GVC Revolution and Development

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Industrialisation’s touchstone: Lumpiness

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

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\begin{align*}
\text{wage} & \quad \text{VMPL (post - GVC)} \\
\text{Labour employed in manufacturing} & \quad \text{VMPL (pre-GVC)} \\
A & \quad U \quad U \\
&M & \quad L'_M \\
L_M & \quad \text{VMPL}_A
\end{align*}
\]
Industrialisation’s touchstone: Lumpiness

Traditional industrialisation challenge

GVC industrialisation challenge

“The Big Push – in small steps”
What changed?

2\textsuperscript{nd} unbundling:
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.
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:

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

• 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!