



Investing abroad doesn't mean fewer jobs at home

The Effects at Home of Initiating Production Abroad

By Alexander Hijzen, Sebastien Jean and Thierry Mayer

Firms that set up production facilities in foreign countries are likely to boost employment back home rather than damage it, new research has revealed.

Popular fears over “offshoring” – one of the most controversial trends of the globalisation process – hold that it leads to net job losses in the nation that sends work abroad.

But this study shows many of the preconceptions about the phenomenon are misplaced.

In fact, manufacturers that invest in high-income countries increase domestic employment in the parent firm in comparison to the effect of not investing abroad.

And manufacturers that invest in low-income countries – the source of “cheap labour” accusations from offshoring’s critics – might also enjoy similar benefits.

On average a parent firm that invests abroad enjoys a 16% increase in domestic employment in the first three years after deciding to become a multinational.

Research basis

Using a rich firm-level dataset, the study examined how the decision to offshore affected French companies during the period from 1987 to 1999.

To deal with cause and effect, the outcomes for those firms that chose to invest abroad were compared to the outcomes for those that elected not to.

The findings of the research echo the results of a groundbreaking GEP study last year into offshoring’s effect on UK firms.

Key findings

- Manufacturers that invest in high-income countries are usually seeking to increase their market share.
- Such investments have a significant positive impact on employment in the parent firm and do not significantly change the way in which it organises its production process.
- Manufacturers that invest in low-income countries are usually seeking production savings.
- Contrary to popular perceptions, such investments do not lead to net job losses. If anything, they have a positive – though not significant – impact on employment in the parent firm.

Comments and implications

Study co-author Dr Alexander Hijzen said: "Concerns about the potential negative employment impact of relocation production abroad – offshoring – have been repeatedly expressed for years.

"Fears have been heightened further by the feeling that services industries, which are often considered to be relatively skilled, are no longer invulnerable to the phenomenon.

"Anecdotal evidence of job displacement may abound, but our systematic analysis shows initiating production abroad is not detrimental to a parent firm's employment.

"Our findings show once again that the fears of relocation, as expressed in public debate, stand in contrast to the empirical evidence.

"Of course, while relocating production abroad is found to increase firm employment, this does not necessarily mean workers do not encounter significant adjustment difficulties.

"Previous research has shown offshoring is associated with increasing skill demands, suggesting that some of the workers whose jobs are lost due to the relocation of activities abroad may still lack the qualifications required by the new jobs that are created.

"These findings also show that differentiating between investment strategies is crucial if one wants to grasp the effects of offshoring in the home country."

About GEP

Based at the University of Nottingham and substantially funded by grants from the Leverhulme Trust, GEP is the major centre in Europe studying the impacts of globalisation and economic policy.

In January 2008 it opened GEP in Malaysia at the University of Nottingham's purpose-built Semenyih campus, 30km from Kuala Lumpur. In November 2008 it launched GEP in China at the University of Nottingham, Ningbo, China.

GEP is keen to promote its research work and is committed to communicating its expertise. Its academics have advised the Treasury, the OECD, the World Bank and the WTO.

Website: www.gep.org.uk

Study co-author

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Alexander Hijzen joined the Nottingham School of Economics in 2003 as a GEP Research Fellow. He was awarded an ESRC Post-Doctoral Fellowship for the year 2004/2005.

He is now working in the Employment Analysis and Policy Division of the Organisation for Economic Co-operation and Development, studying the implications of globalisation for labour markets. He retains an External Research Fellowship with GEP.

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