GVC Revolution and Development

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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?

2\textsuperscript{nd} 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

• 1\textsuperscript{st} unbundling thinking:

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

• 2\textsuperscript{nd} 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!