

Essay on the views of blinder and bhagwati on offshore outsourcing of services

[Literature](#), [Russian Literature](#)



The debate of whether offshore outsourcing of services weakens the US economy or strengthens it has drawn various opinions. Some believe that it drains away jobs and investment thus should be abolished, while others look at it as a cost-cutting approach that should be encouraged. In economic terms, offshore outsourcing is tricky and presents a win-lose situation, and not the conventional win-win situation as framed by the economic theory equations. There are winners and losers! The individual companies and the economy at large benefits while the workers who watch as their jobs are shipped overseas lose greatly. The benefits are hard to quantify and are spread out over time while the pain is prominently and quickly felt. Many economists believe that offshore outsourcing is as beneficial as free trade while others warn against the impacts of offshore outsourcing (Panagariya, 2007). Jagdish N. Bhagwati, a professor and a leading expert on trade, is a strong defender of offshore outsourcing. Alan S. Blinder, on the other hand, warns against the impacts of offshore outsourcing. This paper compares and contrasts the views of Blinder and Bhagwati.

Introduction

Offshore outsourcing involves the hiring of a given external organization or company to carry out certain business functions in a defined country where the services or products are not manufactured or developed (Hill, 2011). The antagonists of the idea argue that offshore outsourcing to countries with higher wages basically lead to a reduction in the domestic investment and domestic employment. The public debate on outsourcing is marred with confusions about what specifically the phenomenon of outsourcing represents and whether the conventional principles of international trade are

not applicable to it.

The meaning of outsourcing took a different meaning in 2004. Basically, it referred to a specific segment of the growing international trade in services. The segment consists of arm's length or what Bhagwati (1984) has referred to as " long-distance" purchase of services abroad, principally, but not necessarily, via electronic mediums such as the telephone, fax and Internet. Blinder defines it as the migration of jobs, but not the people who perform them, from rich countries to poor ones (Blinder 2006a). He notes that offshoring means moving jobs out of the country, whether or not they leave the company.

Bhagwati's Views

Bhagwati believes that offshore outsourcing of services is a form of trade and is therefore a positive force that should be encouraged. He looks at the implications of offshore outsourcing and the U. S. economy in four perspectives: the overall welfare, the total number of jobs, the wages or quality of jobs, and the dislocation.

Bhagwati tells that outsourcing results into the expansion of skills abroad, which, U. S already imports (Bhagwati et al., 2004). This is beneficial for the economy as it makes the imported services cheaper. This is true shall there be a possibility of deterioration of terms of trade in the other goods. The primary beneficial impact of outsourcing is the development of sufficiently strong adverse secondary terms of trade in the traded goods, which offsets the possibility of deterioration of terms of trade. United States exports goods that intensive in IT services and imports goods that are less intensive in IT

services. When outsourced, the IT services become cheaper to the U. S., which is beneficial.

Outsourcing also results into productivity gain. Globalization of IT hardware production leads to considerable gains in productivity for the U. S. It leads to cheaper production, which substantially lowers the price. The decrease in price translates into higher growths in productivity which significantly enhances the GDP growth (Bhagwati, 1984). Similarly, the globalization of the production of IT services and software leads to a reduction in the product prices and substantially encourage further growth of IT in U. S. This result boosts the productivity growth further.

Based on the number of jobs lost, Bhagwati states that those who believe that most or all the jobs (mainly the service jobs) would be outsourced, especially to China and India are theoretically and practically mistaken. Not all the service jobs can be outsourced. In addition, most jobs (approximately 70%) in the U. S. are in the service industries that require the physical presence of both the producer and the consumer at the same time thus difficulty in outsourcing. Such industries include restaurants and hotels, catering, retailing, personal care, and tourism among others. This is the practical (empirical) mistake which other economists, including Blinder, make. Theoretically, the mistake made by Blinder and other economists, is that most or all the jobs in the manufacturing and the service sectors would go to India and China due to low labor costs in these countries (Bhagwati, 1984; Bhagwati et al., 2004). This is contrary to Blinder's view of the absolute advantage and the comparative advantage (Blinder, 2007).

Finally, outsourcing does not result in the direct displacement of U. S workers

in all cases. In some cases, it creates services which were not previously available. This opens up the economy to import the products that are not produced in the country. In other cases, outsourcing results into the replacement of capital and not the workers in the U. S. It allows human operators abroad to answer phone calls for various billing and business inquiries, instead of just having these tasks replaced by fully automated electronic response systems. Similarly, it may substitute the use of expensive imaging software, thus beneficial to companies.

Bhagwati acknowledges that outsourcing may lead to loss of some specific job types such as those in the telephone call centers (Bhagwati, 1984).

However, whether the displaced workers, as a result of outsourcing, will get better jobs or not, is the main question. The answer is yes, as explained hereunder.

The displaced workers are most likely to get jobs of higher value. Therefore, outsourcing is not likely lower the overall wage level. From the United States economy, outsourcing is mostly for jobs of low value (Bhagwati et al., 2004). The U. S economy thus loses the low-wage call centers and gains the high-wage jobs in other fields such as medical, legal and other services.

Outsourcing therefore offers America a transition from low-value to higher-value jobs. The U. S. economy is dynamic and grows by continuous infusion of new products, services, and processes, which consequently offers a stream of new jobs.

Blinder's Views

Blinder (2006a) exemplifies offshore outsourcing as an integral part of the world's third industrial revolution characterized with a greater shift to the knowledge economy based on the internet and computers. As regards offshore outsourcing, he sternly warns the likely implications. He bases his arguments on the comparative advantages. He holds a view that offshore outsourcing may be the future's biggest political issue.

Blinder believes, for instance, that due to offshore outsourcing, a country's share of the workforce is likely to shrink drastically. Even though massive offshore outsourcing may not lead to massive unemployment, Blinder (2006a, 2006b) argues that there is likelihood of a shift in comparative advantage. He notes, " Now the comparative advantage in textile manufacturing resides in China and other low-wage countries, and what many are wont to call American jobs have been moved there as a result" (Blinder 2006a, 2006b). He believes that roughly 30-40 million Americans are likely to lose their jobs due to offshoring as a result of foreign competition. Also, he has a view that offshore outsourcing exposes people to the joys of competition arising from cheap foreign labour. Blinder thus predicts that American workers are increasingly going to be pushed into employment in personal services and thus suggests that reorientation of education towards high end personal service professions is appropriate.

Blinder also believes that jobs are likely to be lost. Both jobs provided by wholesale trade and retail trade will be lost since the two have " somewhat greater potential for offshoring" (Blinder 2006a). He believes that the same applies for utilities and transportation. He notes that information service jobs

are jobs that can essentially be delivered electronically. These jobs are thus at risk of being replaced electronic delivery and thus reducing level of employment.

Equally, it is evident that Blinder views massive offshoring of services jobs from richer countries to poor countries negatively. For instance, he perceives offshore outsourcing of services to be the cause of slower average productivity growth in poor countries. He notes that personal service jobs have no rapid productivity improvement and as such, a decline in the nation's growth rate of weighted average productivity is realized due to offshore outsourcing of services (Blinder, 2006b). The opposite reallocation thus goes to countries like China and India thereby resulting in a boost in their rates of productivity growth.

Also, Blinder believes that the US and English-speaking countries will have larger ultimate gains and adjustment costs than the richer countries that don't speak English (Panagariya, 2007). This is because more of the electronically-delivered services can be used easily by English speakers. It may as well be hard to find a pool of potential service workers in countries proficient in either German or Japanese. In effect, Blinder has a view that offshore outsourcing of services is likely to pose extreme transition problems to the U. S. A more than any other continent.

Blinder believes that unlike manufactured goods, both impersonal services and personal services cannot be fully traded electronically as required by offshore outsourcing. He asserts that many impersonal services are destined to be tradable (Blinder, 2007). However, he believes that due to their attributes, most personal services cannot just be traded electronically.

Blinder believes that the services in healthcare will be delivered in person forever even though he gives exceptions for radiology. Services like child care require face to face contact while others like nursing require high touch. Some also demand highest levels of personal trust, i. e. psychotherapy. As Blinder believes, these can be well served electronically via offshore outsourcing.

On education services, Blinder considers that education services are best delivered face to face. Even though electronic delivery will not replace personal contact in k-12 education, college teaching remains very vulnerable (Blinder, 2007). Since tuition for college keeps becoming expensive, cheaper electronic delivery will find its way and will look more imperative. As a result, that best quality of education that can only be delivered face to face is lost due offshore outsourcing.

Blinder also believes that the data systems of USA are not yet fully adapted for the first and second revolution (Panagariya, 2007). Worldwide, there is far less information that regards service sector. The third revolution not only demands better statistical tabs on services but also the collection of systematic data on the jobs delivered electronically over long distances. Blinder believes that no one is currently undertaking this and thus it will be impossible to assess the nature and size of the offshoring problem in the absence of such data.

Over the whole, it is evident that both Blinder and Bhagwati view offshore outsourcing on services as a trend that will never end. It will continue to expand for several years to come. Information technology will continue to turn more and more personal into impersonal services and that China and

India will continue to be main providers of skilled workers. Even though Blinder stresses on loss of jobs, both note that ultimately, the number of jobs subject to offshoring competition will be higher. They both as well perceive offshore outsourcing as the only way of increasing job satisfaction of workers.

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