

Offshoring - Pros

- **Lower wages** in foreign countries translate into significant savings and often improved quality. A software developer in the U.S., for example, costs \$60 an hour whereas one in India only costs \$6 an hour. This and other benefits could translate to a net impact of a 50 percent increase in profits for American businesses.

Hourly Wages for Selected Occupations US And India, 2002/2003

Occupation	Hourly Wage, US	Hourly Wage, India
Telephone Operator	\$12.57	Under \$1.00
Medical Transcriptionists	\$13.17	\$1.50 - \$2.00
Payroll Clerk	\$15.17	\$1.50 - \$2.00
Legal Assistant/Paralegal	\$17.86	\$6.00 - \$8.00
Accountant	\$23.35	\$6.00 - \$15.00
Financial Researcher/Analyst	\$33.00 - 35.00	\$6.00 - \$15.00

Source: US wages are from US Bureau of Labor Statistics, National Compensation Survey, July 2002; Indian wages are from interviews, business literature search and review of employment want ads by authors Ashok Bardhan and Cynthia Kroll, "The New Wave of Outsourcing", Fisher Center for Real Estate and Urban Economics, University of California, Berkeley, Fall 2003, <http://repositories.cdlib.org/iber/fcreue/reports/1103/>.

Industry Hourly Compensation (U.S. \$)

Industry	Germany	United States	Brazil	Mexico
Motor Vehicles	\$44.95	\$35.62	\$7.76	\$3.52
Computer and Electronic Products	\$29.92	\$26.63	\$6.67	\$2.88
Food, beverages, and Tobacco	\$26.33	\$19.51	\$3.02	\$2.15
Textiles, Apparel, and Leather	\$22.74	\$15.43	\$2.14	\$1.90

Source: Bureau of Labor Statistics, *Around the world in eight charts*, http://www.bls.gov/spotlight/2008/around_the_world/data.htm#chart_07

- **Reduced Costs.** For every dollar spent offshored, 58 cents are captured as net cost reduction to businesses even as they often receive an identical (or better) level of service ("Offshoring: Is It a Win-Win Game" [Offshoring], 2003, page 12).^{see references}
- **Tax savings.** "I interviewed Craig Barrett of Intel, and he told me that Intel's just opening a huge new chip facility in China. 94% of their costs have to do with cost of capital and 6% labor. It's not about cheap labor at all. **Half of it was the massive tax holiday** that Chinese region was offering this company, which will save them about 1 billion dollars over 10 years, and the other half is that China has national health insurance." Tom Friedman, *The New York Times* ("Panel Debates Offshoring," n.d., p.7).

- **New Revenues.** For every dollar of spend offshored, offshore services providers by an additional five cents worth of goods and services from the US economy. Providers in low-wage countries require US computers, telecommunications equipment, other hardware and software. Additionally, they buy legal, financial, and marketing services from the US (Offshoring, 2003, p.12).
- **Repatriates earnings.** Several providers serving US offshoring market are incorporated in the US. These companies repatriate their earnings back into the US, amounting to an additional four cents out of every dollar of spend offshored (Offshoring, 2003, p.14).
- **Redeployed labor.** If redeployment continues at the rate it has over the past two decades, then for every dollar of spend offshored, the economy will capture an additional 45 to 47 cents per dollar of offshoring from the new jobs that are generated (Offshoring, 2003, p.14, 16).
- Offshoring creates **net additional value for the US economy** that did not exist before, a full 12-14 cents on every dollar offshored. Of the full \$1.45 to \$1.47 of value created globally from offshoring, \$1.00 of US labor cost, the US captures \$1.12 to \$1.14, while the receiving country captures, on average, just 33 cents. In other words, the U.S. captures 78 percent of the total value (Offshoring, 2003, p.14).
- Educational systems of the less-developed world have improved dramatically over the past few decades making the offshore **talent pool greater**.
- **Quicker production cycles**
- **Greater efficiencies** (outsourcing is a means of getting more final output with lower cost inputs).
- Investment capital to both China and India is on the move in support of existing or new businesses

Offshoring - Cons

- **Between 1979-1999, Bureau of Labor Statistics [BLS] found that 31 percent of those whose jobs were displaced by trade were not fully reemployed. 36 percent of displaced workers found jobs that matched or increased their wages, but 55 percent were at best working for 85 percent of their former wages. 25 percent saw pay cuts of 30 percent or more (Babcock, 2004).**
- Loss of knowledge that goes with the displaced workers
- Impediments to sharing information and knowledge among employees offshore and in the United States
- Demoralizing effect on the remaining US workforce
- Risk of creating a negative corporate brand image
- Loss of federal government contracts
- Increased litigation over lost U.S. jobs
- Protectionist legislation
- Political fallout ... e.g., the state of Indiana canceled a \$15 million contract to offshore the administration of unemployment benefits to a vendor in India after bowing to pressure by critics who argued that state taxpayers should not pay for jobs held by foreign workers.
- Questions over intellectual property rights
- Infrastructure failures
- Security and privacy violations such as theft of customer credit card numbers and inadvertent knowledge transfer
- Instability or military tensions and geopolitical risks
- Variable labor costs
- Legal framework of foreign countries
- Cultural incompatibility and misunderstandings
- Not enough adequately trained local supervisors who can direct and motivate front-line workers while at the same time being attuned to corporate vision and goals.
- Employees may have the core technical skills, but companies' abilities to support them and get full value from those skills differ greatly (e.g., the company's effectiveness at managing teams, managing remote work challenges, creating performance management systems, etc.) (Babcock, 2004).

Jobs vulnerable to offshoring

Attributes of White-Collar Jobs Outsourced	Average Salaries of Programmers	
	Country	Salary Range
No Face-to-Face Customer Servicing Requirement High Information Content Work Process is Telecommutable and Internet Enabled High Wage Differential with Similar Occupation in Destination Country Low Setup Barriers Low Social Networking Requirement	Poland and Hungary	\$4,800 - \$8,000
	India	\$5,880 - \$11,000
	Philippines	\$6,564
	Malaysia	\$7,200
	Russian Federation	\$5,000 - \$7,500
	China	\$8,952
	Canada	\$28,174
	Ireland	\$23,000 - \$34,000
	Israel	\$15,000 - \$38,000
	USA	\$60,000 - \$80,000

Source: CIO magazine, November 2002, Smart Access Survey, Merrill Lynch.

Jobs vulnerable to offshoring*Impersonally-delivered Services*

Work that is easily deliverable through a wire, or via wireless connections, with little or no diminution in quality. Requires low social networking requirements. See below for examples:

- "Back-office activities" (Term comes from building layout of early companies where back office would be those manufacturing or developing the products or involved in admin but without being seen by customer)
 - Accounting Services
 - Check and security processing (payroll)
 - Some Human Resources functions
 - Claims Payment
 - Typing Services
- Phone Operators
 - Phone Sales
 - Telemarketers and call centers
 - Reservation Clerks
- Information Service Jobs (quintessential types of jobs that can be delivered electronically with ease. The majority of these jobs are at risk)
 - Computer Programmers
 - Computer Operators
- Stock market research for financial firms

- Legal online database research
- Paralegals and Legal Assistants
- Data analysis for consulting firms
- Radiologists and testing labs
- Diagnostic Support Services
- Medical transcription services
- Pharmaceuticals research
- Security guards (replaced with electronic monitoring)
- Security Analysis
- Art & Design
- Architecture
- Some engineering disciplines
- CAD/CAM
- Wholesale Trade

Manufacturing and all the positions in manufacturing plants (laborers, production supervisors, operation managers, shippers/packers, order clerks, etc)

References

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