

# Globalization, Offshoring, and Multinational Companies:

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

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# 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 foreign-owned firms than in all U.S. firms.
- BEA/Census/NSF data link project may provide more insights.

# 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, foreign-owned 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.

# 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.