Abstract:

Production Fragmentation and Outsourcing: General Concerns

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The fragmentation of production processes has spilled over into the international arena – with outsourcing of various production blocks and service activities to a wide variety of countries. This has caused concerns both in developed countries and less developed countries. For developed countries there are concerns with possible unemployment, lowering of wage rates, especially for unskilled workers, and of possible national welfare losses from leaks or transfers of technology to less developed areas. For less developed countries, there exist concerns that freeing up trade in services is harmful because of a lack of comparative advantage, that some countries will not be able to supply parts of fragmented activities because of high service link costs, and that greater relative valuation of human capital to physical capital favors the younger generation in their countries and therefore challenges traditional culture and local regulations.