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How global outsourcing equals opportunity

# NO NEED TO FEAR:

by Steve Hamm

“Americans and American companies still have tremendous natural advantages as a result of our huge domestic market, vast national wealth, and a dynamic free market system.”

# Surprising new data shows that off-shoring hasn't swiped as many jobs as some feared and the seemingly vulnerable U.S. software workforce is, in fact, growing at a healthy rate.

Two years ago, concerns about American service jobs moving to low-cost countries such as India gave rise to calls from politicians and pundits alike for the government to staunch the flow. After Forrester Research predicted that 3.3 million jobs would be lost by 2015, TV business news anchorman Lou Dobbs of CNN tarred corporate leaders who move software and back office work offshore as “Benedict Arnold CEOs” and chastised Indian tech industry leaders for their part in the phenomenon.

Now, a new political season is upon us, and Dobbs is at it again. In a new book, *War on the Middle Class*, Dobbs warns again about the outflow of American jobs and calls on Congress to put the brakes on new free trade agreements.

I agree with a few of Dobb's points, such as the threat that trade deficits pose to our standards of living. But I disagree that off-shoring should be suppressed as a matter of policy. And I repudiate rhetoric from him or anybody else that paints Indians and other workers from the developing world as our enemies. Dobbs is also flat out wrong: surprising new data shows that off-shoring hasn't swiped as many jobs as some feared and the seemingly vulnerable U.S. software workforce is, in fact, growing at a healthy rate. And while American workers have to take responsibility for constantly updating their skills to stay relevant, they have distinct advantages as a result of living in the U.S. that won't go away any time soon.

Over the past year, I have researched the rise of the Indian tech services industry. This experience has convinced me that the long-term political and economic interests of the U.S. are served by broad-based economic development worldwide. I believe that we should treat people who do outsourcing work—Indians, Mexicans, Egyptians, and South Africans, just to name a few places where outsourcing work is done, like they are our brothers. And I believe that American companies, workers, and the U.S. economy will be better off if we learn from the top Indian outsourcing firms, including Infosys, Wipro, TCS, and Satyam. Americans may scoff at the notion that they have anything to learn from the Indians other than yoga perhaps, but they're wrong to do so.

True, low-cost labor has been a key advantage for these companies. But that is hardly their only advantage. To compete on the world stage these Indian corporate dynamos had to organize themselves and do business in ways that are often superior to the methods of their Western rivals. They have built strong businesses on a set of values that include an almost worshipful respect for customers, enlightened treatment of employees, the highest quality work, and a willingness to constantly improve.

Here's how I think Americans ought to respond to the service off-shoring conundrum:

**Companies:** Corporations should reformulate the ways they do business, then figure out what (if anything) should be outsourced and where their work can best be done. Those strategies should include consideration of the impact of their decisions on the economic health of the communities in which they sell their products. The top Indian companies can serve as models on how to re-tool for global competition. All of them employ people not only in India but in other low-cost countries and close to their customers in North America, Japan, and Europe.

**Individuals:** It's tough to compete against people in Bangalore and Krakow who can do the same work at less than half the price, but American workers shouldn't try to set the status quo in concrete. It's a losing proposition. As difficult as it may be, they should watch for shifts in their industries, upgrade their skills, and insist that their employers improve the way they do business. If American companies and workers don't constantly get better, they will lose out. And it will be partly their own fault.

In 2004, the calls to protect jobs came at a time of vulnerability for the Bush administration. Under political pressure, it had shielded the steel industry from foreign competition and supported a Farm Bill packed with generous subsidies for agribusiness. In the end, little was done. That, I would argue, is a good thing. While it is true that the jobs and lives of individuals are disrupted by these powerful economic forces, that's not a reason to stop globalization.

In fact, you can't stop it. The forces have been unleashed. Jobs, goods, capital, and information will flow across borders like tidal waters. The breakdown of the Doha Development Round of global trade negotiations will retard the development of emerging economies in Africa and Latin America, but it will have little effect on globalization of tech service jobs.

And while Dobbs has been busy stirring up outsourcing fears, the numbers actually tell a different story. Software jobs were a major worry back in 2004. These are the kind of high-paying occupations that Americans had assured themselves the nation would keep even as well-paid manufacturing jobs fled our shores for China, Taiwan, and other low-cost countries. Jobs in computer systems design and related services, one of the government categories most seriously threatened by the fast-emerging Indian software services, seemed at one point to be evaporating like water in a blistering sun. After peaking at 1.35 million in March of 2001, they dropped to a low of 1.1 million in August of 2003.

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But that job decline turned out to be temporary. By early 2004, even as Dobbs and others raised the specter of jobs being swallowed up by a surging India, the trend began to reverse. The job gains have come steadily, month by month, ever since. In August, the total had reached 1.27 million. It turns out that software services require people who are good at bridging the gap between the needs of businesses and the technologies that can make them more efficient or increase their revenues—which is something American techies are particularly good at.

Plus, people with those skills and roles are often most effective when they're located near the customers. These factors gave distinct advantages to Americans. Another plus: As the Indian outsourcing firms offer ever more sophisticated services, they need more employees in the United States. TCS, the largest Indian tech services firm, for instance, plans on hiring 1,000 Americans this year.

Most people's gut tells them that economic turbulence of this kind is the enemy of high-paying jobs, but, in fact, the opposite may be true. A new book by economists at the University of Chicago's National Opinion Research Center dissects data from the U.S. Census Bureau in six industries, including semiconductors and software. Their conclusion: Turbulence creates more winners than losers.

In the software sphere, their research found that there was a 130% increase in jobs between 1992 and 2003, and 21% more of them were considered high-paying jobs. "Software and semiconductors were two of the flagship industries for outsourcing. They're supposed to be the ones most affected," Julie Lane, one of the authors of *Economic Turbulence: Is a Volatile Economy Good for America?* told me. "Yet we haven't seen a reduction in high-wage jobs. In fact, they've gone up dramatically." And, consider this: The year 2003 was a trough for software jobs, not a peak. So if this study had extended to today, the results would likely be even better.

Americans and American companies still have tremendous natural advantages as a result of our huge domestic market, vast national wealth, and a dynamic free market system. Yet many Americans seem to be afflicted with defeatism when confronted with the realities of competing with the Indians, Chinese, and other aggressive up-and-comers. They feel like nearly helpless victims of the forces of globalization, rather than vigorous players in this economic contest. They look to the government to defend them from competition and misfortune.

I say: Snap out of it. There is great potential for economic renewal, even in industries where many have given up on America. Here's one example from my personal experience. We Americans are supposed to have lost the manufacturing battle, yet my cousin, Joe Works, has built a trailer hitch company employing more than 160 people on former farmland in southeast Kansas. He has succeeded against the odds by innovating, being close to his customers, and investing in sophisticated machine tools. And, not least, he treats his employees well. Not only does the company provide on-site day care but Joe and his wife cook a big dinner for all of their employees once a month to show their appreciation.

Let's not fool ourselves that we can thrive as a nation by ignoring the legitimate claims of others to a share of our prosperity.

My research into the Indian tech industry introduced me to a half dozen companies with leaders and employees who possess the same sort of vigor and determination as Joe Works. They deserve success every bit as much as Americans do, and, in fact, I believe that unless they're successful, our future, too, may be limited. We need fast-growing markets such as India and China to sell our goods and services into. And, perhaps just as important, the chances for achieving peace and stability worldwide will be vastly improved if the world's wealth is distributed more equitably.

This notion hit home recently when I spoke with B. Ramalinga Raju, the chairman of Indian tech services firm Satyam Computer Services. Raju grew up in a rural part of Andhra Pradesh, a southern Indian state, before moving to the big city of Hyderabad and launching his tech career. He sees a new global culture emerging that could eventually make the world a more peaceful place. “At one time, competition was about one nation against the other. Now, instead, it can be about one company versus another,” Raju told me. “There’s more of a level playing field. The forces of economic wellbeing are spreading at a rapid pace that has a cultural impact of its own. This can bring the people of the world together, and, hopefully, other forces like terrorism will be passing phases.”

Let’s see. Lou Dobbs’ idea for solving our economic and political problems is to fear foreigners, hoard wealth, and build walls along our borders. Raju’s idea is to lower the barriers between people and spread the wealth. Me? I’m with Raju.

Getting along in the world is not a simple thing. Let’s not fool ourselves that we can thrive as a nation by ignoring the legitimate claims of others to a share of our prosperity. Let’s not delude ourselves that we can turn back the clock to the decades after World War II when the United States bore the fruits of the world’s economy, virtually unchallenged. That time has passed. The sooner we get real and focus on the future, the better off we all will be.



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## ABOUT THE AUTHOR

Steve Hamm is a Senior Writer at *BusinessWeek* and the author of *Bangalore Tiger*, published by McGraw-Hill in October 2006.

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