Economic Integration and Structural Change

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This paper

- **Broad question**:
- How does sectoral concentration depend on economic development?
- What explains the allocation of production and economic activity across industries and regions?
- What explains **the evolution** in this allocation of production and economic activity across industries and regions?

Development and diversification

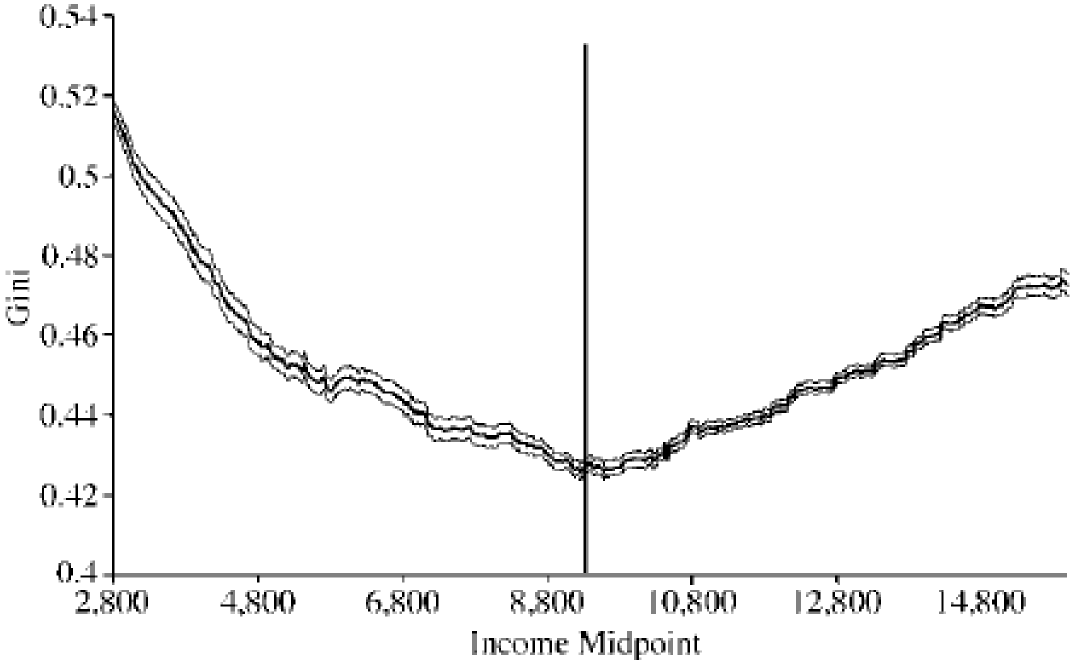

FIGURE 1. ESTIMATED CURVE (NONPARAMETRIC)—GINI INDEX—ILO 1-DIGIT EMPLOYMENT DATA

Imbs and Wacziarg (2003)

This paper

In early stages of economic development:

- Countries tend to **diversify their economic activity.**
- This process is accompanied by **geographic agglomeration** and by increased **structural differences** between regions.

In later stages of economic development:

- Countries tend to **specialize**, and economic activity **dis-agglomerates** and becomes more **similar across regions**.

- => both **local and global economic integration** (trade and comparative advantage) are the driving forces of this structural change.

Discussion

- Contribution:
  - Connects to a literature on **economic geography** (Krugman (1991), Krugman and Venables (1995) etc.), on **structural transformation** (e.g. Caselli and Coleman (2001), Kuznets (1966) etc.), and on **specialization dynamics** (e.g. Ventura (1993), Redding (2002), Imbs and Wacziarg (2003)
  - Focus on **economic integration** at the local and global level as a force of structural change

- Comments:
  - The role of finance and other forces of structural change
  - Convergence in productivity and income
  - Choice of counter-factual

Comment 1

- **Finance** is crucial for economic development.
- Recent research shows that **financial integration precedes real integration** (Ors and Michalski (2012)).
- If finance allows people to trade, and countries to diversify and to transfer risk, **financial integration/development** could be an important determinant of industry specialization and geographic (dis-)agglomeration.
- What is the relation between industry specialization and geographic agglomeration and a measure of **financial development**?

Comment 1

- Potentially **other determinants** of structural change:

    - Preferences
    - Human capital
    - Institutions
    - Culture

- Could be useful to discuss finance (and other) determinants of structural change, and how they are related to economic integration.

Comment 2

- ***First stage:***
  - A country overall is concentrated in a small number of sectors.
  - Overcoming barriers to trade across regions allows the country to **diversify** overall as its **regions specialize in specific sectors**.

  - This intra-national trade tends to **foster economic convergence between regions.**

- ***Second stage:***
  - A country as a whole **specializes** according to its **global comparative advantage.**

Comment 2

- **Cross-regional differences** in factor endowment or productivity should **fade away with intra-national integration**.

- If data exist, **show that productivity levels and income** have indeed become **similar across regions.**

- This evidence could make the authors arguments regarding their channel more convincing.

Comment 3

- The two-stage development process **only visible for traded goods and open regions (countries).**

- Same pattern not present for non-traded goods / closed regions.

- Result consistent with authors interpretation that **economic integration** is the driving force of structural change.

- But **other forces** could (partly) explain pattern.

- Can structural shifts be more closely linked to **changes at institutions** that lead to more economic integration?
  - Free-Trade Agreements (GSP, GATT, NAFTA, China joining the WTO, etc.)

Conclusion

- **Novel and interesting results** on structural change.
- **Robust** results and plausible interpretation.
- **Clarify** the role played by finance/capital.
- Show some results on **convergence in productivity.**
- Link **changes at institutions** that govern trade to the results of this paper.