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# The Philippine Review of Economics

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## What next after hyper-globalization and export-oriented industrialization?\*

Dani Rodrik\*\*

Harvard University

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This paper delves into the evolving landscape of the global economy and its implications for countries like the Philippines. It explores the emerging paradigms that are reshaping economic policies worldwide. Traditionally, economic policies were anchored domestically in export-oriented industrialization models for rapid economic growth. However, the efficacy of this model is waning in the face of technological advancements and changing global dynamics. The hyper-globalization era, marked by financial integration and expanding free trade agreements, prioritized global competition over national interests. But geopolitical tensions, particularly between the US and China, are disrupting the notion of deep economic integration that was once deemed normal. Amidst these shifts, the paper envisions three potential scenarios: a 1930s-style collapse of the world economy (bad), increased weaponization of interdependence and rising geopolitical conflicts (ugly), and a better balance between domestic political autonomy and global integration, fostering a conducive environment for reconstructing national social contracts (good). The paper proposes a shift towards a different economic model focusing on the creation of “good jobs”, characterized by productivity levels that enable the creation of a middle class. These are expected to predominantly emanate from the services sector, particularly non-tradable services. This paper offers some insights for policymakers and stakeholders navigating through these transformative times. As the world economy undergoes profound changes, embracing new approaches and an experimental mindset become imperative for charting a sustainable path forward.

**JEL classification:** F6, F15, O14, O25

**Keywords:** economic integration, hyper-globalization, good jobs, industrial policy

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\* Keynote address at the 60<sup>th</sup> Philippine Economic Society Conference, November 9, 2022. At the time, Prof. Rodrik was President of the International Economic Association.

\*\* Address all correspondence to [dani\\_rodrik@hks.harvard.edu](mailto:dani_rodrik@hks.harvard.edu).

## 1. Introduction

In today's keynote address, I have chosen to delve into the future of the world economy. It's evident that we stand at a critical juncture where fundamental ideas and economic policy narratives are undergoing significant shifts. This transformation will likely impact the Philippine economy as profoundly as it does any other.

My aim is to offer a broad context for our potential trajectory and suggest directions that merit consideration. I will begin by addressing a central theme: the departure from longstanding anchors of our economic policies. These anchors were rooted both domestically and internationally. Internationally, we relied on a specific approach to industrialization to drive rapid economic growth.

We find ourselves at a juncture where the traditional anchors of globalization are faltering. Hyper-globalization faces significant backlash: driven not only by domestic political tensions in advanced nations, but also by escalating geopolitical competition between the US and China. This geopolitical rivalry undermines the deep economic integration once considered normal.

Similarly, export-oriented industrialization, long seen as a path to economic growth, is losing its effectiveness due to technological shifts and reduced labor absorption capacity of globally competitive manufacturing industries. This model, though historically pivotal for some economies, including the Philippines, no longer holds the same promise.

Amidst these challenges, we envision three scenarios: the bad, the ugly, and the good. The bad scenario entails a 1930s-style economic collapse, while the ugly scenario involves increased geopolitical conflicts and trade tensions. However, the good scenario offers hope. It calls for recalibrating globalization, striking a better balance between domestic autonomy and global integration. This entails reconstructing national social contracts, fostering a conducive environment for international trade and investment reminiscent of the Bretton Woods era.

Internally, given the breakdown of the export-oriented industrialization model, we must pivot towards creating "good jobs" in the service sector. These jobs, predominantly non-tradable, require a shift in economic policy orientation towards services, signaling a departure from past approaches. These overarching themes guide our discourse.

## 2. The post-1990s movement towards hyper-globalization

The transition to hyper-globalization in the 1990s represented a shift away from the trade liberalization model of the Bretton Woods era. While Bretton Woods focused on border restrictions and allowed room for compensating integration's losers, hyper-globalization prioritized deep financial and trade integration with open capital accounts, the World Trade Organization (WTO),

and expanding free trade agreements. This shift emphasized global competition as a vehicle for national growth and development, and anticipated convergence towards a market-oriented model worldwide. However, China's success with its own developmental model contradicted this expectation, revealing the limitations of hyper-globalization.

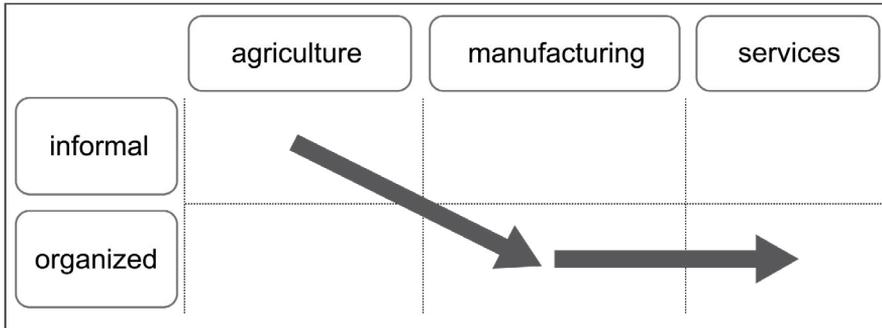
Several contradictions characterized hyper-globalization, spanning from narrow economic concerns to geopolitical tensions. Firstly, there was an overemphasis on the benefits of specialization at the expense of productive diversification, as seen in China's success with diversification policies. Secondly, there arose distributive tensions within countries due to income redistribution issues associated with deep integration. Thirdly, tensions arose between reaping gains from trade and maintaining regulatory diversity, as different countries sought varying regulations. Finally, geopolitical tensions intensified despite the belief that economic integration would foster geopolitical harmony. As China's economic power grew, so did concerns about geopolitical competition. These tensions were mismanaged under hyper-globalization, leading to an overemphasis on trade gains and neglect of other concerns. Looking ahead, I would advocate a shift towards a thinner yet more sustainable model of globalization.

### **3. A thinner but more sustainable globalization**

This entails recognizing that convergence between the Chinese economic model and Western counterparts is unlikely. Instead, peaceful economic coexistence between different development models is key. This implies the need for globally permissive rules on subsidies, intellectual property rights, and industrial policies. Countries should have the flexibility to pursue domestic economic strategies without facing uniform global restrictions. Cooperation on non-economic issues such as climate change, global health, and refugee crises remains crucial. However, in terms of international trade and investment, a more permissive approach would be preferable for the new era. Despite current challenges, there's potential for a positive scenario that maintains globalization while tempering expectations of hyper-globalization.

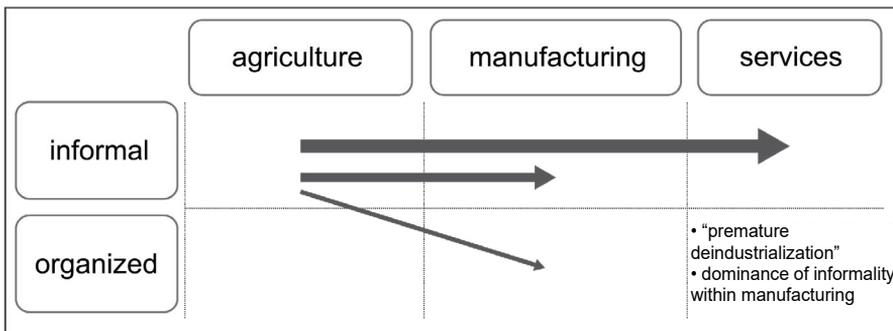
In discussing domestic development models and necessary changes, it's important to examine the traditional development model. This model typically involves a structural transformation illustrated in Figure 1. Initially, economies are primarily agrarian, with production concentrated in traditional agriculture and informal, low-productivity sectors. Successful development entails transitioning labor from informal agriculture to organized manufacturing activities in urban centers. Subsequently, as economies progress, there's a shift towards the tertiary sector, but this typically follows industrialization and attainment of middle-income status.

**FIGURE 1. Traditional development model**



In much of the developing world today, migration from agriculture to urban areas still continues. However, the main beneficiary is not manufacturing, but services; particularly, low-productivity informal services. Even in instances where manufacturing expands, such as in low-income African countries, it tends to be informal. This phenomenon, termed *premature deindustrialization*, describes situations where countries either struggle to industrialize or undergo deindustrialization at lower income levels than historically observed (Figure 2). Traditionally, industrialization served as a key driver of growth and employment. Now, the central question in development strategy revolves around the source of good, productive jobs, which were historically associated with manufacturing.

**FIGURE 2. Premature deindustrialization in most developing countries**



**4. Key questions facing development strategy: where will the good jobs come from?**

In the future, services will play a significantly larger role in job creation. This shift implies that growth and social policies will converge in their goals and strategies. Genuine growth necessitates the creation of productive jobs and the expansion of the middle class. Concurrently, addressing the structural roots of

poverty and inequality demands the generation of quality jobs for low-skilled workers. Therefore, enhancing productivity in the informal service sectors and small to medium-sized enterprises is paramount. This entails not only investing in training and skills but also fostering the development of robust and efficient firms capable of hiring and compensating workers adequately. Ultimately, the pursuit of good jobs entails comprehensive interventions targeting both the supply and demand sides of the labor market.

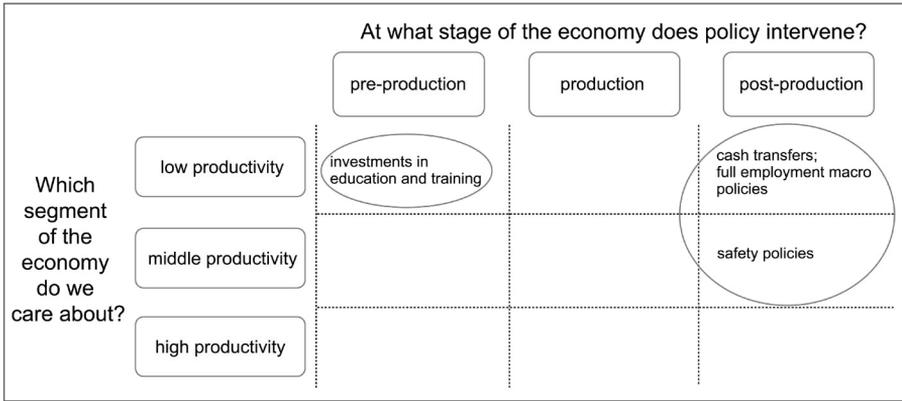
Investing in education and training is crucial, as it enhances human capital. However, alongside this, there's a need to bolster the capabilities of firms, especially smaller ones in low-productivity service sectors catering mostly to the domestic market, like retail, healthcare, and construction. This investment in firm productivity has traditionally fallen under industrial policy, which typically focuses on manufacturing and large exporters. Yet, looking ahead, the focus may need to shift towards different types of services.

Why services? While productivity improvements in agriculture are possible, the sector's capacity to absorb employment remains a challenge. As productivity increases in non-traditional agriculture, there is a corresponding need to find alternative employment opportunities for rural workers.

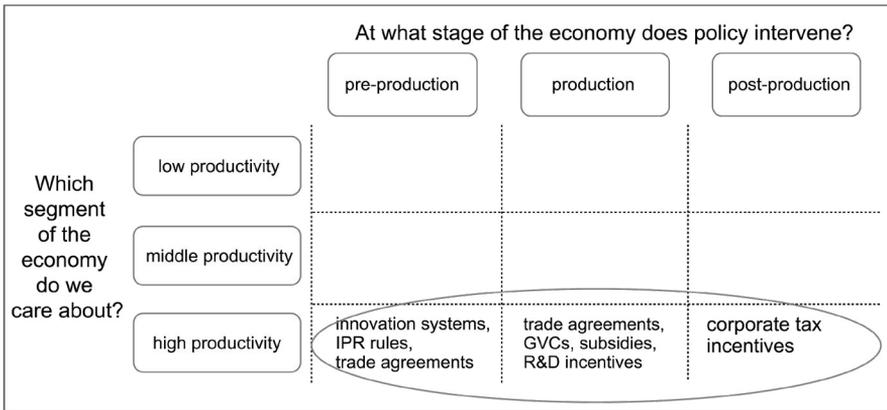
The central question remains: where will labor find opportunities, particularly for quality employment? Agriculture alone cannot address this challenge; instead, the focus shifts to the service sector. Broadly, services can be categorized into two types: high-productivity, tradable segments and others. The Philippines has experienced success in areas like business process outsourcing, reflecting productive opportunities akin to manufacturing. However, these services demand high skill levels, posing limitations on labor absorption. Thus, while these segments offer potential, they cannot fully address the need for widespread job creation. It's essential to tailor job creation to the current workforce's skill levels while investing in education and human capital for future needs.

To summarize this perspective and highlight its departure from conventional development policy, it's helpful to conceptualize our strategy within a matrix framework. This framework distinguishes between the stage of the economy where policy interventions occur and the specific economic segments of interest, whether they pertain to lower, middle, or higher productivity. Traditional poverty reduction approaches (Figure 3) emphasize investing in household endowments such as education and training, alongside providing social insurance through transfers and safety nets, whereas the traditional industrial and growth policies tend to focus on the high end of the economy, the high productivity segment of the economy (Figure 4).

**FIGURE 3. Traditional poverty reduction and social protection model**

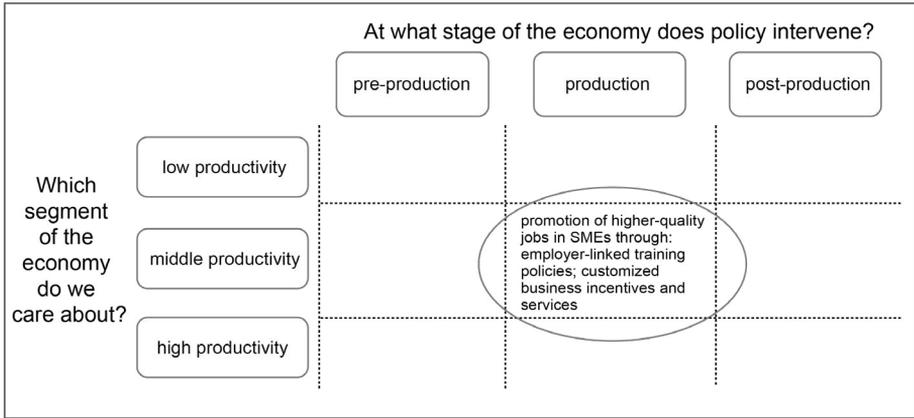


**FIGURE 4. Traditional industrial and growth policies**



The proposed good-jobs development model focuses on the middle cell of the matrix and emphasizes a shift towards middle productivity segments of the economy that can both enhance productivity and accommodate a larger workforce, particularly comprising lower-skilled workers (Figure 5). This approach necessitates a tailored industrial policy focused on smaller and medium-sized enterprises, addressing their specific needs such as management norms, infrastructure, digital platforms, training programs, and access to technology. Moving away from traditional subsidies, this collaborative approach between firms and policymakers requires innovative solutions tailored to individual enterprise requirements, presenting a significant challenge for future development policies.

**FIGURE 5. The good jobs development model**



**5. New type of “industrial policies”**

In conclusion, it is worth considering the potential for novel perspectives on both enhancing globalization and fostering more inclusive development strategies. These approaches will diverge significantly from traditional models, necessitating imagination, creativity, and a willingness to experiment. However, such endeavors must unfold within a global landscape overshadowed by escalating geopolitical tensions between the US and China. This rivalry threatens to detract attention from pressing economic priorities, posing a genuine concern moving forward.

Nevertheless, it remains our duty as economists to illuminate pathways that offer economic opportunities and mutual benefits for all stakeholders. With that said, I extend my gratitude for your attentive audience and express my regret for not being able to participate further in your discussions and deliberations. May your exchanges be fruitful and productive.

Thank you very much.



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Over the years, the PES has served as one of the strongest networks of economists in the academe, government, and business sector.

Recognized in the international community of professional economic associations and a founding member of the Federation of ASEAN Economic Associations (FAEA), the PES continuously provides a venue for open and free discussions of a wide range of policy issues through its conference and symposia.

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