The outsourcing dilemma and growth: a fractured look

written by Manoj Khanna | May 7, 2003

Most of the work in the IT industry is virtual. Virtual meaning no physical prescence is required to do the job. This holds true in terms of coding, testing and maintenance of the software programs, and in certain cases servers and other peripherals can be taken care of remotely.

This virtual thing led to another situation of product development overseas. In today's terms outsourcing.

Few decades ago the textile industry found so much cheaper to manufacture overseas and soon all textile jobs vanished.

The question today is how can the average american worker compete against labor and production costs which are far lower in countries like India, China, Phillipines, Ukraine, and Russia? This is the dilemma faced by the local IT industry and the job seekers. And leads to one of the dreaded fears while delaing with globalization issue. The question is that how are we dealing with such an issue?

The other issue is that are we living in an industry that pays a premium wage. The reason the wage is high is because there are few who can do the work(a long gone reality – not anymore!). Pay is strictly based on supply and demand. If the supply goes up, wages go down, until a natural level is found. When the pay gets too low, people leave the field causing lower supply (this isn't happening in the current scenario), causing wages to go back up, and on and on. To some it's frightening to open the gates and let in the competition, but it's also natural.

On the other hand the argument remains, everything seeks it's own level.

In a recent story the Financial Industry plans to move 500,000 jobs offshore in the next five years. Cost of living in dollar terms in India is a lot less than US -and so it makes sense (for companies) to shift as much work to India as possible i.e. if cost of living is less, salaries will also be less. This is basically a case of high currency valuations [U.S dollar vs Indian Rupee] which are gradually getting adjusted. If and when currencies get adjusted – there will be lesser incentive to move work on account of costs and more so on account of availability of manpower.

I read it somewhere on the net "it was Jack welch that approched a fruit vendor in India name Wipro. He learned that they had limited computer talent and he funded the massive education in computer to Wipro employees. Presently GE had 10,000 employee in India mostly in the computer industry and very closely associated with Wipro who provides consultants to GE."

In an another story there is a talk about 2 Million Jobs Moving Offshore – vis-a-vis Manhattan moving to Bombay?

In an another argument "Till a decade or two back, there was hardly any American company that wanted to move to India. What changed between then and now is that in 1991 (if I'm correct), India became a signatory to WTO. This guarantees protection of Intellectual property among other things ie a company wanting to move its operations to a signatory country can do so without peril. the protests that rocked seattle in ~2001-2002 were mainly a result of the apprehension that such movement of work as guaranteed by WTO will leave american workers high and dry. To answer why move to India and not some other country, there are many reasons, mainly english-speaking population and availability of skilled labor which is cheap and yet as skilled as in any other developed country. There might be other countries with skilled manpower -but they may have a problem speaking english (and thats one of the fringe benefits of colonization)."

Thus the discussion is on – and will be on. For days to come till we really find what's going to come out of it. As for now job is the biggest concern for the local workers no matter what the CEO thinks!