



# “Offshoring” and the U.S. Balance of Payments

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## Major Questions

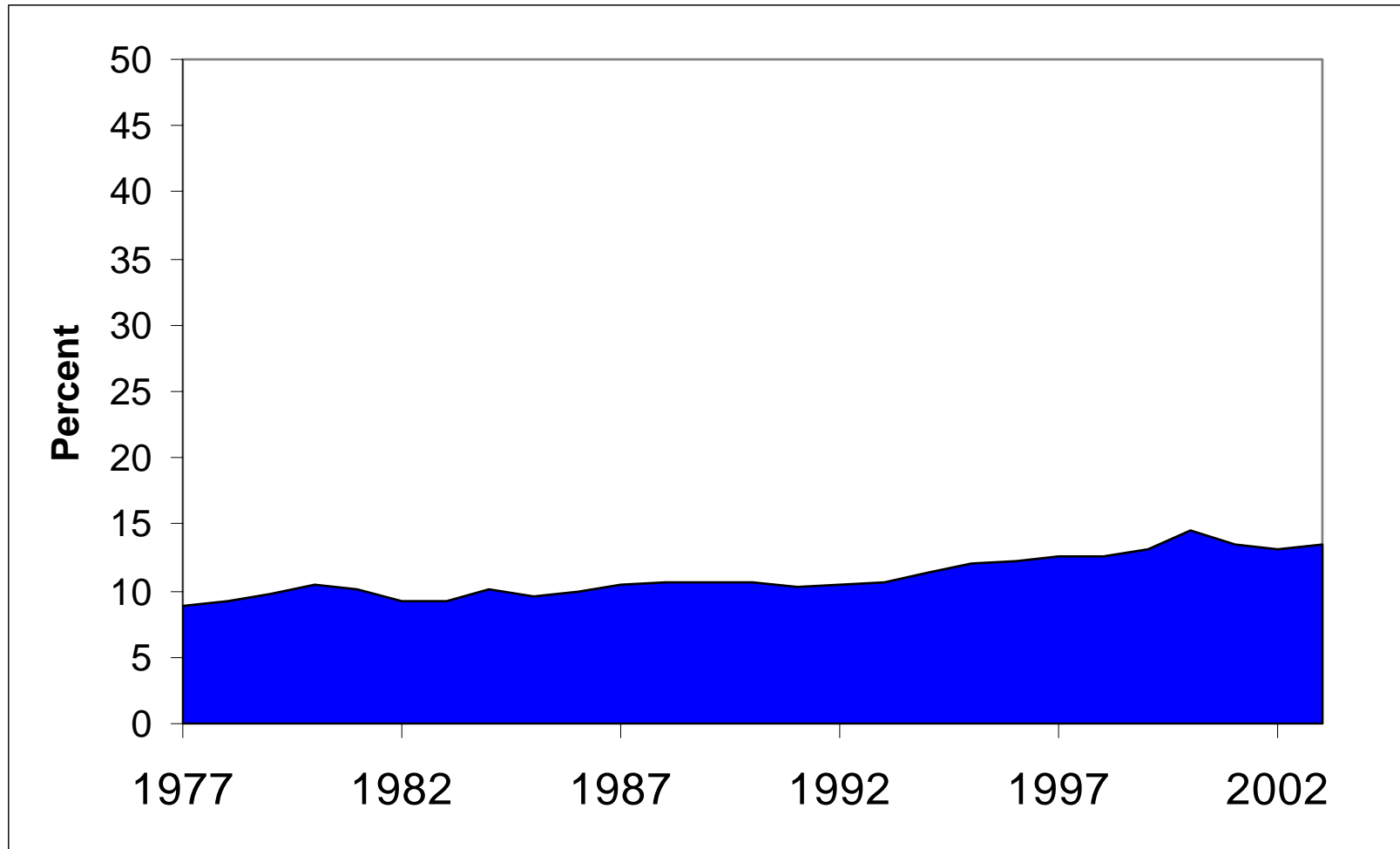
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- How reliant is the U.S. economy on imports?
- How has trade in services grown?
- Do BEA's estimates undercount trade in services?
  - Why was there “only” 3.1% growth in real imports of services between 2002 to 2003 in the NIPA's?
  - Why are services imports from India so small?
  - What is the impact on GDP and productivity if the data on imports of services are substantially wrong?
  - How is BEA working to improve its estimates?



# Imports of Goods & Services in U.S. Gross Domestic Purchases, 1977-2003





## Components of Trade in Services

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- Seven major categories
- Several of these categories have little relation to offshoring
- Other private services (OPS) are most associated with offshoring
- OPS' share of both services imports and exports has increased



## Growth in Imports by Type, 1992-2003

	Rate (%)
Total	7.1
<b>More slowly</b>	
Direct defense expenditures	5.5
Other government	2.6
Travel	3.5
Passenger fares	6.3
Other transportation	5.9
<b>More rapidly</b>	
Royalties & license fees	13.0
OPS	11.6



## Share in Imports, 1992 and 2003

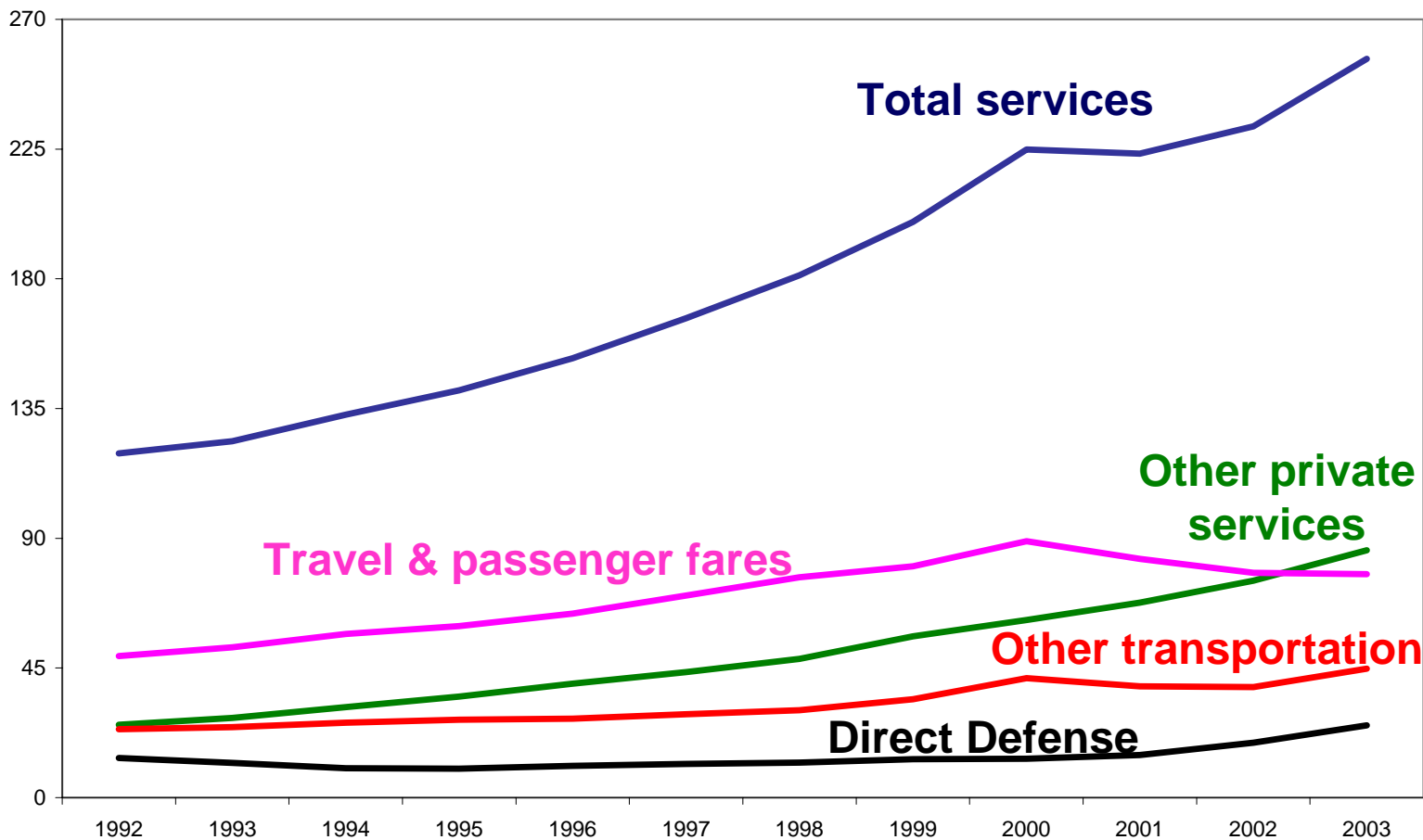
	Percent	
	1992	2003
Direct defense expenditures	12	10
Other government	2	1
Travel	32	22
Passenger fares	9	8
Other transportation	20	17
Royalties & license fees	4	8
OPS	21	33



# Growth in OPS Imports Has Continued

- Fall in travel & passenger fares partly offset growth in OPS

Billions of current \$





## Growth in Exports by Type, 1992-2003

	Rate (%)
Total	5.1
<b>More slowly</b>	
Transfers under U.S. military agency sales contracts	0.1
Other government	-0.3
Travel	1.5
Passenger fares	-0.5
Other transportation	3.6
<b>More rapidly</b>	
Royalties & license fees	7.8
OPS	9.2





## Share in Exports

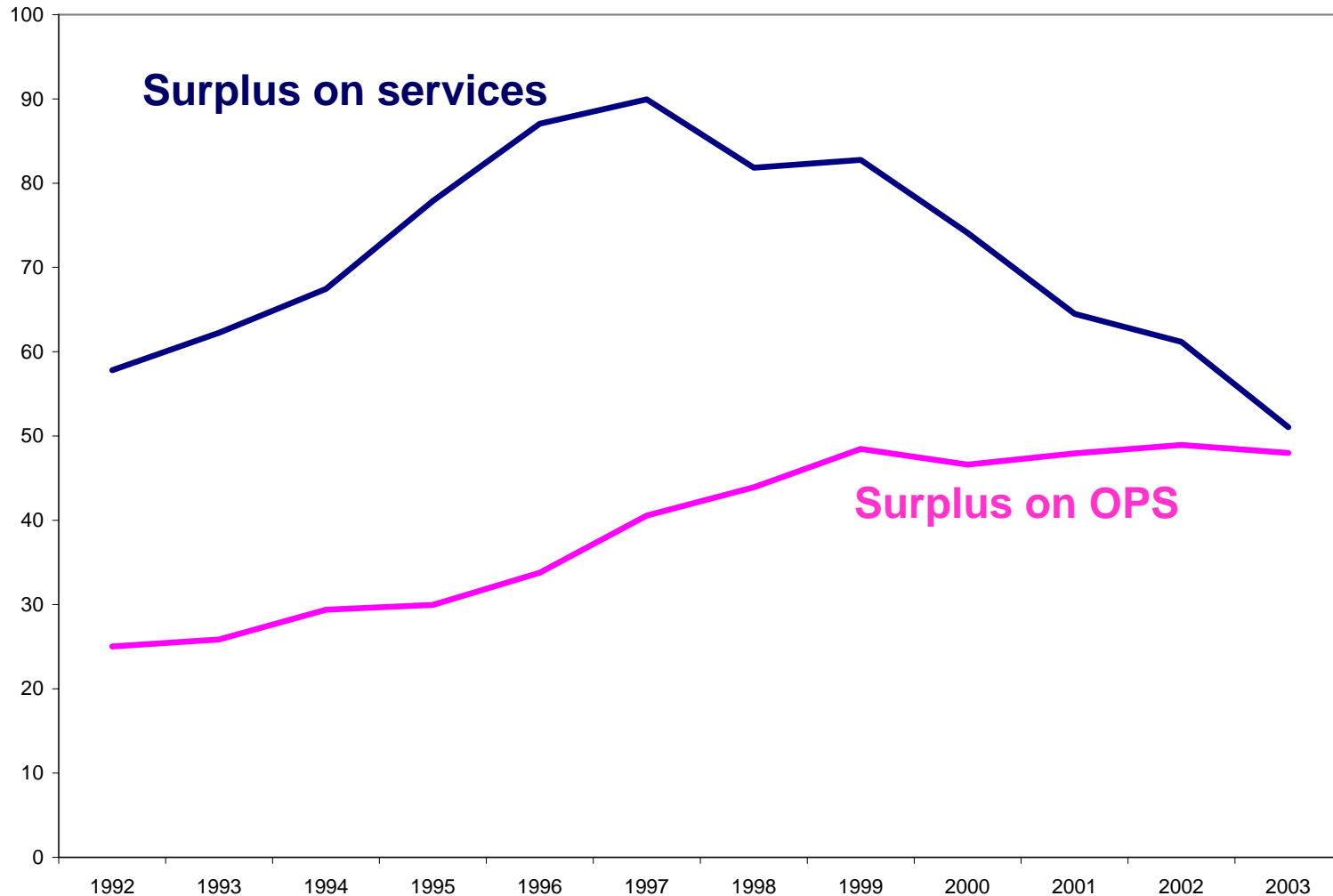
Percent

	1992	2003
Transfers under military sales contracts	7	4
Other government	0	0
Travel	31	21
Passenger fares	9	5
Other transportation	12	10
Royalties & license fees	12	16
OPS	28	44



# Trade Balances

Billions of \$





# Business, Professional, and Technical Services

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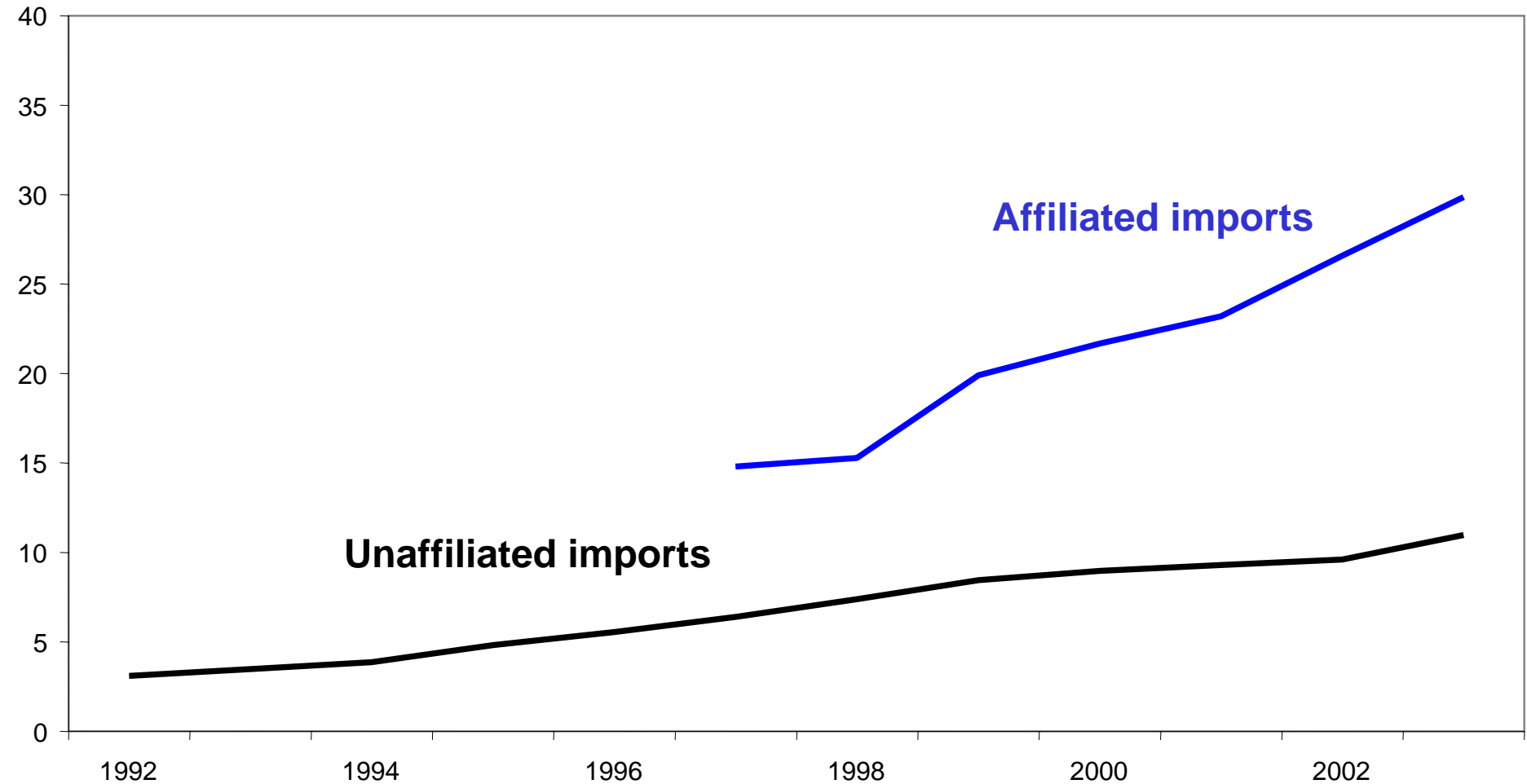
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- Some services within OPS tend to be associated with offshoring:
  - Business, professional, and technical services (BPT) generally are, but
  - Insurance is less so
- Much import growth has occurred within MNCs
- Estimates of trade in BPT services between affiliated parties only available separately from 1997 through 2003



# Business, Professional, and Technical Services Imports

Billions of dollars





# OPS Imports from Asia & Pacific, 1992-2003

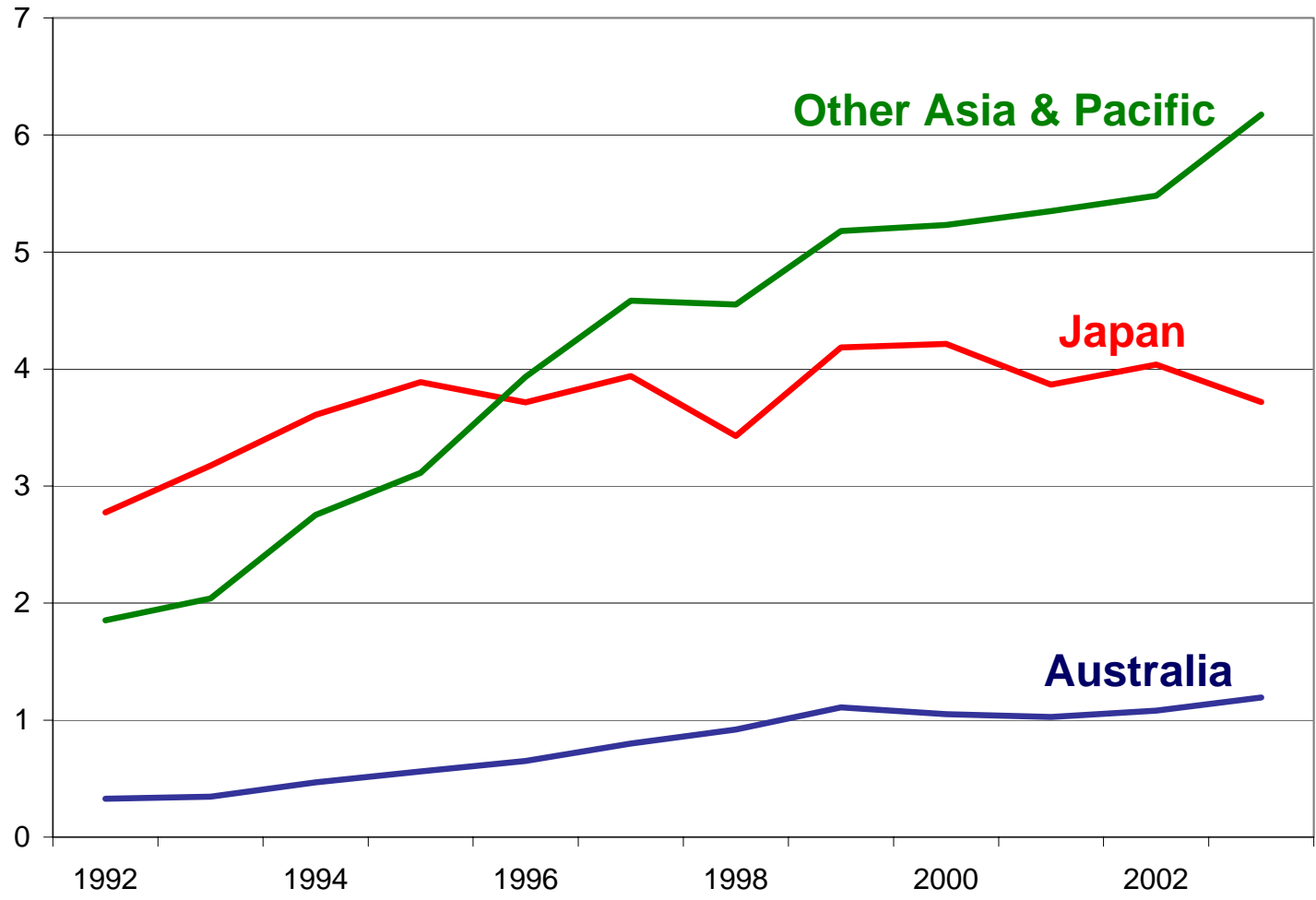
- Slow growth in U.S. imports from Japan masked faster growth in several other Asian countries:

	Rate (%)	Imports in 2003 (Billion of \$)
Asia and Pacific	7.6	11.1
Japan	2.7	3.7
India	22.8	1.1
Singapore	21.7	0.8
China	14.0	0.5
Hong Kong	13.0	1.4
Taiwan	4.2	0.3



# OPS Imports from Asia & Pacific

Billions of \$





## Comparisons

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- Comparisons with private sector data difficult
  - E-tailing
  - Fragmentation of delivery channels
- Comparisons with other countries difficult
  - Different methodologies
  - Different definitions



## Imports of Services from India

<b>Total Services (billions of dollars)</b>	1997	1998	1999	2000	2001	2002
Exports to world reported by India	9.1	11.7	14.5	19.2	20.9	24.9
Imports from India reported by:						
United States	1.2	1.5	1.5	1.9	1.8	1.7
EU	2.2	2.4	2.5	2.3	2.4	2.3
Japan			0.5	0.4	0.4	0.3
Canada	0.1	0.1	0.1	0.1	0.2	
Sum of reported imports	3.6	4.1	4.6	4.7	4.7	4.3
Percentage of Indian exports unaccounted for by above countries	61	65	68	76	77	83

Source: Organisation for Economic Co-Operation and Development, 2004, "Globalisation of the ICT Sector," *Information Technology Outlook 2004*, Paris.





## Impact on GDP and Productivity

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- Schultze (2004): a large revision in the estimate of BPT imports would have only a minor impact on the reported acceleration of productivity growth
- If actual growth in services imports was 50 percent faster between 1992 and 2003
  - Real GDP growth: . 0.1 percentage point lower
  - Productivity growth: . 0.1 percentage point lower
- Evidence that exports are also understated



## Data Sources

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- Trade in goods data collected by Census Bureau and U.S. Customs and Border Protection
- Most trade in services data collected by BEA
- Some estimates rely on data from other sources



## Data Collection Methods

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- U.S. largely utilizes mandatory annual and quarterly surveys
- Other countries often use a mix of
  - Voluntary surveys
  - Information from bank settlement systems



## Data: Challenges

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- Accounting for low value transactions
- Difficult to identify services importers
- Can be difficult to measure services that are just starting to be traded
- Travel estimates may be weak
  - Based on a small, voluntary survey of travelers



## Recent Improvements

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- Pilot quarterly surveys of large and volatile categories
- Performing research into possible causes of
  - Measurement error in private services data
  - Measurement error in goods trade data



## Research into Private Services Data

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- Receiving the following reports
  - Initial overview
  - Travel transactions
  - Other private services (OPS)
  - Affiliated trade in OPS
  - Final report



## Research into Goods Data

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- With Census Bureau's Foreign Trade Division: potential sources of undercounts in imports and exports
- Specific areas examined will include
  - Low value estimates
  - Exports from foreign trade zones
  - Import shipments without summarizing by commodity code
  - Imports of Canadian rail cars
  - Import valuation errors



## Limits to Surveys

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- Surveys can only tell us so much
- Many agencies have surveys covering aspects of “offshoring”
  - BEA: trade in services and MNC data
  - Census Bureau: Economic Census
  - BLS: Mass Layoff Survey
- Need analytical models incorporating data on trade in services with other important variables





## Conclusions

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- Importance of imports in the U.S. economy has been growing
- Bilateral and private sector comparisons are difficult
- A large error in growth of services imports has a small impact on growth in overall GDP and productivity



## Conclusions (continued)

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- U.S. has among the best data on trade in services in the world
- BEA is working to improve its estimates of trade in services
- To answer some questions on “offshoring,” need economic models incorporating data on a number of variables