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***Globalization:
Pressure Points in
a Competitive World***

Analysis and Evaluation

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Introduction

It's easy to see first-hand the impacts of globalization. On one hand, it is difficult to find certain products that are stamped "Made in the U.S.A.", and we have all seen headlines about job loss due to outsourcing to other countries. On the other hand, the United States exports more than any other nation and many foreign countries invest in U.S. companies because of the great growth potential.

Simply put, globalization impacts our economy in a variety of ways. While there are many positive aspects – such as sales growth arising from larger demand in a global marketplace and lower prices for buyers due to increased competition – there are also potential negative domestic results – such as job losses and decreased wages, production and profits – as we face increasing competition from cheaper labor and production abroad.

Exporting and foreign direct investment contribute significantly to Minnesota's economy. Minnesota's annual exports are estimated to be worth about \$18 billion, with a dominant portion of those in manufactured exports, which were valued at \$10.5 billion in 2003. The state's exports of agricultural commodities and related food products were valued at \$2.2 billion in 2002¹ and annual state exports of services are estimated at about \$6 billion.² In 2001, foreign-owned companies invested \$13.2 billion in gross plant, property and equipment in Minnesota across 796 affiliates employing 108,400 Minnesotans.³

This issue brief provides background on a few key economic globalization trends and is part of a more extensive study by the Minnesota Department of Employment and Economic Development (DEED) and Minnesota Technology, Inc. (MTI) to examine the impacts (both opportunities and adverse

consequences) of these trends on Minnesota businesses. The collaborative study will include background research; roundtable discussions with Minnesota businesses, policymakers and other interested parties; and a survey of Minnesota businesses likely to be affected by key globalization trends.

Controversy and concern over related issues such as environmental, cultural and legal impacts, and international implications of free trade agreements have fueled many public and policy debates. While these discussions are important, they are beyond the scope of this initial study. We will focus on the economic impacts of a few key globalization trends on businesses across major manufacturing and services industries in Minnesota.

Exporting, Import Competition and Outsourcing in Manufacturing

The opening of international markets through globalization has created many benefits for manufacturers and the domestic economy. Manufacturing exporters have been shown to experience greater sales growth and greater productivity gains; be more capital-intensive; and pay higher wages and salaries than their non-exporting counterparts. A study by the International Trade Administration of the U.S. Department of Commerce showed that 7.0 percent of private sector jobs were directly or indirectly supported by manufactured exports in Minnesota in 1997. Industries that indirectly support manufacturing include insurance, transportation and business services.⁴

However, businesses in manufacturing industries facing intense import competition have a different perspective. While increased import competition provides buyers with access to a broader variety of components, final goods and services, sometimes at significantly lower cost, domestic producers of competing products bear the burden of adjustment.

Studies have shown that certain manufacturing industries, such as electrical machinery and

¹ Sources: Manufactured exports data: Foreign Trade Division, Bureau of the Census, U.S. Department of Commerce and the University of Massachusetts at Amherst (MISER). Agricultural commodities and related products exports data: U.S. Department of Agriculture, Economic Research Service. The agricultural exports data includes some manufactured food products. Import data by state are not available.

² Estimate calculated by the Minnesota Department of Employment and Economic Development based on a share of national services exports, pro-rated based on Minnesota's share of national production of services.

³ Source: Bureau of Economic Analysis at the U.S. Department of Commerce, 2001 preliminary data.

⁴ Source: U.S. Jobs from Exports – A 1997 Benchmark Study of Employment Generated by Exports of Manufactured Goods. Office of Trade and Economic Analysis, International Trade Administration, U.S. Department of Commerce, February 2001.

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apparel, have been facing sustained bottom-line pressures from import competition. Increasingly, imports comprise a larger market share of that industry's U.S. production, and as a result, these U.S. industries have faced a high rate of job loss.⁵

Combined with weak employment growth in the general economy, increased reliance on international suppliers (offshore outsourcing) by major businesses has heightened discussions on the negative effects of increased globalization. While outsourcing to non-U.S. locations may offer substantial cost savings and production efficiencies for many businesses, employment security and high-wage opportunities for domestic workers have fallen.

A survey of manufacturers in Greater Minnesota conducted by MTI in January 2003 supports the difficult position of these firms. The survey revealed that many manufacturers in Greater Minnesota were facing increased competition from manufacturing facilities, particularly in China, where labor is cheap and plentiful, and other benefits-related costs, such as health insurance, are lower or not required. The businesses indicated that their sales were being adversely affected and as a result, their employment levels were declining.

The Trade Adjustment Assistance (TAA) Program and North American Free Trade Agreement (NAFTA) Trade Adjustment Program are one set of federal programs that assist workers who have lost their jobs due to increased imports or foreign competition in manufacturing industries. TAA services help workers re-enter the workforce and include training, job search allowances, relocation allowances, and cash benefits.⁶

Between 1999 and 2003, the U.S. Department of Labor investigated 254 petitions from Minnesota companies, and of these, 114 were denied and 114 were certified. Some investigations were terminated prior to decision while others are still pending.⁷

⁵ Kletzer, Lori. *Imports, Exports and Jobs*. 2002.

⁶ There has been criticism of the effectiveness of TAA in helping workers to re-enter the labor market. (www.heritage.org/Research/Labor/HL714.cfm)

⁷ Source: U.S. Department of Labor (www.doleta.gov/tradeact/determinations.cfm). Although other organizations cite high job loss numbers, the U.S. Department of Labor's TAA statistics are currently the only verifiable data available.

According to the Minnesota TAA administrator, the number of workers listed in certified petitions may include both jobs lost due to trade-related reasons (such as increased import competition or shifts in production to another country) and jobs lost due to reasons unrelated to trade. The trend in certified petitions may still provide some guideline as to the industries and geographic areas adversely impacted of globalization on workers.

The number of workers using TAA services in Minnesota has been increasing over the years. For example, the number of workers enrolled in TAA-funded training in Minnesota increased by more than 800 percent to 2,500 people and those eligible for basic Trade Readjustment Allowances (cash benefits) increased by 188 percent to 425 workers between fiscal year 2001 (Oct. 1, 2000 to Sept. 30, 2001) and fiscal year 2003 (Oct. 1, 2002 to Sept. 30, 2003).⁸

However difficult these trade-related job losses are, it should be noted that in the context of the state economy, they comprise a relatively small proportion of overall job losses. Factors such as the business cycle, structural industry changes and technology improvements play a more influential role. In 2001, more than 180,000 workers lost their jobs through business contractions and terminations. In total, non-farm private employment in Minnesota decreased by about 36,300 jobs between 2000 and 2003, to 2.2 million in 2003. Manufacturing employment, which bore the brunt of job losses during this period, declined by 50,000 jobs.⁹

Offshore Outsourcing in Services Occupations

Outsourcing to non-U.S. locations is increasingly being extended to services industries and occupations. Initially, lower-skill jobs (in areas such as call centers and billing and credit card processing) were outsourced to companies in foreign countries. In contrast to the perception by many college-educated U.S. workers that these types of jobs are less desirable, college-educated workers in countries such as India and the

⁸ Source: Minnesota Department of Employment and Economic Development (DEED) (www.mnwfc.org/programs/taa.htm).

⁹ Source: Minnesota Department of Employment and Economic Development, Current Monthly Employment (CES).

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Philippines apply for these job opportunities in plentiful numbers.

Improvements and the declining costs of telecommunications technology have enabled increasingly seamless and smooth networking between an international contractor of services and a U.S.-based employer. As a result, offshore outsourcing has increasingly affected jobs involving more skill and knowledge that U.S. workers had long considered protected from this globalization trend.

Services provided by white-collar professional workers in areas such as IT support, architectural services and engineering are increasingly being hired abroad to take advantage of cost advantages and abundant well-trained labor. The annual supply of new well-educated and English-speaking college graduates, particularly in science-related fields, is significantly higher in countries like India and China than in the United States. The negative impact of this globalization trend on U.S. workers is causing much anxiety in the labor force, labor groups, businesses, and public policymakers.

Roundtable Discussions

Direct conversations with key stakeholders are important to gain insights on experiences with the vast range of globalization trends in Minnesota and to help guide the development of the survey instrument. Individuals from private businesses; legislators; academia; and other interested parties were invited to share their experiences and interactions with globalization.

Representatives from businesses of various sizes, industries, and locations throughout the state covered a variety of viewpoints during these roundtable discussions. In total, 13 individuals, including people from Greater Minnesota and a variety of manufacturing and services, attended two roundtable meetings, either in person or via teleconferencing.

Roundtable guests highlighted several themes. Original equipment manufacturers (OEMs) – those who produce proprietary products – and contract manufacturers supporting OEMs experience globalization pressures differently. Contract manufacturers – those who supply customized and

non-customized products to other businesses on a contractual basis – face stiff competition on cost from foreign competitors, primarily based on wage differences.

Those contract manufacturers who also possess a proprietary production process may have an advantage over those who do not. A focus on quality of production, productivity improvements, ongoing capital investments, proprietary production processes and nurturing personal business relationships also helps U.S.-based suppliers to compete.

Because of global economic trends, manufacturers may have access to inputs (raw materials or components) from foreign sources at prices that significantly reduce their production costs. Some participants noted that finding high quality and highly reliable foreign suppliers involved extensive searching.

Some participants suggested that manufacturers in Greater Minnesota face significantly more challenging business positions than their Twin Cities counterparts when examining globalization trends. Specifically, they said they were more affected by factors such as funding cuts to education and retraining programs, a less developed transportation infrastructure, the lower availability of training programs and of skilled labor as people move to the Twin Cities.

Next Steps

Although background research and the roundtable discussions identified some key issues, a comprehensive understanding of the impacts of key economic globalization trends requires a more thorough assessment of Minnesota businesses' experiences. Many of these businesses will soon receive a survey asking about the impact of exporting, import competition and outsourcing to non-U.S. locations on their operations, wages and employment levels. The analysis should be completed in early spring.