Guy de Jonquieres's presentation for Session 2 – The impact on the developed economies: Analysis, best practice and policy recommendations

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Seventeen years ago, a group of American politicians smashed a Toshiba radio on the steps of Congress, in protest against what they saw as the threat to US industrial supremacy posed by Japan.

Today, offshore outsourcing, particularly of business services to low-cost locations, is exciting a similar frenzy of populist demagoguery. The US Senate and many states are considering laws to prohibit offshore processing of government data. John Kerry, the Democratic presidential nominee in waiting, has likened companies which go offshore to traitors. And Greg Manikiw, president Bush's chief economist, has been vilified for making the perfectly reasonable – and empirically sustainable - statement that offshore outsourcing is just another form of international trade and a plus for the US economy.

All this makes the concerns expressed in the UK sound like muffled noises off. There are two main reasons – aside from the US election campaign – for these contrasting national responses.

The first is that while UK unemployment has remained relatively low for the past decade, the US economy is still in the grips of a "jobless" recovery. A net 2.3 million jobs have gone in three years and have yet to be replaced by enough new ones of comparable quality. Even Americans in well-paid employment worry about their future. In these conditions, unfortunately, accusations that foreigners are "stealing American jobs" can have a powerful popular resonance.

The second reason is the growing fear that the move offshore presages a serious threat, not just to the lower-paid jobs that have borne the brunt so far, but to white collar occupations, above all in the information technology sector, the proudest symbol of US economic and industrial supremacy. Silicon Valley has already been hit hard by the bursting of the dot com bubble. Now anxiety is openly expressed that competition from India, with its abundance of cheap and talented software engineers, will deliver the coup de grace by "hollowing out" America's high-tech capacity.

All the evidence suggests the scaremongering is overdone. Yes, some routine, lower-paid, business processing and call centre activities have moved offshore. Though hard to quantify exactly, by most estimates, they account for only a fraction of the total US jobs lost since 2001 and are far fewer than the number of manufacturing jobs that have gone offshore. Furthermore, many alarmist estimates exaggerate the trend by measuring employment changes from the "peak" of the late 1999 boom to the recent "trough".

It is important to keep the impact of offshoring in perspective. The direst prediction I have seen, by the Fisher Institute at Berkeley University, identifies 14 million white-collar jobs as being at risk. That is the number of jobs that regularly disappear in the US in less than six months. Many of services jobs that have moved to lower-cost locations would probably have vanished in time anyway because of the "commoditisation" of many white collar activities by computerisation. In an average quarter, 7 million to 8 million jobs are lost in the US, partly because of technological change, and in most quarters, a bigger number is created.

In the IT sector, there have been some job losses in basic programming, the most routine activity. But in more highly skilled software functions, such as architecture and engineering, employment remains stable or even exceeds the 1999 level. Overall, employment in private services has been rising since 2001. Furthermore, the latest data show that the steady rise in the US surplus in international private services trade, under way since the 1990s, is continuing. None of this bears out fears about “hollowing out”.

Nonetheless, many US economists remain puzzled by the “jobless recovery”, and some wonder whether offshoring is producing a structural shift in the labour market, resulting in “frictional” unemployment. That possibility cannot be ruled out definitively. However, if it is happening, one would expect it to be showing up in changes in the natural unemployment and NAIRU measures by now. So far, it has not. That suggests the causes of current US unemployment are cyclical, rather than structural.

There is a striking paradox in the current outpourings of US grief over offshoring. The engine of America’s vigorous economic performance and past employment creation is its impressive productivity growth. US economists are near-unanimous that, by lowering input costs and allowing resources to be deployed more efficiently, offshoring will yield further big productivity gains – resulting in increased job creation – in the future. Yet critics of offshoring appear to believe that “standing up for American jobs” means rejecting or limiting those gains.

Will their arguments carry the day? Much will depend on how quickly employment recovers. But even if it does so only slowly, I doubt that attempts to legislate against offshoring will get far. Senators Kerry and John Edwards, whose rhetoric on the issue is even shriller, have avoided locking themselves irreversably into imposing any specific restrictions. Some states may enact laws banning offshore processing of government data. But since this accounts for barely two per cent of India's BPO business from the US, the commercial impact is likely to be very limited. And legislation faces strong opposition from powerful US business lobbies, which have a strong vested interest in preventing it.

Any further moves to put up the barriers would almost certain backfire. The US today is a far more open economy than 10 or 20 years ago, with a high dependence on international trade and investment flows. If the steel tariffs saga and the outraged reaction by domestic businesses proved one thing, it is that the costs to the US economy of protectionism are more visible and more damaging than ever before. Furthermore, opinion polls show that, contrary to candidates' hustings rhetoric, trade is a very low priority among American voters. Barring a deep recession, my hunch is that a broad relapse into systematic protection is off the political agenda for the foreseeable future.

The much greater risk is that the current debate will erode still further the already fast-diminishing US constituency for trade liberalisation by discrediting or discouraging those who advocate it. That is the longer-term concern what US trade partners should really be worrying about.

Periodic bouts of economic funk in the US are not new. Fears of large-scale unemployment were voiced in the 1970s after the first oil shock, in the 1980s over Japan and in the early 1990s because of Nafta. Yet the US economy has since then created vastly more jobs than were destroyed, thanks to rapid innovation, creativity and a flexible labour market.

Secondly, hysterical predictions that almost any job that involves sitting at a computer is under threat look greatly overdone. For a start, there are natural bottlenecks to the speed at which India and offshore centres can move up the value chain. They include a shortage of local management skills, lack of familiarity with foreign working methods and market requirements and the difficulty of obtaining the qualifications needed to practise higher-level professional skills, such as accountancy, the law and medicine abroad. These, I think, will all prove impediments to capturing those activities where the most value-added is created and the greatest profits are earned.

More important still, demand and markets do not stand still, and the contours of the competitive battlefield keep changing. Many types of services jobs that exist today are in activities that were barely thought of 20 years ago, some of which have supplanted jobs that existed then. In my own industry, printers disappeared in the mid-1980s. Nobody even dreamed then that today we would be employing as many people to run websites. And given the special editorial skills, knowledge and news judgement that on-line journalism requires, I do not think the FT will be moving our FT.com operation to India soon, unless some local staffing is required to meet the particular needs of the Indian market.

There can be little doubt that an almost certainly unstoppable shift in the division of labour is under way, within as well as between, countries. We in the rich world face this challenge from a position of enormous strength. We have the twin advantage of sophisticated and demanding local markets and much experience in how to cater to them. That is true above all in services, the fastest expanding areas of western economies and, almost without exception, the most backward sector of developing economies. The priority – indeed the only option for the future – is to pursue policies that encourage continuous innovation by keeping markets open and competitive and constantly upgrading the skills needed to serve them effectively. Responding to new challenges from developing countries by putting up the barriers will only make all of us poorer.