

Effects of Globalization on IT Services in the United States

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Producer Price Index



US Report

- Research
- Company information

Research

- 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)

	2006 Exports	2006 Imports	2007 Exports	2007 Imports
Total private services	415,321	313,865	479,980	341,126
Unaffiliated	305,188	246,074	347,810	264,411
Affiliated	110,133	67,792	132,170	76,716

Research

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

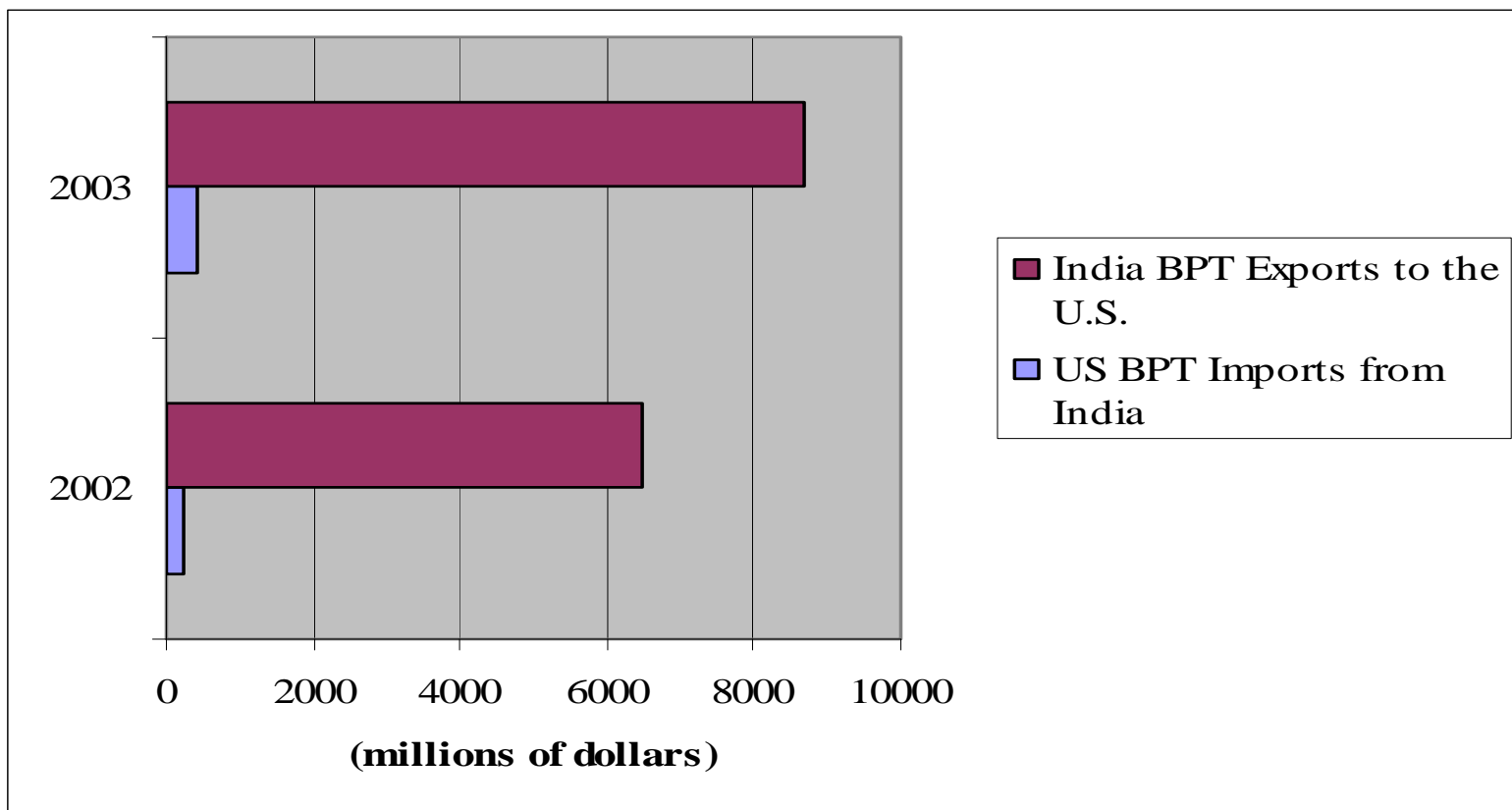
U.S. Cross-Border Trade in BPT Services (millions of dollars)

	2006 Exports	2006 Imports	2007 Exports	2007 Imports
BPT services	89692	61068	107675	68763
Computer and information services	10341	13604	12728	14815
Management and consulting services	22058	19361	24699	20475
R&D and testing services	12821	9429	14698	11437
Operational leasing	10389	1161	11664	1046
Other BPT services	34083	17513	43887	20990

Research

Data comparability issues

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



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

Company Information

- 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

Company Information

- 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



Company Information

- 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

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