



Technology Management

School of Management Graduate Programs

George Mason University

# *Offshore Outsourcing and American Competitiveness*

*Chris S. Israel*

*Deputy Assistant Secretary for Technology  
Policy*

*U.S. Department of Commerce*



# Is Your Job Next?

## High Anxiety in 2003 America

**IRAQ: THE STAKES FOR THE ECONOMY—AND BUSH**

The McGraw-Hill Companies

# BusinessWeek

FEBRUARY 3, 2003 [WWW.BUSINESSWEEK.COM](http://WWW.BUSINESSWEEK.COM)

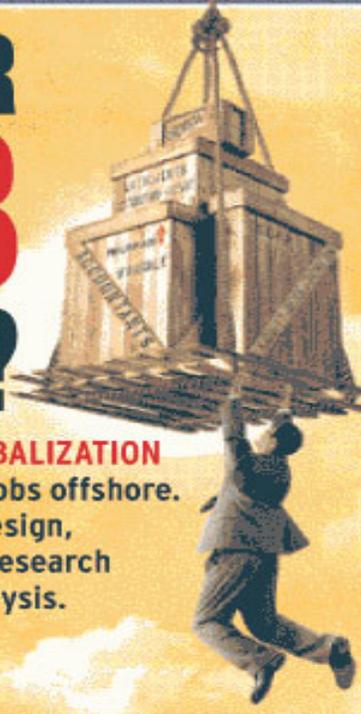
**BEST BOND FUNDS**  
OUR ANNUAL SCOREBOARD

**SILICON VALLEY**  
TALE OF A HIGH-TECH ZOMBIE

**AIRLINES**  
HOW SOUTHWEST WEATHERS THE STORM

**STOCK OPTIONS**  
COMPANIES ARE GROPING FOR A BETTER WAY

**IS YOUR JOB NEXT?**



A new round of **GLOBALIZATION** is sending upscale jobs offshore. They include chip design, engineering, basic research—even financial analysis. Can America lose these jobs and still prosper?

PAGE 10

ADL Keyword: BW



# Concern is Building

## Ubiquitous Reporting in Mainstream Press



CIO.com

Archive

Research

Opinion

Career Info

Services

Search



“As a growing number of IT jobs move overseas, some CIOs and economists prophesy a **political storm against offshore outsourcing.**”



“Forget sweatshops. U.S. companies are **now shifting high-wage work overseas,** especially to India.”

### *The Wall Street Journal*

June 3, 2003

States Fight **Exodus** of Jobs  
*Lawmakers, Unions Seek to Block Outsourcing Overseas*

“Alarmed by **jobs flowing overseas,** where skilled workers are cheaper, state lawmakers and labor unions are fighting back.”

U.S. Dept. of Commerce  
OFFICE OF TECHNOLOGY POLICY

### *Contra Costa Times*

May 20, 2003

**Job Losses Sap Morale of Worker**

Kevin Flanagan’s suicide “underscores the **anxiety that has swelled among tech workers...** as more businesses shift high-tech jobs and responsibilities to contractors offshore even as they cut jobs in the US.”



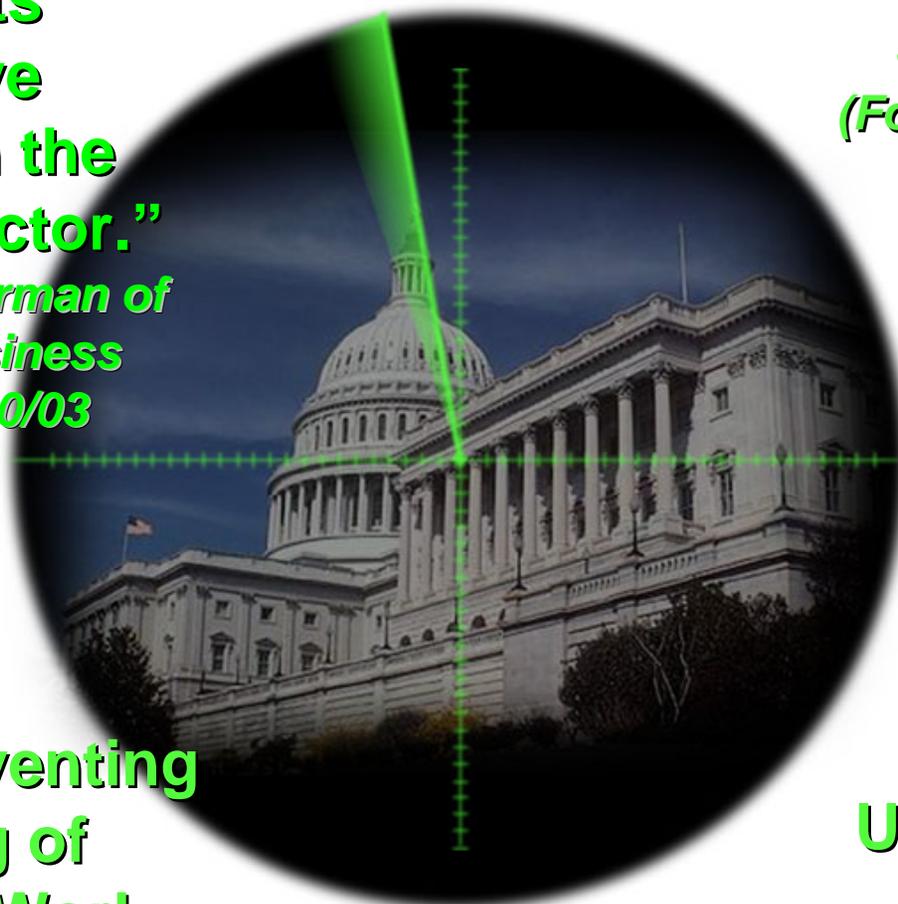
# Concern is Building

## *Landing on Politicians' RADAR*

**“The US is in danger  
of losing its  
competitive  
advantage in the  
technology sector.”**

***Don Manzullo Chairman of  
House Small Business  
Committee 10/20/03***

**Estimates of Lost  
Jobs & Wages  
(Forrester, Gartner, IBM)**



**State Bills Preventing  
Off-Shoring of  
Government Work  
(NJ, CT, MD, MO, WA)**

**Historic  
Unemployment in  
IT, EE**



# Competitiveness Implications

*Does the Orthodox Model of Wealth Creation Still Apply?*

## SAFE OLD WORLD

- **Heavy competition in tradable goods**  
*(low-wage, low-value-added jobs)*
- **Little competition in knowledge-based services** *(high-wage, high-value-add jobs)*

## BRAVE NEW WORLD

- **Globalization & IT Revolution open knowledge work to global competition.**
- **No “safe” jobs** *(Federal Reserve)*



# Is the Global Availability of IT Services Good or Bad for America?

## THE BAD NEWS

- **LOSING “GOOD” JOBS**
- **ACCELERATING TREND...**  
*(migrating up value chain and to other nations)*
- **RISKING SECURITY?**
- **REDUCING NEXT GEN INTEREST IN S&T, future American innovators?**
- **REVERSING U.S. BRAIN GAIN?**

## THE GOOD NEWS

- **COMPETITION IS GOOD...**  
*(lower prices, better quality, greater selection)*
- **INCREASING FIRM COMPETITIVENESS** *(lower overhead, leaner, more focused, round-the-clock operations, redeployed \$\$)*
- **GROWING MARKETS & LIFTING ALL BOATS** *(New markets, new customers)*



# A Tale of Two Americas

## IS IT GOOD OR BAD?

### “MACRO” STORY

- Creative destruction
- Comparative Advantage
- Productivity and new jobs
- The Past is Prologue
- McKinsey Global Research (global value data)
- “Innovation, by its nature, is unforecastable... jobs will be created. They will be high tech, but we cannot know exactly where they will be.” – *Fed Chairman Greenspan*

### “MICRO” STORY

- Community Disruption
- Cost Disadvantage
- Lay offs, displaced people
- Past Performance is No Guarantee...
- McKinsey Global Research (re-employment data)
- “Never before has a modern-day recovery in the U.S. economy been accompanied by such carnage on the job front” – *Morgan Stanley Chief Economist Roach*



# Why It's So Tough: *CASE STUDIES*

## New Jersey Department of Human Services Division of Family Development

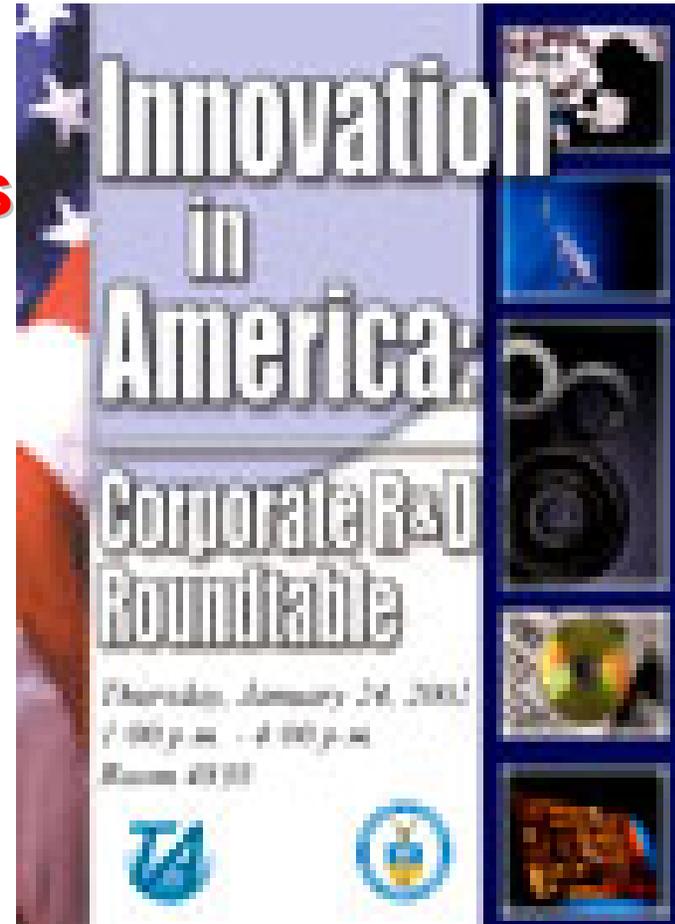


- **Off-shored 9 call center jobs for Families First welfare program...**
  - **Entry-level jobs processing electronic benefits transfers and food stamp cards**
- **Brought work back to NJ for 20% higher costs after protests**
- **States forced to choose: IT jobs vs. more \$ for police, education, firemen, welfare, etc.**
- **Proposed law in Indiana**



# Reasons for Hope: **WHY INNOVATORS STAY HERE**

- **Best Workforce Talent & University Excellence**
- **Most Entrepreneurial Business Climate – Creative Destruction**
- **World's Biggest Market**
- **Rule of Law, Best IPR Regime**
- **Best Government**
- **Culture fit & Quality of Life**
- **Best Infrastructure**
- **Best National commitments & investments in R&D**





# Reasons for Concern: *WHY INNOVATORS OFFSHORE*

- 
- A world map is visible in the background, showing the continents in shades of green and brown against a dark blue ocean. The map is centered on the Atlantic Ocean, with North and South America on the left and Europe and Africa on the right.
- Lower Costs
  - Talent
  - Market Access
  - Financial incentives
  - Host nation infrastructure
  - Easier Regulations
  - More favorable IPR terms
  - Proximity to Offshore Manufacturing



# “Solutions” Are Being Proposed

## *Recommendations Run the Gamut*

- Study issue further, greater data collection (*GAO*)
- Employ bully pulpit to urge domestic procurements and/or “shame” outsourcers (*House Small Biz. Cmte*)
- Tighten L1 visa rules & enforcement (*Dodd / Johnson*)
- Reduce H1B visas & enforce prevailing wage rule
- Offer tax incentives to keep work onshore (*IEEE*)
- Reduce capacity building assistance in developing nations
- Offer tax incentives to subsidize re-training American workers (*IEEE*)
- Force companies to notify customers if overseas contractors have access to financial or personal data (*Programmers Guild*)
- Increase “Buy American” requirements (*House Small Biz. Cmte*)
- Prohibit taxpayer-financed projects from going offshore (*Wash Tech*)
- Require future trade agreements to include environmental and labor baselines (*several*)
- Support or encourage unionization of technology workforce (*CWA*)





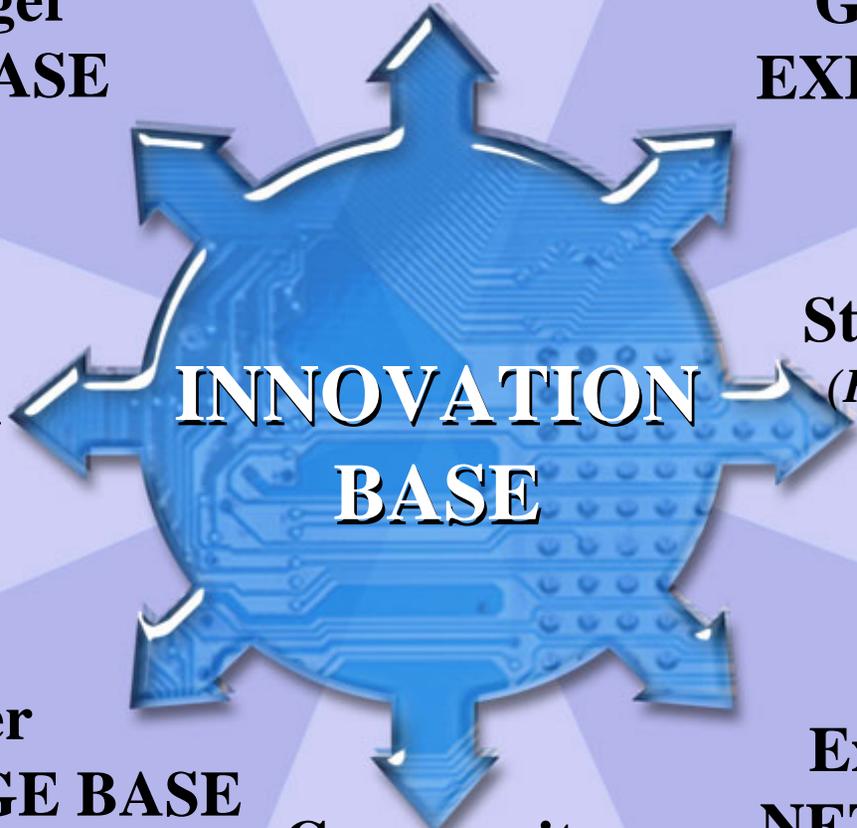
# Long-Term Competitiveness *ISN'T INNOVATION THE KEY?*

**Stronger  
TAX BASE**

**High Wage  
JOBS**

**Global  
EXPORTS**

**Higher  
PRODUCTIVITY**



**Stronger CLUSTER**  
*(Fast Growth Companies,  
mutually-reinforcing)*

**Deeper  
KNOWLEDGE BASE**  
*(University Research,  
Technology Transfer)*

**Community  
RENEWAL**

**Expanded  
NETWORKS**  
*(VC / Entrepreneur)*

*U.S. Department of Commerce*



OFFICE OF  
TECHNOLOGY  
POLICY