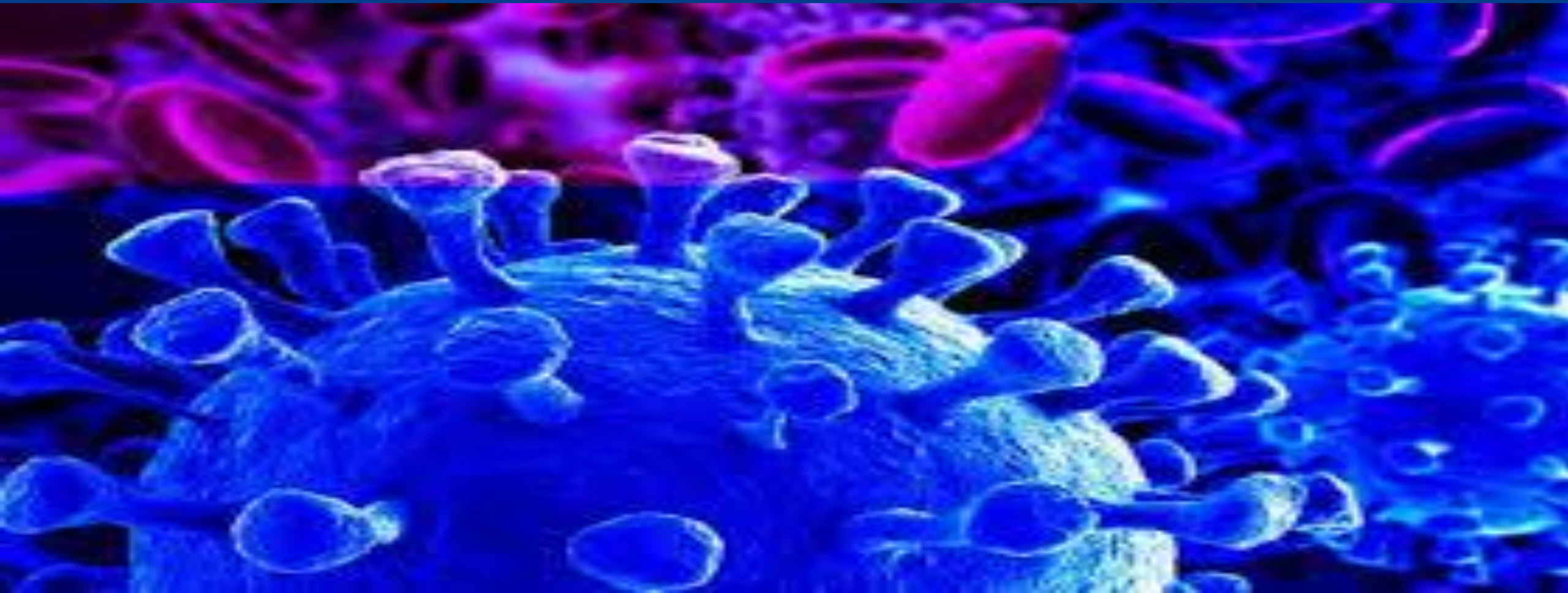


INTERNATIONAL TRADE & INVESTMENT: BEYOND THE PANDEMIC



European Bank
for Reconstruction and Development

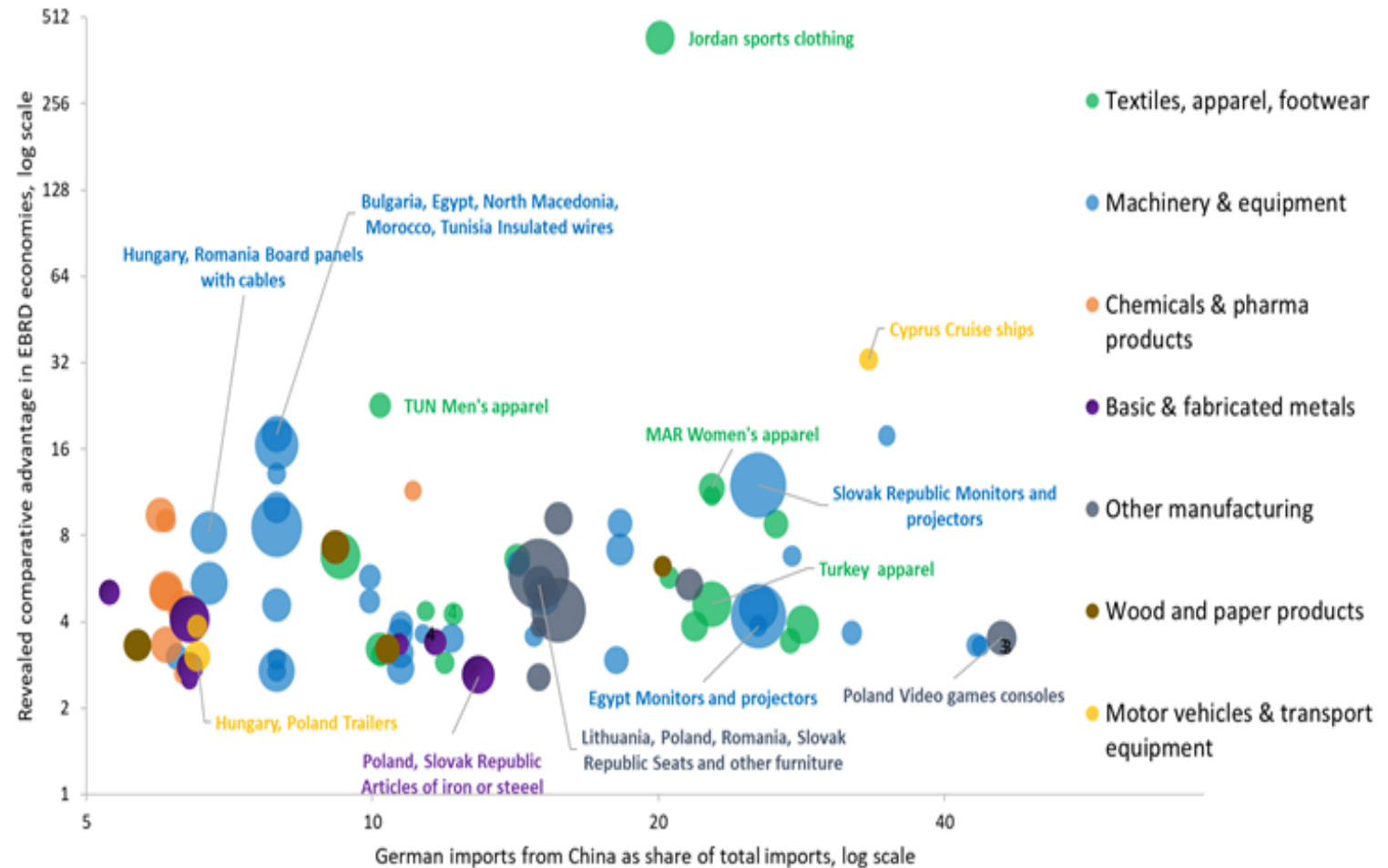
Beata Javorcik



Reshaping of GVCs

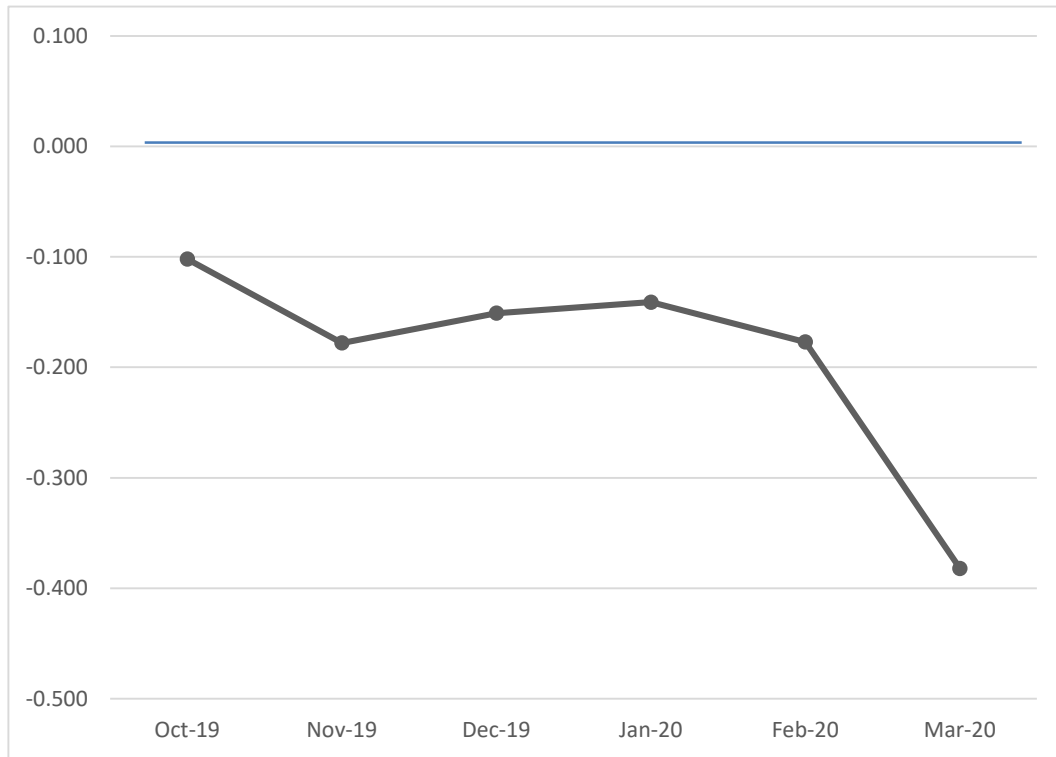
- COVID exposed **excessive concentration of suppliers** and **vulnerability to shocks**
- **Political pressure to reshore** motivated by self-sufficiency & economic nationalism
- Uncertainty about **trade policy**
- **Resilience vs. cost trade-off** as a counteracting force
- **Opportunity for less popular investment destinations**

Potential for near-shoring German imports from China

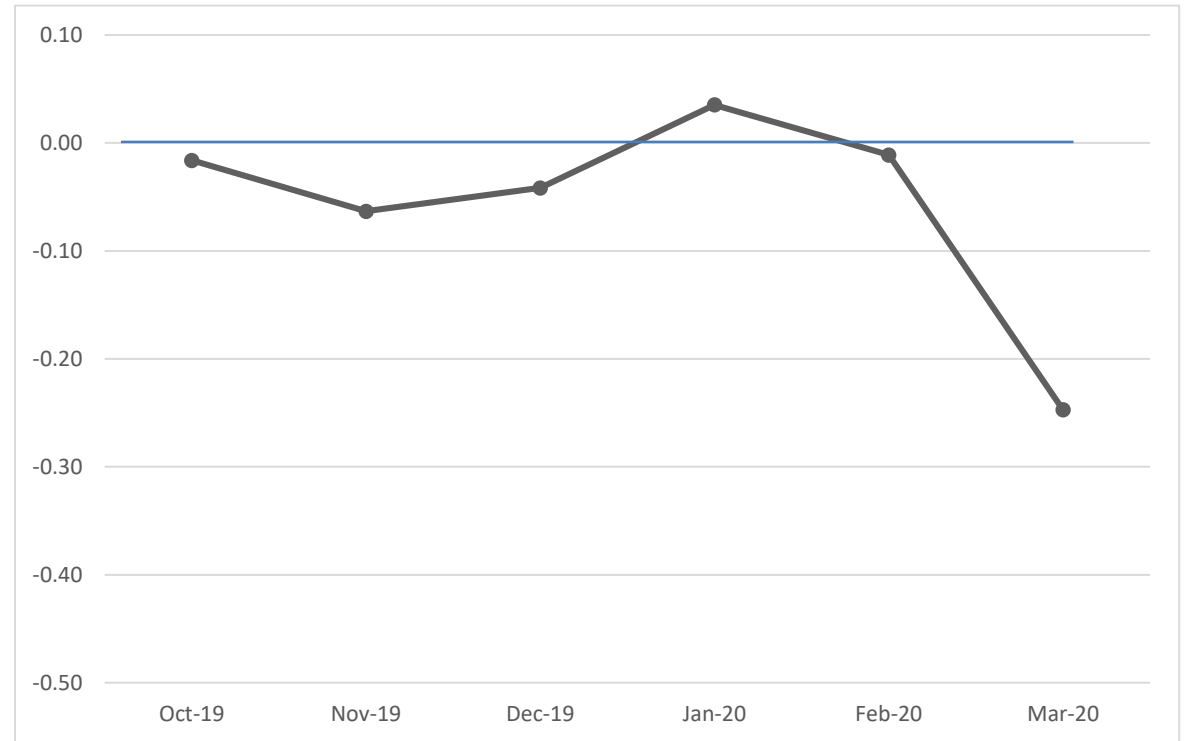


Exports drop in March 2020 relative to the historical average

France



Turkey

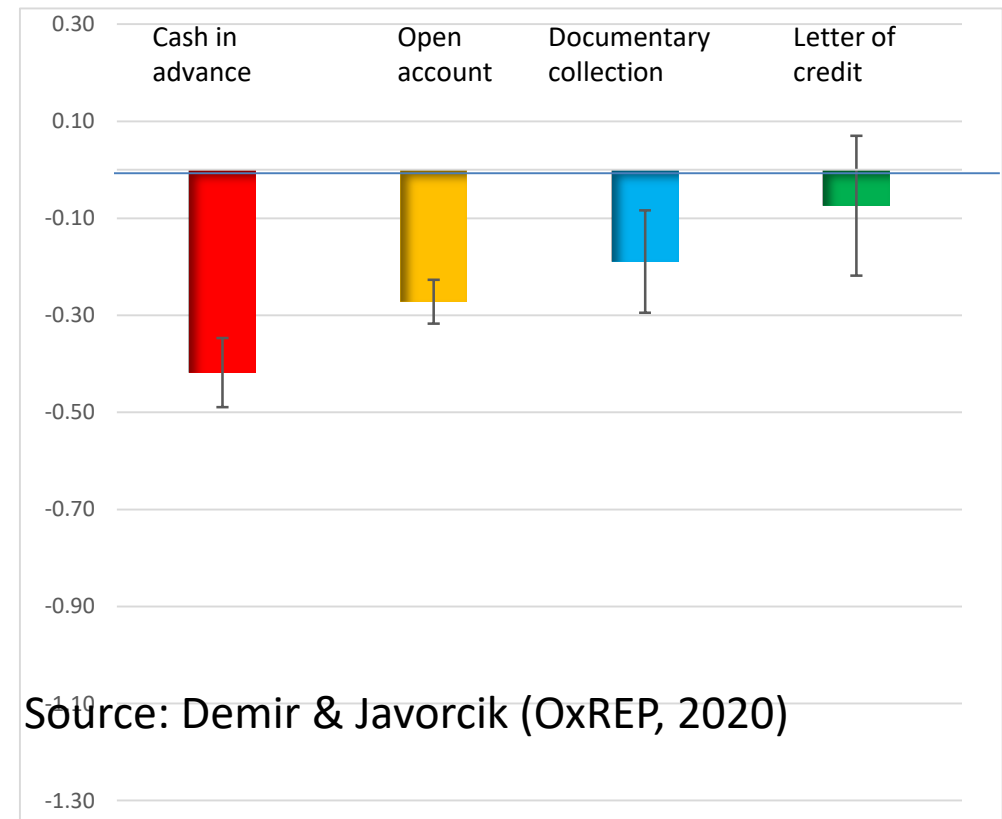


Source: Demir & Javorcik (OxREP, 2020)

Flows insured by trade finance instruments are more resilient

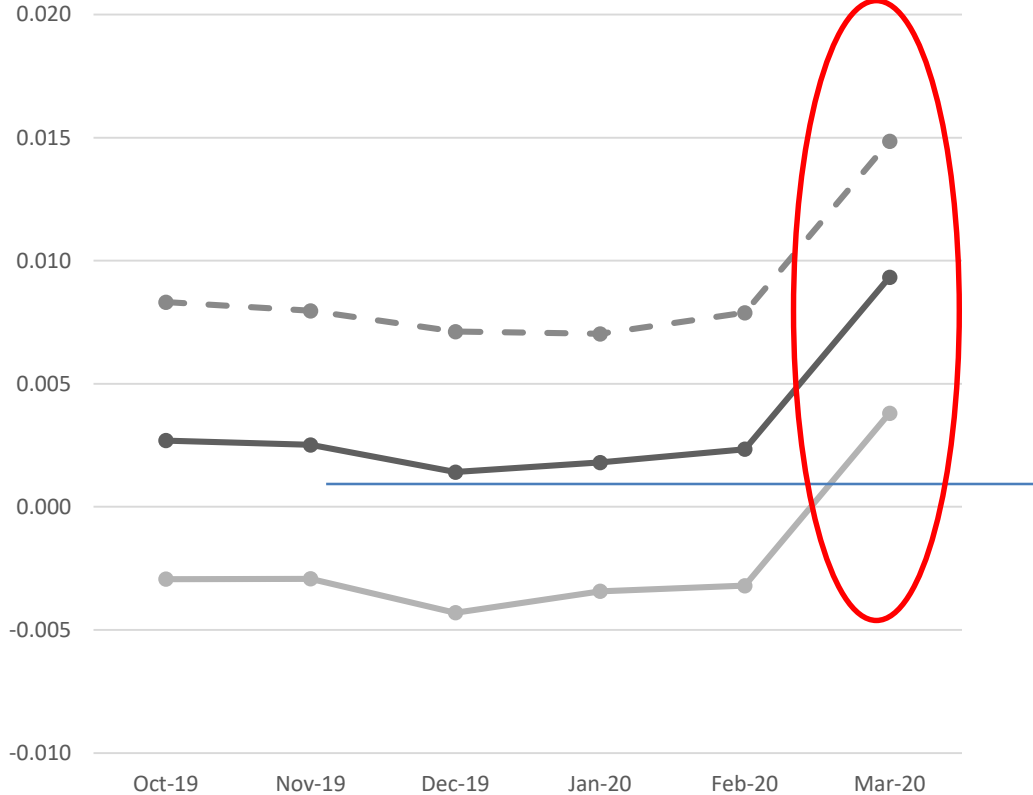
- In times of crises, uncertainty increases
 - Greater risk of **non-payment** or **non-delivery**
 - **More demand for insurance**
- **Insured flows** appear to have been **more resilient** so far
 - **Letters of credit** insure against non-payment and non-delivery
 - **Documentary collection** (using bank intermediation does not provide formal insurance but can help mitigate risks)

Change Turkish exports in March 2020 relative to historical average:
disaggregated by financing terms

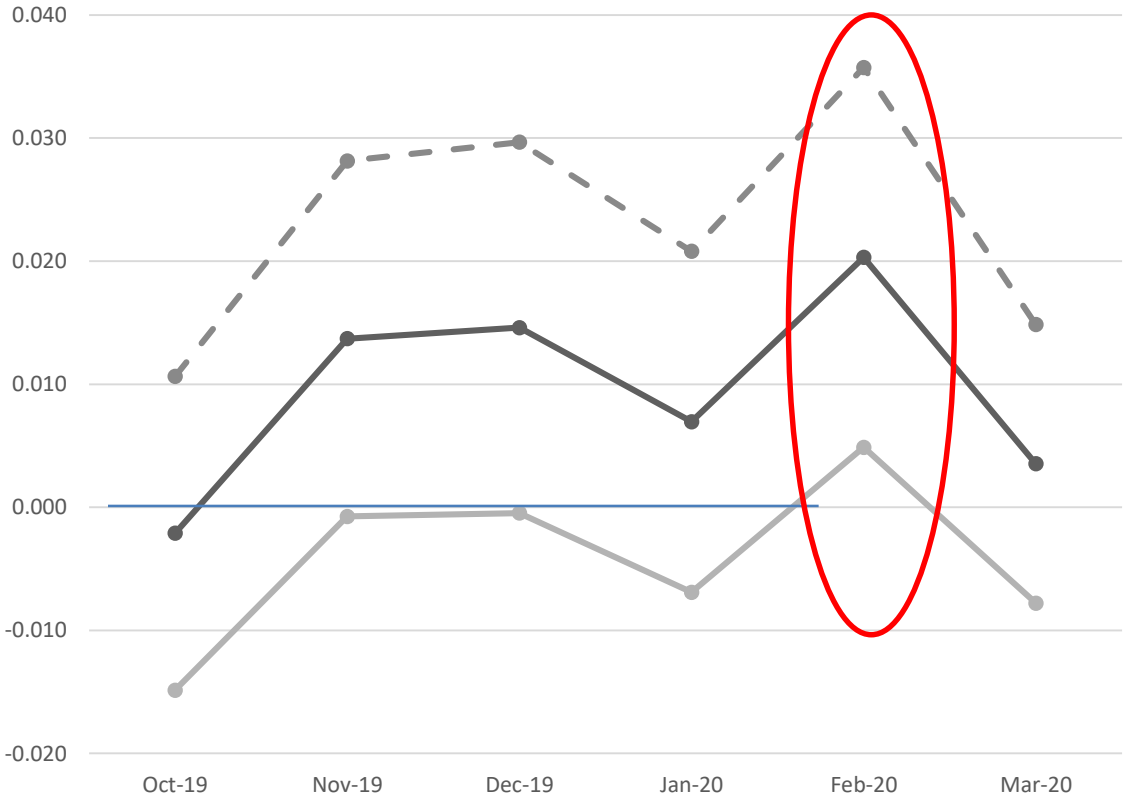


Share of LC-based exports in total exports

Exports to all destinations



Exports to China



Source: Demir & Javorcik (OxREP, 2020)

Trade Finance

- **Inability to insure trade responsible for 10% of the Great Trade Collapse in 2009** (Crozet, Demir & Javorcik, 2020)
- **Decline in trade finance availability in emerging markets**
- **Intra-firm trade more resilient** to crises than arms-length trade (Crozet, Demir & Javorcik, 2020)
 - => **Gives advantage to multinational firms**

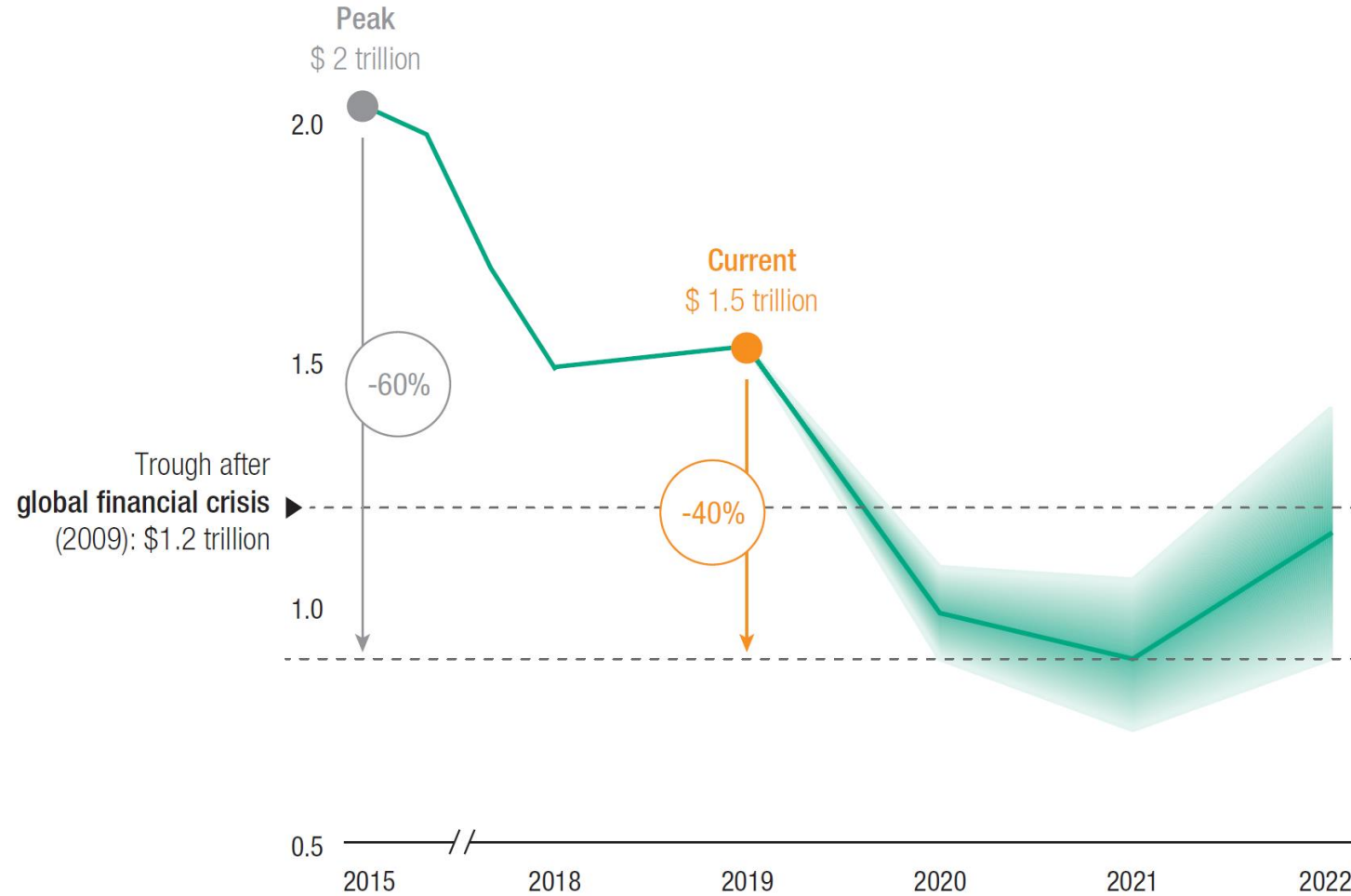


Will remote work enable exports of services?

- Remote working is here to stay
- Why not go a step further and hire foreign workers?
- Limitations
 - Times zones
 - Data protection
 - Travel restrictions
- **Opportunity for countries with inexpensive skilled labour to export services**



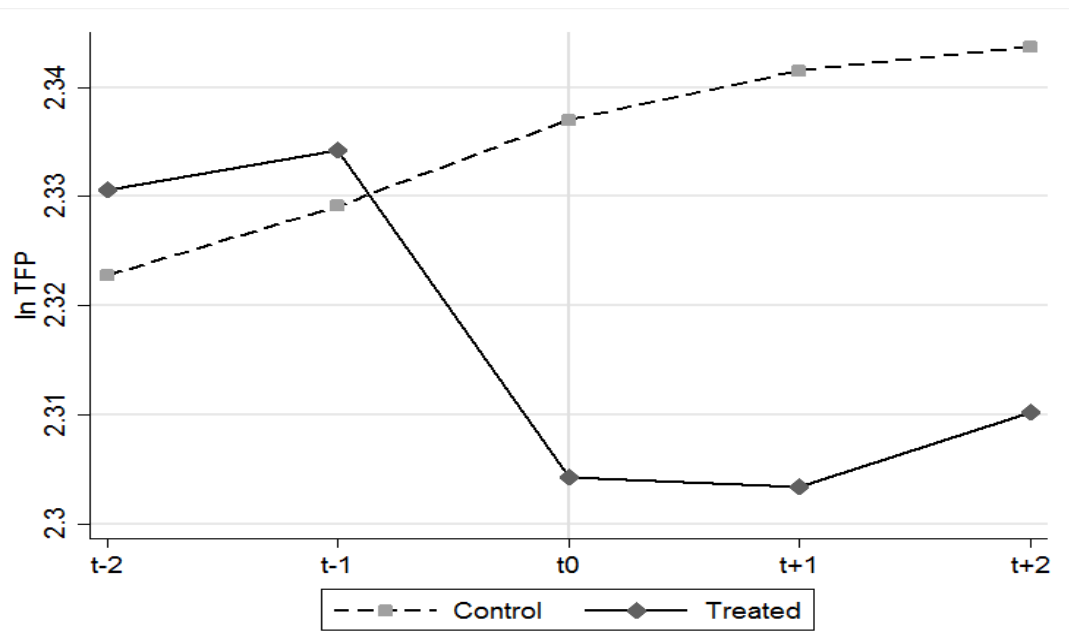
Expected retrenchment of FDI flows



Source: UNCTAD.

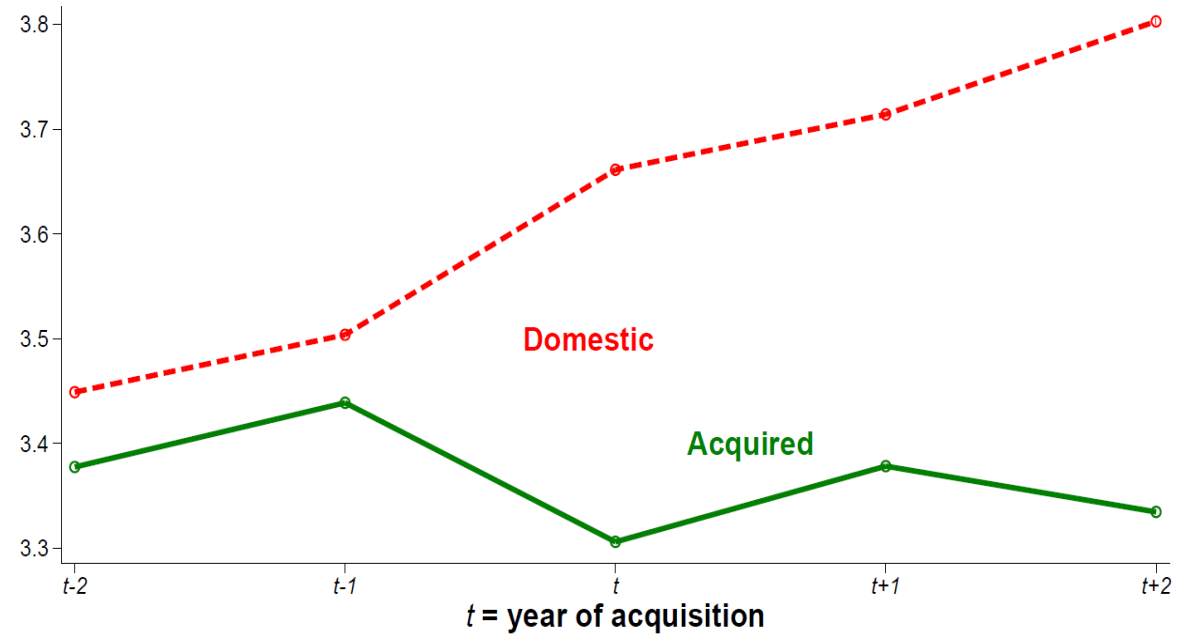
Implication of FDI retrenchment

Foreign divestment & TFP



Javorcik & Poelhekke (JEEA, 2017)

Foreign acquisitions & CO₂ emissions/output



Brucal, Javorcik & Love (JIE, 2019)

Conclusions

- **Reshaping of globalisation:** fewer goods but more services traded
- **Lower supply of trade finance:** less resilience & growing advantage of MNCs over local firms
- **Lower FDI flows:** slower growth & green transition