BTC Brief
BUDGET & TAX CENTER
July 2012

north carolina JUSTICE CENTER

GOING, GOING, GONE:

Offshoring, Job Losses, and the North Carolina Economy

BY ALLAN M. FREYER

KEY FINDINGS

- **In the quest for global competitiveness, firms often seek to reduce labor costs by "offshoring," defined as the movement of production—and jobs—away from relatively high-wage, advanced economies like those in United States to less-developed countries with lower wage wages and weaker labor standards.**
- **While offshoring has contributed to record corporate profits, the consequences for North Carolina have been the most sluggish economic recovery in 30 years, and the emergence of a two-tier labor market with low-wage jobs and high-wage jobs, but little in between.**
- **Offshoring to China cost North Carolina more than 107,000 jobs from 2001 to 2010, and offshoring to Mexico cost the state 26,500 jobs in 2010 alone. Absent these job losses, North Carolina would have almost completely returned to its employment levels before the Great Recession.**

OVER THE PAST 30 YEARS, and especially during the last decade, North Carolina has experienced a significant economic transformation away from the state's legacy manufacturing industries—which often provided secure mid-level wages and a path to middle-class prosperity—towards a two-tier labor market characterized by growth in low-wage jobs and high-wage jobs, but little in between. In large part, this transformation is the result of a revolution in production and communication technologies, new national trade policies, and the emergence of an intensely competitive global market, all of which have worked together to promote the reduction of labor costs through offshoring, or the movement of comparatively high-wage domestic production and employment to lower-wage regions overseas. As a result, the offshoring of domestic employment has resulted in significant job losses within North Carolina—especially due to the state's reliance on those legacy industries most likely to be offshored—and a stagnant recovery from the Great Recession.

Contact:
ALLAN M. FREYER
Public Policy Analyst
919/856-2151
allan@ncjustice.org

Budget & Tax Center
a project of the
north carolina JUSTICE CENTER
P.O. Box 28068
Raleigh, NC
27611-8068
www.ncjustice.org

Background

Since New England textile manufacturers first began building mills in the rural Carolinas in the early 1800s, policy makers, business owners, and workers across the nation have grappled with the mobility of capital—the ability of firms to leave their existing locations and move to regions with cheaper costs of production, and thus better profit margins. For much of the past 200 years, southern states like North Carolina have largely benefitted from capital mobility. Over the past 30 years, however, the region's comparative advantage has steadily eroded, as changes in technology—including flexible production techniques, just-in-time logistics, and the rise of the internet—and national trade policy—especially the North American Free Trade Agreement (NAFTA) and incorporation of China into the World Trade Organization (WTO)—have spawned an intensely competitive global marketplace, in which firms can search the world for the most cost-effective locations for various parts of their operations.

In the quest for cost-effectiveness, firms in the global marketplace often seek to reduce labor costs by "offshoring," the movement of production—and jobs—away from relatively high-wage, advanced economies like those in United States to less-developed countries with lower wages and weaker labor standards. While offshoring has clearly contributed to record corporate profits over the past 20 years, the consequences for many American communities have been devastating, with large-scale plant closures, mass layoffs, and long-term unemployment.[1]

Although these consequences have been evident across the United States since the 1980s, North Carolina's experience has largely been shaped by its historical dependence on the three so-called legacy industries of textiles, tobacco, and furniture manufacturing. Over the past three decades, and especially since the 2002 recession, these mid-wage industries crumbled under the pressure of foreign competition, contributing many of these firms to close altogether or engage in extensive offshoring, leading to a significant restructuring of the state's employment base away from traditional manufacturing and into the services sector.

Offshoring and Jobs in the North Carolina Economy

In North Carolina, offshoring has had a significant, direct, and negative impact on the state's economy over the past decade, clearly contributing to stagnant wage growth and job creation during the 2000s, and especially to the state's sluggish recovery from the Great Recession. First, job losses related to trade deficits with China and Mexico in particular have exacerbated the anemic pace of job creation and the inability of the state's labor market to return to pre-recession employment levels. Defined as the difference between the value of US exports to a particular country and the value of the goods imported from that country, trade deficits represent an excellent measure of offshoring since every dollar imported from another country is a dollar that would otherwise be produced by an American worker, serving to displace American workers who would have otherwise produced the imported good. Although US exports created jobs in North Carolina, it is important to note that the job losses due to foreign imports more than offset these minimal gains, according to a recent study by the Economic Policy Institute. For example, offshoring related to US trade deficits with Mexico (the nation's largest trading partner) created 26,600 jobs through exports in 2010, but resulted in the displacement of 44,900 jobs through imports, resulting in a net loss of 26,000 jobs related to offshoring in that year.[2]

Similarly, trade deficits with China from 2001 (the first full year after China's accession into the WTO) to 2010 resulted in the combined loss of 107,800 jobs in North Carolina, an average of 10,780 per year. These job losses amounted to 2.6 percent of the state's average employment over the past decade.[3] As seen in Exhibit 2, the

Budget & Tax Center

a project of the

north carolina JUSTICE CENTER

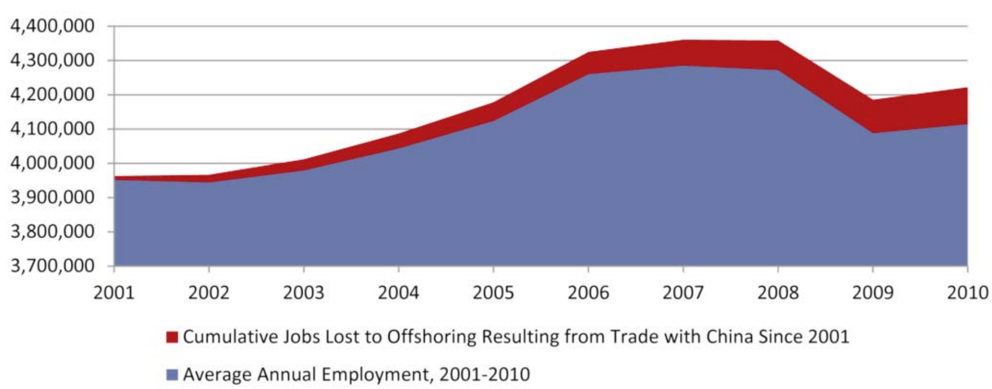
P.O. Box 28068
Raleigh, NC
27611-8068

www.ncjustice.org

job losses related to offshoring has dramatically lowered the state's employment levels compared to where they would have been had those jobs not been sent overseas. Indeed, absent the job losses from 10 years of offshoring, the state's employment would have totaled about 4,220,000 in 2010, just 65,000 jobs below the state's pre-recession employment levels in 2007. In other words, North Carolina would have almost recovered from recession-related job losses by 2010, mirroring the other recoveries of the recent past.

A second consequence of offshoring for North Carolina's recovery involves the state's reliance on those specific industries which nationally experienced the greatest amount of offshoring. Given the state's heavy reliance on these industries, the extent to which they were offshored disproportionately impacted the state's employment base. For example, offshoring to China accounted for 1.9 million jobs lost in the national Manufacturing sector from 2001-2010—one of North Carolina's largest sectors—representing 69 percent of all jobs displaced by trade with that country. Within manufacturing, Textile Mill Products, Textiles & Fabrics, and Apparel & Accessories—historically, all North Carolina specialties—combined for almost 10 percent of total China trade-related job losses. Another key industry in the state, Plastics and Rubber products accounted for another 2.2 percent of all job losses resulting from China offshoring.[4] Additionally, North Carolina's emerging industry strengths in Life Sciences, Biotech, and Aerospace—industries that are typically considered the wave of the future—were hit especially hard by the Chinese trade deficit. In 2010, for example, the United States had a $94.2 billion trade deficit in these advanced technology products with China, accounting for 34 percent of the trade deficit with that country.[5] This suggests that even the North Carolina's "emerging" industries are also endangered by offshoring in general, and trade with China in particular.

FIGURE 1: North Carolina's Employment and Jobs Lost to China Offshoring , 2001-2010



Offshoring and Stagnating Wages

Offshoring in North Carolina has been accompanied by the emergence of a two-tier labor market, in which many workers in offshored industries—particularly manufacturing—are increasingly shunted into fast-growing low-wage and low-skill occupations, including Food Preparation (which pays $8.27 an hour), Home Health Aides ($9.73 an hour), and Cashiers ($8.50 an hour).[6] At the same time, the state is seeing growth in high-wage and high-skill occupations like Nurses, Physicians, Office Managers, and Post-Secondary Teachers, which pay between $22.01 and $41.12,[7] which require significant training and education. Unfortunately, there is little growth in the middle-wage, middle-skill occupations in between, like those traditionally associated with manufacturing that provided a reasonably secure path to middle-class prosperity. As a result, offshoring has contributed to wage stagnation and limited career mobility over the past decade.

Budget & Tax Center

a project of the

north carolina JUSTICE CENTER

P.O. Box 28068
Raleigh, NC
27611-8068

www.ncjustice.org

Conclusion

As North Carolina continues its long-term transformation away from an economy rooted in traditional manufacturing, offshoring will continue to present challenges to building an employment base capable of supporting the state's workers and their families. Technology, trade policies, and a global economy have rendered the state less competitive in terms of the labor costs associated with its workers—Mexico and China will always pay lower wages—but given its historic strengths in education, training, and Research Triangle Park, North Carolina unquestionably can compete with these low-cost nations on the basis of labor quality, giving firms the most efficient and highly-skilled workers available. Ultimately high-quality of labor can prove just as cost-effective as low-cost labor for firm productivity and profitability, and as a result, can provide an important antidote to the offshoring challenge.

1 Mishel, Lawrence and Shierholz, Heidi. (2011). Sustained High Joblessness Causes Lasting Damage to Wages, Benefits, Income, and Wealth. Economic Policy Institute.

2 Scott, Robert. (2011). Heading South: US-Mexico Trade and Job Displacement After NAFTA. Economic Policy Institute. Washington, DC.

3 Scott, Robert. (2010). Growing US Trade Deficit with China Cost 2.8 million Jobs Between 2001 and 2010.. Economic Policy Institute. Washington, DC.

4 Ibid.

5 Ibid.

6 Sirota, Alexandra. (2011). Making Ends Meet After the Great Recession: The 2010 Living Income Standard for North Carolina. NC Budget & Tax Center.

7 Ibid.

Budget & Tax Center

a project of the

north carolina JUSTICE CENTER

P.O. Box 28068
Raleigh, NC
27611-8068

www.ncjustice.org