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If it can be done from home, could it be done from abroad? The risks and opportunities of virtual offshoring

Executive Summary

The pandemic will soon be over, but the cultural changes it has brought will continue to shape the economy for years to come. Among these, the normalization of remote work is one of the most consequential. The massive telecommuting experiment forced by the great lockdown shattered many myths about what a remote workforce can achieve. With permanent telecommuting no longer a taboo, employers will be increasingly tempted to hire teleworking talent in developing countries. Many emerging economies are quickly catching up on education and technological development; yet labour costs remain lower by an order of magnitude. More and more office work will be performed in the developing world and then immaterially exported to wealthier countries at a fraction of its domestic cost. This trend towards "virtual offshoring" is driven by strong financial incentives. For instance, firms in a country like France would reduce labour costs by an estimated 7% if 1 out of 4 teleworkable jobs were virtually offshored. Coface estimates the total number of teleworkable jobs in high-income economies at around 160 million. In turn, the number of potential teleworkers in low and middle-income economies is close to 330 million.

For wealthy countries, large-scale virtual offshoring could become a source of political risk. The pressures of global competition can provoke economic anxiety among white-collar service workers, fuelling political polarization. For emerging economies, virtual offshoring can become a pillar of their development model. To single out countries with the potential to become virtual offshoring hubs, we used an indicator based on criteria such as human capital, competitive labour costs, technological infrastructure and business climate. Economies with low labour costs and large stocks of potential teleworkers (such as India, Indonesia or Brazil) seem well prepared to follow this path. This is also true of countries with relatively strong human and technological capital, such as Poland. While China and Russia would, on paper, be ideal virtual offshoring destinations, rising geopolitical and cybersecurity tensions with the West will be a significant obstacle.

During the last few decades of globalization, the offshoring of industrial activity and rise of global supply chains was one of the main drivers of productivity growth[1]. In recent years, however, productivity gains from the reallocation of industrial activity seem to be stifling.

1 - See Den Butter & Pattipeilohy: "Productivity gains from offshoring" (Tinbergen Institute Discussion Paper, 2007) or Tillmann: "Offshoring, domestic outsourcing, and productivity: Evidence for a number of European countries" (Kiel Working Paper, 2012)