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SOME PECULIARITIES OF OFFSHORING

Offshoring is the practice of basing a business or part of a business in a different country, usually because this involves paying less tax or other costs (Cambridge dictionary).

The offshoring of jobs and infrastructure became a significant factor in global economic development in the mid-20th century. Companies initially focused their outsourcing efforts on low-skilled or unskilled manufacturing jobs and simple assembly tasks (see maquiladora). By the early 21st century, however, the work being exported increasingly included skilled jobs. As communications technologies advanced and educational opportunities increased, many developing countries were able to provide sophisticated labour forces. Corporations around the world began tapping these new workers to staff customer-call centres and to fill jobs in financial management and IT.

The key reasons a business would choose to offshore are the following:

- Cost - often the biggest driver to offshoring is being able to produce goods or have services provided in a far cheaper country.
- Tax & Tariffs - many decisions around offshoring are driven by a desire to take advantage of certain tax or tariff relief in some countries. There are many loopholes in tax and tariff regimes in many countries that can allow companies to generate great savings and import products for use relatively cheaply.
- Control – a key reason a company would choose to offshore is that they don't want to relinquish control of part of their production (or internal business services) to a third party. Some production inputs are very sensitive or time dependent and if a supplier didn't deliver precisely as expected it could be disastrous to the company doing the outsourcing. In these situations a company may choose to offshore and ultimately retain full control and responsibility.
- Stable economic situation and political stability.
- Local funding opportunity – a company could tap into local bank funding which could be at very low interest cost.

Offshoring is primarily a geographic activity. In the West, goods are expensive because the staff required to produce and distribute them are costly. In the developing world, by contrast, vast inexpensive labor pools provide an easy bedrock for a low-cost economy.

The most attractive world offshores are Cyprus, Luxembourg, Bahamas, Singapore, Bermuda, British Virgin Islands, etc.

Offshoring does not only relate to the production of physical goods, but also services. The Indian IT industry, for instance, has been powered by waves of offshoring by technological companies in the West. India has emerged as the dominant player in offshoring, particularly in software work. Three factors came into play to make this possible. First, in the 1970s the Indian government put in place regulations that mandated that all foreign ventures have Indian majority ownership. Fearing government takeover, many large U.S. corporations, such as IBM, departed, leaving India in the position of fending for itself to maintain its technical infrastructures. This quickly forced the creation of schools to train students in technology.

Next came the global ubiquity of the Internet and massive telecommunications capacity, which enabled companies to get computer-based work done seemingly anywhere, including India.

Third, as the year 2000 approached, organizations hired service providers to update their legacy program code. Much of this work was handled in India, where English was commonly spoken, where there was a large and highly trained population of software engineers, and where labor costs were much lower than in developed countries. Y2K work proved the merits of an offshore labor force, and companies have continued tapping the talents and skills (and cost savings) made available by Indian offshore service providers. Major companies working as offshoring service providers in India include Tata Consultancy Services (TCS), Infosys and Wipro.

It is evident that offshoring has some disadvantages. Like all decisions about where to locate business operations, there are potential drawbacks to offshoring that include:

- longer lead times for supply and risks of poorer quality
- implications for CSR (harder to control aspects of operating long distances away from the home country)
- additional management costs (time, travel)
- impact of exchange rates (potentially significant)
- communication (language and time zones).

The offshoring activity has the potential to save money for both seller and consumer. Advocates argue that these actions can stimulate wealth in some of the world’s poorest countries and provide jobs for those who are in the deepest need of aid. But critics contend that this is merely self-serving rhetoric and that offshoring is a device to exploit some of the world’s most vulnerable populations. Workers from such countries have no legal protection and face either harsh conditions or hunger.