

The Social, Economic, and Political Impacts of Offshore Outsourcing on the Companies and Developing Countries

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Abstract. With the changes in the industrial era and the transformation of global trade, offshore outsourcing as a new business model was born. In developed countries, offshore outsourcing can be traced back to the 1960s. In the 21st century, the offshore outsourcing business is gradually expanding and tends to spread all over the world. Offshore outsourcing enables companies and their suppliers to be widely fused into the world economy. This article aims to discuss the social, economic, and political impact of companies' business transfer to developing countries. By combing the concept of offshore outsourcing and exploring the impact of offshore outsourcing on multinational corporations and developing countries, it is found that although it has some disadvantages, it is still a win-win strategy. Because it promotes globalization, promotes cooperation between companies and developing countries, reduces costs, accelerates industrial progress, and thus promotes the economic development of both sides.

Keywords: Offshore outsourcing; developing countries; the social, economic, and political impact.

1. Introduction

Offshore outsourcing means collaboration between enterprises that transfer their production to different countries to serve global markets [1]. What is more, offshore outsourcing aims to take advantage of lower labour costs in developing countries to decrease production costs, strengthen the enterprise's earning capacity and extract its energy from other operations by offshoring to improve its competitiveness. It is worth noting that outsourcing refers to the organization outsourcing work to a third party, and offshoring refers to completing work in different countries in order to benefit from cost advantages. When outsourcing is combined with offshoring, it not only outsources the work to a third party but also agrees that the work will be carried out in different countries. This is because offshoring combines their benefits, such as access to more resources, more professional skills, lower costs, and higher productivity. Just as offshoring combines benefits, it is also vulnerable to the risk amplification of these two business practices since the doubling of complexity. For example, when the company cooperates with external organizations, the projects that need to understand the business operation are already challenging. When the external organizations are located in different countries, the difficulty of cooperation will multiply. Therefore, this article mainly focuses on offshore outsourcing.

Although previous studies on the risks of offshore outsourcing have been carried out, this may not be comprehensive since the advantages brought by offshore outsourcing need more attention. Therefore, this article further discusses offshore outsourcing by focusing on the impact of the comprehensive economic strength brought by the company's offshore outsourcing business on the developing country's society, economy, and politics. In this way, companies enable to strengthen their merits and perceive the domain that should be elevated, enact a tactic beneficial to the enterprise transfer and facilitate its efficacious burgeon.

2. The social impact of offshore outsourcing on companies and developing countries undertaking services

Firstly, offshore outsourcing provides risk mitigation measures, helping enterprises share a burden with suppliers. Since offshore outsourcing includes different viewpoints of enterprises' business processes, it assists the enterprises to shift duties partially to outsourcing suppliers [2]. Thus, the

enterprises not only share technology and business but also decrease the risks of offshore outsourcing by working with suppliers of native outsourcing enterprises, concluding contracts, and sharing project duties. Both companies will then demonstrate lower credit risk, thereby enhancing the companies' reputation in the local market, allowing them to create social impact at ease through partnering with local businesses. The mitigation of corporate risk gives companies more opportunities to participate in the social market and, at the same time, benefits the operating of local partners as well. In this way, companies that protect or create social capital distinguish themselves from their competitors, stabilize their position, enhance their reputation and win the favour of the public.

Besides, offshoring develops the development of a melodious society in developing countries. For instance, transnational corporations offer local employment chances and pullulate more residents into workers who own high skill by cooperating with more suppliers, which improves the employment rate and reduces the crime rate, thus promoting social stability and development [3]. Exemplified by the study by Boskamp, offshore outsourcing creates more than 300,000 jobs in the US market each year, where 68% of businesses that outsource work across the globe have a positive attitude towards their outsourcing partners [4]. The study of Deloitte also states offshoring outsourcing has been obtaining popularity in recent years as it is projected that the global offshoring market will reach \$10 trillion by 2023. Besides, Richard stated that increased engagement rates effectively reduce an economy's crime rate. In addition, various transnational corporations are initiating projects devoted to improve the living standards of native people by assisting developing countries establish base installation [5]. For example, Chinese state-owned enterprises (SOEs) have invested more than \$25.7 billion in lower-middle-income countries' rail construction with jobs outsourced from the local market [6]. In this way, local infrastructures have been improved, which greatly enhanced the convenience and comfort of transportation. Thus, the improvement of base installation and people's living levels have made society more stable instead of turbulent. Therefore, friendly consociation makes the companies closer to the suppliers and develops the vigorous development of the countries to which the supplier belongs to.

Secondly, offshore outsourcing puts companies at technology and data risks. Somjai establishes that whenever an organization outsources capital, human resources, and recruitment services, there may exist a risk that if a company's inner information and technology are divulged to a third side, similar products will soon arise [2]. Moreover, when the companies are faced with the risk of internal information disclosure, competitors in the market may copy and improve their own technology, and consumers' preference for the products will decrease. Besides, the operational loopholes captured by competitors in information leaks may be disclosed in a hostile manner that erodes the company's reputation by public opinion, which will cause more consumers to cancel their orders, thereby harming the company's revenue. Thus, the company needs to expand recruitment efforts and provide bonuses and benefits to improve employee satisfaction so as to build employee trust to prevent technology and data leakage. In addition, the company needs to establish trust with external suppliers and share product technology and business strategies with suppliers to reduce the risk of technology leakage.

Many companies quest suppliers in developing countries due to reduced labor costs. Besides, the companies usually use low labor costs in developing countries to expand their profit. Therefore, outsourcing labor offshore can increase the outsourcer's profit and create labor demand internationally. However, cheaper labor does not necessarily translate into higher quality of life, particularly for those who live in less developed regions. In fact, the remuneration of outsourced laborers has not risen since most people are suffering from unstable life [7]. Thus, the condition is treated as an exploitation of native people to a large extent.

To sum up, in the social aspect, offshore outsourcing has more advantages than disadvantages for companies and developing countries. Although conflicting opinions exist and challenges for outsourcers exist in terms of revenue and human resources, outsourcing can be a risk-mitigating measure for both outsourcers and outsourcees and can also shape a harmonious society in developing

countries where labor is outsourced. Consequently, it results in raising wages, expanding bonuses, and welfare policies that enhance the living standards of local people.

3. The economic impact of offshore outsourcing on companies and developing countries undertaking services

Firstly, offshoring accelerates productiveness, reduces production costs and ameliorates operation efficiency. According to Somjai, it decreases the demand to employ staff; therefore, it reduces employment and business costs because developing countries have professional plants, inexpensive labour, and power markets, enabling corporations to enlarge the employment of native technicians to displace original staff [2]. Specifically, according to Trends, outsourcing offshores, on average, is expected to save approximately 15% for outsourcers [8]. These savings are most commonly realized through lower labor costs, increased efficiency, and greater service offerings that translate into revenues [9]. Companies such as Microsoft and Google are typical beneficiaries of offshore outsourcing, as they offer IT supporting services seven days a week, twenty-four hours a day, with global team members in different time zones outsourced offshore [10]. This greatly enhanced the company's operational efficiency while eliminating unnecessary overtime pay for laborers.

Then, offshoring helps developing countries to improve powerful financial strength and gain financial profits. This is because offshoring emboldens external investments in the country, which accelerate the economic rise rate [11]. For example, in the Philippines, there were 500,000 Filipinos employed via offshoring companies. Moreover, offshoring companies in the Philippines and foreign exchange remittances have recently become the biggest foreign exchange earner, bringing in almost \$20 million in revenue, as recorded in 2019. Thus, in developing countries can encourage more suppliers to carry out offshore outsourcing business, which not only promotes the accumulation of wealth internally but also improves the country's economic strength externally, thus promoting the rapid development of the country's economy.

In contrast, offshoring may potentially let product manufacturing and transportation fall into risk. If the enterprises cooperate with the inappropriate offshoring partner, knotty problems such as inferior product quality and lengthy transportation times will occur [2]. Meanwhile, even though most developing countries have professional technologies and plants, enterprises may encounter the risk of miscommunication and misallocation of tasks due to staff miscommunication and lengthy delivery periods. Besides, suppose there is a problem with product quality. In that case, sending internal staff to take responsibility to the factory to solve the problem will be challenging. Thus, product quality and delivery problems may impede offshoring operations and increase operating costs.

Additionally, the growth of offshoring may lead to a brain drain and hinder the economic development of developing countries. Since it absorbs bargain-basement prices and lets suppliers lose control of important functions, this may reduce internal personnel loyalty [12]. Besides, because enterprises always take poor labour as the standard for finding appropriate suppliers, thus, many suppliers may set more poor cost prices as their advantage to contend with other competitors. Even though this will enable enterprises to gain financial opportunities, staff satisfaction and loyalty to the enterprises will reduce because of low wages, leading to staff loss. Meanwhile, given that the majority of outsourced labor in insourced countries is hired for manufacturing businesses, the growth potential for insourced labor is limited, thereby hindering the economy's long-term development. For example, Hayes pointed out that China's competitive low wage advantage, particularly in the manufacturing industry, will eventually disappear, and the original boost of the economic growth that resulted will depart as well [13]. Under such circumstances, developing countries face a shortage of workforce in critical sectors and lose their social-economic potential, thus hindering the increase of tax revenue. In the long run, this will also lead to the stagnation of the developing countries' economic development.

4. The political impact of offshoring on companies and developing countries undertaking services

Firstly, the rise of offshoring has ameliorated local welfare and brought political influence. Specifically, the operation of international business lets the government be devoted to reducing trade impediments and improving transnational trade. For example, offshoring leads to the formation and aggrandisement of transnational enterprises such as Coca-Cola. Some studies stated that the gradual enlargement of offshoring business and the profits for the government had materialised the formation of NGOs, which gradually improved the welfare of the poor by joining the public policy and developing funding projects [11]. As a result, thanks to the vigorous development of offshoring businesses, enterprises are becoming more important in native political fields. This situation improves the living standard and happiness of the poor population, encouraging the operation of many welfare policies, and contributing to the quality of life of the whole country.

However, outsourcing may put transnational enterprises into political conflict. Koksai suggests that the rapid increase of multinational enterprises helps them gain political and economic power to lead national behaviour [14]. That means with the vigorous development of offshoring and the enlargement of multinational enterprises, although companies do not interfere in other countries' politics, they may lead to potential political problems and imperial the central power of other countries. In this situation, offshoring business may foster the instability of society and conflicts among local people. For example, outsourcing can take the labor out of their home countries, doing tasks that are not critically relevant to the development of their own countries. However, when there is no labor to exploit, outsourcers will introduce technology to substitute outsourced labor, leading unskilled labor loss in less developed regions where laborers are hired from [15]. Therefore, the instability and insecurity factors of offshoring are harmful to developing countries and have become a problem for many developing countries subject to outsourcing behaviors.

Moreover, offshoring may even aggravate political upheaval. Paddy Ashdown establishes that some people who serve and operate transnational enterprises dwell in fields that are not controlled by regulations and laws since they cooperate with suppliers from different countries nimbly [16]. Previous arguments state the demerits of globalization since globalization arouses enterprises from different countries to cooperate as possible. Even though it may improve the offshoring development and make both sides acquire benefits, legal provisions lack may abet personal business among enterprises and even illegal signing of contracts. Thus, grasping the extent of collaboration is material for suppliers and companies. However, the contrary view also exists in arguing for corruption and states that it is beneficial for an economy, lying on the assumptions that government officials could become more responsible and helpful when paid directly such that corruption releases the restrictions that would otherwise discourage investments [17].

5. Conclusion

In conclusion, with the rapid development of globalization, various corporations and suppliers are on fire for collaborating via offshore outsourcing. By analyzing offshoring projects, it can be found that offshore outsourcing may expose companies to the risks of technology leakage and transportation production. Besides, it may also cause welfare exploitation of people in developing countries to expand the companies' interests, leading to a brain drain. It even falls into political conflicts, exacerbates political corruption and hinders developing countries' social and economic development. However, it is still a win-win strategy since it realizes the risk-sharing between the company and suppliers, reduces costs, speeds up industrial progress, promotes cooperation between the company and developing countries, and thus promotes the economic development of both sides. In addition, it is committed to promoting the improvement of social welfare in developing countries and promoting the harmonious development of society in those countries.

What is more, investigators have built that the tactics immediately influences the society, economy, and politics of developing countries. These three fields are interconnected and collectively influence

the profitability of the companies. Suppose reasonable analysis of the merits and demerits of offshoring in these three fields can be taken into account, and practical tactics can be applied; in that case, transnational corporations' profits can be strengthened. Besides, in the future, to enhance economic merits and discern the vigorous growth of the companies' industrial chain, companies should redivide the domain, realize the innovation of their technologies, simplify manufacture schedule and make more specific practices which enable to develop efficiency of economic and realize the vigorous burgeon of the companies' industrial chain.

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