The Interplay of Offshoring of Professional Services, Law, Intellectual Property, and International Organizations

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ABSTRACT

This paper covers four issues essential to understanding the interplay between law, the offshoring of professional services, intellectual property, and international organizations. First, this paper examines the extent to which evolving international conventions restrict the ability of countries, especially developed countries, to inhibit offshoring with the objective of protecting jobs at home. Second, it looks at statistics from independent sources to see if the U.S. ultimately benefits or loses when outsourcing occurs—i.e., whether offshoring exceeds insourcing, or vice versa, in the case of the U.S. Third, it cites specific examples to predict future legal trends in outsourcing. Fourth, it looks at the intellectual property aspects of outsourcing, and suggests equitable protection of intellectual property in an economy with increased offshoring.

Keywords: 24-Hour Knowledge Factory, Global Development Teams, Insourcing, Intellectual Property, International Conventions, National Policy, Net Economic Benefits, Offshoring, Outsourcing

1. INTRODUCTION

“Outsourcing” is a relatively new term for something that has been happening in the United States for at least forty years—namely, the shifting of production of goods (and, more recently, services) to nations with lower wages than in the United States. The most obvious example is textiles and apparel, in which factories located in New England moved to the Southeast, beginning shortly after World War II, in search of lower-wage, non-unionized labor and low cost electric power. Beginning in the 1960s or earlier, some producers and consumers shifted their sourcing to Asia, Latin America (particularly to Mexico), Japan, and later South Korea, Taiwan and Hong Kong. More recently, China, Pakistan, India, Bangladesh, Sri Lanka
and Vietnam have become popular locations, among others, for textile and apparel production.

The outsourcing of service industry jobs from the United States (and Canada, the EU and Japan, among others) is somewhat more recent, as it is only viable with very low-priced telephone and Internet communications worldwide, a feature of the fiber optic cable construction in the 1990s. Shifting of low-wage telephone service positions (for computer technical support, airline reservations, etc.) did not seem to raise a good deal of controversy in the United States, except perhaps in the communities which lost service centers (including Tucson) and among the labor unions. Even the outsourcing, particularly from Silicon Valley, of routine computer software work seemingly raised relatively few alarms.

However, the newest outsourcing phenomenon—mostly to India—is far more troubling both economically and politically to U.S. policy-makers. The prospect of widespread outsourcing of relatively high wage professional services positions—software development, banking and brokerage, and medical and legal services—is creating a good deal of concern, and there have been various proposals to curb such trends by legislation or otherwise.

First, this paper addresses what the United States can do under international trading rules to discourage outsourcing. There may be some tax laws and policies that could be modified, primarily to reduce tax incentives for production abroad and to encourage the investments supporting outsourcing to stay home. Some in Congress have suggested trying to prevent U.S. firms from investing abroad. However, in the unlikely event the Congress tried to impose such restrictions, in most cases this would be questionable under investment treaties, and, in any event, would be impossible to enforce against multinational enterprises. There is relatively little action the U.S. could take to reduce the outsourcing process that would not run afoul of international trading rules, which are primarily designed to make it possible for any consumer of goods or services to purchase the best available at the lowest prices, without interference from tariff or non-tariff barriers.

Second, this paper addresses whether the United States is a net beneficiary or net loser when outsourcing occurs. Others have done this analysis at various levels: the national level, the company level, and the individual level. Companies adopt outsourcing practices because they offer lower costs and other benefits. At an individual level, if a person loses a job, he or she is a loser. However, at the national level, the analysis needs more careful attention: outsourcing leads to jobs moving from the U.S. to other countries, and jobs moving from other countries to the U.S.

Third, this paper addresses how outsourcing will impact the legal community in the short-run and long-run. Specific examples are considered.

Finally, this paper addresses how intellectual property can be equitably protected in an economy that involves growing levels of offshoring.

2. OUTSOURCING UNDER INTERNATIONAL TRADING RULES

Virtually any nation that accedes to the World Trade Organization (WTO) agreements is required to take a number of specific steps toward facilitating freer trade. Most of these involve the reduction or elimination of trade barriers and opening of domestic markets and trading opportunities to foreign-owned firms. Acceding members in recent accessions have made such commitments for almost all product sectors and many service sectors as well. For most nations, agreeing to take these steps through an international treaty necessarily requires a variety of modifications to domestic law and the domestic legal system.

2.1. Core GATT Principles

Although it is an over-simplification, it is nevertheless helpful to visualize the Generalized Agreement on Trade and Tariffs (GATT)—the
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