

International trade and us economy

[Economics](#), [Trade](#)



TOPIC OF THE CASE: TRADE IN INFORMATION TECHNOLOGY AND US

ECONOMIC GROWTH INTRODUCTION: The assignment is about the case

where the organizations in the US were responsible for the development and advancement of information technology which also included the invention of Mainframe and Midrange computers in the era of 1960s and 1970s.

Companies such as IBM and Dell were one of the first companies which led to advancement of information technology.

However, with the high cost of production in US regarding the production of basic components, such were then offshored to foreign companies.

PROBLEMS AND SOLUTIONS: 1. During the 1990s and 2000s computer hardware companies in certain developed nations progressively moved the production of hardware components offshore, often outsourcing them to producers in developing nations. What does international trade theory suggest about the implications of this trend for economic growth in those developed nations? **SOLUTION: INTRODUCTION:**

The theory illustrates that developed nations despite having resources to produce, have pursued in buying the commodities from the foreign manufacturers. This is because of the low cost of importing rather than producing such components. The theory may be described as Comparative Advantage Theory. Such theory states the ability of a nation to produce goods at a lower opportunity cost than other nation. The developed countries were only focusing on producing on high value added components whereas developing nations were improvising on manufacturing basic hardware components.

The demand of these different components were being met by each nation and hence the international trade commencement to meet the demands were utilized by such nations. IMPLICATIONS: The developed nations by practicing the outsource methodology for production of basic hardware commodity benefited it for many different reasons. Such reasons are as follows: * The internal resources which could have been utilized at exorbitant costs can be curtailed and such resources could be used for alternative purposes.

This would mean that the factors of production shall be available for other developments and advancement. * The decrease in cost of a final product would result in increase in the sales volume of such product as demand will increase. This increase in demand would result in an increase in the supply of a commodity therefore, more revenue shall be generated for the government. * An increase in the overseas supply of a final product would implicate a favorable balance of trade.

This shows that exports shall increase over imports during a period. * Productivity of a major industry in regard to an increase in sales will enlighten the economic development of a nation by enhancing its Gross Domestic Product (GDP). This means if information technology industry of a nation improves then the contribution to the GDP of a developed nation shall also enhances. * Development in an industry promotes the job opportunities of developed nations.

This means that with the advancement of information technology sector came with a high demand of related jobs such as computer software engineers and other kinds of computer based services. With this

unemployment also reduced and proved a considerable contribution to the economy. CONCLUSION: With the outsourcing of production of basic commodities to developing nations in the era of 1990s and 2000s, developed nations were greatly benefited by both time and cost to allow them to produce even more technical commodities and exert their skills on advancing in the information technology sector.

Currently such companies like Dell, Intel, Apple etc. are generating even more new products into the world market of information technology and simultaneously contributing to the economy of their respective nations.

2. IS THE EXPERIENCE OF THE UNITED STATES, AS DESCRIBED IN THE CASE CONSISTENT WITH THE PREDICTIONS OF INTERNATIONAL TRADE THEORY?

SOLUTION: INTRODUCTION: Computer companies in the United States like Dell, Intel, Apple etc. have been manufacturing computers in the late 1970s.

However, during the early 1980s, such companies decided to offshore production of basic components like dynamic random access memory chips (DRAMs) to Japan and other countries manufacturers, yet they kept the production of the highest value added components such as microprocessors to themselves and the final assembly. This trend implicates that US companies were producing the final product and in the light of international trade, demand for such computers was also increasing momentarily by other nations.

Also, US was also advancing in other industries which started to utilize IT based products. Altogether, productivity expansion was shown in the US economy. ADVERSE IMPACT ON THE US ECONOMY: Ricardo's insight on comparative advantage theory stated that all countries come out ahead

<https://assignbuster.com/international-trade-and-us-economy/>

when they trade with each other because if a developed nation like the US trade more with a developing nation like Japan with each country specializing in different products then they have a relative advantage.

But this effect had an adverse implication on the job losses in US. By the continuation of globalization, many of the US white collar jobs were at stake. This is because of the production shifting to offshore countries like Japan, China, India, etc. A census by Harvard University labor economist showed that every 1% drop in employment due to imports or factories gone outsourced curtails about 0.5% off pay for remaining workers. And if white collar outsourcing expands, the concluding job losses could cutoff a massive swath of US consumers.

As there is minor doubt that globalization will relatively break in and would cause around 14.5 million workforce loss and more than half the US workforce of around 130 million could feel the blow. DEVELOPMENTS IN THE US INDUSTRIES: Many economists thought that the new offshoring is an accumulated advantage. For one thing, bosses' cost savings should be more than enough to uphold for any remuneration loss impact. By the reduced prices of software and other goods outsourcing could enlighten a new cause of US productivity increments.

This is agreed to say that surely that developing countries like Japan, China etc. will specialize in producing IT commodities and are obtaining jobs in IT related services, but US will still outrun them in areas like drug research or nanotechnology which the developing countries are not even close to achieving. Thus US will have space, technology and other resources to work on the developments of new and technical industries. PRODUCTIVITY

GROWTH IN THE US ECONOMY: Globalization of IT hardware production also created an impact on IT services and software.

With the decrease in the prices of both hardware and software from 10 to 30 percent, these lower prices led into higher productivity growth and an accumulated \$230 billion in additional Gross Domestic Product. Many other industries also started to use computers in their businesses which shown 2. 8% percent growth in the productivity of their sales and profits. 3. WHAT ARE THE IMPLICATIONS OF THE THEORY AND DATA FOR a) GOVERNMENT POLICY IN ADVANCED NATIONS SUCH AS THE UNITED STATES, AND b) THE STRATEGY OF A FIRM IN THE COMPUTER INDUSTRY, SUCH AS DELL OR APPLE COMPUTER?

SOLUTION: INTRODUCTION: Comparative Advantage Theory states that countries should specialize in economic activities in which they have a comparative advantage and trade with others. The government policies should also revert on focusing on that specific area which the country specialize. a) United States government on realizing the productivity growth in information technology trend, promoted the IT related industries on importing basic commodities such as DRAMs and other PC components and by the end of 1990s, IT developed so much so that GDP raised to \$230 billion.

The US government was mastering in information technology very early. In 1990s, it issued an agenda to articulate and implement a vision for a national information infrastructure (NII). This initiative was widely praised at the time as a forward looking technology policy initiative that would simultaneously promote economic growth, improve the lives of citizens, and

<https://assignbuster.com/international-trade-and-us-economy/>

allow governments to provide better services and information to the public- all without new expenditures by the government.

The agenda embraced information technology as an enabling and indeed as transformative means for achieving a broad range of economic, social and political goals. The agenda characterized the US as having become primarily in information based economy and asserted a bright future for computer industries and other related IT industries. b) During the heyday of the technology boom throughout the 1990s many companies experienced enormous success for a few years, however without creating a solid internal framework many of these companies did not survive.

An exception to that business trend is dell, which was able to address its problems associated with rapid growth and build itself into a lasting profitable company. Dell in later 1990s manufactured PCs which no one else could think of, it was specializing in producing tailor made computers for users all over the world. Because of advancing in technical fields and continuing research, Dell proved to be one of the market leaders in computer industry and accounted for much market share in the overall world market of computer industry.

After the era of 1980s, advanced companies in the US computer industries were in business to make a profit and do well for other stakeholders such as investors. Because of this notion, many industries to offshore white collar jobs to developing countries like Japan, India, etc. Many of the economists argued that the loss of white collar jobs was merely a manifestation of companies viewing the world as a borderless market- where they seek

resources wherever they are cheapest, produce in the optimal location, and sell wherever there is demand. CONCLUSION:

USA being the pioneer of Information Technology, developed most of the gadgets that we use today and have provided an ease of access to the computer industry. Despite the job losses after the offshoring process in the US itself, it provided a gain for other developing countries like Japan, China, India and many others. The core aim for the US companies was to maximize profits and expand production to overseas markets to enhance profits and sales. In the end still US economy in the IT related industry tops out in comparison to the rest of the world.