

**OFFSHORING:  
DOES IT 'KILL' JOBS AT HOME ?  
OR DOES IT CREATE NEW ONES ?**

A television presenter in the United States (US) appears to have his kickers in a twist: He is, constantly, berating US industrialists and service providers for going offshore in order to outsource certain jobs, previously performed at home, using US manpower.

He is convinced that by so doing, the working man in the US is being stabbed in the back by his own people.

Is Mr Lou Dobbs correct? Not on your Nelly!

Offshoring, as it is commonly known, today, is creating jobs, at home and abroad, and is boosting the economies of the West as well as the East – that is, Eastern Europe as well as the Middle East and Asia.

It is, now, fact that the average growth of the US economy between 1995 and 2002 would have been at least 0.30 percent lower per annum had it not been for the ability of US industry to shunt part of its requirements offshore in order, inter alia, to find a more cost-effective method of operation.

For most corporate entities, in the US and in Europe, price competition is fierce, especially in the fast-moving Integrated Circuit (IC) technology and Information Technology (IT).

The only way for these entities to maintain their current positions and to increase global competitiveness is, simply, to find locations where costs of production are cheaper than at home and, at the same time, without sacrificing quality and the pace of production.

The first port of call for offshoring was India.

It started in the middle of the 1990s and continues apace.

This country has been a dominant offshore address for many a multinational company for the past decade or so, but Eastern Europe is starting to hop aboard the former, predominantly Indian bandwagon.

These Eastern European countries include: Poland; The Czech Republic; Slovakia; and, lastly, Hungary.

In addition, other Eastern European countries are trying to climb aboard the offshoring bandwagon in order to bolster their economies.

For Western Europe, about 90 percent of offshore revenues come from India.

This is due to the fact that India has established itself as a viable offshoring centre, with its vast pool of highly competent and well-trained personnel, all of which is available to Western Europe at very acceptable terms.

However, Eastern and Central European countries are becoming increasingly important as offshoring centres due to these countries' cultures, languages and the populations' general demeanor, all of which is conducive to the requirements of outsourcing offshore.

Russia is emerging as a favourite of many German companies, looking for offshore centres for ITC businesses.

Financial institutions have joined in the fun and many have, literally, moved veritable armies of backroom staff to other climes.

The Hongkong and Shanghai Banking Corporation Ltd, a wholly owned subsidiary of HSBC Holdings plc, one of the largest banks in the world, moved a goodly part of its administrative staff out of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) and into the PRC, proper, a few years ago, displacing thousands of workers in the territory.

While there was a little hue and cry, at first, about the displaced bank workers, today, these same workers have been integrated into administrative jobs in other financial institutions without any real loss to the economy of the HKSAR or to the workers, themselves.

Meanwhile, The Hongkong and Shanghai Banking Corporation Ltd has been able to contain its operating costs thus increasing profitability down the road.

The advantages, achieved by offshoring, causes, in most cases, a dislocation of some workers, initially, of course, and that, to many US politicians, is a solid platform on which to stand in trying to obtain high office: *'Bring back the jobs!'*

Whenever there are structural changes, there will be some losers. That is a given.

Isolated calls have been heard for protectionist measures in order to avoid, or delay, at least, job losses at home.

But such losses are, more often than not, inevitable in any event.

History has proved, conclusively, that protectionist measures are only short-term palliatives, at best.

Weighed against long-term benefits, protectionist measures are doomed to failure.

Whenever there is a problem, the best attack is a frontal one.

For too long a period of time in the US, one has seen conditions in industry, which are not sufficiently attractive to hold their own in the face of international competition.

The US labour market, by and large, has not been sufficiently flexible to create new employment for the estimated 140,000 people, joining the labour market, monthly.

The education system in the US, also, has been sadly lacking.

One notes the paucity of talented people, armed with sheepskins, applying for posts in industry: They lack, among other things, a modicum of dynamism.

Being able to pass an examination is one thing; understanding the subject matter is quite another matter.

And being entrepreneurial is, quite, something else, again.

In order for an industrialised country, such as the US, to justify high-income levels among its labour force, there must be innovation.

Innovation, in due course, leads to the ability of a country to obtain a competitive edge over its rivals.

## Germany

Germany is, currently, suffering from high unemployment levels.

Some of the country's politicians are pointing to offshoring, claiming that this is the root cause for the high level of people, walking the streets of German cities, looking for work.

As with Mr Lou Dobbs in the US, offshoring/outsourcing has become the whipping boy in Germany.

In point of fact, however, it is industries' inability to meet the challenges of the day that has brought about the current situation.

Public concern in the world's largest exporting nation – Germany – is mounting.

Germany's offshoring is centred, to a great extent, on its IT and telecommunications sectors because these industries are ideal candidates for relocation to low-wage countries, such as the PRC, proper, Thailand, The Philippines, India, etc.

The German public's perception of offshoring is in stark contrast to the facts and the real significance of offshoring to the German economy as a whole.

For German industry, for the most part, its leading lights are well aware that the only way to go forward in the modern world is to look globally.

To attempt to maintain the status quo stance is, actually, to engage in a policy, which, in essence, is retrogressive by its very nature.

With full-scale digitalisation of information, IT and telecommunications sectors of the German industry can successfully be moved to low-cost areas of the world without any loss of quality of the finished product or the pace of progress.

The speed of transmission of information from one region of the world to another has made it possible for there to be greater productivity, leading to greater innovation, which, ultimately, leads to greater profitability.

And this leads to the creation of more jobs, at home and abroad.

The study of the overall aspects and workings of a national economy, such as income, output, and the inter-relationship among diverse economic sectors, suggests that offshoring cuts costs at the domestic service sector of an economy.

It, also, boosts productivity, the benefits of which are passed onto the consumer in the same way that Henry Ford, between 1908 and 1927, was able to produce his Model T Ford at a price, which was affordable to the average man-in-the-street.

As the principles of industry are seen to earn greater and greater profits, it tends to attract new providers, creating competition.

And competition begets competition, resulting in only the lean and mean, remaining in the race.

Competition is good for the consumer as is, clearly, evident in the US, today.

Ford Motor Company and General Motors Corporation are fighting it out in the streets of the largest economy in the world in order to try to win back customers from Asian competitors, which have made material inroads into the once-hallowed ground, dominated by the 2 giants of the US motor-vehicle industry.

Innovative Asian motor-car competitors were only able to move in on US manufacturers due to the inability of their US counterparts to meet the challenges of the day.

Fat and lazy leads to losing the race.

## The Other Side

As prices fall, due to fierce competition and/or successful outsourcing/offshoring, it is the consumer, who toddles down to the High Street to spend his/her money – because goods are, then, more affordable.

When General Motors Corporation offered prospective, US motor-car buyers discounts, normally reserved for employees of the company, sales shot up, immediately.

Ford Motor Company followed General Motors's lead.

Innovation won the day for General Motors.

Ford Motor Company was a late starter and lost the race.

As the price of consumables falls, so the housewife has more money to spend.

Lower production prices lead to a reduction in the price of goods and services.

This, in turn, leads to demand rising, more growth is generated, and more jobs are created.

One does not need to be an economist to reason this out.

In the HKSAR, today, the term, '*co-location*', has, recently, been coined.

The term means that one may rent area in somebody else's premises in order to store such things as servers and ancillary computer paraphernalia, which can take up a great deal of space in Central offices, where prices for space run into as much as \$HK15,000 per square foot.

The companies, offering co-location facilities, which come complete with 24-hour, air-conditioning, security, and other amenities, all as a package deal, are asking a very small monthly rental charge, relative to the market price of office premises in the Central Business District of Hongkong Island.

Going along with the logic of German politicians and that of the fallacious logic of Mr Lou Dobbs, is one to believe that, because of co-location facilities, the price of commercial property in the HKSAR will drop?

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