GLOBAL ECONOMIC RESEARCH

US WEEKLY ECONOMIC UPDATE

July 29, 2005

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Pace of Globalization Is More Measured Than Many Think

Globalization is occurring at lightning speed and altering industries and businesses of every size—or so a growing number of people believe. In the US, for instance, globalization has been blamed for the loss of many domestic jobs to overseas competitors.

In fact, new data published this week by the Bureau of Economic Analysis (BEA) suggests this is untrue. Moreover, the data indicates that while US multinational corporations have changed their production patterns in several recent decades, this shift has involved their domestic as well as their foreign suppliers—contrary to conventional thinking.

The numbers tell the story. In 2003, 74% of the output of US multinationals was produced at home. This is lower than the 78% in 2000 but about the same as in 1977 (**Display**), when the data was first tracked. And while the shift in production patterns was greater for manufacturing firms than for other industries, the global impact is clearly less than we had thought.

Here are some other findings gleaned from the BEA's report, which is included in the July issue of its *Survey of Current Business*.

Globalization

Overall, US companies are no more dependent today on foreign goods and services than they were 30 years ago. US purchases from foreign suppliers as a share of total sales in all industries (except wholesale and retail trade) in 2003 was 9%—essentially the same as in 1977.

Admittedly, the overall number masks important shifts in industries that are more global such as manufacturing. But even here, direct purchases of goods from overseas were less than what we would have expected. By our calculations, US multinational manufacturers have doubled the proportion of purchases they made abroad, from 5.1% in 1982 to 11.1% in 2003. So while globalization is taking place, its influence is still relatively small.

De-verticalization

US multinationals have also shifted their production patterns to rely increasingly on others to do their processing and assembly. This is evident in the amount of goods and services purchased by the US parent as a percent of its total sales. BEA data shows this increased from 63% to 68% from 1977 to 2003, excluding the wholesale and retail trade sectors.

The shift to outside suppliers was even greater in the manufacturing sector. Our estimates suggest that purchases by US manufacturers from outside suppliers rose from 60% of sales in 1977 to 71% in 2003. Interestingly, this shift to outside suppliers—11 percentage points—was almost twice as large as the 6-point rise in purchases from foreign suppliers—meaning that the move to domestic outsourcing was more important than the shift to overseas suppliers. Even so, public attention has been riveted on outsourcing to foreigners—while the transfer of functions to US firms has been largely ignored.

Outsourcing

Employment at US parent companies fell by 416,000 while jobs at their foreign affiliates increased 108,000. As a result, the domestic share of their total employment fell to 72% in 2003, down three percentage points from 1998 and five from 1993. On the surface, it appears that jobs have been shifted from US parents to their majority-owned foreign affiliates. Even so, it is hard to prove a direct correlation between domestic and foreign hiring patterns. For instance, some industries adding jobs overseas are also adding jobs at home, while others shedding jobs at home are also shedding them abroad.

In manufacturing, for example, employment fell at both US-parent and foreign-affiliate plants in 2003. Indeed, US-owned manufacturing plants have been shedding jobs since 2000. So it is hard to argue—as many detractors of globalization have—that US manufacturing firms are shuttering plants and laying off workers at home, only to add to their workforce overseas.

The BEA data suggest that some industries are indeed adding jobs both at home and overseas, notably among professional, scientific and technical-service staff. US-owned foreign affiliates increased this type of employment by 14,000 in 2003, while the parent firms increased it by 8,000.

While some will no doubt argue that this is evidence of a shift in hiring practices toward greater outsourcing, we think it is too early to conclude this. Indeed, in 2004 professional and technical jobs *increased* by 425,000 in the US—nearly matching the total number of professional and technical employees at overseas affiliates.

Bottom line: While US employment patterns suggest that some jobs are being outsourced, the scale of this shift remains relatively small.

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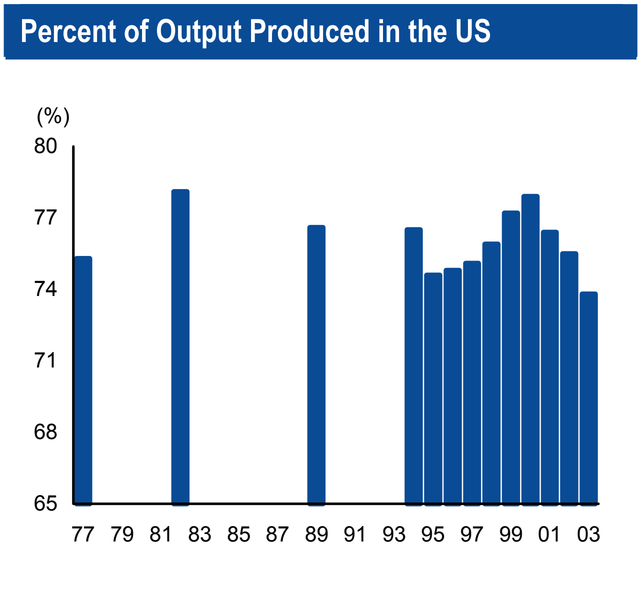
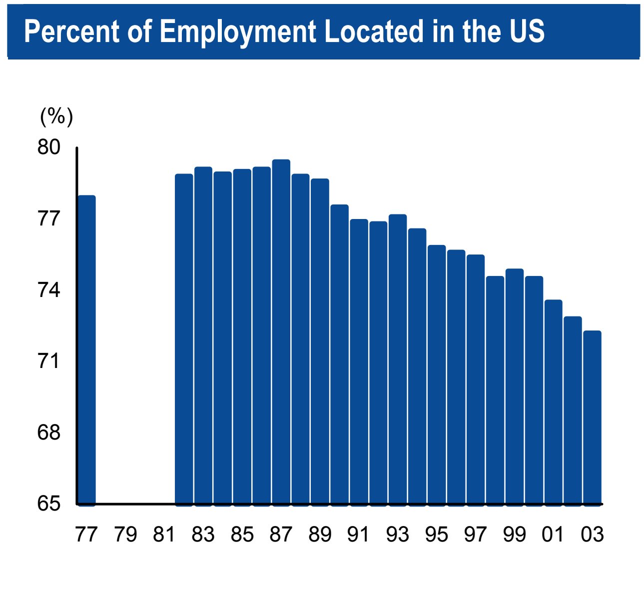
Display:

US Output and Employment at US Multi-National Companies



Source: Bureau of Economic Analysis; July 29, 2005



Source: Bureau of Economic Analysis; July 29, 2005

In 2003, 74% of all output produced by US multinationals was at home. While this is four points below 2000, it is only one below that of 1977.

Moreover, although the share of employment at US parent companies continues to edge lower, it is hard to make a case that firms are shifting jobs to overseas affiliates. That is because industries that are showing job loss at home—for instance manufacturing—also show job loss overseas. Meanwhile industries that are showing gains here are also showing gains at foreign affiliates.