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# THE POLITICAL ECONOMY OF GLOBAL OUTSOURCING

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# THE POLITICAL ECONOMY OF GLOBAL OUTSOURCING



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What is outsourcing and why India is being considered as BPO destination of the world? Why jobs are coming to India and why there is a downturn in the US economy and loss of jobs in that country. Even though these are two different things that happened simultaneously, they sadly managed to be mixed up. Academicians are groping to understand the phenomenon and are still in the process of disentangling themselves from the wave of confusion that exists. Politicization of the issue has made the concept of outsourcing a highly debatable, perplexing and controversial. The debate has conceptual, moral, economic, political and policy dimensions. The debate centers on the theoretical issue of globalization verses protectionism. In addition, it has a moral and human dimension that compels one to ponder over the hopeless uncertainty and misery that has dawned upon those displaced due to outsourcing in the developed countries. Apart from these, there are certain practical policy issues that have become part of the debate such as theft of crucial information by the offshore workers, threat to the safety of Intellectual Property and the concern over the quality of services being delivered by the BPO companies in India and other developing countries. Finally the political dimension of this contentious issue that has forced the federal government of USA to make a law against outsourcing of the government contracts cannot be ignored. A fall out of Globalization, outsourcing is being discussed around the world from a renewed perspective, sometimes with delight and at other times with fury, depending upon which side of outsourcing the person is supporting. Taking exception from the subjective and partial treatment as the supporters and opponents of the phenomenon around the globe are offering, like six blind men trying to expound the outlines of an elephant the paper deals with the theme in its totality, while avoiding the prejudiced approach of a religious enthusiast. To the supporters the problem of job loss is not very serious thus they oppose protectionist attitude of the U.S government. But the fact is that the problem of job loss is quite critical yet pursuing protectionism as stipulated by the opponents is not a solution. Supporters have relied upon the traditional 'job replacement argument' to dissipate the fears regarding job loss. But it has been argued that the problem of job loss is serious and no replacements are going to take place in near future to substitute the quantum of jobs being lost. Thus unemployment, intended or unintended, will be the consequence. But protectionism, far from solving the problem, will create the new ones. Paper suggests certain alternatives on the basis of the model of job-protection exemplified by the British government.

The most puzzling and thorniest issue that generated so much of heat in American politics resulting in a worldwide debate is swelling up of the 'off shore-outsourcing phenomena' across the globe. In the midst of presidential election the terms which have come to carry certain connotations such as 'free trade' and 'fair trade' and loaded terms like 'protectionism' and 'Benedict Arnold CEOs' dominated the debate while failing to illuminate. Both the candidates, G. Bush and J. Kerry attempted to come across as the man who knows how to secure and create American jobs making it a 'hot-button issue' in the presidential elections. Thus the need is to move beyond simple slogans and examine the issue with an academic orientation generating more light than heat.

The Business Process outsourcing (BPO) as it is called is not a new phenomenon. Rochester, N.Y. based Company, for instance, has been outsourcing payroll processing for small businesses since 1971. Thus the process itself is not new but with communication technology (esp. internet) lending itself to the BPO process, a new phase of BPO seems to have begun. As communication technology entered into partnership with BPO so as to play the game together, the relative ease of carrying out BPO operations increased to a great extent. Thus a paradigm shift has taken place in the concept of managing off shore business operations. Companies in USA and Europe can now transfer a significant amount of back office work and call centers to developing countries and operate it swiftly irrespective of geographical locations or physical presence. But this also as a consequence leads to job loss in developed countries. Thus the issue acquires a political dimension.

Politicization of the issue has made the concept of outsourcing a highly debatable, perplexing and controversial. Opinion leaders in USA are seeing large scale service workers getting displaced due to BPO. Outsourcing has become a contentious political issue in US and other rich countries from where jobs are being exported through outsourcing. People in USA, UK and Australia are protesting against the shifting of jobs overseas. Though the governments in these countries are treading the thorny path quite watchfully, in USA however as a consequence of lobbying efforts and public pressure and the actuality of this year being the Presidential election year with Democrats having seized on the corporate outsourcing of jobs as a campaign, the first Federal law against outsourcing was passed by the US Senate on 23<sup>rd</sup> Jan barring doling out subcontracts to India and other countries by American companies to cut their cost. As soon as the bill was passed there was a flood of reactions from corporate world across the globe. Thus it becomes imperative to discuss debate and evaluate the arguments supporting or denouncing the outsourcing phenomenon. The debate has conceptual, moral, economic, political and policy dimensions. The debate centers on the theoretical issue of globalization verses protectionism.

In addition, it has a moral and human dimension that compels one to ponder over the hopeless uncertainty and misery that has dawned upon of those displaced due to outsourcing in the developed countries. Apart from these, there are certain practical policy issues that have become part of the debate such as theft of crucial information by the offshore workers, threat to the safety of Intellectual Property and the concern over the quality of services being delivered by the BPO companies in India and other developing countries. Finally the political dimension of this contentious issue that has forced the federal government of USA to make a law against outsourcing of the government contracts cannot be ignored.

Taking exception from the subjective and partial treatment as the supporters and opponents of the phenomenon around the globe are offering, like six blind men trying to expound the outlines of an elephant the paper deals with the theme in its totality, while avoiding the prejudiced approach of a religious enthusiast.

Rest of the paper is structured as follows. **Section II** throws light on the concept and its premises and highlights the peculiarity of the kind of a business relationship that the phenomenon of outsourcing entails making it different from other kind of business relationships and so attractive to the corporate. It has been argued that under present circumstances BPO is not just another option among many others that are open before the corporate, especially in the developed countries, to increase their competitiveness but it has emerged as something highly indispensable and critical for their very existence. BPO has been described as a function of "there is no other alternative" (TINOA) factor in this era of globalization. In **section III**, it is briefly summarized as to why India is seen as BPO destination of the world and what India stands to gain from the trend but not without a word of caution and doubt regarding India's ability to retain the status as suggested by its inability to get larger deals so far. Assurances and concerns for India while on its way to outshine as outsourcing destination are highlighted in this section with an intention to give just a tip-off for future research and investigation, however, the details being beyond the scope of the present paper, have not been explored. In **section IV**, the opponents' view of the outsourcing debate has been taken up. After clarifying as to who the opponents are, the grounds of opposition to the concept of BPO have been analysed. These

include job loss in countries where corporate is shifting jobs off shore, lack of quality control in services provided by the outsourcing destinations, security threat, injustice and a bad economy argument. **Section V** goes deeper into the market principles working behind the outsourcing phenomenon and political economy of the response of U.S. government to the outcry against outsourcing. **Section VI** reviews the justifications offered to support the case in favour of BPO. Apart from good economy argument and free marketism the main grounds of justification are free choice and availability of products at competitive prices for consumers, job opportunities in developing countries, freeing up of more resources for the companies enabling them to invest in new technologies leading to creation of a new generation of high class workers. To the supporters the problem of job loss is not very serious thus they oppose protectionist attitude of the U.S government. But the fact remains that the problem of job loss is quite critical and yet pursuing protectionism as stipulated by the opponents is not a solution. Supporters have relied upon the traditional 'job replacement argument' to dissipate the fears regarding job loss. But it has been argued (while closing this section) that the problem of job loss is serious and no replacements are going to take place in near future to substitute the quantum of jobs being lost. Thus unemployment, intended or unintended, will be the consequence. But protectionism, as argued in the next section (**Section VII**) will not solve the problem. In this section certain alternatives have been suggested on the basis of the model of job-protection that has been exemplified by the British government. Finally the paper concludes by arguing that war against outsourcing is futile. The real challenge is to devise a system that can grab the gains while absorbing the pains associated with BPO.

## **II. BPO: The Concept and its Premises:**

BPO is a kind of business relation between the buyer of a service and its supplier in which the supplier is told what to do and not how to do. Supplier is asked to produce the end result that the buyer would pay money for. The *process* of bringing about the desired outcomes is left to the supplier. Thus there is transfer of 'control over the process' which means that the supplier becomes the 'owner of the business processes.' The responsibility of day-to-day back office operations is transferred to an outsourcing partner who is expected to get the job done at a cheaper price without affecting the quality (see *Figure 1*). This sets free a lot of resources which enables the company to focus better on the core business. In fact cost reduction, quality control and productivity are the three reasons as to why the concept has attracted the corporate world.

It is to be noted that under this phenomenon only those services are off shored that can be carried out regardless of geographical location (for instance call centers and back office work, bad debt retrieval by insurance and credit card companies, patent drafting and filing of new inventions etc).The services that require physical presence or interaction cannot be off shored (eg, emergency medical services, management, sale executives, hotels etc.) Recently outsourcing has become an order of the day in business world. For instance, USA is outsourcing predominantly to India and China and to a comparatively lesser extent to Philippines and Russia. Britain is outsourcing mainly to India. France is outsourcing to Northern Africa, Spain to Central America and Germany is outsourcing to West Africa and Eastern Europe. There are certain factors that seem to have dragged the phenomenon out of its dormancy leading to its volcanic eruption to engulf the entire world. The most important ideological factor behind BPO revolution is the concept of globalization and free market economy which in recent past has gained universal acceptance and in which consumer is in driver's seat. Consumers want lower prices and free choice. No governments can force them to buy only homemade products. The theory of free market economy favours access to the best goods and services at the most competitive prices. Another reason for rise of this phenomenon is the compulsive impact of TINOA (There is no other alternative) factor. The logic and the pressure of the market says that either you do it (outsourcing) or lose your competitive edge and go out of business. Any wise businessman running a company knows that if his competitor begins using low-cost labor offshore, whether it is manufacturing or talent, he will have to do the same to remain competitive <sup>1</sup>. Thus, it has become an irreversible trend given the strong economic incentives it offers to the corporate world and the participating economies. As far as the country specific case of America is concerned, recent economic recession in the US coupled with acute shortage in labour supply due to slow population growth and rise of aging population has forced most corporate there to move thousands of jobs off shore and more specifically to India. The problem has aggravated after visa laws (H1Bvisa) were changed to impose restriction on immigration of labour.

**Figure: 1 Hourly wages for selected occupations (US and India, 2002-03).**

Occupation	US Wage	India wage
Telephone operator	\$12.57	Under \$1.00
Health-record technologist/MT	\$13.17	\$1.50 - \$2.00
Payroll clerk	\$15.17	\$1.50 - \$2.00
Legal-assistant/ Paralegal	\$17.86	\$6.00 - \$8.00
Accountant	\$23.35	\$6.00 - \$15.00
Financial researcher/ Analyst	\$33.00 - \$35.00	\$6.00 - \$15.00

**Source:** US wages are from US Bureau of Labor Statistics, National Compensation Survey, July 2002; India wages are from business literature search and review of employment want ads.

These added factors have given more strength to the working of TINO factor in USA. Figure 2 shows that outsourcing is going to become even more inevitable for USA in the years to come due to a rising gap between labour demand and supply.

III. Impact on India:

Before coming to the debate and its analysis, it is important to see how India relates to this phenomenon. India is increasingly seen as 'BPO destination' of the world. India is gaining maximum amount of BPO business as compared to any other country in the world due to reasons such as availability of cost competitive talent (educated workforce with computer literacy and English communication skills working on a lower salary), appropriate time zones especially with USA which reduces turn around time, availability of infrastructural requirements and government support. BPO concept has emerged as a saviour of Indian industries who were grappling with their revenue problems. MNCs and entrepreneurs alike are committing huge sums of money for business development in India- often generating tens of thousands of job opportunities in the process. Apart from creating huge employment potential at low per capita cost, it has created equal employment opportunities for women, increase in the levels of literacy / education along with tremendous boost to construction, telecommunication and transportation industry. It has also led to increase in FDI and reversal of brain drain. The Information

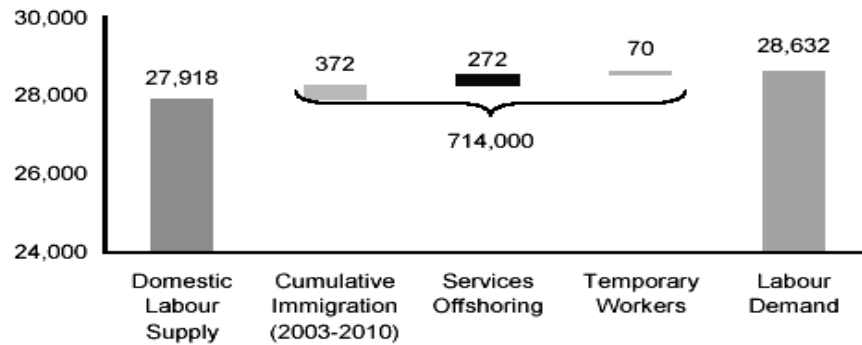
Technology research firm 'Giga' has written in its report entitled "IT Trends 2004: Offshore Outsourcing" that India is being sought as an offshore destination not purely due to cost containment benefits but also due to the quality and productivity benefits being realized. Though NASSCOM estimates that the export revenues generated by the BPO industry will be at par with that of the software sector by 2020, yet it is to be noted that India is getting only smaller deals and when it comes to large deals, Indian agencies have not been able to cross the very first stage — the RFP (request for proposal) stage. Their proposals being substandard and cut-paste in nature, get rejected in the first round. This gives an indication of a 'fragmented future' for BPO industry in India.

**IV. BPO Debate-I: The Opponents' Case:**

Now first taking up the case of the opponent lobby, let us see who these are and what their interests are. Opponents are the workers and their unions in the rich countries who are losing their jobs. They want a law against outsourcing because this aspect of globalization has opened up the services to international competition which they cannot withstand. So the primary argument against the phenomenon of outsourcing is that of job loss (see figure 3). Where will the losers go? The problem of job loss is real. According to University of California Berkeley (UCB) study report a total of 14 million US service jobs were at risk of being sent overseas. Forrester Research, a market research firm predicts that at least 3.3 million white-collar jobs and \$136 billion in wages will shift from the United States to low-cost countries by 2015. Forrester Research has also predicted that by 2015 more than 489,000 US lawyer jobs, about 8% of the total will shift to lower cost countries. Morgan Stanley report estimates that the number of U.S. jobs outsourced to India will double to about 150,000 in the next three years. It also predicts that as many as 2 million US white collar jobs will shift to low cost centers by 2014 and by 2015 the number will rise to 3.3 million jobs. Observation of the job-loss scenario in USA reveals that manufacturing is gone from US and the pie has been taken by China. Services are being eaten away by India. Low paying call centre jobs are also being shifted to India and other English speaking countries. Software programming jobs are being outsourced to China, India and Brazil. High-end computer system integration is also leaving the US as is architectural and design work. Not only

this, the outsourcing wave has also begun to hit the job of 'editor-lawyer' that was once considered an all American business. West editors are alarmed that the Indians could one day put out of place the lawyers in the US who earn around five times more than Indian lawyers. The problem in Britain is not less alarming. Deloitte Research (UK) predicted that two million jobs will migrate from the West to India by 2008, many of them skilled business service jobs, not low-skilled call centre work. Likewise the jobs of British and Welsh lawyers are also threatened by the BPO wave. Legal document production will be moved overseas, particularly to India. It has been estimated that the movement of paper work could threaten the jobs of some of the estimated 20,000 legal secretaries in UK. Apart from the job loss in outsourcing countries like USA and UK, the BPO phenomenon has also been criticized for lack of quality control in the services delivered by overseas destinations like India. It has been argued that Indian centers deal with orders and customer inquiries but the level of service is substandard. Consumers in Britain and America are complaining that the Indian staff had poorer skills than their British or American counterparts and were ill equipped to deal with inquiries. Shop Direct (formerly Kays) of UK transferred 250 jobs from UK to Bangalore in March 2002 but being dissatisfied with the quality of services moved back to UK during Feb 2004. Similarly America's Lehman and Brothers and US computer giant Dell have stopped off shoring to India and are moving back to US after complaints from consumers. Critics say that such instances prove that the case for moving to India is not being made. The 730,000 member British union known as Amicus (the country's largest manufacturing union that was in news after pushing the European Union to begin an inquiry in March 2004 to investigate the growing trend of outsourcing work to India and other low-wage economies) seems to have viewed it as a shadow of the coming events when it predicted that many more to companies will come crawling back. (Most business groups however, don't consider it to be a trend. They maintain that the problem will disappear as the BPO market gains maturity and experience) Disapproval for off shoring is also derived from the security threat argument.

**Figure 2 : Global Outsourcing to Meet Labour Shortfall – 2010 ( Thousands)**



Source: Evalueserve Analysis

Critics say that shipping abroad of certain services puts at stake the confidentiality of data such as medical or legal records. Foreign workers, they suspect, are collecting personal information through call centers. Main concern is protecting residents' privacy especially for things such as Social Security numbers and to prevent identity theft. It has also been pointed out that in the race to cut the costs, protection and security of Intellectual Property have also been overlooked. There is some evidence to support the argument that U.S. companies outsourcing their software development offshore have become victim of industrial espionage and poor intellectual property safeguards. Cases of stealing vital information and stealing of source codes are not completely unknown. ( for instance in late August 2002 Shekhar Verma working with Geometric Software Solutions Ltd. (GSSL), an outsourcer based in Bombay stole the source code for Solid Works Plus's 3-D computer-aided design package, which GSSL was debugging. Verma was trying to sell it for \$200,000 when CBI sleuths arrested him.) Injustice is another basis for denouncing the practice. The grievance is that the profit making companies are doing nothing to create better living standards in their home states. Critics say that outsourcing to low-wage economies like India for short-term profit is "not good in principle" and 'should be opposed'. Sending good jobs overseas to save a few bucks is misuse of taxpayers' funds. The reason for this injustice, they say is that the government obviously protects the interests of the huge companies (that make financial contributions to the political allies) more than the interests of individual citizens. In USA, 'Democracy 21' released a list of the top 103 soft money donor companies who in 2000 contributed a staggering \$35,522,297 to elect George W. Bush to the White House. The list was compiled for Democracy 21 by the Center

for Responsive Politics, based on Federal Election Commission (FEC) data. Thus there is a reason to believe that the vested interests of these companies will be looked after. Critics of the BPO process point out that exporting of jobs overseas can take a greater toll on the economy. It can be justified through a cyclical argument that if the process of sending jobs offshore continues then unemployment will increase. The unemployed will not pay taxes or invest. As fewer taxes are collected the government will seek bids from offshore sources to make up for the shortfall and this will further create downward pressure on jobs. Thus it is clear that from a political perspective the controversy over outsourcing has grown out of all proportions. The debate over outsourcing in USA is directly linked to the jobs scenario which is a sensitive issue in an election year. Outsourcing attracted the attention of democratic presidential candidate John Kerry who made headlines with his contention that the companies who move their operation overseas should face special taxes. Kerry used the outsourcing issue to discredit incumbent George W. Bush, labelling him the president with the worst employment record in the past 72 years.

**V. Political Economy of the U.S. law against outsourcing:**

Impact of intense lobbying and public pressure in an election year was clear when the US Senate passed on 23<sup>rd</sup> January the Omnibus Appropriation Bill totaling 328 Billion Dollars, containing provisions limiting agencies receiving federal funding from outsourcing subcontracts to foreign countries. The bill was passed by 65 to 28 votes. Bill was cosponsored by two Republican senators Iowa's Craig Thomas and Ohio's George Voinovich. The bill aimed at preventing the American companies from outsourcing federally awarded projects. Many states of US have also introduced

bills to regulate privatization of the state services. Earlier in a response to the controversy over the displacement of American workers by H-1B workers, cap on the number of H-1B visas to be issued for the current fiscal year was reduced from 195,000 for FY2001-2003 to 65,000 in FY 2004. This is also seen as a protectionist measure. Is America taking a step away from free marketism? Is America losing its standing as an open society? From theoretical and ideological standpoint one cannot but agree with those who are now realizing the perils inherent in the process of globalization. Till recently, they were overwhelmed by hypognition 2 by virtue of which they conjured up all positive images of globalization and could not understand what really was going on or that there was anything wrong with globalism or free trade.

**Figure 3: Most vulnerable jobs in USA**

Profession (USA)	Employed today	Employed in 2015
Financial underwriters	23,560	19,319
Computer Programmers and Software Engineers	905,370	669,974
Paralegals and legal assistants	179,330	147,051
Telemarketers	461,890	378,750
Reservation Clerks	199,770	163,754
Data keyers -entry	458,720	339,453
Typists	257,020	210,756

Source: Forrester Research.

Now they are being tormented by the monster they themselves had so passionately patronized. This monster knows only one thing and that is 'the single principle of highest return to existing wealth'. Adherence to this principle leaves issues like human rights, environmental protection, and even the ability of the people to feed themselves as insignificant. This is what free market and free trade is. It is free trade as theoretically envisaged by the 18th century economist *David Ricardo*, stripped of the economic, social and political constraints. He said that states should exploit their comparative advantages in resources or manufacturing (Ricardo, 1815). Such a theory of free trade that treat other human beings and their labour as commodities to be purchased at lowest risk is nothing but "primitive marketism" **3**. Primitive marketism is a market driven solely by the logic of highest return to existing wealth. The phenomenon, however, can be equated with a kind of 'corporate colonialism' **4** which according to Francis Thicke **5** (2003) describes better the essence of present free market economy. Common man in west is now beginning to realize that in the regime of "free" trade the multinational corporations would export production and associated jobs to any place where labor is available most cheaply without any environmental or health related regulations. Now these people are trying to counter it by organizing campaigns like 'British and Proud of it campaign' in UK or slogan shouting like 'Be American and Buy American' in USA or by forcing their respective governments to take various protectionist measures. People in USA are demanding that the subsidies from the outsourcing companies should be withdrawn, tax credits or tax breaks should not be given to them and more punitive action be imposed to make this practice of going off shore too costly for American businesses. (Similarly, the European governments are also under pressure to consider new laws to discriminate against those firms that outsource work overseas) But this Neo-Protectionism, is not going to bear any fruits. Moreover the fact that US government has passed a bill restricting the government

contracts to be further subcontracted to any agency outside USA does not mean that the government is convinced of some ill effects of the 'globalization driven BPO process' rather, I feel it is merely an attempt to pacify the democracy's political majority that has become so vocal against BPO. The diluted form in which the bill was finally passed confirms the conviction. The bill was originally going to apply to the entire government but as it was finally passed, it scaled back significantly to apply only to agencies covered by only few areas including transportation, treasury and independent agencies. This shows implicit support of the government for outsourcing. It is to be noted that even John Kerry conceded during presidential debates that outsourcing can not be eliminated "You can't stop all outsourcing, but what you can do is create a fair playing field," he said. Thus BPO phenomenon is here to stay whatever the criticism and shortcoming may be.

#### **VI. BPO Debate-II: The Supporters' lobby:**

There are those who are supporting BPO trend unequivocally. These are the beneficiaries such as developing economies where jobs are being created, business houses providing BPO services and the corporate in developed countries that are getting these services off shore economically. To them the competitive target of 'maximum output at minimum cost' will increase the competition. Free flow of goods and services, they affirm, will make market economies flexible and dynamic. This would mean cheaper products for consumers and more free choice for them. The proponents of this new consumerism argue quite convincingly that the BPO practice will among other things reduce the cost of manufacturing drugs. Thus medicines will be available at a cheaper rate and it will help reducing the misery of the countless suffering masses around the globe. The British Financial publication "The Economist" outraged some readers by labeling outsourcing fears as "The great Hallowing –out Myth" and maintaining that contrary to what John Kerry and G. Bush seem

to think, outsourcing actually sustains American jobs (The Economist, Feb 19, 2004). Highlighting positive impact of BPO, McKinsey Global Institute report says that US economy will ultimately benefit from BPO. In addition to helping US overcome the expected domestic labour shortfall (see *Figure 2*) it will provide other significant benefits to the US economy. It is contended that the flow of work to the lowest-cost supplier is a healthy market process that eventually benefits the countries that are losing jobs by giving companies the financial might to develop new products and technologies (as they reduce costs by offshoring, they innovate design and develop new products and ventures) thus creating a fresh category of jobs that are a level higher, thus native Americans will lose low paying blue collar jobs but get better jobs in the newly emerging sectors. The MGI study concludes that US stands to gain 12-14 cents in net additional value from every dollar invested abroad in BPO activity. Thus the practice benefits the economy by cutting the business costs. This saves the taxpayers' money.

There is another way in which BPO could benefit USA. It has been argued that higher employment in developing nations will put more money in the hands of the consumers in these countries, spurring demand for U.S. products that will create additional markets for US goods and services (including entertainment, transportation, financial and insurance services, consumer goods, and high-technology products) The argument relies on the spin off benefits of increased incomes in countries like India.

The supporters do not believe that the 'job loss' problem is serious. They point out that the number of IT jobs that have left US shores are only a tiny fraction of America's 138 million jobs. According to the prediction of the global IT research firm Gartner about 10 to 20% of American IT jobs would be outsourced to India. The Information Technology Association of America



(ITAA) says only around 2 per cent of the 10 million computer-related jobs have been sent abroad; 12 per cent of IT companies have "outsourced" work, compared to 3 per cent of non-IT firms. Various studies carried out to find the impact of BPO on US labour market point toward the historical data that suggests that the US labor market has been dynamic. This is evident from the fact that during 1993-2002, an average of 7 to 8 million workers were reallocated every quarter in the US economy. Over the period 2003-2010, in the worst case, 1.3 million existing jobs will be affected by offshoring. The reallocation of these workers will, thus, have a limited effect on the US labour market.

The business groups and the countries that are beneficiaries of BPO concept have completely disapproved of the US government's move to ban outsourcing. They say such a move goes against the spirit of globalization and is a disincentive for the corporations that send jobs abroad. Such bans even violate World Trade Organisation regulations. Under WTO norms the US government has committed that it will not restrict any entity belonging to a WTO member country from providing services to US entities from outside the United States. On this basis US also become liable to face legal challenge at the dispute resolution tribunal of WTO. Indian line of argument is that the ban won't effect Indian BPO business in any way as government dealing constitute only 2% of jobs that are outsourced from America yet the move deserves to be opposed as a principle. since it is against globalization and free trade or multilateral trade talks. It is surprising that they want India to keep opening its markets for goods but put protectionist measures on services where India have strength. What is happening today is the direct consequence of the pressure imposed by the US on rest of the world to reform and liberalise their economies.

Thus the supporters are arguing that BPO activity can create a new tier of jobs derived from new technologies, innovations and ideas in developed economies. and will make the developing world more prosperous. A win win situation.

Academics are attempting to work out a replacement theory to reassure that in U.S. new jobs will take the place of the hundreds of thousands of programming, call-center, and other jobs shipped out to Asian countries. They frequently point to the U.S. at the start of the 1900s, when about half the population worked in farming. Today it has reduced to about 5% with all kinds of jobs having replaced farming.

But it's difficult to imagine what the replacement jobs for today's programmers and call-center operators might be. After glossing over the literature it is difficult to conceive of anything more than a new category of managers to manage the offshore projects. But this cannot make up for thousands of jobs being lost. Thus it is not surprising that none of the theoreticians of replacement doctrine have offered any such example. As a knee jerk reaction, banning outsourcing (Neo-Protectionism) seems to be the solitary solution. But is it the right response?

### **VII. Neo Protectionism: A Solution or Part of the Problem?**

Despite all the positive points that are highlighted in support of the BPO phenomenon and despite the fact that India has everything to gain and nothing to lose one can not feel complacent. Human issues are involved and there is a real problem of transition. The question is how to reduce the cost and suffering of change for the part of humanity living in outsourcing countries. One cannot go and tell them what study reports are saying about 'short term pain and medium term gain' or regarding replacement of the lost jobs in future. To my mind such propositions are inhuman and callous. They are depicting a bright future ahead which no one knows will actually materialize or not. However human suffering and the resultant outcry over job loss is more than evident. The so called short term pain is extinguishing the flame of their life. It is important to try to develop workable solutions until it rages out of control. Ignoring this problem is like ignoring the fire in the basement.

There are those to whom protectionism is the answer but one can see that under present global context, protectionism, far from solving the problem will create new ones. The American products will be more expensive if outsourcing is prohibited. They will be ousted from world markets and the American people will lose their jobs. On the other hand, if the US allows outsourcing to continue then the American MNCs will transfer jobs to India. The American people stand to lose in either situation. Thus the challenge here is of choosing the lesser evil. A company in U.S or elsewhere in Europe has two options; either to offshore 10% of jobs and save 90% employees or to offshore none and lose all. Thus the governments in the west must concentrate on protecting people rather than pursuing protectionism. But how this can be achieved? There are a few answers that are being offered. One is that certain special courses and worker

retraining programs shall be offered to the displaced workers to enhance their skills for various jobs .For instance in north western Britain a 2.5 million pound skill cum frills emergency action plan is being launched to save call centers. Others have suggested that to stay ahead of foreign competitors standards of education should be improved with special emphasis on Math and Science and an increased spending on basic research. Tony Blair proposed on 12 Jan English University funding reform. He said the proposals seek to enable the British workforce to face the challenge of highly educated China and India. Ms. Mel Read a Labour MEP representing the East Midlands launched a campaign on 10<sup>th</sup> February 2004 in Strasbourg to find a European solution to the flood of financial services jobs out of the East Midlands. Mel Read said, "*The reality of the modern world means that offshoring is a fact of life.* It is a global issue which needs global solutions. Our campaign is about managing change properly so that people living in the East Midlands can be sure that they will benefit from that change instead of becoming a victim. It is a real example of how Europe can make a difference at a local level". Thus it is crucial to identify and to device global strategies to deliver the skills and training needed to safeguard those sections of people who are getting displaced and are being thrown out of jobs as their skills at a given price are no longer required. John Kerry who without himself being sure of 'how' to stop outsourcing tried to sell the slogan "Outsource President Bush" to stem the flow of jobs. But American people it seems never bought the idea that a Kerry presidency would result in a sea change of offshore outsourcing laws. In fact everyone is breathing a sigh of relief that election is over and American people have, quite rightly outsourced the 'politics' over the issue while giving President Bush a chance to put right policies that encourage growth (not jobless growth) at home without walling US off from the world by following economic isolationism.

### **VIII. Conclusion:**

The above discussion shows that the emerging tide of BPO has engulfed the whole world and it is here to stay. Thus raising hue and cry against it is futile. Today the whole world is in a flux. It seems certain adjustments are taking place, as if a process of osmosis is in progress. Wages are facing a downward pull where they were settled higher than subsistence level. Ricardo in his major work, *The Principles of Political Economy and Taxation* (1817)



proposed the theory of the 'iron law of wages' according to which wages tend to stabilize around the subsistence level. Ricardo was convinced that it was inevitable. Workers, he said, have to be kept alive as they are needed, yet there was no compulsion to give them any better treatment since they are infinitely available, replaceable, and interchangeable. The iron law of wages would function only if the supply of labor is infinite and totally mobile. Today, by virtue of globalization, the circumstances have become conducive for Ricardo's theory to operate successfully. Notwithstanding this theory one cannot and should not argue to ban outsourcing because realism holds that one should not wage a war that cannot be won. Taking a broader view of the general scheme of things in nature we should realize that just as everything has its pros and cons, the process of outsourcing too has its own. The real challenge therefore, is to manage the transition by grasping the gains while devising policies and strategies to absorb much of the resultant pains. This, potentially, is another area for further research and investigation.

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#### NOTES:

1 It may be recalled that when Republican dominated congress pushed through the North American free Trade Agreement( NAFTA) and the General agreement on Trade and Tarrifs (GATT) almost ten years ago, the presidential hopeful Ross Perot stood at the podium and predicted, "We'll all hear a giant sucking sound of American jobs being lost to overseas firms". But when Parot saw the inevitable coming right at him, he did what any astute businessman would do to remain competitive, that is to indulge in outsourcing.

2 Frances Moore Lappe (Hope's Edge, 2002) makes the case that often politicians and corporations use terms that leave us suffering from "hypocognition." Hypocognition results when a term is used to conjure up all-positive images to prevent us from understanding what is really going on.

For example, hypocognition makes it hard for the public to believe there can be anything wrong with "globalism" or "free trade," which sound like the apple pie and motherhood of the 21st century.

3. Ms. Lappe coined the term "primitive marketism" as a more appropriate name for what has become the accepted standard of world trade over the last 20 years -- that the single principle of highest return to existing wealth is the sole driver of the world-wide system of production and exchange.

4. "Globalization of the economy is a new kind of corporate colonialism visited upon poor countries and the poor in rich countries." Vandana Shiva - Environmental Activist from India, quoted by Jerry Mander (1997). Webster's dictionary defines colonialism as "The system or policy by which a nation seeks to extend or retain its authority over other peoples or territories." Such political colonialism of one nation over another fell by the wayside in the 20th century. What we are seeing now is the rise of an economic colonialism of multinational corporations over nations world wide. Corporate colonialism requires no armies, weapons, or even threats of violence to reap all the benefits of a colonial power.

5. In words of Francis Thicke, "As much as the term "primitive marketism" helps identify problems inherent to the way global trade is structured today, it takes a bit of bending of the mind and tongue to use it. It seems to me that a term that more immediately and clearly identifies where we are headed with world trade—a term which leaves no room for hypocognition—is "corporate colonialism." Thicke Francis (2003), "Corporate Colonialism", *The Progressive Populist*, USA, Dec. 15, 2003.

6. Mel Read is the European Parliamentary Labour Party Spokesperson for Trade and Industry. Her main work in the European Parliament is as a member of the Industry, External Trade, Research & Energy Committee, and she is a substitute member of the Legal Affairs and Internal Market Committee. Mel Read is a member of the European Parliament US Delegation, and also of the Public Health Inter group.