

## **IMPACT OF INTERNATIONAL OFFSHORING ON THE LABOUR MARKET. A REFLECTION ON THE CONCEPTUAL AND METHODOLOGICAL ASPECTS.**

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### **ABSTRACT.**

The objective of this paper is to analyse the conceptual and methodological aspects of international offshoring (IO) and its impact on the labour market.

This paper presents therefore two necessarily complementary levels. On the one hand, the more general one, which aims to pinpoint the conceptual keys of the offshoring dynamic; on the other hand, we review different instruments and approaches, in order to measure this phenomenon and to evaluate its impact on the labour market.

We first ascertain a brief conceptual demarcation of international offshoring. After that, we examine different methodological tools in order to measure international offshoring and the impact of IO's on the labour market.

The implications of IO for the labour market -complex, diverse and not always easy to establish- depend on a series of factors which must be considered simultaneously: the magnitude of the process, its characteristics, the underlying causes and the strategies and responses generated by economic, social and institutional agents. All of these aspects will be addressed -from a conceptual and methodological point of view- in different sections of the present paper.

**KEY WORDS:** Offshoring, outsourcing, relocalization, labour market.

**JEL:** F14, J23, L6

## **1. OBJECTIVE.**

The objective of this paper is to analyse the conceptual and methodological aspects of international offshoring (IO), understood in a broad sense, and related to the impact on the labour market.

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## **2. CONCEPTUAL DEMARCATION.**

In spite of the profuse usage of the IO concept, there are different, more or less accurate meanings attributed to it, which are not necessarily mutually assimilable (Schultze, 2004). Thus, the same or similar issue is referred to using the terms: offshoring, delocalization, relocalization, international outsourcing, and deverticalisation of the production process and fragmentation of the latter, among others.

IO, as far as this study's perspective is concerned, consists of a cross-border transfer of a company's production capacities or supply sources. This approach, as it is generic, allows for different perspectives and interpretations, which may consequently lead to different typologies (Bjerring, 2006; Cohen, 2006; Geishecker, 2006; Mouhoud, 2006):

- Total or partial. In the first case, a company decides to close down and transfer production elsewhere; in the second, it retains a part in the original country and sources in other markets some of the supplies, services or even final goods which it formerly obtained or generated internally, within the economy where it is located.
- Direct or induced. Direct offshoring occurs when a company, for diverse reasons, decides to transfer to another country all or part of the activities it is engaged in. This decision may affect suppliers, whether domestic or multinational, which also relocate in order to preserve their position in the supply chain or, more commonly, to enhance their competitiveness. In this case, what we have is induced offshoring.
- Horizontal or vertical. The former consists of replicating on other shores, through direct investment, the production capacity which existed in the home country. The latter refers to the fragmentation of the production

cycle among different countries, expressing a process which is conceived and implemented globally.

- Multinational or domestic. The first case refers to a firm which produces or provides goods and services in different domestic markets and, consequently, has greater capacity as regards reorganising its activities and seeking out more favourable territories for its corporate strategies. In the second, it would be the companies whose operations base is located in a certain market – their connection with the global environment occurs, basically, through commercial and technological traffic – that enlist in the offshoring dynamic.
- Defensive or offensive. Offshoring is defensive in nature when the position of the company in the market becomes unsustainable due to a rise in labour costs, a reduction in margins for other reasons or an intensification in competition from other companies operating in similar market segments. It is offensive when the firm in question proceeds to reorganise its corporate strategy for the purpose of gaining market share, increasing margins and competitiveness, increasing knowledge and management capacities of complex production networks or specialising in higher-quality segments of the value creation chain.
- Stockholder dominance or outsourcing. Stockholder dominance or hierarchical control exists when supply functions –in the case of fragmentation of production capacities– are carried out by a subsidiary of the firm or by a supplier in which there is a controlling stake (captive offshoring). Outsourcing, in contrast, –which should really be called subcontracting– assumes that the company retains the most strategic segments in the value creation chain, those that are key to ensuring competitiveness in the global market –design, engineering, marketing, quality or brand control– and offloads those non-core activities of the company or seeks economies of scale through provision of the latter by a specialist firm and consequently proceeds to import them. When supply is performed from another country and by an external firm (that is, one with no stockholding connections linking it to the client group) it is usually termed offshore outsourcing.

However, before proceeding, it ought to be pointed out that the perimeters of the concepts used here, and in many of the studies conducted to date, are not as concise as one would initially suppose.

This is the case, for example, with the distinction between horizontal and vertical FDI's. Not only is the same transnational company (TNC) in a position to deploy different strategies, in space and time, depending on its corporate interests, but it often implements internationalising policies which simultaneously involves capturing the internal market and consolidating export platforms.

Likewise, the line between hierarchical control and outsourcing is often blurred (Savona and Schiattarella, 2004; Storrie, 2006). The subcontracted company,

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theoretically “independent”, may retain different ties with the subcontracting firm which weaken its independence: a) minority share in share capital, without reaching the 10% threshold necessary to consider this capital flow as FDI, b) production under licence, c) provision of different technical services, d) provision of specialised supplies, and e) personnel training programmes.

It must be borne in mind that control functions are not only exercised by virtue of holding a stake in the company, but also, and increasingly frequently, through other mechanisms which do not entail, at least at the start of the process, control of ownership, that is, a formal presence on the board of directors. Moreover, a subcontracting or supply agreement may be the first step in carrying out FDI.

Company reorganisation –productive, commercial, financial and spatial– is carried out both in the internal market (dominantly) and in the international (where large TNCs, especially, redeploy). These comments focus on IO, without forgetting that, in the wider context of company restructuring, triggered by the competition and the profit logic, the different modalities it adopts –internal and international– are often difficult to distinguish; even more so when both possibilities are present throughout the firm’s process of adjustment and are used by management, in collective bargaining, as alternative options, the resolution of which becomes dependent on the flexibility of workers’ representatives who thus assume, fictitiously or in reality, the responsibility for the company relocating production and jobs or maintaining its current location and a large part of the workforce in return for wage or labour adjustments and concessions.

The case may arise of a company’s leadership, after deciding on offshoring for different reasons or circumstances, orienting management towards making operating results justify a previously-taken decision. For the purpose, it diverts workloads to another part of the multinational or to a different company with which it has reached a supply agreement; it plays with the wide margin that allows transactions of goods and services between companies of the same business group when setting prices; or, in extreme cases, it does not implement new projects that would sustain the production capacity of the factory it wishes to relocate. In such a situation, layoffs, the downsizing of business activity and closure of the company are fully justified, legally speaking. Alternately, the situation thus arrived at is favourable in terms of achieving a progressive reduction in the workforce which, formally or statistically speaking, cannot be linked to any kind of offshoring and, therefore, be computed as such. Cases are also relatively frequent where internal reorganisation of production capacities does not allow the objectives proposed to be achieved and culminates in the first step of a cross-border offshoring process.

### **3. MEASURING INTERNATIONAL OFFSHORING.**

Prior to looking at conceptual and methodological aspects linked to the causes and, especially, to the consequences of IO for the labour market, it is worth examining several issues related with quantification, as both will equally depend to a large extent on the dimension of the offshoring phenomenon and its

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sectorial impact. One of the first questions to clarify is how to measure offshoring processes, bearing in mind their different variants, which have been described above in a succinct way.

The European Foundation for the Improvement of Living and Working Conditions develops a database concerning the EU27 – the *European Restructuring Monitor* (ERM) – with information on IO's, in the broadest context of company restructurings, both internal and global (it is available on-line at <http://eurofound.europa.eu/emcc/>). Surprising as it may seem, given the importance of the issue, this is the only specific database that provides information on the subject.

One should be forewarned that the ERM evinces major shortcomings in its study of IO's. In the first place, it refers to the number of restructuring cases in the EU27 and to the impact that this process has on direct employment eliminated by companies, but not on other important variables such as wages, collective bargaining or indirect employment. In the second place, only data for after 2001 are provided, which prevents temporary studies that need to go back before that year from being conducted. However, the major restriction, surely, concerns the methodology used to gather the statistical information.

This methodology is based on obtaining data, which is carried out by a network of correspondents coordinated by the European Commission, on the different business restructuring operations by conducting daily monitoring of the press (general and specialist) in the different EU countries. Data gathering rests, therefore, on the systematic review of newspaper items reporting indiscriminately on current offshoring processes, offshoring performed and announcements of possible layoffs that are somehow related to probable offshoring. In addition, the ERM only counts business restructuring operations that fulfil the following criteria: a) they affect at least one UE-27 member country; b) they entail the elimination, announced or real, of at least 100 jobs; and c) they concern factories employing over 250 workers or that affect, at least, 10% of the company's workforce. With this bias, it would appear to be clear that this methodology leads to major underestimation and gives an inaccurate picture of the business offshoring phenomenon in the EU.

Despite these limitations, the ERM data may be used as a first approach to IO, which should be treated with great caution, designed to detect some of the general trends of the offshoring process: a) the relative weight of the different types of business restructuring, and b) the path followed by IO's in the different EU countries and economic sectors.

This database's shortcomings, mentioned above, mean that it is necessary to work in different directions in order to capture the entity of the offshoring phenomenon with some accuracy. One of them consists of completing this source of information with news featuring the subject of IO in national, regional and local, generic and specialist newspapers. Scouring the news in this way provides considerably more information - and in this sense less biased - on IO's. At all events, given that the source of the data is the press, as with the ERM, it displays some of the aforementioned structural flaws.

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A database constructed with that format provides a panoramic view of IO: the sectors and companies affected, and employment at risk. More specific information, geared not only towards quantifying the offshoring process, but also towards showing the causes and exploring its possible effects on the labour market, requires the use of other instruments, to wit, survey and direct interview techniques with the social actors.

The direct information on offshoring obtained by these procedures seems, in any case, insufficient, whether because of its quality, scope and accuracy or because generalising the data gathered with the aforementioned methodology might lead to erroneous conclusions. It is best, therefore, to complete this information with information of a macroeconomic nature. In this sense, it is a matter of presenting different indicators which, though referring to broader economic processes than those before us here, duly discussed and interpreted, may constitute pointers towards the offshoring process.

It must be borne in mind that IO, as we have defined it, is associated with very disparate transnational dynamics: international trade, FDI, the movements of workforces between countries, cross-border financial operations and international technology flows. In this text different ratios concerning the first two aspects, above all, are mentioned.

National and international statistics produce standard information regarding foreign trade and FDI, but there are evident gaps when it comes to revealing the offshoring dynamic. In fact, none of these sources refers specifically and unequivocally to offshoring; but they do quantify processes related to it.

IO can generate –and often does, in fact– a cross-border investment flow. So that the evolution and distribution of FDI's is an indicator in this regard, as long as two caveats are taken into account: a) IO is only a part of the worldwide flow of foreign investment; in this sense, greenfield investments which maintain the existing capacities in the country generating the investment are not included, although it must be pointed out that a part of the investment made in the recipient economies may come from previous disinvestment decisions; nor are cross-border mergers and acquisitions counted as IO (Pedersini, 2006), and b) IO does not always or necessarily crystallise into a direct investment, at least not immediately (it may consist of the closure of a factory or production line followed by the outsourcing of orders to an existing company, or even to an affiliate of the relocating firm itself whose production capacity is underutilised).

When a foreign company shuts down activities in the country in which up until then it was being developed and decides to locate it in another country, it is performing two different operations: on the one hand, it is disinvesting and, on the other, it is investing. In this regard, national records of foreign investment generally distinguish gross investment –carried out or received– from net investment, the difference being disinvestment.

At all events, disinvestment and offshoring are not assimilable concepts, given that the withdrawal of positions of foreign capital might consist of the assets and companies formerly controlled by this capital coming under the control of

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domestic investors (Iranzo, 2005; Muñoz, 2006). Having made this distinction, the volume of disinvestment might approach the magnitude of delocalisation/offshoring.

International trade offers another approach, both necessary for and complementary to the investment dynamic, which may help to capture the magnitude of IO (Broadman, 2005). When offshoring is associated with a direct investment –especially with a vertical investment– new export platforms are consolidated, that is, production capacities geared towards the supply of goods and/or services for the international market (whether the parent company, the group's network of subsidiaries or other companies). Likewise, the decision to outsource some activities of the value creation chain to other companies creates new business flows (Morcos, 2003).

When it comes to sizing IO from the international trade perspective, three aspects must be considered: transactions of intermediate goods, intra-industrial exchanges and intra-firm flows.

The increase in trade of intermediate supplies (goods or services) should be one of the most visible effects of IO, as it is directly associated with the international fragmentation of the production process. This process may generate two-way trade if, in order to produce these supplies, the subsidiary or the subcontracted company acquires in turn other intermediate products from the purchasing firm or the parent company.

In this case, too, caution is recommended when interpreting the data, as one part of the intermediate goods acquired in the international market have no relation whatsoever with IO (these transactions may simply be explained by the trade specialisations of the different economies) or they are not intended for subsequent processing but for maintenance and repair tasks (Lübker, 2006).

Another point is that, although IO frequently has a greater effect on the international flow of intermediate supplies, it may also refer to the finished product; for example, if the company relocates or outsources the final phase of the production cycle consisting of assembling a certain consumer item or capital asset.

The evolution of the relative weight of this epigraph in world trade and EU trade, as well as in the totality of foreign sales of one particular economy, will provide a first, but significant, indication of the transcendence of IO in that country.

For our present purpose, it may be useful to work with the concept of network trade (Kaminski and Ng, 2001). Referring to a specific manufacturing subsector –for example, automotive industry–, besides considering the transactions in intermediate goods –parts and components – it includes those corresponding to the final product. From this perspective it is easier to view the integration of the production and trade structures of the economies analysed in the corporate networks of the TNC's and the position they occupy within those networks. The growth in the transactions of intermediate goods and network trade would show

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the importance acquired by the fragmentation of the production process, in general, and IO, in particular.

A valuable information tool as regards approaching this kind of trade – complementary to the former and, at the same time, more specific and revelatory of the issue to hand– are the Input/Output Tables (IOT). These tables organise statistical information so that it is possible to ascertain the contribution of imported intermediate supplies to total supplies (energy supplies are usually excluded) and to the global product generated by each industry (Falk and Wolfmayr, 2005).

The principal shortcoming of this source of information, besides the unequal time intervals in producing the tables in the different countries, which hinders comparisons between them, is that it does not generate recent information –a major restriction, since it is precisely over the last few years that IO has most progressed- and it does not capture the imports associated with relocating final production, just as it does not allow a distinction to be made between outsourcing-related transactions of intermediate goods and vertical FDI (Hijzen, 2005).

The most internationalised activities will be those that provide higher values for both ratios; it is equally important to detect those which, starting out from more modest levels, have experienced more significant progression.

The coefficients obtained on dividing the total of imported supplies by a specific industry by the total of supplies or total gross product –the so-called broad criterion– will enable us to order the different branches of the economy according to their dependence on the acquisition of intermediate goods in the world market. The diagonal of the matrix provides information on the external supplies provided by companies belonging to the same industry –the strict criterion-.

IO should contribute, also, to the progress of intra-industrial trade; that is, exchanges of similar products which differ as regards variety and quality. Working with the Grubel-Lloyd index (IGL), calculated for the different manufacturing subsectors, it is a matter of verifying whether, as seems probable, this type of commerce has increased, in a remarkable way, in those activities in which IO has been most active.

The increase in intra-firm commerce will undoubtedly be another of the results of IO. Owing to its very nature, the value of this commerce faces obvious difficulties when it has to be quantified. The factors determining and explaining the prices at which goods and services are exchanged between companies comprising the TNCs are very different from those regulated by the markets (among other reasons, because of the application of transfer prices which aim to maximise earnings for the whole group).

As with goods, the offshoring dynamic with services will result in a foreign trade flow. The services which appear to be more susceptible of offshoring are those the supply of which may be organised on a global scale, which may be digitally



processed (easily codified) and where one of the characteristics that best defined this activity has been diluted: the companies providing them must be close to the end-consumer, that is, physical contact with the customer is not necessary; a good deal of information technology related services and other business services, among others, would belong to this group.

#### **4. IMPACT OF IO'S ON THE LABOUR MARKET.**

As was stated above, one of the core objectives of this paper is to identify conceptual and methodological aspects of the consequences of IO on the labour market. When addressing this issue it must be borne in mind that some consequences are not visible in the short term –they materialise over different periods of time-, others have not been properly collected in official statistics and, finally, others, direct and indirect, are complex as regards quantification. It should be pointed out, moreover, that the labour market receives very diverse influences, possibly greater than offshoring itself.

##### **4.1. THE TERMS OF THE DEBATE:**

The effects of IO in countries where it occurs and also in those that remain on the fringes are at the centre of a controversy which goes far beyond academic forums. This debate on the multiple consequences of IO, which has a major social and media component, is as intense as it is complex, with very contrasting stances. Some studies have examined the global effects on economic processes, while others stress the effects on the labour market.

There is a broad academic trend which, with some variations, rests on the following general premises. First of all, the opening of markets to global competition and rapid technological change forces companies, both domestic and multinational, to respond dynamically to this environment by redefining and adapting their strategies continually, if they want to survive the new competitive conditions. Bearing in mind that it is the company which must gauge the scope and depth of the new challenges, any interference – social, institutional – may lead, finally, to less than optimum adjustments and inefficient allocation of production resources.

In the second place, given that a good deal of the new competitive challenges is resolved in the global market, it seems essential to promote internationalising dynamics. The articulation of domestic markets is thus relegated to this global logic. Not only is that but presence in the latter to a great extent determined by the company's capacity to internationalise itself.

In the third place, the interests of stakeholders, directors, managers and workers merge (and are confused) in the company. Therefore, the benefits the latter may obtain –for example, by transferring assets to a country with low wages– automatically become benefits for everyone comprising it. In exactly the same way, it is assumed that the benefits generated by the company are also benefits of the country acting in the capital import or export process.

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In the fourth place, short-term costs are inevitable, as any corporation reorganisation process has them; in any case, benefits will always be greater if market forces act without restrictions, and non-restructuring costs are also greater.

Fifthly and finally, as a rule, the IO process and globalisation provide opportunities to less-developed countries, as long as they apply policies aimed at facilitating participation in the world market. These benefits, which are very varied, represent a pathway to growth, industrialisation and productive modernisation.

It is argued, to sum up and according to this approach, that IO is a positive process in which, eventually, everyone is a winner (McKinsey Global Institute, 2003; McKinsey Global Institute, 2004; Benaroya, 2005; Kirkegaard, 2005). The countries receiving the investment because they join the global networks of cross-border corporations –with the resulting positive effect on demand for their products and those deriving from technology transfer towards their companies–, thus increasing their employment and income levels, while they receive capital to help modernise their production capacities. Companies that relocate activities because they reduce costs doubly by cutting labour costs and lowering the price of outsourced supplies; likewise, they concentrate their resources on areas of the value creation chain which are more intensive in terms of human capital and technological density, they achieve a better return on their assets, thus enhancing capital productivity, and they increase their exports and revenues from royalties and repatriated profits; this all provides benefits in the short and long term (Görg and Hanley, 2004; Grossman and Rossi-Hansberg, 2006).

For all of the above, companies create more value than what they transfer by means of offshoring. What is more, for many of them offshoring would be the only way forward –or even of maintaining their position– in an environment dominated by the competition, where cross-border flows are increasing non-stop (Bhagwati, Panagariya and Srinivasan, 2004).

National states because, even though offshoring may lead to an increase in public spending (for example, as subsidies for the unemployed or social schemes to offset restructuring costs) and a fall in tax revenues, the improvement in the quality of economic activity and the enhanced value of the latter may compensate for the losses or, even increase their ability to collect.

Consumers will be able to access a wide range of goods and services at a lower price, without detriment to quality. Workers in the country that moves production capacity abroad also reap rewards as new possibilities of better quality employment arise, which is also better paid and less exposed to the vicissitudes of international competition.

IO opens then, an according to these authors, the way to more flexible and efficient management of labour markets as it increases the world supply of labour stiffens competition in the job market and recruits an increasing number of low-wage countries to globalisation. This factor, on moderating wage increases, would bring about a rise in competitiveness and, consequently,

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growth in the demand for jobs and, to that extent, in the possibilities of employment.

According to this approach, in order to achieve the benefits described, a suitable institutional environment is necessary to facilitate the redistribution of “liberated” labour resources and, in parallel, the redeployment and enhancement of production capacities.

Thus, following this approach, IO is both inevitable and appropriate. In other words, seeking to restrict or even regulate this process would prevent the opportunities offered by globalisation from being enjoyed, which would eventually have negative repercussions for countries’ competitiveness and their citizens’ standard of living (Mankiw and Swagel, 2005).

The problem is not so much to be found in offshoring as in the inappropriate, defensive responses of companies and governments which would prevent the benefits provided by globalisation of markets from being leveraged (Parker, 2004). The debate, therefore, does not revolve around offshoring as such but companies’ deficient restructuring and reorganisation with regard to meeting the demands of the new competitive environments and the regulatory and institutional red tape which would hinder worker redistribution and mobility.

#### **4.2. INTERNATIONAL OFFSHORING AND LABOUR MARKET: COMPLEXITY AND UNCERTAINTY:**

Closer to the approach argued in this paper, a different and more cautious formulation is proposed (Rodrik, 2002; Rodrik, 2004; Bair, 2005; Levy, 2005; Levy, 2007), based on the following basic principles of a general nature:

1) Inclusion in global markets generates contradictory effects, both positive and negative, the final balance of which will depend on the particular conditions of each economy, on the policies of inclusion in world markets that are applied and on the way in which the totality of factors active in the process are articulated;

2) In the context of internationalising dynamics, internal policies take on great importance as they are necessary to leverage the opportunities of globalisation and to gain protection from its more adverse consequences, and the attitudes of the social partners who make decisions and are prominent in offshoring processes;

3) The balance of companies’ and nations’ economic restructuring processes must take into account the wealth created and its distribution among the social partners acting in or affected by those processes;

4) The networks being configured in the global economy and companies’ internal structures are governed by asymmetrical relations that express the different positions, the disparate negotiating and lobbying capacities of social partners when appropriating the benefits or sharing the costs;

5) Companies, far from configuring a homogeneous space where the positions of the various groups comprising it might converge, express very disparate and even conflicting interests.

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Working from these premises, a different general framework of analysis is proposed which does not necessarily reject out of hand each of the above propositions, but which does situate these and the debate itself along different coordinates.

One of the “Gordian knots” when providing a summing-up of IO is its impact on employment. There is no doubt that IO means, at least in the short term, the destruction of jobs in the countries where the companies that decide to relocate in another country were previously located (and the creation of jobs for those who capture the new production capacity): closure of factories of businesses implementing offshoring, suppliers which, pulled along by the manufacturer’s decision, are also fated to relocate their activities, and firms which remain in the country and see their markets contract as their major customers move abroad.

For the same reasons as those outlined above –the lack of specific and reliable statistics– only rough data is available on employment jeopardized by offshoring. At this point, the ERM database can be used as we said before to detect some of the general trends. The lack of accuracy is even greater when one looks at the indirect employment affected, that which is lost in businesses which, because they do not relocate, lose their biggest or only customer.

At all events, both the information available on jobs destroyed by IO’s and forecasts on future movements of jobs out of the country must be tied in with the magnitude of labour flows and the totality of newly-created jobs which are counted every year in an economy.

Since the regional and sectorial geography of IO’s is certainly very diverse, its specific impact on some industries and territories must be analysed, with the aforementioned information restrictions, in addition to the age groups affected by those restructurings and their professional qualifications. Likewise, in order to get a closer view of the impact of IO on employment it is important to ascertain how many job losses lead to unemployment and what is the content, if any, of the accompaniment schemes and the active retraining, training and job search policies. In this sphere -that of the analysis of what happens with workers who have lost their jobs and remain, as unemployed people seeking work, in the labour market- we should look at the data showing what percentage of and how long these people remain in the labour market as unemployed and what benefits they receive while they are in this situation, how many find another job, in what sector or activity, with what qualification and with what kind of wages.

If the process is examined from the macroeconomic perspective, the shrinking of demand –deriving both from the rise in unemployment and the uncertainty as to whether it will be maintained in the future- and the damage to the production system –with the consequent dismantling effect in those areas where they were located- they will have a variable though adverse effect on the employment dynamic.

But at the same time as jobs are being destroyed, IO’s might contribute to the creation or maintenance and consolidation of existing jobs (the favourable

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consequences, at least in the short term, for the economies receiving the capital or relocated production capacity are now dispensed with). Basically, in two ways: a) the improvement in the competitive position of the firm involved in offshoring, and b) the positive gravitational effect the restructuring of that firm might have on other businesses.

It will be necessary to analyse, therefore, whether restructuring of the companies involved in the IO has facilitated the redeployment of their production capacities and, most importantly for the issue concerning us, whether it has had repercussions at the employment level: a) have jobs been maintained which otherwise would have been lost?, b) have new, better quality jobs been created as the firm located in more sophisticated segments of the value chain, which, for that reason, will be able to support open and competitive environments in more favourable conditions?

On the microeconomic level –that of companies– it is very hard to collect information on the subject and, no doubt, very disparate situations arise. Nothing can guarantee, at any rate, nor, indeed, is it predetermined that the overall balance of jobs lost /created will result in a favourable net figure, nor that new jobs will be of higher quality than those lost.

AMADEUS database can provide good information on the evolution of employment and labour costs at company level. Analysis must focus not only within companies but also on the possibility of providing jobs to those who have lost them in other companies within the same industry or in other sectors of the economy. It is a question, in short, of ascertaining whether there is –and if the conditions are created for– an intra or inter-industrial redistribution of the workforce or if, on the contrary, workers remain unemployed or leave the labour market; and in the event of such redistribution occurring, in what conditions does outplacement takes place.

As may be easily understood, the consequences for the groups involved and for economic activity as a whole are very different, depending on the scenario which eventually predominates. Those who find themselves without a job may therefore find new jobs –and new conditions in which to perform the new task-, but they may also be cut off from areas of production for a long period or even be excluded from the ranks of the employed, with the resulting deterioration in skills and qualifications and the loss of contacts.

On the more aggregate level, a study can be conducted to ascertain whether the industries most affected by IO have undergone a production modernisation process, using as proxy the quality of commercial inclusion. If this positive scenario were confirmed, the implications would have to be analysed in terms of jobs created by this modernisation, through the labour-employment productivity link.

Supposing, perhaps oversimplifying, that offshoring of production capacity is positive for the company, one of the fundamental aspects to be taken into account is how costs and benefits are distributed among those involved, directly or indirectly, in this process (Feenstra and Hanson, 1996). This is, without a

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doubt, a question of strategic importance for the analysis we are concerned with; it goes far beyond the scope of this paper, however.

In this sense, the final effect of the offshoring dynamic will be very different depending on the distribution of the eventual benefits among shareholders (in the form of dividends or a rise in reserves and the value of the company), the managers and directors of the company (by means of bonuses, pay and greater capacity of decision), intermediaries (in the form of commissions), workers (who keep their jobs, as regards wages and new working conditions) and public administrations (in the form of tax revenues and expenditure).

Following a similar methodology to that just presented with regard to employment, the first question to answer is what happens with the incomes of workers directly affected by the IO. In this respect, it is important to gather information on the pay conditions of those workers who get another job in the company or in another company, in the same sector or a different one. It would be necessary to ascertain the evolution of wages of those workers who have kept their jobs or who have found a new job as a result of the reorganisation /expansion of the activities of the firm.

As with employment, the loss of production capacity associated with IO is generally accompanied by a reduction in wages, due to the destruction of jobs - this is the immediate cause- and, more generally, due to the weak position of workers, trade union organisations and redistribution policy proposals.

At the same time, however, company restructuring and the strengthening of its core business in more strategically significant areas of the value chain might lead, at least in theory, to higher wages. At any rate, nothing can guarantee that the new jobs created or saved will be better paid than those lost, nor that the workers affected by the offshoring and outsourcing process who find new jobs will get better wages than before. A key factor in the configuration of the different scenarios is the negotiating capacities of the social partners. Therefore, it would be crucial to identify a good proxy of this bargaining capacity.

Apart from possible case studies and the information supplied by AMADEUS database, one way to approach this issue is by examining the evolution of the wage-productivity differential and relate this evolution with an offshoring indicator obtained from the supply-product tables. The purpose of this analysis is to verify the existence of a possible gap in the behaviour of the two variables mentioned and its relation with the offshoring dynamic. The preceding analysis, basically quantitative, should be completed with another, to add a more qualitative profile situating the focus on the totality of labour relations and not only on employment and wages; collective bargaining which determines the conditions of use of the workforce in the company, strategies of the social partners and the role of institutions (local, regional, state and community).

It seems evident that those areas are affected by IO. The question –difficult to address, given the scant information available and the very complexity of the offshoring process- is to evaluate the entity and the impact of those effects. To

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address this issue, case studies, the opinion of the social partners and survey techniques can be used.

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