

Role of the state in globalized capitalism

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Thanks to ...

INCT-PPED and MINDS

Especially to Ana Celia Castro, one of the world's great academic entrepreneurs -- of whom even Schumpeter would be proud !

Mottos

“Know the causes of things” (LSE’s motto)

“Take no one’s word for it” (Royal Society’s motto)

Bias for hope in development community

“Great Convergence” (upwards) taking place, gaps in incomes/wealth b/w Core & Periphery falling

Driven by the rising share of global manufacturing located in developing countries (DC)

This in turn driven by the proliferation of “global value chains” (GVCs), in which certain stages of the production of final products located in low-wage sites

Proliferation of GVCs enabled by dramatic fall in the cost of transmitting ideas, technical knowledge, managerial knowledge, around 1990

Industrializing by producing stages of final products rather than final products easier than pre-1990 industrialization.

No need for “developmental state”. Need “regulatory state”

Elaboration: “first globalization”

See R. Baldwin, 2016, The Great Convergence, HUP

“First globalization” (“first unbundling of production & consumption”) began early 19th century, as costs of moving goods fell, thanks to Industrial Revn energy technologies (coal, then oil).

Costs of moving ideas and people remained high

Core-Periphery structure of world economy established. Industrial Revn technologies stayed in Core, benefited Core populations, raised wages above rest of world

Trade – exchange of Core manufactures for Periphery commodities. Later, intra-Core exchange of manufactures

“Second globalization”

“Second globalization” (“second unbundling”) began around 1990, as costs of transmitting information fell drastically, thanks to ICT.

This allowed creation of global (regional) value chains (GVCs)

GVCs offer good opportunities for dev’ing c’ies to embark on industrialization at lower cost & risk than the earlier post-Second World War industrializers (eg S Korea, Taiwan)

Earlier ones created “developmental states” to coordinate & give directional thrust to the huge investments needed to develop internationally competitive, national, firms producing final products

As wages rise in E/SE Asia, firms (especially Chinese firms) are offshoring more stages of production to S Asia, Africa, and ..., repeating “flying geese” pattern of production location change towards lower-wage sites seen earlier in E/SE Asia

Role of state in “second globalization” if “the great convergence” argument accepted

Key strategy choices for DC government concern not “which sectors to promote”, but “which stages of GVCs to promote”

Eg case of VN and “wire harnesses”

Also, “which country’s firms to look to for attracting inward investment”.

Answer: the cost of movement of people for face-to-face contact still high. So, look to a nearby Core economy: eg Germany – Poland – China.

Grounds for pessimism: development record
so far:

See figure 1

How many non-western countries have become developed in past 2
centuries?

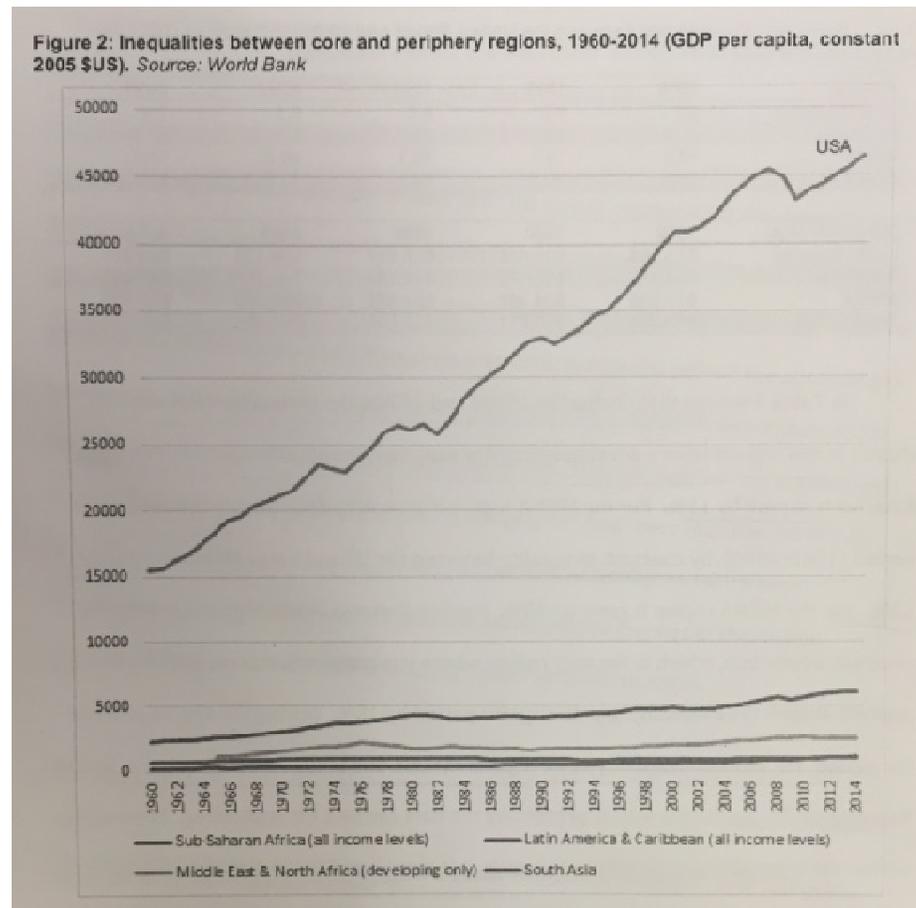
World Bank (2013)

IMF (2015)

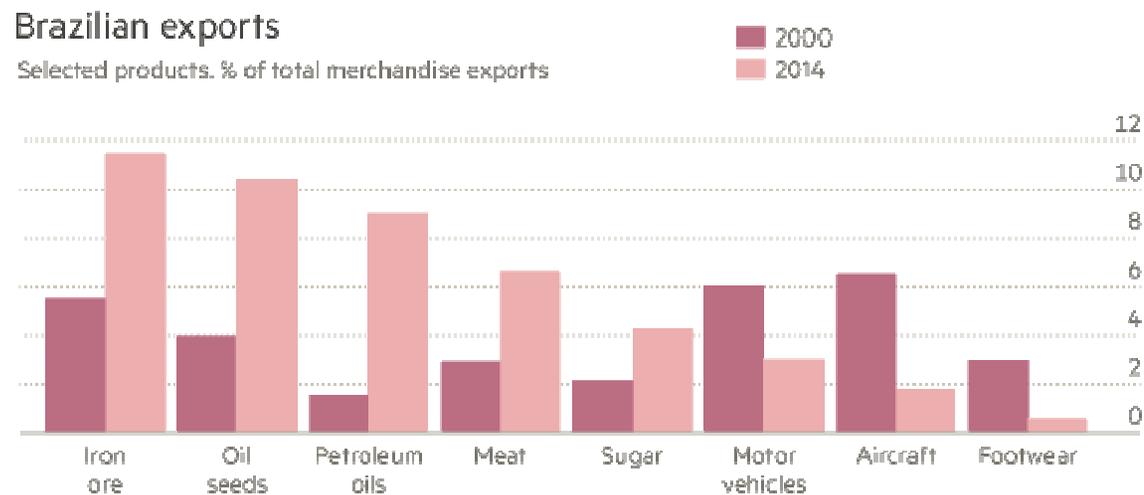
Forbes Global 2000: National shares of corporate profits in 25 sectors

Brazil: export composition, 2000, 2014

FIGURE 1 INCOME INEQUALITIES BETWEEN CORE AND PERIPHERY REGIONS, 1960-2014 (GDP per capita, constant 2005 \$US)



Brazilian exports, by sector, 2000, 2014



Source: Unctad

FT

Brazil – 180 degree turn in western media

2009 -- The Economist devoted 14 pages to “Latin America’s big success story”

2015 – The Financial Times editorial titled “Brazil’s terrible fall from economic grace”

More grounds for pessimism about development potential of “second globalization”

(1) G7 firms offshore mostly low value/added stages of value chains, keep high value/added stages at home or elsewhere in Core

Compare Intel in Costa Rica, and Vietnam

Or else build enclaves in export processing zones, with little spillover into domestic economy. Eg Penang

(2) Information technology (IT) moving towards reshoring, or bundling of stages of production near big consumer markets. Eg 3D printing of objects

More grounds for pessimism (ctd)

(3) Growing skepticism in Core about “let the factory jobs go offshore, as long as the knowledge jobs stay at home; & push for FTAs”

Not just Trump and co.

Also, innovation experts & business leaders recognize that (1) innovation is a function of pre-existing ecology of supplier-customer relations, where experience builds on experience; (2) “start-ups” do not provide much employment; “scale-ups provide the employment”.

More grounds (ctd)

G7 and their international organizations pushing hard for DC states to follow ‘the regulatory state’ model, not ‘the developmental state’ model

World Bank, IMF, the ‘good governance’ agenda, since 1990s

OECD. Since 1990s has been leading actor in promoting ‘the regulatory state’ not just in its 34 member states but also in ‘emerging economies’ (EEs)

It gives high priority to involving participants from 80 countries in its 250 committees

OECD ‘key partners’ are Brazil, China, India, Indonesia, S Africa. APEC & ASEAN are key partner regional associations

OECD ctd

OECD has published many documents setting out regulatory state model. Central point: maximize scope for private sector

Derived from New Public Management, neoliberal economics

Eg 2005 APEC-OECD Integrated Checklist on Regulatory Reform

Checklist included state capacities and policies not to be adopted, or eliminated -- key features of “developmental state”

OECD has established elaborate mechanisms of surveillance and peer review to pressure DC governments to institute “regulatory state”

Conclusions

- (1) Be cautious about argument that “second globalization”, and GVCs offer feasible route to industrialization of DCs
- (2) We may be in early stages of technologies which eliminate relatively unskilled, routine labour, & which permit “re-shoring”. Eg 3D printing of objects.
- (3) Other newer technologies offer prospect of separating provision of labor services from physical presence: eg telepresence (super-Skype), telerobotics
- (4) Key feature needed for DC “catch up” is a “developmental mindset”, which does not accept that whatever well-regulated private investors invest in must be best for the national economy

TABLE 1. Population of the world and major regions (millions).
UN “World population prospects: the 2015 revision”, the
“medium” projection, considered “most likely”

	2015	2050
World	7350	9730
Africa	1190	2480
Rest of world	6160	7250
Europe	738	707
N America	358	433
Latin America	634	784
Asia	4390	5270