

Think Globally, Act Locally

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"Once I thought to write a history of the immigrants in America," the historian Oscar Handlin writes in the preface of his classic The Uprooted. "Then I discovered that the immigrants **were** American history."¹

In drafting this article, my primary aim was to address the benefits to the business community of global immigration and globalization as the segue, and to highlight which countries have featured prominently in the globalization index created by the Global Policy Forum.²

Throughout history, adventurers, generals, merchants, and financiers have constructed an ever-more-global economy. Unprecedented changes in communications, transportation, and information technology have given the process new impetus. Today's world is not the world of three years ago, pre 9/11 and certainly not of twenty years ago, when immigration flowed mainly from East to West.

Today, immigration occurs in all directions and global immigration is the newest business asset. It is the movement of people across international borders and mobility is an integral part of society. It augments the meaning and productivity of life by ensuring that the brightest and the best in a particular field are able to develop their skills and contribute great scientific or engineering findings to humanity and it may provide your business with the same benefits.

Can your company utilize the benefits of global immigration? Will this movement of people and services globally mean that the price, quality and integrity of your products or services are enhanced? The economy is globalizing and every business will feel the positive effects over the longer term as investments are made in the national economy and the GDP increases; learning about immigration trends before you need global immigration law services is prudent and insightful.

As globally mobile capital reorganizes business firms, it sweeps away regulation and undermines local and national politics. Globalization creates new markets and wealth, although it is also said to cause widespread suffering, disorder, and unrest. It is both a source of repression and a catalyst for global movements of social justice and emancipation, the proverbial double edged sword.³

The fact is that we are living and breathing in a global economy which grows more interactive every day. Whatever we legislate and however we try to change things and whatever we do, the global economy will evolve, with or without us. We have a choice as Americans. We can sit here and think "how dare India rise majestically in the global economy, threatening our economic future?" Or we can go back to the drawing board and do what our nation has always done: Build the better mousetrap.⁴

The rejection of immigration inevitably leads to a rejection of the global economy itself and fosters the pernicious delusion that ideas and capital, but not people, can cross national boundaries. We cannot do business with the world if we tell its people to stay home. Nothing less than this is at stake.⁵

As businesses seek to expand globally, so too do the expectations of their workforces. It is now more important than ever to ensure that individuals are able to travel from country to country as quickly as possible and with the least disruption to the businesses and their business partners.⁶

Offshore outsourcing is one of the most recent manifestations of the progressive globalization of business. As a result of global trade liberalization, the free movement of manufactured goods and

¹ http://www.aifl.org/pubed/pe_quotes_index.asp July 12, 2004

² Measuring Globalization: Who's Up, Who's Down? (January/February 2003), <http://www.foreignpolicy.com/wwwboard/g-index.php>, July 11, 2004

³ <http://www.globalpolicy.org/globaliz/index.htm>, July 11, 2004

⁴ "Global Perspective: U.S. Customer Service Delivered...From India", Jose Latour, 3/27/2001, <http://www.usvisanews.com/articles/edit118.shtml>

⁵ "Kissing Cousins: H-1B, L-1 and How We Can Love Them Both Without Really Trying". Gary Endelman, www.ilw.com July 11, 2004

⁶ Global Immigration Survey 2001-2002, Ernst & Young, p3 [http://www.ey.com/global/download.nsf/UK/Global_Immigration_Survey/\\$file/9773Global_Immigration_Survey.pdf](http://www.ey.com/global/download.nsf/UK/Global_Immigration_Survey/$file/9773Global_Immigration_Survey.pdf) July 12, 2004

services have become increasingly commonplace, and U.S. consumers have received benefits from the lower costs of goods produced, in whole or in part, abroad.

Crossing international borders 'virtually' or physically by people to provide services globally is another piece of the free trade movement.

Consider the benefits U.S. consumers receive from 24-hour-a-day call centers (and e-mail contact centers) that have become more efficient because of offshore support in other time zones. U.S.-based workers can also derive benefits (increased productivity which will likely lead to increased wages) by having continuous support through integrated U.S.-based and offshore based staff in other time zones.

Utilizing offshore programming resources also enables U.S. personnel to focus their efforts on what they do best, such as strategic activities and developing new revolutionary technologies. This leaves foreign workers to provide lower-level support, maintenance, and incremental development services on existing technology platforms through outsourcing.

The success of India and its IT parks in Bangalore with tax concessions for multinational corporations and lower production costs is illustrative of the reasons why offshore outsourcing has grown so rapidly and why it presents such tremendous opportunities for businesses. India is home to thousands of highly educated workers who speak English and are located in a strategic time zone relative to the United States.

By taking advantage of the lower labor cost discrepancy and the tax breaks, U.S. companies can save millions of dollars in addition to receiving other benefits from these strategically located, high-quality offshore workers.

As stated by NASSCOM's ⁷ chairman & President & CEO of DigitalGlobalsoft, Mr. Som Mittal, in the *E&Y Business Process Outsourcing Survey 2004*,

*"The driver for this industry in the long term is clearly beyond labor arbitrage. It is about delivering consistent quality & productivity gains and adding value to the process."*⁸

Another argument for the creation of jobs in developing countries is a long term view that is held by Dan Griswold, director of the Center for Trade Policy Studies at the Washington-based Cato Institute. More jobs in developing countries would build "larger middle classes and create a larger market for U.S. products in the future," Griswold said.⁹

Another reality lost in the outsourcing debate is the amount of outsourcing the rest of the world sends to the U.S.: We are far and away the world's top destination of outsourcing of information-technology, financial, communications, and other business services. In 2002, U.S. companies exported \$14.8 billion worth of computer, data-processing, research, development, construction, architectural, engineering, and other IT services. During that same year, Americans imported \$3.9 billion of those same kinds of services. So for every dollar Americans sent abroad for IT outsourcing in 2002, the world sent more than three dollars to the U.S. for "in-sourcing." If Congress launches a war against foreign outsourcing, American companies and workers will be among the first casualties.¹⁰

If you still need some reassurance you should review a recent paper by Dr. Catherine J. Mann of the Institute for International Economics called *"Globalization of IT Services and White Collar Jobs: The Next Wave of Productivity Growth"*.¹¹ As a senior fellow at the Institute for International Economics since 1997, assistant director of the International Finance Division at the Federal Reserve Board of Governors, senior international economist on the President's Council of Economic Advisers at the White House; and adviser to the chief economist at the World Bank it's safe to say that she is a guru on economic policy. She predicts that a "deeper transformation and wider diffusion of IT throughout the US economy will bring about a second wave of productivity growth." While the productivity gains of the late 1990's are undeniable, there remain large chunks of the U.S. economy that have yet to integrate IT into their core business operations.¹²

⁷ NASSCOM is India's National Association of Software and Service Companies, the premier trade body and the chamber of commerce of the IT software and services industry in India. The primary objective of NASSCOM is to act as a catalyst for the growth of the IT and BPO industries in India.

⁸ [http://www.ey.com/global/download.nsf/India/OffshoreOutsourcingSurvey2004/\\$file/EYIACCRReport2004.pdf](http://www.ey.com/global/download.nsf/India/OffshoreOutsourcingSurvey2004/$file/EYIACCRReport2004.pdf), July 11, 2004

⁹ "Outsourcing great opportunity for US Cos: Expert", Dan Griswold, The Times of India, July 12, 2004

¹⁰ "Outsource, Outsource, and Outsource Some More" Daniel Griswold, <http://www.freetrade.org/pubs/articles/dg-05-03-04.html>, July 11, 2004

¹¹ "Globalization of IT Services and White Collar Jobs: The Next Wave of Productivity Growth" Catherine J. Mann <http://www.ii.com/publications/pb/pb03-11.pdf>, p2

¹² *Id.*, p4

We are now at a point where lower prices for IT software and services on a global basis will trigger both higher productivity and revived business investment. Projections that trumpet the coming loss of IT jobs in blaring headlines ignore the surge in job demand that is bound to come when the second phase of globalization reduces the cost and widens the acceptance of IT software and services in these key areas.¹³

Frequently cited projections indicate that millions of jobs will be lost to offshore workers. What these projections ignore is that the globalization of software and IT services, in conjunction with diffusion of IT to new sectors and businesses will yield even stronger job demand in the United States for IT-proficient workers.

Lower IT prices promote IT investment and transformation, which together support productivity and GDP growth. In this logic chain, how important is the global link?

The numbers are staggering when viewed as a cumulative effect on our GDP. The potential difference in GDP growth for the seven-year period cumulates to a conservative \$230 billion¹⁴.

It's interesting to note that while offshore outsourcing is the topic *de jour* in the U.S., the EU has been a silent spectator for the most part. With the exception of the United Kingdom, it is as if global sourcing of services is a quaint business fad, with no relevance to them, something that would go away with next year's fall line-up of new business trends.

Europe has a great tradition of innovation and excellence in business and commerce. There are globally competitive companies in European industries like banking, insurance, telecoms, automobiles and many others. But there is an odd mix of factors that make Europe less amenable to global sourcing of services.

Let's briefly examine these factors and see whether the picture of declining future competitiveness of European countries has any lessons for us here in the U.S.

First, EU labor laws inflexibility is probably the biggest hurdle to outsourcing of any kind, including offshore outsourcing. Leading European countries like Germany and France make layoffs difficult and expensive.

Additionally, English is the language of global services today. India dominates this market and is entirely English speaking. So are the Philippines. English is spoken in some industries like financial services in continental Europe. But to be able to work with, say, the manufacturing industry in Germany, local language skills are essential. American companies have to teach conversational German to their employees or hire locally in Germany or probably both. The problem is not insurmountable but it exists and it slows down the growth of global services.

Third, cultural openness is another factor hindering global services in Europe. The U.S. is perhaps the easiest major market for a foreigner to do business in today. It is culturally diverse and in fact celebrates diversity. It has a natural advantage in that it is a land of immigrants. Almost all Americans or their ancestors came to America from somewhere else in the world.

Europe, on the other hand, still makes it difficult for foreign companies and foreigners to be successful. Immigration laws make it expensive to operate for foreign non-EU companies. Tax laws, both corporate and personal are no better. If you get past all this, you still have to deal with corporate cultures with strong national identities and a subtle resistance to working with foreigners. This is changing and giving way to more openness, but at too slow a pace.

In all the factors described above, fragmentation adds an additional dimension of complexity. The language issues, the labor laws, tax laws are all different in the many countries in the European Union. It is hoped that the enlarged European Union will streamline the regulatory side of things. But until

¹³ *Id.*, p4

¹⁴ <http://www.iie.com/publications/pb/pb03-11.pdf> Calculations are as follows: 'X' percent of price decline due to globalization (times) price elasticity of IT investment (equals) change in IT investment's contribution to productivity growth. Using the growth accounting framework adjusts GDP growth and translates into billions of dollars "gained" due to globalization of IT. To be conservative, only the relationship between lower prices and greater IT capital is calculated (the effect on productivity of so-called IT-capital deepening). However, there is a positive association between IT capital and total factor productivity, which together make up the principal components of labor productivity. Based on simple reckoning on the relative magnitude of IT capital deepening and total factor productivity growth, the ratio between the two could be 1:1. Thus, the magnitude of GDP growth accounted for by globalization of IT production could be twice the figures calculated here.

then, a foreign services company is dealing with small country markets with their own rules, regulations and languages, not a pan-European market.

The UK, on the other hand, is a notable exception to the rule. It is more diverse, its labor markets are more flexible and language isn't a barrier.

What are the implications of Europe shutting itself off from global services? And what are the lessons for us in the U.S. and you the business owner in the East Bay? Global sourcing of services is like a revolutionary new technology. It is a whole new way of doing business. To keep this most significant business trend out of Europe is the same as condemning its businesses to corporate sloth and decay.

Today's markets are global in nature. As U.S. companies in any industry start lowering their IT, back-office, and R&D costs by going to India or China, they will slowly but surely out-compete their European rivals. Their business processes will be more efficient, their product development cycles will be shorter, while their European counterparts cling to the past.

Truly speaking, Europe has not implemented any protectionist laws to keep global services out of Europe. They simply haven't had to. The existing laws are enough to keep it on the fringes of the economy. What they need to do is to embrace global services with open arms. Make changes to encourage it. *"Everywhere immigrants have enriched and strengthened the fabric of American life."*¹⁵

¹⁵ http://www.aif.org/pubed/pe_quotes_index.asp John F. Kennedy, July 12, 2004