Globalization Discussion
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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 –

1. Customer took entire responsibility
2. Customer provided majority of engineering hours; your business unit provided the rest
3. Customer and your business unit contributed equally to the design
4. Your business unit provided majority of engineering hours
5. Your business unit took entire responsibility
6. Collaborated with the customer to specify component interfaces or to design related components of the customer’s product
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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