

Offshoring and labor markets in developing countries

Lessons learned and questions remaining about offshoring and labor markets in developing countries

Keywords: offshoring, globalization, labor markets in developing countries

ELEVATOR PITCH

Developing countries are often seen as unquestionable beneficiaries in the phenomenal rise of global value chains in international trade. Offshoring—the cross-border trade in intermediate goods and services which facilitate country-level specialization in subsets of production tasks—enables an early start in global trade integration even when the requisite technology and knowhow for cost-effective production from scratch to finish are not yet acquired. A growing economics literature suggests a more nuanced view, however. Policymakers should be mindful of issues related to inequality across firms and wages, labor standards, and effects of trade policy.

KEY FINDINGS

Pros

- ⊕ Global input realignment leads to mutually beneficial efficiency gains for participating countries.
- ⊕ Offshoring can lead to employment and wage gains due to rising labor demand and productivity effects.
- ⊕ Countries participating in offshoring experience growth in high-quality jobs that can incentivize skill upgrades.
- ⊕ Suppliers of intermediate goods are typically subject to lower tariffs than those providing final goods.

Cons

- ⊖ Offshoring can induce unequal distributional consequences with adverse impact on small- and medium-sized firms.
- ⊖ Wage inequality between skilled and unskilled workers may grow in countries providing offshoring activities.
- ⊖ Workers in offshoring firms often perform monotonous jobs under poor conditions, and do not gain durable or marketable skills.
- ⊖ Countries become more susceptible to trade policy and trade cost uncertainty, and incentives to launch import barriers can be altered due to participation in global value chains.

AUTHOR'S MAIN MESSAGE

Developing countries' position along the global value chain has gradually transitioned from low-skill producers of intermediate goods, to hubs of business service providers, and more recently to manufacturing bases of high-skilled tasks including computer programming and medical professional services. Given this backdrop, what are the labor market consequences and policy implications of offshoring for developing countries? Research suggests the need for a nuanced view, highlighting a need for policymakers to consider tradeoffs along four dimensions: tradeoffs in economic efficiency, employment and productivity growth versus wage inequality, labor standards, and impacts from trade policy.

