Journal of Good Governance and Sustainable Development in Africa (JGGSDA), Vol. 7, No 3, 2023. Available online at http://journals.rcmss.com/index.php/jggsda**. Covered in Scopedatabase-**
https://sdbindex.com/Sourceid/00000431, google scholar, etc. **ISSN: 2346-724X (P) 2354-158X (E).**
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External Production and Employment: The United States Experience

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Abstract

This work titled external production and employment: the United States experience view external production as expansion of firm's activities and market penetration to enable multinational enterprises enjoy economies of scale, larger market share as well as seek strategic assets capability and repatriate earnings to home countries. The objective of this work was to examine the effect of external production on employment in the United States with specific objectives of assessing the effect of market penetration on job losses in the US and to examine the relationship between total US imports on job creation. The study adopted a descriptive assessment of previous works on US job losses. Findings from the study revealed that external production by the US MNCs has aggravated unemployment and that external production by US MNC has a significant negative effect on US imports in balance of payment. The study recommended that US government should put in place measures that will restrict their MNC from leaving their shores for search of natural resources, cheap labour and market for finished products therefore providing jobs that may be taken to external markets.

Key Words: External, Production and Employment.

Introduction

Externality of production is used when companies that have their origin in a domestic market decide to move their production plants abroad to produce and export to the home country where they originate. Externalities often occur when goods that are supposed to be produced within are shifted out through FDI basically for availability of cheap labour and raw material needed for the production of such goods and services where the market forces of demand and supply dictates where they will be exported to for consumption. This impact negatively on employment generation function of such companies on their parent country as witnessed in the United States recently (CFI TEAM, 2023).

However, the link between international trade and U.S. employment is a troubled issue in public deliberation. Today, 74 percent of the public come to an agreement that trade provides considerable benefits to the economy, and more than half believe it has a positive influence on U.S. workers. At the same time, President Trump's trade policy which has centered around taxing momentous new tariffs on our trade allies – opposes this public sentiment. Likewise, most Democratic candidates in the 2020 presidential series contended in favor of trade blockades to protect U.S. workers from transnational competition (Varas, 2020).

This contrast is not novel. While most agree that trade provides considerable paybacks to consumers, considerable dissimilarity exists over its impact on workers. This debate flowed in the stir of China's rise to the World Trade Organization (WTO) in 2001, an event referred to as "the China Shock." In the decade ensuing China's WTO entrance, China's exports to the rest of the world almost doubled

in real terms. This trade liberalization caused major changes to international trade flows and momentous shifts in local labor markets, causing observers to question the benefits of trade liberalization.

Background of the study

Import competition from low- wage countries can worsen labor market conditions in high income countries and undermine the sustainability of free global trade. Most of the research surrounding the emergence of China as a world manufacturing hub has negative impact on the U.S. labor market in highly tradable sectors such as manufacturing. One of the most protuberant studies by David H. Autor, David Dorn, and Gordon H. Hanson (2022). By analyzing the impact of rising imports from China on U.S. manufacturing employment from 1990 to 2007, they found that a $1,000 per-worker increase in import exposure was predicted to reduce manufacturing employment by 0.6 percentage points per working-age population – results that explained 44 percent of the decline in manufacturing employment over the time frame.

On the other hand, other enquiry suggests that China's entry to the WTO produced substantial benefits for U.S. consumers. One study projected that, after the China Shock, 97 percent of Americans experienced increases in their real income due to lower-cost Chinese goods, while another found that consumer prices in the United States fell 2 percent as a direct result of the China Shock.

Evidence about the general labor-market impacts of increased trade with China points in a number of directions. According to one study, almost 36 million U.S. jobs were linked to total U.S. trade in 2016, with approximately 7,000 jobs overall directly supported by trade with China. This shows that jobs that could have been created if these companies were to be producing inside America were pushed to China. The Federal Reserve has also found that, while imports from China led to the loss of about 800,000 manufacturing jobs from 2000 to 2007, lower-cost goods from China many of which are used in domestic production – created a similar number of jobs in other sectors of the economy. When also considering the jobs lost, the new jobs that trade with China created provided a net benefit to consumers' incomes Varas, (2020).

There is no dearth of research on the labor market implications of imports, especially surrounding the China- US trade relation. Most agree, however, that the China Shock ended in the late 2000s: Real U.S. import growth from China slowed from an average annual rate of 15 percent from 2002 to 2010 to 5 percent after 2010. Furthermore, rising wages in China, due to both demographic challenges and institutional reforms, have weakened it as a source of cheapened labor. Given the indication that global trade has accustomed to a new norm, experts believe that the China shock ended in total by 2010.Taking these factors into consideration, the following analysis examines the impact of foreign production on employment after the United States had fully adjusted to the China shock in 2010 Mody, and Murshid (2002).

Statement of the problem

External production is aimed at expansion of firm's activities and market penetration to enable multinational enterprises enjoy economies of scale, larger market share and repatriate earnings to home countries. Owing to high labour and production cost most MNC in the highly industrialized nations moved most of their manufacturing companies to foreign markets so as to enjoy cheap labor and low production cost for their products. However, this led to job losses in the home country of such MNC thereby creating rising unemployment as it is the case with United States of America. It is against this background that this research seeks to examine the effect of external production on employment concerns in the USA.

Methodology: This paper uses practical analysis of scholarly works that contribute to the debate on US companies FDI, by assessing the impact of foreign direct investment/ external production on job loss and imports on the U.S balance of payment problem and how it affects the economy of United States of America

Objectives of the Study:

The broad objective of this work is to examine the effect of external production on employment in the United States. Its specific objectives are:

i) To assess the effect of market penetration on job losses in the US

ii) To examine the relationship between total US imports on employment generation in the US

Research questions:

To achieve the objectives of this research work, these questions were used in order to enable the researchers provide answers to them as follows:

i) Is there any significant effect of market penetration on job losses in the US?

ii) What is the effect of import on employment generation by manufacturing companies in the US?

Literature Review

Generally, multinational enterprises go external because they want to grow or expand operations. The benefits of entering international markets include generating more revenue, competing for new sales, investment opportunities, diversifying, reducing costs, strategic assets capability enhancement and recruiting new talent. Going across borders is a strategy that is influenced by a variety of factors and is classically realized over time. Sometimes, a government will incentivize companies to enter their country's market in determination to build their economies. This motive is illustrated in the diagram below.

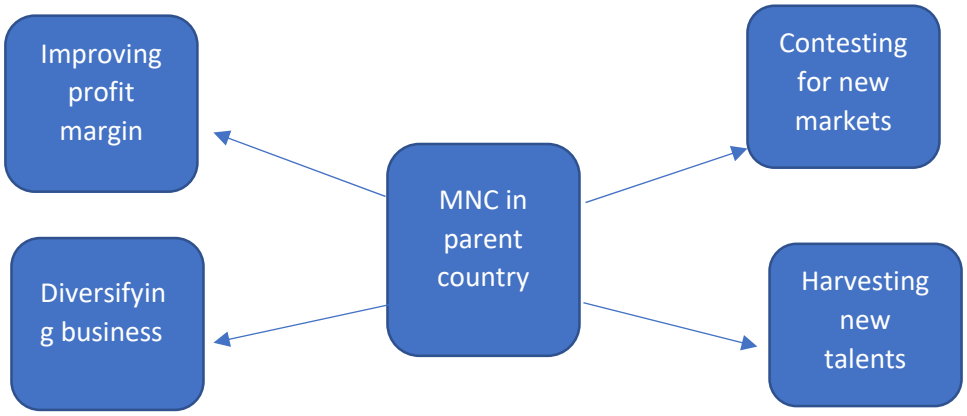

FIG.1 ANALYTICAL MOTIVE OF MNC EXTERNAL PRODUCTION

IMPROVING PROFIT MARGINS

Improving profit margins is one of the most shared reasons for expanding to international markets. When growth strategies are used up on the national level, the next trail is often to seek out international growth. Distributing a company's products in other countries increases its customer base. As a company offer compelling solutions and shape loyalty across international markets, revenue fortifies and escalates as well (Woodruff, 2020).

There are also substantial cost savings that can be associated with going international. A company may want to reduce costs by relocating closer to a supplier or benefit from lower production costs by expanding operations to another country. Doing business internationally may open up new investment opportunities. Moreover, a lower cost of acquiring customers may be another motivating reason to expand internationally.

CONTESTING FOR NEW MARKETS/SALES

Closely related to the goal of improved profit margins is the desire to boost sales. Even if MNC operators generally are satisfied with revenue levels, international extension can further improve overall revenues and strategic assets capability. The desire to expand internationally is often around gaining a presence in foreign markets. Being the first to arrive in a new market can provide substantial advantages (woodruff, 2020).

If you don't enter a suitable market with your key, competitors do. Not only do you miss the revenue source, but you lose out on other valuable assets that you could use to promote your firm at home and abroad. In some cases, a strong domestic company gets overrun by a lesser player that succeeds globally and grows big through global synergy. It is pertinent to note that in the modern economy, many companies are already global hub to technology. Companies develop definite international strategies in order to gain competitive advantages in the new global market order.

DIVERSIFYING THE BUSINESS

This is one international expansion strategy that allows a company to diversify its business in a couple of key ways. First, it enables companies to spread the risk of slowing demand across multiple countries. If one market never gains or loses interest in business offerings, firms can pick up the slack with success in other countries. In addition, companies can connect with suppliers in international markets and take advantage of raw materials and resources unavailable in domestic markets. In

addition, companies often improve innovation and develop more variations of their solutions when they operate in multiple countries. Product diversification similarly protects MNC from the risks of declining interest in a particular item Yao, (2006).

RECRUITING NEW TALENT

Operating in global competitive markets also gives businesses access to a larger and more diversified talent pool. Employees who speak different languages and understand different cultures enhance connections with a broader customer base. Having an international brand that is well reputed will trigger top talent to the company. Businesses can also structure global work teams in a way that allows for collaboration in building a global brand Tsai, (1994),

UEMPLOYMENT IN THE US

"There's a perception that people who are out of work or laid off are not the top performers within an organization. The perception from a potential employer would be, 'If a company really wanted somebody, if they had their best employees, they're not going to be laying those folks off. They're going to be laying off possibly the poor performers.' Now that's obviously not always the case. A company could lay off people because of a wide variety of reasons. But there is that perception." (Amadeo & Robert 2022).

Covid-19 has ravaged employment in the United States, from temporary leave to outright layoffs. Currently, over 4 million Americans have been out of work for six months or more, including an estimated 1.5 million workers in white-collar occupations, according to report, yet the overall unemployment rate is low from its peak recently, but the percent of the unemployed who are long-term unemployed (LTU) keeps increasing and is currently at over 40%, a level of LTU similar to the Great Recession but otherwise unseen in the U.S. in over 60 years. The causes of the Great Recession and Covid-19 job crises differ, of course. But the stigma attached to LTU will likely be similar, particularly for knowledge workers and older workers. Nowadays that the United States is facing another growing unemployment crisis, in addition to an aging population, understanding the sociological effects of LTU is critical for determining a response both for organizations and for individuals who lose their jobs (Ofer, 2021).

The current unemployment rate, which measures the percentage of workers who want a job but don't have one, has remained low as the U.S. economy continues to rebound from COVID-19. The Bureau of Labor Statistics tracks unemployment and jobs on a monthly basis. The current unemployment rate reveals more about the state of the overall economy and its impact on the average American's finances. The rate of unemployment in November 2022 was 3.7%, on equivalence with pre-pandemic levels. That number been same as it was in October, and unemployment has remained within the range of 3.5% to 3.7% since March. Generally, there were 6 million unemployed people. In November, 263,000 jobs were added to the market, and the labor force participation rate didn't change much at 62.1% (Amadeo & Robert, 2022). When businesses are hiring, wages rise and fewer people are unemployed but due to foreign production in the US that might not certainly be the case (Amadeo & Robert, 2022).

The inverse relationship between low levels of unemployment and high levels of inflation has been studied using the Phillips Curve since 1958.The Federal Reserve is classically trying to help companies clasp a break by raising interest rates, but in doing so also makes borrowing more expensive for consumers and businesses alike. High interest rates make it more expensive for

individuals to survive, and for businesses to invest in equipment or more employees, which harms the job market Khawar, (2005).
It is pertinent to note that the unemployment rate is a lagging pointer. It tells you what has already happened, since employers only lay off workers after business slows down. Companies battle hiring new workers when a recession is over, until they can be sure that the economy will revamp. The economy could recover for months, and the recession may be over before the unemployment rate drops. It's not appropriate for predicting trends, but it's useful for confirming them.

Balance of payment Deficit arising from US imports:

Manufacturing sector employment in the U.S. weakened nearly 20 percent from 2000 to 2007, even before the Great Recession, it is on record that this sharp decline correlated with a worsening U.S. trade balance and a growing trade deficit with China. However, the global comparative advantage in manufacturing has been shifting away from the U.S. since World War II. Following the war, it shifted to recuperating countries such as Germany and Japan. It gradually shifted to the so-called Asian Tigers in the 1970s and 1980s, and then to China. But while the total U.S. goods trade deficit with Asia has been increasing, its share of the U.S. deficit has been declining, in 1991, the East Asian and Pacific region (which includes China) accounted for more than 80 percent of the total U.S. goods trade deficit. That now stands at around 65 percent, despite China's rise as the largest supplier of goods to the U.S. Kehoe, Ruhl, & Steinberg, (2018)

Consequently, the rise of China since the late 1980s especially after joining the World Trade Organization (WTO) in 2001 has not increased the total share of Asia's contribution to the U.S. trade imbalance; China simply substituted out other Asian economies by taking their positions," Wen and Reinbold (2019). So, even though China's share in total U.S. trade deficits increased from around 15 percent in 1991 to 45 percent around 2016, it has not amplified the total share of Asia's trade position with the U.S. The rise of the U.S. dollar as an international reserve currency and a shift in comparative advantage in manufacturing are key economic changes driving the large U.S. trade deficit. Thus, making foreign production pose economic threats to the US economy than ever before. Given this perspective, a trade war with China may not necessarily solve the U.S. trade imbalance problem, as a result of three likely outcomes from an extended trade conflict with China, none of which are likely to increase U.S. exports and reduce its trade deficits (Ofer,2021).

1. Chinese imports becoming more expensive
2. U.S. trade deficits shifting to other countries with similar comparative advantages in producing labor-intensive goods
3. U.S. exports to China becoming more expensive as a result of China's retaliation these and other reasons necessitated Trump to call on MNC with US origin to fold up their foreign business back to the US in order to correct such imbalance.

Technology Transfer:
The technological gaps between rich and poor countries have been stressed in much recent writing on development. It has been argued, for instance, that if only the world's available technological knowledge could be transferred to less-developed countries, « their socio-economic transformation can be carried out rapidly. At the same time, the central role of multinational corporations (MNC's) in development and transfer of such knowledge has been recognized. This role, in turn, has been seen as a major justification for less-developed countries' encouraging MNC's to undertake production in their economies. It suggests: first, that there are some rather particular economic factors that explain

the central MNC role in technology transfer; second, that these factors underlie important problems that MNC technology transfer generates in developing economies; and third, that these problems underlie patterns of political economy in many developing states that themselves inhibit and distort broadly-based, widely-shared economic progress. The focus of analysis is primarily the MNC transfer of manufacturing technology (Mody & Murshid,2002).

The Economics of Knowledge Transfer

Technology in its broadest sense may be considered to be specialized knowledge related to production; that knowledge may relate to the process of production (as in innovations in how a given product is made), or to products themselves (as in innovations of new products or product modification). In either case, the focus is on knowledge or information. Knowledge, as Boulding notes, is a peculiar economic commodity, in that once it is developed, it may be passed on without thereby reducing one's own supplies of it. Patent systems establish property rights over such knowledge, but that only adds the complications. On the one hand, the sale price a patent owner might establish for his knowledge is indeterminate since he incurs no production costs for each license he sells. While on the other hand, the buyer of the know ledge has, virtually by definition of the commodity highly imperfect information as he makes his purchase; its value for the purchaser is not known until he has the information, but then he has in effect acquired it without cost. The range of prices that might result in any such exchange could therefore be very wide. The lowest acceptable price for the seller could be virtually zero, while the highest acceptable price for the purchaser could be just less than the (probably) high cost of developing the knowledge himself; in the technology case such costs of producing innovation may often be extremely high costs of reproducing innovation may often be extremely high. This exchange ambiguity can be overdone. There is some competition among sellers of technology, and purchasers can hire consultants to advise on the likely value of different technologies offered. However, there are also other ambiguities in knowledge as a commodity. The first is that specialized knowledge is not homogeneous (again virtually by definition); its uniqueness gives individual firms a basic for mono poly power in market sales, if that knowledge is embodied in particular differentiated products. This possibility provides firms with large incentives to try to innovate commercially-useful specialized knowledge, through research and development efforts. Again, though, the nature of knowledge complicates this process, since there must always be considerable uncertainty about the potential success (and financial cost) of an R&D effort. Only large firms, with diversified R&D activities and high cash flows, seem to be able to accept such uncertainty There is an interplay between these factors which underlies the emergence of very large corporations to dominant market positions in many national economies: innovation has generated monopoly or oligopoly profits, which have offset the uncertainty and financed the cost of further innovation, which in turn has generated more oligopoly profits and a large cash flow (Langdon, 1977).

These large corporations, of course, have become increasingly multinational in their production activities since 1950, and the economics of knowledge can help explain that, too. As Baldwin and others have stressed, specialized knowledge is a very difficult commodity to sell-requiring sophisticated absorptive capacity on the part of a receiving firm, and involving (to be effective) continuing and considerable flows of information that may be very hard to measure for pricing purposes. Therefore, large corporations, with the organizational capacity to do so, have commonly found it more profitable to transfer technology through establishing their own subsidiaries abroad. The incentive to do this has been furthered by the possibility of using technological monopolization to generate monopoly-like profits on other parts of the MNC investment package (capital, material inputs) Crocked, (1973).

To return to the distinctions above, two sorts of such MNC technology transfer may be identified involving what scholars calls production technology, and consumption technology. The first refers to process knowledge transferred to begin producing existing products in a given country; the second refers to the transfer of new products and of demand for them to the country - with the technology embodied in the products, and reflected in differentiating characteristics such as brand names.

Economic Effects of MNC Technology Transfer in DCs: There are three broad economic questions which are of interest in examining MNC technology transfer in developing countries. First, do MNC's in fact transfer technology, in the sense of specialized knowledge, to Africans through their operations in the continent? Second, if they do, is the direct economic cost of this external benefit, in terms of profit outflows, so high that the overall results of MNC operations in Africa nevertheless appear generally negative, particularly when compared with other potential forms of technology transfer? And third, how should other external effects of MNC operations (the MNC impact on local employment, entrepreneurship, linkages), etc. be assessed in on overall evaluation of MNC technology (Crocked, 1973, Langdon, 1977)..

Conclusion

The study assesses effect of external production on United States economy as it affects the employment concerns of job seekers in the US. In as much as the MNCs go external in search of natural resources, new markets for finished products, expansion as well as in search for cheap labour, it is expected that their attention should not be diverted to external production alone but emphasis should also be on their domestic production as well, in order help their economy in terms of employment generation as well as revenue generation through paying of taxes and foreign exchange earnings.

Recommendation

Based on the findings of this study, the researchers recommended that US government should put in place measures that will restrict their MNC from leaving their shores for search of natural resources, cheap labour and market for finished products therefore preventing jobs that may be taken to external markets.

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