Stream of US jobs overseas shows no sign of abating

By DON LEE
Kansas City Star
October 12, 2010

http://www.kansascity.com/2010/10/12/2302542/stream-of-us-jobs-overseas-shows.html

Though some American firms are bringing overseas work back home, evidence is growing that companies are moving more jobs than ever to China and other countries - a trend that could exacerbate efforts to bring down the nation's stubbornly high unemployment rate.

One sign of increased offshoring is the rising number of applications for federal Trade Adjustment Assistance, which usually goes to factory workers who lost their jobs because their work was sent overseas or was undercut by cheaper imports.

For the six months that ended Sept. 30, workers at about 1,200 offices and plants nationwide were approved for federal Trade Adjustment Assistance. That's about 20 percent more approvals than in the same six-month period last year, according to the U.S. Labor Department.

In addition, the most recent Commerce Department data show that employment at the foreign subsidiaries and affiliates of U.S. multinational firms grew by 729,000 in two years, to 11.9 million in 2008 from 2006. Over that same period, domestic employment by such firms slipped by 500,000 jobs, to 21.1 million.

"The paradigm has shifted," said John Challenger, chief executive of outplacement and consulting firm Challenger, Gray & Christmas. "Most companies see the next phase or era of growth as global. ... That'll still create jobs here, just not on the scale when they were focusing on growth in the U.S."

That trend could further stall the recovery, which many economists believe will continue to lack vigor while unemployment remains at current levels - 9.6 percent nationally.

Among the companies that have recently sent jobs overseas are Hewlett-Packard Co. in Palo Alto, Calif., and Hilton Worldwide, the McLean, Va., hotelier that maintained a reservations center in Hemet, Calif., employing 295 people.

Hilton's filing and comments indicated it was moving the center to the Philippines to save money. "Across all aspects of its business, Hilton Worldwide is committed to maximizing operating efficiencies while maintaining service levels," Hilton said in a brief statement.

Also moving to the increasingly popular Philippines this year were JPMorgan Chase's telephone banking operations, from Troy, Mich.

HP is laying off an undisclosed number of human resources employees in 10 states, transferring their functions to Panama.

HP and Hilton would not provide details of the job moves, which were disclosed in recent government filings.

The offshoring of American production and jobs has been going on for more than two decades, with service firms more recently pushing the trend. Experts say more offshoring could help U.S. firms better compete in the global economy, thus boosting sales and profits that will sustain them and generate new business.

Eventually, stronger, expanding firms could create more opportunities for American workers, though that's not a sure thing. More and more, for example, upscale engineering and development for products manufactured in China are being done in China - not the U.S. - near the centers of production.

"When companies succeed abroad, people at home succeed," said Mihir Desai, a finance professor at Harvard Business School.

Challenger agrees with that logic, but he also said that some companies continue to engage in "pure labor arbitrage," moving overseas simply for cost savings. That kind of rationale may do little for building long-term value in the company or its products and services.

Many others, he said, don't see much choice but to do more overseas given the prospects of a hobbled American economy.

But whatever happens in the long term, current high levels of offshoring will add to the nation's employment hardships for workers with college training as well as for lower-skilled workers.

PwC, the big accounting firm formerly known as PricewaterhouseCoopers, last spring and summer laid off about 125 support staff members in client services, transferring the work to Uruguay. Those positions were considered mid-level.

Dennis Donovan, a veteran corporate-relocation consultant, said many legal and engineering firms already have outsourced routine work overseas, and he sees a bigger wave of offshoring by the burgeoning health care industry. At the same time, he sees fewer companies moving overseas strictly on the basis of cost.

"Now it's R&D centers and also for market penetration," said Donovan, a principal at Wadley-Donovan-Gutshaw Consulting in New Jersey.

He said some American firms were beginning to move call centers and other back-office operations back to the U.S. - or "in-sourcing" - because costs in China, India and other top outsourcing countries had risen sharply and quality hasn't been consistent.

One example is Allstate Insurance Co., which in June opened a $12 million call center in San Antonio, where the company expects to have 600 employees by year's end. Sales and service reps earn a base salary of $27,000.

In picking Texas, the Northbrook, Ill., firm passed up sites in India and the Philippines, said Thomas Wilson, Allstate's chairman.

"I'm a believer in offshoring," Wilson said in an interview, noting that his overseas offices have helped Allstate operate around the clock and compete with rivals that also have gone abroad for services.

But even though labor will cost more in San Antonio than in India, Wilson hopes for a public relations boost from the move. In a customer survey, he said, "81 percent of the people said they would think better of the company even if it costs more."

Even so, Wilson doesn't see his company's overall domestic employment changing much. And though there are some examples of in-sourcing, their numbers don't add up to a lot compared with the jobs lost.

President Barack Obama has complained that the U.S. tax system encourages companies to invest and hire abroad, but a bill that would have ended certain tax credits and deferrals to companies expanding or moving overseas was voted down in the Senate at the end of September.