



Comments on: Richard Baldwin, *The Great Convergence*

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The Great Convergence: Modern Globalization



An important book on drivers and implications of globalization. Impressive historical analysis

- Four “phases” of globalization in 200 years

Phase 3 (1820 - 1990): transport revolution drove expanded trade and led to the “Great Divergence”

Phase 4 (1990s - present): ICT revolution drives expanded trade and leads to the “Great Convergence”

Post-WW2 Global Economy



I will focus my comments on the evolution of the global trading system post-WW2

- Phase 3, Act III (1950s – 1990): Great Divergence
- Phase 4: ICT Revolution, Great Convergence

Evolution of trade “blocs” or “clusters”

- International market integration

Role of policy

- Global and regional trade agreements
- “Shallow” and “deep” agreements



Stylized Facts: 1960 to 1990

Increased trade as share of GDP

Increased trade in intermediate inputs

- Import content of exports increased
- International segmentation of production

Increased trade in new products and rapid changes in trade shares

Strong links between increased trade and improved economic performance

- Trade-productivity and trade-FDI links



Stylized Facts: 1960 to 1990

Strong links between increased trade and improved economic performance

- Trade-productivity links
- Trade-FDI links

Collapse of socialist systems and their integration into global economy

- India, China, and former Soviet empire
- Dramatic increases in trade

Trade Patterns: 1960-1990



Evolution of major trade blocs or clusters

- Center-periphery and Regional integration

Methodology of finding trade blocs

- Definition of a bloc: Countries trade more within the bloc than with outside countries
- Bloc membership: Adding a country increases within-bloc average trade share
- Bloc size: removing a country reduces within-bloc average trade share

Evolution of Trade Blocs



Dramatic changes in global trade structures

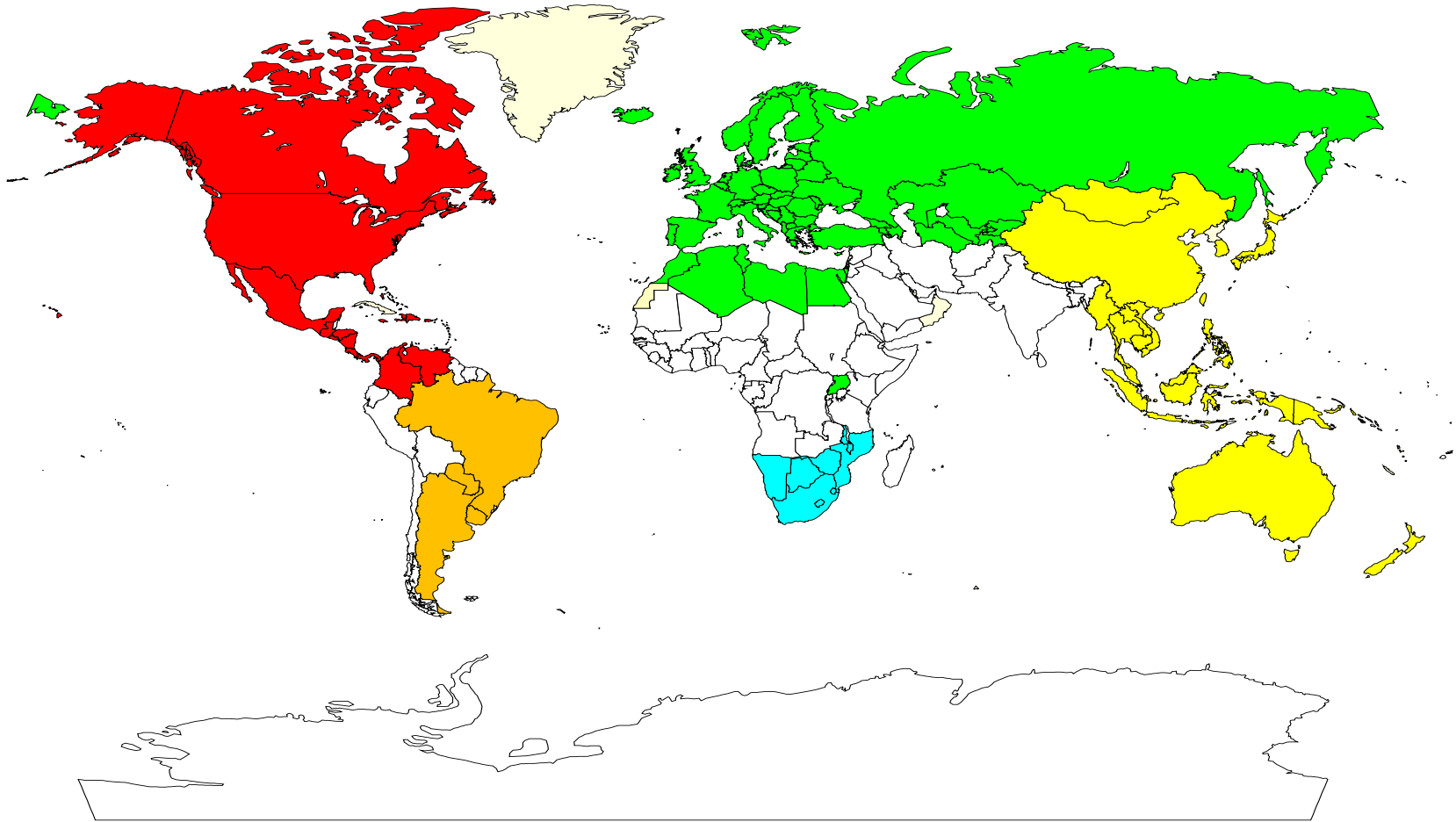
- Initial US-Europe and dependent “Center-periphery” trade patterns in the 1960s changed rapidly, with more diversified trade geographically by the 1970s
- Evolution of regional trade blocs or “clusters”
 - US centered: US to NAFTA+, but no expansion thereafter
 - EU centered: EU to EU+, expanded throughout the period
- Emergence of new bloc: East and Southeast (E&SE) Asia
 - Started in the 1970s, but accelerated in the 1980s-1990s

South Asia, SS Africa, and Latin America: not part of any bloc

- Diversified trade with the three major blocs, small shares of total trade



Trade Blocs: 1990s



Shares of Global Trade: 1990s



Export rows	EU+	US+	E&SE Asia	RoW	Total
EU+	33.6	4.2	4.9	3.1	45.8
US+	3.8	9.8	4.8	1.5	19.9
E&SE Asia	4.9	6.8	13.9	1.6	27.2
RoW	1.6	1.1	1.8	0.6	5.1
Total	44.6	22.3	25.9	7.2	100.0



Implications of Trends: Policy

The formation of trade blocs pre-dated any explicit RTAs: trade trends preceded policy

- Especially E&SE Asia
- Policy validates and supports ongoing trends

Four kinds of Regional Trade Agreements:

- Bloc creation (e.g. EU, NAFTA, Mercosur)
- Bloc expansion (e.g. EU expansion)
- Bloc consolidation (e.g. EU complete the market)
- Market access (e.g. many bilateral agreements)



Baldwin: Phase 4

Driver: “ICT revolution lowered the cost of coordinating complex processes across great distances.”

- Led to fragmentation of production processes: outsourcing and off-shoring.
- Linked to rapid productivity growth

Took off in an environment of already integrated trade blocs: US+, EU+, E&SE Asia

- Supported by existing trade agreements



Baldwin: Phase 4

ICT-led globalization

- Stage-of-production vs industry competition
- More sudden: easier to move production
- Less predictable, less controllable
- Includes a wide range of economic activity: mfg, agriculture, and services

More disruptive in the short to medium run than Phase 3 growth

- More beneficial to poor countries



Trade Agreements: Shallow/Deep

Baldwin and others have studied the evolution of post-war trade agreements

- Phase 3: “Shallow” agreements: reduce border policies that hinder trade (e.g., tariffs, quotas)
- Phase 4: “Deep” agreements support “integration” and facilitate trade in goods, services, and capital
 - Focus on “behind the border” policies
 - Necessary to facilitate value chains and international “production networks”



Trade Agreements and Trade

Phase 4: to work, value chains require:

- Within-country supporting policies
- Policies to ensure and encourage cross-border movements of inputs, outputs, and “key” people

The legal, institutional, and governance environments: supportive and dependable

- Can be delicate, and subject to change
- Trade agreements as a signal of commitment



Future Trends

Phase 3: manufacturing export-led growth was slowing by the 1990s

- Trade integration in the blocs was in place

Phase 4: ICT-led growth took over

- Led to deeper integration in existing blocs
- Process has “matured” and may be reaching saturation in some sectors
- Process is sensitive to policy shifts
 - Current anti-trade environment is especially dangerous

Conclusions: Much to be Done



Baldwin has provided a powerful and elegant analysis of globalization

- Important messages for civil society

Research program

- Theory: better understanding of the size and sources of productivity growth linked to trade
- Policy: better understanding of how to:
 - “Facilitate” growth enhancing ICT globalization and economic integration, and
 - “Manage” the process to spread the benefits widely

Baldwin on Trade Policy



On the 2009 financial crisis: “If protection was not triggered by this mammoth shock it is hard to see what would trigger it. My view is that the rise of international production networks has deeply changed the politics of protection—at least for the nations that are involved in these networks... Closing the borders no longer saves jobs, even in the short run.”

Perhaps we are facing a more mammoth shock now