Loosely defined as the relocation of business processes from one country to another, offshoring is currently one of the most hotly debated aspects of globalization. As part of the global disaggregation of the value chain, it provides a critical template against which to view the intertwined issues of geography and the multinational firm. This disaggregation is the outcome of firms combining the comparative advantages of geographic locations with their own resources and competencies to maximize their competitive advantage. (McCann and Mudambi, 2005). The interplay of comparative advantage and competitive advantage determines both the boundaries of the firm (outsourcing decisions) as well as the optimal location of value chain components (offshoring decisions). The importance of this analysis transcends the strategy of international business, for it is a key aspect of unraveling one of the most critical questions in modern social science – why are some nations rich while others are poor?

One of the most important insights to emerge from Pyndt and Pedersen’s (2006) new book is the crucial link between knowledge and value creation in the Danish context. This ‘smile of value creation’ echoes findings in the US, where ‘taking out costs’ is the main reason to offshore (Lewin and Furlong, 2005). Thus, poor countries that host low knowledge, low value-added offshore operations need to think of these as stepping stones to operations with higher knowledge intensity and wealth generation (see Figure 1). Ensign’s perceptive review draws out the essence of each case study and relates it to international business theory.
References


Understanding the location interdependence of multinational firms and how they agglomerate with one another is critical to designing and improving economic policies. These authors’ analysis, using a worldwide plant-level dataset and a novel index of agglomeration, yields a number of insights into the economic geography of multinational production. In particular, we run a horserace between two distinct economic forces: location fundamentals and agglomeration economies. We find that location fundamentals including market access and comparative advantage and agglomeration economies including capital-good market externality and technology diffusion play a particularly important role in multinationals’ economic geography. Economic geography, the study of the geography of economic activities, developed from a focus on commercial activities and the exploitation of resources for economic gain. The focus of the field includes sectors of economic activity and numerous specialties. But within cities, density may also change over time, as people and firms find it to their advantage to spread out over a wider area. We explore the economic geography of the U.S. from a historical perspective in two geographic scales: regions and urban areas. Mudambi R (2007) Offshoring: economic geography and the multinational firm. J Int Bus Stud 38(1):206–210. Mudambi R (2008) Location, control and innovation in knowledge-intensive industries. J Econ Geogr 8(5):699–725. Price Waterhouse Coopers Canada (2004) Fine balance: the impact of offshore IT services on Canada’s IT Landscape. Price Waterhouse Coopers, Toronto. Samuelson P (2004) Where Ricardo and Mill rebut and confirm arguments from mainstream economists supporting globalization. J Econ Perspect 18(3):135–146.