

IT Offshoring to Eastern Europe: Background report

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Introduction

Offshoring in general and nearshoring to Eastern Europe in particular have received a growing attention in the media throughout the continent since the accession of the New Member States (NMS¹) in 2004 and 2007.

The substitution of domestic labour with foreign one has been a common practice in all industrialized nations for many years. But what gives press to the outsourcing model today is that Information and Communication Technology (ICT) itself, by rendering digitized information or voice traffic easily transmittable around the planet, has made a whole bunch of new services "offshorable".

Nowadays, activities performed by high-earning professionals such as IT-support, software programming or some R&D functions are being moved abroad. Some studies² even claim that up to 44% of IT services jobs or 49% of software ones have become "offshorable". Others predict that by 2015, 1.16 million occupations in the IT and other services sector will be sent outside the EU-15³. These numbers are obviously a basis for anxiety for all the workers concerned. But what's the scale of this process to Eastern Europe? Will it lead to many job redundancies and wage decrease in Western Europe? What kind of role trade unions could play?

The present report, which is designed as a gathering of the actual studies available on this topic, will try to answer these questions and give to the reader a general overview of the current situation of IT offshoring from the "old"⁴ to the "new" member states of the European Union and its impact on those working in the areas concerned.

The paper is divided as follows. First of all, the different terms referring to the outsourcing process will be defined. After that, we will explore the reasons that led the NMS to become an offshore location and provide some numbers regarding the magnitude of the process. Then, we will investigate the impact of this method on the workers and their wages and identify the winners as well as the losers. Finally, we will highlight the role trade unions could play and a brief summary of the actual situation of the labour movement in Eastern Europe will be given.

"Offshoring", "outsourcing", "nearshoring": what does it mean?

"Outsourcing" is defined by the *American Heritage Dictionary* as "The procuring of services or products... from an outside supplier or manufacturer in order to cut costs". In other words, this is when a company decides to buy a product or a service, which was previously done in-house, from an external supplier whether it's a subsidiary of the firm or not and in order to reduce costs.

"Offshoring" refers to international outsourcing which is the relocation of service activities abroad or "the procuring of service or material inputs by an enterprise from a source in a foreign country". Offshoring operations are often divided into farshore, those that are distant from the markets they serve, and nearshore, referring to those that are closer.

Other terminology such as "inshoring" which refers to picking services within the EU or the U.S. and "Business Process Outsourcing" (BPO) which can be defined as "outsourcing arrangements when entire business functions (such as IT, call center, human resources) are outsourced" may also appear in the literature.

¹ NMS are: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia

² Source : McKinsey Global Institute

³ EU-15 are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, UK

⁴ "Old member states" refer to the EU-15

In this report, we will focus on the “nearshoring”⁵ of service activities since Western and Eastern Europe are relatively close to each other. But why Western companies are willing to offshore some activities to the NMS and what is the size of this phenomenon?

Reasons for offshoring IT-related activities to Eastern Europe

Obviously one of the main reasons that lead a company to move some service tasks offshore is the lower cost of labour. While it is clear that salaries in Eastern Europe are still lower than in Western European countries⁶, it is not the case if we compare them to the level of wages in India. So, why would a firm go to the NMS if you can save more money by offshoring to Asia?

First of all, European firms need service centers able to operate in several languages and not only in English as it’s often the case in India. Many companies are also more comfortable with the cultural and geographical proximity of European locations. In fact, since an increased number of complex tasks that require more interaction are being sent offshore, proximity is a crucial advantage.

Secondly, the new member states enjoy EU regulations which prevent problems regarding intellectual property and data protection that may happen in other parts of the globe. Another advantage is that engineers from Eastern Europe are already familiar with EU regulations. Finally, solid infrastructure together with the availability of a non-negligent pool of engineers⁷ with strong skills are making eastern European destinations increasingly attractive for enterprises willing to offshore IT-related activities. It has also to be said that set-up costs, which are extremely relevant for small enterprises in particular, tend to be lower for nearshoring activities than when you go overseas.

On top of that, the strongest new demand for offshoring services is coming from continental European firms which are the most likely to use NMS as nearshore destinations. This new trend is emerging because the first outsourcers, namely US and UK⁸-based companies who were mainly going to India for obvious language and cultural reasons, have apparently taken advantage of this process⁹. Now, firms from continental Europe also want to enjoy productivity gains achievable through offshoring. The good news on the workers’ side is that companies realized, mainly thanks to customers’ complaints about the bad quality of certain services, that a race to the bottom is not the best solution and are starting to consider locations not only regarding costs (represented mainly by salaries) but also quality.

But Eastern Europe is not a homogeneous block as some might think. While the most obvious places like Budapest and Prague are already showing increasing costs and a tense labor market for certain skills, other “new” offshoring destinations such as Romania or Bulgaria with lower wage levels and a strong technical and language knowledge are emerging.

The 2007 Global Services Location Index of the US-based consulting firm AT Kearney revealed that 9 NMS are among the best 33 outsourcing locations worldwide. The best player from Eastern Europe is Bulgaria (#9), followed by Slovakia (#12), Estonia (#15), Czech Republic (#16), Latvia (#17), Poland (#18), Hungary (#24), Lithuania (#28) and Romania (#33). Compared to the numbers of 2005, Bulgaria, Slovakia, Poland, Hungary and Romania performed better in 2007 while the Czech Republic stayed at the same level. It has to be said that none of the NMS surveyed in both years lost positions suggesting that offshoring in these countries is likely to grow in the coming years.

⁵ Please note that the term “offshoring” will be used as a synonymous

⁶ In 2005 an engineer in the Czech Republic was paid about USD 5.40 per hour, USD 3.5 in China, USD 2.40 in India, USD 2.60 in Romania and 1.40 in Bulgaria. Source: Business Week

⁷ While the number of graduates produced in the NMS is higher than the EU-15 or US average, the number of IT graduates is slightly lower than in the EU-15 or in the US.

⁸ More than 70% of all European offshoring expenditure occurred in Great Britain or Ireland in 2005. Source: Forrester Research Inc.

⁹ Offshoring is far from being a 100% success strategy. 45% of the companies having an offshore strategy interviewed by Venturo said it was a success while 36% claimed it had failed. Nonetheless a majority of American and European companies still declare they will consider service outsourcing in the future.

As for the major incentives to outsource services activities in the NMS, financial attractiveness comes first for Bulgaria, Romania and Slovakia while a good business environment seems to benefit the newcomer Estonia as well as the Czech Republic, Latvia, Lithuania and Hungary. But what is the extent of this phenomenon? Which countries are the main outsourcers to Eastern Europe?

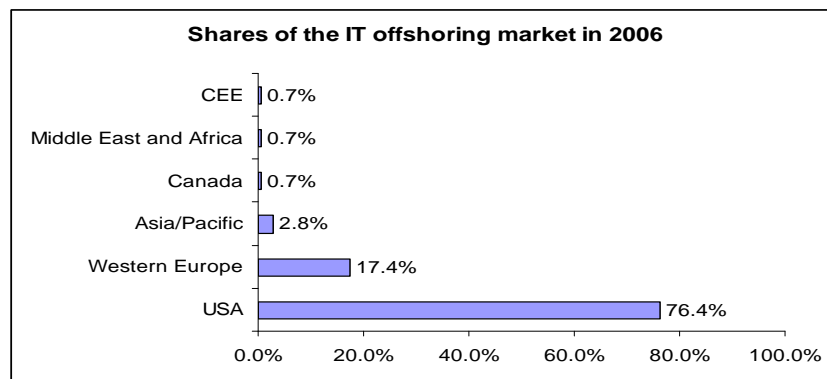
Magnitude of the offshoring process worldwide

When it comes to numbers it is often very hard to agree on the method of counting. And this is especially true in the case of offshoring since there are no official statistics on this precise topic. Nonetheless, some scholars and institutions tried to estimate the dimension of the phenomenon which will be reported below.

The Central & Eastern Outsourcing Review (2007) estimated that the market volume of the IT outsourcing industry in the region reached almost 3 billion US dollars in 2007¹⁰ with 4120 companies operating in the branch while 83'390 employees earning an average salary of USD 41'306 were reported to work in the sector.

When it comes to the share of Eastern Europe in today's worldwide outsourcing market, some studies rank it as number two just after India with 43% of shares. But if we look at the overall trade in services during the decade between 1992 and 2002 we see that the big winners in net terms (exports less imports) in the services outsourcing market have been the US, the EU-15 and India. For the key "other services"¹¹ category, which is often associated with the outsourcing process, the EU-15 has even been able to increase its trade surplus reaching 34.7% of the world shares while the EU-10¹² was left behind with 2% in 2003. But who are the biggest outsourcers and insourcers of Computer & Information Services (CIS) and Business Services (BS) in the world?

Unsurprisingly, if we look at the absolute numbers, the United States are the biggest users of IT offshoring in the world, followed by Western European countries and Japan. But if we look at relative numbers (i.e. the ratio of outsourcing to local GDP) we see that the major outsourcers are Angola, the Republic of Congo and Mozambique for the Business Services sector and Cyprus, Luxembourg and Moldova for the Computer and Information Services category. In other words, numbers don't support the idea that the biggest economies are the biggest offshorers in relative terms.



Source: IDC, 2005

¹⁰ In this calculation the countries taken into account are the NMS (except Malta and Cyprus) plus Serbia and Croatia as well as Ukraine, Moldova, Belarus and Albania.

¹¹ "Other services" include 9 sub-components: communications, construction, insurance, financial, computer and information, royalties and license fees, other business services, personal and cultural, and government

¹² The EU-10 are the NMS minus Romania and Bulgaria

As for the biggest insourcers in absolute terms, they are the United States and Western Europe, closely followed by India. It is interesting to note that China is also part of the top 15 for both sub-categories. If we look at relative numbers, we find Vanuatu, Singapore, Hong-Kong and Papua New Guinea in the top scorers in the Business Services category while Ireland, Cyprus, Luxembourg, Guyana and Costa Rica are leading the Computer & Information Services sector. Once again, the common belief that developing countries are the major recipients of outsourcing worldwide is not supported by the facts, although India and China are clearly gaining positions very quickly.

Regarding the biggest surplus countries (insourcing=surplus, outsourcing=deficit) we can see that the US, Ireland and the UK are the leaders in the category Computer and Information Services while the UK and the United States are closely followed by Asian nations (Hong-Kong, India, Singapore and China) regarding the Business Services branch. When it comes to deficit countries, we find Italy, Germany and China among the very last ones in the Computer and Information Services sector while Ireland and Germany also experience very large deficit in the Business Services category.

This part of the paper clearly showed that the wealthiest nations are taking advantage of the offshoring process in terms of value-added. We saw that Western Europe and the US seem to benefit from the outsourcing process and that Eastern European countries are still relatively small players compared to the big Asian giants such as India or China although the share of IT outsourcing going to the NMS is increasing rapidly. But what about the impacts of this phenomenon on the workers? Are the wages of Western IT professionals at risk? Will we see massive layoffs in the richest countries because of the delocalization of tasks to lower cost ones?

Impacts of services offshoring on the labour market

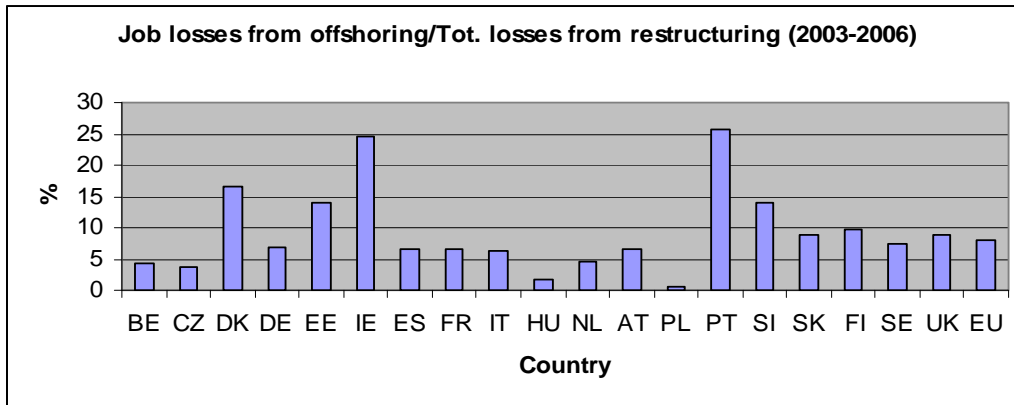
The imports of IT-based services from Central and Eastern Europe (CEE) into the EU-15 rose by an average of 13% per year between 1992 and 2004 to reach EUR 4.5 bn in 2004 which represents 2% of EU-15 total imports of CIS and BS. Still, in 2004 the EU-15 recorded an export surplus with CEE in terms of IT-related services. But since all analysts predict the IT offshoring market is expanding and nearshoring locations such as CEE are becoming more appealing, it is useful to explore the effects of this process on workers' wages and the availability of jobs.

Offshoring=job reduction?

It is clear that every job lost is a job lost with possible severe consequences for the workers affected. But firms that have outsourced could become more efficient, expand their production and as a result offer more jobs in other lines of work. A study by the International Monetary Fund on the effects of service outsourcing in the UK demonstrated that outsourcing wouldn't induce a fall in aggregate employment, but has the potential to make firms "sufficiently more efficient, leading to enough job creation in the same sectors to offset the lost jobs due to outsourcing". This is for the theory; let's have a look now at the numbers.

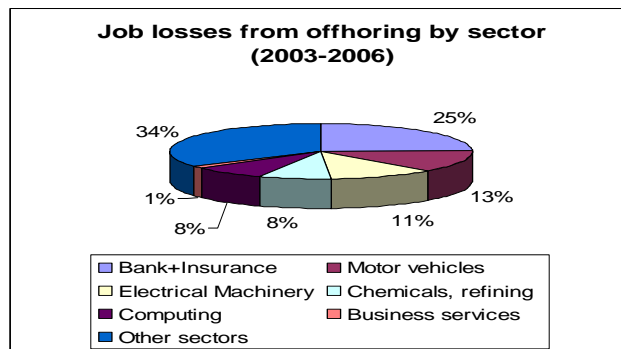
If we look at the ERM report 2007, which reported cases involving at least 100 job losses due to restructuring in Europe¹³ between 2003 and 2006, we can see that the cases where offshoring is involved (i.e with a change of country) represent only 10% of the cases and 8% of the job lost. But if we analyze the phenomenon by country, we see that the job losses due to offshoring (as a share of total losses from restructuring) vary widely from 0.7% in Poland to 25.6% in Portugal. It has to be mentioned that the total job losses due to restructuring is relatively small since it represents 1.2% (or 2'445'793 redundancies) of the total European labor force in 2005.

¹³ Europe=EU-27=EU15 + NMS in this case. Offshoring is defined here as the relocation of activities from the EU-27 to a country outside the EU-15 (i.e excluding NMS). In practice, almost all the movements involve delocalization from EU-15, but it's noteworthy that some relocation from NMS had happened.



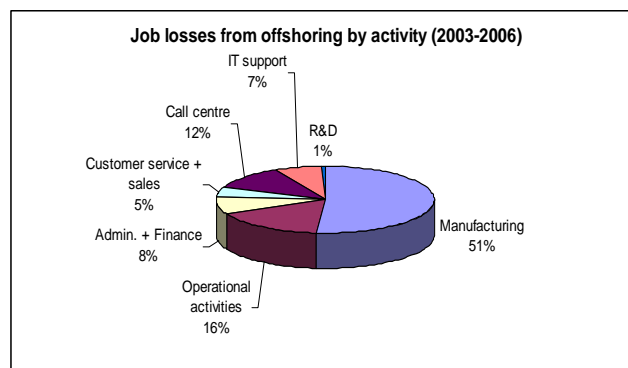
Source: European Restructuring Monitor

As for the allocation of these job losses by sector, they mainly occurred in the Banking and Insurance sector (24.8%) followed by Motor Vehicles (12.6) and Electrical Machinery (11.4%). If we look at the sectors we are interested in, we discover that Computing represent also a large share (7.7%) although the job losses were mainly concentrated in Germany and Ireland. On the other hand, Business Services only account for 1.4% of the total jobs lost from offshoring. Nonetheless, in the EU-15 countries, cases of offshoring appear to have been much more important in the high- to medium-tech sectors than in low skilled industries while the opposite is true for the NMS.



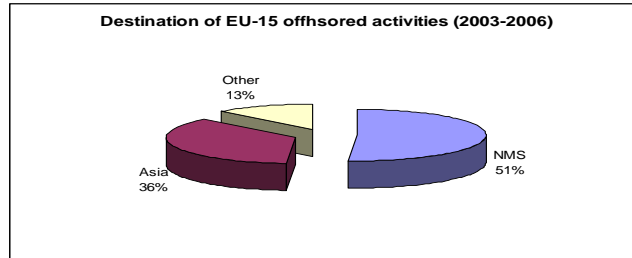
Source: European Restructuring Monitor

Overall, between 2003 and 2006, half of the job losses from offshoring in the EU occurred in the Manufacturing industry, 16.4% in Operational Activities while the remaining 32.1% concern ICTS activities (Administration & Finance, Customer Services & Sales, Call Centre, IT Support and R&D). But where do these activities go?



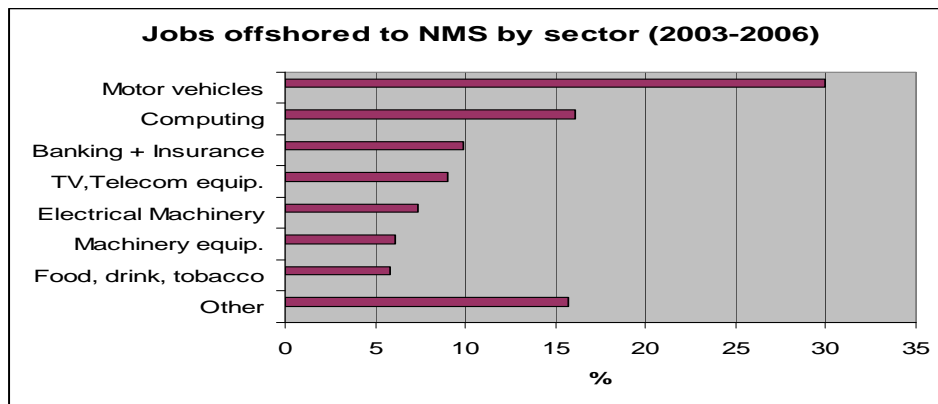
Source: European Restructuring Monitor

The majority of jobs shifted from the “old” member states due to the offshoring process in the period 2003-2006 went to the NMS (51.2%) followed by Asia (36.3%). This is particularly true for countries such as Germany (87% of the jobs offshored went to the NMS), Portugal, Sweden, Denmark and Austria while the UK mainly outsourced to Asia. But it has to be said that the majority of jobs delocalized to the NMS were in manufacturing sectors while those moved to Asia were in the services industry.



Source: European Restructuring Monitor

However, Computing (16.1%) was the second most affected sector behind Motor Vehicles (30%) when it comes to the number of jobs offshored to the NMS with approximately 15'000 jobs displaced, while Business Services accounted for a negligible share. Looking closer to the ICTS activities in the service sector only (i.e. without considering the manufacturing part of the computer industry) we found that roughly 7'500 jobs have been moved to the NMS between 2003 and 2006. The occupations at risk are those intensively using ICT, producing an output that can be transmitted by ICT and a content that is highly codifiable and requiring low face-to-face contacts¹⁴.



Source: European Restructuring Monitor

Overall, the jobs lost in the Computing industry due to offshoring only represent 0.6% of the sector's labour force while the losses in Business Services are negligible. From these numbers we can infer the theory predicting that offshoring won't create massive layoffs is confirmed by the facts. Although offshoring only accounts for a minor part of job losses due to restructuring, this is far from representing the total jobs lost in Europe due to competitive pressure from abroad.

The large majority of European companies face foreign competition and when they are not able to compete, they simply shut down which leads to job losses for the country anyway. On top of that, offshoring is the shift of existing jobs to other locations and doesn't take into account the decision of where new jobs are to be created. We can assume that the factors leading a firm to offshore activities are the same than those influencing a company to allocate new investments in these places. The increased imports of intermediary goods and services from low- to middle-income countries into the EU suggest that the number of foregone jobs may well be considerable.

¹⁴ The most often quoted occupations are : software development, data processing, sales, customer services, R&D, financial functions, HR functions

In addition, it has to be said that even newer players such as Maghreb countries (especially Egypt, Morocco and Tunisia) and some other African nations, which also enjoy low costs and geographical proximity with the EU-15, may well take more space in the offshoring scene in the future. They are active especially in IT services and call centers and their cultural linkages with France are a powerful advantage. After having examined the quantitative effects of offshoring (i.e. the number of jobs affected), let's investigate the qualitative ones (i.e. the implications for the wage levels).

Offshoring=diminishing salaries?

Since offshoring is supposed to have only a limited effect on overall employment in EU-15, wage levels are unlikely to be strongly altered. In contrast, wage inflation in the NMS will probably go on increasing, especially if companies concentrate their demand on a few cities, which will narrow the wage gap with "old" member states.

A recent study by the Institute for the Study of Labor in Germany (IZA) found that the offshoring of services affects the real wage of low and medium skilled individuals negatively, but has a positive effect on the salaries of skilled workers. This is to say that offshoring leads to a widening of the wage gap between skilled and less educated workers.

As previously stated, the "old" member states mainly offshore low to medium skilled manufacturing and services activities to Eastern Europe. We may thus expect a negative effect on unskilled workers but not on high skilled ones in the EU-15. Interestingly, a study found that foreign and domestic workers within multinational firms are indeed substitutes. For example, a 10% increase in wages in CEE would increase demand at German and Swedish parent with about 0.5-1% (Becker et al. 2005) suggesting returning labor to EU-15.

But the main problem for high-wage economies such as the "old" member states is clearly the temporary mismatch of skills between those who are laid-off because of offshoring and the new opportunities created in expanding exporting companies. Those who lack the skills required by these new jobs (i.e. low skilled people) are at risk of exclusion. Governments must compensate these workers and it's the role of trade unions to put political pressure on them to do so. Public policies such as job-retraining programs to redeploy workers should be promoted.

Equally important is the involvement of companies in compensating these workers. This can include the boosting of their training programs and company-sponsored insurance schemes. The McKinsey Global Institute estimates that for as little as 4% to 5% of the savings generated by offshoring, firms could insure all jobs moved abroad. The program would cover wage loss for all full-time workers once they are reemployed, compensating them 70% of wage loss between their old and new jobs (in addition to healthcare subsidies) for up to 2 years. This is also something trade unions could encourage.

Winners and losers

Apart from European workers who lose their jobs or career opportunities because of offshoring, the other losers clearly are those companies unable to adopt "best practices" through offshoring. They are likely to be thrown out of the market by more competitive firms leading to job redundancies. In addition, the loss of knowledge due to the transfer of certain activities abroad might be a severe problem for some industries and/or countries in a near future.

The winners are EU companies engaged in offshoring and able to gain profit out of it, although it is not straightforward. EU countries that supply offshored production and services are also benefiting from this trend. Now that the EU has 27 members, this is not only the NMS through the creation of jobs that benefit from the outsourcing phenomenon but the whole Union through increased cohesion. Finally, it has to be kept in mind that workers are also consumers and may benefit from an increased purchasing power if firms reflect their productivity gains achieved through offshoring in the prices.

Now, the question is about these EU countries, whose companies engage in offshoring and whose residents consume offshore goods and services. Contrary to the US, research in France and Germany has shown that these countries are not benefiting from offshoring overall. More than 40% of the total gain to the US economy comes from reemployment of laid-off workers. And this is where Europe fails. Although fired workers experience smaller wage losses than American ones, they stay unemployed for a longer time.

Two major reasons emerge to explain this state of facts. Firstly, companies do not provide enough training and re-training to their workers. Various Eurostat data have shown that only 30% of EU-25 employees had some form of training directly through employer's initiatives. Secondly, the inclusion of older workers in the economy is not yet in the mind of European business leaders. Projects such as Mature must be pushed by unions in order to favor the reemployment of elder people who have been thrown out of the labor market. But what else trade unions can do? What is the state of unions in Eastern Europe? What will be the future of offshoring in CEE? We will try to answer these questions in the following sections.

Where do trade unions stand in Eastern Europe today?

The biggest challenge for the unions in Eastern Europe was clearly to adapt themselves to the new situation after the fall of communism in the early nineties. Their status changed from corporations with compulsory membership, which competency was concentrated on social issues such as holidays and housing, to voluntary associations of employees that had to engage in collective bargaining and industrial action with managements. Nevertheless, the innovations implemented by unions in terms of shop-floor representation and bargaining structures are altogether impressive.

But the continuing decline in membership, especially in countries where the labor movement was strong such as Poland and Hungary, has been impossible to stop. Contrary to the EU-15, that also experienced a fall in union membership, where well-functioning structures of bilateral dialogue are in place, the new industrial relations that developed during CEE transformation could not prevent the undermining of minimum standards at work.

Trade Union Membership Rates 1995 / 2006

	LV	SK	CZ	EE	LT	PL	HU	SI	EU-15
1995	28	57	46	32	20	33	63	63	31
2006	16	22	20	11	12	14	17	44	26

Sources: Van Geyes et al. 2007; Hülsmann/Kohl; own research

Industrial structures in the NMS can be summarized in three points. First, the state is still playing a major role in determining remuneration systems. Second, company agreements are the norm while sectoral negotiations are almost non-existent. On top of that, it is very difficult to take industrial action due to extremely restrictive strike legislation. Third, an impressive number of small and medium sized (SMS) firms where union presence is non-existent now represent the standard in the economies of the NMS.

Another important hurdle for higher union membership is the fact that unemployed or temporary workers in small businesses are often legally banned from joining trade unions. It also has to be mentioned that the large number of sectoral sub-structures that have been maintained despite the important loss of members lead to financial problems for many organizations. That resulted in a lack of experts and a reduced workforce that urgently needs to be increased in order to face new topics such as offshoring.

In addition, trade union density in the private sector, where the majority of offshoring processes take place, is far lower than in corporate entities previously run by the state or in the public sector. The situation is a bit more promising in branches where works councils are in place. The problem is that

CEE trade unions often resist the establishment of these works councils, which they consider as competitors.

It is urgent that western organizations cooperate with their eastern colleagues in this domain and promote best practices regarding collaboration with works councils. The tripartite economic and social councils that have been set up in all the NMS and ensure equal participation of employers and unions should also be promoted.

When it comes to pay levels, it has to be said that collectively-bargained wages are benefiting from the rise of salaries that may have augmented due to the offshoring phenomenon. But the disparities between the lowest and the highest earners are far above EU average, which probably also is a consequence of offshoring.

Now that the situation has been exposed, the question is: what unions can do regarding the offshoring process?

The role of NMS trade union in the offshoring process

First and foremost, trade unions in the NMS must push for collective bargaining. It is obvious that the absence of collective agreements leads to less favorable working conditions, particularly in terms of labor-law standards and working time. For example, the difference in annual hours worked between Latvia and the Netherlands is equal to 259 hours or 1.5 months!

As for the legislation on industrial action, it contradicts the relevant ILO conventions by being prohibitive. In many countries the employer must be informed of an intention to strike before industrial action is taken while in the Czech Republic, a list of all workers willing to strike must be given to management. Prior to that, half to three quarters of employees must have voted in favor of strike action. It is unlikely to be coincidental that no sector-wide strike action has been organized in the last 10 years in CEE.

Of course, since the accession of the NMS to the EU, the regulations of EU Community law should be applied in every member states. This is supposed to guarantee minimum standards for working and social conditions. The issue is more to which extent they are put into practice. Unions must obviously do their maximum to make these rules enforceable. In the case of IT offshoring the main issue is the one of longer working hours which can in turn undermine working standards in the EU-15. Some workers might in fact be tempted to work more if their job is at risk of being offshored in countries where rules are not respected.

As for the salaries in Eastern Europe, local union must watch that they are adapted to the increasing cost of life there. The shortage of certain category of professionals such as programmers will do the rest. Another interesting idea proposed by Kohl (2008) is to intensify public relations in order to better unions' image towards the general public.

Legal restrictions on joining unions for students, unemployed people and part-time workers should be removed urgently. It would also be crucial to disseminate economic know-how, negotiation skills and basic rules to organize strike action to union officers. The international union solidarity may well play a key role in this process. A deeper involvement of CEE trade unions in the European sectoral dialogue as well as in the activities of the European Trade Union Confederation is desirable.

A reshuffle of NMS unions, including the mergers of some organizations that are competing in the same areas, and the acceptance of the benefits works councils could bring to the labor movement in Eastern Europe would be welcome. But what can trade unions from the EU-15 do to smooth the offshoring process?

The role of EU-15 trade union in the offshoring process

Certainly, collaborating with their Eastern European counterparts in order to put pressure on companies that do not respect labor rights is a first step. Putting political pressure on Eastern European governments to apply EU core labor standards is another point. It goes without saying that environmental standards must also be respected. As mentioned above, disseminating union competencies in NMS would also be sound. But that's not all.

A general agreement on offshoring as the one concluded between British Telecom (BT) and the union Connect on the remote sourcing of work can be taken as an example of good practice. The accord is based on four vital points. Firstly, job redundancies will be prevented. Secondly, people will be redeployed to jobs of at least similar career value and conditions of employment. Thirdly, consultation will take place early and before any decisions are made. Finally, BT will encourage high standards in terms of working conditions in the offshoring destinations. However, these agreements are only as good as their implementation and detailed monitoring is necessary in order to enforce them.

Other recommendations of the MOOS¹⁵ project must also be followed. This includes the right to training and the setting up of change management mechanisms in both sourcing and receiving nations. On top of that, a proportion of the savings from offshoring has to be re-invested in funds to increase the employability of workers or in insurances schemes which will compensate those who would lose their jobs as a result of offshoring.

Conclusion

The literature on IT offshoring to Eastern Europe tends to demonstrate that major layoffs haven't occurred yet and that many employees in the EU-15 who lose their jobs were reemployed elsewhere. If we look at the European Labour Force Survey, it seems that the increase in employment in "Other Business Services" activities was more important in the EU-15 than in the NMS for the period 2000-2005. This is not to say that redundancies in the "old" member states haven't occurred but they were somehow limited.

On the other hand "the effect of offshoring IT jobs has been double edged. Pay rates have been pegged back, but job creation at the entry-level has not dried up..." declared Jon Butterfield, managing director of ReThink Recruitment, to the website ITPRO¹⁶. Other studies showed that pay for entry-level IT workers is falling and that one in ten recent computer science graduates in the UK can't find a job. Higher IT positions seem also to be less advertised.

The Global Outsourcing Report (2005) predicts that in 2015, Eastern countries will be "ideal for high-core competency outsourcing" thanks to the level of Western world comprehension and a good educational system. As we've seen in this report, EU-15 companies are mainly exporting low to middle-tech services to the NMS for the time being. But when firms will outsource higher-skilled jobs it will be a challenge for EU-15 trade unions to make sure that the knowledge going there won't create many redundancies in the "old" member states.

In any case, the availability of highly qualified engineers in the NMS might not be sufficient to create major layoffs in the EU-15. In addition, the fact that consumers felt more negative¹⁷ about organizations which offshored may well prevent managements to outsource crucial functions.

On the other hand, NMS economies are not flourishing only thanks to outsourcing. The best example is the firm Skype that was created in Estonia. In the first quarter of 2008, the company that has been

¹⁵ Making Offshore Outsourcing Sustainable

¹⁶ www.itpro.co.uk

¹⁷ A survey by Contact Babel found that 47% of UK consumers felt more negative about organizations which offshored and that 73% of customers who had dealt with an offshore contact centre claimed to have found them worse than in the UK (Indian Contact Centre Review, 2004).

acquired by eBay Inc posted total revenues of USD 126 million and now has offices across Europe, Asia and the US thus creating jobs in other parts of the world.

Offshoring reflects the increasing international division of labor. Trade unions shouldn't go against it but monitor it. If it's true that this process creates wealth and doesn't seem to affect highly skilled people for the time being, those lacking certain skills are facing an important risk of being thrown out of the labor market. Promoting the employability of workers through retraining and investment in human capital is crucial. In addition, future trends may well induce the offshoring of high-skill tasks. EU-15 unions must make sure it won't lead to redundancies.

In order to do that, unions should try to make and enforce agreements such as the one between BT and Connect mentioned above. Global agreements promoted by UNI Global Union are also a very positive solution to ensure companies are respecting workers' rights worldwide. But, if we want this dream comes true, we need stronger unions in the NMS. Certain reports state that companies are going there because trade unions are more "flexible". It is doubtful that unions in the NMS are more "flexible" than in the EU-15, they just need more support from both the political and the union sides.

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