The Impacts of Service Offshoring on Nonmetro America

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What Don’t We Know

- Government statistics at this moment are essentially useless, i.e., more than one order of magnitude off
  - GAO report -- GAO-04-932
- Consulting firm reports do not reveal underlying data or methodology
- Washington Think Tanks
  - Paid for by sponsors
    - don’t worry be happy
    - sky is falling so protectionism is the answer
Global Crossborder Outsourcing
Not Offshored

- Total value of outsourcing to India – USD 17.2bn in 2004 – estimated at 44% of the worldwide total
- Worldwide spend is forecast to reach USD 94bn by 2008
- Value of work outsourced to India is forecast to reach USD 48bn by 2008
What Do We Know?

• India BPO employed 348,000 in BPO grew at 37% last year. Will continue to grow at this rate (still small number, US has 130M)
• Philippines is now >50,000 and growing very rapidly
• Canada is the second largest destination in the world
• Other nations are entering
  – Western Europe -- Eastern Europe
  – Japan -- Dalian, China
BIG FACT!!!

• If it is digitized and does not need face-to-face presence,

WORKERS ANYWHERE WITH TWO WIRES CAN DO IT AND THIS MEANS THAT THEIR U.S. COUNTERPARTS ARE IN THE GLOBAL ECONOMY.
Shifting of Work

• Manufacturing (1920s -- 1980s)
  – Gained from relocation but then Rural America suffered more from offshoring

• Services (1970s -- 2000s)
  – Gained from relocation but now competing with developing nations (and rural Canada)
Advantages and Disadvantages of Nonmetro Vs. Urban (1980s - Early 1990s) for Services

• Advantages
  – Cultural, linguistic affinity
  – Lower cost than urban
  – “Better” workforce, no drugs etc.
  – Proximity espec. if moving physical items
  – Cost of telecom

• Disadvantages
  – Small labor pools
  – Lower educational levels limits upgrading
  – Distance from hdqtrs.
  – Telecom is almost as good as cities
  – Ancillary services less available in nonmetro
Advantages and Disadvantages of Nonmetro Vs. India (2000) for Services

• Advantages
  – Cultural, linguistic affinity
  – Proximity to home office

• Disadvantages
  – Much higher labor cost
  – Small labor pools
  – “Inferior” workforce limits labor upgrading
  – U.S. problems drugs, medical care etc.
  – Ancillary services not available
Changes from 1990 to 2000

• Telecom and transport costs have dropped out
  – Information now digitized
  – Telecom prices are insignificant

What Can Move?

• Potentially any work object that can be digitized
What Did Not Change

• Cultural and linguistic proximity
• Proximity to hqtrs.

What Does This Protect?

Call centers and other low-end processes?
– Why not Canada (15% lower wages & no health care costs
– Philippines -- 70% lower wages & benefits
– Mexico -- the forgotten badly managed giant
  • Though at end of this month I am speaking in Tijuana to academics and govt. officials about this
As an Economic Development Policy Securing Service Work of This Sort Is Probably a Dead End

You might get the jobs, but not much else and they will be very fluid
Can Nonmetro Areas Create Value in the Global Knowledge Economy?

• Creating brand from Napa Valley to the Gilroy Garlic Festival
  – Inimitable
  – Forms a foundation for export from region

• Craft-like farming
  – Quality, brand etc.
  – Information technologies for marketing

• Life style choices can bring higher income migrants
  – Poor rural dwellers often lose out
Comments?

For further information, please go to my website:
http://hcd.ucdavis.edu/faculty/kenney