In 2008, four of Australia’s largest services sector trade unions, (ASU, CEPU, CPSU PSU Group, FSU) commissioned the National Institute of Economic and Industry Research (NIEIR) to conduct research into the affects of offshoring on the Australian services sector.

That report, OFF-SHORE AND OFF WORK - The future of Australian service industries in a global economy, A call to action, provides the basis and background for this briefing paper.

Overview

Off-shoring of service sector jobs has been emerging as an important issue impacting employees for a number of years. Service sector employers e.g. banks, communications and IT in particular, have been interested in offshoring as a way of reducing costs through the use of cheaper labour in less developed and less unionized countries.

Banks have offshored functions such as software development, call centres, superannuation and retirement services, account maintenance, document preparation, auditing, financial forecasting, debt collection and marketing. For local, state and federal government agencies, similar back office functions have been initially outsourced to commercial operators and integrated by these operators into global supply arrangements.

In communications, local system development activities have been reduced with major providers increasingly looking for ‘off the- shelf’ hardware solutions that bring with them their own maintenance arrangements often involving technicians who operate on a global or regional basis. Again, communication call centres (often marketing call centres) have been outsourced to global operators who seek out lowest cost options. In transport, repair
operations, call centre operations, flight centre operations and in-flight attendants have all either been or are being considered as potential off-shore operations.

NIEIR reported in 2008 that some 5110 known service sector jobs had been outsourced across a variety of companies and occupations. Those numbers will have increased dramatically in the three years since the NIEIR report was produced.

**Seven Keys to Off-shoring**

Types of service jobs more likely than others to be off-shored in the near future:

1. heavy reliance on information technology and routine or rule-based work;
2. lack of need for personal contact with customers;
3. wage cost savings in low-wage countries that outweigh productivity losses;
4. tradability;
5. availability of skills abroad;
6. labour intensiveness, ease of physical relocation and separability of jobs tasks from other parts of the production process; and
7. absence of cultural, institutional and legal barriers.

**The macroeconomic dynamics of Off-shoring**

In the first instance Off-shoring involves employment losses as employment is shifted to foreign jurisdictions, either by industry import penetration or by the transfer of some employment in established firms, that is, occupation import replacement. The question is whether, over the medium to longer terms, Off-shoring results in:

(i) net employment losses;
(ii) adverse impact on the distribution of income; and
(iii) loss in living standards compared to what would otherwise have been the case.

**The distribution of income**

The impact on the distribution of income is another area of concern. Clearly, if there is a long-term net loss in employment then the distribution of income will change towards greater inequality, as those in employment experience real income gains while the percentage of those on low incomes will increase. Even if there is no long run change in net employment levels from Off-shoring, there are suspicions that the distribution of income will change towards greater inequality. This could happen if the cost savings from
Off-shoring are captured by those in employment who already had high incomes and the already wealthy who receive higher dividend payments and capital values for businesses. This could be compounded by the employment positions created being of lower average income compared to the employment positions destroyed by Off-shoring. For example, such as low income in personal service workers, which is one type of employment encouraged by trends towards increasing inequality.

### Declines in standards of living

The issues here are specific and global. Clearly, from the above discussion, a segment of the population is likely to lose from Off-shoring on a long-term basis. Either from a change of status from full-time employment to a status of marginal commitment to the workforce (that is, periods of unemployment punctuated by periods of part-time, casual or limited duration employment), or the substitution of a higher paying employment for lower paying employment. This study examines whether or not the losers will outweigh the winners.

There may be a net fall in employment. However, this does not imply a decline in the standard of living as measured by GDP per capita. However:

- the less the cost benefits from Off-shoring are passed on in terms of lower prices or retained earnings, that is the more the cost savings from Off-shoring are passed on in terms of dividends and resultant profits;
- the less the net cost savings from Off-shoring; and
- the greater the level of foreign ownership in the economy, then the greater the likelihood that there will be a global as well as specific decline in living standards.

### Cities and regional centres face the greatest threat

The potential loss of jobs off-shore will not be even geographically but felt most in cities and regional centres. This is because cities and regional centres are effectively hubs for service delivery and therefore concentrate the sorts of jobs that could potentially be moved off-shore.

### The way forward

Australia needs a service industries strategy. This must be led and developed by a Task Force that includes all the relevant players. The Service Industries Task Force should report directly to a Cabinet sub-committee with the capacity to implement
recommendations across the whole of government. The strategy needs to focus on identifying capabilities that exist in the Australian economy that can provide the basis for a globally competitive services sector. The objective must be for Australia to establish itself in the global traded services economy.

Implementation of the strategy will need to focus on:

- developing stronger linkages between universities, industry bodies, training institutions,
- business, unions, state and federal governments;
- improving skills through training and other targeted skills development initiatives;
- scaling up parts of the Australian services sector through clusters, networks and mergers;
- encouraging leaders in the services sector capable of building a globally competitive sector;
- development of infrastructure with internationally competitive costs;
- leveraging the roll out of the NBN to build competitiveness and productivity and strengthen the regional job market
- building market linkages into the global services sector;
- investment attraction for companies who can build an international presence for Australia; and
- marketing and branding Australia’s key capabilities in the services sector.

The longer-term solution is to grow service sector exports. The direct contribution service sector exports makes to direct employment creation is low, being of the order of 320,000 to 350,000. Over the last half a decade the service sector’s exports growth performance has been poor. In order to neutralise the likely loss in employment from off-shoring over the next two decades, service sector exports would have to grow by 8 per cent per annum, with the growth led by business services exports and finance services exports. This is not a big ask in the context of services sector export growth in Asia-Pacific. It is a big ask in the context of recent performance. Policy intervention will be needed.