Chapter 5.32
Offshore Outsourcing:
An E-Commerce Reality (Opportunity for Developing Countries)

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ABSTRACT

In an attempt to influence their pace of development, developing countries around the world try and influence the rate of investment (especially foreign private investments) in their economy. These countries attempt to influence investor decisions by matching and changing their portfolio with that of foreign investors' needs. However, to make the country portfolio impressive, a country requires massive investment in infrastructure and other portfolio variables which brings countries at an impasse. This chapter discusses the viability of increasing income as a way out. This leads to another important issue as to how to increase revenue of a country with its limited portfolio of strengths. Recent developments in information technology and the Internet have led to a simple solution to this - offshore outsourcing. Outsourcing as a strategy has been around for many years. Traditionally, companies used to outsource their activities to independent suppliers who were best, but the choice was made from the suppliers located in the vicinity of the outsourcing company for easier coordination and control of the activities of the partner. However, due to developments in e-commerce, distance has become a relative term. Exchange of information in a fraction of a minute, irrespective of physical distance, has made it possible for companies to widen their horizons and look for independent suppliers in different nations—offshore outsourcing. This allows them to compliment their company portfolio with a variety of created and locational assets thereby allowing them a competitive advantage. As for countries, offshore outsourcing is an opportunity for increasing income. This chapter, while discussing this strategy, also highlights India as a country which has managed to exploit this opportunity successfully.

INTRODUCTION

Keynes (1978) gave an income equation. It said:

$$Y = C + I$$

where Y is income, C consumption and I investment.

It states that level of income, output and employment in an economy depends upon effective demand which, in turn, depends upon the expenditures on consumption goods and investment goods. Out of consumption and investment, Keynes states that consumption is stable in the short run. Fluctuations in income therefore are due to changes in investment. Thus, according to Keynes, investment plays a strategic role in determining the level of output, income and employment at a given point of time. Therefore, every country is trying to increase the level of investment in its economy so as to increase the level of development in its economy.

Traditionally, loans from international banks and aids from developed economies were major sources of investment for the developing economies. However, due to losses suffered by banks in recent recessions and recessions in developed economies, these traditional sources of finance have declined. This led to increased dependence of these countries on alternate sources of finance like Private Foreign Capital. Therefore, in an attempt to fuel their development programs, these developing economies are zealously involved in framing policies and strategies to attract Foreign Direct Investment (FDI) (a more reliable source of Private Foreign Capital (Mac Dougall, 1960; Hymer, 1976; Buckley & Casson, 1976; Caves, 1971).

"What attracts/motivates companies to invest abroad?" is a question which plagues the policy makers of developing countries. Researchers have tried to predict FDI tendencies and investor behavior. Works of researchers like Altzinger and Bellak (1999), Goldhar and Ishigami (1999), Penna (2000), Partharthy (1999), UNCTAD (1999), Bajpai (2001), and Goyal (1990) give valuable insight into FDI tendencies. While some like Kathuria (1999), Korwar (1997), Meldrum (2000), and Graham (1997) predict sectoral behavior of FDI, and others like Dunning (1993), Vernon (1996), Levi (1990), Di Mauro (2000), Porter (1985), Sorensen (1998), Caves (1971), Uberoi (1993), WTO (1998), and Rugman, Lecraw, and Booth (1986) give insight into investor behavior.

The work of these researchers has helped countries understand their investor behavior. Armed with this new found understanding these countries were able to experiment with their policy structures and attract FDI. These countries, in a bid to attract more investment, started catering to the whims and fancies of these foreign investors. However, this only led to increased bargaining power of companies and a decrease in the effectiveness of policy initiatives.

Moreover, due to their increased bargaining power, companies evaluate not only policies (because they can be influenced), but the portfolio of a country as a whole. The comparison is not only in terms of components of the portfolio but this portfolio is compared with that of other countries. For example, a pharmaceutical company looking to invest in Asia would not only evaluate an industry-specific environment like manufacturing facilities, infrastructure, availability of factors of production, permit system, etc., in India but compare it with that of China, Malaysia, Philippines, etc. Thus, *a country has to target a dual strategy to attract FDI, i.e., it has to increase the degree as well as the number of variables in its portfolio so as to overshadow the portfolio of competing nations.*

However, to bring about his change a country requires massive injections of investment. One of the ways of acquiring these investment injections is to support industries which are increasing revenues earned by a country. This would result in increased income as well as lead to a spill-over effect. Simply speaking when a tide comes in

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