

What Do We Learn from Trade Theory?

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Trade theory consists of a portfolio of models. What elements might be useful in modeling the offshoring of white-collar services, or do these issues call for an entirely fresh approach? I try to identify some of the important aspects of this phenomenon and then argue that modeling could focus on (a) vertical fragmentation of production, (b) expansion of trade at the extensive margin, (c) fragments that differ in factor intensities and countries that differ in endowments, and (d) knowledge or capital stocks of countries or firms that are complementary to skilled labor, and create missing inputs for countries otherwise well suited to skill-intensive fragments. I argue that we can make good progress by selecting a number of “modules” from existing theory. I use these to formulate a series of simple “template” models which capture many of the characteristics of offshoring, and then use those models to identify the effects of technological or institutional changes which allow offshoring of white-collar services to occur.