Trade and Industrialisation after Globalisation's 2nd Unbundling: How Building and Joining a Supply Chain are Different and Why it Matters

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Before I begin my substantive discussion, let me point out that reading this paper has been a great pleasure. Too few "think pieces" of this kind are being produced nowadays, which is rather unfortunate as I find them extremely useful. I also welcomed the paper's main thrust at resurrecting development theory in a way.

First of all, I would like to highlight a few points made by the paper as well as their implications for development theory and policy. In the second part of my discussion I will ask a few questions and express some doubts on the central arguments.

The basic idea behind the two unbundlings has been clearly spelt out by the paper so I need not repeat them again. I do want to highlight, however what the implications are for our theoretical apparatus as well as for patterns of global development. Most importantly, the second unbundling implies a pattern of industrialization which sidesteps the national level. Before the ICT revolution, industrialization used to deliver and at the same time require country-specific endowments and institutions, such as roads, factories, engineers, domestic demand, rule of law, property rights, etc. Now that countries have a relatively simple option to join a supply chain, as the author argues, much of these things do not matter or least matter much less so than they used to. In a way, this is a welcome development as it simplifies industrialization – all you need is a certain dose of luck in terms of geographical location and healthy relations with multinational companies around the world. It does not, however, simplify development; without those benefits that industrialization used to entail, the entire process of industrialization becomes less meaningful.

As for the implications for global development, it is fair to say that despite the dramatic reduction in transportation costs, we are still short of truly global supply chains. While the scale dimension clearly matters a lot for MNCs, they still need to coordinate their production processes. What we are experiencing, therefore, is a regionalization, as opposed to globalization of supply chains. Where the exact boundaries of these regions lie is somewhat unclear, but a few regional supply chains can be identified nevertheless. Most obviously, East Asia has developed a tightly connected set of supply chains. Similarly, North American and European supply chains share similar features. That said, the Asian unbundling has clearly been the most successful one, begging the question what these countries got right.

Part of the answer, I believe lies in traditional development theory. We used to think of development as an endogenous process wherein you needed scale to industrialize but you needed industrialization to get the scale right. Hence the idea of the "big push" way of thinking about development, which hasn't been fully formalized until the end of 90s by modelling issues like monopolistic competition. In this world, issues of coordination and multiplicity of equilibria abound, making development extremely tricky. Under the new rules of the game, however, much of what we thought we needed, such as a large domestic market, is gone. What coordination remains to be done – which part of the final product should be produced in Vietnam, Malaysia, Thailand etc. - will be decided by managers of large multinationals instead of governments. Sure enough, certain physical constraints still remain – managers, for instance, may want to return home after visiting their global facilities – which may turn out to be the next modelling exercise for economists working on development.

Turning to a few questions I would like to raise, I wonder if we really have to open a whole new chapter in development theory. In the models of Krugman and his colleagues, the game that had to be played nationally could now be rescaled on a regional level. If Henry Kissinger was right when he said that the line of history was moving from the Atlantic towards East Asia, we must ask who is doing the coordination there. As already mentioned above, it could be multinationals themselves, or perhaps regional hegemons, such as China. Secondly, an equally vexing question is why we should care about industrialization if it is all about joining a supply chain. Before, the answer used to be about all sorts of positive externalities, forward and backward linkages (through universities and R&D for instance) that industrialization brought about. Now, the recipe for "success" is having basic facilities, such as a port and a factory, and producing as fast as possible. Is this really a desirable outcome, or alternatively, is this going to take us back to the enclave economy patterns of Bolivia in the 19^{th} or the Dominican Republic in the 20^{th} century where apart from the small clusters of production, the rest of society remained locked in the famous poverty trap?

At this point, a brief defence of my colleagues, Rodrik and Hausmann is in order. According to them, development was a process of self-discovery, as nations gradually discover the unique competences they possess which allow them to compete in global markets. In the paper's line of reasoning, however, this self-discovery does not matter anymore, as it is multinationals who decide where and what to produce. If this is correct, however, we must enquire about what lies behind managers' decision to choose locations. Maybe these decisions still depend on certain country-specific attributes after all.

Finally, I must point out that getting on a supply chain is no guarantee for growth. Evidence for this is well at hand when one compares recent growth patterns between the two large Latin American clusters: the Mexican and the Brazilian one. While the former is clearly more embedded in a global supply chain (that of North America), it has fared considerably worse than Brazil and its neighbours have.