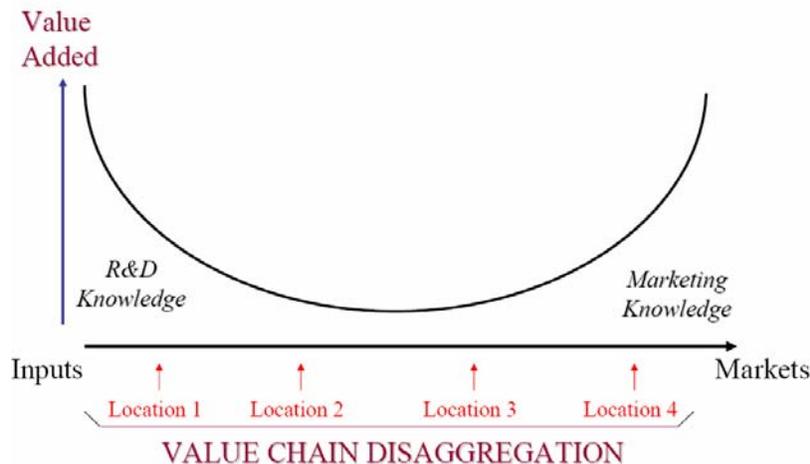


Offshoring: Economic geography and the multinational firm

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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 observed. 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