

# Where is the end of the EU-rope

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*11 May 2013, Innsbruck*

# Plan of talk

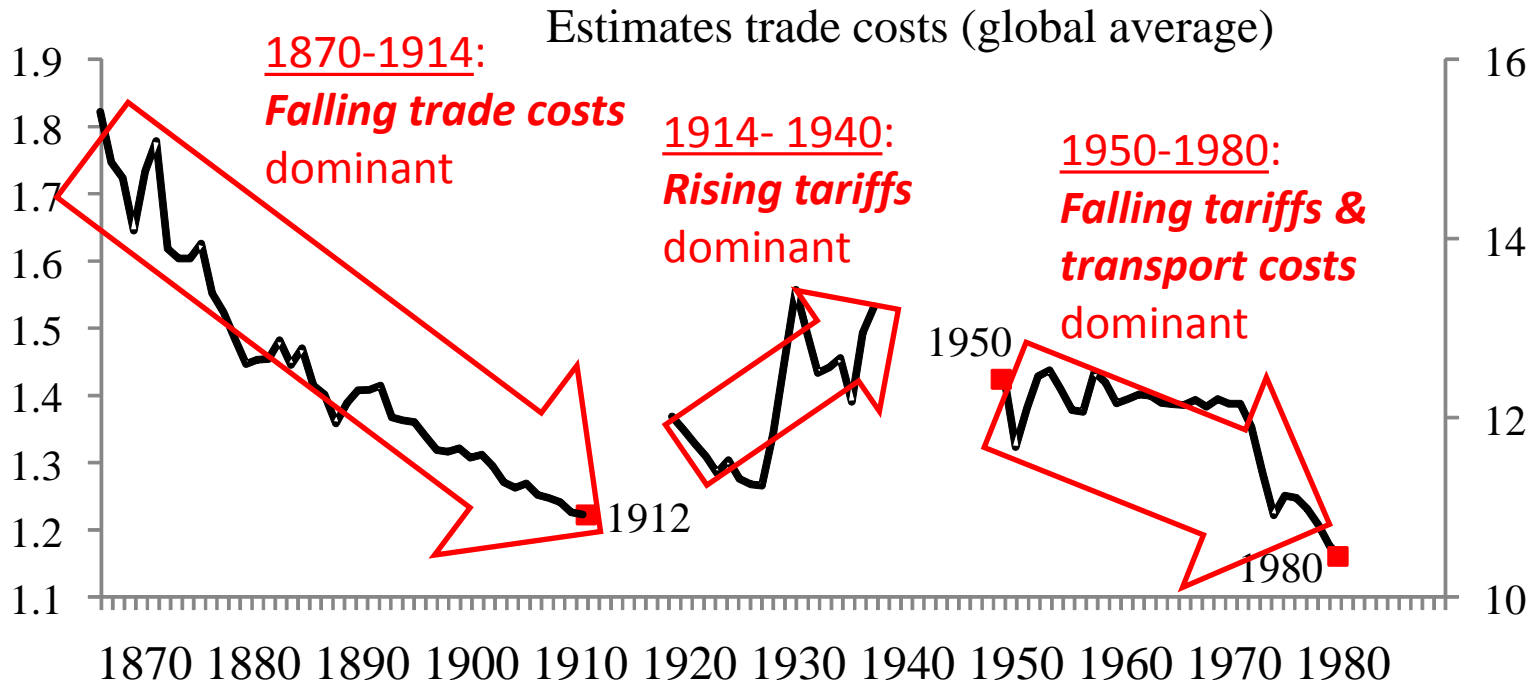
- Misthinking globalisation
- What it means for future of Europe
  - Membership
  - Depth

# Misthinking globalisation

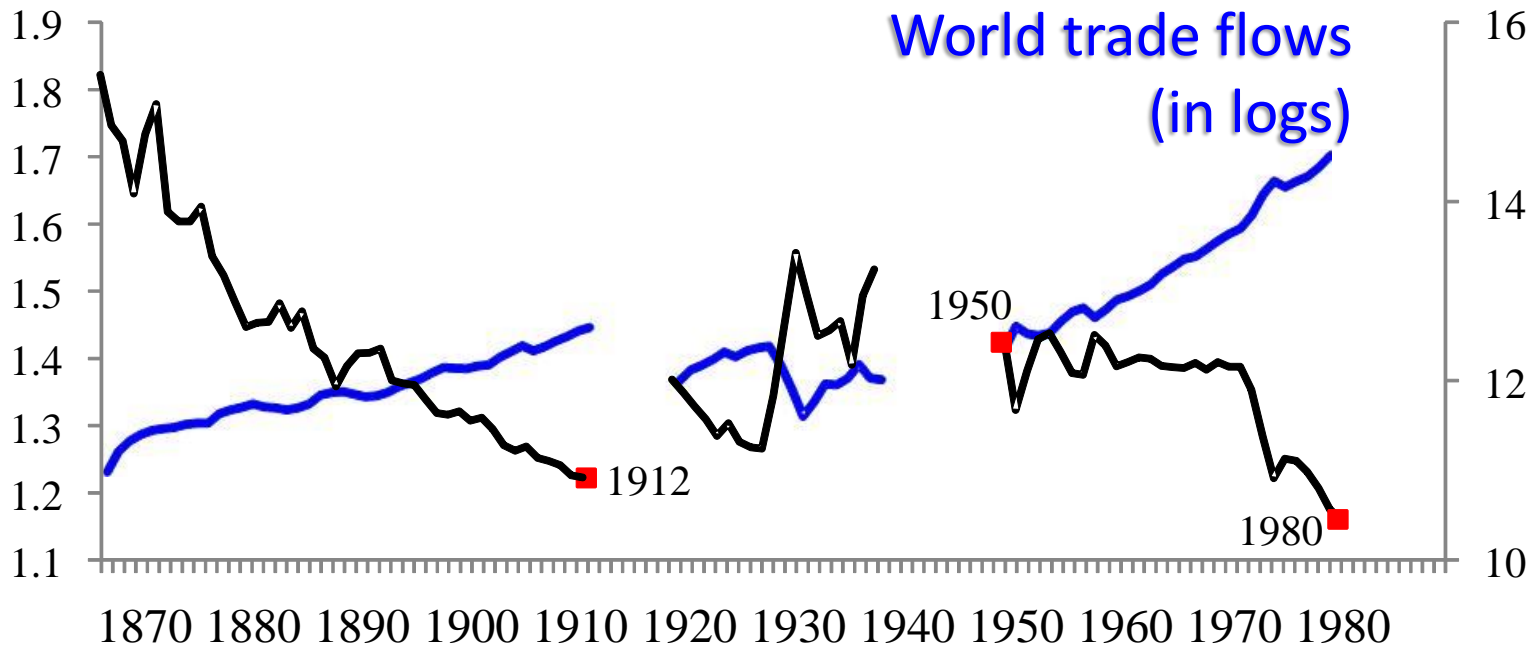
- Conventional:
  - Autarky to free trade, slowly.

# 1870 – 1980:

## Globalisation is all about trade costs



# Globalisation = lower trade costs & more trade in goods

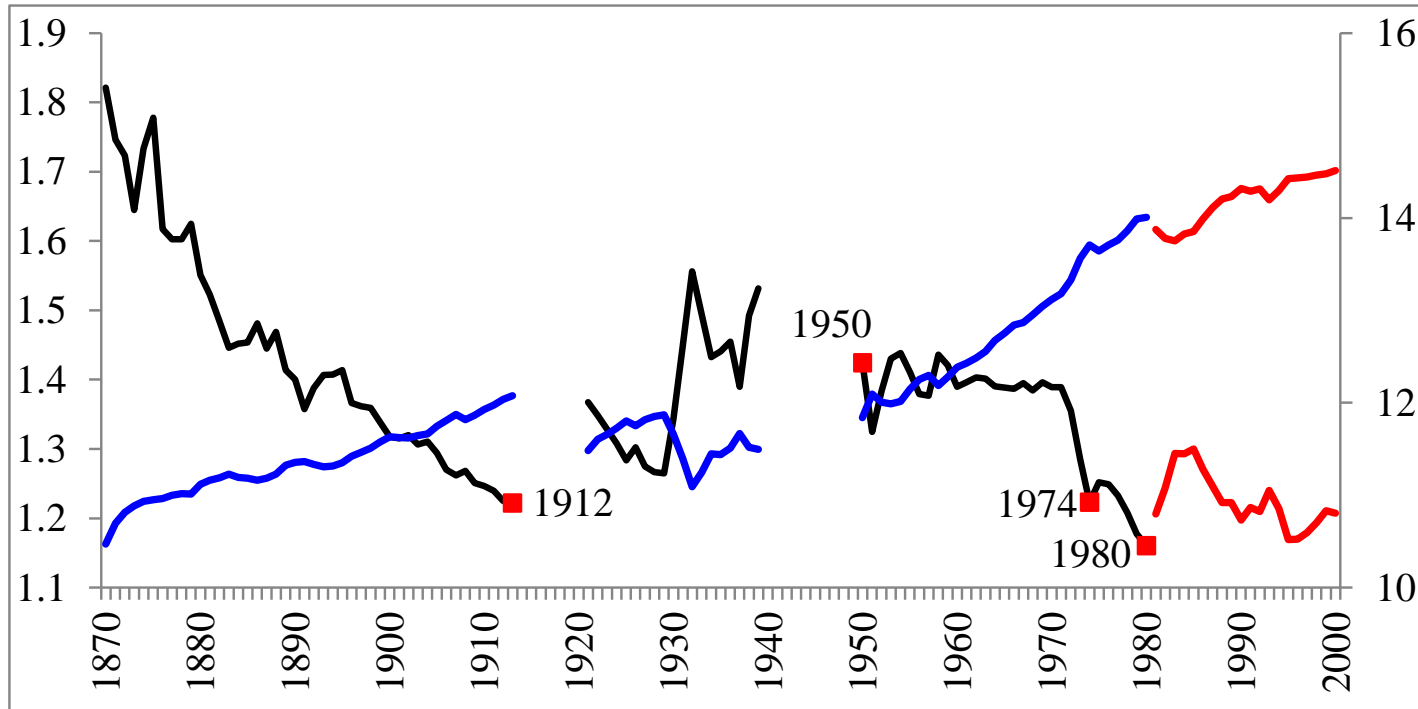


Classical trade theory developed

Neoclassical trade theory developed

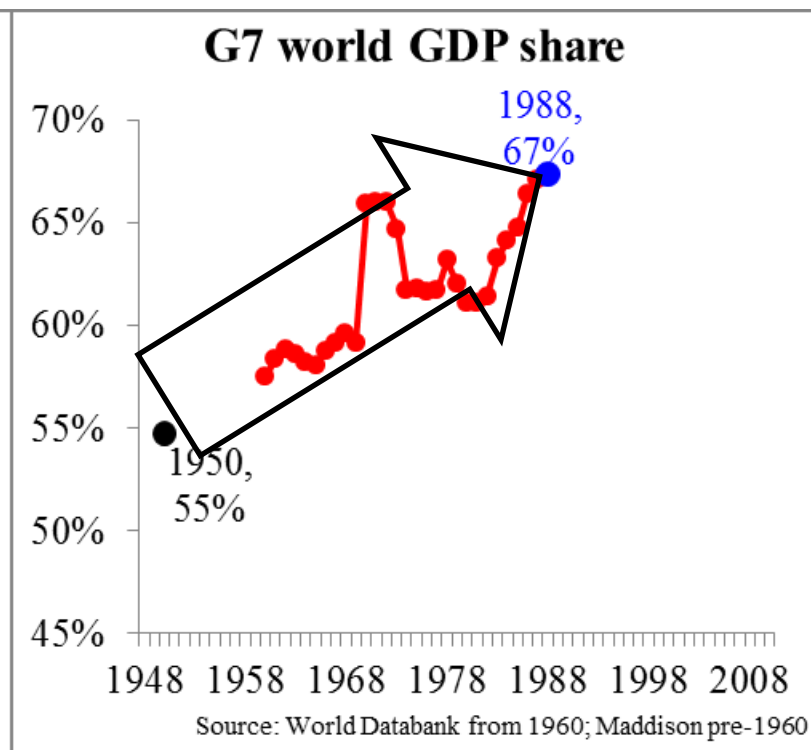
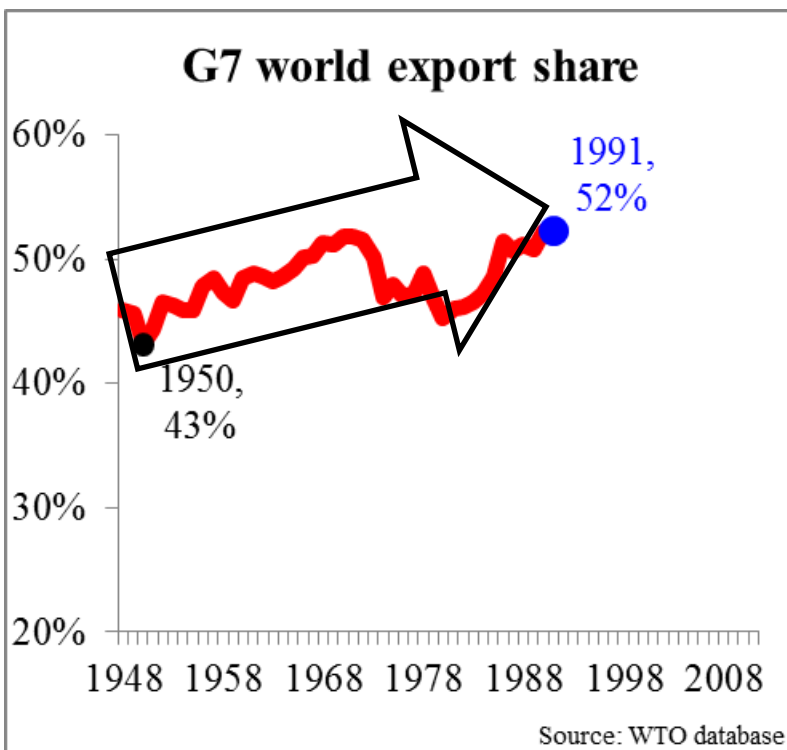
# Something changed:

*Trade costs fell little; trade kept growing*

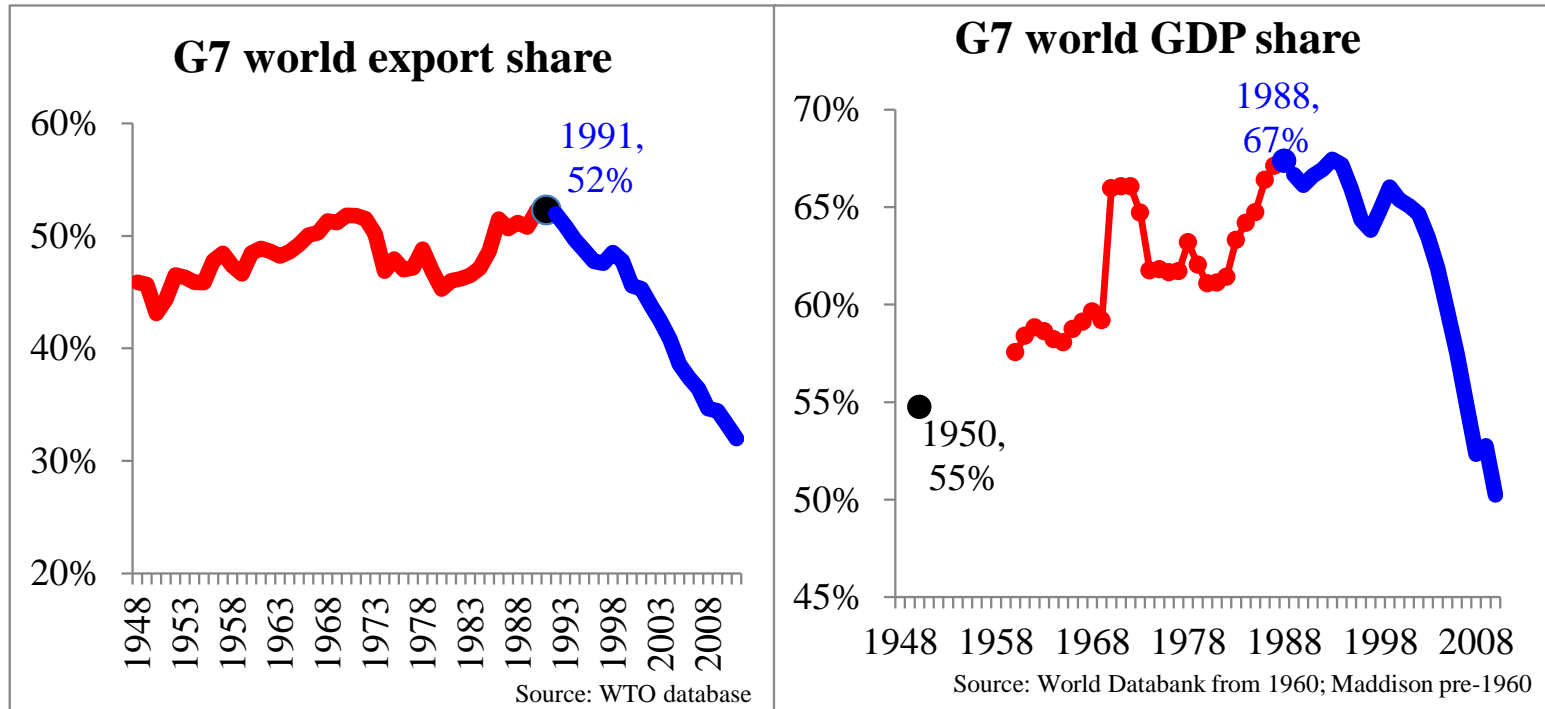


- ‘Distance puzzle’? Or something deeper?

# Globalisation = G7's trade & income share rises



# Something changed: *G7 world shares drop*

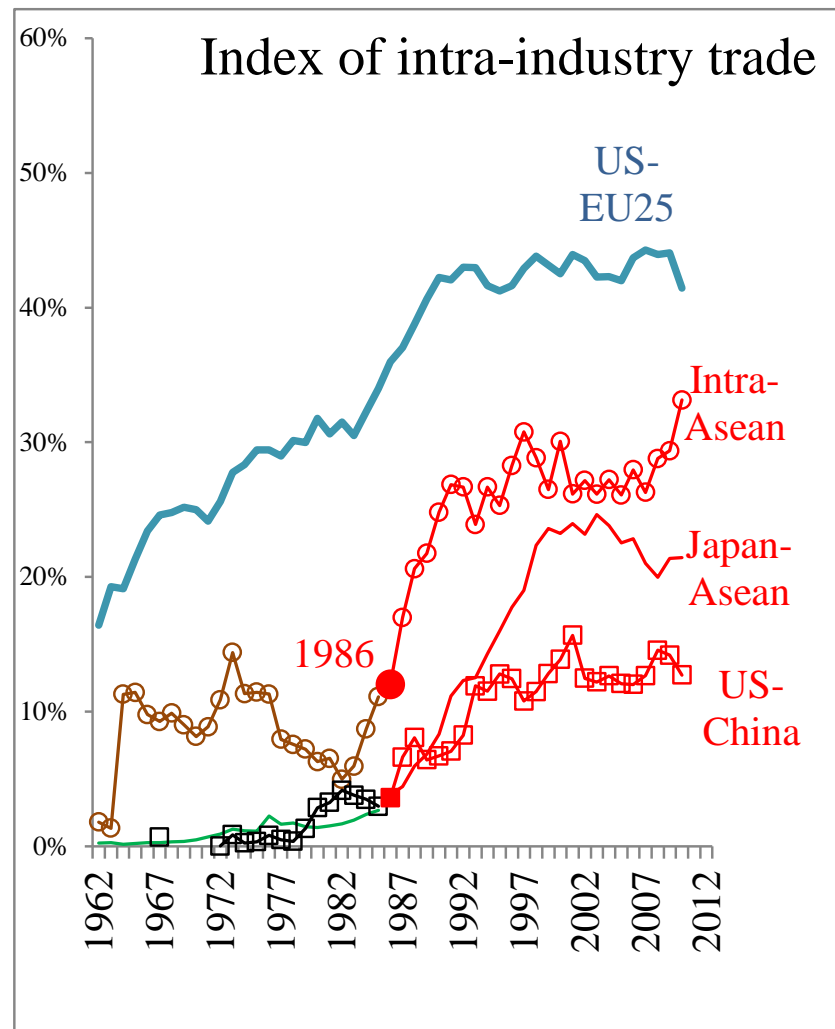
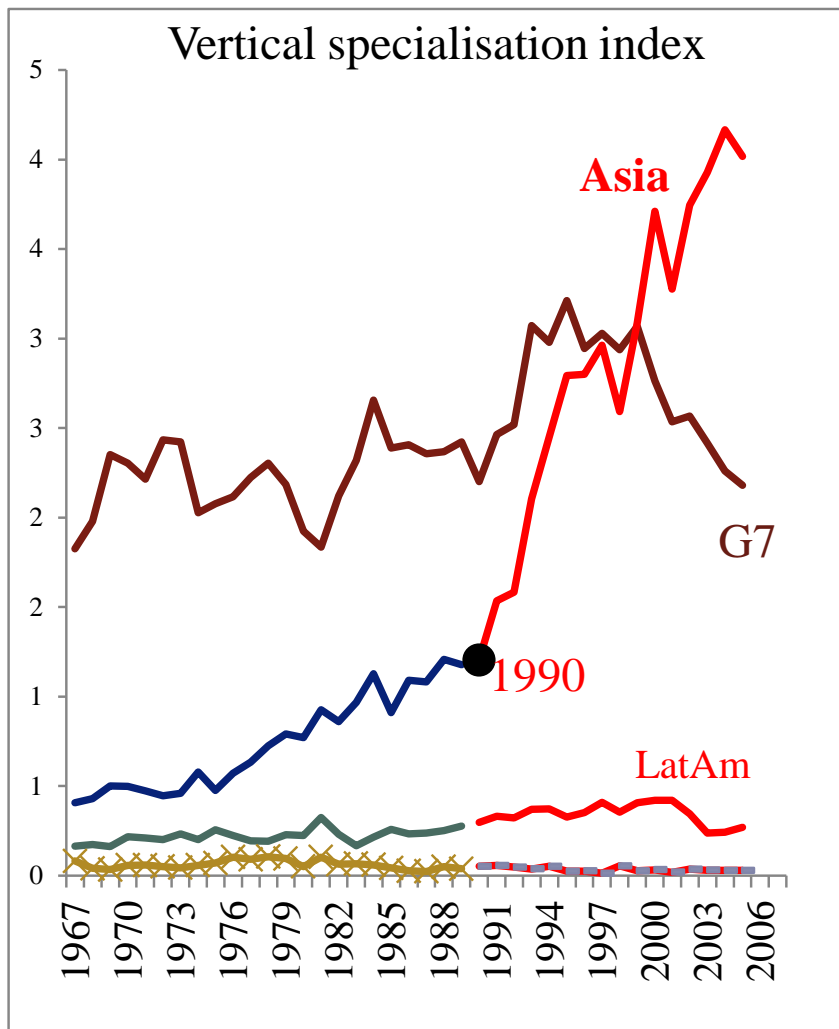


- “Emerging economies”? “East Asian miracle”? Or something deeper?

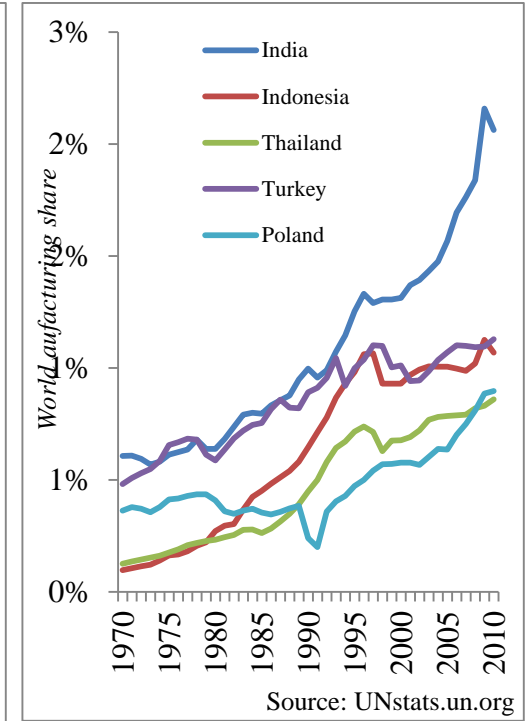
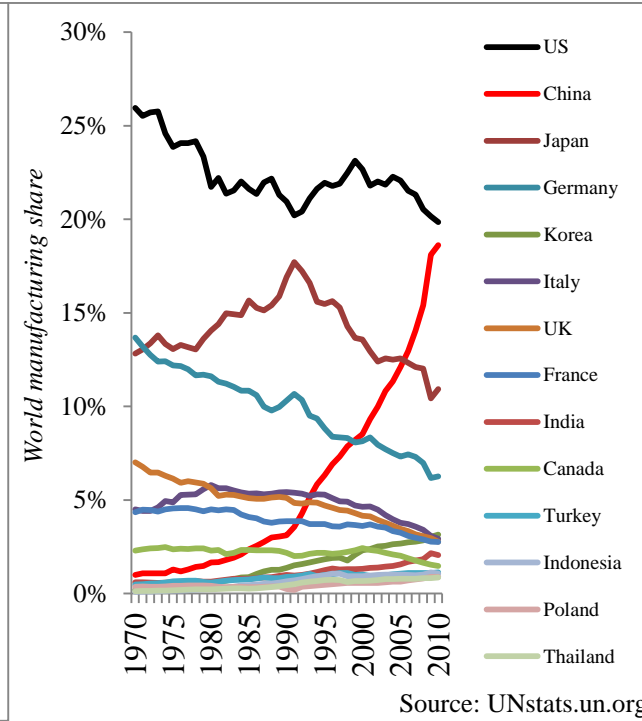
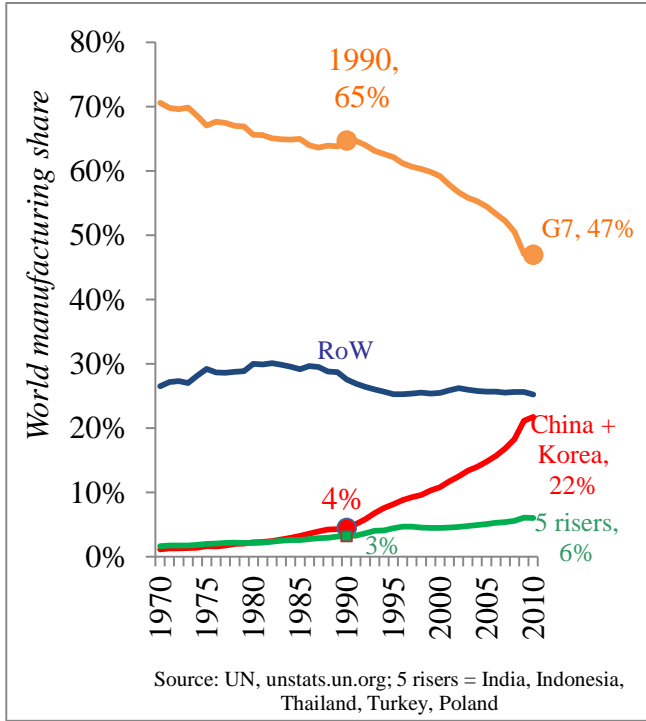


# Something changed:

## *Nature of North-South trade changes*

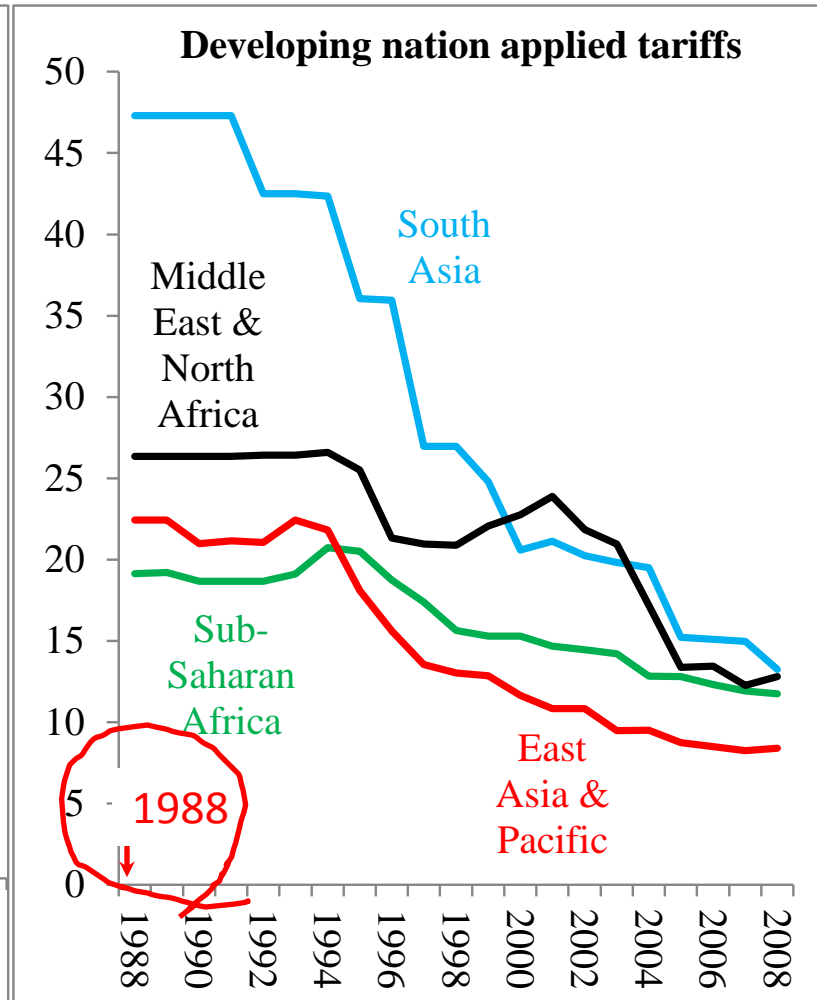
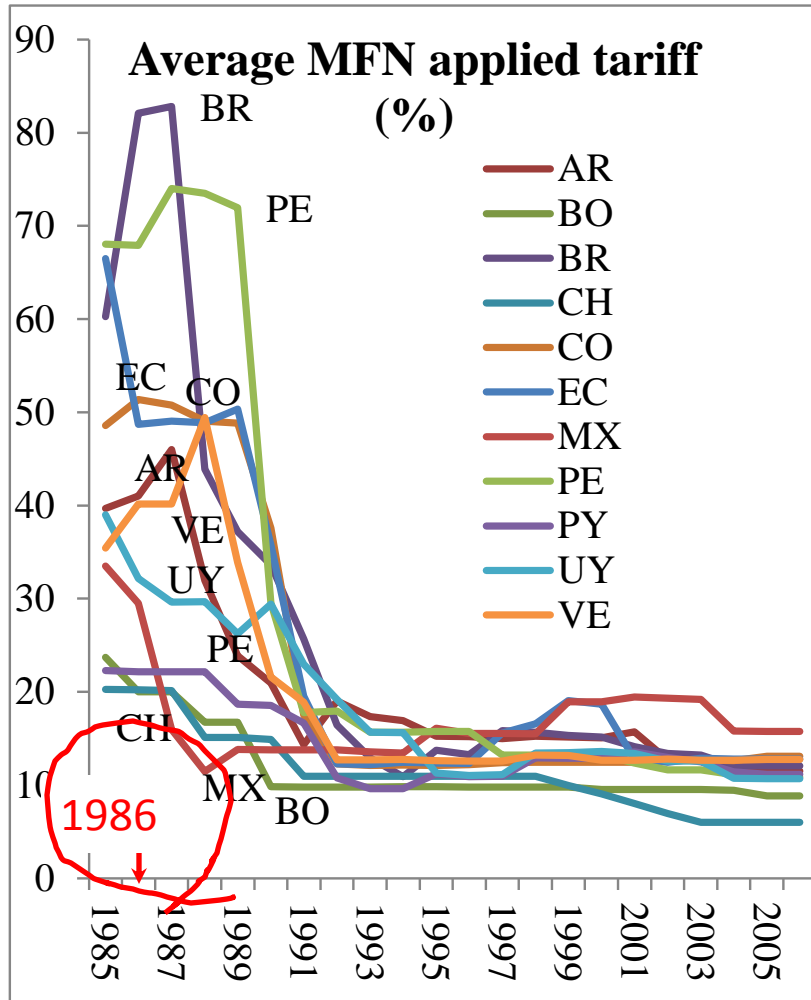


# Something change: Manufacturing: 7 winners & 7 losers



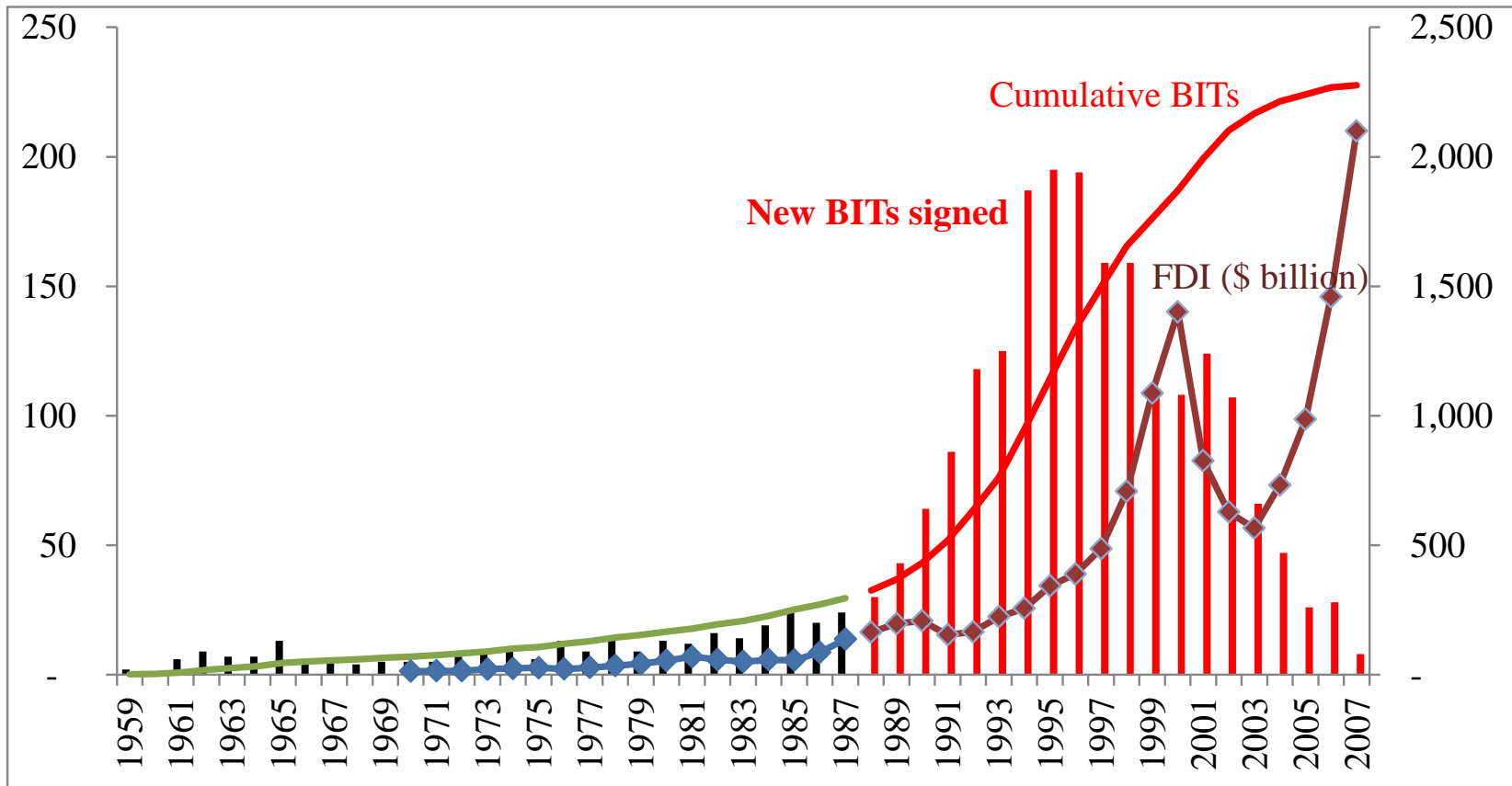
# Something changed:

## *Developing nations unilateral cut tariffs*

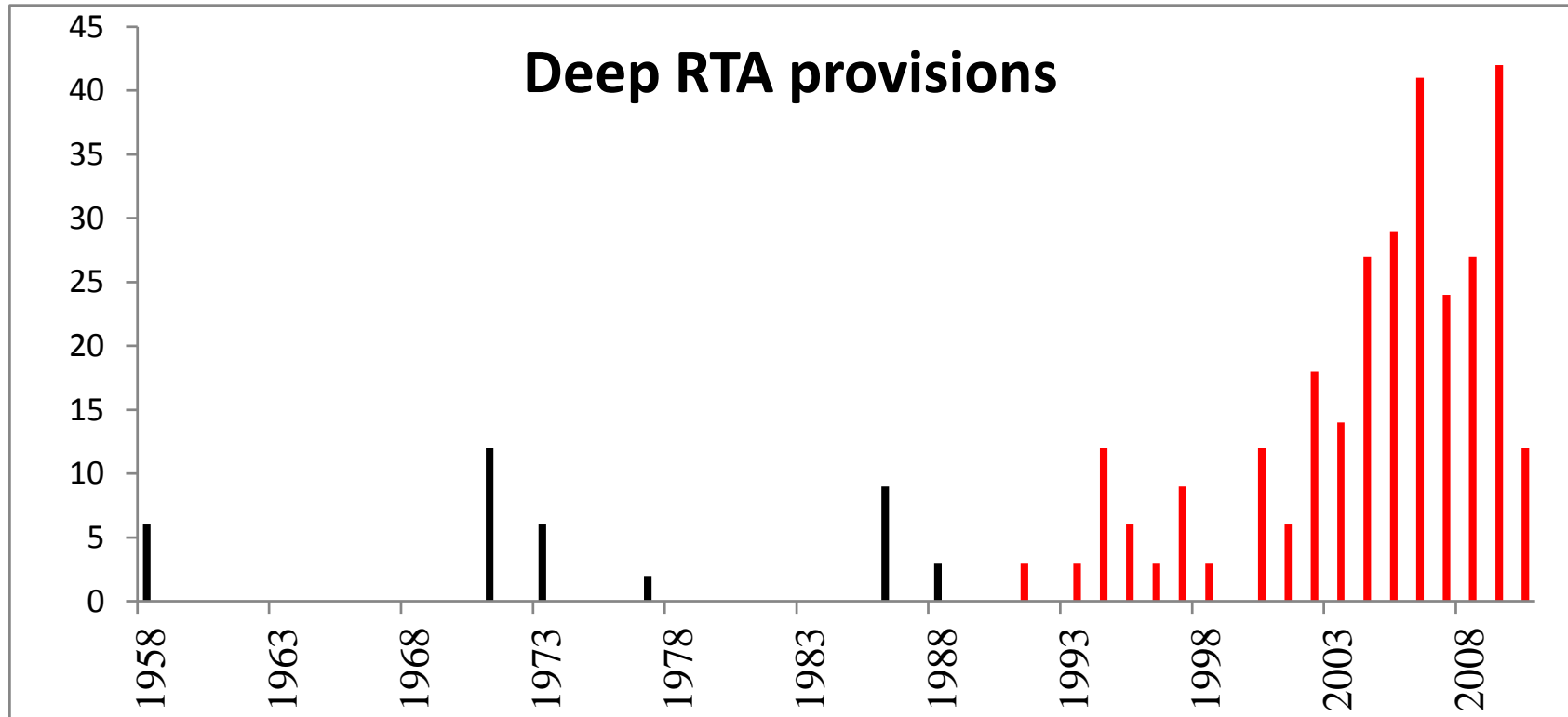


- Policy makers final listen to trade economists?  
Or something deeper?

# Something changed: *FDI and BITs boom*

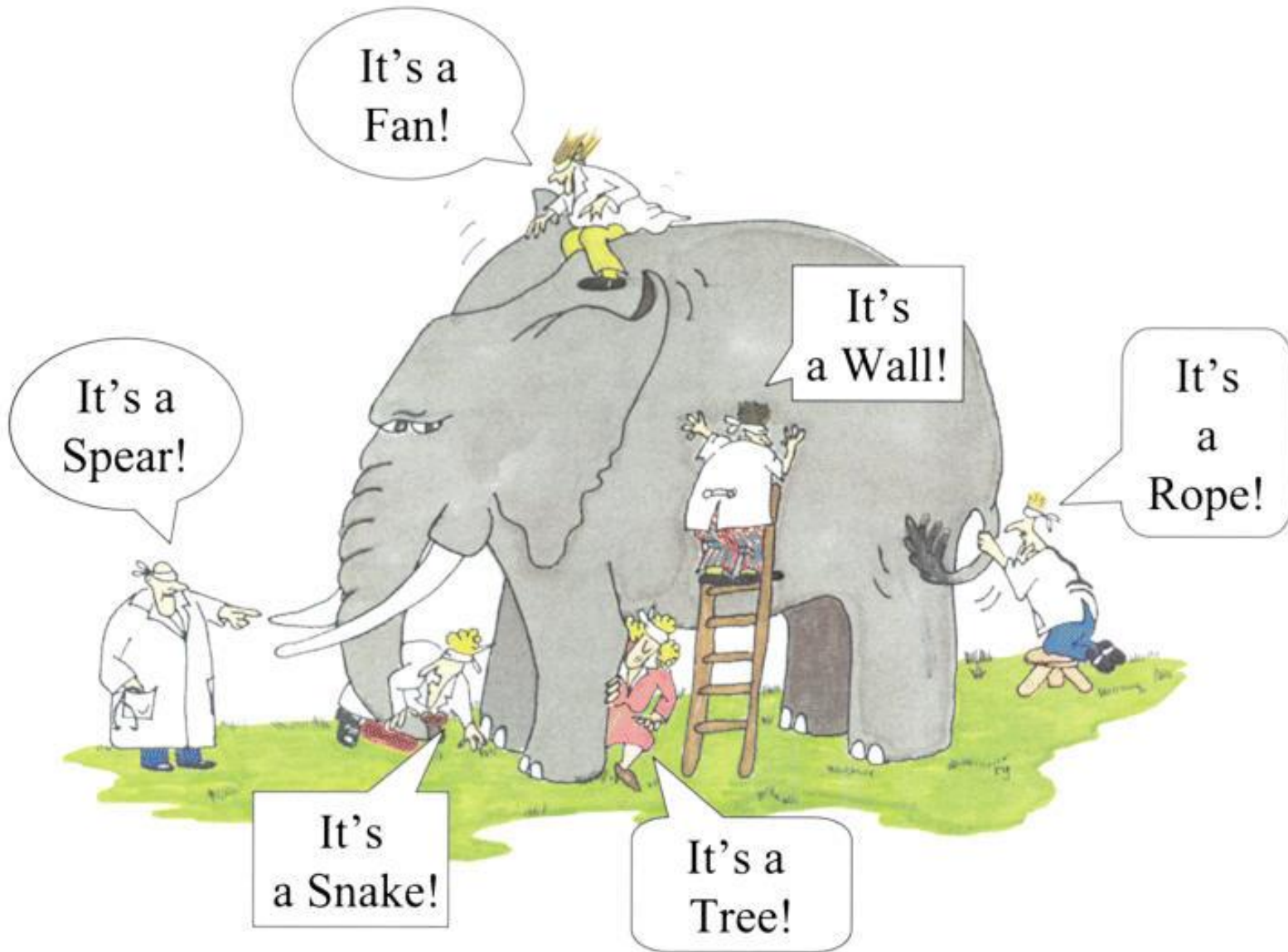


# Something changed: *RTAs 'deep' provisions*

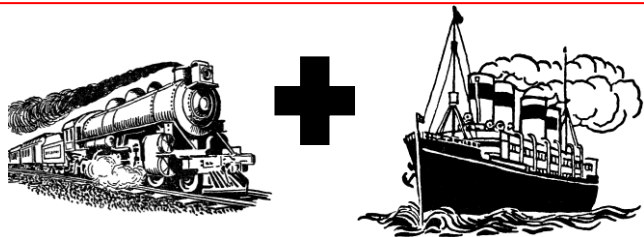


- RTAs include beyond WTO provisions:
  - Competition policy, IPR, investment, capital movements, etc.

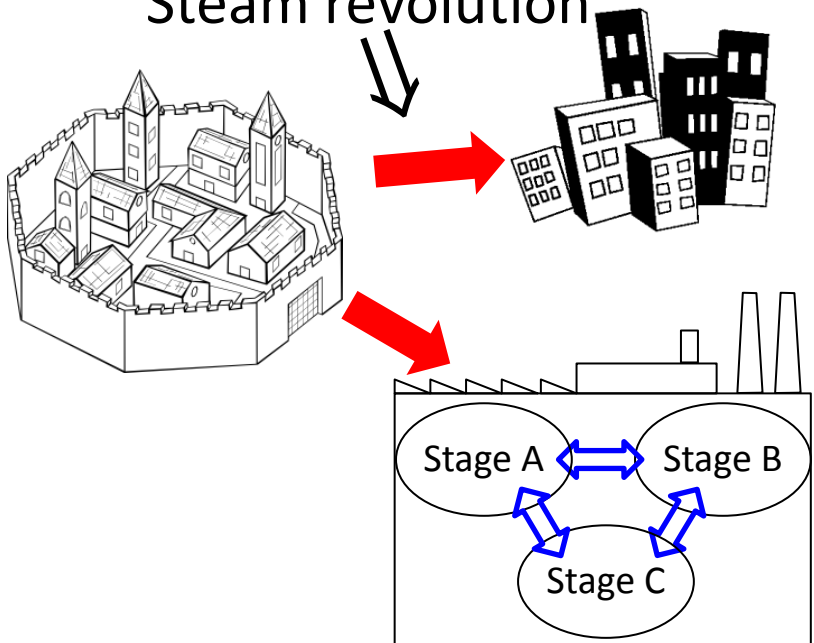
# What changed?



1<sup>st</sup> unbundling:  
transportation cheaper

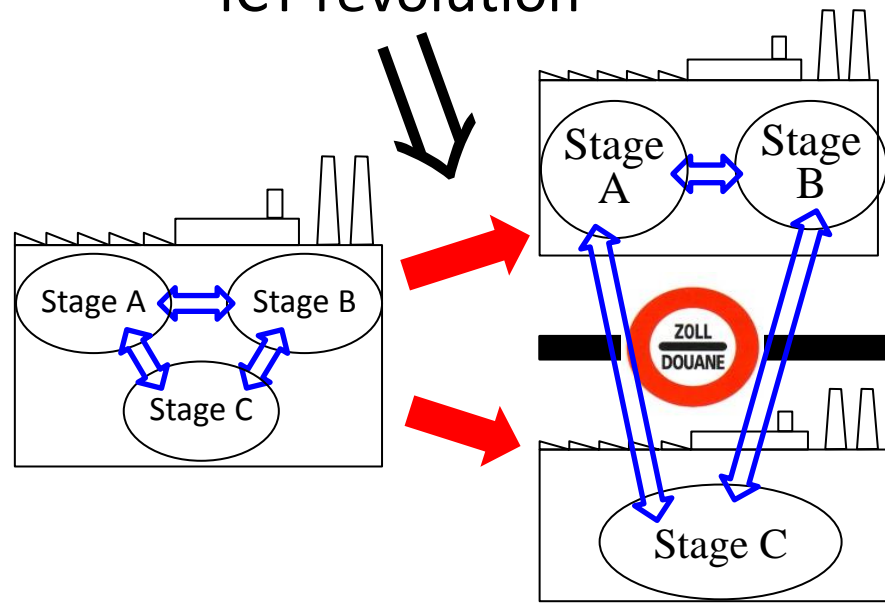


Steam revolution



2<sup>nd</sup> unbundling:  
transmission cheaper

ICT revolution



# Distance still matters (people still expensive to move)

“Face-2-face” and “Face-2-machine” constraints.

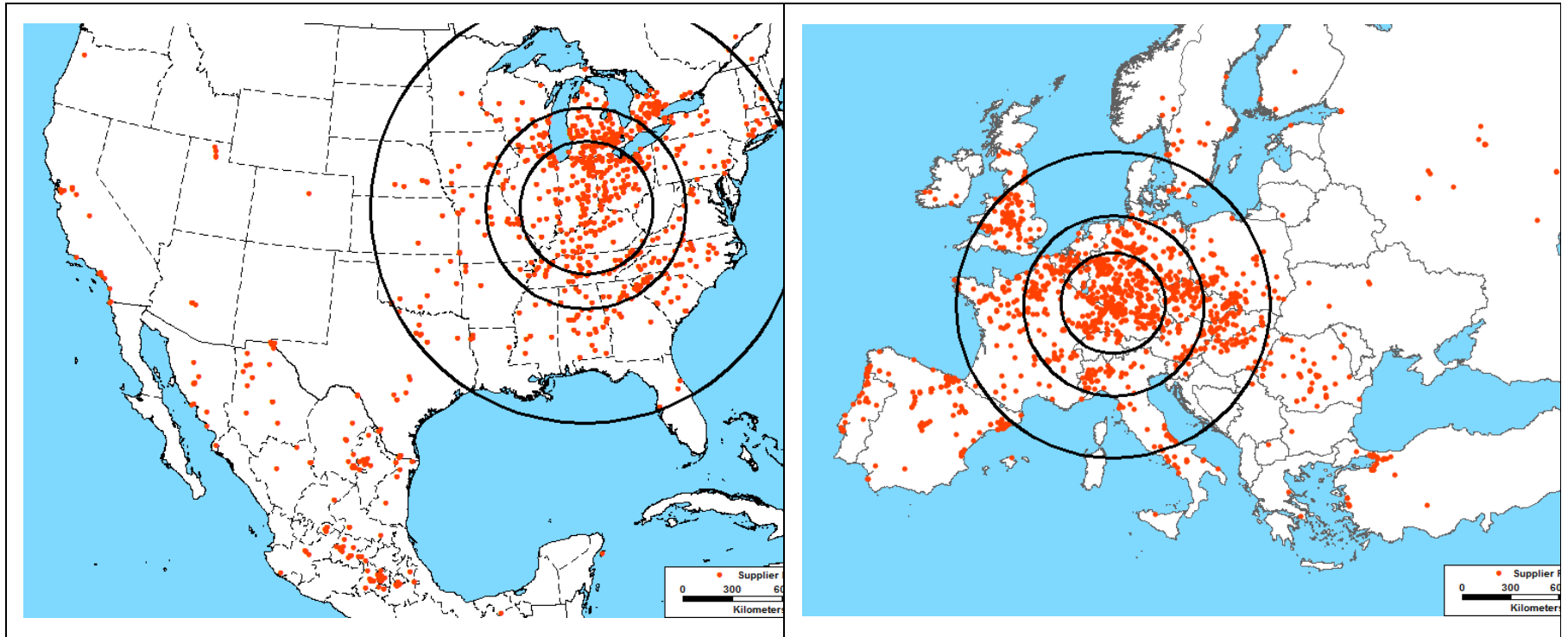


Figure 1: North American and Europe auto supplier plants.

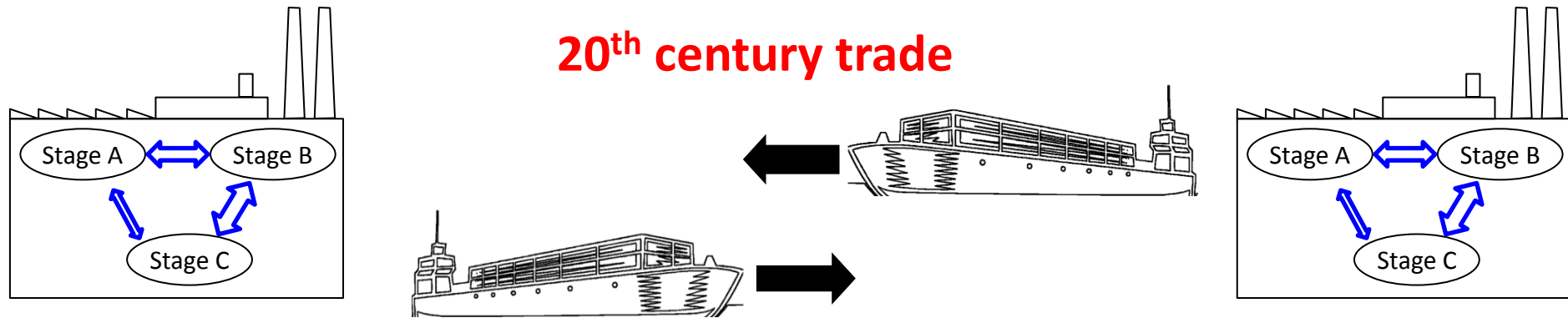


# 3 cascading constraints

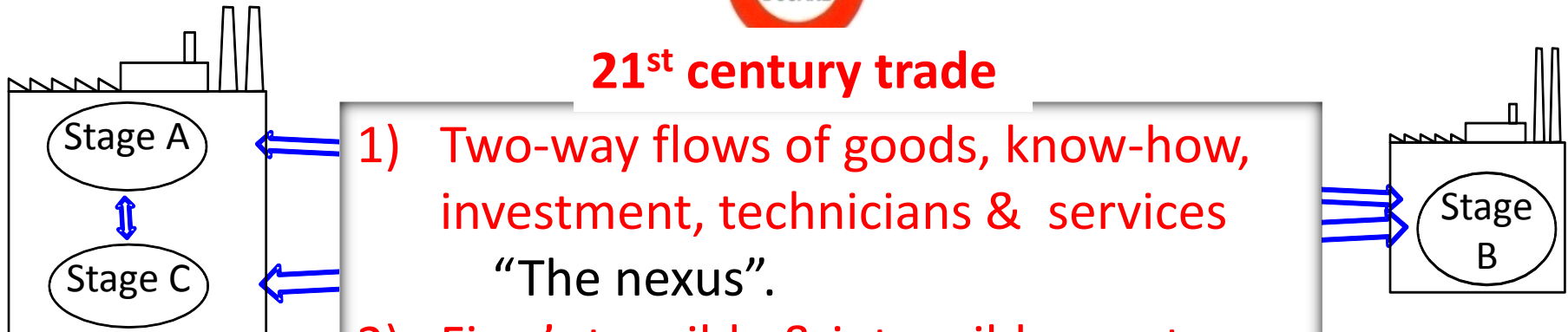
- Pre-globalisation world constraints:  
(1)Transport, (2)Communications, (3) Face2Face.
- Steam  $\Rightarrow$  globalisation's 1<sup>st</sup> unbundling:  
~~Transport~~, Communications, Face2Face constraints.  
RESULT: Local clustering & internationally dispersion.
- ICT  $\Rightarrow$  globalisation's 2<sup>nd</sup> unbundling:  
~~Transport~~, ~~Communications~~, Face2Face constraints.  
RESULT: Regional offshoring.
- Next? Virtual presence  $\Rightarrow$  3rd unbundling?  
~~Transport~~, ~~Communications~~, ~~Face2Face~~ constraints.

# Nature of trade changed

## 20<sup>th</sup> century trade

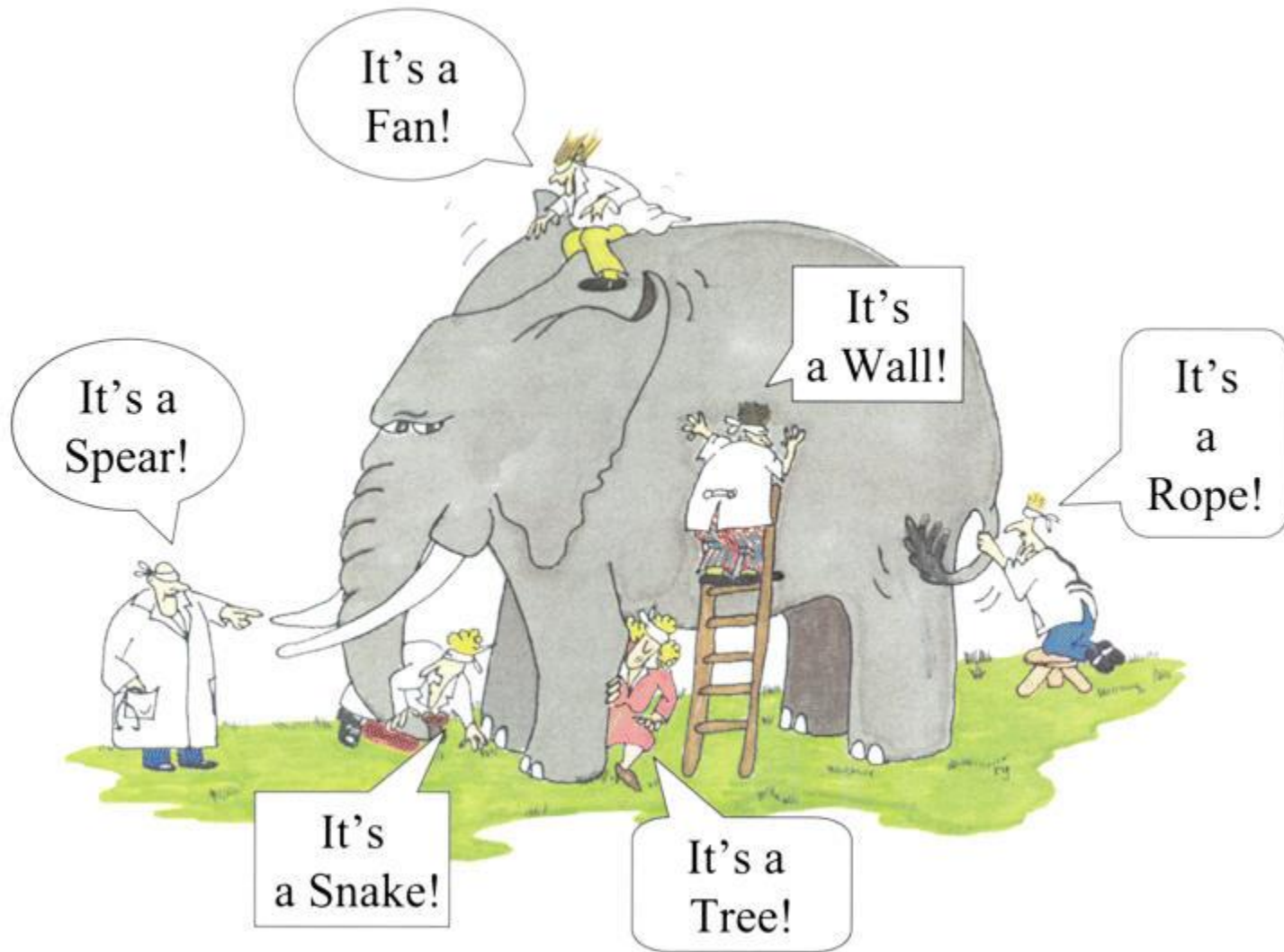


## 21<sup>st</sup> century trade



- 1) Two-way flows of goods, know-how, investment, technicians & services  
“The nexus”.
- 2) Firm’s tangible & intangible assets abroad;  
“offshoring”.

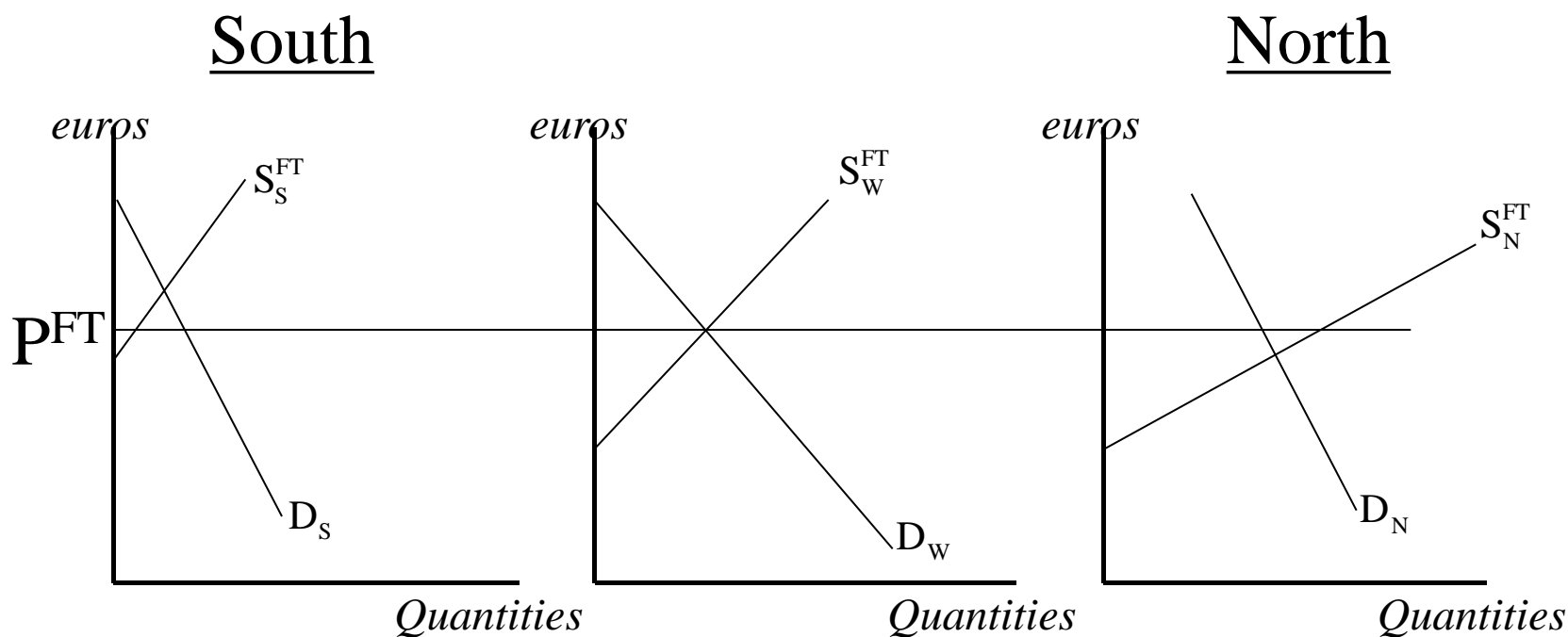
# Elephant = Know-how easier to move.



# Basic economic difference

- 1<sup>st</sup> unbundling globalisation:
  - Better exploit comparative advantage by exporting more.
  - Trade driven by incipient cost differences.
- 2<sup>nd</sup> unbundling globalisation:
  - Better exploit firm-specific know-how by moving the sources of comparative advantage internationally.
    - *North high-tech + South low-wages: Labour to tech, or tech to labour*
  - Trade driven by know-how mobility.

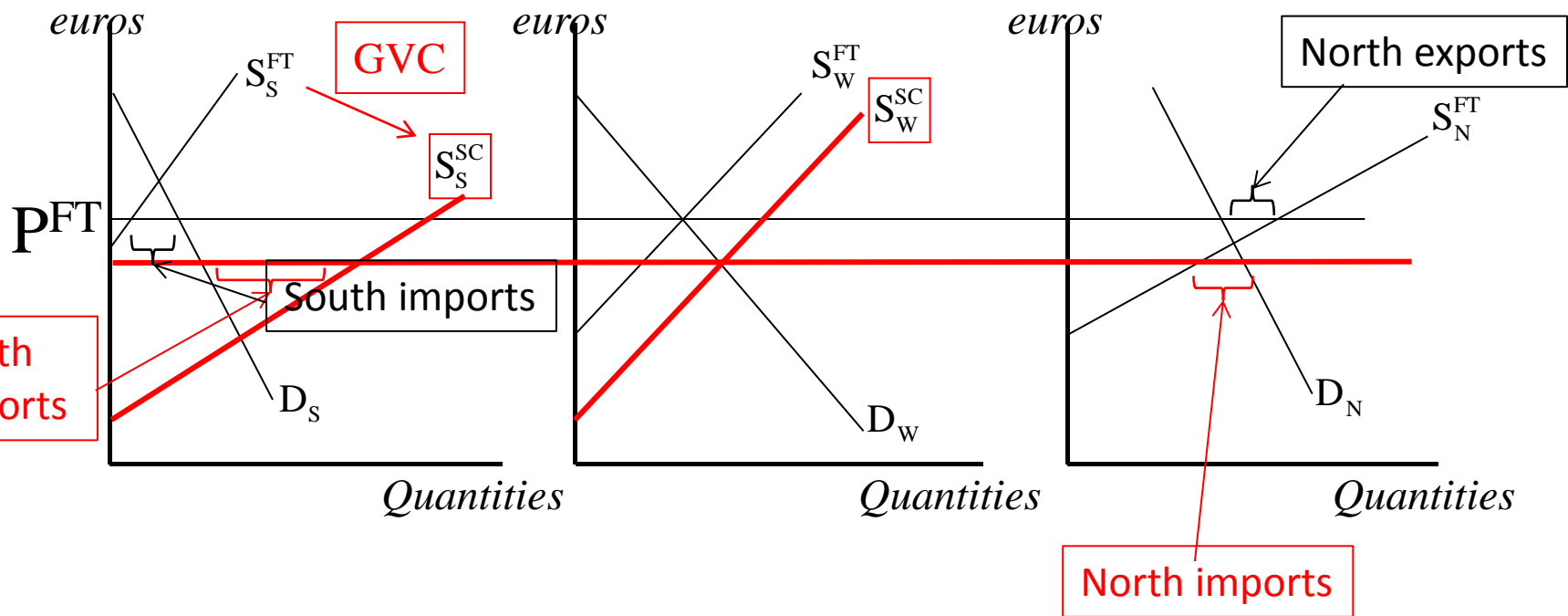
# Moving know-how switches comparative advantage



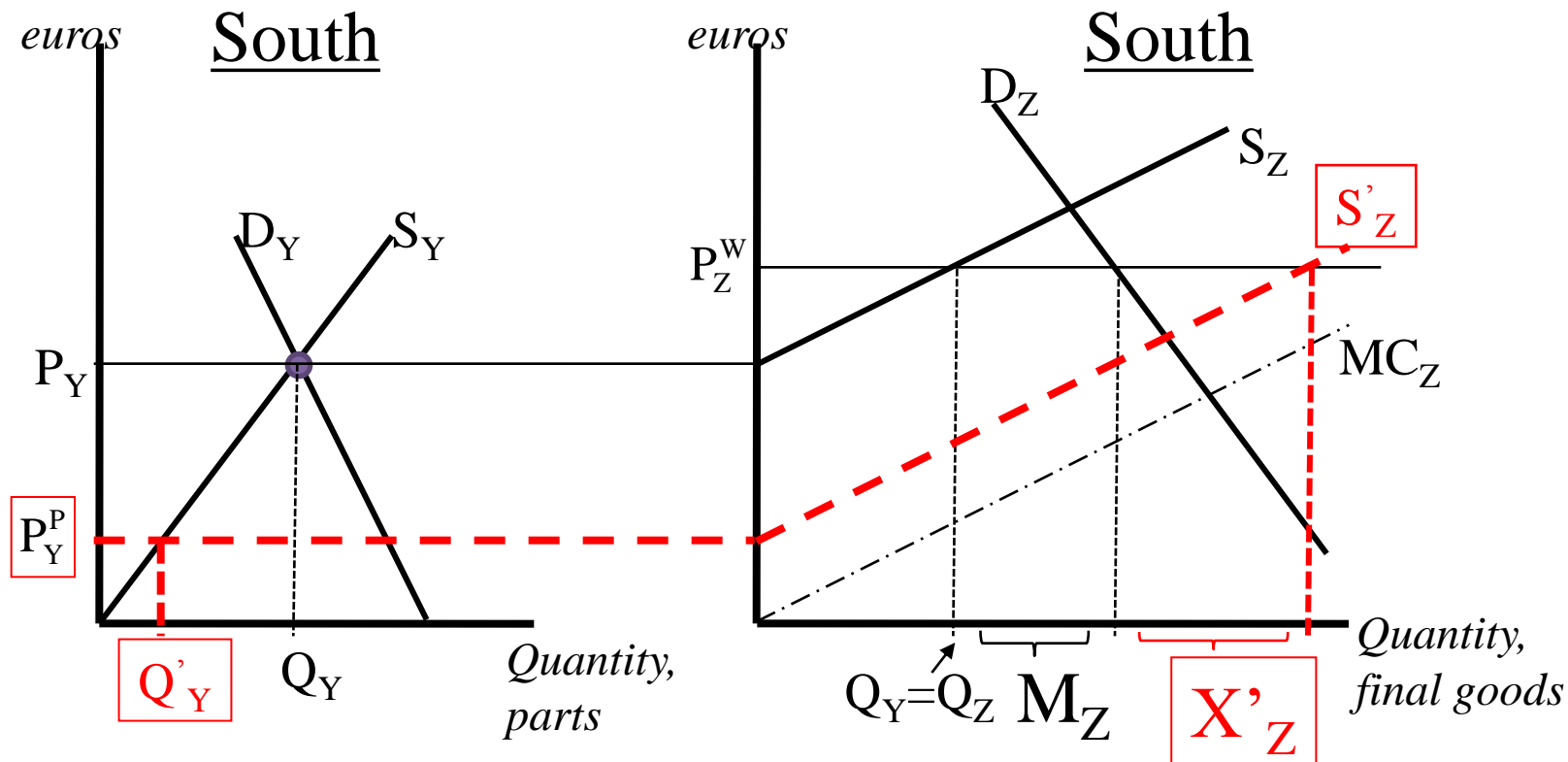
# Moving know-how creates trade & switches comparative advantage

*South's comparative advantage switches*

*North's comparative advantage switches*



# Trade in parts can switch comparative advantage



# GVC revolution gets data

- Gary Gereffi working on GVC for years.
  - <http://www.globalvaluechains.org/concepts.html>
  - Theory in 1960s, 1970s, 1980s, 1990s, 2000s.
- New data changes everything:
  - WIOD.org dataset
    - Timmer et al. papers
  - TiVA dataset
  - GTAP dataset work
    - Johnson & Noguera paper



# Global supply-chain trade, 2009

I2P '09	UK	Germany	France	Italy	NL	Belgium	Austria	Poland	Czech	Denmark	Spain	Portugal	Finland	Greece	Ireland	Turkey	Sweden	Brazil	Russia	India	Indonesia	Australia	Taipei	China	Japan	Korea	US	Mexico	Canada	RoW
UK		0%			0%										0%											0%				1%
Germany	0%		1%	0%	0%		0%																	1%		0%				2%
France		0%																												1%
Italy																														1%
NL		1%				0%																								0%
Belgium		0%																												
Austria																														
Poland																														
Czech																														
Denmark																														0%
Spain																														0%
Portugal																														
Finland																														
Greece																														
Ireland																														0%
Turkey																														0%
Sweden																														0%
Brazil																														0%
Russia																														1%
India																														0%
Indonesia																														0%
Australia																														0%
Taipei																								1%						0%
China		1%																			0%			1%	1%	2%				4%
Japan																							1%		0%	0%				2%
Korea																							1%							1%
US	0%	0%																						1%	0%			1%	1%	4%
Mexico																										1%				
Canada																										2%				
RoW	1%	1%	1%	1%	1%						0%						0%	0%			1%	0%	0%	0%	4%	2%				

"Factory Europe"

"Factory Asia"

"Factory NorAm"

Source: Baldwin & Lopez-Gonzalez (2013). "Supply-Chain Trade: A Portrait of Global Patterns and Several Testable Hypotheses," NBER WP18957



# What it means for Europe

- Think about membership under 1<sup>st</sup> unbundling
  - Gains & pains of European integration and national choices (early history).
- 2<sup>nd</sup> unbundling changes the trade-offs
  - North-North.
  - Single European Act as underpinning 'Factory Europe'
- Progression changes the trade-offs
  - West-East
  - North-South.

# Thinking about integration

- Gains from integration = economic benefit.
- Pains from integration = loss of sovereignty.

*National gain*

Intergovernmentalists

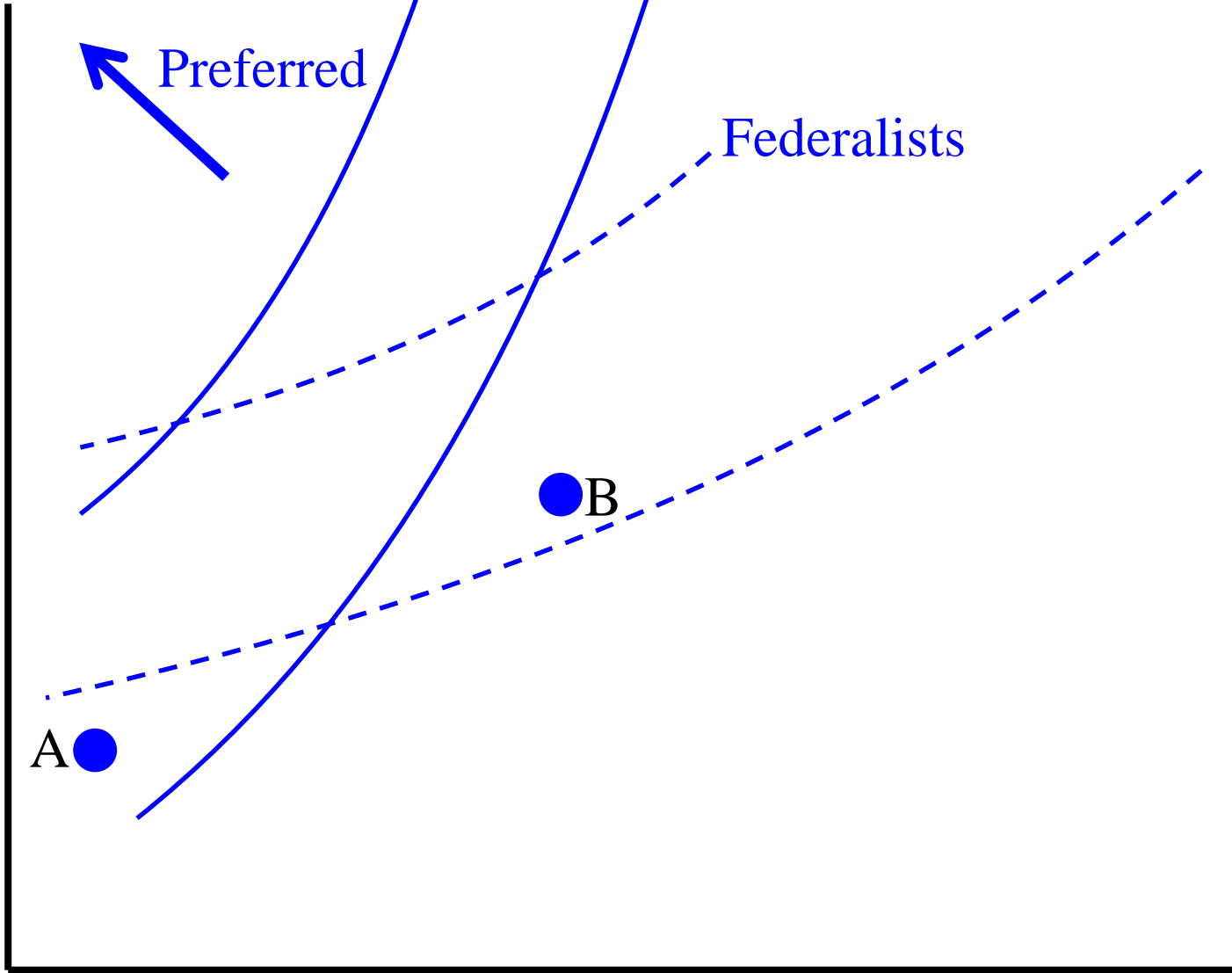
Preferred

Federalists

B

A

*Sovereignty loss*



*National gain*

Intergovernmentalist preferences

Preferred

EEC

Federalist preferences

ECSC

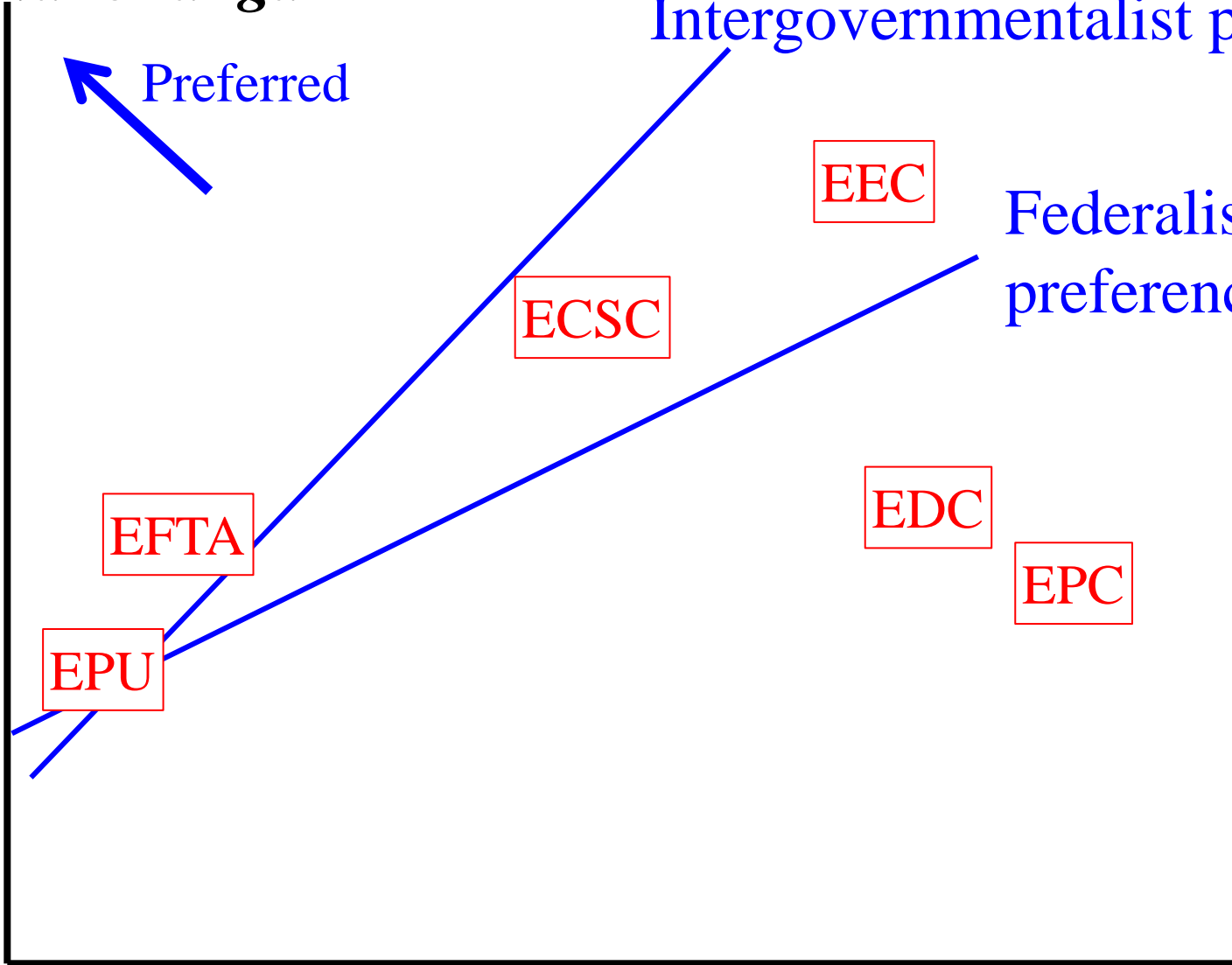
EFTA

EDC

EPC

EPU

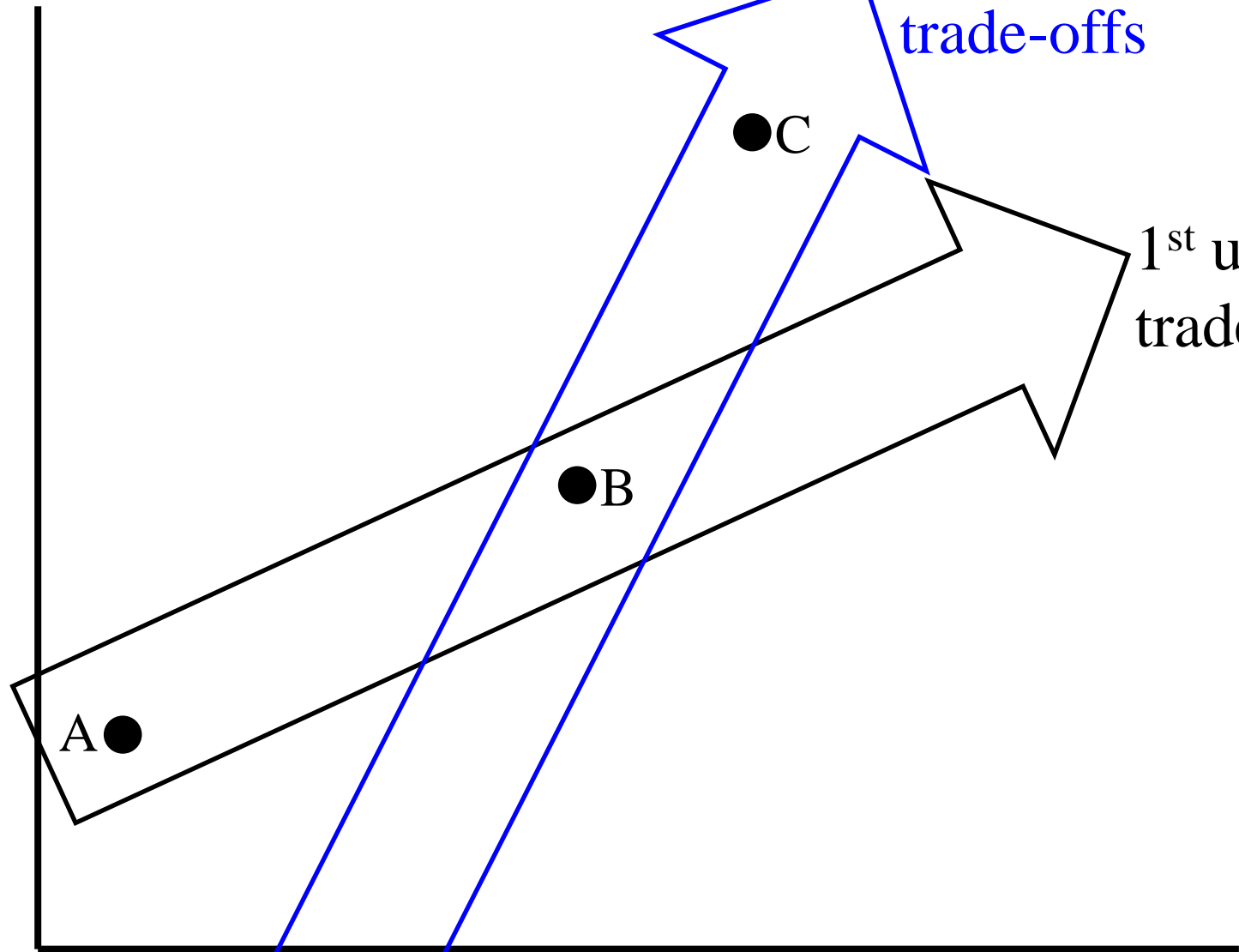
*Sovereignty loss*



*National gain*

2<sup>nd</sup> unbundling  
trade-offs

1<sup>st</sup> unbundling  
trade-offs

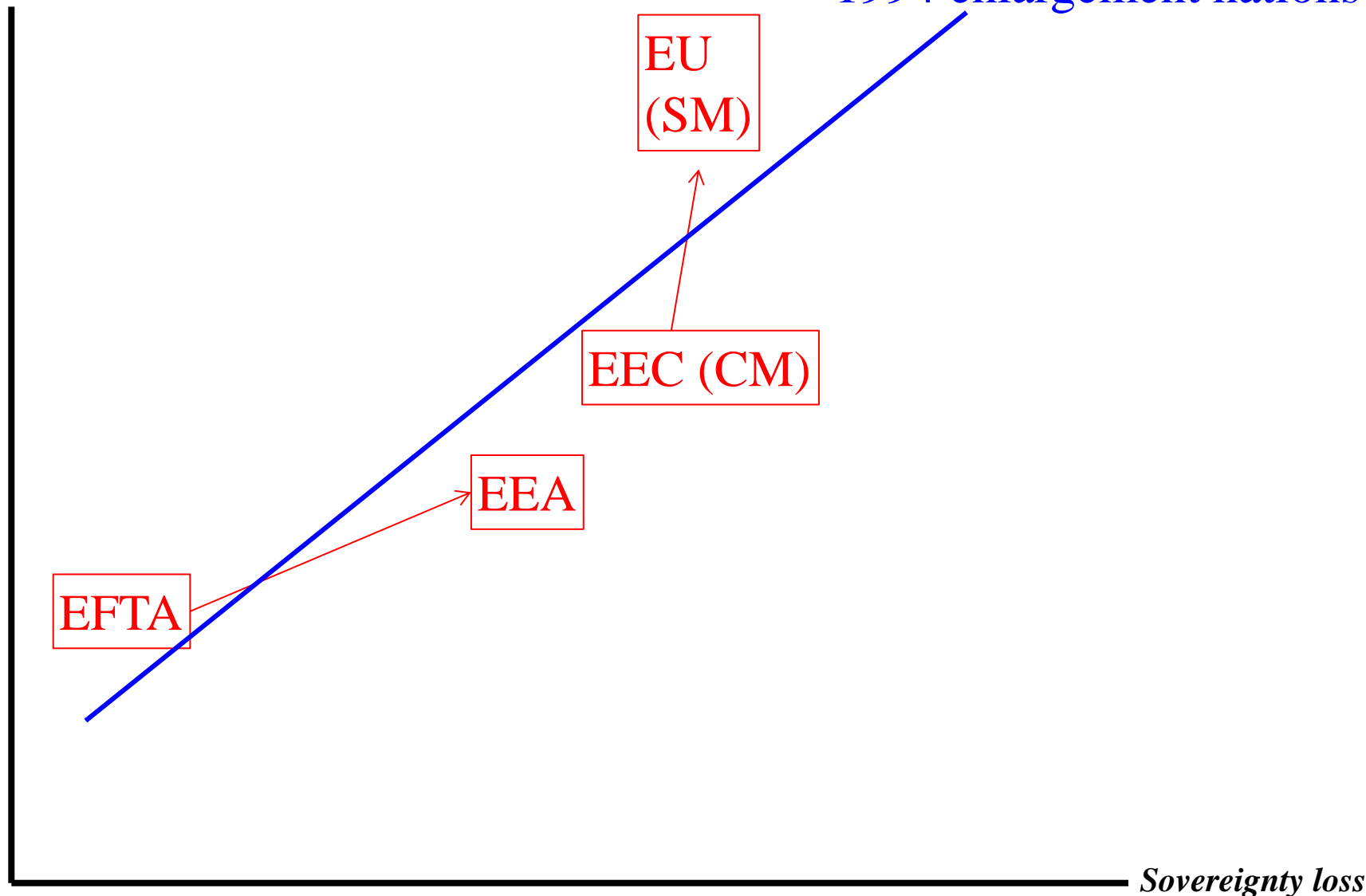


*Sovereignty loss*

# 2<sup>nd</sup> unbundling forces deeper choices: 1994 enlargement

*National gain*

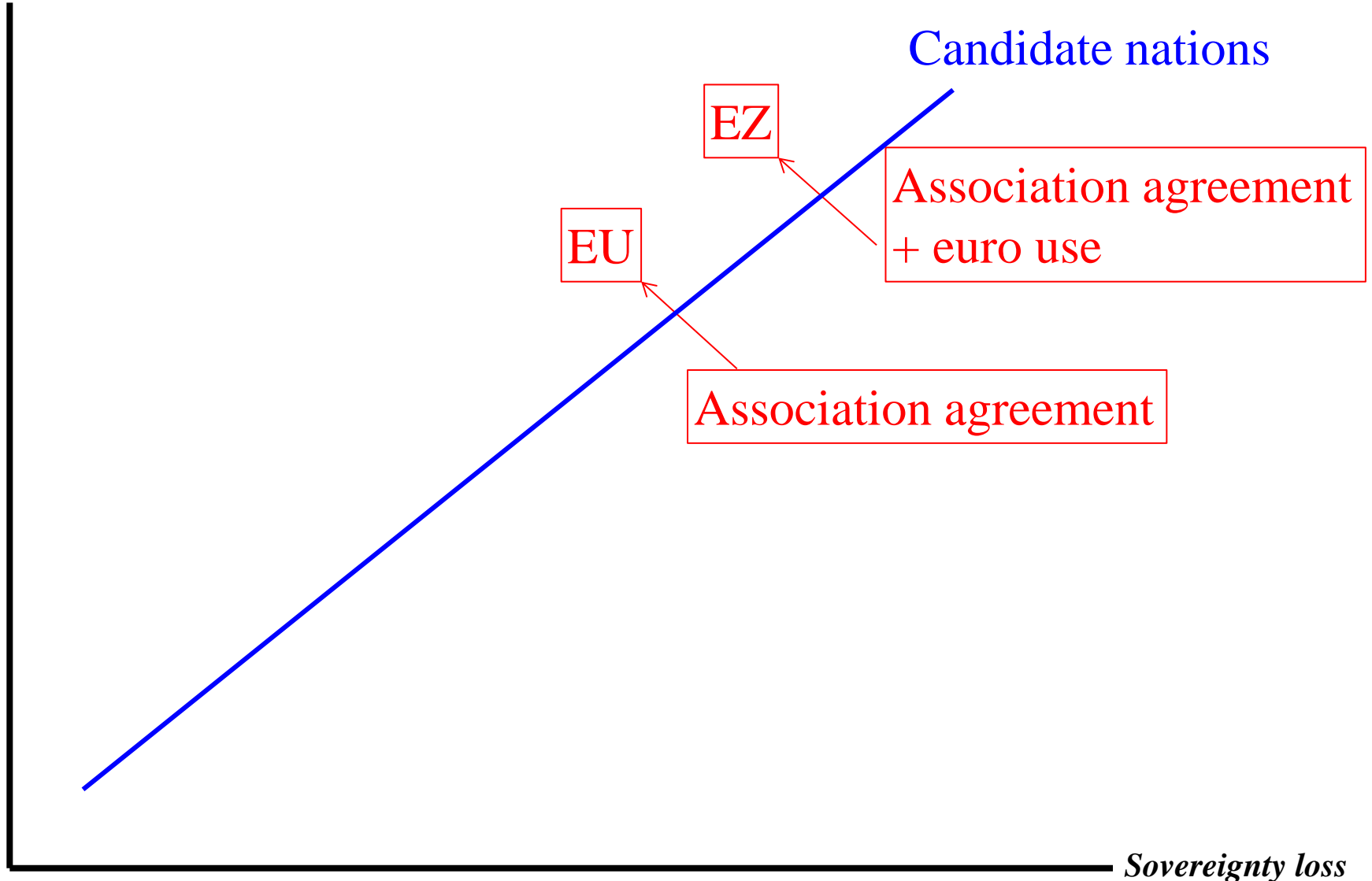
1994 enlargement nations





# Membership can increase sovereignty

*National gain*



# “Supply” of membership

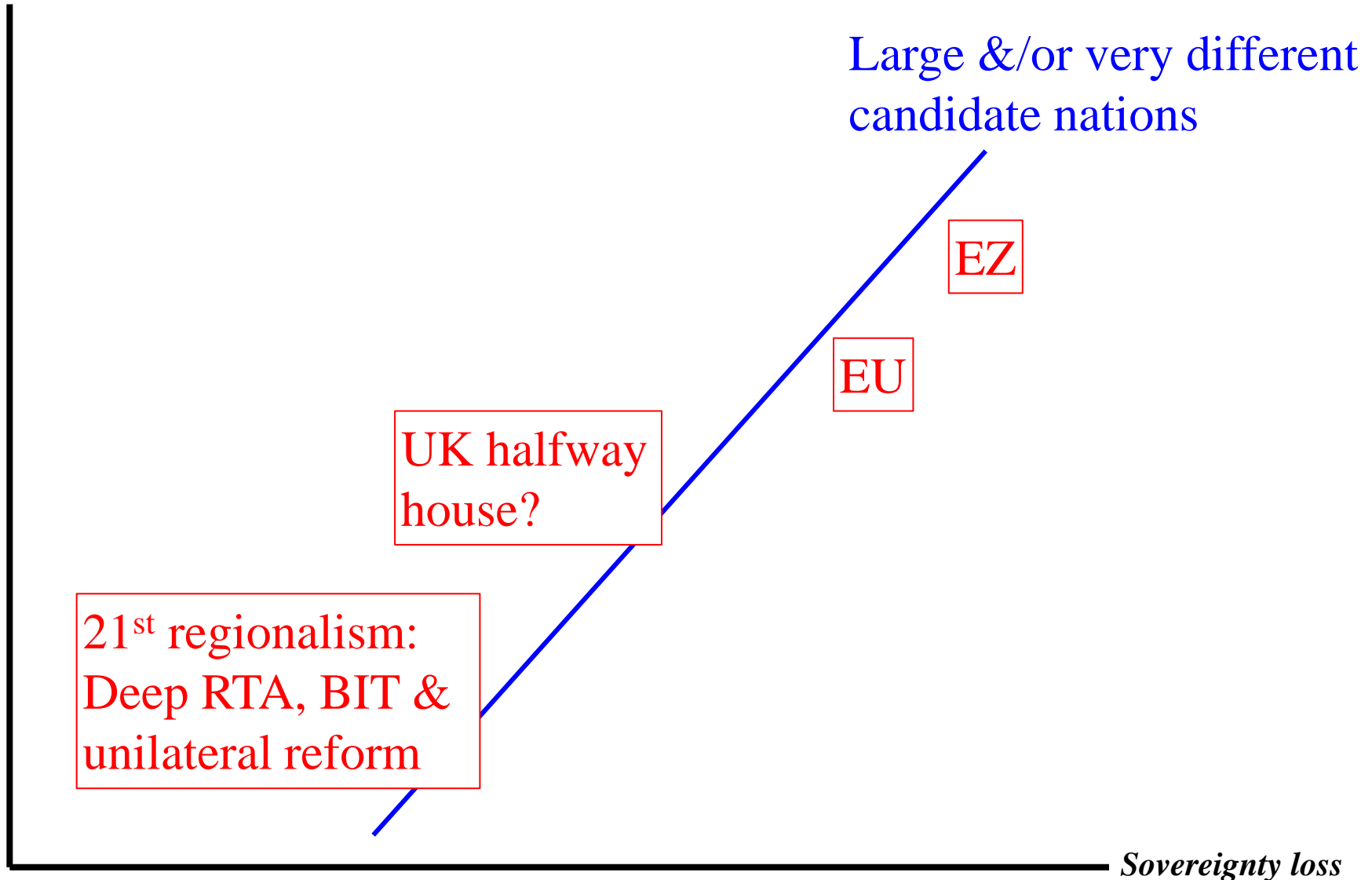
- Do incumbents want newcomers to join?
- Dialectic process:
  - Enlargement brings in more diversity of preferences.
  - After struggling with unified approach, flexible integration starts.
  - Institutions rearranged to deal with large number of members.
  - Enlargement gets easier.
  - Repeat.
- Suggests that enlargement is not near the end but EU will change along the way.

# Back to international supply chains

- To date, most of 'Factory Europe' is inside EU.
  - Turkey, Tunisia, Morocco
- Factory Europe likely to spread:
  - Maghreb & Egypt
  - Kenya
  - Ukraine
- Do Europeans want tech to go to workers, or workers to come to tech?

# Radical changes in EU structure are possible

*National gain*



# Concluding conjectures

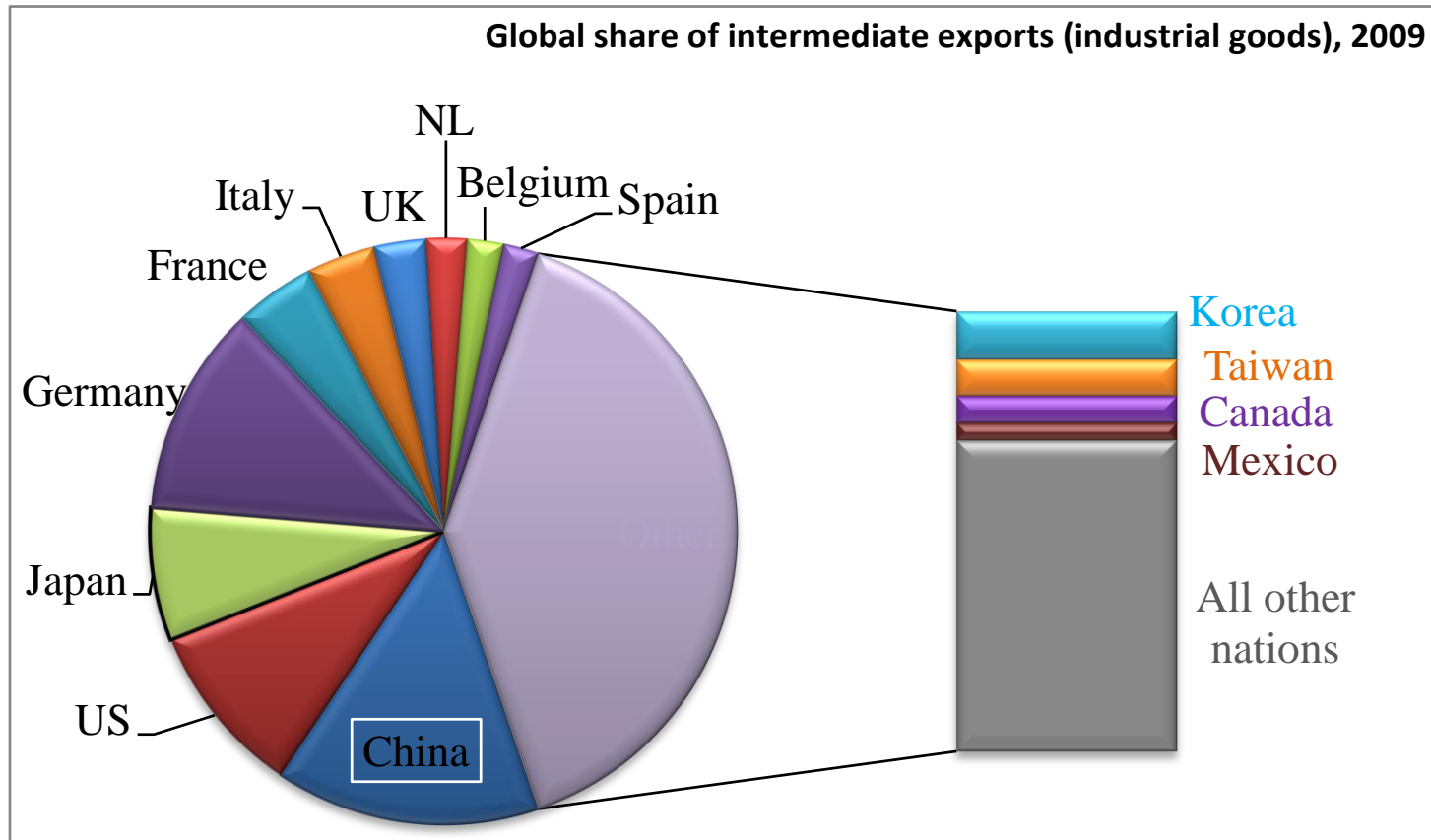
- EU will enlarge to include all Balkans.
- Enlarging Factory Europe will be important in shaping Europe's future.
  - Tech to workers or workers to tech???
- EZ will deepen and cement two-tier membership.
  - Institutional adjustments will make enlargement easier.
- UK departure would create a third tier.
  - Institutional adjustment would be massive, but ultimately make enlargement easier.
- Expanding Factory Europe to include Maghreb & Egypt, etc will create a 'near membership' for non-European nations.

# Thanks for listening

- Research-based policy analysis and commentary: VoxEU.org

<http://www.voxeu.org/>

# The big SCT exporters



# Supply-chain trade by industry

