

## **Globalization and the Offshoring of Services: The Case of India**

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*Brookings Trade Forum 2005*

Over the past decade, developing countries around the world, particularly in Asia, have become large producers of services for developed countries. Some have even argued that the ability of countries such as China and India to undertake high-end services work in semiconductor design and information technology can threaten employment in developed countries. In this paper, I use India as a case study of growth and value addition in providing offshored software services. I show that the initial impact of offshoring software services was to generate high and growing levels of employment. However, the kinds of work offshored had low barriers to entry and were subject to automation. This was because of the protectionist conditions under which the industry developed. These factors have led to competition and price-deflation, mimicking the situation in manufacturing exports in developing countries and raising the likelihood of the asymmetries of globalization being repeated in services exports from developing countries. Nevertheless, some Indian firms were able to extract economies of scale, and developed globally known brand names as a result. Despite this, their ability to expand into value-added fields within the value chain is limited by the lack of domain skills that was a consequence of protectionism. Recent reforms that have induced the entry of transnational corporations and a transnationally trained diaspora could change the environment by introducing domain skills. The problem for developed countries is that, even if they offshore only low-end work, not everyone in developed countries can readily shift to high-end work. In manufacturing, the unemployment created by the reduction in demand for blue-collar labor in developed countries was offset by the absorption of much of the surplus labor into services, often with minimal training. But the shift from low-end service workers to high-end workers will require a longer period of reeducation and may have significant interim consequences on unemployment rates and costs.