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BOOK REVIEWS

The Great Convergence: Information Technology and the New Globalization, by Richard Baldwin, Harvard University Press, November 2016, pp. 344, n/p.

The author of the book, Richard Baldwin has clearly pointed out that as the GDP share is shifting from G7 countries to few developing countries we are facing a new kind of globalization. This has caused the economic disruption among the G-7 and economic cohesion in emerging markets, with flourishing middle classes in these economies. He then guides the readers through a thought experiment: "what if globalization was about knowledge flows instead of trade flows?" These knowledge flows from 'headquarter economies' to 'factory economies' could have been opened in the 1990s, and would have led to increased growth among the latter.

In Baldwin's conceptualization, globalization is constrained by trade costs (moving goods), communication cost (moving ideas), and face-to-face cost (moving people). With diminishing trade cost since the 19th century, the markets have expanded while innovation has clustered in the headquarter economies - constrained by communication costs, resulting in an imbalance in know-how which could be termed as great divergence between the developed and developing countries.

The author explains that since revolution in information and communications technology (ICT), the cost of moving ideas lowered, making offshoring feasible. Production became unbundled around the world and G7 firms started to offshore know-how along with jobs which results in the great convergence, but the author may have also explained that great convergence can explain today's anti-globalization attitude among many rich nations. The new globalization breaks the monopoly of G7 labor on G7 know-how, resulting in the international competition on jobs, rather than the products. Consequently, a climate of 'economic anxiety, fragility, and disenfranchisement' emerged.

As 'within-factory flows' have become international commerce, trade governance has been affected. National competitiveness is de-nationalised since poor countries don't have to build their own industrial supply chains but can join the supply chain of large firms. In addition, for rich countries importing has become necessary for exporting. Furthermore, the comprehensive international factory flows result in

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deeper regional trade agreements, as they need to incorporate issues as services, capital, and intellectual property.

The author has rightly pointed out that first we tend to think of competitiveness of individual states particularly in an era of populist nationalism. The United States of America is competing against China and Germany; but goods are no longer assembled entirely within the bounds of one factory in one country. Instead, many goods are assembled in 'global value chains' in which products are designed in one country but its parts are made in several other countries, and finally the product is assembled yet in another country.

The book, also mention that contours of industrial competitiveness are now increasingly defined by outlines of the international production network, rather than the boundaries of nations; however, we know that in the past, this didn't happen. Manufacturers couldn't be sure of the quality of parts they would receive, but the IT revolution has made it much easier to outsource and to co-ordinate complex activities at a distance. Some know-how has shifted in the process from developed to the developing world. German workers are no longer the only beneficiaries of German technological advancement; German firms can exploit the improved German technology by combining it with Polish labour.

This has important implications for both the developing and the developed world. In 1960s to 1970s, emerging markets that wanted to jump-start their development tried to build everything from the scratch; the utilities to power the steel plants to supply the bodies for the car factories. To do so, they shut-down their imports with the help of high tariffs. This seemed to work for a short-period because shifting workers from farms to factories made them more productive. In most cases, the industries never achieved the economies of scale needed to make them internationally competitive. Consumers ended up paying high prices for inferior products. However, accordingly to the author, the present developing nations don't have to establish an entire industry. It has been clearly explained that when a developing nation joins an international supply chain, it can free-ride on other nations' industrial bases. To get into the global value chain, developing nations need to accept foreign investment. In this world, tariffs make no sense; taxing an imported component, only raises the cost of product (and reduces the competitiveness) when it is re-exported. Old theories to develop an economy in the best way, seems to be out-of-date.

The developed economies also need to think about this. Many emerging markets pursued the old approach (known as the industrial substitution model) that the world is dogged with overcapacity in industries like steel and cars. Jobs are simply not going to return to those industries, and are also no longer as profitable as they were. The money that is to be made is not for making stuff but is for the services related to stuff; the design of a car or a smartphone, the software that makes them operate.

As such jobs developed nations and should be chasing; but the author has failed to recognize that these are the jobs which can not be undertaken by everyone.

The book also recognize the tendency towards a spatial sorting of skill-intensive industries to high-wage nations and labour intensive industries to low wage nations. Therefore, the question remains that the author may like to answer is that 'how to deal with inequality that results?' The answer, surely, is a strong welfare state and redistributive taxation to compensate the losers (and a commitment to education and training to reduce the number of losers). Globalization is inevitability in the world of modern communication that cannot be uninvented and it will not be possible to combine globalization with a small-state approach.

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