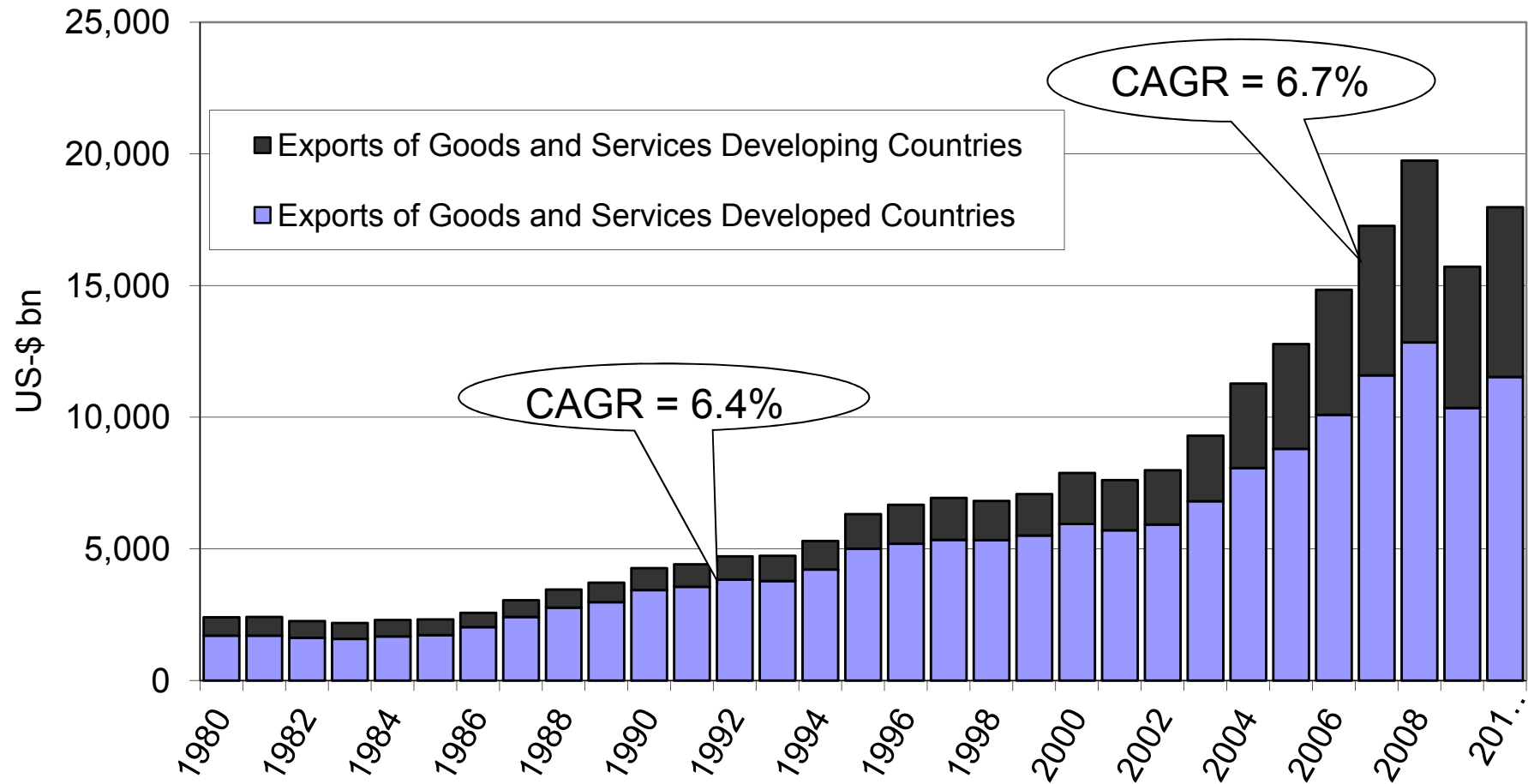


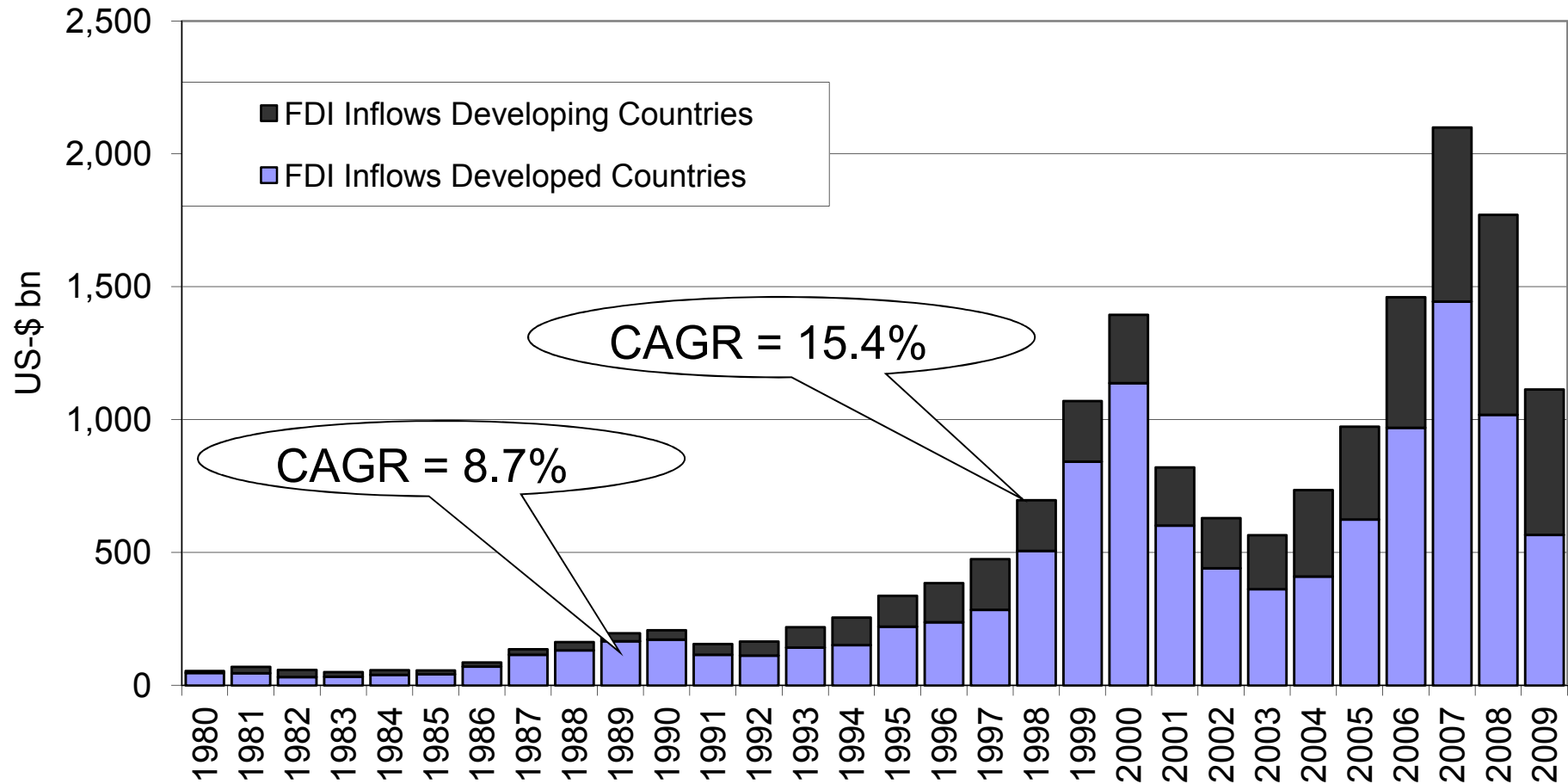
VI. Growing exports and openness



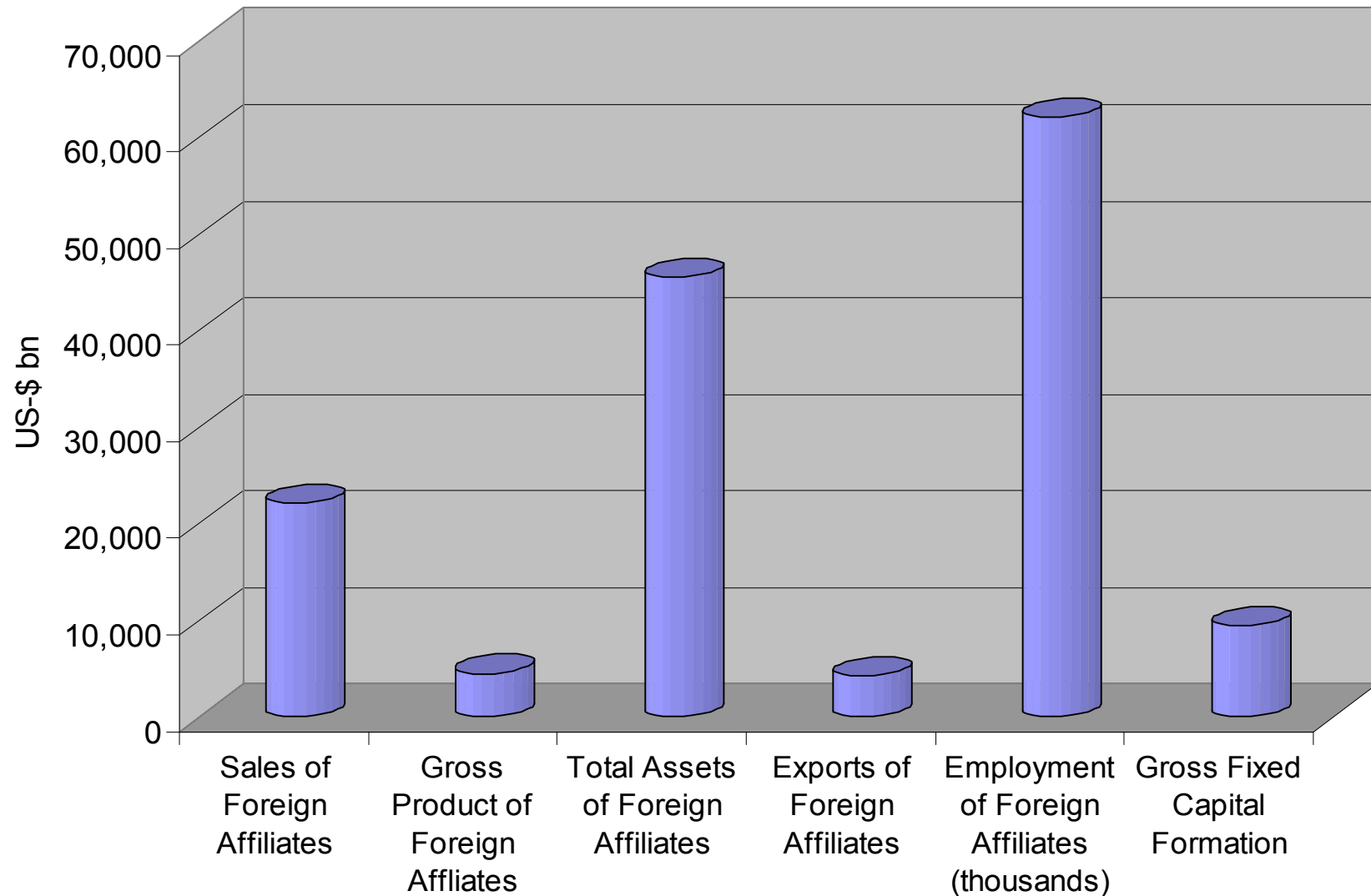
Data source: WEO 04/10

- Exports of goods and services have gone up worldwide
- Developing countries have experienced a recent surge
- As a result of globalization and freer trade
- Countries more intertwined and dependent
- Theories of trade (Smith, Ricardo, Heckscher-Ohlin, etc.)
- Openness and economic growth

VII. Foreign direct investment as characteristic of globalisation



VIII. Indicators of foreign direct investment (2005)

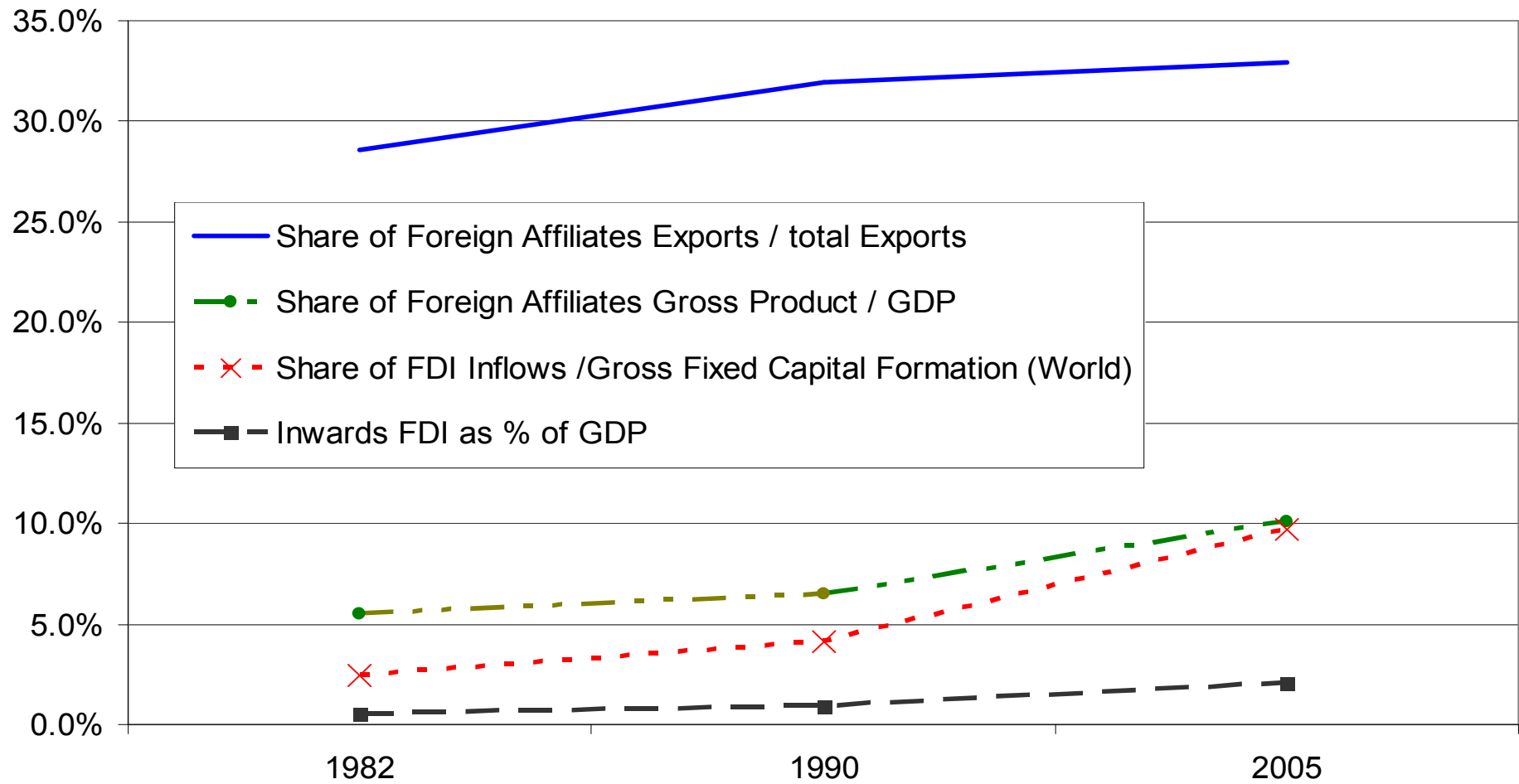


Data source: UNCTAD 07

- FDI occurs when a firm invests in a foreign country (MNEs)
- FDI takes on two main forms: greenfield investment (new operation) or acquisition/merger
- Sustained growth of FDI from the 1990s and on
- Both in developed and developing nations, but especially in the latter more recently
- Slumps in 2001-03 (financial bubble) and 2008-09
- Increasing internationalization (outsourcing/offshoring)
- Changing nature of trade (lower wages)

- Historically, most FDI has been directed to developed countries (e.g. US in 80s and 90s)
- Large and wealthy domestic markets, dynamic and stable economy, favorable political environment, openness
- Shift in the direction of FDI: Asia and Latin America
- China largest recipient (2004-08: \$60 to \$90 bill/year)
- The case of China: shift towards market-oriented economy, liberalization, largest market (1 bill. people), cheap labor, tax incentives, stable macro fundamentals (stable growth, low inflation, stable currency)

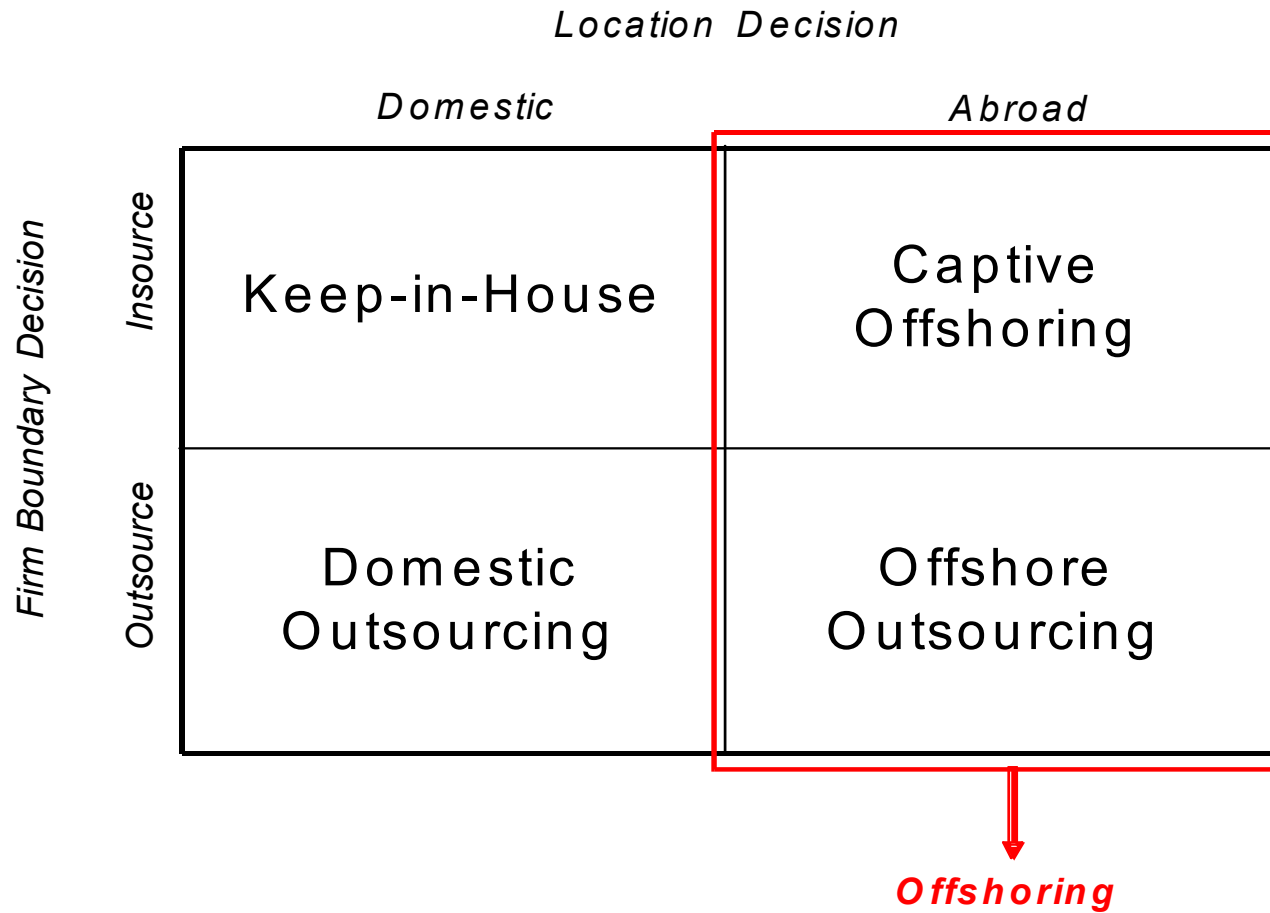
IX. Relevance of FDI



Data source: WDI 05, UNCTAD 07 and WEO 04/07

- FDI has grown more rapidly than world trade and output
- FDI as a way to circumvent future trade barriers
- Many firms believe it is important to have production centers close to major customers
- Important political and economic changes in most of the developing world
- Deregulations, privatizations, openness and removal of restrictions
- Less favorable regulations have increased in Latin America though (e.g. extractive industries as oil & gas)

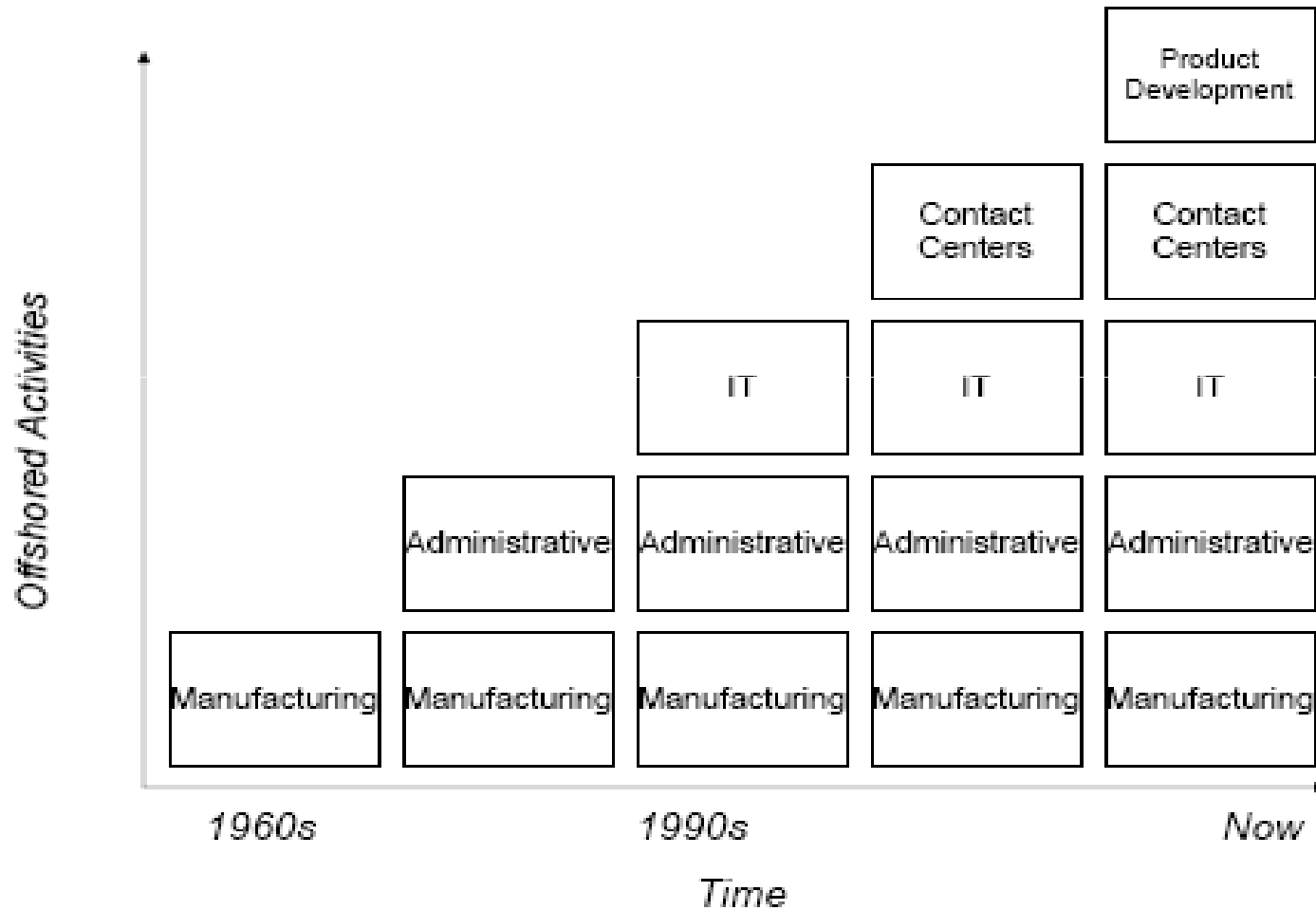
X. Offshoring



- Offshoring is tightly related to FDI
- In a nutshell: offshoring can be defined as a company's practice of migrating activities to offshore locations
- Careful with definitions (captive, third-party...)
- Outsourcing / offshoring
- Create value by globally relocating individual activities
- BPO (business process outsourcing): the term is used to refer to the practice of moving back-office business processes to offshore locations, usually at a low-cost

- Broadly speaking, we can distinguish between materials (or production) offshoring and services offshoring
- Possible drivers of offshoring:
 - Efficiency seeking
 - Competitive pressure
 - Market seeking
 - Knowledge seeking
- Different types of offshoring → different drivers
- Services offshoring due mainly to the great improvements in telecommunication (e.g. Internet)

XI. The dynamics of offshoring



- From less complex tasks (manufacturing) to knowledge-intensive activities (product development)
- First-wave and second-wave of offshoring
- Unexploited pools of talents (India and China)
- Evidence shows that firms are increasingly moving higher-skilled knowledge-intensive activities abroad.
- Internet
- Risk of job losses at home (?)

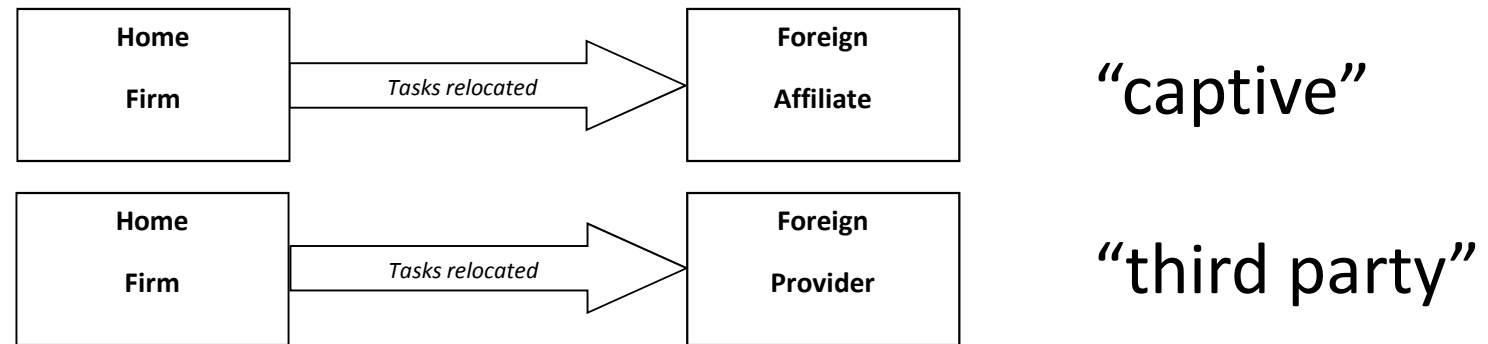
- Offshoring has been growing in recent times
- Manufacturing sector more prominent
- Materials (production) offshoring more important
- Employment effects are negligible
- Productivity effects are possible

Summary so far

- Exports, FDI, and outsourcing/offshoring, all went up in the past decades
- Because of globalization
- Countries more intertwined and dependent now
- FDI v. Offshoring?
- Materials (1st wave) and services (2nd wave) offshoring

Summary - Offshoring

- Offshoring, employment (and wages) and productivity



Production process of **home firm** involves:

High-skill tasks → high-skilled labor (remain domestic)

Low-skill tasks → low-skilled labor (offshored to...)

Production process of **foreign affiliate/provider** involves:

Relatively high-skill tasks → relatively high-skilled labor
(offshored from...)