TEN COMMON MYTHS ABOUT WORLDWIDE SOURCING

Myth 1: THE MAJORITY OF AMERICAN JOBS ARE AT RISK OF BEING "EXPORTED."

Facts:
- Only a small minority of U.S. workers will lose their jobs to foreign competition.
- "Even at their peak in 2001, the number of all trade-related layoffs represented a mere 0.6% of unemployment." *(The Economist, "The Great Hollowing Out Myth," Feb. 19, 2004)*
- BLS projects a U.S. workforce of 165.3M in 2012… Forrester Research predicts 3.3M jobs will be outsourced by 2015, less than 2% of the BLS workforce projection.
- Roughly 100,000 – 170,000 jobs have shifted abroad in each of the past three years… even if that rose to 200,000 per year, it would only represent 1% of the estimated 15 million permanent gross jobs lost that occur in the U.S. in a typical year. *(Fed. Governor Ben Bernanke speech at Duke University, March 30, 2004)*
- "[A]ll the economic evidence suggests to date that offshoring has been a relatively small fraction of the job loss." *(Laura Tyson, former chair of President Clinton's National Economic Council, S.F. Chronicle, March 30, 2004).*

Myth 2: OUTSOURCING REPRESENTS A ONE-WAY FLOW OF JOBS LEAVING THE U.S.

Facts:
- While outsourcing challenges some positions, such global trade generates millions of high-paying jobs for Americans as foreign firms source work here.
- More than 6.4M Americans today work for big foreign firms, up 31% from 1991. *(OFII, 2004)*
- From 1997-2001, in-sourcing out-paced out-sourcing by 68%.... U.S. citizens employed by majority non-U.S. firms increased by 4.7M, while non-Americans working at affiliates of majority-U.S. firms rose 2.8 million. *(Dept. of Commerce, March 2004)*
- The U.S. ran a $60B surplus in services trade in 2003. *(Dept. of Commerce, Jan. 2004)*
- The U.S. trade surplus in IT services has grown every year since 1996. *(Dept. of Commerce, Digital Economy 2003)*
- The incremental economic activity that follows offshore IT outsourcing created 90,000 net new jobs in 2003 and is expected to create 317,000 net new jobs in 2008. *(Global Insight, March 2004 Report for ITAA).*

Myth 3: OUR ECONOMY IS SUFFERING FROM TOO MANY IMPORTS.

Facts:
- Our economy suffers from too little trade, not too much. Rather than building barriers around our own markets, we should tear down barriers keeping us out of others.
- Between 2000 and 2003, while manufacturing employment fell 2.8 million, manufactured imports only rose 0.6%. *(Cato, March 17, 2004)*
- The offshore outsourcing at the heart of the current debate is in white collar services, where the U.S. enjoys a $60B trade *surplus* with the rest of the world.
- The U.S. accounted for 96% of all global growth from 1997 through 2002… as our economy continued to import goods from abroad, our trade partners' lack of growth and demand, in addition to a very strong dollar, reduced our export growth. *(Morgan Stanley Chief Economist Stephen Roach, 2003)*
- Less expensive imports resulting from global production of computers and IT equipment have enabled more rapid usage, increased productivity and added $230 billion in cumulative additional GDP to the U.S. economy between 1995 and 2002. *(IIE, Catherine Mann, Dec. 2003)*

<u>Myth 4</u>: LOWER WAGES ARE THE ONLY REASON U.S. COMPANIES HIRE GLOBALLY.

<u>Facts</u>:

- Cost reduction is only one of several reasons companies grow their workforces around the world.
- Companies also hire abroad to access growing markets, better serve non-U.S. customers, enable 24-7 operations and streamlined global operations, and to access the best and brightest talent wherever they are found.
- For semiconductor companies that manufacture, wages often represents less than 3% of the total cost of production. Facing fierce global competition, these firms often invest based on host-nation financial incentives, innovative capacity and ability to protect intellectual property. *(SIA)*

<u>Myth 5</u>: WORLDWIDE SOURCING IS FUNDAMENTALLY A POST-BUBBLE, POST-RECESSION, POST-ENRON, POST-9/11 BUSINESS CYCLE PHENOMENON.

<u>Facts</u>:

- Worldwide sourcing is the product of both business cycle challenges and structural changes in the global economy.
- Manufacturers have been sourcing work around the world for more than 30 years, during which time our economy created millions of good new jobs, increased GDP and our standard of living, and nearly doubled domestic manufacturing output.
- Three years of unprecedented business cycle shocks have certainly led to significant uncertainty, large layoffs and lackluster new hiring, despite strong GDP and profit growth.
- Significant structural changes are also remaking the global economy including:
    - <u>Geopolitical changes</u>: Post-Cold War entry into the global economy of China, India and former Soviet bloc nations… nearly 3 billion smart, hungry and hard-working citizens as competitors (and ultimately customers).
    - <u>Technological changes</u>: An incredible IT-enabled productivity revolution and the shrinking of the world via advanced communications technologies enabled workers around the world to provide services real-time.
    - <u>Marketplace changes</u>: Hyper-competition among firms reduces pricing pressures and puts intense pressure on firms to increase productivity, cut costs and move faster. Increasing benefits and litigation costs, as well as regulatory burdens (such as new stock option expensing rules) limit the economics of adding salaried employees.

<u>Myth 6</u>: THE AMERICAN ECONOMY HAS STOPPED CREATING GOOD NEW JOBS.

<u>Facts</u>:

- The dynamic U.S. labor market creates about 30M new private-sector jobs each year, concurrently eliminating about the same. *(Business Roundtable, March 2004).*
- More Americans are working today than ever before in the history of our nation (138.3M today vs. previous high of 137.8M in Jan. 2001). *(Dept. of Labor, March 2004)*
- The Bureau of Labor Statistics estimates the U.S. economy will expand by 21.3M jobs by 2012, including 24% growth in service sector jobs. *(BLS, February 11, 2004)*
- "Outsourcing does not reduce the total number of jobs in America." *(Robert Reich, Secretary of Labor under President Bill Clinton, New York Times, February 14, 2004.)…*

Myth 7: **OFFSHORE OUTSOURCING IS AN EASY WAY FOR COMPANIES TO SAVE A LOT OF MONEY.**

Facts:

- Offshore outsourcing is complex and often challenging to manage.
- Many efforts to establish worldwide sourcing operations fail or fail to result in significant savings. *(Gartner Group, 2003).*
- The vast majority of jobs are not "at risk" from global competition because of the costs and complexity of managing global operations are too high, and American workers are more skilled and productive than most alternatives.

Myth 8: **BIG COMPANIES ARE THE KEY TO JOB CREATION IN AMERICA.**

Facts:

- The strongest American job growth has always come from smaller, entrepreneurial firms.
  - From 1980 through 2000, the U.S. added 34 million new jobs while the Fortune 500 firms from 1980 lost a net 5 million jobs. *(NCOE)*
  - In the 1990s, existing companies in Silicon Valley cut 121,000 jobs, while companies started after 1990 created 259,000 jobs. *(PPIC)*
- Maintaining an entrepreneurial business climate remains a key to ensuring strong future employment growth.

Myth 9: **THE U.S. ECONOMY IS FALLING BEHIND THE REST OF THE WORLD.**

Facts:

- To-date, our economy remains the most innovative, entrepreneurial and skill-based in the world. For example:
  - In 2003, 700 U.S. venture capital firms invested $9.2 billion in IT startups, compared with $162 million by India's 85 venture firms. *(NASSCOM, VentureOne)*
  - In 2003, the U.S. filed for 39,250 international patents compared to 1,205 from China. *(WIPO)*
- America's workers are the most productive and talented in the world – a critical reason so many foreign firms outsource work to the U.S.
- However, foreign nations are rapidly making investments to compete with the U.S.
  - Increasing their R&D (both public and private)
  - Improving their business climates (greater access to capital, more attractive regulatory & tax regimes, employer flexibility)
  - Strengthening their infrastructures (broadband connectivity, energy, transportation, wireless)
  - Improving their education systems and workforce skills to compete with the U.S. (graduating more scientists & engineers)
- If we take our lead for granted or fail to re-invest in our comparative advantages, we will sacrifice our competitiveness.

Myth 10: **WE CAN INCREASE AMERICAN EMPLOYMENT BY PENALIZING U.S. COMPANIES HIRING ABROAD.**

Facts:

- Economies that limit employer flexibility (such as Germany and France) suffer much higher unemployment and witness slower new job creation.
- Isolationist or protectionist measures would invite retaliation against American employers and reduce employment in America.
- Trade brings both opportunities and challenges, but the positives have always been greater than the negatives for Americans. Efforts to avoid the challenges also prevent the opportunities. Challenges must be better mitigated through worker retraining, opening more foreign markets to U.S. exports and investing in innovation to enable new job creation.

Additional Reading Materials *(hyperlinked)*:

- "Choose to Compete: How Innovation, Investment and Productivity Can Grow U.S. Jobs and Ensure American Competitiveness in the 21st Century," CSPP, Jan. 2004.
- "Securing Growth & Jobs: Improving U.S. Prosperity in a Worldwide Economy," BRT, Mar. 2004.
- "The Impact of Offshore IT Software and Services Outsourcing on the U.S. Economy and the IT Industry," Global Insight for ITAA, Mar. 2004.
- "Offshore Outsourcing in an Increasingly Competitive and Rapidly Changing World," AeA, Mar. 2004.
- Economic Growth & American Jobs Coalition web site.