



Offshore Outsourcing and Multinational Companies

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The views expressed in this paper are solely those of the author and not necessarily those of the U.S. Bureau of Economic Analysis or the U.S. Department of Commerce.



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Services Offshoring: What Do the Data Tell Us?

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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



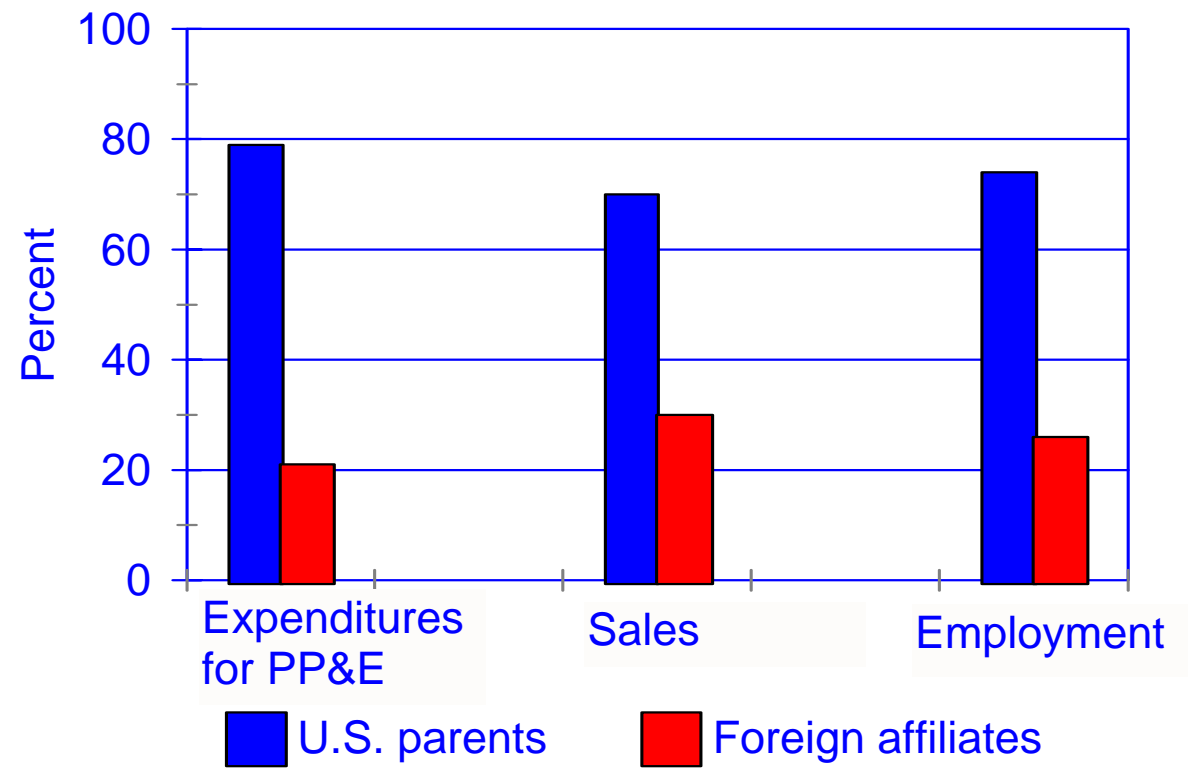
What the Multinational Data Tell Us

- 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.



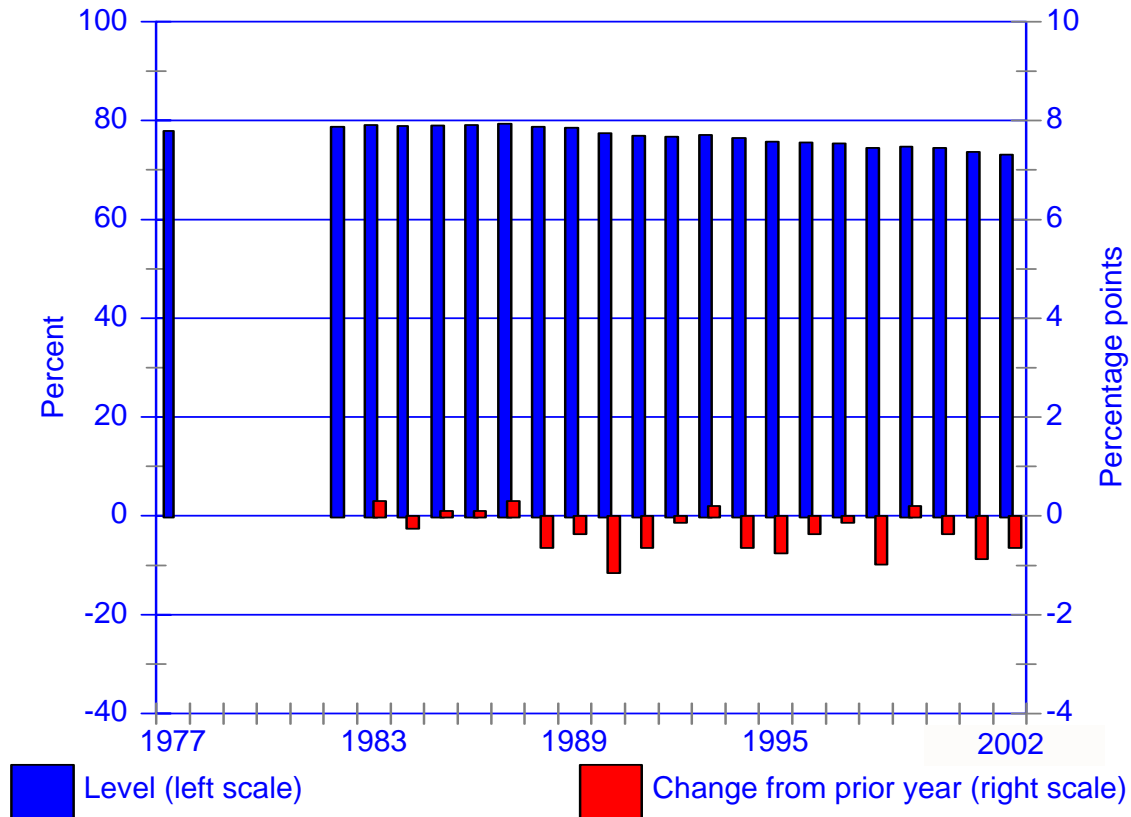
Worldwide operations of U.S. MNCs are concentrated in the United States

2002





U.S.-Parent Share of MNC Employment





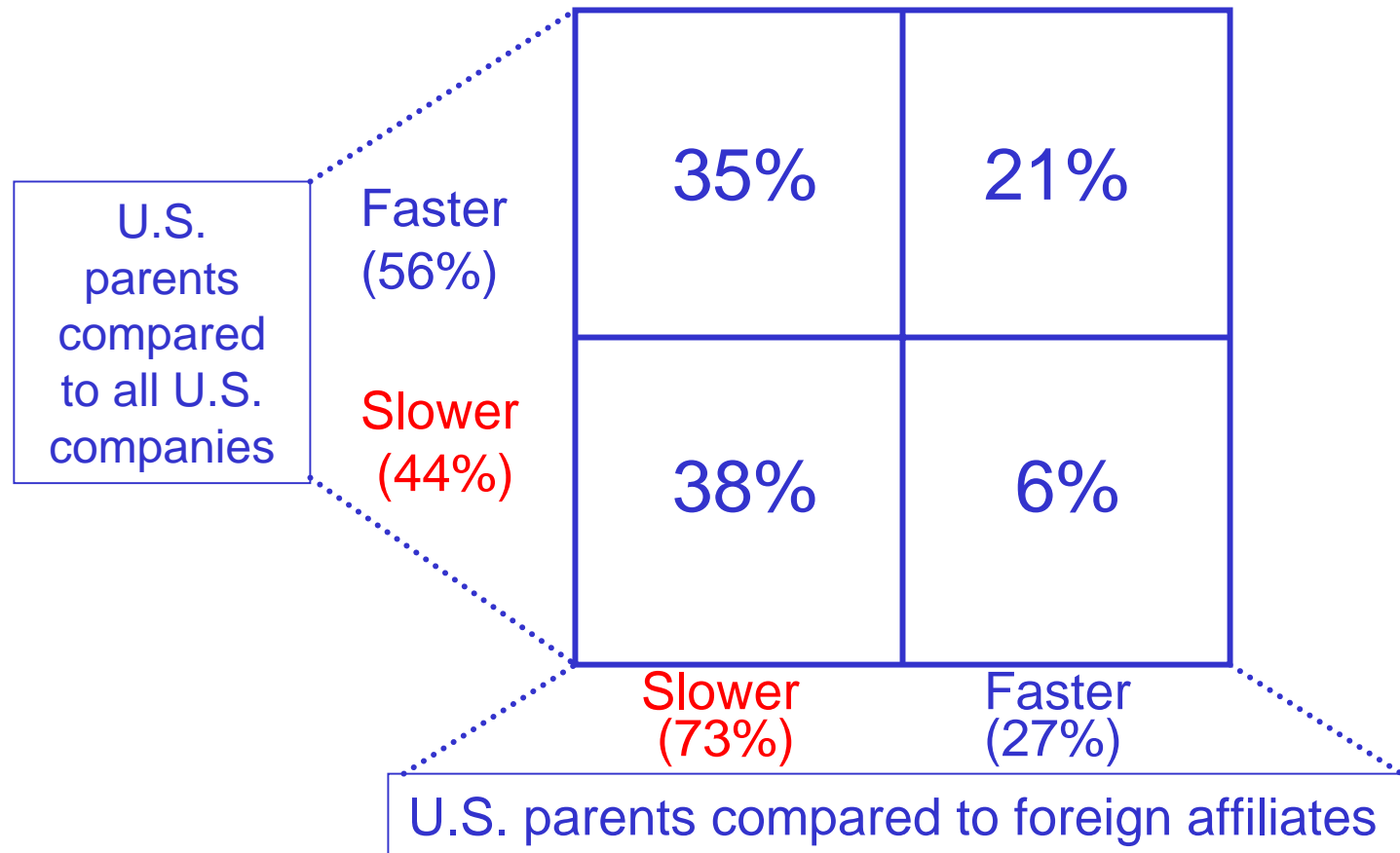
What the Multinational Data Tell Us

- 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.



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

Percentage of 93 industries





Average Annual Growth Rate in Employment, 1989-99

Industry	Change in U.S. Parent Employment	Change in All U.S. Employment	Change in Foreign Affiliate Employment
Legal services	15.4%	1.3%	5.8%
R&D and testing services	8.3%	1.3%	9.8%
Computer & data processing services	6.8%	9.8%	22.4%
Accounting & auditing services	0.6%	2.2%	10.9%
Engineering & architecture services	-0.6%	2.3%	7.3%
ALL INDUSTRIES	1.6%	1.8%	4.0%

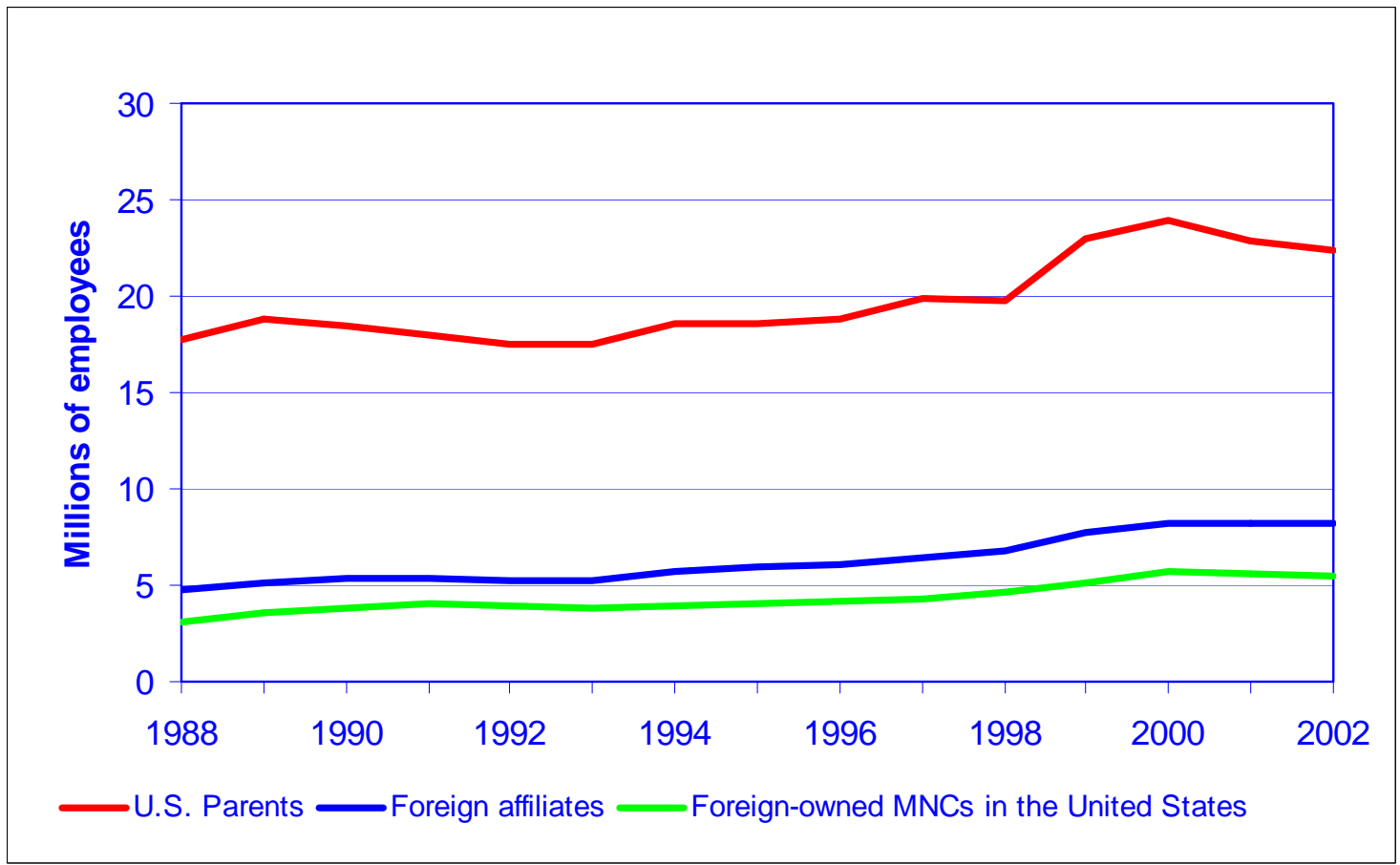


What the Multinational Data Tell Us

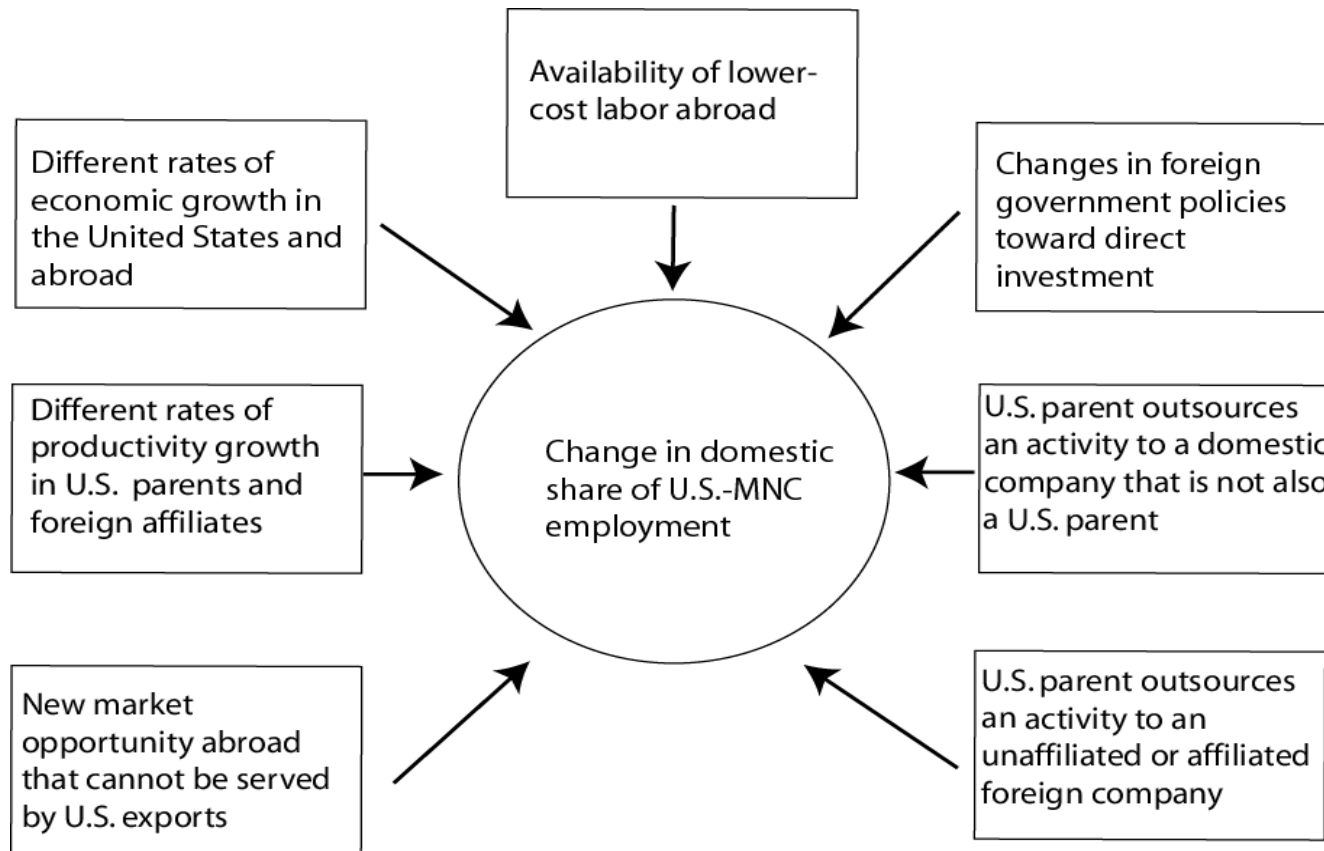
- Foreign employment by U.S. multinationals has grown at a faster rate than their U.S. employment; however:
 - Because of differences in levels, U.S. employment has increased by 4.7 million vs. 3.5 million in foreign employment, 1988-2002.
 - Foreign-owned MNCs have increased their employment in the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



MNC Employment



Many Possible Causes of a Change in U.S.-MNC Employment Share



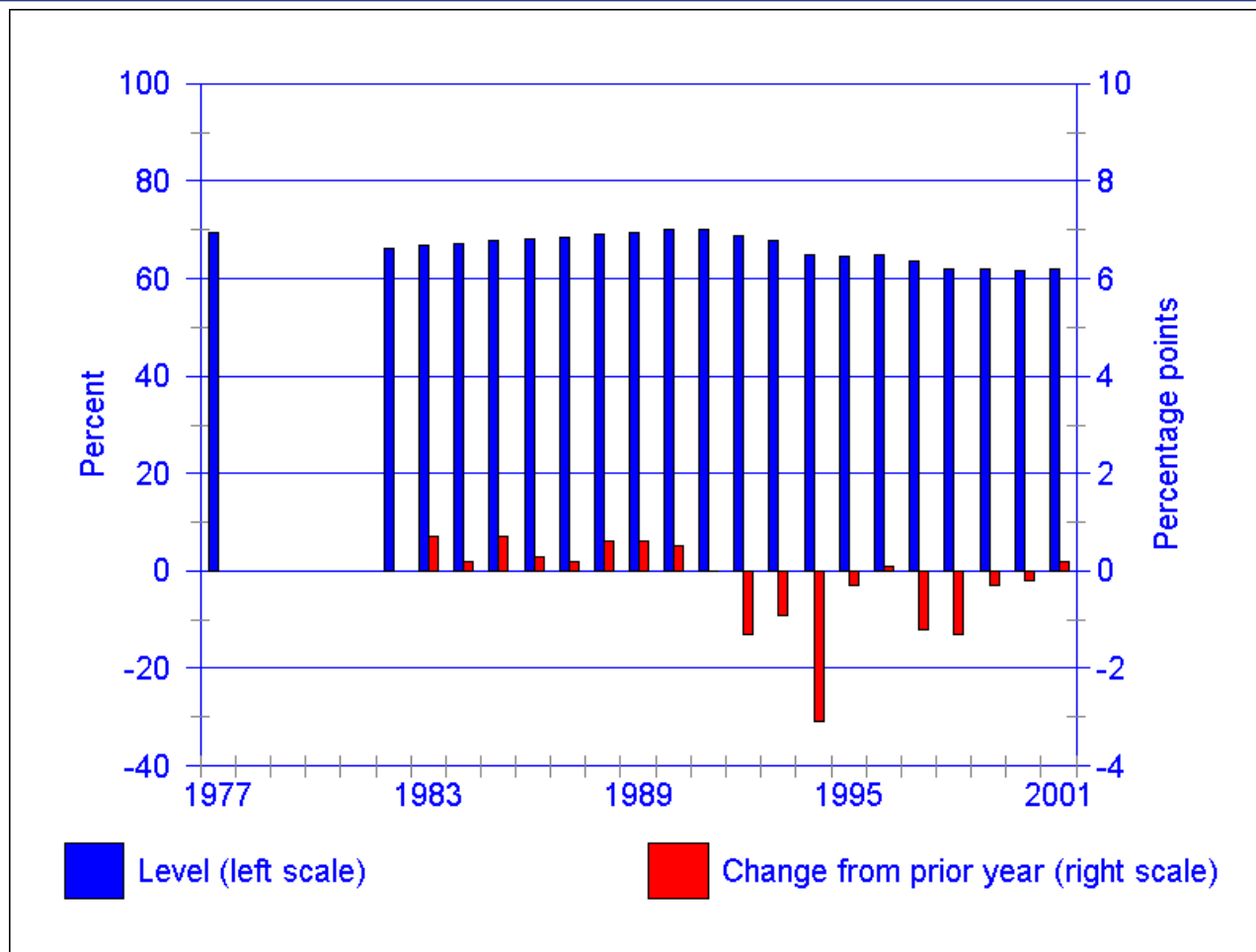


What the Multinational Data Tell Us

- 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



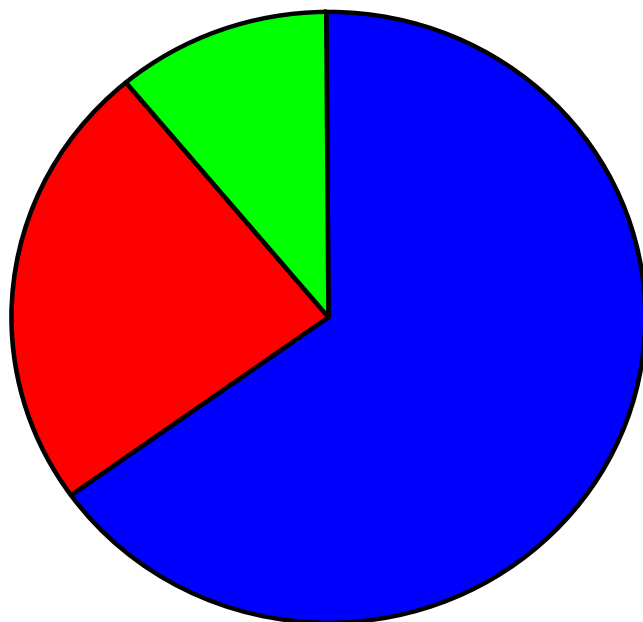


Emerging Markets with Strong Growth in Employment by Foreign Affiliates, 1989-2001

Country	Increase in foreign affiliate employment	Average host-country GDP growth rate, 1995-2001	Percent of foreign-affiliate sales to local customers	Percent of foreign-affiliate sales to U.S. customers
Mexico	474.8	4.5	64%	28%
China	269.2	8.3	71%	11%
Poland	68.5	6.3	76%	1%
India	66.6	5.7	92%	4%
Malaysia	66.2	4.0	38%	26%



Destination of Sales by Foreign Affiliates



- Local market 65%
- Other countries 24%
- United States 11%

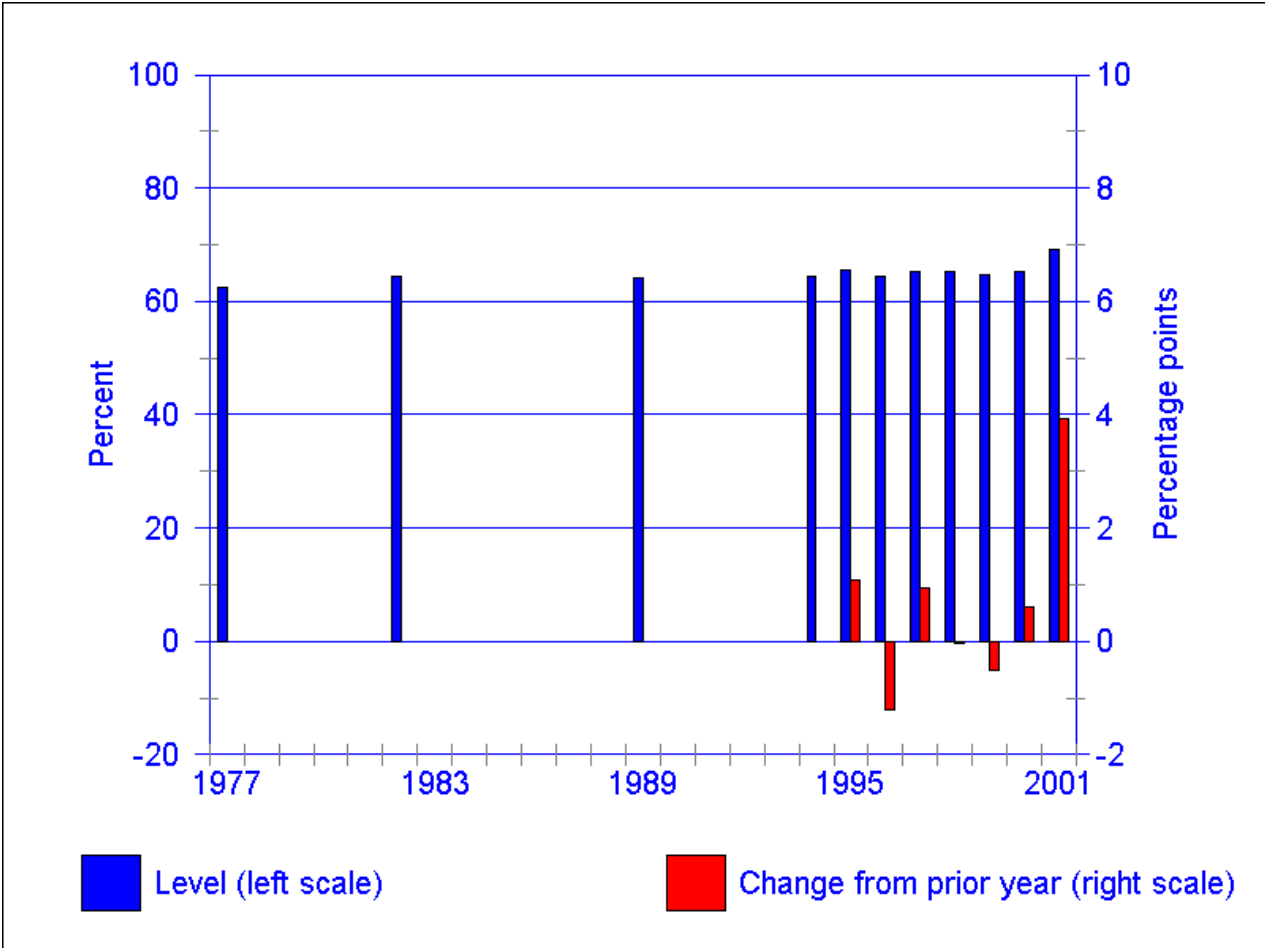


What the Multinational Data Tell Us

- 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.



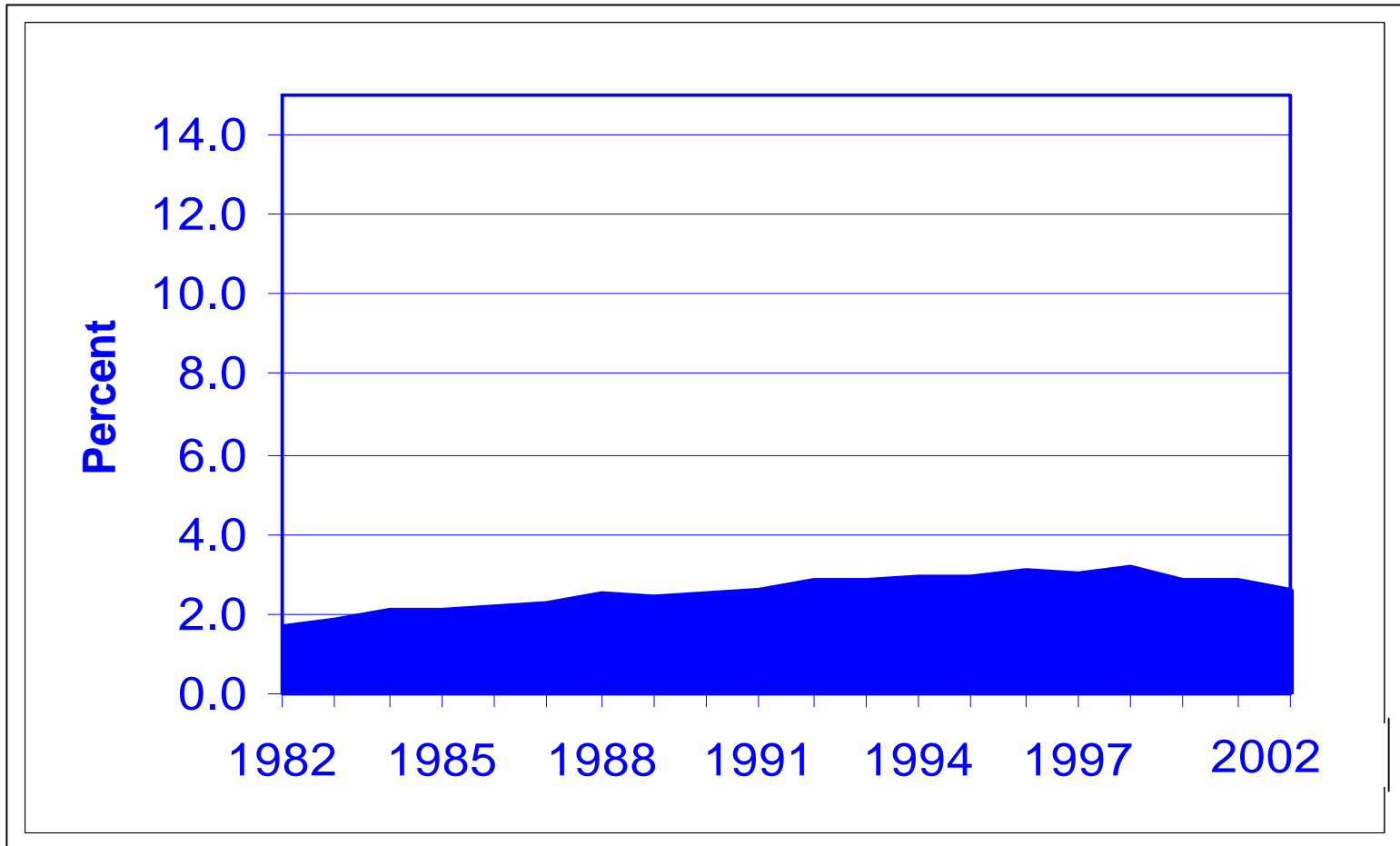
Ratio of Purchased Goods and Services to Sales for U.S. Parents



Data are available only for selected years.



Ratio of Direct Imports of Goods to Sales for U.S. Parents



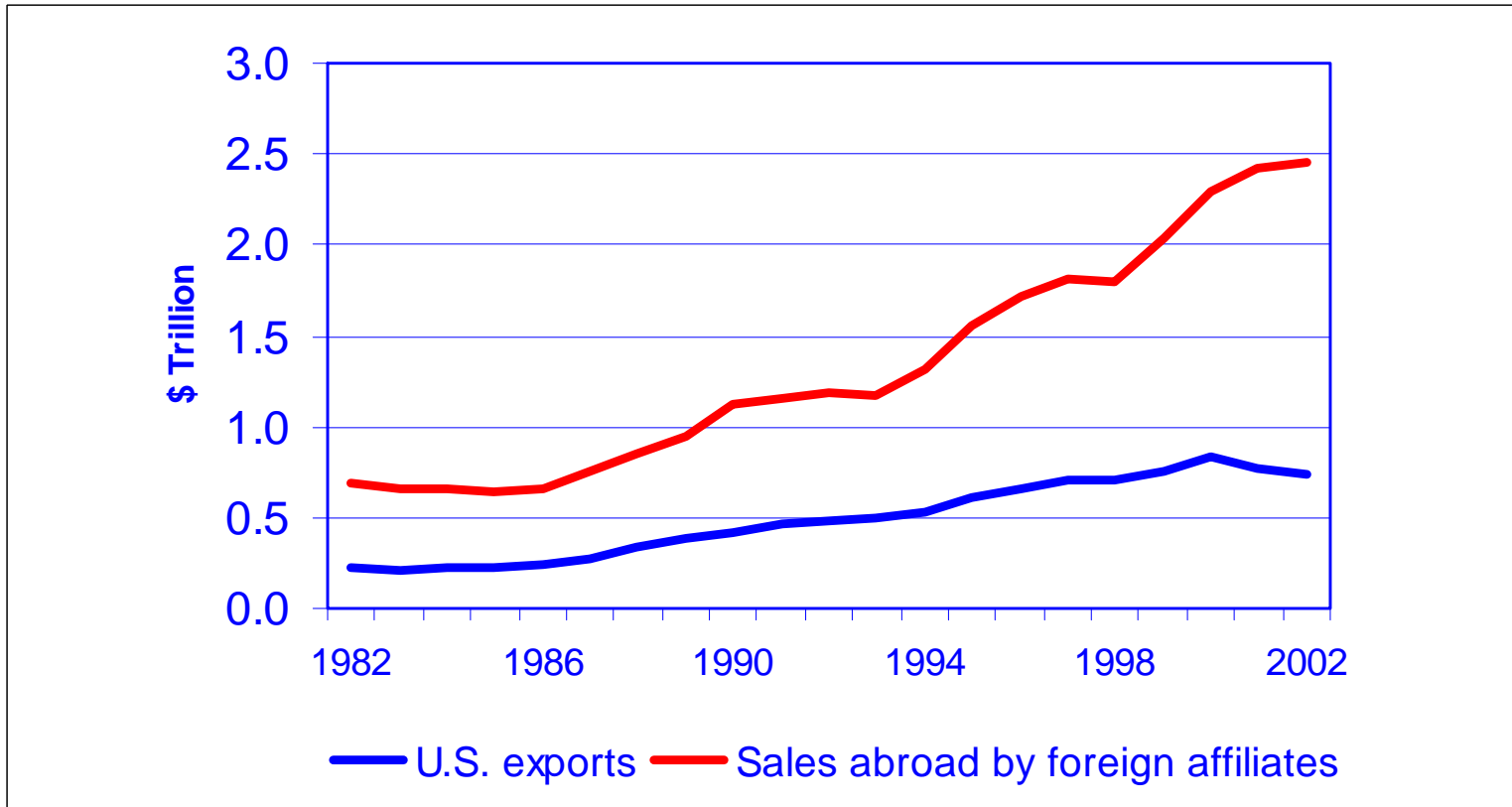


What the Multinational Data Tell Us

- 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