

# Exports are not enough

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# A New Economic Vocabulary

- Globalization and Technology have transformed the meaning of economic terms
- Manufacturing and Advanced Services have merged
- External linkages are now more complex than just trade
- GDP and GNP have been questioned as to their usefulness
- Occupational classifications have changed significantly
- New terms such as Input Trade Theory have gained prominence

# The traditional perspective on trade

- Comparative Advantage as the guiding principle
- Trade is between nations and involves movement of goods and services from one jurisdiction to another
- Balance of Trade and Balance of Payments are the measuring sticks of success or failure
- The Bretton Woods world as the context for trade policies

# Major changes in trade components

- Intangibles now prevail and are underestimated
- Key components of intangibles trade:
  - ✓ Financial services
  - ✓ Education
  - ✓ Medical tourism
  - ✓ Technology
  - ✓ Others
- The channels through which trade occurs have also changed, as a result air and sea transportation have given way to electronic means
- Internet trade is an increasingly important component

# The Global System

- Production is no longer place bound
- Distance has lost its constraining impact
- Vertical integration has given way to horizontal integration and what has been called the “network” firm
- Intermediate goods are now a key component of trade
- Intra-company trade has also assumed greater importance: comparative advantage is no longer the determinant of trade
- A new globalization centered in Asia is developing, modifying initial expectations of a U.S. and European driven process

# Supply Chains

- Increasingly important in economic development and trade
- They lead to both trade between nations and internal exports, exports that do not cross national boundaries
- The Basic Non-basic Sector distinction becomes crucial in determining economic priorities
- The increasing dependence on “offshoring” or “outsourcing” supply chains has generated uncertainty and generated additional risk factors



# Transfer Pricing and its impact on trade

- Global firms maximize global income
- The location of profit depends on tax considerations and not comparative advantage
- Trade depends on where tax conditions indicate values of traded goods should be assigned
- The result is profit shifting through transfer pricing and other means

## New forms of integration

- Trade is no longer the only channel for integration or even its most important one
- Integration now takes place through:
  - ✓ Technology transfers
  - ✓ Mergers and consolidations
  - ✓ Collaborative arrangements for material and knowledge production
  - ✓ Supply chain networks
  - ✓ Offshoring
  - ✓ External investment by domestic firms
  - ✓ International division of labor within the same firm
  - ✓ Population movements

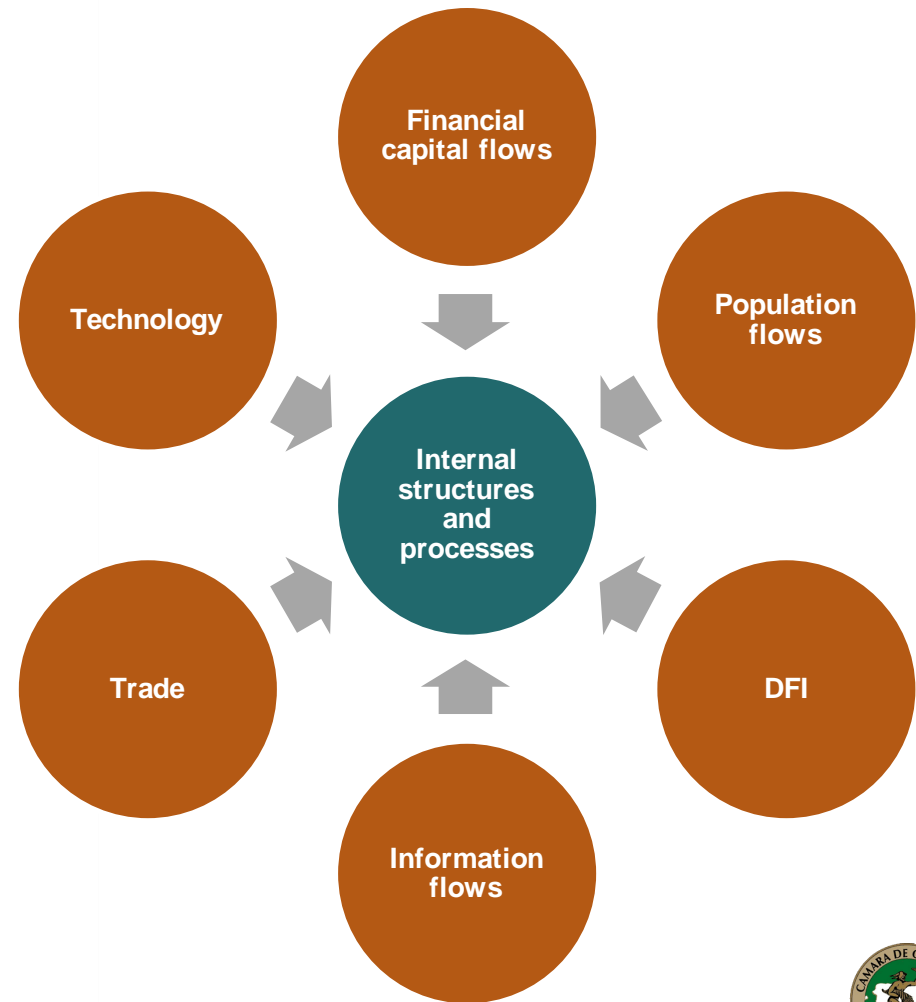


## Policy implications

- Network creation should become a core competence for small, open economies
- Exports should be stimulated but they should not be the only external sector variable
- Effective insertion in the global economy should be the key objective, not just exports as traditionally defined

## An economy as an open system

In a small, open economy linkages with its external environment are determining factors in the organization of internal, economic structures and processes; thus, should be the focus of economic policies. The capacity to analyze the external context and relate it to internal objectives is essential



# Development in a high risk environment

- Change is invariably assumed to be gradual, permitting an orderly adjustment of economic policies
- This is obviously no longer true due to changing geopolitics, technology and restructuring of the global economy
- The result is increased uncertainty and risk for companies and economies.
- For small very open economies like Puerto Rico, economic policymaking must necessarily be linked to the outside world and must be seen as risk management

## Implementing the suggested approach requires

- Understanding global transformations not just in markets, but also in technology, key players, market structures and geo-political conditions.
- Having an institutional framework that makes it possible for the strategic intelligence on global issues to be translated into effective action. Ours was designed for an economic context that is no longer adequate for today's global context.
- The private sector has to be part of these efforts and it also must clearly understand the rapidly changing global context. Reading *The World is Flat* won't do.
- Promotional strategies must have two dimensions: be compatible with global trends and promote stability and sustainability.
- Intuition is no longer an adequate guide for economic policymaking given the complexity that characterizes development processes.

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**Thank you**



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