

Discussion of
Economic Integration and Structural Change
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What is this paper about

- I enjoyed reading the paper!
- The paper is clearly focussed and offers a very neat integration-driven theory of structural change.
- It links *structural change* and the changes in geographic dispersion of activity: *"The evolution of sectoral specialization at the country level, reflects the joint dynamics of **local** and **global** integration."*
- **Empirical motivation:** Early stages of the developing process are characterized by sectoral diversification and regional agglomeration (*regional comparative advantage*). At later stages of the developing process sectoral specialization is associated with regional dis-agglomeration (*international comparative advantage*).
- The paper presents a theory that could explain this observed pattern of diversification and agglomeration. They argue that it is economic integration that affects the propensity of countries to move through stages of structural transformation.

What is this paper about

- They present a simple 3-sector, 3-region, 3-country Ricardian model with one factor of production and 3 stages of development.
- They document and test the patterns of sectoral diversification and regional agglomeration using data on sectoral production at regional level, providing *case studies* for Europe, India, China and US, and using data on an international panel of countries.
- The evidence is constructed and tested using three measures of sectoral diversification, regional agglomeration and regional dissimilarity.
- Robustness of results by looking at non-tradable goods and non-trading regions.
- Europe as a natural experiment for the theory.

Comments: (I) Structural change literature

- The relationship between Structural Change and Economic Development is a classic question in economics.
- Recent literature identified two major forces behind this process:
 - Demand side: non-homothetic preferences;
 - Supply side: biased productivity growth.
- How does your theory relate to the literature? The paper is silent on this.
- Comparative advantages in your model, being Ricardian, come from differences in productivities. What about demand forces?

Comments: (II) New Economic Geography literature

- Balassa (1961): economic integration very likely to results in agglomeration effects.
- Krugman (1991) and followers: outcome of economic integration on the location of economic activity (center vs periphery) within integrated area depends on two competing effects:
 - *agglomeration* linked to scale economies
 - trickle-down associated with differences in factor endowments and their relative importance varies depending on the stage of development.
- **European Union:** Krugman (1991) argued that the creation of an integrated single market was likely to increase specialization in the EU, especially in sectors operating under increasing returns to scale. Since specialization was suppose to increase, inter-industry trade would also increase.
- These hypotheses were tested by Sapir (1996), Amiti (1999), Combes and Overman (2004) and Brulhart (2011). All those works do not find a solid casual evidence about the location effects of EU integration.

Comments: (III) The Model and the Data

■ The Model

- 1 Autarky at country level until time 2. Implications of relaxing this assumption? Empirical relevance?
- 2 Labor mobility across countries?
- 3 Separable utility function? Non homothetic?
- 4 Economic integration is considered as a rigid sequential process.

■ The Data

- 1 Major challenge for this analysis is to find disaggregated data.
- 2 The EU case is very interesting, what do the data say, if any, about less homogeneous free trade areas. (eg. NAFTA ...)

Policy Implications

- Very interesting and strong policy implications from this theory.
- Structural change is an effect of economic integration.
- Diversification is often considered as a goal for policy-makers because it limits aggregate volatility, synchronization of the Business Cycle, exposure to terms of trade shocks etc...
- The Political and Economic debate is dominated by:
 - Effect of cheap labor from developing economies on developed manufacturing employment.
 - Call for "Re-Industrialization" of developed economies.
- The lesson to learn from this theory is that diversification is a result of *local integration* and it tends to vanish with *international integration*. Preserving it implies distortions to free trade.