

Globalization and outsourcing: framing the debate

- Introduction, data and trends
- Making decisions as a manufacturing and service company
- The public policy issue— e.g. is offshoring to China hurt or help a country such as the U.S.?
- Implications for strategy – extent of offshoring and whether and how to stay in an advanced economy

The extent of offshoring is enormous, particularly with the case of China

- China has 13% of world GDP now, 20% in 2015 (Business week).
- Most of 1000 largest US companies will do white collar outsourcing, resulting in 3.4 million job losses by 2015 (Forrester).
- Labor cost ranges from 50 cents to a dollar, with comparable differences for skilled designers and developers. (They develop 5X U.S. engineers - NYT)
- China exported \$600 billion in 04 (BW), \$200B to US (Boston Globe)
- US-China deficit could approach \$150 billion this year (BW).
- EMS (e.g Flextronics) are \$31 billion in China

Extent (continued)

- The U.S. imported 163 billion dollars from China in 03. Walmart represents 12% of China's exports and 1% of its GDP. (NYT)
- Balances have gone from surpluses to deficits of \$25 billion in computer hardware, \$23 billion in electric machinery and parts, \$12 billion in furniture, etc. (BW)
- Surpluses are in aircraft and computer chips but also in commodities such as grain and pulp.

General patterns of development

- Compete on factor costs and industrialize rapidly.
- Raise the standard of living and transition to higher-value innovative products.
- Move out of competitive commodities.

This pattern occurred in Japan, Taiwan, Korea, Hong Kong, and Singapore

Why China is different

- Rapidly developing high tech competitiveness
- Potential domestic market
- While the standard pattern of development will hold (labor and standard of living will go up), there is generally an enormous supply of labor (500 million workers on farms – Tshingua U).
- Note that productivity is not uniformly high

The economists are split on how the latest trends affect developed countries

- Many cite the economics of comparative advantage
- Much job loss arises from improved productivity (comparison with agriculture, in US this has gone from 25% in 70 to 10% today. *The Economist*, 10/1/05)
- Standards rise from the importing of very low costs of goods
- And the US still has much of the world added value in manufacturing (23.8% in 04 vs. 24.6% since 82 – NY Times, 9/4/05)
- But, standards could go down for a number of reasons
 - Wages are driven down for skilled workers such as in software and could extend to a large expanse of the workforce
 - Export prices could decrease due to competition
- Not to mention the disruption that shifting causes
- There is also concern that “hollow” corporations will

So what are the issues for strategy?

- How to decide whether and where to go
 - Global markets and presence
 - Full costs
 - Dynamics
 - Coordination
- How to consider public policy issue and how to stay in developed countries if appropriate