

## **Rush Lesson Plan: Business Strategy with Asia: Outsourcing or Not?**

**Purpose:** What are the positives and negatives of Outsourcing

### **Essential Questions:**

- 1) What advantages might a business have from outsourcing?  
What are some disadvantages?
- a. If you owned a business, how might you resolve the question of outsourcing or not? How would you respond to your critics?

**Rationale:** Businesses are increasingly relying on Asia to outsource many of its goods and services. Engaging students in this question is something which could resound throughout their lifetime in terms of the jobs they hold and the price they pay for products as well as human rights issues.

**Materials:** Business Leaders, Community Members, Human Rights Activists, Parents willing to listen to ideas in a School Expo. Access to computers and the internet is important.

- 1) What do you know about outsourcing?
- 2) Read: Business Week article: Commentary: Outsourcing Jobs: Is it Bad?
- 3) Create a T-chart- Pros/ Cons of outsourcing
- 4) Discussion: The Pros/ Cons of outsourcing
- 5) Assignment: Develop a Business Plan on Outsourcing (see sheet)
- 6) US Economic Conditions
- 7) Country Choices: A, B, C: To Outsource or Not?
- 8) Which countries are which? What else might you want to know?
- 9) Outsourcing Expo: Business Strategy to an Authentic Audience.

**Debrief:** What did you learn from this experience? Reaction Paper.

**Assessment:** Feedback from teacher, experts attending the Outsourcing Expo, Reaction Paper, T-chart on Outsourcing pros/cons.

**Grade Adaptation:** 11/ 12<sup>th</sup> Grade World Problems Class.

This could be utilized in other grades in a smaller scale. One way would be to provide students more information rather than asking them to research conditions within the country. Another way to discuss outsourcing would be to have speakers who favor free trade and fair trade debate their positions. Following the discussion, students could complete research and a position paper to the local newspaper.

AUGUST 25, 2003

NEWS: ANALYSIS &amp; COMMENTARY

# Commentary: Outsourcing Jobs: Is It Bad?

**An accelerating pace is raising concerns over its effects. Two *BusinessWeek* economists debate whether that's good or bad**

These are anxious times for U.S. workers. Sure, the recovery seems to be getting under way. Yet hardly a week goes by without another report of a batch of high-paying, white-collar jobs getting exported to far cheaper locales such as India, China, or the Philippines. In mid-July, IBM ([IBM](#)) set off a firestorm when news of its plans to move more white-collar jobs overseas was leaked to *The New York Times*. And news service Reuters announced on July 28 that it will move 600 or so jobs from New York, as well as dozens of other slots in England, Scotland, and Singapore, to its operations in India.

As white-collar jobs move away with increasing regularity, a debate that once focused on the loss of manufacturing to foreign outsourcing is once again raging: Just how serious for America, its workforce, and its economy is the shift? Two decades ago, the loss of auto jobs and other high-paying manufacturing jobs sparked fears of a hollowing-out of the U.S. economy. Yet painful as the loss of those positions were, strong economic growth and innovation created far more -- and better -- jobs to replace them.

Now, the same process, many economists argue, is going on in services. Yes, some individuals are losing out as well-educated programmers or engineers can do the same job for far less halfway across the globe. But as the U.S. economy evolves, innovation will create new high-paying jobs. Others, though, argue that the outsourcing of highly skilled service jobs is

fundamentally different -- and poses greater risks for the U.S. economy. How worried should we be? Here are two opposing views:

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### **YES...**

*This is no longer about a few low-wage or manufacturing jobs. Now, one out of three jobs is at risk*

Economic evolution is inevitable. Companies will always pursue the lowest-cost structure, which means less skilled work will move out of the U.S. to emerging economies. And that's a good thing, because living standards around the world will rise. Workers in developing nations will get new and higher-paying jobs, and consumers in the U.S. will be able to buy products that are cheaper than if they were made at home. The shift first occurred in textiles and other manufacturing jobs, followed by low-end services such as telemarketing and data entry. Now, it's moving up the labor food chain, leaving white-collar workers increasingly nervous.

Is the angst justified? It's probably too early to know for sure whether this latest shift in jobs is qualitatively different from past offshore movements. But it certainly feels that way. Outsourcing is hitting skilled jobs that were once thought "safe" across a far wider swath of white-collar America. What's more, the new outsourcing is occurring at a breathtaking pace. Only a decade ago, writing computer code and software-application maintenance were considered complex and secure ways for aspiring Americans to make a living. Now, it's considered "rote work," and companies such as Microsoft Corp. and Netscape Communications ([AOL](#)) Corp. have it done everywhere from Ireland to India.

The extent to which industries are moving a wide array of mid-level professional jobs offshore is troubling. We're talking about computers and other high tech, business services, and finance. Add those industries up, along with factory jobs, and you find that one out of three private-sector jobs is now at risk of being outsourced. And that doesn't count back-office functions such as accounts payable, marketing and sales, and human resources that exist in U.S.-grounded industries such as retailing, health care, and recreation. All of them could be shipped overseas in the name of cost-cutting.

From just-in-time inventories to nanosecond technologies, business practices now turn on a dime. As soon as work can be made routine --

whether it's reading an X-ray or creating blueprints -- the job can potentially be outsourced. That promises big, and often disquieting, changes ahead for many. It means the career you studied for -- and spent oodles of tuition money on -- in college probably won't sustain you for your working life. Someone in India or China will be able to do it far more cheaply.

Another reason for the speed and size of this shift is the nature of service work, especially in our Internet world. Manufacturers must spend years and billions of dollars erecting plants overseas and setting up distribution chains for supply and shipments before moving work offshore. But service jobs need much less infrastructure. Many need only a desk, computer, and Net access.

To be sure, much of today's job jitters are rooted in this rudderless economy. But a structural change is also afoot that could result in a worsening job picture 10 or 15 years down the road. Overall, the global economy will do much better, but the U.S. workforce may face frequent career changes and downward pressures on wages through every part of the economy subject to competition from foreign labor. And that's just as baby boomers will be counting on younger workers to pay a lot of money into the Social Security fund.

What can be done now to prevent such a dreary outcome? There are no quick or easy fixes. Legislation blocking jobs from moving overseas would amount to 1930s-style protectionism. "It would be foolish to stop companies from outsourcing," says Robert B. Reich, former Labor Secretary under President Bill Clinton. "It would make our companies less competitive."

Some in Congress suggest tax credits for companies who keep jobs in the U.S. The risk there is that companies will extort bigger breaks -- even for positions they never plan to move.

Instead, more attention should be paid to educating the U.S. workforce. America is on the cutting edge of the information and technology economy. But others are catching up. India and China award more natural science and engineering degrees than we do.

The only way the U.S. will keep one rung ahead of the rest of the world is to ensure that we have a broadly educated workforce that keeps learning. At the corporate level, training programs would help current employees move up to better positions. And the government should overhaul jobless benefits to allow displaced workers the time and money to enter new

careers.

Optimists argue that the U.S. will keep its innovation lead because it has invented new products before. But that underestimates the risk of being overtaken as skill and education levels rise elsewhere. Unless we focus on maintaining a better-educated workforce, that risk will only rise.

*By Kathleen Madigan*

*Business Outlook Editor Madigan still believes in free trade.*

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### **...NO**

*America's strongest suit is innovation, which will always create new high-paying positions*

Think of the world economy as a ladder. On the bottom rungs are the countries producing mainly textiles and other low-tech goods. Toward the top are the U.S. and other leading economies, which make sophisticated electronics, software, and pharmaceuticals. Up and down the middle rungs are all the other nations, manufacturing everything from steel to autos to memory chips.

Viewed in this way, economic development is simple: Everyone tries to climb to the next rung. This works well if the topmost countries can create new industries and products. Such invention allows older industries to move overseas while fresh jobs are generated at home. But if innovation stalls at the highest rung -- well, that's bad news for Americans, who must compete with lower-wage workers elsewhere.

Today, many are worried that the U.S. has reached the top of the ladder and run out of rungs. A growing number of high-tech and other white-collar jobs are moving to India, China, and other places. At the same time, there's nothing readily apparent to replace those exported jobs. What's more, the countries snatching jobs are producing large numbers of college graduates for the first time. The fear is that the U.S. educated class will be ground down by globalization, just as blue-collar workers were in the 1970s and '80s.

It's a scenario that shouldn't be dismissed out of hand -- but it's not likely to happen. The U.S. still has a distinct competitive advantage in innovation. If there's any country well-suited to find a new rung for the economic ladder, it's America. Outside of tech, the labor market

for educated workers still seems fairly decent, given the stage of the business cycle.

Despite anecdotes of well-paying jobs being sucked overseas, there's little evidence that educated workers, overall, are worse off than they were after the last recession. The average unemployment rate for college-educated workers 25 years and older for the 12 months ended in July was 3.0%. That's lower than the 3.2% for 1992, the year after the last recession.

Some economists have argued that this low unemployment rate stems from educated Americans pulling out of the labor force. Declining labor-force participation over the past year, though, is part of a long-term trend -- it fell during the boom of the 1990s as well.

Moreover, the number of jobs held by college-educated workers 25 years and older has risen by 2.2% over the past year, compared with a 0.4% gain for the less-educated. The jobless rate for college-educated workers has been around 3% since the end of 2001, while the unemployment rate for other workers has increased by half a percentage point, to 5.7%. Wage growth has also been stronger for better jobs. Over the past year, median earnings for managers and professionals are up by 2.8%. Blue-collar and service workers showed no gain.

True, there is pressure on educated workers in the tech sector -- but that's coming off a boom. For example, jobs in software and computer-systems design have fallen by 1.6% over the past year but are still up by 70% since 1995, vs. a 7% gain for all private-sector jobs. "I think people are overreacting a little bit," says Steven P. Jobs, CEO of Apple Computer ([AAPL](#)) Inc., since big chunks of the tech labor market -- including the most innovative parts -- are not going to move overseas.

Still, history does offer cause for worry. There was a period, from 1973 to 1985, when technological change contributed almost nothing to growth, according to government data. Not coincidentally, that was also the same stretch when U.S. manufacturing became vulnerable to foreign competitors.

That's why the American economy needs a boost from innovation if it is to continue creating the next generation of leading-edge industries and new high-paying jobs. By its nature, technology leaps

are unpredictable and risky -- yet that's where the U.S. shines. It has the the biggest economy on earth, enabling America to make technological bets that would crush other nations. The U.S. has by far the best-developed financial markets in the world, including venture-capital and high-yield bond markets for financing new businesses.

And for the foreseeable future, the U.S. still has the best-educated workforce among the major economies, a plus for invention. The latest figures from the Organization for Economic Cooperation & Development show that 30% of Americans aged 25 to 34 have a college degree, compared with 24% for Japan and 14% for Germany. That's essential: Better-educated workers can better cope with rapid change, adjust on the fly, and imagine and develop fresh products and strategies.

Where will the next big innovation come from? It could be telecom, or biotech, or energy. Nobody knows. Nobody knew in 1994, either, when real wage growth was still slow, unemployment was above 6%, and the Netscape Communications Corp. initial public offering, which marked the start of the Internet Revolution, was a year away.

The biggest danger to U.S. workers isn't overseas competition. It's that we worry too much about other countries climbing up the ladder and not enough about finding the next higher rung for ourselves.

*By Michael J. Mandel*

*Chief Economist Mandel writes about innovation and economic growth from New York.*

## Business Strategy with Asia: Outsourcing or Not?

Name: \_\_\_\_\_

You own an American company and YOUR company has declining profits possibly because YOUR competitors are outsourcing to China, Japan and South Korea. As a result, you are faced with the tough decision of outsourcing or keeping the labor exclusively within the United States. You will present your information to actual business representatives, fair trade activists, community members, and school officials.

Your grade will be based on input from these experts as well as your teacher. The Presentation will be based on a “Science Fair” format where you will attempt to persuade as many experts to your point of view.

Your project must include a Presentation to a business leader explaining:

- a) Would you outsource to Country A, B or C? Or would you keep labor exclusively within the United States? Why? What projects would you outsource/ what projects would you keep in the US? Use research about the economic and political situations with these countries.
- b) What are the advantages and disadvantages of outsourcing? (working conditions, cheap labor, language, cultural differences, efficiency, higher profits, promoting democracy and freedom in other countries)
- c) How would you respond to your critics?
  - 1) Develop a prototype of your product/service.
  - 2) Explain whether you will outsource or not on a poster.
  - 3) Explain your reasons.
  - 4) Summarize the arguments of your critics and your counterarguments.

No to Outsourcing	Yes to Outsourcing
Why do you oppose outsourcing?	Why do you support outsourcing?
What other strategies will you use other than outsourcing?	Which parts of the project will you outsource? Why?

### **Outsourcing with Asia Expo- Reflection- Due Tuesday, October 24th**

1-2 pages following the expo presentations.

1. What did this activity teach about outsourcing?
2. In what ways was this activity similar to actual business? How is this different?
3. What did you learn about the economy of East Asian countries? Do you think your idea has broad enough support?
4. If you had the chance to redo this activity, what would you do differently? Why? What would you keep the same? Why? How would you evaluate your performance?

	Research	Creativity	Presentation	Collaboration
A	3 or more sources with factual support- with several quotes and statistics	Prototype, Poster, catches audience attention, pictures and examples	Poised, prepared, able to knowledgeably respond to questions	Seeks feedback from business leaders prior to presenting and incorporates this into the presentation
B	Multiple sources some quotes/ some statistics	Prototype, Poster creative with adequate pictures and examples	Mostly poised, mostly knowledgeable about topic	Seeks feedback. Explains most of what was learned and tips for future volunteers
C	Some research with 2 or 3 sources- limited research	Prototype, Poster lacking in some creativity, pictures and examples	Somewhat poised, some knowledge of topic	Some feedback, some of what was learned and some tips for future volunteers
F	Little to no research	Incomplete prototype, poster	Unprepared, Unable to respond to questions	Little/ no feedback- little about tips for volunteers

### **Evaluation of Outsourcing with Asia Expo**

(Given to experts to complete after each student presentation- collected at the end)

Directions: Please evaluate each presenter to the best of your ability. If you do not want the student to see this evaluation, please write a note. Thank you.

5- Fantastic   4- Good   3- Adequate   2- Minimal   1- Incomplete

Name of Presenter: \_\_\_\_\_

1. Research        \_\_\_\_\_                      3. Presentation: \_\_\_\_\_

2. Creativity       \_\_\_\_\_                      4. Collaboration: \_\_\_\_\_

Comments:

## **United States Economic Overview**

The US has the largest and most technologically powerful economy in the world. This country has a market-oriented economy with private individuals and business firms making most of the decisions. US businesses are allowed great flexibility than companies in Europe and Japan in the decision making process. At the same time, they face higher barriers to enter their rivals home markets than foreign firms. One challenge is that a “two-tiered labor market” is developing in which those at the bottom lack the education and skills from those at the top and fail to get comparable pay raises, health insurance and benefits. Since 1975, practically all the gains in household income have gone to the top 20% of households. The 9/11 terrorist attacks resulted in major shifts of money to the military. Higher oil prices, an aging population and increasing federal budget deficits are challenges faced by the US.

### **GDP - real growth rate:**

3.5% (2005 est.)

### **GDP - per capita (PPP):**

\$41,800 (2005 est.)

### **GDP - composition by sector:**

*agriculture:* 1%

*industry:* 20.7%

*services:* 78.3% (2005 est.)

### **Labor force:**

149.3 million (includes unemployed) (2005 est.)

### **Labor force - by occupation:**

farming, forestry, and fishing 0.7%, manufacturing, extraction, transportation, and crafts 22.9%, managerial, professional, and technical 34.7%, sales and office 25.4%, other services 16.3%  
*note:* figures exclude the unemployed (2005)

### **Unemployment rate:**

5.1% (2005 est.)

**Population below poverty line:**

12% (2004 est.)

**Business Strategy with Asia: Outsourcing or Not?**

From CIA World Factbook Student Handbook

**Country A:** \_\_\_\_\_

The country is changing from a centrally planned system largely closed to international trade to a market-oriented economy with a growing private sector and a large player in the global economy. The government has made gradual reforms since the 1970's. The country's GDP has increased tenfold since 1978. The government has struggled to find jobs for those laid off from government jobs. Also, corruption is a problem in the society as well as environmentally destructive practices. A result of government policy is that much of the population is older. The government has stated its goals to protect the environment, but lacks specifics in its plans.

**GDP - real growth rate:**

9.9% (official data) (2005 est.)

**GDP - per capita (PPP):**

\$6,800 (2005 est.)

**GDP - composition by sector:**

*agriculture:* 14.4%

*industry:* 53.1%

*services:* 32.5%

*note:* industry includes construction (2005 est.)

**Labor force - by occupation:**

*agriculture:* 49%

*industry:* 22%

*services:* 29% (2003 est.)

**Unemployment rate:**

4.2% official registered unemployment in urban areas in 2004; substantial unemployment and underemployment in rural areas; an official journal estimated overall unemployment (including rural areas) for 2003 at 20% (2004)

**Population below poverty line:**

10% (2001 est.)

**Country B:** \_\_\_\_\_

This country has a history of government/industry cooperation as well as a strong work ethic by its citizens. In addition, this country has great knowledge of technology (2<sup>nd</sup> in the world) and a very powerful economy (3<sup>rd</sup> in the world). In the past, the government cooperated heavily with industries and employers guaranteed lifetime employment. This is no longer the case. The country relies on raw materials and fuels. Agriculture within the country is highly protected by the government. As a whole, the country must import 60% of its food. Tremendous growth in this country during the 1960's-1980's which slowed considerably in the 1990's. By 2005, the economy was improving. Two concerns are the aging population and a huge government debt.

**GDP - real growth rate:**

2.7% (2005 est.)

**GDP - per capita (PPP):**

\$31,500 (2005 est.)

**GDP - composition by sector:**

*agriculture:* 1.3%

*industry:* 25.3%

*services:* 73.5% (2005 est.)

**Labor force:**

66.4 million (2005 est.)

**Labor force - by occupation:**

*agriculture:* 4.6%

*industry: 27.8%*  
*services: 67.7% (2004)*

**Unemployment rate:**

4.3% (2005 est.)

**Population below poverty line:**

NA%

**Country C:** \_\_\_\_\_

This country has achieved tremendous growth since the 1960's. Forty years ago, the country was comparable to the poorer countries of Africa and Asia. Today, its GDP compares to the lower economies in the EU (European Union). Government involvement with industry, along with sponsoring specific industries enabled this country rapid growth. A financial crisis in Asia in the late 1990's exposed its financial weaknesses and has incurred inconsistent growth in recent years. Moderate inflation, low unemployment and a fairly equitable distribution of income characterize this stable economy.

**GDP - real growth rate:**

3.9% (2005 est.)

**GDP - per capita (PPP):**

\$20,400 (2005 est.)

**GDP - composition by sector:**

*agriculture: 3.7%*  
*industry: 40.1%*  
*services: 56.3% (2005 est.)*

**Labor force:**

23.53 million (2005 est.)

**Labor force - by occupation:**

*agriculture: 6.4%*  
*industry: 26.4%*

*services: 67.2% (2005 est.)*

**Unemployment rate:**

3.7% (2005 est.)

**Population below poverty line:**

15% (2003 est.)

Key- Teacher Resource

Which country (if any) would you outsource with? Why?

From CIA world Factbook

Student Resource Country A: China

The country is changing from a centrally planned system which was largely closed to international trade to a market-oriented economy with a growing private sector and a large player in the global economy. The government has made gradual reforms since the 1970's. The country's GDP has increased tenfold since 1978. The government has struggled to find jobs for those laid off from government jobs. Also, corruption is a problem in the society as well as environmentally destructive practices. A result of government policy is that much of the population is older. The government has stated its goals to protect the environment, but lacks specifics in its plans.

Country B: Japan

This country has a history of government/industry cooperation as well as a strong work ethic by its citizens. In addition, this country has great knowledge of technology (2<sup>nd</sup> in the world) and a very powerful economy (3<sup>rd</sup> in the world). In the past, the government cooperated heavily with industries and employers guaranteed lifetime employment. This is no longer the case. The country relies on raw materials and fuels. Agriculture within the country is highly protected by the government. As a whole, the country must import 60% of its food. Tremendous growth in this country during the 1960's-1980's which slowed considerably in the 1990's. By 2005, the economy was improving. Two concerns are the aging population and a huge government debt.

### Country C: South Korea

This country has achieved tremendous growth since the 1960's. Forty years ago, the country was comparable to the poorer countries of Africa and Asia. Today, its GDP compares to the lower economies in the EU (European Union). Government involvement with industry, along with sponsoring specific industries enabled this country rapid growth. A financial crisis in Asia in the late 1990's exposed its financial weaknesses and has incurred inconsistent growth in recent years. Moderate inflation, low unemployment and a fairly equitable distribution of income characterize this stable economy.