Contents

List of Figures xi
List of Tables xv
List of Appendices xvii
List of Variables xix
List of Abbreviations xxiii
Acknowledgments xxv

1 Introduction 1
   1.1 The Public Debate versus the Economics Profession 1
      1.1.1 “Ricardo Is Still Right . . .” 1
      1.1.2 Perceived and Actual Effects of Globalization 5
      1.1.3 The “Kletzer Effect” 7
   1.2 A Global Value Chain Approach to Offshoring 10
      1.2.1 Globalization and the Economic Crisis of 2008–2009 11
      1.2.2 The Governance of Value Chains 16
      1.2.3 Re-Embedding the Market 24
      1.2.4 An Interdisciplinary Account of Offshoring 29

2 The New Wave of Globalization 33
   2.1 Measures of Offshoring 37
      2.1.1 The Changing Nature of Trade in Intermediates 37
      2.1.2 Trade and Broader Measures of Offshoring 42
      2.1.3 U.S. Aggregate Offshoring Intensities 44
      2.1.4 U.S. Sectoral Offshoring Intensities 47
   2.2 Drivers of the New Wave of Globalization 48
   2.3 Trade Crisis and Recovery 54
### Contents

3 What Role for Comparative Advantage? 59  
3.1 Introduction 59  
3.2 The Fall and Revival of Comparative Advantage 62  
3.2.1 The Fall of Comparative Advantage 63  
3.2.2 The New International Economics Backlash 64  
3.2.3 The Revival of Comparative Advantage 68  
3.2.4 Models of Offshoring in a Comparative Advantage Framework 71  
3.3 Limits of Comparative Advantage 79  
3.3.1 Conceptual Limits 80  
3.3.2 Historical Limits 94  
3.3.3 Ethical Limits 98  
3.4 Conclusion 100  

4 Lead Firm Strategy and Global Value Chain Structure 103  
4.1 Trade, Profits, and Investment 104  
4.1.1 Cost Markups, the Profit Share, and Offshoring 105  
4.1.2 The Persistence of Oligopoly 111  
4.1.3 Global Value Chains and Heightened Competition among Suppliers 116  
4.2 Endogenous Asymmetry of Market Structure in Global Value Chains 123  
4.2.1 Power and the Distribution of Valued Added 123  
4.2.2 Sustainability of the Asymmetry 128  
4.2.3 What Drives Foreign Direct Investment? 130  
4.3 Determinants of Global Value Chain Structure 135  
4.3.1 Transactions Cost–Based Theories 135  
4.3.2 Resource-Based Theories and the Shift to Core Competence 139  
4.3.3 Beyond Transactions Cost Minimization: Global Value Chain Governance Strategies 142  
4.4 A Classical Approach to Offshoring 148  
4.4.1 Relevance of Ricardian’s Dynamic Gains from Trade 148  
4.4.2 Static and Dynamic Gains from Offshoring 152  
4.4.3 Conclusion 155  

5 Economic Insecurity in the New Wave of Globalization 157  
5.1 Economic Insecurity 158  
5.2 Varieties of Capitalism and the Burden of Economic Risk 163  
5.2.1 Strictness of Employment Legislation versus Labor Support 163
## Contents

5.2.2 The Burden of Economic Risk 166

5.3 Connections between Globalization and Economic Insecurity 168

- 5.3.1 Skill-Biased Shifts of Labor Demand 170
- 5.3.2 Overall Labor Demand 174
- 5.3.3 Labor Share of Income 176
- 5.3.4 Displacement from Trade 177
- 5.3.5 Elasticity of Labor Demand and the Threat Effect 177

5.4 Offshoring and the Labor Market: Econometric Evidence 180

- 5.4.1 Offshoring and Labor Demand in the United States 180
- 5.4.2 Offshoring and the Labor Share in the United States 186
- 5.4.3 Offshoring and the Labor Share: The Role of Labor Market Support 190
- 5.4.4 Actual and Perceived Effects of Offshoring 204

6 Financialization and the Dynamics of Offshoring 210

- 6.1 The Shift to Core Competence, Offshoring, and Financialization 212
  - 6.1.1 Decline in Investment 213
  - 6.1.2 Increase in Financialization 214

- 6.2 Offshoring, Capital Accumulation, and Financialization: Econometric Evidence 223
  - 6.2.1 Offshoring and Capital Accumulation in the United States 223
  - 6.2.2 Offshoring and Financialization in the United States 228

- 6.3 Sustainability and Replicability of the Globalization-Financialization Link 231
  - 6.3.1 Sustainability 231
  - 6.3.2 Replicability 233

- 6.4 Conclusion: Interdependence of Globalization and Finance in the Global Crisis 234

7 Economic Development as Industrial Upgrading in Global Value Chains 238

- 7.1 Vertically-Specialized Industrialization 239
  - 7.1.1 From Import Substitution to Export Orientation to Vertical Specialization 239
  - 7.1.2 Entering Global Value Chains through Export Processing Zones 242

- 7.2 Economic Upgrading versus Social Upgrading 248
  - 7.2.1 Upgrading Defined and Measured 248
Contents

7.2.2 Economic and Social Upgrading at the National Level 253
7.2.3 Economic and Social Upgrading in Global Value Chains 260
7.3 Gender Bias in Industrial Upgrading 273
7.4 Obstacles to Upgrading: Prebisch-Singer Trap for the Twenty-First Century? 278

8 Outsourcing Economics 284
8.1 Global Business and the Polanyian Moment 284
8.2 Trade and Exchange Rate Politics 287
8.3 Profits and the Macroeconomic Imbalances 291
8.4 Capturing the Gains from Globalization 295
8.4.1 Maximizing Dynamic Gains and Reducing Financialization 296
8.4.2 Reducing the Cost of Job Loss and Promoting Innovation 300
8.4.3 Reducing Asymmetries and Increasing Accountability for Social Standards in Global Value Chains 303
8.4.4 Industrial Policy in the Era of Vertically-Specialized Industrialization 306
8.4.5 Alternative Sources of Demand 310
8.5 Capitalism’s Explanation System 313

References 317

Index 345