



Misthinking Globalisation

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Conventional view of globalisation

- Autarky to free trade, slowly.
- Several 'waves', but single process.



1870–1990: Globalisation ↔ Trade costs

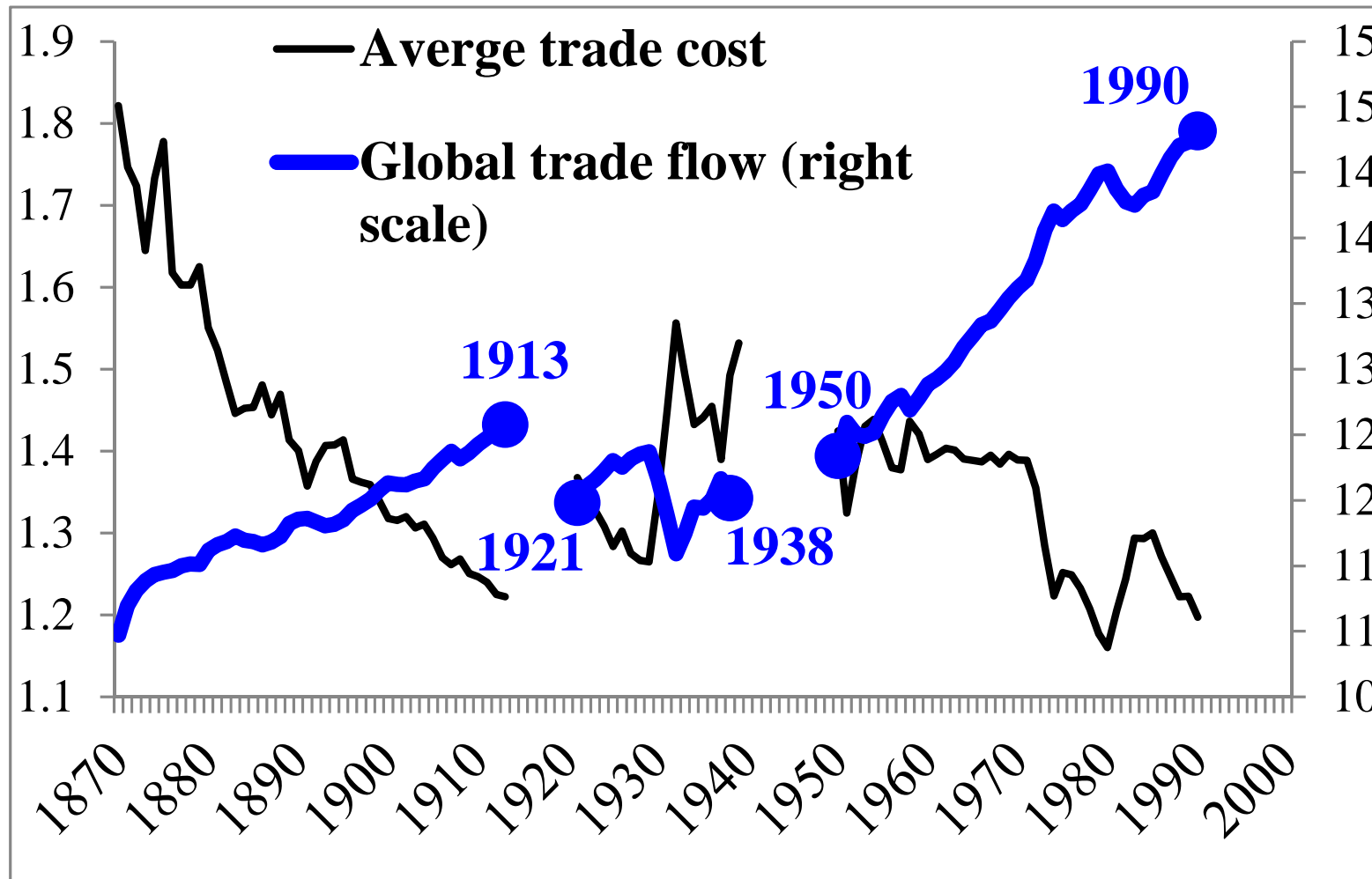


1870–1990: Globalisation ↔ Trade costs

1. Falling transport costs

2. Rising tariffs

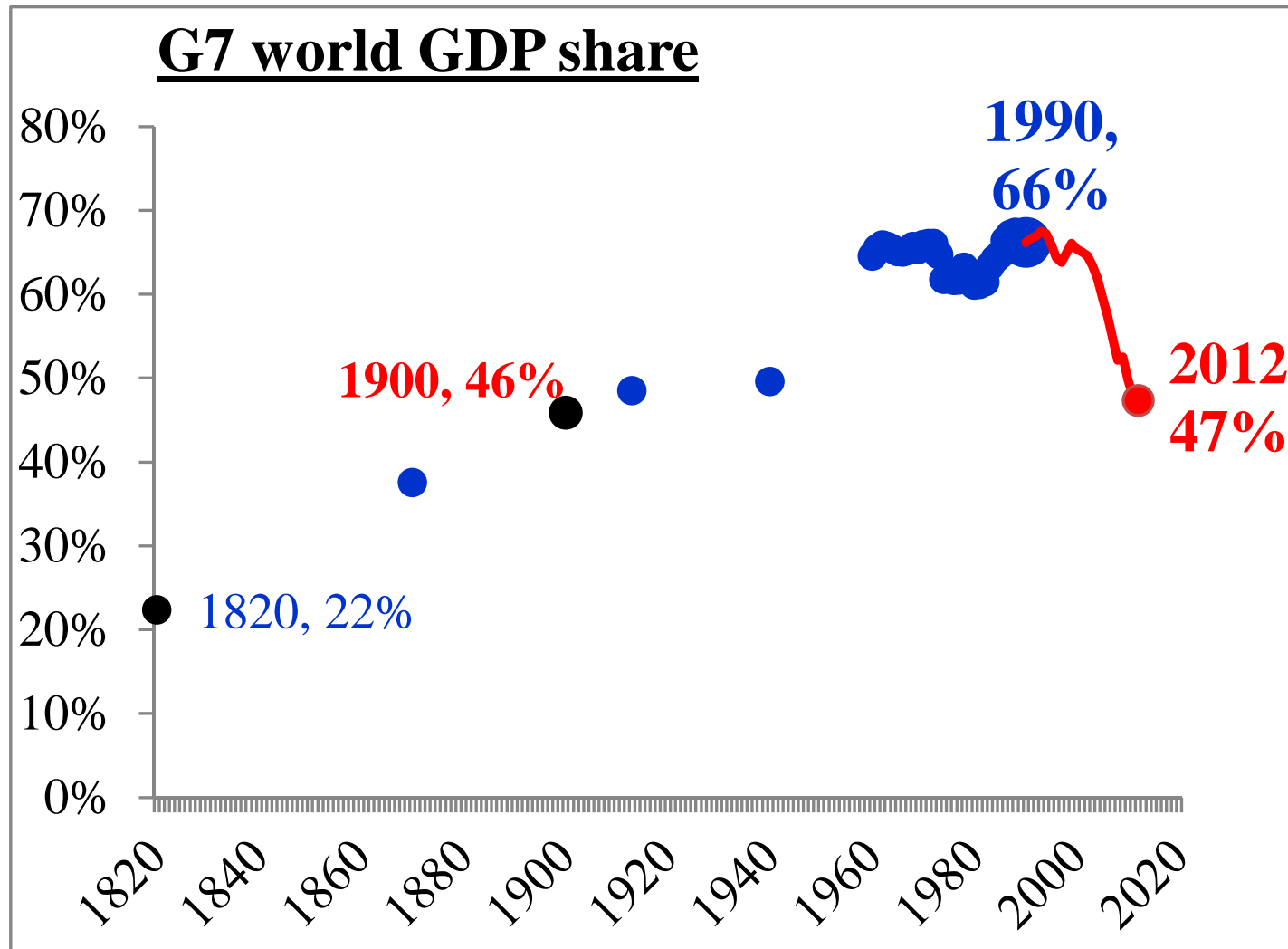
3. Falling tariffs & transport costs



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



Globalisation changed post-1990



↑
1990

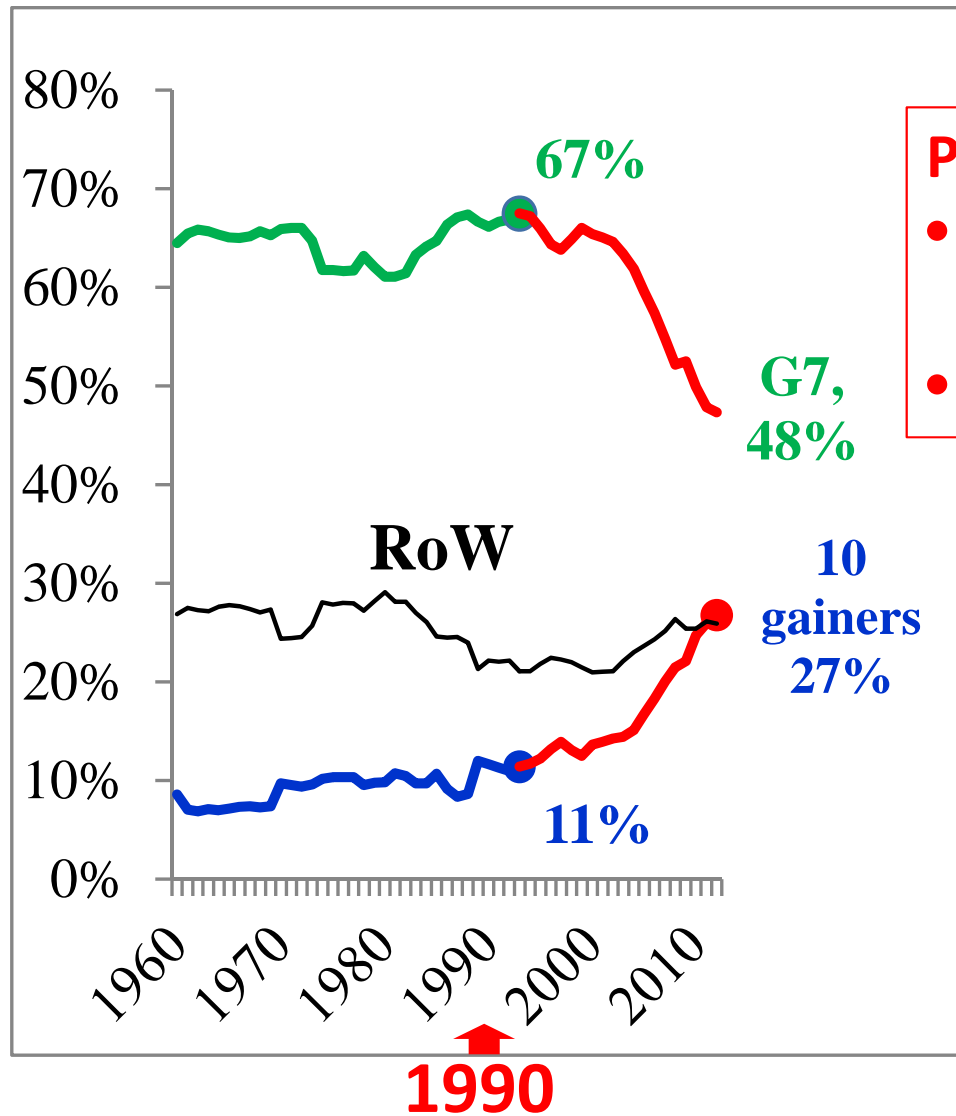


What changed globalisation?

- Follow the clues ...



Global GDP shares, 1960-2012



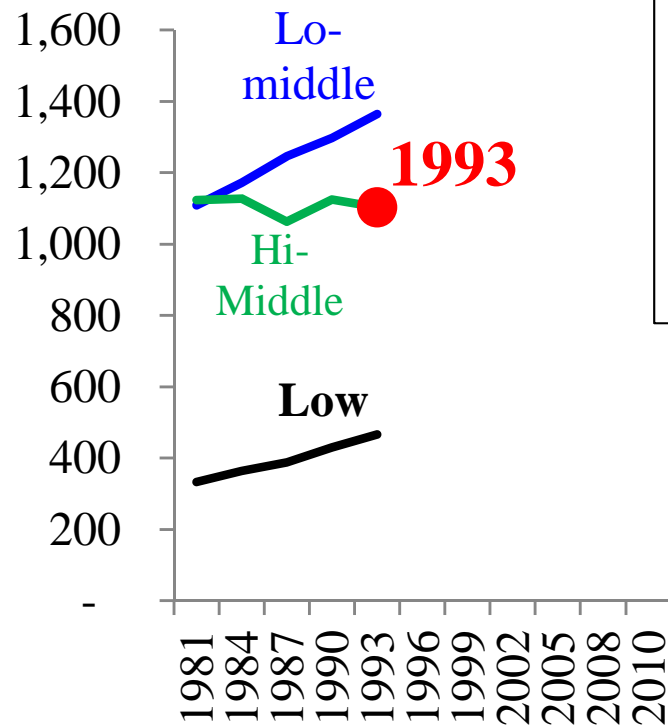
Post-1990:

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



People in poverty (under \$2/day)

Millions under \$2/day by national income class



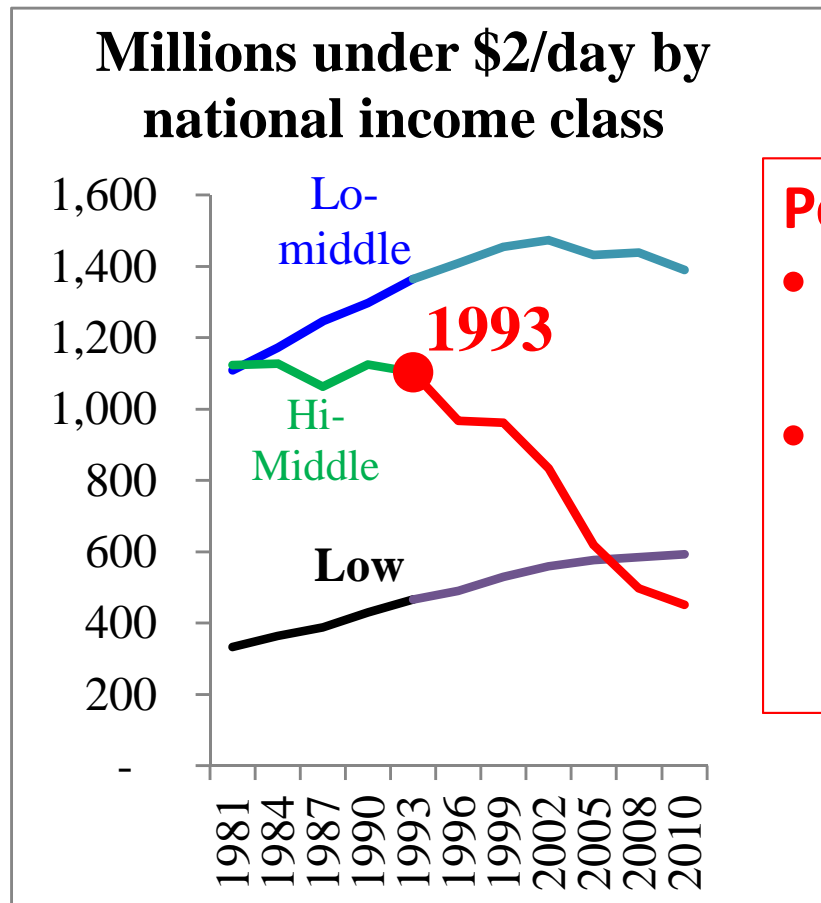
1980 – 1993 poverty:

- Rising in Low and Low-middle income nations.
- Flat in High-middle income nations.

↑
1990



People in poverty (under \$2/day)



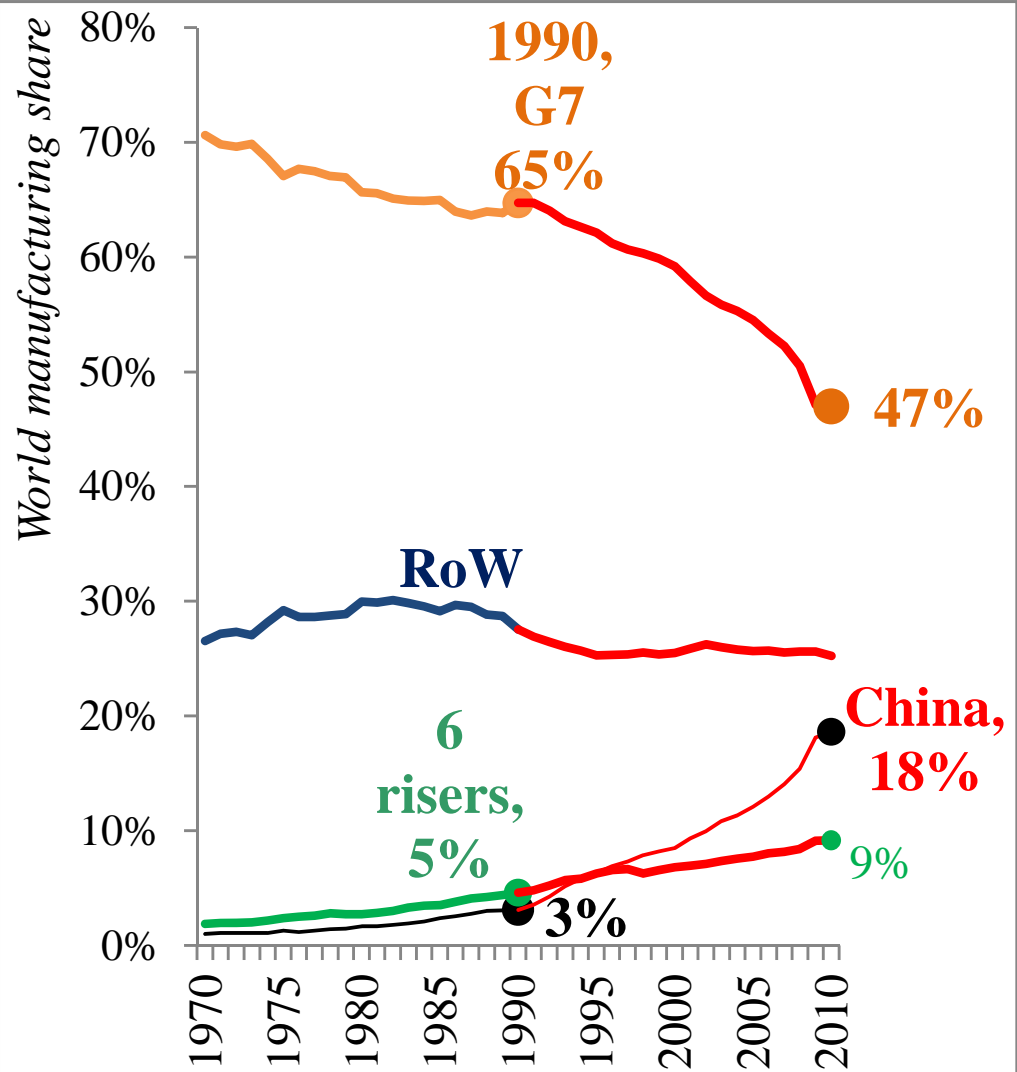
Post 1993

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

↑
1990



Global manufacturing shares, 1970-2010

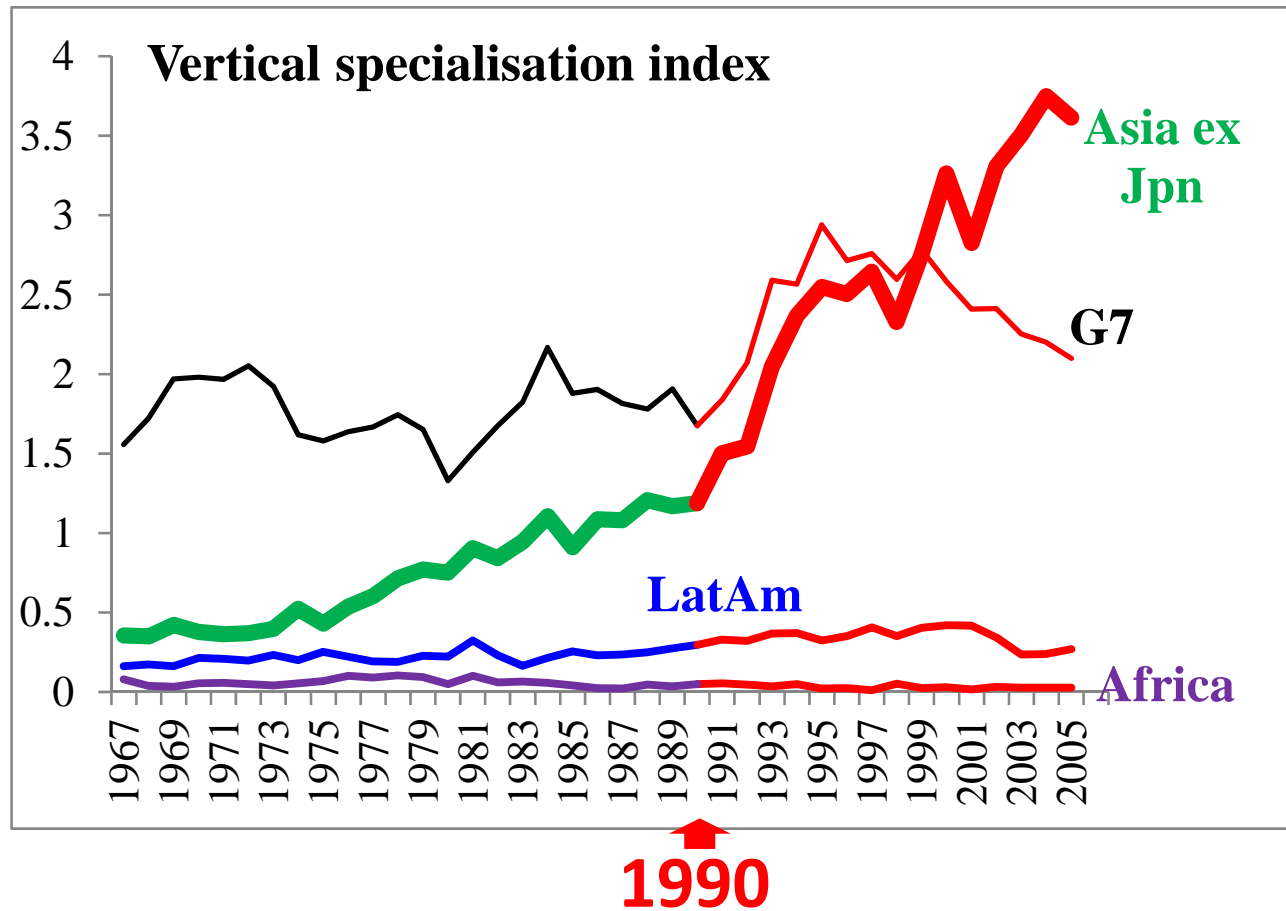


- 7 'losers'.
- 7 'risers'.
- RoW = little change.

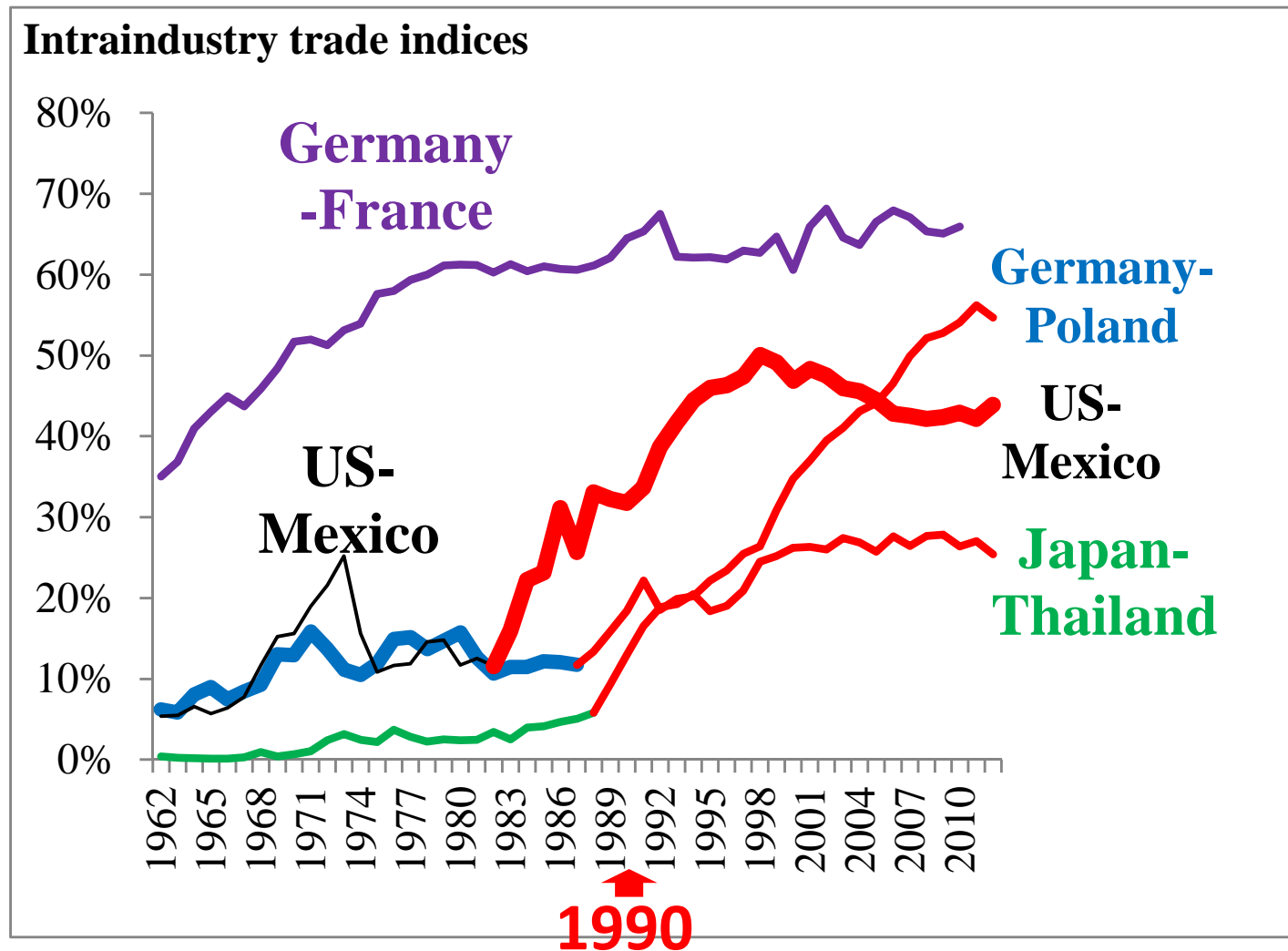
Source: unstats.un.org; 6 risers = Korea, India, Indonesia, Thailand, Turkey, Poland



Nature of trade: Vertical specialisation

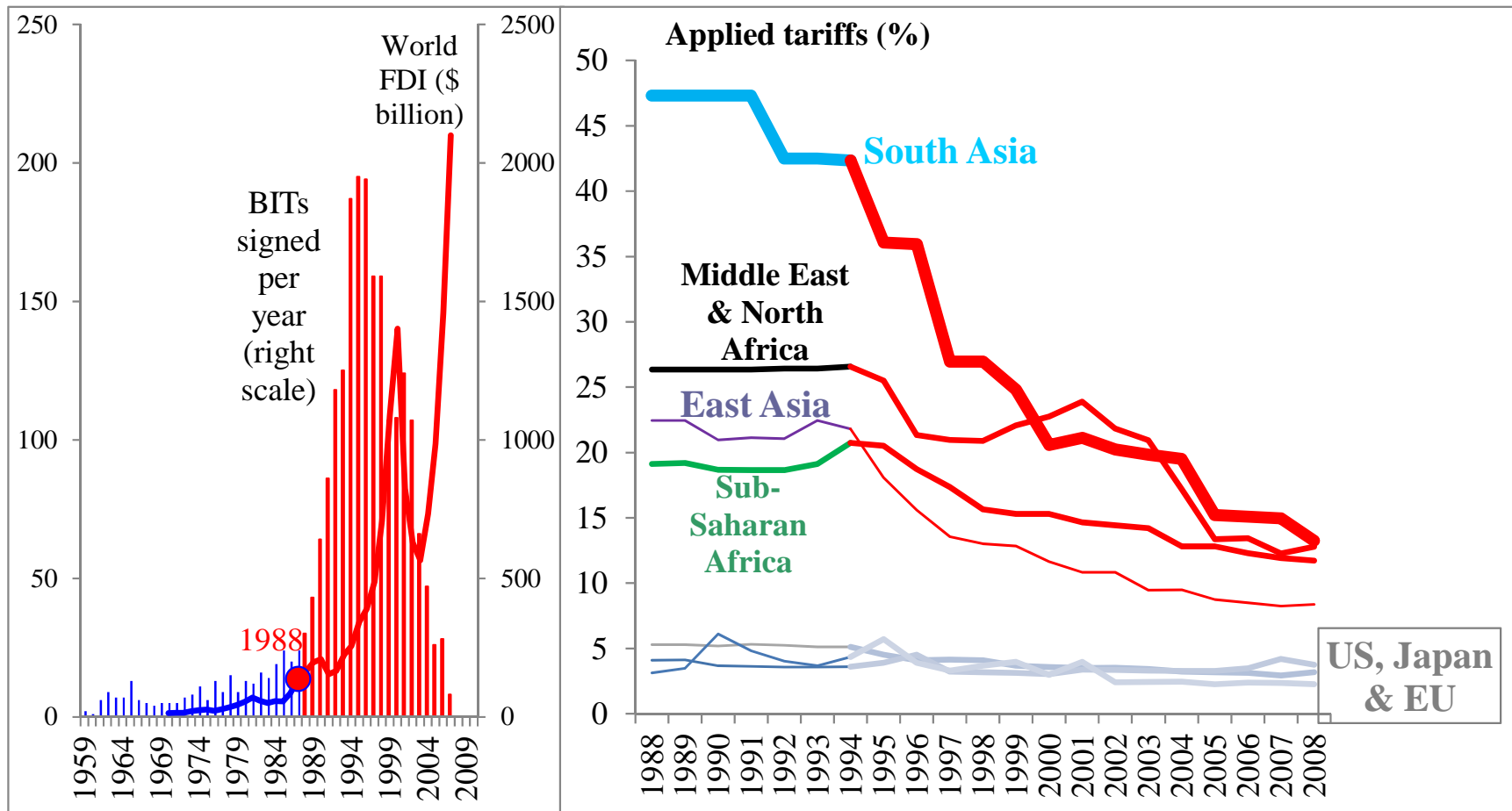


Nature of trade changed: Intra-industry trade (IIT)



Trade & investment policies

Developing nations



What changed globalisation?



Clues

Clue #1: The change is:

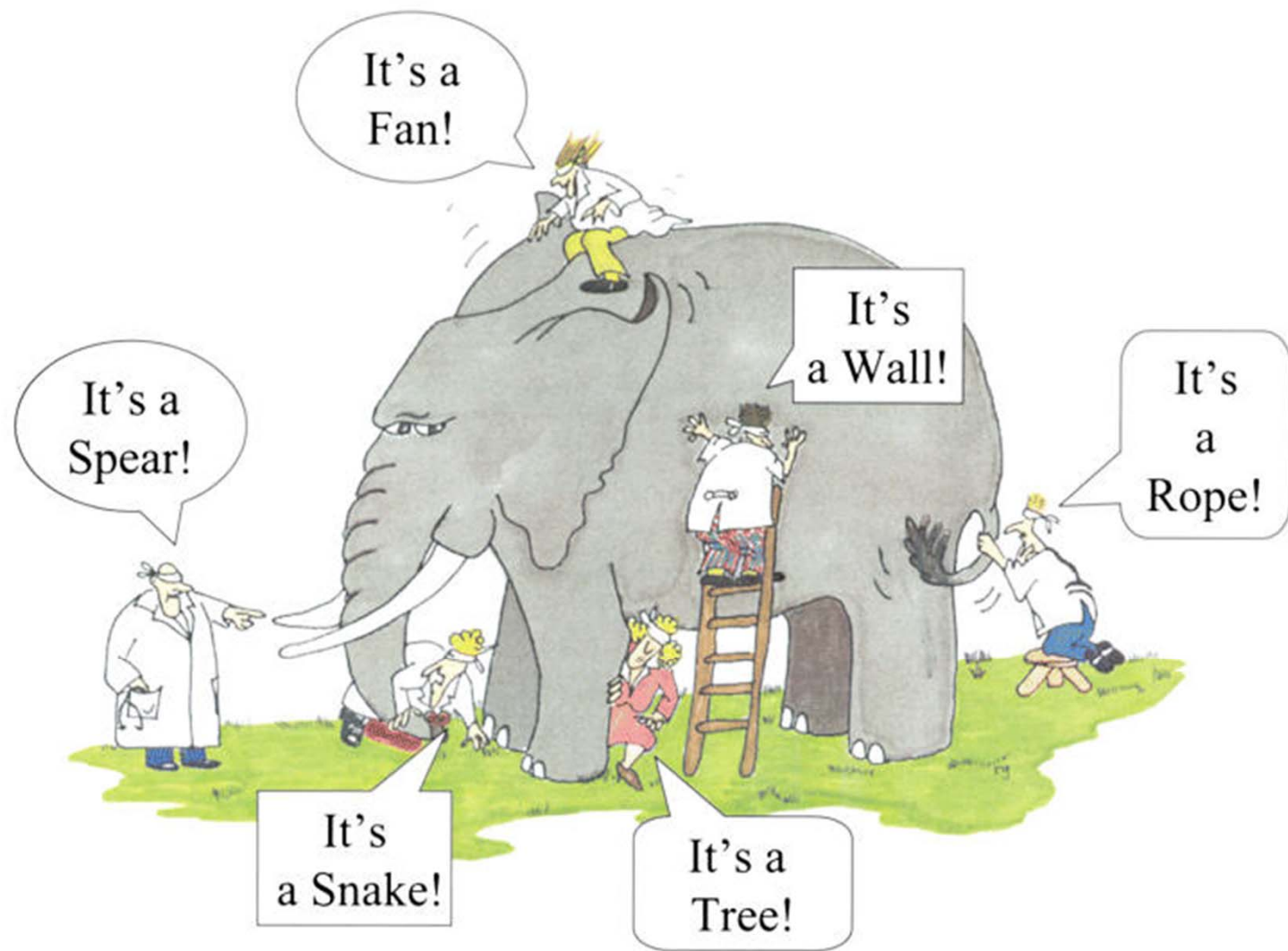
- Historic in size,
- Global in reach,
- Unevenly spread geographically

Clue #2: The change is:

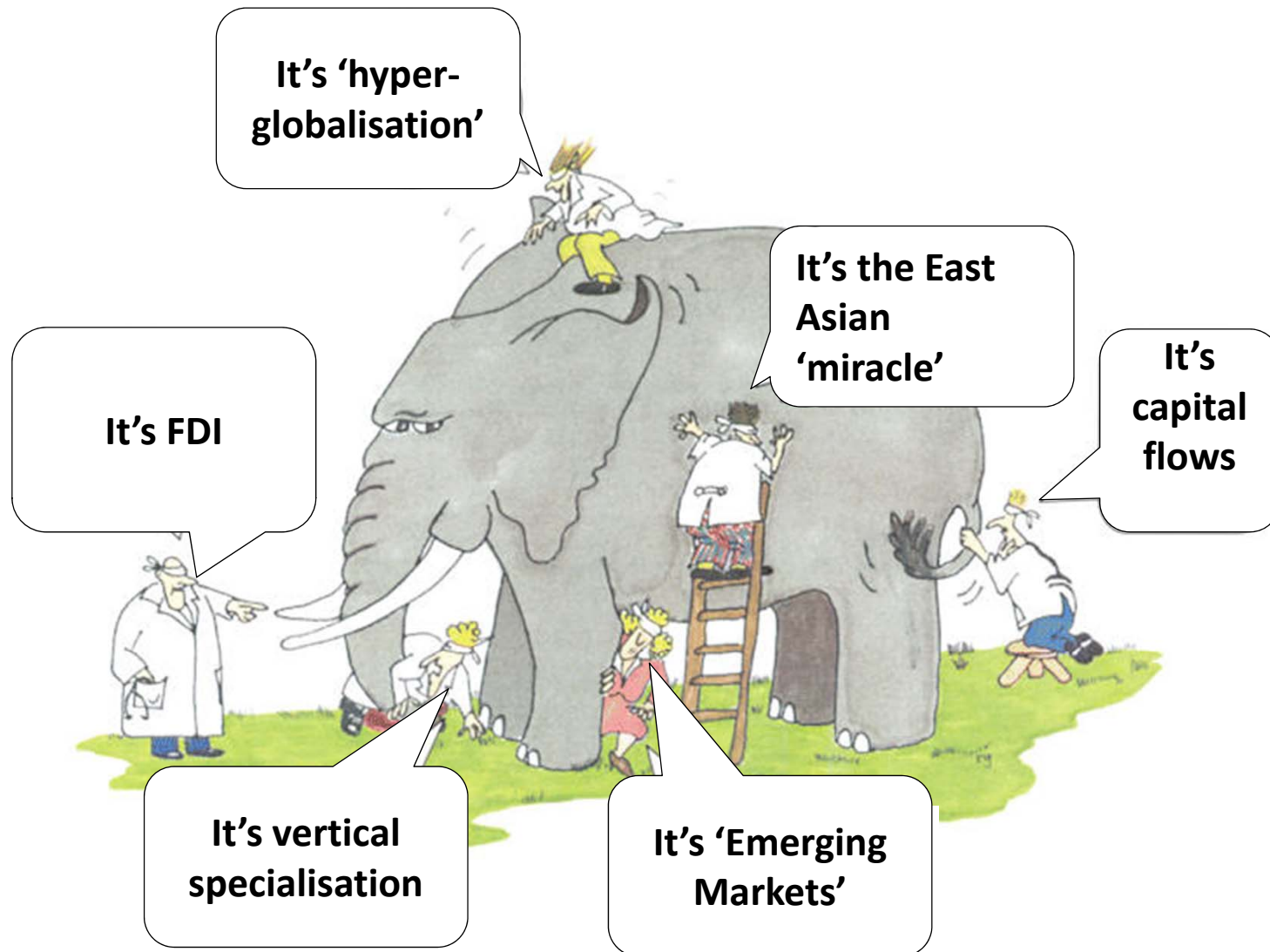
- Related to manufacturing & trade in intermediates.

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





Buzzwords in lieu of analysis



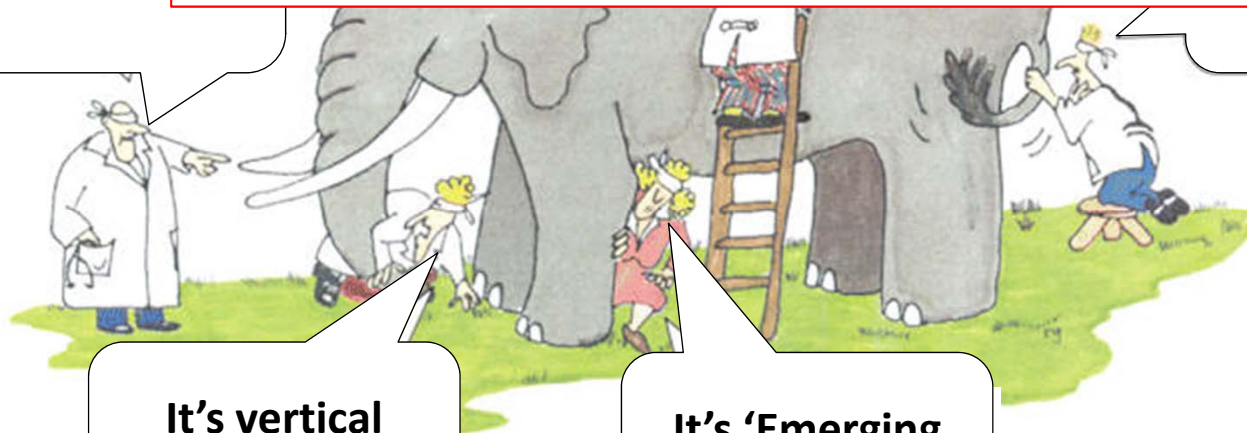
Elephant = international movement of firm-specific know-how.

“GVC revolution”

Know-how becomes:

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

It's FD



It's vertical specialisation

It's 'Emerging Markets'

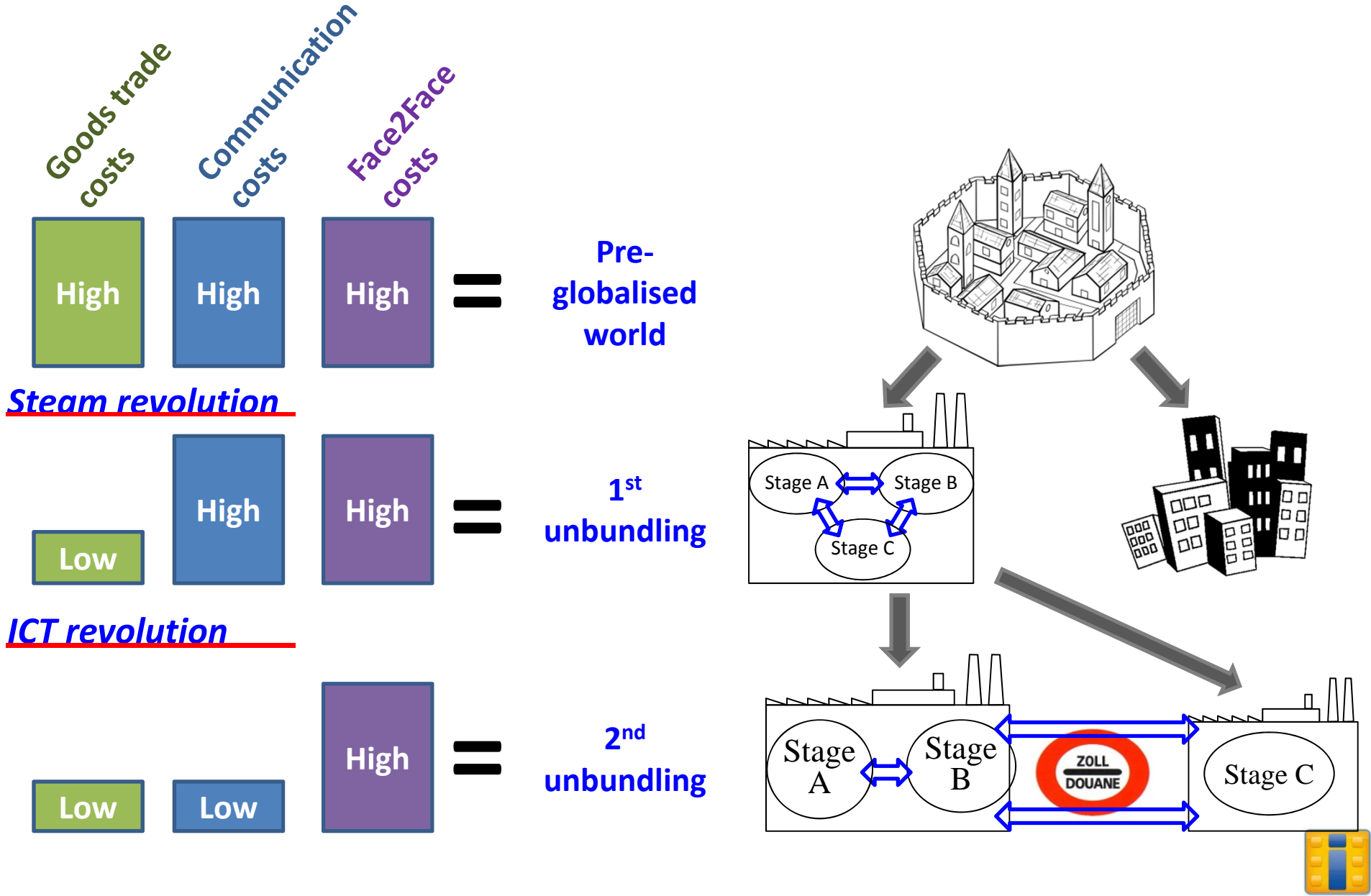


We need a new narrative for globalisation

Globalisation as 2 processes, not 1



Globalisation: 3 cascading constraints



Distance still matters

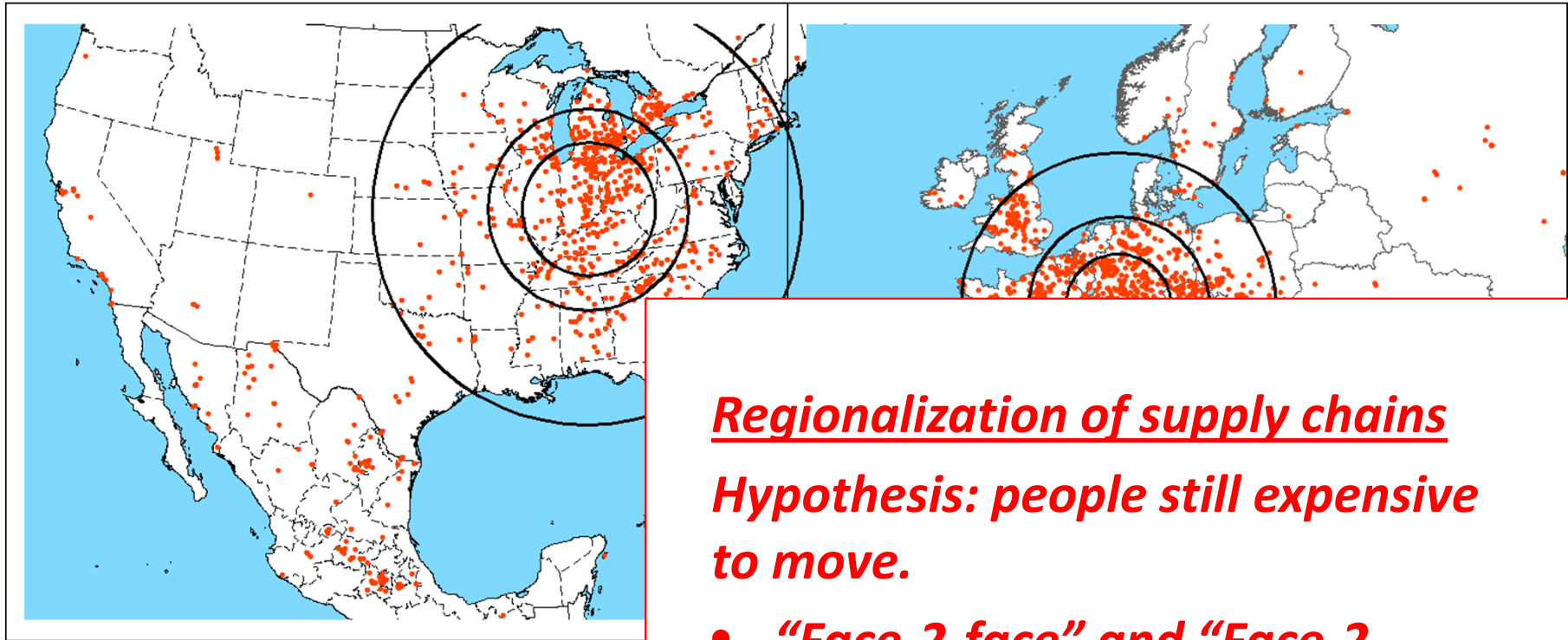


Figure 1: North American and Europe

Regionalization of supply chains

Hypothesis: people still expensive to move.

- *“Face-2-face” and “Face-2-machine” constraints.*



Lets make
better
mistakes
tomorrow



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 = misthinking economics

- 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.



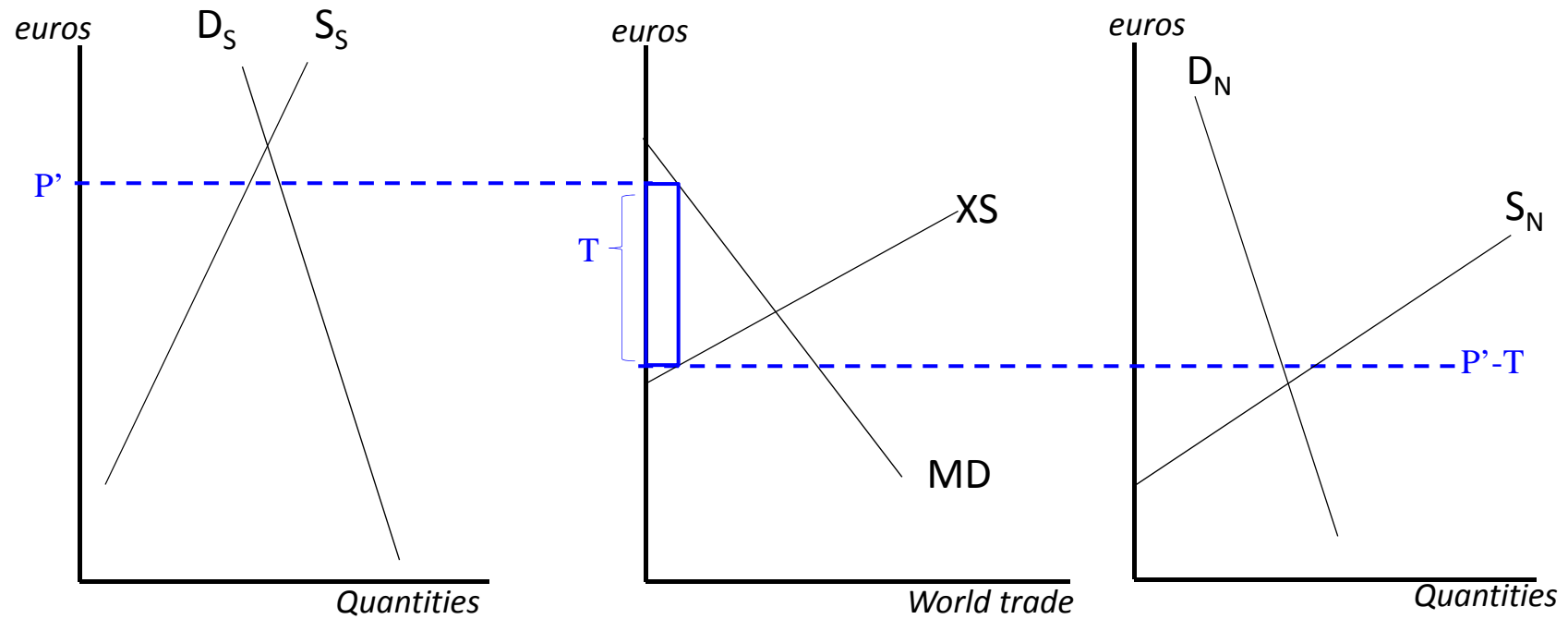
Economics of 2nd unbundling

- 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.

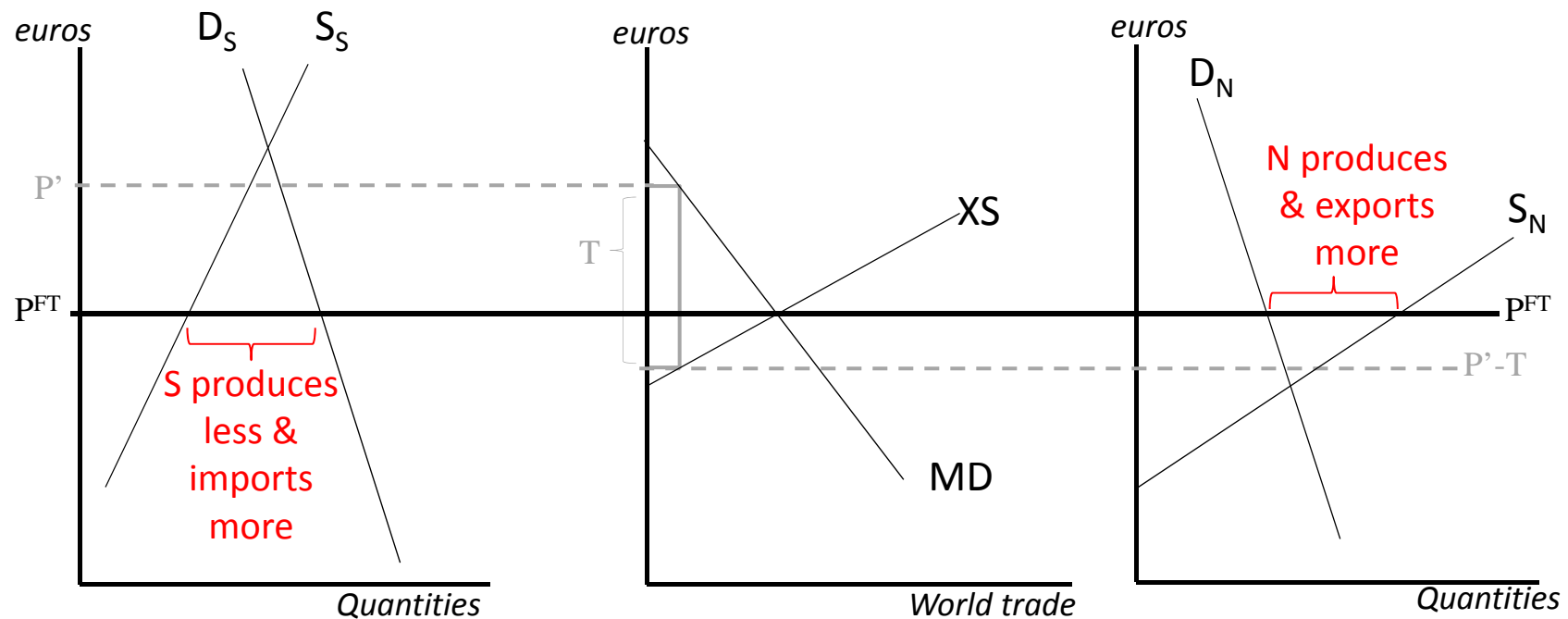


1st unbundling:

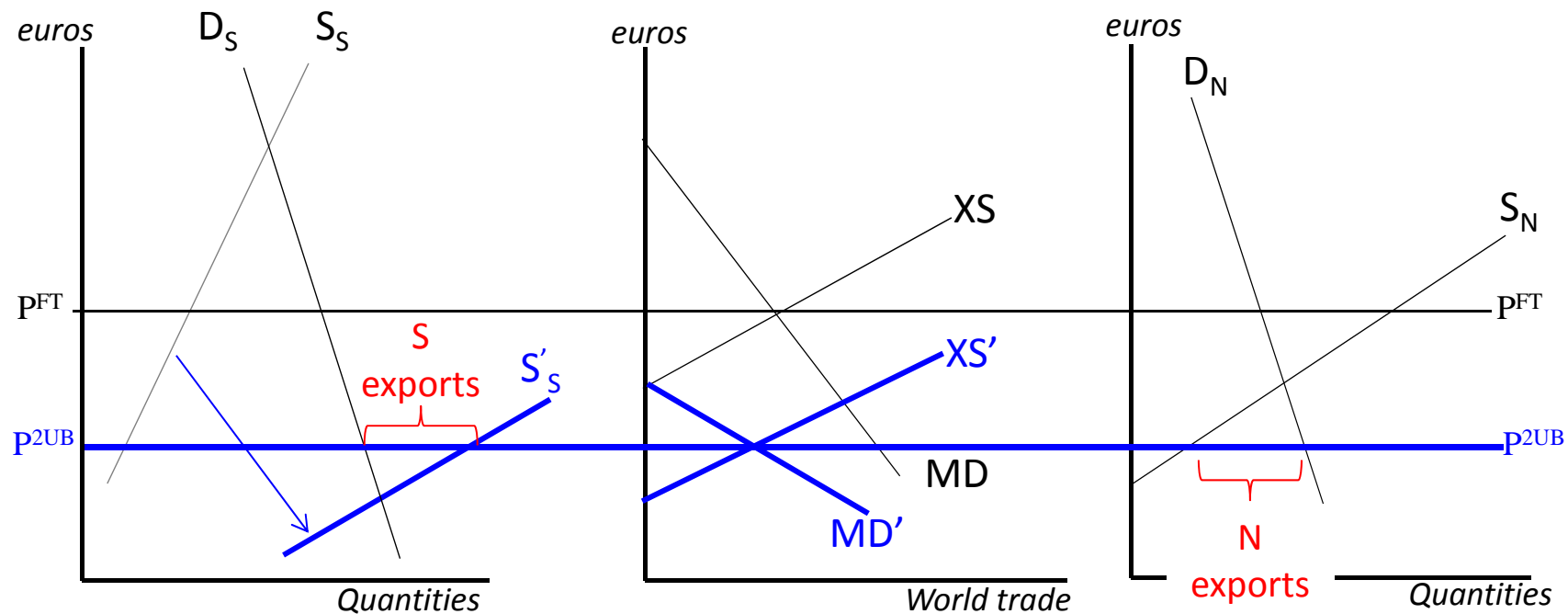


1st unbundling: Trade costs fall →

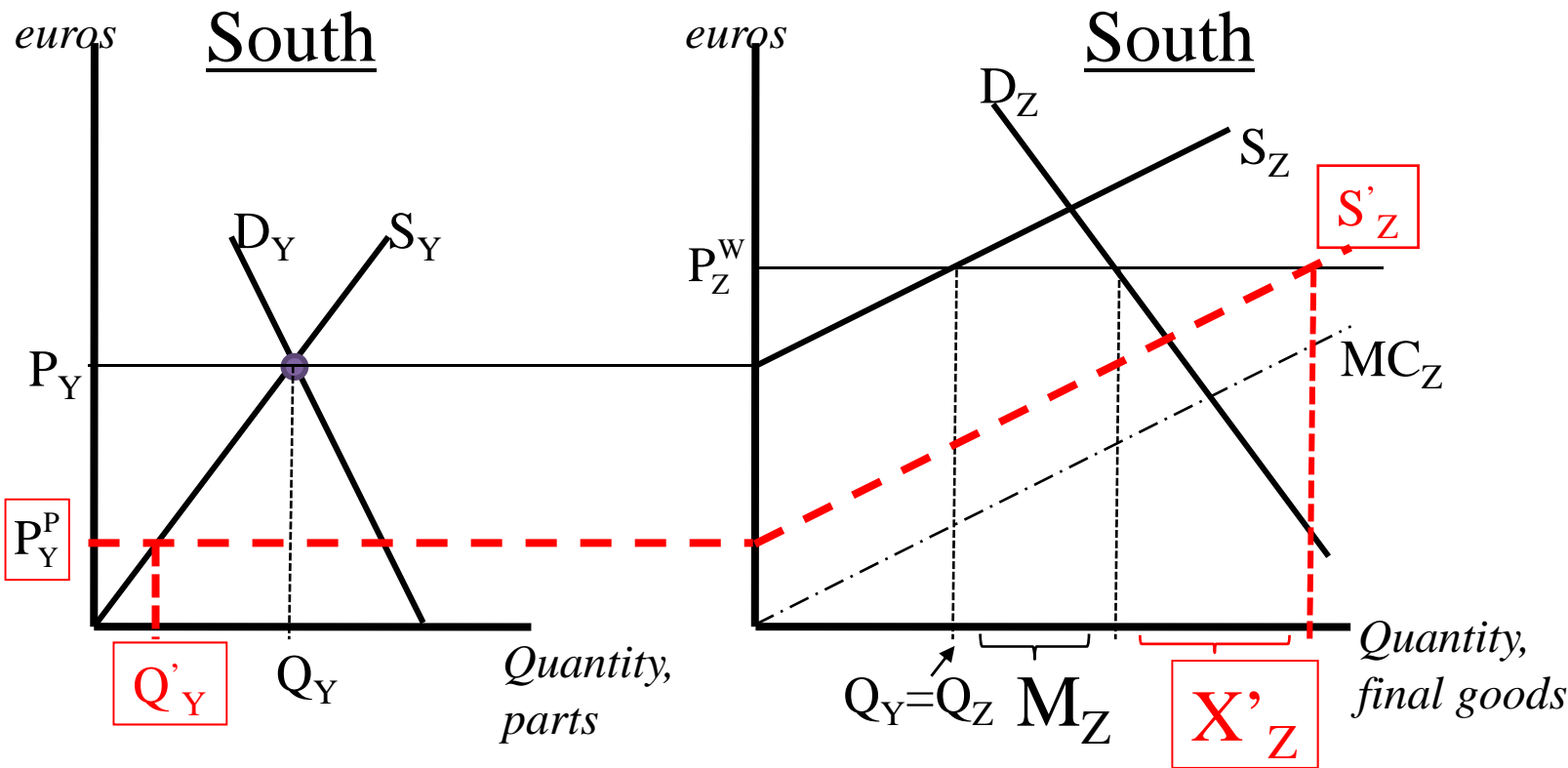
North industrialises; South de-industrialises



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



Trade in parts can switch comparative advantage



Basic economic difference

- 1st unbundling globalisation:
 - Exploit comparative advantage by producing more at home & exporting.
- 2nd unbundling globalisation:
 - “Sources of comparative advantage” move internationally.



Rethinking impact of globalisation

- The death of production functions?

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

- Globalisation works with a finer degree of resolution.
 - Need IO work to track its impact.
- Old, bold approaches need more detail.
- Open up the blackbox of production functions.



Key difference for policy

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



GVC revolution:

Policy rethinks necessary

1. Social & education policy.
2. Industrial policy.
3. Urban policy.
4. Trade policy & Global trade governance.



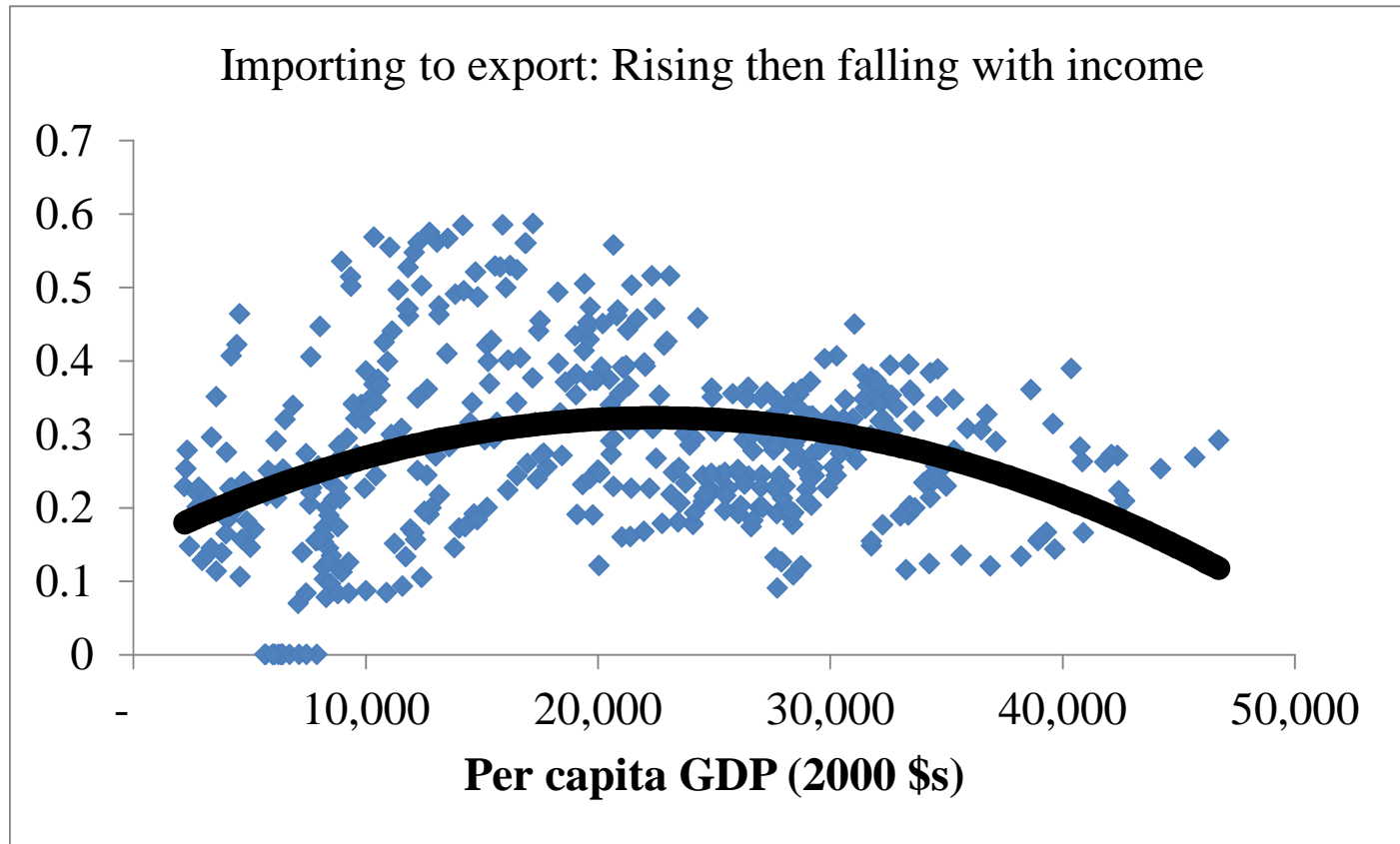
#5: Development policy

- Traditional industrialisation = build a supply chain (e.g. Korea).
- After 2nd unbundling, industrialisation = join a supply chain (e.g. Thailand).
- Some key points:
 - Industrialisation is easier but less significant.
 - 2nd unbundling killed import substitution.
 - North tech + South labour unbeatable.



Development paths changed

Holmes-
Lopez-
Gonzales
curve



END

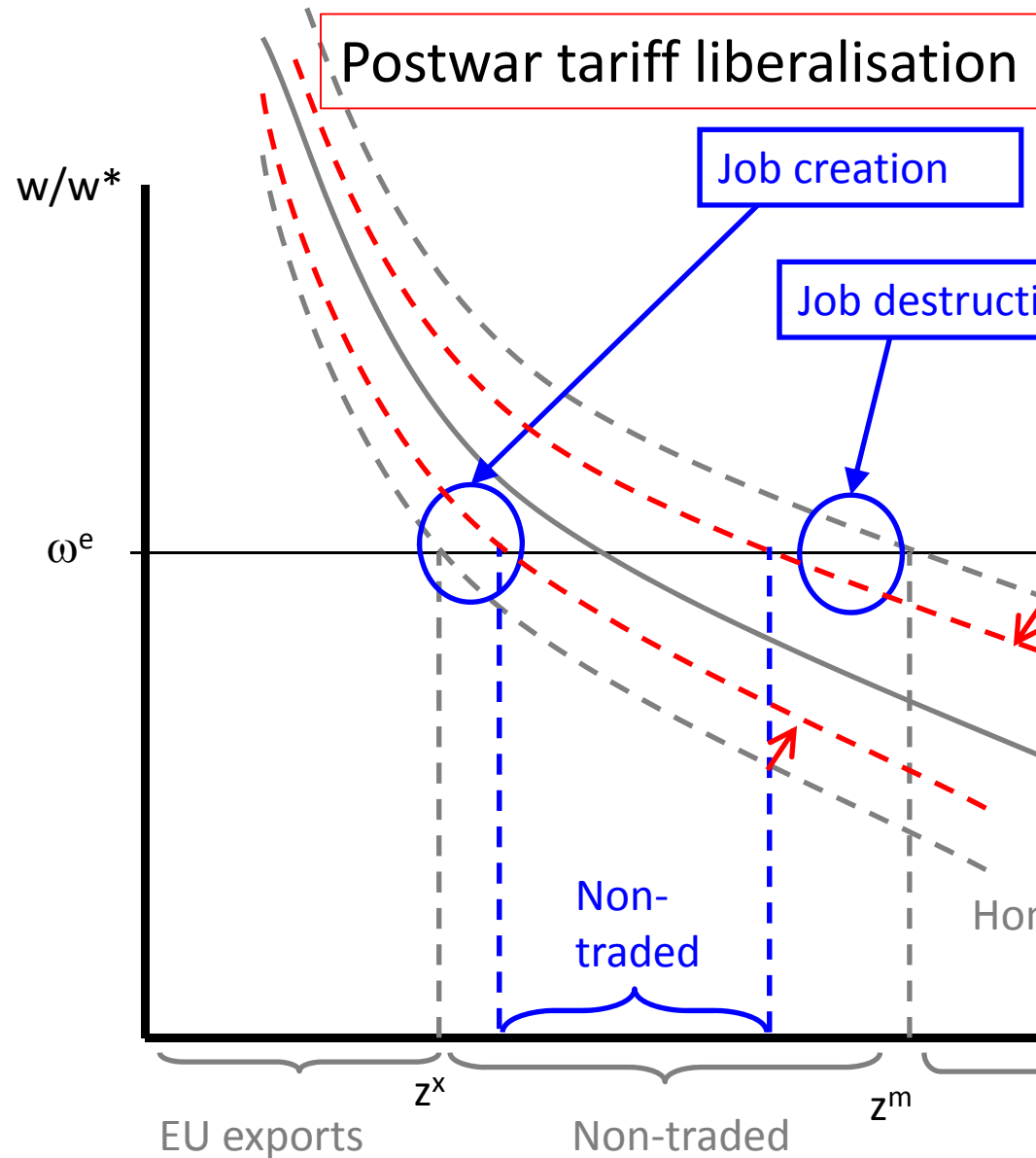
- Thank you for listening.
- Please continue developing Int'l IO tables and the like.
 - World of 2nd unbundling needs finer ganularity!
- Unpaid avert: please visit:
 - www.VoxEU.org
 - “Research-based policy analysis and commentary by leading economists”



Extra slides for Q&A



1UB



Globalisation's impact is:

1. Slow & controlled.

- **Mainly tariff liberalisation**

2. Predictable.

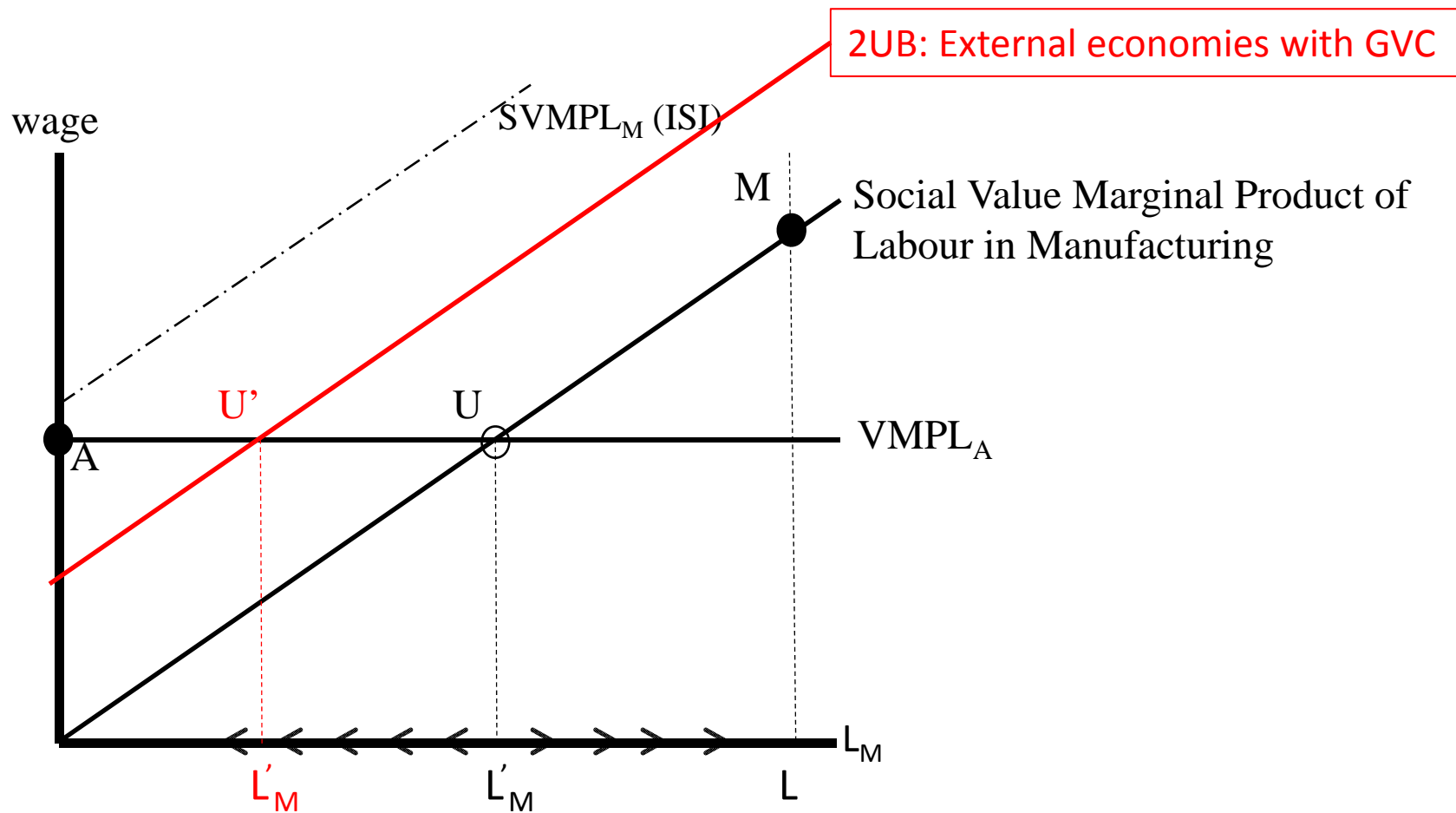
- **'Sunset' sectors like those already lost.**

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

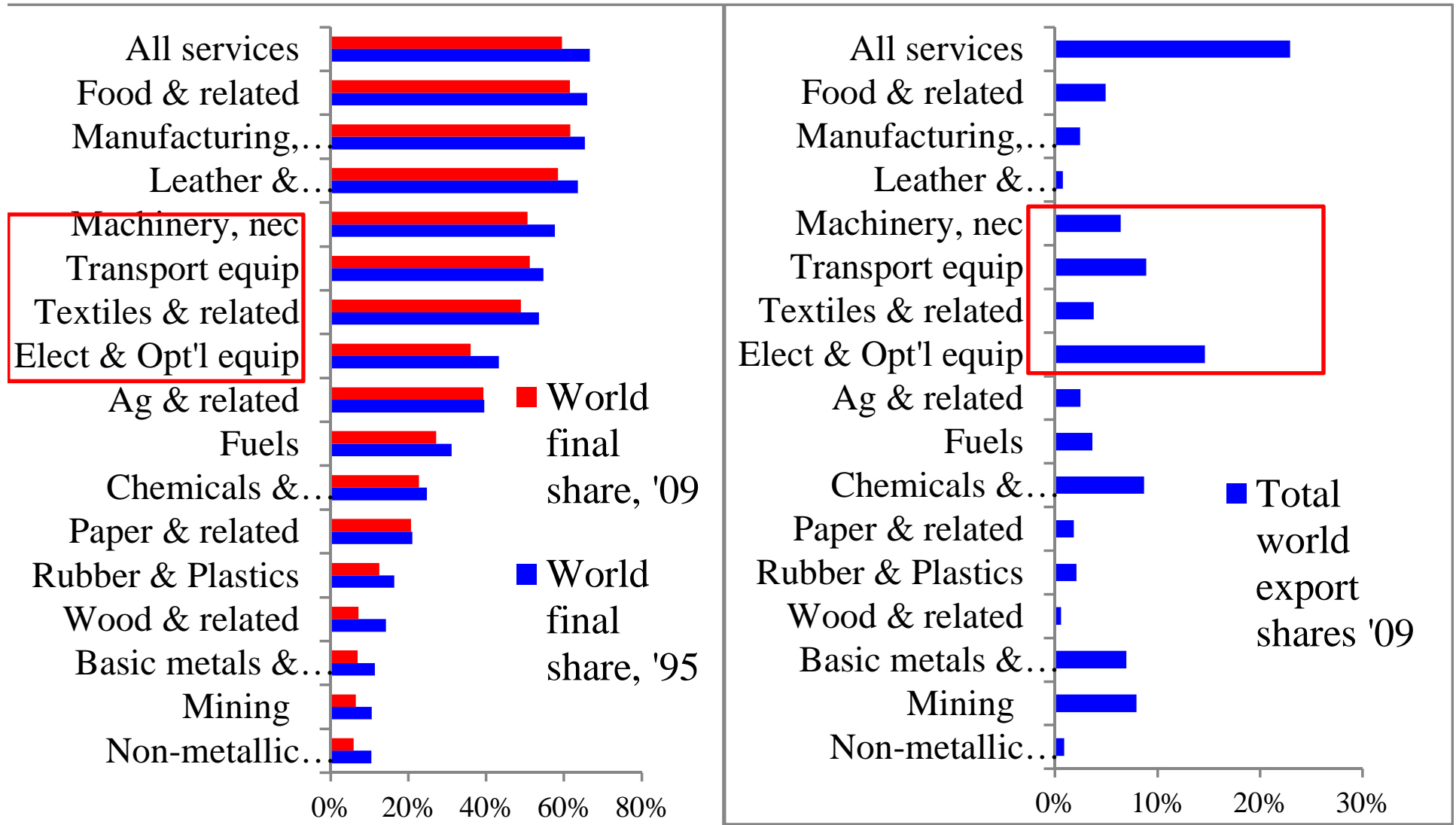
3. Globalisation's impact felt at level of sectors & skill groups.



2nd unbundling: Industrialisation easier, but less meaningful



Supply-chain trade by industry



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

I2P '09	UK	Germany	France	Italy	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%																1%
Germany	0%		1%	0%	0%	0%																		1%		0%					2%
France		0%																													1%
Italy																															1%
NL	1%					0%																									0%
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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																															
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:

Differences for policymaking

- Misthinking globalisation = misthinking policy.

2nd unbundling:

1. Less predictable.

- Globalisation changes national comparative advantage.

2. More sudden.

- Not controlled by tariff cutting.

3. More individual.

- Not by sectors or skill-groups.

