

Commerce Department Report On Offshore Outsourcing Finally Sees The Light Of Day

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After nearly two years, *Manufacturing & Technology News* has obtained a copy of the elusive Commerce Department report on offshore outsourcing of high tech jobs in the information technology, semiconductor and pharmaceutical industries. The report, which was required by an Act of Congress, was to be submitted to Congress in July 2004. But it was never released, due to fears within the Bush administration that the controversial subject would hurt the president's re-election campaign. Senior officials in the Bush administration, including the head of the Council of Economic Advisors, had publicly embarrassed the Bush team with cavalier statements describing offshore outsourcing of high tech jobs as being good for the U.S. economy.

The \$335,000, 336-page report obtained last week never saw the light of day. *Manufacturing & Technology News* submitted a Freedom of Information Act request to the Department of Commerce on March 17, 2005, seeking release of the study, but that request was denied. Eventually, what was produced and provided by the Commerce Department in September 2005 was a 12-page document bearing a July 2004 publication date that bore little resemblance to the work done by analysts at the Technology Administration, all of whom have recently been told they will be laid off due to severe budget cuts for the agency and the issuance of a reduction in force (RIF).

Although that 12-page report (at \$28,000 per page) was provided to *MTN* and Congress, it was not made available to the public and an electronic copy has never been posted on the Commerce Department's Web site. That summary put a positive spin on offshore outsourcing and includes analysis written by political appointees that was not in the original work.

Democrats on the House Science Committee asked for a copy of the full report in October, 2005, but the Commerce Department denied that request on a specious Freedom of Information Act legal claim that only the political party in power in Congress could require the document's release.

After Republicans on the Science Committee acquiesced to Democrats' demands, the Commerce Department provided Congress with the full document, a copy of which has been provided to *MTN*.

That document is quite different from the original 12-page summary, and it is apparent why Bush's political appointees so vehemently refused its release. The administration "was scared of anything having to do with outsourcing," says one source who is familiar with the report's travails. The Bush team "could not afford even a discussion" of the outsourcing issue.

"The report speaks for itself," said Ben Wu, who was in charge of the report's demise while at the Commerce Department's Technology Administration. Wu now works in the state of Maryland's economic development organization. Phil Bond, who was in charge of the Technology Administration at the time, said he had nothing to do with re-writing the report. He has since been named president and CEO of the Information Technology Association of America (ITAA), an organization that took the lead in Washington in defending the practice of offshore outsourcing of IT jobs.

"As leading companies locate in or contract with labor in other countries, concerns about the shift of work include fears that higher value work may shift from the United States to other locations, impacting U.S. industrial strength and high-salary employment," states a passage in the full study that was deleted in the 12-page version. "Layoffs in the United States, especially in the IT sector, have only exacerbated this concern."

The 360-page version of the report describes the types of IT services and software jobs that are being outsourced. It states the obvious: that Indian outsourcing companies "are expanding staff annually by the thousands." The report describes the reasons for the trend including the fact that "venture capitalists are now encouraging U.S. IT start-ups to use lower-cost offshore destinations for software development to reduce the 'cash burn rate.' "

The report states that there is "growing pressure in corporate America -- from customers, consultants, and financial markets -- to offshore IT work, as well as growing external and political pressure to stem the flow of American jobs going overseas."

Yet the report also highlights the fact that the impact on U.S. competitiveness "appears to be negligible."

The full report that wasn't released also contains a long (and sobering) section on the shift of the U.S. semiconductor industry to offshore locations. Again, the 12-page Bush administration release differs markedly from the one the Commerce Department quashed. It states that U.S. semiconductor companies "are hiring more engineers overseas than in the United States" due to their need to "reduce labor and operations costs and serve the growing customer base in Asia."

In the long term, the U.S. risks losing high-end R&D and design jobs because, as semiconductor fabs move to Asia, high-skilled jobs move with them, states the report. The design centers that U.S. companies are "rapidly" creating in Asia "do not support local customers but support the home office with lower-cost designers," says a section of the report that was deleted from the one that was released. "The cost of employing a design engineer in Ireland, Taiwan, China or India has been estimated to be 50 to 90

percent lower than in the United States." It further states that, "the number of engineers employed offshore by U.S. semiconductor companies rose by more than 10,000 between 2000 and 2003, while engineers employed in the United States dropped by 4,000 during the same period, according to estimates by the Semiconductor Industry Association."

The unreleased version of the report ventured into issues impacting the continued loss of semiconductor industry jobs. "With fewer companies investing in new wafer manufacturing in the United States, process R&D co-located with leading edge facilities may also decline, resulting in fewer high-skill jobs for U.S. graduates. Offshoring of design work can also impose downward pressure on U.S. wages and reduce the demand for U.S. design engineers. As the number of overseas design centers increases, it may draw foreign talent from the United States."

The unreleased report also addressed the potential of offshore outsourcing in the pharmaceutical industry. Deleted from the final version was a discussion of how skyrocketing health care costs could lead to pharmaceutical companies deciding not to make future investments in the United States. "It may be...that investment incentives and the global geography of capabilities and infrastructure will shift in the years ahead in ways that will help other countries' pharmaceutical industries take on a larger role than at present in the global pharmaceutical innovation engine," says the report that the Commerce Department refused to release.

The unreleased report provides a comparison of the average annual pay for global software workers: United States: \$63,000 Japan, \$44,000 Canada: \$28,174 Indonesia: \$12,200 Thailand: \$11,124 Russia: \$7,500 Philippines: \$6,550 Poland: \$6,400 Hungary: \$6,400 Pakistan: \$4,860 China: \$4,750