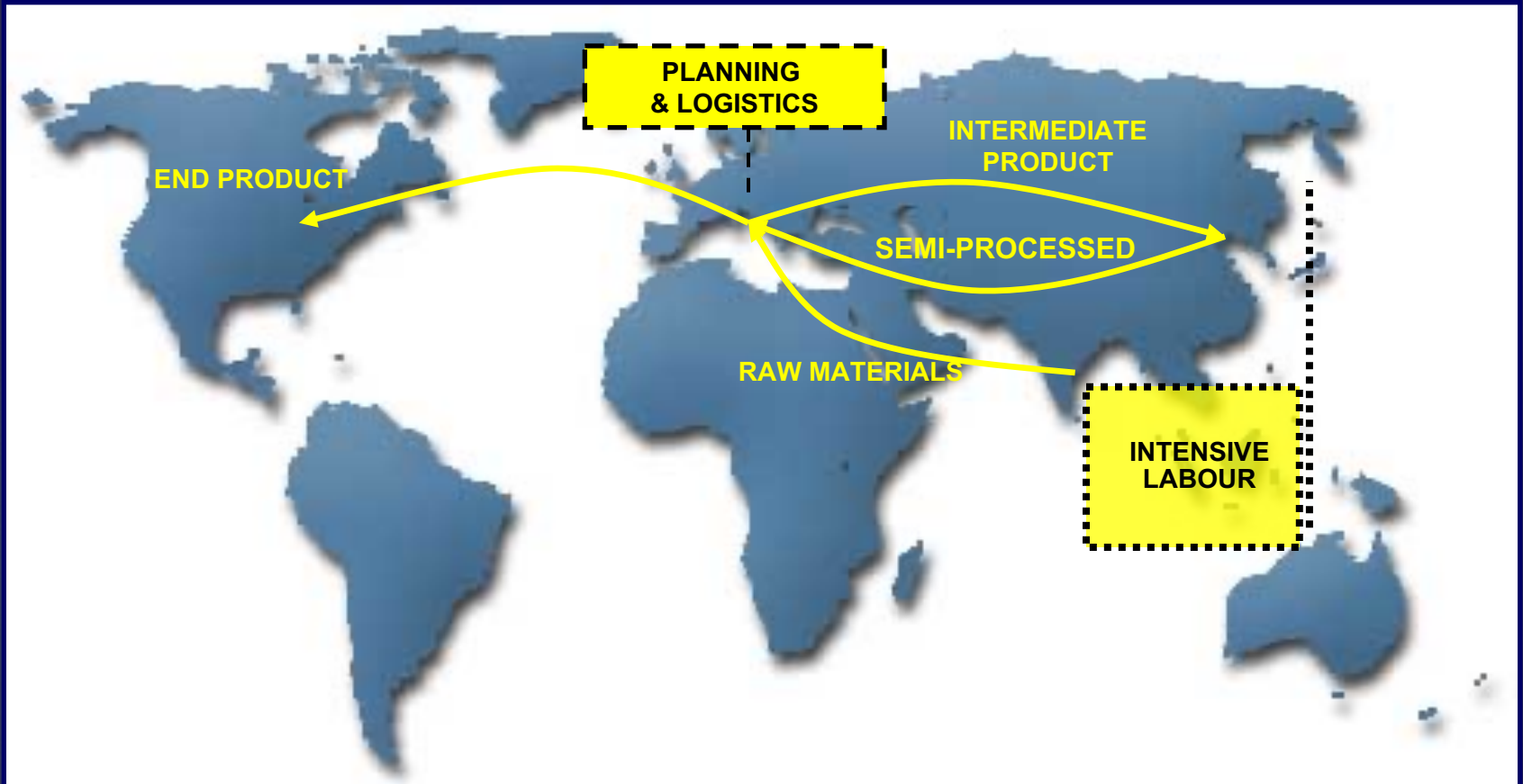


The great unbundling



The *smiling curve*. From: Gereffi G. and Fernandez-Stark K., 2016

From merchandise trade to task trade



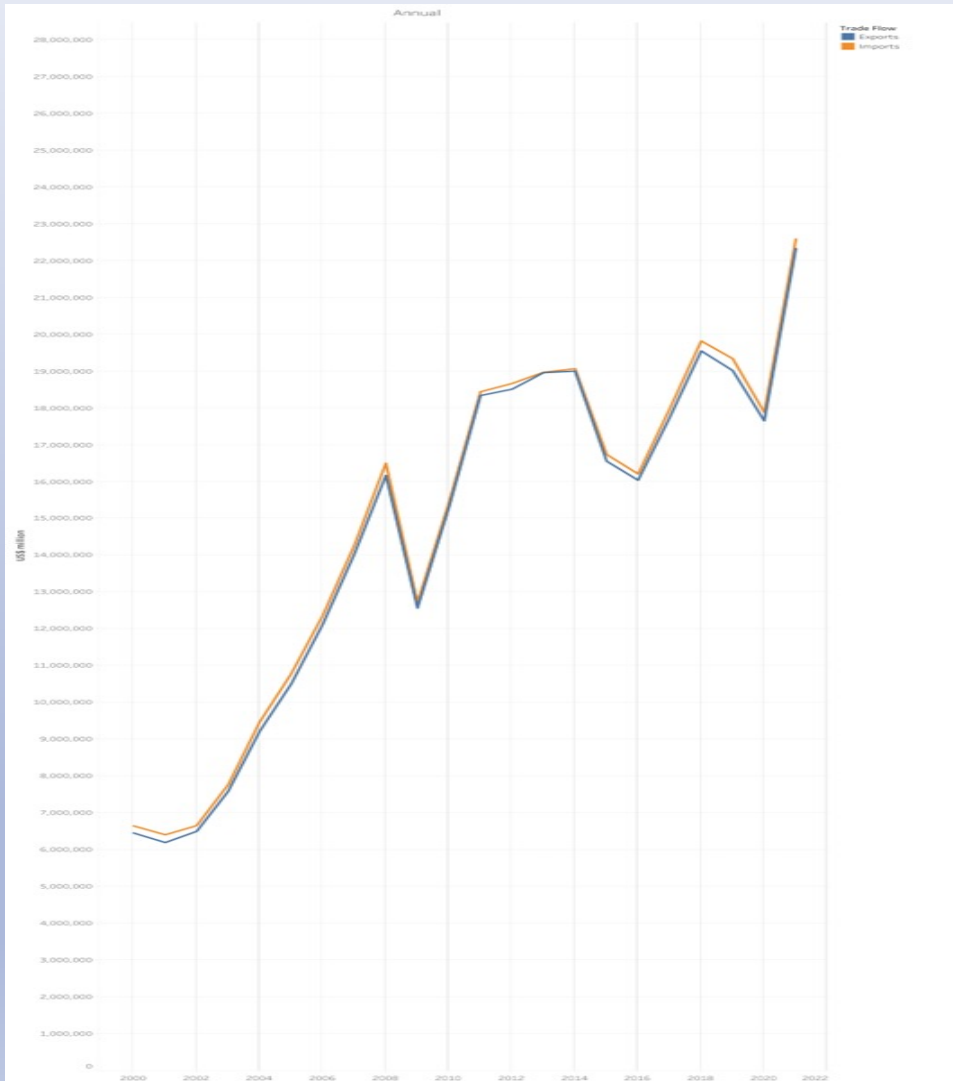
Again on the wedge

In any case
International Trade depends
on technology to lower transportation costs
and on politics
to reduce or eliminate tariffs (protectionism)
to fixing the rules (ie. WTO)
to enforce agreements and
facilitate foreign direct investments (FDI).

Globalization was possible because
one big country exerted his own egemony
first the *pax Britannica*
then the *pax Americana*.

When a big war erupted
globalisation reversed

Is this the case?



Great Recession,
Covid-19 then
Russia-Ukraine
war are due to
enlarge the
wedge?
Globalization and
Global Value
Chains are
ending?

In reality trade in
goods is up and
down until 2022,
as shown by WTO
stats on total
merchandise
values.

Change in Globalization

Many things were already changing before big adversities.

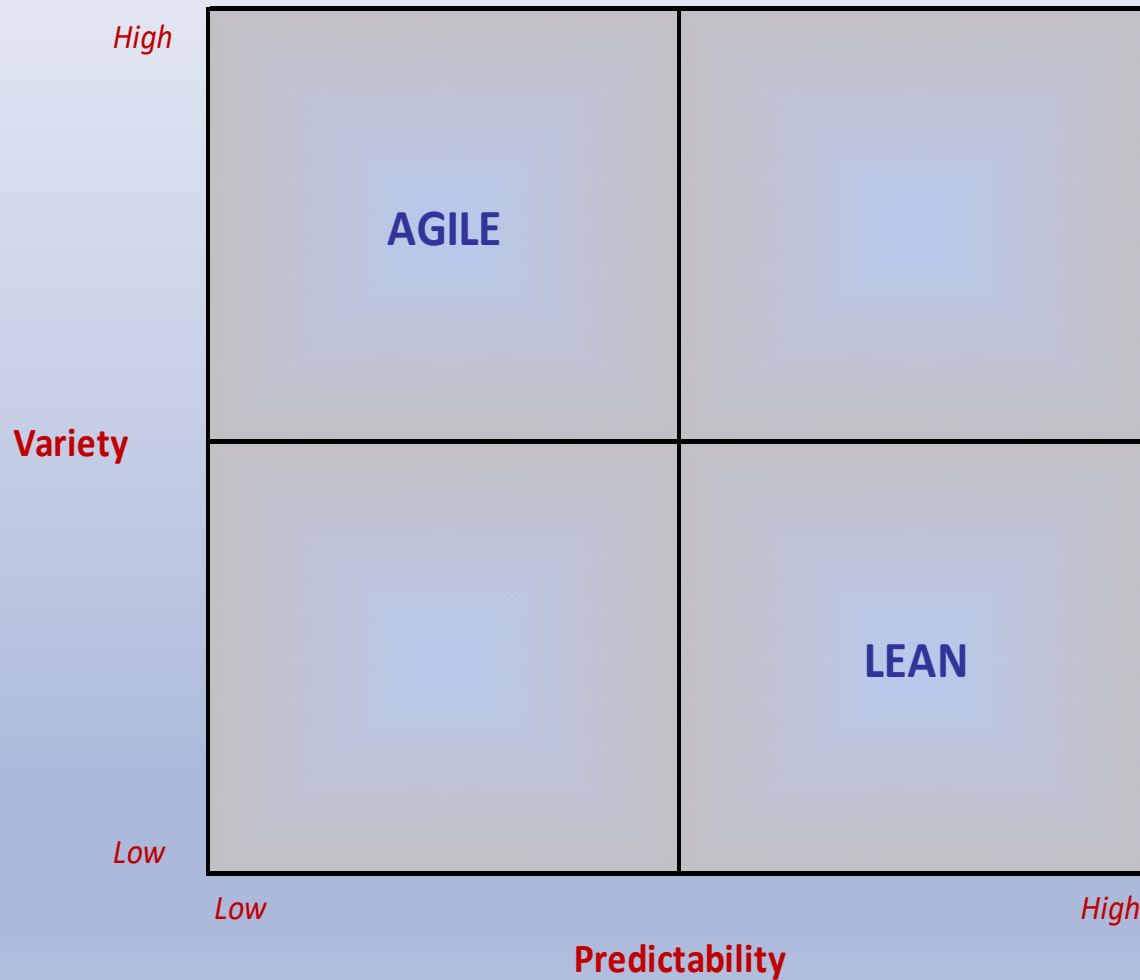
China peaks in trade in goods in 2006
succeeding in import substitution,
but also because is consuming more of what it
produces and exporting less.

Multinationals increased adaptation to external shocks
affecting regularly some part of the global value chain
building resilience, **changing the geography of trade**
(i.e. near-shoring and dual sourcing).

Just in case now surpass just in time.

Similar strategies were adopted
to face volatile demand and shorter lead-time.

Change in Globalization

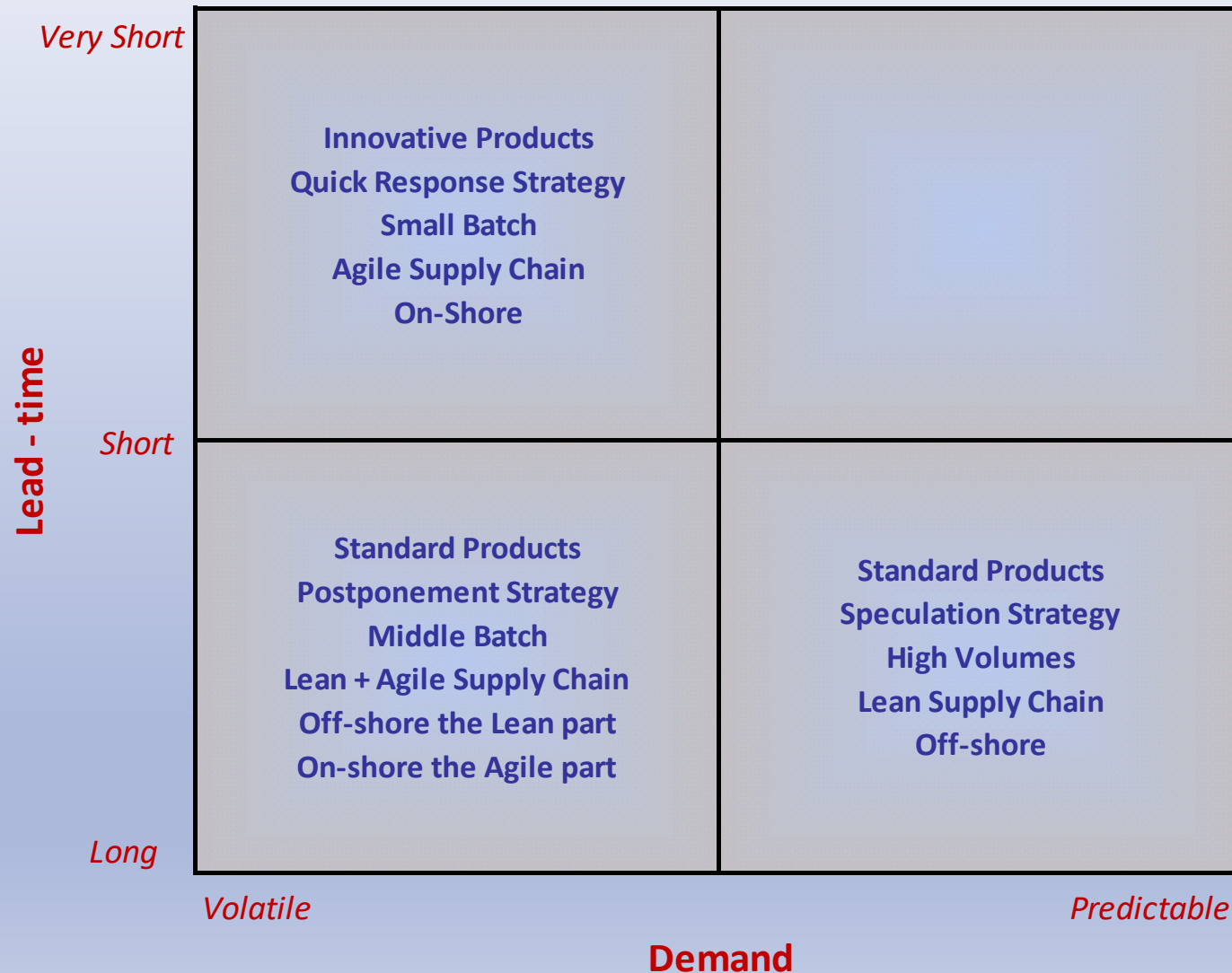


"Agility" is needed in environments where demand is volatile and the requirement for variety is high.

"Lean" works best in high volume, low variety and predictable environments.

"Supply chains compete, not companies"
(M. Christopher, 1992)

Change in Globalization



Change in Globalization

World remain an interconnected reality
with growing interdependence.

Like in the chaos theory assumptions, the flap of a butterfly's wing in the Amazon can cause a tornado in Texas.

Sustainability became a main purpose in every activity,
forcing to find local solutions to global problems
as well as to reduce any kind of pollution everywhere.

Sustainability is **the big new driver in restyling economic
Globalization**
even though 'greenwashing' and hypocrisy is mounting.

Global Value Chain are going to become more and more 'compact'.

The Fashion Business case

From the «EU Strategy for Sustainable and Circular Textile» COM(2022)

*In the EU, the **consumption of textiles**, most of which are imported, now accounts for the fourth highest **negative impact on the environment** and on climate change.*

The trends of using garments for ever shorter periods before throwing them away contribute the most to unsustainable patterns of overproduction and overconsumption.

*Such trend have become known as **fast fashion** which **is contributing** the most **to the inefficient use of non-renewable resources**.*

***Global Textile Value Chain** is also faced with social challenges, in part driven by pressures to minimize production costs to meet consumer demand for affordable products.*

The Fashion Business case

So there is a urgent need for the transition to sustainable and circular production.

*Producers must take responsibility for their products along the value chain, including when they become waste (**EPR – extended producer responsibility**).*

Then we need:

- a) More transparency through a **Digital Product Passport** just to inform the consumer where and how it was made;*
- b) To reverse the overproduction and overconsumption of clothing driving **fast fashion out of fashion**;*

The Fashion Business case

From "The State of Fashion 2023", McKinsey & Company Website

As the industry continues to grapple with its damaging environmental and social impact, consumers, regulators, and other stakeholders may increasingly scrutinize how brands communicate about their sustainability credentials.

If brands are to avoid greenwashing, they must show that they are making meaningful and credible change while abiding by emerging regulatory requirements.

The Fashion Business case

In the year ahead, macroeconomic and political uncertainties will continue to obstruct business operations and escalate reputational risk in Fashion as well as in other industry.

The **war in Ukraine** is of high concern to the industry, having already disrupted trade routes and triggered an **energy crisis** that will continue to have impact (**inflation**).

In China, further **COVID-19** outbreaks and the **real estate crisis** have undermined the region's growth trajectory, as well as **disrupted supply chains**.

Meanwhile, **extreme weather is negatively affecting supply chains** and raw materials **across Asia**.

Conclusions

Continued **disruptions in supply chains**
are a catalyst for a reconfiguration of global production.

Textile, as well other **manufacturers can create**
new supply chain models based
around vertical integration, nearshoring, and small-batch
production, enabled by enhanced digitization.

Globalization is really changing
but it is not disappearing,
let's call it Slowbalisation (from *The Economist*)
or in another way
remain the importance
of International Trade.

(But not forget demography!)



Thanks for your attention!