



**Offshore Outsourcing and Multinational Companies**

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WP2004-06

July 16, 2004

Presented at:

The Brookings Institution

June 22, 2004

*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.*



# Offshore Outsourcing and Multinational Companies

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Services Offshoring: What Do the Data Tell Us?

June 22, 2004

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## What the Multinational Data Tell Us

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- 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

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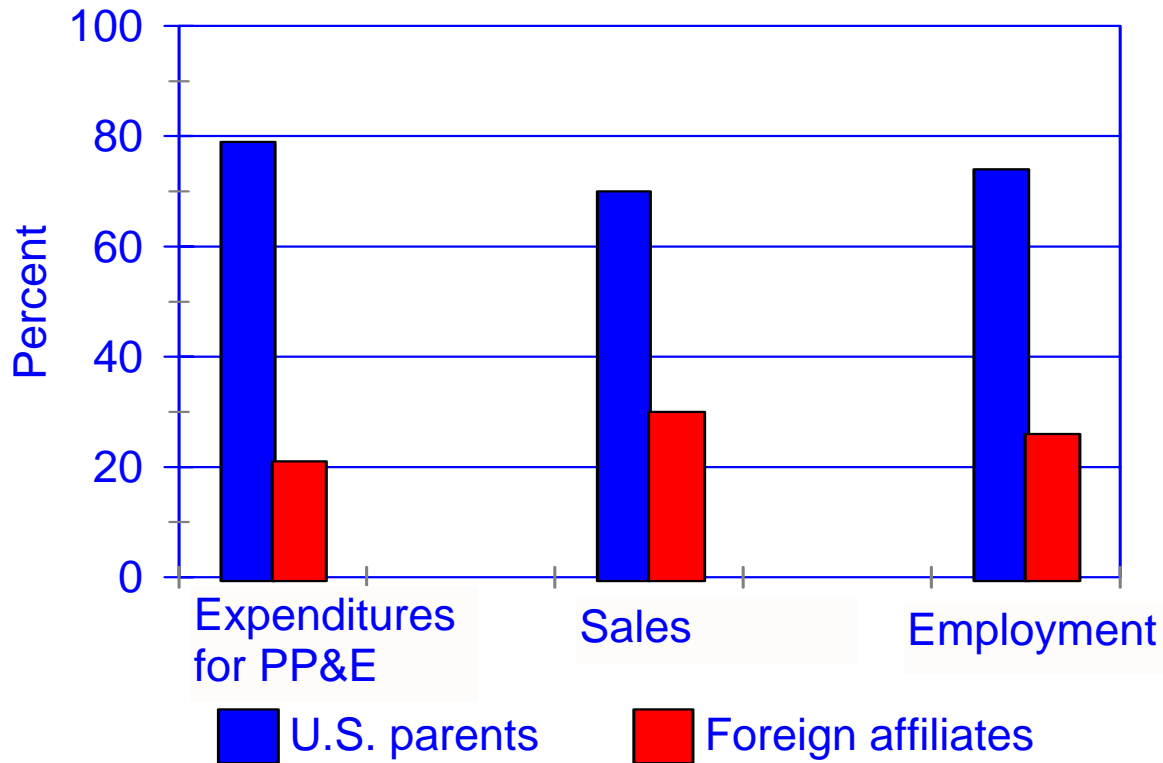
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- Operations of U.S. multinationals remain concentrated in the United States.
  - U.S. multinationals' U.S. operations have consistently accounted for about three-fourths of their worldwide output, investment, and employment.
  - While U.S. shares remain high, there has been some increase in foreign shares.



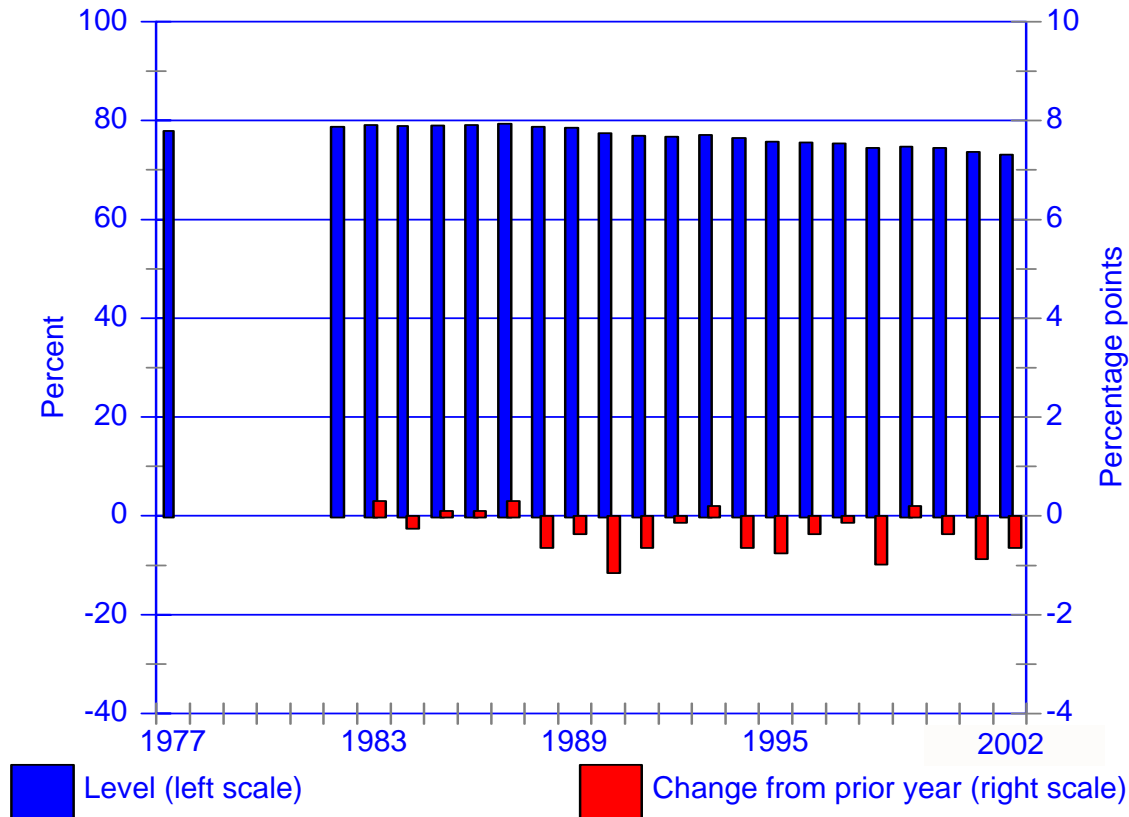
# Worldwide operations of U.S. MNCs are concentrated in the United States

2002





# U.S.-Parent Share of MNC Employment





## What the Multinational Data Tell Us

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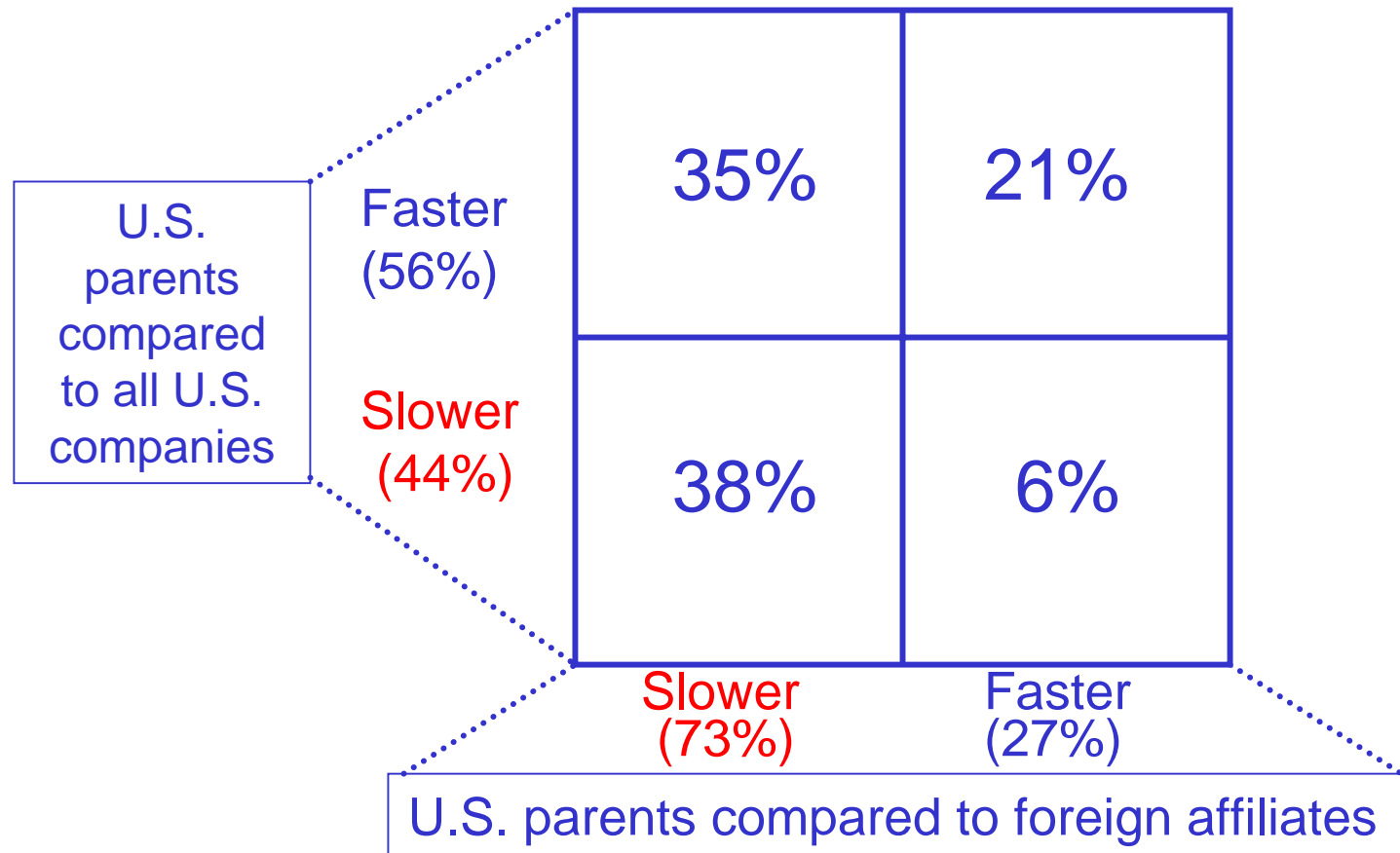
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- Foreign employment by U.S. multinationals has grown faster than their U.S. employment; however:
  - U.S. employment growth in U.S. MNCs has been little different than U.S. employment growth; in the aggregate and across industries.



## 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%
<b>ALL INDUSTRIES</b>	<b>1.6%</b>	<b>1.8%</b>	<b>4.0%</b>



## What the Multinational Data Tell Us

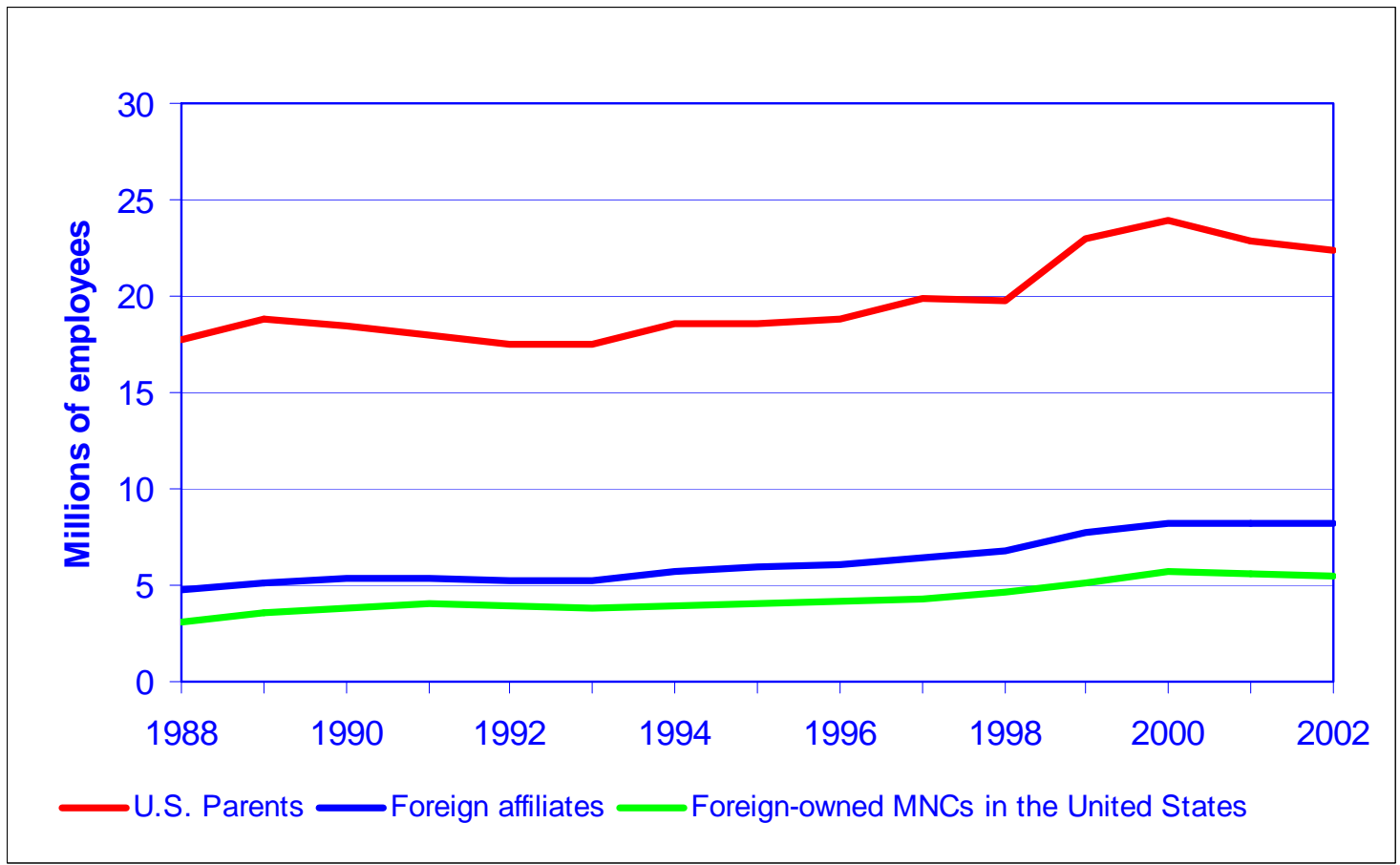
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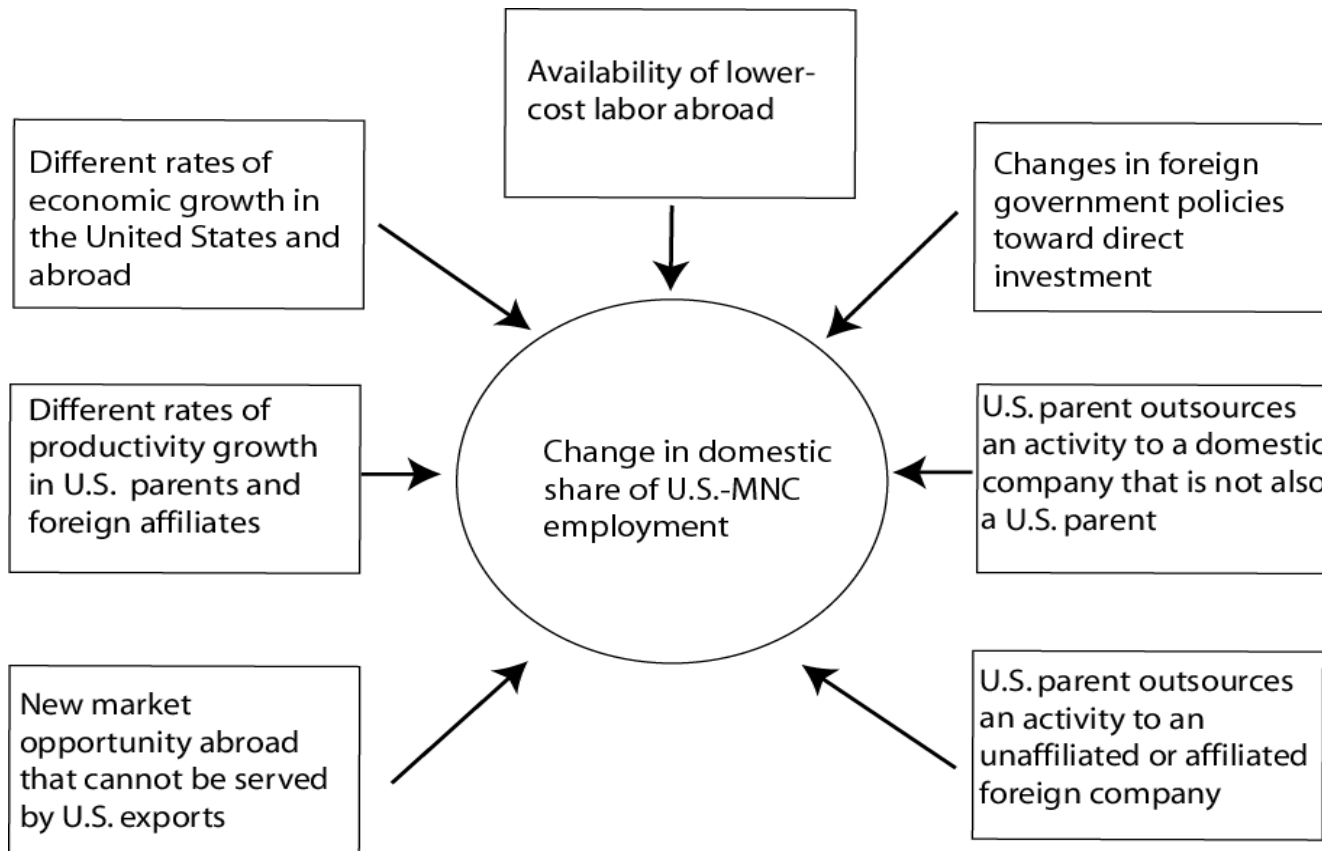
- Foreign employment by U.S. multinationals has grown at a faster rate than their U.S. employment; however:
  - Because of differences in levels, U.S. employment has increased by 4.7 million vs. 3.5 million in foreign employment, 1988-2002.
  - Foreign-owned MNCs have increased their employment in the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

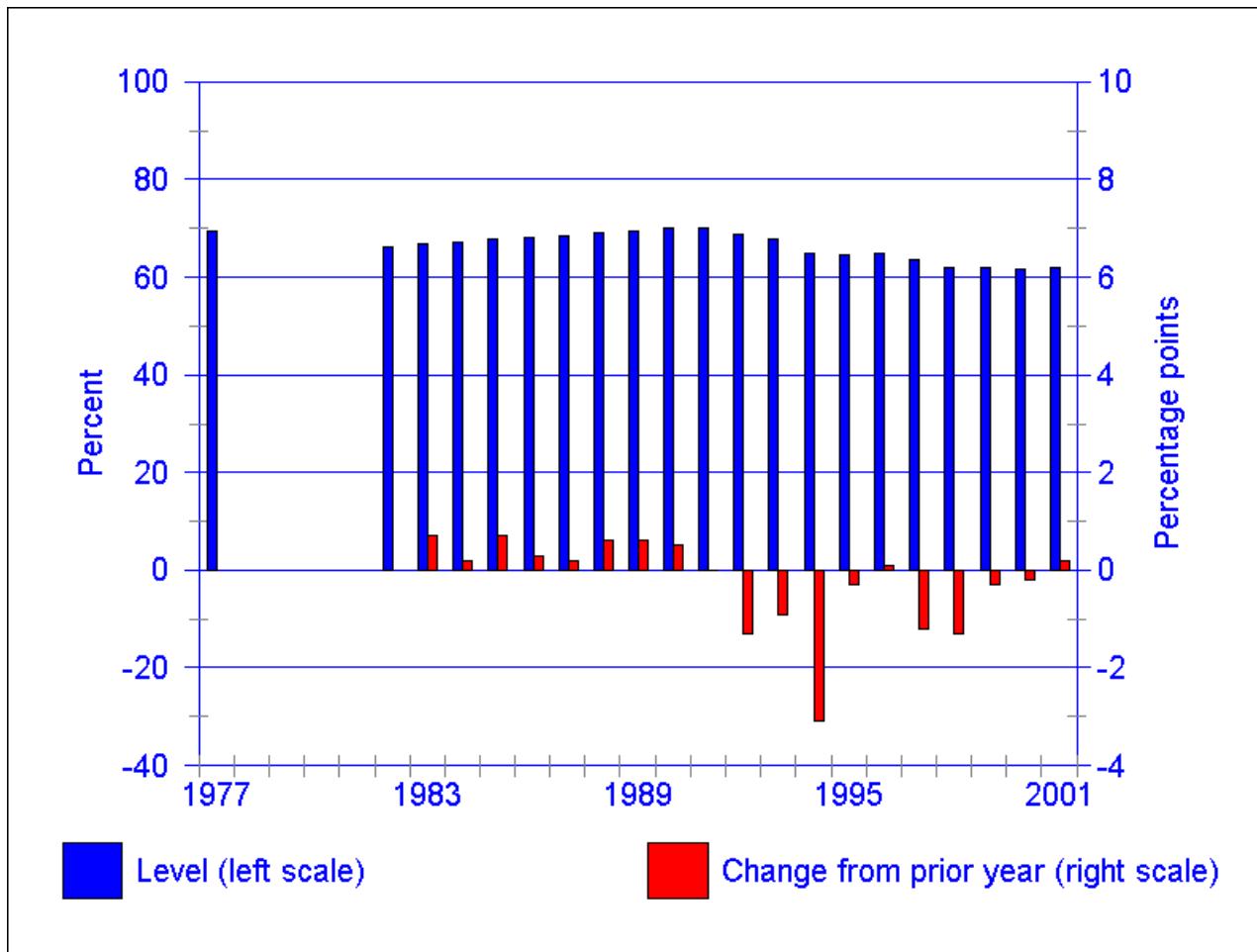
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- U.S. MNCs pay lower wages to their overseas workers, but without expanded data and research, it is difficult to tell if lower wages are paid for the same occupations.
- Despite some shift in employment to low-wage countries, production remains centered 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

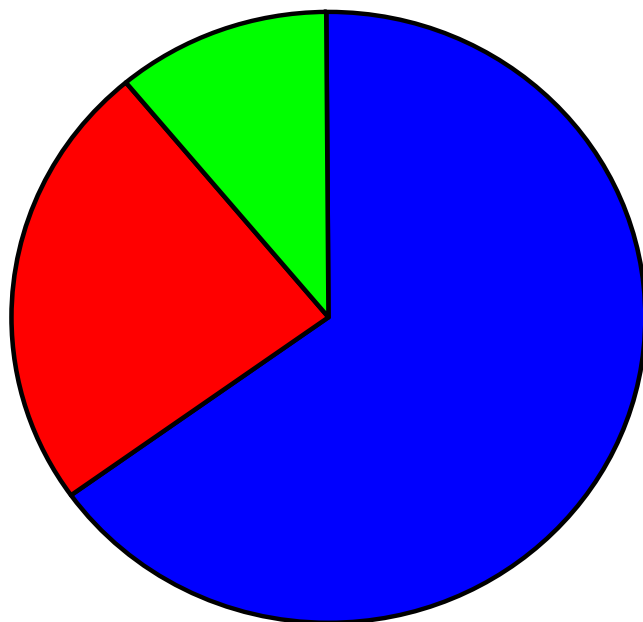
Country	Increase in foreign affiliate employment	Average host-country GDP growth rate, 1995-2001	Percent of foreign-affiliate sales to local customers	Percent of foreign-affiliate sales to U.S. customers
Mexico	474.8	4.5	64%	28%
China	269.2	8.3	71%	11%
Poland	68.5	6.3	76%	1%
India	66.6	5.7	92%	4%
Malaysia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



## Destination of Sales by Foreign Affiliates

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





## What the Multinational Data Tell Us

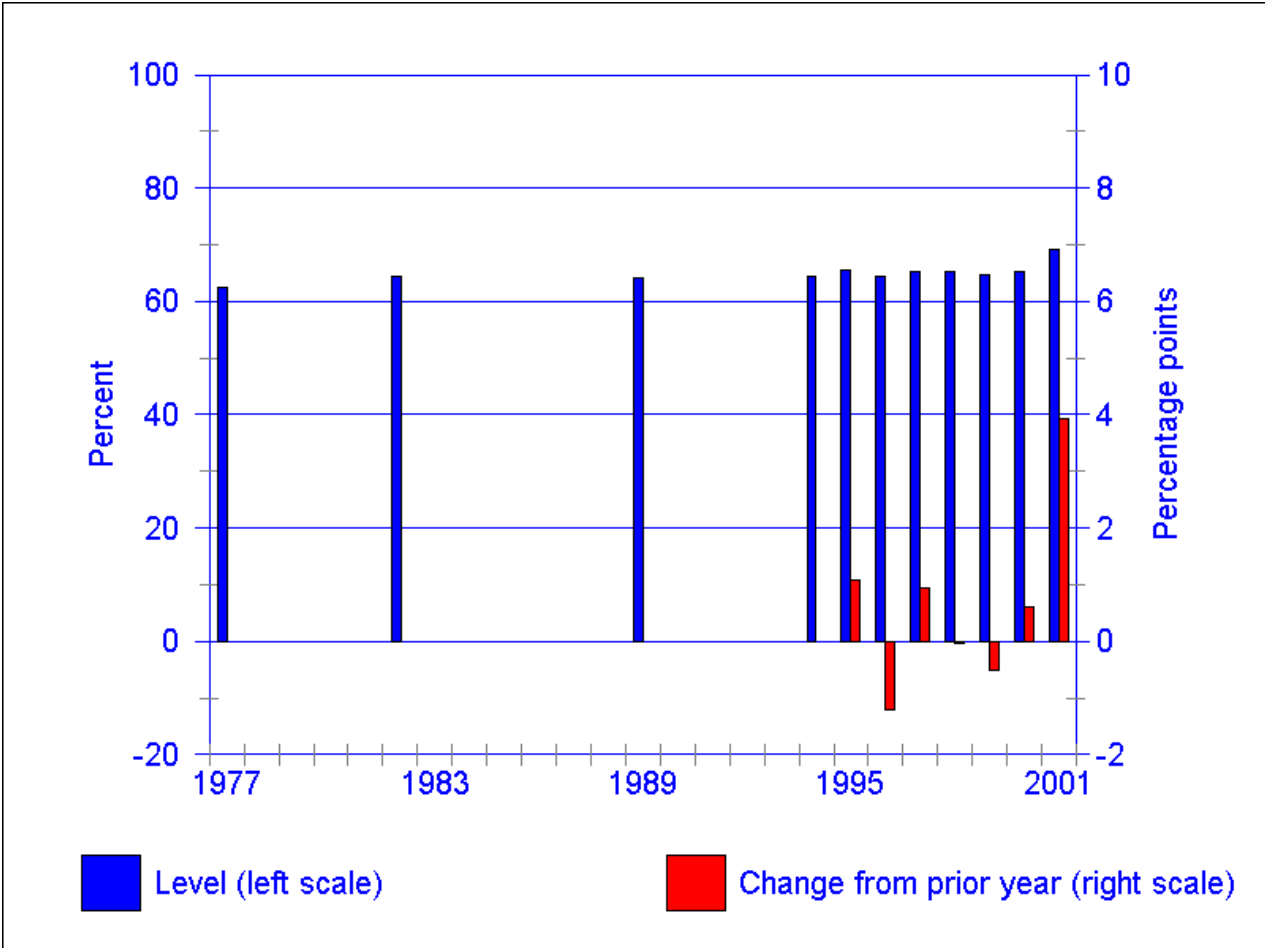
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- U.S. MNCs appear to be increasing outsourcing somewhat, but little evidence that it is foreign outsourcing.
  - Increasing purchases of intermediate goods and services as a share of sales, 1977- 2001
  - But U.S. parents' imports of goods as a share of sales have not seen a marked increase and have been decreasing since 1998.



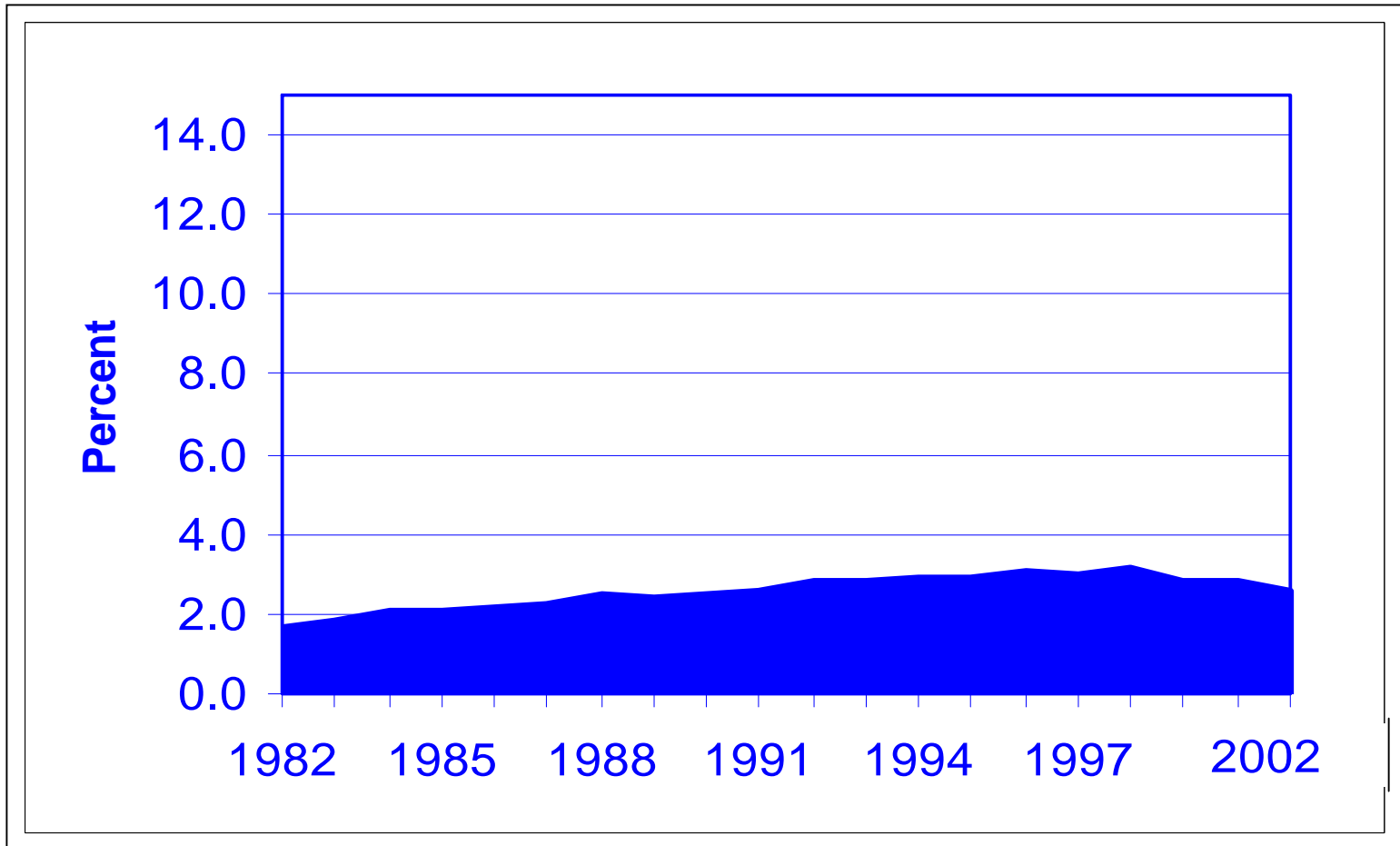
# Ratio of Purchased Goods and Services to Sales for U.S. Parents



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

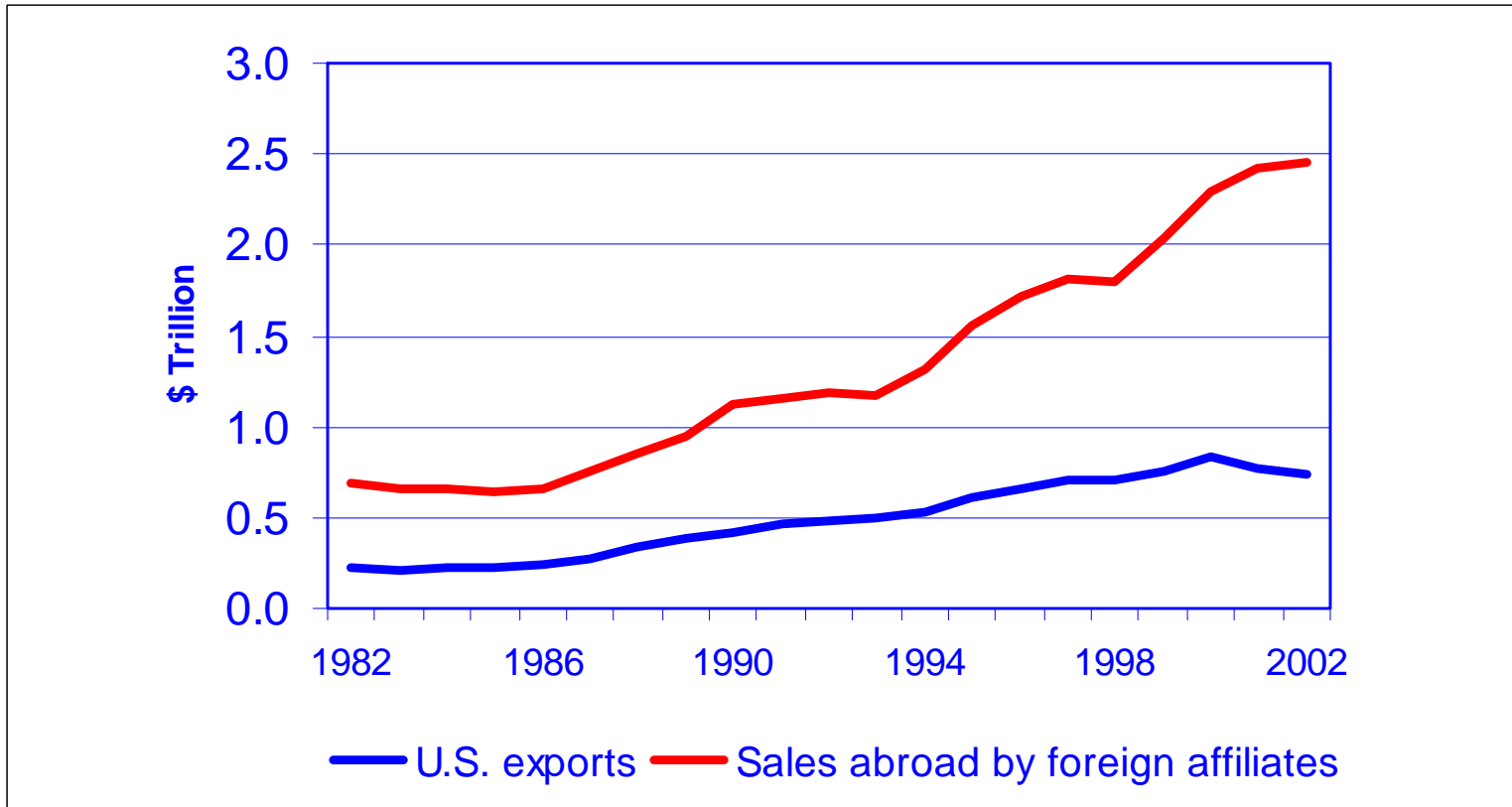
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- Multinationals and backward linkages to the U.S. economy
  - Multinationals and value added chains
  - Overseas sales through foreign affiliates of \$2.5 trillion
  - U.S. MNCs account for 58% of exports of goods and services and for 37% of imports
  - 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

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- 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