Offshoring

The Evolving Profile of Corporate Global Restructuring

By Kate Bronfenbrenner and Stephanie Luce

IN LATE 2003, ACCENTURE LLP — formerly Andersen Consulting, a spinoff of Arthur Andersen — announced that it planned to increase employment in India from 4,300 people to 10,000 employees by the end of 2004.

On January 27, 2004, the corporation announced that it would lay off 90 of its 450 workers in its Wilmington, Delaware office. When announcing the layoff, an Accenture spokesperson said that the company had been asked by a client to shift some of work to other locations, and noted that the jobs may be moved to India.

In April and May 2004, the company filed WARN (Worker Adjustment and Retraining Notification Act) notices in Pleasanton, California, announcing it would lay off 129 workers.

By March 2004, the company was building a second facility in southern India, in Chennai, although the firm would not confirm that the Pleasanton jobs were in fact being moved to India.

Such white-collar and service industry job shifts to India are becoming increasingly common, but as publicity around the trend grows, companies are becoming more circumspect about announcing their plans.

"Politically, it's a little insensitive to get press releases out about pushing jobs off shore," explained an executive with Lionbridge, an outsourcing firm with many employees in India, on a conference call with shareholders discussing the company's fall 2003 performance. "So we're finding that people are less enthusiastic about announcing significant contracts and so I think that we're just going to have to communicate our numbers and our performance," he added, in remarks reported by Fair Disclosure Wire.

For all of the increase in international trade and rising concern about shifting of manufacturing and service jobs away from the United States, there is remarkably little detailed data on the scope of outsourcing. In part that reflects corporation's reluctance to announce plans to shift production or office work overseas. Even more, it is a consequence of the U.S. government's failure to collect data on the phenomenon.

This article reports on the results of a study intended to fill this information gap. Our research involves a combination of online media tracking and corporate research and the creation of a database including information on all production shifts announced or confirmed in the media during a specified period. The study examines production shifts from January 1 through March 31, 2004.

Among the study's key findings:

- There has been a major increase in production shifts out of the United States in the last three years, particularly to Mexico, China, India and other Asian countries.
- With 58 shifts to China, the United States is the primary source of production shifts into China. However, this is followed closely by Europe, which had 55 shifts. There were 33 shifts from other Asian countries

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to China, primarily from Japan, Taiwan, the Philippines and Singapore.

- Extrapolating from reported production shifts in the first quarter of 2004, the data suggest that in 2004 as many as 406,000 jobs will be shifted from the United States to other countries compared to 204,000 jobs in 2001.
- Unionized workplaces are being disproportionately affected by U.S. production shifts.
- The companies shifting jobs from the United States to China tend to be large, publicly held, highly profitable and well established.

THE GEOGRAPHY OF OFFSHORING

We found a total of 255 facilities with announced or reported job shifts from the United States to other countries in January-March 2004.

Of these, the largest share — 69 shifts, or 27 percent of all production shifts out of the United States — were to Mexico. The second most common destination, with 58 shifts, was China, followed by 31 shifts to India. No other single country stands out as a large destination for U.S. jobs. Rather, Asia as a whole, except China and India, was the destination for 39 shifts, and Latin American and Caribbean countries, except Mexico, were the destination for 35 shifts. Finally, six announcements were for shifts to Eastern European countries, and 17 to other countries in Europe, the Middle East or Canada or Australia.

These findings represent a significant increase in production shifts to China as compared to three years prior. In contrast to the 58 production shifts from the United States to China and 69 production shifts to Mexico announced or reported in the first quarter of 2004, there were only 25 announced or reported production shifts to China and 30 to Mexico in the first quarter of 2001, just after Congress passed PNTR (Permanent Normal Trade Relations with China).

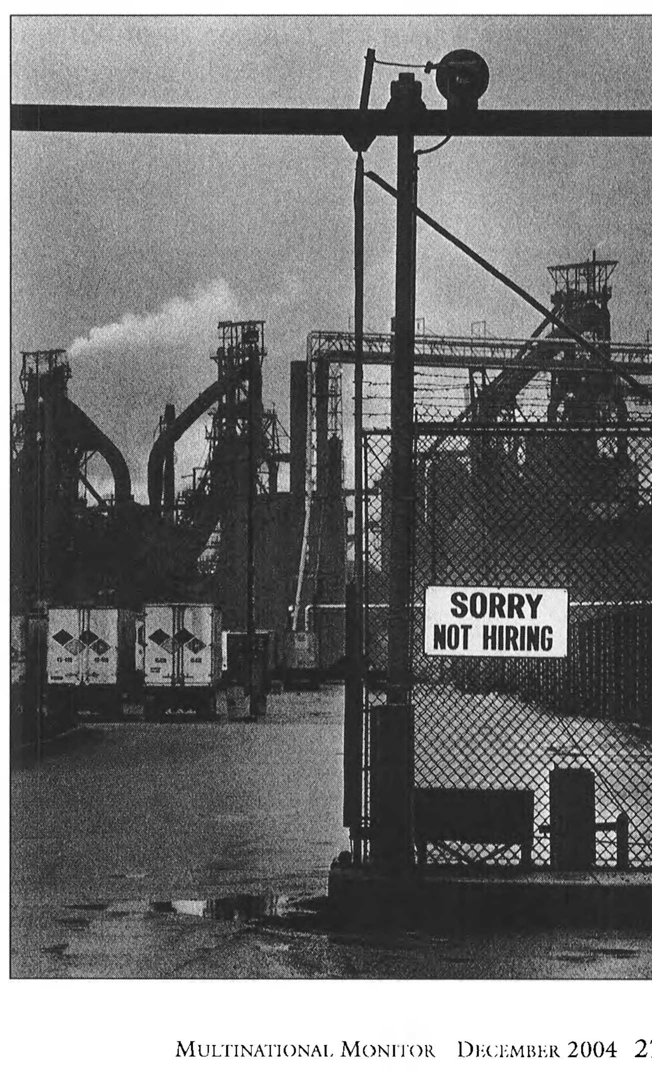
As many as 99,000 jobs will be shifted from the United States to China and 124,000 jobs will be shifted to Mexico in 2004, compared to approximately 85,000 jobs to each country in 2001.

The number of production shifts out of the United States to India (31 in the first quarter of 2004) has greatly increased since 2001, when only one company announced a production shift to India between January and March. Still, given the intense media coverage regarding outsourcing of white-collar jobs to India in 2004, the number of shifts to India from the United States might seem lower than expected. In part this may be because the negative public reaction to the white-collar outsourcing issue has made companies reluctant to make public announcements about job shifts. Thus, corporations that lay off workers in the United States and expand operations in India may try to deny or obscure a direct link between the two events.

Consider the case of computer giant IBM. In January 2004, the Wall Street Journal, based on leaked internal IBM memos, broke the story that IBM was planning to send 5,000 U.S. programming jobs to countries with lower labor costs. The company later announced that the total number of jobs sent overseas would be 3,000. The memos make clear that IBM is very much aware of the potentially bad publicity associated with the move. For example, a memo to managers on how to notify employees says: "Do not be transparent regarding the purpose/intent." It also warns managers that the "Terms 'On-shore' and 'Off-shore' should never be used." In addition, the memo instructs that any written materials about the layoffs must be "sanitized" by people in the human resources and communications department before being handed out.

Another possible explanation for the limited number of India cases is that the attention given to outsourcing to India is simply overrated. In 2000-2001, despite the large media focus on China, more jobs were still moving to Mexico than to China. Three years later, the number of shifts to China has increased, but still trails Mexico. It is possible that the trend in shifts to India will follow a similar course.

The data suggest that the number and extent of production shifts out of the United States has increased significantly since 2001. Not only are more companies announcing production shifts out of the United States than three years ago, but they are also shifting production to more, and often shifting production to multiple, offshore and nearshore destinations at the same time.



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The story of outsourcing and production shifts is not a U.S.-China story, but a global one. China is the largest destination in terms of global production shifts. For January through March 2004, 154 shifts from all countries went to China, which accounted for 33 percent of all global shifts.

These trends hold in terms of the total number of jobs shifted. Mexico is by far the largest destination for U.S. jobs, with 23,396 jobs that were reported or announced moving from the United States to Mexico in January-March 2004. China was the second largest destination for jobs, with 8,283 total jobs. They were followed closely by other Latin American countries (5,511 jobs), other Asian countries (4,419 jobs), and India (3,895 jobs). If jobs lost in shifts to other countries in Europe, Canada, and Australia are included, the total number of jobs that left the United States between January and March 2004 reaches 48,417.

These are the reported figures. Our estimates of overall job loss reflect adjustments for shifts not reported.

These job loss numbers are also limited to the actual number of jobs lost in the specific facility where production is being shifted out of the community to another country. They do not capture the larger ripple effect that plant shutdowns and major layoffs can have on the larger community.

THE INDUSTRY RACE ABROAD

The production shift story varies by industry.

Production shifts in the communications and information technology industries have received a lot of media attention, and indeed the largest number of jobs lost (7,756) was in this industry. The auto parts industry was the second largest category, with 6,490 jobs leaving the country, followed by food processing with 6,265. Together, these three industries accounted for approximately 45 percent of all jobs shifted out of the United States in January-March 2004. Other industries with significant numbers of jobs lost included electronics and electrical equipment (5,871), appliances (5,371), industrial equipment and machinery (3,508), household goods (2,956), metal fabrication and production (2,836), and chemicals and petroleum (2,245).

Many industries are sending more production to China than any other destination country. For example, all production shifts in sporting goods and toys went to China, as did 40 percent of production shifts in electronics and electrical equipment, and 38 percent of shifts in apparel and footwear. Approximately one-third of all production shifts in aerospace, appliances, household goods, and wood and paper products went to China.

Despite these trends, certain industries remain much more likely to move production to Mexico. Sixty-eight percent of the auto parts shifts went to Mexico, as did 58 percent of plastics, glass and rubber; 56 percent of appliances; 53 percent of industrial equipment and machinery; and 50 percent of wood and paper products.

All of the shifts in finance and insurance went to India, and 59 percent of production shifts in communications and information technology (mostly computer programming and call centers) went to India and other Asian countries, primarily the Philippines. Thirty-two percent of the communications and information technology work also went to Latin America, with call center work going to Central American countries (for marketing to Spanish speakers) and computer programming going to Brazil.

The scope of the call center shifts from the United States to India and other Asian countries is best captured by the story of EarthLink, an internet service provider (ISP) based in Atlanta, which closed four call centers, laid off 1,300 workers, and shifted production to India, Jamaica and the Philippines. The 1,300 workers who lost their jobs came from both the closure of call centers in San Jose, Pasadena, and Roseville, California, and Harrisburg, Pennsylvania, as well as staff reductions at EarthLink's call center in Atlanta.

PREDICTING THE FUTURE

FORRESTER, A TECHNOLOGY RESEARCH FIRM, recently increased its predictions for the number of U.S. service jobs outsourced overseas to 830,000 by 2005. Projecting further into the future, Forrester predicts that as many as 3.4 million service jobs will move off shore by 2015. Gartner, another industry research and analysis group, predicts that 10 percent of U.S. technology jobs will be moved off shore by 2005.

Berkeley economist Cynthia Kroll estimates that as many as 14 million jobs in the United States are at risk for outsourcing. Jobs that are most "at-risk" require no face-to-face customer service, use remote telecommunications technology and have high wage differentials between countries.

A number of management consultant groups have conducted surveys of executives on their experiences with offshore outsourcing. The consulting firm DiamondCluster found in March 2004 that 86 percent of companies polled expected to send more technology jobs overseas in the next year. This compares to just 32 percent of companies polled two years earlier. Watson Wyatt surveyed 33 multinational corporations regarding their offshoring practices. India was the top destination reported by the companies as a target destination for offshoring jobs (84 percent) followed by China (45 percent). Thirty-five percent of respondents anticipated a significant increase in offshoring of customer service and 41 percent anticipated an increase in offshoring of internal support services. Confirming the growing trend of high-end professional offshoring activity, Watson Wyatt found that 24 percent of the companies planned to significantly increase the offshoring of research and development (R&D) and professional services.

A recent study of offshoring trends in the global telecommunications industry by consulting firm Deloitte Touche Tohmatsu confirms that offshoring of information technology and back office operations is not simply a U.S. phenomenon. The survey of 42 of the leading telecommunications companies worldwide found that 32 percent of the companies surveyed had already begun to shift work from high-cost to low-cost countries, another 2 percent had definite plans to offshore work in the near future, and 7 percent were evaluating offshoring work in their company. Only 20 percent of those surveyed reported that they had decided, for the time being, against offshoring.

— K.B. & S.L.

ESCAPING UNIONIZATION

The data reveal other notable elements of the offshoring trend:

• ***Markets:*** While some of the production shifts are intended to capitalize on foreign markets, it is clear that the majority of the U.S.-based multinational corporations shifting production to China are not simply targeting the Chinese market. For example, U.S.-based Amerock announced in February 2004 that it would shut down its Rockford, Illinois cabinet and window manufacturing plant after 75 years in operation. The company plans to move 450 jobs from Illinois to China and Mexico — not to sell hardware to the Chinese and Mexican markets, but in an effort to reduce production prices and stay competitive in the U.S. market. This is true for a wide variety of products that will be produced in China to sell back to the U.S. market by companies such as Carrier Corp. (air conditioners), Levis (jeans), Werner Co. (ladders for Home Depot), Union Tools Inc. (lawn and garden tools) and Remington Products Company (electric shavers).

Some companies are explicitly outsourcing production to Chinese subcontractors that will produce entirely for export to the U.S. market. One such company is Whirlpool, which announced in January that it was going to outsource about 80 jobs producing ice makers for Whirlpool refrigerators from its Fort Smith, Arkansas plant to a subcontractor in China.

• ***Union status:*** Even though only 8 percent of U.S. workers in the private sector belong to unions, 29 percent of production shifts out of the United States are from unionized facilities, including 44 percent of firms moving jobs from the United States to Mexico and 29 percent of firms moving jobs to China. This is a notable jump from 2001, when only 14 percent of companies moving to China, and 26 percent of those shifting production to Mexico were unionized.

Seventeen percent of production shifts to other Latin American countries and 15 percent of production shifts to other Asian countries were in unionized workplaces. It is only among the firms moving to India (7 percent) where we found unionization levels close to the national average.

Overall, 39 percent of all jobs leaving the United States are union.

(It is possible that the data overstate the proportion of unionized jobs leaving the United States, given that the data on union jobs may be more reliable. However, it is clear that the absolute number of union jobs shifting out of the United States is quite high — almost 20,000 in three months. It seems difficult to deny a systematic pattern of firm restructuring that is moving jobs from union to non-union facilities within the country, as well as to non-union facilities in other countries.)

• ***Industry sector:*** Although there is a rise in service sector offshoring, most is still occurring in the manufacturing sector. Overall, 83 percent of the production shifts were in manufacturing industries.

• ***Company characteristics and structure:*** The overwhelming majority of companies that shifted production out of the United States between January-March 2004 were ultimately owned by extremely large, profitable, U.S.-based, publicly-held multinationals. At the same time, many of the facilities where work had been moved out of the country had been in operation for several decades, yet had relatively recently been taken over by their current ownership. Many of the companies where production shifts had taken place had been bought and sold, merged and acquired, or taken public or private multiple times in the years prior to the work being shifted.

In combination, the data emphasize that it is not a story of good jobs being stolen from U.S. workers by low-wage workers in Latin America and Asia, especially China, with whom U.S. workers can never hope to compete. Instead it is a story of the world's largest multinational corporations buying and selling companies and pieces of companies, opening and closing plants, downsizing and expanding operations, and shifting employment from one community to another, all around the world. ■

The closed steel plant in Homestead, Pennsylvania. Metal production is one the industries in which jobs continue to be shifted offshore from the United States.