

**OUTSOURCING IS THE ‘MEDICINE’
NOT THE POISON THAT IT IS MADE OUT TO BE**

As Messrs John Kerry and George W. Bush do their respective rounds in The Land of The Free and The Home of The Brave, trying to rally the faithful to their respective sides of the political fence, using a variety of questionable arguments in order to make themselves appear to be the better man for the job as the 44th President of the United States of America, consistently one hears both of the Presidential candidates make statements to the effect that they will take steps to stop the outflow of jobs from Continental United States.

In other words, to reverse the widely accepted corporate policy of offshore outsourcing.

This term, offshore outsourcing, is fast becoming a dirty word in the US, in the same way that the word, ‘*scab*’, was considered a dirty word in the US, during the labour unrest in the country, when the labour movement was born and started to proliferate.

The US labour movement took root in about 1886 and came into its own in 1905 when the **I**ndustrial **W**orkers of the **W**orld (IWW) was organised in Chicago, Illinois.

The IWW conducted numerous strikes, which much surprised many a sweatshop proprietor, from New York to California.

Today, in a vain attempt to thwart companies in the US from adopting offshore outsourcing strategies, legislation has been passed in 33 States.

The 13 Legislative Proposals have been introduced at the Federal level.

Under this legislation, agencies of the US Government are proscribed from contracting with US companies, which engage in offshore outsourcing.

The legislation is frightening to people who still believe in free trade, because it smacks of protectionism.

The legislation is doomed to failure.

The reason: Offshore outsourcing will create many more jobs in the US than it kills.

Offshore outsourcing is the key to the continued economic success of the US.

The same is true in Western Europe.

Constructive destruction of industry is the phoenix, from which will spring new industrial life.

What Is Outsourcing?

The adoption of outsourcing is, simply put, the assignment of certain tasks to independent contractors, such as individual consultants or service bureaus, very often in other continents.

It is the practice by which a company may outsource certain processes, especially Information Technology (IT)-based services, to another area of the world, very often to low-cost, low-wage territories.

Offshore outsourcing is not a new idea, at all, because Hongkong and Taiwanese garment manufacturers, shoe manufacturers, wig manufacturers, to name but only 3 industries, as far back as the early 1980s, were shifting part of their respective production facilities to the People's Republic of China (PRC), and, at the same time, were farming out work to independent third parties in the PRC, those not associated with the Taiwanese and Hongkong manufacturers – with the blessings of Beijing.

This was in spite of the fact that, technically speaking, Taiwan and the PRC were engaged in, what could be considered, a state of technical war.

The only thing novel about offshore outsourcing, therefore, is the noise that the US Presidential candidates are making in a bid to get the labour vote.

The main aim of the outsourcer, of course, is to exploit situations in other areas of the world, situations which may best be described as having the ability to enrich a corporate entity by expanding profit margins without sacrificing the integrity of the product, being created/manufactured.

Wage-cost differentials were the first attraction of US companies, which sought to outsource to such countries as India and The Philippines, a few short years ago.

For many an entity in the service industry of the US, offshore outsourcing permitted a company to compete successfully with other companies in similar lines of endeavours.

From the very simple outsourcing jobs, such as data entry and processing, outsourcing has taken on new and even more exciting potentialities, today.

The Hongkong and Shanghai Banking Corporation Ltd, only 3 years ago, moved a great deal of its back-office work from the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) to the PRC, proper, not more than 50 miles from its home-base in Queen's Road, Central, Hongkong.

Jobs were lost in the HKSAR by this move, to be sure, but the move, also, created jobs and will continue to create more jobs in the long pull.

The characteristic of offshore outsourcing is that services are performed in a different location, often outside the country of origin of the company, seeking to outsource certain tasks.

Concern in the US that offshore outsourcing will cause widespread unemployment is false: The opposite is the real situation.

However, today, some of the political planks of the 2 Presidential hopefuls include denigrating offshore outsourcing.

The Presidential candidates are making claims that they can bring back the jobs.

Nonsense!

The jobs have gone and are unlikely to return.

And this is good, not bad.

These promises of getting back the jobs, lost to offshore outsourcing, has unleashed renewed debate as to the efficacy of adopting a more protectionistic stance in the US.

Protectionism and Progress

Protectionism has never, and will never, be the answer to protecting home-based industries.

History has proved that protectionism thwarts industrial progress.

Nobody in the world is producing buggy whips in any great numbers, today.

So, for what reason would a government want to protect the dying buggy whip industry?

Nobody in the world is producing the floatable wagons, which traversed the Continent of United States in the 18th Century, carrying the pioneers from East to West, from South to North.

The Hilman Minx motor car is relegated to museums in England, today, because that little motor car could not compete with its rivals of its day and had to die a natural death.

The garment industry of the old Hongkong is dead, outsourced to the PRC, proper, Vietnam, Cambodia, The Philippines, etc, etc, etc.

But the death of one industry guarantees the birth of another, in the same way that the fires of the Veldt in southern Africa, started intentionally by farmers, guarantee new lush growth, which feeds the farmers' animals, which depend on the new growth for their very survival.

Offshore outsourcing, today, is being blamed for the losses, in part at least, of some 2 million US jobs since 2001, when President George W. Bush was elected as the 43rd President.

There is some truth to this allegation.

At the same time, offshore outsourcing was the cause of the creation of many jobs in the US, too, during the term of President George W. Bush.

And, today, one sees definitive evidence of US industries rehiring more and more staff as consumers return to the malls in their hundreds of thousands.

There was no fairy godmother, who waved her magic wand and Lo! Presto! US consumers suddenly became flush with cash.

What has yet to be appreciated, to any great extent, at least, is that offshore outsourcing has been responsible for the creation of more and new markets, internationally.

Taking a look at India and the PRC, proper, only, as US and European multinational companies established outsourcing entities in these countries, starting from the mid-1990s, it gave employment to the local worker, who, in turn, became an avid consumer of products for which he had been starved because there was, prior to the advent of the popularity of offshore outsourcing, no way for him to obtain permanent employment, allowing him to purchase the goods which he so dearly coveted.

The Chinese axiom, that the ginger in another person's garden is, always, more pungent than the ginger in one's own garden, held true for workers, engaged in producing services and goods for outsourcers.

The workers, who enjoyed some of the benefits of offshore outsourcing, started to have more and more disposable income.

Part of it went back into the economy as the consumer's buying power gained pace.

The PRC consumer and the Indian consumer looked to European and US consumer products as being preferable purchases to the locally manufactured product even though, in some cases, the brandname was identical.

The US worker, the Canadian worker, the English worker, and so on lost out to other workers in other parts of the world for a variety of reasons.

The work ethic of Canada, for instance, leaves a great deal to be desired and so many Canadian companies outsourced, offshore, where (1) wages/salaries were proportionally lower (2) there was a more plentiful supply of skilled and semi-skilled labour (3) labour could be better motivated and controlled, making use of local commissars/authorities at the provincial government level and/or (4) locational quality was more conducive to the tasks at hand.

In respect of point Number 4, locational quality is a strong motivation for outsourcing of production facilities and/or services where a more business-friendly atmosphere is engendered by an established and accepted institutional framework.

Liberal rules on labour disputes and dismissals and the payment of subsidies to foreign corporate entities, willing to relocate part of their infrastructure, are strong pulling cards for US and Canadian managements.

In Canada, especially, certain restrictions, placed on certain businesses, an excess of Governmental regulation in many businesses, and an extremely high level of taxation – 48 percent and more – all contributed, and continue to contribute, to act as push factors.

The Government of Canada, today, is making little effort to change the situation, as more and more of its best people continue to look outside for employment.

There is good reason that the PRC, proper, Thailand, The Philippines, South Korea, Taiwan, and other countries in the Far East are booming while many Canadian workers decry their plight.

Procurement motives are, also, strong reasons to shift operations offshore because, if the required labour cannot be found at the home base, then, Management must look elsewhere to fill the void.

Human capital, as it is called, is a scarce commodity in the knowledgeable society of today, where computer specialists and skilled engineering staff are in strong demand.

From the perspective of macroeconomics (the study of the overall aspects and workings of a national economy, such as income, output, and the inter-relationship among diverse economic sectors), for a company to outsource offshore often permits production at the domestic level to be much cheaper.

Such a process permits a company to use fewer staff at home while producing, not the same amount of product, but a greater number of that product.

If the Egyptians of 1358 B.C. had had cranes and motorised building machines, the requirement for hundreds of thousands of slave workers would have been unnecessary in the construction of the pyramids, and the pyramids could have been completed in a few short years instead of decades.

As productivity increases at home and output is boosted, so are the profits of the corporate entities.

These profits are passed down the line in due course.

As profits rise, competition hots up.

New players enter the game and create even more employment.

Looking at the demand side of the equation, cheaper products become a magnet for consumers.

Lower production costs are passed down to the consumer, from the purchase of a new steam iron or television set, to the state-of-the-art laptop, to the software that runs computer programmes.

Success begets success.

But protectionism begets protectionism and acts as an effective brake to progress.

Offshore outsourcing is not a sickness of the US or any other country, but a '*medicine*', which, in the long run, will cure many of the industrial diseases and cankers, those clearly apparent, and those yet to be recognised.

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