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

I6: China, Korea, India, Poland, Indonesia, Thailand
Globalisation’s asymmetric impacts & “hyper-globalisation”

1. Disruptive in G7.

2. Cohesive in emerging markets.

3. Many developing nations de-industrialised “prematurely”.

4. Trade agreements changed; “Hyper-globalisation.”
What if globalisation were about knowledge flows instead of trade flows?
Be extreme to be extremely clear

- Suppose everything is made from knowhow & labour.
- Suppose trade costs & barriers unchanged since 1990.
- Suppose in 1990 ‘pipelines’ opened that allowed knowhow to flow across borders.
Assume this pipeline pattern

USA

JAPAN

GERMANY

MEXICO

CHINA

POLAND
Pipeline opens; “Globalisation as knowledge arbitrage” begins

- **Headquarter Economies (G7)**
  - High Knowhow Labour → High Wages

- **Factory Economies**
  - Low Knowhow Labour → Low Wages

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What would international impact be?

- Manufacturing shifts from G7 to Factory Economies; is disruptive.
- Factory-Economy growth takes off (Great Convergence); is cohesive.
- Factory Economies embrace policies that foster knowledge flows; HQ Economies embrace policies that protect them.
- Other poor nations hurt by new competitiveness of I6.
How do we put knowledge 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)
Steam Revolution & Pax Britannica lowered the cost of moving goods
Low trade costs made high volume trade feasible; Comparative advantage made it profitable
As markets expanded globally, production clustered locally (to reduce communication costs, not trade costs)
Micro-clustering fostered innovation & ignited bonfire of innovation & modern growth
High communication costs meant G7 innovations stayed in G7 nations; Knowhow imbalances appeared.
OLD GLOBALISATION

Result: “The Great Divergence”
(1820 to 1990)
Revolution in information & communications technology (ICT) lowered the cost of moving ideas
Lower communication costs made offshoring feasible; Vast wage differences made it profitable
To ensure offshored production meshed seamlessly, G7 firms offshored knowhow with the jobs.
The new ‘hi-tech-low-wage’ mix shifted manufacturing & knowhow massively to a handful of developing nations
Future globalisation

We are going to need a bigger boat
What happens when the Face-to-Face constraint is relaxed by technology?

Advanced technology for communications, not travel

CLOSE SUBSTITUTES TO “BEING THERE”
Technology opens new kind of pipeline: Virtual migration

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

- **Factory Economies**
  - Low Labour
  - Low Knowhow
  - Low wages
NEW, NEW GLOBALISATION?

Heart-warming story; Or massive disruption foretold?

- Technology allows “unbundling” of labour & labourers
- Telepresence & Tele-robotics.
- “virtual migration”.

Surgeons save Syrian lives by Skype

Tom Coghlan, Beirut
October 1 2016, 12.01am, The Times
Telepresence technology
NEW, NEW GLOBALISATION?

### Brain jobs that telepresence could offshore?

<table>
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Robots vs telerobots

Robot & Artificial Intelligence (AI)  Telerobot & Remote Intelligence (RI)

PEPPER  DRONE
Telerobotics today

Tomorrow’s Lives, Hospital, Human body

The surgeon who operates from 400km away

Doctors are controlling scalpel-wielding robots in real operations from afar, finds Rose Eveleth. Is this the future of surgery?
Jobs that telerobotics could offshore?
How not to address anti-globalisation
“Trump Tariff Act of 2017”: Would tariffs bring manufacturing jobs back to US?
20th century thinking meets a 21st century problem

#1) US tariffs won’t stop knowledge offshoring but will raise cost of industrial inputs inside US
20th century thinking meets a 21st century problem

**Protection makes US a high-cost “island” for imported industrial inputs**

US tariffs encourage some reshoring of production for US market & more offshoring of production for non-US markets (foreign affiliate sales replace exports)
#2) Jobs come back? US workers are competing with China abroad & robots at home; it’s not going well
Offshored jobs were low-skill & routine so reshoring production likely to make jobs for robots, not workers
What way forward?
Step 1: Accept 21st century realities

• New Globalisation isn’t something foreigners doing to US.

• You can’t vote against the New Globalisation by voting against the agreements that shape & control it
  – When water is flowing thru your hands, making a fist doesn’t stop the flow.

• Old Globalisation tools harm competitiveness in New Globalisation world
  – All manufacturing nations must import to export.
Step 2: Rebuild the team & package it politically

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

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

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