



## **Book Review: Globalization, Outsourcing and Labour Development in ASEAN**

Thangavelu, S. & Chongvilaivan, A. (2013). *Globalization, Outsourcing and Labour Development in ASEAN*. Abingdon and New York: Routledge, Taylor & Francis Group. 144 pages. ISBN: 978-0-415-56745-9.

*"Thangavelu and Chongvilaivan provide interesting insights and useful implications for labour and industrial development in the context of an emerging global hub of outsourcing market, the ASEAN."*

Globalization has been increasing social and economic interconnection. Economies have become more closely integrated by more efficient communication and transportation and increased trade. It has facilitated capital mobility, which has had direct effects on labour markets, in particular employment and labour development. Most countries, developing countries especially, strengthened their manufacturing and service sectors. Consequently, the outsourcing and offshoring to these countries have focused mainly on 'business process outsourcing' (BPO).

The economic development of the ASEAN countries have, in a number of ways, been affected by globalization. Most of the member countries have been shifting to manufacturing and service sector, which helped drive the rapid growth of outsourcing and offshoring. This book describes the situation in the ASEAN region. It provides insights and implications for labour market and economic development in the emerging global hub of the outsourcing market in ASEAN. This book broadly describes offshoring or outsourcing in Asia and the Pacific. It then investigates the economic impacts of international outsourcing by putting more emphasis on how cross-border procurement of intermediate inputs could cause changes in labour productivity.

Chapter 1, "the Introduction", provides insightful information and a comprehensive prelude on the subject of outsourcing, the most recent trends, and current developments in international outsourcing in the context of emerging Asian countries. The three waves of IT outsourcing are highlighted in this chapter. In Chapter 2, "Economics of Outsourcing:

a Literature Survey”, the authors piece together and organize into a comprehensive presentation fragmented literatures on the economics of outsourcing. This notable effort provides a very informative complement to the existing theoretical development and empirical findings.

Chapter 3, “Outsourcing Decisions: Theory and Evidence”, reviews the historical development of theories and empirical results of international decision. The authors developed a partial equilibrium model based on Grossman and Helpman’s model in 2002. In addition, they explain that outsourcing activities incur transition costs, which include the cost of searching for perspective providers and investments in contractual enforcement technology. This chapter concludes with empirical evidences that more productive firms tend to adopt international outsourcing more than less productive firms. By applying the binary Probit model of decision on outsourcing, the authors found that the establishment productivity is positively correlated with probability of international outsourcing in Thailand’s manufacturing sector. According to the study, exporters and foreign-owned establishments have higher probability in deciding on international outsourcing than non-exporters and locally owned establishments, respectively. Likely reasons are the local establishments have limited competences, specialization, contractual information and partners as well as limited production scales or capacity utilization and market size.

In chapter 4, “Outsourcing and Labour Productivity”, the authors investigate Singapore’s manufacturing industry. They first divide international outsourcing into two types i.e. the narrow definition, which is international outsourcing of intra-industry imports of intermediate materials, and the wider definition, which is the international outsourcing of inter-industry imports of IT and business services. The authors empirically analyze potential linkage between international outsourcing and labour productivity based on dataset of Singapore’s Census of Manufacturing (CMA) from 1995 to 2004 and the I-O tables for the period 1995-2000. The results show that while intra-industry materials imports enhance labour productivity, service outsourcing does not significantly affect it. Furthermore, IT services outsourcing augmented labour productivity while business and other services did not.

Chapter 5 covers “Outsourcing and Wage Inequality”. The authors adopt a theoretical framework of the Heckscher-Ohlin theorem in examining the relationship between international outsourcing and wage inequality. According to the study, the authors

argue that a widespread utilization of outsourcing is eventually pronounced among the Southeast Asian countries. The authors also claim that the competitiveness of manufacturing in Thailand is deteriorating mainly due to increasing production costs and competition from large emerging countries such as China and India. To sustain Thailand's competitiveness in the international market, local entrepreneurs in Thailand are now seeking to outsource intermediate parts and components to foreign partners in order to maintain their competitiveness in production. In addition, negative consequences of "exporting unskilled jobs" may seriously affect unskilled workers in Thailand. This concern is more plausible since economies in Asia and the Pacific have a very large pool of cheap, unskilled workers, who will be relevant to outsourcing manufacturing production activities in Thailand.

Chapter 6 reveals the effects of outsourcing in emerging countries, specifically in Vietnam by estimating factor demand functions and outsourcing decision model. The evidences show that Vietnam has transitioned from a centrally planned economy to a more market-driven economy and has become a hub of international outsourcing. The liberalization of the Vietnamese economy to foreign competition as well as more integration within ASEAN could intensify the outsourcing activities in domestic firms. Outsourcing from Vietnam is skill-biased towards skilled workers; thus, increasing their demand and wages.

Chapter 7 sheds light on global supply chain management against high-impact, low-probability events from the 2011 flooding in Thailand. The lessons learned from this experience are: 1) firms must carefully study the sources or origins, probabilities and consequences of hazards and assess them systematically otherwise they fail to respond to the risk events that the hazards spawn and suffer from more severe damages; 2) companies can effectively manage risks and cope with the disruption of supply chains by just-in-time procurement policy because the redundancy in inventory and supplies would absorb the shock and mitigate the risks; and 3) a flexible supply chain tends to be more resilient.

Policy recommendations are provided in the last chapter. Drawn from empirical results, the key recommendations outline ways on how to assist workers affected by offshoring and offshore outsourcing, which include job relocation, skills upgrading, providing alternative forms of employment, shifting jobs away from low-skilled to high-skilled workers, and other measures. National policies are encouraged to give the

highest priority to economic growth and to consider the domestic service sector as an engine of economic growth.

This authors make three important methodological contributions: they compiled and analysed into a cogent body fragmented literature on relationships between international outsourcing on firms efficiency, labour productivity, and wage inequality, especially in the context of ASEAN member countries; applied theoretical framework from selected models to fit unambiguously with the available data; and thoughtfully considered all possible econometric problems (especially standard error) such as the endogeneity, heteroscedasticity, firms-specific and fixed-effect, which could have made the empirical results biased, inconsistent, and inefficient. The empirical findings emerging from this book substantially contribute to the body of literature on outsourcing; tables and figures included in this book are informative and easy to follow. The notable contribution of the book is clearly establishing the relationship between international outsourcing (both, materials and services) and different dimensions of labour or workers (e.g. labour productivity and wage inequality) by using data from three ASEAN countries, namely Singapore, Thailand and Vietnam.

A minor weakness of the book arises from the use of evidence from studies that used outdated data to prove the hypothesis. In particular, the degree of establishment-specific characteristics development in Thailand may be less involved in outsourcing activities than the foreign-owned companies during the studied period in 2002.

This book usefully draws from the conclusions of the McKinsey Global Institute (2003), which showed the range of off-shoring processes and functions within an organization. To be selected for outsourcing, a country must have workers with core competencies, which include English literacy, qualified or certified standard workers. Another attribute is a competitive environment within the country. The study found that outsourcing can have positive or adverse effects on the local employment situation. These concerns may hold true in more developed countries in ASEAN such as Singapore, and not true in the case of developing countries in the region such as Thailand, where high-skilled workers are abundant. If Thailand would be a recipient of offshoring activities, it may increase unemployment among the white-collar workers in ASEAN countries, including Thailand itself. The authors have presented evidences from Thailand that offshore outsourcing is biased towards low-skilled

workers due to low-skilled labour shortages. The low-skilled labor shortage in Thailand has been around 0.2 – 0.3 million workers in the past few years. Offshore outsourcing processing workers could help ease the low-skilled labor shortage situation.

This book, *Globalization, Outsourcing and Labour Development in ASEAN* by Shandre Thangavelu and Aekapol Chongvilaivan would benefit a wide range of readers, including academics, policy makers, economists, and interested persons in the manufacturing and service sectors. It is a worthy contribution to body of literature on outsourcing and labor development with its in-depth study on this subject, focused on the ASEAN region. To complement this book, I would recommend Bulajic and Domazet (2012), Lipták (2012), Pillay (2007), and Reddy (2006) for those who are interested in labour market and labour development trends under the impacts of globalization.

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