RIETI BBL Seminar
Comment Handout

“GVC Journeys When National and Territorial Comparative Advantage Differ”

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https://www.rieti.go.jp/jp/index.html
Comments on “GVC journeys: Industrialisation and Deindustrialisation in the Age of the Second Unbundling”

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Points of the paper (conceptual paper)

• 1. GVC based on comparative advantage
  • Comparative advantage can change over time (1990s- current)
  • Technology trade can change CA

• 2. GVC journey diagram
  • Final product and P&C
  • Reshoring and offshoring

• 3. GVC theory
  • A simple trade theory with final and P&C
  • Offshore overshooting happens
GVC Journey Diagram

(1) Decompose P&C vs. Final
(2) Similar index to RCA

\[ ECA_{cik} = \frac{X_{cik} - M_{cik}}{X_{cik} + M_{cik}} \]
3 major patterns
GVC diagram in Developed countries (type 1: Offshoring: P&C and Final imports)
GVC diagram in Asian developing countries (type 2: successful industrialization)
China and Korea
(type 3: Industrialization to offshoring)
Implication 1: Japanese technology trade

- Japan (and other developed countries) moves toward imports of both P&C and Final
  - Trade deficit
- Technology trade surplus
- More Important technology and innovation.

> JPN govt needs more spending on R&D and univ education
Implication 2: Reshoring in Japan (?)

• Offshoring (Hollowing-out) in Japan (and other developed countries)
  • “Lost decades” in Japan
• However, China and Korea gradually start offshoring in machinery sector
  • Start imports of P&C in transport machinery sec
• Japan might increase P&C exports to China and Korea
  • Stop offshoring in Japan
  • Come back job (job creation)
  • Good news for Japanese regional development policies ("Chihou Sosei" 地方創生)
  • In such a case, very advanced technology for P&C might be needed.
Implication 3: Revolution toward new dimension

• Reshoring or offshoring in Japanese machinery industries might be an issue
• However, new dimension is coming soon: Beyond our “GVC journeys”.
  1) AI technology and automation
  2) Collaboration with IT service industries (telecommunication, retail, wholesale, etc)

In the near future
• **Borderless** production process
  • Cannot distinguish “final” vs “P&C” or more production stages
• **Borderless** industries
  • Transport machine sector = car production + IT + services/retail + finance, etc
• **Borderless** production and task
  • Costless face to face (telework, collaboration software, etc)
  • Difficult to identify production/working places
    • No commuting and oversea task