

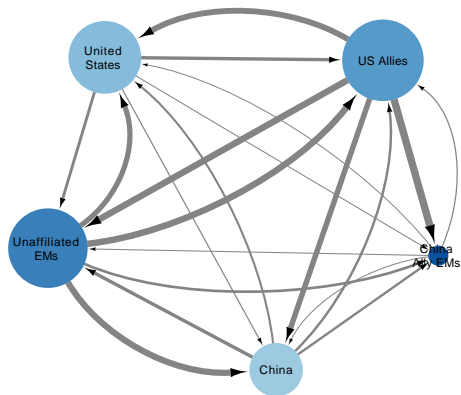
# Impact of Global Fragmentation on Emerging Markets

1. Central Banking
2. International Spillovers of AE policies
3. EMs challenges
4. How can EMs benefit?

Fragmentation-impact estimates are from:

**The Price of Fragmentation (w/di Giovanni, Silva, Soylu, Yildirim)**

# Future Blocs



- **Blocs:** from Gopinath, Gourinchas, Presbitero and Topalova.
- **Dark color:** more open, more connected, higher imported intermediate shares (7.7% to 11.4%).
- **Thick arrows:** higher share of intermediate inputs from that bloc (1.4% to 56%).

# Full Trade-War between US and China

- Larger the trade cost shock, higher the inflation if you are in the trade-war-bloc

Inflation (%)			
Trade Cost Change	20%	50%	90%
China Ally EMs	0.893	2.237	3.971
Unaffiliated EMs	0.022	0.085	0.193

- Higher unemployment in EMs that are affiliated with China bloc

Unemployment (%)			
Trade Cost Change	20%	50%	90%
China Ally EMs	1.878	4.115	6.434
Unaffiliated EMs	0.064	0.154	0.264

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  - ⇒ Higher global cost of capital for EMs, higher risk premia, lower investment, lower growth
3. **EMs challenges:**
  - ⇒ Temptation to adopt zero-sum strategies
  - ⇒ Deviating from what worked: global integration, strong institutions, policy credibility
4. How can **EMs benefit?**
  - ⇒ By not joining to trade war
  - ⇒ By keeping up with the reforms to eliminate domestic distortions (financial frictions)
  - ⇒ By evidence-based policy making (policy credibility)
  - ⇒ By having strong institutions (central bank independence)
  - ⇒ **...so attract capital flows, allocate it efficiently to finance growth and green transition.**