

The New Protectionists

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DURING the 1990s, information and communication technology (ICT) workers were optimists, seeing unbounded opportunity for all in the new, global, high-tech world. Manufacturing workers, on the other hand, often covered behind crumbling tariff walls, awaiting the onslaught of the yellow peril.

Now it would seem that the mood has reversed. Australian manufacturers are currently relishing the Free Trade Agreement (FTA) with the US which will see the virtual elimination of all trade barriers between the two countries on manufactured goods. At the same time, IT workers and other service providers are now desperately seeking protection from erstwhile unthreatening India.

The change in perspective has understandably been most pronounced in the US, where the loss of IT and other service jobs to off-shore operations—known as ‘off-shoring’—has become a major political issue on a par with the ‘rust-belt’ rhetoric of the 1990s.

The press in the US is littered daily with claims about millions of high paying, high-tech jobs flowing overseas. Forrester Research, a leading ICT research firm, has, for example, forecast that 3.3 million US services jobs and \$136.4 billion in wages will have moved offshore by 2015.

Fear of off-shoring, mainly of ICT jobs, has led five US States to propose legislation to prohibit or severely restrict government departments from contracting with firms that contract out services to low-wage developing countries.

While there is no doubt that off-shoring of ICT and business processing services is a significant and

growing phenomenon, there is also no doubt that the threat it poses is both greatly exaggerated and distorted

A recent detailed study of off-shoring trends by the Institute of International Economics in the US found that:

- the vast majority of the jobs lost in the post-bubble US economy in occupational categories threatened by off-shore outsourcing has occurred in the manufacturing sector;
- most job losses have been in high-paying management positions;
- most of the jobs under threat pay less than the US average wage, suggesting that many of them may face medium-term elimination through technological change, regardless of whether they are out-sourced to off-shore locations or not;
- while some IT occupations have declined, the declines are concentrated in low-skilled occupations. Indeed, high-paying ICT occupations have generally expanded since 1999.

Of course, off-shoring is not new. It is a central part of globalization and trade liberalization and is happening in every sector.

When the market was booming, American ICT workers had nothing to fear from small and familiar Ireland. Indeed, they recognized the gains from outsourcing, and supported trade liberalization. But now India, with its vast army of highly trained, compliant and cheap workers, is perceived as a real threat in a tighter market, particularly as India's workers are often paid a fifth of their US counterparts while meeting the same, or superior, levels of quality control.

So far, the US ICT industry has been forthright in its support for off-shoring and further trade liberalization. In part, it's the culture of the industry and its global structure. US ICT firms also still dominate the global sale of software and the hardware upon which the offshore service suppliers rely. Thus they can be confident that growth in off-shoring will translate into demand for domestic goods and services. Off-shore has also become an intrinsic part of the operations of most large US firms, with 230 of the *Fortune* 500 importing services from India alone.

A similar process is under way in the Australian ICT sector. Judging from the responses to date, and because of the structure of the ICT industry and strength of the union movement, the rise of protectionism is likely to be greater in Australia than in the US.

The Australian ICT service sector has been supportive of trade liberalization, not out of principle, but rather for the perceived benefits for export business. In 2001, for example, Australian firms benefited to the tune of US\$400 million from the off-shoring of ICT services, largely from the US.

At the same time as the Australian ICT industry has been a supporter of ‘free trade’, it has sought, and received, a raft of protectionist measures such as preference in government purchasing, export development grants, and R&D grants. Indeed, the industry has been heavily pampered by governments at State and Federal levels. Thus, while the local ICT people may voice support for free trade, many are mercantilist to the hilt.

For much of the last two decades, the common perception has been that

Australia has a comparative advantage in trade in services. Accordingly, successive Australian Governments have pushed for reductions in barriers to such trade. Ironically, successive Australian Governments have also identified India as a prime potential market for Australian service exports (Australia currently having a surplus in trade in services with India).

Under the US–Australia free trade agreement, optimism continues within the trade in services sector. While the FTA was being finalized, however, the off-shoring debate flared up, with news that IBM had decided to contract out work with Telstra to its operations in India. The response from politicians, the ICT industry, media and unions belied their vocal support for freer trade.

The facts are that Telstra's contractor of many years, IBM Australia, has decided to shift 500 software development jobs to India. It did so to save costs, to access higher skills and to provide a greater range of services to its client. IBM Australia benefits from the transaction by the renewal of its contract. Telstra shareholders, including taxpayers, benefit from the ability of Telstra to match its major competitor, Optus, which has off-shored similar services, and to generate profit. Telecommunication consumers benefit from lower costs and higher quality services. Some Australian ICT contractors benefit from the use of some of the savings to create new domestic jobs and from cheaper telecommunication facilities.

There are other benefits from this decision. It will generate wealth and jobs for Indians, in a far more effective manner than the \$20 million in foreign aid that Australia provides to that country annually. It will help develop a powerful constituency within India to free up its markets for services as well as goods—and Australia stands to benefit greatly from a more open India. It will also help develop links between Australian firms and Indian firms. And one thing is clear in any case: the Indian ICT in-

dustry will become a world force, with or without Australian involvement.

Despite these benefits, politicians, with the exception of Commonwealth Industry Minister, Ian MacFarlane, loudly criticized IBM's decision. The Federal Treasurer Peter Costello advised Telstra to 'look at the issue carefully'. The Labor Party proposed banning government departments, presumably including Telstra, from contracting off-shore. And the Democrats went further and proposed banning firms which out-

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source to low-cost countries from gaining government contracts.

ICT industry lobby groups jumped on the issue. The Australian Computer Society claimed that this was the 'mother of all issues', threatened to conduct a brand mail campaign against firms that off-shored and called on the government to protect the industry through government procurement.

Australian Information Industry of Australia argued for the government to develop an industry plan in response to global off-shoring 'in the same way as other industry sectors such as textiles, clothing and footwear had done'.

At the same time, both organizations welcomed the FTA with the US.

The unions predictably condemned IBM's decision and have proposed legislation along the lines of the Democrats (as in the US) to ban off-shoring firms from securing government contacts.

While the debate about trade in services is in many ways identical to that of trade in goods, the former has some aspects to it which make it both more difficult and more important to advance.

First, many service sectors have, until now, not been subject to foreign competition—at least not directly. Thus, the idea is new, and the new is often threatening. Second, the service sector accounts for most of the existing, and virtually all new, jobs in Australia. Thus the number of people affected by trade in services will potentially be much larger than for trade in goods. Third, service providers are generally more affluent and articulate than farmers and manufacturers. Fourth, the union movement has identified trade in services, particularly ICT services, as fertile ground for its own renewal. Little wonder that the union movement was the chief propagator of the recent Telstra off-shoring scare.

Fifth, politicians have spent decades promoting the ICT sector as a safe haven from off-shore competition. Moreover, with few exceptions, politicians are latently protectionist, seeking to use the power of the state to provide special favours and protection from the 'outside'. This is particularly the case when it affects them and their own constituencies, which in turn are largely composed of service providers.

Finally, unlike the US, Australia does not have a large vocal set of global IT firms which will benefit from and support off-shoring. Telstra is the local leader, and it is hamstrung by government ownership.

Accordingly, ICT services are likely to be the next battle ground for free trade.

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