coface

PRESS RELEASE

Bucharest, July 1st, 2021

Remote Work: The Risks and Opportunities of Virtual Offshoring

Remote work has emerged as a new norm during the Covid-19 pandemic. As we emerge from the crisis, this cultural shift could allow companies located in developed countries to hire teleworking talent in emerging countries to reduce their labour costs. Coface estimates that the total number of teleworkable jobs in high-income economies is about 160 million, while the number of potential teleworkers in low- and middle-income economies is about 330 million. Coface also estimates that French compaines would save 7% on labor costs even if only 1 in 4 teleworkable jobs were offshored.
For emerging economies, this potential virtual relocation could become a pillar of development. To identify the likely winners of this trend, Coface built an indicator based on four key criteria: human capital, labour cost competitiveness, digital infrastructure and business climate. Southeast Asia stands out as a region with high potential, notably India and Indonesia; as do other large emerging countries like Brazil and Poland.
Yet, virtual offshoring could create economic anxiety among workers in mature economies and become a source of political risk

The temptation of virtual offshoring

During the last few decades, the offshoring of industrial activity and the rise of global supply chains have been one of the main drivers of productivity growth. However, for several years, these productivity and efficiency gains have been declining.

To continue to increase competitiveness and reduce costs, companies may be tempted to relocate other services and knowledge-intensive activities to countries with lower labour costs, as has been the case in the past with IT services and call centers. **Coface estimates that French companies would save 7% on labor costs even if only 1 in 4 teleworkable jobs were offshored.**

With the Covid-19 pandemic, **in Europe, nearly 40% of the workforce committed to regular telework during the first lockdown in the second quarter of 2020.** Favourably surprised by the productivity of their workforce, **companies are increasingly attracted to the idea of a partially globalized virtual workforce**. In the US, **the share of organizations willing to hire full-time teleworkers based overseas has jumped to 36 percent, up from 12 percent before the pandemic.**

How many jobs are teleworkable? How many can be offshored?

The more an economy is based on knowledge-intensive service activities, the more its labour force can work remotely. In a survey of US workers conducted in October 2020, **62% of college-educated respondents said their work could be done remotely**. According to the International Labor Organization, **only 13% of jobs in emerging countries are teleworkable, versus 27% in rich countries**.

However, **this does not mean that all jobs can be virtually offshored. Many tasks require partial on-site presence**, personal contact with clients, or a good understanding of local culture.

For wealthy countries, **virtual offshoring could become a source of political risk**, in the same way deindustrialization contributed to populism. The pressures of global competition can provoke economic anxiety among highly educated workers, fuelling political polarization.

Finally, **some emerging countries are better positioned than others to attract virtual offshoring investments**. To identify the likely winners of this trend, Coface built an indicator based on four key criteria: human capital, labour cost competitiveness, digital infrastructure and business climate. Countries like India, Indonesia or Brazil have large numbers of potential teleworkers and very low labor costs. Others, such as Poland, offer an excellent business climate and a robust digital infrastructure.While China and Russia would, in theory, be ideal virtual offshoring destinations, **growing geopolitical tensions and cybersecurity** issues with the West will be **a significant obstacle**.

MEDIA CONTACT
Diana Oros – T +40/374 670 886 – diana.oros@coface.com