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Global Supply Chains in the Pandemic

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### **ABSTRACT**

We study the role of global supply chains in the impact of the Covid-19 pandemic on GDP growth for 64 countries. We discipline the labor supply shock across sectors and countries using the fraction of work in the sector that can be done from home, interacted with the stringency with which countries imposed lockdown measures. Using the quantitative framework and methods developed in Huo, Levchenko and Pandalai-Nayar (2020), we show that the average real GDP downturn due to the Covid-19 shock is expected to be -31.5%, of which -10.7% (or one-third of the total) is due to transmission through global supply chains. However, “renationalization” of global supply chains does not in general make countries more resilient to pandemic-induced contractions in labor supply. The average GDP drop would have been -32.3% in a world without trade in inputs and final goods. This is because eliminating reliance on foreign inputs increases reliance on the domestic inputs, which are also subject to lockdowns. Whether renationalizing supply chains insulates a country from the pandemic depends on whether it plans to impose a more or less stringent lockdown than its trading partners. Finally, unilateral lifting of the lockdowns in the largest economies can contribute as much as 6-8% to GDP growth in some of their smaller trade partners.

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# 1 Introduction

This paper quantifies the role of the global supply chains in transmitting the economic impact of the Covid-19 pandemic. Much of the world is closely integrated through final and intermediate goods trade, and thus the global economic downturn could affect countries even if they did not experience the Covid-19 epidemic themselves. As countries simultaneously curtail economic activity by means of domestic lockdown policies, the downturn may be exacerbated by reductions in the supply of foreign intermediates, or demand for a country’s exports abroad ([Baldwin, 2020](#)).

We use a quantitative model of world production and trade covering 64 countries on all continents and 33 sectors spanning all economic activities. We parameterize the model using the OECD Inter-Country Input-Output (ICIO) Tables, that provide matrices of domestic and international intermediate input and final use trade. We solve the model analytically using the techniques developed in [Huo, Levchenko, and Pandalai-Nayar \(2020\)](#).

We start by simulating a global lockdown as a contraction in labor supply. To discipline the size of the labor contraction, we use the [Dingel and Neiman \(2020\)](#) measure of the fraction of the work of different occupations that can be done at home. Variation across sectors in their usage of different occupations and of countries in their sectoral employment composition then results in heterogeneous incidence of the shock across countries. Countries also vary in the stringency of lockdown measures. To capture this, we interact the work from home intensity by occupation with an index capturing the country-level stringency from [Hale et al. \(2020\)](#).

Not surprisingly, the model produces a large contraction of economic activity, with an average 31.5% drop in GDP in our sample of countries for the duration of the shock. Our focus is on the role of the global supply chains in particular. To better understand how linkages between countries amplify or mitigate the effect of the shock, we report two results. First, using the tools from [Huo, Levchenko, and Pandalai-Nayar \(2020\)](#), we compute the share of each country’s GDP contraction that is due to foreign, rather than domestic shocks. On average, about 34.7% of the contraction of GDP can be attributed to foreign shocks.

Second, we answer the more substantive question of whether participation in global supply chains exacerbated or alleviated the pandemic-induced contraction in labor supply. There is now a great deal of speculation in both policy circles and popular press that the experience of the pandemic will in the medium term lead to a “renationalization” of the supply chains.<sup>1</sup> It is not clear whether supply chain renationalization will actually make GDP more resilient to pandemic-type shocks. Figuring this out requires comparing the pandemic-induced GDP change in the baseline model to the pandemic-induced GDP change in an alternative world without international trade, where supply chains have adjusted to use only domestic inputs. Naturally, renationalization of global supply chains

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<sup>1</sup>See, e.g., “[It’s the End of the World Economy as We Know It](#)”, The New York Times, 16 April 2020.

would change the relative size of domestic sectors, as input users shift from foreign to domestic intermediates.

It turns out that on average in our 64 countries, the downturn would actually be slightly worse with renationalized supply chains ( $-32.3\%$  on average) than under current levels of trade. The reason is that eliminating reliance on foreign inputs increases the reliance on domestic inputs. Since a pandemic-related lockdown also affects domestic sectors, there is generally no resilience benefit from renationalizing the international supply chains.

There is a modest distribution of differences around the average. In some countries GDP would drop by 4 percentage points *more* if supply chains were renationalized, whereas in others GDP would fall by about 4-6 percentage points *less*. The cross-country variation is well-explained by differences in lockdown severity across countries. Some countries – most prominently Japan, Taiwan, Sweden, or Greece – impose less stringent lockdowns in response to the pandemic shock. The domestic pandemic-induced shock is therefore smaller in these countries than the shock in its trading partners with more severe lockdowns. Separating from the global supply chains would make these countries more resilient to lockdowns by eliminating the transmission of the relatively larger shock from other countries. By contrast, a country with the most severe lockdown will reduce its own domestic labor supply by more than its average trading partner. In that case, the supply of the domestic intermediate inputs falls by more than the supply of foreign ones, and thus the GDP contraction is larger when supply chains are renationalized.

All in all, our first two results show that global supply chains clearly transmit the economic effects of the lockdowns across borders. However, that does not mean that the presence of global supply chains uniformly exacerbates the downturn. Whether renationalizing supply chains insulates a country from the pandemic depends on whether it plans to impose a more or less severe lockdown than its trading partners.

Next, we address the interaction between the health crisis and global supply chains, by simulating the lockdown in an environment of increased demand for health services. We first construct an alternative “high-health” economy, in which the share of final expenditure that goes to the Health sector doubles in each country. We then simulate the pandemic-driven labor supply contraction in the baseline and “high-health” economies, and compare the results. Because the Health sector is not subject to the lockdown, the GDP contraction is modestly less severe in the “high-health” scenario (average about 1 percentage point smaller contraction). Since the Health sector is largely non-tradeable, increasing its size does not have a consistent impact on the relative importance of international transmission.

Our last counterfactual tackles the recovery from the shock. Currently, countries decide on “opening-up” their economies without international coordination. We thus simulate individual countries’

decisions to unilaterally allow workers to return to work, while the rest of the world remains in lockdown. Our quantification suggests that most of the GDP impacts of the lockdown are domestic, and these are reversed by reopening. We show that the unilateral reopenings of smaller countries such as Norway or Austria (examples of countries who are currently rolling back lockdowns) have limited impacts on GDP in other countries. By contrast, even unilateral reopening of large economies like China, US, Germany, or Russia would have a noticeable impact on others. These countries' opening can raise GDP in some of the most tightly linked countries by up to 6-8%.

We highlight that our exercises do not take into account the health consequences of the pandemic itself, nor do we model the labor supply shock as being conditional on the infection rate in the population. We view this as reasonable in the current context where a very small fraction of the population in most countries are directly affected by the disease at any point in time. Note that incorporating the infection rate into the calibration would only amplify the aggregate labor supply shock and the GDP consequences in the baseline. We take this approach as most of our counterfactuals are meant to capture the very short-run impact consequences of the shock. During the impact period, infection rates are low and most of the labor force is not incapacitated.

**Related Literature** Our paper complements the burgeoning body of work on the macroeconomic impact of the Covid-19 pandemic (see, among others, [Acemoglu et al., 2020](#); [Atkeson, 2020](#); [Alvarez, Argente, and Lippi, 2020](#); [Eichenbaum, Rebelo, and Trabandt, 2020](#); [Glover et al., 2020](#); [Kaplan, Moll, and Violante, 2020](#); [Krueger, Uhlig, and Xie, 2020](#)). Most closely related are [Baqae and Farhi \(2020a,b\)](#) and [Barrot, Grassi, and Sauvagnat \(2020\)](#), who study the effects of the lockdown on GDP declines in input network economies. Our focus is the international dimension of transmission through global supply chains.

In that respect, we build on the the active recent research agenda on international shock propagation in production networks. We apply the framework and tools developed in [Huo, Levchenko, and Pandalai-Nayar \(2020\)](#), who study the sources of international GDP comovement in a general multi-country multi-sector multi-factor model with input linkages. Also closely related is [Baqae and Farhi \(2019\)](#), who explore the impact of productivity, factor supply, and trade cost shocks in a wide class of open-economy models. Our counterfactuals simulate the labor supply shocks in an environment with endogenous labor supply, allowing for propagation through input networks.<sup>2</sup> Our analysis also relates to recent papers studying the short-run transmission and amplification of a

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<sup>2</sup>The notion that international input trade is the key feature of the global economy goes back to [Hummels, Ishii, and Yi \(2001\)](#) and [Yi \(2003\)](#), and has more recently been documented and quantified in a series of contributions by [Johnson and Noguera \(2012, 2017\)](#) and [Caliendo and Parro \(2015\)](#). [Burstein, Kurz, and Tesar \(2008\)](#), [Bems, Johnson, and Yi \(2010\)](#), [Johnson \(2014\)](#), [Eaton et al. \(2016\)](#), and [Eaton, Kortum, and Neiman \(2016\)](#), among others, explore the role of input trade in shock transmission and business cycle comovement. Also related is the large empirical and quantitative literature on the positive association between international trade and comovement (e.g. [Frankel and Rose, 1998](#); [Imbs, 2004](#); [Kose and Yi, 2006](#); [di Giovanni and Levchenko, 2010](#); [Ng, 2010](#); [Liao and Santacreu, 2015](#); [di Giovanni, Levchenko, and Mejean, 2018](#); [Drozd, Kolbin, and Nosal, 2020](#)).

natural disaster shock through trade linkages (Barrot and Sauvagnat, 2016; Carvalho et al., 2016; Boehm, Flaaen, and Pandalai-Nayar, 2019). In contrast to these papers, the Covid-19 pandemic offers a unique opportunity to quantify the consequences of a synchronized labor supply shock. As highlighted by Imbs (2004) and Huo, Levchenko, and Pandalai-Nayar (2020), both correlated shocks and transmission lead to synchronization of GDP growth, and the relative importance of the two is a quantitative question.

The rest of the paper is organized as follows. Section 2 introduces the quantitative framework, Section 3 describes the data and calibration, and Section 4 presents the results. Section 5 concludes.

## 2 Global Network Model

This section sets up and solves a model of the global network of production and trade. The model is an extension of the quantitative framework of Huo, Levchenko, and Pandalai-Nayar (2020), which should be consulted for further details.

### 2.1 Setup

**Preliminaries** Consider an economy comprised of  $N$  countries indexed by  $n$  and  $m$  and  $J$  sectors indexed by  $j$  and  $i$ , that produce using labor inputs from  $\mathcal{O}$  different occupations indexed by  $\ell$ . Each country  $n$  is populated by a representative household. The household consumes the final good available in country  $n$  and supplies labor and capital to firms. Trade is subject to iceberg costs  $\tau_{mnj}$  to ship good  $j$  from country  $m$  to country  $n$  (throughout, we adopt the convention that the first subscript denotes source, and the second destination).

**Households** There is a continuum of workers in a representative household who share the same consumption. The problem of the household is

$$\max_{\mathcal{F}_n, \{L_{n\ell}\}} \mathcal{F}_n - \sum_{\ell=1}^{\mathcal{O}} \frac{1}{1 + \frac{1}{\psi}} \left( \frac{L_{n\ell}}{\xi_{n\ell}} \right)^{1 + \frac{1}{\psi}} \quad (2.1)$$

subject to

$$P_n \mathcal{F}_n = \sum_{\ell=1}^{\mathcal{O}} W_{n\ell} L_{n\ell} + \sum_{j=1}^J R_{nj} K_{nj},$$

where  $\mathcal{F}_n$  is consumption of final goods,  $L_{n\ell}$  is the labor hours supplied in occupation  $\ell$ ,  $\xi_{n\ell}$  is the occupation-specific labor supply shock, and  $K_{nj}$  is the amount of installed capital in sector  $j$  which is assumed to be exogenous. Labor in occupation  $\ell$  collects a wage  $W_{n\ell}$ , and capital is rented at the

price  $R_{nj}$ .<sup>3</sup>

The utility function is an extension of the [Greenwood, Hercowitz, and Huffman \(1988\)](#) preferences, that produce an especially simple isoelastic labor supply curve that only depends on the real wage:

$$L_{n\ell} = \xi_{n\ell}^{1+\psi} \left( \frac{W_{n\ell}}{P_n} \right)^\psi.$$

We highlight two features of our preference formulation that will be important for the analysis that follows. First, labor is differentiated by occupation. This feature captures imperfect inter-occupation labor mobility in the short run, appropriate in this application. Second, the labor supply is subject to country-occupation-specific shocks  $\xi_{n\ell}$ . This flexibility is needed to capture the fact that not all occupations experienced the same contractions in labor supply, as some jobs can be more easily done at home. In a similar vein, there is heterogeneity in lockdown severity across countries, that once again can be captured by variation in  $\xi_{n\ell}$ . Through the lens of our model, the worldwide lockdown policies are a vector of labor supply shocks  $\xi_{n\ell}$ . Our quantitative analysis will trace the impact of these  $\xi_{n\ell}$  shocks on the world economy under various assumptions on the structure of production and trade.

The set of sectors is partitioned into  $Q \ll J$  groups indexed by  $q$ . The final good in the economy is a CES aggregate across groups  $q$ :

$$\mathcal{F}_n = \left[ \sum_q \zeta_{nq}^{\frac{1}{\rho}} D_{nq}^{\frac{\rho-1}{\rho}} \right]^{\frac{\rho}{\rho-1}}, \quad P_n = \left[ \sum_q \zeta_{nq} P_{nq}^{1-\rho} \right]^{\frac{1}{1-\rho}},$$

where  $P_n$  is the final goods price index and  $D_{nq}$  is the quantity consumed of category  $q$ . The  $q$ 's should be thought of as large groupings, such as “goods” or “services.” Correspondingly, the substitution elasticity  $\rho$  between them should be thought of as a number less than 1. To anticipate the role of these groupings, one of these will be healthcare. In one of our simulations, we will consider a pandemic-induced increase in demand for healthcare, by raising its preference weight  $\zeta_{nq}$ .

Category  $q$  is an Armington aggregate of goods coming from different countries and sectors

$$D_{nq} = \left[ \sum_{j \in \mathcal{G}_q, m} \vartheta_{mnj}^{\frac{1}{\gamma}} D_{mnj}^{\frac{\gamma-1}{\gamma}} \right]^{\frac{\gamma}{\gamma-1}}, \quad P_{nq} = \left[ \sum_{j \in \mathcal{G}_q, m} \vartheta_{mnj} (\tau_{mnj} P_{mj})^{1-\gamma} \right]^{\frac{1}{1-\gamma}},$$

where  $\mathcal{G}_q$  denotes the index set of sectors that belong to category  $q$ ,  $D_{mnj}$  is the final consumption

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<sup>3</sup>As our focus is on understanding the impact effect of the pandemic on GDP growth, we focus on the contemporaneous impact of the shocks in our application. We assume the capital stock remains fixed. In [Huo, Levchenko, and Pandalai-Nayar \(2020\)](#), we provide a full quantification of the relative importance of contemporaneous vs. intertemporal correlation in a more general setting and show that the contemporaneous effect of shocks dominates.

by country  $n$  of sector  $j$  goods imported from country  $m$ , and  $\gamma$  controls the substitution elasticity between different origin-sector goods within a category. The corresponding price index is given by  $P_n^q$ , with  $P_{mj}$  being the price of sector  $j$  country  $m$ 's product in the origin country.

The expenditure share of a particular good from country  $m$  and sector  $j$  that belongs to category  $q$  is given by

$$\pi_{mnj}^f = \frac{\zeta_{nq} P_{nq}^{1-\rho}}{\sum_p \zeta_{np} P_{np}^{1-\rho}} \frac{\vartheta_{mnj} (\tau_{mnj} P_{mj})^{1-\gamma}}{\sum_{i \in G_{q,k}} \vartheta_{kni} (\tau_{kni} P_{ki})^{1-\gamma}},$$

and this share will shape the responses to shocks as we will show below.

**Firms** A representative firm in sector  $j$  in country  $n$  operates a CRS production function

$$Y_{nj} = \left( K_{nj}^{\alpha_j} H_{nj}^{1-\alpha_j} \right)^{\eta_j} X_{nj}^{1-\eta_j}. \quad (2.2)$$

The composite labor in sector  $j$ ,  $H_{nj}$ , is an aggregate of labor inputs from different occupations, and similarly, the intermediate input usage  $X_{nj}$  is an aggregate of inputs from potentially all countries and sectors:

$$H_{nj} = \left( \sum_{\ell=1}^{\mathcal{O}} \varkappa_{nj\ell}^{\frac{1}{\kappa}} L_{nj\ell}^{\frac{\kappa-1}{\kappa}} \right)^{\frac{\kappa}{\kappa-1}}, \quad X_{nj} = \left( \sum_i \sum_m \mu_{mi,nj}^{\frac{1}{\varepsilon}} X_{mi,nj}^{\frac{\varepsilon-1}{\varepsilon}} \right)^{\frac{\varepsilon}{\varepsilon-1}},$$

where  $L_{nj\ell}$  is the usage of labor of occupation  $\ell$ , with  $\kappa$  governing the elasticity of substitution across occupation, and  $X_{mi,nj}$  is the usage of inputs coming from sector  $i$  in country  $m$  in production of sector  $j$  in country  $n$ , with  $\varepsilon$  governing the elasticity of substitution across intermediate inputs.

Let  $P_{nj}$  denote the price of output produced by sector  $j$  in country  $n$ , and let  $P_{mi,nj}$  be the price paid in sector  $n, j$  for inputs from  $m, i$ . No arbitrage in shipping implies that the prices “at the factory gate” and the price at the time of final or intermediate usage are related by:

$$P_{mi,nj} = P_{mni} = \tau_{mni} P_{mi},$$

where  $\tau_{mni}$  is the iceberg trade cost.

Cost minimization implies that the payments to primary factors and intermediate inputs are:

$$\begin{aligned} W_{n\ell} L_{nj\ell} &= \pi_{nj\ell}^{\mathcal{O}} (1 - \alpha_j) \eta_j P_{nj} Y_{nj} \\ P_{mi,nj} X_{mi,nj} &= \pi_{mi,nj}^x (1 - \eta_j) P_{nj} Y_{nj}, \end{aligned}$$

where  $\pi_{mi,nj}^x$  is the share of intermediates from country  $m$  sector  $i$  in total intermediate spending by



$n, j$ , given by:

$$\pi_{mi,nj}^x = \frac{\mu_{mi,nj} (\tau_{mni} P_{mi})^{1-\varepsilon}}{\sum_{k,i'} \mu_{ki',nj} (\tau_{kni'} P_{ki'})^{1-\varepsilon}},$$

and  $\pi_{nj\ell}^O$  is the share of labor expenditure on workers from occupation  $\ell$ :

$$\pi_{nj\ell}^O = \frac{\varkappa_{nj\ell} W_{n\ell}^{1-\kappa}}{\sum_{\ell} \varkappa_{nj\ell} W_{n\ell}^{1-\kappa}}.$$

It will also be convenient to define the share of total occupation  $\ell$  labor employed in sector  $j$ :

$$\Lambda_{nj\ell} = \frac{L_{nj\ell}}{\sum_{i=1}^J L_{ni\ell}}.$$

**Equilibrium** An equilibrium in this economy is a set of goods and capital prices  $\{P_{nj}, R_{nj}\}$ , factor allocations  $\{L_{nj\ell}\}$ , and goods allocations  $\{Y_{nj}\}$ ,  $\{D_{mnj}, X_{mi,nj}\}$  for all countries and sectors, and factor prices and allocations  $\{W_{n\ell}, L_{n\ell}\}$  for all countries and occupations, such that (i) households maximize utility; (ii) firms maximize profits; and (iii) all markets clear.

At the sectoral level, the following market clearing condition has to hold for each country  $n$  sector  $j$ :

$$P_{nj} Y_{nj} = \sum_m P_m \mathcal{F}_m \pi_{nmj}^f + \sum_m \sum_i (1 - \eta_i) P_{mi} Y_{mi} \pi_{nj,mi}^x. \quad (2.3)$$

Meanwhile, trade balance implies that each country's final expenditure equals the sum of value added across domestic sectors<sup>4</sup>

$$P_m \mathcal{F}_m = \sum_i \eta_{ni} P_{mi} Y_{mi}. \quad (2.4)$$

For each occupation, the following market clearing condition holds

$$L_{n\ell} = \sum_{j=1}^J (1 - \alpha_j) \eta_j \pi_{nj\ell}^O \frac{P_{nj} Y_{nj}}{W_{n\ell}}.$$

Note that once we know the share of value added in production  $\eta_j$ , the expenditure shares  $\pi_{nmj}^f$  and  $\pi_{nj,mi}^x$  for all  $n, m, i, j$ , we can compute the nominal output  $P_{nj} Y_{nj}$  for all country-sectors  $(n, j)$  after choosing a numeraire good. Together with the shares related to the occupation inputs,  $\Lambda_{nj\ell}$  and  $\pi_{nj\ell}^O$ , there is no need to specify further details of the model, and we will utilize this property to derive the influence matrix.

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<sup>4</sup>We can incorporate deficits in a manner similar to [Dekle, Eaton, and Kortum \(2008\)](#), without much change in our results.

## 2.2 Analytical Solution

We now provide an analytical expression for the global influence matrix. In general, closed-form solutions for the exact influence vectors cannot be obtained in multi-country multi-sector models such as ours. However, [Huo, Levchenko, and Pandalai-Nayar \(2020\)](#) show that in this framework we can solve for the first-order approximation of the influence vector. Denote by “ln” the log-deviation from steady state/pre-shock equilibrium. Let the vector  $\ln \mathbf{H}$  of length  $NJ$  collect the worldwide sectoral composite labor changes, and the vector  $\ln \boldsymbol{\xi}$  of length  $N\mathcal{O}$  collect the worldwide occupation-specific productivity shocks.

**Proposition 1.** *The response of  $\ln \mathbf{H}$  to the global vector of labor supply shocks  $\ln \boldsymbol{\xi}$  is to a first order approximation given by*

$$\ln \mathbf{H} = \left( \mathbf{I} - \left( \mathbf{I} + \mathcal{P} - \frac{1}{1+\psi} \boldsymbol{\Pi}^{\mathcal{O}} \boldsymbol{\Delta}^{-1} \left( \boldsymbol{\Lambda} + \boldsymbol{\Lambda} \mathcal{P} + \psi \boldsymbol{\Pi}^f \mathcal{P} \right) \right) \boldsymbol{\Theta} \right)^{-1} \boldsymbol{\Pi}^{\mathcal{O}} \boldsymbol{\Delta}^{-1} \ln \boldsymbol{\xi}, \quad (2.5)$$

where  $\boldsymbol{\Delta}$  captures the dependence of composite labor on occupation distribution across and within sectors

$$\boldsymbol{\Delta} = \frac{\kappa + \psi}{1 + \psi} \mathbf{I} + \frac{1 - \kappa}{1 + \psi} \boldsymbol{\Lambda} \boldsymbol{\Pi}^{\mathcal{O}}, \quad (2.6)$$

and  $\boldsymbol{\Theta}$  captures how sectoral outputs respond to changes in composite labor inputs in equilibrium

$$\boldsymbol{\Theta} = (\mathbf{I} - (\mathbf{I} - \boldsymbol{\eta}) \boldsymbol{\Pi}^x)^{-1} \boldsymbol{\alpha} \boldsymbol{\eta}. \quad (2.7)$$

In addition,  $\boldsymbol{\eta}$  and  $\boldsymbol{\alpha}$  are matrices of output elasticities,  $\boldsymbol{\Pi}^f$  and  $\boldsymbol{\Pi}^x$  are matrices of final consumption and intermediate shares, respectively,  $\boldsymbol{\Pi}^{\mathcal{O}}$  is the matrix of occupational shares by sector,  $\boldsymbol{\Lambda}$  is a matrix of sectoral employment shares by occupation, and  $\mathcal{P}$  is a matrix that combines both structural elasticities and spending shares.<sup>5</sup>

Equations (2.5)-(2.7) illustrate that all we need to understand the response of worldwide output to various occupation-country shocks in this quantitative framework are measures of steady state final goods consumption and production shares, the distribution of occupations across sectors, as well as model elasticities. This proposition provides the formula for the responses of the sectoral composite labor of the form  $\ln \mathbf{H} = \boldsymbol{\mathcal{H}} \ln \boldsymbol{\xi}$ , where we refer to  $\boldsymbol{\mathcal{H}}$  as the *influence matrix*. It encodes the general equilibrium response of sectoral labor composite in a country to shocks in any sector-country, taking into account the full model structure and all direct and indirect links between the countries and

<sup>5</sup>The  $NJ \times NJ$  diagonal matrices  $\boldsymbol{\eta}$  and  $\boldsymbol{\alpha}$  collect the  $\eta_j$ ’s and  $\alpha_j$ ’s respectively. The  $(n, mi)$  element of  $\boldsymbol{\Pi}^f$  is  $\pi_{mi}^f$  and a the  $(mi, nj)$  element of  $\boldsymbol{\Pi}^x$  is  $\pi_{mi, nj}^x$ . Typical elements of  $\boldsymbol{\Lambda}$  and  $\boldsymbol{\Pi}^{\mathcal{O}}$  are  $\Lambda_{nj\ell}$  and  $\pi_{nj\ell}^{\mathcal{O}}$ , respectively. The matrix  $\mathcal{P}$  is defined precisely in Appendix A.

sectors. The model solution (2.5)-(2.7) resembles the typical solution to a network model, that writes the equilibrium change in output as a product of the Leontief inverse and the vector of shocks. Our expression also features a vector of shocks, and an inverse of a matrix that is more complicated due to the multi-country structure of our model combined with elastic factor supply and non-unitary elasticities of substitution.

The main advantage of the first-order solution above is transparency. The GDP change is represented as a linear combination of primitive shocks, allowing additive decompositions of the GDP change that illuminate the forces at work. An alternative is an exact solution of the model. Figure A1 compares the exact and first-order solutions. In our application, the first-order and exact solutions are quite close.

In a special case where all the elasticities of substitution for final goods, intermediate goods, and composite labor are equal to 1, the influence matrix in (2.5) simplifies to<sup>6</sup>

$$\ln \mathbf{H} = \left( \mathbf{I} - \frac{\psi}{1+\psi} \mathbf{\Pi}^O \mathbf{\Pi}^f \mathbf{\Theta} \right)^{-1} \mathbf{\Pi}^O \ln \boldsymbol{\xi}. \quad (2.8)$$

Clearly, the overall response of labor is increasing in the Frisch elasticity  $\psi$ . It also underscores that the exact general equilibrium feedback effects hinge on various steady-state shares.

When the composite labor aggregates occupations with a non-unitary elasticity, the matrix  $\mathbf{\Delta}$  in (2.7) starts to play a role. It controls how a supply shock in a particular occupation affects the labor demand for other occupations. In this case, the influence matrix in (2.5) becomes

$$\ln \mathbf{H} = \left( \mathbf{I} - \frac{\psi}{1+\psi} \mathbf{\Pi}^O \mathbf{\Delta}^{-1} \mathbf{\Pi}^f \mathbf{\Theta} \right)^{-1} \mathbf{\Pi}^O \mathbf{\Delta}^{-1} \ln \boldsymbol{\xi}.$$

Finally, when the final goods and intermediate goods aggregates deviate from the Cobb-Douglas case, the global goods demand system (2.3) is more complex and the matrix  $\mathcal{P}$  that governs the responses of prices enters the influence matrix (2.5).

**GDP change** Proposition 1 states the change in the sectoral labor aggregates, whereas GDP is value added. Following national accounting conventions, real GDP is defined as value added evaluated at base prices  $b$ :

$$V_n = \sum_{j=1}^J (P_{nj,b} Y_{nj} - P_{nj,b}^X X_{nj}), \quad (2.9)$$

where  $P_{nj,b}$  is the gross output base price, and  $P_{nj,b}^X$  is the base price of inputs in that sector-country.

The following corollary describes the real GDP changes.

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<sup>6</sup>In this case,  $\mathcal{P} = -\mathbf{I}$  and  $\mathbf{\Delta} = \mathbf{I}$ .

**Corollary 1.** *The real GDP change in any country  $n$  following a shock  $\ln \xi$  is given by*

$$\ln V_n = \sum_{j=1}^J (1 - \alpha_j) \eta_j \omega_{nj} \ln H_{nj}, \quad (2.10)$$

where  $\omega_{nj} \equiv \frac{P_{nj} Y_{nj}}{V_n}$  are the pre-shock Domar weights, and  $\ln H_{nj}$  is given by Proposition 1.

### 2.3 Accounting Decompositions

To illustrate how we will use the model above to understand the impact of global supply chains on GDP growth during the pandemic, we next present some simple accounting decompositions of domestic GDP growth. These build on the more general accounting framework used in [Huo, Levchenko, and Pandalai-Nayar \(2020\)](#) to study GDP comovement.

The linear representation of the GDP change in country  $n$  as a function of the global vector of shocks (2.5)-(2.10) lends itself to an additive decomposition of the GDP change into the components due to domestic and foreign shocks. To first order, the log deviation of real GDP of country  $n$  from steady state can be written as:

$$\ln V_n \approx \sum_m \sum_{\ell} s_{mnl} \ln \xi_{m\ell}, \quad (2.11)$$

where  $s_{mnl}$  are the elasticities of the GDP of country  $n$  with respect to shocks in occupation  $\ell$ , country  $m$ , characterized by (2.5)-(2.10).

**Contribution of foreign lockdowns to GDP contractions** To highlight the effects of domestic and foreign shocks on GDP, separate the double sum in (2.11) into the component due to country  $n$ 's own shocks ( $\mathcal{D}_n$ ) and the component due to all the trade partners' shocks ( $\mathcal{T}_n$ ):

$$\ln V_n = \underbrace{\sum_{\ell} s_{nn\ell} \ln \xi_{n\ell}}_{\mathcal{D}_n} + \underbrace{\sum_{m \neq n} \sum_{\ell} s_{mnl} \ln \xi_{m\ell}}_{\mathcal{T}_n}. \quad (2.12)$$

Below, we report the fraction of the overall downturn that can be attributed to foreign, rather than domestic, labor contractions:  $\mathcal{T}_n / d \ln V_n$ , for each country in our sample.<sup>7</sup>

**Renationalization of global supply chains** There is now a great deal of speculation in policy circles and popular press that the pandemic will lead to a renationalization of the global supply chains, to protect against similar shocks in the future.<sup>8</sup> In our model transmission is positive, in the

<sup>7</sup>It is immediate that the influence matrix can also be used to trace out the effect of shocks in a particular country (e.g. China) on the GDP growth in a partner (e.g. the US).

<sup>8</sup>For instance, see the discussion in the New York Times on April 16th, 2020, titled "It's the End of the World Economy as We Know It".

sense that an adverse foreign shock lowers a country's GDP. The sign and size of the contribution of foreign shocks is informative, but does not imply that the presence of global value chains exacerbated the GDP contraction due to the lockdown.

To establish this type of result, we need to compare the contraction in the baseline model to an alternative in which the global supply chains have been renationalized. We construct such a version of the world economy by raising iceberg trade costs to infinity in both intermediate and final good uses. We then shock each country with the same size lockdown as in the baseline world economy. If the GDP contraction with renationalized supply chains is smaller than the one in the baseline, we conclude that a country's participation in the global value chains exacerbated the downturn, and vice versa. To understand the results that appear below, we can write the GDP change in the renationalized equilibrium ( $R$ ) following the shock as:

$$d \ln V_n^R = \sum_{\ell} s_{nn\ell}^R \xi_{n\ell}, \quad (2.13)$$

where  $s_{nn\ell}^R$  is the elasticity of country  $n$ 's GDP to a shock in occupation  $\ell$  in the renationalized equilibrium. By definition, in this case the country is immune to foreign shocks, and only responds to domestic shocks.

Comparing (2.12) and (2.13), the difference in the GDP response in the baseline relative to autarky is a sum of two parts:

$$d \ln V_n - d \ln V_n^R = \underbrace{\sum_{\ell} (s_{nn\ell} - s_{nn\ell}^R) \xi_{n\ell}}_{\text{Change in Domestic Influence}} + \mathcal{T}_n. \quad (2.14)$$

The second component,  $\mathcal{T}_n$ , is straightforward: in autarky, the country is not subject to foreign shocks, so holding all else fixed the downturn is smaller in autarky if the rest of the world experiences a bad shock.

However, the first term captures an additional effect. Absent international trade, the responsiveness of the economy to domestic shocks would also be different. Some sectors grow in influence as a country opens to trade, others shrink. Whether or not participation in global trade exacerbates the downturn is determined by how the altered sensitivity to domestic shocks ( $s_{nn\ell} - s_{nn\ell}^R$ ) compares to the sensitivity to foreign shocks that has been eliminated by the severing of international supply chains.

To better understand the change in domestic influence term, note that the change in hours can be

written as a sum of the partial and general equilibrium impacts of the shocks:

$$\ln \mathbf{H} = \underbrace{\mathbf{P} \ln \boldsymbol{\xi}}_{\text{Partial Eq.}} + \underbrace{\boldsymbol{\Gamma} \ln \boldsymbol{\xi}}_{\text{General Eq.}} \quad (2.15)$$

The matrix governing the partial equilibrium response to shocks is particularly simple:  $\mathbf{P} = \frac{1+\psi}{\kappa+\psi} \boldsymbol{\Pi}^\mathcal{O}$ . It captures the direct effect of the shocks to occupations in the home country on sectoral labor in the home country. The partial equilibrium influence matrix  $\mathbf{P}$  is block-diagonal by country, as only shocks to domestic occupational groups directly affect domestic hours. It can be directly constructed from data on occupational shares and labor-related elasticities, and thus does not require solving the model. The matrix  $\boldsymbol{\Pi}^\mathcal{O}$  records occupational shares by sector. Thus, it simply translates the shocks that occur at the level of the occupation to sectoral labor bundle changes. The matrix of general equilibrium adjustments  $\boldsymbol{\Gamma}$  requires in addition all the expenditure and sales shares, and substitution elasticities in the product market.<sup>9</sup>

Combining (2.10), (2.14), and (2.15), the difference between the trade and the renationalized equilibria can be written as:

$$d \ln V_n - d \ln V_n^R = \sum_{j=1}^J (1 - \alpha_j) \eta_j \underbrace{\left[ \underbrace{\left( \omega_{nj} - \omega_{nj}^R \right) \sum_{\ell} \mathbf{P}_{n\ell, nj} \ln \xi_{n\ell}}_{\text{PE}} + \underbrace{\sum_{\ell} \left( \omega_{nj} \boldsymbol{\Gamma}_{n\ell, nj} - \omega_{nj}^R \boldsymbol{\Gamma}_{n\ell, nj}^R \right) \ln \xi_{n\ell}}_{\text{Domestic GE}} \right]}_{\text{Change in Domestic Influence}} + \mathcal{T}_n. \quad (2.16)$$

The difference in the GDP change between the trade and renationalized equilibria can be decomposed into three effects. The PE effect captures the reweighting of the sectors towards, or away from, those more exposed to the lockdown. For instance, if when going from the renationalized to the trade equilibrium Domar weights grow in sectors more immune to lockdowns, the country will be more insulated from lockdowns under trade, all else equal. Because this term can be constructed as a simple heuristic exposure measure, it does not require solving the model.

The domestic GE term captures the change in the general equilibrium effects of domestic shocks between the two equilibria. It reflects the fact that the renationalization of global supply chains will rearrange domestic input usage, and as a result the impact of domestic shocks on the home economy.

---

<sup>9</sup>The  $\boldsymbol{\Gamma}$  matrix is:

$$\boldsymbol{\Gamma} = \frac{1+\psi}{\kappa+\psi} \left\{ \boldsymbol{\Pi}^\mathcal{O} \sum_{k=1}^{\infty} \left( \frac{\kappa-1}{\kappa+\psi} \boldsymbol{\Lambda} \boldsymbol{\Pi}^\mathcal{O} \right)^k + \sum_{k=1}^{\infty} \left( \mathbf{I} + \boldsymbol{\mathcal{P}} - \frac{1}{1+\psi} \boldsymbol{\Pi}^\mathcal{O} \boldsymbol{\Delta}^{-1} \left( \boldsymbol{\Lambda} + \boldsymbol{\Lambda} \boldsymbol{\mathcal{P}} + \psi \boldsymbol{\Pi}^f \boldsymbol{\mathcal{P}} \right) \right) \boldsymbol{\Theta} \right\}^k \boldsymbol{\Pi}^\mathcal{O} \boldsymbol{\Delta}^{-1} \left\}.$$

The first term in the curly brackets captures the impact of labor supply shocks on one occupation on demand for other occupations' labor inputs. The second term reflects the propagation of a supply shock to a particular occupation through the input and final goods markets.

This term requires the solution to the full general equilibrium model, as it captures the change in the propagation of occupation-specific shocks through the rest of the economy through product and labor market linkages.

### 3 Data and Calibration

**Labor shock** To calibrate the size of the labor shock, we use two pieces of data. The first is the classification of occupations by whether they can be performed at home by [Dingel and Neiman \(2020\)](#).<sup>10</sup> We then combine this occupation-specific work from home intensity with the country-specific lockdown intensity constructed by the Oxford Blavatnik School of Government Coronavirus Government Response Tracker ([Hale et al., 2020](#)). This index ranges from 0 to 100, and we treat it as a proportion indicator, 1 being a full lockdown. The data we extracted referred to early April 2020.

The labor supply shift in occupation  $\ell$  and country  $n$  relative to the pre-shock steady state is then:

$$\ln \xi_{n\ell} = - (1 - \text{work from home}_{\ell}) \times \text{severity}_n. \quad (3.1)$$

The exception is the Health sector, which receives no labor supply shock as it is not subject to lockdowns.

**Sectoral occupation composition** To compute the occupation shares by sector, we use US data from the Bureau of Labor Statistics. This dataset reports the number of workers in each occupation employed in each NAICS sector, together with their average annual wage. We convert this to our ISIC-based industry classification, and use it to compute the sectoral expenditure shares on each occupation. Because workers in the health services are not affected by the lockdown measures, we create a special composite health occupation that is used by the Health Services sector only, and does not incur a negative labor supply shock. Our final occupational classification is similar to the 23 SOC “major groups”, minus the Military-Specific Occupations and with an extra “Health Composite” occupation. Appendix Table [A1](#) lists our occupational classification together with the work from home intensities. Since data on industry occupational composition are unavailable for countries other than the US, we assume that the shares are similar across countries.<sup>11</sup>

**Trade, input, and consumption shares** The data requirements for calibrating this model is the information on the world input-output matrix and final use. We use the OECD Inter-Country Input-Output (ICIO) Tables. These data cover 64 countries on all continents and 33 sectors spanning

<sup>10</sup>We use [Dingel and Neiman \(2020\)](#)’s O\*NET-derived classification. Notice that in the context of the Covid-19 pandemic, this is a conservative shock, as school closures and other lockdown measures likely imply that the actual occupation-related tasks performed at home are less than those that are feasible.

<sup>11</sup>This is consistent with our assumption that sectoral production functions are the same across countries and the elasticity of substitution across occupations equal to 1.

TABLE 1: Parameter Values

Param.	Value	Source	Related to
$\rho$	0.2	<a href="#">Herrendorf, Rogerson, and Valentinyi (2013)</a>	cross-group substitution elasticity
$\gamma$	1	<a href="#">Huo, Levchenko, and Pandalai-Nayar (2020)</a>	final substitution elasticity
$\varepsilon$	0.2	<a href="#">Boehm, Flaaen, and Pandalai-Nayar (2019)</a>	intermediate substitution elasticity
$\psi$	2		occupational Frisch elasticity
$\kappa$	1	<a href="#">Goos, Manning, and Salomons (2014)</a>	cross-occupation elasticity
$\alpha_j$	[.38, .69]	KLEMS, OECD STAN	labor and capital shares
$\eta_j$	[.33, .65]	KLEMS, OECD STAN	intermediate input shares
$\pi_{mnj}^f$		OECD ICIO	final use trade shares
$\pi_{mi,nj}^x$		OECD ICIO	intermediate use trade shares
$\pi_{nj\ell}^O$		BLS	occupation shares by sector

**Notes:** This table summarizes the parameters and data targets used in the baseline quantitative model, and their sources. For  $\alpha_j$  and  $\eta_j$ , the table reports the 10th and 90th percentiles of the range of these parameters. Alternative parameters are considered in Appendix B.

the entire economy. We use the information for the latest available year, 2015. We separate the 33 sectors into 3 groups for final consumption: Manufacturing, Services, and Health. Appendix Table A2 lists the countries, and Appendix Table A3 lists the sectors along with the breakdown into groups.

**Structural parameters** To construct the influence matrix (2.5) we must also take a stand on a few elasticities. Table 1 summarizes the parameters in our baseline calibration. [Huo, Levchenko, and Pandalai-Nayar \(2020\)](#) estimate a final goods substitution elasticity  $\gamma$  between 1 and 2.75. Since ours is a very short-run application, we take the lower value of 1, and apply it to all groups. We set the intermediate input substitution elasticity  $\varepsilon$  to 0.2. The notion that inputs are complements at business cycle frequencies is consistent with the estimates by [Atalay \(2017\)](#) and [Boehm, Flaaen, and Pandalai-Nayar \(2019\)](#). We calibrate the cross-group substitution elasticity  $\rho$  to 0.2 in our baseline, following the estimates from the structural transformation literature suggesting that broad services and manufacturing aggregates are complements ([Herrendorf, Rogerson, and Valentinyi, 2013](#); [Comin, Lashkari, and Mestieri, 2015](#); [Cravino and Sotelo, 2019](#)). We consider an alternative Cobb-Douglas structure in Appendix B. In the baseline we set the Frisch labor supply elasticity  $\psi$  of 2 for all occupations. Finally, we set the sectoral elasticity of substitution across occupations  $\kappa$  to 1, close to the value of 0.9 found by [Goos, Manning, and Salomons \(2014\)](#). In extensions, we also consider smaller values of the cross-occupational substitution elasticity, to capture the notion that in the short run it might be more difficult to substitute across occupations in production.

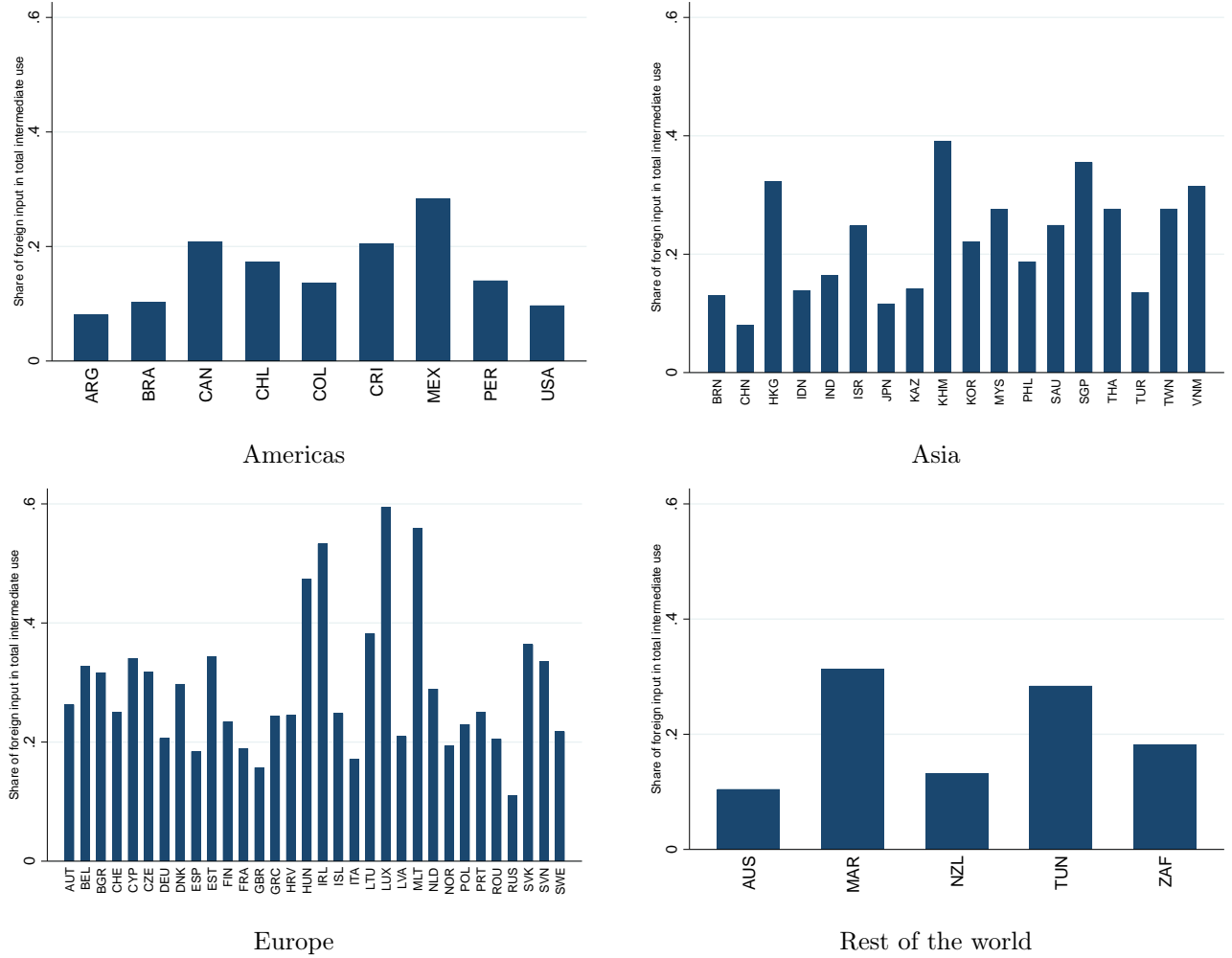
All other parameters in the model have close counterparts in basic data and thus we compute them



directly. Capital shares in total output  $\alpha_j$  and value added shares in gross output  $\eta_j$  come from the KLEMS and OECD STAN databases, and are averaged in each sector across countries to reduce noise.

As indicated by the analysis in Section 2.2 to 2.3, the importance of domestic and international GE effects are governed by several elasticities. We report the results for our quantitative exercises under different elasticities in Appendix B.2.

FIGURE 1: Share of Foreign Intermediates in Aggregate Intermediate Use

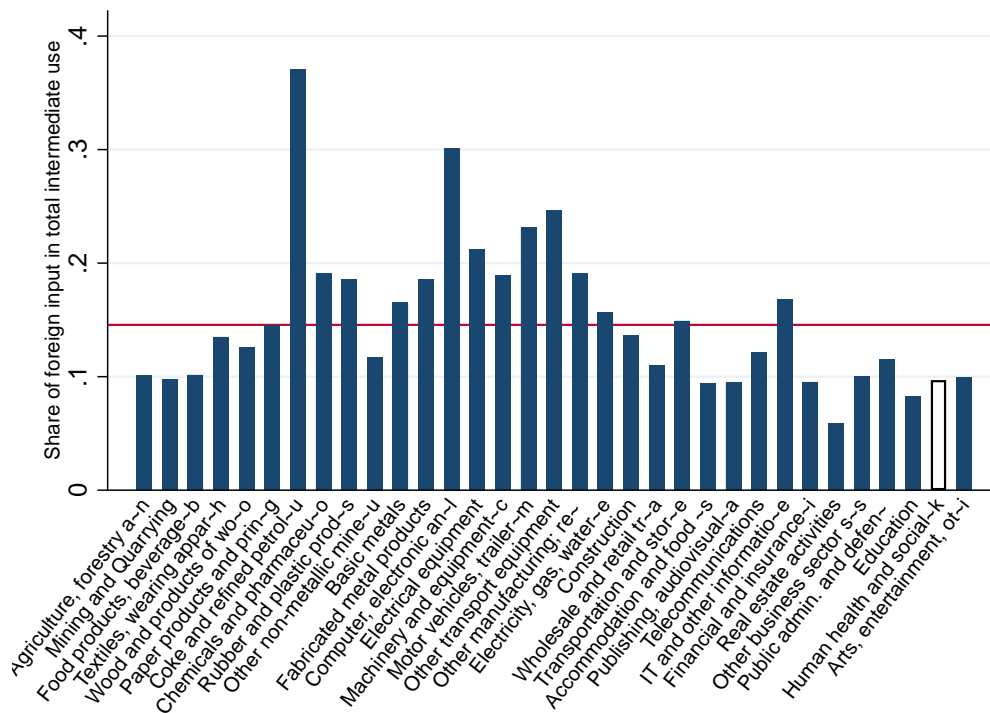


**Notes:** This figure displays the share of total foreign intermediate inputs as a share of total intermediate purchases.

### 3.1 Basic Facts

How economies react to the labor shock stemming from the pandemic depends on the fraction of work that can be performed from home. Appendix Table A3 shows the sectoral shares of employees whose occupation can be done from home, computed as a sector-specific weighted average of the occupation measures. There is substantial sectoral variation in the shares, ranging from 3.5% in the accommodation and food services sector, to 82% in the education sector. Overall, service sectors have a higher share, with the notable exception of the Human Health and Social Work sector. Because sectors have different labor shares, however, the share of work that cannot be done from home doesn't precisely capture the exposure of a sector to the labor shock. The last column of the table displays the sectoral exposure, defined as  $(1 - \alpha_j)\eta_j(1 - \text{work from home}_j)$ . These are uniformly lower, since the labor shares in gross output are far less than 1, but still feature considerable variation across sectors.

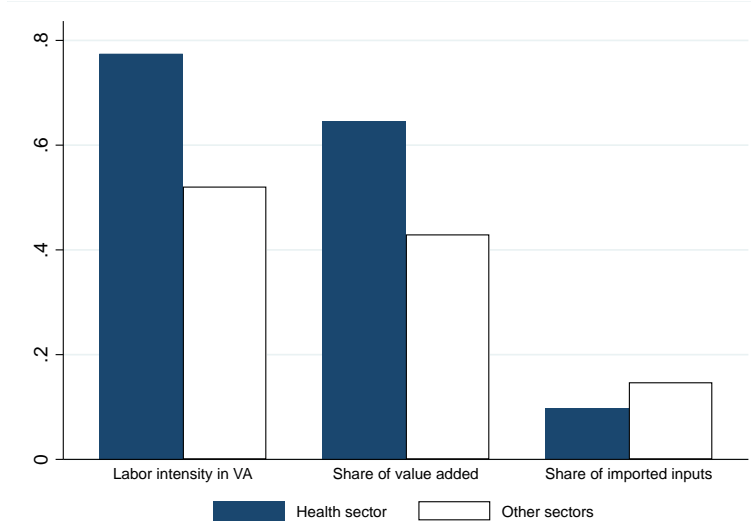
FIGURE 2: Share of Foreign Intermediates in Sectoral Intermediate Use



**Notes:** This figure displays the share of foreign intermediate inputs as a share of sectoral intermediate purchases. The Human Health and Social Work sector is highlighted in white. The red horizontal line is the cross-sector mean.

The effective severity of the labor supply shock will vary across countries as a function of both

FIGURE 3: Health and Social Work Sector Intensities



**Notes:** This figure displays the labor share in value added (left bars), share of value added in gross output (center bars), and the share of imported inputs in total input purchases (right bars) of the Human Health and Social Work sector compared to the mean for other sectors.

sectoral composition and lockdown stringency. Table 2 lists the top 10 and bottom 10 countries according to the share of aggregate labor that can be performed at home. This share is computed as the sectoral labor compensation-weighted average of the sectoral shares of work that can be done from home. Among the top 10 are several developed economies such as the US, United Kingdom or Luxembourg, consistent with their large service sector size. Table 2 also lists the top and bottom 10 countries in terms of lockdown stringency.

Exposure to foreign inputs will also determine the extent to which each country is affected by international shock propagation. Figure 1 displays the share of inputs that each country sources from a foreign country, and Figure 2 displays the world average of same measure at the sectoral level, highlighting in white the Human Health and Social Work sector. The Human Health and Social Work sector's exposure to foreign intermediates is lower than the average.

Figure 3 shows that the Human Health and Social Work sector is also more value added and labor intensive than other sectors. As its share of work that can be done from home is also relatively lower than other sectors, it is likely to be more affected by a labor supply shock. Its relatively low input intensity overall, and low imported input intensity in particular suggest that a positive demand shock to the sector is unlikely to propagate to other countries.

TABLE 2: Country-Level Work from Home Intensity and Lockdown Stringency

Country	Work from home	Country	Work from home	Country	Lockdown stringency	Country	Lockdown stringency
Top 10		Bottom 10		Top 10		Bottom 10	
LUX	0.656	KHM	0.346	ZAF	100	TWN	48
IRL	0.559	TUN	0.369	TUN	100	SWE	52
MLT	0.543	VNM	0.374	HRV	100	BRN	57
CYP	0.513	IDN	0.402	ARG	100	ISL	62
SGP	0.510	TUR	0.410	ISR	100	JPN	67
ISR	0.506	CHN	0.423	CRI	100	GRC	67
USA	0.502	THA	0.423	IND	100	GBR	71
GBR	0.497	PER	0.431	PRT	100	AUS	71
TWN	0.496	ARG	0.433	NZL	100	BRA	76
FRA	0.489	COL	0.436	VNM	100	CHN	76

**Notes:** This table displays the country-level work from home intensities, computed as the labor-compensation weighted averages of sectoral intensities. The second section reports the lockdown stringency index, out of 100. Mapping between 3-letter country codes and country names is in Appendix Table A2.

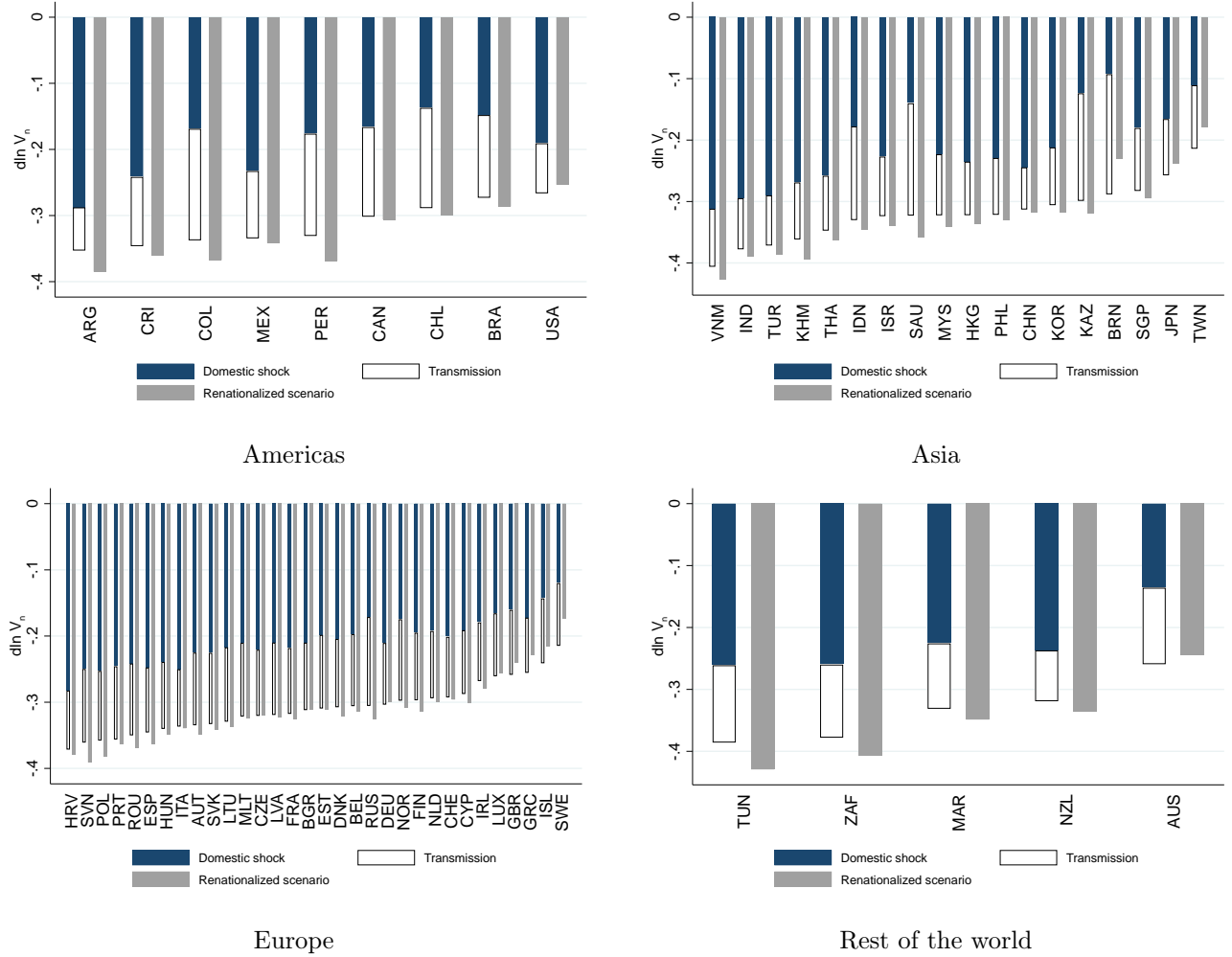
## 4 Main Results

**GDP contraction and the contribution of foreign shocks** The blue-white combination bars in Figure 4 display the GDP drops across all countries in our baseline model following the labor supply shock. The four panels group countries into geographical regions. The GDP reductions are dramatic, at  $-31.5\%$  on average. There is a significant amount of dispersion, with GDP reductions ranging from  $-21\%$  in Taiwan and Sweden (which famously imposed one of the most lenient lockdown policies) to  $-40\%$  in Vietnam.

The white parts of the bars denote the contribution of foreign shocks  $\mathcal{T}_n$ . It is evident that without exception, foreign shocks transmitted through the global supply chains constitute a sizeable minority of the overall GDP contraction. The mean contribution of foreign shocks to the fall in GDP is 34% of the total. The economies with the largest foreign contributions (in proportional terms) are among those most tightly integrated into the global supply chains: Brunei, Kazakhstan, Saudi Arabia, Chile and Colombia. Among these 5 countries, foreign shocks account for 57% of the total contraction on average.

**Renationalization of the global supply chains** To answer whether participation in the global supply chains makes economies more vulnerable to pandemic-related lockdowns, we must solve for the GDP contraction under the same magnitude of a shock, but in a counterfactual economy in

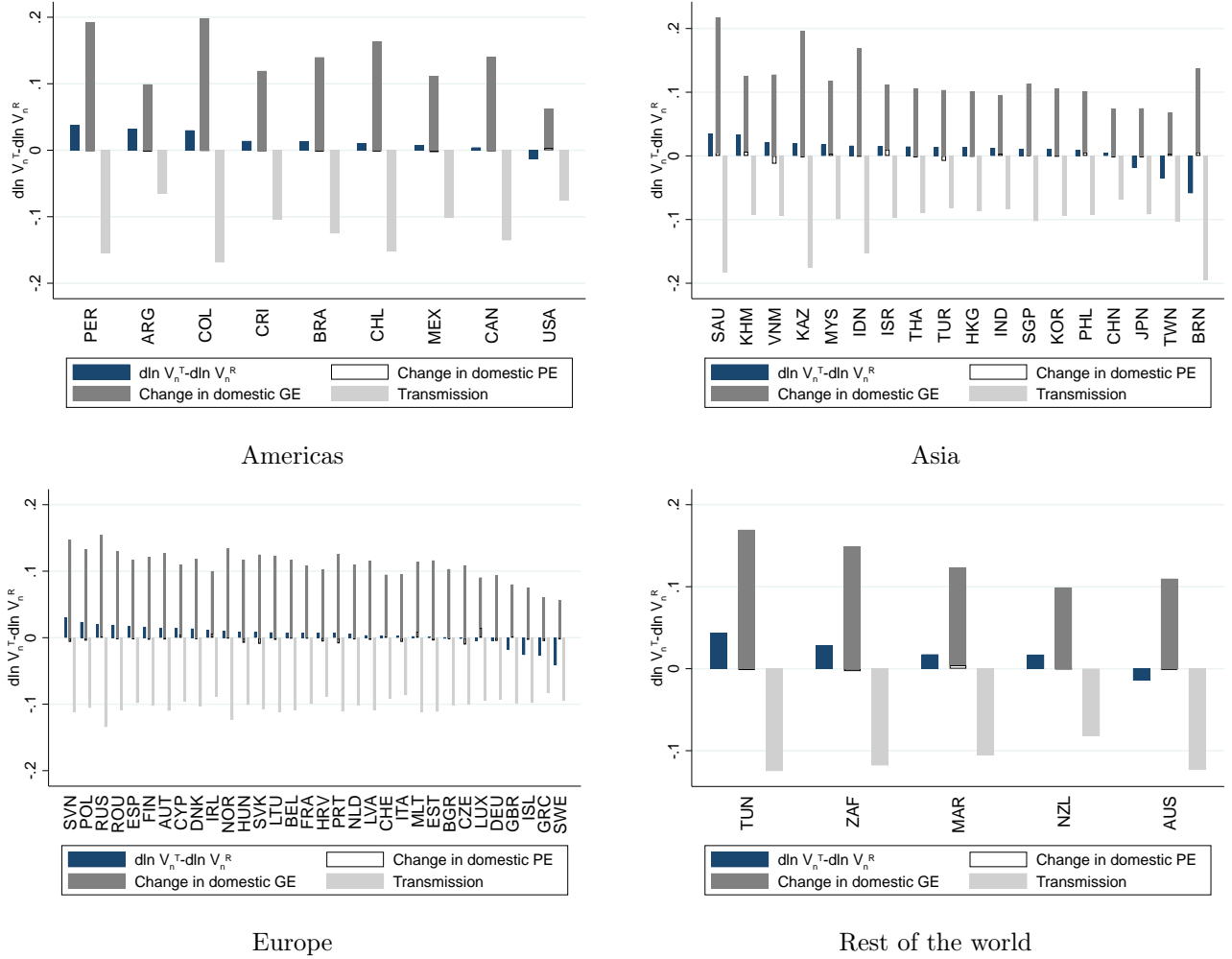
FIGURE 4: GDP Responses to the Labor Supply Shock



**Notes:** This figure displays the change in GDP following the labor supply shock described in Section 3. The first bar represents the change in GDP under trade, decomposed into domestic shock (dark blue) and transmission (white bar), while the second bar in light gray represents the change in GDP in the renationalized supply chains scenario.

which the supply chains have been renationalized. The gray bars in Figure 4 plot counterfactual declines in GDP for the same shock in a world where supply chains are domestic. It turns out that GDP declines would actually be larger in this counterfactual world economy, for most but not all countries. The mean decline in GDP in the renationalized equilibrium is  $-32.3\%$  in our sample, slightly worse than the decline with international supply chains. The renationalized equilibrium also features substantially larger cross-country dispersion of GDP changes. The standard deviation of GDP change is  $5.4\%$  in the renationalized scenario compared to  $3.9\%$  under trade (Table A4). Not surprisingly, participation in global supply chains synchronizes GDP changes across countries.

FIGURE 5: Difference in GDP Change between Trade and Renationalized Equilibria



**Notes:** This figure decomposes the change in the reaction of GDP to the labor supply shock between the baseline trade economy ( $d\ln V_n^T$ ) and the renationalized supply chains economy ( $d\ln V_n^R$ ), according to the decomposition in equation (2.16). The dark blue bar is the total difference, the white bar is the change in domestic PE, the dark gray bar is the change in domestic GE, and the light gray bar is the transmission.

To help understand this result, Figure 5 implements the accounting decomposition (2.16). The blue bars are the difference in GDP change in trade relative to autarky, the left-hand side of (2.16). A positive value of the bar indicates that GDP falls by *less* in the current trade equilibrium relative to the renationalization scenario, that is, global supply chains mitigate the fall in GDP. The light gray bars are the transmission terms  $\mathcal{T}_n$ , which are all negative. All else equal, GDP falls by more in the trade equilibrium because foreign shocks can now also reduce domestic GDP.

The transmission terms paint an incomplete picture, however, because the influence of domestic

sectors will also change. The white and dark gray bars plot the changes in the PE and GE components of domestic influence. The total change in domestic influence (the sum of both stacked bars) is always positive: in the trade equilibrium, most economies are *more* resilient to their own domestic shocks than they would be in autarky. The change in the partial equilibrium is small for most countries, implying that most of the change in domestic influence comes through general equilibrium input-output effects.

The net result of these opposing effects is that most countries would experience smaller GDP reductions in the current trade equilibrium than they would in a world of renationalized global supply chains. Put plainly, eliminating reliance on foreign inputs increases reliance on the domestic inputs. Since a pandemic-related lockdown also affects domestic sectors, there is no benefit of resilience from renationalizing the international supply chains.

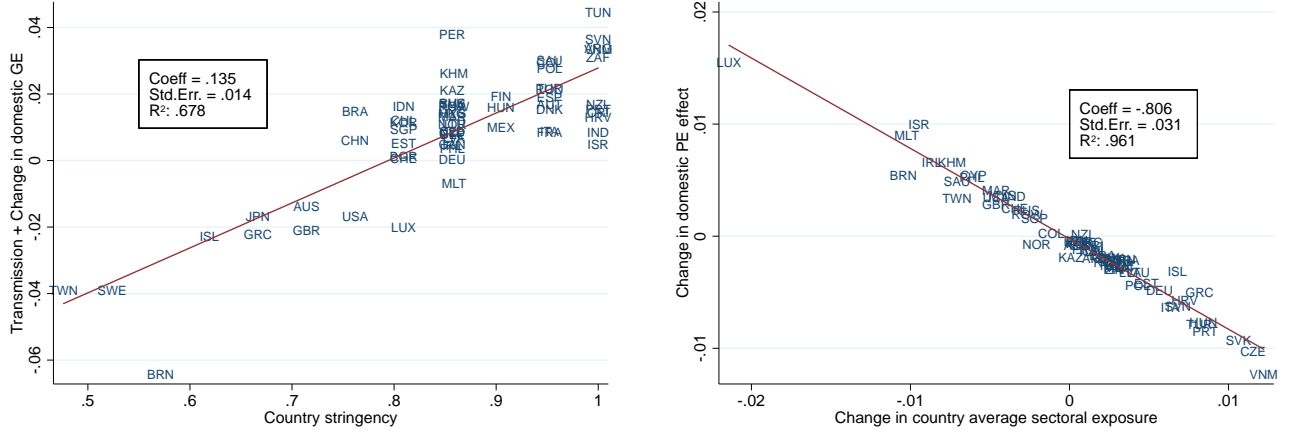
There is also a modest amount of variation across countries, however. A number of important economies: Japan, Taiwan, Greece, and Sweden, among others, would be more resilient to the pandemic-related lockdown if their supply chains were renationalized. The opposite is true of some East European (Slovenia, Poland, Russia) and Latin American (Peru, Argentina, Colombia) countries.

To better understand this variation, the left panel of Figure 6 plots the combined general equilibrium terms (domestic GE term and international transmission) against a country’s lockdown stringency. There is a tight positive relationship between the two, with a bivariate  $R^2$  of nearly 0.7. Countries with most stringent lockdowns are better off with international supply chains, and vice versa. This is intuitive. A country with the most stringent lockdown is trading with countries with less severe lockdowns. Thus, the reduction in the supply of foreign inputs is lower than the reduction in the corresponding domestic inputs, since these are subject to a severe lockdown.

To highlight a source of remaining variation, the right panel of Figure 6 plots the change in domestic PE against the change in the country-level exposure to the labor shock, defined as the Domar-weighted sectoral exposure from Table A3. A country where participation in international supply chains increases the size of sectors where work cannot be done from home becomes relatively less resilient to domestic shocks in the trade equilibrium, and vice versa. As evident from Figure 4, the PE component is barely perceptible for most countries, and so a reshuffling of employment across sectors with different work-from-home intensities is not a large effect quantitatively.

**Sensitivity** Appendix B reports the main results under alternative values of  $\rho$ ,  $\kappa$ , and  $\psi$ . A higher elasticity in the final goods aggregator,  $\rho$ , makes a country less sensitive to the variation in other countries’ production. Therefore the importance of the transmission term  $\mathcal{T}_n$  is smaller in this case. When we change  $\rho$  from 0.2 to 1, the average share of contribution of transmission in GDP reduction

FIGURE 6: Correlates of the PE and GE Effects



Transmission and change in domestic GE ( $\mathcal{T}_n + \text{GE}$ )

Change in domestic PE

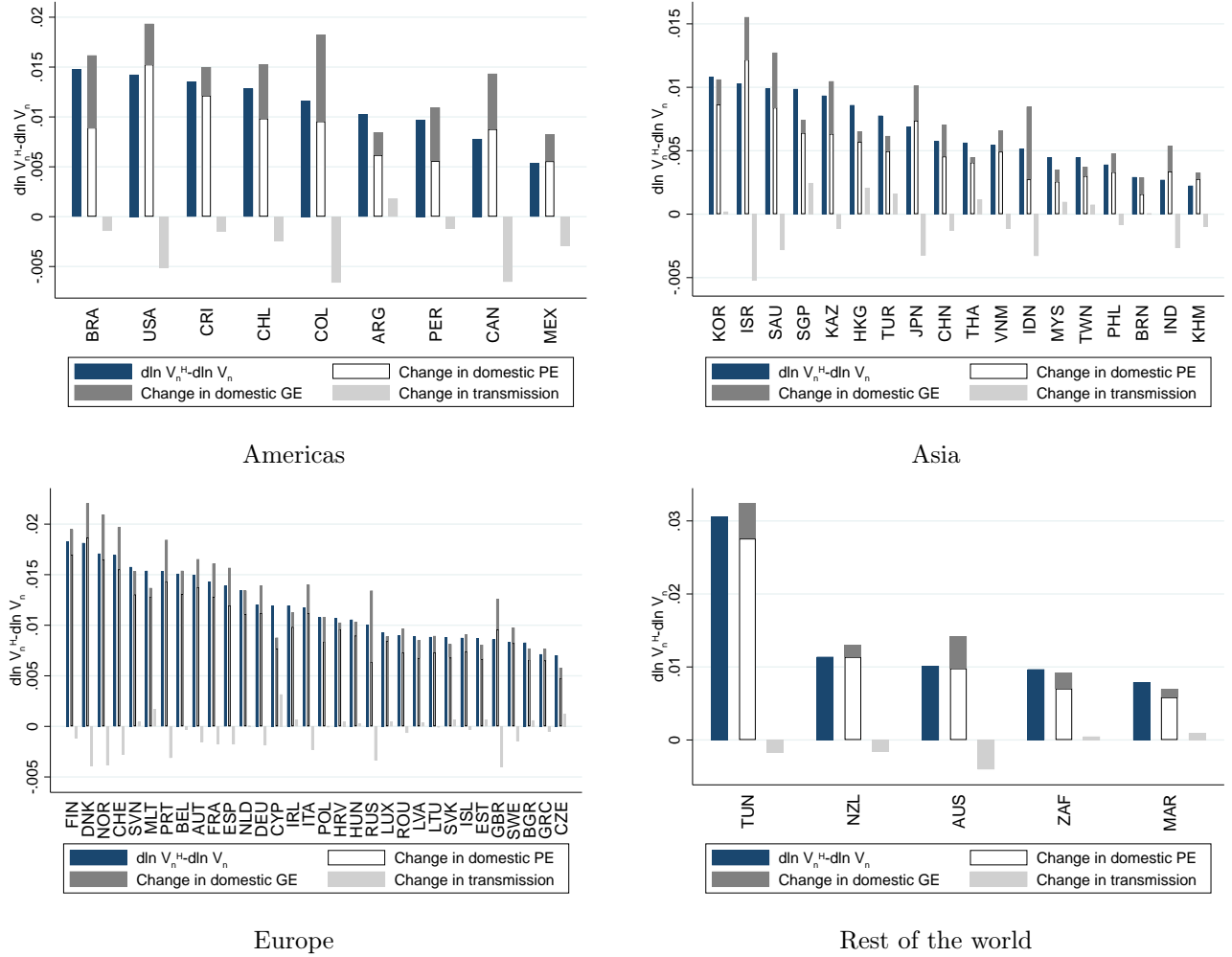
**Notes:** This figure presents scatterplots of the terms of the decomposition (2.16) against heuristic measures. The right panel displays the change in domestic PE against the change in the country-level exposure, computed as the Domar-weighted sum of sectoral exposure in from Table A3. The left panel displays the sum of the change in GE and Transmission against the country lockdown stringency. The lines through the data are OLS fits. The boxes report slope coefficient estimates, robust standard errors, and the  $R^2$ 's of the bivariate regression.

decreases by 4% in the trade economy. The elasticity across occupations  $\kappa$  matters for how a shock in one occupation spills over to other occupations. In our exercises, almost all occupations are affected and few sectors concentrate on a particular occupation to the exclusion of others. Therefore, the quantitative effect of varying  $\kappa$  is mild. With a lower Frisch elasticity  $\psi$ , workers are less responsive to negative labor supply shocks. As a result, the total fall in GDP is smaller and the relative importance of domestic GE and international transmission is weakened. When changing the Frisch elasticity from 2 to 1, the average GDP reduction changes from 31.5% to 28.2%. Even with  $\psi = 1$ , the GE effects remain the main driving force of the GDP changes. When  $\psi = 0.2$ , the PE effects start to play a role comparable to the GE effects. All in all, the directions and magnitudes of the effects discussed in our baseline model are not especially sensitive to  $\rho$  and  $\kappa$ , and vary in an intuitive way with  $\psi$ .

**Increased long-run demand for health services** Our next counterfactual simulates a pandemic shock in a world with permanently increased demand for health services. To do this, we first compute a new pre-shock “high-health” steady state, in which the share of health expenditures in total final expenditures is twice as large as in the baseline. The mean share of health expenditures is 5% in our sample of countries, and thus in the “high-health” scenario it increases to 10% for the average country. We then simulate the same lockdown in this alternative economy. The experiment is designed to



FIGURE 7: Difference in GDP Change between Large Health Sector Scenario and Baseline



**Notes:** This figure displays the decomposition (2.16) of the GDP contraction difference between the high-health scenario ( $\ln V_n^H$ ) and the baseline ( $\ln V_n$ ). The dark blue bar is the total difference, the white bar is the change in domestic PE, the dark gray bar is the change in domestic GE, and the light gray bar is the change in Transmission.

reflect the fact that the Health sector becomes more important in the pandemic.

The blue bars in Figure 7 plot the difference in GDP change in the high-health economy relative to the baseline economy. A positive value indicates that the GDP downturn is less severe in the “high-health” scenario. All the values are positive, which is sensible as the Health sector is not subject to the lockdown, and thus increasing the relative size of the health sector will lead to a smaller GDP contraction. The difference is small overall, ranging from 0.2% to 3% (whereas the GDP fall is on the order of 30%).

The white and gray bars in Figure 7 implement the PE/GE/International transmission decomposition

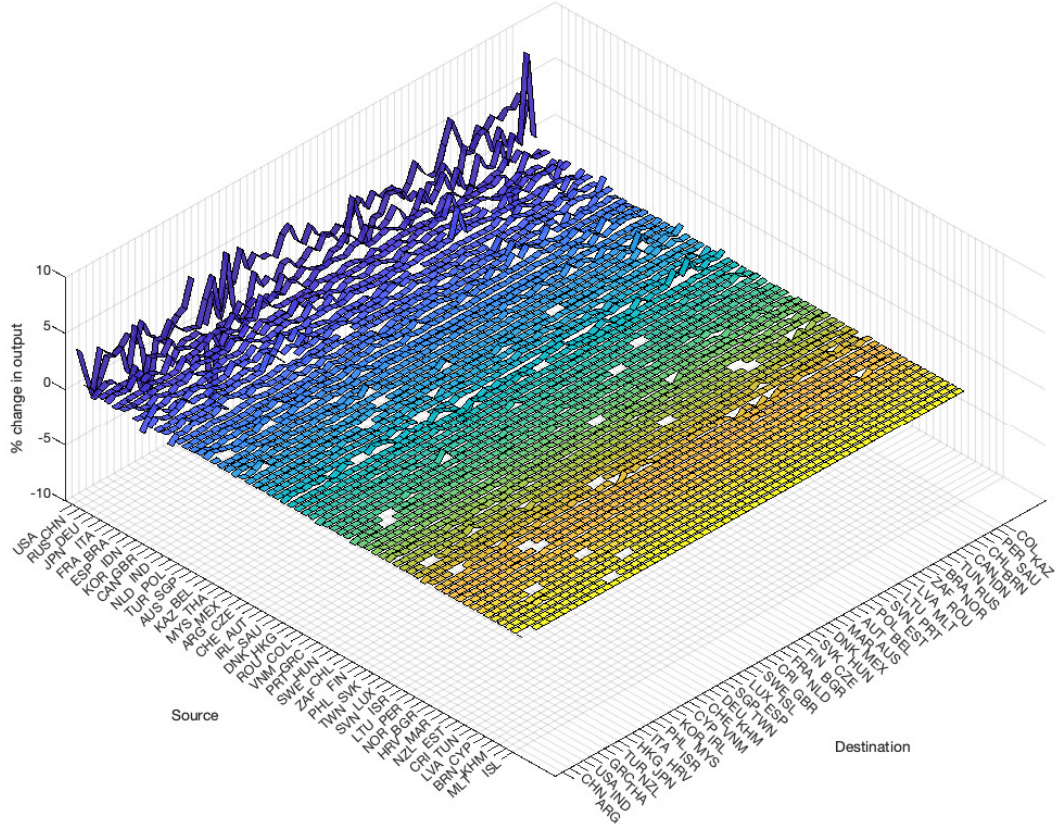
(2.16). The white bar displays the difference in domestic PE. In this experiment, the domestic PE effect is the largest, accounting for the majority of the total GDP change. The difference in GDP contraction in the “high-health” economy compared to the baseline is accounted for by the fact that the high-health economy reallocates expenditure towards the sector not subject to the negative labor supply shock. The domestic GE effect is in dark gray. It ends up being positive, but small. We conjecture that the relatively small domestic GE effect here is due to the fact that the Health sector used relatively few inputs (Figure 3), and thus its ability to stimulate demand for upstream inputs is limited. The change in international transmission is small compared to the domestic effects, and changes sign from country to country. This is consistent with the fact that the health sector is relatively non-tradeable and used few foreign inputs.

**Reopening** Finally, we simulate the lifting of the lockdown restrictions. The model does not exhibit asymmetries in the responses to positive vs. negative shocks. Thus, the GDP change following a worldwide end to the lockdown is essentially the negative of the GDP changes reported in Figure 4. By the same token, the negative of the blue bars in the figure show what would happen if to an individual country’s GDP if it were the only one to reopen while the rest of the world stayed in lockdown. Since most of the GDP impact is due to the domestic lockdown policies, unilateral reopening will achieve most of the GDP rebound even if other countries stay under lockdown. Similarly, the negative of the white portions of the bars give GDP changes in the opposite scenario: the rest of the world lifts restrictions while the country in question stays under lockdown. As long as the country itself is under lockdown, the bounce expected from foreign opening is comparatively modest.

To give the opening scenarios a bit more texture, and because the timing of opening up is likely to be staggered across countries, we simulate opening up scenarios country-by-country, and plot the entire vector of other countries’ GDP changes in Figure 8. The axis labeled “Source” refers to the country whose reopening is being simulated. The axis labeled “Destination” refers to the country whose GDP change is being plotted. Thus, the figure plots the GDP change in “Destination” following the lifting of a lockdown in “Source.” Countries on both axes are sorted in descending order of impact. Thus, countries in the left end of the Source axis are those whose opening has the largest impact on other countries in the world. Finally, we suppress the own country impact, as those values would swamp the variation in the plots (this explains the scattered “blanks” in the picture).

Not surprisingly, opening of the largest economies – US, China, Russia, Germany, Japan – would have the greatest impact on others. These countries’ opening can raise GDP in some of the most tightly linked countries by up to 6-8% in some cases, or decrease GDP in some by up to 3%. By contrast, since most countries are small, their opening will have a negligible impact on the rest of the world.

FIGURE 8: GDP Changes due to Unilateral Reopening



**Notes:** This figure displays the change in real GDP in countries on the “Destination” axis resulting from ending the lockdowns of the country on the “Source” axis. Impacts of ending lockdowns on own GDP are omitted.

## 5 Conclusion

Global supply chains are a central feature of the world economy. As most countries go into lockdowns, there are concerns about both the present and the future. In the present, global supply chains are widely believed to transmit the crisis across countries. The future is forecasted to bring about at least some renationalization of the supply chains.

This paper performs a quantitative assessment of the role of global supply chains in the pandemic. While foreign lockdowns undoubtedly contribute to the size of economic downturns experienced by countries, the majority of GDP contractions comes from the domestic lockdown policies. By and large, severing global supply chains will not make countries more resilient to pandemic-style labor

supply shocks. This is because reducing the importance of foreign inputs mechanically increases the importance of domestic inputs. If domestic inputs are also subject to lockdowns, renationalization doesn't help mitigate the size of the contraction. Renationalization will make the economy more resilient if the country plans to have a less stringent lockdown than its trading partners, and vice versa.

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# APPENDIX

## Appendix A Influence vector

**Proof of Proposition 1:** The derivation of the influence vector follows closely the steps in [Huo, Levchenko, and Pandalai-Nayar \(2020\)](#). In this appendix, we derive the influence matrix under the assumption that there is only one group for the final good consumption. The more general case with multiple groups is a straightforward extension of the current analysis.

**Demand-side linearization** The market clearing condition and the balance of payment condition require

$$\begin{aligned} P_{nj}Y_{nj} &= \sum_m P_m \mathcal{F}_m \pi_{nmj}^f + \sum_m \sum_i (1 - \eta_i) P_{mi} Y_{mi} \pi_{nj,mi}^x \\ P_m \mathcal{F}_m &= \sum_i \eta_{mi} P_{mi} Y_{mi}. \end{aligned}$$

The log-linearized version is

$$\begin{aligned} \ln P_{nj} + \ln Y_{nj} &= \sum_m \sum_i \frac{\eta_i P_{mi} Y_{mi} \pi_{nmj}^f}{P_{nj} Y_{nj}} (\ln P_{mi} + \ln Y_{mi}) + \sum_m \frac{P_m \mathcal{F}_m \pi_{nmj}^f}{P_{nj} Y_{nj}} \ln \pi_{nmj}^f \\ &+ \sum_m \sum_i \frac{(1 - \eta_i) P_{mi} Y_{mi} \pi_{nj,mi}^x}{P_{nj} Y_{nj}} (\ln P_{mi} + \ln Y_{mi} + \ln \pi_{nj,mi}^x) \end{aligned} \quad (\text{A.1})$$

where

$$\ln \pi_{nj,mi}^x = (1 - \varepsilon) \sum_{k,l} \pi_{kl,mi}^x (\ln P_{nj} - \ln P_{k\ell}) \quad (\text{A.2})$$

$$\ln \pi_{nmj}^f = (1 - \gamma) \sum_{k,\ell} \pi_{km\ell}^f (\ln P_{nj} - \ln P_{k\ell}). \quad (\text{A.3})$$

Define the following share matrices:

1.  $\Psi^f$  is an  $NJ \times N$  matrix whose  $(nj, m)$ th element is  $\frac{\pi_{nmj}^f P_m \mathcal{F}_m}{P_{nj} Y_{nj}}$ . That is, this matrix stores the share of total revenue in the country-sector in the row that comes from final spending in the country in the column.
2.  $\Psi^x$  is an  $NJ \times NJ$  matrix whose  $(nj, mi)$ th element is  $\frac{(1 - \eta_i) \pi_{nj,mi}^x P_{mi} Y_{mi}}{P_{nj} Y_{nj}}$ . That is, this matrix stores the share of total revenue in the country-sector in the row that comes from intermediate spending in the country-sector in the column.
3.  $\Upsilon$  is an  $N \times NJ$  matrix whose  $(n, mi)$ th element is  $\frac{\eta_i P_{mi} Y_{mi}}{P_n \mathcal{F}_n}$ . That is, this matrix stores the share of value added in the country-sector in the column in total GDP of the country in the row. Note that these are zero whenever  $m \neq n$ .
4.  $\Pi^f$  is an  $N \times NJ$  matrix whose  $(m, k\ell)$ th element is  $\pi_{km\ell}^f$ . That is, this matrix stores the final expenditure share on goods coming from the column in the country in the row.
5.  $\Pi^x$  is an  $NJ \times NJ$  matrix whose  $(k\ell, mi)$ th element is  $\pi_{mi,k\ell}^x$ . That is, this matrix stores the intermediate expenditure share on goods coming from the column in the country-sector in the row.
6.  $\Pi^{\mathcal{O}}$  is an  $NJ \times N\mathcal{O}$  matrix whose  $(nj, n\ell)$ th element is  $\pi_{nj\ell}^{\mathcal{O}}$ . That is, this matrix stores the expenditure share on occupation  $\ell$  in country  $n$  sector  $j$ .



Then, equation (A.1) can be stated in matrix form:

$$\begin{aligned}\ln \mathbf{P}_t + \ln \mathbf{Y}_t = & \left( \Psi^f \Upsilon + \Psi^x \right) (\ln \mathbf{P}_t + \ln \mathbf{Y}_t) + (1 - \gamma) \left( \text{diag}(\Psi^f \mathbf{1}) - \Psi^f \Pi^f \right) \ln \mathbf{P}_t \\ & + (1 - \varepsilon) \left( \text{diag}(\Psi^x \mathbf{1}) - \Psi^x \Pi^x \right) \ln \mathbf{P}_t.\end{aligned}$$

This allows us to express prices as a function of quantities,  $\ln \mathbf{P} = \ln \mathbf{Y}$ , where<sup>12</sup>

$$\begin{aligned}\mathcal{P} = & - \left( \mathbf{I} - \mathcal{M} \right)^+ \left( \mathbf{I} - \Psi^f \Upsilon - \Psi^x \right) \\ \mathcal{M} = & \Psi^f \Upsilon + \Psi^x + (1 - \rho) \left( \text{diag}(\Psi^f \mathbf{1}) - \Psi^f \Pi^f \right) + (1 - \varepsilon) \left( \text{diag}(\Psi^x \mathbf{1}) - \Psi^x \Pi^x \right).\end{aligned}$$

Turn to the labor market. The log-linearized intratemporal Euler condition for the labor supply in occupation  $\ell$  country  $n$  is

$$\ln L_{n\ell} = \psi (\ln W_{n\ell} - \ln P_n) + (1 + \psi) \ln \xi_{n\ell}.$$

The labor demand for occupation  $\ell$  in sector  $j$  country  $n$ ,  $L_{nj\ell}$ , is

$$\ln L_{nj\ell} = \ln Y_{nj} + \ln P_{nj} - \ln W_{n\ell} + (1 - \kappa) \sum_{\iota} \pi_{nj\iota}^{\mathcal{O}} (\ln W_{n\ell} - \ln W_{n\iota})$$

The labor market clearing condition for occupation  $\ell$  is

$$\ln L_{n\ell} = \sum_{j=1}^N \Lambda_{nj\ell} \ln L_{nj\ell}$$

Equating labor demand and labor supply leads to

$$\psi (\ln W_{n\ell} - \ln P_n) + (1 + \psi) \ln \xi_{n\ell} = \sum_{j=1}^N \Lambda_{nj\ell} (\ln Y_{nj} + \ln P_{nj}) - \ln W_{n\ell} + \sum_{j=1}^N \sum_{\iota=1}^{\mathcal{O}} (1 - \kappa) \Lambda_{nj\ell} \pi_{nj\iota}^{\mathcal{O}} (\ln W_{n\ell} - \ln W_{n\iota})$$

In matrix form, it can be written as

$$\Delta \ln \mathbf{W} = - \ln \boldsymbol{\xi} + \frac{1}{1 + \psi} \mathbf{A} (\ln \mathbf{Y} + \ln \mathbf{P}) + \frac{\psi}{1 + \psi} (\mathbf{1} \otimes \Pi^f) \ln \mathbf{P} \quad (\text{A.4})$$

where

$$\Delta = \frac{\kappa + \psi}{1 + \psi} \mathbf{I} + \frac{1 - \kappa}{1 + \psi} \mathbf{A} \Pi^{\mathcal{O}}. \quad (\text{A.5})$$

The production function in sector  $j$  implies that

$$\ln Y_{nj} = \eta_j (1 - \alpha_j) \ln H_{nj} + (1 - \eta_j) \ln X_{nj}.$$

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<sup>12</sup>The + sign stands for the Moore-Penrose inverse. The non-invertibility is a consequence of the fact that the vector of prices is only defined up to a numeraire.

The first-order conditions with respect to the composite labor and intermediate goods lead to

$$\begin{aligned}\ln H_{nj} &= \ln Y_{nj} + \ln P_{nj} - \sum_{\iota} \pi_{nj\iota}^{\mathcal{O}} \ln W_{n\iota} \\ \ln X_{nj} &= \ln Y_{nj} + \ln P_{nj} - \sum_{k,i} \pi_{ki,nj}^x \ln P_{ki}.\end{aligned}$$

Combining the production function and the first-order conditions give

$$\ln \mathbf{Y} = \mathbf{\Theta} \ln \mathbf{H} \tag{A.6}$$

$$\ln \mathbf{H} = \ln \mathbf{Y} + \ln \mathbf{P} - \mathbf{\Pi}^{\mathcal{O}} \ln \mathbf{W}, \tag{A.7}$$

where  $\mathbf{\Theta}$  is

$$\mathbf{\Theta} = (\mathbf{I} - (\mathbf{I} - \boldsymbol{\eta})\mathbf{\Pi}^x)^{-1} \boldsymbol{\alpha} \boldsymbol{\eta}.$$

The influence matrix can be obtained by combining conditions (A.4) to (A.7):

$$\ln \mathbf{H} = \left( \mathbf{I} - \left( \mathbf{I} + \mathcal{P} - \frac{1}{1+\psi} \mathbf{\Pi}^{\mathcal{O}} \boldsymbol{\Delta}^{-1} (\boldsymbol{\Lambda} + \boldsymbol{\Lambda} \mathcal{P} + \psi \mathbf{\Pi}^f \mathcal{P}) \right) \mathbf{\Theta} \right)^{-1} \mathbf{\Pi}^{\mathcal{O}} \boldsymbol{\Delta}^{-1} \ln \boldsymbol{\xi}.$$

■

## Appendix B Data and Robustness

### B.1 Country, Sector, and Occupations Sample

Table A1 lists the occupations and their work-from-home intensities. Table A2 lists the countries in our sample, together with the code used in the graphs to report results. Table A3 displays the sectors with their corresponding ISIC rev. 4 composition. Table A4 lists the sectoral work-from-home shares.

TABLE A1: Occupation Sample

Code	Description	Work from home intensity
11	Management Occupations	0.900
13	Business and Financial Operations Occupations	0.895
15	Computer and Mathematical Occupations	1.000
17	Architecture and Engineering Occupations	0.645
19	Life, Physical, and Social Science Occupations	0.606
21	Community and Social Service Occupations	0.404
23	Legal Occupations	0.971
25	Education, Training, and Library Occupations	0.989
27	Arts, Design, Entertainment, Sports, and Media Occupations	0.823
29	Healthcare Practitioners and Technical Occupations	0.051
31	Healthcare Support Occupations	0.022
33	Protective Service Occupations	0.049
35	Food Preparation and Serving Related Occupations	0.000
37	Building and Grounds Cleaning and Maintenance Occupations	0.000
39	Personal Care and Service Occupations	0.248
41	Sales and Related Occupations	0.485
43	Office and Administrative Support Occupations	0.697
45	Farming, Fishing, and Forestry Occupations	0.021
47	Construction and Extraction Occupations	0.002
49	Installation, Maintenance, and Repair Occupations	0.004
51	Production Occupations	0.009
53	Transportation and Material Moving Occupations	0.058
99	Health Composite	0.254

**Notes:** This table list the occupations in our quantitative analysis. The health composite occupation is composed of the mix of occupations used by the Health *sector*. We display the share of work that can be done from home in this table for the health composite, but we do not use it in our quantitative analysis as health workers are assumed not to be subject to the lockdown.

TABLE A2: Country Sample

Code	Name	Code	Name
ARG	Argentina	KAZ	Kazakhstan
AUS	Australia	KHM	Cambodia
AUT	Austria	KOR	Korea
BEL	Belgium	LTU	Lithuania
BGR	Bulgaria	LUX	Luxembourg
BRA	Brazil	LVA	Latvia
BRN	Brunei Darussalam	MAR	Morocco
CAN	Canada	MEX	Mexico
CHE	Switzerland	MLT	Malta
CHL	Chile	MYS	Malaysia
CHN	China	NLD	Netherlands
COL	Colombia	NOR	Norway
CRI	Costa Rica	NZL	New Zealand
CYP	Cyprus	PER	Peru
CZE	Czech Republic	PHL	Philippines
DEU	Germany	POL	Poland
DNK	Denmark	PRT	Portugal
ESP	Spain	ROU	Romania
EST	Estonia	RUS	Russia
FIN	Finland	SAU	Saudi Arabia
FRA	France	SGP	Singapore
GBR	United Kingdom	SVK	Slovakia
GRC	Greece	SVN	Slovenia
HKG	Hong Kong	SWE	Sweden
HRV	Croatia	THA	Thailand
HUN	Hungary	TUN	Tunisia
IDN	Indonesia	TUR	Turkey
IND	India	TWN	Taiwan
IRL	Ireland	USA	United States
ISL	Iceland	VNM	Viet Nam
ISR	Israel	ZAF	South Africa
ITA	Italy		
JPN	Japan	ROW	Rest of the World

TABLE A3: Sector Sample

Code	Description	Sector grouping	ISIC 2d codes
01T03	Agriculture, forestry and fishing	M	01, 02, 03
05T09	Mining and Quarrying	M	05, 06, 07, 08, 09
10T12	Food products, beverages and tobacco	M	10, 11, 12
13T15	Textiles, wearing apparel, leather and related products	M	13, 14, 15
16	Wood and products of wood and cork	M	16
17T18	Paper products and printing	M	17, 18
19	Coke and refined petroleum products	M	19
20T21	Chemicals and pharmaceutical products	M	20, 21
22	Rubber and plastic products	M	22
23	Other non-metallic mineral products	M	23
24	Basic metals	M	24
25	Fabricated metal products	M	25
26	Computer, electronic and optical products	M	26
27	Electrical equipment	M	27
28	Machinery and equipment, nec	M	28
29	Motor vehicles, trailers and semi-trailers	M	29
30	Other transport equipment	M	30, 31, 32, 33
31T33	Other manufacturing; repair and installation of machinery and eqpmt	M	M
35T39	Electricity, gas, water, waste	S	35, 36, 37, 38, 39
41T43	Construction	S	41, 42, 43
45T47	Wholesale and retail trade; repair of motor vehicles	S	45, 46, 47
49T53	Transportation and storage	S	49, 50, 51, 52, 53
55T56	Accommodation and food services	S	55, 56
58T60	Publishing, audiovisual and broadcasting activities	S	58, 59, 60
61	Telecommunications	S	61
62T63	IT and other information services	S	62, 63
64T66	Financial and insurance activities	S	64, 65, 66
68	Real estate activities	S	68
69T82	Other business sector services	S	69, 70, 71, 72, 73, 74, 75 77, 78, 79, 80, 81, 82
84	Public admin. and defense; compulsory social security	S	84
85	Education	S	85
86T88	Human health and social work	H	86, 87, 88
90T98	Arts, entertainment, other services, households activities	S	90, 91, 92, 93, 94 95, 96, 97, 98

**Notes:** This table list the sectors in our quantitative analysis. The third column displays the sector classification into three groups: manufacture (M), services (S) and health (H).

TABLE A3: Sectoral Shares of Work that Can Be Done at Home

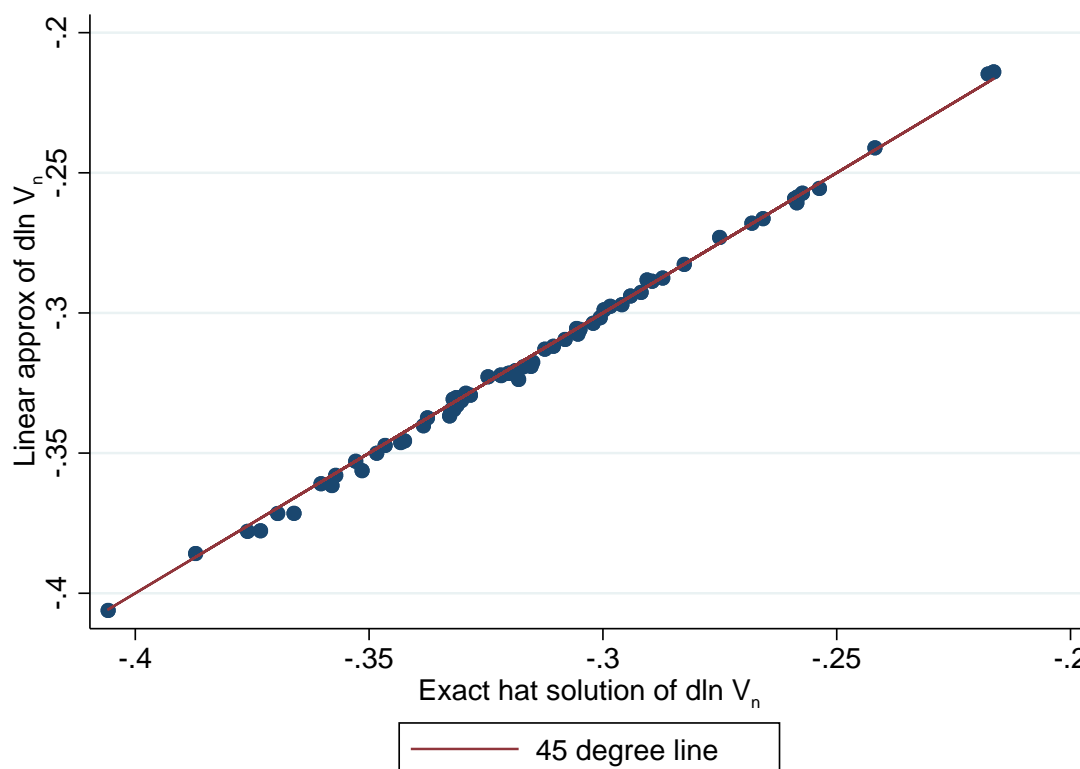
Sector code	Description	Work from home share	Exposure to work from home
01T03	Agriculture, forestry and fishing	0.134	0.113
05T09	Mining and Quarrying	0.363	0.134
10T12	Food products, beverages and tobacco	0.240	0.102
13T15	Textiles, wearing apparel, leather and related products	0.332	0.146
16	Wood and products of wood and cork	0.232	0.131
17T18	Paper products and printing	0.324	0.122
19	Coke and refined petroleum products	0.349	0.032
20T21	Chemicals and pharmaceutical products	0.471	0.069
22	Rubber and plastic products	0.296	0.132
23	Other non-metallic mineral products	0.291	0.133
24	Basic metals	0.268	0.088
25	Fabricated metal products	0.305	0.164
26	Computer, electronic and optical products	0.667	0.064
27	Electrical equipment	0.420	0.112
28	Machinery and equipment, nec	0.396	0.132
29	Motor vehicles, trailers and semi-trailers	0.230	0.112
30	Other transport equipment	0.496	0.109
31T33	Other manufacturing; repair and installation of machinery and equipment	0.295	0.171
35T39	Electricity, gas, water, waste	0.377	0.085
41T43	Construction	0.242	0.163
45T47	Wholesale and retail trade; repair of motor vehicles	0.475	0.162
49T53	Transportation and storage	0.299	0.159
55T56	Accommodation and food services	0.111	0.258
58T60	Publishing, audiovisual and broadcasting activities	0.808	0.047
61	Telecommunications	0.599	0.060
62T63	IT and other information services	0.903	0.033
64T66	Financial and insurance activities	0.786	0.054
68	Real estate activities	0.577	0.017
69T82	Other business sector services	0.638	0.117
84	Public admin. and defence; compulsory social security	0.485	0.259
85	Education	0.828	0.112
86T88	Human health and social work	0.247	0.377
90T98	Arts, entertainment, other services, households activities	0.479	0.181
Average		0.423	0.126

**Notes:** The first column reports the share of the labor input that can be provided from home, by sector. The sectoral measure is computed as an average of [Dingel and Neiman \(2020\)](#)'s work from home intensity at the occupational level, weighted using sectoral level expenditure shares on each occupation. The second column reports the sectoral exposure, defined as the share of total output accounted for by labor that cannot be done from home,  $(1 - \alpha_j)\eta_j(1 - \text{work from home}_j)$ .

## B.2 Robustness

**Fit of the linear approximation** Figure A1 assesses the fit of the linear approximation used in the main results by plotting the baseline changes in GDP against changes in GDP computed using exact hat algebra following [Dekle, Eaton, and Kortum \(2008\)](#)'s procedure. The dots all lie close to the 45 degree line, implying that the linear approximation is a good fit.

FIGURE A1: Fit of the Linear Approximation



**Notes:** This figure shows a scatterplot of the reaction of real GDP computed using the linear approximation against that computed using exact hat algebra following [Dekle, Eaton, and Kortum \(2008\)](#)'s procedure. The red line is a 45 degree line.

**Different elasticities** This section presents the main results of the paper with different elasticities. Table A4 summarizes the average declines in GDP in the baseline and under alternative elasticities. Figures A1 and A2 show the changes in real GDP and difference between baseline and renationalized scenario, when the elasticity of substitution in consumption between manufacture, service, and health groups ( $\rho$ ) is equal to 1. Figures A3 and A4 show the changes in real GDP and difference between baseline and renationalized scenario, when the elasticity of substitution in production across occupations ( $\kappa$ ) is equal to 0.2. Finally, Figures A5 (A7) and A6 (A8) show the changes in real GDP and difference between baseline and renationalized scenario, when the Frisch elasticity of labor supply ( $\psi$ ) is set to 1 (0.2). Overall, the numbers are very close to the baseline, except when the Frisch elasticity is lowered. In that case, the drop in GDP and transmission are lower, as hours don't react as much.

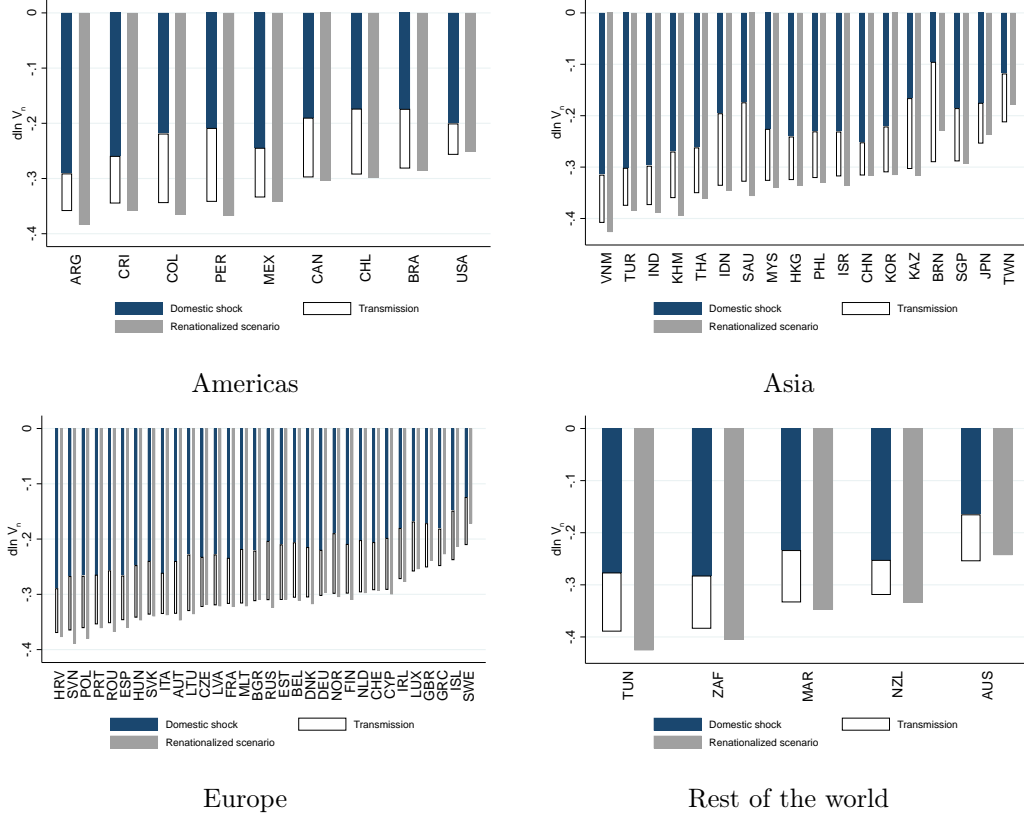
TABLE A4: Robustness checks summary

	Average drop in GDP		Share of	$d \ln V - d \ln V^R$
	Trade	Renationalized	transmission	
Baseline	-31.5% (3.9%)	-32.3% (5.4%)	34.7% (9.4%)	0.8% (1.8%)
$\rho = 1$	-31.6% (4.1%)	-32.2% (5.4%)	30.7% (7.9%)	0.5% (1.6%)
$\kappa = 0.2$	-31.5% (3.9%)	-32.3% (5.4%)	34.6% (9.4%)	0.8% (1.8%)
$\psi = 1$	-28.2% (3.9%)	-28.6% (4.8%)	26.5% (8.3%)	0.4% (1.3%)
$\psi = 0.2$	-23.2% (3.8%)	-23.3% (4.0%)	9.3% (3.9%)	0.5% (1.2%)

**Notes:** This table reports summary statistics of the results under alternative elasticities. Each row represents a robustness check where one elasticity has been changed. The table reports cross-country mean changes in GDP under trade (first column) and renationalized supply chains (second column), the share of transmission under trade (third column) and the difference in GDP change between trade and renationalized scenario (last column). In parentheses under each mean is the standard deviation in that value across countries.

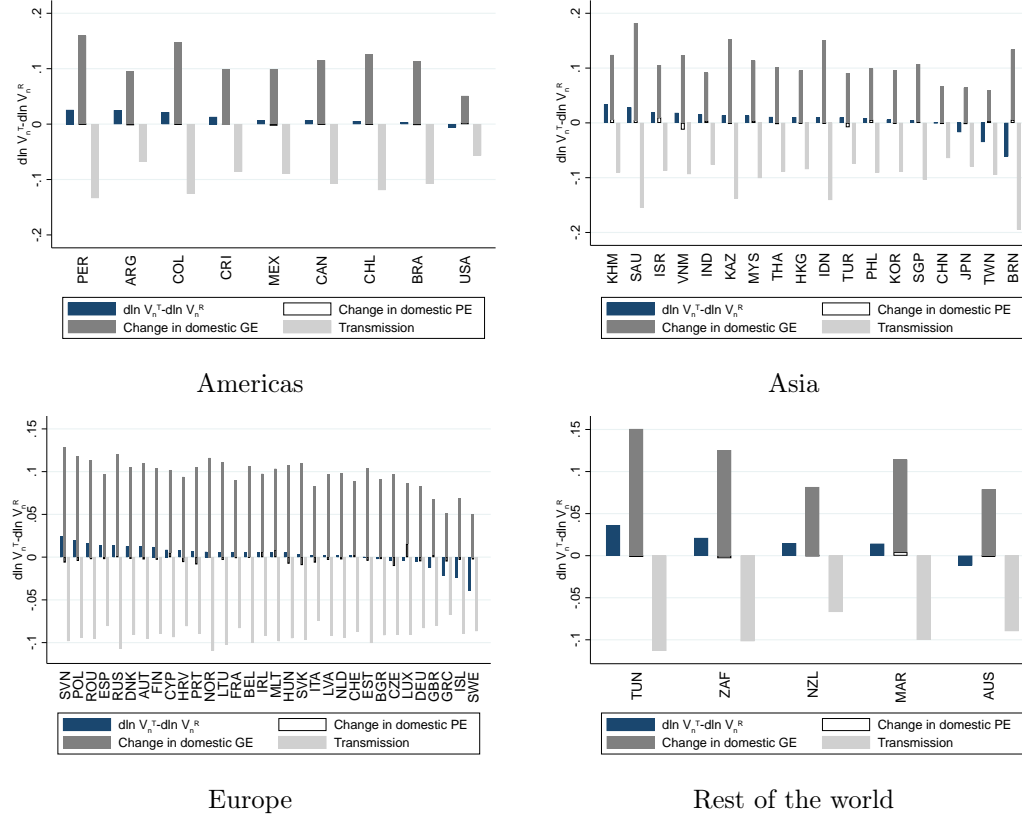


FIGURE A1: GDP Responses to the Labor Supply Shock,  $\rho = 1$



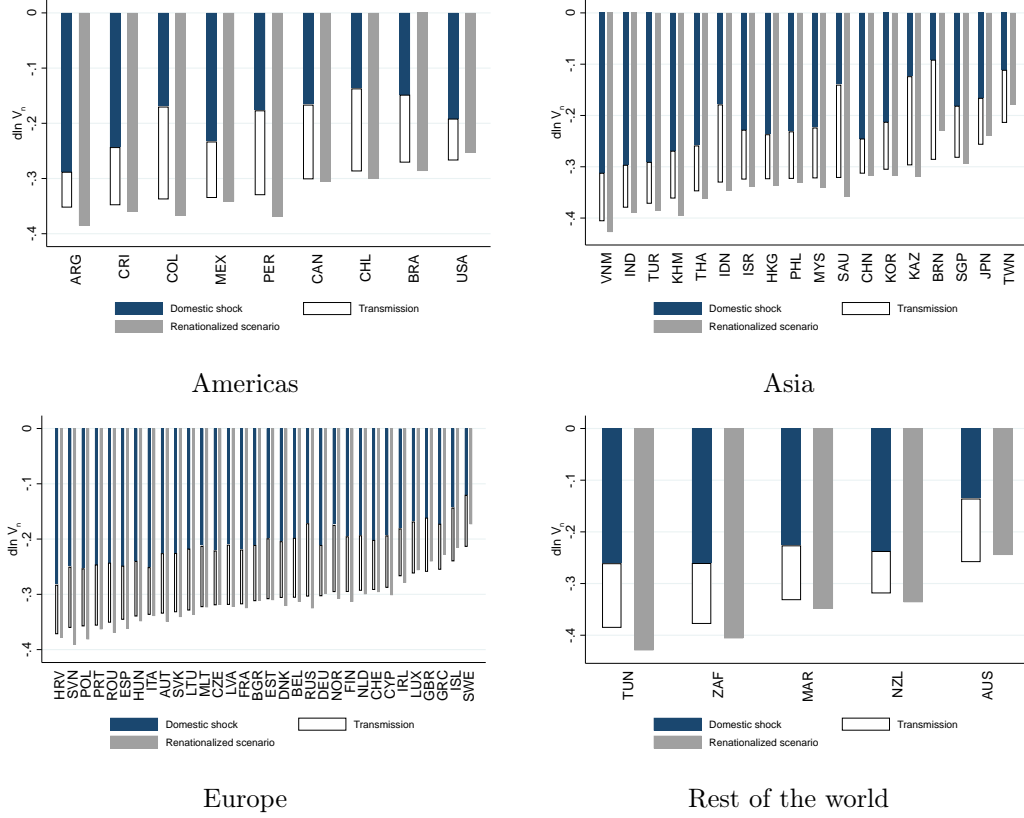
**Notes:** This figure displays the change in GDP following the labor supply shock described in Section 3, when the elasticity of substitution between consumption groups  $\rho$  is set to 1. The first bar represents the change in GDP under trade, decomposed into domestic shock (dark blue) and transmission (white bar), while the second bar in light gray represents the change in GDP in the renationalized supply chains scenario.

FIGURE A2: Difference in GDP Change between Trade and Renationalized Equilibria,  $\rho = 1$



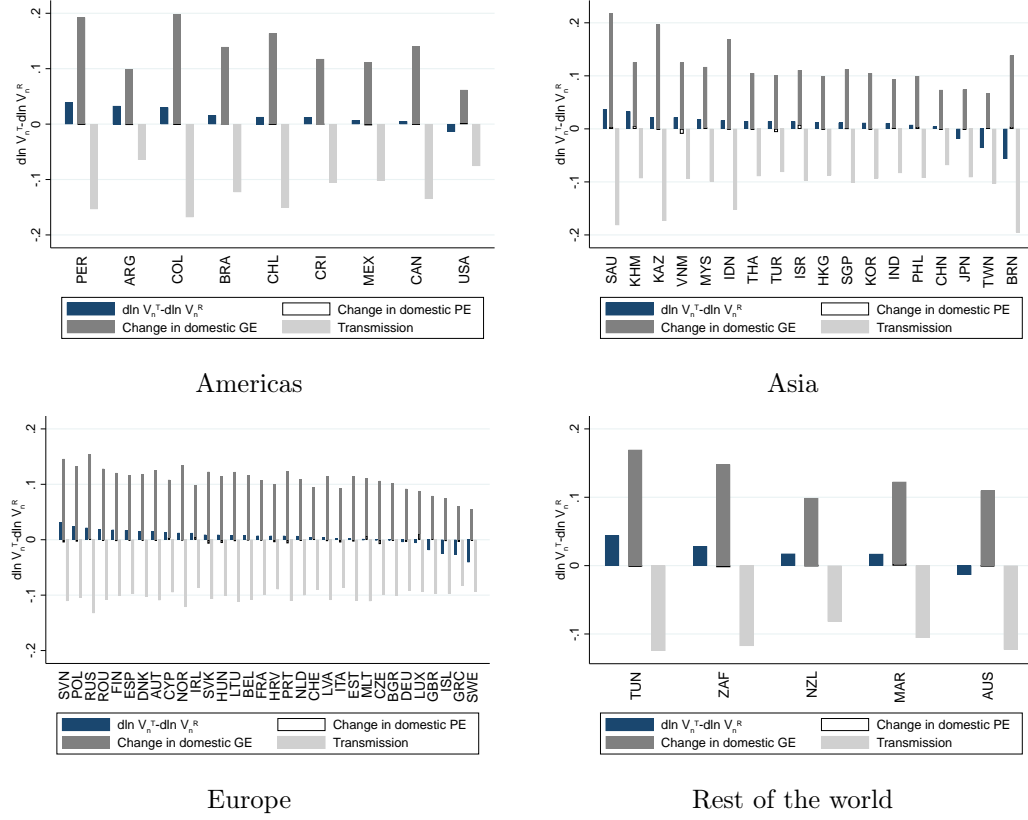
**Notes:** This figure decomposes the change in the reaction of GDP to the labor supply shock between the baseline trade economy ( $d\ln V_n^T$ ) and the renationalized supply chains economy ( $d\ln V_n^R$ ), according to the decomposition in equation (2.16), when the elasticity of substitution between consumption groups  $\rho$  is set to 1. The dark blue bar is the total difference, the white bar is the change in domestic PE, the dark gray bar is the change in domestic GE, and the light gray bar is the transmission.

FIGURE A3: GDP Responses to the Labor Supply Shock,  $\kappa = 0.2$



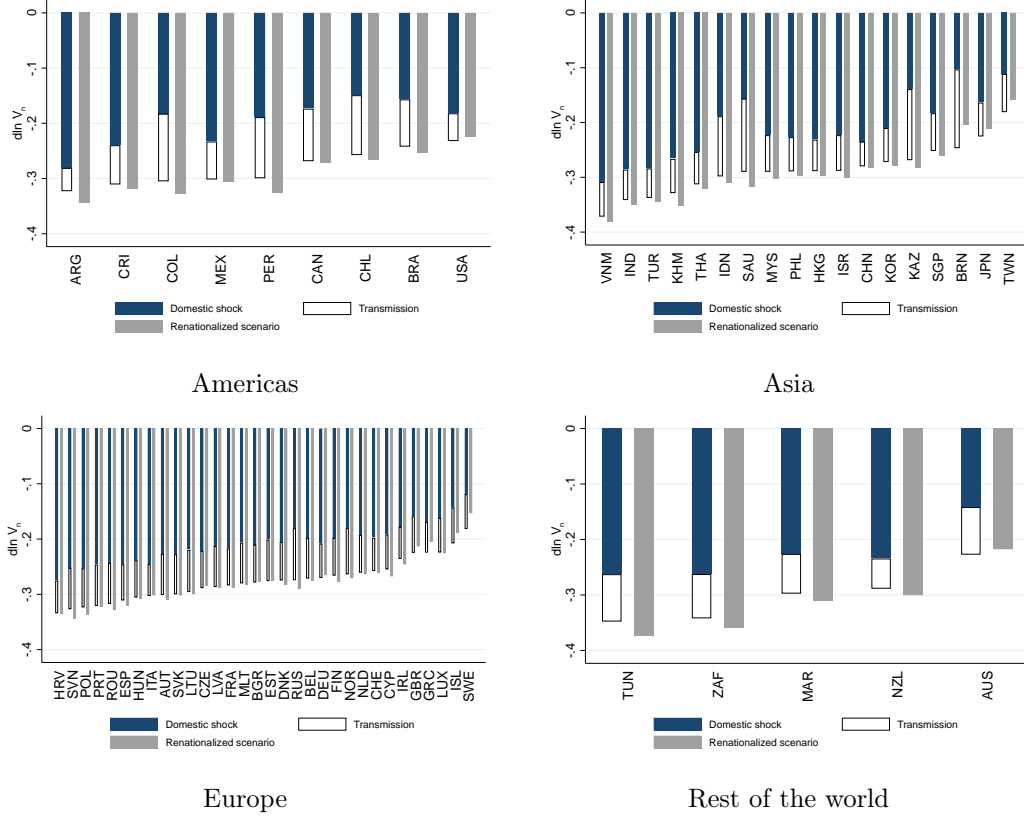
**Notes:** This figure displays the change in GDP following the labor supply shock described in Section 3, when the elasticity of substitution between occupations  $\kappa$  is set to 0.2. The first bar represents the change in GDP under trade, decomposed into domestic shock (dark blue) and transmission (white bar), while the second bar in light gray represents the change in GDP in the renationalized supply chains scenario.

FIGURE A4: Difference in GDP Change between Trade and Renationalized Equilibria,  $\kappa = 0.2$



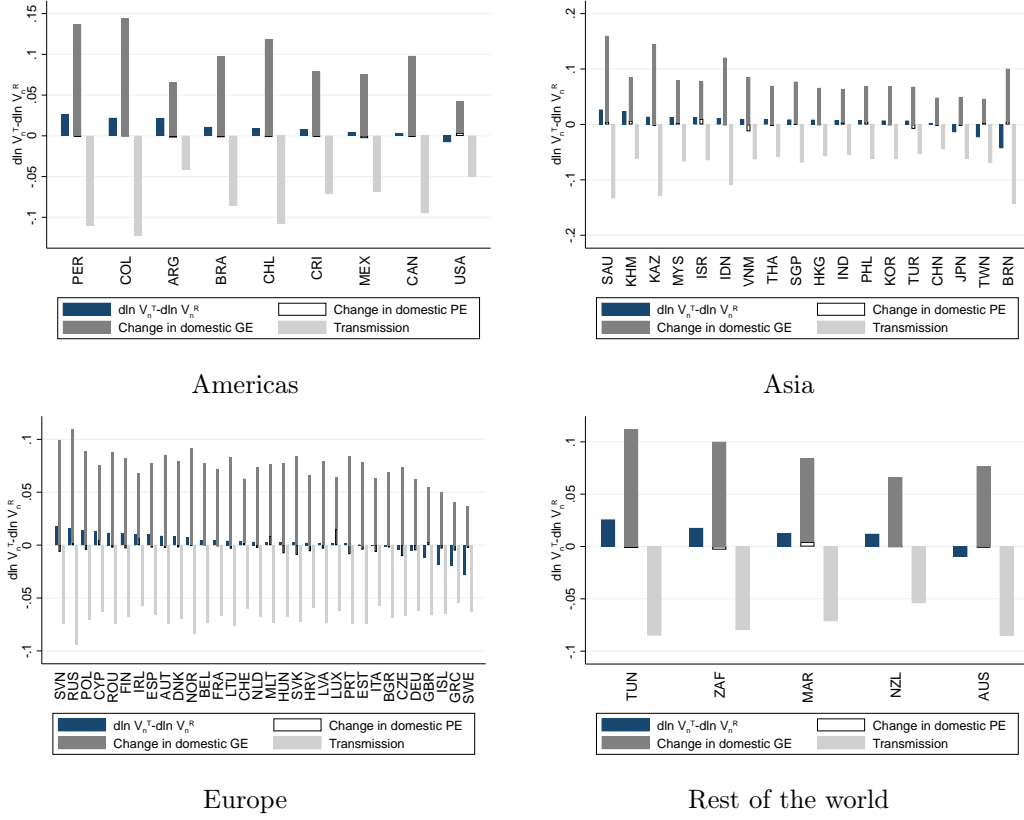
**Notes:** This figure decomposes the change in the reaction of GDP to the labor supply shock between the baseline trade economy ( $d\ln V_n^T$ ) and the renationalized supply chains economy ( $d\ln V_n^R$ ), according to the decomposition in equation (2.16), when the elasticity of substitution between occupations  $\kappa$  is set to 0.2. The dark blue bar is the total difference, the white bar is the change in domestic PE, the dark gray bar is the change in domestic GE, and the light gray bar is the transmission.

FIGURE A5: GDP Responses to the Labor Supply Shock,  $\psi = 1$



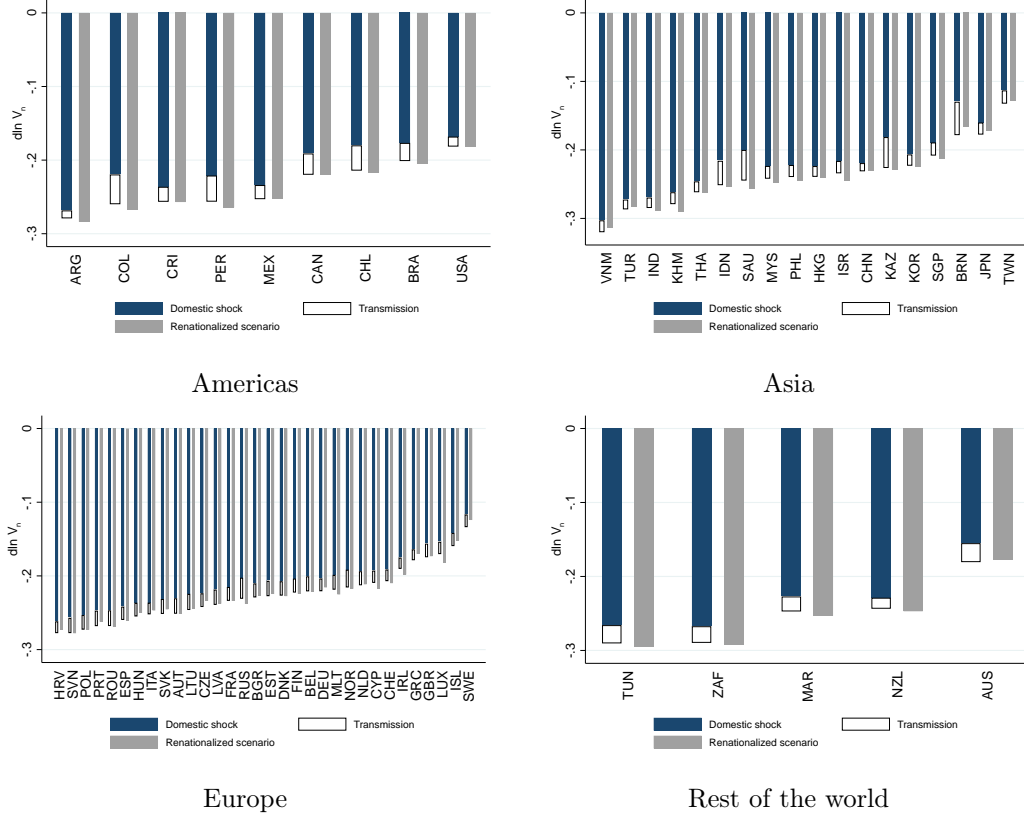
**Notes:** This figure displays the change in GDP following the labor supply shock described in Section 3, when the elasticity of labor supply is set to 1. The first bar represents the change in GDP under trade, decomposed into domestic shock (dark blue) and transmission (white bar), while the second bar in light gray represents the change in GDP in the renationalized supply chains scenario.

FIGURE A6: Difference in GDP Change between Trade and Renationalized Equilibria,  $\psi = 1$



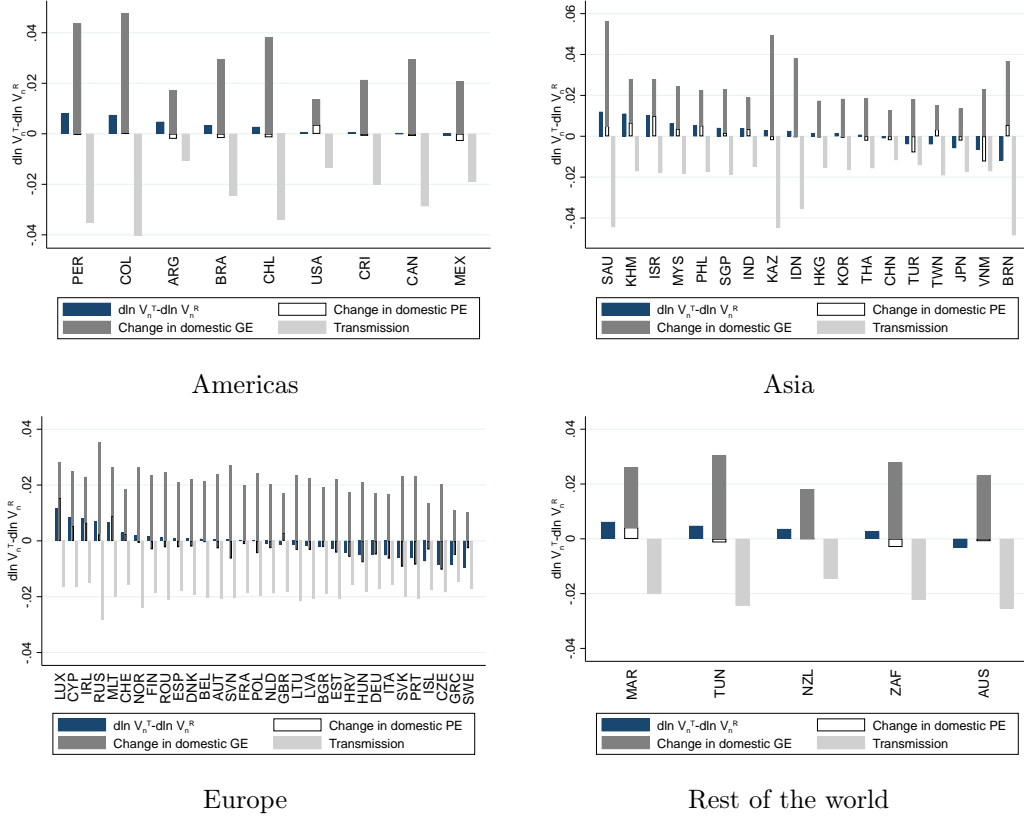
**Notes:** This figure decomposes the change in the reaction of GDP to the labor supply shock between the baseline trade economy ( $d\ln V_n^T$ ) and the renationalized supply chains economy ( $d\ln V_n^R$ ), according to the decomposition in equation (2.16), when the Frisch elasticity of labor supply is set to 1. The dark blue bar is the total difference, the white bar is the change in domestic PE, the dark gray bar is the change in domestic GE, and the light gray bar is the transmission.

FIGURE A7: GDP Responses to the Labor Supply Shock,  $\psi = 0.2$



**Notes:** This figure displays the change in GDP following the labor supply shock described in Section 3, when the elasticity of labor supply is set to 0.2. The first bar represents the change in GDP under trade, decomposed into domestic shock (dark blue) and transmission (white bar), while the second bar in light gray represents the change in GDP in the renationalized supply chains scenario.

FIGURE A8: Difference in GDP Change between Trade and Renationalized Equilibria,  $\psi = 0.2$



**Notes:** This figure decomposes the change in the reaction of GDP to the labor supply shock between the baseline trade economy ( $d\ln V_n^T$ ) and the renationalized supply chains economy ( $d\ln V_n^R$ ), according to the decomposition in equation (2.16), when the Frisch elasticity of labor supply is set to 0.2. The dark blue bar is the total difference, the white bar is the change in domestic PE, the dark gray bar is the change in domestic GE, and the light gray bar is the transmission.