Tech shrinks geography for offshore

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Geography has been eliminated by technology, bringing unexpected new players like Ghana, Egypt, Jordan and Bulgaria high into the rankings of top locations for offshore services, says a new Global Services Location Index produced Tuesday by the AT Kearney business consulting group.

"The Middle East and Africa represent the next frontier for this growing industry," Paul Laudicina, managing director of AT Kearney's Global Business Policy Council, told United Press International.

The new member states of the European Union in Eastern Europe also do well in the rankings, with the Czech Republic, Slovakia, Poland and Hungary all making the top 20.

India, China and Malaysia remain the top three countries in the index -- as they were last year -- but the Philippines, Thailand, Vietnam and Costa Rica are also all rising sharply as attractive centers for outsourcing services, the index finds. Thailand jumped from 13th to 6th in this year's rankings, and Southeast Asian countries now make up four of the top six locations on the Index.

But even high-wage countries like Canada, (9th) and the United States (11th) can score well in the rankings by offering the right mix of available staff and skills and a supportive business and regulatory environment. This means that outsourcing services offshore from high-wage countries is not necessarily damaging, despite the political controversy over outsourcing, since advanced economies also benefit massively from offshore services.

"This strength of developed country service sectors, despite all the hyperbole surrounding the offshoring debate, is reflected in their trade balances," Laudicina said. "It is worth remembering, for example, that the U.K. operates the world's largest trade surplus in business and IT services, and the U.S. exports a larger volume of business and IT services than any other country, offsetting more than 10 percent of the total U.S. deficit in manufactured goods."

The index assesses the potential of countries as providers of offshore services by quantifying different elements like the wage and cost structure of each country, its technical infrastructure and business environment, and the availability of people and skills. So while Canada's ranking is driven down by its relatively high wage costs, this is compensated by its skilled workforce and good telecommunications. By contrast, low-wage countries in Africa and parts of the Middle East can make up for shortfalls in their business environment.

"Ghana is not alone in Africa (and) is rising onto the radar screen of potential locations. The Gambia is also getting into contention, and Senegal, Madagascar and Mauritius are developing the Francophone market as part of a whole series of little-known contenders in this growing industry," Simon Bell, director of AT Kearney's Global Business Policy Council, told United Press International.

"The good news is that all this competition is encouraging many countries, regions and cities to take a hard look at their education systems, infrastructure and other fundamental drivers of competitiveness. That ultimately raises productivity and prosperity in all locations. And for companies, it means they are all the more likely to find the ideal solution for each one of their functional needs, somewhere in the world," Bell said.

The index, which is seen in corporate circles as an unique and useful guide to potential investment sites, is credited with spotting early the potential of Malaysia and driving service providers from accounting and design to conventional telemarketing to that country. As a result, developing countries are now also using the index as a guide to the policy changes they should make to become more attractive to overseas investors.

"This index has become not only a decision analysis tool for companies, but also a policy tool for governments to show what they have to do to increase their potential to foreign investment," Laudicina said, citing the example of one developing country minister who noted that his country could rise several paces in the rankings if it improved its score on the rigidity of labor regulations.

India remains the best offshore location by a wide margin, although wage inflation and the emergence of lower-cost countries decreased its overall lead. Improved infrastructure and relevant people skills have increased the attractiveness of China as a low-cost option for servicing Asian markets.

India still leads by a wide margin. The gap between India and the second-ranked country, China, is larger than the gap between the next nine countries combined. Nevertheless, India's lead has shrunk slightly compared to 2004. This is mainly due to a slight reduction in India's financial attractiveness, the result of wage inflation in India and the emergence of new even lower-cost contenders such as Ghana and Vietnam.

"The rankings reinforce the dominance of India and China in this sector," Laudicina added. "We see and hear this in every conversation that we have with corporate executives, and it is now reinforced with hard quantitative data."

As a region, Southeast Asia is the biggest winner in this year's Index. Malaysia maintains its 3rd position Singapore stays at 5th, the Philippines rises from 6th to 4th, Thailand jumps from 13th to 6th, and Indonesia leaps into the Index at 13th. Even Vietnam, at 26th in this year's Index, sees its ranking rise from 20th to 16th among the original 25 countries included in both the 2004 and 2005 Indices.

In Malaysia and Singapore, government promotion policies continue to pay off. Given its high-wage levels, Singapore has deliberately positioned itself as a safe location for sensitive high-end activities, with a particular emphasis on business continuity, IP protection and data privacy. Malaysia has augmented continued investment in world-class infrastructure along the Multimedia Super-Corridor, with further incentives for corporations choosing to locate in Malaysia and additional policies to open up the labor pool and deepen English language and technical skills throughout the population.

The Philippines, despite continuing political instability and infrastructure weaknesses, continues to benefit from the global exposure and English-language skills of its workforce. Thailand enjoys the biggest rise in this year's Index. This seems to be due largely to improvements in educational outputs, plus some improvements in infrastructure quality and the overall business environment. While still challenged by weak English-language capabilities, Thailand has the potential to emerge as key low-cost challenger to the Philippines in Southeast Asia.

Strong performances by three new entrants in the Index (Bulgaria at 15, Slovakia at 16 and Romania at 24) reflect what many on the ground have observed: As costs in the most advanced Central European countries converge toward EU levels, companies are moving farther East in their search for high-skill, low-cost solutions.

Egypt and other North African nations stress their unique combination of European language skills, technical proficiency and low wages, while others in the region are developing alternate-value propositions.