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Offshoring: opportunities and threats as services go global

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The offshoring of services from the richer industrial countries – by which services are relocated to other countries – can offer important opportunities to developing countries. But in order to realise these, they need to fight for export opportunities and counteract the protectionist feelings towards offshoring of those living in advanced economies.

Offshoring or outsourcing of manufacturing activities is not new. Developing countries have long benefited from the fragmentation of world production in manufacturing facilitated by economic liberalisation, technical change, improved services such as transport, information and communication technologies and economies of scale.

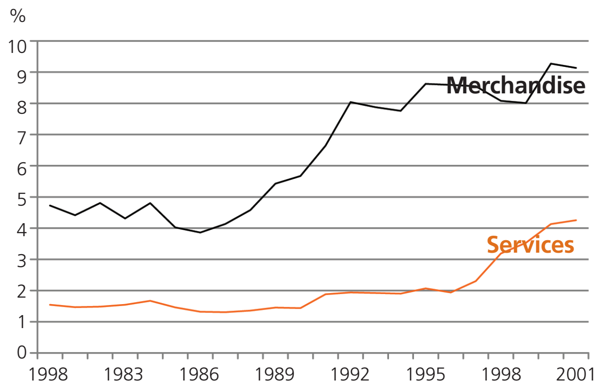
Now these factors are increasingly affecting the services sector itself. The offshoring of information-technology-enabled services has now emerged as a powerful example of offshoring from Western Europe and the US, going far beyond call centres in India, Mauritius, Ghana and the Caribbean. Now it includes health services in the Caribbean and South Africa, education services in South Africa, legal and other business services in India, and shipping services using labour from the Philippines. Developing country exports of services are beginning to have a big impact on the economies of developed and developing countries alike.
International agreements on trade in services cover four modes. With reference to offshoring they include:

- **Cross-border supply:** e.g. call centres in India export services to developed countries
- **Consumption abroad:** e.g. UK and US consumers purchase health services in the Caribbean; Europeans attend South African business schools
- **Commercial presence:** e.g. Indian IT firms have subsidiaries in the US and UK through which they win large IT contracts
- **Temporary movement of people**: e.g. South African doctors, Indian programmers and Philippine nurses enter the UK (temporarily) under managed migration policy to deliver highly needed services

Increased exports in health tourism, business and financial services, shipping, education and of temporary workers are all potentially significant new export earners for many countries and can help alleviate balance of payments deficits. The labour-intensive nature of many services sectors (some tourism, construction and business services and temporary movement of people) is a comparative advantage for several developing countries and can help to promote pro-poor growth.

Services exports can directly affect growth, and are an increasing percentage of gross domestic product in some countries. In India, information technology-enabled services are responsible for a third of the total services exports (see Chart 1). The value added in exports of services increased GDP growth by 0.2 and 0.6 percentage points annually over the 1980s and 1990s. In addition, there are significant indirect effects on poverty in the form of remittances, employment and indirect consumption. A study by ODI of tourism revealed that for 18

Chart 1: Trade as % of GDP, India

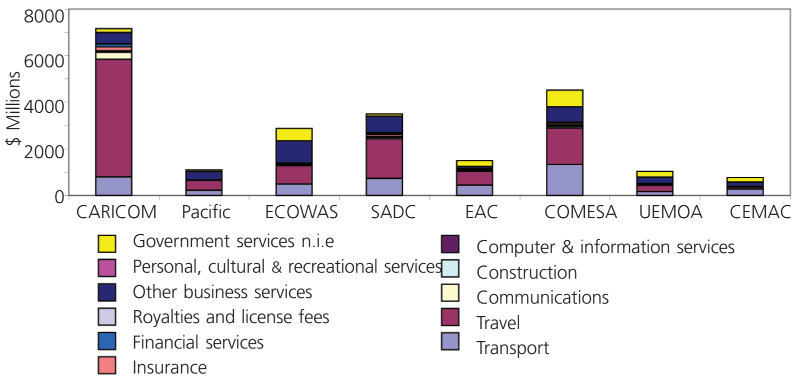


countries it constitutes more than a fifth of GDP.

Finally, increased exports of services offer a welcome diversification away from a development strategy based on agriculture and natural resources alone.

New export opportunities are not easily available to developing countries and they should take advantage of the international regulatory frameworks to combat the protectionist sentiments of richer countries. Some claim that the current protectionism against offshoring (most severe in the US) is already counter to existing rules and commitments under World Trade Organization agreements on services and public procurement. Union and government acceptance of offshoring in the EU stands in sharp contrast to the protectionist mood in the US.

Chart 2: ACP regional services exports by sector, 2000



Source: UNCTAD Handbook of Statistics

The international (GATS) and regional negotiations covering trade in services offer another possibility.

Developing countries can use international services negotiations to safeguard further opportunities to export 'offshored' services, particularly under mode 1 (e.g. cross border supply of IT enabled services) and mode 4 (coverage of more type of workers for longer periods). An ODI study examined whether and how developing countries can ask for special and differential treatment in negotiations covering trade in services (see Box).

Counteracting protectionist feelings may be difficult but rich countries can help here through public provision of good quality information. This can help to debunk the myth that offshoring leads to loss of jobs in the home country. Research has shown that offshoring of services has a positive impact on productivity, growth and employment in the long run in the countries that offshore (whether rich or poor) and those that provide offshored services. The advantages apply to both user and provider – it is a genuinely positive sum game. Recent economic indicators for industries affected by offshoring often point upward (e.g. the call centre industry in the UK at present). The international community can also help by supporting growth and investment in services capacity in developing countries. It can promote trade in the services sector by improving the regulatory framework including support for the development of data protection rules. And it can promote capabilities for more competitive services. Unlike sector-specific international organisations for agriculture and industry (FAO and UNIDO), there exists no organisation to collect relevant statistics and report on the state of services in developing countries (though the World Tourism Organisation and some other specific sector organisations collect their own data).

A 'World Services Organisation' dedicated to monitoring and promoting the growth of the services sector in developing countries could have a significant impact.

Ten options for including special and differential treatment for developing countries in multilateral or regional services trade agreements

- Export capacity building.
- Recognition of professional credentials
- Information centres for exporters of services.
- Increased technology transfer to developing country service sectors using 'home country measures'
- Full credit for autonomous developing country liberalisation of services.
- Fewer or no services commitments by Least Developed countries.
- Deeper developed country commitments e.g. covering more liberal movement of people, safeguarding outsourcing and removing restrictions in specific sectors
- Opening (parts of) developed country government procurement (e.g. IT enabled services).
- Emergency Safeguards Measures for developing countries.
- Flexible implementation periods for developing countries

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