

Nearshoring

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Nearshoring refers to the transfer of service work from an originating country to another lower-wage destination country or group of countries that are in geographical and temporal proximity to the originating country. The term first appeared in a 1998 article on software development in Barbados, in which India was depicted as a farshore option in comparison with the Caribbean. Although it is arguable that offshoring began with offshoring of service work from the US mainland to the Caribbean in the 1970s, the critical uptake of offshoring only took place following the rise of global fiber optics infrastructure in the 1990s. Since India – with its large labor force of English-speaking workers – became a premier destination for offshoring of service work, other competing destinations had to come up with their own justifications as offshoring destinations, especially if they were not able to compete with India in terms of labor cost. As a point of differentiation, an emphasis on physical proximity of certain geographies took on an increasing importance. Although, in most usage of nearshoring, the emphasis is on the geographical proximity of the two countries or regions connected by offshoring, there are other aspects such as cultural, temporal, or political connections that facilitate smoother operation of geographically distributed work. Certain work processes require in-person coordination rather than coordination through long-distance telecommunications. These processes are more prone to be nearshored than

farshored. Shared critical language and cultural skills needed in certain service activities make them more prone to nearshoring. India's big outsourcing multinationals – Infosys, Tata Consultancy Services (TCS), and Wipro – have reacted against the efforts to portray them as farshore by creating presences in nearshore countries so that they are able to offer both end-to-end nearshore and farshore options. As opposed to the oft-cited death of distance under globalization, nearshoring emphasizes that distance still matters in the global economy, and it also signifies the critical role of clustering in economic geography under globalization.

There are three main nearshoring clusters in the world. The Caribbean, Mexico, Central American countries, and Canada act as a nearshore destination for offshoring in North America. In Europe, Central and Eastern European countries such as Russia, Hungary, the Czech Republic, Poland, Romania, and Bulgaria serve as a nearshore destination for offshoring from Germany. In East Asia, certain areas of China – especially Dalian in northeastern China – act as a nearshore destination of work offshored from Japan.

The increasing dispersal of service work globally is producing global service chains where each stage of value addition is carried out wherever it makes the best sense in terms of cost and organizational structures. Eventually the conceptualization of offshoring in terms of nearshore and offshore will result in its subsumption under the global service chains framework.

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