



Highlights of [GAO-04-932](#), a report to congressional requesters

## Why GAO Did This Study

Much attention has focused on the topic of “offshoring” of information technology (IT) and other services to lower-wage locations abroad. “Offshoring” of services generally refers to an organization’s purchase from other countries of services that it previously produced or purchased domestically, such as software programming or telephone call centers.

GAO was asked to (1) describe the nature of offshoring activities and the factors that encourage offshoring, (2) discuss what U.S. government data show about the extent of this practice by the private sector and federal and state governments, and (3) discuss available data on the potential effects of services offshoring on the U.S. economy.

## GAO Observations

While we make no recommendations at this time, we observe that the reasons for the growth in offshoring are relatively well understood, but less is known about the extent and the policy consequences of this activity. To assess changes which occur in a dynamic economy, federal statisticians and other researchers use and sometimes modify existing data series and develop new measures to provide further insight into the extent of the phenomena as well as the longer-term implications. GAO will continue to monitor the statistics and other dimensions of offshoring in order to provide Congress with information it needs in its policy deliberations.

[www.gao.gov/cgi-bin/getrpt?GAO-04-932](http://www.gao.gov/cgi-bin/getrpt?GAO-04-932).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347 or [yagerl@gao.gov](mailto:yagerl@gao.gov).

## INTERNATIONAL TRADE

# Current Government Data Provide Limited Insight into Offshoring of Services

## What GAO Found

No commonly accepted definition of “offshoring” exists, and the term has been used to include various international trade and foreign investment activities. Services that U.S.-based organizations purchase from abroad are considered imports. They may also be linked to U.S. firms’ investments overseas—for example, U.S. firms may invest in overseas affiliates as a replacement for, or as an alternative to, domestic production. In recent years, services offshoring has been facilitated by factors, such as the Internet, infrastructure growth in developing countries, and decreasing data transmission costs. Organizations’ decisions to offshore services are influenced by potential benefits such as the availability of cheaper skilled labor and access to foreign markets, and by risks, such as geopolitical issues and infrastructure instability in countries that supply the services.

U.S. government data provide some insight into the extent of services offshoring by the private sector, but they do not provide a complete picture of the business transactions that the term offshoring can encompass. Department of Commerce data show that private sector imports of some services are growing. For example, imports of business, professional, and technical services increased by 76.8 percent from \$21.2 billion in 1997 to \$37.5 billion in 2002. From another perspective, Commerce’s data also show that in 2002 U.S. investments in developing countries that supply offshore services were small compared to those in developed countries and that most services produced abroad are sold primarily to non-U.S. markets. Regarding public sector offshoring, the total dollar value of the federal government’s offshore services contracts increased from 1999 through 2003, but the trend in the dollar value shows little change relative to all federal services contracts. No comprehensive data or studies show the extent of services offshoring by state governments.

Government data provide limited information about the effects of services offshoring on U.S. employment levels and the U.S. economy. The Department of Labor’s Mass Layoff Survey data show that layoffs attributable to overseas relocation represent a small fraction of overall total mass layoffs. However, the survey identifies only a portion of total layoffs because the survey does not cover establishments with fewer than 50 employees. Other government data show greater than average job declines since 2001 in occupations and industries commonly associated with offshoring, but other factors, such as the recent recession, may contribute to these declines. Some private researchers predict that offshoring may eliminate 100,000 to 500,000 IT jobs within the next few years, while others note that offshoring can also generate benefits, such as lower prices, productivity improvements, and overall economic growth.

The Department of Commerce commented on a draft of this report, noting its general agreement with the information we provided.