

This PDF is a selection from a published volume from the National Bureau of Economic Research

Volume Title: International Trade in Services and Intangibles in the Era of Globalization

Volume Author/Editor: Marshall Reinsdorf and Matthew J. Slaughter, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 978-0-226-70959-8; 0-226-70959-0

Volume URL: <http://www.nber.org/books/rein09-1>

Conference Date: April 28-29, 2006

Publication Date: May 2009

Chapter Title: We Can Work It Out: The Globalization of ICT-Enabled Services

Chapter Author: Desireé van Welsum, Xavier Reif

Chapter URL: <http://www.nber.org/chapters/c11613>

Chapter pages in book: (289 - 325)

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# We Can Work It Out

## The Globalization of ICT-Enabled Services

Desirée van Welsum and Xavier Reif

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### 9.1 Introduction

Services now account for around two-thirds of output and foreign direct investment in most developed countries, and for up to 20 to 25 percent of total international trade. The importance of services in international trade remains comparatively modest because many services have only recently become tradable, and many others remain nontradable. Many services are also delivered in ways that would not be captured in the trade flows measured in the Balance of Payments, for example through foreign direct investment (FDI) or the temporary movement of persons. Rapid advances in information and communication technologies (ICTs) and the ongoing global liberalization of trade and investment in services have increased the tradability of many service activities and created new kinds of tradable services. Many services sector activities are thus becoming increasingly internationalized, especially since ICTs enable the production of services to be increasingly location independent. This has led to the globalization of ser-

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This paper was presented in the CRIW conference on International Services Flows. Disclaimer: The opinions expressed and arguments employed in this paper do not necessarily reflect the official views of the Organisation or of the governments of its member countries. This paper draws on a larger body of work published by the OECD as it becomes available on: <http://www.oecd.org/sti/offshoring>. We thank Nigel Pain from the OECD Economics Department for his help and advice in preparing this paper. Comments from participants at the CRIW-NBER Conference on International Services Flows (28–29 April 2006, Bethesda, Maryland, U.S.), and in particular Marshall Reinsdorf and our discussant Lori Kletzer, are also gratefully acknowledged. This paper was prepared while Xavier Reif was visiting the OECD.

vices activities and facilitated the ICT-enabled offshoring<sup>1</sup> of services, with associated changes in trade and cross-border investment in service activities and employment patterns.

This chapter builds on earlier work that attempted to quantify the share of employment potentially affected by ICT-enabled offshoring of services (van Welsum and Vickery 2005; van Welsum and Reif 2006b, 2006c). At present there are no official data measuring the extent of offshoring of services, nor of the numbers of jobs lost and created in different locations, so it is necessary to use indirect measures such as data on trade in services, employment data, input-output tables, and trade in intermediates. Evidence from company surveys can also be a useful complement. This chapter combines the information from both trade and employment data to examine the relationship between the share of employment potentially affected by offshoring and other economic and structural factors using some simple descriptive regressions for a panel of OECD economies between 1996 and 2003. Initial estimates of the statistical association between the share of employment potentially affected by service sector offshoring, trade in business services, and foreign direct investment are provided by van Welsum and Reif (2006b, 2006c). In this chapter the model is extended to test whether there are differences in the factors driving the shares of potentially offshorable clerical and nonclerical occupations in total employment. Separate indicators for manufacturing and services foreign direct investment are now also included.

It is important to take care with the interpretation of the results though, as they are not drawn from the empirical testing of a formal theoretical model of the underlying structural relationships. Thus, it is not possible to separate out completely the effects from demand and supply side developments. However, the results provide guidance on the statistical associations that are found to exist between the variables included in these descriptive regressions.

The structure of the rest of this chapter is as follows. A number of different measures of the extent to which services activities have become globalized are discussed in section 9.2. Section 9.3 then summarizes the work undertaken at the Organization for Economic Cooperation and Development (OECD) to obtain estimates of potentially offshorable ICT-using occupations in a number of OECD economies. The fourth section contains the new empirical analysis of the factors associated with the evolution over time of the share of these potentially offshorable occupations in

1. Under the definition of offshoring adopted in this chapter, offshoring includes both international outsourcing (where activities are contracted out to independent third parties abroad) and international insourcing (to foreign affiliates). The cross-border aspect is the distinguishing feature of offshoring (i.e., whether services are sourced within the domestic economy or abroad), not whether they are sourced from within the same company or from external suppliers (outsourcing).

total employment. Indicators of international trade and investment, national economic structure, and economy-wide framework factors are all found to be important influences.

## 9.2 The Globalization of ICT-Enabled Services

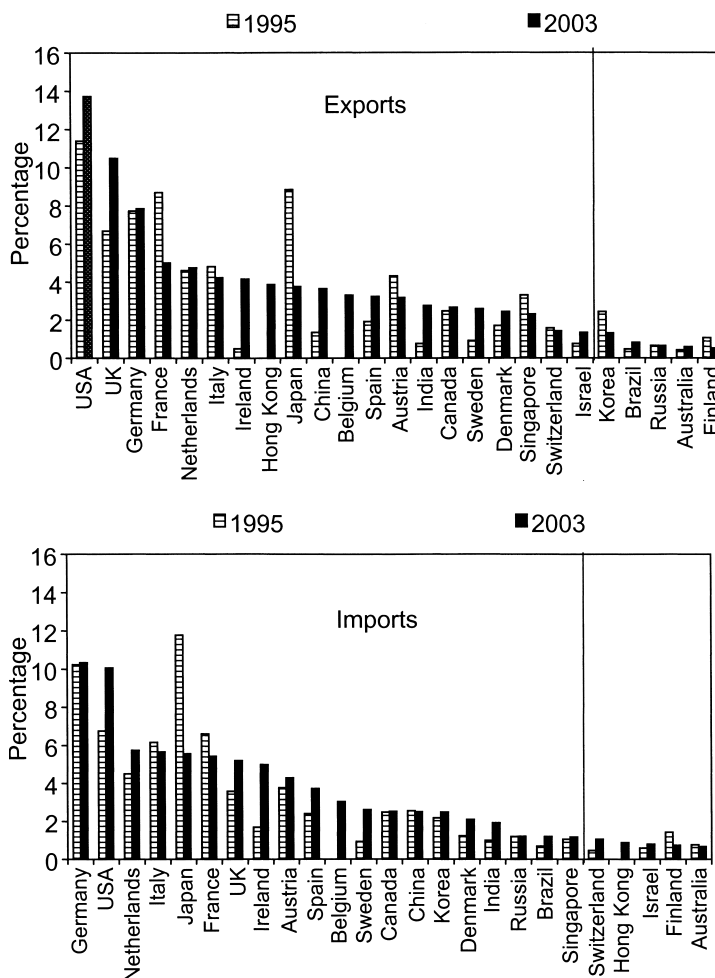
### 9.2.1 Trade in ICT-Enabled Services

The extent of international trade in ICT-related services and business services can be approximated by summing the IMF Balance of Payments categories “computer and information services” and “other business services” (see table 9A.1 in the Appendix for details on which services are included in these categories). Data on computer and information services are not available for all countries. For some, such as India, they are included under “other business services,” along with other services.<sup>2</sup> The “other business services” category may have variable shares of information technology (IT) and ICT-enabled services in different countries. We will refer to this category as “business services” from hereon. The data are reported in current USD and can be affected by currency movements.

Most exports of business and computer and information services still originate in OECD countries, close to 80 percent, although their share is slowly declining. The twenty countries that accounted for the largest value shares in 2003, as well as some selected other economies, are shown in figure 9.1. The OECD countries had the top seven shares of these services exports in 2003. Hong Kong, China, India, Singapore, and Israel are the six non-OECD countries in this top twenty. Nevertheless, some countries often mentioned as receiving offshored services activities are experiencing rapid growth in exports (fig. 9.2), although most are starting from very low levels. This reflects, in part, their economic development, but could also be an indication of their confirmation as an “offshoring location.”

The increasing importance of trade in services, and of trade in business services and computer and information services in particular, for most countries is also illustrated in table 9.1. In most countries the share of services trade in total trade increased between 1995 and 2003. Business ser-

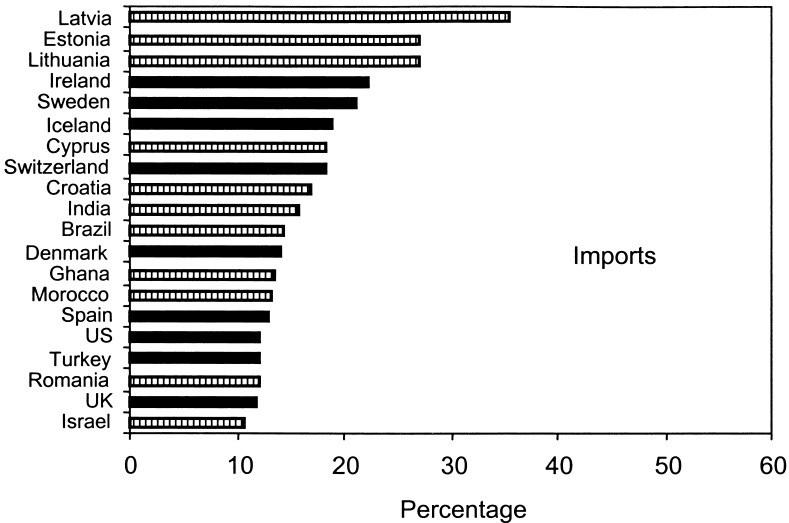
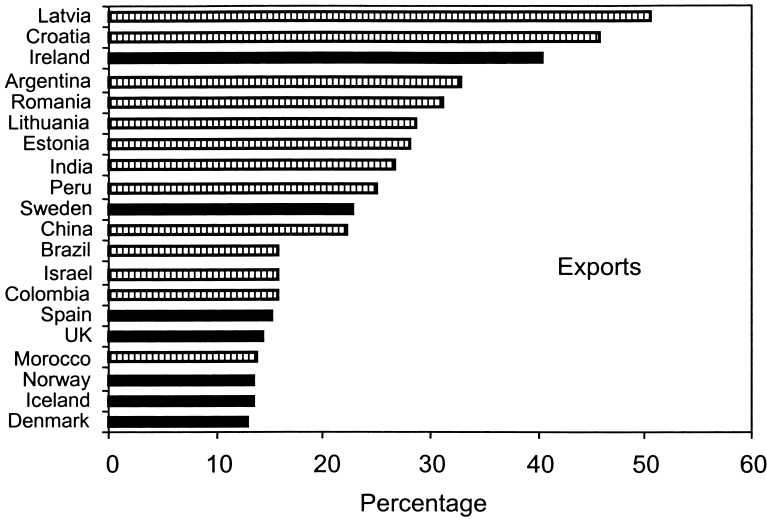
2. For India, the category “other business services” includes all services except travel, transport, and government services. However, Indian firms are now extensively exporting ICT-enabled services and business process services and the remaining services included in the category are likely to be small in comparison. The data may also include the earnings of Indians working abroad. There are some data quality concerns though, not only for India, but also for China, for example (OECD 2006). Some large discrepancies have been observed in the exports data reported by India, and the imports data from its main trading partners (OECD 2004; GAO 2005). Some of the problems with data on trade in services can be explained by factors such as reporting difficulties, collection methods (company surveys rather than customs records for goods), varying timelines of implementing Balance of Payments (BPM5) methodology and rules, the treatment of certain services categories, and the complexity of the structures and operations of multinational. These issues are being addressed.



**Fig. 9.1 Share of the value of reported total exports of business services and computer and information services, top 20 and selected other countries, 1995 and 2003. Decreasing order of the total reported value share in 2003, percentages.**

*Source:* Authors' calculations based on IMF Balance of Payments Database (August 2005).

*Notes:* The reported total for all countries does not necessarily correspond to a world total. For some countries, such as India, it is not possible to isolate other business services and computer and information services. As a consequence, for India, the category includes total services, minus travel, transport, and government services (i.e., including construction, insurance, and financial services as well as other business services and computer and information services). The data are in current USD and may therefore be affected by currency movements.



**Fig. 9.2** Twenty selected countries with rapid growth, exports and imports, business services, and computer and information services (CAGR 1995–2003)

Source: Authors’ calculations based on IMF Balance of Payments Database (August 2005).

Note: Darker shading corresponds to OECD member economies.

vices and computer and information services also tend to account for a relatively large and increasing share of services trade.

Trade in business and computer and information services accounts for a relatively modest, but increasing, share of GDP in most countries (table 9.2). The share tends to be somewhat larger in smaller countries than in

**Table 9.1** Relative importance of trade in services and trade in business and computer and information services, selected countries, 1995 and 2003 (percentages)

	Exports						Imports					
	S in T		BCIS in T		BCIS in S		S in T		BCIS in T		BCIS in S	
	1995	2003	1995	2003	1995	2003	1995	2003	1995	2003	1995	2003
Australia	23.3	23.1	1.7	3.3	7.3	14.3	23.0	20.0	2.8	2.8	12.3	14.2
Austria	35.8	32.5	13.3	12.2	37.0	37.5	30.1	31.9	11.1	15.0	36.9	47.1
Canada	11.9	13.0	3.1	4.1	26.3	31.8	16.7	17.2	3.3	3.9	20.0	22.5
China	13.0	9.6	2.5	3.8	19.6	39.6	18.6	12.3	5.1	2.5	27.5	20.6
Denmark	23.3	32.9	7.2	12.9	30.8	39.1	24.3	34.0	5.8	11.5	24.0	33.9
Finland	15.5	13.0	6.2	4.4	40.1	34.0	25.4	20.2	10.3	6.8	40.4	33.8
France	23.2	21.4	6.6	5.5	28.6	25.7	19.8	18.8	5.4	5.6	27.1	29.8
Germany	13.3	14.1	3.5	4.5	26.7	32.2	22.4	22.2	4.7	6.1	20.9	27.3
India	17.8	28.3	5.6	16.9	31.3	59.7	21.3	27.4	5.6	9.3	26.4	34.0
Ireland	10.1	29.8	2.8	16.6	27.7	55.6	26.8	50.3	10.8	21.8	40.2	43.3
Italy	20.8	19.4	4.5	5.8	21.6	30.0	22.0	20.6	6.7	7.1	30.3	34.6
Sweden	16.4	23.1	2.7	9.9	16.4	42.9	21.2	25.7	3.1	10.6	14.8	41.1
United Kingdom	24.5	33.2	5.7	11.5	23.4	34.8	20.0	24.5	3.0	4.6	14.8	18.8
United States	27.4	29.8	4.0	6.8	14.5	22.9	15.9	16.9	2.1	3.0	13.0	17.8

*Source:* Authors' calculations based on IMF Balance of Payments Database (August 2005).

*Notes:* Where S in T = services trade in total trade; BCIS in T = business and computer and information services in total trade; and BCIS in S = business and computer and information services in services trade. Services trade (S) also includes royalties and license fees. Some of the large shift in "S in T" for Ireland may be explained by changes in this category, which is thought to reflect tax minimization strategies rather than real activity.

larger countries. There was a particularly large increase in the share in Ireland between 1995 and 2003, reflecting Ireland's rapid shift into service activities over that period (Barry and van Welsum 2005).

The trade balance (in current USD) in the sum of business and computer and information services as a percentage of GDP for selected countries in 1995 and 2003 is shown in figure 9.3. The United States have a relatively large and still increasing surplus in trade in these categories, although it is relatively small as a percent of GDP. The United Kingdom also has a large and growing surplus, and the share in GDP is also increasing, in spite of the impression that may be given by the many (media) reports on the extent of offshoring and related imports. Ireland has a surplus looking at the category "computer and information services," but a deficit for the sum of the two ICT-enabled trade categories. More recently released data show that Ireland moves into surplus in 2004. Of the countries shown in the graph, Denmark and the UK have the largest surplus as a percent of GDP.

**Table 9.2** Exports and imports of business and computer and information services as a share of GDP, selected countries, 1995 and 2003 (percentages)

	Exports		Imports	
	1995	2003	1995	2003
Australia	0.32	0.57	0.57	0.58
Austria	4.97	6.32	4.27	7.64
Canada	1.18	1.58	1.15	1.34
Denmark	2.61	5.84	1.87	4.51
Finland	2.29	1.66	2.99	2.10
France	1.55	1.44	1.15	1.46
Germany	0.87	1.60	1.13	1.96
Ireland	2.09	13.88	6.85	14.88
Italy	1.21	1.46	1.52	1.75
Netherlands	3.08	4.70	2.94	5.10
Sweden	1.03	4.36	1.02	3.92
United Kingdom	1.63	2.96	0.86	1.31
United States	0.43	0.63	0.25	0.42

*Source:* Authors' calculations based on IMF Balance of Payments Database (August 2005).

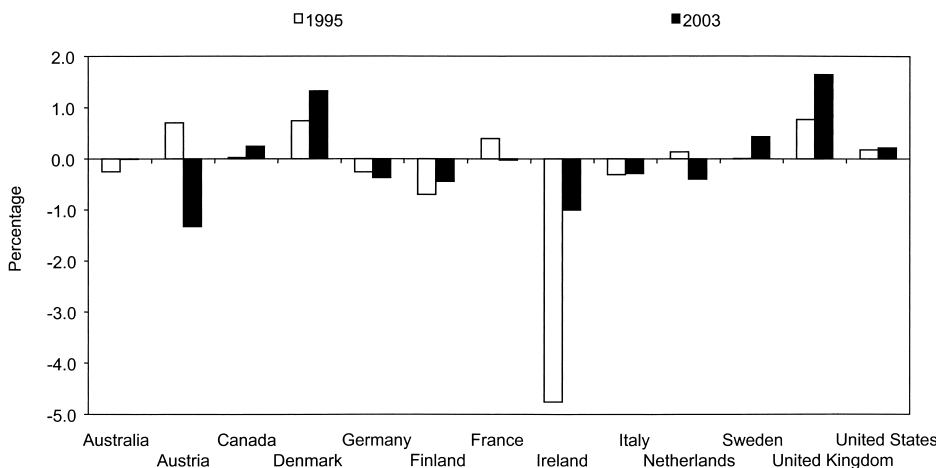
### 9.2.1 FDI in Services

Another indicator of the extent of globalisation of services is given by the stock share of services in total FDI (table 9.3). In most countries, the share of services has increased between 1995 and 2003, and the stock of services tends to account for more than half of the total stock, and up to 88 percent in Germany for inward investment, and up to 82 percent in outward investment in France in 2003. A further indicator of globalization of services is given by the share of this type of FDI in GDP. In all countries, both the total share of FDI (inward and outward) and the share of services FDI in GDP have increased between 1995 and 2003 (table 9.4).

However, most of this FDI in services is not in services that can necessarily be traded with the help of ICTs. The sectors distinguished in the OECD FDI database are listed in table 9A.2. It is difficult to know which category would be most suitable to match the categories used as proxies for ICT-enabled trade in services,<sup>3</sup> but probably the best approximation would be given by “business activities,” which can be obtained by subtracting “real estate” from “real estate and business activities.” Unfortunately, this breakdown is not widely available (eight countries in the sample, and not

3. “Real estate and business activities” represents section K of ISIC 3 (minus if available “of which real estate”), but the connection is loose between service products and service activities determined for large enterprises. Business services can be provided internally within multinationals with main activities elsewhere (e.g., in manufacturing).





**Fig. 9.3** Trade balance in the sum of the categories business and computer and information services, as a percentage of GDP, selected countries, 1995 and 2003 (percentages)

*Source:* Authors' calculations based on IMF Balance of Payments Database (February 2005).

necessarily for all years considered), but “real estate” tends to account for a relatively small share of that category.

### 9.3 Employment Potentially Affected by Offshoring

To get an idea of the “outer limits” of employment potentially affected by offshoring, van Welsum and Vickery (2005) calculate the share of people employed who are mainly performing the types of functions that could potentially be carried out anywhere, using data on employment by occupation by industry. The classifications were not harmonized internationally, but the same methodology and rationale were applied to the individual country data sources.<sup>4</sup> As this analysis was carried out in order to

4. The European data are Labor Force Survey data provided by Eurostat. The occupational classification system in those data is the ISCO—International Standard Classification of Occupations, and NACE—the industrial classification system of the European Union—is used for sectoral classification. For the United States, data from the Current Population Survey were used. The Current Population Survey collects information on both the industry and the occupation of the employed and unemployed. However, beginning with data from January 2003, the 1990 Census Industrial Classification System was replaced by one based on the North American Industry Classification (NAICS), and the 1990 Census Occupational Classification was replaced by one derived from the U.S. Standard Occupational Classification (SOC). Further information is available on the website of the U.S. Bureau of Labor Statistics at: <http://www.bls.gov/opub/hom/pdf/homch1.pdf> (accessed November 2004); Chapter 1: Labor Force Data derived from the Current Population Survey. For Canada, Labour Force Data provided by Statistics Canada were used. The occupational classification is in SOC91. For Australia, data from the Labour Force Survey provided by the Australian Bureau of Sta-

**Table 9.3** The share of FDI in services in total FDI, 1995 and 2003

	Inward		Outward	
	1995	2003	1995	2003
Australia	47.0	52.7	35.1	34.2
Austria	65.2	76.8	69.9	79.1
Canada	30.7	29.2	40.0	55.1
Denmark	73.4	77.1	64.5	69.6
Finland	39.5	64.9	9.7	13.2
France	67.4	80.5	80.0	81.8
Germany	76.1	88.1	67.6	81.1
Italy	55.8	54.5	63.6	59.1
Netherlands	55.2	63.1	49.5	58.1
Sweden	33.0	38.8	31.7	42.5
United Kingdom	46.6	66.1	40.1	61.7
United States	51.0	62.6	55.2	74.1

Source: Authors' calculations, based on OECD Direct Investment Statistics Database.

**Table 9.4** Share of FDI in GDP, 1995 and 2003

	Total Inward		Services Inward		Total Outward		Services Outward	
	1995	2003	1995	2003	1995	2003	1995	2003
Australia	25.8	37.9	12.1	20.0	14.2	28.6	5.0	9.8
Austria	7.3	21.0	4.8	16.1	4.9	21.8	3.4	17.3
Canada	21.2	32.1	6.5	9.4	20.3	36.5	8.1	20.1
Denmark	12.1	41.3	8.9	31.8	12.5	42.6	8.0	29.7
Finland	6.5	31.0	2.6	20.1	11.5	46.9	1.1	6.2
France	12.2	29.1	8.2	23.4	13.0	40.3	10.4	32.9
Germany	7.6	27.5	5.8	24.2	10.2	30.4	6.9	24.7
Italy	5.8	12.3	3.2	6.7	8.8	16.3	5.6	9.6
Netherlands	29.4	89.3	16.2	56.4	43.0	103.6	21.3	60.1
Sweden	12.3	39.9	4.1	15.5	29.0	53.3	9.2	22.7
United Kingdom	17.6	33.7	8.2	22.3	26.9	68.4	10.8	42.3
United States	7.3	12.9	3.7	8.1	9.5	16.4	5.3	12.2

Source: Authors' calculations, based on OECD Direct Investment Statistics Database.

obtain an order of magnitude on the share of people employed performing tasks that could potentially be carried out anywhere, no additional assumptions were made as to what proportion of each occupational group was actually likely to be affected by offshoring in practice. Thus, the whole of each selected occupation was then included in the calculations.

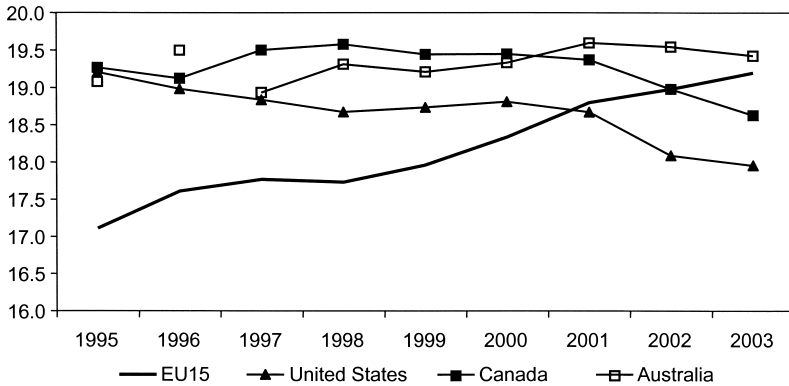
Occupations were selected by examining detailed occupational and task

tistics were used. The occupational classification is in Australian Standard Classification of Occupations (ASCO), second edition.

descriptions on the basis of the following four criteria, or “offshorability attributes”: (a) intensive use of ICTs; (b) an output that can be traded and transmitted in a way that is enabled by ICTs (e.g., via email or the internet); (c) high content of codifiable knowledge; and (d) no face-to-face contact requirements. The occupational selections that resulted from this exercise are reported in tables 9A.3 through 9A.6. For further details on the methodological background see van Welsum and Vickery (2005), and OECD (2004). This analysis, using occupational data for several OECD countries, suggests that around 20 percent of total employment carries out the kinds of functions that are potentially geographically footloose as a result of rapid technological advances in ICTs and the increased tradability of services, and could therefore potentially be affected by international sourcing of IT and ICT-enabled services. Services sectors (such as computer and related activities, financial services, insurance services, and R&D services) tend to have large shares of this type of employment (see van Welsum and Vickery [2005] for rankings of industrial sector by the share of employment potentially affected by offshoring).

Other studies have taken a similar approach. Blinder (2005), and as quoted in Mankiw and Swagel (2005), finds a similar estimate of around 20 percent of total employment potentially affected by offshoring in the United States in 2004. He uses the concept of “personally deliverable services” and “impersonally deliverable services.” However, the estimates of employment potentially affected by offshoring vary widely. For example, Bardhan and Kroll (2003) produced estimates of 11 percent of total employment in the United States in 2001 as potentially affected by offshoring, and Forrester Research, as reported by Kirkegaard (2004), up to 44 percent of total employment. The differences in these estimates can be explained by the selection criteria that are applied to the occupational data. Thus, Bardhan and Kroll (2003) only included occupations in which at least some offshoring was already known to have taken place or being planned, yielding a more conservative estimate of the share of employment potentially affected, whereas the Forrester study used less detailed occupational categories resulting in a larger estimate of jobs potentially affected. A different but related approach was taken by Jensen and Kletzer (2005) looking at tradable versus nontradable occupations based on Gini coefficients. The list of tradable occupations they find for the United States overlaps with the list in van Welsum and Vickery (2005) and used in this chapter, but the methodology of Jensen and Kletzer (2005) identifies a larger set of tradable occupations. According to their methodology, around 30 percent of employment in the United States can be considered as tradable. They find little evidence of slower employment growth in tradable occupations (and activities).

The evolution over time of the share of employment potentially affected by offshoring is illustrated in figure 9.4. Even though the levels of these



**Fig. 9.4 The share of ICT-intensive using occupations potentially affected by offshoring in total employment: EU15, United States, Canada, and Australia 1995–2003 (percentages)**

*Source:* Author’s calculations and van Welsum and Vickery (2005), based on EULFS, U.S. Current Population Survey, Statistics Canada, and Australian Bureau of Statistics (2004/5).

*Note:* Includes estimates where a full data set was not available. Because of classification changes, the number for the United States for 2003 is also an estimate. There is a break in the data for Australia, with data for 1995 and 1996 in ASCO first edition and subsequent data in ASCO second edition. Due to differences in classifications the levels are not directly comparable.

shares are not directly comparable, the evolution of the trends is interesting. The share of occupations potentially affected by offshoring in the EU15<sup>5</sup> increased from 17.1 percent in 1995 to 19.2 percent in 2003. For Canada it was more or less flat around 19.5 percent until 2001, after which it declined to 18.6 percent by 2003. For the United States, the share declined by more than a percentage point, from 19.2 percent in 1995 to 18.1 percent in 2002.<sup>6</sup> In Australia, the share increased between 1996 and 2001 (except in 1999) but started to decline in 2001.

It is difficult to draw inferences from these trends without further analysis, since the trends are affected by a multitude of factors and it is difficult to separate out the effect of ICTs from the effects of the changes ICTs enable. Nonetheless, the evolutions shown are consistent with some casual observations on the ICT-enabled offshoring that is taking place. For example, Canada serves as an offshoring location, mainly from the United States, but may have become a comparatively less important location recently as other countries such as India have started to emerge. Similarly, Australia has also experienced competition for attracting, or keeping, activities that can be sourced internationally from India and other emerging

5. See van Welsum and Reif (2006c) for the evolution of the share for the individual countries that make up the EU15.

6. The number for 2003 (just under 18 percent) is an estimate as both the occupational and industrial classification systems were changed in 2003 in the United States.

locations in the region. Thus, the declining share in the United States, Canada, and Australia toward the end of the period could be consistent with the offshoring of IT-related and back-office activities (with some potential offshoring having become actual offshoring), even though this is unlikely to account for all of the decline.

Another possible explanation for differences in the evolution of the trends could be different paces of technological change, with a relatively more rapid adoption and integration of new technologies leading to relatively more jobs disappearing as they become automated and/or digitized.<sup>7</sup> The increasing share for the EU15 is compatible with an overall increase in services employment as well as the finding from surveys that European firms tend to offshore within Europe (see Millar [2002] and Marin [2004], for example). The upward trend is broadly similar across the individual countries that make up the EU15 (see van Welsum and Reif 2006c), but at different levels. At least one EU15 country, Ireland, is also a major destination country of offshoring activities from the United States (IT-related activities in particular). And between 2002 and 2005, more jobs were created as a result of activities offshored to Denmark than were eliminated because of offshoring from Denmark to other countries (Jensen, Kirkegaard, and Laugesen 2006). Other factors, such as cyclical developments and changes in labor supply and labor quality, could also be important.

The offshoring phenomenon does not necessarily have to result in a decline in total services employment, though.<sup>8</sup> Many existing services sectors have expanded, new services have emerged, and with ongoing technological developments and services trade liberalization it is likely that yet more are to be created. Furthermore, with the income elasticity of demand of internationally traded services greater than one (e.g., Pain and van Welsum 2004; van Welsum 2004; Mann 2004), rapid growth in countries such as India and China should also lead to reinforced exports from OECD countries. The offshoring phenomenon itself will also create new jobs in the domestic economy. However, it is likely that certain types of occupations will experience slower growth than they otherwise might have done.

As the trends in figure 9.4 are expressed as shares, there are several possibilities to explain changes in these trends. For example, a decline in the

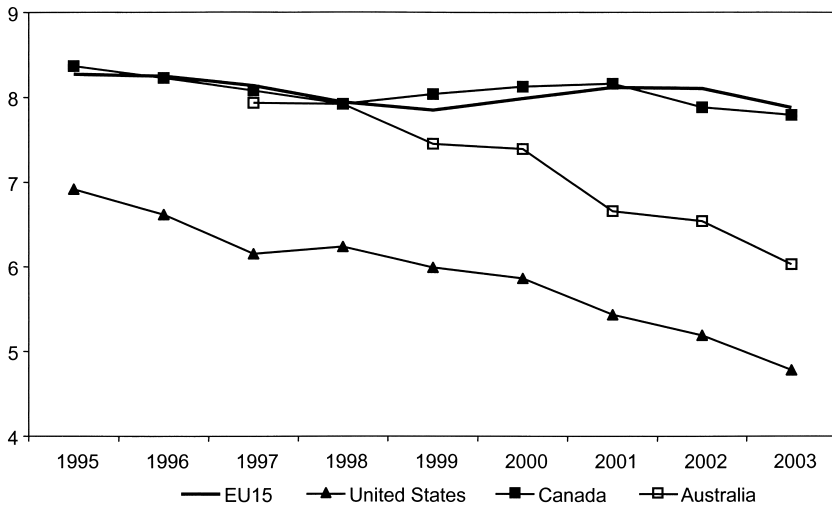
7. A parallel can be drawn here with some of the work undertaken by Autor, Levy, and Murnane (2003) and Levy and Murnane (2004). These authors argue that the tasks most vulnerable to being substituted by technology are those where information processing can be described in rules. If a significant part of a task can be described by rules, this increases the likelihood of the task being offshored, since the task can then be assigned to offshore producers with less risk and greater ease of supervision.

8. The cost savings from offshoring will raise the real income of consumers (who will pay lower prices) and of business owners in countries that import the relatively cheaper offshored services; this higher income will result in some extra demand. External demand is also likely to increase as income in countries providing the offshored services increases. These sources of growing demand will create new jobs that will help to offset the jobs originally offshored.

share could be explained by an absolute decline in the number of people employed in the categories identified as potentially affected by offshoring. Alternatively, it could be that this selection of occupations is growing at a slower pace than total employment. The relatively slower growth of employment potentially affected by offshoring is in fact what explains most of the declines observed in the trends, except for the United States, where the absolute number of people employed in the categories identified as potentially affected by offshoring has declined (table 9A.1 in the Appendix). These observations would therefore tend to support the idea that offshoring may lead to slower growth of employment in occupations potentially affected by offshoring and not necessarily to actual declines in employment.

### 9.3.1 Disaggregating Employment Potentially Affected by Offshoring

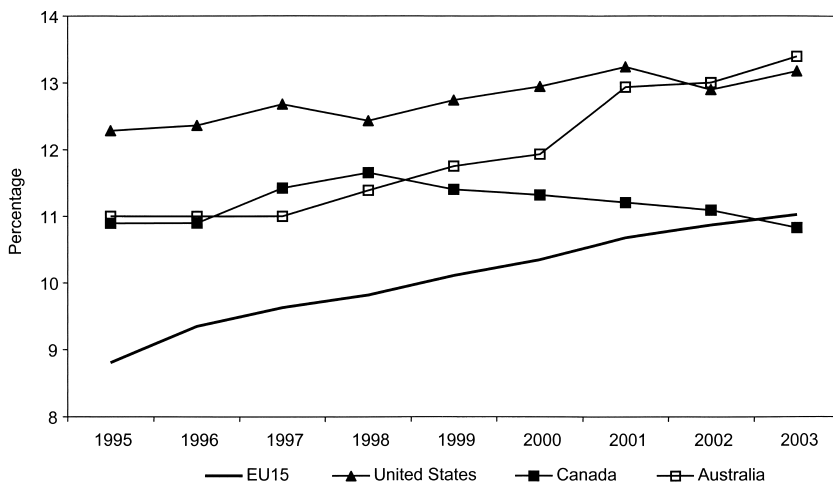
As offshoring and technology may have a different effect on workers with different types of skills (e.g., Autor, Levy, and Murnane 2003), the share of employment potentially affected by offshoring is broken down into two subcategories: clerical and nonclerical occupations potentially affected by offshoring (fig. 9.5 and 9.6). This is important, as the clerical



**Fig. 9.5 Employment in clerical occupations potentially affected by offshoring as a share of total employment: EU15, United States, Canada, and Australia 1995–2003 (percentages)**

*Source:* Author's calculations and van Welsum and Vickery (2005), based on EULFS, U.S. Current Population Survey, Statistics Canada, and Australian Bureau of Statistics (2004/5).

*Notes:* The years 1995 and 1996 exclude Finland and Sweden; 1998 excludes Ireland; and 2003 excludes Denmark, Luxembourg, and the Netherlands. Because of classification changes, the number for the United States for 2003 is an estimate. Due to differences in classifications the levels are not directly comparable.



**Fig. 9.6 Employment in nonclerical occupations potentially affected by offshoring as a share of total employment: EU15, United States, Canada, and Australia 1995–2003 (percentages)**

*Source:* Author's calculations and van Welsum and Vickery (2005), based on EULFS, U.S. Current Population Survey, Statistics Canada, and Australian Bureau of Statistics (2004/5).

*Notes:* The years 1995 and 1996 exclude Finland and Sweden; 1998 excludes Ireland; and 2003 excludes Denmark, Luxembourg, and the Netherlands. Because of classification changes, the number for the United States for 2003 is an estimate. Due to differences in classifications the levels are not directly comparable.

group includes the types of jobs that can be substituted for by ICTs (through the digitization and/or automation of certain tasks and types of codifiable knowledge) so a differential pace of adoption and integration of technology can have a different effect across countries.

Looking at the share for each country at the beginning and end of the respective available data periods, it can be seen that for the United States and Australia, and to a lesser extent Canada, there is an obvious decline in the share of potentially offshorable employment. This is consistent both with the destruction of these types of jobs as a result of technological advances and with the offshoring of back-office activities. For the EU15 countries the evidence is more mixed. In some countries a decline in the share can be observed (Austria, Belgium, Germany, Finland, France, Ireland, Netherlands, Portugal), but in other countries there is an increase (Denmark, Spain, Greece, Italy, Luxembourg, Sweden, and the United Kingdom). It is likely that there are different explanations underlying these evolutions; for example, the varying importance of the size of the public sector and the services sector in the economy, and the differential pace of technology adoption and integration. However, it also means that while there are many reports about clerical-type occupations being offshored—in some coun-

tries, at least—more still are being created at home. For example, in the UK employment growth in IT and call center occupations potentially affected by offshoring over the period 2001 to 2005 was 8.8 percent compared to 3.2 percent for total employment, in spite of many media reports of these kinds of jobs being offshored. Nevertheless, *Computer Weekly* (February 2006 issue) reports that the effects of offshoring are now being felt in the IT job market in the UK with more and more IT employers offshoring and outsourcing basic development and programming work.

Even though job displacement from technological progress, in particular in ICTs, may account for at least some of the relative decline in the occupations potentially affected by offshoring, the possibility that some of these jobs have already been offshored cannot be ruled out. For example, Baily and Lawrence (2005) argue that at least some of the declines in low-wage ICT-enabled occupations in the United States, a concept close but not equivalent to the group of clerical workers identified previously, took place as a result of activities being shifted overseas. Looking at IT specialist occupations, they also find that the net loss of computer programmers in the United States was most likely the result of offshoring. Nevertheless, even the largest projections of jobs to be offshored, as often reported in the media, are in fact relatively small compared to annual job churning in OECD labor markets.

In the short run, labor-augmenting technical progress (associated with innovations and improvements in ICTs) and international outsourcing of tasks may both reduce the level of domestic employment for a given level of domestic output. In the longer-term, both may enhance productivity and the competitiveness of the firm, enabling an increase in output and hence employment. So distinguishing between two effects is difficult when looking at a single country. Looking across countries, as in the following models, it could be argued that improvements in ICTs are common to all countries and are picked up by the time dummies included in the following regressions. If so, observed differences in employment patterns must be due to other factors, such as the extent of offshoring.

Appendix tables 9A.3 through 9A.6 illustrate the occupations that have been included as “potentially affected by offshoring,” and which of those are considered as “clerical” occupations. The following two graphs illustrate the evolution over time of the share of these clerical occupations and nonclerical occupations in total employment.

The three-year averages for the share of clerical occupations in the occupations potentially affected by offshoring are shown in table 9.5. The share of potentially offshorable employment accounted for by clerical occupations varies widely across countries, from over 60 percent in Italy and Portugal to around 30 percent in Australia, Ireland, Sweden, the United Kingdom, and the United States.



**Table 9.5** The share of clerical occupations in employment potentially affected by offshoring, three-year averages, 1995–2003 (percentages)

	Clerical in offshoring		
	1995–1997	1998–2000	2001–2003
Australia	41.9	39.3	32.8
Canada	42.6	41.2	41.8
United States	34.5	32.2	28.1
Austria	44.6	42.5	39.7
Belgium	38.0	36.7	33.2
Germany	49.1	44.8	42.3
Denmark	38.9	38.3	37.6
Spain	55.7	53.3	51.3
Finland	31.6	30.6	26.6
France	42.0	39.9	36.2
Greece	46.6	51.4	51.5
Ireland	22.0	33.0	30.8
Italy	65.8	62.8	61.9
Luxembourg	57.9	51.9	48.6
Netherlands	42.8	39.4	39.7
Portugal	63.8	67.8	62.9
Sweden	30.3	28.8	28.0
United Kingdom	33.8	31.7	32.9

*Source:* Author's calculations, based on EULFS, U.S. Current Population Survey, Statistics Canada and Australian Bureau of Statistics (2004/5).

*Note:* Three years or as many as available. Includes estimates where a full data set was not available. Due to differences in classifications the levels of the shares are not directly comparable between the European and non-European countries.

## 9.4 Empirical Analysis

The empirical work in this chapter extends and refines the models estimated by van Welsum and Reif (2006b, 2006c) in an attempt to identify the key factors associated with the share of economy-wide employment that is potentially offshorable in the United States, Canada, Australia, and nine European Union member states<sup>9</sup> over the period 1996 to 2003.

In the empirical model, the share of employment that is potentially offshorable is related to a set of factors controlling for international openness, the national economic structure, and economy-wide framework influences. The controls for openness include indicators of exports and imports of business services and a number of different measures of foreign direct investment (FDI) stocks. The controls for economic structures are the shares of services and high-tech industries in GDP, and the share of ICT

9. The EU15 countries excluding Belgium, Greece, Ireland, Luxembourg, Spain, and Portugal. The choice of countries is determined by the availability of the necessary data.

investments in total gross fixed capital formation. Finally, economy-wide framework factors are controlled for by the inclusion of the OECD product market regulation indicator, trade union density and an indicator of human capital. Each of these series is described in greater detail below.<sup>10</sup> The choice of variables is motivated by findings from a vast background literature, including studies of the factors determining the overall share of the service sector in the economy, studies of services sector employment, and studies of the effect of trade and technology on employment. See van Welsum and Reif (2006b) for details.

The empirical work in this chapter extends and improves the model used by van Welsum and Reif (2006b, 2006c) in two ways. First, the dependent variable is disaggregated into potentially offshorable clerical and nonclerical occupations (see figures 9.5 and 9.6), permitting a test of whether there are common influences on both. Secondly, there is an improved treatment of the FDI data used in the regression analysis. In the earlier papers use was made of only the aggregate stocks of inward and outward FDI. In this chapter more disaggregated data are used for FDI, allowing tests to be undertaken of whether FDI in manufacturing has similar effects to FDI in market services.

Ideally, it would be appropriate to begin with a simple structural model of the factors affecting the relative demand for all potentially offshorable ICT-using occupations. Using the first-order marginal productivity conditions from an (unknown) production function with two types of labor (ICT and non-ICT using labor), such a model might be expected to include measures of the relative output and relative wages of ICT-using occupations. Control variables might also be included to pick up possible differences in the extent of (labor-augmenting) technical progress in the two broad types of occupations. As in the literature on the demand for skilled and unskilled labor, possible controls are indicators for both trade and technology.

Unfortunately, while it is possible to control for output and technology effects directly, data on occupational wages are not readily available in most countries at the level of detail required. Their effect can be captured only indirectly by including a number of variables that can be expected to have an influence on real wages. It should be noted that although it is not possible to estimate a full structural model, the estimates we show are not

10. Even though GDP per capita was found to be associated with the share of services sector employment (Messina 2004) it is not included in the regressions in this chapter. In a time series context it does not make sense to include the level of GDP per capital in a regression of an ultimately bounded variable. The first difference of GDP per capital was tested at an early stage of the empirical analysis, but was found to be insignificant and is thus dropped from the model reported in this chapter. This is not necessarily surprising as the countries in sample all have relatively high levels of GDP per capita. Nevertheless, with the exception of Austria, the countries with a relatively low share of potentially offshorable employment are also those with a comparatively lower level of GDP per capita. Time dummies pick up common cyclical effects.

a pure reduced form model either, since potentially endogenous current dated terms in output and/or trade and technology remain in the model.

#### 9.4.1 Description of the Data

Trade effects are approximated by including both imports and exports of other business and computer and information services as a share of GDP.<sup>11</sup> The idea of trade related displacement would suggest that imports may have a negative association with the share of potentially offshorable occupations (“exporting jobs”), while exports should have a positive relationship (increase in demand). The FDI measures used in this chapter are the net outward stock of FDI in manufacturing and in services as a share of national GDP.<sup>12</sup> The predictions from the literature are ambiguous about the overall direction of the relationship between FDI and the share of employment potentially affected by offshoring, and it is quite possible that the effects may vary according to the characteristics of particular types of potentially offshorable employment and the sectors in which FDI takes place, just as the relationship between trade and FDI depends on the level of aggregation (Pain and van Welsum 2004; van Welsum 2004).

The share of services sector<sup>13</sup> value added in total value added and the share of high-tech industries<sup>14</sup> value added in total value added are included as indicators of the industrial structure of the economy.<sup>15</sup> Other things being equal, the larger the share of the services sector in the economy, the larger the aggregate demand for ICT-using occupations are expected to be. The share of ICT investment<sup>16</sup> in total national gross fixed capital formation is also included in order to approximate technology

11. The trade data are from IMF Balance of Payments statistics and GDP is taken from the OECD ANA database.

12. The foreign direct investment data are taken from the OECD Direct Investment Statistics Database. For Denmark and Sweden it was necessary to interpolate missing stock data using the available information on the composition of investment flows.

13. ISIC Rev.3 categories 50-99: 50-55: Wholesale and retail trade; repairs; hotels and restaurants; 60-64: Transport, storage, and communications; 65-74: Finance, insurance, real estate, and business services; 75-99: Community, social and personal services.

14. ISIC Rev.3 categories: 2423: pharmaceuticals; 30: office, accounting, and computing machinery; 32: radio, television, and communication equipment; 33: medical, precision, and optical instruments; 353: aircraft and spacecraft.

15. These are taken from the OECD STAN database; missing values have been estimated using the “60-Industry Database” from the Groningen Growth and Development Centre of the University of Groningen (Netherlands), available at <http://www.ggdc.net/dseries/60-industry.html> (last accessed 28 April, 2005).

16. ISIC Rev.3 categories: 30: office, accounting, and computing machinery; 3130: Insulated wire and cable; 3210: Electronic valves and tubes and other electronic components; 3220: Television and radio transmitters and apparatus for line telephony and line telegraphy; 3230: Television and radio receivers, sound or video recording or reproducing apparatus, and associated goods; 3312: Instruments and appliances for measuring, checking, testing, navigating and other purposes; 3313: Industrial process control equipment; 5150: Wholesale of machinery, equipment, and supplies; 6420: Telecommunications; 7123: Renting of office machinery and equipment (including computers); 72: computer and related activities.

adoption and integration. The ICT investment data are from an unpublished OECD database based on national account sources.

It is possible that the intensity of product market competition may influence the speed at which new technologies are adopted and the subsequent use made of them to adjust employment and labor tasks. An OECD indicator of anticompetitive product market regulations is thus included as a control in the regressions. This measure is an average of separate indicators of regulation in selected nonmanufacturing industries.<sup>17</sup> A lower value of the aggregate indicator suggests that regulations are less restrictive and that there is a higher degree of competitive pressures in the economy. Other things being equal, there should be a negative relationship between this variable and the share of potentially offshorable employment. Messina (2005) includes a measure of entry-barriers to the creation of new firms in the economy as an indicator of product market regulations and finds a significant and negative effect on the share of services sector employment.

Two additional economy-wide structural variables are included to capture institutional and supply-side influences on (unobserved) real wages—union density and human capital. Trade union density indicators may of course provide information about the degree of flexibility in national labor markets, as well as the relative strength of workers in wage bargaining.<sup>18</sup> A number of existing papers suggest that union density rates are inversely related to the growth of service sector occupations. For example, Messina (2004) finds that a fall in union density rates is associated with an increase in services sector employment.<sup>19</sup> Similarly, Nickell, Redding, and Swaffield (2004) find evidence that countries with higher levels of employment protection were slower in reallocating resources from declining sectors (agriculture, manufacturing, and other production) into the services sector, possibly because stronger employment protection makes labor shedding in declining sectors more costly. The analysis in this chapter does not consider employment at the sectoral level, but an analogy can be drawn as labor market inflexibilities are likely to affect occupational shifts as well as sectoral changes. The *a priori* effect of this variable is ambiguous though, as it can both prevent a reallocation of resources into ICT-intensive using occupations, and hinder the speed at which existing ICT-intensive using jobs can be transferred abroad. In the latter case, the share of potentially

17. The original version of these data is described in Nicoletti and Scarpetta (2003), with subsequently updated series available at: [http://www.oecd.org/document/1/0,2340,en\\_2649\\_34117\\_2367297\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/1/0,2340,en_2649_34117_2367297_1_1_1_1,00.html)

18. The data on trade union density rates come from OECD Labor Force Statistics Indicators and OECD Employment Outlook 2004 (table 3.3). Factors other than union density rates, including union coverage and hiring and firing restrictions, may also be important but are not included here.

19. The interpretation of this result is that lower union density rates facilitate the reallocation of labor between sectors. An alternative explanation is that union density rates are simply lower in the service sector.

offshorable occupations in total employment will be at a higher level than it would otherwise have been.

Human capital is approximated by the average years of education per person in the population of working age<sup>20</sup> (de la Fuente and Doménech 2002a, 2002b; OECD 2003). It is expected that this variable should be positively related to the share of potentially offshorable occupations, since higher levels of human capital are positively correlated with the supply of ICT-literate people in the workforce. Such increases in supply should help to restrain the growth of real wages of workers in ICT occupations and hence support demand. Nickell, Redding, and Swaffield (2004) find a strong positive effect of increases in educational attainment on the output share of the “other services” sector in the economy in Australia, Canada, France, Italy, Japan, the Netherlands, Sweden, Germany, the United Kingdom, and the United States.<sup>21</sup>

Thus, the final specification used in the empirical work has the basic form:

$$\begin{aligned}
 (1) \left( \frac{\text{OFF}_j}{\text{EMP}} \right) = & \alpha_i + \beta_1 \left( \frac{\text{X}}{\text{GDP}} \right)_{it} + \beta_2 \left( \frac{\text{M}}{\text{GDP}} \right)_{it} + \beta_3 \left( \frac{\text{NETMFDI}}{\text{GDP}} \right)_{i,t-1} \\
 & + \beta_4 \left( \frac{\text{NETSFDI}}{\text{GDP}} \right)_{i,t-1} + \beta_5 \text{ICTIRAT}_{i,t-1} + \beta_6 \text{SERVICES}_{i,t-1} \\
 & + \beta_7 \text{HITECH}_{i,t-1} + \beta_9 \text{PMR}_{i,t} + \beta_{10} \text{UNIONS}_{t-1} \\
 & + \beta_{11} \text{HK}_{i,t-1} + \varepsilon_{it}
 \end{aligned}$$

where the dependent variable is the share of potentially offshorable employment of type  $j$  in total employment in country  $i$ ,  $\text{X}$  and  $\text{M}$  are exports and imports of business and computer information services,  $\text{NETMFDI}$  and  $\text{NETSFDI}$  are the net outward stocks of manufacturing and services FDI,  $\text{ICTRAT}$  is the share of ICT investments in total investment,  $\text{SERVICES}$  and  $\text{HITECH}$  are the share of service sector output and hi-tech sector output in GDP,  $\text{PMR}$  is the product market regulation indicator,  $\text{UNIONS}$  denotes union density and  $\text{HK}$  denotes human capital. All the GDP share variables use data at current prices. The reported regressions also include country-specific fixed effects, capturing otherwise unobserved factors specific to each country that do not vary over time, and annual time dummies, capturing otherwise unobserved effects that are common to all countries in each year.

20. Although the main differences between countries are cross-sectional, there is sufficient variation over time to allow this variable to be included in the empirical analysis (see table 9.7).

21. But in the sector “business services” they found a greater role for changes in relative prices.

This model is estimated using three different measures of the dependent variable—total potentially offshorable employment, potentially offshorable clerical employment, and potentially offshorable nonclerical employment. The equations for the two subcategories are estimated jointly to improve the efficiency of the estimates by allowing for potential correlations in the respective equation variances. Joint estimation also allows tests to be undertaken for common parameters in both equations.

As the two subcategories sum to total potentially offshorable employment, and the same explanatory factors are used in all three equations, the coefficients in the jointly-estimated clerical and nonclerical equations will sum to those in the equation for the aggregate measure. The main advantage of estimating the equations for the individual categories is thus to establish whether different factors affect the different types of occupations. It does not provide an alternative picture of the factors driving the evolution of total potentially offshorable employment.

#### 9.4.2 Results

The results from using fixed effects, simultaneous equation, and instrumental variables estimation techniques are shown in table 9.6. Estimation for the basic fixed-effect single and multivariate regression models is for a sample of twelve countries over 1996 to 2003. The multivariate instrumental variables estimates (by 3SLS) are for the same countries, but over 1997 to 2003.

An initial set of results using total potentially offshorable employment as the dependent variable is shown in column (1). The results from simultaneous estimation of equations for the clerical and nonclerical components are reported in column (2). Although a joint test for common parameters in both equations is strongly rejected ( $p$ -value = 0.00), the imposition of common parameters on four explanatory factors—product market regulation, imports of business and computer services, human capital, and the share of hi-tech industries in GDP—cannot be rejected ( $p$ -value = 0.42). The results from imposing these restrictions and discarding one highly insignificant variable are shown in column (3).

The final column of table 9.6 shows the results obtained from estimating the simultaneous equation model in (3) by three-stage least squares (3SLS). This combines an instrumental variable approach to produce consistent estimates and generalized least squares to account for the correlation structure in the disturbances across equations. A year is dropped from the estimation period to allow higher order lagged variables to be used as instruments. All current dated terms, with the exception of the product market regulation indicator, are instrumented in column (4), as is the lagged ICT investment ratio, to allow for the possibility that it is acting as a proxy lagged dependent variable. The 3SLS model results have a similar pattern to those from the simultaneous equation models, though

**Table 9.6 Factors associated with the share of employment that is potentially offshorable**

Dependent variable	[1]		[2]		[3]		[4]	
	Total		Nonclerical	Clerical	Nonclerical	Clerical	Nonclerical	Clerical
(X/GDP) <sub><i>t</i></sub>	1.1504 (7.6)**		0.7310 (7.0)**	0.4194 (4.6)**	0.6776 (8.4)**	0.4586 (6.5)**	1.0390 (4.4)**	0.7891 (3.4)**
(M/GDP) <sub><i>t</i></sub>	-0.4457 (2.8)**		-0.2763 (2.5)**	-0.1693 (1.8)*	-0.2108 (2.8)**	-0.2108 (2.8)**	-0.5278 (2.0)**	-0.5278 (2.0)**
(NETMFDI/GDP) <sub><i>t-1</i></sub>	-0.0012 (0.1)		0.0395 (1.9)**	-0.0408 (3.2)**	0.0498 (2.5)**	-0.0457 (3.8)**	0.0352 (1.4)	-0.0518 (3.3)**
(NETSFDI/GDP) <sub><i>t-1</i></sub>	0.0543 (3.8)**		0.0422 (3.1)**	0.0121 (1.3)	0.0386 (3.0)**	0.0137 (1.5)	0.0380 (2.7)**	0.0153 (1.7)*
ICTIRAT <sub><i>t-1</i></sub>	0.1876 (3.5)**		0.1918 (4.7)**	-0.0042 (0.1)	0.2036 (6.2)**		0.3079 (4.7)**	
SERVICES <sub><i>t-1</i></sub>	0.0994 (1.8)*		0.1590 (3.4)**	-0.0596 (2.1)**	0.1540 (3.7)**	-0.0578 (2.0)**	0.1621 (3.2)**	-0.0330 (0.9)
HTECH <sub><i>t-1</i></sub>	0.4833 (2.3)**		0.3315 (2.1)**	0.1518 (1.3)	0.2063 (2.2)**	0.2063 (2.2)**	0.2232 (1.7)*	0.2232 (1.7)*
PMR <sub><i>t</i></sub>	-0.5642 (2.9)**		-0.3206 (2.0)**	-0.2436 (2.0)**	-0.2803 (2.9)**	-0.2803 (2.9)**	-0.4208 (2.8)**	-0.4208 (2.8)**
UNIONS <sub><i>t-1</i></sub>	-0.0472 (1.1)		-0.0978 (2.4)**	0.0506 (1.9)*	-0.0936 (2.4)**	0.0495 (1.8)*	-0.1114 (2.3)**	0.0363 (1.1)
HK <sub><i>t-1</i></sub>	2.0099 (3.8)**		0.8028 (2.3)**	1.2072 (4.7)**	1.0833 (4.4)**	1.0833 (4.4)**	1.0210 (3.4)**	1.0210 (3.4)**
$\bar{R}^2$	0.966		0.984	0.987	0.983	0.987	0.981	0.987
Standard error	0.502		0.319	0.238	0.321	0.238	0.342	0.243
Mean of dependent variable	18.61		11.39	7.23	11.39	7.23	11.39	7.23
Estimation method	OLS		MVR	MVR	3SLS			

*Notes:* (X/GDP) is the share of exports of other business and computer and information services in GDP, (M/GDP) is the share of imports of other business and computer and information services in GDP, NETMFDI/GDP (NETSFDI/GDP) is the net stock of outward foreign investment in manufacturing (services) as a share of GDP, ICTIRAT is the share of ICT investment in total fixed investment, SERVICES is the share of the services sector in total value added, HTECH is the share of high-tech industries in total value added, PMR is a product market regulations indicator, UNIONS denotes the trade union density rate, and HK is the average years of education per person. Country fixed effects and annual time dummies are included in all regressions. Heteroscedastic-consistent t-statistics are in parentheses.

\*\* Denotes a coefficient significant at the 5% level.

\* Denotes a coefficient significant at the 10% level.

there are some differences in the magnitude and significance of the coefficients.

The following subsections discuss the estimation results for the international openness variables, the economic structure variables and the economy-wide framework variables in turn.

### *International Openness*

International trade and the FDI measures are both found to be significant. In contrast to earlier findings, the coefficient on imports of business and computer and information services is negatively signed, implying that increasing imports are associated with a reduction in the share of potentially offshorable occupations at the aggregate level, with similar-sized effects on both types of potentially offshorable employment. Exports of business and computer information services are found to have a positive and significant association with the share of employment potentially affected by offshoring—as expected. The impact on potentially offshorable nonclerical employment is significantly larger than that for potentially offshorable clerical employment, as can be seen from the results in columns (2) to (4). Although the trade variables may be endogenous, especially if companies' decisions about international sourcing and employment are made simultaneously, the basic findings remain even in the 3SLS estimates in which the trade variables are treated as endogenous.

The results for the two net outward FDI measures vary across the different occupational categories and the different econometric techniques. In the single equation for total potentially offshorable employment column (1) only the net services FDI variable is significant, with a higher net outward stock of services FDI being positively associated with the share of potentially offshorable employment. The simultaneous equation estimates show that this effect largely arises from a positive association with potentially offshorable nonclerical occupations. The impact on clerical occupations is significant only in the 3SLS estimates, and even then the coefficient is significant only at the 10 percent level. This result is consistent with a scenario where skill intensive headquarter services (e.g., management, R&D, marketing, design) continue to be provided from the home country, at least initially, while there is a reduced need for administrative support functions when relatively more of the activity is located abroad.

The net outward manufacturing FDI stock does not have a significant overall impact on the aggregate share of potentially offshorable employment. The simultaneous equation estimates show that this arises because there are offsetting effects on clerical and nonclerical occupations. In particular, an increase in the net outward manufacturing FDI stock is associated with a decline in the employment share of potentially offshorable clerical occupations and an *increase* in the employment share of potentially



offshorable nonclerical occupations. This latter effect is significant in the simultaneous equation estimates in (2) and (3), but not in the 3SLS estimates. The same type of scenario of a relative increase in the need for highly skilled headquarter services combined with a reduced need for clerical-type occupations could again explain this result, with the negative effect on the latter stronger in this case.

A common element of the findings for both FDI variables is that they are associated with a rise in the share of nonclerical occupations relative to the share of clerical occupations. This is consistent with other studies that have found that outward FDI is positively associated with a rise in the relative demand for skilled labor in the home economy (see, e.g., Head and Ries [2002]).

There are many different factors that might be reflected in the coefficients on the FDI variables. It is also the case that FDI data can, at times, be a poor measure of the actual scale of activities that multinational companies undertake. However, as shown in van Welsum and Reif (2006b, 2006c), the inclusion of FDI variables does not significantly bias the coefficients on the other explanatory factors.

### *Economic Structure*

The share of ICT investment in gross fixed capital formation, the share of services in GDP and the share of high-tech industries in GDP are all significantly positively associated with the share of employment potentially affected by offshoring (column [1]), as might be expected. However, there are noticeable differences in their effects on clerical and nonclerical ICT-using occupations.

The ICT investment term has a significant positive association only with nonclerical occupations—as shown in (2), the coefficient on this term in the clerical occupations terms is not significant and is thus discarded in (3) and (4). This means the share of nonclerical to clerical is rising. However, there is no sign that, overall, ICTs are having a destructive effect on ICT-using clerical occupations. Furthermore, improvements in ICTs are common to all countries, suggesting that observed differences in employment patterns must be due to other factors, such as the extent of offshoring.

The service sector share has a significant positive association with nonclerical occupations, but a small negative association with ICT-using clerical occupations. The latter effect is statistically significant in the simultaneous equation models shown in columns (2) and (3), but not in the 3SLS estimates. The initial estimates also suggest that the share of high-tech output in GDP matters mainly for the nonclerical employment share (see [2]), but it is not possible to reject the imposition of a common coefficient in the clerical and nonclerical employment equations, with the resulting estimate being statistically significant, as shown in (3).

**Table 9.7** Effects of a one standard deviation increase in the explanatory variables

	Sample mean	Standard deviation	Effect on share of potentially offshorable occupations in employment (% points)	
			Nonclerical	Clerical
(X/GDP)	2.43%	0.50	0.34	0.23
(M/GDP)	2.34%	0.51	-0.11	-0.11
(NETMFDI/GDP)	3.82%	2.06	0.10	-0.09
(NETSFDI/GDP)	1.93%	2.60	0.10	—
(ICTIRAT)	19.84%	1.82	0.37	—
SERVICES	69.35%	1.11	0.17	-0.06
HTECH	2.45%	0.27	0.06	0.06
PMR <sup>+</sup>	2.46	0.45	0.13	0.13
UNIONS <sup>+</sup>	39.16%	1.64	0.15	-0.08
HK	11.99 years	0.18	0.20	0.20

Notes: For variables indicated with a <sup>+</sup>, a one standard deviation decrease is shown. These results use the coefficients from model [3] in table 9.6.

### *Economy-Wide Framework Factors*

A reduced level of anticompetitive product market regulations and a higher level of human capital are both found to be positively associated with the aggregate share of potentially offshorable occupations in total employment. Both of these factors encourage the adoption and usage of ICT technologies. Subsequent tests indicated that both also have similar effects on the two types of ICT-using occupations, with common coefficients being imposed on these terms in the estimates shown in column (3) and column (4).

Union density is not found to be significantly related to the aggregate share of potentially offshorable occupations in total employment. However, it does appear to affect the composition of this share, having a negative association with the share of nonclerical occupations and a positive association with the share of clerical occupations, although the latter effect is not significant in the 3SLS estimates. These results suggest that higher levels of union density act to slow the general adjustment that is taking place from clerical to nonclerical occupations in all the economies, included in the sample used in this chapter.

Finally, the impact of a one standard deviation change in the statistically significant explanatory factors on the nonclerical and clerical employment shares is illustrated in table 9.7 using the coefficient estimates from the results reported in model (3) in table 9.6.<sup>22</sup> It is important to note that such

22. The findings when using model [4] in table 9.1 are generally similar, but the effects of changes in the explanatory factors are usually a little larger.

changes are only partial effects, with all other factors being held constant. Use of standard deviation changes enables the effects of changes in different factors to be more easily compared. The standard deviations are the average of the individual within-sample standard deviations for each of the twelve countries.<sup>23</sup>

## 9.5 Conclusion

This chapter extends and improves previous models (van Welsum and Reif 2006b, 2006c) by distinguishing between different types of employment potentially affected by offshoring and by disaggregating the FDI variable into manufacturing and services sectors. The results suggest it is important to make these distinctions. Contrary to the results in previous work, we now find a negative association between employment in offshorable occupations and the share of imports of business and computer and information services in GDP. The effects of four of the explanatory variables (net outward manufacturing, ICT investment, the comparative size of the services sector, and trade union density) also vary according to the type of potentially offshorable employment. Separating out the effects of ICTs from the effects of ICT-enabled changes remains a challenge given data availability. However, technological changes in ICTs are likely to be common to the countries included in the analysis, suggesting that differences in observed employment patterns are due to other factors.

The analysis suggests that the share of exports of business services in GDP, the share of ICT investment in total investment, the share of the service sector in GDP, and improvements in human capital have all been especially important factors behind the general upward tendency in the share of employment in potentially offshorable nonclerical occupations. The remaining variables considered also help to raise the employment share, with the exception of the share of imports of business services in GDP.

The exports to GDP ratio and human capital also help to raise the share of employment in potentially offshorable clerical occupations, as does the share of hi-tech output in GDP and reductions in product market regulations. However, these factors have been offset by rising imports of business services, the decline in trade union densities, and the rising share of services in GDP.

Overall, the principal findings appear to be robust to changes in estima-

23. The use of average within-country sample standard deviations is necessary because of the scale of differences in some factors across countries and the feasible extent to which some policies may be changed. Calculations with the cross-country standard deviation, whether evaluated using the full sample of observations or a cross-section at a particular point in time, can also be especially problematic when using indicator variables whose upper or lower limit is bounded.

tion techniques and specifications of the model. Indicators of international trade and investment, the structure of national economies, and economy-wide framework factors are all important for understanding the cross-country pattern of the share of potentially offshorable occupations in total employment. Although the development of corresponding data sources for the relative wages of the various types of occupations would help to separate out demand and supply-side influences more clearly, the results from the descriptive regressions in this chapter provide useful guidance for both policy development and for further work in this area.

Further work in this area could follow a number of paths to improve understanding of the effects of international sourcing. A major area would be to strive to improve the occupational selections, for example, by coordinating with work undertaken in the United States (e.g., Blinder 2005; Jensen and Kletzer 2005). Controlling for differences in ICT-content of occupations, over time and across countries, would be another extension. Further separating out the effects of technology on occupations from those of offshoring should also be explored. Finally, the impact of variables such as the size of the public sector and the importance of SMEs in the economy should also be examined.

International harmonization of the definition of offshoring and the data classifications, as well as data collection itself, would greatly enhance the scope for the formulation of consistent and sound policy recommendations and would enhance the scope for comparison of the various studies on the effects of offshoring.

# Appendix

**Table 9A.1 Detailed analysis of the U.S. occupational data**

Looking at the year-on-year change in the occupational data for the United States (1995–2002) at the level of the individual occupations shows:

- All of the occupations selected as potentially affected by offshoring experienced at least one year-on-year decline.
- Forty-five out of the sixty-seven occupations included in the U.S. selection experienced an absolute decline between 2001 and 2002, as did the overall selection of occupations potentially affected by offshoring and total employment.
- The overall selection of occupations potentially affected by offshoring experienced three absolute declines between 1995–2002; to compare the individual occupations against the overall selection, the following forty-seven occupations experienced at least three absolute declines:

Accountants and auditors	23	Economists	166
Architects	43	Urban planners	173
Metallurgical and materials engineers	45	Authors	183
Mining engineers	46	Technical writers	184
Petroleum engineers	47	Editors and reporters	195
Engineers, electrical and electronic	55	Air traffic controllers	227
Engineers, industrial	56	Computer programmers	229
Engineers, mechanical	57	Supervisors and Proprietors, Sales Occupations	243
Marine and naval architects	58	Insurance sales occupations	253
Engineers, n.e.c.	59	Real estate sales occupations	254
Operations and systems researchers and analysts	65	Supervisors, computer equipment operators	304
Actuaries	66	Computer operators	308
Statisticians	67	Peripheral equipment operators	309
Physicists and astronomers	69	Secretaries	313
Chemists, except biochemists	73	Typists	315
Atmospheric and space scientists	74	Transportation ticket and reservation agents	318
Geologists and geodesists	75	File clerks	335
Physical scientists, n.e.c.	76	Payroll and timekeeping clerks	338
Biological and life scientists	78	Billing clerks	339
Forestry and conservation scientists	79	Cost and rate clerks	343
Medical scientists	83	Telephone operators	348
Librarians	164	Bank tellers	383
Archivists and curators	165	Data-entry keyers	385
		Statistical clerks	386

*Note:* The estimates for 2003 show a further absolute decline in the selection of occupations potentially affected by offshoring.

**Table 9A.2**            **IMF balance of payments categories**

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7.	Computer and information services
7.1	Computer services
7.2	Information services
7.2.1	News agency services
7.2.2	Other information provision services
<hr/>	
9.	Other business services
<hr/>	
9.1	Merchandising and other trade-related services
9.1.1	Merchandising
9.1.2	Other trade-related services
9.2	Operational leasing services
9.3	Miscellaneous business, professional, and technical services
9.3.1	Legal, accounting, management consulting, and public relations
9.3.1.1	Legal services
9.3.1.2	Accounting, auditing, bookkeeping, and tax consulting services
9.3.1.3	Business and management consulting, and public relations
9.3.2	Advertising, market research, and public opinion polling
9.3.3	Research and development
9.3.4	Architectural, engineering, and other technical services
9.3.5	Agricultural, mining, mining, and on-site processing services
9.3.5.1	Waste treatment and depollution
9.3.5.2	Agricultural, mining, and other on-site processing services
9.3.6	Other business services
9.3.7	Services between related enterprises, n.i.e.

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*Source:* OECD (2002).

**Table 9A.3 Sectors distinguished in the OECD Direct Investment Statistics Database**

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Primary sector
<ul style="list-style-type: none"> <li>Agriculture and Fishing</li> <li>Mining and Quarrying</li> <li>of which: Extraction of petroleum and gas</li> </ul>
Manufacturing
<ul style="list-style-type: none"> <li>of which: Food products</li> <li>Total textile and wood activities</li> <li>Total petroleum, chemical, rubber, plastic products</li> <li>Total metal and mechanical products</li> <li>Total machinery, computers, RTV, communication</li> <li>Total vehicles and other transport equipments</li> </ul>
Service sector
<ul style="list-style-type: none"> <li>Electricity, Gas, and Water</li> <li>Construction</li> <li>Trade and Repairs</li> <li>Hotels and Restaurants</li> <li>Transports, Communication</li> <li>of which: Total land, sea, and air transport</li> <li>Telecommunications</li> <li>Financial Intermediation</li> <li>of which: Monetary intermediation</li> <li>Other financial intermediation</li> <li>of which: Financial holding companies</li> <li>Insurance and activities auxiliary to insurance</li> <li>Total other financial intermediation and insurance activities</li> <li>Real Estate and Business Activities</li> <li>of which: Real estate</li> <li>Other Services</li> </ul>
Unallocated
Total

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**Table 9A.4**                    **Europe: Occupations potentially affected by offshoring**

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3 Digit ISCO-88

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123: Other specialist managers  
211: Physicists, chemists, and related professionals  
212: Mathematicians, statisticians, and related professionals  
213: Computing professionals  
214: Architects, engineers, and related professionals  
241: Business professionals  
242: Legal professionals  
243: Archivists, librarians, and related information professionals  
312: Computer associate professionals  
341: Finance and sales associate professionals  
342: Business services agents and trade brokers  
343: Administrative associate professionals  
411: Secretaries and keyboard-operating clerks  
412: Numerical clerks  
422: Client information clerks

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*Source:* van Welsum and Vickery (2005), based on EULFS (2004).

*Note:* Occupations in last four lines have been classified as clerical.



**Table 9A.5 United States: Occupations potentially affected by offshoring**

CPS categories			
Accountants and auditors	23	Archivists and curators	165
Underwriters	24	Economists	166
Other financial officers	25	Urban planners	173
Management analysts	26	Authors	183
Architects	43	Technical writers	184
Aerospace engineer	44	Editors and reporters	195
Metallurgical and materials engineers	45	Air traffic controllers	227
Mining engineers	46	Computer programmers	229
Petroleum engineers	47	Tool programmers, numerical control	233
Chemical engineers	48	Supervisors and proprietors, sales occupations	243
Nuclear engineers	49	Insurance sales occupations	253
Civil engineers	53	Real estate sales occupations	254
Agricultural engineers	54	Securities and financial services sales occupations	255
Engineers, electrical and electronic	55	Sales occupations, other business services	257
Engineers, industrial	56	Supervisors, computer equipment operators	304
Engineers, mechanical	57	Supervisors, financial records processing	305
Marine and naval architects	58	Chief communications operators	306
Engineers, n.e.c.	59	Computer operators	308
Surveyors and mapping scientists	63	Peripheral equipment operators	309
Computer systems analysts and scientists	64	Secretaries	313
Operations and systems researchers and analysts	65	Typists	315
Actuaries	66	Transportation ticket and reservation agents	318
Statisticians	67	File clerks	335
Mathematical scientists, n.e.c.	68	Records clerks	336
Physicists and astronomers	69	Bookkeepers, accounting, and auditing clerks	337
Chemists, except biochemists	73	Payroll and timekeeping clerks	338
Atmospheric and space scientists	74	Billing clerks	339
Geologists and geodesists	75	Cost and rate clerks	343
Physical scientists, n.e.c.	76	Billing, posting, and calculating machine operators	344
Agricultural and food scientists	77	Telephone operators	348
Biological and life scientists	78	Bank tellers	383
Forestry and conservation scientists	79	Data-entry keyers	385
Medical scientists	83	Statistical clerks	386
Librarians	164		

*Source:* van Welsum and Vickery (2005), based on U.S. Current Population Survey.

*Note:* Occupations Secretaries through Statistical clerks have been classified as clerical.

**Table 9A.6 Canada: Occupations potentially affected by offshoring**

SOC91 Canada	
A121	Engineering, science, and architecture managers
A122	Information systems and data processing managers
A131	Sales, marketing and advertising managers
A301	Insurance, real estate, and financial brokerage managers
A302	Banking, credit, and other investment managers
A303	Other business services managers
A311	Telecommunication carriers managers
A312	Postal and courier services managers
A392	Utilities managers
B011	Financial auditors and accountants
B012	Financial and investment analysts
B013	Securities agents, investment dealers, and traders
B014	Other financial officers
B022	Professional occupations in business services to management
B111	Bookkeepers
B112	Loan officers
B114	Insurance underwriters
B211	Secretaries (except legal and medical)
B212	Legal secretaries
B213	Medical secretaries
B214	Court recorders and medical transcriptionists
B311	Administrative officers
B312	Executive assistants
B412	Supervisors, finance, and insurance clerks
C012	Chemists
C013	Geologists, geochemists, and geophysicists
C014	Meteorologists
C015	Other professional occupations in physical sciences
C021	Biologists and related scientists
C031	Civil engineers
C032	Mechanical engineers
C033	Electrical and electronics engineers
C034	Chemical engineers
C041	Industrial and manufacturing engineers
C042	Metallurgical and materials engineers
C043	Mining engineers
C044	Geological engineers
C045	Petroleum engineers
C046	Aerospace engineers
C047	Computer engineers
C048	Other professional engineers, n.e.c.
C051	Architects
C052	Landscape architects
C053	Urban and land use planners
C054	Land surveyors
C061	Mathematicians, statisticians, and actuaries
C062	Computer systems analysts
C063	Computer programmers

(continued)

**Table 9A.6** (continued)

SOC91 Canada	
B512	Typists and word processing operators
B513	Records and file clerks
B514	Receptionists and switchboard operators
B521	Computer operators
B522	Data entry clerks
B523	Typesetters and related occupations
B524	Telephone operators
B531	Accounting and related clerks
B532	Payroll clerks
B533	Tellers, financial services
B534	Banking, insurance, and other financial clerks
B553	Customer service, information, and related clerks
B554	Survey interviewers and statistical clerks
C011	Physicists and astronomers
C152	Industrial designers
C172	Air traffic control occupations
E012	Lawyers and Quebec notaries
E031	Natural and applied science policy researchers, consultants and program officers
E032	Economists and economic policy researchers and analysts
E033	Economic development officers and marketing researchers and consultants
F011	Librarians
F013	Archivists
F021	Writers
F022	Editors
F023	Journalists
F025	Translators, terminologists, and interpreters
G131	Insurance agents and brokers

*Source:* van Welsum and Vickery (2005), based on Statistics Canada.

*Note:* Occupations B211, B212, B213, B214, B311, B312, B412, B512, B513, B514, B522, B524, B531, B532, B533, B534, B553, and B554 have been classified as clerical.

**Table 9A.7 Australia: Occupations potentially affected by offshoring**

ASCO 4-digit			
1221	Engineering managers	2521	Legal professionals
1224	Information technology managers	2522	Economists
1231	Sales and marketing managers	2523	Urban and regional planners
1291	Policy and planning managers	2534	Journalists and related professionals
2111	Chemists	2535	Authors and related professionals
2112	Geologists and geophysicists	3211	Branch accountants and managers (financial institution)
2113	Life scientists	3212	Financial dealers and brokers
2114	Environmental and agricultural science professionals	3213	Financial investment advisers
2115	Medical scientists	3294	Computing support technicians
2119	Other natural and physical science professionals	3392	Customer service managers
2121	Architects and landscape architects	3399	Other managing supervisors (sales and service)
2122	Quantity surveyors	5111	Secretaries and personal assistants
2123	Cartographers and surveyors	5911	Bookkeepers
2124	Civil engineers	5912	Credit and loans officers
2125	Electrical and electronics engineers	5991	Advanced legal and related clerks
2126	Mechanical, production, and plant engineers	5993	Insurance agents
2127	Mining and materials engineers	5995	Desktop publishing operators
2211	Accountants	6121	Keyboard operators
2212	Auditors	6141	Accounting clerks
2221	Marketing and advertising professionals	6142	Payroll clerks
2231	Computing professionals	6143	Bank workers
2292	Librarians	6144	Insurance clerks
2293	Mathematicians, statisticians, and actuaries	6145	Money market and statistical clerks
2294	Business and organization analysts	8113	Switchboard operators
2299	Other business and information professionals	8294	Telemarketers
2391	Medical imaging professionals		

*Source:* van Welsum and Vickery (2005), based on Australian Bureau of Statistics.

*Note:* Occupations 5111, 5991, 6121, 6141, 6142, 6143, 6144, 6145, and 8113 have been classified as clerical.

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## Comment      Lori G. Kletzer

Much is new in thinking about services. The evolution in thinking about services trade was first a broadening from nontradable to tradable. Measuring services trade is now a task of considerable energy and importance, as evidenced by the chapters in this conference volume. From the labor market side, thinking about tradable services is very much linked to the current debate about offshoring. The intensity of the offshoring debate is often seen in claims and questions such as, “is your job next?”

This chapter takes on the question of the potential offshoring of jobs, specifically information and communication technology (ICT)-enabled occupations. These jobs are at the heart of the offshoring debate. The chapter is part of a research program, by van Welsum and coauthors, to quan-