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Comment Andrés Velasco

Reading this chapter has been a great pleasure. The profession would gain if more "think pieces" of this kind were produced.

Richard Baldwin speaks of the two great unbundlings. The idea is appealing and clearly spelled out. The second unbundling implies a pattern of industrialization that is above and beyond the nation state. Before the ICT revolution, industrialization used to require country-specific endowments and institutions—roads, engineers, the rule of law, property rights, and so forth. Now that countries have the relatively simpler option of joining a supply chain, the author argues, many of these things do not matter, or matter much less so than they used to.

In a way, this is a welcome change, since it simplifies the process of industrialization—all you need is a good geographical location and healthy relations with multinational companies around the world.

But industrializing in a small, domestic enclave in order to be part of a

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global supply chain does not simplify the process of development. In the old scheme of things, industrialization was attractive precisely because of its by-products and positive externalities—institutional development and the rule of law among them. Without those benefits, industrialization becomes less appealing as a road to development.

Put differently: Will the new recipe for "success" yield a new set of newly developed countries? Or, alternatively, will it take us back to the enclave economy patterns of Bolivia in the nineteenth century or the Dominican Republic in the twentieth century, where production took place in small, isolated clusters while the rest of society remained underdeveloped and locked in a persistent poverty trap?

Despite the dramatic reduction in transport costs, we are still short of truly global supply chains. While the scale dimension clearly matters a lot for MNCs, they still need to coordinate their production processes. What we are experiencing, therefore, is the regionalization—as opposed to the globalization—of supply chains. Where the exact boundaries of these regions lie is not altogether clear, but the outlines of the main regional supply chains can be identified nevertheless. Most obviously, East Asia has developed a tightly connected set of supply and demand relationships. North American and European supply chains share similar features.

That said, the Asian unbundling seems to have been a most successful one, begging the question of what these countries got right. Part of the answer, I believe, lies in traditional development theory. We used to think of development as an endogenous process wherein you needed scale to industrialize but you needed industrialization to get the scale right. Hence the "big push" approach to development, which has been around forever but was not fully formalized until late 1990s. In that approach, issues of coordination and multiplicity of equilibria are everywhere, making development extremely tricky.

Under the new rules of the game, certain physical constraints on unbundling remain—managers, for instance, may want to return home quickly at the end of the week after visiting their production facilities. But the need for a large domestic market is gone. And whatever coordination needs to be done—which part of the final product should be produced in Vietnam, Malaysia, Thailand, and so forth—is done by managers of large multinationals instead of by governments. Hello industrial development, goodbye coordination failure.

In the chapter by Baldwin, my friends and colleagues Ricardo Hausmann and Dani Rodrik come in for some criticism. It seems to me a brief defense of their work is in order. According to Hausmann and Rodrik, development is a process of self-discovery, as nations gradually discover the unique competences they possess that allow them to compete in global markets.

In the chapter's line of reasoning, however, this self-discovery does not matter anymore, since it is multinationals that decide where and what to produce. If this is correct, however, we must inquire about what lies behind managers' decisions to choose locations. Maybe these decisions still depend on certain country-specific attributes after all. And those attributes do depend on local policies—on infrastructure and telecom development, to mention just two.

Finally, I must point out that joining a global or regional supply chain is not a guarantee of future growth. Compare, for instance, the growth performance of Central America and the Caribbean (clustered around Mexico and NAFTA) and South America, with Brazil being the largest economy there. While Mexico and its neighbors are clearly more embedded in a global supply chain (that of North America), for much of the last decade they have grown much more slowly than Brazil and its neighbors have. Of course, the countries of the south have benefited hugely from the commodity supercycle, while the resource-poor nations of Central America and the Caribbean have not. As this supercycle comes to an end, the growth balance may begin to turn in Mexico's favor. Stay tuned.