

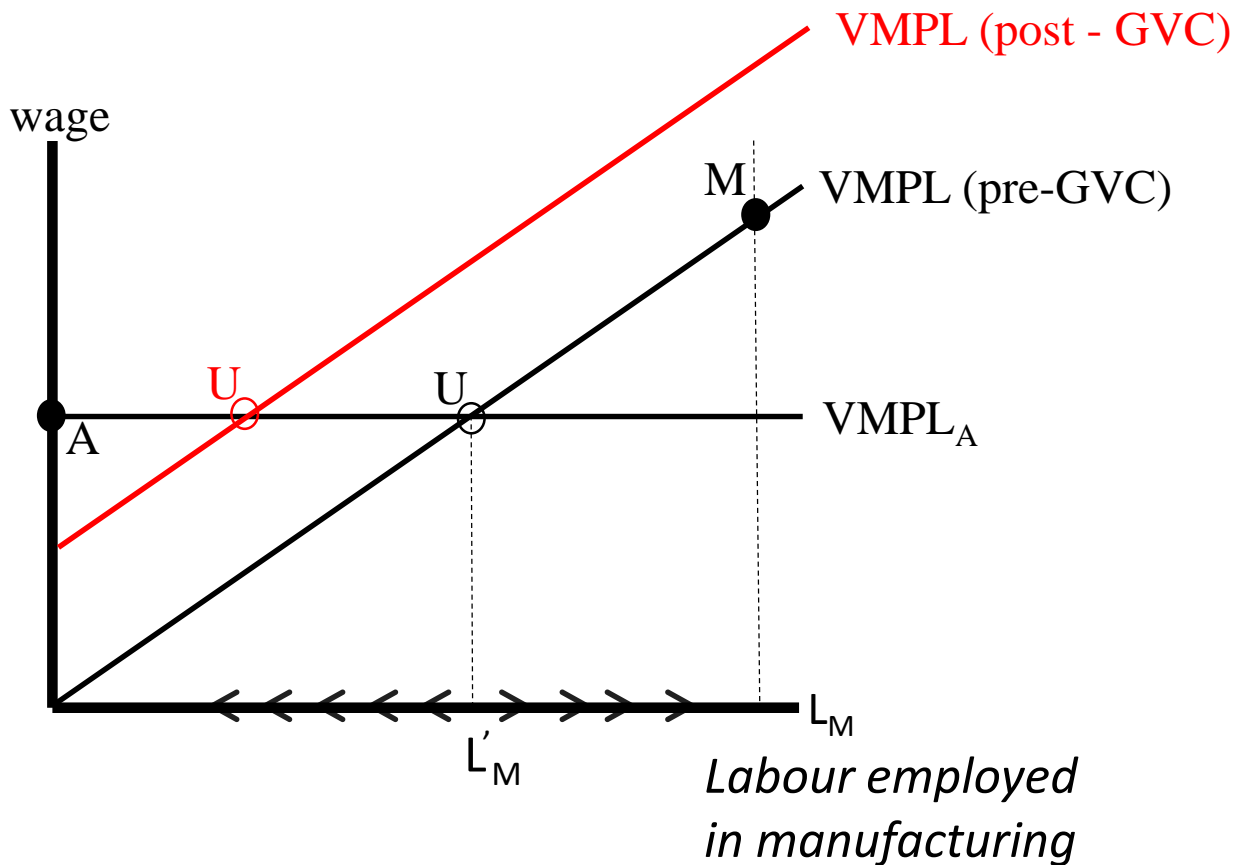
GVC Revolution and Development

Richard Baldwin

ODI 'Open Ideas Day', February 2015

Industrialisation's touchstone: Lumpiness

- Developing nation has comparative advantage in manufacturing; just stuck in 'bad' equilibrium.

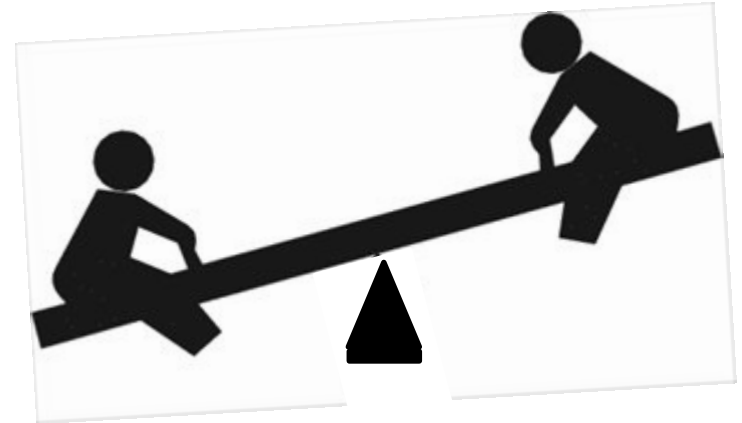


Industrialisation's touchstone: Lumpiness

Traditional industrialisation challenge



GVC industrialisation challenge

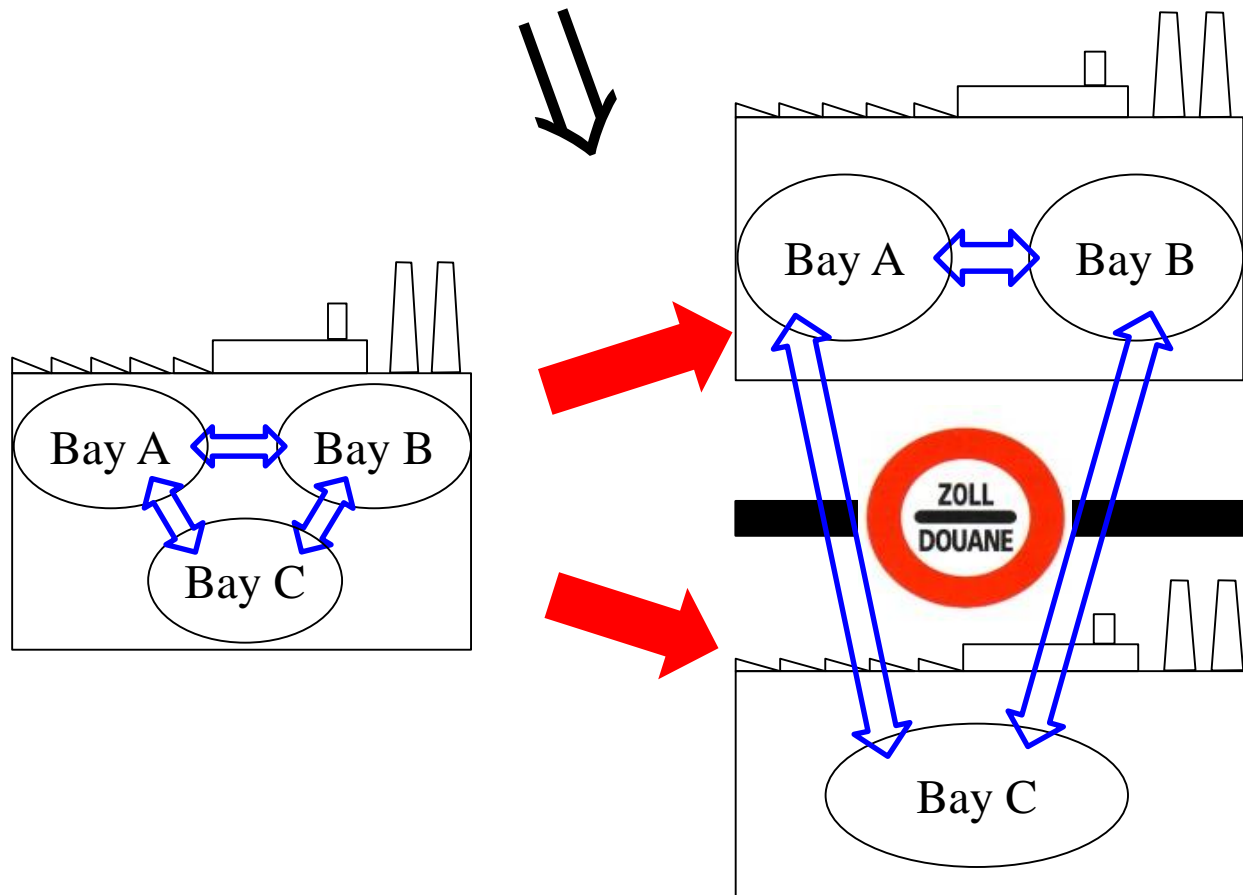


“The Big Push – in small steps”

What changed?

2nd unbundling:

ICT revolution



Key rethinks necessary

- **Intra-factory flows → international commerce.**
 - 1) De-Nationalised comparative advantage.
 - 2) Create 'nexus' of cross-border flows & thus 'nexus' of necessary disciplines.

BUT distance still matters due to Face2Face costs.
- Regional production networks, not global.

And so?

1. **‘Trade’ policy must be ‘packaged’**
 - Goods, services, IP, capital, key personnel.
2. **Development policy refocus: look at parts, not sectors.**
 - “Cluster policy, not industrial policy”
 - Local content restrictions and Special & Differential Treatment.
3. **“GVCs killed ISI”**
 - Brazil can’t do it the old way since China is doing it the new way.
4. **“Ignore Chinese example”**
 - *Market size changes everything.*
5. **Distance matter for different reasons: Face2Face.**

Misthinking development

- 1st unbundling thinking:

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

- 2nd unbundling thinking:
 - Competitiveness involves mix-and-match comparative advantage.
 - National performance depends upon non-national factors.
 - “Regional comparative advantage”
 - Cities matter.

End

- Thank you for listening
- Please join the GVC revolution!