THE GREAT CONVERGENCE
Information technology and the New Globalization

A NEW BOOK BY RICHARD BALDWIN

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Manufacturing & GDP shares shifted from G7 to a few developing countries

Source: unstats.un.org; 6 rapid industrialisers = Korea, India, Indonesia, Thailand, Turkey, Poland
Globalisation’s impact changed
Asymmetries & “Hyper-globalisation”

• Globalisation disruptive in G7:
  – Labour’s GDP-shares fell, but the reward to knowledge rose.
  – Frustration & economic disenfranchisement.

• Globalisation was cohesive in emerging markets: Middle class flourished.

• Trade agreements got ‘deep’.
  – Hyper-globalisation
What if globalisation was about **knowledge** instead of **trade**?
Be extreme to be extremely clear

• Suppose everything is made from knowhow & labour.
• Suppose trade costs & trade barriers unchanged since 1990.
• Suppose in 1990 “pipelines” opened that allowed knowhow to flow across borders.
Assume this pipeline pattern
Review 1990 situation for knowhow
to predict direction of flows inside pipeline

• Headquarter Economies (G7)
  - High Knowhow & High wages
  - High Labour

• Factory Economies
  - Low Knowhow & Low wages
  - Low Labour
When pipelines open
knowhow flows massively to Factory Economies

• **Headquarter Economies (G7)**
  - High Knowhow & High wages
  - Labour

• **Factory Economies**
  - Low Knowhow & wages
  - Labour
What are the international impacts?

- Factory Economies industrialise; HQ Economies de-industrialise.
- Factory-Economy growth takes off.
  → Great Convergence.
- Factory Economies embrace policies that foster knowledge flows; HQ Economies embrace policies that protect knowledge flows.
  → Hyper-globalisation & Globalisation Paradox
What are the domestic impacts?

• In HQ Economies:
  – Labour GDP share falls;
  – Knowledge-owners’ shares of GDP rise.
    • Globalisation is disruptive.

• In Factory Economies:
  – Middle class rises, 100s of million rise out of poverty.
    • Globalisation is cohesive.
Asymmetric anti-globalisation
Branko’s Elephant Chart

- G7 knowhow moved to Factory Economy workers & thus undermined incomes of G7 workers.
- Rich knowledge owners prospered.
- Other developing-nations puzzled:
  - Why aren’t we growing like China?
How do we put knowledge flows back in the box?
Broader perspective on globalisation
3 costs that form 3 constraints on globalisation

Trade costs
(cost of moving goods)

Communication costs
(cost of moving ideas)

Face-to-face costs
(cost of moving people)
Around 1820, trade costs fall:
Lower trade costs drive “unbundling” of production & consumption (i.e. Old Globalisation starts)
Production clusters locally as markets expand globally
This micro-clustering sparks innovation
G7 innovations stay in G7 due to high communication costs
Result is “Great Divergence” (1820-1990)
Around 1990, communication costs fall
ICT Revolution + wage gap drive unbundling of G7 factories (i.e. New Globalisation starts)
Offshoring of factories leads to ‘knowledge offshoring’
i.e. Global Value Chains (GVCs) are the pipelines

To ensure offshored production meshes seamlessly, G7 firms offshore knowhow along with the jobs
Knowledge offshoring → massive knowledge flows
Result: “Great Convergence” (1990 - today)
Recap:
What put the ‘new’ in the New Globalisation?

ICT enabled G7 firms to precisely control what goes on inside developing-nation factories.
How not to address anti-globalisation
Premise #1) ICT broke the monopoly that G7 labour had on G7 knowhow
This can’t be undone with tariffs
Premise #2) Globalisation operates with a finer resolution
This can be partly undone with tariffs

Old Globalisation

- Job
- Job
- Job
- Job

- Manufacturing stage
- Manufacturing stage

- Product

New Globalisation

- Job
- Job
- Job
- Job

- Manufacturing stage
- Manufacturing stage

- Product

International competition

International competition
Premise #3) The rage is rational
Anxiety & anger generated by New Globalisation

• #1 + #2 ⇒ Globalisation’s impact is:
  – More sudden;
  – More individual;
  – More unpredictable;
  – More uncontrollable.

No matter what job or skills you have, you can’t really be sure your job won’t be next.
20th century thinking meets a 21st century problem
Two questions:
- Will US manufacturing stages rebundle?
- Will rebundling take place in US or abroad?
Raising US trade barriers will not stop offshoring of US knowhow but it will raise the cost of industrial inputs in US
Trump tariffs would make US a high-cost island for manufacturing

• US imported parts get dearer.
  – Mexico, Canada & China are major parts suppliers.

• US final goods stay competitive inside US due to tariffs on imported final goods.

• Economic logic → manufacturing shifts:
  – to US for US market sales;
  – to US foreign affiliates for non-US sales.

• Foreign retaliation exaggerates the trend.

• (And Japanese & German competitors)
Jobs? US workers competing with robots at home & China abroad

• The offshored jobs were typically low-skill and routine, thus prone to automation.
• Economic logic → lots of jobs for robots, few jobs for US workers.
What way forward?

1. Accept 21\textsuperscript{st} century realities:
   - New Globalisation isn’t something that foreigners are doing to us.
   - You can’t vote against globalisation by voting against the agreements that shape & control it.
     - Old Globalisation tools that control trade flows don’t work on New Globalisation knowledge flows.
What way forward (continued)

2. Rebuild the team:
   – Restore social cohesion with policies that protect individual workers, not individual jobs.
     • Retraining, education, mobility support, income support, maybe even active ‘clusters policy’.

3. Package it politically:
   – “Trade policy in the service of society.”
     • When proposing more open trade & GVC policy, also propose policies that help economically disenfranchised.
Thanks for listening