

Offshoring – What Should The EU Do?

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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?



ΞU

2004

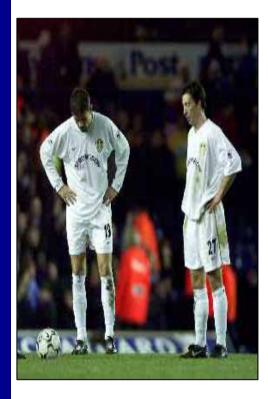
Companies Offshoring Services; Gains in the short and long term

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

Dffshoring - 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	-26%
Total "high wage (\$69,000/year) technology" workers	+10%

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

2004

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



EU 2004 Policy Agenda For the EU:

The "Bad" EU Scenario; large long- vs. term losses

The "benign" EU Scenario; large longterm 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)