Globalization: A View from the Bottom Up

The IPC Globalization Study

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“Well, that does it, Charlie—we’ve outsourced everything.”
Outsourcing News Stories and Employment

Employment data in 1,000s of persons
Research Goal

To analyze the impact of globalization on the prospects for innovation, economic growth, social wellbeing and political stability in different societies.

Note: ‘Globalization’ refers to the set of changes in the international economic arena and in the domestic economies of nations that tend towards the creation of a single world market for wages, capital, goods, and services.
The Two Questions

1. Reorganization?
   + What to keep within the four walls of the company?
   + What to outsource?

2. Relocation?
   + What to keep at home?
   + What to offshore?
Competing Hypotheses

a. Convergence
   Competition and modularization (the “lego model”) drive one best strategy

b. Varieties of Capitalism drive varieties of globalization

c. The Legacy Model
Interview Data

Companies Interviewed by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile, Retail, Apparel</td>
<td>188</td>
</tr>
<tr>
<td>Electronics</td>
<td>187</td>
</tr>
<tr>
<td>Automotive</td>
<td>59</td>
</tr>
<tr>
<td>Other/industry</td>
<td>50</td>
</tr>
<tr>
<td>Publishing</td>
<td>22</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>506</td>
</tr>
</tbody>
</table>

Note: 38 additional organizations were interviewed. This includes government officials, trade associations, and academics.
## Interview Data

<table>
<thead>
<tr>
<th>Country of Company Ownership</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>70</td>
</tr>
<tr>
<td>Germany</td>
<td>56</td>
</tr>
<tr>
<td>Italy</td>
<td>42</td>
</tr>
<tr>
<td>France</td>
<td>33</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>31</td>
</tr>
<tr>
<td>Other-Europe</td>
<td>26</td>
</tr>
<tr>
<td>Romania</td>
<td>2</td>
</tr>
<tr>
<td>Israel</td>
<td>24</td>
</tr>
<tr>
<td>Japan</td>
<td>32</td>
</tr>
<tr>
<td>China</td>
<td>34</td>
</tr>
<tr>
<td>Taiwan</td>
<td>134</td>
</tr>
<tr>
<td>Other-Asia</td>
<td>18</td>
</tr>
<tr>
<td>Canada</td>
<td>4</td>
</tr>
</tbody>
</table>

506

Other Europe: Ireland, Monaco, Netherlands, Sweden, Scotland

Other Asia: Indonesia, Philippines, Malaysia, Thailand, Singapore, India, South Korea
Processes of Change

Drivers
a. New markets
b. Market volatility
c. Liberalization of trade, finance and investment

Enablers
a. New technologies (codifiable specifications; industry standards)
b. New spaces for production
Legos or Models?
From Ideas to Customers

- Research and Development
  - Idea for a new product
- Components
  - Design
  - Manufacturing
- Logistics
  - Sales
  - After-Sales Services

MIT INDUSTRIAL PERFORMANCE CENTER
Some of the Findings

Resilience of Diversity

• Many models of Success: No Silver Bullet
  + Dell vs. Sony
  + Zara vs. Gap

• No Sunset Sectors
  ➔ Why do high wage Italians still make eyeglasses?
Some of the Findings

Build on Legacies at Home

• How to Live with China
  + Japanese Firms
  + US Firms
Some of the Findings

Chinese Bilateral Trade with the EU and Japan

Source: Ministry of Commerce, People’s Republic of China

From: Branstetter and Lardy, National Bureau of Economic Research Working Paper 12373
Some of the Findings

U.S.-China Bilateral Trade Imbalance

Source: Ministry of Commerce, People’s Republic of China

From: Branstetter and Lardy, National Bureau of Economic Research Working Paper 12373
Some of the Findings

Build on Legacies at Home

• How to Sustain Innovation in a Fragmented System
Some implications for education

Our graduates will work in a world in which fragmentation of production and the fragmentation of research, design, development and distribution require them to know how to:

• Locate and access knowledge and production capabilities round the world;
• Coordinate activities and cooperate with partners across the borders of their own lab or company and across the borders of their own home country;
• Understand markets and organizations in large new emerging societies like India and China