Effects of Globalization on IT Services in the United States

Roslyn Swick
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Producer Price Index
US Report

- Research
- Company information
Outsourcing turnover by country not available

Beginning in 2006, affiliated trade available in US National Accounts

Affiliated transactions consist of intra-firm trade within multi-national companies—specifically trade between U.S. parent companies and their foreign affiliates and between U.S. affiliates and their foreign parent groups
## Research

### U.S. Cross-Border Trade in Services 2006-2007

(Millions of dollars)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Total private services</td>
<td>415,321</td>
<td>313,865</td>
<td>479,980</td>
<td>341,126</td>
</tr>
<tr>
<td>Unaffiliated</td>
<td>305,188</td>
<td>246,074</td>
<td>347,810</td>
<td>264,411</td>
</tr>
<tr>
<td>Affiliated</td>
<td>110,133</td>
<td>67,792</td>
<td>132,170</td>
<td>76,716</td>
</tr>
</tbody>
</table>
## Research

- Offshoring and offshore outsourcing
  - Business, Professional and Technical Services

### U.S. Cross-Border Trade in BPT Services
(millions of dollars)

<table>
<thead>
<tr>
<th>Service Type</th>
<th>2006 Exports</th>
<th>2006 Imports</th>
<th>2007 Exports</th>
<th>2007 Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>BPT services</td>
<td>89692</td>
<td>61068</td>
<td>107675</td>
<td>68763</td>
</tr>
<tr>
<td>Computer and information services</td>
<td>10341</td>
<td>13604</td>
<td>12728</td>
<td>14815</td>
</tr>
<tr>
<td>Management and consulting services</td>
<td>22058</td>
<td>19361</td>
<td>24699</td>
<td>20475</td>
</tr>
<tr>
<td>R&amp;D and testing services</td>
<td>12821</td>
<td>9429</td>
<td>14698</td>
<td>11437</td>
</tr>
<tr>
<td>Operational leasing</td>
<td>10389</td>
<td>1161</td>
<td>11664</td>
<td>1046</td>
</tr>
<tr>
<td>Other BPT services</td>
<td>34083</td>
<td>17513</td>
<td>43887</td>
<td>20990</td>
</tr>
</tbody>
</table>
Data comparability issues

Discrepancy Between U.S. and Indian Trade Data for BPT Services

- India BPT Exports to the U.S.
- US BPT Imports from India
Company Information

- Unscientific US survey of PPI respondents from IT services industry:
  - Outsourcing was a small part of their business and not likely to expand in the near term
Company Information

- Unscientific US survey of PPI respondents from IT services industry:
  - Problems with intellectual property laws/enforcement in developing countries limit outsourcing to technical/customer support, testing and development activities
  - Unique core processes (intellectual property) not outsourced, kept as in-house domestic operations or offshored to company owned/controlled subsidiaries
Unscientific US survey of PPI respondents from IT services industry:

- Largest globalization impact on prices is from fluctuations of the dollar relative to currencies of the countries in which IT services are marketed.
- Overall pricing strategies influenced by competitive conditions in US market.
Company Information

- Unscientific US survey of PPI respondents from IT services industry:
  - Outsourced services are the same or approximately the same quality as when produced domestically
As long as outputs are unchanged, the primary interest of an SPPI is to record transaction prices that are tied to the firm’s revenue function.
If a component of an IT service is offshore outsourced resulting in lower costs for the same service in period 2 compared to when produced domestically in period 1, any price change should be recorded in an output-based SPPI as a pure price change (no quality adjustment required). Any cost difference due to a shift to an outsourced transformation activity is irrelevant to output price measures if output remains unchanged.
Company Information

- Question about obtaining cost data for quality adjustment from outsourcers rather than sampled companies???

- For SPPIs, that data cannot be used for valuing quality for changes in services or outputs of sampled companies
Contact Information

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