

# GVC Revolution and Trade Policy

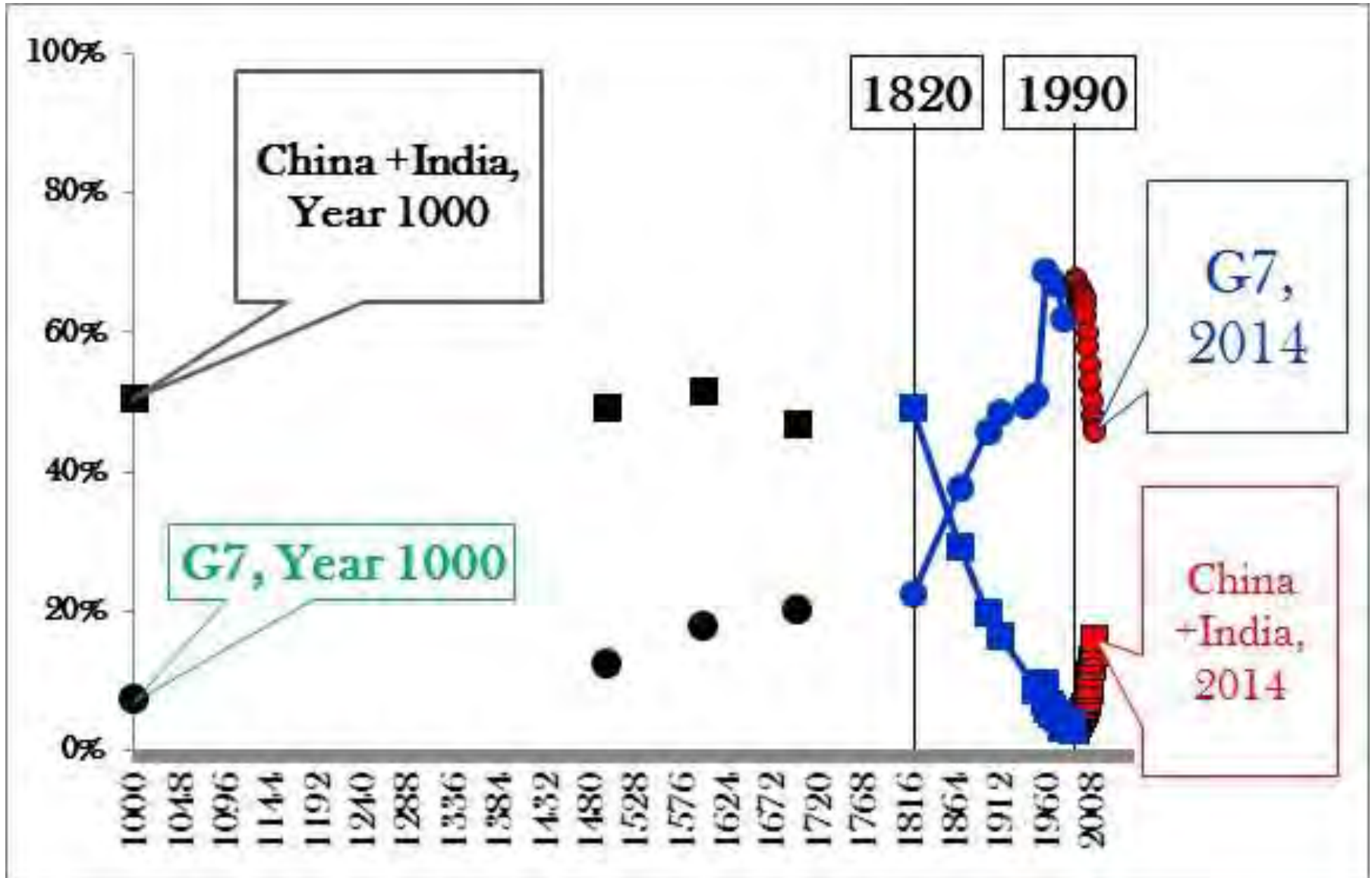
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the Graduate Institute, Geneva*

*President of CEPR*

# Globalisation changed

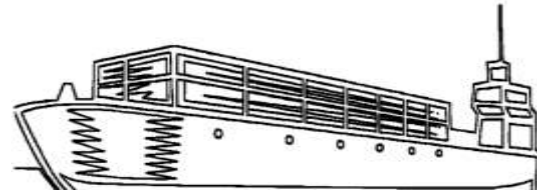
(global GDP shares)



# Focus on 3 costs = 3 constraints on globalisation

## Trade costs

- (cost of moving goods)



## Communication costs

- (cost of moving ideas)



## Face-to-face costs

- (cost of moving people)



# Steam & Industrial Revolutions => Unbundling of production & consumption



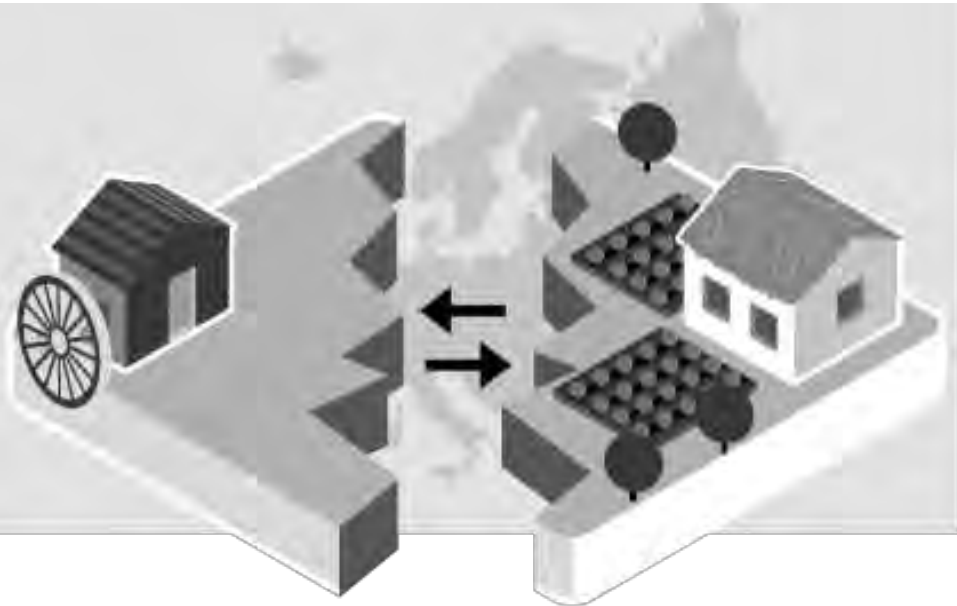
**Lower**



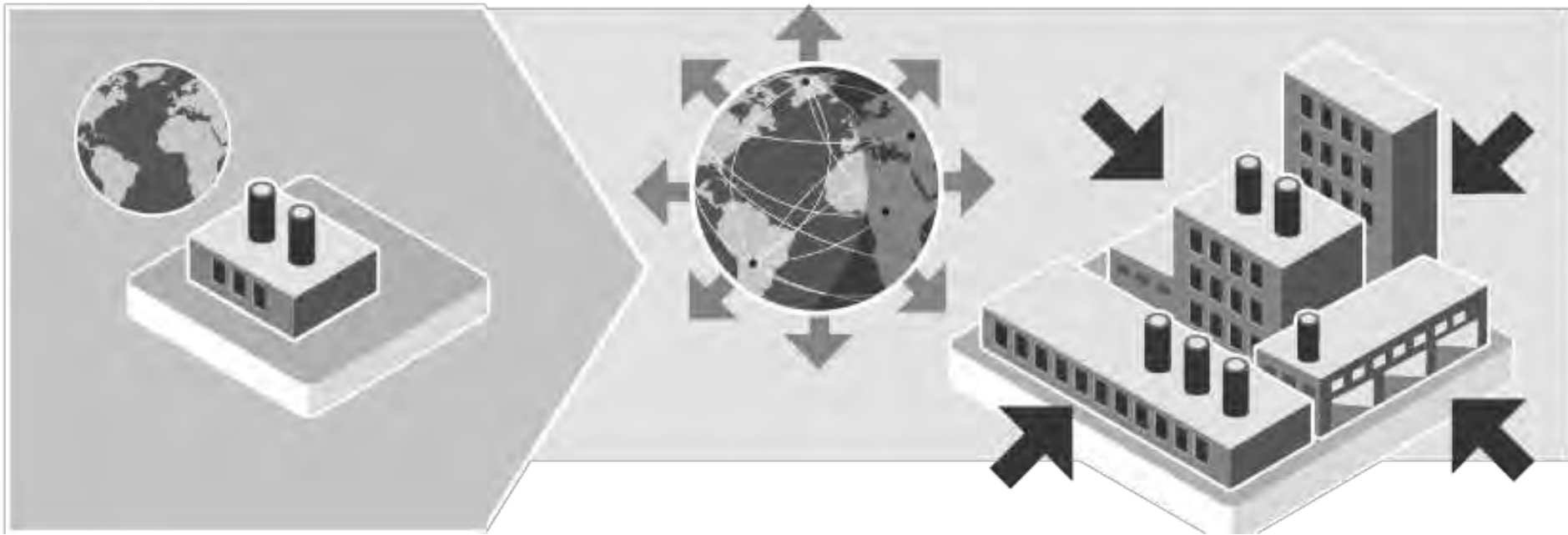
Hi communications  
costs



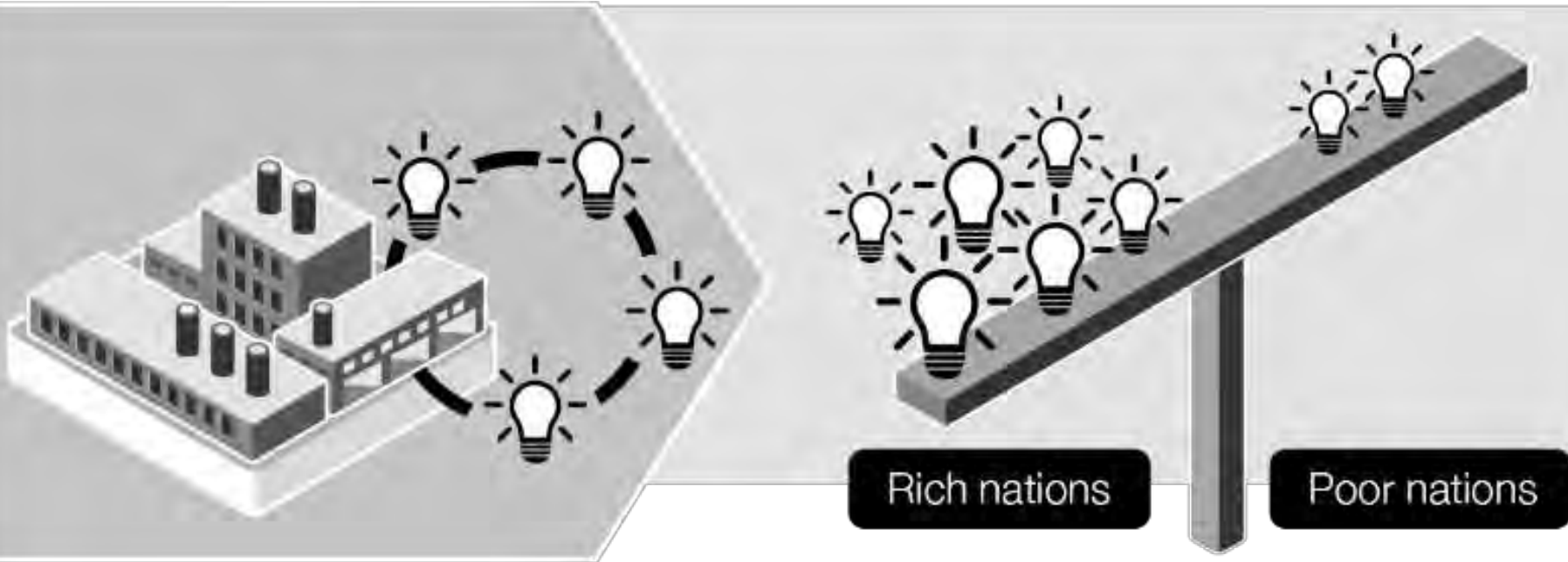
Hi face2face costs



# Markets expanded globally, but production clustered locally



# Industrial clustering boosted G7 innovation but know-how stayed local ⇒ Great Divergence



# ICT Revolution $\Rightarrow$ unbundling of G7 factories



Lower



Lower



Hi face2face costs



# New North-to-South flows of know-how changed globalisation



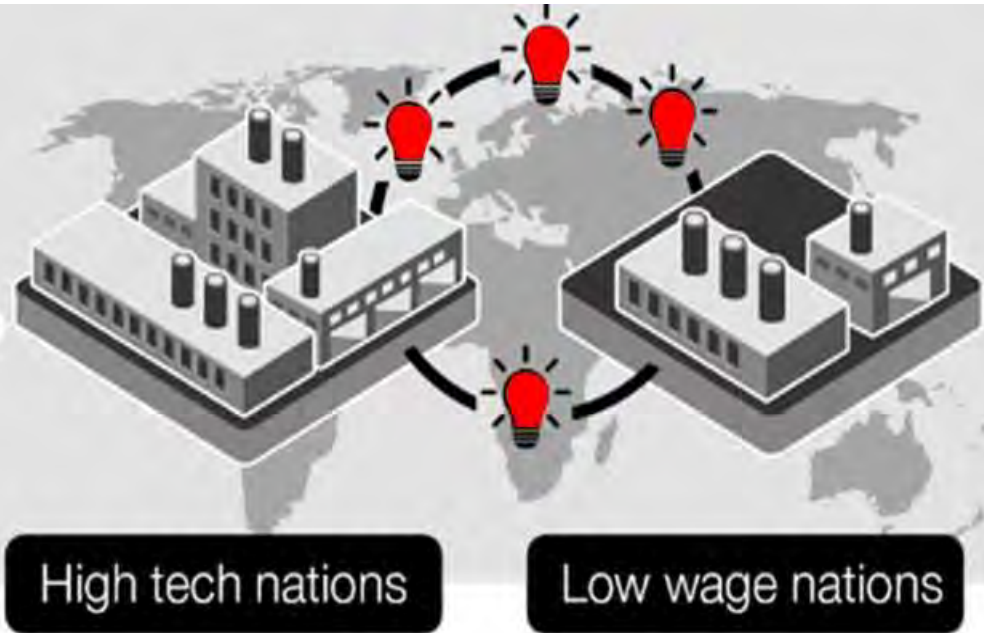
Lower



Lower

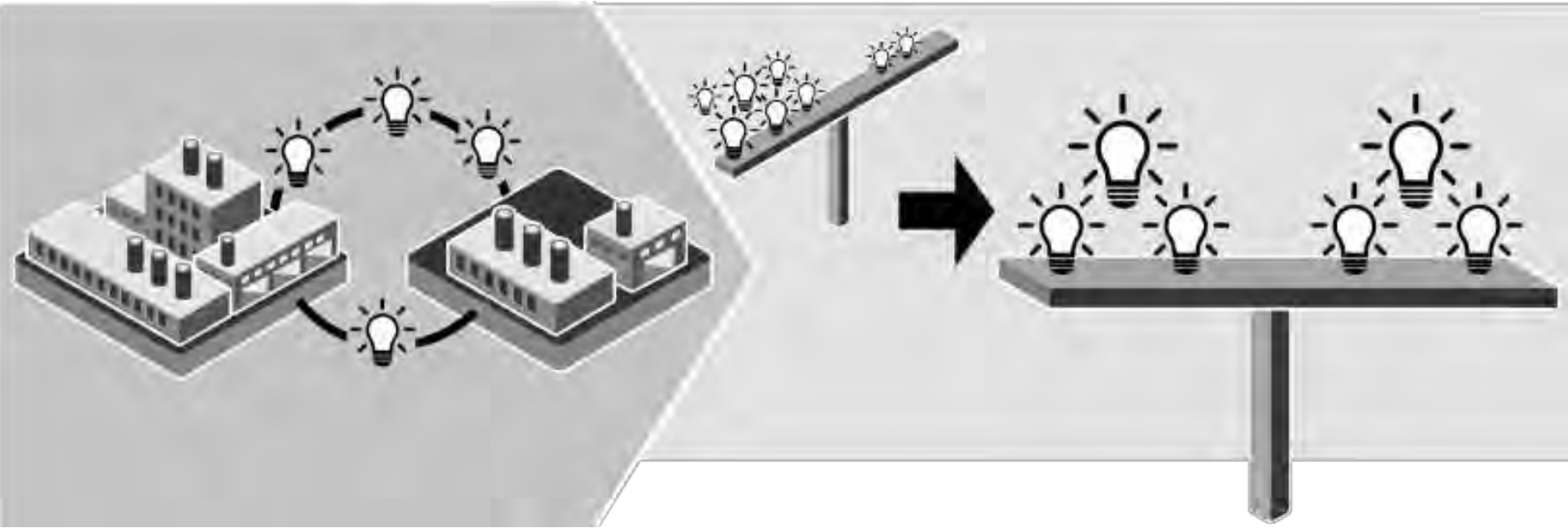


Hi face2face costs



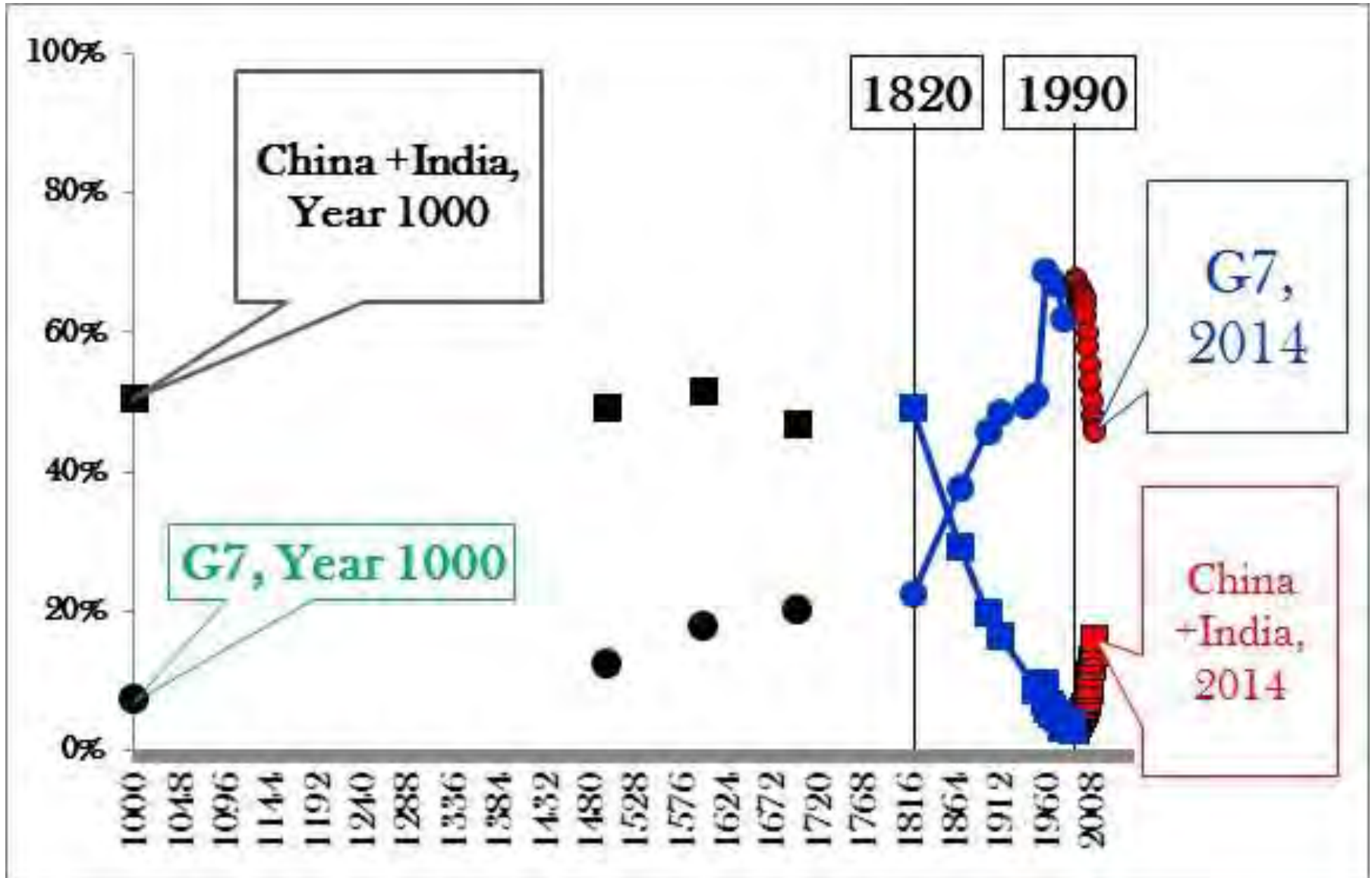


# Know-how moves across national borders within GVC boundaries



# Globalisation changed

(global GDP shares)

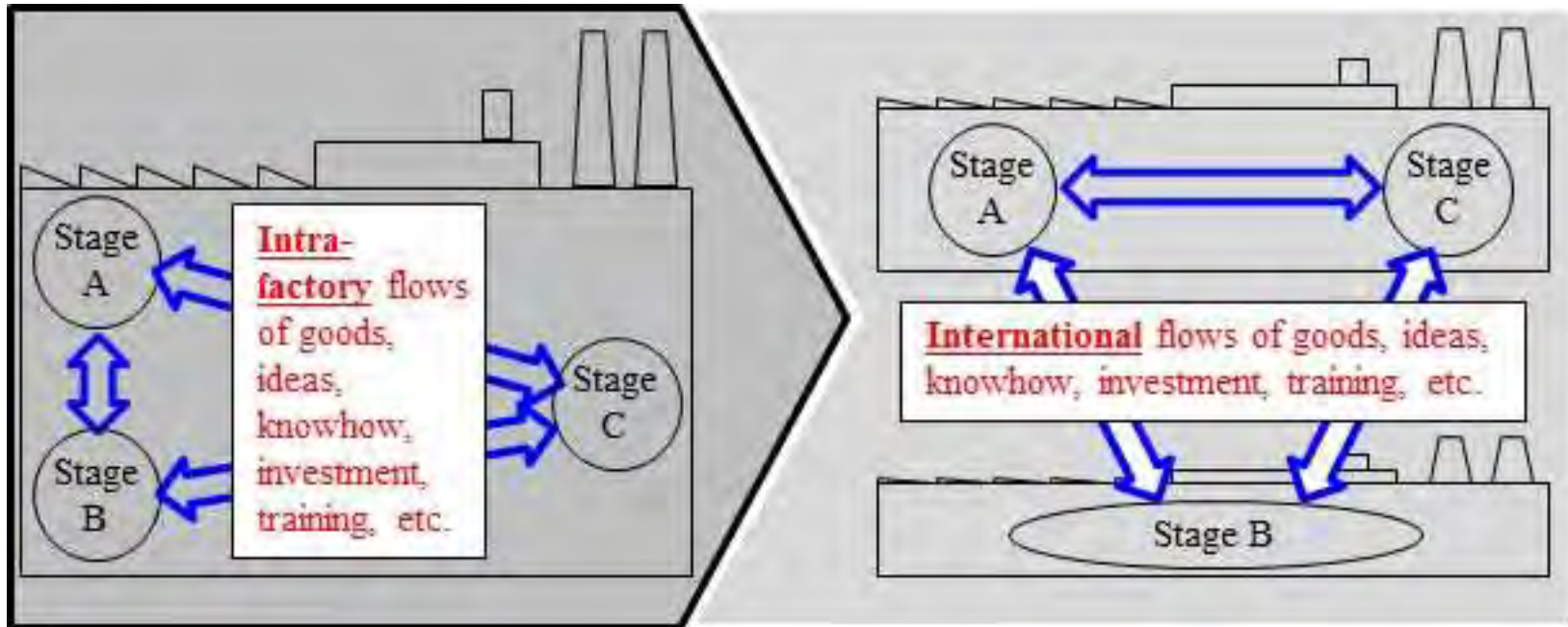


# What puts Revolution in GVC Revolution?

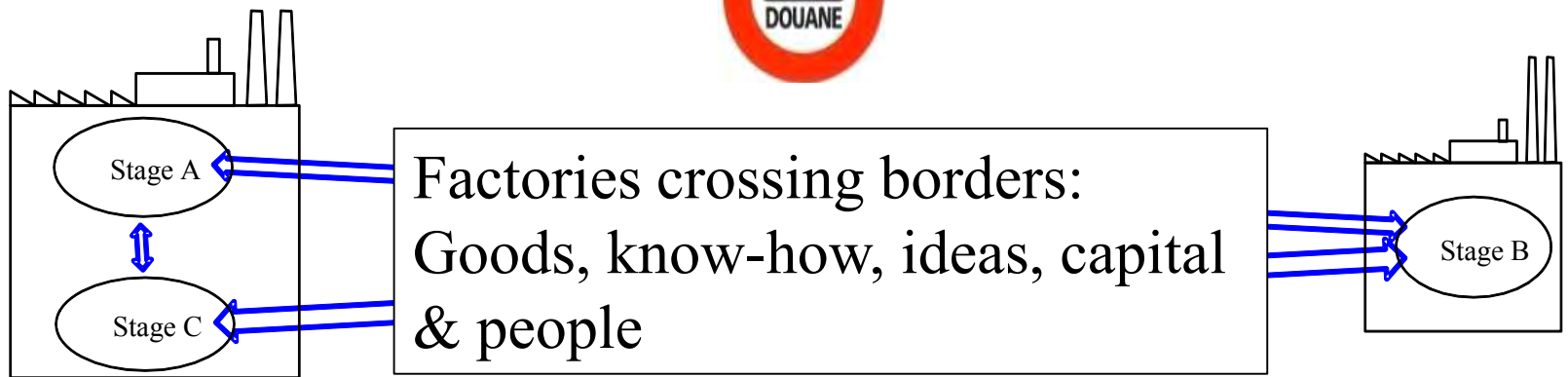
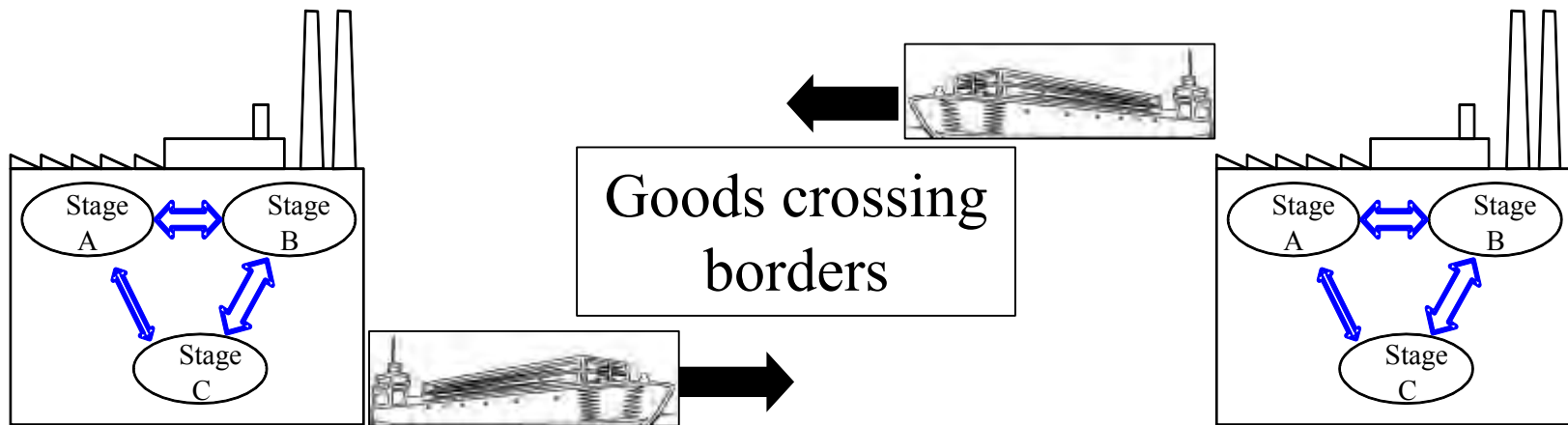
**ICT enabled G7 firms to precisely control what goes on inside developing-nation factories.**

# Big change #1

- Intra-factory flows become North-South trade.

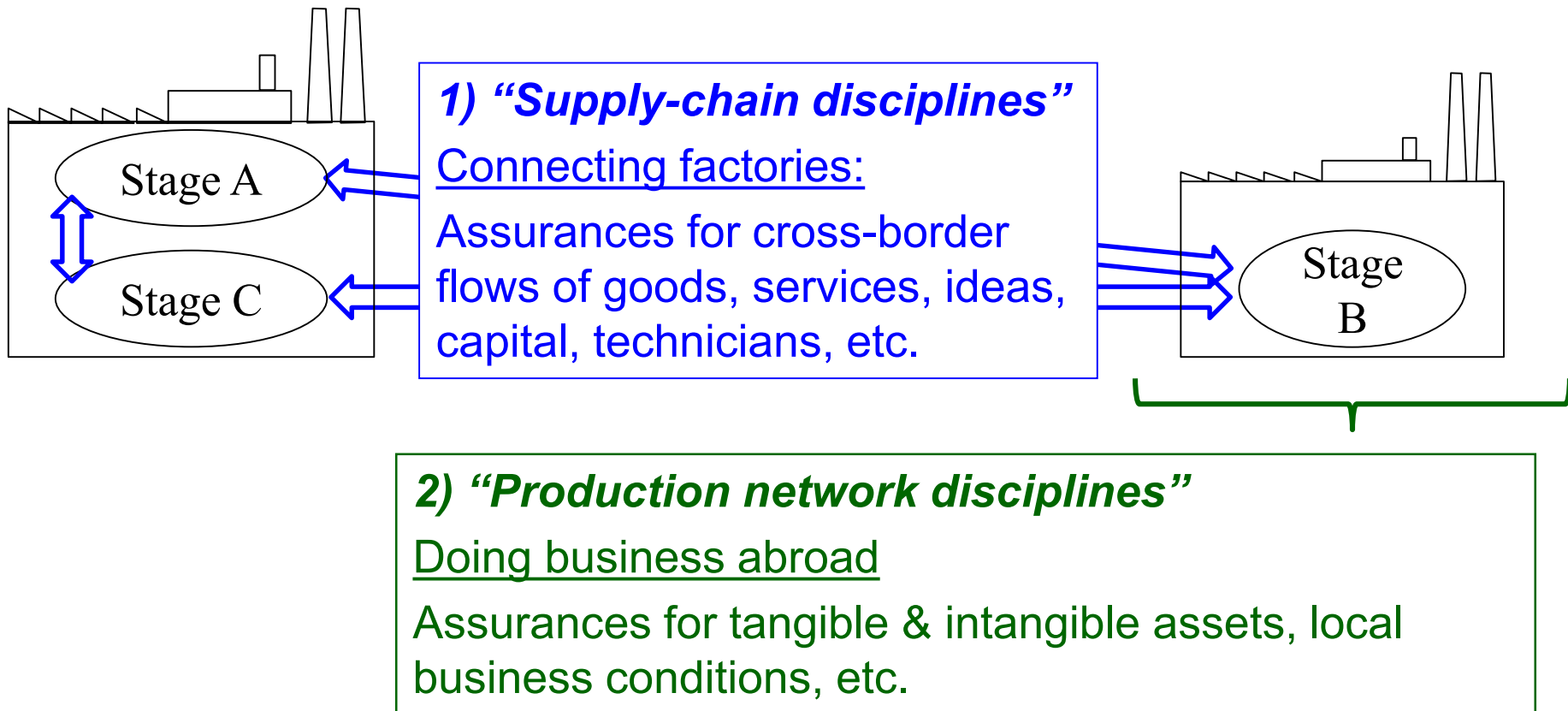


# 20<sup>th</sup> century trade vs “GVC trade”



**GVC Trade “nexus”**  
**(goods, services, know-how, capital, people, etc).**

# Factories crossing borders need extra disciplines (especially North South)



“Trade-investment-services-IP ‘nexus’”

# Trade governance changed: Deep Regional Trade Agreements (RTAs)

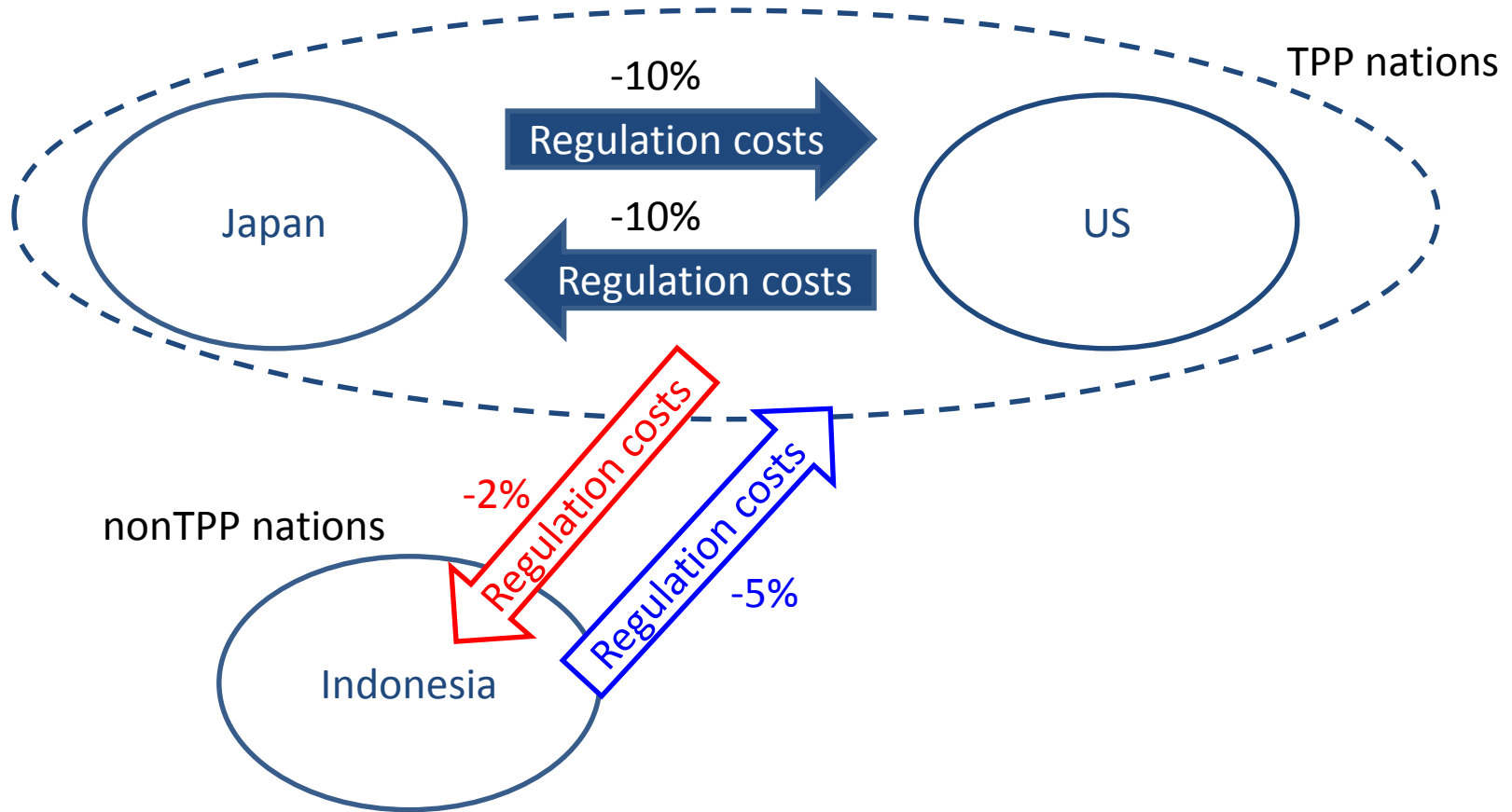
- Deep North-South RTAs provided necessary GVC disciplines.
  - US, Japan and Germany.
- Mega-Regionals & mega-bilats start to harmonise the bilateral rules.
  - Implications for WTO (not good).
  - Implications for emerging markets, especially China, India, Russia, Brazil.

# Keystone analytic difference: 20th vs 21st RTAs

- Lack of discrimination technology
- Discrimination is technically difficult:
  - Services, capital, firms, know-how.
- Thus, RTA provisions tend to be non-discriminatory (almost by accident).
  - “soft preferences”
- Misthinking China & TPP.



# Soft preferences work differently

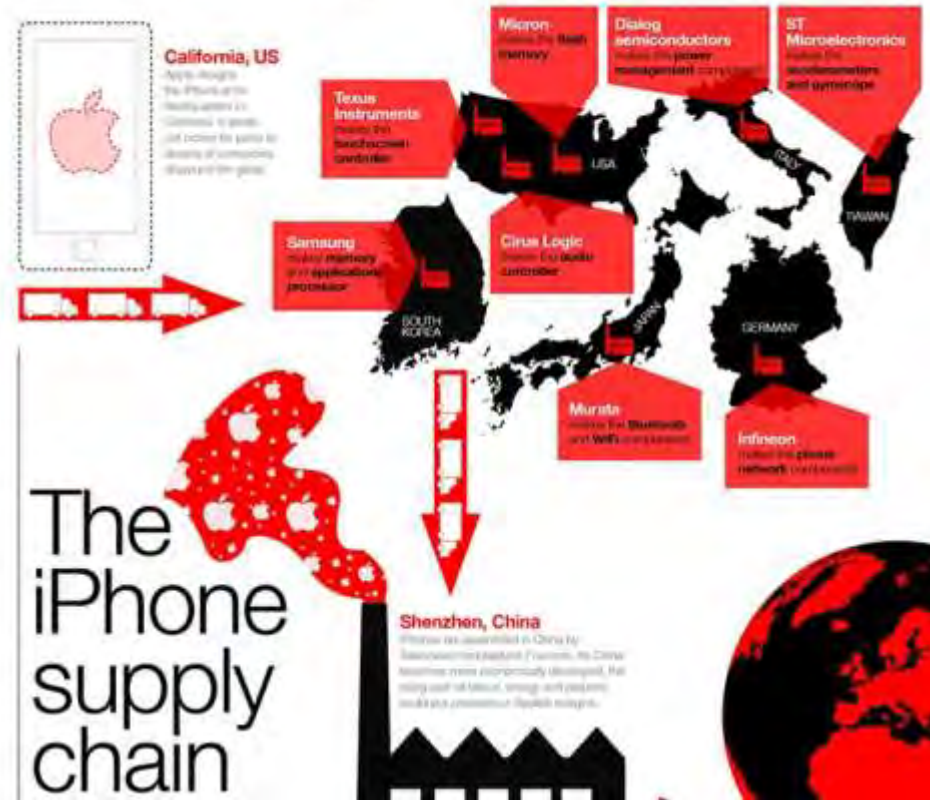


# Big Change #2:

## Comparative advantage is de-nationalised

- GVCs redraw international borders of comparative advantage.

### Example: iPhone



# De-nationalised comparative advantage => Political economy changed

## 1. Basic nature of RTA bargain

- Traditional bargain = exchange of market access.
- Deep RTAs = Northern factories for Southern reform.

## 2. Implications:

- Only EU, US & Japan can do this deal (yet).
- WTO = no factories on offer => erosion of WTO centrality in world trade governance

# De-nationalised competitiveness

- Rich nations:
  - Destroys naively nationalistic trade & industry policy.
- Poor nations:
  - Destroys import substitution industrialisation.
  - Brazil can't do it the old way since China is doing it the new way.

# Summary: What changed?

Nature of trade changed: 21st century trade “nexus” (goods, services, know-how, capital, people, etc).

- Trade policy more complex & elements more entangled.
  - Deep regional trade agreements used to provide rules underpin the ‘nexus’, i.e. GVC trade

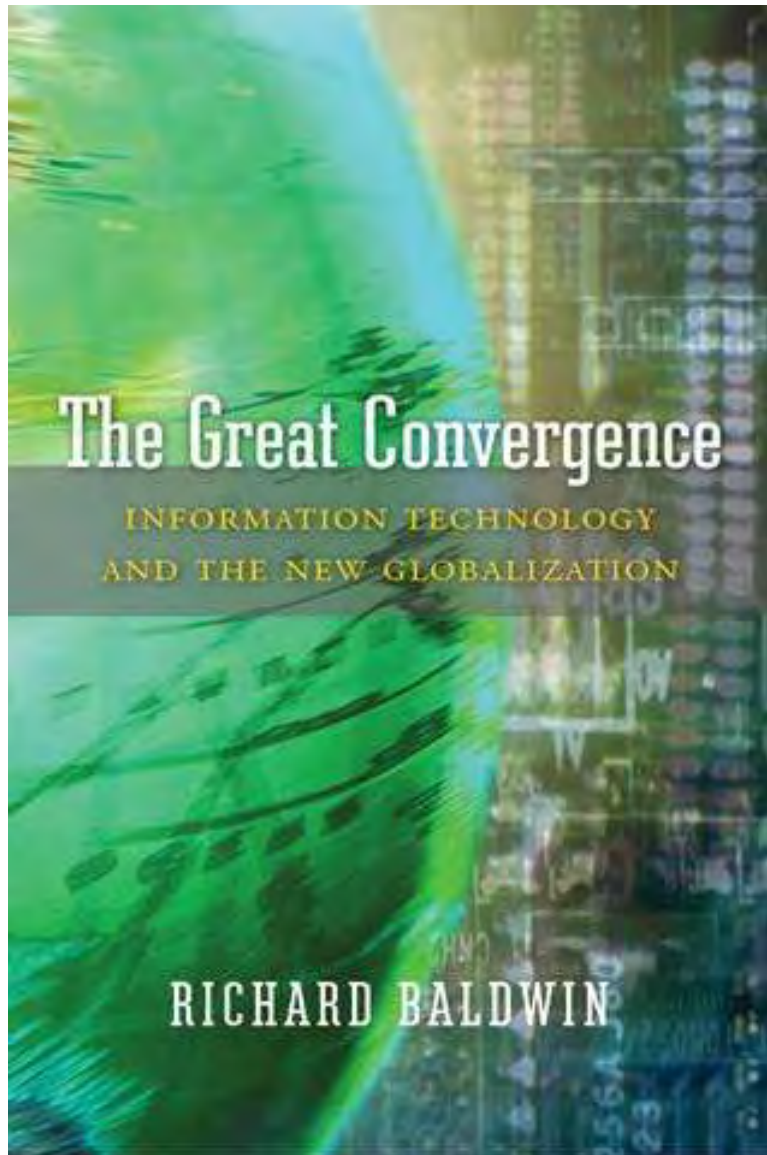
Comparative advantage is de-nationalised.

- Political economy of trade deals changes.
  - Less “exchange of market access.”
  - More “my factories for your reform.”

END

Thanks for listening

# My new book



## *The Great Convergence*

*Information Technology and  
the New Globalization*

**Richard Baldwin**

Forthcoming November 2016

# Extra slides for



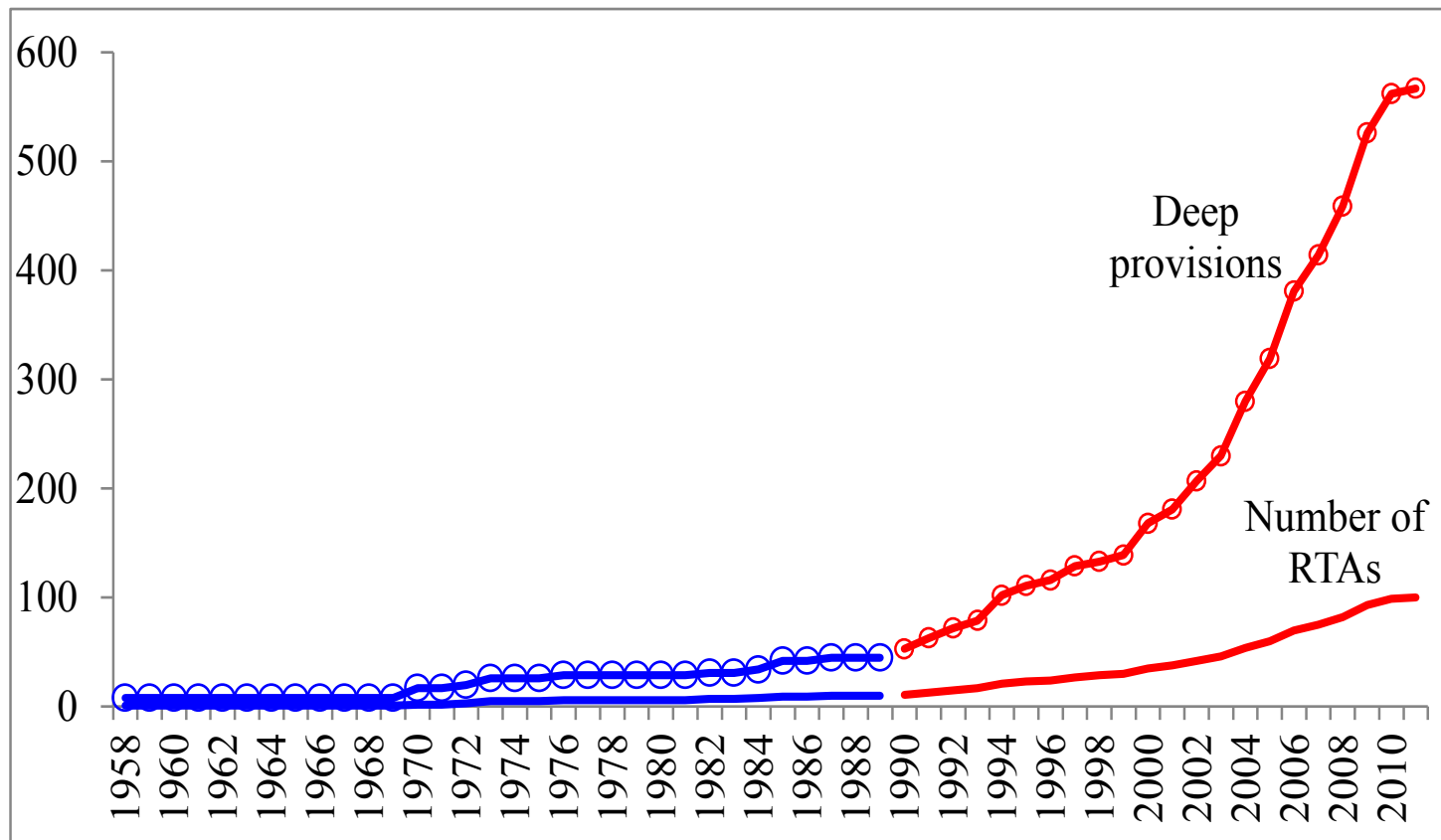


**Key result:  
ICT 'liberated'  
know-how of G7  
firms from G7  
labour**



# Regionalism changed: 21st century RTAs

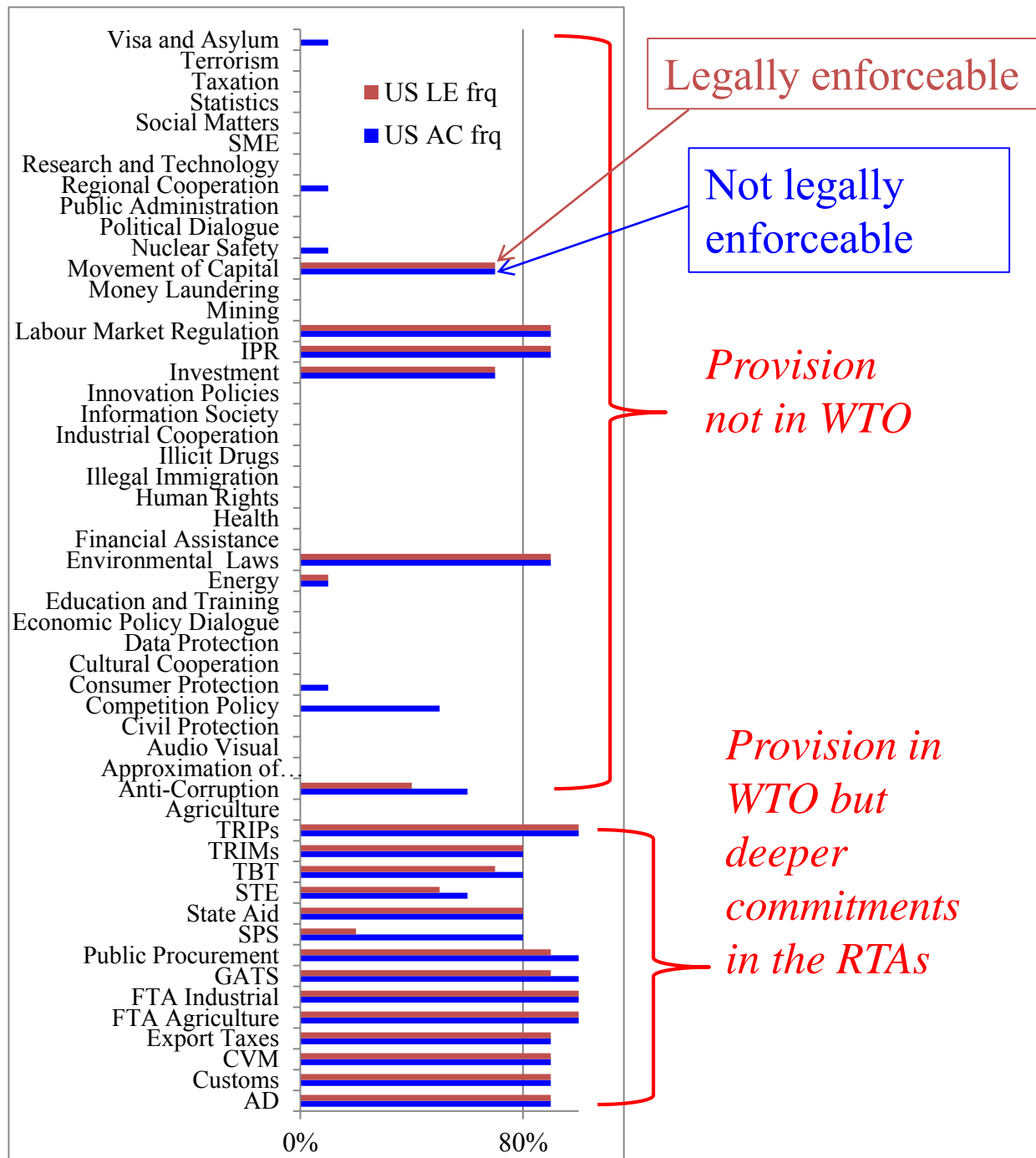
- GVCs tend to be regional, so RTAs make sense as governance vehicle.
- New disciplines: Sd be a package.



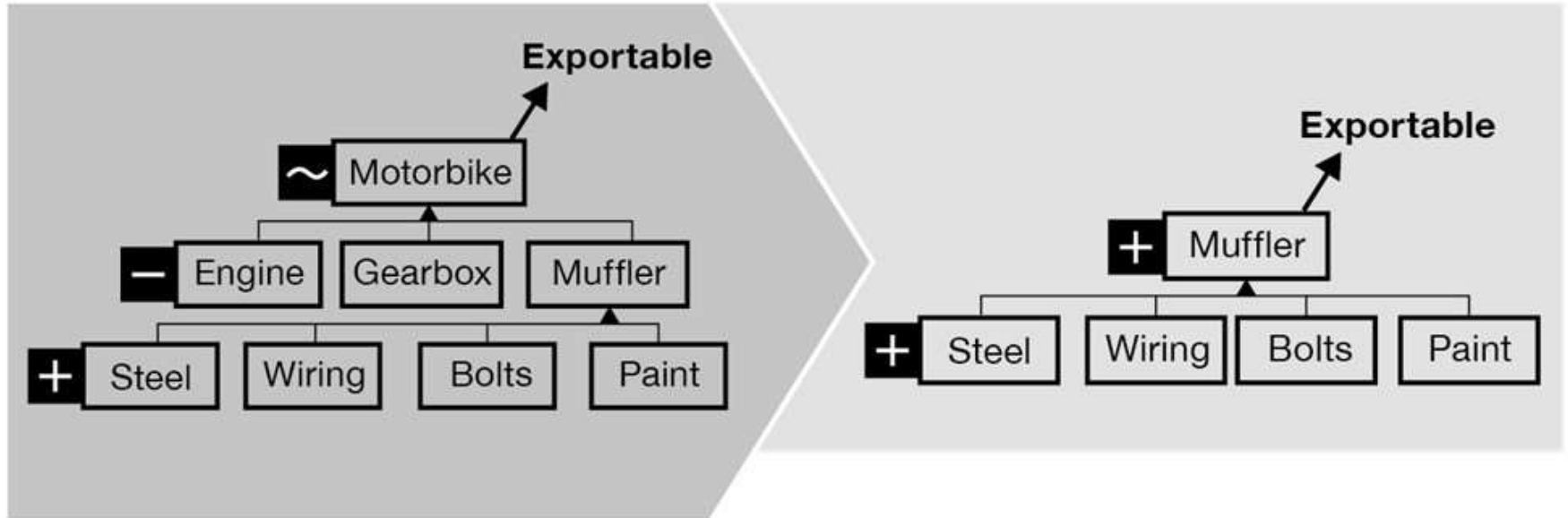
**From 1990:**  
**- Number of RTAs soars.**  
**- Depth of RTAs soars.**

# Which Deep RTA provisions matter?

US RTAs  
(share with given provision)

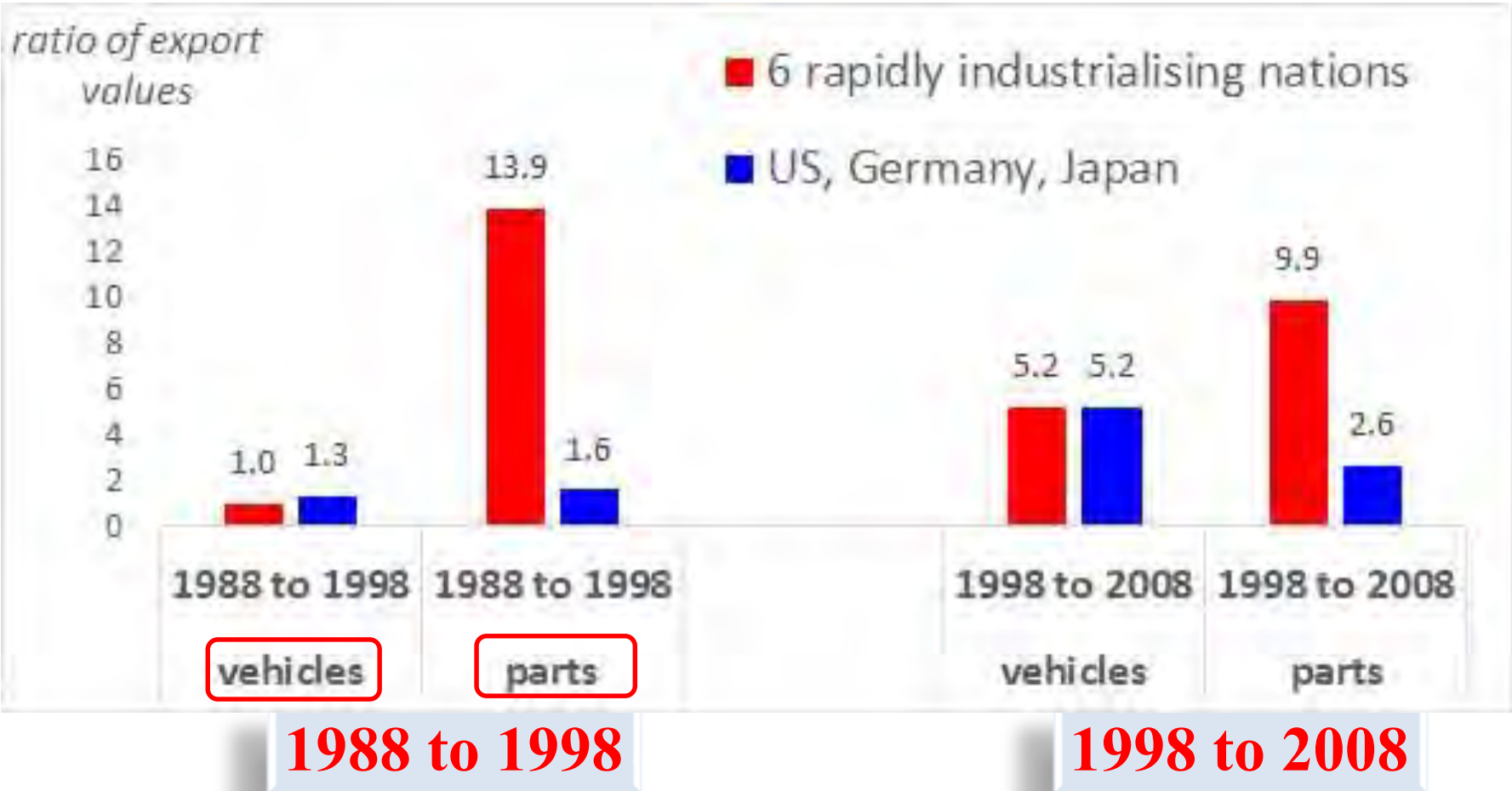


# Less lumpiness means stronger/finer comparative advantage



# Like asymmetric trade liberalisation

- Developing-nations parts exports rose MUCH more than developed-nations exports.



# Source of Value-Added Export growth 1995-2008

