

WTO/ESCAP Third ARTNeT Capacity Building Workshop on Trade Research

26-30 March 2007

Advances in Trade Theory and Policy
Implications (2)

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Based on: “The rise of offshoring: it’s not wine for cloth anymore”, Grossman and Rossi-Hansberg (2006)

A new paradigm

- Thinking about production and exchange of complete goods dominates international trade theory
- But revolutionary progress in communication and information technologies has enabled an historic break-up of the production process
- Countries participate in global supply chains in which the many tasks required to manufacture complex industrial goods and services are performed in several, disparate locations
- To understand the implications of this trend, a new paradigm is needed that emphasizes trade in specific tasks, i.e. offshoring

Evidence is difficult to come by

Hard evidence on the extent of task trade is difficult to come by for several reasons:

- Part of task trade occurs between affiliates of multinational firms
- Task trade does not necessarily involve the movement of physical goods across international boundaries
- Trading tasks inherently concerns the disintegration of the production process and the adding of value at disparate locations but trade data are collected and reported as gross flows

But...

- The share of imported inputs in both total inputs and gross output has increased in the last 35 years
- Related party trade as a share of US imports has increased over the last 15 years
- Total imports of business, professional and technical services have increased in the last decade
- The share of routine tasks in the US economy has decreased compared to the sixties while that of non-routine tasks has increased

What's new ?

- The changes in trade costs do not line up with sectors as much as before
- Trade costs drop depends upon the nature of the “task”, not the factor intensity of the good, or even the sector
- Tasks that can be done remotely become trade-able, so employment disappears if true productivity gap is less than wage gap
- Key distinction is between services that can be delivered electronically over long distances with little or no degradation of quality, and those that cannot
- History of globalization's winners and losers is less relevant to future globalization

Deep differences

- Old paradigm: trade in goods, firms/sectors/skill groups are the proper level of analysis
- New paradigm: Competition at the level of tasks not firms or sectors
 - **Winners and losers according to tasks**
 - **Firms/sectors/skill groups not fine enough disaggregation**
 - **Globalization happens with a finer level of resolution**
- Policy making:
 - **Unpredictability: the winners and losers from globalization are much harder to predict**
 - **Not just IT costs, organization issues matter**
 - **Suddenness**
 - **Individuality**
 - **Policies for sectors/firms/regions, not individuals**