

SWOT Analysis of Companies' Transferring Their Manufacturing Offshore

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Abstract. Recently, thousands of companies have chosen to relocate their business processes from their home country to another country. The relocation process is usually called offshoring. Offshoring has made many controversial debates among economists. Discussing the effects of it has been the focus of a large number of research papers. By using SWOT analysis, this paper investigates the influence of offshoring on both sides of the home country and the developing countries, which are usually the relocated countries. From the analysis, it is found that the effects of offshoring cannot just be defined as good or bad. The impacts are two-sided for both developed countries which are usually the home countries of the relocation business and developing countries, which are usually the destination countries for the manufacturing transfer. Implications were drawn from the results concerning both sides of offshoring, not just home countries or developing countries.

1 Introduction

As a result of technology and transportation development, countries are increasingly connected. This has created great opportunities for businesses to gain more profits from these emerging markets [1]. Therefore, questions related to these industries have attracted more attention in debates concerning whether offshoring benefits either the home countries, and the relocated countries. There are two opposite opinions among the economists. However, there is little published research on both opinions and both sides of offshoring. The overall purpose of this paper is to examine those opinions in a more comprehensive view. By using SWOT analysis, this work will discuss the strengths, weaknesses, opportunities, and threats of the effects of offshoring on the businesses' home countries and relocated developing countries separately. Besides, some suggestions for those countries will also be given from the analysis. This paper has contributions to the fields of how countries treat offshoring to maximize profits for both sides and methods to develop the offshoring facing the challenge.

2 Relevant Concepts

Offshoring is usually described as when businesses transfer parts of their domestic operations or activities overseas, which is quite similar to outsourcing. Both of them are used by businesses to reduce their operation costs and make more profits. There are two sides to the business transferring. One is the home countries of these offshoring companies which are usually the developed countries. These developed companies often have more developed

post-industrial economy and technological infrastructure. The other side is usually the developing country. For developing countries, they always have rapid population growth. As a result, they have lower labor costs than those in the home countries of the businesses.

SWOT analysis, used in this paper, is a strategy tool which is widely used in different levels of the organizations from individuals to corporates [2]. SWOT analysis includes four parts: Strengths, Weaknesses, Opportunities and Threats. The Strengths and weaknesses are internal factors that the companies could control, and the other two are external factors which are hard for companies to take control. This paper will focus on these factors to conduct research.

3 Strengths

Most offshoring manufacturing industries are labor-intensive industries and low-tech industries. As a result, one of the most obvious advantages for the home countries of these industries is that they could make the domestic resource focus on other areas with better advantages such as business related to software, artificial intelligence, and R&D departments. Apple company is a good example. Apple products are so popular over the world such as iPhone, and iPad. On these products' packages, they are written that 'designed in California'. However, the place where the products are designed is different from where they are assembled and manufactured. The components are produced in many countries and finally are sent to two companies, Foxconn and Pegatron, to assemble. Foxconn is Apple company's main assemble company, which is in Shenzhen, China. Besides, in Thailand, Malaysia, the

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Czech Republic, and many other developing countries, they also have iPhone assembling plants [3]. For these countries, they have abundant labor force, so the labor costs are much cheaper than assembled in the United States. Lower costs could cause more profits. And this can help the companies to focus on the areas in which they have great strengths. For example, the innovation of technology. Companies just like Apple, usually costs 10 to 20 percent of their revenue in their R&D department. So, by offshoring, Apple could gain more R&D funding for their technology innovation which has more long-term profits.

Table 1. The R&D expenses of Apple company [4]

USD in Million	2014	2015	2016
Revenue	182,795	233,715	215,639
Research and development	6,041	8,067	10,045

Most of these expenses will be used to develop their new products, new software, and systems. Besides, these high-tech areas often have more value than manufacturing and assembling. So, even though products are manufactured in China, the main profits are still belonging to the United States. And some economists believe that there is little value added to these offshoring manufacturing businesses. Apart from that, they also think there is no need for these businesses to bring back their offshoring processes because these business processes have little effect on the countries' economic growth [5].

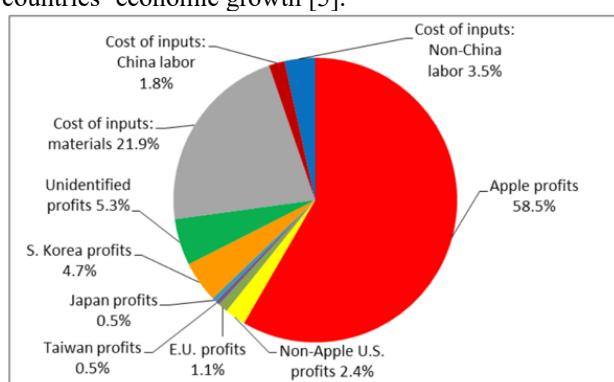


Fig. 1. Distribution value of iPhone [5]

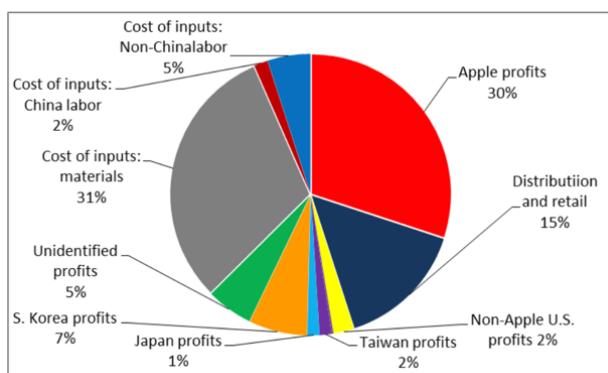


Fig. 2. Distribution value of iPad [5]

4 Weaknesses

On another side of the job growth in those developing countries, there could cause some direct job losses in the home countries of the businesses. Some experts think that people should separate the benefits to the companies' shareholders and the countries. They think the offshoring may only be a mutual benefit in the shareholders' view. Since the offshoring could make many low-skilled workers lose their jobs, and these displaced workers are hard to transfer to become higher skilled workers by training in a short time. So, the cost reduced from the wages saved somehow only benefit the companies' owners, not the national income [7].

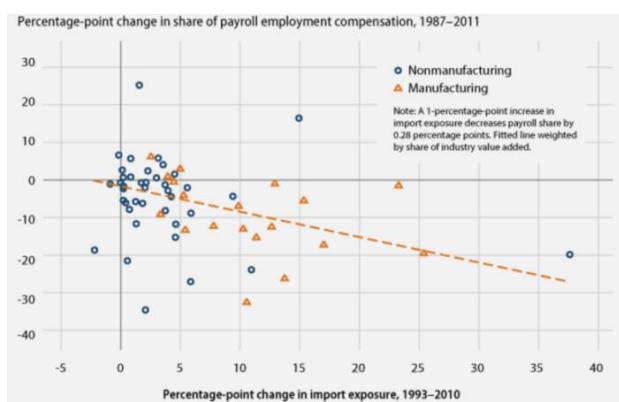


Fig. 3. Higher import competition weakening U.S. labor market [8]

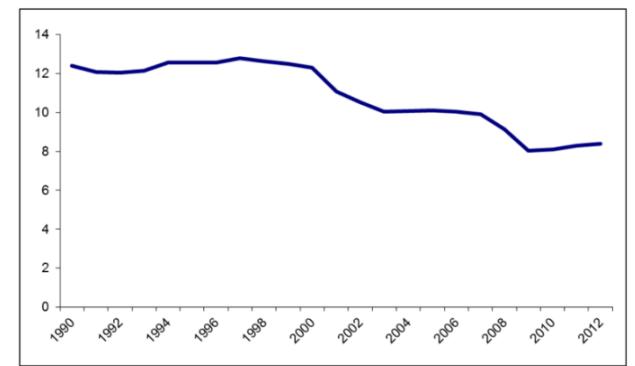


Fig. 4. Employment in manufacturing of U.S. (Million workers) [9]

Besides, the offshoring could cause the trade imbalance problems. Since those manufacturing businesses move to low-cost areas, the developed countries have to import those products. Still using the iPhone offshoring as an example, it exaggerated the trade deficit of the US to China. For every one iPhone X imported from China to the US, the US is trading with a deficit of \$104, and when considering other countries that contributed the value added of the iPhone X, the trade deficit rises to \$332.75 [10]. This shows the new problems in another aspect of the offshoring, the hollowing of the industry of the developed countries such as the US. These countries depend on importing of those labor-incentive manufacturing so much, which makes them in a worse position of the

international trade. For that reason, some people might wonder why the companies still choose to operate oversea. The economists thinks that except the low-cost of workers, the other most important reason is that working condition requirement is much lower in those countries. Such as no legal regulation, no trade union, and no minimal wages, longest working hours and so on [11]. This leads to the bad environment damages in those developing oversea countries by those manufacturing industries. Some studies indicate that U.S. companies emit fewer toxic gases after offshoring, and it imports more products from the pollution-incentive industries in the manufacturing offshoring countries. To some degree, the home countries transfer their industries to the low pollution-incentive industries by “offshoring pollution”. The experts highlight that many offshoring strategies are based on damaging other countries’ environments to overcome the domestic strict environment regulations which is called the Pollution Heaven Hypothesis [12]. Therefore, those companies with high pollution and regulation costs are more likely to offshore, and people could get this conclusion from the CO2 emission data. From a Japanese study, it shows that with the oversea offshoring, and its carbon emission content grows by 415% from importing. By the way, Japan’s domestic CO2 emission reduced year by year after the offshoring [13]. As the result, offshoring could definitely increase the environmental pressure on developing countries. This may lead to greater financial expenses to clean the environment later on. Apart from that, the working conditions for workers working in the offshoring plants still remains bleak. One of the most notorious incidences of the bad working condition in China is caused by Foxconn. Foxconn often has been condemned for exploiting workers in China for a long time. Just in 2010, there are 14 death and 18 suicide attempts, who jumped from their dorm buildings. This raises widespread social concern about the labor exploitation of Foxconn in China. In the Foxconn plants, about 50 percent of employees are part-time workers, which is far more than the upper limited requirement by the Chinese labor law of temporary workers, 10 percent. And for those workers, they could only get \$3.15 per working hour, besides the low wages, the harsh management and long working hours which is extremely detrimental to the physical and mental health of employees. And even today, the conditions are not made great improvements in China factors. These show the downsides of offshoring creating job opportunities in developing countries. So, offshoring is a double-edged sword, it is important to analyze the opportunities and threats when using it.

5 Opportunities

Offshoring is one of the most important ways to contribute to globalization. Globalization is the current trend; it normally refers to the social, cultural, legal, political factors spread between different countries and it primarily be used in economic areas caused by the development of technologies [14]. In the view of globalization, countries are interdependent. They affect other countries and be affected by others. For the developing countries, because

of the lower manufacturing costs, many big companies relocated their factories in these companies, which made great improvements in their employment, education, and social development. At first, offshoring is conducted by trade negotiating, which reduces international trade barriers set by and brings the low-tech, labor-incentive business processes to the developing countries. However, because of the industry chain, the offshoring industries could lead the relative industries development. For example, the goods needed to be exported, this could develop the transport system. And many service industries will be developed in those industries. And offshoring not only brings industries to developing countries, but also foreign investments to these developing countries, which provides the chance for developing countries to engage in those high-tech industries such as information technology, chemical industries, and pharmaceutical industries. This can help developing countries with great economic growth. For some developing countries such as China and India, their economic growth is even faster than many developed countries [15]. And for the developed countries, there will also be many competitive opportunities for them to seize. Offshoring has to some extent contributed to the country's capacity for specialization. For example, US companies can focus on their expertise areas such as software innovation, electronic and computer development, and those high-tech and high profit premium industries [16]. As the result, it causes the uneven distribution benefits among the countries. And for the countries like the US, it could extend their national impact on other countries using the big brand. So, offshoring is an opportunity for expanding the market for their companies, which is also a way to contribute the economy growth. All in all, offshoring could bring opportunities for both sides of countries to increase their economies.

6 Threats

It is also important to know the threats brought by companies using offshoring. First of all, when a company decides to offshore its business, there are several problems needed to be overcome. The difference of time zone and languages could cause communication problems. It may make a delay in reply and mislead the meaning of the terms, which might rise the expense to solve them, such as paying more wages for overtime work and looking for fluent English-speaking staff. Besides, different cultures of countries may need to be understood and respected in the offshoring to avoid conflict. And nowadays more and more people are concerned about intangible assets. Currently, more and more high-tech companies choose to offshore their businesses not only just the low-tech industries. So, the data protection issues, and intellectual property issues are facing risks. When companies offshore their industries, how to protect their information from data leakage and how to avoiding lose control over their intellectual property for those patent incentive industries are becoming important. As the result, some measures needed to take to reduce the risk such as property right reform. More and more developing countries realize the importance of protecting their intellectual property rights

(IPRs) and legislate to higher levels to protect them. It also be pushed by the agreement signed by the World Trade Organization in 1995, the Trade Related Aspects of IPR [17]. And apart from that, the companies should also consider the political issues when offshoring. For example, Ukraine is one of the most popular places to relocate, however, these days the country is at war, which has big influence on the offshoring businesses. Except for the military problems, government policies could also make barriers to offshoring. For example, with the economic downturn and rising unemployment rate in the U.S., the U.S. government has introduced many policies to stimulate reshoring. The ‘Remaking America’ issued by Obama in 2010 aimed at promoting reshoring. Other implements such as ‘Reshoring UK’ and ‘Colbert 2.0’ also encourage the product made in UK and France for their domestic brand [18]. As the result, developing countries need to plan for the future, the questions like how to solve the unemployment rate and how to transfer their industries to technology orientation. These threats need both sides of the offshoring countries to pay attention to, not only the companies themselves, but more relevant legislations or policies that need to enact or change.

7 Conclusion

This paper has attempted to use SWOT analysis to discuss offshoring from the two sides, the home countries and relocated countries. Indeed, the advantages such as employment promotion for developing countries and saving cost to conduct more profitable sectors for developing countries is obvious. However, offshoring is not just a simple reciprocal relationship. Saving the labor costs also brings the rising rate of unemployment in the home countries and the factories located also make environmental problems and employees exploitation problems. It cannot be denied that offshoring brings economics growth to those countries. However, the risks from time, language, culture, information security, and political problems should consider at the same time. All in all, offshoring cannot be simply said to be good or bad for both countries, it is not just about the things of the companies themselves, but also the countries related. With globalization, offshoring could not be banned, the things people could do is to reduce the weaknesses and avoid threats of it. The major limitations are that the limited time which could lead to not perfect finds, and the examples which are limited to several countries could not represent all the countries in the world since different countries have different situations.

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