



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

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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.*



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

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Services Offshoring: What Do the Data Tell Us?

The Brookings Institution

June 22, 2004



## Major Questions

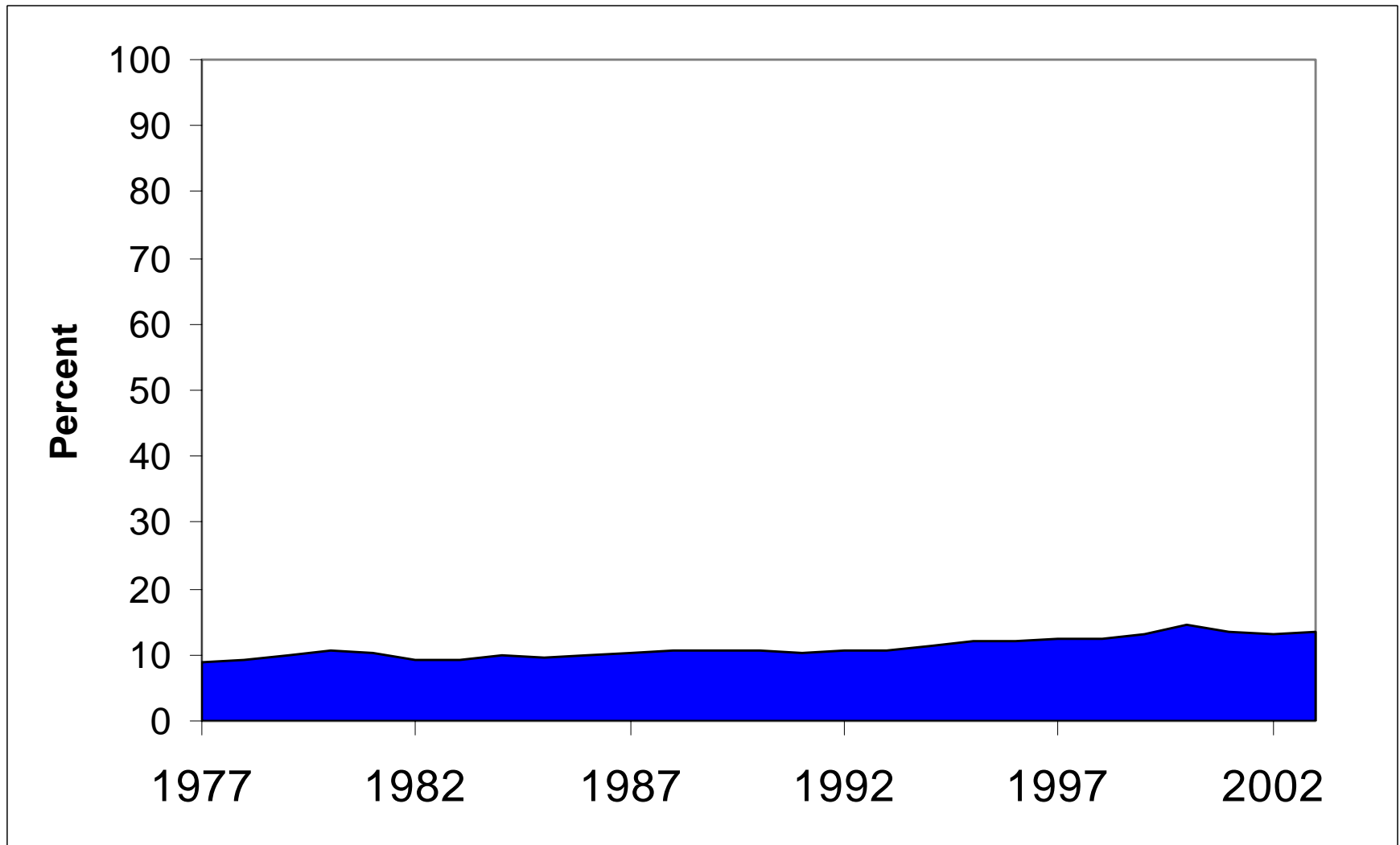
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- How much has the U.S. economy's reliance on imports increased? Goods? Services?
- What do the data tell us about the growth of trade in services?
- Do BEA's estimates undercount trade in services?
  - Why was there zero growth in real imports of 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

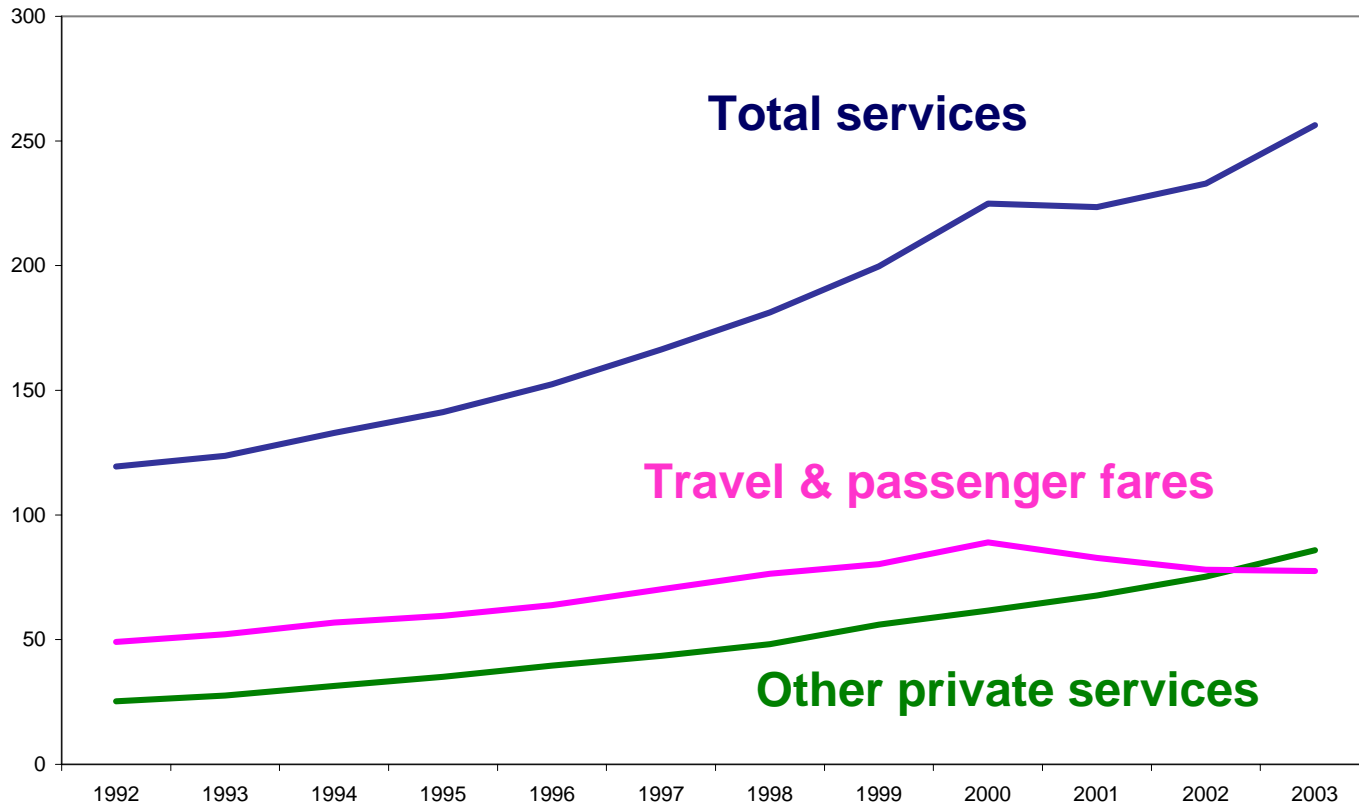
Percent		
	1992	2003
Direct defense expenditures	12	10
Other government	2	1
Travel	32	22
Passenger fares	9	8
Other transportation	20	17
Royalties & license fees	4	8
OPS	21	33



# Growth in OPS Imports Has Continued

- Recent growth in OPS obscured by fall in travel and passenger fares

Billions of \$







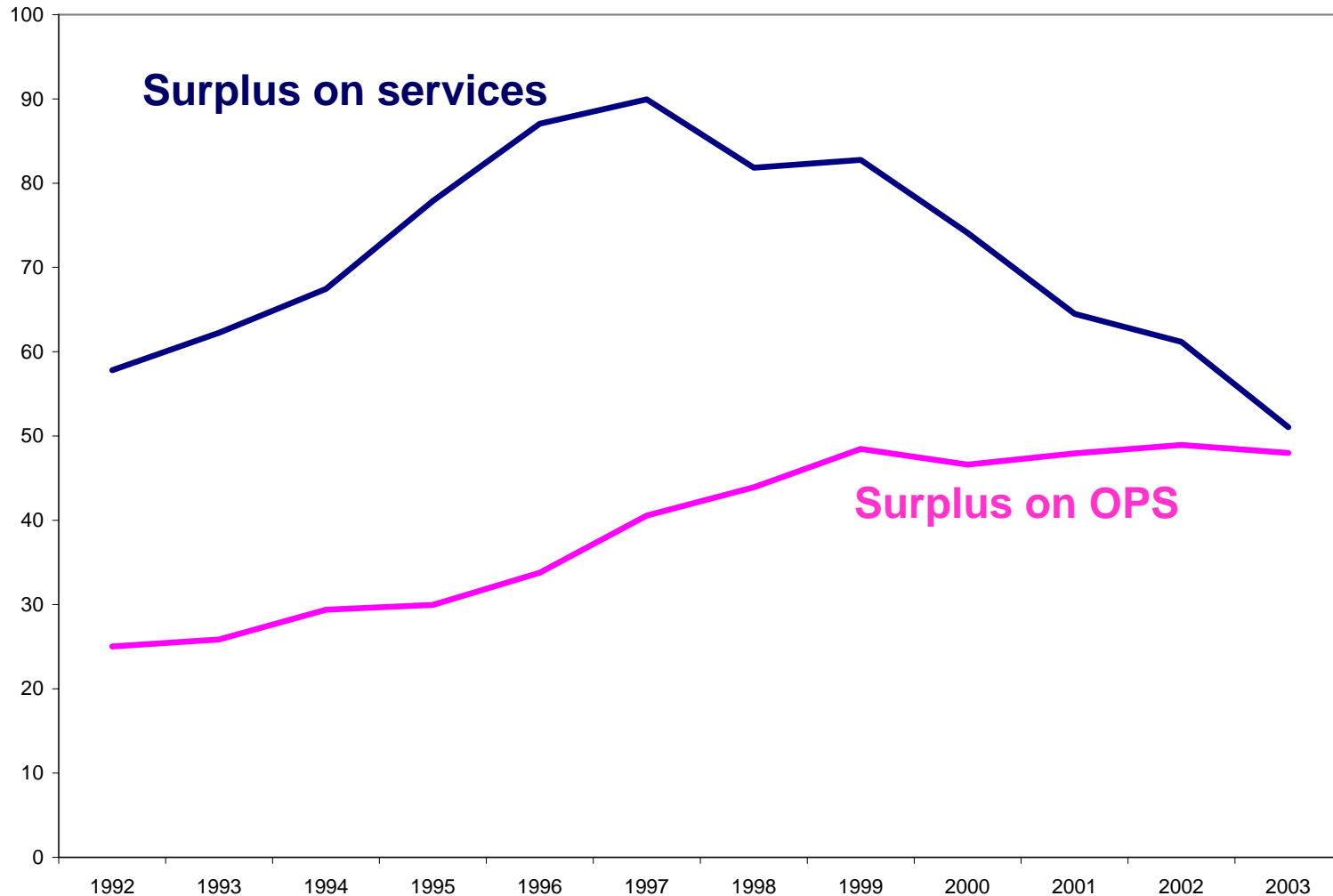
## Growth in Exports by Type, 1992-2003

	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



# Trade Balances

Billions of \$





## Business, Professional, and Technical Services

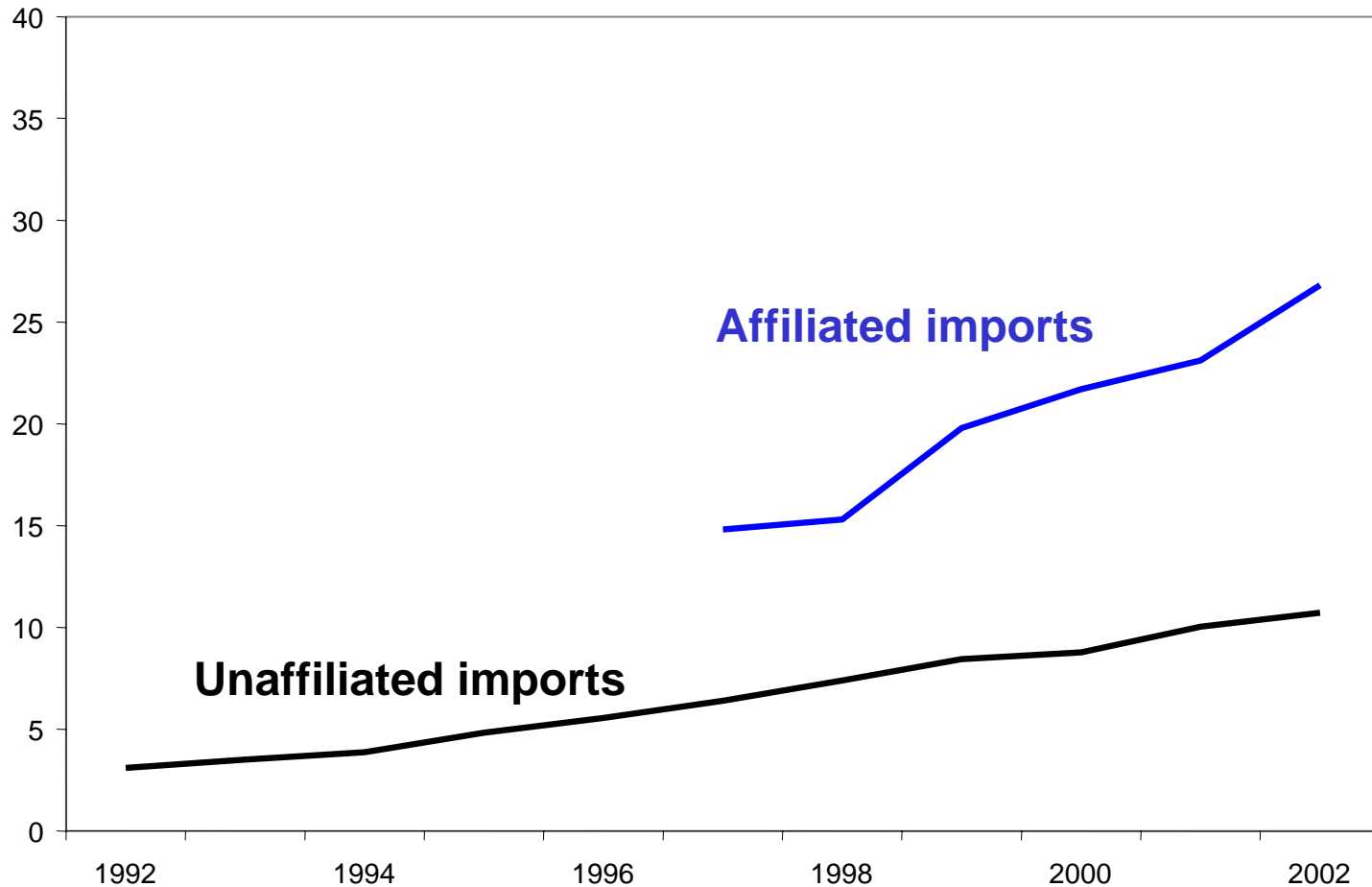
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- Some services within OPS tend to be associated with offshoring:
  - Business, professional, and technical services (BPT) generally are, but
  - Insurance is less so
- Much import growth has occurred within MNC's
- Estimates of trade in BPT services between affiliated parties only available separately from 1997 through 2002

# Business, Professional, and Technical Services Imports

Billions of dollars





## OPS Imports from Asia & Pacific, 1992-2002

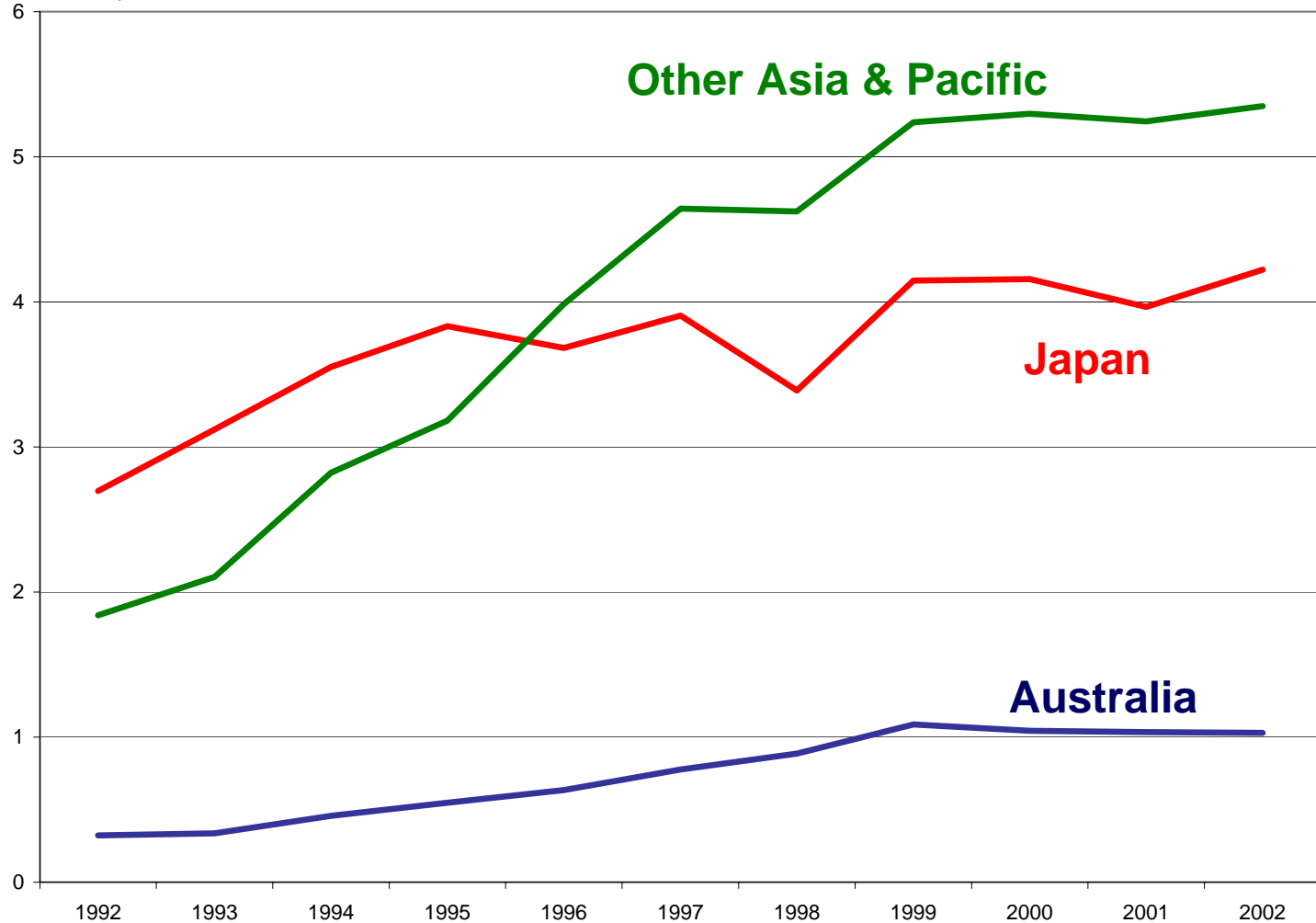
- Slow growth in U.S. imports from Japan masked faster growth in several other Asian countries:

	Rate (%)	Imports in 2002 (\$)
Japan	4.6	4.2 B
Singapore	21.9	0.7 B
India	18.7	0.7 B
Hong Kong	16.6	1.7 B
China	15.0	0.4 B
Taiwan	4.1	0.3 B



# 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, Draft.





## Impact on GDP and Productivity

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- 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
- For most services, data collected by mandatory surveys
- Some estimates rely on data from other sources



## Data: Strengths

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- U.S. 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 and transactors
- Difficult to identify services importers
- Can be difficult to measure services that are just starting to be traded



## 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



## 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 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