

## **White-collar jobs once outside the global economy are heading overseas**

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BANGALORE, India -- Nine time zones away from Cisco Systems' campus in Research Triangle Park, Sekhar Reddy leads a 40-person team that's creating next-generation mobile phone technology.

Reddy, who worked at IBM in the Triangle for a year and then at Cisco's office in San Jose, Calif., for eight years, returned to his native India this spring as a manager in Cisco's mobile wireless group.

When Reddy lived in the United States, an Indian team reported to him. Now, he says, his Indian team is driving its own projects, with support from U.S. sites. He and his colleagues at Cisco's Indian headquarters in Bangalore say the company's site there is no more or less important than the sites it collaborates with in RTP, San Jose and Richardson, Texas.

"We're all part of the same team," Reddy said.

Back in North Carolina, companies bombard Sandra Williams daily with e-mails and telephone calls encouraging her to send her company's medical transcription work overseas.

Williams, the CEO of Durham-based Applied Medical Systems and FastChart, knows she could hire employees overseas for a fraction of the cost of home-based transcriptionists in America, but she's decided to keep her 125 employees based in the United States.

"Yes, it costs me more to have American transcriptionists, but the quality is much better and it's just an option that as the CEO of the company I've taken," she said. "Cheaper is not always better."

Welcome to the new frontier in corporate cost-cutting.

Over the past 30 years, companies have sent millions of blue-collar manufacturing jobs overseas. Now the debate rages as white-collar, knowledge-based positions such as paralegals, accountants, software programmers and Web designers -- jobs previously shielded from global competition -- head to countries like India, China and the Philippines.

The issue isn't so much how many jobs are currently being sent overseas in the practice known as offshoring; it's what kinds of jobs are going.

"Apparel workers in North Carolina have been in competition with workers from around the world for 20 years," said Josh Bivins, an economist with the Economic Policy Institute, a nonpartisan think tank based in Washington, D.C. "We may now see that competition entering new sectors of the American economy."

James Johnson, a professor at UNC's Kenan-Flagler School of Business, agreed.

"Offshore outsourcing is moving up the value chain to where higher-order functions, especially research and development jobs, are moving offshore now," he said. "A real challenge to our economy lies in the fact that we may be losing our competitive edge as more and more corporations move research and development offshore by opening their own facilities in India or China or some other place."

### **'A fairly small number'**

It seems that companies big and small have accepted offshoring as part of doing business.

Large firms such as IBM, Ericsson, Nortel Networks, SAS and Cisco have been offshoring for years. Now smaller Triangle firms such as Cary's Ultimus, Apex's Translogic Systems and Morrisville's LVL7 are operating offices in India or Pakistan. Other high-tech companies, like Durham's StrikeIron and RedPelican, are doing work in Vietnam and Russia, respectively.

Still, experts say the number of white-collar jobs currently moving overseas is relatively low.

Goldman Sachs estimates that the U.S. economy is losing 5,000 to 10,000 nonmanufacturing jobs each month to offshoring and has lost 300,000 to 400,000 over the past three years. Forrester Research predicts that U.S. companies will send 3.4 million white-collar jobs overseas by 2015.

"It sounds like a lot, but at the same time, compared to the size of the U.S. labor market, that's a fairly small number," said Goldman Sachs economist Andrew Tilton. The U.S. Bureau of Labor Statistics put the American labor force at 147.8 million in October, up by more than 900,000 from a year earlier.

Automation and productivity gains are much larger factors in the U.S. economy than offshoring, Bivins said.

"In business, companies have figured out how to do more with fewer workers," he said.

Indeed, technology such as grocery store self-checkout counters and airport self-check-in kiosks have eliminated 2 million jobs, said Andrea Bierce, who leads management consulting firm A.T. Kearny's offshore-outsourcing practice.

"I think the technology has had a tremendous amount to do with the job loss, as opposed to offshoring," she said.

And even as offshoring grows, American companies continue to provide more services to foreign companies than U.S. businesses import from overseas, said Thomas Grennes, a professor of international economics at N.C. State University.

Local companies like the Research Triangle Institute, SAS and IBM all employ people in the Triangle who work for clients around the world, he said. In September alone, American companies provided \$4 billion more services to foreign companies than came into the United States, the U.S. Department of Commerce reported last week.

"Americans are good at this," Grennes said. "I think that gets missed by all of the politicians and the popular discussion."

### **A door opens**

Companies first began sending information technology jobs overseas in the early-to mid-1990s, as the U.S. economy began to boom and skilled workers were in short supply, Bierce said. Also attracting companies overseas were labor cost savings of 50 percent or more.

As companies saw success in the IT realm, they began looking at what kinds of business process functions -- such as call centers -- they could make cheaper through offshoring, as well.

They found Indian workers had a lot to offer, Bierce said. The workers took accent neutralization courses to become more understandable to English speakers and learned about American popular culture so they could chat with customers. Plus, the types of repetitive, standardized jobs being sent overseas were sometimes hard to fill in the United States, she said.

When companies began cutting costs in the 2001 recession, they again turned to overseas operators for cheaper performance of back-office functions such as human resources, accounting and finance, Bierce said.

The decrease in telecommunication costs has been another factor in the movement of jobs overseas, said Tilton, the Goldman Sachs economist. The Internet makes it easy to send data between locations, he said, and cheaper phone calls have fueled the growth of call centers.

Companies commonly take advantage of the benefits of a foreign labor force in one of two ways. In outsourcing, American firms contract out work to companies that either have operations in another country or are based overseas themselves. The second option is for a firm to establish its own office in another country and hire its own employees there.

In 2004, choosing not to offshore isn't an option for many businesses in this global economy, Bierce said.

"Companies now see it as a competitive necessity," she said.

### **Another cycle**

North Carolina native Rudy Puryear, the co-head of outsourcing strategy at Bain & Co., equates the current wave of offshoring to the economic cycles that moved farmers to factories a century ago and factory workers into "information economy" jobs over the past several decades.

"We're now finding out that we're at the end of another economic cycle," Puryear said. "Where will all the information economy workers go? We'll retool them into the next generation of jobs."

Companies' cost savings from sending jobs overseas allows them to create more --and ostensibly better -- jobs here, Puryear and other experts said.

"It's not about job loss, it's about job protection," he said. "It's giving U.S. companies the ability to offshore 10 percent of their jobs to be sufficiently competitive to protect 90 percent of their jobs."

But that comes at a cost for workers whose positions are sent overseas.

The human story associated with offshoring is complex, said Arie Lewin, director of Duke University's Center for International Business Research, or CIBER. CIBER is conducting a multi-year study that tracks 400 companies' offshoring decisions and results. It also will hold a national conference on trade policy in December, with much of the discussion about white-collar offshoring.

U.S. institutions aren't equipped to help people with the adjustment, said Lewin, who said he doesn't know how severe the exodus of white-collar jobs could become.

"We have a better institutional structure to help blue-collar workers when they lose their work," he said. "But if you're a white-collar worker and you've worked your way up and think you have a secure, middle-income kind of office work and you get offshored, it's psychologically difficult to take."

Bivins is concerned that continued offshoring will create polarization in the U.S. economy, with corporations and businesses becoming more profitable while a large group of workers' wages and employment suffer.

"Those well-poised are going to do well, and those that are not will fall farther behind," he said.

That's why Williams, the CEO of Applied Medical Systems in Durham, is standing her ground, even though she says it has cost her some business. For reasons ranging from political ideology and human rights issues to privacy regulations, she's resolved to keep her transcription and coding positions in America.

"If you send things offshore, you're taking money out of the United States," she said. "I know we're supposed to be going with worldwide trade, but it is putting people out of work."