

Globalisation:

the great unbundling(s)

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The 1st & 2nd unbundlings

- 1st unbundling is roughly old paradigm (trade theory).
- 2nd unbundling is roughly new paradigm (trade in tasks).

The 1st & 2nd unbundlings

- 1st unbundling: definition
 - Sector-by-sector separation of production and consumption.
- Causes:
 - 1870-1914, trade costs for goods, people and ideas fall rapidly, but especially for goods (steam ships and railroads).
 - 1960-1995, trade costs for goods, people and ideas fall rapidly, but especially for goods (containerisation & air cargo & advanced supply chain management).

The 1st & 2nd unbundlings

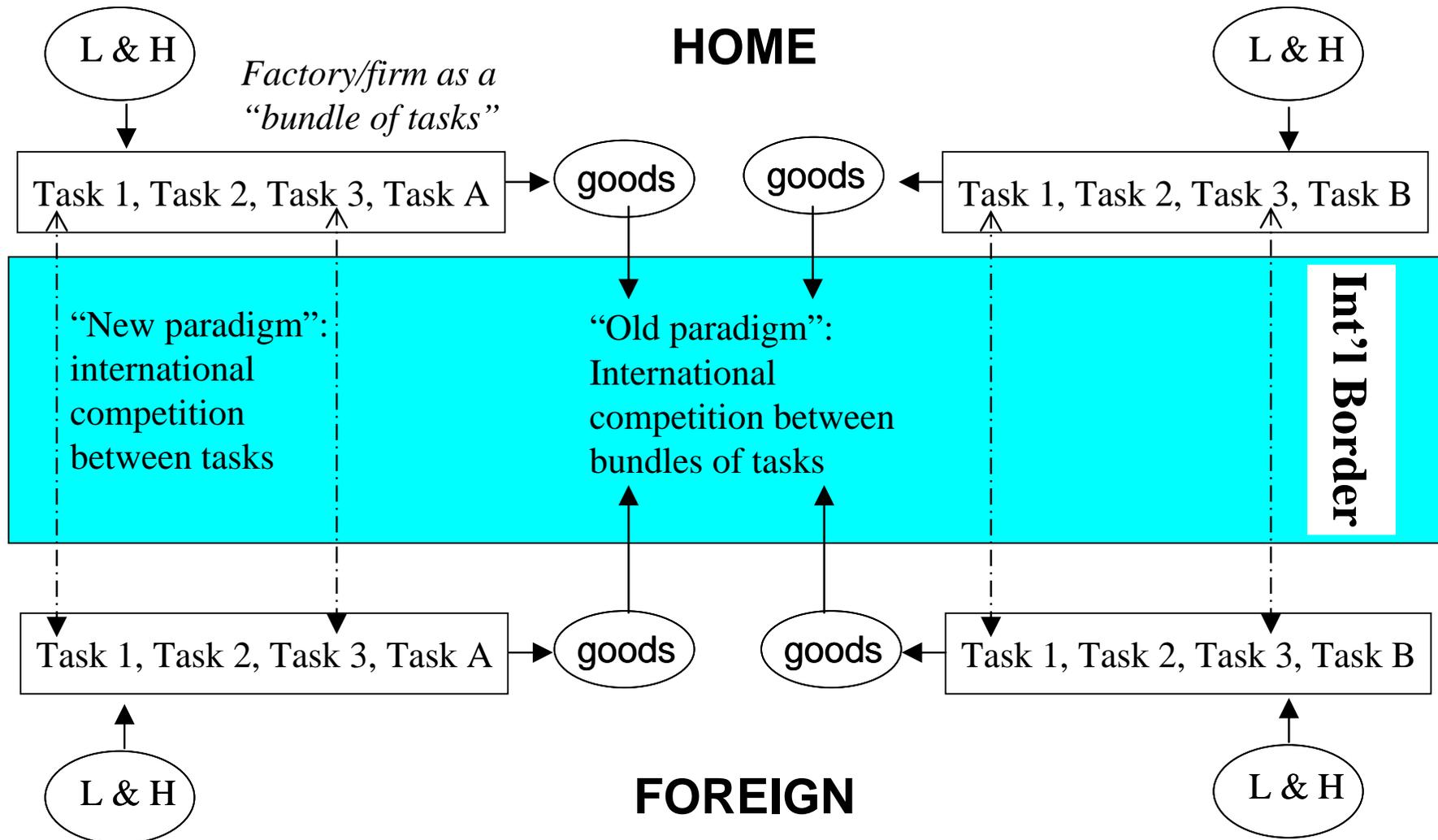
- 2nd unbundling: definition
- Unbundling of sectors:
 - “fragmentation of manufacturing process” & heightened trade in intermediate goods (parts & components); the global factory. Gradual increase with acceleration.
 - Offshoring of service inputs in various sectors; the global office. Newer phenomenon.
- Causes:
 - 1985-to-present, trade costs for goods, people and ideas fall rapidly, but especially for ideas (internet, fiber optics & competition in telecom).
- Regionalisation of offshoring (time cost of travel)
 - Look at Japan

The old & new paradigms

What level of aggregation proper for analysis?

Unskilled intensive sector (X)

Skill intensive sector (Y)



Key point

- The nature of trade cost reduction for ideas matters.
- It implies history of globalisation's winners and losers less relevant to future globalisation (2nd unbundling).
 - e.g. the MRI technician's job cannot be offshored but the task of interpreting it can be done in New York or New Delhi.
- Blinder (2005): “In the future, and to a great extent already in the present, the key distinction for international trade will no longer be between things that can be put in a box and things that cannot. It will, instead, be between services that can be delivered electronically over long distances with little or no degradation of quality, and those that cannot.”
- Also see Krugman (1996) “White collars turns blue” essay.

Deep difference

- Old paradigm: trade in goods, firms/sectors/skill groups are the proper level of analysis.
- Competition at level of tasks, not firms or sectors.
 - Winners and losers according to tasks.
 - Firms/sectors/skill groups not fine enough disaggregation.
 - Globalisation happens with a finer level of resolution.
- Hospital example

Differences for policy making

- Unpredictability. The winners and losers from globalisation are much harder to predict.
 - Not just lower ITC costs; organisational issues too.
 - Don't understand the 'glue' that bundled production into firms & offices; can't predict how it unglues.
 - All sorts of odd economics at work: agglomeration, convex communication & coordination costs, tipping points, etc. network externalities, re-organisation of working concepts (telecommuting), teams, etc.
- Suddenness.
- Individuality.
 - Policies for sectors/firms/regions, not individuals.

More conjectures

- Globalisation and inflation process.
 - Hard to understand wage behaviour due to incorrect level of disaggregation?
- Globalisation & the tax base.
 - Definition of mobile factors & jobs.
- Income inequality
 - Super star economics

Tentative policy implications

- Some ‘information society’ jobs likely to be subject to dramatic changes in trade costs, i.e. they may be offshored.
- Van Welsum and Reif (2005) and Van Welsum and Vickory (2006) classify “offshore-able” jobs as those characterised by four features:
 - IT intensity,
 - output that is IT transmittable,
 - tasks that are code-fiable, and
 - little face-to-face interaction.
- Maybe this suggests a re-thinking, or at least more subtle thinking of Lisbon.

Tentative policy implications

- Even greater need for flexibility & continuing education;
 - Amount of learning versus learning to learn.
- Much harder to pick winners & losers, but especially in tasks that involve ICT.
- Not at all clear that the ‘jobs of the EU’s future’ will involve workers specialised in information industries.
- The superstar economics.
- Competition among welfare states (jobs vs workers)

Comment on Lisbon

- Lisbon agenda is everything and thus nothing.
- Elements of Lisbon are tried & true.
 - Innovation raises labour productivity and thus living standards;
 - Education tends to raise productivity of workers & may raise flexibility of workers;
 - Flexible product markets.
- BUT, frequent reference to information society & knowledge based society suggests aim to facilitate movement of labour from the losing sectors to the winning sectors.
 - Basically picking winners & losers.

Bottomline

- The gains from trade for newly tradable task are exactly the same as for trade in goods.
- Pains from trade may be less correlated with skill level, job experience, sector than they were in the past.
- Social policy even more necessary politically.
 - Protect workers, not jobs (Flexisecurity not EPL).
- Policies to facilitate acceptance of globalisation and to ease pain of adjustment and exploit new opportunities may need to be more at worker level.

End

- Thank you for listening.

- My web site:

www.hei.unige.ch/baldwin/