



OFFSHORING, GLOBAL OUTSOURCING AND THE AUSTRALIAN ECONOMY

CONTINUING AUSTRALIA'S INTEGRATION INTO THE WORLD ECONOMY



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1. Introduction

Participating in the benefits of Australia's integration with the world economy has become an integral part of life for almost all Australians. We are now accustomed to being able to choose from a wide range of imported goods and services, from tinned tomatoes, to televisions, computers, clothing, cars, wine, music and the like. People in other countries are also gaining from our integration with the world economy. With trade now accounting for more of our total economic activity than ever before, Australia is justly proud of our export success stories such as wine sales in France, cars exported to US consumers and multi-billion dollar gas contracts with China, together with traditional export staples such as minerals, wheat and wool.

The public representation of this integration with the world economy, often described as 'globalisation', and sometimes pejoratively so by its critics, is that it is a relatively new force or process, and one that Australia, as a relatively small economy on the world stage, will struggle to manage.

The fact is that Australia's integration with the world economy has been happening since the time of white settlement. That much of our economy is now tied to the flow of goods, services and investment to and from our borders underlines that globalisation has not emerged recently, and that Australia has largely benefited from it. Australia's status as a vibrant modern nation was built nearly a century ago on the back of early forms of globalisation which enabled us to make the most of our early competitive advantages, particularly in the export of agriculture and commodities.

Over the past century, the process of globalisation has manifested itself through a number of distinct phases or episodes. Each phase has brought its own challenges and uncertainties, as well as renewed public debate about the value of Australia's participation in the global marketplace and what it means for local industry and jobs.

Notwithstanding the benefits brought by freer trade in products and capital, and Australia's long-term integration with markets overseas, debate is still dominated by apprehension and even outright hostility within some segments of the community which see themselves directly threatened by competing markets overseas.

These are understandable reactions given that globalisation often brings about rapid changes in the structures of firms and industries. Increasingly, with the emergence of technologies that rapidly create new markets and products as well as accelerate the rate of exchange of products and capital between economies, globalisation is, in some industries, creating change at a faster and faster pace. However, experience has shown that over time this apprehension is reduced as the benefits of globalisation become evident.

There were strong fears about job losses when Australia's very high tariffs were gradually reduced through the 1970s and 1980s. Yet with time Australia's stronger trading orientation and employment strengths resulting from the dismantling of protectionism have been a major benefit. Similarly, there were fears when Australia embarked on financial deregulation in the early 1980s that Japanese and American firms would 'buy up' Australia when capital

controls came down. Yet as foreign companies have become increasingly integrated into our markets and seen as important employers and spurs for competition, Australia's access to foreign capital has also been widely seen as a benefit.

The term "offshoring" is at the centre of the latest phase of globalisation. As with previous phases of globalisation, this latest manifestation has generated widespread and sometimes heated debate. Offshoring is not an issue or process unique to Australia. It is being increasingly used by service industries across the world to remain cost competitive. While offshoring may seem to be a new kind of business practice, it combines established practices of outsourcing with advances in communications technology so real-time information and expertise is provided by service providers in one country to customers in another.

It could be argued that the concept of offshoring is in itself open to debate, given that it is simply the latest manifestation of the exchange of goods and services that has defined Australia as a participant in the global economy for many years. Indeed, the practices associated with 'offshoring' could just as easily be described as global outsourcing.

As an organisation representing Australia's largest businesses, which collectively employ around 1 million people throughout the country and account for around 30 per cent of Australia's total exports, the Business Council of Australia has a clear interest in contributing to a constructive debate about the role of technological progress and globalisation in supporting economic and broader prosperity in Australia.

However, in order to determine the appropriate responses for the country as a whole, there must be informed debate about the process of offshoring and its longer term costs and benefits. The aim of this paper is to help with constructing a more informed debate. In particular, the paper:

- outlines the largely positive relationship between Australia's economic development and globalisation;
- defines offshoring as a further phase in the globalisation of Australia's economy; and
- outlines some public policy issues for both business and governments to consider as they manage the effects of offshoring.

2. The Benefits of Globalisation

High-profile anti-globalisation protests, stalled World Trade Organisation talks, and headlines about job shedding as local companies lose out to, or outsource activities, to lower cost options overseas easily create an impression that the net effects of the freer movement of goods and services, investment and people are negative.

Despite these views, globalisation has given Australian consumers access to a far wider range of goods and services, often at lower prices, than would be available from domestic producers alone. The availability of alternative goods and services has put competitive pressures on local firms to produce new, better, and cheaper, goods and services. At the same time, globalisation has provided Australian firms with a larger pool of capital from which to source investment aimed at improving productivity and product quality, while also providing greater access to technologies from overseas that improve their competitive performance. At an individual level, globalisation has also meant Australians now have greater options in terms of travelling, living, studying and working overseas.

For Australian companies, globalisation has also provided access to major new markets in many overseas countries. This in turn has enabled them to increase sales, develop new products and services and deliver higher levels of output, as well as source a much larger pool of returns for investors, particularly Australians who have direct investments through shares in publicly-listed companies, including through superannuation funds.

To quote the Productivity Commission:

"Reductions in barriers to trade and foreign investment have encouraged Australians to compete and learn from the world's best", and

"By a range of indicators Australian firms have become much more productive and innovative, including through the adoption of new technologies".¹

One of the fears associated with globalisation, and in particular with Australian companies competing with firms in developing countries, is that we might find ourselves in a 'race to the bottom' in terms of jobs, wages and our standard of living. The statistics show otherwise. While Australia has experienced rising imports, employment has also been rising as Chart 1 demonstrates.²

Critics of deregulation and trade liberalisation cite a rise in income inequality as evidence of the so-called race to the bottom. This is a gross misnomer. Earnings of low income individuals have risen significantly in recent years. Over the period 1994-95 to 2000-01, the average real equivalised disposable household income of people in the low income group increased by eight per cent, while it grew by 14 per cent for the high income.³ Furthermore, this increased income dispersion is not due to wage rates for high income groups accelerating faster than low income groups. Instead, it is primarily the result of changes to the employment structure of the economy.

CHART 1 EMPLOYMENT TO POPULATION RATIO AND IMPORTS



Research⁴ has found that relative rates of pay for major occupation groups have not significantly varied over the last 25 years, but that increased earnings inequality is due largely to strong full-time employment growth in highly-skilled and paid occupation groups, while full-time employment has fallen and part-time employment has risen in low-skilled, low-paid occupations. In other words, the changing structure of the workforce is the result of forces such as globalisation and technological progress, which mean that in Australia, as in other developed countries, there is a change in demand and comparative advantage towards goods and services which are produced by individuals in high-skilled occupations. The same research concludes that, over time, income inequality in Australia will be more effectively addressed by increasing the proportion of people in highly-skilled and paid jobs than in seeking to return to previous structures of employment.

In terms of Australia's economic profile and performance, it is also worth noting that:

- Australia sells more to developing countries than we buy from them;⁵
- while manufacturing as a proportion of GDP is lower than it was in the 1980s, manufacturing output is now nearly 40 per cent higher in absolute terms than it was at that time;
- over 1 million people are employed in manufacturing, notwithstanding intensified competition⁶; and
- one in five jobs in Australia is connected to exports and hence tied directly to the processes of globalisation.⁷

In summary, there is little or no evidence demonstrating that the globalisation and outward orientation of the Australian economy, as reflected by a rising share of imports, has resulted in negative labour market developments. Nearly three decades after trade and investment barriers began to be substantially dismantled, Australia's economic outcomes have been impressive, and currently outshine many of our peers.

As Australia has benefited from the process of globalisation so too have other countries. Globalisation is not a 'zero-sum' game, in that one economy benefits at the direct expense of others. It is an evolutionary process that enhances productivity and underpins stronger economic and income growth and higher living standards in the vast majority of countries that participate in freer trade and investment. There is a very solid body of research which demonstrates that globalisation has brought tremendous benefits for many poor and developing countries in terms of reducing poverty and raising living standards. To cite just one World Bank study:

*Integration through trade in goods, foreign investment, international telecommunications, and migration reduces these gaps by raising productivity in the developing world. In this way globalization can be a powerful force for poverty reduction.*⁸

In contrast, protectionist policies are far more likely to result in a race to the bottom. During the period from 1914 to 1950, concerted efforts were made in economies around the world to halt deeper integration through the adoption of nationalistic policies aimed at protecting domestic production. The end result was not only collapsing trade, investment and migration, but also significantly lower economic activity and higher unemployment. This was not a period of global prosperity to say the least.

To illustrate a specific Australian example of the inverse outcomes of protectionism, the Productivity Commission notes that employment in the Textile Clothing and Footwear industry actually fell in the decade to the mid-1980s, notwithstanding a significant increase in protection afforded to that sector over that time.⁹

4 KEATING, M. (2003) 'EARNINGS AND INEQUALITY', DISCUSSION PAPER NO. 460, CENTRE FOR ECONOMIC POLICY RESEARCH, ANU

5 PRODUCTIVITY COMMISSION (2000)

6 ABS YEAR BOOK 2003

7 DEPARTMENT OF FOREIGN AFFAIRS AND TRADE, 'TRADE AND THE AUSTRALIAN WAY OF LIFE'

8 DOLLAR, D (2001), 'GLOBALIZATION, INEQUALITY AND POVERTY SINCE 1980', WORLD BANK BACKGROUND PAPER. [HTTP://ECON.WORLDBANK.ORG/PRR/GLOBALIZATION/LIBRARY/DOC?ID=2944](http://econ.worldbank.org/prr/globalization/library/doc?id=2944)

9 PRODUCTIVITY COMMISSION (2000)

3. The Role of Technology

While globalisation attracts much of the scrutiny when it comes to business restructuring and job losses, technological progress in fact plays a major part in these changes. According to the Productivity Commission, the “wage and employment effects of changes in trade barriers have been overshadowed by technological change”.¹⁰

While the economic and social costs and adjustments, including job losses, related to new technologies are often similar to those brought by the freeing up of trade, few would argue that the benefits of these technological advances should be foregone. Nor would many suggest that the technological advances that we have seen in recent decades represents a decline in living standards or opportunity for Australians. For example, no-one would seriously suggest the use and development of the internet should be curtailed even though the economic and social ramifications of this technology for business, consumers and competition have been huge in a relatively short period of time.

Furthermore, globalisation and technological change are inherently linked. Globalisation of the world economy has been made possible largely as a result of developments in transportation and communications technologies. At the same time, closer integration fostered by globalisation and the increased importance of innovation as a result of global competition has led to significant technological breakthroughs.

Despite this, globalisation has largely been viewed with far more scepticism than technological change. This reflects the fact that many of the benefits of technology are more readily observable and identifiable on a day-to-day basis for individual users and consumers. In contrast, the benefits of globalisation are often less well recognised and understood. This does not mean Australia would be better off by embracing more protectionist policies – rather, more needs to be done to dispel some of the myths surrounding globalisation.

4. Globalisation Challenges

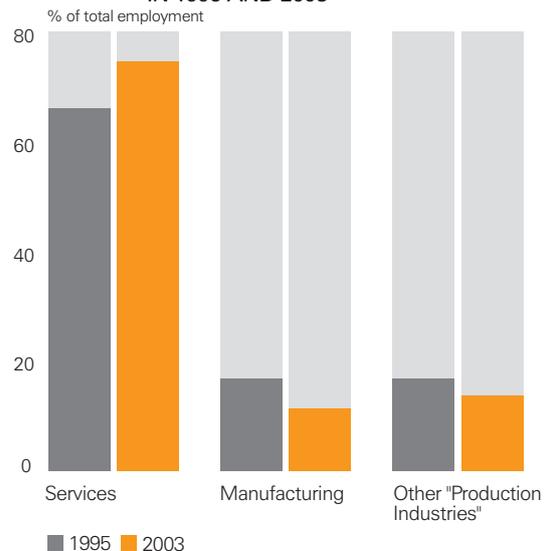
The challenge created by the combination of globalisation and technological progress is that the sources of competitive advantage change at a faster pace than ever before.

For a relatively higher skilled, higher wage country like Australia, this means we must find better and smarter means of production, as well as producing new goods and services. Local companies need to stay ahead in terms of innovation and productivity improvements, as well as keeping a close eye on the capacity to reduce costs wherever possible. Over the past 30 years, Australian businesses have been largely successful in adapting to new forms of competitive pressures and challenges, including from countries with lower labour costs. In the 1980s, Australia faced competitive pressures from the comparatively low wage economies of Hong Kong and Singapore. Over time, wages and labour costs in these countries equalised with those in developed countries. In turn, these countries have felt the pressures of growing competition from newer market economies, such as India and China. In the same way Australia responded to the same competitive pressures two decades ago, these countries have responded by shifting investment and resources to higher value added and higher skilled production.

This cycle of change as emerging market economies move from developing to developed status produces a continuing flow of potential new markets and opportunities for Australia. As increasing demand for labour in developing countries results in higher wages and incomes in those countries, this creates demand for goods and services produced by advanced economies. A significant example of this trend has been the growth of Australian exports of education services. Education exports are now Australia's third largest services export. They contribute some \$A5 billion to the economy annually and are worth more than our exports of wool and almost as much as annual wheat exports. Currently 70 per cent of our education exports are purchased in Asia.¹¹

However, economic and social changes brought by globalisation and technological change can create dislocation and hardship. Competition from overseas as well as the ongoing business restructuring required to meet this increased competition means that our ability to create job opportunities in some sectors, especially those requiring relatively little skill, becomes increasingly limited. In particular, growth and activity in the Australian economy over the last 20 years has shifted from relatively low value manufacturing to higher value services-oriented industry. The chart below highlights the extent to which employment opportunities have changed in various sectors over the past two decades.

CHART 2 SECTORAL EMPLOYMENT SHARES IN 1995 AND 2003



Not only has employment throughout the economy moved towards the generally higher-skilled services sector but within manufacturing itself there has been an increase in the share of high-skilled manufacturing employment to total manufacturing employment.¹² For many, particularly lower skilled individuals in declining sectors of the economy, it is often difficult to find new employment and efforts need to be made to assist those significantly impacted.

Australian Governments over the past 20 years have intervened to manage the transition of sectoral decline with re-training and other support. Since the mid-1980s Governments have implemented a number of industry restructuring and adjustment plans in sectors such as motor vehicles, textiles, clothing and footwear (TCF), steel, agriculture and shipping.

Australia has demonstrated that many policy options are available with which to manage the impacts of globalisation and technology. These plans have been aimed at reducing levels of assistance, while at the same time:

- providing funds to help industries modernise;
- removing pricing and production distortions;
- helping to reduce adjustment costs (eg unemployment) associated with industry restructuring; and
- encouraging industry rationalisation, economies of scale and greater competitiveness.

While assessing the effectiveness of these policies is inherently difficult, there is some evidence that they have been successful. For example, a recent Productivity Commission review of assistance to the TCF industry¹³ concluded that policies implemented to assist the industry's adjustment to open international competition had helped some firms to improve their international competitiveness and long-term viability. The review noted that although there were some shortcomings in the implementation of industry policies in the TCF sector, the overall objectives of well-designed tariff reductions and transitional assistance encourage the development of internationally competitive economic activity that is capable of providing sustainable jobs.

5. The Australian Context

The challenges outlined above, while often difficult, are not unique to Australia. Every developed economy is subject to a constant process of change in response to emerging competition and new markets. Still, there are unique aspects about Australia's position that underscore the importance of local firms focussing on innovation, competitiveness, cost and productivity.

The BCA's recent publication "Australia's Population Future" highlighted the challenges for Australia as a small economy located a long way from global markets. Australia is one of the most remote countries in terms of its proximity to global wealth. We are thousands of kilometres away from our major trading partners. These distances impose additional costs on Australian business, which can be the equivalent to a 7 to 17 per cent tariff.¹⁴ As a result, local firms competing globally are required to be that much more competitive.

In addition, while recent advances in information and communication technology have brought us closer to the rest of the world, latest research shows that the benefits of innovation diminish with distance. Our remoteness from the sources of ideas, innovation and technology serve as an additional competitive disadvantage that we must seek to overcome. In other words, while technology makes business interaction potentially easier, it is also easier for other economies who may have the added advantage of being closer to global markets. Therefore, technology makes it more, not less, important for Australia to look for additional sources of competitiveness.

6. Offshoring

Offshoring generally refers to the outsourcing of services by workers in another country, that is, offshore. Because it involves sourcing skills from other countries, it raises different outsourcing options across a wider range of organisations and operations. Once again it is important to put the process of offshoring into context. While offshoring is a relatively new term, the broader trend and process of outsourcing is not. It could also be argued that each time goods are imported into Australia, we have outsourced a portion of economic activity offshore.

As stated, the legitimacy of offshoring as a concept describing a new economic and business phenomenon is open to debate. It might be argued that the term re-invents existing and largely accepted economic and business practices into a 'new' concept which critics use to highlight 'new' uncertainties and risks. The term – like globalisation – is often used in a perjorative way to highlight perceived negatives associated with local economies becoming more open and integrated with global markets.

As discussed, the process of global integration and its various manifestations has been ongoing for over a century, and the risks and opportunities have been by and large managed successfully by Australia and other countries in the past.

Outsourcing as a driver of new business opportunities and competitiveness has been identified as taking place as early as the 1920s in the auto industry. General Motors applied the approach to enable production of a wider range of cars to satisfy the needs of a more diverse range of customers.¹⁵ The advent of new technology means that more goods, and indeed services, can be outsourced in a way that has not been possible in the past.

7. Drivers of Offshoring

While the focus of public debate usually centres around lower labour costs and cost cutting, a company's decision to offshore is driven by a range of factors, all of which ultimately aim to enhance the competitiveness and ongoing viability of business operations. Offshoring activities can enable businesses to improve productivity, access skills and processes that are not available or not as readily available onshore. They also provide a means of developing an overseas presence and entry into new markets.¹⁶

At the same time, labour cost differentials and the pressures for cost reduction are important factors in offshoring decisions. The magnitude of the differences in labour costs is large. Labour costs in advanced economies can be 10 times or more than competitive developing countries such as India. It has been estimated that Australian hourly labour costs in manufacturing can be more than 50 times greater than those in China and India (\$US14.40 compared with \$US0.25 respectively).¹⁷ For any business seeking to keep ahead competitively, these are significant comparisons. However, the offshoring proposition for businesses is by no means as straight forward as labour costs alone.

In addition to labour cost considerations, there are a range of important factors that impact on offshoring decisions. At the macro level, consideration needs to be given to the social, political, legal and economic infrastructure in potential offshore locations. Lower cost is an important driver, but businesses must also have certainty regarding the reliability of delivery (in terms of quality and timeliness), protection of investments, plant and equipment and the like. These are not insignificant factors, and comprehensive analysis is undertaken so these risks do not outweigh the potential benefits of offshoring.¹⁸

At the micro level, offshoring brings with it the potential for additional costs and challenges in the management of operations, and in terms of travel, training and communication. These additional costs can offset as much as 60 per cent of the initial savings associated with offshoring.

In summary, offshoring involves a complex decision process which is not dictated simply by cost benefits.

16 OUTSOURCING HAS BEEN SHOWN TO DELIVER SIGNIFICANT PRODUCTIVITY BENEFITS. SEE FOR EXAMPLE, GORG, H., AND HANELY, A.(2003) 'INTERNATIONAL OUTSOURCING AND PRODUCTIVITY: EVIDENCE FROM PLANT LEVEL DATA,' LEVERHULME CENTRE FOR RESEARCH ON GLOBALISATION AND ECONOMIC POLICY RESEARCH PAPER 2003/41.

17 STALKER, P. (2000) 'WORKERS WITHOUT FRONTIERS - THE IMPACT OF GLOBALIZATION ON INTERNATIONAL MIGRATION', ILO, GENEVA AND LYNNE RIENNER PUBLISHERS.

18 BOOZ ALLEN HAMILTON (2004) OUTSOURCING GLOBALLY: TREND AND IMPLICATIONS OF OFFSHORING FOR AUSTRALIA.

8. Assessing the Impacts of Offshoring

The term “offshoring” refers to a process of outsourcing that is more personalised, involving the direct transfer of jobs, debate tends to focus specifically on job losses.

To understand how offshoring impacts on employment, an assessment of net job losses or gains must be made. Analysing these job gains and losses is by no means straightforward. At all times, there is significant job turnover or churning taking place in Australia. Even at a time when the economy is creating new jobs overall, there are still job losses taking place. Between 1988 and 1998 2.5 jobs were created for every 1.5 shed.¹⁹ Focussing on each 1.5 jobs shed rather than the 2.5 jobs created would present a very different perspective on labour market developments over that decade. In the same way, focussing on job losses stemming from offshoring is likely to create a distorted image of the true net impact of offshoring in Australia. Therefore, it is important to acknowledge that as with any competitive economy in the global market, Australia can and does also benefit as a destination of offshoring.

In summary, to assess the impact of offshoring from an employment perspective, the following needs to be considered:

- employment lost as a direct result of offshoring from Australia;
- new jobs created as a result of offshoring to Australia; and
- net job creation that stems from shifting resources towards more productive areas where Australia has stronger competitive advantage.

In employment terms, Australia benefits from offshoring due to a number of competitive factors. A recent study by KPMG comparing business costs in Australia with 10 other advanced countries shows Australia has significant cost advantages, particularly in the areas of software production, research and development, but also in terms of corporate services and manufacturing.²⁰

While direct business costs in Australia are higher than in developing countries, a highly skilled workforce, stable political system and the relative quality of our infrastructure and regulatory environment provide positive offsets. In addition, being an English-speaking country is a distinct advantage, as is our multi-cultural background which means that there is a pool of workers that can speak a wide variety of other languages.

These strengths have underpinned the decisions of global companies to offshore activities to Australia. The following examples illustrate recent offshoring successes for Australia.²¹

- Deutsche Bank has decided to locate more than 100 global technology and operations jobs in its Sydney office by the end of 2004. The Sydney operation is one of Deutsche Bank’s two global processing hubs for foreign exchange.
- DST International, a leading business solutions provider for the investment management industry, is moving its global software development and testing programs from the UK and US to its Melbourne Development Centre.

- the Centre will house a new development program for OpenMessenger, one of the company's leading global solutions used for electronic trade confirmation, settlement and reconciliation by investment organisations;
- the Centre will also be the base for all project management and future product testing of the group's back office accounting engine for the US market;
- it is anticipated that the product development and testing programs will benefit from the proven capabilities of the Centre and the lower cost structures of undertaking business in Australia.
- UBS has selected Sydney as the location for its Global IT Support Centre;
 - the decision reflects Australia's low-cost environment and highly skilled financial services workforce;
 - UBS will progressively bring the help-desk operations of other regions, such as Europe and the US, on board;
 - the Centre, located in the northern Sydney suburb of St Leonards, will provide computer help-desk support 24 hours a day, seven days a week for around 16,000 UBS staff across 30 countries. The project will create around 170 new jobs.
- other companies have chosen Australia for technical support centres, including OM (a global leader in transaction technology, providing processing and outsourcing solutions for securities transactions) and IBM Global.

The above examples demonstrate that offshoring is not a one-way street and that Australia also gains jobs and economic activity as a direct result of offshoring decisions. Most of the current debate about offshoring in Australia does not take into account these gains.

To understand the broader economic impacts of offshoring for Australia, we also need to understand what the net effects of offshoring are for:

- Australian exports and growth stemming from increased income and demand in those countries which businesses are offshoring to; and
- domestic growth stemming from lower prices and/or higher profits that result from more productive operations.

Taking into account these and other factors, the actual employment loss of high profile offshoring/job loss announcements is not as large as often argued. A recent study by Booz Allen Hamilton suggested that only between 2 and 4 per cent of jobs in Australia could be potentially offshored.²² This is within the context that nearly three-quarters of Australia's workforce servicing local industries, such as retail, health and hospitality, cannot be offshored. At the same time, based on overseas studies the economic benefits to Australia from offshoring are large.

McKinsey Global Institute found that for the US economy, every dollar spent overseas on offshoring creates \$1.12 to \$1.14 for the US economy, or in other words produces a net gain of 12 to 14 cents for the economy.²⁴ This increased wealth creation in the economy encourages further consumption, investment and jobs. The study calculates the net gain from offshoring results from cost savings for US businesses, increased purchases of US goods and services from suppliers of offshore services, repatriated earnings from offshore US companies and the redeployment of labour within the US economy. A recent report by Deloitte Touche Tohmatsu estimated that within four years, communications companies worldwide will have saved at least \$20 billion annually by offshoring services to developing countries.²⁵

Importing services are also a quid pro quo for our export success. As exports create employment and income opportunities in Australia, so too does offshoring for countries like India and China. As average incomes in these countries rise as a result of their own export successes, so does their demand for goods and services, including exports produced by Australia. The case cited above regarding growth in our education exports to Asia is one clear example. So are exports of gas and coal, which are boosted by stronger activity in developing countries such as China.

The Australian National Training Authority in their recent National Industry Skills report highlights this process and conclusion very clearly²⁶:

History suggests that, as each nation goes through various phases of development, it starts small as a growth prospect for Australian exporters. But as it rapidly industrialises, it becomes a major export market for us.

The reality is that Australia cannot have it both

ways - that is, exporting those goods and services that we produce well and effectively, but limiting the import of those goods and services that others can produce more cheaply and competitively than can Australian businesses and workers.

Offshoring is a mechanism, like many others that have been used by Australian businesses to boost competitiveness, which enables them to cut costs and lower prices and/or to sustain profits and earning for investors. In some cases, the direct result is job losses. Yet, to focus on this as the only outcome of the process is misleading. The benefits of offshoring also involve lower prices and/or higher investment returns which flow to consumers and investors and ultimately result in higher levels of consumption and economic activity and jobs than would otherwise be the case. It is also important to note that as we concentrate our production on areas of comparative advantage (i.e. high-value added products) jobs are created that are better paid than the ones that were lost. In Australia, there has been an increase in the share of skilled white-collar jobs to total employment - from around 29 per cent in 1986 to around 33 per cent in 2000²⁷. These jobs tend to be the highest paid jobs in the economy and we are already seeing a movement of people into better paid occupations - a dynamic that offshoring should help to foster.

23 MCKINSEY GLOBAL INSTITUTE (2003) OFFSHORING: IS IT A WIN-WIN GAME?

24 DELOITTE (2004) MAKING THE OFF-SHORE CALL: THE ROAD MAP FOR COMMUNICATIONS OPERATORS. THE REPORT ALSO FOUND THAT ONE OF OFFSHORING'S KEY BENEFITS WAS TAKING ADVANTAGE OF TIME ZONE DIFFERENCES, ALLOWING COMPANIES TO EFFECTIVELY CREATE A 24 HOUR WORKDAY. THIS IN TURN ALLOWS THEM TO 'ACCELERATE DEVELOPMENT OF PRODUCT OFFERINGS AND TECHNOLOGY APPLICATIONS.'

25 ANTA (2004), NATIONAL INDUSTRY SKILLS REPORT

26 PRODUCTIVITY COMMISSION (2002) 'SKILL AND AUSTRALIA'S PRODUCTIVITY SURGE', STAFF RESEARCH PAPER.

9. Policy Implications

While globalisation, including the processes of offshoring and global outsourcing, produces benefits by allowing companies and countries to specialise in producing those goods and services, there are both winners and losers from these processes.

Some companies and sectors face uncertainties and decline as a result of greater global competition. Individuals are confronted with involuntary unemployment reflecting the impact of globalisation and often technology advances. This creates hardships for these individuals and their families.

There is a relatively clear consensus that those who tend to bear the most significant burden in advanced economies as a result of globalisation are those individuals with relatively low skills. Low-skilled jobs are the first to face pressure from increased global competition. In past decades, this has been reflected in declining blue-collar jobs.

Over the course of the past two decades, Governments have sought to assist and support this adjustment process through support for individuals and sectors. As the pace of change advances, it is important to ensure that this assistance is as effective as possible and supports positive long term outcomes for those impacted.

As developing countries become more advanced and industrialised, the nature of relatively 'low skilled' work itself changes. As wages rise, businesses seek to add more value to what they do, as do workers through the acquisition of new skills and training. Consistent with this, the more recent labour pressures stemming from offshoring, in particular, have been felt higher up the skill spectrum, and have been characterised by white collar jobs being lost.

As a relatively high skill, high wage economy, Australia needs to be realistic about the capacity and desirability to compete for jobs and production based on relatively low skill levels. Our response should not be to attempt to wind back openness and to limit the capacity of firms to outsource or offshore. This would have adverse implications for the competitiveness of companies, consumers and investors. It would also deny developing countries important opportunities to improve their own circumstances.

Our response must be to position Australia, its businesses and individuals, to remain competitive in the production of higher value added goods and services based on skills and innovation. At the same time, this is not downplaying the adjustment costs and the impact on those workers whose jobs become uncompetitive and unsustainable in the face of global competition. The challenge for Australia is to manage and support the adjustment process as best as possible while ensuring that we position ourselves as a nation to remain competitive and at the high-skill, innovative end of global production and competition.

10. Specific Policy Agenda

This paper has argued it is one of a number of options Australian businesses have to remain competitive in a global market. The focus on offshoring raises issues about the need for Australia to continue the process of opening up its markets by taking advantage of technological progress. As part of a wider globalisation policy agenda, Australia needs to focus on:

- **Education, skills and training** so that we enhance our position as a highly skilled, productive and high wage economy, and support ongoing workforce participation through appropriate and ongoing retraining and reskilling.
- **Innovation, research and development** in support of new ideas, products and processes and ultimately sustained productivity and competitiveness.
- **Labour market flexibilities** that support and encourage an innovative workplace culture, ongoing productivity improvement, participation in employment, job creation and to allow people to work to their full potential.
- An **appropriate and effective safety net** system to support those adversely impacted by technological change and globalisation.
- Continuation of **sound macroeconomic frameworks** and outcomes including a robust and transparent fiscal policy process and inflation targeting regime, which are conducive to supporting economic activity, investment and job creation.
- Support for further global **trade and investment liberalisation** as a driver of economic growth and opportunity.

11. Australian Experience Supports Optimism

Over the past several decades of liberalisation and reform there have been periods in which significant public doubt was expressed about our capacity to compete globally and to create jobs to replace those being lost. Yet our economy has performed remarkably well.

During periods of weak demand among our key trading partners, as was the case following the Asian financial crisis, our businesses demonstrated flexibility in seeking out new markets and opportunities. These opportunities, which were not available two decades ago, have underpinned and sustained jobs and economic growth in Australia, when many other economies faltered.

Australian listed companies also sustained solid earnings performances in the face of the bursting of the technology bubble and recent downturns in global economic activity and stock markets. In addition, business has had to adapt to new uncertainties such as the rise of global terrorism and the impact of SARS. Notwithstanding these external shocks, and severe drought in recent years, over the past decade:

- economic growth has averaged around 3.8 per cent per year;
- around 1.9 million jobs have been created since 1993;
- the unemployment rate has fallen below 6 per cent and has remained there now for more than 8 months; and
- inflation has remained low and stable (taking into account the once off impact of the GST).

The Australian economy has benefited significantly from deregulation both domestically and internationally through greater access to global markets. The ability to weather external shocks and sustain economic growth and prosperity as well as rapid technological change provides a strong case for remaining optimistic about our capacity to respond to further change – including the pressures and opportunities brought by offshoring. But Australia needs to continue implementing a comprehensive and complementary policy agenda to remain competitive – ideally with bipartisan support.

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