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Creating a global labour market

The opportunities and challenges of outsourcing and reshoring

Niels Beerepoot | February 24, 2014

Who benefits or loses from globalization is no longer based on the sector in which one works or the skill group one belongs to. Ongoing technological innovations have enabled greater global competition for a number of jobs. The key challenge for individuals and policy-makers is how to respond to this.

Since the early 1970s, technological developments, like the emergence of containerships or the standardization of production, have made it far easier to outsource industrial work to lower-cost developing countries around the world. Particularly southeast Asian countries like South Korea, Taiwan, Hong Kong and later on Indonesia, Thailand, Vietnam, benefited from the international relocation of industrial work. The garment sector was regarded to be at the forefront of this process of globalization. ¹ By mainly relying on low-cost (female) labour, this sector has always sought new, lower-cost locations for production. Many other industries – where production processes could be highly standardized and only require semi-skilled labour, such as the electronics assembly – also followed this trend. In this process, Western core capitalist countries functioned as centres of industrial research, innovation, and management while the rest of the world would steadily become a specialized reserve of low to semi-skilled workers, also known as blue-collar labour. ²

In the period since then, the educational levels and technological capacities of citizens in many developing countries have improved. ³ In combination with new technological developments, like the digitization of work, where and how work is conducted, and by whom, has become more complex than in the original dichotomy. Knowledge work, as the original savior of the West, is increasingly relocated to lower-cost countries, which affects middle-class (white-collar) employees in those Western countries of origin. In sum, an increasing number of workers have become exposed to global competition for their jobs.

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At the same time in the West, there is a revival in manufacturing. Higher labour costs in the emerging economies of Asia, higher international transportation costs, and concerns about relying on faraway places for the delivery of goods have resulted in the return of factory production to Europe, but particularly back to the United States.⁴ More individual workers around the world are directly affected by globalization, to an extent never experienced before in history.

A critical issue with increasing global competition in both industrial activities and services is whether the competition leads to global convergence in remuneration. According to the 2013 ILO Global Wage Report, in the last decade real wages doubled in Asia, almost tripled in Eastern Europe and Central Asia and increased by 15% in Latin America. That compares with a rise of just 5% in developed economies.⁵ The wage gap between developed and developing countries (especially the emerging economies), is getting smaller due to the new international division of labour.

Towards a global market for services

For a long time economic development strategies for underdeveloped countries focused on strengthening the industrial or agricultural sectors. The service sector was not regarded as a driver of economic development.⁶ The location-based nature of the service sector meant that services were produced and consumed in close proximity to each other. Service work traditionally requires direct interaction between producer and consumer and is much harder to standardize or produce from afar.

The international expansion of the service-outsourcing sector, enhanced by the greater opportunities for digitization of work and opportunities to deliver service work from longer distances, has expanded rapidly since the mid-1990s. International outsourcing of services started happening when technological innovations (e.g. telecommunications) made it possible to provide services from afar without a loss in quality or delay in speed of delivery. ICT advances have enabled a 'great unbundling', as Richard Baldwin of the Graduate Institute of International Studies in Geneva, refers to this process. Due to the great unbundling, individual tasks can now be produced from longer distances and there is also increased competition for these jobs, given the global expansion.⁷

The great unbundling meant that competition is no longer just felt at the level of the nation or the firm, with its effects trickling down to the level of its labour force. But members of the labour force themselves are now directly susceptible to increasing competition from both their domestic *and* international peers. This has therefore exposed new groups of workers, particularly in Western labour markets, to increasing international competition. Originally it was mainly low-end and routinized service work (e.g. call centres, data entry) that was relocated to lower cost countries. In recent years, however, more knowledge-intensive work (e.g. accounting, software development) has also been relocated abroad.⁸ Greater competition in these activities typically affects white-collar middle-class employees in Western countries. Estimates are that between 22% and 29% of the all jobs in the United States could potentially be offshored.⁹

Opportunities for developing countries

Unlike the concerns about job loss in Western countries, the service-outsourcing sector receives positive appraisal in various developing countries as a driver of economic growth and as an attractive employer for young college graduates. The success story of India in acquiring foreign investments and building local firm capacity has led many developing countries to also develop an ICT-driven development agenda (See also the article, '[The Next India](#)', in The Broker).¹⁰ The sector is considered to provide the much preferred white-collar jobs for an increasingly college-educated labour force. Several developing country governments see the offshore services industry as a great opportunity to develop their economies. They are drawn to the key positive impacts the sector affords the local economy, such as employment creation in higher-skilled and better-compensated jobs, linkages with global markets and learning opportunities, and enhanced resilience to economic downturns.¹¹ So far, India and the Philippines have been the main beneficiaries of this wave of outsourcing. As participation in ICT-driven service outsourcing mainly depends on internet connectivity, African countries have particularly not been able to benefit as much from such new opportunities.¹²

It is only a selective group of people in developing countries that benefit from the new opportunities provided by the service-outsourcing sector. The concentration of the service-outsourcing sector in urban areas, in combination with educational requirements, results in a rather selective access to the new jobs. And, notably, the rural poor tend to be excluded. In India, the largest share of employment is based in the six largest cities of the country. In the Philippines, 80% of the 700,000 newly-created jobs in the offshore service sector are located in Metro Manila.¹³ These jobs strengthen the existing urban middle class and add to an increasing duality within the urban labour market. There is an increasing separation between workers with access to the new opportunities and the rest of the urban economy, including between those working in the formal

and informal sectors of the urban economy. In the urban, informal economy, the constant influx of new migrants from the countryside keeps the competition for low-skilled jobs high and compensation low. ¹⁴

Industrial renaissance

In contrast to increasing concerns about the disappearance of white-collar employment, there is the reappraisal and revival of manufacturing in the Western world. ¹⁵ In the 19th century and in large parts of the 20th century, manufacturing was the driver of economic growth in Europe and the United States. But in the last decade, manufacturing was often regarded as a pursuit from the past. Attention has primarily focused on the financial and service sectors, or what is regarded as the 'creative' sector.

In the United States, however, questions have been raised about why its largest and most successful companies (e.g. Apple, Google, Facebook) created so few jobs within the country itself. Companies that outsourced production overseas have been subject to increasing scrutiny in the last several years. For instance, Apple has regularly been criticized for the treatment of workers at the plants of its main contract manufacturer in China, Foxconn.

Although now in the US, shale gas energy is fuelling a 'manufacturing renaissance'. Low-cost energy is causing the reshoring of industrial work. This means industrial work is relocated back to the United States after it was originally offshored to lower-cost countries. This reshoring is further enhanced by rising labour costs in the emerging economies of Asia. In 2012, *The Economist* ¹⁶ published an article about "the end of cheap China", to emphasize how labour cost in the coastal provinces surged 20% per year in the past four years. Wages in Europe and the United States have barely increased during the past decade, since companies, particularly in the US, have obtained massive concessions from unions.

In late 2013, a decade after closing its last US factory, Apple announced that it would build a new, renewable energy-powered factory in Arizona, which should create 2,000 jobs. ¹⁷ Google-owned Motorola also decided to start assembling its cell phones in the US, albeit for an hourly wage of \$9.00. ¹⁸ Such compensation reflects the emergence of what Guy Standing regards as 'the new precariat'. ¹⁹ A growing number of workers across the world (and increasingly in the West) rely on a series of short-term jobs without social protection, career prospects or opportunities for skill acquisition. (See also the article, '[Job insecurity as the norm](#)' in this dossier.)

Reshoring is not only an American phenomenon. It can be recognized in Europe as well, especially in the United Kingdom, Sweden and the Netherlands. Evidence from the UK's Manufacturing Advisory Service (MAS) suggests significant potential benefits for the UK and Europe. What manufacturers are now looking for is not only low wage levels, but also competitive corporate tax rates, a good regulatory environment and a strong legal framework – things that Europe have to offer. That reshoring benefits the US manufacturers more than in Europe mainly has to do with the fact that European manufacturers outsourced less to China. They instead relied on central and eastern European suppliers where the cost of manufacturing has not shifted as much in recent years. ²⁰

The newly-created manufacturing jobs are welcomed with some patriotism, although the number of new jobs will by no means compensate for the nearly 10 million manufacturing jobs that the US has lost since the late 1970s. Furthermore, with the hourly rates mentioned above, the manufacturing sector won't revive the US's shrinking middle class. The Pew Research Center refers to 'the lost decade of the middle class' to emphasize how, since 2000, the US middle class has shrunk in size, fallen backward in income and wealth, and shed some of its characteristic faith in the future. ²¹ The middle tier of US society now accounts for 45% of the population, down from 62% four decades ago. The middle class, who traditionally acts as a wedge between the poor and the elite, is often regarded as a prerequisite for sustainable economic growth and development and a source of social stability.

Responding to global competition

The global transformations as described in this article have resulted in the emergence of a global labour market in which an increasing number of people experience international competition for their jobs. Globalization has eroded the bargaining power of workers, who are confronted with greater job insecurity. While it is too early to speak about global convergence, there is a clear trend of rising wages in developing countries and stagnant ones in the West. Furthermore, a widening gap can also be observed between the beneficiaries of globalization and those who are confronted with various forms of exclusion. The classification of who benefits or loses from globalization is no longer tied to one's sector of work or skill group.

The renewed recognition that jobs are increasingly a hot topic at the centre of economic policy (see article, '[Revaluing labour](#)' in this dossier) entails that new strategies are needed at the macroeconomic level. Macroeconomic changes are urgently needed,

because competition is experienced more at the individual level. As such, interventions also need to be more tailor-made to the needs of individual workers rather than to sectoral policies. More efforts are required to enhance people's employability in order to maintain their attractiveness in a globally-competitive labour market.²² Workers need to continuously invest in their knowledge and skills (i.e. lifelong learning) and be flexible in the tasks and sector in which they are involved. Alongside this, government support and guidance is needed, to assist in providing greater opportunities for lifelong learning and retraining of workers. This way, workers throughout the world can better cope with the pressures of greater global competition and secure their position within the international labour market.

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Footnotes

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- 20. Smith, P. (2012) 'Re-shoring benefits US manufacturers more than European – Why?' *Spend Matters UK/Europe*. At the World Economic Forum 2014 in Davos, the UK Prime Minister, David Cameron, discussed his strategy for making Britain the 'Reshore Nation.' In the UK, as part of the government's response to the challenge and opportunity of reshoring, the UK Trade & Investment (UKTI) and the Manufacturing Advisory Service (MAS) are joining forces to launch Reshore UK. The new joint service will identify reshoring opportunities in UK supply chains. UKTI will use its global networks to attract foreign companies to invest, and MAS (and partners) will help UK businesses to bring work back to the UK.
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