Offshore Outsourcing and Multinational Companies
J. Steven Landefeld and Raymond Mataloni
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Offshore Outsourcing and Multinational Companies

J. Steven Landefeld, Director
Raymond Mataloni, Senior Economist
U.S. Bureau of Economic Analysis
The Brookings Institution
Services Offshoring: What Do the Data Tell Us?
June 22, 2004

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What the Multinational Data Tell Us

• BEA’s multinational data provide no direct data on gains and losses from international trade and investment.

• Data do provide useful background that can help analysts to answer questions related to offshore outsourcing and other issues.

• Multinational data provides useful information on:
  – Where MNC are locating their operations
  – What they are producing
  – What they importing and exporting, and to where
  – What the domestic vs. foreign content is; in the U.S. and Abroad
  – What wages are paid in the U.S. and Abroad
What the Multinational Data Tell Us

• Operations of U.S. multinationals remain concentrated in the United States.
  – U.S. multinationals’ U.S. operations have consistently accounted for about three-fourths of their worldwide output, investment, and employment.
  – While U.S. shares remain high, there has been some increase in foreign shares.
Worldwide operations of U.S. MNCs are concentrated in the United States

2002

- Expenditures for PP&E
- Sales
- Employment

U.S. parents - Foreign affiliates
U.S.-Parent Share of MNC Employment

Data are available only for selected years.
What the Multinational Data Tell Us

• Foreign employment by U.S. multinationals has grown faster than their U.S. employment; however:
  – U.S. employment growth in U.S. MNCs has been little different than U.S. employment growth; in the aggregate and across industries.
<table>
<thead>
<tr>
<th>Faster (56%)</th>
<th>Slower (44%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>35%</td>
<td>38%</td>
</tr>
<tr>
<td>21%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Change in Employment of U.S. Parents Compared to all U.S. Companies and Foreign Affiliates in 93 Detailed Industries, 1989-99
## Average Annual Growth Rate in Employment, 1989-99

<table>
<thead>
<tr>
<th>Industry</th>
<th>Change in U.S. Parent Employment</th>
<th>Change in All U.S. Employment</th>
<th>Change in Foreign Affiliate Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal services</td>
<td>15.4%</td>
<td>1.3%</td>
<td>5.8%</td>
</tr>
<tr>
<td>R&amp;D and testing services</td>
<td>8.3%</td>
<td>1.3%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Computer &amp; data processing services</td>
<td>6.8%</td>
<td>9.8%</td>
<td>22.4%</td>
</tr>
<tr>
<td>Accounting &amp; auditing services</td>
<td>0.6%</td>
<td>2.2%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Engineering &amp; architecture services</td>
<td>-0.6%</td>
<td>2.3%</td>
<td>7.3%</td>
</tr>
<tr>
<td><strong>ALL INDUSTRIES</strong></td>
<td><strong>1.6%</strong></td>
<td><strong>1.8%</strong></td>
<td><strong>4.0%</strong></td>
</tr>
</tbody>
</table>
What the Multinational Data Tell Us

• Foreign employment by U.S. multinationals has grown at a faster rate than their U.S. employment; however:
  – Because of differences in levels, U.S. employment has increased by 4.7 million vs. 3.5 million in foreign employment, 1988-2002.
  – Foreign-owned MNCs have increased their employment in the United States by 3.1 million, 1988-2002.
MNC Employment

- U.S. Parents
- Foreign affiliates
- Foreign-owned MNCs in the United States
Many Possible Causes of a Change in U.S.-MNC Employment Share

- Different rates of economic growth in the United States and abroad
- Availability of lower-cost labor abroad
- Changes in foreign government policies toward direct investment
- Different rates of productivity growth in U.S. parents and foreign affiliates
- U.S. parent outsources an activity to a domestic company that is not also a U.S. parent
- New market opportunity abroad that cannot be served by U.S. exports
- U.S. parent outsources an activity to an unaffiliated or affiliated foreign company
What the Multinational Data Tell Us

• U.S. MNCs pay lower wages to their overseas workers, but without expanded data and research, it is difficult to tell if lower wages are paid for the same occupations.

• Despite some shift in employment to low-wage countries, production remains centered in high-wage countries.
  – Low-wage countries with increasing share are also large and rapidly growing markets.
High-Wage-Country Share of Affiliate Employment

Data are available only for selected years.
## Emerging Markets with Strong Growth in Employment by Foreign Affiliates, 1989-2001

<table>
<thead>
<tr>
<th>Country</th>
<th>Increase in foreign affiliate employment</th>
<th>Average host-country GDP growth rate, 1995-2001</th>
<th>Percent of foreign-affiliate sales to local customers</th>
<th>Percent of foreign-affiliate sales to U.S. customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>474.8</td>
<td>4.5</td>
<td>64%</td>
<td>28%</td>
</tr>
<tr>
<td>China</td>
<td>269.2</td>
<td>8.3</td>
<td>71%</td>
<td>11%</td>
</tr>
<tr>
<td>Poland</td>
<td>68.5</td>
<td>6.3</td>
<td>76%</td>
<td>1%</td>
</tr>
<tr>
<td>India</td>
<td>66.6</td>
<td>5.7</td>
<td>92%</td>
<td>4%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>66.2</td>
<td>4.0</td>
<td>38%</td>
<td>26%</td>
</tr>
</tbody>
</table>
Destination of Sales by Foreign Affiliates

- Local market: 65%
- Other countries: 24%
- United States: 11%
What the Multinational Data Tell Us

- U.S. MNCs appear to be increasing outsourcing somewhat, but little evidence that it is foreign outsourcing.
  - Increasing purchases of intermediate goods and services as a share of sales, 1977-2001
  - But U.S. parents’ imports of goods as a share of sales have not seen a marked increase and have been decreasing since 1998.
Ratio of Purchased Goods and Services to Sales for U.S. Parents

Data are available only for selected years.
Ratio of Direct Imports of Goods to Sales for U.S. Parents

Percent

0.0 2.0 4.0 6.0 8.0 10.0 12.0 14.0

What the Multinational Data Tell Us

- Multinationals and backward linkages to the U.S. economy
  - Multinationals and value added chains
  - Overseas sales through foreign affiliates of $2.5 trillion
  - U.S. MNCs account for 58% of exports of goods and services and for 37% of imports
  - U.S.-MNC operations in the United States account for 1/4 of GDP, 1/5 of employment, and their worldwide operations account for 1/2 of U.S. profits.
- Overseas affiliates yield high returns; their contribution to U.S. corporate profits is twice as large as one would expect from their overseas production.
U.S. Exports of Goods and Services and Sales by Foreign Affiliates
What the Multinational Data Tell Us

• Multinationals and backward linkages to the U.S. economy
  – Multinationals and value added chains
  – If we add in foreign-owned MNCs in the United States net trade to that of U.S. MNCs, they account for 69% of exports of goods and services and for 56% of imports
  – Foreign-owned MNCs in the United States account for 6 percent of GDP and for 5 percent of employment