

Offshore for a better future

With major organisations such as Prudential, Aviva, BT and the NHS “offshoring” thousands of jobs to India, Alistair Schofield considers whether this is a positive or negative trend.

During the annual conference of the CBI in November 2004, Director General Sir Digby Jones announced - “There will not be any work in Britain for unskilled people within one generation.”

The CBI says the phenomenon of moving jobs abroad is now so advanced that it is moving beyond the relatively unskilled jobs where it began and into areas such as financial services and computer programming. In his book “The Fortune at the Bottom of the Pyramid”, C K Prahalid observes, “Indian groups are now negotiating with the National Health Service ... to fly British patients to Delhi and operate on them at lower costs, including travel, than they could in the United Kingdom without compromising quality of care.”

Should these trends be a cause for concern, or should we simply accept it as an inevitable consequence of the wage disparities between different countries?

Countries such as France and the United States have taken a more protectionist approach than Britain. Although there have not been any legislative proposals in America against offshoring per se, there has been a tightening up on the granting of visas that allow foreign workers to enter America for training and temporary employment. In New Jersey, the local government have proposed a bill to stop firms using offshore workers from being eligible for state contracts.

However, economic history shows that isolationist and protectionist policies rarely benefit the country imposing them in the longer term – just look at how far behind the “West” the communist economies of Eastern Europe fell during the period after the Second World War.

I take the view that offshoring is a positive trend that will assist our economy. I have arrived at this conclusion for the following three reasons.

First, it is inevitable. The combined effects of improved communication and wage cost differences means that it is no longer commercially viable to manufacture volume products in the UK if the same product can be made elsewhere for less. In the UK, salaries account for around 70% of the average company’s operational costs, whereas in India they are around 20%. Moreover, as Roger Bootle points out in his book ‘Money for Nothing’, “So great is the overhang of surplus labour in China that in the manufacturing sector China’s prices are going to become global prices”.

Second, offshoring frees up time and resource to concentrate on the things we should be concentrating on. Contrary to Tony Benn’s recent plea for Britain to reinvest in its manufacturing sector, I would argue that we no longer stand a “cat in hell’s” chance of becoming a competitive manufacturing nation again. Our standard of living and cost infrastructure is simply too high to ever compete with the likes of China, India or some of the Latin American



countries. Quite possibly we are no longer a service economy either. In my opinion our future lies in recognising that we are a knowledge economy and investing accordingly. Hong Kong is a good example of a “knowledge economy” – it has neither an abundance of space, people or natural resources, yet has an economy of a similar size to Russia.

By freeing our management from the encumbrance of these task-oriented functions leaves us free to concentrate on new developments and innovation. For example, the excellent company 3M each year sets as one of its targets the goal that 50% of its revenue should come from products developed within the previous 5 years. Achieving this would be virtually impossible if it had not learned how to let go of the past.

Third, global economic growth. By transferring jobs and know-how to lower wage economies, we are effectively helping them develop. Evidence of this can be seen in the Indian city of Bangalore where wage inflation in the IT sector is now running at around 15% p.a. The increase affluence of workers in Bangalore is translating into increased demand for goods and services, much of it western in origin. While these goods may not be manufactured in countries like the UK, the profits from these sales to return to countries like the UK and are distributed mainly to western shareholders.

Furthermore, the potential benefits of the growth of international trade are huge. The group of prosperous countries in Western Europe, North America, Japan and Australasia we call the G7 account for about 800 million people and around 70% of its GDP. However, this exclusive club excludes around 2.2 billion people in India and China, another billion in the rest of Asia, some 300 million in the Middle East, 800 million in Africa, 350 million in Latin America and 400 million in eastern Europe and former Soviet Union countries. If the UK were a company and you were its Chief Executive, you’d have to be mad not to be excited by the opportunity that the growth of these economies could offer.

My conclusion therefore is that offshoring, used appropriately, is beneficial to companies, consumers and the country.

About the author:

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