

Service Offshoring: Threats and Opportunities

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The recent spectacular increase in trade volumes poses large challenges to businesses and workers who must adjust to a new level of global competition. This by itself does not call for a complete rethinking of U.S. trade policy. What does pose a new policy dilemma is the rise of service offshoring. Service offshoring is the use of workers located abroad to provide sophisticated services to U.S. customers. Service offshoring is currently small. As it grows it will undoubtedly have important effects on America. However, many are concerned that in the longer run of ten to twenty years Chinese and Indian exports will devastate the United States. This concern is misplaced for two reasons. First, it ignores the ironclad law of comparative advantage, which states that no country can export all goods. Second, it ignores the fact that weak institutions in these countries will retard the rate at which these countries develop as powerhouses of innovation.