Possible future development

This section will briefly consider the question as to what may be the likely future development of Global value chains with a particular attention to the future of services offshoring.

Recent work by Blinder (2006) and van Welsum and Reif (2006) argue that a growing number of jobs in the service sector have the characteristics to be offshored if not now, then very soon.[8] Given that the service sector employs most workers in developed countries, and that technological progress combined with reduced barriers to international trade and investment allows a wider range of jobs to be done remotely, they suggest that a wide range of jobs could be under threat, depending on the specific task or occupation the workers carry out. The possibility to offshore numerous jobs does not mean, however that firms are necessarily going to adjust to this new strategic possibility. Table 6 shows clearly that only 10.4 percent of all firms interviewed in the survey plan to outsource in the future. This low number deserves attention.

Why are not more firms planning to outsource? First, most firms that never outsourced are unlikely to be able to support the costs involved in engaging in global value chains. This would be in line with the survey findings that there is no "race to outsourcing" because of costs of searching for partners, planning and coordinating the sourcing of inputs from abroad. These costs hamper their possibility to outsource. However, no race to outsourcing would also be consistent with firms struggling or failing in their outsourcing experience.

Indeed, the survey evidence present in table 12 shows that at least 13 percent of outsourcing experiences did not contribute to any labour cost reduction. If firms were planning to reduce their labour costs than such a result suggests that firms did not achieve their objectives. Another facet of unanticipated costs is also presented in Table 12. It shows that numerous firms (16.8 percent) had negative experiences with logistics costs. This suggests that a wide range of hidden costs are linked to outsourcing.

On this issue, an additional insight is provided by a study on outsourcing decisions of German firms by Kampker (2009). He calculates total production cost savings of firms relocating activities abroad, including all costs such as labour and logistics costs already mentioned.[9] The results show that most firms realized only minor savings, if any. More striking is the fact that truly successful outsourcers (saving more than 20 percent in costs compared to the initial situation) are the exception, rather than the rule. If their findings can be generalized, then they partially explain why "following competitors" is not an important parameter among the motives to outsource: gains from outsourcing might not contribute extensively to a competitive advantage for all firms. Competitors without outsourcing activities are thus not forced, in turn, to engage in global value chains.

We may now consider firms that had already an experience with outsourcing. These firms overcame the sunk costs and integrated their foreign sourcing of inputs to their traditional activities. This does not mean that all firms were successful with their foreign engagement. Indeed, as shown in table 15, 4 percent of German firms surveyed plan to make a U-turn or to pull out partially from sourcing goods abroad.

[8] Similar analyses for Germany are presented in Schrader and Laaser (2009).

[9] Note that the survey is very detailed about the cost structure before and after relocation and thus has been undertaken on a rather small sample of 54 German firms in 3 industries with 77 foreign plants openings during a span of 5 years.