

Kirkegaard, Jacob

Article

Outsourcing, Offshoring - Offshore Outsourcing – Much Ado about What?

CESifo Forum

Provided in Cooperation with:

Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: Kirkegaard, Jacob (2004) : Outsourcing, Offshoring - Offshore Outsourcing – Much Ado about What?, CESifo Forum, ISSN 2190-717X, ifo Institut für Wirtschaftsforschung an der Universität München, München, Vol. 05, Iss. 2, pp. 22-29

This Version is available at:

<https://hdl.handle.net/10419/166181>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



OFFSHORE OUTSOURCING – MUCH ADO ABOUT WHAT?

JACOB F. KIRKEGAARD*

“Benedict Arnolds”¹, “Unpatriotic”² or contributors to a multi-billion dollar export boom?³ Companies (or governments) engaging in offshore outsourcing have many names in 2004 and arouse much passion. This paper will not, however, attempt another numerical pin-down of the extent of offshore outsourcing and associated job losses. Instead, after a short introduction, the degree of uncertainty regarding international trade data in areas affiliated with offshore outsourcing will be illustrated. Then data indicating a minor direct impact of offshore outsourcing relative to other labor market factors implicated in large-scale job losses will be presented before a short conclusion.

What is offshore outsourcing, and what drives it?

Initially it is useful to distinguish between two different terms frequently used interchangeably in the debate:

- *Outsourcing* refers to companies (or governments) purchasing services from outside specialist providers at arms length. This may include a wide range of services, such as cleaning, catering, security, building maintenance, as well as business services

such as IT support, consulting, advertising, payroll management, accounting or specialist design. Inherently many of these types of services must be acquired from suppliers located in the local area, as they require a continuous physical presence – you want someone to clean and guard the office every night.⁴ This type of activity is as old as at least the industrial revolution, and basically refers to companies specializing in what they do best and leaving the rest to others.⁵ It is a crucial process in which companies engage to remain cost-competitive and raise productivity, but is not the focus of this paper.

- *Offshore outsourcing (offshoring)* refers to purchases by companies (or governments) of services from foreign providers at arms-length, or the transfer of particular tasks within the organization to a foreign location. This generally occurs through the use of information technology, either in the form of cross-border data transmissions (any task that can be digitized, sometimes known as IT enabled services, or ITES) or cross-border voice-transactions (for instance direct phone-based customer support and other call-center functions). While the scope of offshore outsourcing, due to distance, cannot be as broad as for outsourcing itself, the technical possibilities for it should not be underestimated. Increasingly diverse tasks, such as tax accounting, medical scans or claims processing can today be digitized and therefore potentially sourced from any distance. However, technical capability does not necessarily mean that the offshore outsourcing of a given task will be profitable (or legally possible) for an organization to engage in.

Hence, while outsourcing has occurred for many years, offshore outsourcing is a relatively recent phenomenon. Only in 1996 did India's exports of software and IT-enabled services breach the \$1 billion mark⁶, but have since risen to more than \$12 billion.

* Research Associate, Institute for International Economics, Washington, D.C.

¹ US Democratic Party presidential candidate John F. Kerry's label for companies and CEOs that move jobs and operations overseas to avoid paying US taxes. Benedict Arnold was an American traitor from the War of Independence, who in 1780 plotted to surrender the fort he commanded to the British forces.

² German Chancellor Schroeder's characterization of German companies considering relocating jobs abroad. The remark came in response to suggestions from Georg Ludwig Braun, President of the German Chamber of Industry and Commerce, that German companies “not wait for better policies”, but act to take advantage of the opportunities offered by EU enlargement.

³ Indian IT industry association NASSCOM estimates that Indian exports of software and IT services in the fiscal year April 2003 to March 2004 reached \$12.5bn. “Indian Software and Services Exports”, NASSCOM Press Release June 3, 2004. Available at http://www.nasscom.org/artdisplay.asp?Art_id=2707, accessed June 16, 2004.

⁴ Note that this does not mean that for instance cleaning or security cannot be handled by a multinational company, only that such a multinational must have a local presence.

⁵ To use Ronald Coase's terms, companies perform only those tasks, whose marketing/transactions costs in the market are higher than the cost of producing them in-house.

⁶ NASSCOM estimates of Indian software and IT services exports. Please see below for the reason to rely on this source.

Offshoring differs from outsourcing in that foreign providers or locations are involved

At least four factors have driven the recent rapid rise in offshore outsourcing:

- *Technological innovation:* This has enabled large price declines in, and accompanying diffusion of, information technology, as well as a rapid decline in telecommunication connection prices since the late 1990s.⁷ This has permitted many new suppliers and customers to enter the market, and will likely continue in the coming years.
- *Free trade:* The sector has so far not been affected by any significant regulatory barriers to growth in the form of duties or other trade barriers. Sector growth has thus been entirely market determined. However, this fortunate situation may not last. A recent white-paper from US Senator Lieberman's Office (Liebermann 2004) lists no less than 13 different US federal legislation proposals aimed, in different ways, at limiting the scope for offshore outsourcing, and points out that 33 US states have introduced similar types of legislation since May 2003. While none has yet been implemented, the danger is evident. Other developed countries have so far resisted similar legislative initiatives. This is fortunate, as such measures will further complicate global trade negotiations⁸ and are unlikely to preserve many jobs in developed countries.
- *Possible cost savings:* Surveys of companies demanding offshore outsourcing services indicate that they seek cost savings in existing operations. A survey of different estimates and experiences reveal a 30 to 60 percent range in typical cost savings.⁹ Yet, some caution is warranted in interpreting such numbers. Estimates will vary between different types of tasks and different suppliers of services, but more importantly it may be difficult to measure the all-in costs to a company of offshore outsourcing. Labor costs are frequently the most important aspect, especially in labor intensive call-center type tasks, but such immediate savings may

be offset in the longer term by additional costs arising from less operational control of output (for instance in IT support), or reputational risk from customers withdrawing business.¹⁰

- *Access to a large pool of skilled English speaking labor outside the home country:* Several countries, particularly India and the Philippines, but also higher-wage countries, such as Canada, Australia or Israel have provided plentiful skilled English-speaking labor. The importance of English in facilitating seamless, continuous interaction between business units from different countries in multinational companies is crucial. Countries lacking English speakers are less likely to host facilities servicing other parts of multinational companies. English is furthermore the spoken language in the United States, which makes good command of it imperative for suppliers of "call-center-type direct interaction with customers" services to this, by far the biggest and most mature offshore outsourcing market in the world.

Offshore outsourcing is growing – but how do we measure it?

Many industry specialists have published estimates of the size of the global offshore outsourcing market. These vary wildly in levels (from tens to hundreds of billions of dollars¹¹), but all agree that growth is rapid, that it will continue, that US clients form the largest customer base and that India is emerging as the dominant supplier.

Instead of now offering another, but less informed guesstimate of the true scope of offshore outsourcing, I will point to a related issue of increasing importance – how does offshore outsourcing show up in international trade statistics? Obviously it is of interest to account properly for cross-border trade flows that may soon (or already) account for hundreds of billions of dollars in value. But offshore outsourcing represents an additional challenge in that it falls in the middle of two traditional "grey areas" of international trade statistics, namely accounting for trade in services (as opposed to goods), and accounting for trade involving multinational companies. First a little background information on both "grey areas":

Offshoring is driven by technological change, free trade, cost savings and skilled English speaking labor abroad

⁷ McKinsey Global Institute estimates that cost of an international 2Mbps fiber leased line in India have declined by up to 80 percent from 1997–2001, with similar magnitude declines seen in the Philippines and other developing countries. McKinsey Global Institute (2003b).

⁸ Former Indian Minister of Commerce Arun Jaitley several times in talks with US officials and the press indicated a direct link between Indian interest in a successful Doha agreement and anti-offshoring legislation. The position of the new Indian Congress-led government cannot yet be gauged, but is unlikely to differ from the outgoing Indian government.

⁹ There are many such surveys and estimates, as well as industry executive interviews. I shall list just a few of the largest and most cited here: Deloitte Research (2003), Gartner Research (2003) McKinsey Global Institute (2003a), Evaluserve (2003), Forrester Research (2002, 2004a, 2004b), UNCTAD/Roland Berger (2004), AeA (2004), BusinessWeek February 3, 2003 "The New Global Job Shift", The Economist, July 17, 2003, *The New Geography of the IT Industry*, and Financial Times, July 2, 2003 IT Review *Looking for Savings on Distant Horizons*.

¹⁰ A recent survey in Britain indicated that one in seven Briton, who knowingly came into contact with a call center overseas, took their business elsewhere. Financial Times June 2, 2004 Special Report: Risk Management, Move to Reduce Costs Can Also Lose Customers.

¹¹ Please refer to footnote 9 for a number of such estimates.

Statistics on International Trade in Services¹²

Measurement of trade in services is inherently more difficult than measurement of trade in goods. Individual services are frequently intricate to define, and may constitute abstract concepts rather than a physical attribute or function. International trade in services requires, unlike trade in goods, no physical package to cross borders, frequently has no description of content, or information on quantity, origin or destination, and critically has no administrative system based on customs duty collection measuring it.

Correct data on services trade require a common understanding of concepts from both statistical agencies as well as data providers, i.e. suppliers and customers of internationally traded services. International services trade data, as opposed to goods trade data which rely predominantly on customs duty declarations, are collected through both business accounting and recordkeeping systems, administrative sources, regular surveys of businesses as well as numerical estimations by statistical agencies.

Practical considerations of data secrecy (companies wanting to protect proprietary data of potential value to competitors), respondent burden (there are limits to how many surveys businesses can be expected to fill out) and maintaining common standards need to be weighted against the demand from users for more data detail and validity. As such, despite recent progress with the agreement on a set of common international standards in the “Manual on Statistics in International Trade in Services”, it is reasonable to declare that data on international trade in services remain frequently inexact, in some cases for certain purposes outright misleading.

An example may illustrate this point: For many years, the United States has had a deficit in telecommunications services. This sector is measured by an idiosyncratic accounting system. As described in the ITC Annual Report on Trends in US Services Trade (US ITC 2003, chapter 11, pp. 11 ff.), cross-border trade in telecommunications is determined by a system of bilaterally negotiated accounting rates for carrying international calls measured in minutes. Calls are billed in the originating country, so a carrier whose outbound calling minutes exceed its inbound calling minutes makes a net payment to its

foreign counter part “delivering the calls.” Net settlement payments by US carriers to foreign carriers are subsequently recorded as imports, while net settlement receipts from foreign carriers to US carriers are recorded as exports. The high level of international calls originating in the U.S. caused a chronic US telecommunications trade deficit until 2002, but Federal Communications Commission (FCC) mandated reductions in the accounting rates in the five years from 1997¹³ and technological innovations such as internet protocol telephony have served to improve the sectoral balance. The question then becomes what trade data in this category mean – is it trade, or accounting? This data certainly does not reflect anything about the relative competitive position of the US telecommunications industry.

Statistics on Trade in Services Involving Multinational Companies

Many services differ from goods in that they are non-transportable and require the immediate physical proximity of supplier and customer to be traded – if you want your hair cut, both you and the hairdresser need to be present. This is reflected in the last three of the four modes of supply of services in the GATS agreement. The four modes are: (1) cross-border supply (traditional trade of services between two countries); (2) consumption abroad (the consumer moves cross-border to the country of the supplier); (3) commercial presence (the supplier establishes a permanent legal/physical cross-border presence in the country of the consumer); and (4) presence of natural persons (the supplier moves temporarily cross-border to the country of the consumer). Mode 3, commercial presence, refers directly to multinational service providers. Above, we have already discussed the difficulties in measuring traditional trade in services delivered cross-border (mode 1). This is now compounded by the requirement to measure the quantity of services delivered through commercial presence (mode 3, also known as foreign affiliates’ trade in services (FATS)) on a parallel basis.¹⁴ And the numbers involved are big. The US Bureau of Economic Analysis estimates that US total cross-border exports (mode 1) of services in 2001 was \$276 billion. Yet, sales of services by US

Statistics on trade in services remain at best inexact, at worst misleading

¹² This section is based on UN, European Commission, IMF, OECD, UNCTAD and WTO 2002.

¹³ 1997 FCC Benchmark Order *Benchmark Order*, 12 FCC Rcd 19,806 (1997) demanded a reduction in settlement rates within five years to \$.15/minute for upper income countries, \$.19/minute for middle income countries and \$.23/minute for lower income countries.

¹⁴ Exhaustive measurement of services trade would obviously require measuring also mode 2 and 4, but for the purposes of off-shore outsourcing predominantly mode 3 (and to a lesser degree mode 4) is relevant.

multinationals in foreign markets through foreign affiliates (mode 3) were \$432 billion.¹⁵ In other words, mode 3 sales of services are easily 50 percent larger than total cross-border sales, but they are frequently unrecorded. Unfortunately, but perhaps not surprisingly, recalling the above-mentioned practical considerations, international data collection of mode 3 services sales is very limited. Interested readers may refer to the OECD report (OECD 2001) for an indication of the relative paucity of data in this area, even from the world's most advanced economies.

A statistical black hole?

But do two overlapping grey areas make for a statistical black hole? An example may shed some light on the issue. Much has been written about the surge in US imports of IT services and software from India in recent years and not least about the projected annual double-digit increases in the years to come. Accordingly, it is relevant to consider just what the official trade data says about the extent of this bilateral trade. The US

Department of Commerce/Bureau of Economic Analysis (BEA) has what is arguably the world's most extensive program for collection of international services trade data, and publishes detailed bilateral trade data for the relevant import categories of services.¹⁶ India publishes export data for Computer Software/IT Services.¹⁷ Data for recent years is presented in Table 1.

Table 1
US-India Bilateral Computer and Information Services Trade Data,
all data in \$US million

	Total Cross-border US Imports From India (Mode 1)		Source: BEA
1998	100		
1999	135		
2000	135		
2001	104		
2002	80		
	Total Indian Exports to the US and Canada (Mode 1 and 3)		Source: IndiaStat
1998 ^a	1,966		
1999	2,780		
2000	3,904		
2001	5,171		
2002	6,402		
	Mode of Trade	Total US Imports of Computer and Information Services	Source: BEA, Survey of Current Business
1998	Unaffiliated (Mode 1)	1,100	
	Affiliated (Mode 3)	900	
1999	Unaffiliated (Mode 1)	1,500	
	Affiliated (Mode 3)	3,000	
2000	Unaffiliated (Mode 1)	1,600	
	Affiliated (Mode 3)	2,600	
2001	Unaffiliated (Mode 1)	1,700	
	Affiliated (Mode 3)	2,800	
2002	Unaffiliated (Mode 1)	1,300	
	Affiliated (Mode 3)	2,900	
^a IndiaStat data refers to fiscal years, so that period shown as 1998 relates to April 1998 to March 1999			

^a IndiaStat data refers to fiscal years, so that period shown as 1998 relates to April 1998 to March 1999.

A comparison of US and Indian trade data on ITC trade illustrates the problem of statistics

According to the BEA, US unaffiliated imports of Computer and Information Services from India, for instance a US company purchasing such services from an Indian provider such as Infosys or Wipro in India, is quite limited, and indeed some may be surprised to note that the US imported only \$80 million worth of such Computer and Information Services in 2002.

Looking instead at the reciprocal Indian export data, a somewhat different magnitude of trade emerges, with North America importing almost \$6.5 billion worth of Computer Software And Services in 2002. It may be that Canada imported many times more than the U.S. of such services, but most plausibly other issues are at play here. First of all, the US bilateral data includes only unaffiliated (mode 1) imports, whereas Indian bilateral data concerns total exports,

¹⁵ The opposite numbers for the US are similar. Total US cross-border imports of services in 2001 was \$202bn, yet services sales by foreign multinationals in the US was \$367bn. (*Survey of Current Business* October 2003, p.58).

¹⁶ U.S. International Services: Table 7: Business, professional, and technical services, unaffiliated, 1986-2002, available at <http://www.bea.doc.gov/bea/di/1001serv/1003serv/Tab7.xls>; and BEA(2003).

¹⁷ Available at <http://www.indiastat.com/india/ShowData.asp?secid=208159&ptid=18089&level=4>.

Other estimates of Indian Software and IT Services exports are available from the Indian IT industry association NASSCOM at http://www.nasscom.org/artdisplay.asp?cat_id=314. They are very similar to the official Indian estimates at approximately 85-90 percent of official data. Accessed June 15 2004.

i.e. also includes the output of Indian-located affiliates of multinationals.¹⁸ This means that in theory, say Accenture India selling services to Accenture in the U.S. is not calculated in the US import data, but is part of Indian export data. Unfortunately, bilateral intra-firm (affiliated trade, or mode 3) trade data is not available between the U.S. and India, but as can be seen in the lower section of Table 1, total US affiliated and unaffiliated imports of Computer and Information Services in 2002 stood at \$4.2 billion. Thus even if 100 percent of US affiliated imports originated in India – a wholly implausible scenario, considering that only a tiny amount of the total stock of US FDI is in India – only about $\frac{2}{3}$ of Indian exports of these services would be accounted for. Yet, it is clear from Table 1 that affiliated (mode 3) trade in Computer and Information Services is several times larger than unaffiliated (mode 1) trade, indicating that the total US bilateral trade deficit in Computer and Information Services with India may be significantly larger than the unaffiliated trade data reveals.

Other statistical quirks also cloud the issue of comparing official US and Indian trade data in these services. The US definition of Computer and Information Services may not be completely overlapping the Indian definition of Computer Software and Services, although it would seem unlikely that any definitional discrepancy could explain the order of magnitude difference in bilateral import and export data. Nonetheless, it is particularly relevant with respect to software. The BEA does not count imports of general-use software, packaged and physically shipped to the U.S., as services trade, but rather as goods trade. Similarly is the value of software pre-installed on computer equipment and peripherals counted in the value of this hardware rather than as services trade. Yet, the limited value of US imports from India of the relevant goods,¹⁹ worth less than \$140 million in 2002, seem unable to explain the sizeable difference in bilateral trade data.

Another issue is that of trade vs. compensation. In accordance with OECD standards, the BEA does not count “Indian IT workers working temporarily for Indian companies in the U.S.” as services trade,

but records this only as compensation of employees in the US International Transactions Tables.²⁰ Yet, total compensation for all such employees from all Asian and African countries (excluding Australia and Japan) was only \$726 million in 2002, and Indians were issued only a little over 20,000 US Intra-company Transferee L-1 visas in the fiscal year 2002 (Department of Homeland Security 2002, Table 27), so even if the Indian statistical agency does include such remuneration as exports, it is still not enough to explain the difference in the data values above.

Of much more importance is possibly the source of these trade data. The BEA relies largely on surveys for its services trade data (whether mode 1 or 3), and therefore may risk losing a large number of possibly new imports of Computer and Information Services simply due to the fact that such surveys do not cover the importers – especially as these may very well be in new sectors outside the well-covered Computer and Information Services producing industries, which have until recently not conducted this type of transactions with an overseas transactor, say an American airline offshore outsourcing ticketing administration to an Indian company. While the extent of such possible misses in BEA surveys cannot be gauged, and can only be speculated about, it is important to realize that surveying of exporters of Computer and Information Services is logistically much simpler as their number is much smaller. The NASSCOM membership in India by March 2004 stood at 860 companies, covering by their own admission almost 95 percent of revenues in the Indian software and IT services industry, whereas the (unknown) number of U.S. based importers of Computer and Information Services easily could be imagined to run into the tens of thousands. Hence one would expect that corresponding Indian survey data of Computer and Software Services exporters have a higher coverage than US data of importers²¹, and therefore be much closer to the true value. The fact that NASSCOM membership includes many multinationals would seem to strengthen the validity of Indian estimates, as also mode 3 services trade would likely be extensively covered.

Bottom-line: Data on offshore outsourcing of services may not quite represent a statistical black hole, but nonetheless exhibit differences in comparable

NASSCOM data are superior to US BEA survey data

¹⁸ According to the NASSCOM MNC Forum approximately a quarter of Indian exports of IT services comes from multinational companies operating in India. See NASSCOM website at <http://www.nasscom.org/artdisplay>.

¹⁹ US Census end-use categories (21300) Computers (21301), Computer accessories, peripherals and parts (41220), and Records, tapes, and disks, available at <http://www.census.gov/foreign-trade/statistics/product/enduse/imports/c5330.html>.

²⁰ Table 1, line 34 available at <http://www.bea.doc.gov/bea/international/bp>.

²¹ The closeness of official Indian and industry estimates of exports supports this.

bilateral values measured in the orders of magnitude. Needless to say, this warrants caution when interpreting such data.

What is the employment impact of offshore outsourcing in developed countries?

An inescapable part of discussing offshore outsourcing is its presumed disastrous impact on developed world employment. Everybody's job seems suddenly at risk. As with predicting the scope of offshore outsourcing, many industry specialists have published estimates of the number of jobs that may be shifted from developed countries to lower wage countries in the developing world. These, too, vary wildly from the tens of thousands to millions over the next decade.²² Others have published esti-

mates based on detailed official US labor market data (Kirkegaard 2004, Mann 2003, Bardhan and Kroll 2003) and reached more nuanced conclusions, pointing out that many jobs lost are low-wage and that the relative scope of job losses is limited.²³ Indeed, a recent survey of the Scottish call-center industry (Tailor and Bain 2003) found that a third of Scottish call-centers predicted increased employment by 2006, although it did also find that growth since 2000 had slowed.

²² Please refer to footnote 9 for such estimates.

²³ Multinational companies are frequently at the forefront of utilizing offshore outsourcing opportunities, but it is important to note that two recent broad surveys of large North-American (Forrester 2004b) and European firms (UNCTAD/Roland Berger 2004) reveal that about half of the companies are neither currently using nor planning to use offshore outsourcing in the future. This indicates that many even large businesses and their employees will not be directly affected by offshore outsourcing in the foreseeable future.

Table 2

Reason for Mass Layoffs in the United States 1996–2003, share of total

	1996	1997	1998	1999	2000	2001	2002	2003(p)
Total separations, all reasons	1,184,355	1,146,115	1,227,573	1,149,267	1,170,427	1,751,368	1,546,976	1,502,825
Automation	0.5%	0.2%	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%
Bankruptcy	1.8%	1.9%	2.0%	4.3%	4.7%	7.7%	5.0%	4.0%
Business ownership change	4.1%	2.2%	3.0%	5.0%	2.8%	3.2%	2.8%	2.2%
Contract cancellation	1.6%	1.0%	1.0%	1.2%	1.2%	1.8%	2.3%	2.4%
Contract completed	11.0%	16.4%	11.7%	10.5%	10.4%	7.2%	9.2%	10.1%
Domestic relocation	1.0%	1.3%	1.3%	0.9%	1.0%	1.1%	1.3%	1.0%
Financial difficulty	4.8%	3.6%	2.8%	4.3%	5.3%	8.8%	6.9%	5.9%
Import competition	1.2%	1.1%	1.5%	2.3%	1.1%	1.6%	1.0%	1.6%
Labor dispute	1.2%	1.4%	5.3%	1.3%	1.5%	0.4%	0.3%	1.2%
Material shortage	0.2%	0.1%	1.7%	0.2%	0.1%	0.1%	0.1%	0.1%
Model changeover	0.6%	0.6%	1.1%	0.2%	0.2%	0.3%	0.1%	0.3%
Overseas relocation	0.4%	0.9%	0.7%	0.5%	0.8%	0.9%	1.1%	0.9%
Plant or machine repair	0.4%	0.2%	0.6%	0.1%	0.3%	0.2%	0.2%	0.2%
Product line discontinued	0.5%	0.9%	0.5%	0.5%	0.4%	0.6%	0.3%	0.4%
Reorganization within company	10.0%	7.1%	7.6%	8.3%	8.8%	8.9%	10.3%	9.1%
Seasonal work	41.8%	44.9%	36.7%	42.8%	43.7%	28.5%	36.2%	35.6%
Slack work	9.9%	8.2%	12.2%	7.0%	8.5%	18.6%	13.8%	9.2%
Vacation period	1.0%	1.2%	2.0%	2.4%	1.2%	1.4%	1.7%	1.7%
Weather-related	0.9%	0.8%	1.1%	1.2%	0.5%	0.3%	0.3%	0.5%
Other	5.1%	3.8%	6.0%	3.4%	2.9%	5.4%	2.5%	2.4%
Not reported	2.1%	2.1%	2.6%	3.8%	4.4%	2.9%	4.4%	11.2%

(p) = provisional.

Source: BLS Mass Layoff Statistics.

Many jobs lost to offshoring are low wage, and the relative scope is limited

It is outside the scope of this paper to offer a new “jobs-lost-to-outsourcing-number”, but I will point to some data evidence that indicates that relative to other factors affecting developed country labor markets, the direct impact of offshore outsourcing is limited. Data is available both for the United States and for European countries, although both sources have their own severe limitations.

The US Experience

The US Bureau of Labor Statistics collects data in what is called the Mass Layoff Statistics (MLS) program. Among other things, this covers all cases where employers indicate that 50 or more workers were separated from their jobs for at least 31 days, and employers are asked to identify the reason for the mass lay-off. Obviously this gives rise to at least two major shortcomings. First of all, establishments with fewer than 50 employees and laying off less than 50 people are not included. Secondly, employers are asked to “self-identify”, and it does not take much imagination to suspect that, in the current political climate in the U.S., employers would be hesitant to identify themselves as laying off because of offshore outsourcing. Results from the MLS program are presented in Table 2.

Two things jump out from Table 2:

- Mass layoffs due to offshore outsourcing, which would be captured in the category “overseas relocation”, are extremely small and have been relatively stable since 2000.
- The number of separations, where the reason is “not reported” has jumped significantly in 2003. This may indicate the emergence of the employer self-identification problem.

Offshore outsourcing may obviously also be captured by other categories, such as “reorganization within company”, but even so the picture of a small direct impact of offshore outsourcing remains.²⁴

Table 3
Job-losses Associated With Major European Company Restructurings, January 2002 to present

Type of restructuring	# Planned job reductions	% Planned job reductions	# of Cases	% of Cases
Internal restructuring	560,557	75.8%	860	64.5%
Bankruptcy / Closure	100,666	13.6%	296	22.2%
Relocation	36,513	4.9%	91	6.8%
Merger / Acquisition	22,884	3.1%	48	3.6%
Outsourcing	18,335	2.5%	13	1.0%
Other	820	0.1%	26	2.0%
Total	739,775	100%	1,334	100%

Source: European Restructuring Monitor.

The European Experience

The European Monitoring Centre on Change (EMCC) publishes the European Restructuring Monitor (ERM), which has published data for major European company restructurings since the beginning of 2002. These data include restructurings that affect at least one EU country and entail an announced or actual reduction of at least 100 jobs. Cases are identified through a press review of daily newspapers and business press in the 15 old EU Member States. As with the US data, the threshold of inclusion in the data set (100 jobs lost) will inevitably leave out smaller cases of offshore outsourcing, just as cases may not be reported in the European press. Furthermore, ERM does not distinguish between outsourcing and offshore outsourcing. Results from January 2002 – June 2004 are presented in Table 3.

As is the case in the U.S., offshore outsourcing is directly responsible for only a very minor part of large-scale job losses in European countries, although like in the U.S., offshore outsourcing may be included in other categories such as “internal restructuring” or “relocation”.

Considering the extent of political tension regarding offshore outsourcing, it is remarkable that these data – with their significant caveats and limitations – indicate that the phenomenon has a relatively small effect on both the US and European labor markets, relative to other sources of job losses.

Conclusion

Of the four factors that have combined to drive offshore outsourcing, technological innovation, free

In Europe as in the U.S. only a minor part of mass layoffs is due to offshore outsourcing

²⁴ This is confirmed for Q1 of 2004 by new BLS statistics published on June 10 2004, available at <http://www.bls.gov/news.release/pdf/reloc.pdf>.

trade, potential cost savings and large numbers of skilled competitively priced English speakers, only free trade may be in immediate danger of abating. However, so far US lawmakers have resisted the temptation to legally restrict the trend.

Massive uncertainty surrounds the official statistics capturing offshore outsourcing. Comparable export and import numbers may be hundreds of percent apart, which warrants caution in interpreting this type of data. Most likely, export data gathered from a limited number of suppliers will be more precise than import data from a much more dispersed group of customers.

Data from both the U.S. and European countries indicate that the direct effect of offshore outsourcing on job losses is muted, compared to other factors in the labor market. The significance and implications of this finding may, however, be restricted by serious data deficiencies. Nonetheless, the finding indicates that the political storm from offshore outsourcing has little to do with the sheer number of job losses. Instead, it points to the fact that general uncertainty about the scope of the phenomenon (could my job be next?), combined with a very limited number of resourceful, politically articulate people affected (such as software programmers) has succeeded in capturing the political agenda.

References

- American Electronics Association (2004), "Offshore Outsourcing in an Increasingly Competitive and Rapidly Changing World – A High-tech Perspective," March.
- Bardhan, A. and C. Kroll (2003), *The New Wave of Outsourcing*, Fisher Center Research Reports UC Berkeley.
- Borga, Maria and Michael Mann (2003), "U.S. International Services: Cross-Border Trade in 2002 and Sales Through Affiliates in 2001," *Survey of Current Business*, October, 58–118.
- Bureau of Labor Statistics (2004), "Mass Layoff Statistics," available at <http://www.bls.gov/mls/home.htm#data>.
- BusinessWeek (2003), "The New Global Job Shift", cover story February 3rd.
- BusinessWeek (2003), "Commentary: Outsourcing Jobs: Is It Bad?," August 25.
- Coase, Ronald (1937), "The Nature of the Firm", *Economica*.
- Deloitte Research, (2003), "The Cusp of a REVOLUTION: How Offshoring will transform the financial services industry."
- Department of Commerce, *Digital Economy 2002*, Washington D.C.
- European Monitoring Centre on Change, *European Restructuring Monitor Data*, available at <http://www.emcc.eurofound.eu.int/erm/index.php?template=stats>.
- Evaluserve (2003), *The Impact of Global Sourcing on the US economy, 2003–2010*.
- Financial Times (2003), "IT Review: Looking for Savings on Distant Horizons," July 2.
- Financial Times (2004), "Special Report: Risk Management, Move to Reduce Costs Can Also Lose Customers," June 2.
- Forrester Research (2002), "Million US Services Jobs To Go Offshore" by John C. McCarthy, *TechStrategy™ Research Brief*, November 11, 3.3.
- Forrester Research (2004a), "Services Market Sizing Update: 2003–2008," by Christine Ferrusi Ross, *Trends*, April 27.
- Forrester Research (2004b), "Near-Term Growth of Offshoring Accelerating," by John C. McCarthy, *Trends*, May 14.
- Gartner Research (2003), "Gartner Says One Out of 10 Jobs in U.S. IT Vendors and IT Service Providers to Move Offshore by End of 2004," *Press Release*, July 29.
- IndiaStat Website, available at www.indiastat.com.
- Kirkegaard, Jacob F. (2004), "Outsourcing – Stains on the White Collar?," Institute for International Economics, Washington, DC.
- Lieberman, Joseph I. (2004), "Offshore Outsourcing and America's Competitive Edge: Losing Out in the High Technology R&D and Services Sectors," Office of Senator Joseph I. Lieberman, May 11, Washington DC.
- Mann, Catherine L. (2003), "Globalization of IT Services and White Collar Jobs: The Next Wave of Productivity Growth," *Institute for International Economics Policy Brief* 03–11, Washington, DC.
- McKinsey Global Institute (2003a), "Offshoring: Is It a Win-Win Game?," McKinsey & Company, August.
- McKinsey Global Institute (2003b), "New Horizons: Multinational Company Investment in Developing Countries," McKinsey & Company, October.
- NASSCOM Website at www.nasscom.org.
- OECD (2001), *Measuring Globalization: The Role of Multinationals in OECD Economies*, Volume II: Services, Paris.
- Taylor, Phil and Peter Bain (2003), "Call Centers in Scotland and Outsourced Competition from India," available at <http://www.scotecon.net/publications/Call%20Centres%20Scotland.pdf>.
- The Economist (2003), "The New Geography of the IT Industry," July 17.
- UNCTAD/Roland Berger (2004), "Service Offshoring Takes Off in Europe – In Search of Improved Competitiveness," UNCTAD June 14.
- United Nations, European Commission, IMF, OECD, UNCTAD and WTO (2002), *Manual on Statistics in International Trade in Services*, Geneva, Luxembourg, New York, Paris and Washington DC.
- US Bureau of Economic Analysis Website at www.bea.doc.gov.
- US Census Bureau Web-site at www.census.gov.
- US Department of Homeland Security's US Citizenship and Immigration Services (2002), *2002 Yearbook of Immigration Statistics*, Washington DC.
- US Federal Communication Commission (1997), "FCC Benchmark Order", 12 FCC Rcd 19,806.
- US International Trade Commission (2003), "Recent Trends in US Services Trade," *2003 Annual Report*, publication #3599, Washington, DC.

Rather than the number of job losses, it is the uncertainty about the scope of the phenomenon that captures the political agenda