

# Offshoring – What Should The EU Do?

**Looking Into the Future of ICT,  
Amsterdam September 30<sup>th</sup> 2004**

**Jacob F. Kirkegaard**

**Institute For International Economics,  
Washington, D.C.**

# What Is Offshoring, and What Is It Not

- = Technologically enabled trade across borders in services
- = Lower trade barriers through technology, not the WTO
- = Integrated part of companies operating in a 21st century competitive environment
- = Only a relatively small share of total FDI
- ≠ Not a completely new phenomenon, but broader today
- ≠ “End of Comparative Advantage” – it continues to exist, but in a changed form

# Offshoring - Who Gains?



**Companies Offshoring Services;**  
Gains in the short and long term

**Supplying Countries;**  
Gains in the short and long term

**Consumers of Offshored Services;**  
Gains in the short and long term

**Consuming countries;**  
Potential long term gains

# Offshoring - Who Loses?



**Laid Off Workers;**  
Large and instantaneous losses

**Companies unable to adopt 'best practice' offshoring;**  
Medium/long term losses

**Consuming Countries;**  
Potential long term losses

## Some Evidence From The US

	1999 – May 2003, Percent Change
Total “call-center type” and “low-wage (\$25,000/year) technology” workers	<b>-26%</b>
Total “high wage (\$69,000/year) technology” workers	<b>+10%</b>

Source: US Bureau of Labor Statistics US National Occupational Employment and Wage Estimates

## The US Response



- **No Political Response to Offshoring**
- **US well positioned to benefit from offshoring**
  - US exports of business, professional and technical services 3 times imports (2003)
  - 31 million jobs per year created in the private sector since end of 2001-recession
  - 70 % of US imports of business, professional and technical services are from US foreign affiliates (2002)

Source: US Bureau of Labor Statistics Business Employment Dynamics Data; Bureau of Economic Analysis

# Particular European Offshoring Issues

- **Language;**  
offers some “*protection*” in selected areas
- **Large cost-differentials within the EU-25;**  
Will allow some work to migrate to lower cost areas,  
but EU-25 will not be job net-neutral in the short-term
- **European R&D;**  
Globalizing business R&D  
spending may put pressure on  
European research





# Policy Agenda For the EU:

**The “Bad” EU  
Scenario; large long-  
term losses**

**Vs.**

**The “benign” EU  
Scenario; large long-  
term benefits**

- 1. Improve reemployment opportunities of laid-off workers** (*PwC Breakthrough 1, 3 and 7*)
- 2. Promote business competition and business process innovation** (*PwC Breakthrough 1, 2 and 3*)
- 3. Expand the Internal Market in Services**
- 4. Adopt strategies for improving broad ICT-skills** (*PwC Breakthrough 10*)