

Globalization Discussion FESAC, June 2017

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Introduction

- Great advances in globalization discussion
 - TIVA
 - Exploration of heterogeneity
 - Integration of international and labor economics
 - Integration of international and industrial organization
- Thoughts on role of supply chains in global and domestic production
 - FGP
 - Heterogeneity in responses across industries and functions
- Thoughts on integration of microdata and case study work

Howells

- TIVA has changed our understanding of sources of trade deficit, nature of competition and cooperation in world economy
 - Competition from high-wage countries (not just China)
- Work on firm heterogeneity shows that one size does not fit all

Jensen/Kamal

- “Globally-engaged” firms play a key role in the economy
- Exporters create more jobs and are less volatile
- LFTTD data offers potential for better understanding of firm activity (not just establishments)

Grimm/Kim

- This paper focuses on the relationship between trade and the nature of jobs (not just their quantity)
- In general, US MNE foreign activity is positively correlated with domestic activity

Varian

- Non-market and free goods play a key role in economic activity and welfare
 - Much new econ activity has near-zero marginal cost production functions (Varian and Shapiro, 1999)
 - Impacts on input-output tables?
- Firms are unbundling and recombining activities and locations

What is driving the trends we see?

- Role of global value chains
 - Definition: network of firms involved in designing, producing inputs for, assembling, and distributing a good or service.
 - Include long-term relationships as well as vertical integration and arm's-length transactions
- Rise of GVC's makes relationships between firms more important.
 - In contrast, most data collection focuses on what happens within an enterprise, or more commonly, within a single establishment.
- Papers highlight some key trends:
 - Unbundling of firm functions (eg, FGP)
 - Heterogeneity in firms' globalization strategies

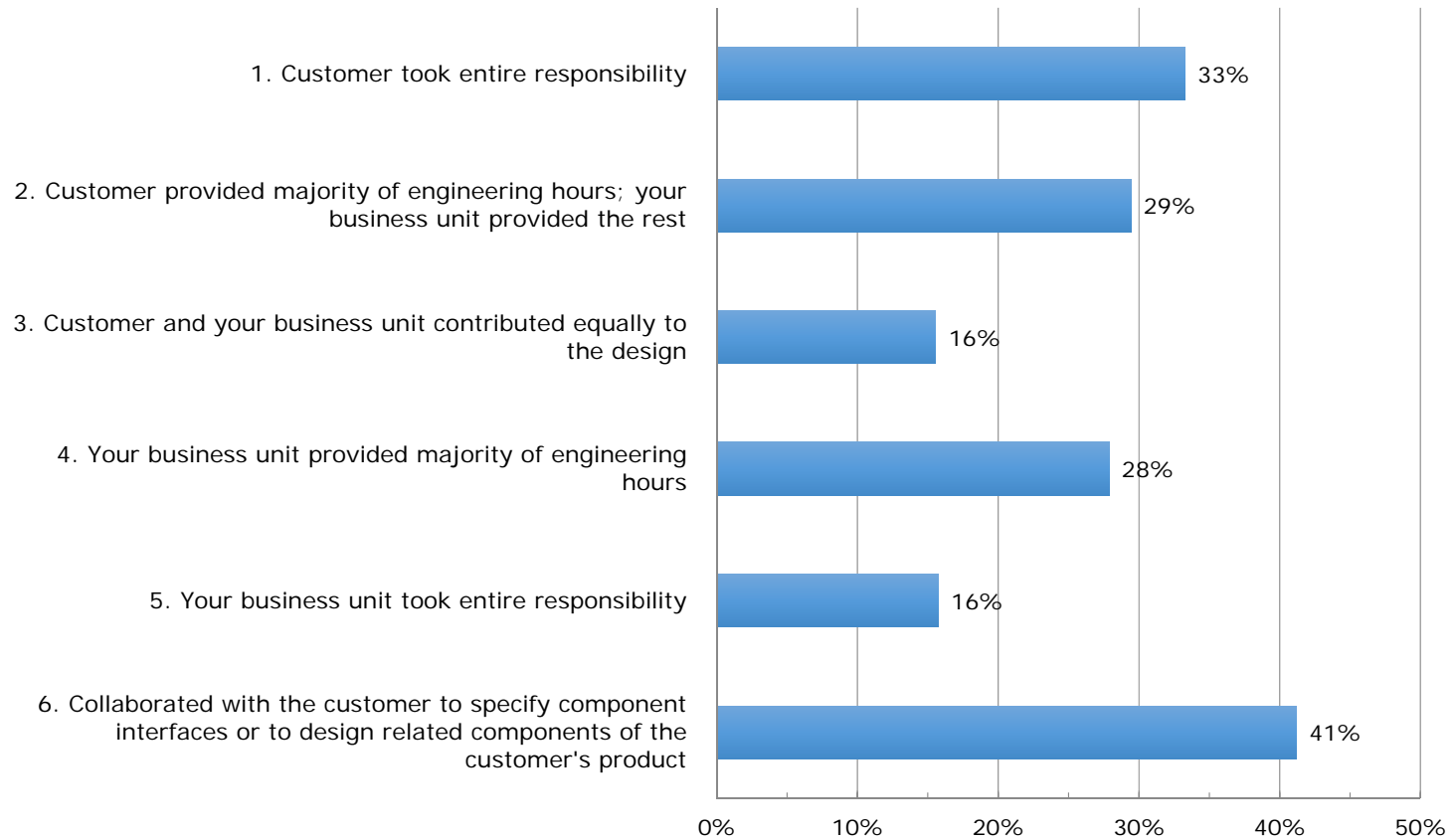
FGP approach

- Fragmentation of tasks exists
- Define a particular kind of fragmentation
- Argue that even though these producers do no manufacturing, they should be classified as manufacturers

FGP definition

- Factoryless Goods Producers (FGPs) are establishments that:
- Do not perform manufacturing transformational activities, but...
- Own the design or intellectual property of a product, and
- Control the production process

Product Development Process for Customer's Current Model
Case Western Reserve University Survey of Auto Suppliers, 2011
– Percent Saying Yes –



FGP issues

- The FGP concept privileges “owning” over “doing”
 - Combines firms that do design with those that own designs
- Solves some consistency problems, but creates others
 - Occupational distributions
 - Employment content of exports, imports
- Is a small (and probably diminishing) form of fragmentation

Alternative approach to understanding reconfiguration of tasks in global production

- Pilot projects to explore how fragmentation actually occurs in a variety of industries
- Continue focus on what establishments/firms do, as opposed to focus on what they own
- Examine how ties between firms actually work
 - More than price information crosses firm boundaries
 - Importance of “relational contracts”

Focus on 2-3 industries

- Hotels

- Cleaning
- Reservations
- Front desk
- Legal
- Strategy

- Manufacturing

- Component production
- Product design
- R&D
- Equipment design
- Equipment maintenance
- Assembly

Implications of firm heterogeneity

- Draw on “industry studies” approach
 - Researchers that draw on deep engagement with a particular industry
- Does globalization lead to more efficient division of labor or hollowing out of capabilities?
 - Grimm/Kim: support for “efficient division of labor”
 - Pisano/Shih: using electronics case, argue for “hollowing out”
 - Offshoring → progressive loss of assembly, component mfg, design, innovation capabilities
- Could we reconcile?:
 - Include employment in domestic supply chains as well as at focal MNC
 - Longitudinal research
 - Causation as well as correlation
 - Consider complementarities in firm strategies
 - Look at discrete as well as continuous cases
 - Perhaps trade differently with high-wage countries

Benefits of industry studies focus

- Understand heterogeneous responses
- Improved matching
- Understand relationship between enterprise and establishments
- Generate theory than can motivate future data collection
 - Unbundling
 - Ask directly about firm practices (MOPS)
- Stories that help users
 - Eg, economic development /training agencies within states
 - Creates confidentiality issues—could be managed

Conclusion

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