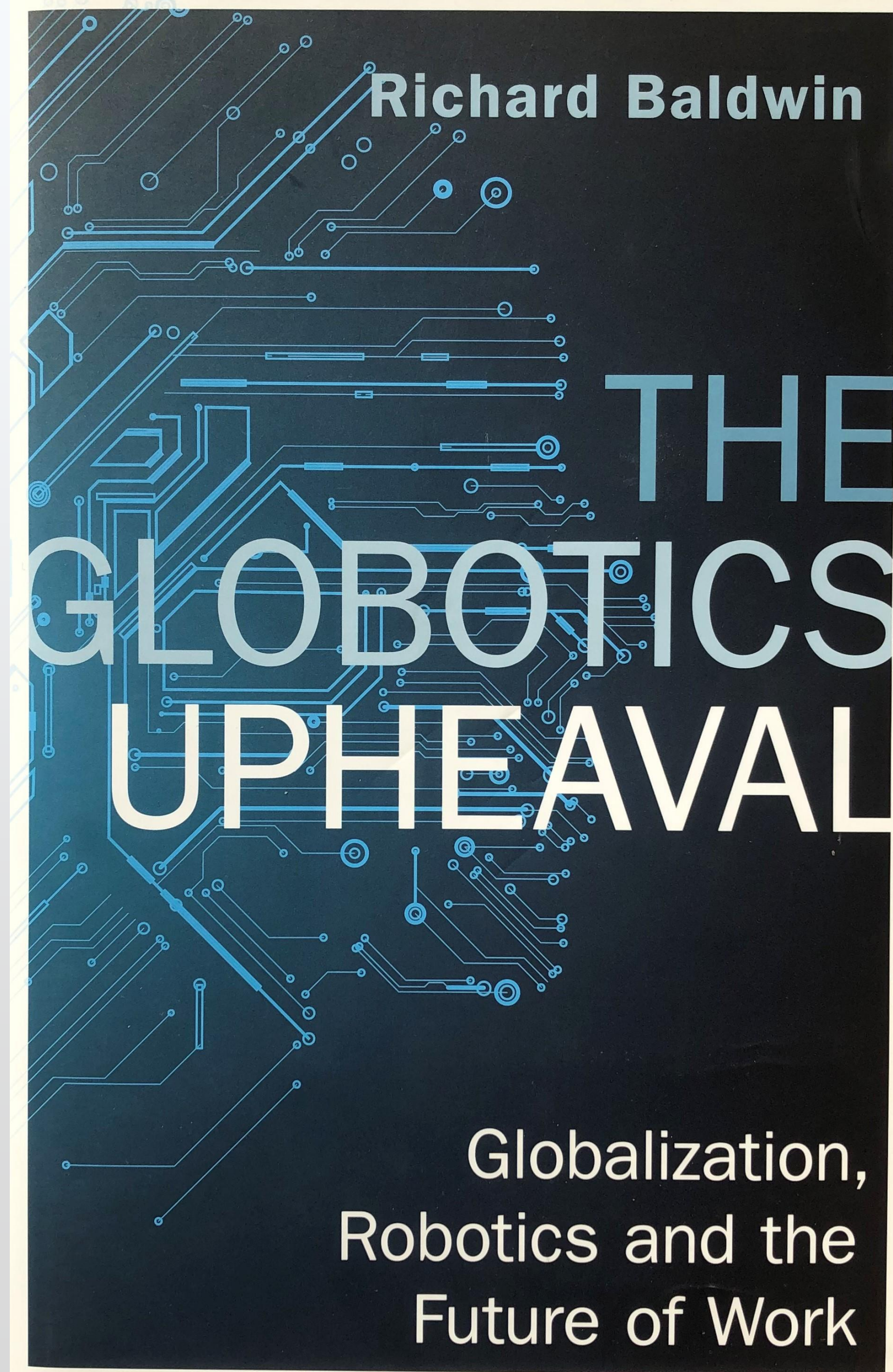


# Future of European trade relations after C19

**RICHARD BALDWIN**

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THE GRADUATE INSTITUTE | GENEVA

13<sup>th</sup> FIW Research Conference, Vienna (virtual), 18 Feb 2021



# Talk in 3 parts:

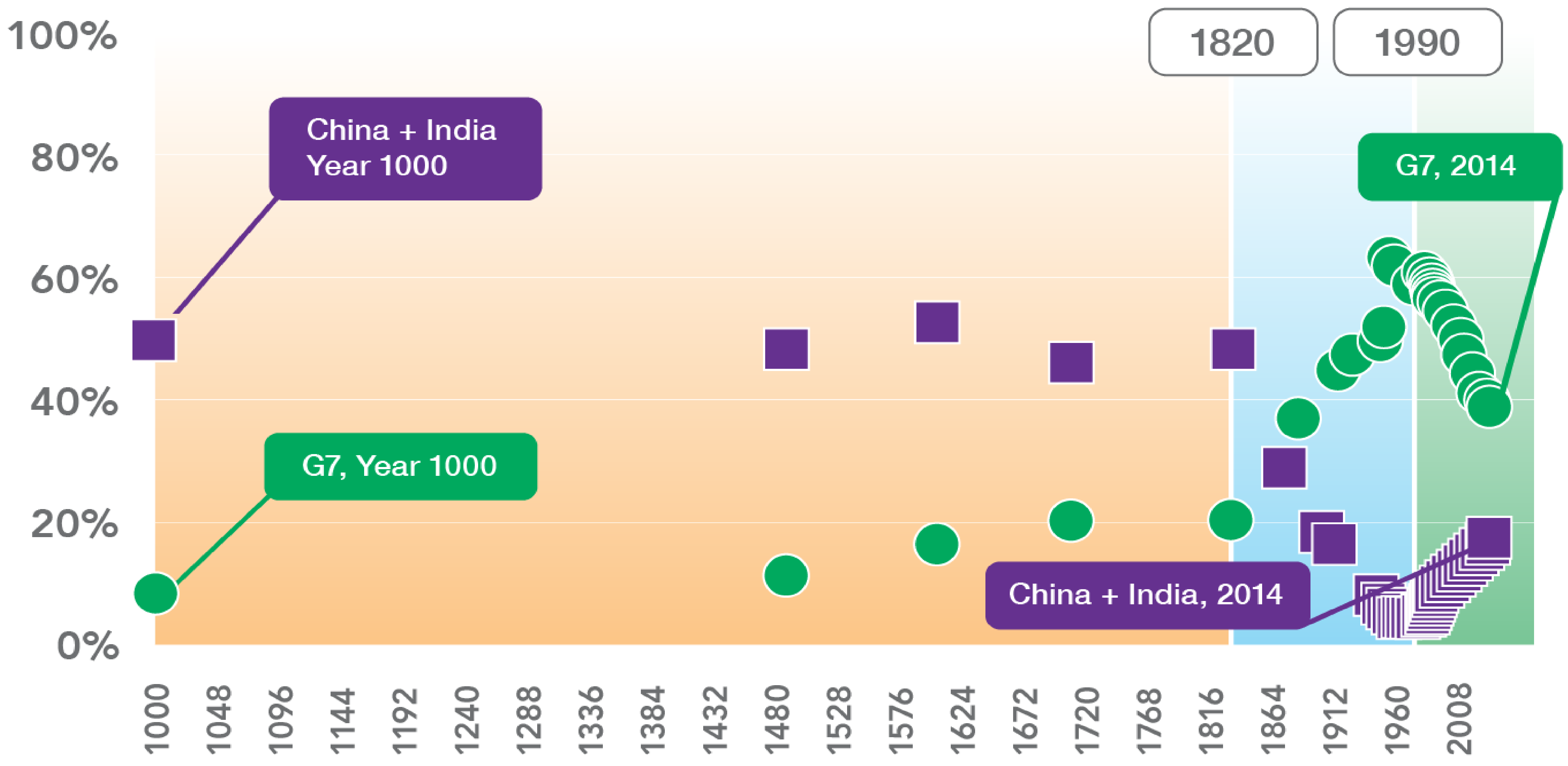
1. Future of trade
2. EU trade relations
3. C19 particulars



**Future globalisation  
will be about things we do,  
not just things we make**

**But first some historical and  
conceptual foundations**

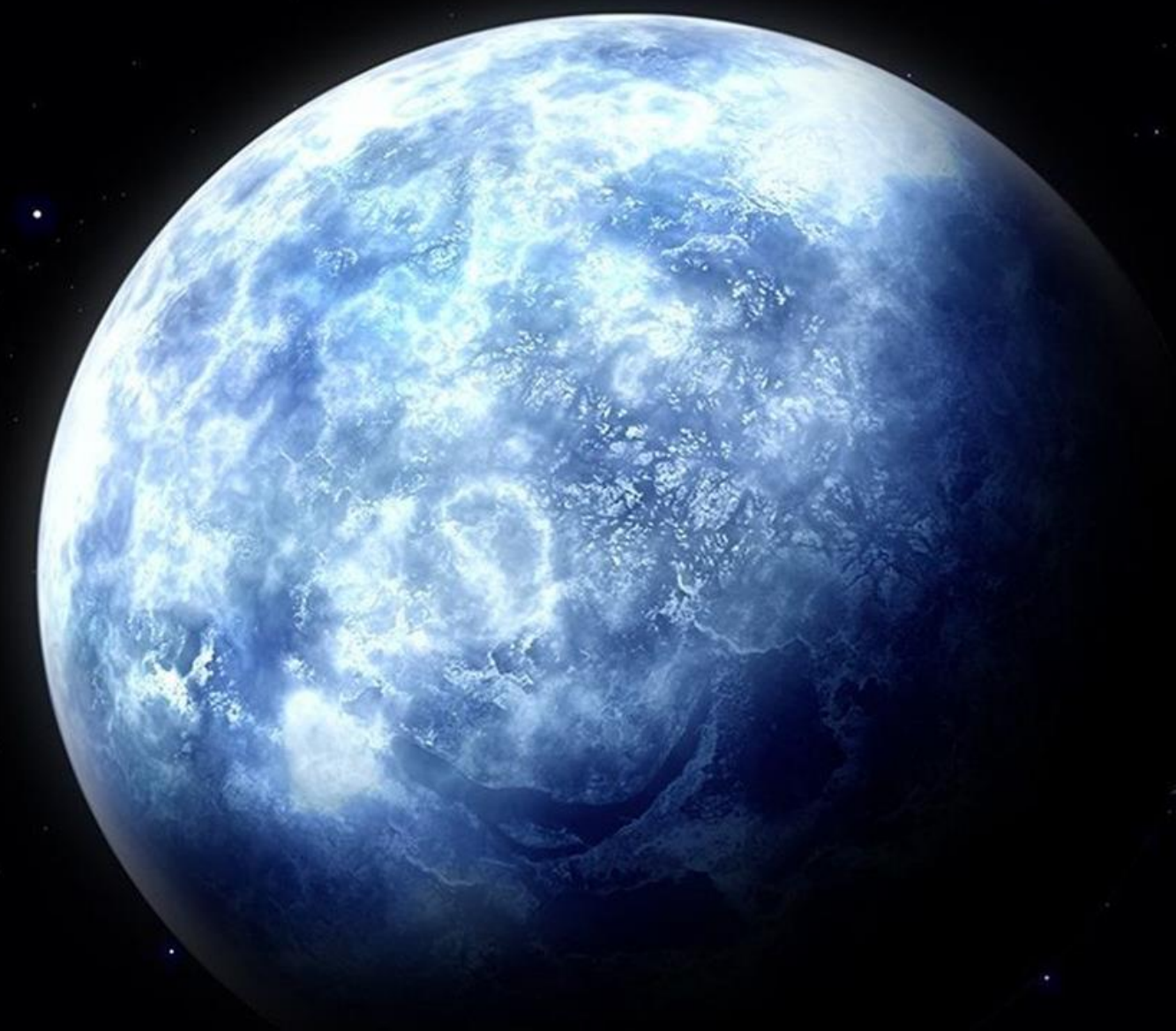
# Globalisation changed radically (twice); it's likely to change again





# A broader perspective on globalisation

# Arbitrage drives globalisation



# Arbitrage in 3 things

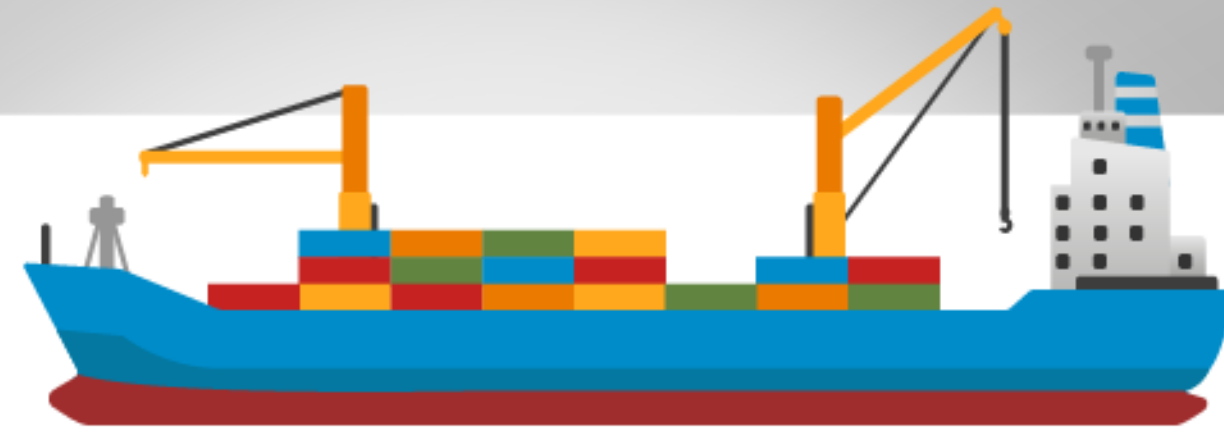
**GOODS**

**KNOWHOW**

**LABOUR SERVICES**

# Arbitrage constrained by 3 costs

**Trade costs** (goods)



**PAST**

**Communication costs** (knowhow)



**PRESENT**

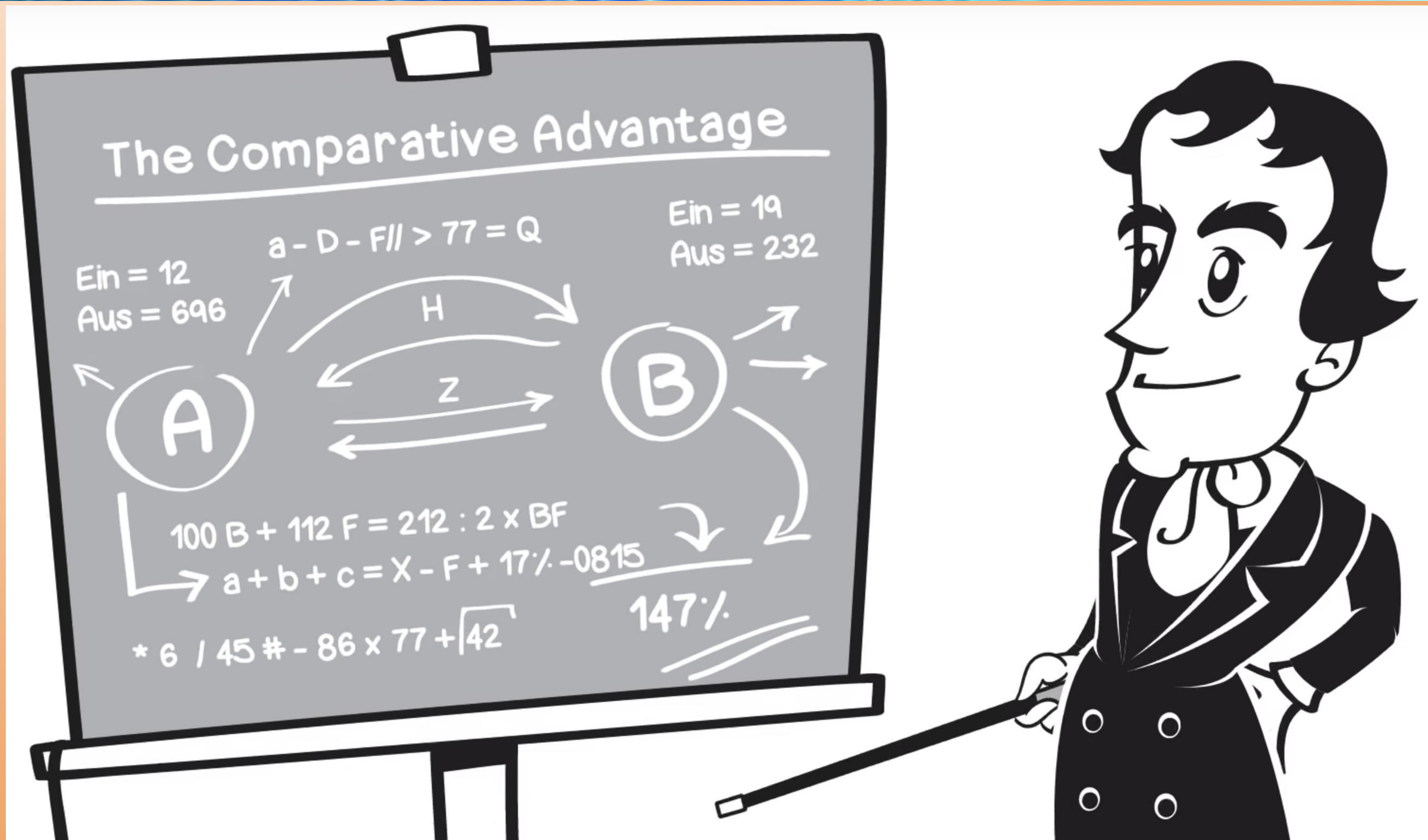
**Face-to-face costs** (labour services)



**FUTURE**

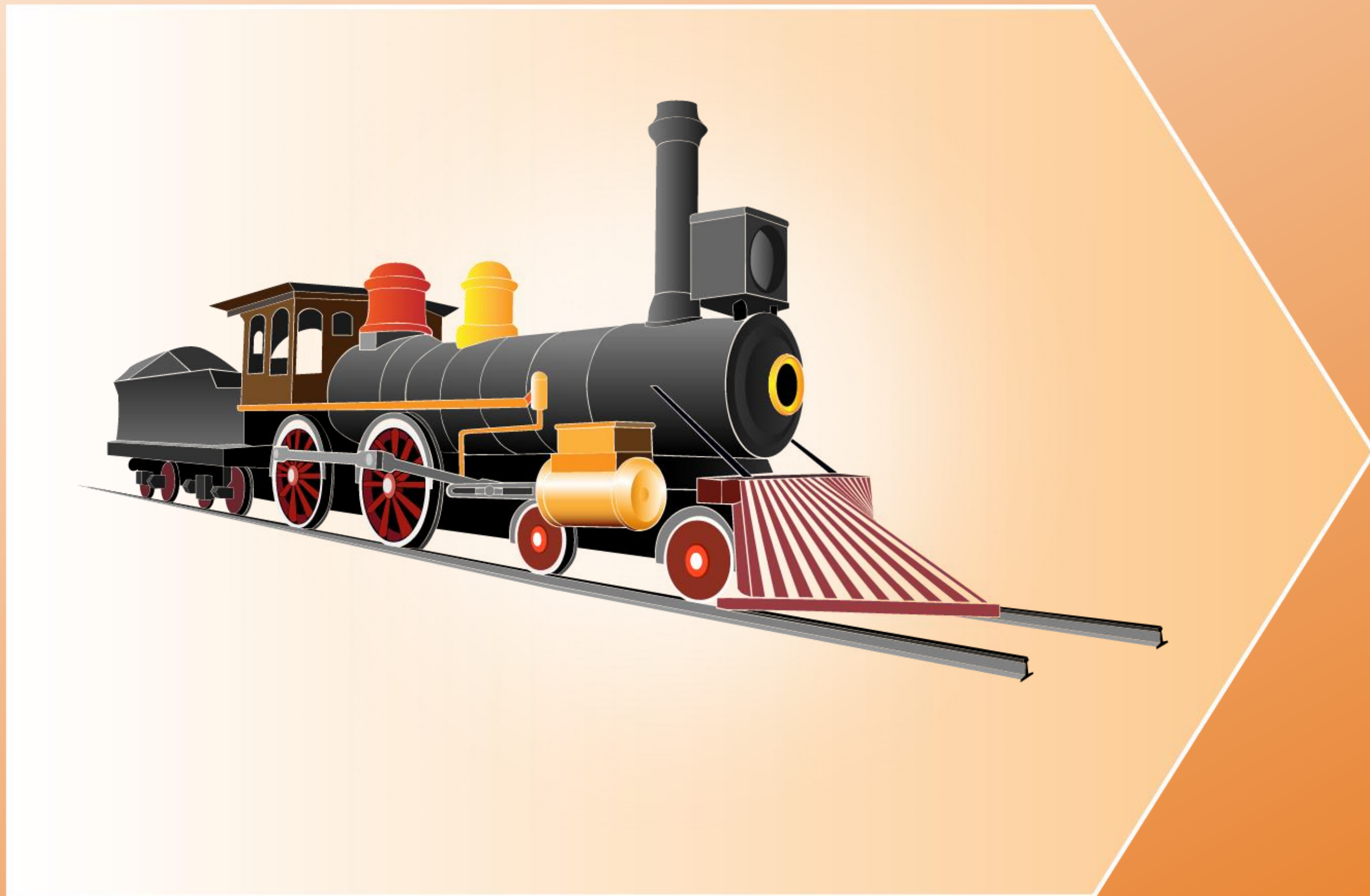


# David Ricardo's imaginary journey of discovery



*How he might react to how his theory applies in the 1800s, 1900s, 2000s, and the future*

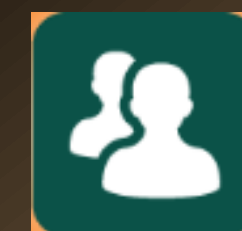
# Goods arbitrage begins: Cost of moving goods falls radically, cost of moving ideas & people falls much less



**LOWER**



High  
Communication costs



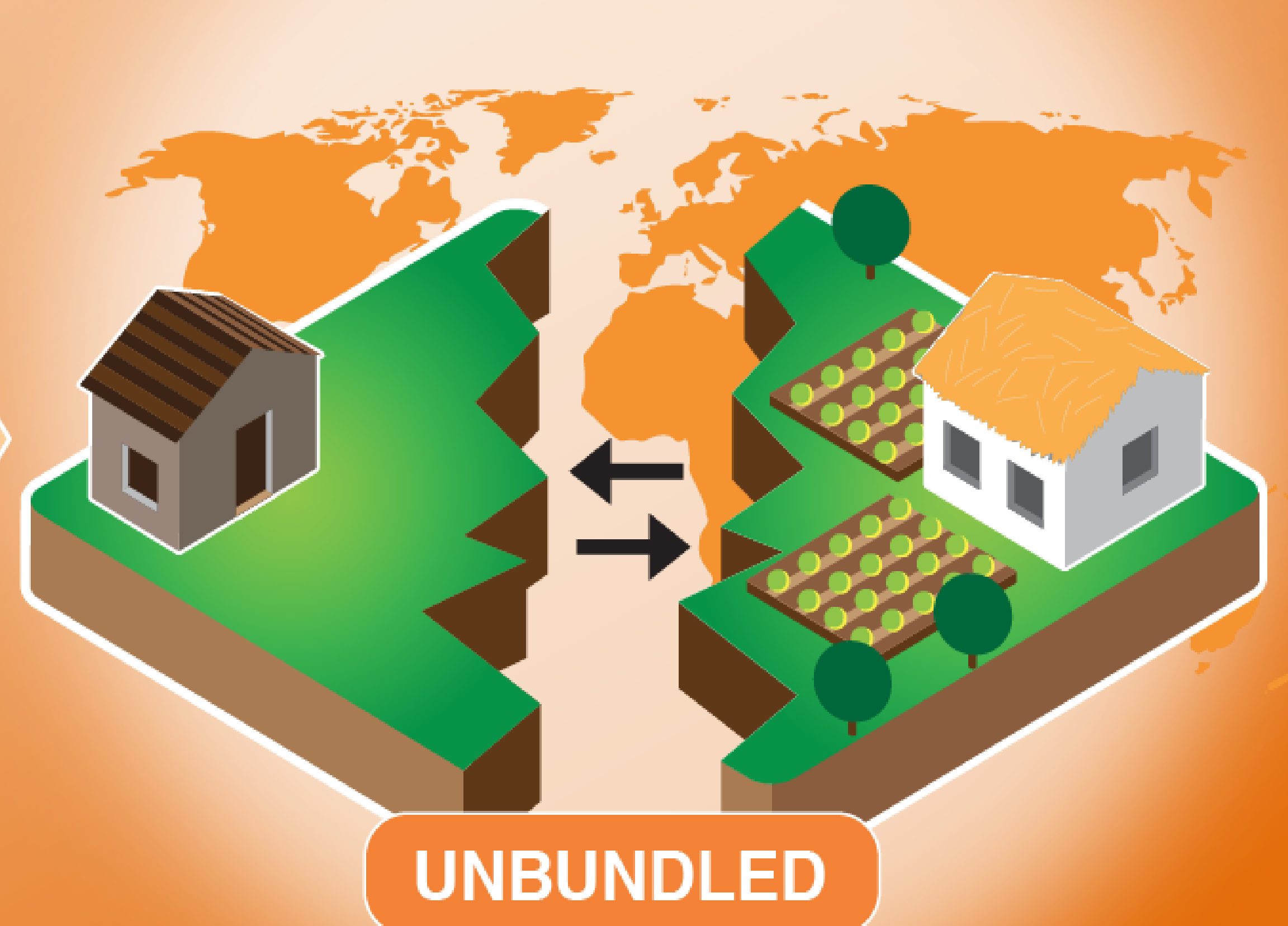
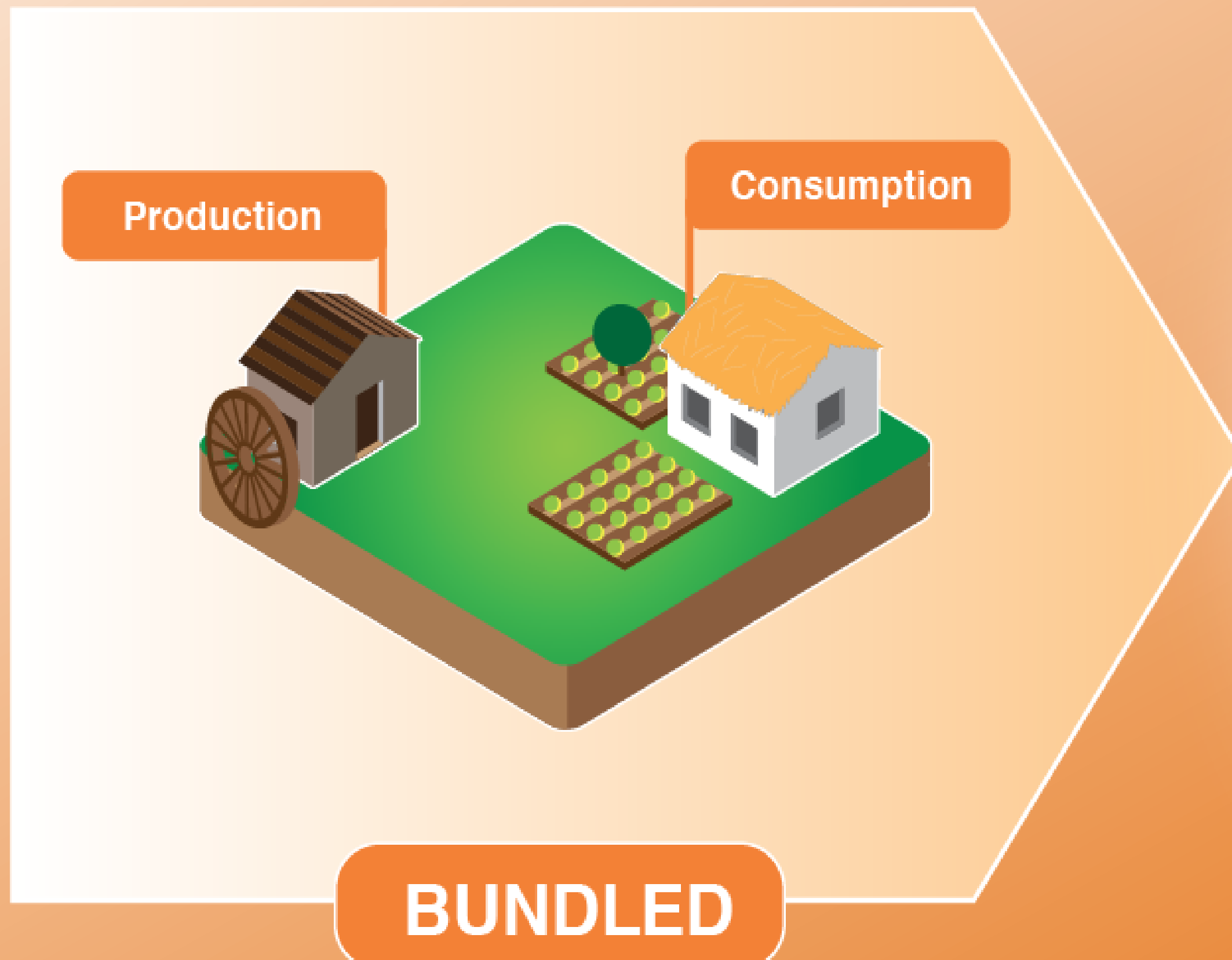
High  
Face 2 face costs

# Low trade costs makes high-volume trade feasible; National 'comparative advantage' makes it profitable

Ricardo



Happy

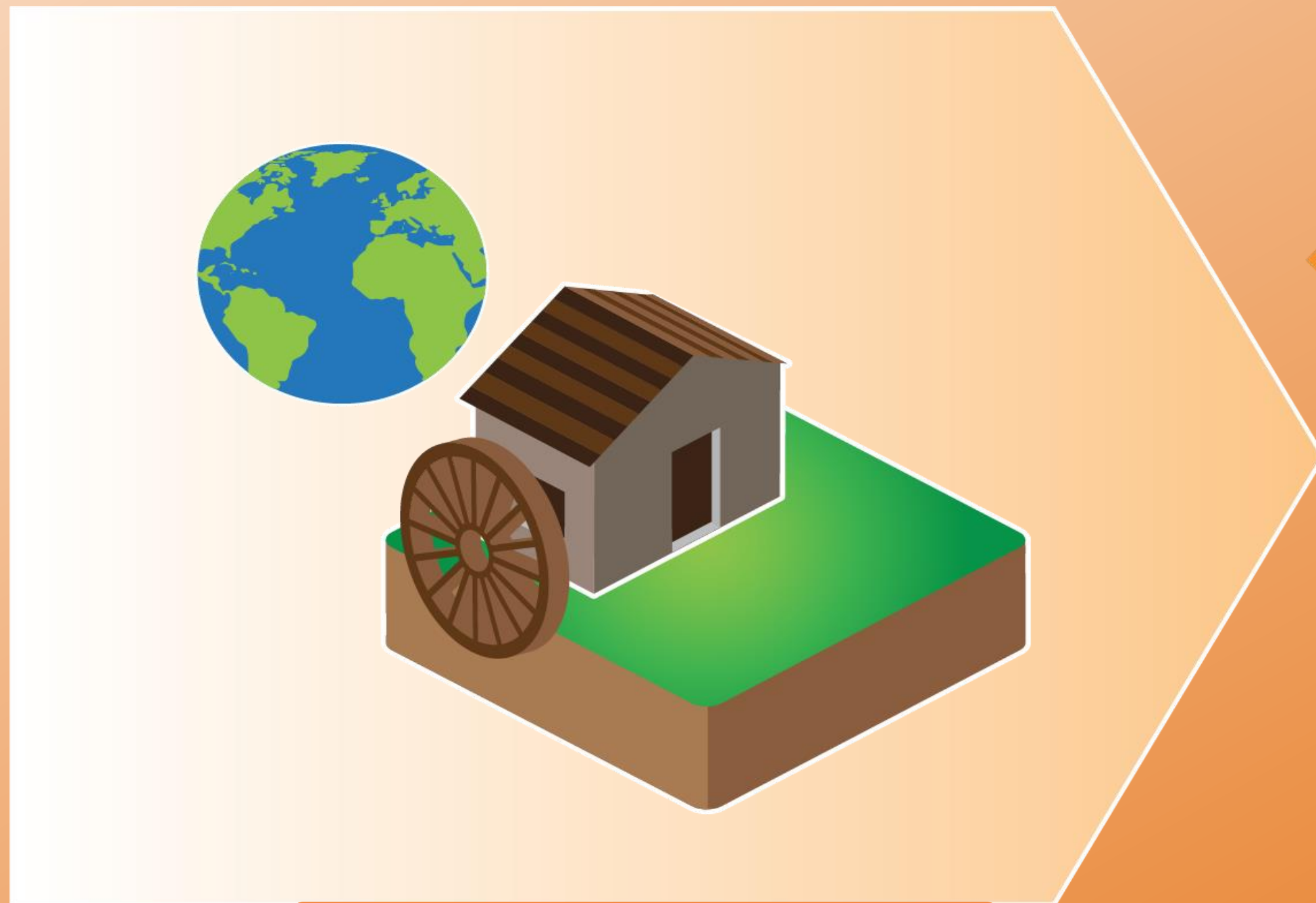


# Production 'micro-clusters' and triggers innovation & modern growth, but innovations stay in G7

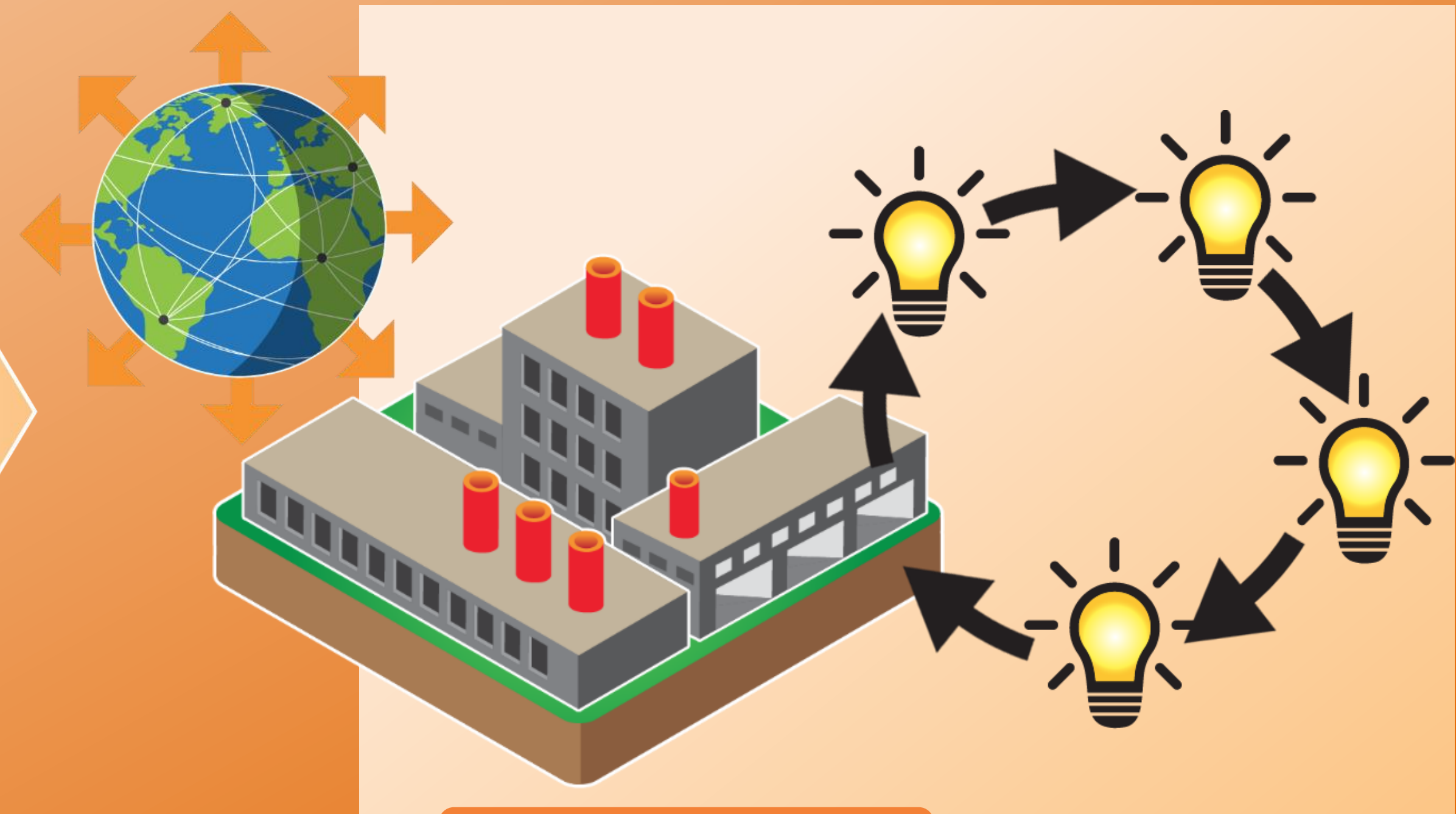
Ricardo



Why didn't I think of that?



DISPERSED PRODUCTION



MICRO-CLUSTERED



**Digitech is making manufacturing  
jobless and non-traded & services  
freely traded**

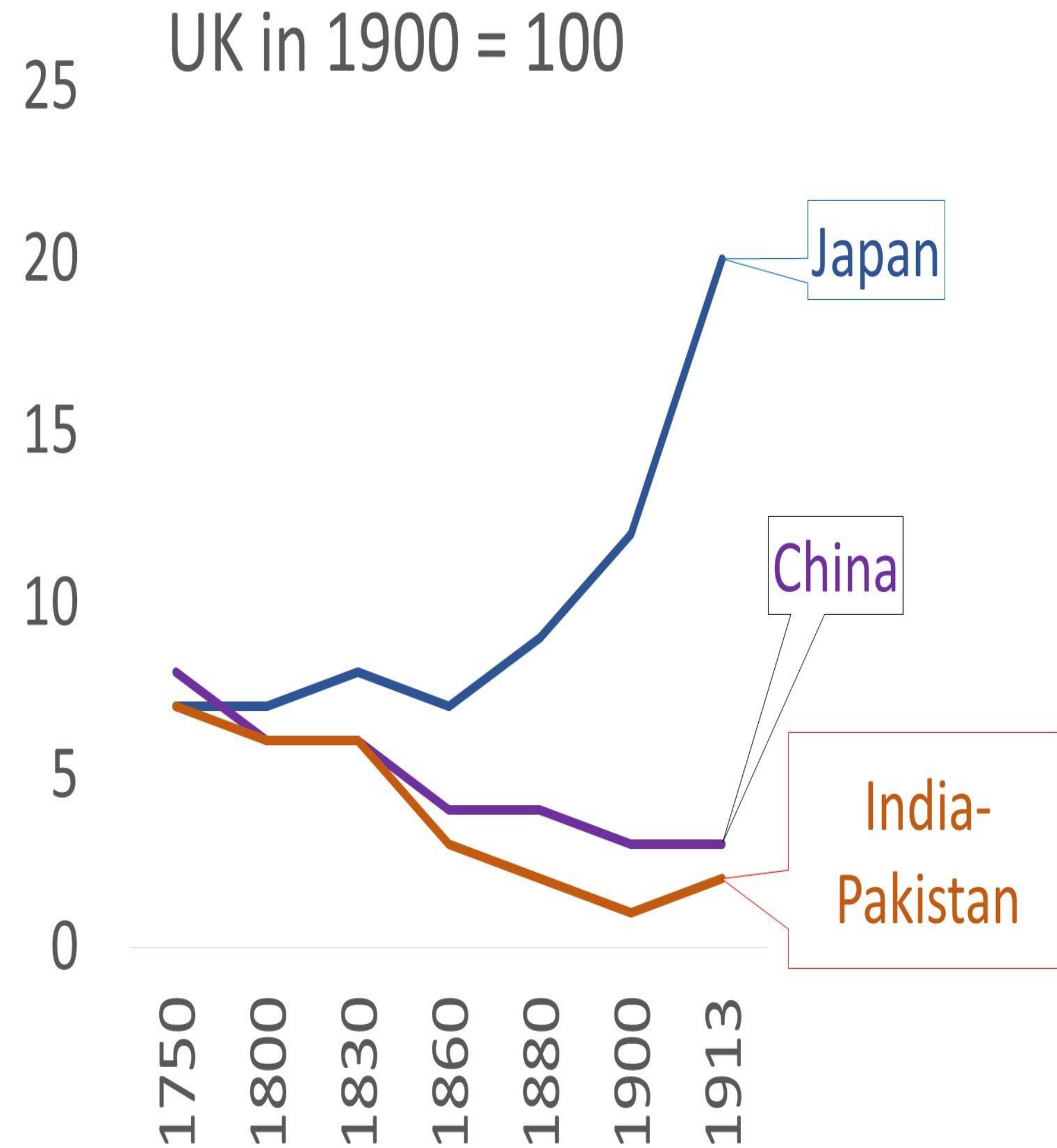
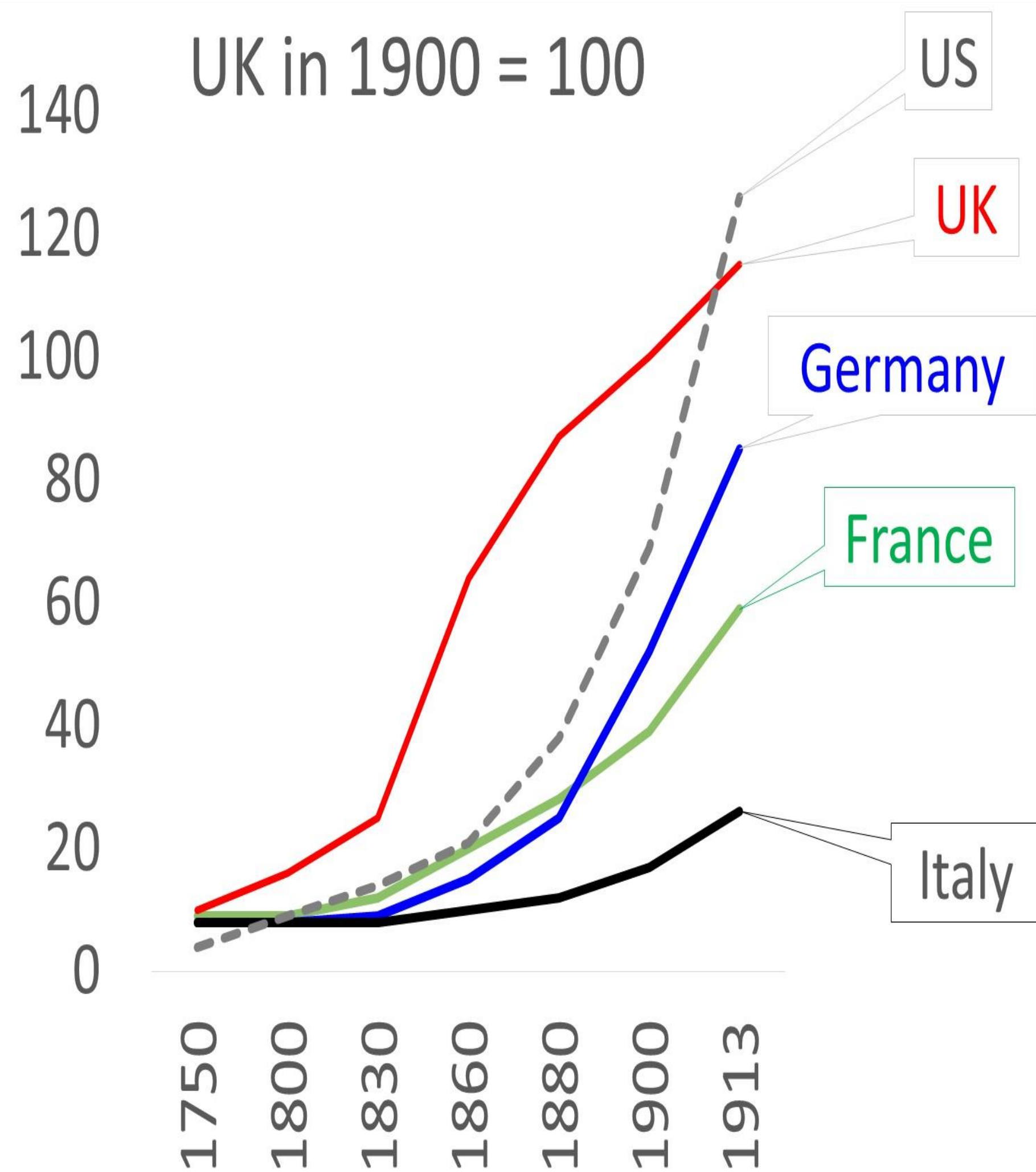
**Export-led development will be  
based on services or not at all**

# North industrialises, South not

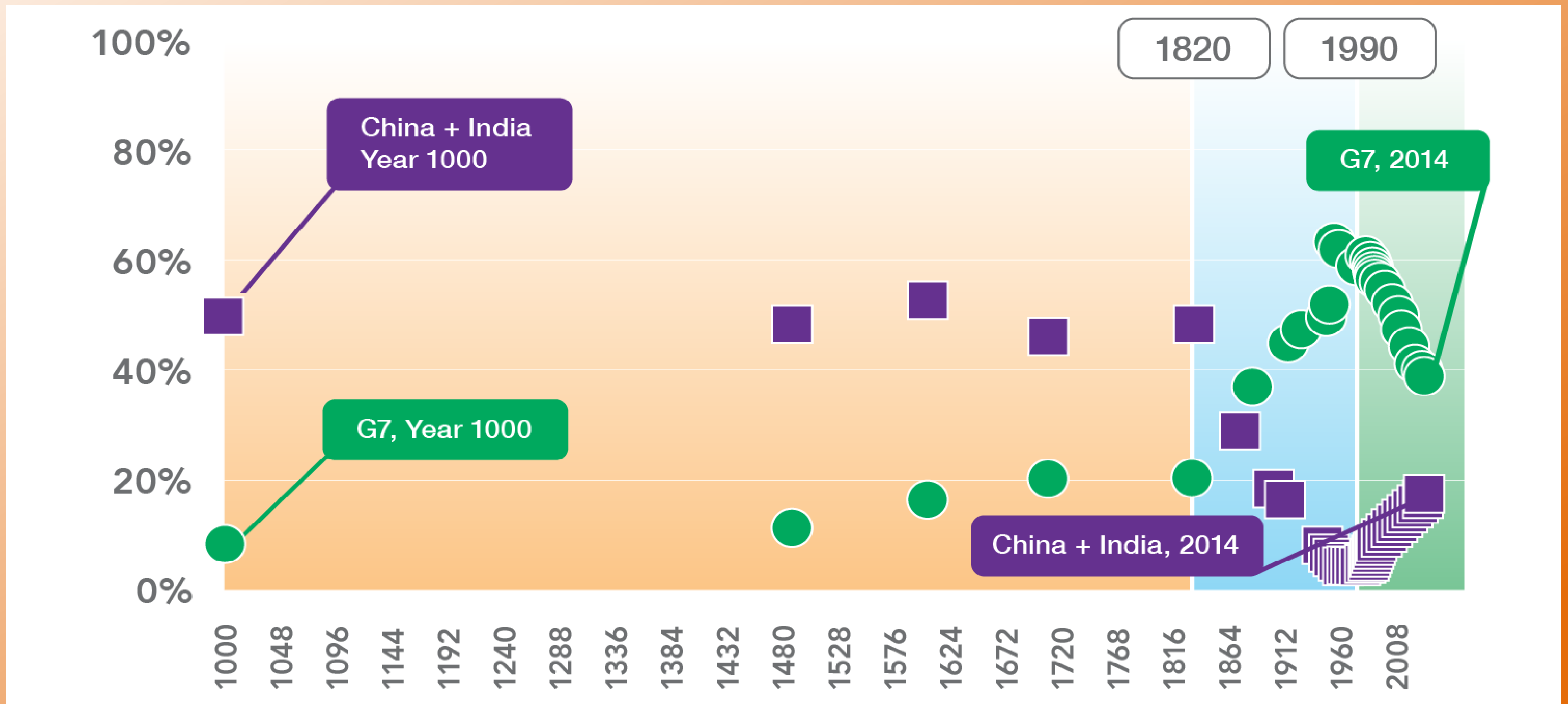
Ricardo



Happy, but not in a nice way



# Result: Great Divergence (1820-1990)



# The New Globalisation begins (1990)



# Information & Communication Technology (ICT) lowers the cost of moving ideas

Ricardo



Astounded

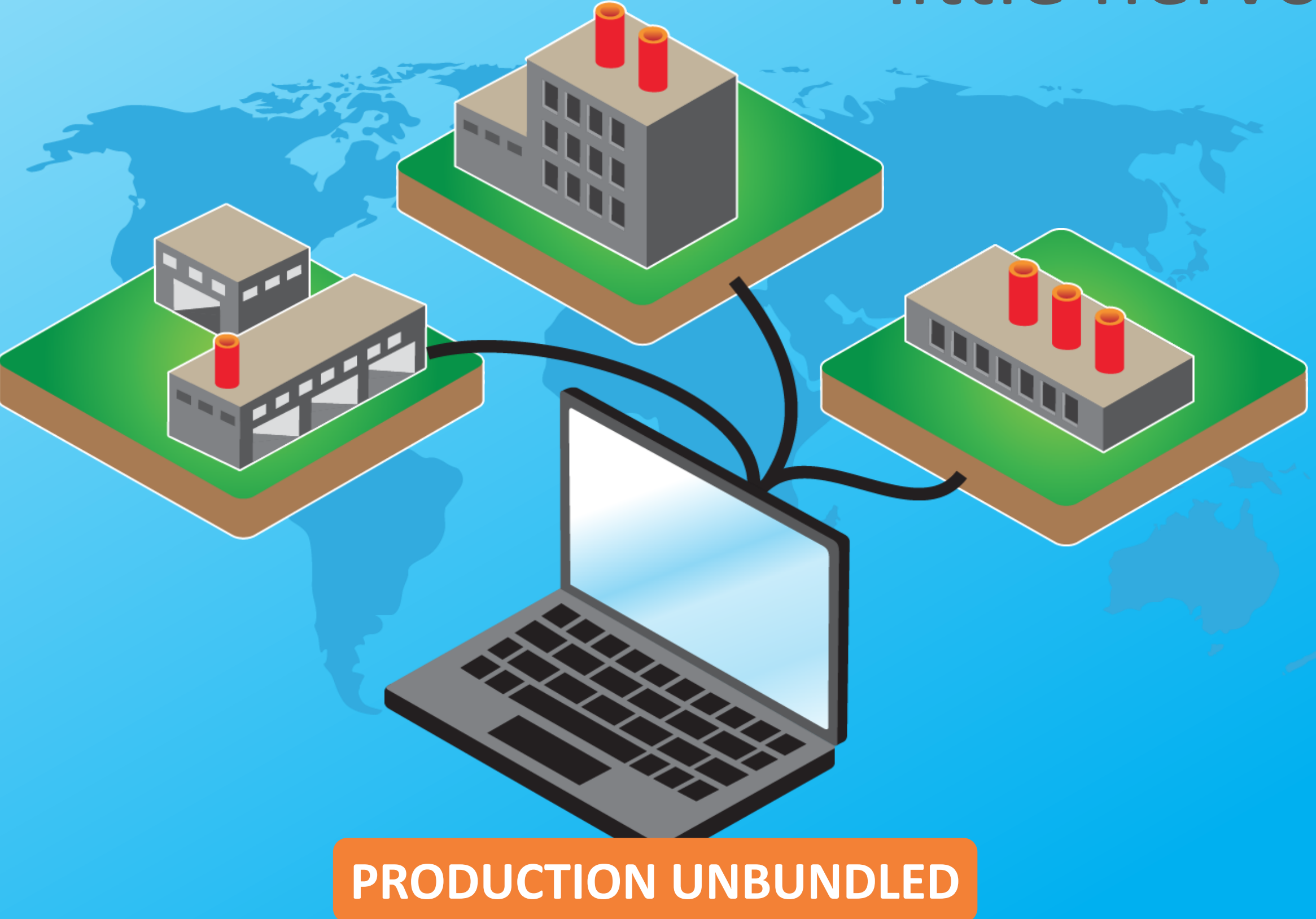
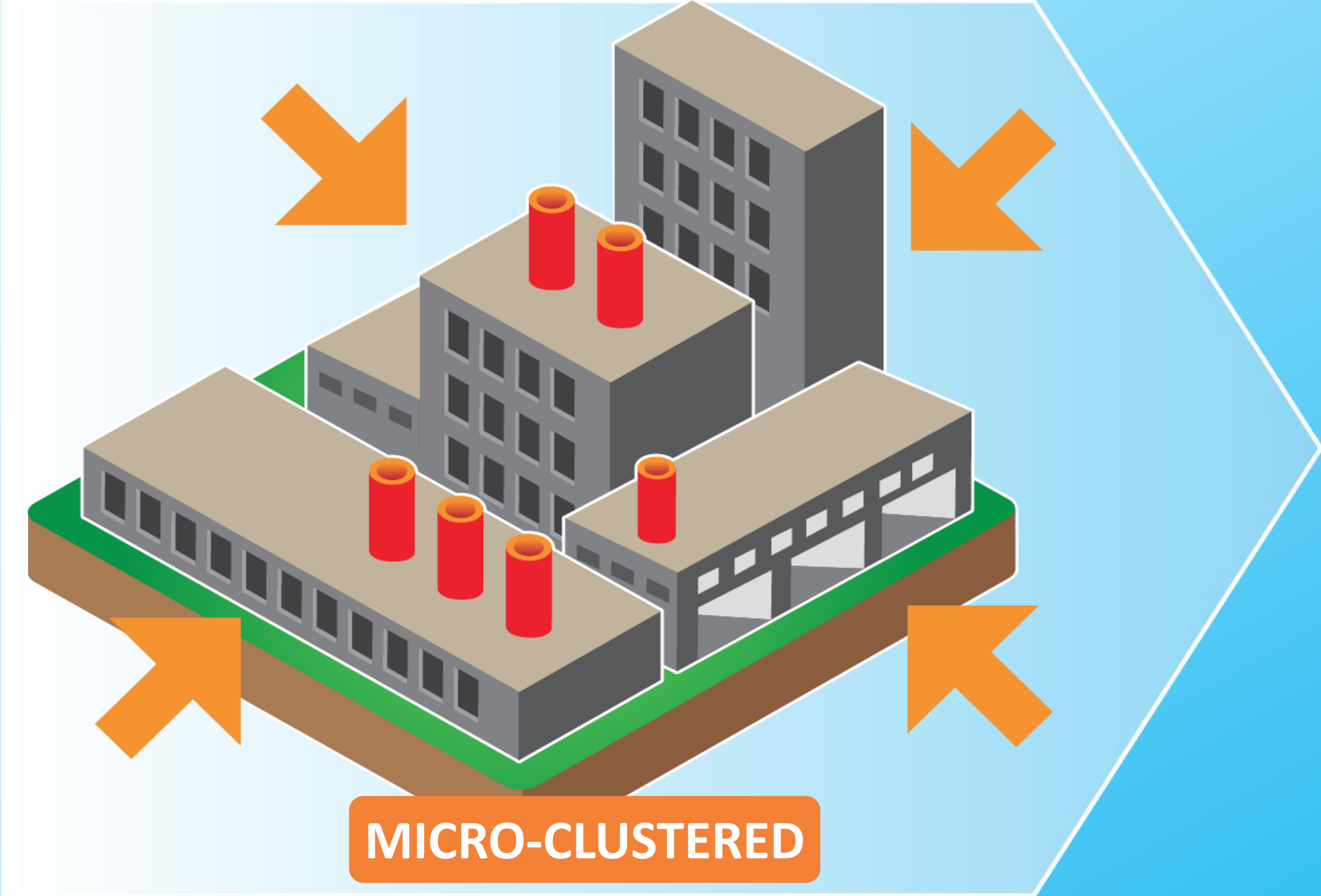


# ICT Revolution makes offshoring feasible; Vast wage differences make it profitable

Ricardo



Amazed & a little nervous

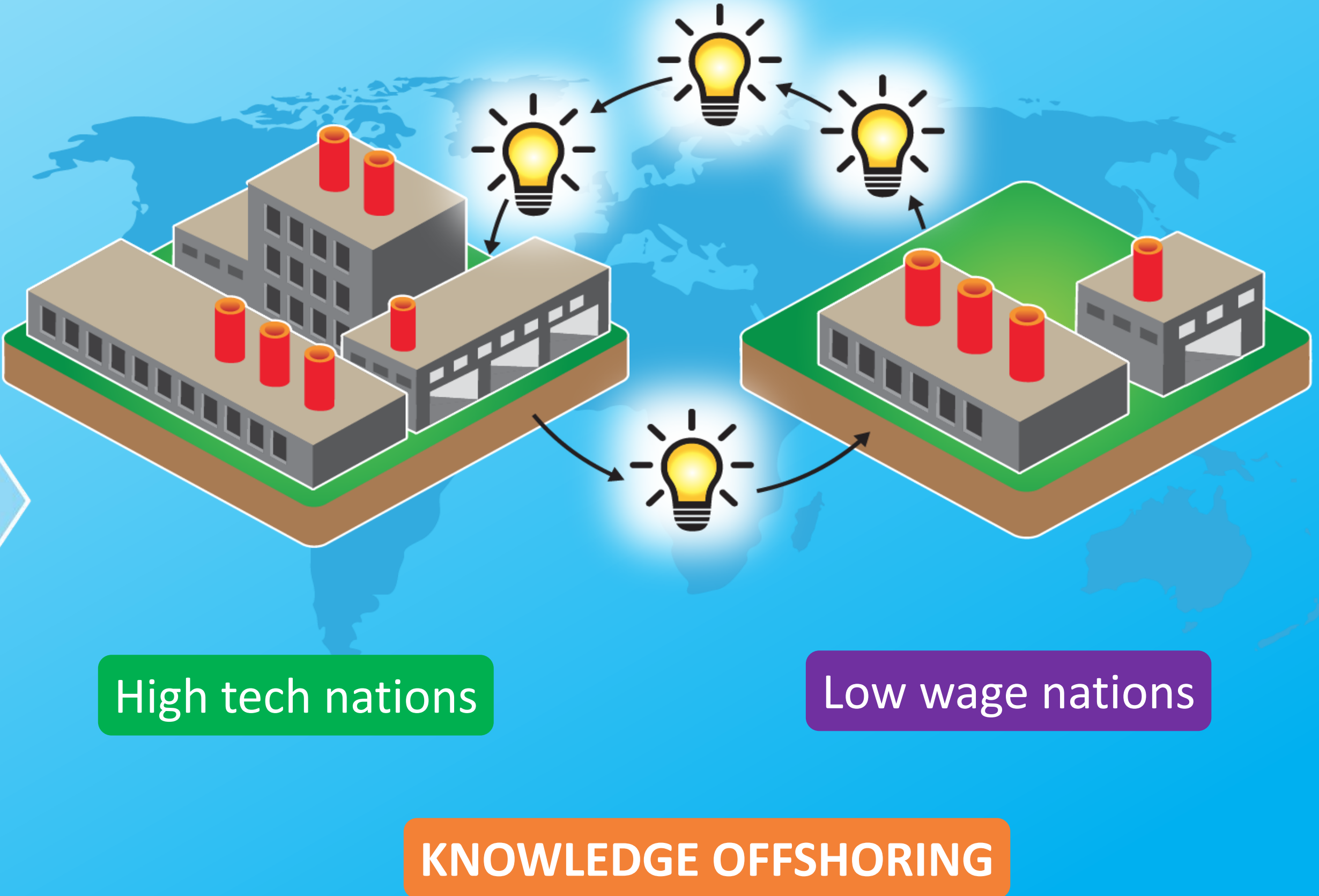
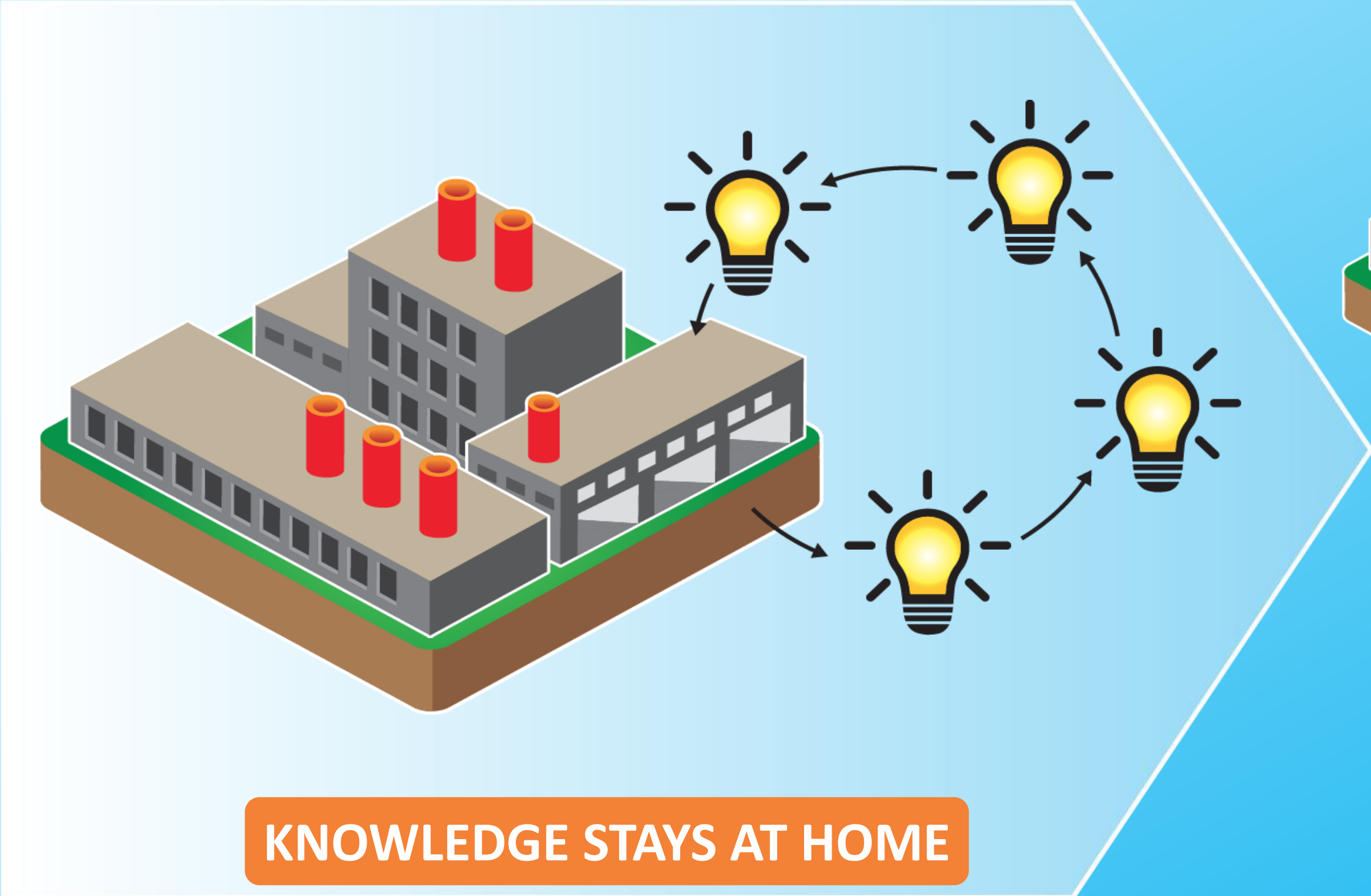


# Knowledge arbitrage begins: G7 firms offshore knowhow with the jobs & factories

Ricardo



A bit sad



# Before-ICT revolution, knowledge was 'stuck' in G7

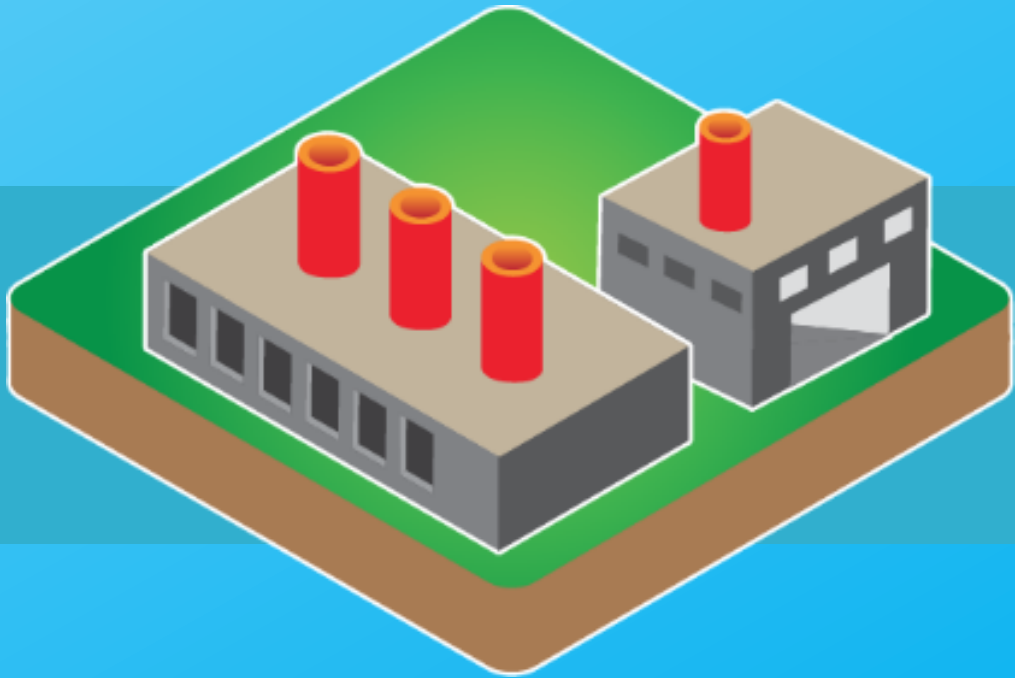
## Headquarter Economies (G7)

High Knowhow / Labour High wages



## Factory Economies

Low Knowhow / Labour Low wages



# Global value chains open a 'pipeline' for globalisation as knowledge arbitrage

Ricardo



Shocked

## Headquarter Economies (G7)

High Knowhow  
Labour

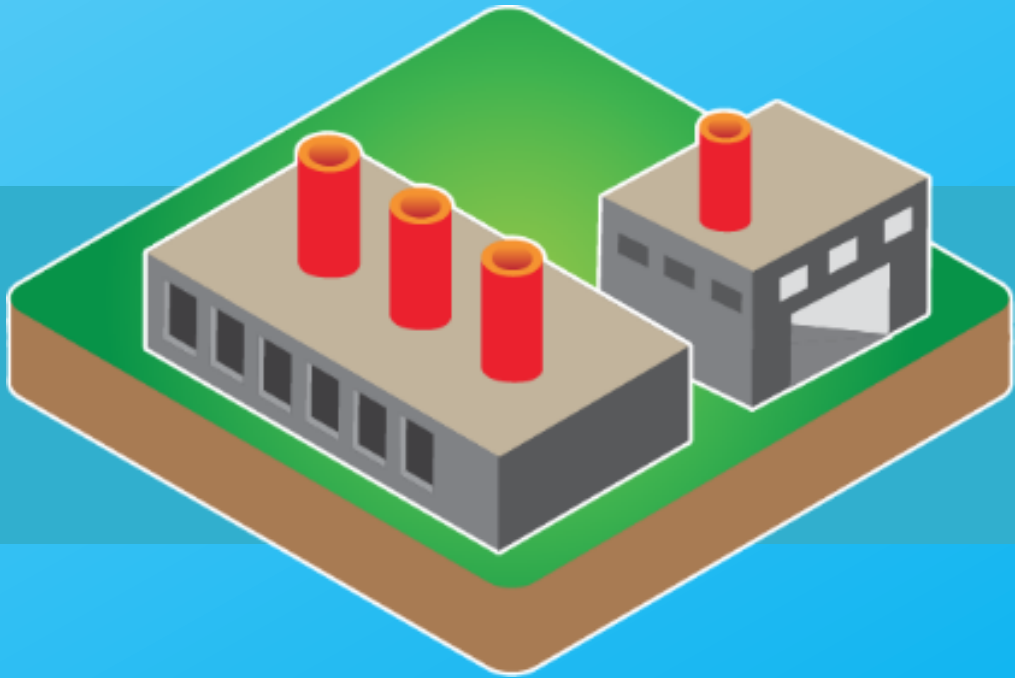
High wages



## Factory Economies

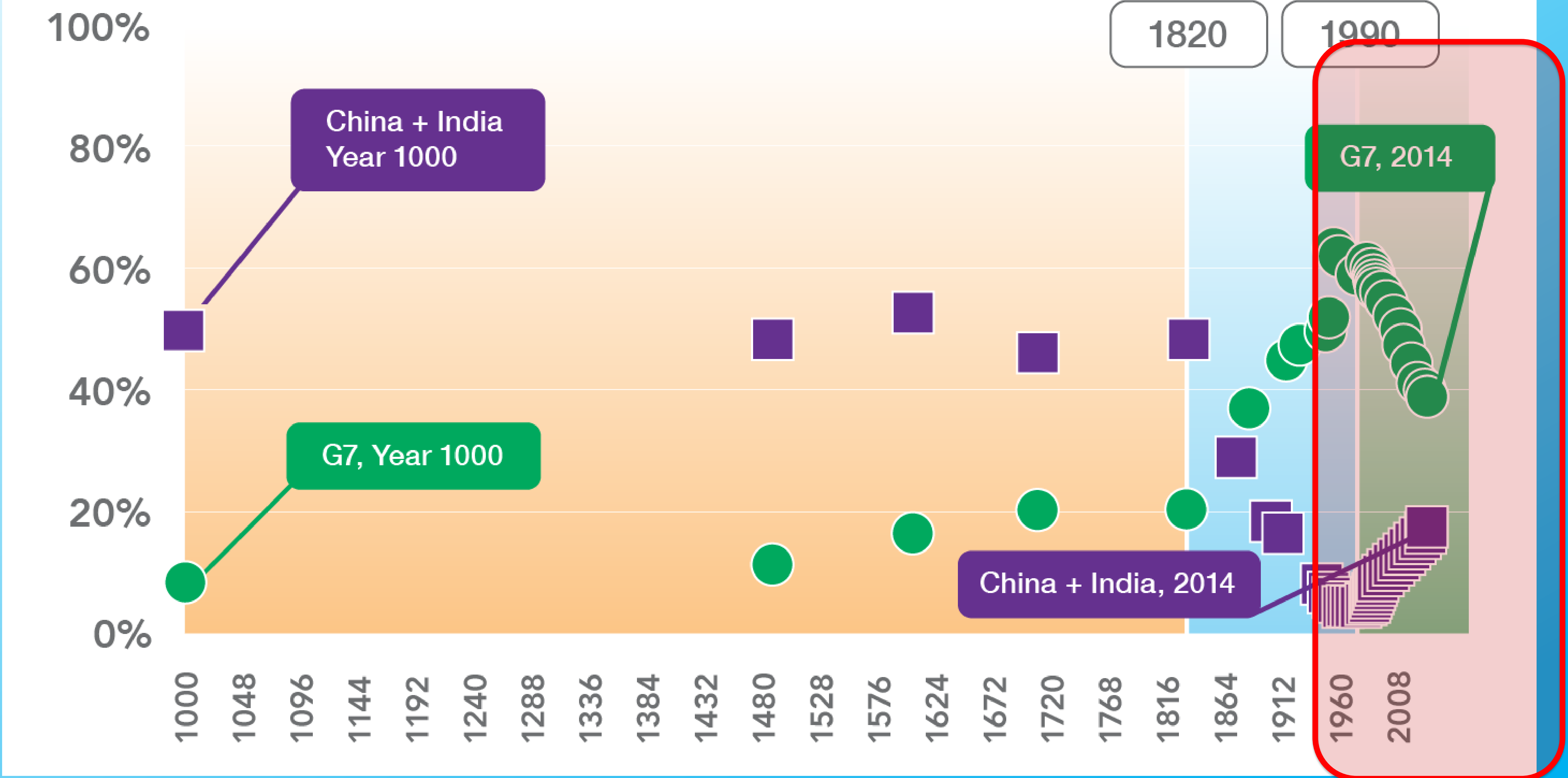
Low Knowhow  
Labour

Low wages



*High Tech + Low Wages Revolutionises World Manufacturing*

# The Great Convergence



A decorative header with a blue gradient background featuring a pattern of white binary code (0s and 1s) scattered across it.

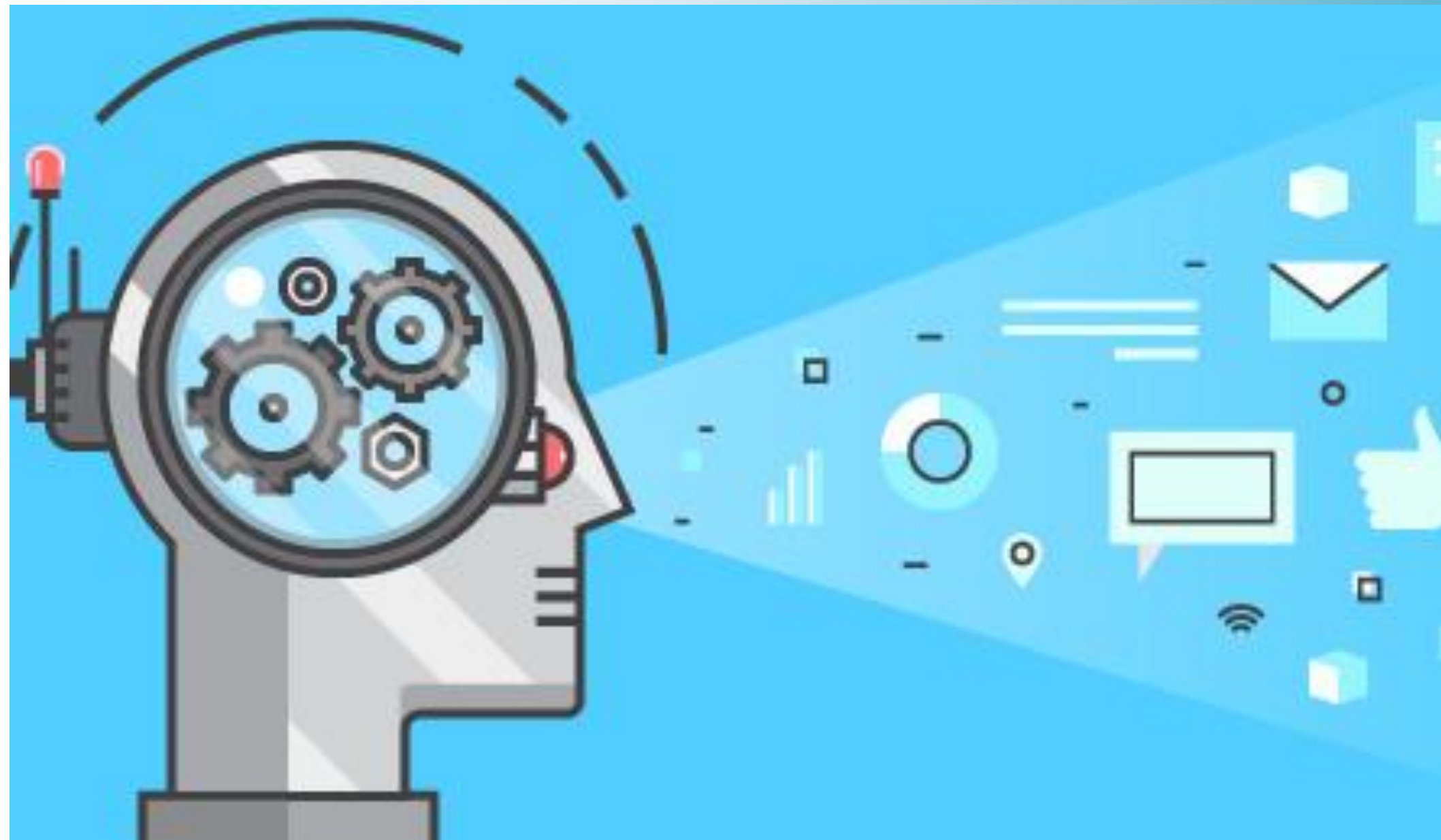
**Future**

**globalisation**

**Labour-service arbitrage begins**

*(2016 - )*

# Digitech is making remote workers less remote



Lower



Lower



Lower



# “Telemigration”

People sitting in  
one nation &  
working in offices  
in another.



**International wage differences  
make it profitable**

**Digitech makes it possible**

**Covid accelerated the transition**

# Digital technology opens a “pipeline” for international wage competition

Headquarter Economies (G7)

High Knowhow  
Labour

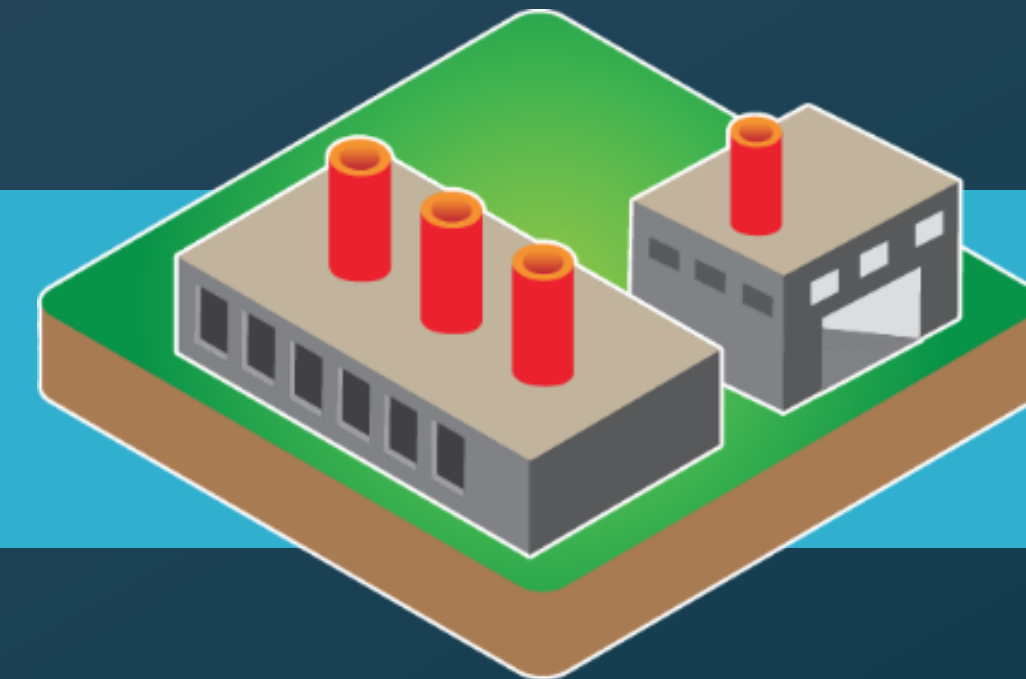
High wages



Factory Economies

Low Knowhow  
Labour

Low wages

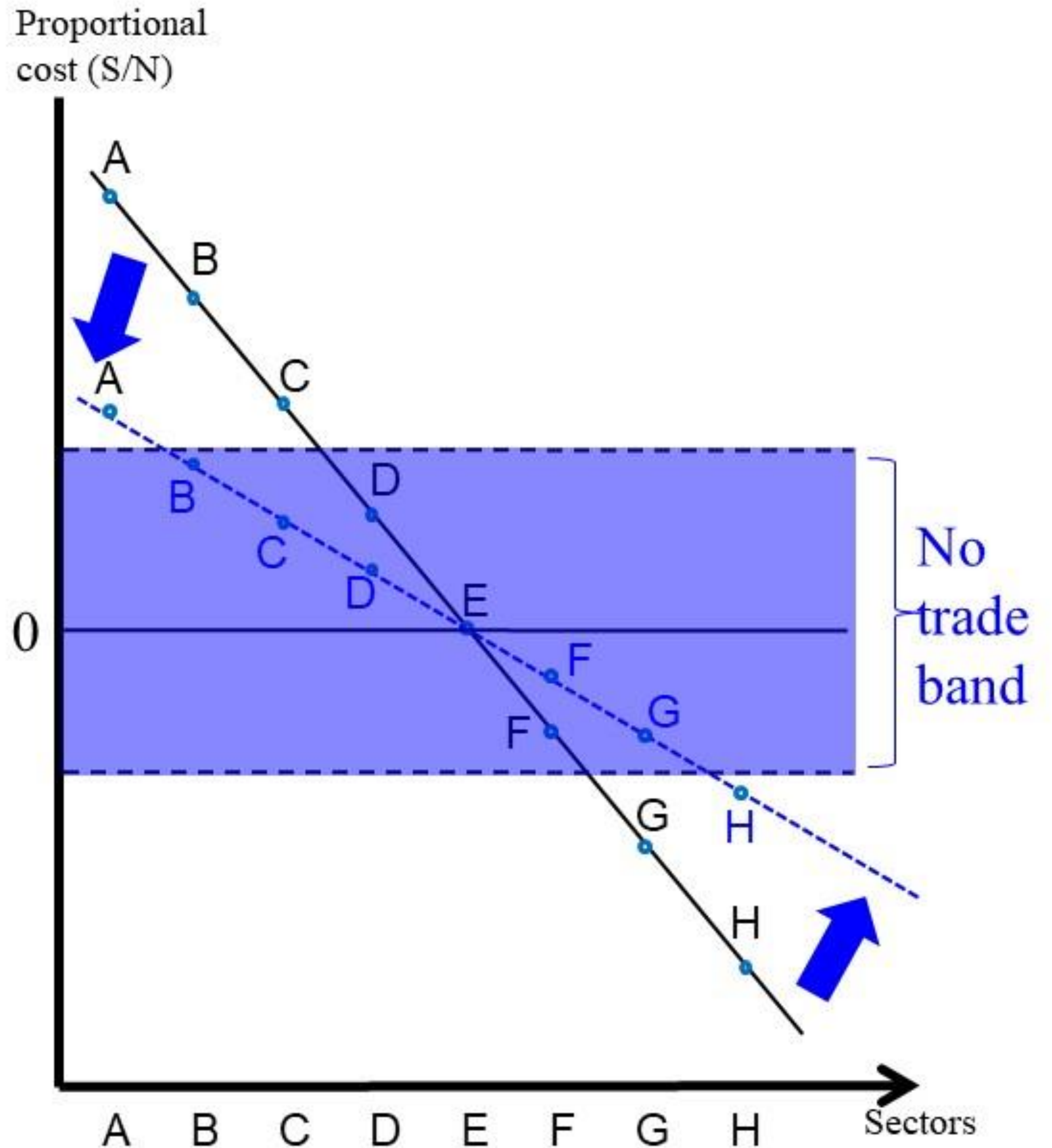


# Bold Conjecture

- **Digitech is making manufacturing jobless**
- **And non-traded**

# Digitech making manufacturing jobless & nontraded

$$\frac{c_i^n - c_i^s}{c_i^n} = \theta_L \left( 1 - \frac{w^s a_i^s}{w^n a_i^n} \right)$$



# Bold Conjecture

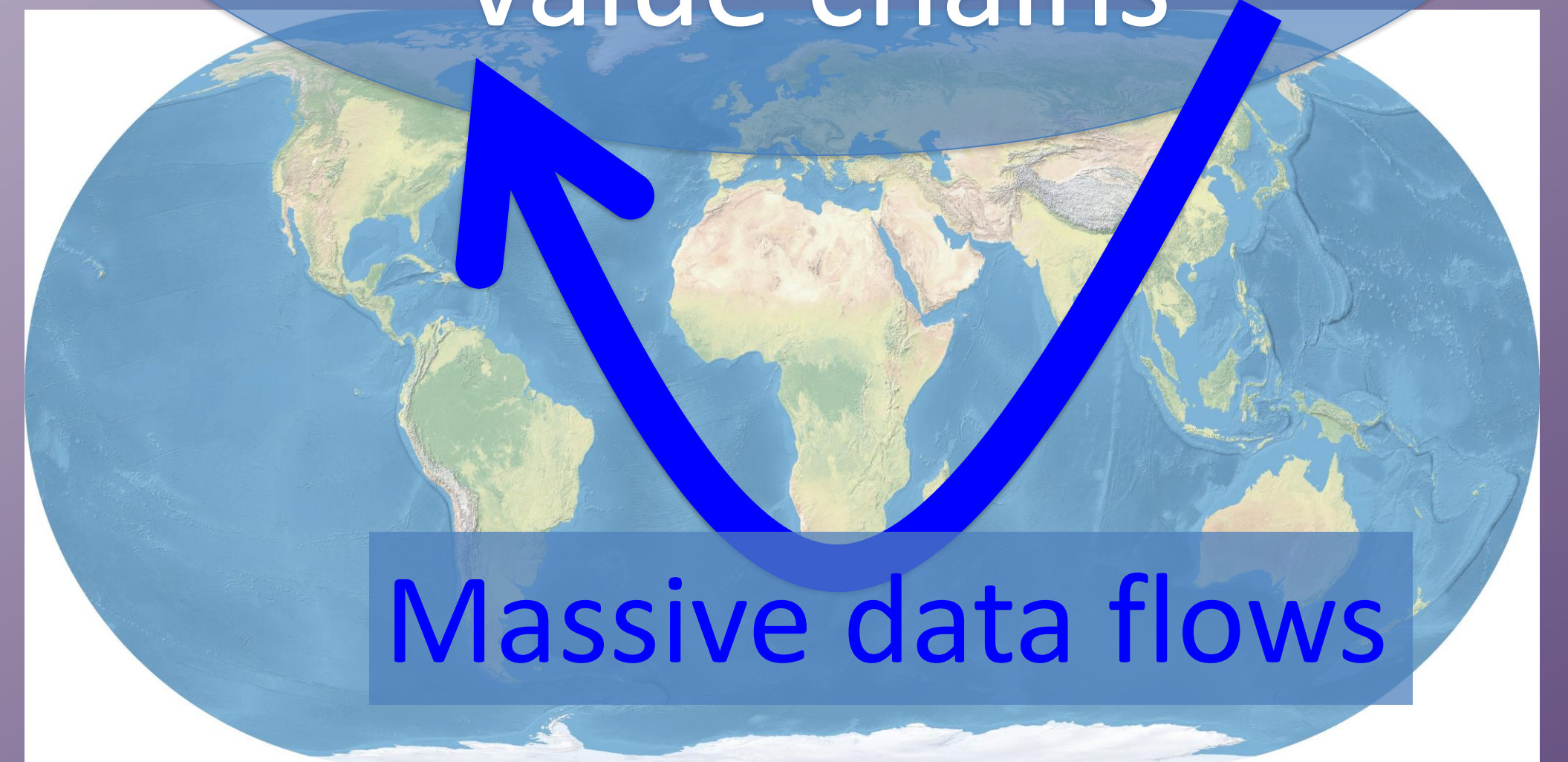
- **Unbundling the service value chain is enabling outsourcing of a growing range of service tasks**



**EU trade  
relations**

**Privacy and data policies will be key trade policy issues**

5G & Internet of Things + Offshored stages of service value chains




Massive data flows






**China is more important and will  
be more different**

**US is less important and will be  
less reliable**



**Covid-19  
particulars**



**Medical supply  
security viewed  
more like food  
security**

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Thanks  
for  
listening

