Economic Complexity
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ARE WE ENTERING IN A WINNER-TAKES-ALL ECONOMY? WHY AND WHAT CAN WE DO ABOUT IT?

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INTRODUCTION

In an interconnected world by trade of goods and other types of trade such as financial trade, service trade, etc., it is obvious that the market share of all countries is uneven. From an economic point of view, it seems that some countries benefit more from the movement of resources than others, these ones are the "winner" countries in global trade.

Are we entering a winner-takes-all economy? Why and what can we do about it?

The following lines will be an attempt to answer these questions, more precisely to demonstrate that the world is not entering a winner-takes-all economy firstly, and secondly to study actions that can be implemented in order to support a growing economic complexity in the poorest countries, that are less present on the global market.

WORLD ECONOMY

Winner-takes-all economy?

The "winner" countries here are the richest, and the ones with the highest economy complexity index (ECI), as we can see on graph 1 (see page 7), most of these countries belong to the economic North except for China. According to Mealy P. and Teytelboym A., "countries with high ECI (...) are able to export technologically sophisticated products competitively whereas countries with low ECI have export baskets that tend to be characterised by less technologically sophisticated products" (*Economic complexity and green economy*). Thus we can identify a "modern sector, which can produce a variety of goods and a traditional sector which produces a single homogenous good" (Hausmann R., Hwang J., Rodrik D., 2006, p5). Countries with high ECI belong to the modern sector and those with low ECI belong to the traditional sector. In the modern sectors, countries own more capitals enabling them to support their economy, they are a source of high quality skills (human capital), infrastructures and financial capital, these countries can then diversify their economy and use their resources in order to innovate, thus to improve their productivity. While the poorest countries do not have the financial capital to acquire the infrastructures necessary to produce what the richest countries produce. "The type of goods in which a country specializes has important implications for subsequent economic performance" (Hausmann R., Hwang J., Rodrik D., 2006,p17). Countries belonging to the traditional sector, one one hand, tend to specialise in labour or tend to export mainly raw material and agricultural products, on which they are price takers (they do not fix the price of their products). They depend on their production and on foreign companies, mainly companies from the economic North, to provide jobs for their cheap labour. On the other hand, the richest countries invest on their human capital in order to find ways to improve existing products or to create new ones. We can say that the human capital is concentrated in the North, they have an advantage that the countries of the economic South do not have.

Countries with high ECI are the "winners" in the economy thanks to the human capital, financial capital and the technology they own, that countries with low ECI do not have.

China: once a poor country, now a "winner" country

After Mao Tse-Tung, the Chinese government decided to develop its agriculture. In the 19080s when they started to open the country to Foreign Direct Investment they used their labour stock in order to attract foreign companies into the country. It was the beginning of the Chinese industrialisation. Indeed, China was a poor country and labour was cheap, thus companies saw this cheap labour as an opportunity. China was known as the "Factory of the World". industrialization creates externalities that lead to accelerated growth (C.A. Hidalgo R., B. Klinger, A.-L. Barabási, R Hausmann, p2), China in early 1980 is different from China as we know it today, the country has known a two figures growth of its GDP since its industrialisation.

These investments into the country and the manufactures for foreign companies enabled technology transfers, the Chinese were able to learn the know-how of foreigner. With the knowledge they had acquired thanks to foreign companies, they have been able to go from assembling foreign cars to make their own cars, from manufacturing clothing for foreign companies to make clothes for their own companies. China could be considered as an illustration of relatedness diversification. “The researchers place the diversity of tacit knowledge—or know-how—that a society has at the heart of its economic growth story” (McKenney C.).

China is the illustration that although the richest countries seem to lead the economy, poorest countries can become an essential part of the economy as well.

WHAT CAN WE DO ABOUT IT?

“Poor countries specialize in goods relatively intensive in unskilled labor and land while richer countries specialize in goods requiring infrastructure, institutions, human and physical capital” (C.A. Hidalgo R., B. Klinger, A.-L. Barabási, R Hausmann, p2). We have seen hereinabove that the transfer of technology was one of the reasons that led China into its industrialisation era. Yet, In many countries of the economic South, foreign companies tend to hire employees from their own countries for high-skilled jobs, and hire local people for unskilled or low-skilled jobs. This does not permit the transfer of technology since local people are not trained and / or foreign companies do not share their knowledge in order to have its exclusivity. In that case, in order to promote the transfer of technology, countries from the South should demand from companies to instore a quota of local people hired or trained by the company. Countries with low ECI would then be able to obtain more human capital.

According to McKenney CEast African countries are to become the fastest-growing economies by 2027. “To become a new pole for global growth, East Africa will need to achieve a more resounding structural transformation, in shifting labor out of farming into manufacturing sectors” (McKenney C.) this brings us back to the industrialisation of China, who was mainly focused on farming late 1970s. If East Africa follows China’s example it could become a “winner” in the coming decades.

CONCLUSION

It appears that the richest countries are on their way to rule the world thanks to their technological resource, their human capital, and their financial capital. However, China was once a poor country but they took advantage of their numerous population to provide cheap labour which attracted foreign companies and contributed to the industrialisation of the country.

Words: 1157

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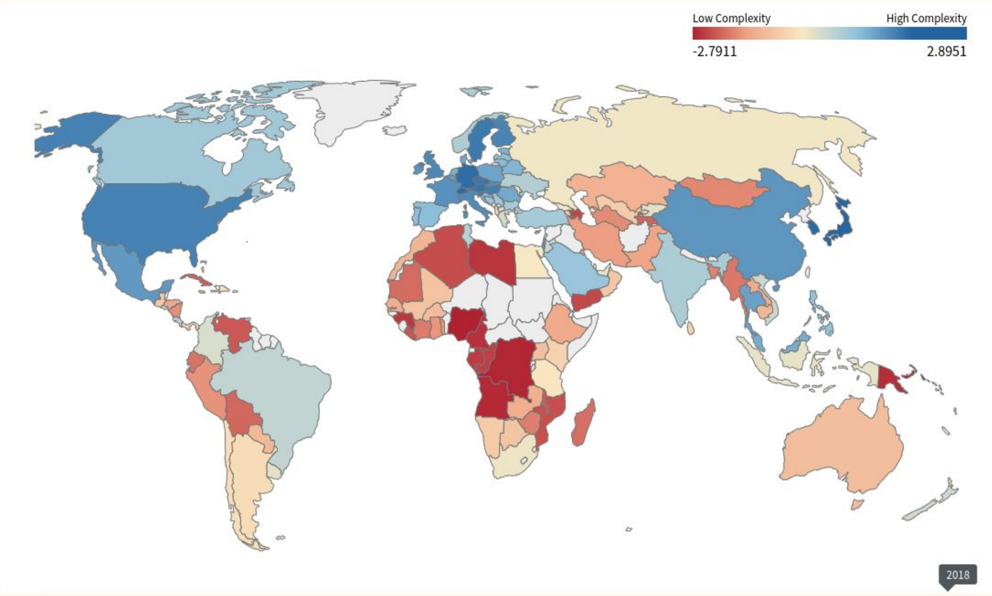

Graph 1, retrieved from: https://atlas.cid.harvard.edu/rankings