

Offshore Outsourcing in India and Other Low-Cost Countries: What Can Canada Do?

Offshore outsourcing is an international trend, especially in the information and communications technology (ICT) services industry. And countries such as India, China, the Philippines and Russia are quickly developing their ICT services industries to take full advantage of it. India currently holds about 80 per cent of the outsourcing market, having benefited from the hundreds of thousands of ICT jobs that have shifted from the United States to its shores, as well as to those of other low-cost countries. Many of these positions involve standardized tasks. Thousands of American ICT workers have lost their jobs as a result, and, without a doubt, Americans are worried.

This concern is proving contagious north of the border. Should Canadian ICT workers be worried about job losses? Probably not to the same degree as American workers. Since Canadian ICT workers are cheaper than their American counterparts, American services companies are also considering Canada as a potential offshore outsourcing destination. Therefore, the question becomes whether Canada can turn offshore outsourcing into "nearshore" outsourcing to service American companies.

It seems that the increased trend of offshore outsourcing in India and other low-cost countries presents a double-edged sword for Canada. On the one hand, offshore outsourcing in Canada will cause some job losses of Canadian ICT workers, although participating Canadian companies will enhance their global competitiveness. On the other hand, due to geographical proximity, Canada may be able to take advantage of "nearshore" outsourcing opportunities provided by American service companies.

Why do American and Canadian service companies go offshore, particularly to India? Offshore outsourcing can offer significant benefits: cost savings, quality of services, plentiful labour supply, and 24-hour operations (because of different time zones). First, it is estimated that the American companies will save about 50 to 70 per cent of labour costs if they outsource ICT services to India, compared to about 20 and 30 per cent if they outsource to Canada. Second, many large Indian ICT firms have invested heavily in ensuring quality. In fact, more than half of all organizations in the world that meet the Capacity Maturity Model (CMM) level 5 standard developed by the U.S. Software Engineering Institute are located in India. Third, countries such as India and China have large numbers of well-educated professionals ready, willing and able to provide their services. India's universities and colleges add 500,000 new English-speaking ICT and engineering graduates each year to the talent pool. Finally, since India and China are located in different time zones, North American companies can make use of their locations to offer services 24 hours a day, 7 days a week throughout the year.

Despite these benefits, outsourcing to India, China and other low-cost countries has some drawbacks. First, transaction costs may be higher than expected. Although labour is much cheaper, there are increased costs for site visits and the contract start-up due to complex legal and tax regimes. Second, although on average quality has improved substantially, there is still a wide variance in the performance of outsourced services. Generally speaking, developing countries perform best doing routine, standardized activities. Third, political instability in some parts of the world may increase the risk of offshore outsourcing to those countries.

Given these considerations, what can Canada do to maximize the benefits of the global offshore outsourcing for Canadian companies while minimizing job losses for Canadian ICT workers? The following are some strategic and pragmatic considerations for Canadian firms and ICT workers:

- Although it is not realistic to compete with India by reducing our ICT labour costs, it may be possible to attract American service companies to Canada, given the advantages of geographical proximity and easy communications between the two countries.
- Canada should be proactive in creating an enabling environment in which American service companies can consider Canada as a favourable nearshore outsourcing destination. A recent PricewaterhouseCoopers study indicates that if Canada were to do so, it could have 165,000 more skilled ICT jobs by 2010.
- Canadian ICT workers must be adaptable and flexible in order to service Canadian and American companies. They should upgrade their skills quickly to respond to the changing global ICT market.
- Canadian companies should also be flexible and explore offshore outsourcing opportunities in the global market in order to increase their competitiveness. The Canadian government should not try to restrict or curb their offshore outsourcing operations.