



GLOBALIZATION: RECENT TRAITS AND CHALLENGES

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Abstract:	This special issue gathers together twelve papers that revisit a range of core topics in the field of international economics. These papers were presented at the XIX Conference on International Economics (CIE) held in Vila-Real (Spain) on 28th-29th June 2018. The Conference was co-organized by researchers from the Spanish Association of International Economics and Finance (AEEFI) and the Institute of International Economics (IEI). The selected papers are stimulating pieces that shed new light on recent trends in globalization as well as some of the main challenges that need to be faced in the presence of the multiple yield curves that emerged after the credit crunch. The CIE also included two keynote lectures by Laura Alfaro (Harvard Business School) and Gabriel Quirós (IMF) as well as 64 selected contributions.

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This special issue gathers together twelve papers that revisit a range of core topics in the field of international economics. These papers were presented at the XIX Conference on International Economics (CIE) held in Vila-Real (Spain) on 28th-29th June 2018. The Conference was co-organized by researchers from the Spanish Association of International Economics and Finance (AEEFI) and the Institute of International Economics (IEI). The selected papers are stimulating pieces that shed new light on recent trends in globalization as well as some of the main challenges that need to be faced in the presence of the multiple yield curves that emerged after the credit crunch. The CIE also included two keynote lectures by Laura Alfaro (Harvard Business School) and Gabriel Quirós (IMF) as well as 64 selected contributions.

This issue is focused on key concerns in the recent international context, such as the determinants and effects of capital flows (both in terms of Foreign Direct Investment (FDI) and Mergers and Acquisitions (M&As)), or Multinational Enterprises (MNEs) relocating their productive activities. This last phenomenon has brought the concept of Global Value Chains (GVCs) to the fore. Moreover, the significant rise of imported intermediate inputs in domestic production is one of the most important factors explaining the recent evolution of international trade. Due to its direct linkage to the relocation of jobs abroad, global sourcing is often perceived fearfully, which has led to the recent surge in protectionist ideas. The Brexit vote stands as a good example. The papers included also deal with topics such as the increase in R&D collaboration across national borders and the role of ratifying international conventions as an effective way to enhance institutional quality and promote trade flows.

The Global Financial Crisis (GFC) has revealed the downsides of financial globalization. As countries become more interconnected, adverse shocks in foreign countries threaten domestic stability through contagion effects. Financial globalization also erodes banks' and corporations' room to manage external assets and liabilities, as they face post-credit-crunch multiple yield curves. The GFC has also revealed that conventional monetary policy may no longer be effective in achieving its goals and unconventional monetary policy has been put in place. Contagion and pass-through effects are also relevant for developing countries and may influence both the implementation of monetary policy as well as the adjustment mechanism for current account imbalances in an increasingly unstable geopolitical environment.

The first article by Julian Donaubauer, Eric Neumayer and Peter Nunnenkamp covers the impact of financial market development (FMD) on bilateral FDI. Although there seems to be a consensus that better financial markets encourage FDI, most existing studies consider financial development from just one side of the source-host pair. The main novelty of this study lies in its exploration of whether the effects of source- and host-country FMD are conditional on each other. Their estimations of a gravity-type model reveal positive and substantive independent effects of both source and host country FMD on FDI. Although the results reveal no conditionality in the global sample, when the authors restrict the host countries to developing countries, they find that FMD in source and host countries function as substitutes for each other.

In the second paper, Octavio Escobar and Henning Muhlen contribute to the understanding of the growth-enhancing effects of FDI in a host country. According to their analysis, FDI positively affects structural change through labour reallocation towards more productive sectors. However, this

positive effect critically depends on the lag structure of FDI and stems from direct investments in sectors such as manufacturing. Since this positive finding is mainly related to their four-year lag indicator, increases in the effective labour reallocation due to multinational activity occur with a considerable time lag; this seems reasonable considering that some FDI projects, in particular greenfield projects, often take time to become operational.

The third paper by Federico Carril-Caccia and Elena Pavlova deals with how countries' insertion in international trade and Global Value Chains (GVCs) affects their capacity to attract foreign M&As. One of its main contributions is the new measures of GVCs, relying on the World Input-Output Database (WIOD) from the OECD. The outcomes reveal that the position and participation in GVCs are relevant for explaining bilateral M&As. However, the role of these determinants differs significantly depending on the level of development of the home and host countries.

Terence Edwards, Ben Ferret and Daniel Gravin shed some light on the strategic factors that explain whether a firm will engage in R&D collaboration, either with a local or a foreign competitor. The authors conclude that lower international trade costs reduce the incentive for cross-border collaboration due to the fact that more intense product-market competition makes firms less willing to share their R&D results with each other. The willingness to collaborate with a foreign firm increases with the size of the foreign market. The authors conclude that, in some cases, despite the fact that R&D cross-border collaboration is efficient, a local collaboration emerges in equilibrium. This finding indicates that a conflict between the firm's collaboration choices and efficiency is likely to arise unless governments subsidize R&D.

In the fifth paper, Roger Bandick investigates the effects of imported inputs on productivity growth and export intensity, using data on Danish manufacturing firms. The results show that firms that decide to offshore report better ex-ante performance than those that do not. However, offshoring firms still learn from this activity in terms of higher growth in productivity and export intensity. This learning process differs between firms: Whereas firms that offshore to low-wage countries do not seem to register changes in productivity and export intensity, non-offshoring firms do. From a policy perspective, this finding does not seem to lend support to growing fears that offshoring is detrimental for the economy, since firms may potentially benefit in terms of higher productivity and export intensity due to global sourcing.

Juan Mañez, Consuelo Minguez, María Rochina and Juan Sanchis analyse the effects of firms' decisions to export output and/or import intermediates on productivity and mark-ups. The authors contribute to the extant literature in a number of ways: first by analysing the dynamic linkages between firms' imports of intermediates and export decisions; second, by examining simultaneously the effects of importing intermediates and exporting on productivity; and, third, by assessing the impact of importing inputs and exporting on mark-ups. Regarding the latter, the authors investigate whether those effects on mark-ups operate through the price and/or the marginal costs channels. By using the Spanish Survey on Business Strategies for the period 2006-2014, the authors conclude that the analysed effects depend on the size of the firm. Thus, for small and medium-sized enterprises (SMEs), importing intermediates and exporting activities both have a positive effect on productivity and mark-ups. However, for large firms, only exports affect the mark-up, while productivity is solely influenced by the importing activity. In both cases, the internationalization decisions affect the mark-up through both the price and the marginal cost channel.

The seventh paper by Salvador Gil-Pareja, Rafael Llorca-Vivero and Jordi Paniagua examines how the improvement in institutional contractual quality promotes trade. This paper highlights the fact that ratifying international conventions aimed at facilitating the resolution of commercial disputes

(for example, through arbitration and conciliation) is an effective way to enhance institutional quality and thus promote trade flows. This work provides an interesting and novel approach focused on the potentially heterogeneous effects on bilateral trade of adherence to international trade law conventions, such as The New York Convention. The authors develop a model, which tries to explain under which circumstances parties will choose arbitration versus litigation and explore the potential effects of that decision on trade flows. The results obtained indicate that arbitration has a moderate and positive effect on exports, which increases (decreases) with the contractual quality of the exporter (importer) and the remoteness of markets. The effects of conciliation are similarly positive, but only for similar trading partners with high levels of income. Results also suggest both domestic trade law reform and international treaties have a positive effect on trade, with the latter having a stronger effect.

Gabriela Ortiz and Maria C. Latorre explore the quantitative impact of Brexit by means of a Computable General Equilibrium (CGE) Model. Unlike most previous studies, this paper focuses on two dimensions through which the UK's exit from the EU could result in economic impacts: trade and migration. The estimates indicate a more sizeable negative impact on the UK than reported by other previous influential studies. Given the historical relevance as well as the evolving scenario around the Brexit deal, this paper provides a timely update and provides alternative evidence that can inform the ongoing debate about the impact of Brexit.

The ninth paper by Juan Ángel Lafuente, Nuria Petit, Jesús Ruiz and Pedro Serrano focuses on the idea that a single yield curve is no longer sufficient to describe the market of interest rate products after 2008. They propose an empirical decomposition of the Euribor basis swap spreads into expected and unexpected components, covering the period from December 2007 to November 2014. Expected shocks account for the continuous arrival of information to the market while unexpected innovations represent uncommon information reaching the market. They find that interbank credit risk is the predominant and most common source of fluctuations affecting the curves. However, for the short tenors, credit and liquidity risks are unexpected drivers. Finally, they show that systemic risk also plays a significant role in explaining the nature of uncertainty in the interbank credit market, suggesting that a European breakdown is being priced in the market.

The paper by Ferdinand Dreher, Johannes Gräßl and Thomas Kostka exploits the information content in the zero-coupon yield curve estimated from bonds with maturities from three months to ten years. In particular, they provide empirical evidence on how to improve traditional carry trade strategies for the G10 currencies vis-à-vis the US dollar. Basing their analysis on the well-known three-factor model of Nelson and Siegel (1987), they find that the curvature component emerges as an anticipated signal for future currency movements one to six months ahead. Compared with traditional carry trade strategies, currency portfolios based on the yield curves exhibit lower negative return skewness. These last two papers open the door to additional research aimed at exploiting the joint potential forecasting ability from several forward curves.

Rebeca Jiménez-Rodríguez and Amalia Morales-Zumaquero study the exchange rate pass-through (ERPT) into domestic consumer prices in BRICS (Brazil, Russia, India, China and South Africa) countries and examine the macroeconomic determinants of the degree of ERPT. This paper differs from previous works on BRICS in regard to several issues: (i) all five BRICS countries are analysed, unlike in other studies that focus on a particular country; (ii) the second-stage ERPT (ERPT into domestic prices) is studied; and (iii) different econometric approaches are considered (namely, single equation model, vector autoregression model, and time-varying parameter model); and (iv) the macroeconomic determinants of the degree of ERPT are assessed for these countries. The findings suggest that ERPT is higher for the emerging markets with mostly floating exchange rates

(Brazil, Russia and South Africa) than for the other BRICS countries, with exchange rate explaining a high percentage of the price variability in the former and a low percentage in the latter. Moreover, the key macroeconomic determinants for BRICS economies seem to be inflation volatility, exchange rate volatility and openness.

In the last paper, José Zabala and María Prats assess the effectiveness of the unconventional monetary policy implemented by the ECB with regard to inflation and economic growth. During the financial crisis, the ECB redirected its traditional monetary policy based on interest rates, to an unconventional monetary policy focused on the quantitative expansion of its balance sheet. Based on a SVAR model including the EONIA rate, the total assets on the ECB's balance sheet, and the Eurozone inflation rate and economic growth, the results for the period 2007Q1-2018Q4 support the existence of monetary transmission as well as the effectiveness of the monetary policy adopted by the ECB to achieve economic stability.

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