

Dear Financial Review readers,

There's a big issue for Australian business and investors that is largely flying under the political radar. It's how the economy's high cost structure is forcing the acceleration of outsourcing of many basic business functions to New Zealand, the Philippines and India.

The political debate has focused on the Gillard government's plans to tighten up the 457 visa for temporary foreign workers as part of its political pitch to put 'Aussie jobs first'.

Yet, just this week, The Australian Financial Review reported that companies such as IBM (information technology), Brambles (transport and logistics) and Perpetual (finance) were shifting more of their Australian operations to cheaper countries in a sign that offshoring was spreading beyond banks, technology functions and call centres to areas such as finance control and even HR.

Even at the Financial Review, we've transferred our copy sub-editing to Fairfax in Auckland.

There's nothing wrong or new with offshoring. But we need to understand why it is accelerating. My thesis is that a combination of pressures - such as the strong dollar, digital disruption and changed consumer behaviour - are forcing just about every traditional company in Australia to reassess its business plan.

These and related pressures show up in our high cost base. We've all heard the comments from American, European or British visitors about how expensive Australia has become.

This high cost base is forcing companies to think much harder about what is their core business and what part of the supply chain they can contract out much more cheaply. Offering such services has become a global growth industry.

Overall, this is part of globalisation and the drive to lift productivity. But the Australian political process is yet to even recognise how our high cost base is accelerating the process.

Labor can't do it because it is run by the trade unions and is locked into the rhetoric of "spreading the benefits of the mining boom". Tony Abbott won't do it because he doesn't want to expose himself to the memory of John Howard's Work Choices. Yet our high cost base is causing all sorts of pressures - such as the gradual winding down of our car industry - that Mr Abbott will have to confront assuming he wins power in September.

Can I sign off by drawing your attention to some of the big things going on at the Financial Review. Last month, The Australian Financial Review Magazine held a spectacular Bespoke luxury fashion summit at the Sydney Opera House, featuring fashion industry leaders from around the world and an audience of more than 1000 people. It really highlighted the luxury brand value of our flagship monthly magazine.

I hope many of you have caught our new television venture, Financial Review Sunday, which airs on the Nine network at 10am each Sunday. It's a news-breaking show, produced in partnership with Nine, that already is attracting up to 200,000 viewers each week and dominating its time slot.

And some of you were lucky enough to attend our lunch this month with Michael Lewis, famed author of 'Liar's Poker', "Moneyball", "Boomerang" and a string of other books and articles on the world of finance. Lewis proved to be a master story teller who enthralled his audience.

Finally, could I alert you to our [Australia 2.0](#) initiative with GE, which is bringing together business leaders, politicians, think tanks and academics to focus on how key industries, such as energy, infrastructure and healthcare, can improve their productivity performance in this era of rapid structural change. I encourage you to join the conversation online through our [LinkedIn group](#).

Cheers

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