Misthinking Globalisation

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Conventional view of globalisation

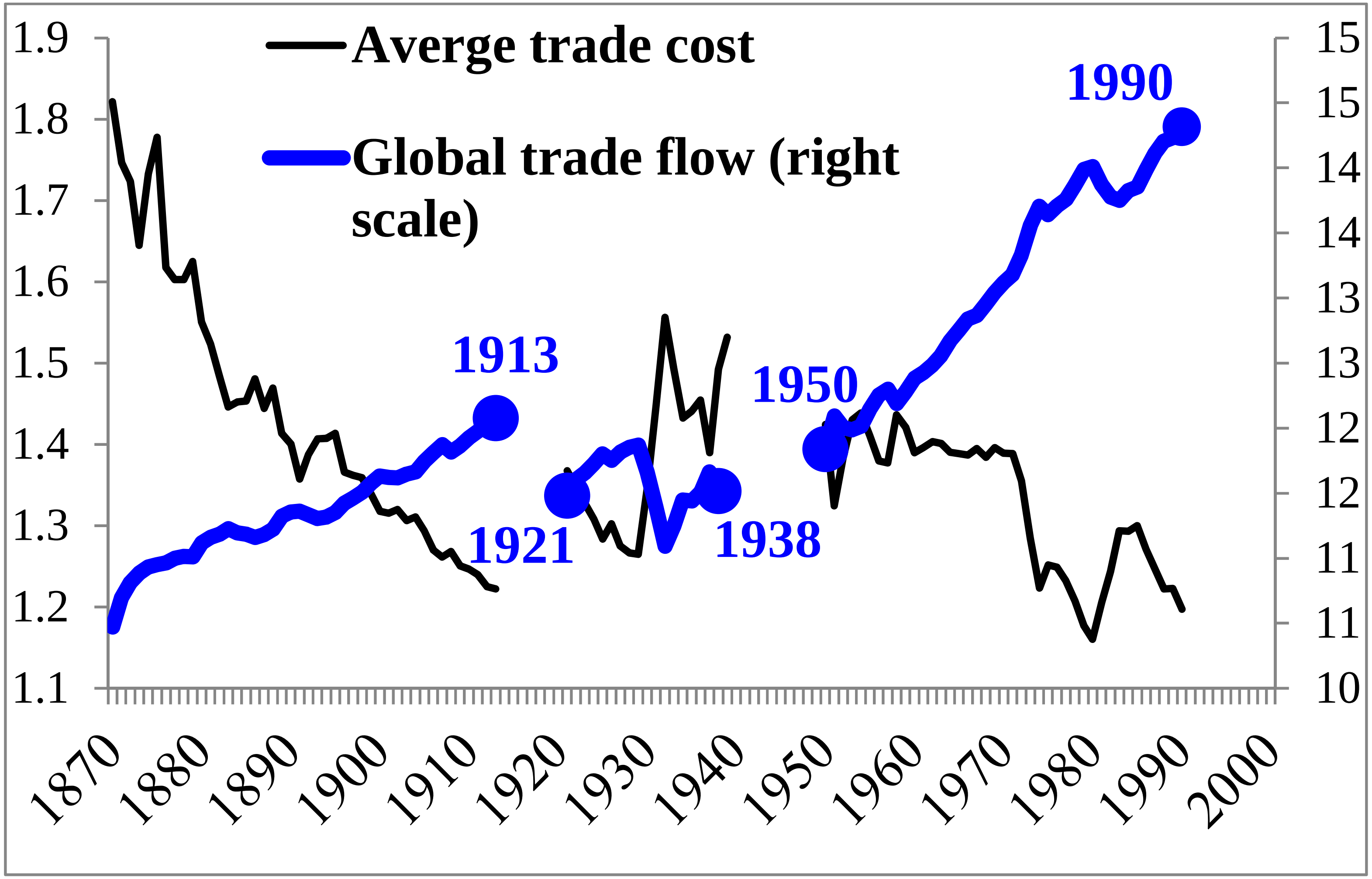
- No-trade to free-trade, slowly.

1870–1990: Globalisation ↔ Trade costs

1.Falling transport costs

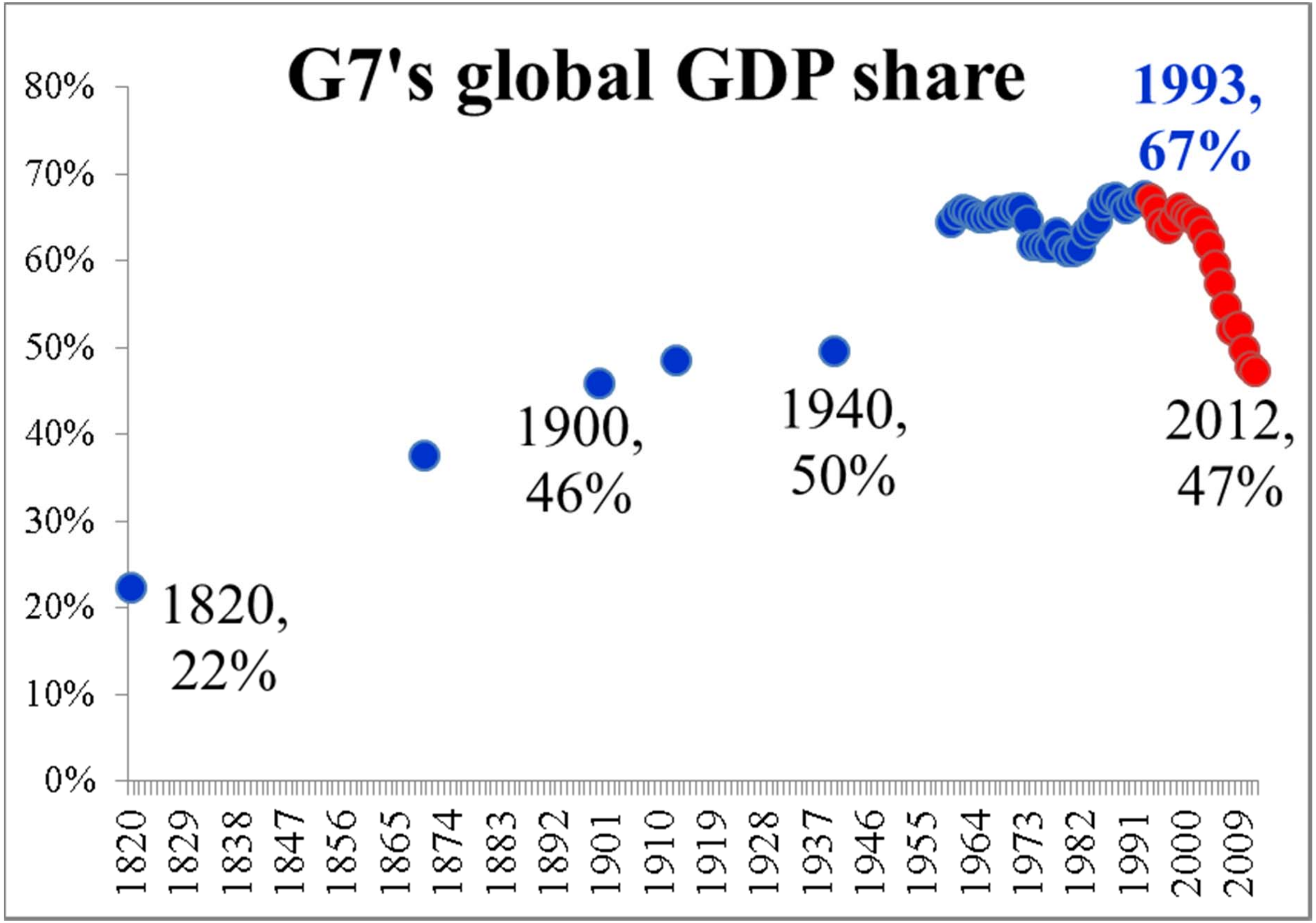
2.Rising tariffs

3.Falling tariffs & transport costs



Source: Gravity model based estimates of trade costs (Jacks, Meissner, Novy 2011).

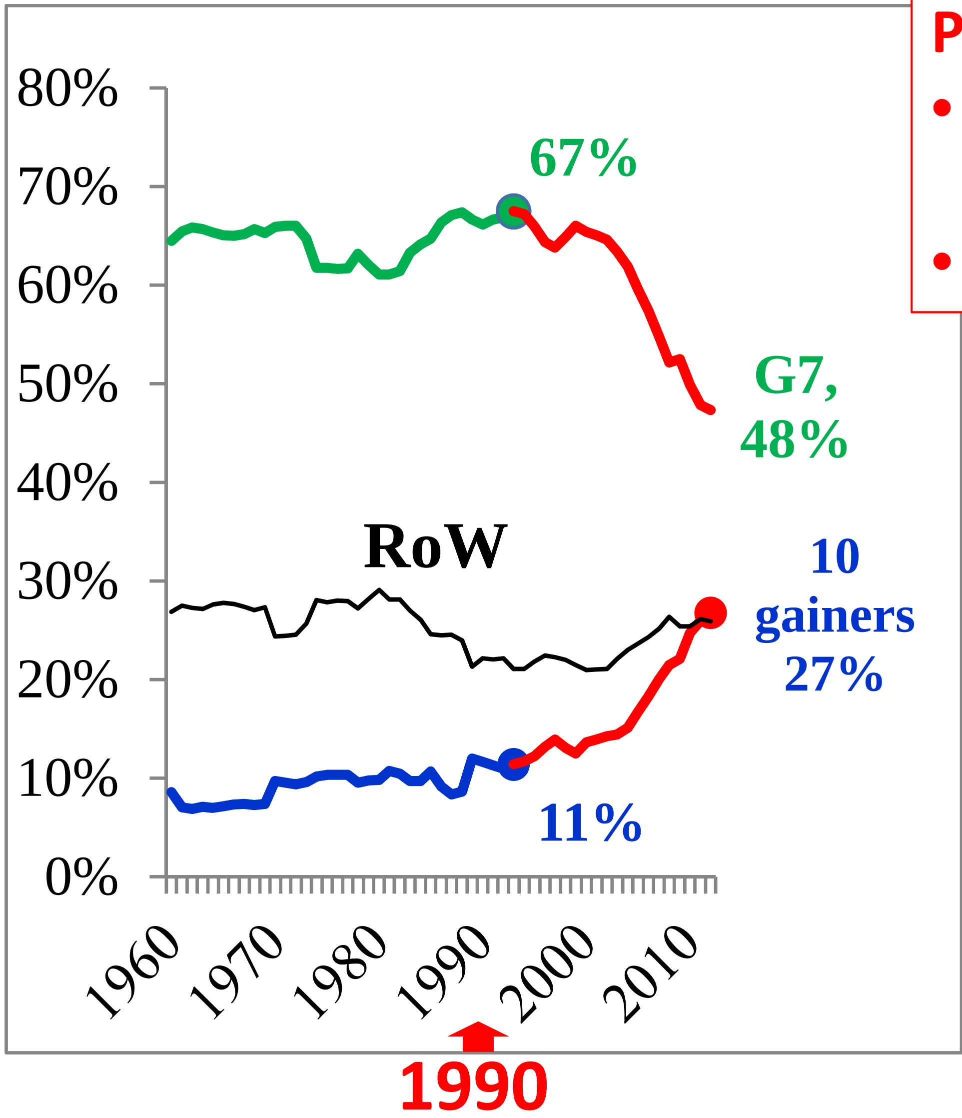
Globalisation changed around 1990



What changed globalisation?

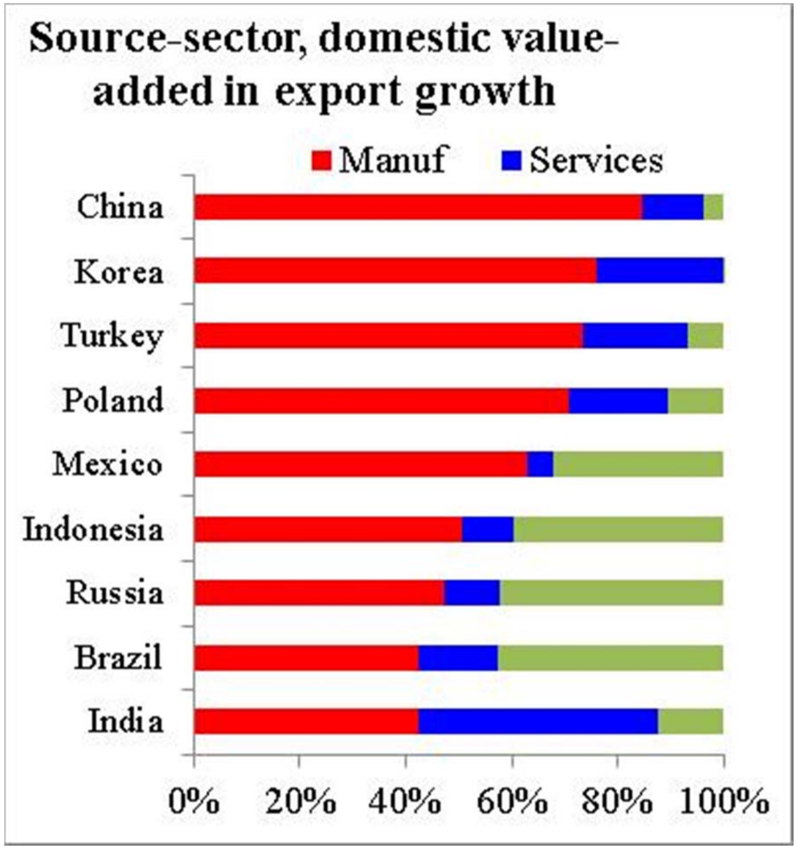
- Follow the clues …

Global GDP shares, 1960-2012



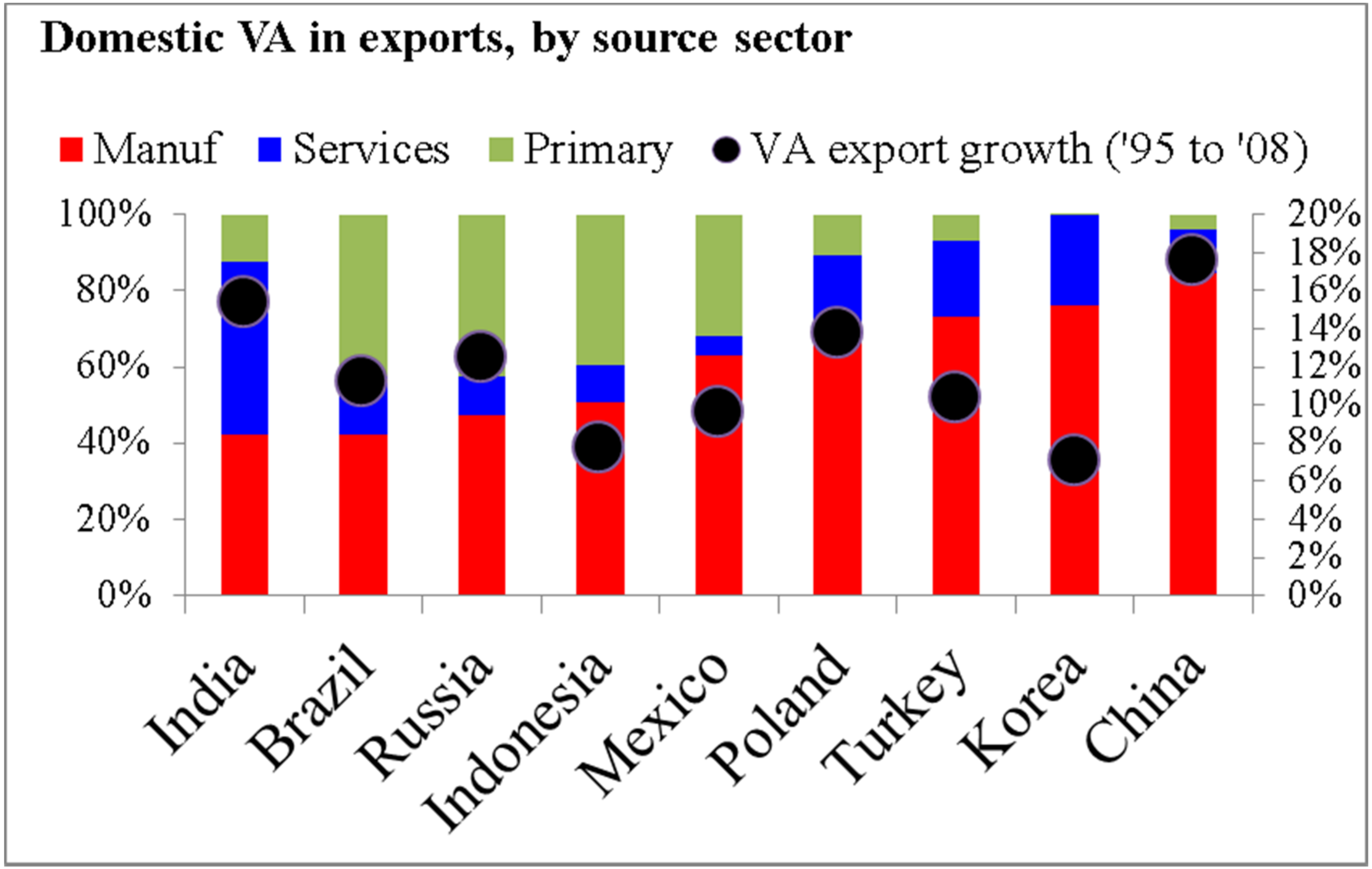
Post-1990:

- **G7 share loss goes to 10 developing nations.**
- **RoW see little change.**

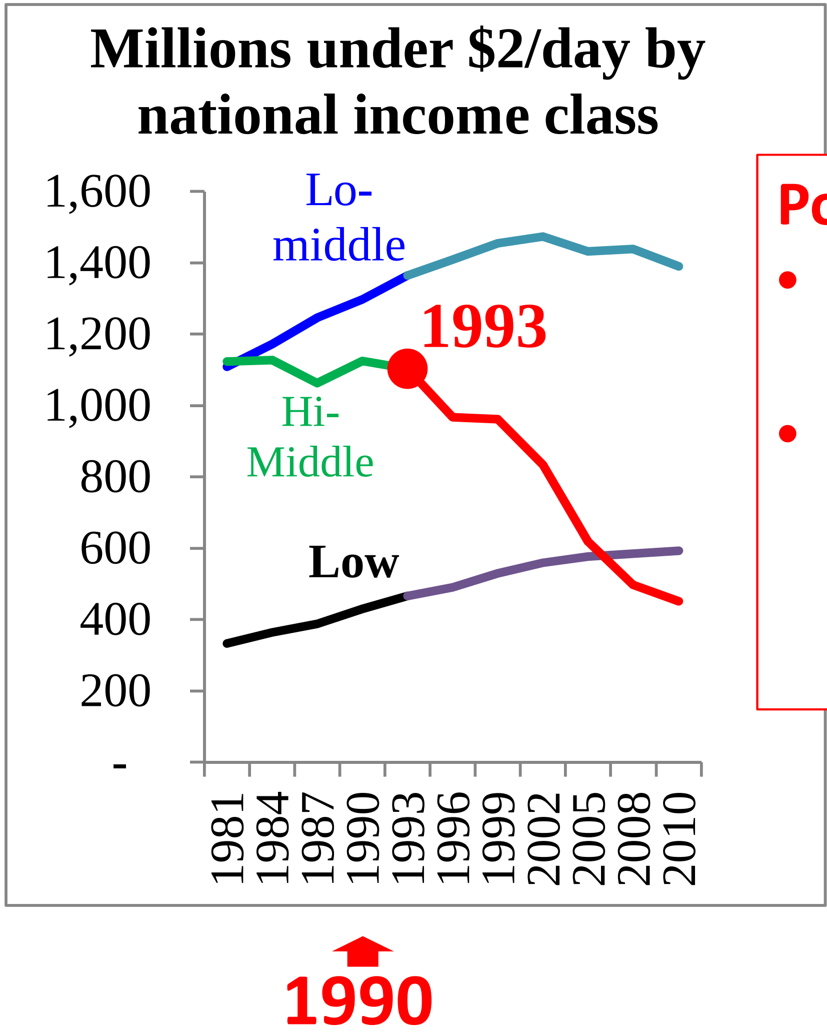


China, Brazil, Mexico, Poland, India, Turkey, Russia, Korea, Indonesia, Venezuela

Source of Value-Added Export growth, 1995-2008



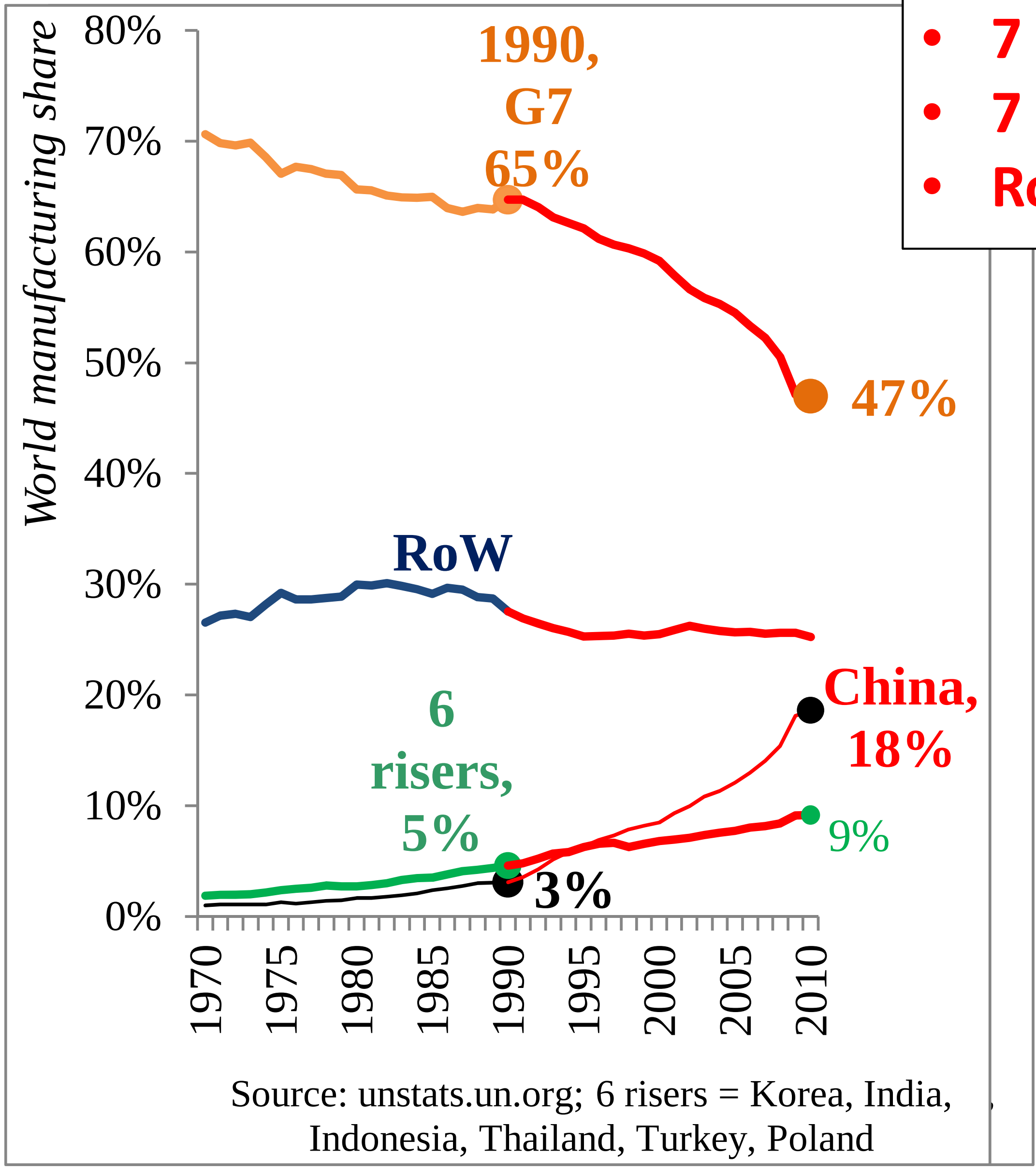
People in poverty (under $2/day)



Post 1993

- **Hi-middle poverty plummets.**
  - **650 million fewer poor!**
- **Others' poverty keeps rising.**

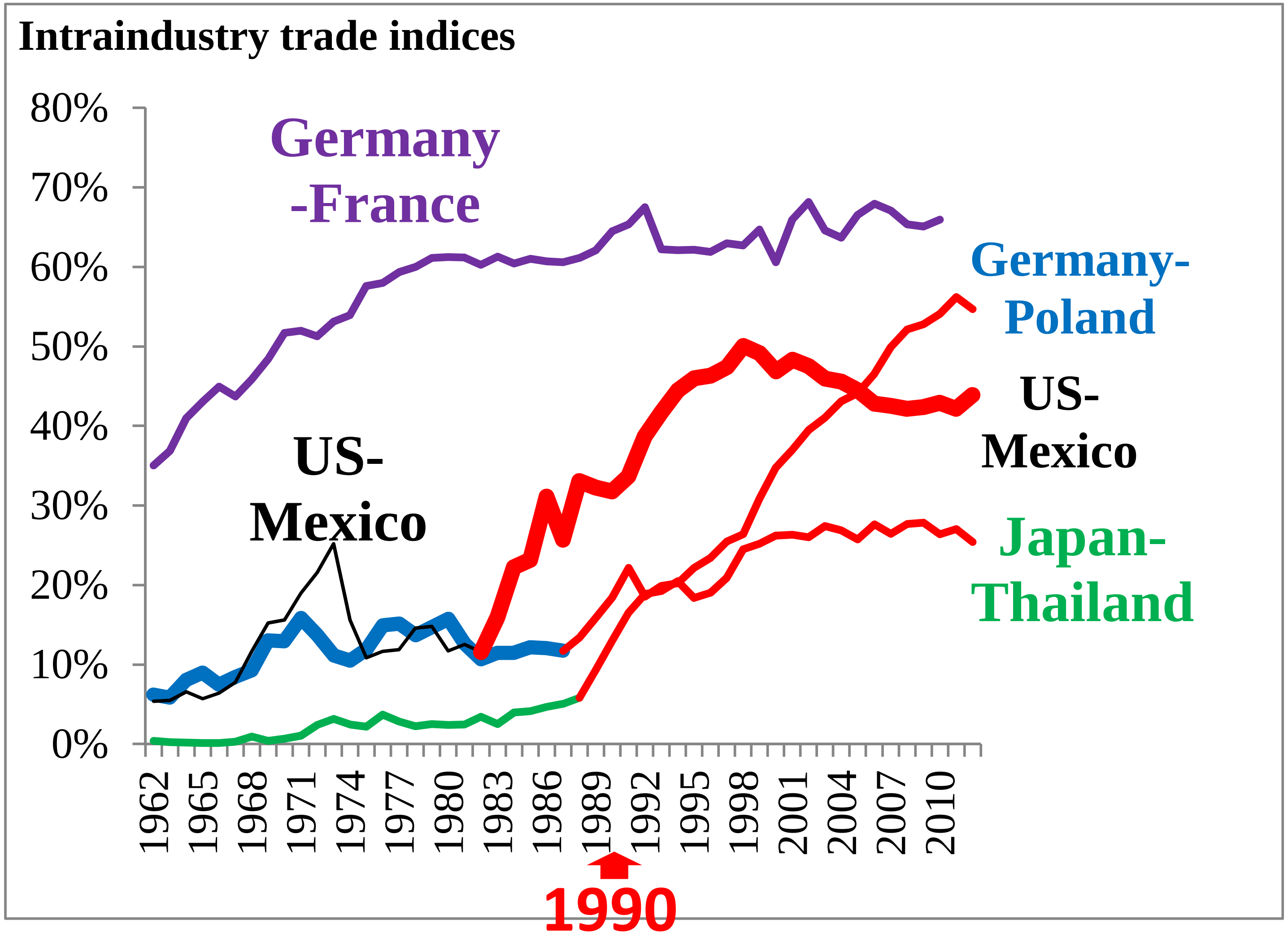
Global manufacturing shares, 1970-2010



- 7 'losers'.
- 7 'risers'.
- RoW = little change.

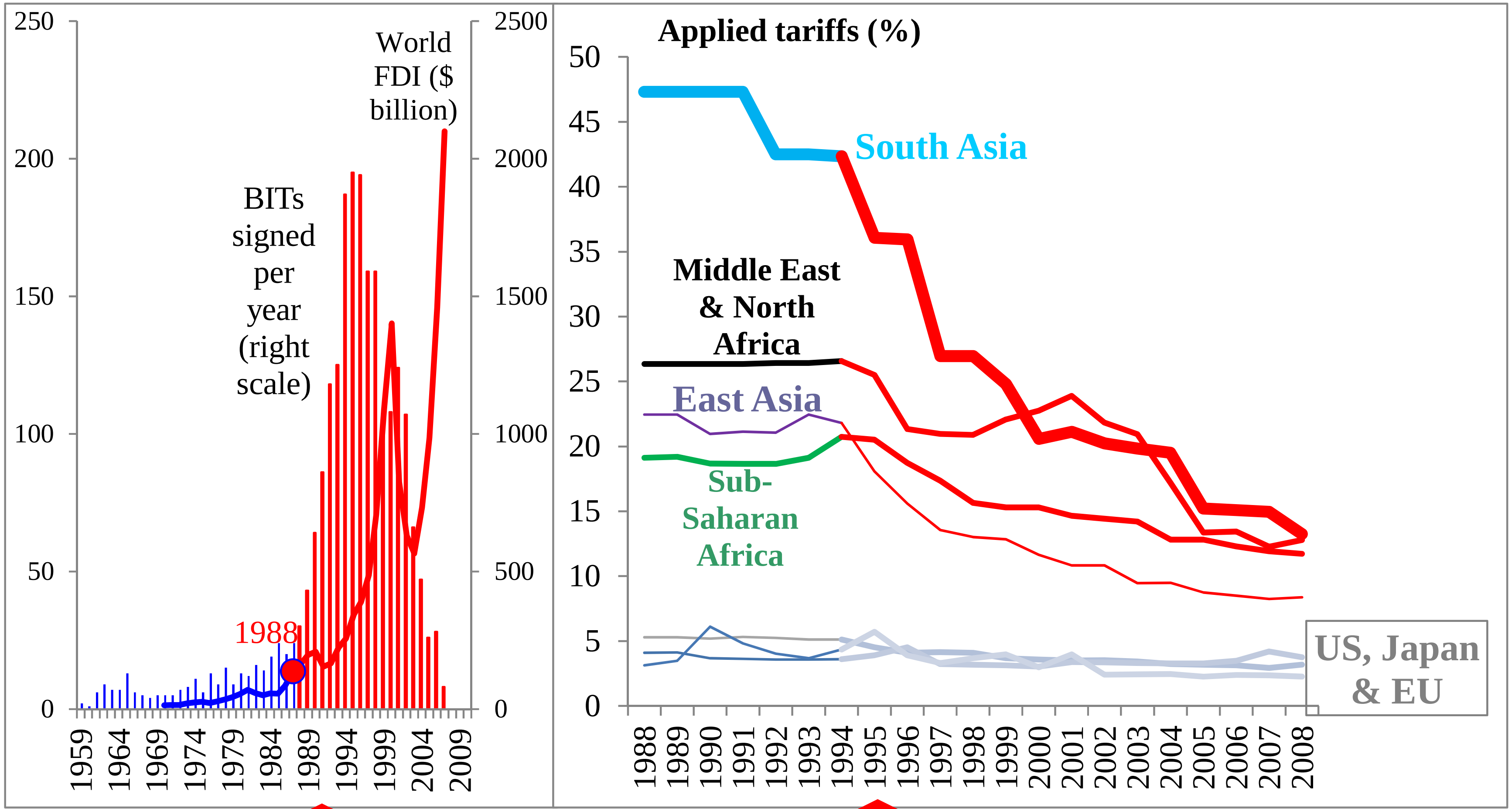
Nature of trade changed:

Intra-industry trade (IIT)



Trade & investment policies

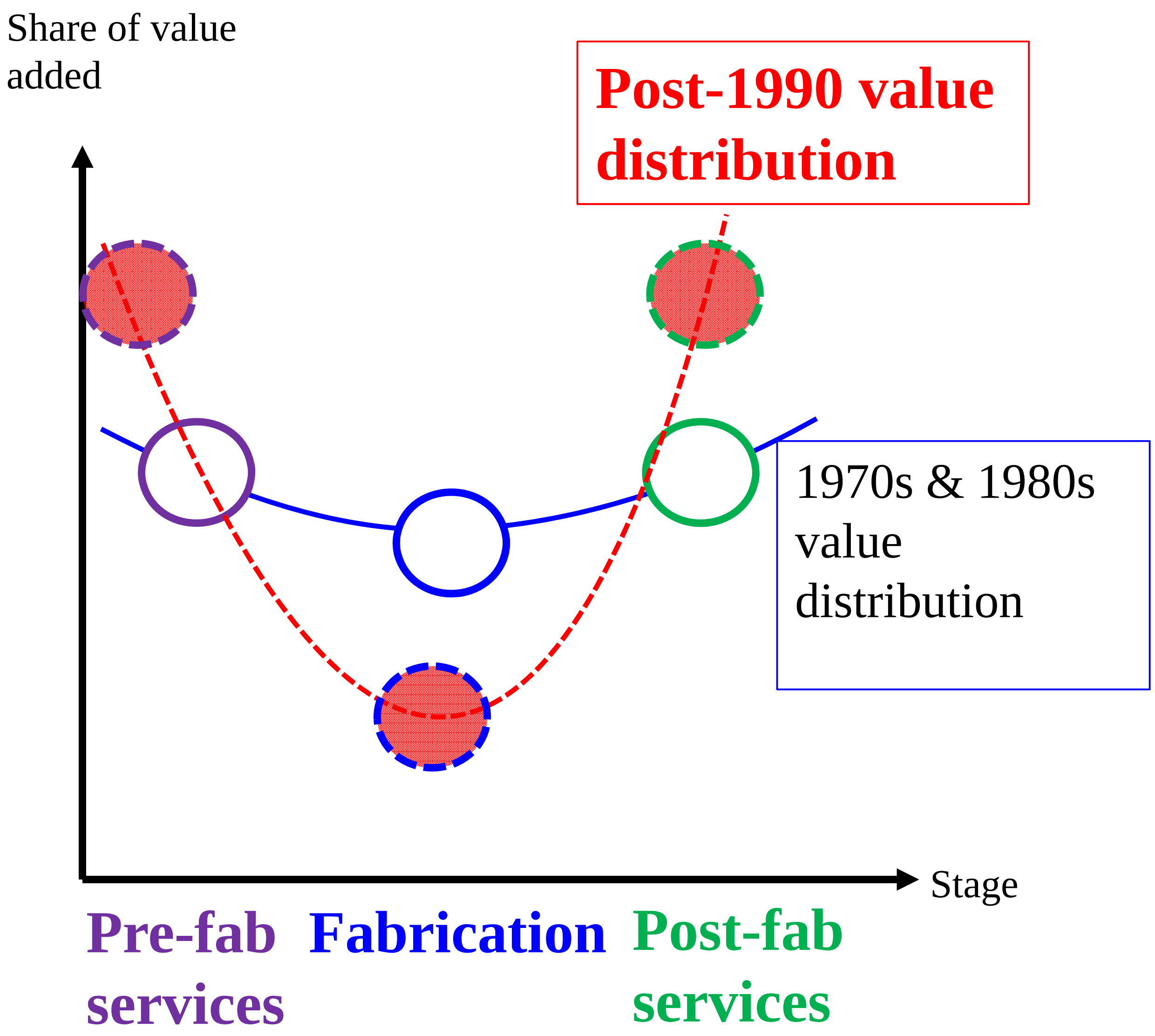
Protectionism becomes destructionism



1990

1995

‘Smile curve’: Distribution of value



Clues

Clue #1: The change is:

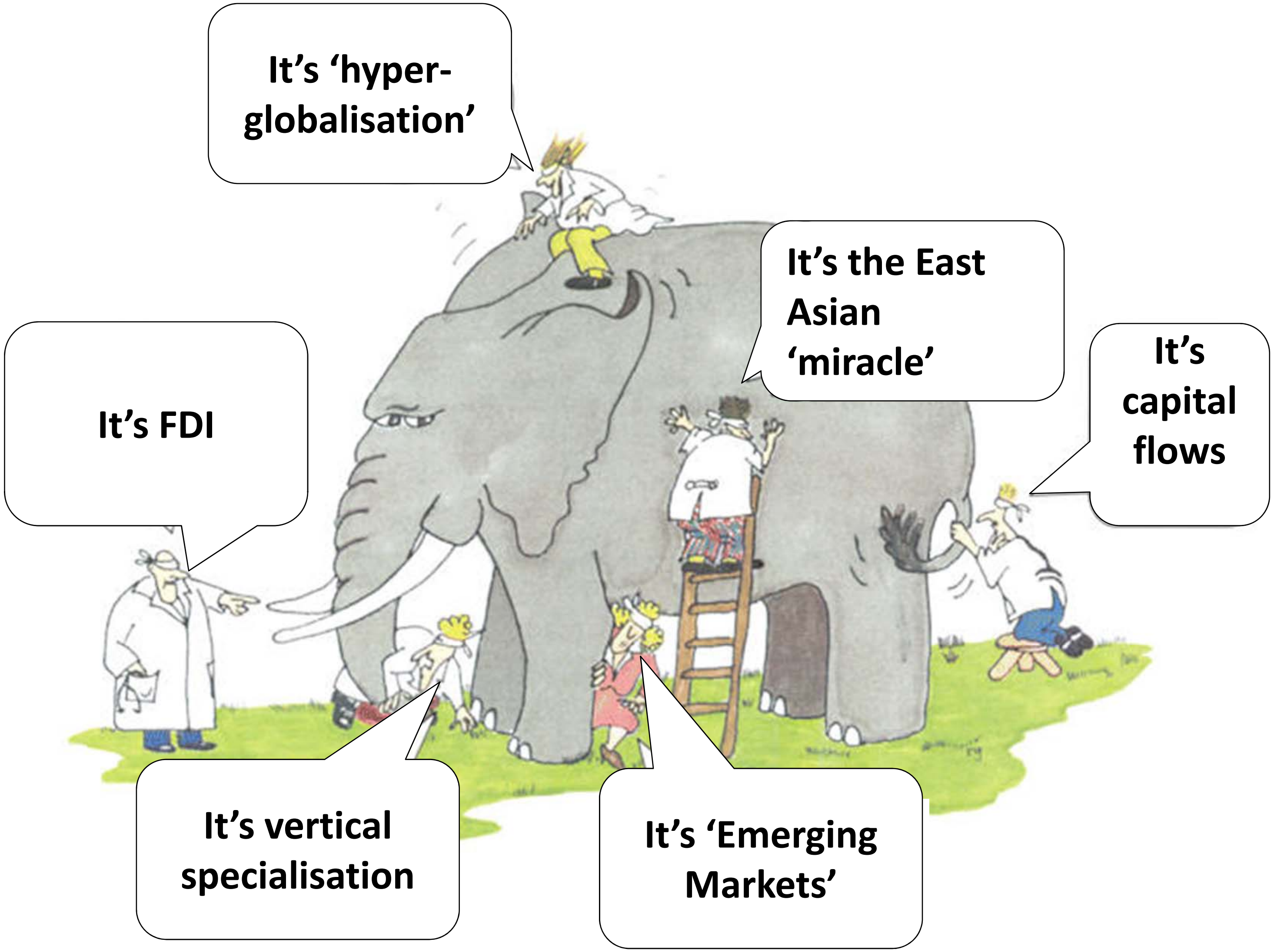
- Historic in size,
- Global in reach,
- VERY unevenly spread geographically.

Clue #2: The change is:

- Related to manufacturing & trade in intermediates.

Clue #3: Transformed developing nations’ views of trade & investment.

Buzzwords in lieu of analysis

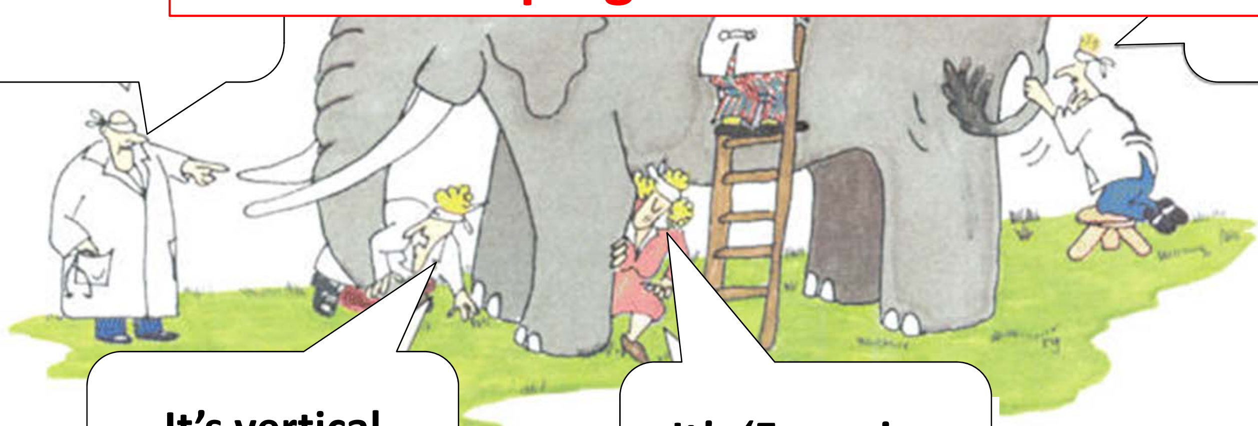


Elephant = international movement of firm-specific know-how.

<u>"GVC revolution"</u>

Know-how becomes:

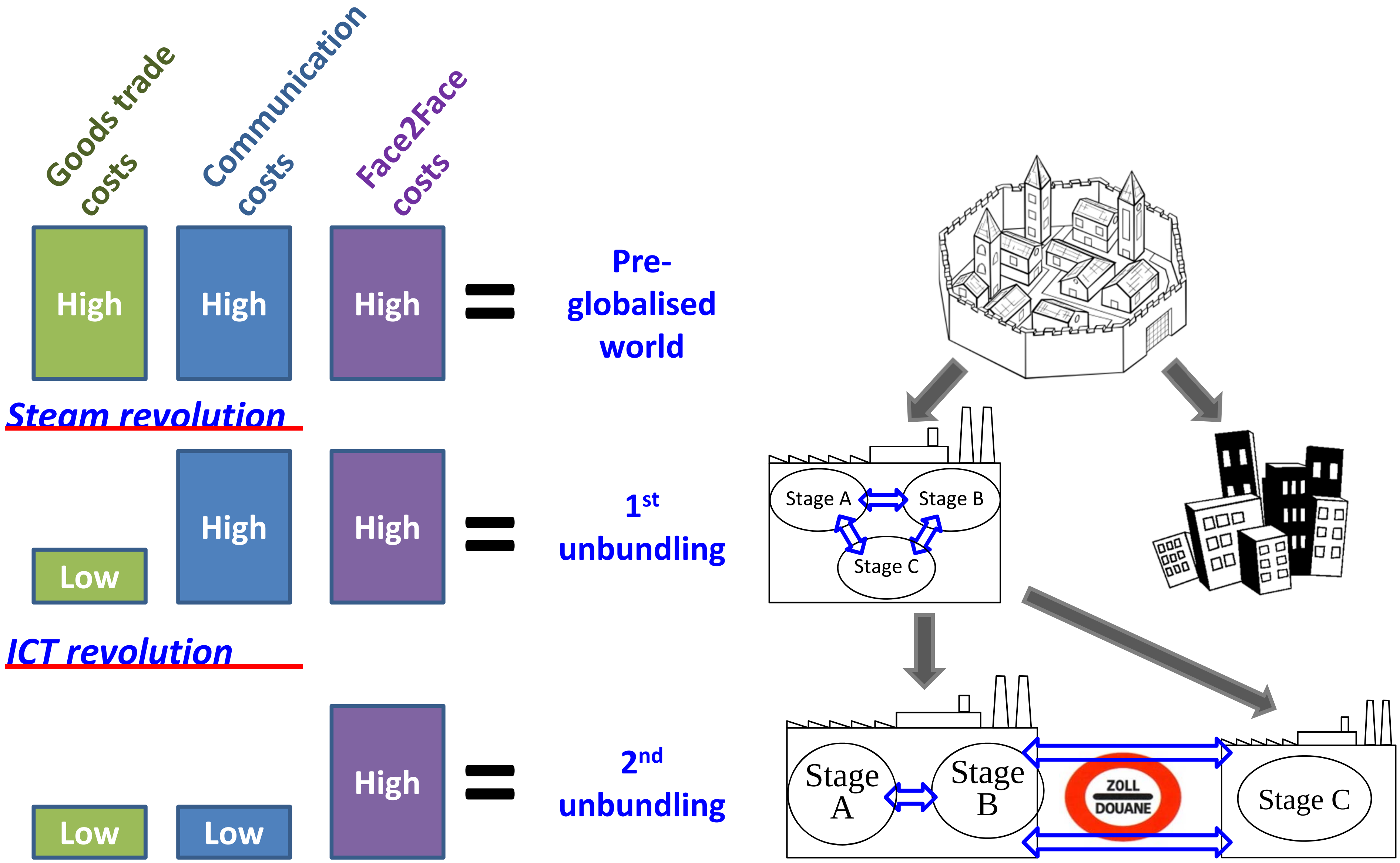
1) **Firm-specific, not nation-specific.**
2) **Rapidly combined with South labour – but only in a few developing nations.**



A new narrative for globalisation

Globalisation as 2 processes, not 1

Globalisation: 3 cascading constraints



Distance still matters

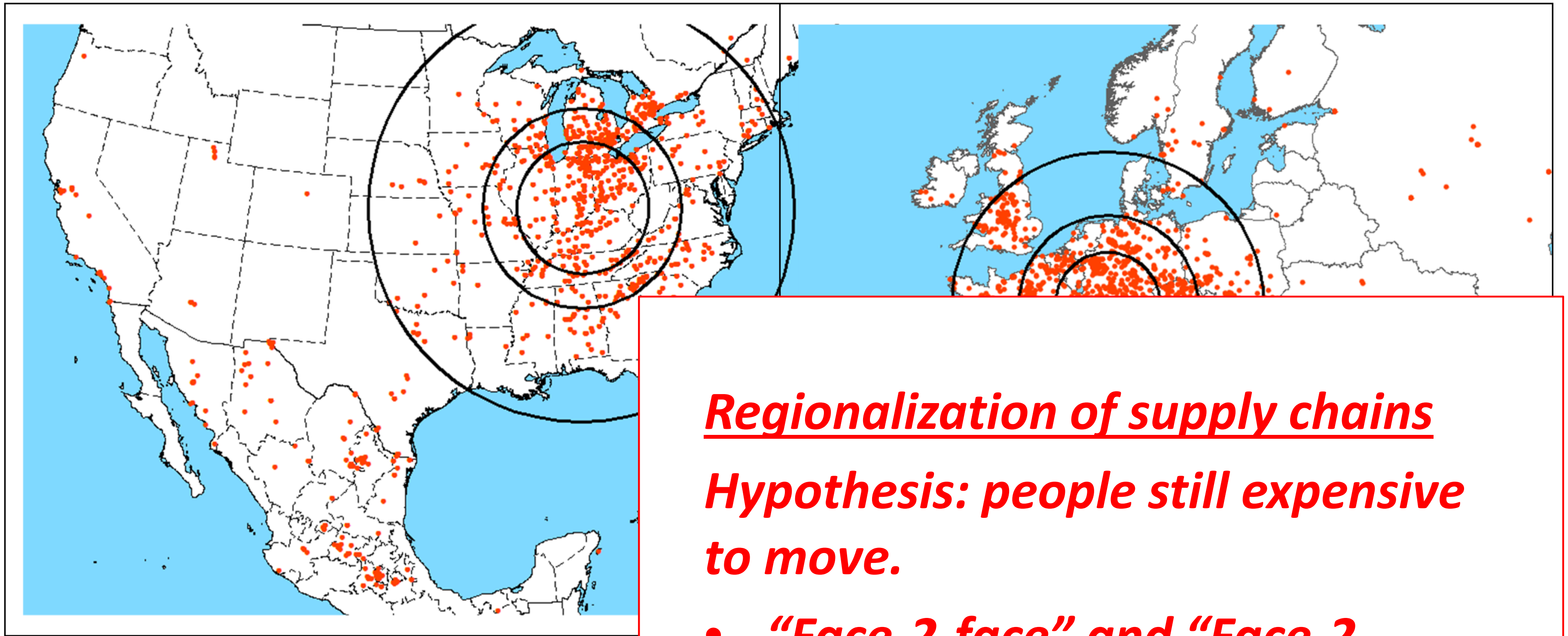


Figure 1: North American and Europe

Regionalization of supply chains

Hypothesis: people still expensive to move.

- ***"Face-2-face" and "Face-2-machine" constraints.***

Basic economic difference

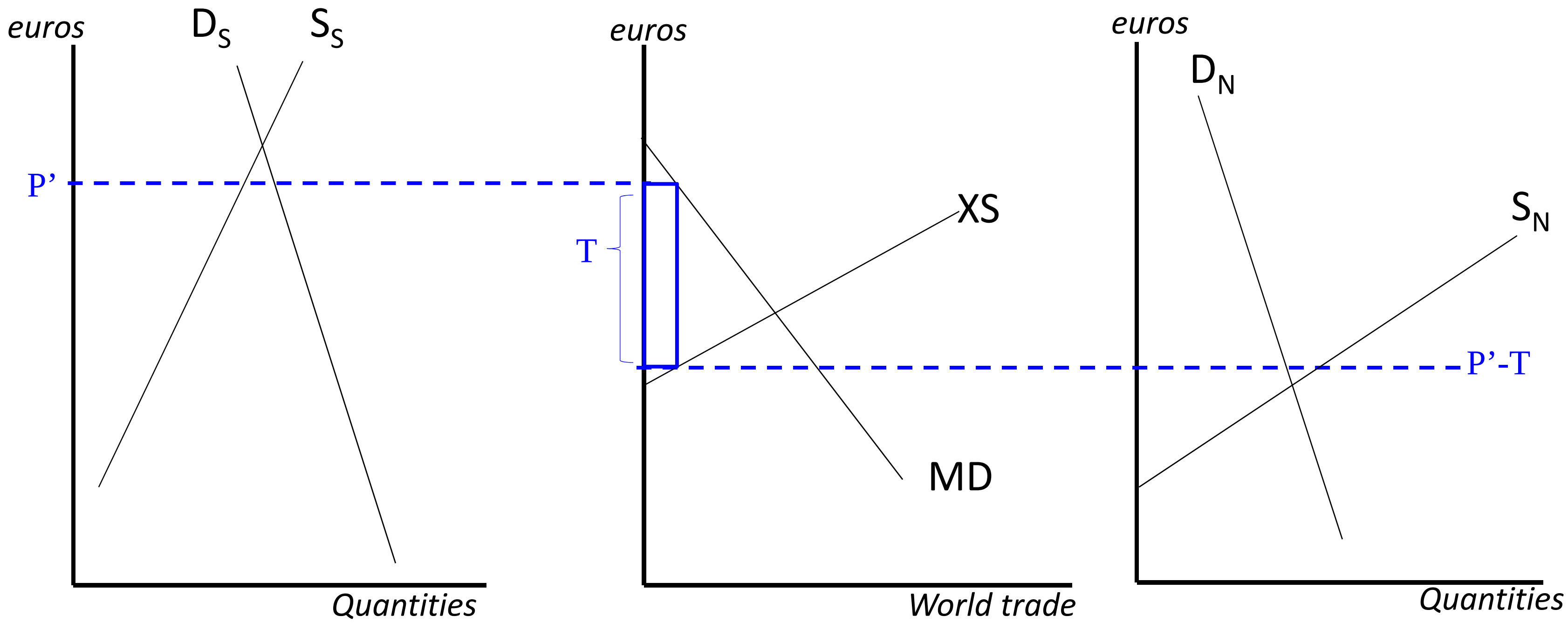
- 1st unbundling: “old-paradigm globalisation”
  - (A) National comparative advantage.
  - (B) Trade: “Goods crossing borders”.
- 2nd unbundling: “new-paradigm globalisation”
  - (A) Denationalized comparative advantage.
  - (B) Trade: “Factories crossing borders”.
  - – Richer, interconnected flows: goods, knowhow, ideas, capital, people, etc.

Economics of 2nd unbundling

- 2 ways of recombination hi-tech & low-wages:
  - Direct: North know-how moves to South labour
    - (offshoring).
  - Indirect: North know-how moves to South in components.
    - (trade in parts & components).

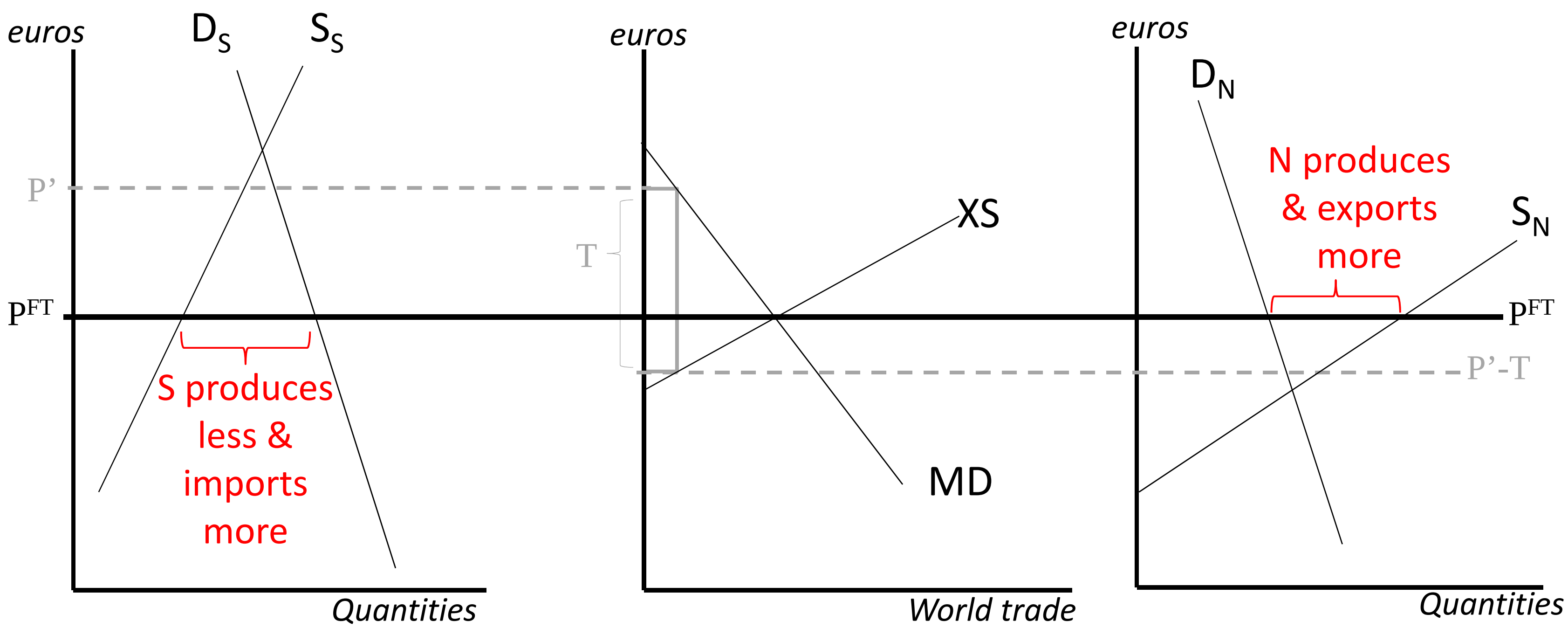
NB: Comparative advantage becomes a multi-country concept.

1st unbundling:

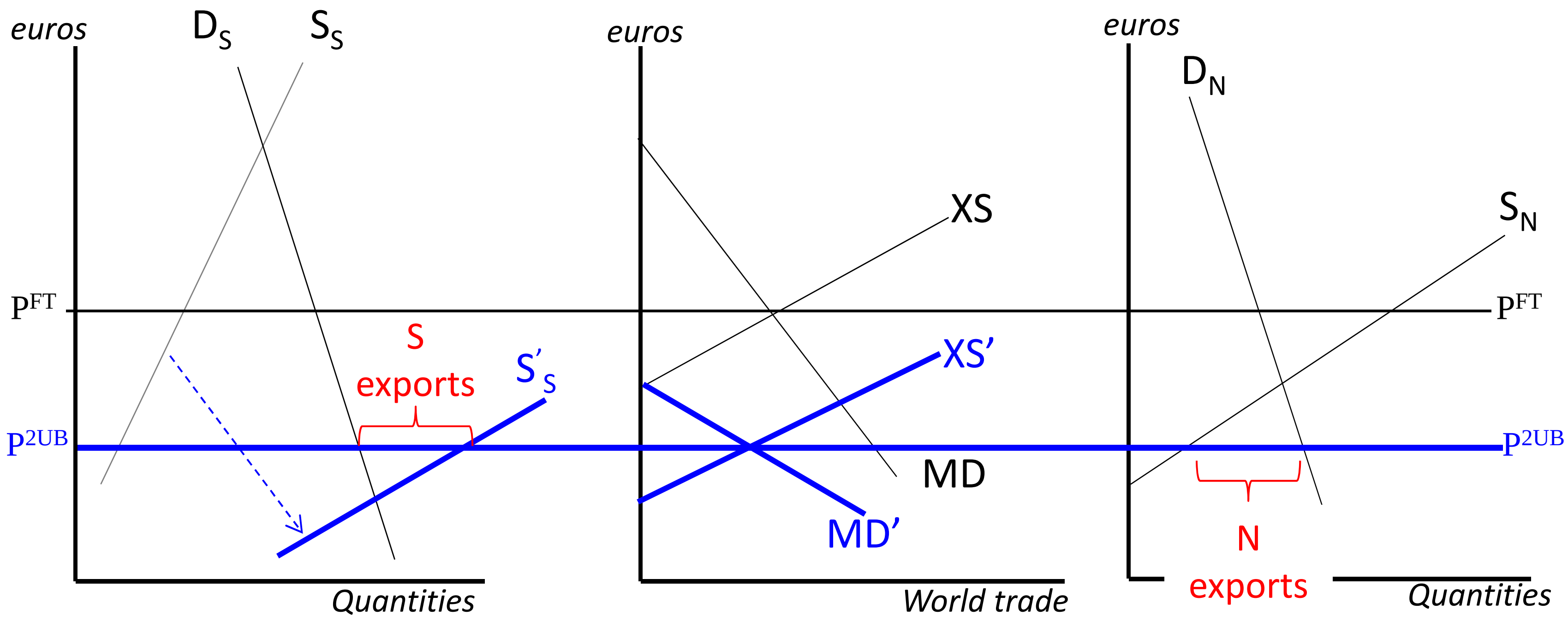


1^{st} unbundling: Trade costs fall ➔

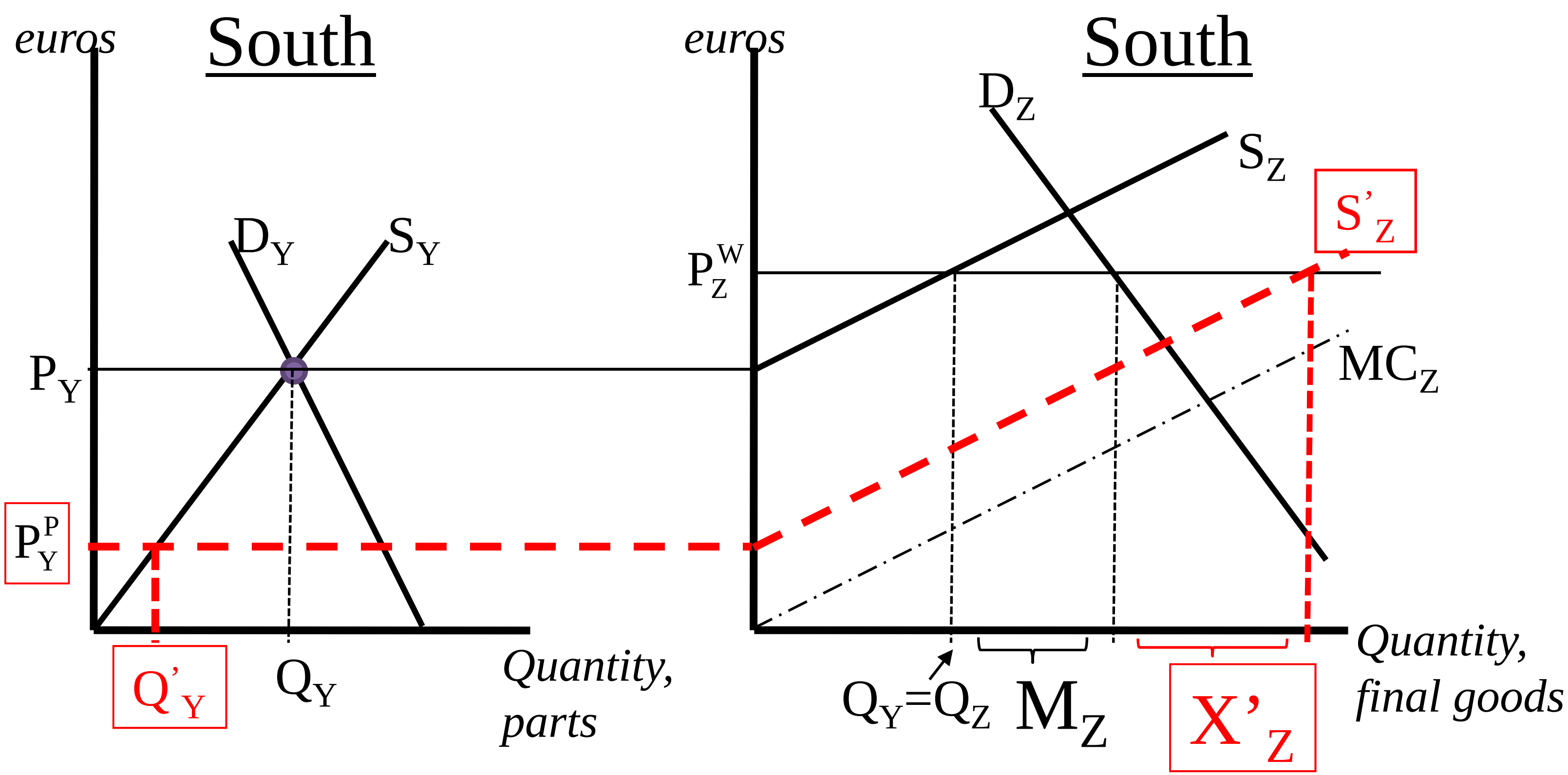
North industrialises; South de-industrialises



2nd UB → Direct recombination of North tech with South labour



Trade in parts can switch comparative advantage



Misthinking globalisation = misthinking economics/econometrics

- 1st unbundling thinking:

$$Y_{Jpn} = A_{Jpn} F[L_{Jpn}, K_{Jpn}]$$

- 2nd unbundling thinking:
  - Globalisation changes technology in some developing nations.
  - Know-how flows directly in 'global value chains' & indirectly via intermediates.

Why it matters

- OLD: Study national performance looking at national factors.
  - 'Team Japan' versus 'Team Germany'

  ⇒Regress growth/exports/etc on national right-hand side variables.
- NEW: Study national performance looking at regional and national factors.
  - 'Factory Asia' versus 'Factory North America'

  ⇒Regress growth/exports/etc on national & regional right-hand side variables and/or allow interactions depending upon supply-chain exposure.

Misthinking industrialisation:

Spence growth commission (2008)

Economy	Period of +7% growth	GDP/pop at start	GDP/pop in 2005
Botswana	1960–2005	210	3,800
Brazil	1950–1980	960	4,000
China	1961–2005	105	1,400
Hong Kong, China*	1960–1997	3,100	29,900
Indonesia	1966–1997	200	900
Japan*	1950–1983	3,500	39,600
Korea, Rep. of*	1960–2001	1,100	13,200
Malaysia	1967–1997	790	4,400
Malta*	1963–1994	1,100	9,600
Oman	1960–1999	950	9,000
Singapore*	1967–2002	2,200	25,400
Taiwan, China*	1965–2002	1,500	16,400
Thailand	1960–1997	330	2,400

Misthinking globalisation: Fancy Revealed Comparative Advantage, Hausmann & Rodrik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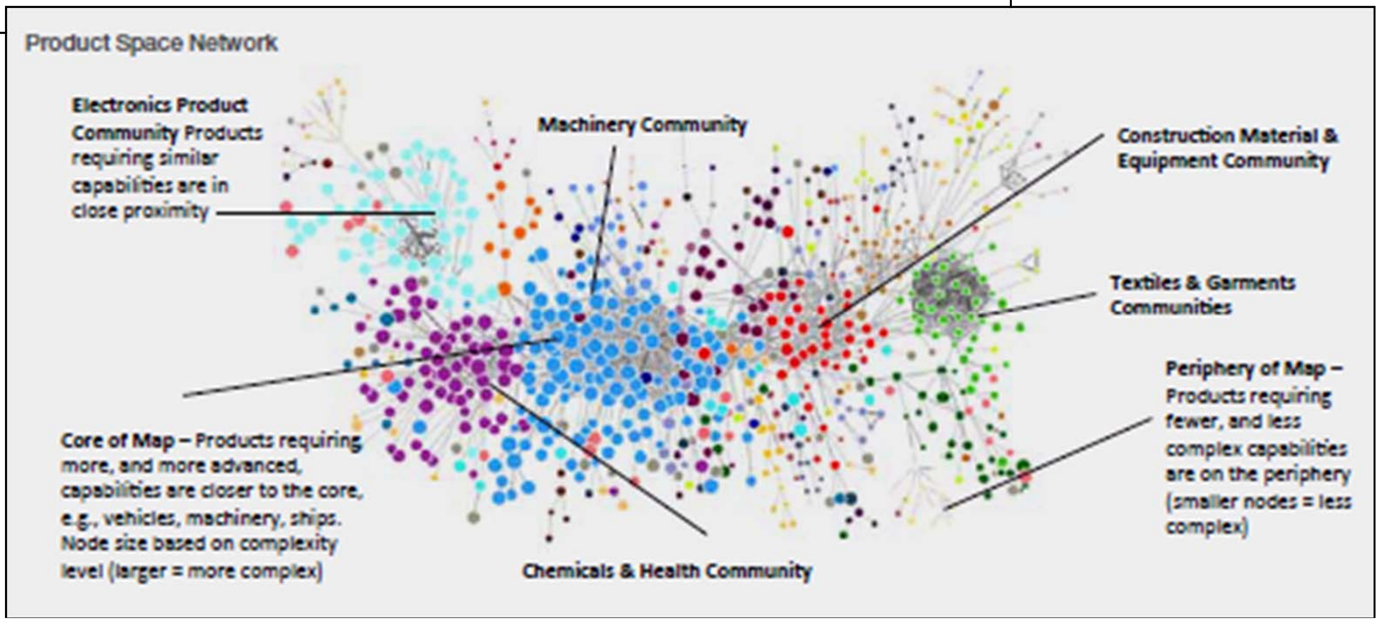
The Future of Manufacturing

Opportunities to drive economic growth



Key difference for policy

- 1st unbundling = 1UB
  - Slow, predictable, controllable (tariff cuts).
  - Impact by sector and skill-group.
- 2nd unbundling = 2UB
  - Sudden, individual, unpredictable.
  - Globalisation with a ‘finer degree of resolution’.

Some applications

First look at relationship

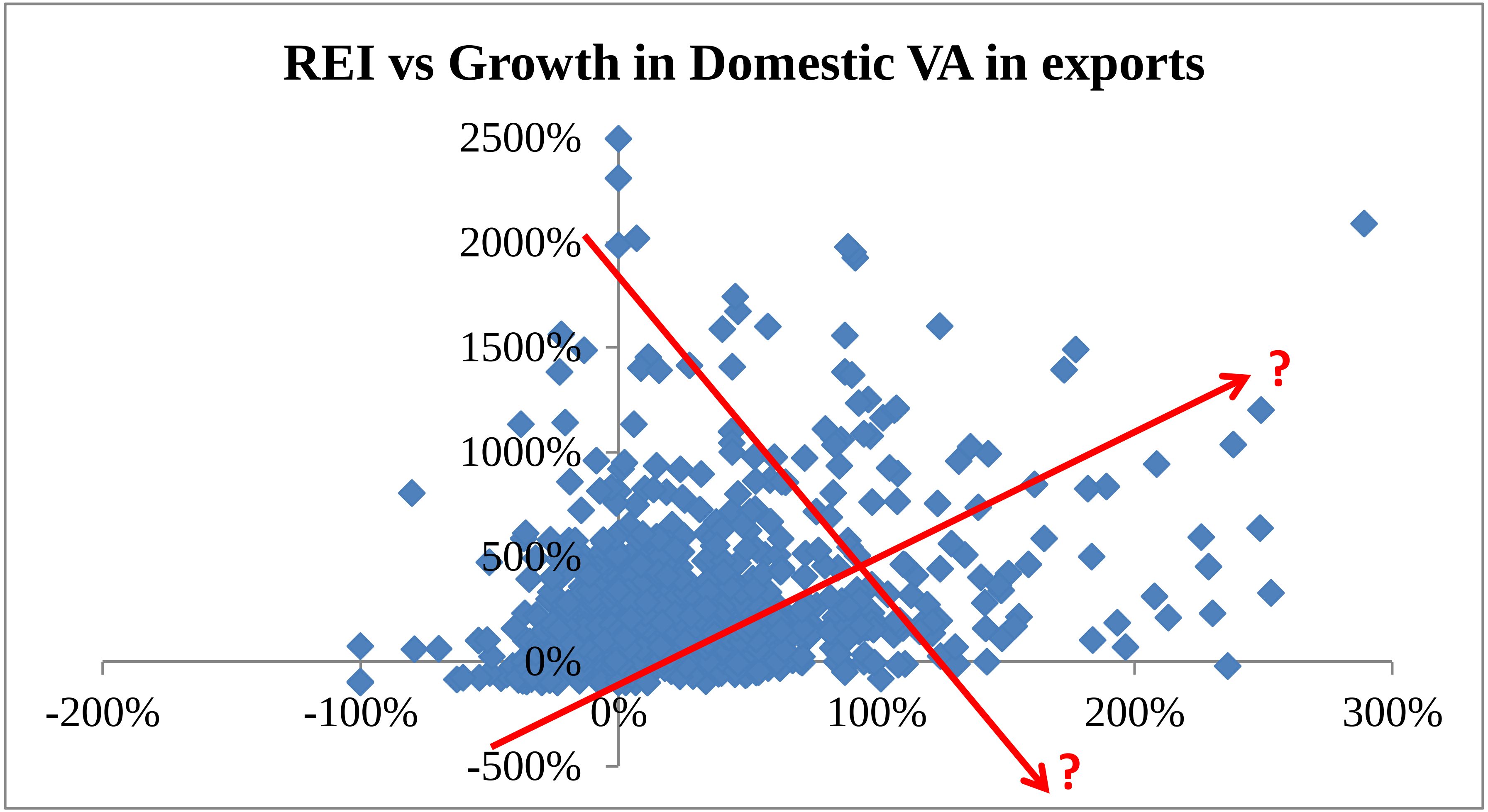
Hope

- Faster domestic value-added export growth correlated with faster REI growth.
- Plot vertical axis = Growth in domestic value added in exports
- Plot horizontal axis = Growth in REI trade (supply-chain participation)

Data

- Plot all nations, all 18 goods sectors.
- Growth from 1995 to 2009.

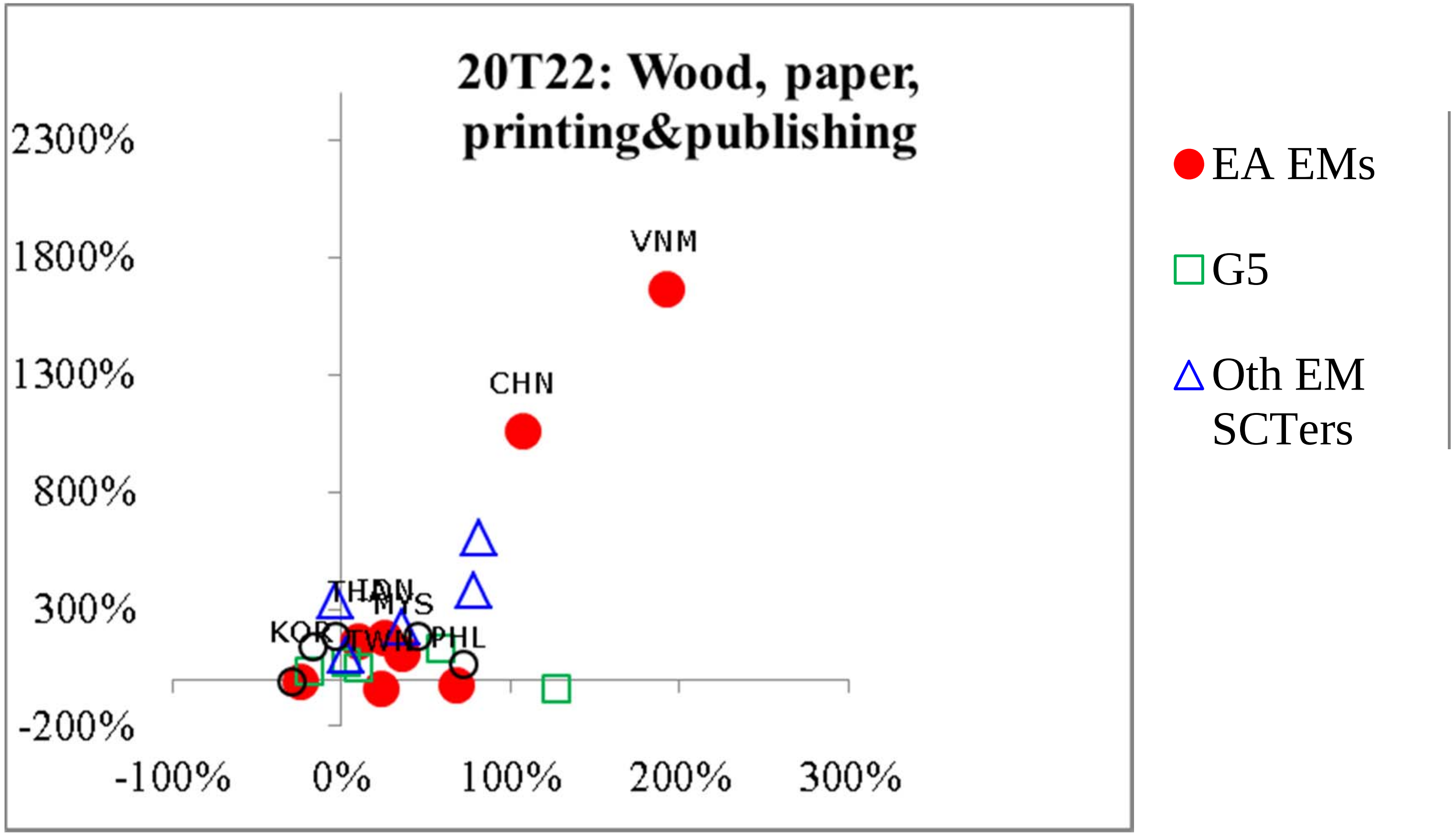
Little correlation



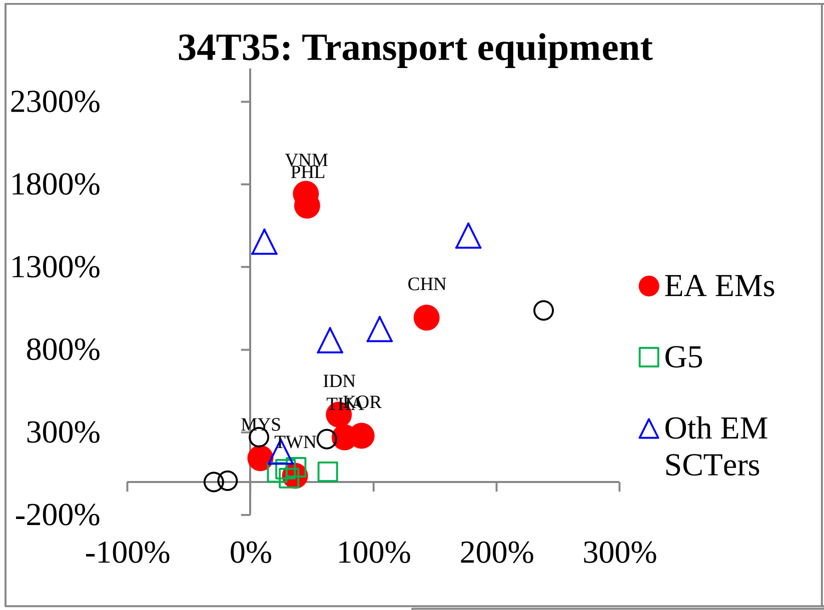
But theory to rescue

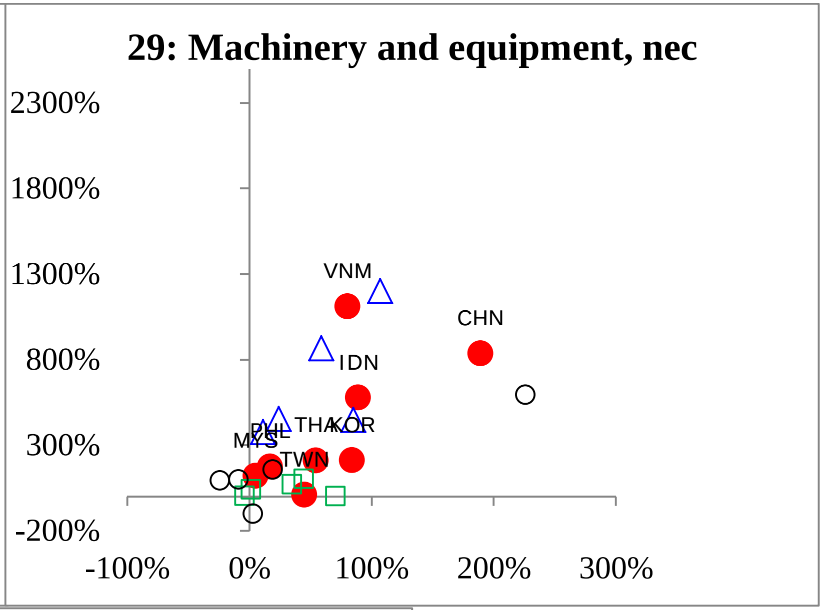
- The correlation should depend upon:
  - Nations:
    - Headquarter v factory economies
    - Primary-resource exporters v manufactures exporters
  - Sectors:
    - GVC sectors (mech & elec machinery, chemicals, etc)
    - nonGVC sectors

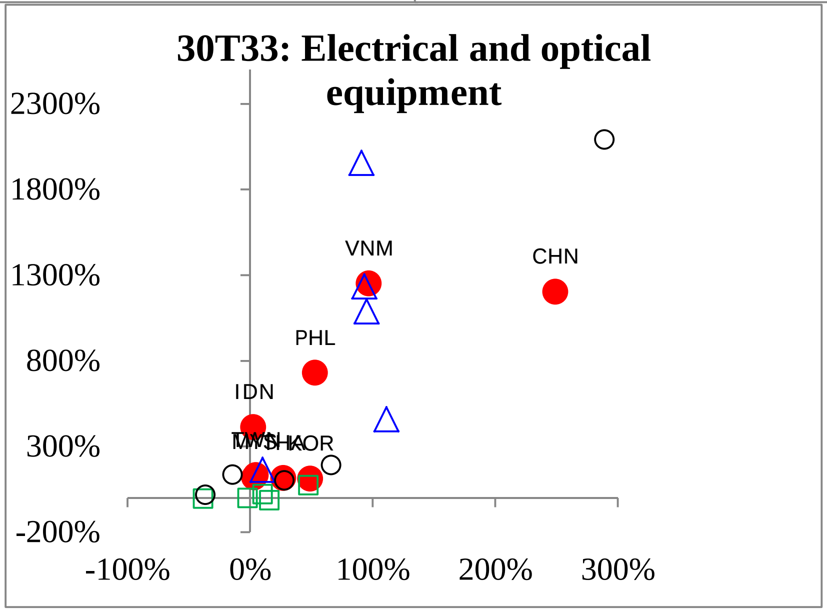
Relationship by nation & sector

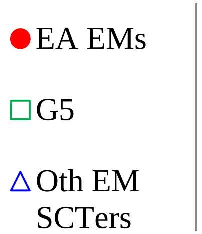


Relationship by nation & sector

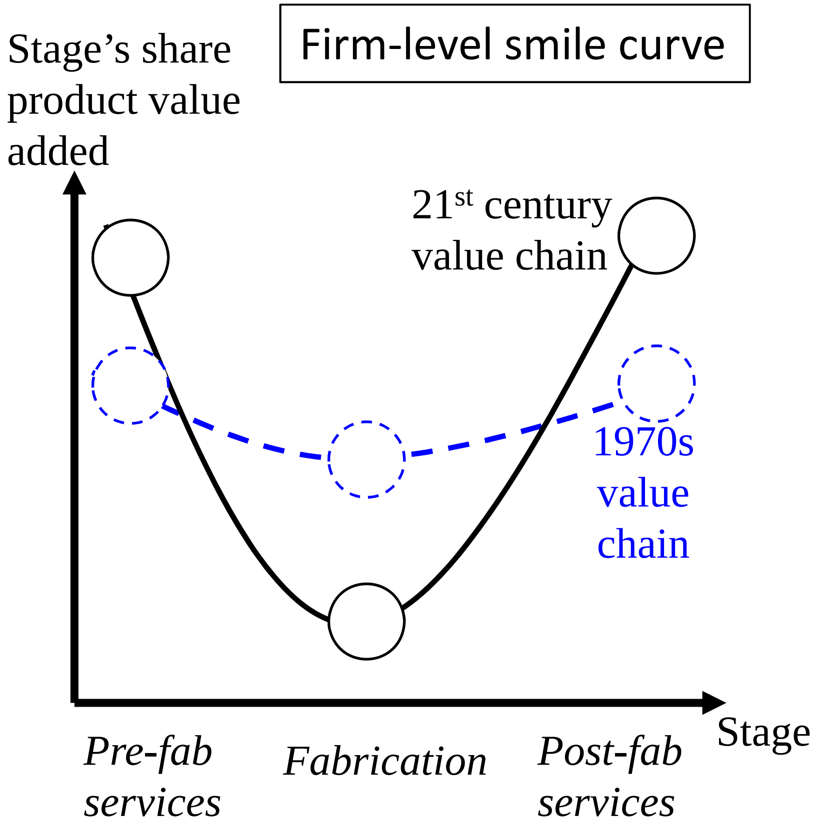


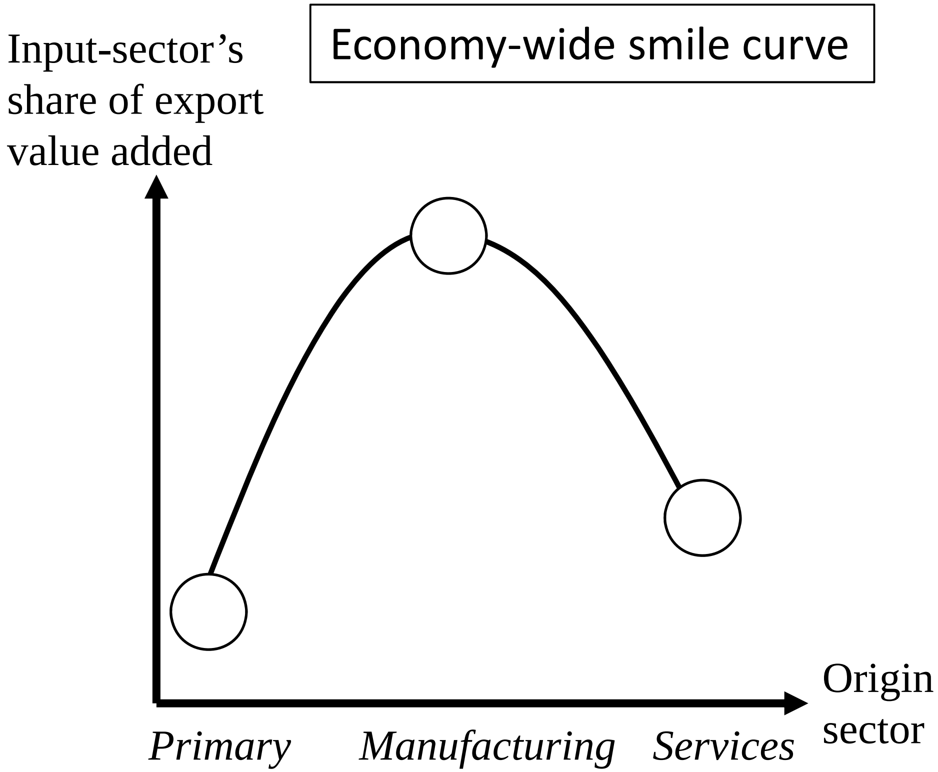


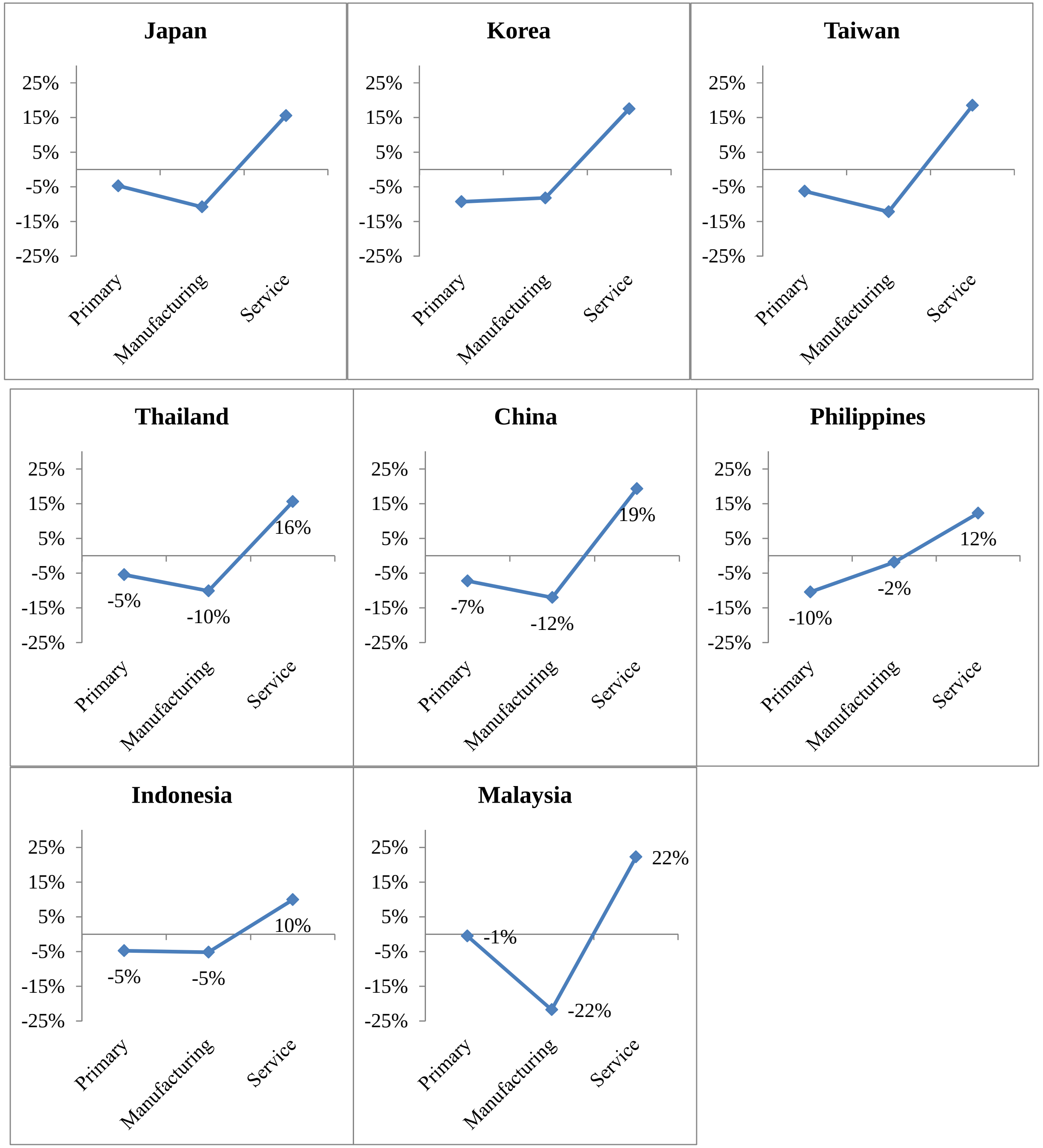




Firm v Economy Smile Curve

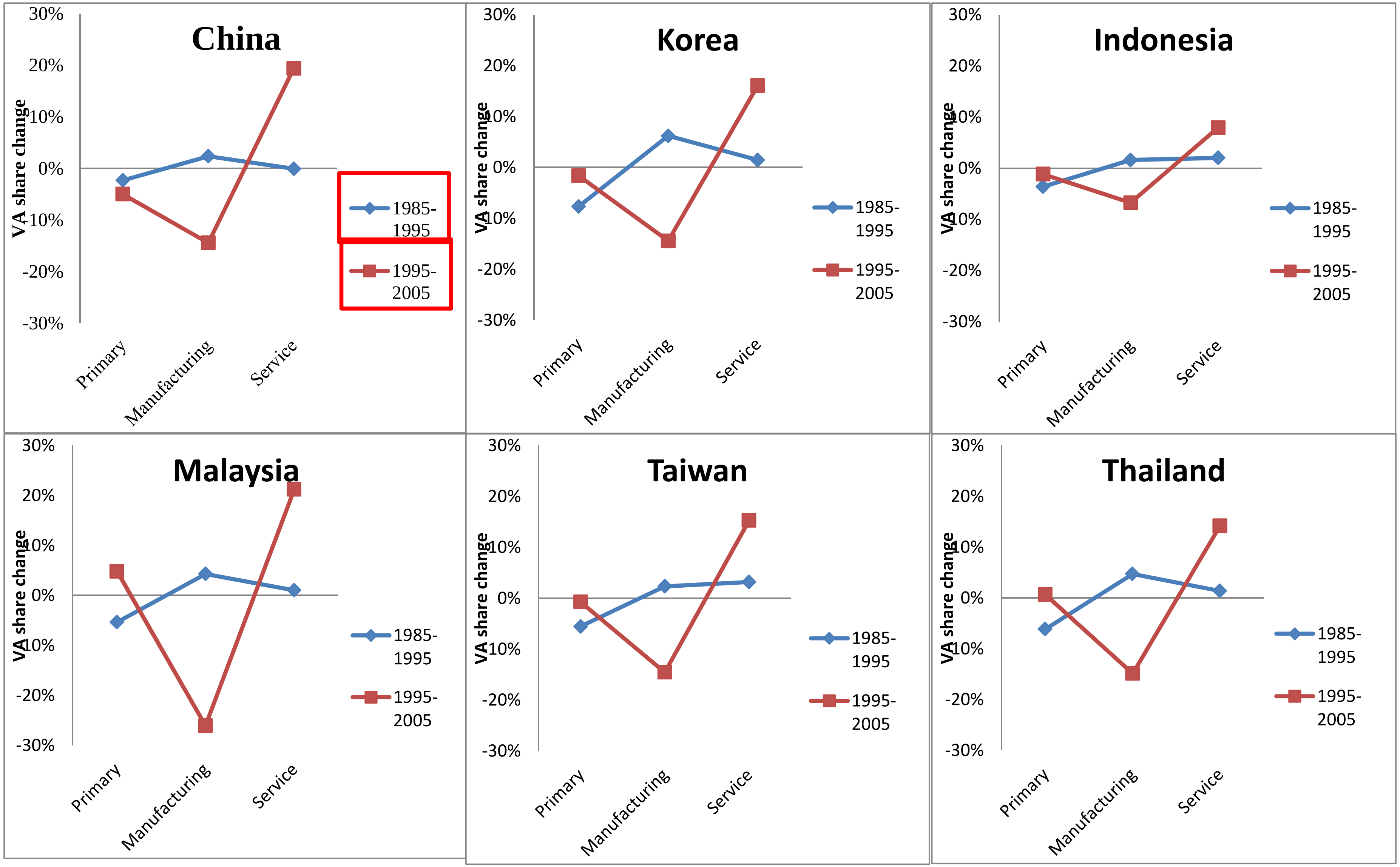





Japan
Korea
Taiwan
Thailand
16%
-5%
-10%
China
19%
-7%
-12%
Philippines
12%
-2%
-10%
Indonesia
10%
-5%
-5%
Malaysia
22%
-1%
-22%
25%
15%
5%
-5%
-15%
-25%
Primary
Manufacturing
Service

1995 - 2005

Smile started in the 1990s



END

- Thank you for listening.

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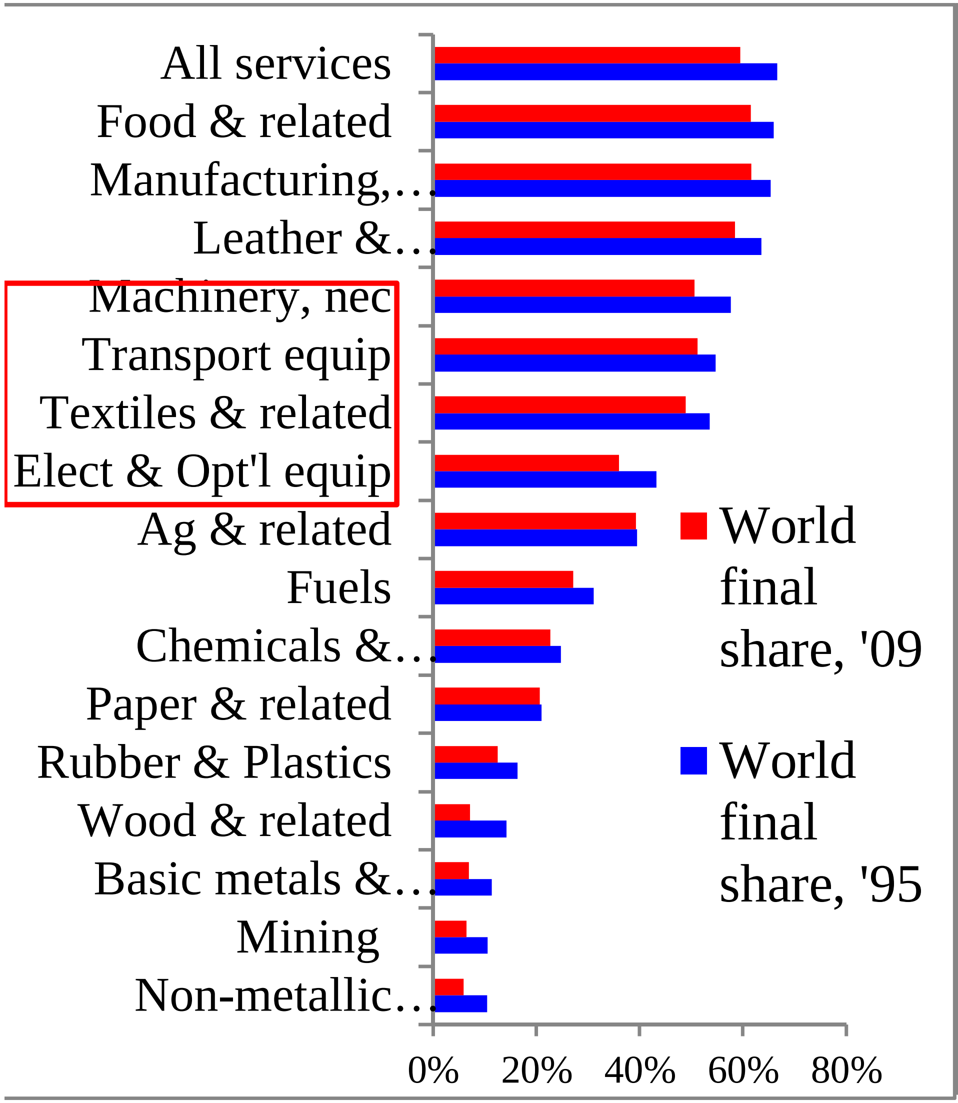
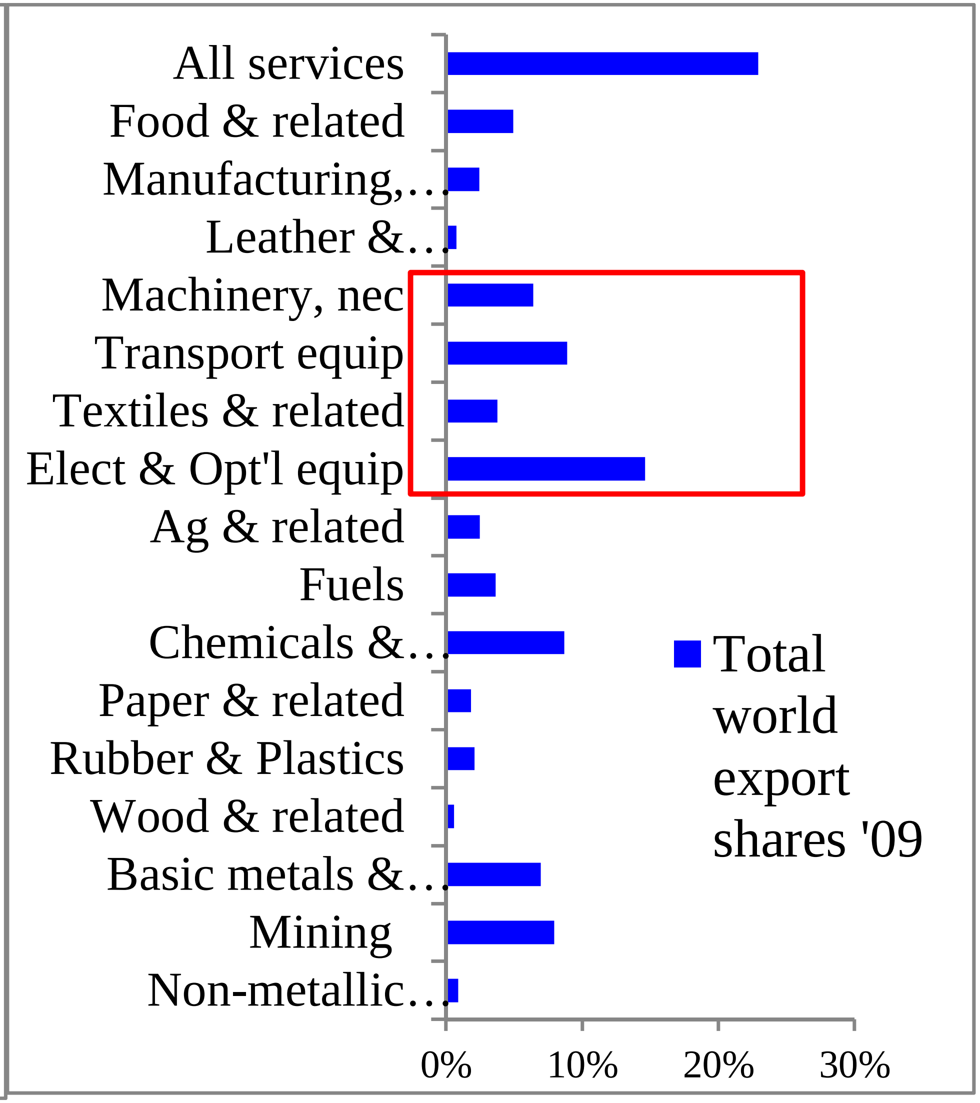
Extra slides for Q&A

Supply-chain trade by industry





I2P trade: Bilateral intermediate imports as % of global flows, 2009

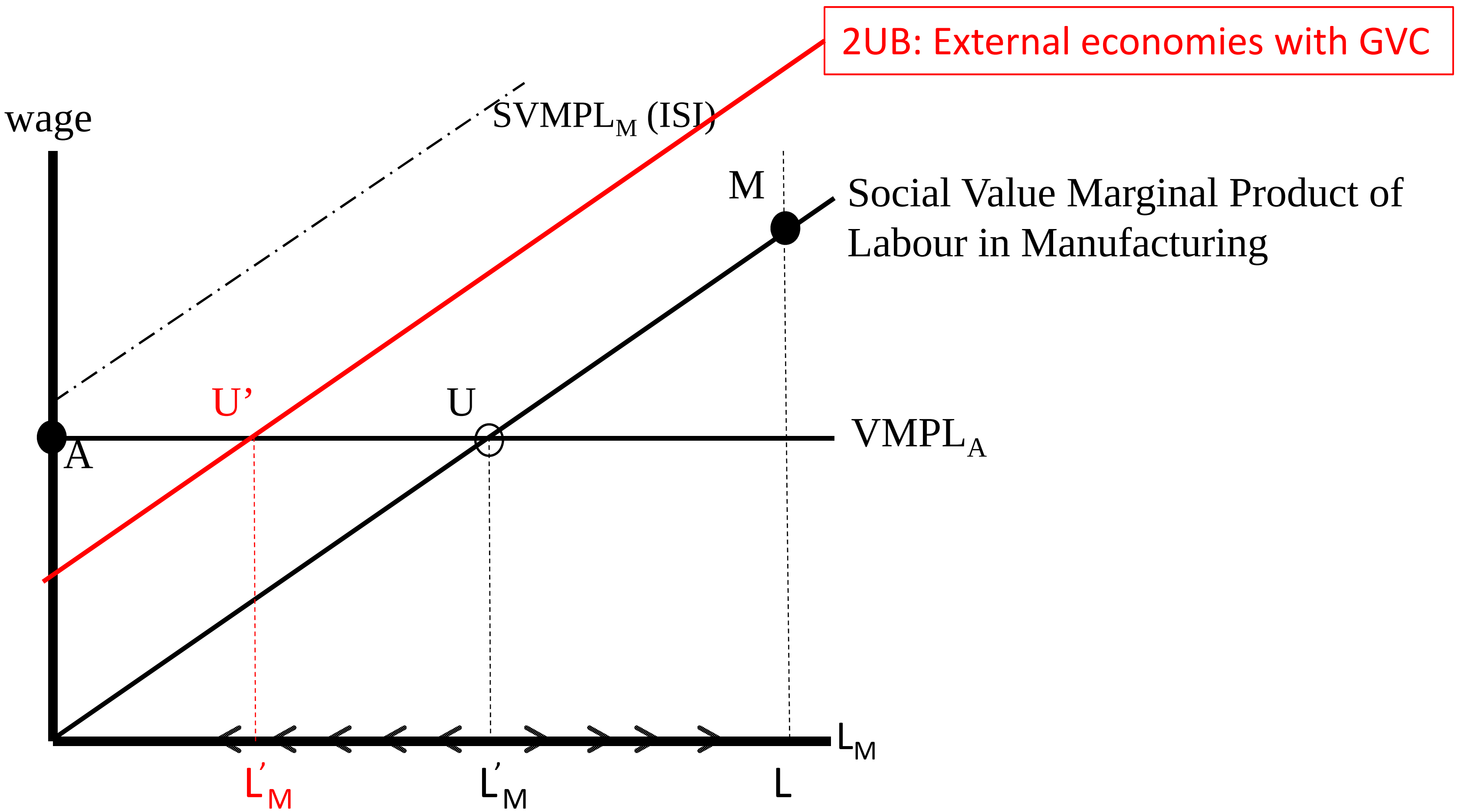
I2P '09	UK	Germany	France	Itlay	NL	Belgium	Austria	Poland	Czech	Denmark	Spain	Portugal	Finland	Greece	Ireland	Turkey	Sweden	Brazil	Russia	India	Indonesia	Australia	Taipei	China	Japan	Korea	US	Mexico	Canada	RoW
UK		0%			0%										0%												0%			1%
Germany	0%		1%	0%	0%		0%																	1%			0%			2%
France		0%																												1%
Itlay																														1%
NL		1%				0%																								0%
Belgium		0%																												
Austria																														
Poland																														
Czech																														
Denmark																														0%
Spain																														0%
Portugal																														
Finland																														
Greece																														
Ireland																														0%
Turkey																														0%
Sweden																														0%
Brazil																														0%
Russia																														1%
India																														0%
Indonesia																														0%
Australia																								1%						0%
Taipei																								1%						0%
China		1%																		0%					1%	1%	2%			4%
Japan																								1%		0%	0%			2%
Korea																								1%						1%
US	0%	0%													0%									1%	0%			1%	1%	4%
Mexico																											1%			
Canada																											2%			
RoW	1%	1%	1%	1%	1%						0%					0%		0%		1%	0%	0%	0%	4%	2%	1%	3%			

Factory Europe

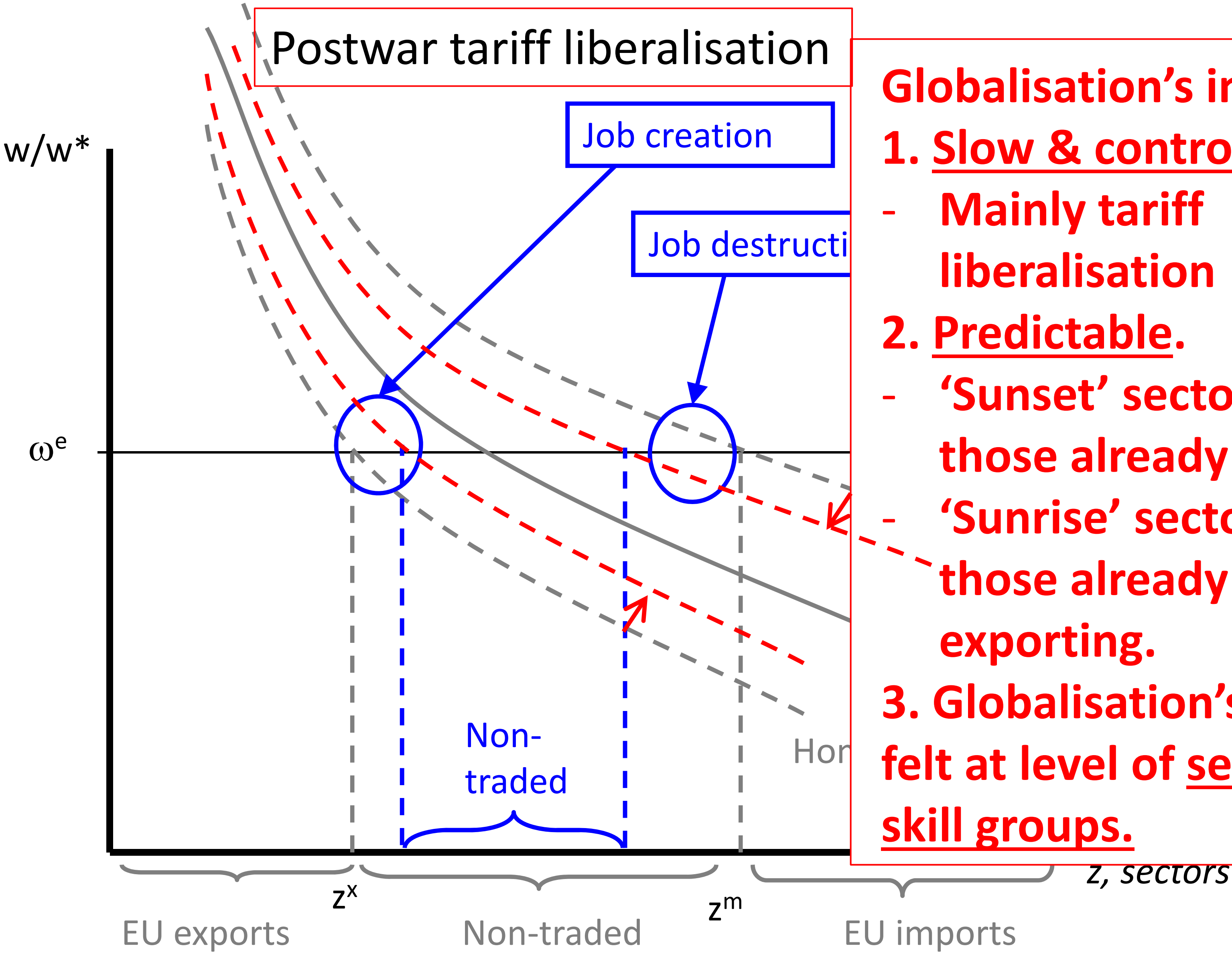
Factory Asia

Facto NorA

2nd unbundling: Industrialisation easier, but less meaningful



1UB



Globalisation's impact is:

1. <u>Slow & controlled</u>.

- **Mainly tariff liberalisation**

2. <u>Predictable</u>.

- **'Sunset' sectors like those already lost.**
- **'Sunrise' sectors like those already exporting.**

3. Globalisation's impact felt at level of <u>sectors & skill groups.</u>

Economics of 2nd unbundling

- 2 ways of recombination hi-tech & low-wages:
  - Direct: North know-how moves to South labour
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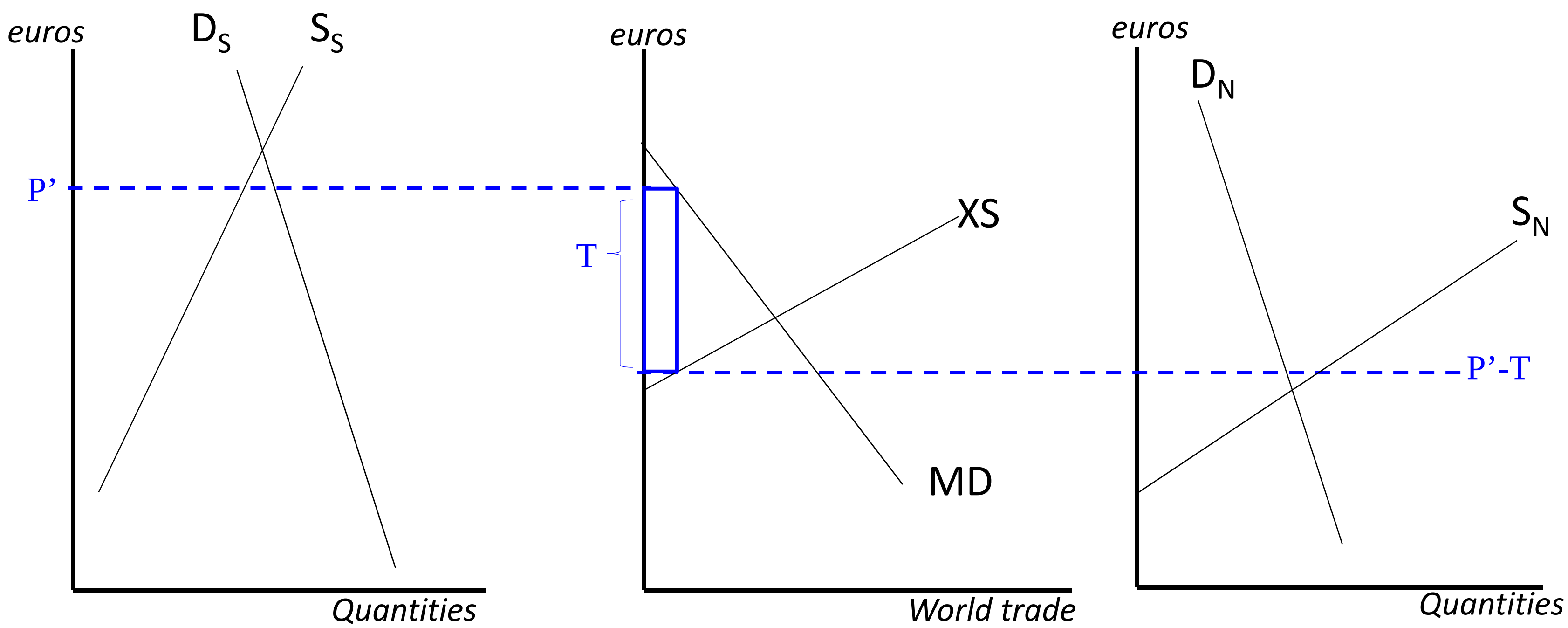
1^{st} unbundling:



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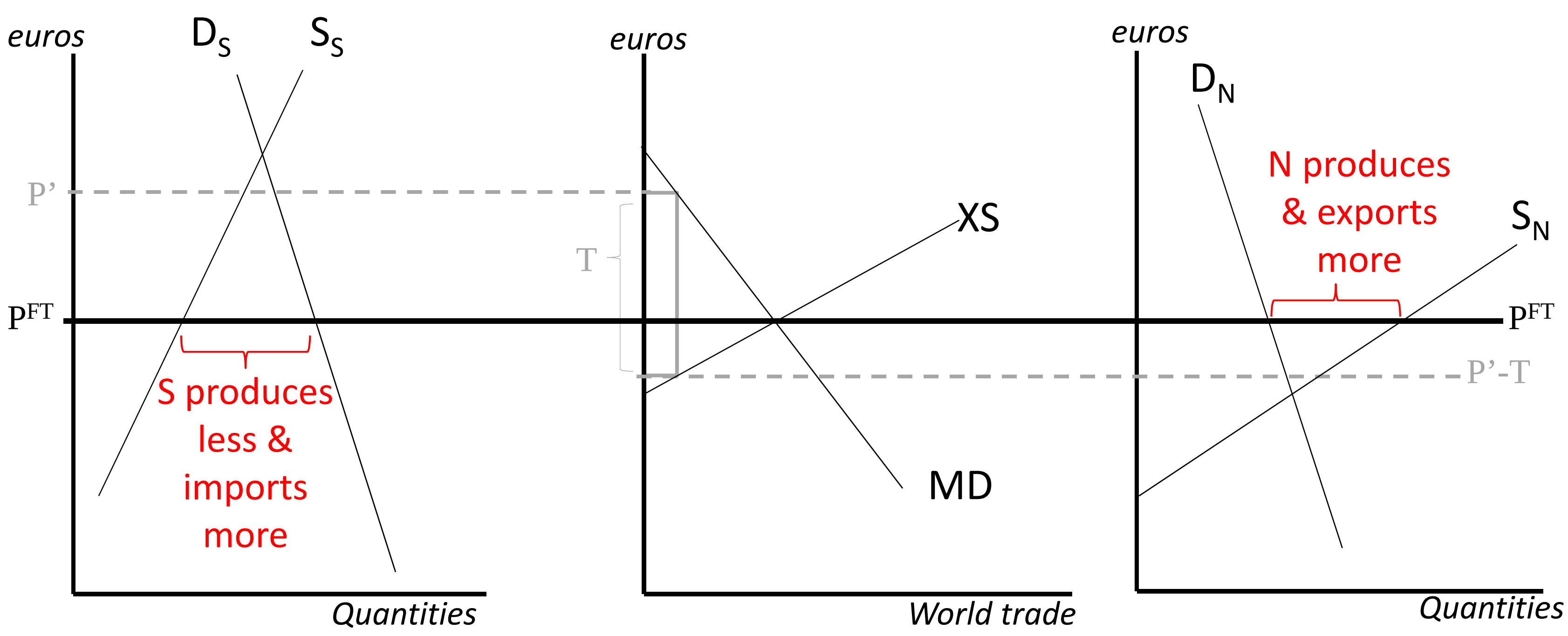
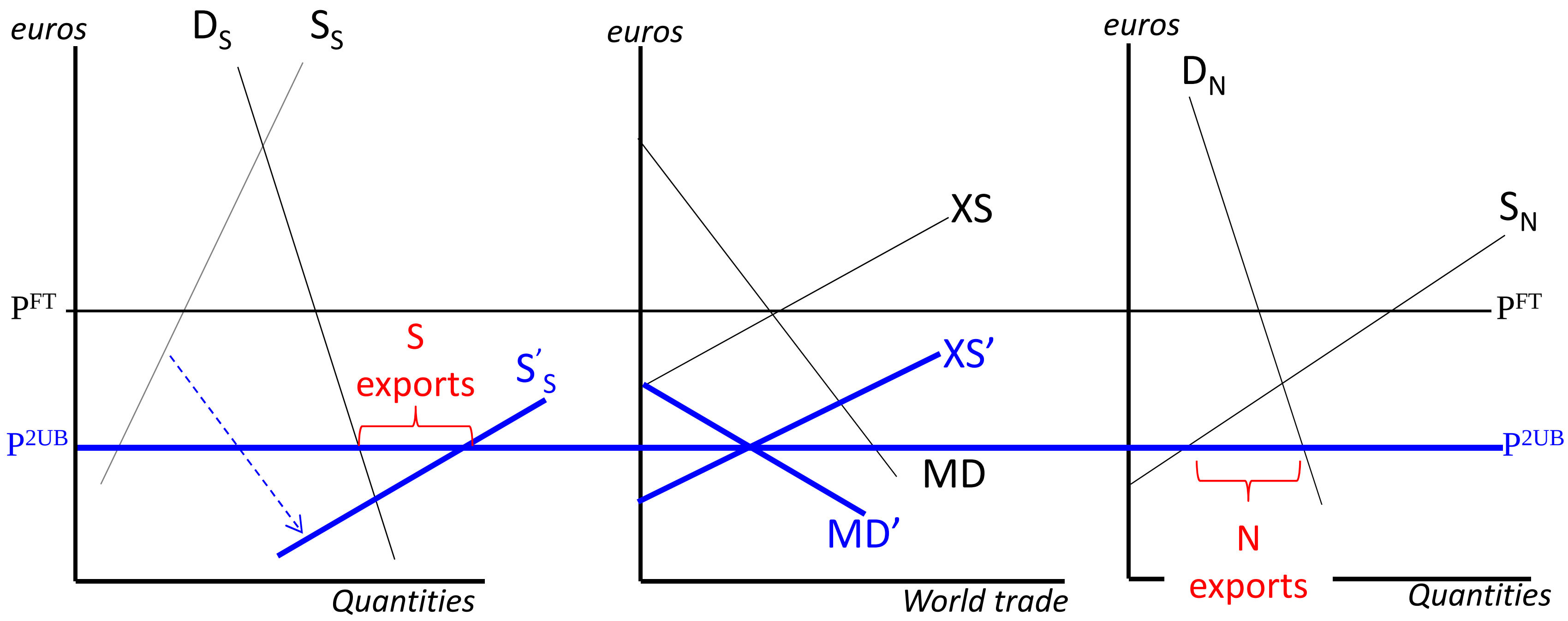


2nd UB → Direct recombination of North tech with South labour



Trade in parts can switch comparative advantage