Globalization, Offshoring, and Multinational Companies:

What Are the Questions, and How Well Are We Doing in Answering Them?

Ralph Kozlow U.S. Bureau of Economic Analysis

American Economic Association Allied Social Science Associations 2006 Annual Meetings, Boston, MA January 6, 2006

Measuring the Nation's Economy.

Introduction

Goal: Identify key questions asked about MNCs and offshoring, and provide answers





Background

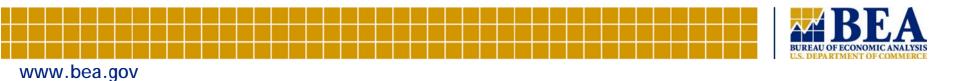
- Systematic data collection begins around 1950.
- 1970s and 1980s: BEA expands outward surveys and institutes new surveys for inward investment.
- Later in 1980s, BEA links its data to establishment-level Census Bureau and Bureau of Labor Statistics data.
- More recently, BEA constructs a framework of the current account; revalues direct investment from book value to current market prices; helps lead world efforts in updating world statistical standards.



How do MNCs affect output, incomes, and employment?

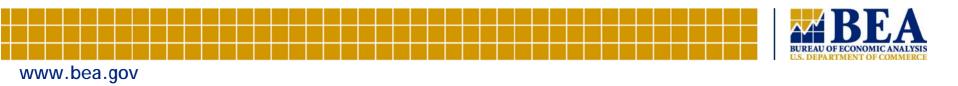
BEA's data show or suggest...

- U.S. MNCs investment abroad tends to be for market access, not low wages.
- From 1977-2003, share of worldwide value added, capital expenditures, and employment of U.S. MNCs that was performed in U.S. falls little.
- Wage rates of parent companies not significantly affected by wage rates of foreign affiliates.
- Output at home and abroad is positively correlated with new direct investments.



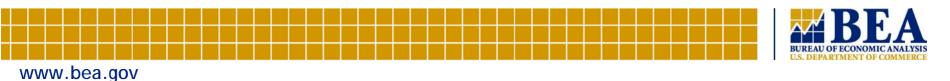
What determines location of production by MNCs?

- Most important determinant for location of production seems to be access to large and prosperous markets.
 - Two-thirds of U.S. direct investment abroad is in high-income countries.
 - 80 percent of overseas manufacturing affiliate production is in high-wage, developed countries.



How do MNCs respond to trade barriers? Or to tax and investment incentives?

- MNCs invest in large and growing markets when they have the opportunity.
- Tax laws and investment incentives are of secondary importance, although they have recently grown in importance.



How do MNCs contribute to cross-border transfers of technology?

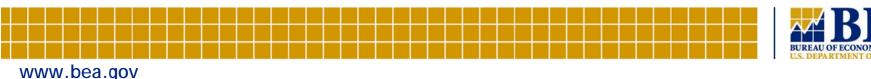
- Foreign companies tend to invest in U.S. companies that are in the same industry.
- Foreign investments in the U.S. are only slightly more concentrated in high-tech industries than those of all U.S. companies.
- R&D activity has grown faster in foreignowned firms than in all U.S. firms.
- BEA/Census/NSF data link project may provide more insights.

www.bea.gov



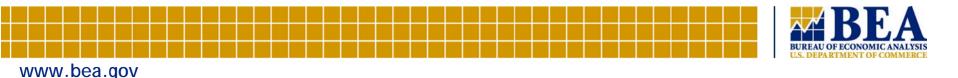
How do foreign-owned U.S. companies differ from U.S.-owned companies?

- Foreign-owned companies tend to pay higher wages and to be more R&D intensive than U.S.-owned companies generally.
- But after controlling for differences in industry mix and plant scale, foreignowned U.S. companies tend to be similar to U.S.-owned companies in the same industries.



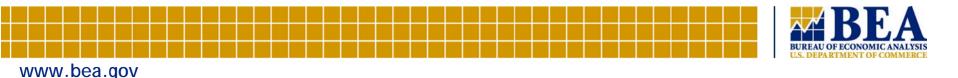
How many jobs have been offshored?

- Must utilize economic theories and statistical inference, not business surveys alone.
- Companies may be unaware of offshoring.
- What metrics should be used if the expansion overseas was not accompanied by a decrease in U.S. employment or production?
- How can we estimate "indirect" effects?



How many jobs have been offshored? (continued)

- Inshoring—how to differentiate between shifting to the U.S. and expanded production in the U.S.?
- Lack of counterfactual case—cannot determine what might have happened in absence of offshoring.



What do we know about offshoring by looking at BEA's MNC data?

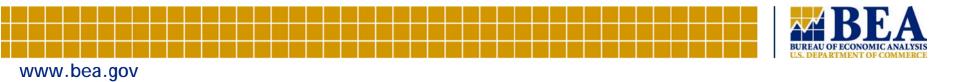
- Increased reliance on purchased inputs by U.S. parent companies not well correlated with decreases in employment.
- Imports of goods from foreign affiliates is negatively associated with changes in parent employment (relationship not significant for services).
- Growth at U.S. parents and foreign affiliates is positively linked.
- On average, the share of sales by foreign affiliates to local markets increased over time.



www.bea.gov

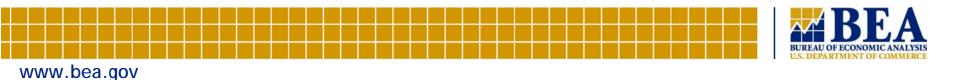
Additional work

- We do not have clear answers to some questions.
 - Is intra-firm trade conducted at arm's length prices?
 - What is the role of MNCs in international financial flows?
 - In regard to the environment, is there a "race to the bottom"?



Additional work (continued)

- Answers to questions may change over time
- Improvements in world statistical data quality needed.
- Increased globalization can complicate data compilation challenges.



Next steps

- Improve international statistical data standards.
- More collaborative projects.
- Make fuller use of the data already collected.
- Close gaps in coverage.

