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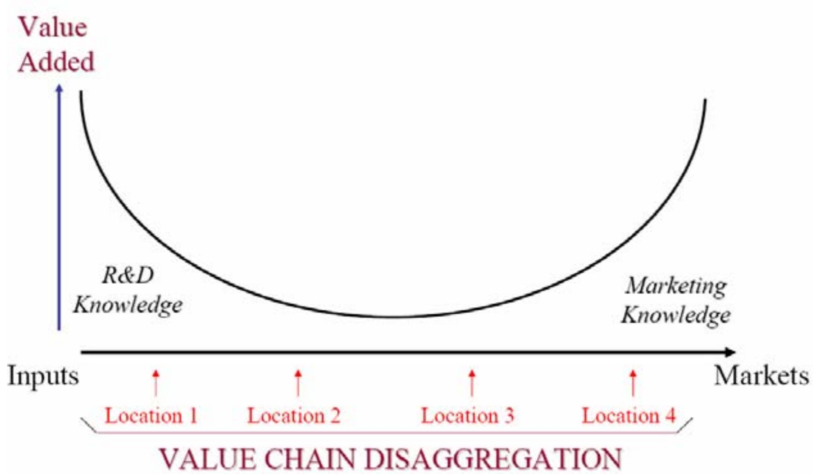
Offshoring: Economic geography and the multinational firm

RAM MUDAMBI, TEMPLE UNIVERSITY
Book Review Editor

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?

FIGURE 1: MNEs, knowledge and location



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

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Pyndt, J. and Pedersen, T. 2006. *Managing global offshoring strategies: A case approach*. Copenhagen: Copenhagen Business School Press, 208 pages. ISBN 87-630-0169-1.

The choice of location for the production plants of multinational firms is an important issue, not least because this decision is accompanied by so many fears brought into public debate. This book analyzes how foreign direct investors choose their locations, while exploring the forces which shape international economic geography. Although these two issues are, to some extent, inter-related, researchers have only recently acknowledged the similarity of economic geography and international business approaches to the empirical assessment of likely causes of the degree of spatial concentration obs Economic geography is the subfield of human geography which studies economic activity. It can also be considered a subfield or method in economics. Economic geography takes a variety of approaches to many different topics, including the location of industries, economies of agglomeration (also known as "linkages"), transportation, international trade, development, real estate, gentrification, ethnic economies, gendered economies, core-periphery theory, the economics of urban form, the relationship

Economic theories of the multinational corporation include internalization theory and the eclectic paradigm. The latter is also known as the OLI framework.Â "Multinational enterprise" (MNE) is the term used by international economist and similarly defined with the multinational corporation (MNC) as an enterprise that controls and manages production establishments, known as plants located in at least two countries.[38] The multinational enterprise (MNE) will engage in foreign direct investment (FDI) as the firm makes direct investments in host country plants for equity ownership and managerial.Â Political Geography: An Introduction to Space and Power. London: SAGE, 2009. 175. Print. Mudambi R (2007) Offshoring: economic geography and the multinational firm. J Int Bus Stud 38(1):206â€“210CrossRefGoogle Scholar. Mudambi R (2008) Location, control and innovation in knowledge-intensive industries. J Econ Geogr 8(5):699â€“725CrossRefGoogle Scholar. Price Waterhouse Coopers Canada (2004) Fine balance: the impact of offshore IT services on Canadaâ€™s IT Landscape. Price Waterhouse Coopers, TorontoGoogle Scholar. Samuelson P (2004) Where Ricardo and Mill rebut and confirm arguments from mainstream economists supporting globalization. J Econ Perspect 18(3):135â€“146CrossRefGoogle Scholar.

In contrast, offshoring by vertical multinationals drives declining employment among non-multinationals in the same industry, and firms opening new affiliates exhibit smaller domestic employment growth than those expanding existing affiliates. Acknowledgements and Disclosures. The statistical analysis of firm-level data on U.S. multinational companies was conducted at the Bureau of Economic Analysis, U.S. Department of Commerce under arrangements that maintain legal confidentiality requirements. Start by marking â€œMultinational Firms' Location and the New Economic Geographyâ€ as Want to Read: Want to Read savingâ€¦ Want to Read. Currently Reading. Read. Multinational Firms' L by Jean-Louis Mucchielli.Â The choice of location for the production plants of multinational firms is an important issue, not least because this decision is accompanied by so many fears brought into public debate. This book analyses how foreign direct investors choose their locations, whilst exploring the forces which shape international economic geography. Although these two issues are, to some The choice of location for the production plants of multinational firms is an important issue, not least because this decision is accompanied by so many fears brought into public debate. Multinationals exhibit distinct agglomeration patterns, which have transformed the global landscape of industrial production (Alfaro and Chen, 2014). Using a unique worldwide plant-level dataset that reports detailed location, ownership, and operation information for plants in over 100 countries, we construct a spatially continuous index of pairwise-industry agglomeration and investigate the patterns and determinants underlying the global economic geography of multinational firms.Â 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. As firms are pushed to be more competitive, they develop outsourcing and relocation strategies, displacing some production activities to new emplacements. These changes have important impacts in some regions and are modifying the economic geography of Europe. This paper aims to present the impact that outsourcing and relocation strategies have across European regions and industries as well as to determine some of the characteristics of the more affected regions most affected. Keywords: European economic geography, outsourcing, firm's relocation. JEL Classification: R11, O52, L24. Suggeste