Towards regionalization? Assessing its effects on foreign shock exposure and welfare

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The COVID-19-related supply disruptions catapulted the issue of risk in global supply chains (GSCs) to the top of policy agendas. Quite a few policy proposals stress that making GSCs shorter and more domestic can reduce the exposure to foreign supply shocks. It brings a narrative that globalization is withering but regionalization and nationalism are rising. But is this trend good? Can making GSCs more regional and national reduce a countryâ€™s exposure to foreign supply shocks? How will regionalization change a countryâ€™s trade and welfare? In this paper, we use a quantitative trade model to simulate the effects of regionalization. We distinguish three regions (North America, Europe, and Asia) and define regionalization as increasing barriers to inter-regional trade but decreasing intra-regional trade barriers. In our simulation, we use the most recent global multi-regional inputâ€“output (GMRIO) tables from the Organization for Economic Co-operation and Development (OECD) and tariff data from World Integrated Trade Solution (WITS) software. Our results show that regionalization reduce countriesâ€™ exposures to foreign supply shocks on average, but the welfare losses for most countries far exceed the benefits from the lower foreign exposure. This paper is among the first to ex ante evaluate the economic effects of a potential regionalization using a global input-output framework. It provides important policy implications for international trade and GSC governance.