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### **Offshore Outsourcing: Its Merits, Its Drawbacks, and Its Future**

The Industrial Revolution led business organizations into the era of making great profits. Companies started to exploit their competitive advantages on the one hand, and diversify corporate bases on the other hand for more profits. However, just like there is no all-rounded individual in the world, there is no business organization that does the best job in every activity involved in running the business. Companies learned to delegate some of the less profitable jobs to others, and they fell in love with this strategy. For example, a publisher usually pays for printing and distribution services instead of doing these jobs on its own. This business conduct had been practiced for decades with rare criticism until it became international. Offshore outsourcing is even more exciting for businesses; however, many groups of the population, especially those who constitute the domestic work force, are angered about it. International outsourcing enables U.S. companies to exploit international differences in compensations, legal requirements, employee benefits and operating costs in order to be more productive. But it deprives the U.S. of jobs, leaves some workers unemployed, and seems to undermine the domestic economy. Offshore outsourcing strongly interests me because I came to the United States, the biggest outsourcing provider, from China, a big outsourcing receiver. What is the essence of international outsourcing? What exactly does it bring to the United States and the world? And what can we learn from it for the

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uncertain future?

Having a basic idea of outsourcing helps us to gain a better understanding of offshore outsourcing. The idea of delegating one's work should not be considered new. People outsource a lot in their lives, but may fail to recognize doing so. For example, a housewife sent her daughter to elementary school and decided to start working. She hired a household helper to take care of the house so that she could enter the job market and earn some money. This housewife is outsourcing, and her choice of doing so is necessary and preferable. Actually, outsourcing in daily life is unbelievably handy. "We do outsourcing in our everyday lives, such as dining out, whereby we purchase our prepared food from an external source instead of making the meal ourselves" (Hira 199). Business, an aggregate entity of individuals, when it decides to purchase a good or service that was once done in-house from an external source, is conducting outsourcing.

As universally reasonable as the housewife hiring a house helper, businesses are not expected to do all the jobs that they have to in order to function. In the attempt to get greater profits, businesses learned that it can be extremely hard to handle all the production and services involved, so focusing on what they can do best in terms of profitability is the key strategy. As the researcher and writer Ron Hira points out,

Companies have been outsourcing an increasing array of processes and functions that they used to do in-house, such as accounting, payroll processing, and even engineering design. The strategy for many companies is to focus only on what is deemed its core competency and outsource the rest." (qtd. in Hira 201)

Outsourcing benefits businesses in different fields and of different scales by allowing them to profit from core competencies and to dispose the rest of the work to companies

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that can do better. Just as the diversification of college education is proved by universities across the country to be rewarding, outsourcing enables businesses to function professionally in specific areas, and creates a diversified business world. Outsourcing is legitimate and favorable.

For businesses, offshore outsourcing is exact the same as any kind of outsourcing that they have done before. The only difference, if there is any, is the greater chance to find low cost business solutions and be more competitive. However, the side effects of this favorable business activity are not negligible. Because some jobs are transferred to other countries, domestic workers who employed or preparing for the job have no job to do in the future. In fact, the disruptive effects of offshore outsourcing cannot be ignored.

Why is offshore outsourcing so attractive to businesses in the U.S.? Basically, we can analyze the question from two sides to get a satisfactory answer. The two sides of the big picture are the U.S. and the world. A variety of current situations in the U.S and its job receiver countries contribute to this job transferring.

Firstly, the U.S. is pushing jobs out past the border. As the biggest economy in the world, the U.S. enjoys a remarkably high per capita GDP, an economical estimation of living standard based on average domestic output (Schiller 28). Hiring U.S. workers is considered a luxury from global perspectives. Wage in developing countries such as India and China are 10 to 20 percent of that of comparable U.S. workers (Hira 3). Such dramatic differences are critical to today's businesses which have been trying their best to cut costs by even a decimal percent. In my interview with Professor Anthony Quinn,

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an economics professor at Colby-Sawyer College and a former chief secretary for IBM's vice president, he gave a vivid example of how such price difference keeps people from saying no. One morning his friend had to get an X-ray of his spine for medical care, and the hospital offered him two options for further medical analysis. The first option could diagnose the spinal ailment within a half hour, because the doctor in the hospital would check the photo; this service would have cost \$98. The second option guaranteed that he would have the result within two business days, and it only cost \$15, because his X-ray would be sent to India electronically. After learning that the doctors in India had equivalent professional skills and qualifications as his American doctor, the man decided to pay \$15 without any hesitation. He received his medical analysis later that afternoon, an efficient response from one of the Indian doctors who worked during the night. This vivid story illustrates how fascinating outsourcing is to consumers and businesses: it is all about utilizing a more economic way to get things done.

Besides the fact that foreign workers need much lower compensations, the U.S. pushes its jobs overseas for many other reasons. One of them is the minimum wage required by law. Several states updated their minimum wage requirement during the last decade. In the year from 2001 to 2003, Hartford and Meriden, Connecticut, Gainesville, Florida, Minneapolis, Burlington, Vermont, all required their city contractors to pay a wage of at least \$9 if no benefits are given (McCrate 53). However, many developing countries don't have such minimum wage requirements for companies; even if some of them have such rules, the minimum wages appear to be

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negligible compared with that of the U.S. The result is that even lower wages are achieved as foreign companies competing with each other for outsourced manufacturing or service jobs.

Another reason businesses do not prefer U.S. job market is that hiring people overseas can cut companies' legal and financial obligations significantly compared with employing American workers. Imagine how much trouble a company would be involved in if a worker in its U.S. factory cut off his right hand in a severe manufacturing accident. The union, the administration and the press would give the company much pressure on the issue, and the company is certainly going to pay a large amount of money to the victim, maybe in the millions. However, there is no such pressure in developing countries, where production accidents happen frequently and people are used to such stories. The company can resolve the issue by maybe several thousands of dollars. The U.S. labor market is a mature market protected by a responsible government and supervised by incisive media, greatly raising companies' responsibilities in meeting many employment issues.

Secondly, not only does the social reality in the U.S. force jobs to move out, the outside world tries hard to pull U.S. jobs away as well. The fact that outsourcing has become so popular cannot be attributed to domestic factors solely, but also global factors. First, countries like India, China, Thailand, Ireland, and many Latin American countries have implemented proactive strategies to attract jobs and industries (Hira 147). Countries exchange various interests with U.S. companies for the opportunity of getting outsourced jobs, and offering a country's domestic market to a U.S. company in

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exchange for jobs is one of the popular practices. For example, Russia agreed to purchase Boeing planes only if it located some of its design engineering in that country (Hira 147).

In addition, foreign governments give rewards to companies that receive outsourced jobs, but the U.S. government has no penalty for its companies that ship jobs away. Ron Hira criticizes the U.S. government for exerting no pressure to slow down the outsourcing process. He pointed out, “Companies operating in the U.S. are shifting work offshore more rapidly than companies operating in the E.U. and elsewhere because they experience little or no cost when they destroy U.S. jobs” (76). In the article, “*Anti-Offshoring Legislation and United States Federalism*,” Amar Gupta discusses the current dilemma which the U.S. government faces. Anti-outsourcing proposals by many politicians are very likely to be against the U.S. obligation to open markets in international agreements, undermining the credibility and image of the U.S. In an interview with Guoqiang Zhao, father of one of my high school classmates, who works in an engineering design company in China, Mr. Zhao told me that the company that he works for gains a lot of outsourcing contracts every month. This company then becomes eligible for tax deductions because of government policies in China.

Reasons listed above why outsourcing is the superstar in current global economy are only part of the big picture. Countless advantages in specific commercial cases have made outsourcing become so popular in today’s world, and the trend is just getting started. Its popularity and necessity can be illustrated in the book, *Outsourcing America*, by a chapter discussing why outsourcing is “fool’s gold” for companies, saying that the

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easiest way for U.S. companies to cut expenses is to ship its U.S. jobs away (Hira 9). In the book, *Your Call Is (Not So) Important*, the writer Emily Yellin called Office Depot's U.S. 800 number about a delivery problem. She was first connected to Pablo living in Argentina. Then was connected to Natalie in the Dominican Republic; finally, Andrea in the Philippines solved her problem. She was amazed by the fact that one U.S. company outsources its customer services all over the world, and her experience effectively demonstrates the popularity of outsourcing.

Although offshore outsourcing is definitely attractive to businesses for short term profits, it has been creating dismal outcomes for the families of laid-off workers, producing controversy for politicians, and bringing worries to the whole country. By taking a glimpse at the statistics, current facts, and estimations surrounding the "outsourced" U.S. economy, one can have a basic idea of what has happened since the U.S. started offshore outsourcing.

First, a great number of jobs have been outsourced. According to a report from Forrester Research, Inc., a consulting company, 315,000 U.S. jobs moved offshore in 2003. These outsourced jobs are not limited to manufacturing, as people tend to assume, but represent all kinds of professions. Computer and office jobs are the two largest proportions, with architecture, sales, legal, management and art design positions following (Hira 45). Every profession is vulnerable to outsourcing and the sum of the jobs lost in various professions has turned out to be an enormous amount.

Second, the fear of the future outweighs the worry we have now. The U.S. is only at the beginning of outsourcing, which is referred to as "the outsourcing tidal wave" in the

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book of Ron Hira (2). “Experts at the University of California have estimated that a staggering 14 million white-collar jobs—nearly one in nine of all U.S. jobs—are vulnerable to being outsourced” (Hira 2). What will go together with these jobs are the wages. In a report from Forrester Research, Inc, about \$136 billion in wages would move overseas by 2015 (Hira 43). These daunting statistics are the indicator of what the U.S. is like and will be like with the growing outsourcing: millions of jobs that are involved in every profession are going to be outsourced and billions of dollars are going to flow out of the country.

Third, the laid-off workers and their families left behind are not effectively supported by our society as they are supposed to be. It is impossible for U.S. workers to compete with workers in developing world for the same amount of salary. The social structure of U.S. society, especially its high cost of living, makes such competition unfair. Professor Tony Quinn thinks that the workers who are laid off because their jobs are shifted to India, China or countries alike should not take responsibility on their own; instead, our society should be responsible for them. Some people may think those laid-off workers cannot save themselves because they tend to be the least educated people in the work force. However, Louis Uchitelle argues that “Education is without doubt a good thing. But there are not enough good jobs for the college educated, and neither the private sector nor government offers much help” (Uchitelle x). So education may not determine whether one loses his job or not, and uneducated people should not be blamed for their lack of education. Moreover, Doug Henwood points out in his article, *Toward A Progressive View On Outsourcing*, that “Our treatment of the

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unemployed and displaced is scandalously cruel.” Statistics show that fewer than half of the unemployed are drawing benefits, and that public expenditure on retraining and job creation is visibly small. (Henwood 101). The number of the U.S. workers who lost their jobs to workers overseas is increasing, but our society does not take care of them.

Finally, some people claim that outsourcing puts this country’s future into uncertainty. Jobs that require more professional skills and science knowledge are more likely to be outsourced than professions that deal with people, for example, management. Researchers find that the U.S. undergraduate students’ majors have been deviating from science and engineering skills. “U.S-born students account for only about half the science, math, technology and engineering advanced-degree holders turned out by American universities yearly” (Kronholz 91). There are serious concerns about where this situation is leading us. People who are against outsourcing would like to say: The next technology revolution is coming, but not necessarily in the U.S.

However, offshore outsourcing is a huge social debate, and the voices from the opposite side are very strong as well. First, how severe the consequences of outsourcing are is questioned. The amount of job losses to outsourcing looks huge, but it is actually negligible on a national scale.

The most widely cited projections for offshoring... which estimated in a November 202 report that 3.3 million service-industry jobs would go offshore by 2015. That looks like a big number, but it needs to be put in perspective. In January the U.S. had 108 million service jobs. According to the Bureau of Labor Statistics, the economy should add 22 million jobs between 2000 and 2010... So the best estimates we have are that the outsourcing total equals about one in thirty of today’s jobs, or one in ten of the next decade’s new jobs. (qtd. in Henwood 100)

From this perspective, our worries about outsourcing are actually based on myths caused by looking at the number of lost jobs alone without looking at the big picture.

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Second, Doug Henwood reminds people that the debate over outsourcing may be misleading. He thinks there are more profound forces that lead to the increase of the unemployment rate, rather than the growing outsourcing. “There was a time when the service sector was expanding enough to offset losses in good production, but that hasn’t been happening lately.” He points out, “Since the end of the recession, private service employment has expanded by just 619,000” (Henwood 100). His warning should make us cautious. Is it possible that some fundamental economic declines in this country are actually leading to higher unemployment rate? Are the job losses still a result of The Industrial Revolution: workers being replaced by machines? Is the motivation of politicians using outsourcing in propaganda sincere, or just because they cannot solve the fundamental economic problems? As a qualified citizen, one should stay objective in this social debate.

Third, main stream opinions are generally in support of outsourcing. N. Gregory Mankiw, a Harvard professor now serving as chairman of the White House Council of Economic Advisers, commented on offshore outsourcing in 2004. “He said it is only ‘the latest manifestation of the gains from trade that economists have talked about at least since Adam Smith. ... More things are tradable than were tradable in the past, and that's a good thing’”(Blinder). Though this established economist’s comment caused a national uproar, economists rushed to his defense at that time. As Alan S. Blinder describes, “Economists lined up to support his claim that offshoring is simply international business as usual” (Offshoring: The Next)

Moreover, besides making the U.S. companies profitable, outsourcing has many

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other positive effects like opening up the market, spreading American culture, and focusing U.S. workers on high-end jobs. In the book *Macro Economy Today*, the author argues,

By outsourcing routine tasks to foreign workers, U.S. workers are able to focus on higher value jobs. U.S. computer engineers do less routine programming and more systems design. U.S. accountants do less cost tabulation and more cost analysis. (qtd. in Schiller 35)

He presents a very optimistic perspective on outsourcing, viewing it as an opportunity for U.S. workers to “pursue their comparative advantage in high-skill, capital-intensive jobs” (Schiller 35). Outsourcing is the solution to keeping U.S. workers doing what they are really good at and keeping this country prosperous.

In addition, outsourcing gives people around the world the opportunity to make more money and live better. From the interview with the Chinese engineer, Guoqiang Zhao, I learned how outsourced U.S. jobs change lives of these workers in China. Mr. Zhao has been working in the engineering design industry for 15 years and is very skilled. He reflected that since 2005, he started to be assigned U.S. jobs by his company. “My salary didn’t change, but my bonus increased to as much as my salary in the first month I worked for the U.S. contract,” he said. Mr. Zhao’s family is financially better off. Mr. Zhao and his wife drive their own cars, have three apartments at good spots in the city, and have time for vacations. Though he was well off before taking the outsourced jobs, he agrees that after his company took the U.S. contracts, he saw a considerable increase in his pay check.

However, it is not necessarily that all the workers who take U.S. jobs are better off like Mr. Zhao. Some people have a stereotype that outsourcing always benefits

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developing countries, but this is not always the case. Competition between companies in developing countries that look forward to more outsourced jobs are intense, and their employees suffer a lot from such competition. Foxconn, a Taiwan company contracted with Apple, Dell, and Hewlett-Packard, runs its main factory of 800,000 workers in mainland China (“Apple Assembler”). In 2010, its name became the metaphor of suicides on Chinese media. Nine suicides took place successively at the company’s giant facility in south China. These nice people were the employees of the company who were around 22 years old. Workers face gigantic tasks from the other coast of the Pacific Ocean every day, and they are made to work for 12 hours each day and six days a week (“Apple Assembler”). However, they are only paid 2000 yuan, or roughly \$300 a month. The working conditions were dismal and the workers were stressed. “As one worker described, ‘the inside of our workplaces is so tight and depressing that we’re not allowed to speak to each other for 12 hours or you’ll be reproached by your supervisors’”(Apple Assembler). Foxconn is the winner of thousands of companies doing the same business. To its U.S. allies, Foxconn must be the cheapest and most efficient choice, which in return suggests the extremely high work load and bad working conditions of its employees.

Nevertheless, there are still many people being optimistic about outsourcing. In the interview with Professor Tony Quinn, he not only described offshore outsourcing as a “historical trend which in the long term is good,” but also held an optimistic expectation that outsourcing could help the U.S. economy with the next boom. He believes that U.S. workers can create the most efficient way of doing all outsourced jobs without a doubt,

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but they do not need to. Outsourcing reduces the opportunity cost which we instead spend on investing in the next technological revolution, which will stir the global economy once again.

Outsourcing is a controversial topic. Some people feel anxious and want to slow it down, while some people are optimistic and have hope in it. But no matter how intense the disagreements are, people have to agree that outsourcing is just getting started and is not going to stop; more and more companies will be involved in greater scales of outsourcing. U.S. jobs, not only in manufacturing and customer service, but also those that require higher skills and education, will eventually be outsourced; when countries like China and India have been receivers of outsourcing for some years, they will outsource their jobs away one day as well. Offshore outsourcing is the trend of the world, and it will be continuously pumped by the progress in technology and economic development.

The listed facts warn us that outsourcing may not be that dangerous, but indulging in the debate could be. The dispute over offshore outsourcing is essentially a debate of the role the United States is going to play in the new world, where more and more new economies are emerging, and where the U.S.' production edge is being cut. Americans lost their jobs to people in the developing world who they cannot compete with for salary, but the domestic job market has no jobs for them either. Their conditions ask us to offer greater social concern.

Offshore outsourcing is a difficult change, a mild revolution. More scholars, politicians, and citizens should feel obliged to discover new ways of creating

opportunities and jobs, instead of regretting lost ones. Offshore outsourcing is a current historical trend that requires us to calm down and to accept it objectively. How can we achieve sustainable development? How can the global economy cooperate harmoniously? These are the kinds of questions we need to be asking as we think about the future of the United States and the world.

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