

Pro-outsourcing report may rekindle jobs debate

THE WASHINGTON POST

A report by an influential consulting firm is exhorting U.S. companies to speed up "offshoring" operations to China and India, including high-powered functions such as research and development.

In blunt terms, the report by the Boston Consulting Group warns American firms that they risk extinction if they hesitate to shift facilities to countries with low costs. That is partly because the potential savings are so vast, but the report also cites a view among U.S. executives that the quality of American workers is deteriorating.

"The largest competitive advantage will lie with those companies that move soonest," the report states. "Companies that wait will be caught in a vicious cycle of uncompetitive costs, lost business, underutilized capacity and the irreversible destruction of value."

Boston Consulting, which counts among its clients many of the biggest corporations in the United States, admonishes them that they have been too reluctant rather than too eager to outsource production to "LCCs," or low-cost countries.

"Successful companies ask themselves, 'What must I keep at home?' rather than 'What can I shift to LCCs?'" states the report.

The report, released in May, has gone almost unnoticed amid generally upbeat news as strong economic growth has begun fueling an increase in jobs, diminishing public debate about offshoring.

But the report's conclusions underline the intensifying pressures on corporate America to shift jobs overseas. Although many economists believe the trend will benefit the U.S. economy overall by improving productivity, and that new job creation will more than compensate for the jobs migrating to China and India, the study suggests that the movement of jobs abroad is likely, if anything, to accelerate strongly in coming years.

Particularly troubling is the report's information about confidential discussions with executives at Boston Consulting's client companies, many of whom conveyed low opinions of their American employees compared with labor available abroad. Not only are factory workers in low-cost countries much cheaper - well below \$1 per hour in China, compared with \$15 to \$30 per hour in the United States and Europe - but they quickly achieve quality levels that are "equivalent to or even higher than . . . (the) best plants in the West," according to the report.

"More than 40 percent of the companies we talked with expressed significant concerns about the erosion of skills in the work force," the report states. "They cited machine operators who are unable to handle specialized equipment properly or to make the transition to new work materials. In contrast, LCCs provide large pools of skilled workers who are eager to apply their 'craftsman' talents."

Midlevel engineers in low-cost countries, the report adds, "tend to be more motivated than midlevel engineers in the West."

Indeed, the report undercuts the view that research and development jobs in Western countries will increase even as low-skill jobs migrate to nations like China and India. Among companies with large operations in low-cost nations, "one of the most intriguing advantages we have come across is faster (and lower-cost) R&D," the report states.

Economists who contend that offshoring benefits the U.S. economy in the long run voiced consternation over the report, which they fear could help revive the political clamor for protectionist measures that erupted last year when the media focused public attention on the loss of high-tech jobs to India. Referring to the authors' "brutal honesty," Catherine Mann, a fellow at the Institute for International Economics, said, "Maybe because they're from Boston, they don't know what a hornets' nest they've stepped into."

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