**Research chair project « Globalization : the new deal »**

The Paris School of Economics (PSE), Europe's leading economics centre, ranked 5th in the world after Harvard, MIT, Berkeley and Chicago (https://ideas.repec.org/top/top.econdept.html), has decided to **launch an exclusive programme of high-level research chairs** on major societal issues, in partnership with companies and public institutions.

The "**Globalisation: the new deal**" chair focuses on the new context that has emerged since 2008 when **globalisation reached an unprecedented level** after 30 years of hyper-growth. This period of hyperglobalisation is the result of a combination of a rapid reduction in **transport costs** made possible by technological changes (containerisation, internet) and the **economic and commercial liberalisation** of developing countries in a **calmer international context**. These developments have radically changed the way goods are produced by reinforcing the so-called **fragmentation of value chains**, i.e. the production of final consumer goods is carried out in the form of production chains, with stages that are fragmented and take place in different countries. Since the global financial crisis of 2008, the expansion of value chains has come to a standstill, while trade is hardly growing at all, or at least less quickly than production.

Both technological and policy developments explain this **de-globalisation trend**, which was further reinforced by the **COVID-19** pandemic. First, technological progress has clearly worked in favour of globalisation by reducing the cost of transporting a good internationally more quickly than the cost of producing it. **New technologies (robotisation, 3D printing)** are now appearing and seem to reduce production costs more than proportionally and encourage companies to "**relocate**" their production from developing economies to advanced countries. Secondly, the process of trade liberalisation, particularly within the multilateral framework of the WTO, has stalled, while **non-tariff barriers** justified on health or environmental grounds are increasing. Last but not least, a number of countries are adopting policies that move away from trade liberalisation and contribute to the return of **protectionist measures.** This includes climate measures, such as the European **carbon border adjustment mechanism** to ensure a level playing field in trade between jurisdictions that differ in their ambitions to reduce greenhouse gas emissions. Renewed protectionism is also due to the strengthening of **strategic rivalries between countries that are highly integrated commercially**, but whose economic and political systems differ substantially and in a lasting way. In such a context of renewed trade wars, trade interdependence is seen more as a **source of vulnerability** than as a guarantee of **mutual gains**. Whether in the United States, Europe or China, the focus is on **decoupling** and the adoption of policies to promote **security of supply** and reduce to exposure to the risks posed by certain countries.

Developments in **China** illustrate the new challenges facing international companies. The objectives of **self-sufficiency and technological domination** energetically defended by the Chinese authorities carry new risks. Another challenge posed by the resurgence of **Chinese nationalism** is the requirement for foreign companies wishing to do business in China to be ideologically aligned, with the risk that this may not be compatible with consumer expectations elsewhere.

The ambition of the Chair is to identify the **causal forces at work** behind the new deal of globalisation as well as the **implications** for the different stakeholders (firms, workers, territories, states). The interest is to better **anticipate the contours** of the current reconfiguration and the new challenges it creates. It is essential for companies and public authorities to project themselves into this new situation with a **mapping of the different risk scenarios** (political, economic or technological). The objective is to identify the **vulnerabilities** that these risks imply in order to define **effective strategies according to the objectives (productive efficiency, technological leadership, economic resilience, well-being, environmental and social sustainability)**. The Chair will highlight the existing **trade-offs** between the different objectives: for example, the increase in vulnerability is the counterpart of the efficiency gains allowed by the international fragmentation of the productive process, so that a relocation policy has a cost for producers (and consumers) that must be quantified to guarantee the **effectiveness** of such a measure.

The approach favoured by this Chair is **empirical**. It is characterised by the use of advanced econometric techniques and the exploitation of **varied databases** combining firm-level data, country data and also newer sources from the media, NGOs or container ship tracking. The value of **highly disaggregated data** (particularly at the firm level) for conducting **quantitative assessments** is twofold. On the one hand, a company can adjust not only quantities and prices for a pre-existing flow but can also stop or initiate it and, above all, can change the product mix or partner mix. Analysing only aggregate trade flows (at the country level for example) does not make it possible to identify these **different margins of adjustment (entry, exit, price, volume)**. On the other hand, it is essential to take into account the heterogeneity of firms and its role in the adjustment and propagation of shocks. While large firms appear to be more resilient, their importance in a sector or a country contributes to amplifying local shocks and creating "snowball" effects. The "**granularity**" of the economy, i.e. the fact that certain activities are carried out by a few large companies, tends to amplify the vulnerability of globalised production modes to local shocks, as was highlighted by the COVID-19 pandemic.

The issues to be addressed by the “Globalisation” Chair are numerous. They include, among others, the **ex-ante reflection** on and **ex-post evaluation** of the effectiveness of strategies to reduce **vulnerability to shocks and dependence on foreign countries**, notably by **diversifying sources of supply**, limiting the fragmentation of value chains and **strengthening competitive advantages and innovation**. The analysis will focus on the policies pursued at **state level** but also on the various **initiatives taken by firms**. One question of interest is the consequences of a "climate club" as proposed by William Nordhaus, which would penalise exports from countries that do not take part in (or respect) climate agreements and whose companies can be seen as "**free riders**". The challenge for international companies that are highly integrated into global value chains goes beyond that posed by tariff barriers and includes non-tariff barriers as well as issues of responsibility for the **environmental and social practices of their suppliers or customers**. The growing role of **social media and citizens' initiatives** for a sustainable and ethical world reinforces the problem of **transparency** that multinationals are facing in their supply chains. In France in particular, where a law in 2017 imposes a "duty of vigilance", companies engaged internationally face increased risks of sanctions and damage to their **brand image**.

The proposed research chair will be led by Sandra Poncet, professor at the University of Paris 1-Panthéon Sorbonne and at PSE and associate researcher at CEPII. Her research focuses mainly on the determinants of the export performance of companies, particularly French and Chinese, and on the process of internationalisation and upgrading in China.

The Chair will benefit from the expertise of internationally recognized PSE researchers in these fields. The team as a whole will constitute a place of expertise on the issues raised by the new dynamics of international trade. It will be progressively enlarged to include other researchers thanks to the creation of the Chair.

**Research Team PSE**

• Anne-Célia Disdier, PSE Professor, Research Director INRAE. Trade Policy, Border inspections, standards, product quality.

• Lionel Fontagné, PSE Chaired Professor, Professor Université Paris 1 Panthéon-Sorbonne, Scientific advisor CEPII. Carbon Footprint, Trade elasticities, Global value chains, Firms.

• Pamina Koenig, PSE Affiliate Researcher, Professor Université de Rouen. Globalisation and firm sourcing choices, NGOs.

• Hélène Ollivier, PSE Professor, Research Fellow CNRS. link between trade liberalization and the environment, in a world where countries do not fully cooperate on environmental issues, and to political economy constraints on (environmental) policies.

• Mathieu Parenti, Université Libre de Bruxelles, Research fellow at ECARES, International Trade and Trade Policy, Industrial Organization.

• Sandra Poncet, PSE Professor, Professor Université Paris 1 Panthéon-Sorbonne. Firm export performance, China’s international integration.

• Ariell Reshef, PSE Professor, Directeur de recherche CNRS, CES-Centre d'Economie de la Sorbonne. Global value chains, Manufacturing Exports and Development, Margins of Trade, dependency on China.