CHAPTER 2

OUTSOURCING: A THEORETICAL BASE
CHAPTER 2

OUTSOURCING : A THEORETICAL BASE

2.1 INTRODUCTION

The process of liberalization, globalization and the growth of the IT Sector have almost coincided in the Indian economy. After the initiation of the liberalization process in the 90s, India witnessed growth in the Computer Services and ITES Sectors. (Srinivasan, 2005) This started bringing a lot of export revenue to the country. At the same time, it also generated employment opportunity.

A number of other Asian countries also experienced the growth of exports of Computer Services and ITES. (Chanda, 2005). This development cannot be considered a sporadic one. As a matter of fact some developing countries succeeded in harnessing their labor abundance to provide them a competitive advantage in manufactures of various labour intensive as well as capital intensive goods. Countries like Japan took the lead in outsourcing components of the Automobile Industry way back in the 60’s and 70’s. (World Development Report, 2005). Later China, Bangladesh, Malaysia, Indonesia, Sri Lanka, Thailand, and the Philippines have made headway in export of manufactured goods such as electronic goods and other consumption products like textiles and toys. A similar trend has been witnessed in the case of Computer Services and ITES since the 90’s in India. It is against this backdrop that the growing importance of Computer Services, ITES and BPO in India will be examined in this Chapter from a theoretical dimension.

International trade allows a nation to increase its productivity by eliminating the need to produce all goods and services within the nation itself. A nation can thus specialize in and export those products in which its firms are relatively more productive than their foreign counterparts and can import those goods and services in which its firms are less efficient. This is the crux of the Absolute and Comparative advantage theories of trade propounded by Classical economists Adam Smith and David Ricardo respectively. (Chacholiades, 1990)
The Classical theory demolished the mercantilist thought that exports are good and imports are bad. No nation can be competitive in, and thus be a net exporter of, everything. International Trade has been a dynamic force that existed since time immemorial. Infact this existed long before economists gave ‘gains from trade’ a theoretical framework. Trade between nations existed not only for economic but also for political benefit. The journey of International trade began with the end of the Feudal society, where autarky was the rule. (Nande 2004) Countries rarely engaged in international trade in any form as they were self sufficient and when they were not, they fought wars to own resources of other lands.

With the collapse of the feudal system, came the Nation-states. Under this system, all sources of permanent income belonged to the Government. International trade was undertaken with the interest to expand the influence of a nation-state and thus came up colonialization. Trade was extended with the objective of accumulating wealth in the form of gold to maintain the nation-states as well as the colonies. This era came to be known as the ‘mercantilist era’. The philosophy behind the trade policy of this period was ‘to create an export surplus in the form of gold by encouraging exports while discouraging imports’. The Government promotion of trade was more in line with a win-lose game with the exporting country becoming prosperous in monetary terms but not enjoying high standards due to curb on imports. The Country it imported from did not win much in this situation. This theory and practice was not an ideal situation from a global welfare perspective.

Theories of international trade have actually begun and gained ground only after the 18th century.

2.2. TRADE THEORIES

Theory of Absolute Advantage

The turning point in the theory and practice of international trade was brought about by none other than Adam Smith who is regarded as the ‘father of Economics’. In his magnum opus, ‘An Inquiry into the Nature and causes of the Wealth of Nations’, 1776, he introduced ideas of ‘division of labour’ and ‘specialization’. Adam Smith propounded the Theory of Absolute Advantage which stresses, that under free trade, every country must produce that good which it is most efficient at. In other words, a
country produces that product in which it has ‘absolute advantage’ in production. It then exports that product to a country from which it imports goods that the other country has ‘absolute advantage’ in. This logic was initiated by Adam Smith with respect to the manufacturing Industry taking the example of a Pin factory.

**Theory of Comparative Advantage:**

Further, the Theory of Absolute Advantage was modified by the British economist David Ricardo. He propounded the ‘Theory of Comparative Advantage’ in 1817-18. He believed that even if one country had an absolute advantage over another in producing two commodities, it was beneficial to specialize in just one commodity, so long as the other country was not equally inefficient in both commodities. Here ‘relative efficiency’ or ‘comparative advantage’ mattered more. Both countries would benefit from specialization in one product while trading with the other country for another product. Thus a country could exploit its own resources and gain from international trade. Bertil Ohlin propounded expanding on the ideas of Heckscher which had their roots in the Classical theories of Adam Smith and David Ricardo and propounded the Theory of Factor Proportions.

**Theory of Factor Proportions:**

Later, the Heckscher-Ohlin Factor Proportions Trade Theory took the earlier theories ahead by bringing in the role of factor proportions and endowments of countries in influencing their comparative advantages in trade. (Sodersten, 1970) Their theory addresses the basic question of why there exists comparative advantages in some countries in the production of certain goods. The crux of the Heckscher-Ohlin theorem is that the comparative advantage that countries have in production and international trade is the result of differences in ‘factor endowments’. In other words, Unlike the Classical economists who’s ideology rested on the differences in productive efficiencies and in technology, the Heckscher-Ohlin Factor Proportions Trade theory assumed that the same technology was used across countries for the manufacturing of goods. This theory rests on two premises, that commodities differ in their factor requirements and countries differ in their factor endowments. Comparative advantages evolve due to the relative ‘factor prices’ which are the result of varying factor endowments. Thus, a capital surplus country would have
comparative advantage in the production of capital intensive goods while a labour surplus economy would benefit by engaging in producing labour intensive goods.

Both countries thus benefit from specializing and engaging in trade. In such a case, both countries move to higher social indifference curves. This is explained in Figure 2.1.

**FIGURE 2.1: HECKSHER-OHLIN THEORY**

In the figure, JH is the production frontier of America and J*H* is the production frontier of Britain. JH is skewed along the axis for Steel which is a capital-intensive commodity and J*H* is skewed along Cloth which is a labour-intensive commodity. Before trade, America produces and consumes R and Britain at R*. With free trade, America produces at Q and consumes at C while Britain at Q* and C*, respectively. Trade triangles CQV and Q*C*V* are identical. Both countries move to a higher social indifference curves. America moves from IC 1 to IC 2 and Britain moves from IC1 to IC 3, making both countries better off after trade.

As quoted in Peter Kenen (1971) 'Nature has decreed important and enduring differences between countries. Some are rich in copper, others in petroleum, some have huge waterfalls, others have fertile plains. In one sense, people are a natural resource; in another, they are a major man-made resource. Mere numbers are the gift
of nature. But the skills and attitudes of a population are the work of man and strongly influence a country’s comparative advantage.

Going one step further, we must distinguish between types of skills. Some nations have large numbers of factory workers adept at handling modern machinery. Others have an abundance of engineers and scientists and specialize in new research-laden products.

Further, comparative advantage always has a time dimension. It depends on the state of technology at a given moment and on its subsequent diffusion. It also depends on the history of capital accumulation and therefore, on the rate of economic growth. With these words, Kenen has lucidly elaborated on the logic behind international trade which cuts across space and time, extending its valid even to the present global trade scenario.

Infact, free trade between countries has yet another important impact, that is on factor prices. The Heckscher-Ohlin model of Factor-Proportions also extends to bring in the concept of Factor-price equalization. This is further extended in the work by Stolper and Samuelson where the justification for factor price equalization is profound. This is particularly true because it is common knowledge that factor mobility between countries is actually imperfect. The demand–supply conditions faced by a homogeneous set of factors, whether labour or capital could well get stabilized with free trade in the absence of perfect factor mobility. When countries start specializing in the production of commodities for which their abundant factor is used, the demand for that factor rises. The production of the other commodity which uses the scarce factor reduces. This brings changes in prices such that the scarce and relatively expensive factor starts experiencing a fall in the factor reward. A similar trend will happen with the other country which is the trading partner. The only difference is that the factor endowments being different, the prices will change for different factors in the two countries. Factor price ratios will undergo a change and slowly get equalized between the two trading countries. Thus, International trade is a substitute for international labour and capital movements. Movement of services through information technology and the Internet also expand the scope of international trade and eventually leads to factor price equalization.
While the H-O Theorem mention only a tendency towards factor-price equalization, Stolper and Samuelson took the idea further to include complete factor-price equalization, in reality, factor prices are certainly not perfectly equalized between countries.³

However, a burgeoning growth in Outsourcing of services from more Developed countries to less Developed countries like India and China in recent times has infact shown rise in wage rates in the countries providing these services.⁴ The significance of ‘factor equalization’ thus rests firmly on the fact that this is a Pareto-Optimality condition for efficient allocation of resources worldwide. Differences in wages between labour of different countries may certainly point towards differences in skill sets and efficiency.⁵ However, even in the absence of such differences, particularly among qualified, specialized labour, such wage differentials do exist world over. Under such circumstances, Outsourcing of both, goods and services through Information Technology and the Internet have a very special place in bringing wage equalization globally.

It is pertinent to note here that in reality, the country wise specialization of production and the theoretical proposal of trade benefiting all due to the comparative advantages, is much more complex. This is because trade between countries takes place across a range of goods and services. Further, factors too are put to multiple uses across Industries. The shift in factors is not just interindustry but at times also intraindustry. Also while theoretically factor price equalization is predicted, it is necessary to see the possibility of difficulties in adjustment of factors in changing its use. There maybe short term unemployment due to occupational and geographical immobility of factors between Industries. However, with the passage of time, these difficulties are likely to settle and the factors are likely to adjust in their new employment. (Amiti, 2004)

The Technological Gap theory:

The Technological gap Theory, propounded by Posner in 1961, talked about a series of innovation-imitation cycles between a country and the rest of the world. (Posner, 1961) Initially some firm in a country innovates a product, slowly gains monopoly and captures the domestic market. It then enters the export market and thus exports grow. However, this leads to competition and hence imitation from local firms of the
host country. The local firms may in fact have a distinct comparative advantage in imitating this product. With losses, the exporting firm is forced to start the cycle of innovation of another product, all over again. Firms which have absolute advantages initially, may end up losing business to the other countries that actually maybe more efficient in manufacturing the same product. This theory is particularly ideal in explaining the cases of production and subsequent trade on a large scale.

**International Product Life Cycle Theory:**

Until as recent as 1966, the trade theories had focused on factor productivity, factor endowments and the technology of manufacturing as being responsible for the comparative advantages of nations in international trade. (Vernon, 1966) According to Raymond Vernon who formulated the ‘International Product Life Cycle Theory’ a product goes through three stages in trade. It starts with Stage one, where a Capital-intensive nation innovates a product for its own country’s consumption. In Stage two, the same product is exported to some nation which is still not producing it but soon learns the same. Also with increase in competition, the innovative nations have to struggle to maintain their share in the global market. In this effort, these Nations try to get comparative advantage through cheaper factors in other countries. In fact for this purpose, even investments are moved from advanced to less advanced economies. In the third Stage, the comparative advantages are exploited fully from the less developed economies. In fact, the product reaches a level of standardization and the comparative advantages of international trade have moved from the innovative country to the less developed country. In other words, the comparative advantage of international trade has moved across nations over a period of time. At this mature stage, the innovating country will grow wider and start investing in the less developed countries.

**Economies of scale and Imperfect Competition**

Paul Krugman focuses on two types of economies, internal and external economies of scale. According to Krugman both economies ultimately lead to specialization in production.

Internal economies allow a firm to expand its production and enjoy declining costs of production per unit. This also allows the firm to expand its market by offering the
product at lower prices. By lowering the market price, the producer can sell more
domestically as well as internationally and can start monopolizing the global market.
As the lower price is determined by the Firm that reaps internal economies, it has
actually created an imperfect market. As the Firm expands its production, it attracts
the resources of other Industries within the country and slowly leads to shrinkage of
that Industry. Over time, the country will end up with a specialization of only that one
product where the Firm has internal economies and thus narrow its range of products.
Now this product which ceases to be produced maybe taken up for production by
some Firm in some other country.

On similar lines, external economies of scale are experienced by a number of small
firms in a country. When all of them specialize in a product, expand its production
and sell them at lower costs, this can lead a country to start dominating the entire
world in that particular product. This trend leads to a critical mass of small companies
and their interrelationships that give a nation a dominating position in world markets.
Such trends are seen with reference to the Outsourcing activities in today’s world.

2.3 TRADE THEORY - A JUSTIFICATION FOR OUTSOURCING

Here it needs to be mentioned that all the theories discussed above have in one way or
the other provided a basis for outsourcing.

- Although the Theory of Absolute Cost pertains chiefly to the manufacturing
  sector, in view of the changing relevance of the Service sector, across the globe,
  the validity of this theory can well be extended to products of the Service Sector
too. Thus, the concept of Outsourcing has its roots deeply embedded in the Theory
of Absolute Advantage. Outsourcing a product, process or service to another
country is undertaken primarily due to the cost arbitrage that comes about with
access to cheaper resources, whether they are goods or services.

- Infact with reference to Outsourcing of services across nations, it is the Theory of
  Comparative advantage which has greater applicability. This is due to the fact that
countries enjoy ‘comparative advantage’ rather than ‘absolute advantage’ in
sourcing services from other Countries. We can see at present that it is this
concept that is emphasized in a tool such as the ‘Global Competitiveness Index’
(Kearney A,T, 2004). Such tools help nations take crucial decisions in trade between various possible trade partners.

- The relevance of the Heckscher-Ohlin Factor Proportions Trade theory can also be extended to the outsourcing business of present times. The extensive use of Computers and internet has made it possible to outsource several segments of a business process from some countries to other countries which have cheaper and abundant skilled manpower apart from certain other facilities. This arrangement in business has been found in recent times to bring about extensive advantages in cost and quality due to the differences in ‘factor endowments’. Outsourcing has hence grown in leaps and bounds across the globe and across business activities. Similarly, the trend in using Outsourcing as a globally effective business strategy has also led to an upward movement in the wage structure of the BPO employees in the Outsourcing countries. As the Service providers are usually from labour abundant Developing economies, this trend lends support to the theory of Factor-price equalization and is favourable from a global welfare perspective (Todaro, 1977).

- The conceptual aspect of The Technological gap theory can be extended to explain a parallel situation in the BPO Industry where initially a Service provided by Captive BPO Firms usually engaged in a particular Vertical. However, over a period of time, the service or process may be provided by some domestic or a rival Third Party BPO which has comparative advantages in employing local manpower and better access to essential infrastructure. The cycle of ‘innovation-imitation’ goes on between the Captives and Third Party Service Providers.

- Further, the Theory of Product Life Cycle provides a logical basis for the movement of International trade in services from capital-intensive nations to more labor abundant and less developed nations. This refers to the third sage of the theory where the comparative advantages are fully exploited from the less developed countries. It is at this stage that the comparative advantages of business have moved across nations. This is exactly what the world has witnessed since the spread of outsourcing in the Service sector.
Krugman's concept of economies of scale and imperfect competition also has relevance in the case of Outsourcing of services. The rising contribution of revenue from Outsourcing, particularly of services among the Service providing countries, bears testimony to the fact that there is an obvious strong edge that they have over their Sourcing partners. Manpower's role is clearly a dominant aspect of the Service business. It is seen that most of the Service providing countries, are essentially labour abundant and hence offer services at prices that are very attractive and can lead to substantial cost reduction. It is this aspect that brings in 'imperfection' in competition between countries which is the result of both internal and external economies of scale with the expansion of the Outsourcing business.

These theories refer solely to the manufacturing Sector and international trade of goods rather than services. This is quite natural and understandable. For it is only in the 20th century that Services as an economic activity has surpassed the importance of the manufacturing sector in the nation’s income. The trend in the development of international trade theory during this period shows that we can extend their application to Services just the same way as they relate to the manufacturing sector.

**Porters four dimensions of National advantage:** In the recent past Michael Porter, in his studies, expressed his belief that 'innovation is what drives and sustains competitiveness. In his words, 'National prosperity is created, not inherited. It does not grow out of a country's natural endowment. A nation's competitiveness depends on the capacity of its Industry to innovate and upgrade'. (Porter, 1990) Porter in context of 'competition', came up with the four dimensions of national advantage which are explained below.

He emphasized at the outset, that factor conditions alone were not important for a country. What mattered is the nation’s ability to create, upgrade and appropriately deploy its factors such as skilled labor. Here, a parallel can be seen with respect to the growth of the IT-ITES Industry in some countries such as India and China towards the close of the last century. Both these countries have had abundant manpower resources which have always been seen as a liability. However, with the application of technology and extensive progress of the IT-ITES Sector, the same manpower has
witnessed a spurt in its demand and hence has turned out to be a major asset. Thus in the light of Porter’s theory, it can be said safely, that it is not ‘labour’ per se which gives a comparative advantage in trade. It is the innovative application of this ‘labor’ with support from technology that gives it the cutting edge.6

Further, Porter talks of ‘demand conditions’, ‘Related supporting Industries’ and ‘Firm strategy and Rivalry’. Only Firms which succeed locally where the markets are highly demanding in terms of production efficiency and product quality are likely to flourish in global competition. Also a firm must have close proximity to its suppliers and related Industries so as to improve its competitiveness continuously. Further Porter stresses that, there is no universally applicable managerial strategy, ownership strategy or operational strategy that may be called ideal or appropriate. Each Firm has to work continuously towards the competitive forces that it confronts in its local market, to evolve the right strategy.7

**Theory of Core Competency:**

In very recent times, Hamel and Prahalad (1990) in their article introduced the concept of ‘core competencies’ to the corporate world. They stressed that the sense of corporate identity need not revolve around ‘strategic business units’ and must shift to the ‘core competencies’ of a business. A Company need not be seen as a portfolio of products but must be seen as a portfolio of competencies.

They emphasized that the Management team of an Organization must participate in identifying existing core competencies, establishing a core competency acquisition agenda, building core competencies, deploying core competencies, protecting and defending core competence leadership.

Core competencies should be built through a process of continuous improvement and enhancement. They should constitute the focus of ‘corporate strategy’. At this level, the goal should be to build world class performance in a set of products, functions or services. Basically, it is this focus that would bring out the best quality at the most competitive prices.

Apart from all the theories mentioned above, there is also sound justification for Outsourcing in the Transaction Cost theory and the Agency theory. (Schniederjans,
The Transaction cost theory was originally formulated by Ronald Coase in 1937. This has been further expanded by Oliver Williamson to propose the concept referred to as Transaction Cost Economics. It is identified that a Firm incurs both production costs as well as transaction costs. Transaction costs are incurred by way of search and information costs, bargaining costs, policing and enforcement costs. Infact, every firm attempts to reduce the same in whichever way possible. Investments in Outsourcing clearly reduce transaction costs. This in turn increases the profitability of the firm by reducing the size of the firm. In other words, work that is outsourced saves cost on employees and infrastructural facilities causing the cost curves to shift downward to the left. For Coase the main reason to establish a firm is to avoid some of the transaction costs caused on using the price mechanism. These include discovering relevant prices which can be reduced but not eliminated by purchasing this information through specialists. Here it is observed that those providing specialized services achieve higher levels of productivity and hence cause per unit costs of production to decline.

Similarly, according to the Agency theory, as a firm grows in size and its supply chains and employee interactions increase, the owners need to increase the number of employees who work as ‘agents’ to support the complexity of the organization. Thus, by investing in Outsourcing, the firm saves time as they move the ‘non core activities’ outside the firm and the firm spends less on employees. Both these theories are depicted in a simple manner in Figures 2 and 3, respectively.

**FIGURE 2.2: TRANSACTION COST THEORY AND OUTSOURCING**
Figure 2.2 shows a shift in transaction cost from ‘A’ to ‘B’, measured by a reduction in transaction costs from ‘a’ to ‘b’. This leads to a reduction in the size of the firm from ‘ac’ to ‘bc’.

**FIGURE 2.3: AGENCY THEORY AND OUTSOURCING**

Similarly, in Figure 2.3, the agency cost reductions from ‘A’ to ‘B’, move the agency costs from ‘a’ to ‘b’. This causes a reduction in size of the firm from ‘ac’ to ‘bc’. In both cases, reduction in the size of the firm refers to reduction in employees.

Recently, Bhagwati et al (2004) have reviewed Outsourcing from the theoretical perspective and also highlighted its importance in the present global context of International trade.

The Classic International trade theories based on the Hecksher–Ohlin Model of free trade have clearly stressed on the positive aspects of free trade. Based on this, Bhagwati et al too have supported the relevance of free trade in enlarging the incomes of the trading economies. The adjustments in factor prices and distribution of income due to free trade under conditions of full employment are also emphasized.

Their analysis was extended to include ‘Outsourcing’, as described under Mode 1 of the IMF classification of services traded. The analyses considered three cases, one with a single good and two factors of production. There is a second case of two goods and three factors. In both cases, they conclude that offshore outsourcing is usually beneficial to an economy, although their benefits need not be distributed equally to
the two factors involved in outsourcing. The third model refers to a case that is typical of outsourcing of services. It deals with the case where there are two traded goods and one which is non-traded but becomes tradable with the help of the internet. The model justifies the importance of outsourcing by drawing a conclusion that when offshore trading becomes possible through online services, it leads to welfare gains to both factors and everyone becomes better off. This is explained in Figure 4:

**FIGURE 2.4: H-O THEOREM AND OUTSOURCING**

![Figure 2: Outsourcing with pre-existing trade in goods](image)

Here, it is assumed that there are two final goods, each using one factor which is sector-specific and one common factor such as skilled labour. It is then assumed that technological change makes it possible for skilled labour to be outsourced. In Figure 4, the total endowment of skilled labour is represented by $O_1O_2$ on the x Axis. Any point on this axis represents an allocation of skilled labour between the two sectors. The value-of-marginal product curves for skilled labour in Section 1 and 2 are represented by $VMPL_1$ and $VMPL_2$ respectively. The equilibrium allocation of skilled labour between the two sectors is given by $S_0$ and the wage offered by the two sectors is the same $R^0$. The sum of the areas under the two curves up to the point indicating the employment of skilled labour $S^0$ equals the GDP of the country. Bhagwati et al assume that there is an innovation that allows the country to purchase the services of
skilled labour from abroad at a lower wage i.e \( R^1 \). Now the demand for the services of skilled labour increases by \( GE^1 \). This demand is satisfied through outsourcing and this expands the skilled-labour supply by \( O_2O_2' = GE^1 \). Now, VMPL shifts horizontally to the right by \( O_2O_2' = GE^1 \) as shown by VMPL'. As the size of this shift is same at every point, \( E^0A = GE^1 \) Sector 1 employs \( S^0S_1 \) of the outsourced supply and Sector 2 employs \( S_1S_1' \). The wage paid is \( R1 \) and the quantity of outsourced labour is \( O_2O_2' \). Outsourcing leads to increase in National Income. This can be understood from Figure 4. The original value of output of Sector 1 at the original wage \( R \) was given by the area under the VMPL1 curve, up to the quantity of skilled labour input \( O1S_0 \). After outsourcing, the value of output is the area under the VMPL1 curve up to quantity of skilled labour input \( O1S' \). The extra rectangle \( S_0FE'S' \) represents wages that that need to be paid to the workers who provided the outsourced services, so the output value gain in Sector 1 is the triangle EOF.

Thus in their analytical paper, Bhagwati et al have emphasized that outsourcing as a trade phenomenon, can have effects that are not different from the conventional trade in goods. They do acknowledge that the displacement of labour due to Outsourcing is a matter to focus on. However they also surmise on a positive note that with time, high value jobs are bound to evolve and lead to the re employment of the displaced labour.

2.4. CONCLUSION

In the theoretical backdrop discussed above and the context of Outsourcing, it is evident that the two concepts of 'comparative advantage in trade' and 'core competencies' are at the heart of the Outsourcing business.

Globally, outsourcing was initially found extremely cost effective in the automobile Industry. The US automobile Industry found great business sense in outsourcing manufacture of automobile components to Japan.

Soon the benefits of Outsourcing have spread widely, owing to the substantial developments in the IT Sector and later giving rise to the ITES Sector. With the use of the internet, every function that can be carried on through the computer and internet can be executed from any corner of the world assuming the time-zone did not pose any difficulty. Infact in several cases, the time-zone difference between two corners of
the globe have turned out to be a blessing in disguise. Work could be passed on through technological support at the close of the day from one country to another country. The work would get processed and delivered at the stroke of dawn back to the original country by the host country. Thus the Globe has shrunk and theoretical economic contentions on international trade are getting proved right continuously over the years, creating a win-win situation for all trading partners.

In conclusion, Outsourcing as a business has its roots soundly embedded in the ‘principles of economic rationality’. Several Economists have theorized the significance of international trade between nations and particularly supported ‘free trade’ with sound justification. The principles of economic rationality clearly favour any business strategy that evolves with the view to increasing ‘efficiency’ as well ‘profitability’ of any business. It is from this basic perspective that it is argued that ‘Outsourcing’ is a strategy that cuts beyond all political boundaries, making profound business sense and is hence here to stay for long. Further, it is here that countries that have an edge over the others in terms of ‘resources’, natural or man made must move ahead to capitalize on this situation. Theoretical basis thus proves that these countries must support ‘Outsourcing’ without leaving any stone unturned.
END NOTES:

1 Chanda has studied growth of exports in IT and ITES under the category of ‘other business services’ as classified by IMF in Balance of Payments Statistics Yearbook. See Annexure A.4 for details.
2 This has been discussed at length in Section 4.8 of Chapter 4.
3 The H-O Theorem is a commonly used acronym for the Heckscher-Ohlin theorem. Further, here perfect factor price equalization is seen as an idealistic situation.
4 The wage rates in both countries have been showing a rise of 10-15% annually. However, due to the present recessionary trends, this has slowed down.
5 Here it is necessary to note that Engineers and masons cannot be clubbed as one category of labour where wages may be equal.
6 In the context of the IT-ITES Industry, this possibly takes place by offering manpower at globally highly competitive wages.
7 In IT-ITES Industry parlance, this concept is manifested in a commonly used term ‘Industry best practices’ which every firm strives hard to achieve.
8 See Chapter 4 for more details on Mode 1 of the IMF classification.