

Services Offshoring

A development opportunity difficult to measure

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Measurement Issues Arising from the Growth of Globalization

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Outline

- ❑ Measuring offshoring – why important?
- ❑ Comments on the 2 papers
- ❑ US vs Global situation
- ❑ UNCTAD initiative on measuring offshoring



Better measurement of offshoring – why is it important?

- ❑ Seems to be growing fast in world trade
 - o Exports of IT and ICT-enabled services (IMF BOP data)
2000-07: from \$650bn to \$1,635bn (Everest Research Inst)
 - o Market for offshoring 2004-08: \$30bn to \$90 bn
- ❑ Poor and imprecise data → risk of under/over-estimation
- ❑ Phenomenon set to expand fast in the future
 - o Better infrastructure (broadband connectivity)
 - o Improved supplier capabilities
 - o Learning by doing – discovery of new business models
Competitive pressure on firms (accentuated by crisis)

Implications of the Crisis

IT and ICT-enabled services relatively resilient

- ❑ Trade in ICT services less affected than in ICT goods
- ❑ Offshoring of services a way for firms to reduce costs and enhance competitiveness
- ❑ New companies will offshore new and more services
- ❑ *Medium to long term prospects:* as global economy recovers, scope of offshoring of services set to widen
- ❑ 80% of incremental revenue in offshoring industry until 2020 expected to come from (Nasscom and McKinsey, 2009):
 - New industries (public sector, health care, media, utilities)
 - New customers (especially SMEs)
 - New countries



Two very interesting papers

- ❑ Important and constructive contributions
- ❑ Good illustrations of existing data gaps and needs to assess impact of trade in services
- ❑ Timely: offshoring set to grow
- ❑ Business functions dimension very important
 - o Fragmentation of manufacturing affects only goods sector
 - o Fragmentation of business services affects *all sectors*
- ❑ U.S. leader in offshoring – data very important
- ❑ Proposals would mean great improvement

Some reflections

- ❑ Offshoring goes both ways
 - US companies setting up contact centres in Costa Rica
 - US big recipient of FDI in R&D
- ❑ Offshoring has created many new US-owned companies
 - Many large "contract service providers" are U.S.-owned
- ❑ Enterprise vs. establishment level data
- ❑ Host-country dimension – lessons from India?
- ❑ *Current* US data "best in class"...

US vs Global Situation

- ❑ More and more countries affected by offshoring
- ❑ Lack of common framework
 - Balance of payments data: patchy and lack details
 - Data on FDI projects: incomplete; outsourcing not captured
 - Consulting firms' data: unclear definitions, methodologies and assumptions
- ❑ Growing demand for reliable data from policymakers
 - Measuring magnitude of offshoring
 - Benchmarking
 - Impact assessments



Partnership on Measuring ICT for Development

- ❑ Response to WSIS request to produce official statistics to monitor information society
 - o “Global” members international level: ITU, OECD, UNCTAD, UNESCO Institute for Statistics, UN-DESA
 - o “Regional” members: UN regional commissions and Eurostat
- ❑ UNCTAD responsible for statistics on “core indicators” related to ICT trade
 - o Two core indicators on trade in ICT goods
 - o *No core indicators on trade in ICT services*

UNCTAD Initiative

❑ Stock-taking exercise

- o What approaches are currently used to measure offshoring?
- o Benefits and limitations
- o Background paper

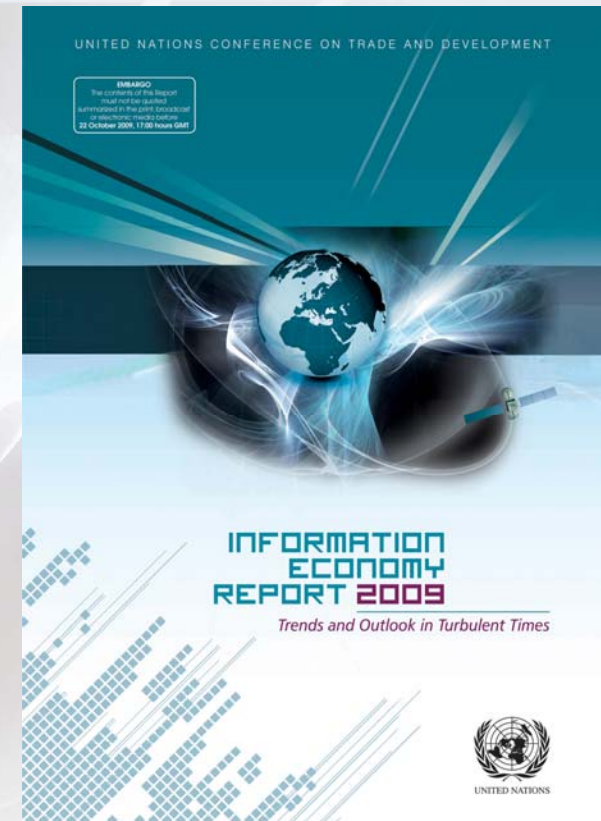
❑ Establishment of working group in 2010

- o Comprising NSOs, Ministries, Partnership Organizations, experts and private sector representatives that should
 - Assess existing approaches and methods against policy needs
 - Identify ways to harmonize data collection and reporting
 - Propose concrete steps to improve the situation



Information Economy Report 2009

- ❑ Fourth edition of an annual publication
- ❑ Published by the United Nations Conference on Trade and Development
- ❑ Chapter I: Monitoring Connectivity for Development
- ❑ Chapter II: Making Use of ICTs in the Business Sector
- ❑ Chapter III: Evolving Patterns in ICT Trade
 - *One section on "Offshoring"*



Thank You!

The Information Economy Report 2009
can be downloaded **free of charge** at
www.unctad.org/ier

