

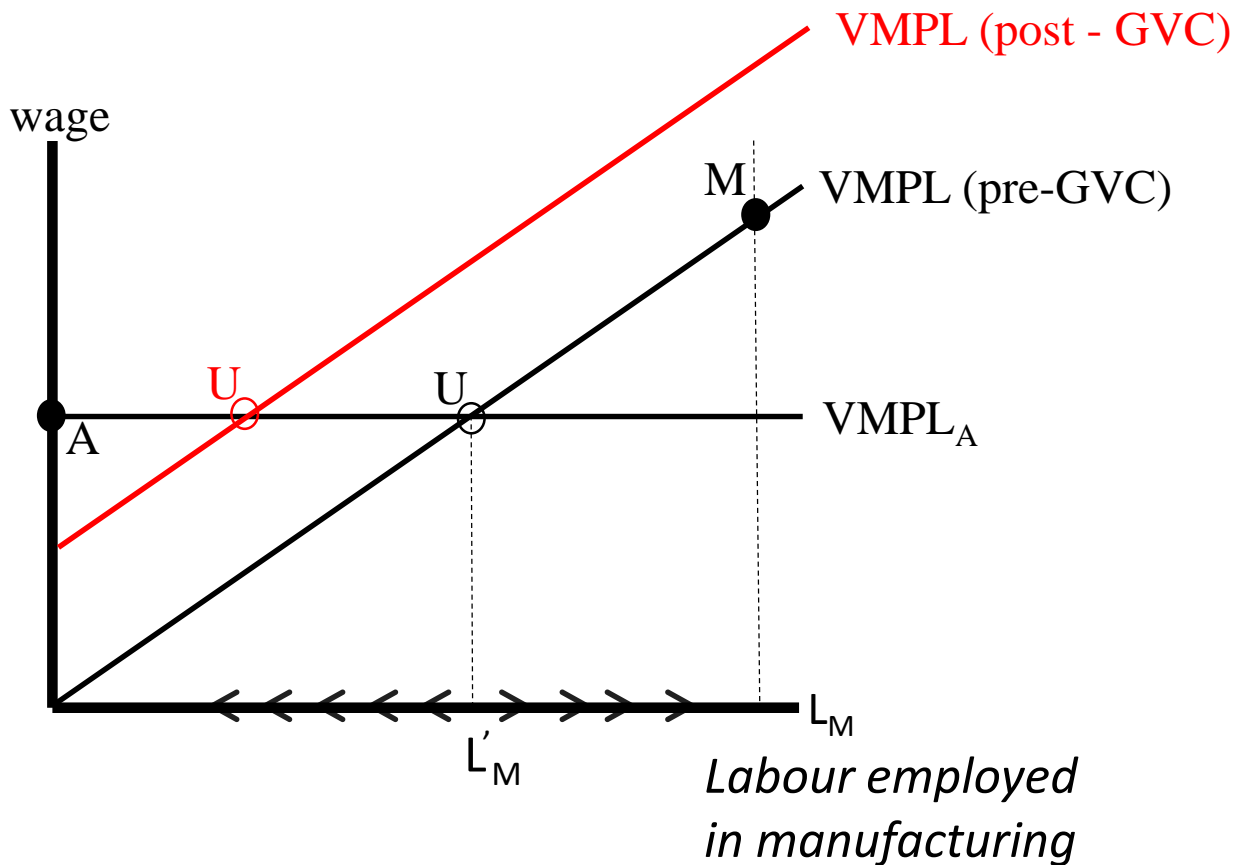
# **GVC Revolution and Development**

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# Industrialisation's touchstone: Lumpiness

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

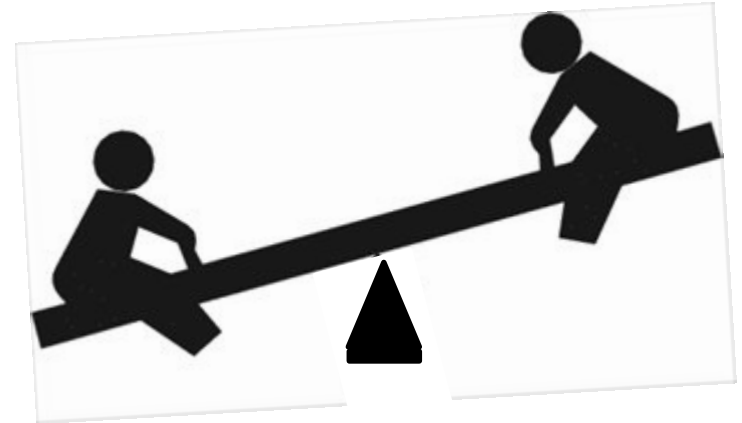


# Industrialisation's touchstone: Lumpiness

Traditional industrialisation challenge



GVC industrialisation challenge

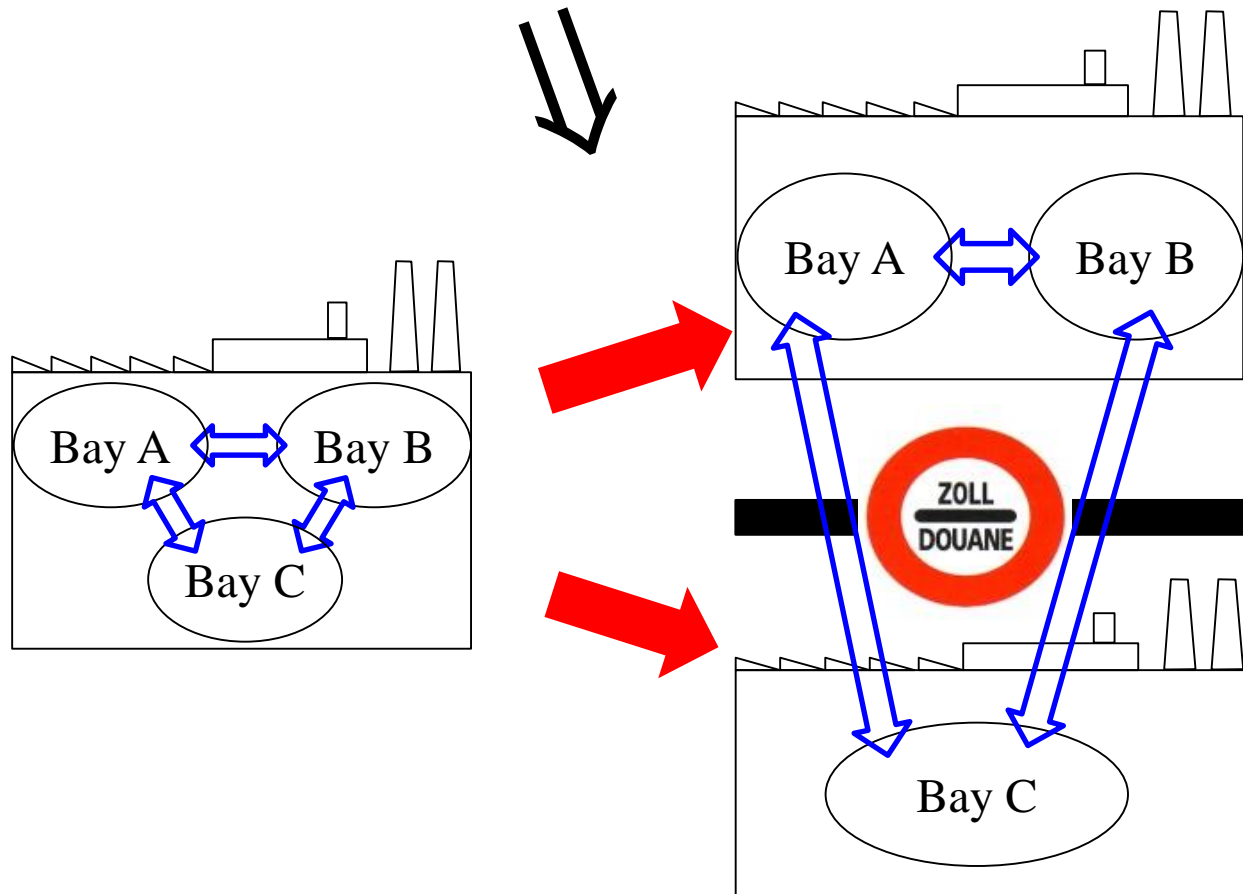


*“The Big Push – in small steps”*

# What changed?

2<sup>nd</sup> 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<sup>st</sup> unbundling thinking:

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

- 2<sup>nd</sup> 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!