Lecture 5

Outsourcing

- Is Globalization good for developing countries?
  - Example – Radiology
  - X-rays sent offshore, because radiologist time is much cheaper
  - Created a huge fiasco for the US, and actually became an issue in a Presidential campaign (i.e. what’s going on with employment?)

- What is outsourcing?
  - Part of a company goes overseas (part of Foreign Direct Investment)
  - FDI (Foreign Direct Investment)
    - i.e. loaning $$$ to build a railroad, compared to going into a country and building it
    - Export of services – outsourcing

- How do we measure the amount of outsourcing?
  - One method – look at a countries’ balance of payments
  - An indirect example for the US is higher education! Many foreign countries “export” students to learn in US institutions.

- Is the US right to object to outsourcing?
  - In the past, lots of outsourcing came to the US, now a lot of outsourcing is leaving the US
  - If we can show the in and out flows for the US, a concrete argument can be made about outsourcing.

Imperialism

- Many negative viewpoints, but there is a positive viewpoint
  - Argues that colonial governments establish law/order, basic transportation and health, modern financial and legal institutions
  - Is this true? No!
    - Imperialism driven by racism, greed by colonists
    - Law/order only brought about because it’s necessary to safeguard the cash flow
    - Many developing countries already had law/order, but it was different from the imperialist notions of law/order, thus the imperialists saw them as barbaric.

- 12 Countries that succeeded after imperialism and WWII
  - Argentina, Brazil, Chile, Mexico, Korea, Taiwan, China, Malaysia, Indonesia, Thailand, Turkey, India
  - Succeeded primarily because of their pre-WWII manufacturing experience
    - Argentina, Brazil, Chile, Mexico – developed primarily because of immigration (“neo-colonialist”)
    - Korea, Taiwan, Malaysia, Indonesia, Thailand – help of a strong Japan
    - China, Turkey, India – Long history and nationalism
These countries are all self-developed (domestic investment >> foreign investment)
Decolonization brought opportunity to create national firms when the imperialist nations left.

Technology
- As noted before, economic theory is modeled as if technology information is perfectly free (i.e. Adam Smith’s Pin factory from Lecture 1).
- What is technological knowledge?
  - One of the most scarce resources for development
  - Usually proprietary, which makes technology transfer difficult for buyers/suppliers
  - Buyers must be pro-active for development to succeed!
- Where do you get knowledge from?

Technological Capabilities – 4 examples
- Example: textile machinery
  - Textiles are very good for developing countries, because the technology is in the machinery
  - In general, foreign knowledge doesn’t come with foreign investment unless it comes in the form of the product, such as the machinery
  - Issue of knowledge of workers is very important
  - How was this knowledge obtained?
    - Visiting foreign textile companies
    - Hiring foreign skilled workers
- Example: cement industry
  - Like textile industry, it’s a raw-material based industry, and technology transfer occurs mainly within the machinery
  - Quality of material varies, lots of regulation and quality control required for a successful industry.
  - Nowadays, jobs in the cement industry require computer knowledge to manage the process, because the manual labor is almost all mechanized.
- Example: steel industry
  - Huge economies of scale, requires huge ovens/furnaces
  - How did the technology transfer occur? Look at example of S. Korea.
    - Received knowledge from an elite Japanese steel mill
    - New manager of Korean mill went to Japan to work in a blast furnace
    - Also worked with construction crew that built the furnace
    - Thus, technology transfer involved the Koreans going to Japan as well as the Japanese coming to work for the Koreans
    - Excellent example of the pro-active buyer which is essential for strong economic growth.
- Example: pulp and paper
  - Stinks!!!
- Like the steel industry, requires a lot of huge machines as well as very careful process control
- Machinery supplier crucial for technology transfer – important because they are looking to help the customer, and thus assists greatly in the technology transfer
- Again, requires very pro-active work by the buyer of large machines to ensure things are going smoothly.