

Living locally, working globally

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Introduction

“The empires of the future will be empires of the mind.” - Winston Churchill, 1943¹

“There is currently not even a vocabulary, much less any systematic data, to help society come to grips with the coming labor-market reality.” - Alan S. Blinder 2006²

The Indian offshore worker answering phone calls in Bangalore for a US-based multinational corporation (MNC) has become a symbol of globalization – or what Blinder calls “the coming labor market reality (Blinder 2006:4)”. The most widely known example of this is the 2005 best-seller by Thomas Friedman, *The World is Flat*, in which outsourcing and offshoring are called two of “The Ten

¹ Quoted in “The Economist’s Survey on Talent”

² Blinder 2006:4

Forces That Flattened the World” (Friedman 2005:103-127). India is the world's dominant supplier of offshore labor, and employment in the Indian offshore sector has grown more than 20 percent per year over the last ten years (McKinsey 2005b:35). Why is this the case? And how globalizing – or “flattening” if you will – is offshoring?

The general debate about globalization pits *globalists* against *sceptics*. The globalists claim that states are losing the ability to control economic interactions across their borders, making states less important actors in the global market (Woods 2005:339), if not “unnatural, even dysfunctional unit(s)” (Ohmae, quoted in Rosenau 1997:105). The sceptics counter this by arguing that the role of states is not eroding – far from it; states are very important actors in determining the patterns of the global market.

“(T)he closer we looked the shallower and more unfounded became the claims of the more radical globalists. In particular (...) the tendency casually to cite examples of internationalization of sectors and processes as if they were evidence of the growth of an economy dominated by autonomous global market forces (...) (Hirst&Thompson 1996:2)”

Rather than arbitrarily use various examples of internationalization, as the sceptics accuse the globalists of doing, the aim of this essay is to discuss globalization using a concrete example: offshoring of services to skilled workers in India. I will discuss both the origins of India's role in offshoring and the constraints that deter further offshoring. The small size of the actual offshoring market might indicate that national borders are still important. I argue that it is not the state and national borders in themselves that constrain globalization, but other “localizing” factors such as language, distance and culture. These factors determine the patterns of offshoring, and they are in their turn changed by offshoring.

Because of location-insensitivity, the integration of skilled labor markets has become faster and more difficult to quantify. Counting the number of people physically crossing state borders is not enough to get an accurate picture of the integration between labor markets. Despite the complexities of location-insensitivity, debates about the global market for skilled labor are often surprisingly simple, based on which states win and which states lose when individuals choose to work outside their country of birth. As Kira Karnik, the president of NASSCOM wrote in 2003: “Understandably, this has become an emotive public issue, because most people wrongly equate outsourcing with job-loss (Karnik 2003:2).”

The debate about offshoring is often concerned with offshoring as trade in services, and which states win and lose from this trade. In this essay, I interpret offshoring as labor migration – even if it does not require physical movement of people. There are two reasons to think about offshoring this

way. Firstly, I assume that the offshore workers themselves do. Tradeable goods have no say in where they are shipped, but working people make decisions about where they want to work and where they want to live. Offshoring separates these two decisions, but it does not take away the power of making them. Secondly, at least in India's case, migration and offshoring are connected through the influence of the *diaspora*. These emigrants are not a *brain drain* but a network which has shaped offshoring patterns. Emigrants are also increasingly returning to India to work in offshoring, which indicates that offshoring could be an alternative to physical migration for them.

First, I will briefly explain some important terms including *skilled*, *offshoring* and *outsourcing*. Second, I will present the offshoring situation in India today, including recent trends that connect migration and offshoring. Then I will discuss the effects of the various factors that have shaped India's role in offshoring: wages, technology, skill, the diaspora, government policies, distance and culture. I will discuss how we should interpret offshoring, given these factors. My main argument is that neither a globalist view nor a sceptic view accurately describes offshoring. Offshoring is a form of labor migration without physical migration, and this duality makes offshoring both a globalizing and a localizing force.

Skilled migration and location-insensitivity

Location-insensitive work

When Blinder (2006:4) writes that we lack vocabulary to describe the changing global labor market, the change he is referring to is the increasing complexity due to *location-insensitive work*. In theory, a location-insensitive job can be performed anywhere. For those whose work can be location-insensitive, the questions “Where should I live?” and “Where should I work?” no longer need to have the same answer. “Any job that is not confined to a particular location has the potential to be (...) performed anywhere in the world. Broadly speaking, this includes any task that requires no physical or complex interaction between employee and customers or colleagues, and little or no local knowledge (McKinsey 2005a:10).” The common features of location-insensitive jobs are that they require little or no face-to-face customer service, that they are information-based, and that they can be segmented into components that can be digitized and transported over telecommunications networks (Atkinson 2004:4).

There are different ways of organizing location-insensitive work. *Offshoring* refers to having jobs

done in another state in general, whether this is done by moving a part of a company to this new location, or by outsourcing services to a foreign company. The opposite of offshore is *onshore*. *Outsourcing* is when a company buys services from another company, moving company functions from internal departments to external firms. This can happen whether or not both companies are in the same state. The opposite of outsourced is *captive*, when all the work is done within one MNC. This paper deals with offshoring, both outsourced and captive. When an American firm contracts with a small Indian firm that specializes in providing call center services, this is *offshore outsourcing*. When an American firm locates its own call center in India, this is *captive offshoring*. Business processing outsourcing (BPO) is moving tasks like accounting or invoicing – tasks a firm does for itself, not for its clients – to an external firm (McKinsey 2005).³ It is also possible to be a location-insensitive worker as a “free agent”, working globally without being permanently employed by any company, but this paper does not discuss this type of work in detail.

The skilled and mobile

Skilled workers are most broadly defined as

(...) those in possession of a tertiary degree or extensive specialized work experience – include architects, accountants and financial experts, engineers, technicians, researchers, scientists, chefs, teachers, health professionals, and – increasingly – specialists in information technology (IT, including computing professionals, computing engineers, managers, sales reps, etc.) (Vertovec 2002:2).

Tertiary education, post-secondary education and *higher education* are used interchangeably and include bachelor, master and doctorate degrees. Since level of education is easier to quantify than general expertise in a field, “skilled workers” refers to educated workers, narrowing the definition above. I also use the term *knowledge worker* to describe skilled workers who work primarily with development and use of knowledge and information.

There is a worldwide positive correlation between higher education and physical migration (Carrington&Detragiache 1999:4). This is not particularly surprising. The skilled have a higher ability to move. It seems reasonable to assume that they are more likely to speak foreign languages, have knowledge of foreign cultures and have the economic resources to make the journey. Moving to another country may be part of becoming skilled, for example through education abroad.⁴ Studies also

³ Definitions are based on the operationalizations of these terms used in the McKinsey Global Institute's 2005 report on offshoring.

⁴ Many studies show that studying outside your home country significantly increases the likelihood of working outside your home country at a later stage (Li et al. 1996, Salt 1997, Khadria 2001, Hugo 2002, all quoted in Vertovec 2002:5-

show that expectations of working in a global rather than a national labor market can increase the incentive to invest in one's own education (Stark et. al. 1997, 1998, quoted in Pedersen, Røed&Schröder 2002:6). Furthermore, there is some competition among countries for skilled workers, while movement of unskilled workers is often more restricted by government policies (Castells 2000:131). Although most physical migration from India is low-skilled, if we measure the percentage of emigrants within each educational level, we still see a positive correlation between skill and international mobility. In 2000, 4.2% of India's educated labor force emigrated, compared to 0.1% of those with only primary education (Docquier&Marfouk 2004:20).

Is there a similar correlation between skill and offshoring? Given today's technology, knowledge work is less sensitive to location than other work. The costs of transporting manufactured inputs and outputs have not been lowered as much by recent technological changes as the cost of transporting information (McKinsey 2005a:14). As Blinder (2004:4) writes “You can't hammer a nail over the Internet.” However, Leamer (2006:24) argues that only “mundane” skilled jobs can be outsourced, while a (Western) elite will continue to do the creative work. The following description of location-insensitivity makes the same distinction between work that requires skill and work that requires genius:

“When significant parts of a task can be described in rules, it is vulnerable⁵ to offshoring since it can be assigned to offshore producers with reduced risk of miscommunication and lower costs of monitoring. When a task's rules cannot be articulated—when the task involves extensive tacit knowledge—neither computerization nor offshoring is a readily available alternative (Goelman&Levy 2003:5).”

Technologically, nothing stops creative work from being outsourced. The policy advice from researchers after extensive research on offshoring, is often that developing countries who wish to become suppliers of offshore labor, should focus on skill and knowledge work, not low-cost manufacturing (Farrel, Puron&Reme 2005, McKinsey 2005a:37). As will be seen later in this paper, Indian offshoring began with simple work and increased in complexity and skill requirements.

Offshoring and India today

Within both captive offshoring and offshore outsourcing, India is one of the most important sources of labor today. In some sectors – like BPO and IT, in which India provides 12.2% of the world's offshore labor – India is by far the dominant labor source (McKinsey 2005a:13). According to the Indian computer services trade association, the National Association of Software Services Companies

6).

⁵ Note Goldman&Levy's use of the word “vulnerable”. They imply that offshoring is a threat.

(NASSCOM), offshore BPO employment alone increased from 106 000 jobs in 2002 to 171 500 in 2003 (Atkinson 2004:4). The McKinsey Global Institute has conducted a study of the potential supply and demand for offshore labor in 28 low-wage countries⁶ and 8 mid- to high-wage countries⁷, published in 2005.⁸ Their research shows that India not only dominates current offshore labor supply, but also dominates suitable supply of *potential* offshore workers, in other words, workers that would be able to work offshore, even if they are not currently employed in offshoring (McKinsey 2005b:25).

Offshoring and physical migration

Could offshoring replace labor migration? Offshoring may already be pulling some physical emigrants back to India. Estimates from NASSCOM show that only 3 to 4 percent of Indian IT migrants to the US return to India, but this number is growing.(Chanda&Sreenivasan 2006:228, 215). A slowdown in the US economy and the so-called “dot-com bust”⁹ can be considered push factors out of the US. Offshoring might have been a powerful pull factor.

The increased return migration is especially marked in the IT sector, the business processing sector and the financial sector, according to NASSCOM (Chanda&Sreenivasan 2006:215, 231). These are sectors in which India is a particularly important source of offshore labor. NASSCOM Vice-President Sunil Mehta estimates that 30-40% of the return migrants in the IT sector start work in offshore IT services (Bakshi 2004). Most return migrants move to “BPO hubs” like Bangalore, Mumbai or New Delhi (Chanda&Sreenivasan 2006:233).

Medicine, although an important source sector for Indian emigrants, has had more limited return migration (Chanda&Sreenivasan 2006:232). It has been argued, (for example by Goelman&Levy in 2003) that this sector is inherently less suited for offshoring, because it is less based on interpreting and following rules and requires more direct contact with clients (patients). While information can be sent between hospitals across international borders, patients can not be sent over the Internet or examined by telephone. Because of this, it is not surprising that fewer Indians with an education in medicine would consider offshore work as an alternative to emigrating and working in an American hospital.

⁶ Brazil, China, Czech Republic, Hungary, India, Malaysia, Mexico, the Philippines, Poland and Russia (in depth) Argentina, Bulgaria, Chile, Colombia, Croatia, Estonia, Indonesia, Latvia, Lithuania,Romania, Slovakia, Slovenia, South Africa, Thailand, Turkey, Ukraine, Venezuela and Vietnam (also included in the general study)

⁷ Australia, Canada, Germany, Ireland, Japan, South Korea and the United States (Australia and South Korea were studied by way of extrapolation)

⁸ The results of this study have been published in three parts. Note that when I refer to these reports, I use the notations a and b to refer to the executive summary and part 2 respectively.

⁹ In the year 2000, the value of IT stocks peaked after increasing dramatically during the 1990's.

The migration of skilled foreigners to India is also increasing, although the number of skilled immigrants is not high yet. Most of these immigrants move to the same BPO hubs that return migrants move to, and it seems that the BPO sector is driving this new trend (Chanda&Sreenivasan 2006:234).

Trend towards outsourcing

An increasing share of the offshore service work is being outsourced to Indian owned companies, for example software companies like Infosys, Wipro and Tata Consulting Systems (TCS), rather than being done by divisions of multinational corporations through captive offshoring (Atkinson 2004:4). When MNCs were working to establish themselves in India, they often recruited from small Indian outsourcing companies. Many Indian software professionals who chose to work for MNCs are now returning to the Indian companies they left. A study conducted by global IT research firm Forrester Research said that “while the US-based vendors in India have been luring qualified staff away from their Indian employers, many are returning to Indian outfits to engage in more meaningful work and to have opportunities for advancement (Nair 2004).” Interviews with offshore workers who return to Indian-owned businesses suggest that while having worked for an MNC looks great on a résumé, they prefer to work long-term for a smaller business owned by Indians. One informant who leads several divisions of an Indian outsourcing firm after having worked for an MNC, said “Being central to decision making and having a larger impact on the company globally is much more challenging (Nair 2004).”¹⁰

The initial motivations for offshoring

Wages

Relocation of jobs in general, both captive and outsourcing, is nothing new, and the motivations for relocation have always had something to do with moving work to where wages are low (McKinsey 2005a:12). In 1932, John Hicks wrote *The Theory of Wages* arguing that “differences in net economic advantages, chiefly differences in wages, are the main causes of migration (Hicks 1932:76).” In this

¹⁰ On the other hand, some claim that these location-insensitive return migrants are negatively selected, and that MNCs continue to employ the most highly skilled workers (Dossani&Kenney 2004:41). Quantifying and measuring talent beyond level of education is difficult, and I do not wish to speculate about the relative talent of skilled Indian offshore workers. Nor do I want to paint a picture of these location-insensitive return migrants as the ones that just didn't make it in an MNC. Perhaps a better explanation would be that for many people, it is better to be a big fish in a small pond, than a little fish in a big pond... especially when the small pond is growing with an 8% growth rate, like the Indian economy.

theory the very existence of income disparities around the world leads to international migration, and in the long run wages should be equalized across international borders. In this economic migration theory, potential migrants are rational value-maximizers. They consider their options and migrate if the gains outweigh the costs (Castles&Miller 2003:22). In this respect offshoring is similar to physical migration. Working for an MNC while living in India is an economically rational decision because of high wages combined with a low cost of living. For the MNC, employing labor in a low-wage country allows them to spend less on wages. However, it would be a mistake to say that differences in wages are the only reasons for this development or that wage levels are the only consideration firms take into account when choosing *where* to offshore (Dossani&Kenney 2004:12).

Technology

The recent change in job relocation has to do with information and communication technologies. When bandwidth and telecommunications costs were lowered in the 1990s, it allowed firms to relocate jobs farther away than they had before (McKinsey 2005a:14). The effects of information technology can be summarized in three points: “Information can flow freely throughout the world instantaneously. It is possible to track information about people, products and services in real time. The customer can compare and contrast your service with other firms throughout the world (Kobayashi-Hillary 2005:74).” However, although technology changed possibilities, it did not automatically change everything. Technology does not change peoples' goals or wishes, it merely changes the cost of doing something people may or may not want to do. If there had been no demand for offshore labor in high-wage countries, the fact that employing such labor became technologically possible would have had no effect.

Skill

India's IT sector became a catalyst for offshoring in general. In the 1990's, the combination of the “Y2K problem”¹¹, and a boom in the IT industry led to a shortage of IT workers in the US. Solving the Y2K problem required programming skills that were no longer taught in American universities¹², but

¹¹ The Y2K problem refers to the concern in the computer industry that computers would be unable to understand the change from '99 to '00 at the turn of the millennium.

¹² COBOL programming skills were needed, but COBOL had become obsolete and was therefore not part of the US IT curriculum. Because Indian curriculum was behind the times, Indian IT students were acquiring skills that were needed by the Americans.

were still taught in India (Aggarwal et. al. 2004:12). India had a large pool of English-speaking IT professionals with the right particular skills. Many of them were unemployed or under-employed (Dossani&Kenney 2004:18). At the same time, changes in US immigration policy made hiring Indian emigrant software engineers more difficult and expensive for American firms. Some of these firms started doing business after a new model: by letting Indian software engineers work from India, rather than emigrate to the United States (Aggarwal et. al. 2004:11).

A slowdown in the American IT industry after the year 2000 helped offshoring to India take off (Aggarwal et. al. 2004:11). The initial motivation for offshoring was that American software companies needed a large pool of IT workers to perform fairly basic tasks related to the Y2K problem. The Indian IT workers solving this problem were usually fresh out of tech-school and did relatively low-skill work compared to both their American counterparts and Indian expatriates who had moved to the US before the changes in immigration policy. However, when the “dotcom bubble burst” and there was no longer such a high return to investment in IT, price was a more important issue to the American software companies. Those who had already used outsourcing companies in India to solve Y2K problems now returned to these same companies because it was crucial that they got software work done at a lower cost – the same software work that had previously been done in the United States (Friedman 2005:108-109). So even though offshore work started out simple, it became more complex and eventually spread to other sectors, once the cross-border connections had been established and both American firms and Indian workers had gained experience.

Language skills have also motivated offshoring to India. English is an official language in India. Approximately 40% of books bought are in English, and most university teaching is in English (Davies 2004:15). Despite this, university students do not necessarily have sufficient language skills to work for an MNC, according to HR experts. They are however, relatively proficient compared to graduates from many other states (McKinsey 2005b:15). This is one of the biggest differences between India and China: Proficiency in English allows Indian offshore workers to perform high-skilled informational service tasks, rather than simple manufacturing (McKinsey 2005b:40).

The total number of university-educated workers is higher in low-wage countries than in high-wage countries (McKinsey 2005a:30). In most sectors suitable for offshoring, the supply of talent is growing faster in low-wage countries (McKinsey 2005b:30). Given this supply of low-wage skilled workers and the technology that allows them to work globally, perhaps what should be surprising is not that offshoring exists, but that it does not make up a larger share of the world economy.

Actors and globalization

Offshoring “link(s) distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa (Giddens 1990, quoted in McGrew 2005:24)”, which is a text-book definition of globalization. However, globalization-sceptics often point out that the world was just as economically integrated in the period 1870-1914 as it is now, if not more (McGrew 2005:26). A continuation of this argument is that given wages, technology and skill, there should be much more offshoring than there is today, and that the relatively minor effects of offshoring are due to the prevailing importance of state borders. Within this view, offshoring can be described as internationalization, rather than globalization, because of the role of governments in determining offshoring locations. The term internationalization refers to transactions between states, and governments facilitating economic integration through their policies (Woods 2005:338). Sceptics argue that the state is the central actor in internationalization, not corporations or forces of capitalism (McGrew 2005:26).

Wages, technology, and supply and demand for skills are factors that influence corporations and the individuals that work for them – we could call them forces of capitalism. In the following two sections of the paper, I discuss the roles of states and networks. Whether we view states and networks as actors in their own right or simply constraints and incentives for the individuals and corporations, is more a question of how we view reality than what that reality really is. The point is that we cannot ignore the influence of government policies and diaspora networks when determining who will offshore what to whom.

The role of the diaspora

Much research on skilled physical migration attempts to answer questions of *brain drain* and *brain gain*. This research describes emigration of skilled workers as a loss of human capital to the state they move from and a gain to the state they move to. “A person is a brain drain migrant if he has the intention of holding permanent employment in a country other than the one in which he was educated up to a certain high level (Grubel&Scott 1977:49).” The idea behind this definition is that the sending country bears the cost of educating the migrant, while the receiving country receives the benefit of gaining a skilled worker. Generally, we speak of brain drain when many skilled people leave a country, but some studies measure brain drain in absolute numbers, some in percentage of total skilled workforce.

In 2000, India had the world's third largest educated diaspora. Because of this, India is often

mentioned as a country suffering from brain drain (Carrington&Detragiache 1999:5). However, measuring the size of the educated diaspora relative to the total size of the educated population shows that India's brain drain is not dramatic compared to countries with smaller stocks of skilled workers and therefore much higher skilled emigration rates (Docquier&Marfouk 2004:32).¹³

Even if India's skilled emigration does not constitute a brain drain, for major host countries, especially the United States, it could still mean a *brain gain*. Indian migrants account for a disproportionately large share of skilled immigration to the US, especially in certain sectors like IT (Chanda&Sreenivasan 2006:229). In 1998, more than 75 percent of Indian immigrants to the United States had a tertiary education.(Carrington&Detragiache 1999:5). India is the most important source country in the speciality occupations category of H-1 visa, the visa specifically for skilled immigrants.¹⁴ The largest sector for skilled migrant workers to the US from India has been the IT sector, followed by medicine and engineering (Chanda&Sreenivasan 2006:229, 235). In 1999, 24% of the IT professional population in Silicon Valley were Indian immigrants (Ribeiro 2004).

The Indian skilled emigrants are increasingly regarded as a transnational network with an important positive effect on the Indian economy, not just lost talent (Chanda&Sreenivasan 2006:231). Simultaneously, a new and more multidisciplinary theoretical approach to migration is beginning to take shape, claiming that “(i)t is transnational networks that precondition, arise out of, and perpetuate the intermittent and short-term patterns of movement typifying contemporary skilled workers (Vertovec 2002:2).”¹⁵ However, this does not tell us much if we do not know what networks are. And even Manuel Castells, the author of *The Rise of the Network Society*, has no clear definition of this term (Stalder 2006:169), but writes that a network is “a set of inter-connected nodes. (...) What a node is, concretely speaking, depends on what kind of concrete networks we speak of (Castells 2000:501).” The Mirriam-Webster dictionary defines a network as “an interconnected or interrelated chain, group, or system” or “a usually informally interconnected group or association of persons (as friends or professional colleagues)”, and when I call the Indian diaspora a transnational network, this is the

¹³ As mentioned above, India's skilled emigration rate in 2000 was 4.2%. Suriname, Guyana and Jamaica, the three states with the most dramatic brain drains, had skilled emigration rates of 89.9, 85.9 and 82.5%, respectively (Docquier&Marfouk 2004:32).

¹⁴ In 1999, the US gave 47% of their H-1 visas to Indians. China, the second recipient country, only received 5% of these visas in the same year (Chanda&Sreenivasan 2006:229).

¹⁵ The economist Borjas wrote of his own economic migration theory that it “leads to a clear – and empirically testable – categorization of the types of immigration flows that arise in a world where individuals search for the 'best' country” (Borjas 1989, quoted in Castles&Miller 2003:23). While empirical tests can reveal that the theory does not always fit with reality, this can lead to new predictions based on the same theory. The new transnational theories on the other hand, can be confusing and lead to very few testable predictions.

definition I am working from.¹⁶

Most literature on the importance of diaspora networks for development has focused on investment (Balasubramanyam&Wei 2006:3), and the verdict has often been that the emigrants have not invested enough in their home country to be considered valuable. It is estimated that 3% of India's foreign direct investment has been provided by the diaspora, and this is regarded as a “meagre” contribution (Kuznetsov 2006:61). However, the diaspora has played other roles in India's development, most notably in the IT sector. Kuznetsov (2006:61) describes India as a unique case, because of the role of the Indian diaspora in *high-tech* development “almost entirely in the software industry.”

In the 1970s and 1980s, the diaspora did not invest much in Indian IT, mainly because of Indian government restrictions and limited capabilities among IT workers in India . The diaspora's main contribution to the industry was to act as “brand ambassador” by getting talented Indian IT workers jobs in the US (Aggarwal et. al. 2004:10). In other words, the diaspora encouraged even more skilled emigration.

In the 1990s when a combination of technology, immigration policies and need for skills created a demand for offshore labor, the diaspora influenced outsourcing decisions in India's favor (Chanda&Sreenivasan 2006:239). They had been brand ambassadors for Indian emigrants in the 70s and 80s; now they were brand ambassadors for Indian outsourcing companies. Their experiences with India gave them credibility when they claimed that problems with Indian infrastructure and bureaucracy could be overcome. Indian emigrants in the US and Indian offshore workers in India were often alumni of the same universities, and a transnational network of IT workers from these universities emerged. This led to transnational non-profit organizations for IT workers, expatriates investing in Indian companies, and outsourcing companies in India started by returning expatriates (Aggarwal et. al. 2004:12).

Evalueserve Inc., a business intelligence and research firm, predicts that the Indian diaspora is the reason India will remain the dominant offshore destination, even as other countries become more and more important for offshoring. According to their study “a key factor is the increase in organized networking and mentoring that the diaspora community can provide to businesses engaged in outsourcing (Ribeiro 2004)”. The diaspora should also help India “move up the value chain” by doing jobs which require higher levels of skill and creativity (Ribeiro 2004).

¹⁶ See <http://www.m-w.com/dictionary/network>

The role of the state

A transnational network, the Indian diaspora in the United States, was a vital factor in the development of offshoring, because they established connections between the United States and India. However, the state had an important role to play in this development as well.

I have already mentioned that one of the reasons for the low level of investment from the diaspora in the 1970s and 1980s was regulatory barriers put up by the Indian government. In the mid-1980s the Indian government started a process of liberalization of the Indian economy. Although policies were established with the goal of attracting MNCs (Dossani&Kenney 2004:18), the release of control was slow and gradual. In 1988 for example, when Texas Instruments became the first US-based MNC to enter India, the Indian Ministry of Communications demanded that a government official be present in the control room of the company's satellite data transmission center at all times (Schifferes 2007a). In 1991 finance minister Manmohan Singh opened India for foreign investment (Das 2002:215-222). The public monopoly telecommunications system was liberalized in 1999, permitting private providers to offer telecommunications service. This also made specialization of telecommunications services possible (Dossani&Kenney 2004:19).

However, the government's role since then has been limited. Recent Indian administrations, including the present one, are positive to offshoring, but have done little to actively support it (Kobayashi-Hillary 2005:29). It seems that offshoring to India today really is mainly driven by the market, and that the government simply allows it to happen.

Governments' control over offshoring is certainly weaker than over physical migration. The choice of American IT firms to employ offshore work rather than recruit migrants was heavily influenced by changes in American immigration policy, as noted above. Through the use of offshore labor, corporations can bypass not only immigration laws, but also immigrant integration policies (Aneesh 2001:13). This is not to say that governments are powerless or that the global labor market is ungovernable. If the Indian government were to change its view of offshoring and return to strict regulatory policies that made offshoring difficult, this would have an effect. After all, when offshoring began, the Indian state relinquished control voluntarily while the American state tightened its immigration policy, and this changed the market.

“(W)hat enables one actor to obtain compliance from another actor in a disaggregated world is an interdependent convergence of needs and not a constitutional specification that assigns the highest authority exclusively to states and national governments (Rosenau 1997:41).” In other words, when

American firms started offshoring to India it was a result of the interests of companies, individuals, networks *and* state governments, not state governments overriding the actions of all other actors. Nor was it an intergovernmental development between the American and the Indian government.

We must look elsewhere for the constraints on offshoring today. The relatively minor levels of offshoring are no longer a product of government policies. With present levels of economic liberalization in several countries, firms could offshore more jobs than they do. Their reasons for not doing so are organizational issues within the firms themselves (such as management attitudes, organizational structure, and scale) or lack of suitable offshore talent (McKinsey 2005a:26).

There are other more indirect roles for the Indian government to play. The policy advice from McKinsey is clear: “Leverage the diaspora (McKinsey 2005b:41).” The attempts by the Indian government to do this have so far lacked an overall institutional framework and have suffered from bureaucratic, budgetary and administrative problems. These attempts include the TOKTEN (Transfer of Knowledge Through Expatriate Nationals) programme which aims to obtain technical expertise from Indian skilled expatriates by encouraging them to undertake short-term voluntary assignments in India. INRIST (Interface for NRI Scientists and Technologists) aims to establish links between expatriates and Indian organizations. Overall, the Indian government has not had a comprehensive policy of using skilled migration to their own advantage (Chanda&Sreenivasan 2006:241, 240). Perhaps the most important roles for the government are to provide education and infrastructure.

Localizing factors and fragmentation

Up to this point, I have argued that a transnational network was at least as important in shaping the current offshore market as state governments, and that the state, though not without an important role to play, has given up some of its control over migration. This does not mean that where people are born has no significance. That the state as government has relinquished some of its control over economic transactions, does not mean that people's emotional connections to their country of birth have disappeared or that the practical concerns of geography and cultural differences are not still important issues.

Not only does offshoring *not* erode the role of culture or distance, it reinforces the importance of these two factors. Offshoring has resulted in clusters of economic activity in offshoring hub cities like Bangalore, Hyderabad, Mumbai and New Delhi, which means that the differences between life in one

of these cities and life somewhere else in India could be growing. And culturally, an Indian working in offshoring is less integrated with another country than an Indian who moves to this country.

Perhaps the term integration should be replaced with James N. Rosenau's term *framigration* defined as “the combination of the simultaneous centripetal forces of globalizing integration operating along side centrifugal forces of an ever more localizing fragmentation (Counihan&Miller 2006:263).” This term captures the way distance matters even if borders do not, and the way national identity and culture matter even if national citizenship does not. Offshoring is both shaping and being shaped by this framigration, and the following two sections of the paper, I discuss how.

Distance

Globalists may see offshoring as an example of deterritorialization, defined as “the diminution of influence of territorial places, distances and boundaries over the way people collectively identify themselves or seek political recognition (Woods 2005:338).” According to Manuel Castell's theory of networks, to communicate in real time is to be in the same “space”. But with location-insensitivity, space no longer equals place. Actors can be in very different places, but communicate in real time. Castells calls this space “the space of flows”. It connects places, “changing their functional logic and social dynamics (Stalder 2006:146-147)”.

However, this space of flows should not be regarded as a replacement of geographical distance. When a job is location-insensitive, that means that it *can* be done anywhere, but there may still be advantages to locating location-insensitive jobs in certain places. “The concentration of computer companies around Silicon Valley, for example, has nothing to do with bountiful natural deposits of silicon (Blinder 2006:2).” In theory a computer company can set up its office anywhere, but once Silicon Valley had developed, the advantages of locating there became greater and greater the more companies there were.

India has experienced a similar situation of *clustering*. Firms do not offshore to India in general; they offshore to specific cities like Bangalore and Hyderabad. Compared to other geographically large emerging markets like Russia and China, India has an advantage in that 47% of its college graduates live near an international airport (McKinsey 2005a:33)¹⁷. Why is this so important, if the students are going to work offshore rather than migrate anyway? When MNCs look for a good offshoring location, they look for infrastructure, particularly proximity to an international airport. Skilled Indians have

¹⁷ For Russia, this number is 33% and for China 25% (McKinsey 2005a:33).

another advantage (statistically) in that they are more mobile – more willing and able to move – than their Russian and Chinese counterparts (McKinsey 2005b:19).

The growth of cities and general urbanization of the world's population led Richard Florida (2005) to write that the world is spiky, not flat, and that economic activity, research, innovations etc. cluster in geographic areas that manage to attract a critical mass of talent. Economic geographers Edward Leamer and Michael Storper have written about the “double-edged geography of the Internet age”, where a tendency of spreading out of economic activity meets a tendency of geographic functional specialization (Atkinson 2004:5). Overall, it seems that one result of offshoring is that while which state you live in matters less, which city you live in within that state matters more.

The same technology that initially made offshoring possible can also be used to let workers work from their homes, and this is a possible way around infrastructure problems and clustering. JetBlue Airways, an American airline, is an example of a firm that has its' employees work from home, connecting their computers to the airline's servers, and communicating with customers via voice-over-IP phones (McKinsey 2005:38).

Again: there is a difference between what technology allows and what people actually want to do. Offshoring of knowledge work requires *distributed collaboration*, creative cooperation across distance and time. The technology for doing this exists¹⁸, but evidence from group psychology research shows that most human beings work better when they cooperate with people they can see in the same room at the same time (Carmel&Tjia 2005:149). Physical proximity encourages spontaneous communication. The American term “water-cooler conversation” is an example of this: you take a short break to get a glass of water and take the opportunity to chat with a co-worker, and this lets you know what he or she is working on and whether they might be able to help you with your work. According to Future of Work, a research organization for HR and IT professionals “the reason most 'telecommuting' and remote work programs don't work has almost nothing to do with technology or workplace design. It's all wrapped up in the fact that neither workers nor their managers really understand what it means to collaborate with people they don't see on a regular basis (Grantham&Ware 2003).” The completely independent knowledge-worker who only needs an Internet connection to work is the exception, not the rule.

For MNCs who want to collaborate with workers they cannot see, middle managers are crucial. They coordinate work, facilitate cooperation, manage offices overseas and report back to the MNC

¹⁸ Video-conferences, e-mail, wiki-based websites etc.

headquarters. A shortage of managerial talent is a constraint to growth in offshoring both in India and in general (Dossani&Kenney 2004:22). India's relatively large supply of suitable middle-managers is still one of the reasons why India is such an important actor in offshoring. Compared to newer actors, such as Russia and China, India has been developing an export-oriented service sector for over a decade, resulting in middle managers with experience. Some Indian middle managers have even emigrated to other emerging markets like Russia because they are needed there (McKinsey 2005b:34-36). This is another role for the diaspora to play. Return migrants have valuable experience in bridging the gap between two countries, which gives them the ability to understand the requirements of both the American and the Indian office.

The government can influence offshoring through infrastructure. Even in an offshoring city like Bangalore, developments in infrastructure are lagging behind developments in economics. The international terminal at Bangalore's airport is already too small to meet the demand for international business travel. The government's policy is to decentralize (Schifferes 2007b), but leaders of Indian-owned outsourcing companies like Infosys and Wipro have asked for more international flights to Bangalore (Kobayashi-Hillary 2005:28).

Culture

“An awareness of a common language, ethnicity, history, religion, and landscape represent the building blocks of culture (Murden 2005:540)”. The importance of this awareness of sharing something is exemplified by the Indian emigrants urging their American employees first to hire other Indian emigrants, and then to consider offshoring to India. It could also be argued that the offshore workers who prefer Indian outsourcing firms to MNCs can be explained by culture. To an MNC, their offshore division in India is just another component of their core business. But to an Indian company, their outsourcing division is their window to the world and their way of helping their country grow economically (Nair 2004, Chanda&Sreenivasan 2006:233).

Language is both a building block of culture and a necessary skill for cross-cultural knowledge work. Language skills are particularly important for the most stereotypical offshore Indian: the one who mans a phone at a call center. Even if an Indian's English vocabulary is perfect, a heavy accent and limited knowledge of culturally specific terms can be a problem in this type of job. This is why there are classes in imitating Canadian, British and American accents for outsourcing workers in India (Friedman 2005:26-27). Many companies are caught by surprise at how extensive vocabulary must be

for someone to be able to deal with a variety of customer calls. One HR expert complained that companies believe their offshore workers only need to know a few hundred words of a foreign language before they can start answering phones (McKinsey 2005b:16).

Low customer satisfaction ratings and complaints about language difficulties have moved offshore call centers from India to other offshore locations (McKinsey 2005b:15.) or back home. Some British companies now use their “UK-only” call centers as an advertising strategy, despite suspicions that British customer reactions have more to do with prejudice at the sound of an Indian accent, than actual language difficulties (Winterman 2007). This prejudice is the reason Indian offshore call center operators sometimes use Western-sounding names when they take calls (Friedman 2005:22-23).

English is the lingua franca of software and IT, but in other sectors, the more languages you speak, the better. In fact, some of the skilled immigrants to India are recruited by Indian BPO firms who want to employ workers who speak other foreign languages than English. For example, Technovate, a BPO firm and subsidiary of the London-based travel agency, ebookers Plc, has hired French, German, Finnish, Norwegian, Swedish, Dutch, Swiss and Irish workers in order to offer non-English business (Chanda&Sreenivasan 2006:234).

Culture can also be described as a set of rules and practices, a way of doing things, and a shared idea of what distinguishes right and wrong. This includes what we wear to which occasions, how we judge other peoples' actions and what we mean when we say “In a minute...” Culture is the reason guides to doing business in India include chapters on “Dress code”, “The family”, “Indian stretchable time” and “Understanding each other” (Davies 2004).

Working together involves cultural integration. The McKinsey survey rates “lack of cultural fit” as one of the top reasons why offshoring is not a more common way of doing business (McKinsey 2005a:31). Many offshore workers find the rigorous MNC schedule challenging, especially the demanding working hours and intense competitiveness. Indian workers however, are praised by American HR experts for their “American attitude to work”. (McKinsey 2005b:17, 18)

Offshoring allows for migration without a complete change of culture. Before location-insensitivity, an Indian who wished to work in the US had to integrate their way of thinking about work, their children's education, which holidays people observe, what food can be bought at the supermarket and what to wear every time they stepped out of the house. To be an offshore worker, the only required cultural integration is language and work culture. Unlike Indian immigrants to the US, an Indian offshore workers' national identity is unambiguous. They are also, at least to a certain extent,

governed by local practices of employment, taxation and labor regulations, meaning that even their work culture is less integrated with the US than it would be if they emigrated physically (Aneesh 2001:4). “In contrast to physical migration, where humans also come with the labor, demanding tolerance for cultural difference, education for their children, a possible long-term settlement, and general social security from the affluent society, virtual labor flows do not require alien humans to join the new nation (Aneesh 2001:13).”

Friedman (2005:28) summarizes this idea when he writes: “At the end of the day, these new jobs actually allow them to be more Indian.”

Conclusion

I started this paper by quoting Churchill: “The empires of the future will be empires of the mind.”

This sentence can be interpreted the way it was understood in the article where I found it: “The battles of the future will be battles for talent (The Economist 2007)”, meaning that brain power is a sought-after commodity and that in an increasingly integrated and meritocratic world, having the right skills may become more important than being born in the right country. While states, companies and universities may compete for talented individuals, this does not mean that the battle for brainpower is a zero-sum game. Talented emigrants did not prove to be a loss to India, and offshoring is economically rational and beneficial for both the offshore worker and the offshoring corporation. Nor is it a game played only by states. An MNC with workers all over the world who collaborate without actually meeting each other can also be called an empire of the mind. Some of the more creative predictions of the future even foresee a world where MNCs *are* empires, having replaced the state entirely.¹⁹

Another way to interpret the quote is to think that empires, nation-states and other cultural communities are still *of the mind*, even if they do become less influential as physical or legal entities. If all states liberalize and allow free flows of information, migration, investment and borderless knowledge work, people still care about where they come from. British people prefer to speak to someone who sounds British, Indian workers prefer working for an Indian company and books are written reminding American businessmen that Indian businessmen do not attend meetings in shorts (Davies 2004:89). Emigrants maintain contact with their country of birth, and some are willing to accept lower wages if that means working in their own country (Chanda&Sreenivasan 2006:231). The

¹⁹ See for example, the novel *Jennifer Government* by Max Berry in which the world is run by American-based MNCs and employees take the last names of the corporations they work for.

Indian diaspora network is a way of maintaining national connections in the mind, regardless of where one lives physically. These localizing forces may in some cases constrain offshoring, but in other cases offshoring allows for economic integration with only a minimum of cultural integration, reinforcing the importance of geography and identity. Perhaps technology, skill and liberalization policies can give us “(...) a world with a rich smorgasbord of cultures but without the frictions that cultural differences usually engender. Not one flat common culture (Leamer 2006:7).”

The extraordinary thing about being able to live locally and work globally is that it opens up a possibility for dramatic change – for a new “labor market reality.” Technology and to a certain extent government policies enable mobility and interaction regardless of state borders. However, as Friedman (2005:375) writes in *The World is Flat*: “I know that the world is not flat”, meaning that possibility does not equal action, because people are still people.

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