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GLOBALIZATION THROUGH OFFSHORED OUTSOURCING: BENEFITS & CONSEQUENCES

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ABSTRACT

Recent globalization efforts have utilized and focused on offshored outsourcing of non-manufacturing processes and business activities, with authors arguing the many different facets of the concept and its implications. The ongoing debates have revolved around issues related to benefits for outsourcing countries and countries that are recipients of outsourcing, the types of skills and associated unemployment, the types of industries that are being most effected, and even its political implications. However, a case could be made that this is an evolutionary step in globalization and is a process that continues globalization, accelerated and enhanced by Web and cutting-edge developmenst in communication technologies. Therefore, as it was for earlier manufacturing based globalization efforts, this process also has positive and negative consequences as industries are reshaped, economies and world politics changed, all in one generation. This paper discusses various issues related to globalization of non-manufacturing business processes through offshoring and presents the consequences of these ongoing efforts.

Key words: *Globalization, outsourcing, offshoring, investment risk, opacity index, multinationals, modular company, Europe*

1. INTRODUCTION

Around the world there are growing concerns about globalization among the general population and governmental organizations. Companies' attempts towards globalization have come under close scrutiny and the 1997 financial crises in East Asia, Argentine economy's meltdown in 2000, and successive financial crises in Brazil in 1999 and 2001 have created negative views of the whole concept and the process. Even though robust global economic development has alleviated most of these fears over time, a renewed fear of globalization is surfacing in Europe and United States.

In Europe, foreign takeover fears permeate Poland, France and Italy. For example, Poland is very concerned about foreign capital taking over the Polish banking system and in France and in Germany working people have been linking globalization with pressures to dismantle the social democratic state. Among Americans, outsourcing of service-sector jobs has become a top concern. This new opposition coming from educated white-collar workers, as well as the continuing resentments among blue-collar workers, resulting from loss of well-paying manufacturing jobs. In spite of these concerns and despite the global tensions during 2003 (the last year for which complete data are available), global trade increased by 5% and development assistance reached a record $69 billion. (Kearney, 2006)
Manufacturing outsourcing/offshoring has been the main focus of the globalization efforts for the past 30 years, displacing labor and eliminating millions of jobs during the last two decades. The brunt of the early job losses were in developed countries, primarily in United States of America, as the production of many products moved to countries like Taiwan, Korea, China, and Thailand. These efforts, initially seen as cost saving measures, have had far reaching implications for restructuring of numerous industries, among which are PC industry and sports shoes and apparel industry, entry into developing markets (e.g. Motorola in China), and have had significant impact on international trade and trade balances (e.g. during 2005, U.S. manufacturing exports totaled USD807billion vs. imports of USD1.47trillion). Furthermore, in United States, as manufacturing shifted to other countries, the percentage of locally produced merchandise purchased dropped from 96% during the 1980s to 90% during mid-1990s and in 2005 to 75%, with the rest coming from imports.

Globalization has reached an unprecedented scale over the past few years and it is moving so fast that now even the knowledge economy is being redistributed around the world. A recent report by Deloitte Research forecasts that by 2010, the world's 100 largest financial institutions will move $400 billion of their cost base offshore, saving an average of just under $1.5 billion annually each, representing more than 20% of the financial industry's global cost base. (Wu, 2004) McKinsey also forecasts significant growth in offshoring of business processing in banking and insurance services, worth $23 billion to $25 billion in the next five years. Among cross-industry functions, human resources (HR), finance, and accounting appear to provide growth opportunities in offshored business processes. (Chaktabarty, Gandhi, and Kaka, 2006)

Even though more U.S. employers have embraced globalization, 44% stating they “will offshore to some degree” and 10% stating “will be offshoring any white-collar job possible” by 2008 (compared to 33% and 4% in 2003, respectively), globalization through offshoring is not an U.S. only phenomenon. (Bernstein, 2004) It is a process that has been used and continues to be used by most developing countries. A recent survey by N. Aggarwal (2004) shows that 40% of Western Europe's 500 largest companies have already begun moving their service operations abroad. According to Forrester Research, the Cambridge, Mass., consulting and research company, European spending on offshoring is expected to rise to more than €129 billion (USD156 billion) in 2008 from €82 billion (USD99.16) in 2002, and the number of firms that spend more than 20% of their outsourcing budget abroad will go from 7% in 2004 to 20% in 2008. Nevertheless, despite the growing interest, European companies still offshore far less than their U.S. counterparts, of which more than 20% have spend over 20% of their outsourcing budget offshore during 2004. (Campoy, 2004)

2. BENEFITS and CONSEQUENCES

2.1. Cost Benefits of Globalization through Offshored Outsourcing

To most executives in the United States and Europe, offshoring means cheaper wage rates for labor-intensive activities and, in today’s integrated global economy, the countries that have been able to provide a comparative advantage in an industry have been able to secure investments and have been the primary focus of the globalization efforts of these executives. The primary recipient countries of early offshored outsourcing were Taiwan, Korea, China, and Thailand. More recently the two dominating recipient countries have been China (primarily for manufacturing) and India (primarily in services), with some others just coming into play. A recent study by McKinsey (Beshouri, Farrell, and Umezawa, 2005) identified Philippines, India, Malaysia, and China, as the top four countries that are most attractive to U.S. companies for offshoring location. Using "vendor landscape", "access to market" (domestic as well as access to nearby countries through trade groups), "risk profile", "business environment", and "quality of infrastructure" as the primary measures variables, the calculated "total cost" (including corporate taxes, costs of labor and infrastructure) attractiveness (1= most attractive, 5 = least attractive) measure was 1.5 for Philippines and India, 1.7 for Malaysia, and 1.8 for China. The remaining top ten countries listed were 2.2 for Brazil and Mexico, 2.6 for Czech Republic and Hungary, Poland (2.7), and Russia (3.0).

In addition to China and India, Philippines and Morocco are also becoming beneficiaries of increasing globalization by U.S. and European companies. Two primary reasons for attraction of Philippines by U.S. companies are its second-lowest hourly wage for offshoring professionals, at 13% of the U.S. level (the salaries of Indian workers are the lowest, at 12%) and its larger pool of workers suitable for multinational compa The issue of skilled labor at a cheaper cost is becoming a very limited commodity in China and India, which has captured two-thirds of the current global market for offshored IT services and almost half of the global market for offshored business processes. Both countries have reached a point where they have to address a few key issues, such as bridging a potential shortfall of nearly half a million qualified workers and reining in the increasing labor cost. China's labor turnover rate surpassed 20% last year and, in the regions where skilled labor is available, the labor costs have increased 10% in 2005 and a January report by American Chamber of Commerce in China found that rising labor costs have significantly decreased margins in 48% of U.S. manufacturers in China. (Roberts, 2006) Both of these countries, especially India, are facing major infrastructure limitations and need to make significant investments to improve the country's infrastructure. This provides opportunities for other countries which have not been as large recipients of offshored services and processes.
nies. For example, for every 100 college graduates with finance and economics degrees, executives of multinationals would hire 30 in the Philippines and 15 in India. (Beshouri, Farrell, and Umezawa, 2005) While Philippines is gaining favor with U.S. companies, Morocco has identified an opportunity to become an offshoring center for Europe's French- and Spanish-speaking companies. Morocco's appeal includes

wages for white-collar workers that are half those in France, a relatively high proportion of university graduates, and many citizens who speak French. (Tetrault, Taoufiki, and Tazi-Riffi, 2005)

Even though there are significant cost-saving opportunities for Europe (where offshoring is not as prevalent as it is in U.S.), with services costs dropping by 50% to 60%, the cost savings potential seem to have a geographical bias. On one hand, IBM estimates that European companies have so far outsourced less than 8% of the USD19trillion they spend each year on sales, general, and administrative expenses, and many companies have stated that they can offshore more than one-half of this work. (Tyson, 2004) On the other had, according to McKinsey Global Institute, there are significant differences in cost savings by U.S. companies (saving USD0.53 of every dollar) vs. German and French companies (saving €0.36 for every euro) of corporate spending on jobs they send abroad. While most of corporate spending from U.S. companies has gone to India, for France, it has been to Eastern Europe, India, North America and North Africa, and for Germany, it has been to Eastern Europe and India. Offshoring to India and China cuts costs by 85% to 90%, while offshoring to North Africa and Central Europe reduces costs by only 70% and 55% to 75%, respectively. (Blanco, Farrell and Labaye, 2005)

Cost savings also vary over industries, with bigger gains in service industries versus retail. The drive to increase profit margins has retailers and consumer-goods companies sourcing more products from China, Eastern Europe, India, and other low-costs regions. Yet such savings can come with negative hits to supply chains, such as longer lead times, unreliable delivery, and slower turns on inventory. According to a study by Accenture (a consulting firm), based on interviews with 238 procurement executives representing a range of industries, U.S. and European companies plan to increase the amount of goods and services they source from suppliers in lower-cost countries by 85% within the next two to three years. An earlier study by the same consulting firm also found that between 2001 and 2003, annual inventory turns in the retail industry declined from 14 to 11 and in the consumer-goods industry from 17 to 13, forcing businesses to carry high inventories to avoid low product availability and compensate for the increased risks of delays or undeliverables from suppliers all over the world and far away. (Sullivan, 2005)

2.2. Country Benefits: Impact of Globalization on Unemployment/Employment

There are contradictory arguments on the impact of offshoring on employment. On one side of the argument are projections about the types of jobs that will be offshored and their negative employment consequences for the outsourcing country. A compelling supportive argument uses the advances in the digital revolution and the dramatic fall in international telecommunications costs as the impetus that provides the opportunity for white-collar jobs—once insulated from global competition— to be offshored to low-wage nations such as India, where labor can be hired for as little as one-tenth its cost in the United States. According to Forrester Research, an estimated 315,000 U.S. services jobs had been moved overseas by the end of 2003, and by 2015, roughly 3.3 million U.S. business-processing jobs will be performed abroad. (Brainard and Litan, 2004)

On the other side of the argument is the contention that the industries that are moving jobs out of the U.S. are the more backward industries and U.S. remains the cheapest place in the world to produce for many of the more advanced industries. Peter Drucker, the well known management professor and consultant, represents this camp. He argues that wage cost is of primary importance today for very few industries, namely ones where labor costs account for more than 20% of the total cost of the product—like textiles, and the proportion of the cost of a typical American product attributable to labor costs are continuing to shrink. Using his consulting experiences with one of the world's biggest auto-parts makers as an example, he concludes that their internal cost structure show that it is still very much cheaper to produce in U.S. than to import, because the parts, while labor-intensive, are also very skill-intensive to design and make. He continues to argue that U.S.A. imports twice or three times as many jobs as it exports, jobs created by foreign companies coming into the U.S. and as such, U.S. is exporting low-skill, low-paying jobs but are importing high-skill, high-paying jobs. (Schlender, 2004)

The recipient countries are significantly impacted by globalization efforts of companies from developed countries. These benefits exhibit themselves not only through increases in the level of employment in these countries but, also in the increased earning power of the work force. For example, in India, Wipro, an Indian outsourcing firm, is continuing to hire staff rapidly and it has added more than 5,500 employees in the recent quarter, lifting its total work force to about

37,000. India today earns more than $17 billion from corporations, world-wide, seeking low-cost overseas talent to do everything from writing software to collecting debts to designing semiconductors. (Solomon and Kranhold, 2005) C3HTMT, a Philippines company located in Manila, has grown from 700 employees three years ago to 2,000 by the end of 2005. It is one of dozens of call centers that have sprung up in the Philippines in the past few years, an industry that now employs more than 70,000 people and is one of the fastest growing sectors in the Philippine economy. This job has also become one of the most attractive jobs (starting salaries are from $210 to $300 per month for a 40-hour-a-week job) for fresh college grads in Philippines. Unlike the U.S., where call center jobs have a stigma of being low-paid, tedious, and dead-end, in the Philippines call centers are seen as a gateway to exciting careers. (Balfour, 2006) McKinsey Global Institute (MGI) also estimates that, from 2003 to 2018, business process offshoring in Morocco could create a total of some 100,000 new jobs. (Tetrault, Taoufiki, and Tazi-Riffi, 2005)

2.3. Country Benefits: Financial Impacts of Globalization

There are some figures that support creation of mutual economic benefit for the outsourcing and outsourced countries, presenting a case against offshoring being a zero-sum game. A 2003 study by the McKinsey Global Institute (MGI) showed that offshoring creates wealth for the United States as well as for India, the country receiving the jobs. For every dollar of corporate spending outsourced to India, the U.S. economy captures more than three-quarters of the benefit and gains as much as USD1.14 in return (transfer to India creates around USD1.46 in new wealth, with USD0.33 going to Indian companies). (Agrawal and Farrell, 2003) Among European countries, France earns back €0.86 and Germany recaptures €0.74 for every euro of corporate spending on service functions moved offshore. These values are based on the values of labor reemployed, direct benefits (exports to recipient countries), and cost savings for customers. For U.S. they are USD0.57, USD0.09, and USD0.50; for France, €0.44, €0.05, and €0.36; and for Germany, €0.34, €0.03, and €0.36, respectively. (Blanco, Farrell and Labaye, 2005) It is also estimated that, from 2003 to 2018, business process offshoring in Morocco could add 0.3% annually to its GDP growth, reduce its international trade deficit by around 35%, and create a total of some 100,000 new jobs. (Tetrault, Taoufiki, and Tazi-Riffi, 2005)

In addition to recaptured wealth, there are other benefits for the offshoring countries. Even though a recent study by the consulting firm McKinsey and Company estimates that the net cost savings of moving some jobs offshore is about 50%, economists such as Catherine Mann of the Institute for International Economics and, more recently, the President's Council of Economic Advisers point to other benefits of offshoring to the U.S. economy. They argue that, because it helps lower overall costs and prices, resulting lower inflation and higher productivity allow the Federal Reserve to run a more accommodative monetary policy, facilitating a fast paced economic growth and creating the conditions for higher overall employment. Catherine Mann has estimated that GDP growth would have been lower by 0.3 percent a year between 1995 and 2002 without foreign outsourcing of jobs in information technology. (Brainard and Litan, 2004)

2.4. Political and Regulatory Environments and Globalization

Offshoring is frequently blamed for the recent slow pace of recent job growth in the United States, and the response from U.S. Congress has been to include in a fiscal 2004 spending bill a provision prohibiting federal agencies from outsourcing some kinds of work to private companies that use workers in foreign countries. 23 states are also considering similar restrictions and 4 have already passed them. An example of one such effort is the proposed state Senate bill in Colorado, which was intended to bar the use of offshore workers to perform services such as call-center operations. (St. John, 2005; McDougall, 2005)

Outsourcing also remains a hot political issue in Europe. Increased economic patriotism in Europe has initiated a series of government moves to block foreign takeovers (including globalization attempts of companies from other EU countries and have intervened recently to protect their corporate "champions" from rivals in other European Union states). Even though, with its policy of "*patriotisme economique*," France has attracted much of the blame for the outbreak of inwardness, other European governments have also exhibited similar behaviors. Spain, whose economy has boomed because of foreign investment (globalization), introduced laws that are tailor-made to thwart a bid for its national electricity champion Endesa by Germany's E.On; Poland blocked the acquisition of a Polish bank by Italy's UniCredit; and even Luxembourg seriously considered new rules that could have thwarted Mittal's bid for Arcelor, its biggest employer. (Frost, 2006) These actions of European countries have had a major negative influence on

European companies exploring globalization of their processes. Around 30% of the companies, polled in a recent survey by Munich-based Roland Berger Strategy Consultants and the U.N. Conference on Trade and Development, said they considered public backlash to be a serious risk of offshoring.

2.5. Security and Investment Risks of Globalization

There are also identifiable investment risks that companies have to consider as part of their decision to offshore. These risks have been identified and quantified, annually since 2000, by J. Kurtzman, G. Yago, and T. Phumiwasana (2004). These researchers have studied 50 countries to create a country-by-country ranking (data complied from 70 different sources, 40 of which were directly comparable) of opacity -- the degree to which the country lacks clear, accurate, easily discernible and widely accepted practices governing the relationships among businesses, investors, and governments. They have identified and used five items as components of their opacity index: corruption, efficacy of the legal system, deleterious economic policy, inadequate accounting and governance practices, and detrimental regulatory structures. Based on the “opacity rating”, they determine the interest rate premium or discount derived from doing business in a given country as compared to the risk of doing business in the U.S. The risk premiums (USA being 0.00) and the associated discount rates range from -1.83 for Finland to 4.95 for Turkey, 6.09 for India, 6.49 for China, and 6.51 for Philippines. Consultant A.T. Kearney and Foreign Policy magazine use a different globalization index ranking 62 nations on factors such as openness to trade and investment, Internet access, cross-border communication and travel and involvement in international organization. This Globalization Index ranks Singapore as #1, USA as #4 (was #7 for 2004), Philippines as #32 (was #33 for 2004), China as #54 (was #57 for 2004), Turkey as #56 (was #55 for 2004), and India as #61 (was #61 for 2004). (Kearny, 2006)

The results of a recent survey of Venture Capitalists in U.S.A. by Efendioglu (2006) showed that venture capitalists do not view offshoring as a major impediment or negative for funding new or ongoing business enterprises, or see it as having a negative impact on the valuation of the offshoring company or increase its liability exposure. Even though they recognize the practice as an element that increases the “investment risk”, this increased risk was not seen as a large enough factor that would eliminate or significantly limit their funding of organizations that utilize offshoring as a business practice. The investment risk premium identified by the Efendioglu study respondents (6.944%), who had primarily funded companies that offshored to India and China, was very much in line with the Opacity Index risk premium of 6.09% for India and 6.49% for China, which were calculated by other researchers of offshore investment.

Another major threat and outcome of globalization is “counterfeiting”, which after all, is the spread of capital and know how to new markets. Counterfeiting uses skilled labor, smart distribution, and product savvy without getting bogged down in costly details such as research and brand-building, and continues to spread in tandem with the globalization efforts of companies from developed countries. Consumer electronics and luxury goods are knocked off most frequently, followed by auto parts, motorcycles, memory chips, cigarettes, shoes, and medicine. The World Customs Organization estimates that 5% to 7% of global merchandise trade is counterfeited, equivalent to lost sales of as much as $512 billion in 2004, and the World Health Organization estimates up to 10% of medicines worldwide to be counterfeited, a deadly hazard that could be costing the pharmaceutical industry $46 billion a year. It is also estimated that bogus car parts add up to $12 billion worldwide. Even though China has taken the brunt of criticisms for not curbing counterfeiting, the activity is not unique to a particular region of the world or to a specific country. Pakistan and Russia are huge producers of fake pharmaceuticals, and in Italy an estimated 10% of all designer clothing is fake and much of it is produced domestically. Gangs in Paraguay deal in phony cosmetics, designer jeans, and toys from China to the rest of South America. Bulgarians are masters at bootlegging U.S. liquor brands. Other hot spots are Philippines, Vietnam, Ukraine, Brazil, Pakistan, and Paraguay. (Balfour, 2005)

3. KEY ISSUES IN GLOBALIZATION

The recent globalization efforts and surrounding research show that there are key issues and factors which impact how much globalization is supported by offshoring countries, and characteristics that make a given country an attractive recipient of globalization efforts of foreign companies. These issues revolve around laws and regulation that govern labor relations and investment policies, educational level of the work force, extent and dependability of infrastructure, and overall cost of doing business.

3.1. Key Issues for Offshoring Countries

The developed countries are primarily concerned with the impact of globalization and offshoring by their companies on domestic labor and level of employment. Some of these countries (e.g. France) already have labor markets which are not flexible, with many negative impacts, and others focus on political implications (e.g. U.S.) of globalization, rather than economic benefits. The rigid labor laws in Europe (especially in France and Germany) make relocating jobs a long and costly process and has made it very difficult for French and German companies to globalize and offshore their business processes. For example, while it's relatively easy for companies in the U.S.A. to fire employees whose jobs they want to offshore, to lay off an employee in Germany, a company first has to justify its decision to the union and then give its worker a notice period of four weeks to seven months. Fortunately, some of these concerns about the impacts of offshoring on employment seem to be unfounded or can be overcome through realignment and reeducation of the domestic workforce. For example, a study of the U.S. labor market from 1999 to 2003 suggests that although offshoring probably did reduce demand for lower-end computer programmers, the number of software engineers and network systems analysts working on higher-end activities actually increased greatly over the same time period. Nevertheless, these somewhat unfounded negative perceptions of globalization on employment continue to inhibit business process offshoring in U.S.A. and major Eurpoean countries, among which are France, Germany, Belgium, Luxembourg, Switzerland and Spain, where the main obstacles continue to be labor laws and the political pressure against moving jobs abroad.

3.2. Key Issues for Recipient Countries

The major issue for the recipient countries is to develop a “key advantage” which can be used to encourage offshored outsourcing by companies from developed countries. The foundations of this “key advantage” seem to be a combination of language, labor skill sets and cost, infrastructure, local market size, and the local legal and political environment. The former Eastern Bloc countries, for instance, have highly educated, moderately paid scientists and engineers and are therefore a natural offshoring base for Western European companies. India's well-educated, English-speaking workforce gives it a comparative advantage in information technology and business outsourcing. Members of the Association of South East Asian Nations (ASEAN) have a common market the size of Europe and thus offer foreign investors not just a low-wage export base but also a huge domestic market. Brazil and India too have the advantage of market size.

Recipient country legal environment, infrastructure, and availability (or lack of) of local skilled labor also seem to be major impediments to benefiting from globalization efforts of companies from developed countries. An excellent example of this is Mexico. According to a World Bank report, it takes an average of 58 days to start a business in Mexico, compared with 8 in Singapore and 9 in Turkey. It takes 74 days to register a property in Mexico but only 12 in the United States and enforcing a contract requires 37 different procedures and takes 421 days to wind through the legal system, while closing an insolvent business can drag on for more than a year and a half. Moreover, Mexico's corporate-income-tax rate of 34 percent is twice as high as China's.

The key factor in capturing the globalization efforts of capital-intensive industries is the infrastructure. An example of such a case is Mexico, where electricity costs are, on average, 10 percent higher than U.S. levels and more than 40 percent above China's. Poor telecommunications network and infrastructure is considered to be prime reason why this country hasn’t attained a more prominent location for offshore operations serving Spanish speaking customers. Morocco, on the other hand, with relatively good telecommunication infrastructure was able to capitalize on its language advantage (Spanish is the second language in northern Morocco) and has been a major recipient country for Spanish companies.

3.3. Emerging Offshoring Recipient Countries/Regions

A recent article in Business Week identifies the regional (Central and Eastern Europe, China and Southeast Asia, Latin American and Caribbean, and Middle East and Africa) power players and up-and-coming countries that are trying to become major players as the recipients of the globalization efforts of multinational corporations. Nevertheless, the “services offshoring” industry still continues to be dominated by India, which has 60 percent of the current industry revenues, and given the competitive advantage they have developed, it is unlikely that they will lose their position as the largest player in the near future. However, other countries are trying to change the competitive landscape of their regions and hope to position themselves to benefit from the services offshoring industry’s potential size. In

Central and Eastern Europe (market size USD3.3 billion), the top ranked countries are Czech Republic, Bulgaria, Slovakia, Poland, and Hungary. Romania, Russia, Ukraine, and Belarus are companies which are beginning to focus on this market. In China and Southeast Asia (USD3.1 billion), the top ranked countries are China, Malaysia, Philippines, Singapore, and Thailand with Indonesia, Vietnam, and Sri Lanka trying to be a major player. In Latin America and Caribbean (market size USD2.9 billion), the major players are Chile, Brazil, Costa Rica, and Argentina. Jamaica, Panama, Nicaragua, and Colombia are trying to join the majors in this region. Finally, in Middle East and Africa (market size USD422 million, which is significantly smaller), the major players are Egypt, Jordan, United Arab Emirates, Ghana, and Tunisia. The countries identified as “up-and-comers” are South Africa, Israel, Turkey, and Morocco. (Reinhardt, 2006) Given that China, in manufacturing, and India, in services, are beginning to run into some growth obstacles (labor shortages in China and infrastructure limitations in India), there is a significant opportunity for these regional players to gain ground and benefit from the globalization efforts and activities of all type of companies and industries.

4. CONCLUSIONS

Most of the earlier globalization efforts have been based on manufacturing and have taken advantage of significant wage differentials between the developing and developed countries. For example, in electronics, the wage rate ratio between the United States and China for product engineers is about 10:1, and for software developers, the ratio between the United States and India is about 8:1. Even though these wage rate differentials generate significant cost savings, the really compelling gains in offshored outsourcing based globalization come from pairing savings with top-flight skills. For example, while it is true that only a few Asian countries offer enough English-speaking call-center representatives to deal with U.S. customers, many other skills are more abundant in Asia than in the United States. China, for example, produces 350,000 graduate engineers every year, compared with 90,000 for U.S. engineering schools.

For the developing countries, the cost and quality of infrastructure, and the quality and availability of skilled labor seem to be the major driving factors for being an attractive recipient of globalization and outsourcing efforts of companies from the developed countries. The competitive advantage of these recipient countries, especially in service industries, are further enhanced if they have highly developed skill sets in the primary languages (e.g. English, French, Spanish) of the developed countries. While language skills give them competitive advantages, the country's propensity of natural disasters, security threats and data theft, limited third-party vendors, and a limited potential domestic market for services, significantly decrease their advantage in attracting outsourced processes from companies and industries that continue to globalize.

Even though the globalization discussions have primarily focused on the wage differentials and cost savings, the primary focus and reason for the industries and companies that continue to globalize seems to be strategic, rather that cost. For example, even though "low-wage" India ranked only eight in 2002 among countries to which the United States sends business, professional and technical service tasks, ranking ahead of India were Canada, UK, Japan, Germany, France, Mexico and the Netherlands, it has been the primary country for U.S.A companies offshoring their service and technical business processes.

As communication and information technologies further develop and narrow time and geographical boundaries around the world, outsourcing countries and companies will find additional strategic reasons and the recipient countries will continue to develop more sophisticated skills, infrastructures, and educated workforce to enhance their competitive advantages. As we continue to advance and operate in the "information age", the offshored outsourcing based globalization will not only continue but will accelerate, making the world a much smaller place and bringing different cultures together.

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