

# The Impacts of Service Offshoring on Nonmetro America

Martin Kenney

UC Davis

&

Rafiq Dossani

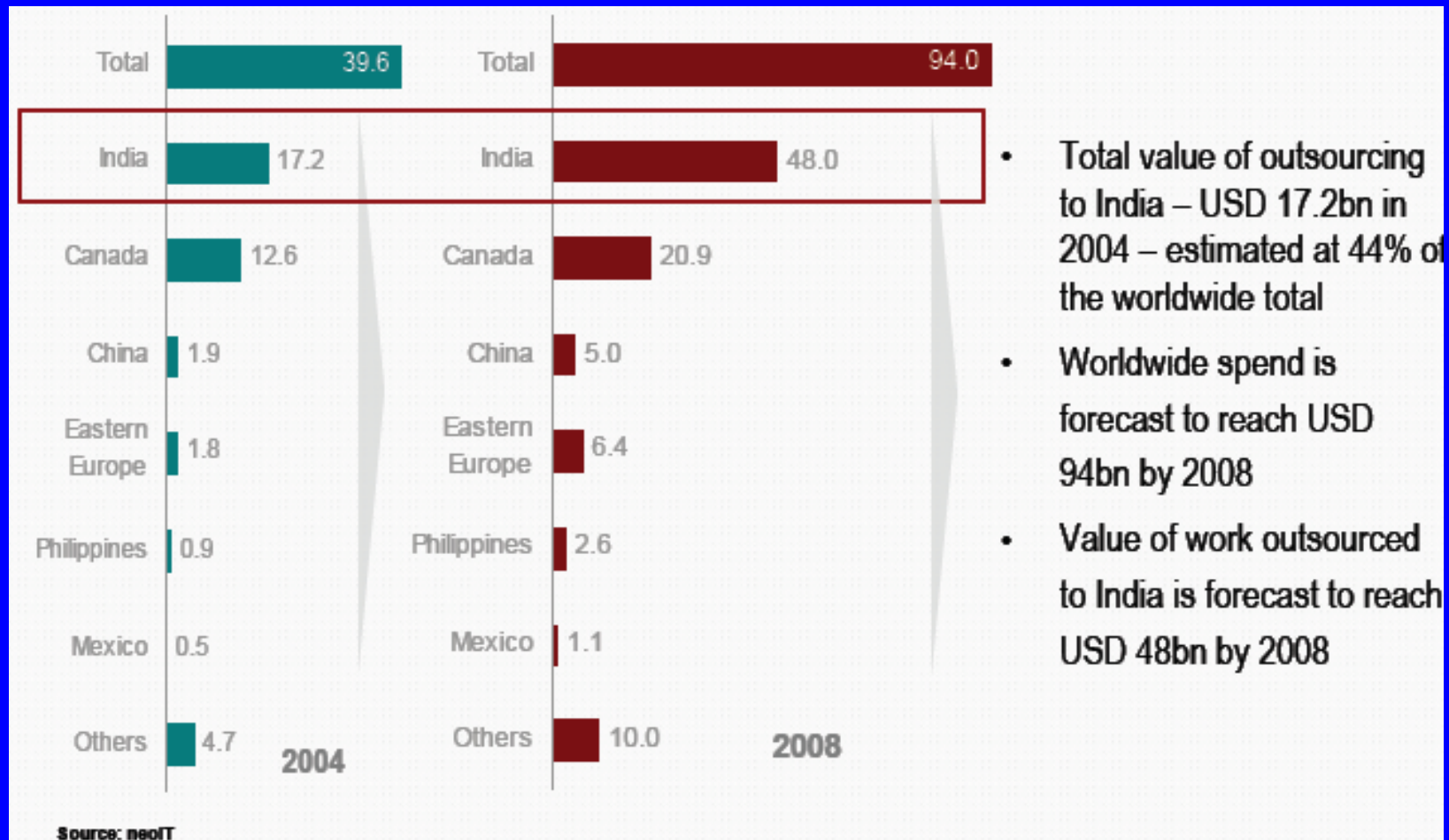
Stanford

# 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



## 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>