

THE AMERICAN CHAMBER OF COMMERCE IN HONG KONG

Position Paper

Globalization and competitiveness

The Issue

Concern has been expressed in the U.S. that “off-shoring” of US business activities threatens domestic jobs. Domestic manufacturers have long been subject to wage competition from less developed countries and have had either to increase productivity or to control costs in order to remain competitive. In doing so they have shifted some production jobs to lower cost jurisdictions (in some cases within the US) while keeping head office positions at home. As manufacturing jobs have declined relative to the overall economy, service sector jobs have grown. Now there is concern that some service sector jobs—such as back office and customer support services— will be outsourced to lower cost countries.

Position

The US should maintain a policy of free trade. The “Off-shoring” of US business activities has been a factor for a long time, will continue, and is essential for US companies to maintain global competitiveness and thus preserve US jobs.

Rationale

Outsourcing allows US companies to remain competitive globally. By offshoring selected support and production processes, US companies are able to allocate costs effectively in order to remain competitive against European, Japanese and other competition both globally and in the US market. This in turn preserves high quality head office management, key R & D and high-end product development jobs in the US and allows US companies to expand. To impose restrictions on the ability of US companies to source services in the most cost effective, market-driven manner will result in market distortions and will constrain the ability of US companies to innovate, grow and compete.

More benefits are to be obtained from openness in trade than in adopting protectionist policies. Knocking down barriers, not adding to them, is better for the economy, for consumers and for workers. Putting up more barriers just results in tit-for-tat retaliatory legislation.

Consumers benefit from outsourcing because it keeps the cost of goods lower. Outsourcing is about efficiency. As costs decline, every consumer benefits. World-wide sourcing is a key part of competitiveness. Firms reduce their overhead by moving to lower cost locations, lowering product cost to the consumer and remaining competitive. According to McKinsey & Co., in 2004 every \$100 of labor cost outsourced offshore creates over \$112 of value for the US economy through savings, related revenues, new revenues and repatriated profits. Other studies show there are even greater benefits. The low prices of imported goods have kept American consumer prices relatively low in the past decade.

Protectionism is isolationism and has a history of failure. Protectionism injures US firms that export goods and services and erodes US competitiveness, often in unexpected ways. US producers, in a no-tariff situation, are able to import raw materials and capital goods components more cheaply when they can freely source those goods. Punishing other countries with tariffs ultimately punishes American workers and consumers by pushing up the cost of goods.

The real story about job losses. Outsourcing accounts for a small fraction of all job losses, with the overwhelming majority lost due to productivity gains or to more traditional forces in the home country. The creation of new jobs overseas will eventually lead to more jobs and higher incomes in the US.

As products become mature, they shift from innovative 'high-tech' manufacturers to 'follower' (commodity) companies. More complex, value-added jobs tend not to shift geographically. The 'product cycle' shift happened with manufacturing moving to other countries, including China, in the 1990s. The 'product cycle' dynamic is now at play in the service sector. The parts of production that are more complex, interactive or innovative are more difficult to shift geographically. Close to 90 percent of jobs in the US require geographic proximity.

Foreign companies "insource" more jobs to the US than the US "outsources" globally. According to the Organization for International Investment, the numbers of manufacturing jobs insourced to the United States grew by 82 percent, while the number outsourced overseas grew by only 23 percent. Foreign companies "insource" 6.4 million jobs in the United States today, jobs that pay 16.5 percent more on average than domestic jobs. Foreign direct investment in the US is a fact of life, from automotive manufacturers in the South (Haier and BMW manufacture in South Carolina, Honda in Ohio and Toyota in Tennessee and Texas) to pharmaceutical labs in New Jersey and Massachusetts to high-tech firms in central Texas.

Focus efforts on the overseas promotion of American goods and services. Business, workers and farmers can sell their services and products globally. Foreign facilities boost demand for US products, such as computer and telecommunications equipment, necessary for their outsourced function. It is in the interest of the US to reward other countries for reducing their barriers to trade and investment. Continued efforts to open overseas markets is needed.