Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Period#:\_\_\_\_\_ Topic 7.7: Changes as a result of the World Economy

The Impact of Deindustrialization and Outsourcing

**Part I: What Is Deindustrialization and What Regions of the U.S. Has Been Most Impacted by it?**

You probably have heard of the **Industrial Revolution**, a time when manufacturing and heavy industry increased in parts of the U.S. and the U.K. in the 18th and 19th centuries. Well, **deindustrialization** is just the opposite. It's a process in which the industrial activity in a country or region is removed or reduced because of a major economic or social change. There are many reasons why this can happen.

Overall, deindustrialization usually occurs because a particular industrial activity is no longer economically viable. For example, maybe a region containing lots of steelworks can no longer compete with cheaper steel from abroad. When that happens, those steelworks are forced to go out of business.

The biggest example of deindustrialization in the United States is in what's known as the **Rust Belt**, the region in the upper Northeastern United States and Midwest that was once known as the Manufacturing Belt and home to booming industry, but is now full of abandoned or rusted industrial factories. These areas thrived in the late 19th and early 20th centuries, partly because of the Great Lakes, paved roads, canals and railroads that allowed them to get the goods to market. Some of the cities that saw the biggest booms were Chicago, Detroit, Cincinnati, Pittsburgh, and Cleveland.

However, the boom began to wane in the late 20th century. As the steel and iron industries declined, manufacturing was moved to The Sun Belt, southeastern states that had cheaper labor, lower taxes, and less environmental regulation. One effect of American companies moving from the Rust Belt to Sunbelt has been Americans leaving areas of high unemployment in the Rust Belt and moving to the Sun Belt for these new jobs.

1. **What is deindustrialization?**
2. **What happened to the United States Manufacturing Belt?**
3. **Where is the Rust Belt located?**
4. **Sun Belt:**
5. **Where is the Sun Belt located?**
6. **Why are Americans companies relocating their businesses/factories to the Sun Belt?**
7. **Why is internal-migration to the Sun Belt occuring?**

**Part II: How Has Outsourcing Impacted the United States?**

Job outsourcing is when U.S. companies hire foreign workers instead of Americans.[In 2013, U.S. overseas affiliates](https://bea.gov/scb/pdf/2015/08%20August/0815_activities_of_multinational_enterprises.pdf) employed 14 million workers. The four industries most affected are technology, call centers, human resources, and manufacturing.

The main negative effect of outsourcing is it increases [U.S. unemployment](https://www.thebalance.com/current-u-s-unemployment-rate-statistics-and-news-3305733). The 14 million outsourced jobs are almost double the 7.5 million unemployed Americans. If all those jobs returned, it would be enough to also hire the 5.7 million who are working part-time but would prefer full-time positions.

That assumes the jobs could, in fact, return to the United States. Many foreign employees are hired to help with local marketing, contacts, and language. It also assumes the unemployed here have the skills needed for those positions. Would American workers be willing to accept the low wages paid to foreign employees? If not, American consumers would be forced to pay higher prices.

1. **What negative impact has outsourcing had on United States?**
2. **Making connections: What positive impact has outsourcing had on the United States?**

**Part III: Outsourcing Examples:**

* Technology Outsourcing**--**American companies send IT jobs to India and China because the skills are similar while the wages are much lower. A company only has to pay an entry-level IT worker $7,000 a year in China and $8,400 in India.
* Call Center Outsourcing--In the past 20 years, many call centers have been outsourced to [India](https://www.thebalance.com/india-s-economy-3306348) and the Philippines. That's because the workers there speak English.
* Chinese Products--China is the world's largest [exporter](https://www.thebalance.com/exports-definition-examples-effect-on-economy-3305838). But a lot of China's so-called "exports" are really for American companies. A lot of U.S. companies ship raw materials over, and the final goods are shipped back.

1. **Technology and Call Center Outsourcing: What are two explanations why American companies outsource to India?**
2. **Why might many American be in favor of the “Chinese Products” example of outsourcing?**

**Part IV: Why Do Companies Outsource?**

Companies outsource for a comparative advantage.By outsourcing, Companies are able to produce goods or services at a lower cost and make higher profit as a result. Advantages to outsourcing locations combine lower operating costs are the following—labor, improvements in transportation and communication, trade agreements, and relaxation of environmental regulations—resulting in trade/sale opportunities for companies.

* Labor—By outsourcing, companies keep labor costs low by hiring in [emerging markets](https://www.thebalance.com/what-are-emerging-markets-3305927) with lower [standards of living](https://www.thebalance.com/standard-of-living-3305758). That lowers prices on the goods they ship back to the United States, allow Americans to buy these products at a lower price, and result in higher profits for companies.
* Improvements in Transportation and Communication—Time-space compression is occurring, which means that communication and transportation is becoming more efficient and at a lower cost. This allows for companies to be able to separate production and consumption and save money.
* Trade Agreements—Trade agreements such as the North American Free Trade Agreement (NAFTA) between the U.S., Mexico, and Canada reduce trade barriers by eliminating tariffs. A tariff is a tax imposed by a government on imported or in some countries exported goods. By eliminating tariffs and creating free trade zones, the result is outsourcing as companies open factory jobs in industrial parts of the world to save money and cheaper goods.
* Relaxation of Environmental Regulations—Many countries in poorer parts of the world are interested in industrializing and developing rapidly. Due to this, factories in less developed countries have to follow less environmental regulations than they would in more developed countries, resulting in more environmental issues, but higher profits for companies.

1. **What is a comparative advantage?**
2. **Summarize the four comparative advantages of outsourcing:**