



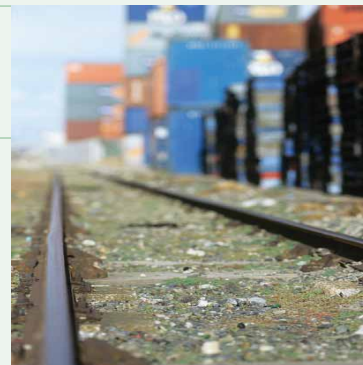
European Foundation  
for the Improvement of  
Living and Working Conditions

# Restructuring and employment: The impact of globalisation in the EU

## > résumé <

'If the signal we give to our children is "Protect yourself — hide under the table because there is globalisation", resist it ... We have the resources, we have the intelligence, the critical capacity, the civilisation, the history, the human, intellectual and cultural resources. We can cope with it.'

*José Manuel Barroso, President of the European Commission*



## Why globalisation?

The debate about Europe's future role and place in a globalised economy is heating up. As international trade intensifies and new players enter the scene, it appears that the world has reached a new stage of economic integration. Economists tell us that such integration through trade will lead to an overall increase in welfare in the long term; however, policymakers and citizens are concerned about the short-term, negative effects – about those losing out from intensified competition in integrated world markets.

Has the nature and extent of globalisation really changed? Is a new globalisation paradigm emerging? Are there remedies that will help Member States cope with the impact of globalisation? The annual report from the European Restructuring Monitor (ERM), *Restructuring and employment in the EU: The impact of globalisation*, examines the changing nature and economic impact of intensified trade, identifies the sectors, regions and types of jobs most affected by it and describes what active labour market policies can do to help alleviate the problems caused by globalisation.

## World trade in context

While the debate on the impact of globalisation sometimes suggests that developments in the market economy have led to an accelerating rate of international trade, this is not in fact the case. World trade, in terms of the exports of merchandise as a

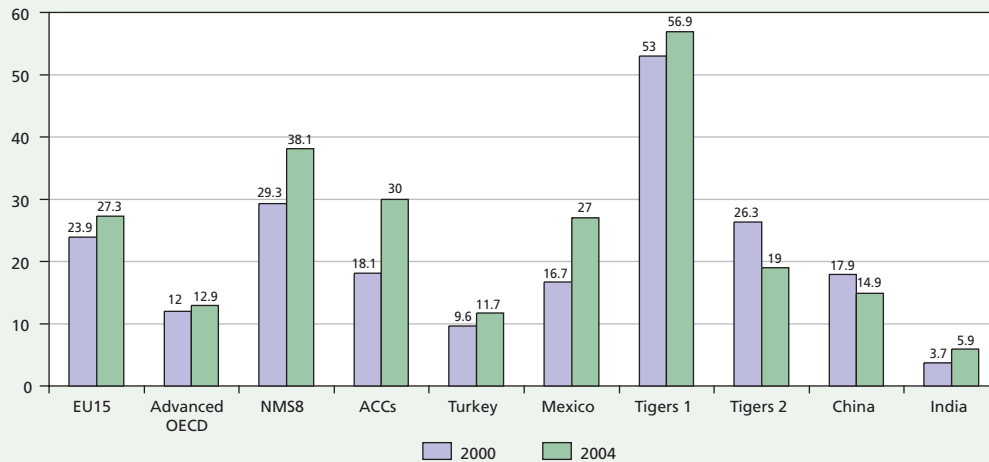
percentage of gross domestic product (GDP), grew from 5% in 1870 to reach 8% by 1930; it then fell to 5% by 1950. Between 1950 and 1970 it increased to around 10%, reaching 17% by the turn of the millennium. While foreign direct investment has also increased significantly in recent decades, much of that increase is between Member States of the European Union.

### Emergence of international production networks

The nature of international trade has changed significantly since economists first outlined the theory of comparative advantage at the start of the 19th century; trade at that time took place largely in finished products. Over time, trade has taken place at ever finer levels of specialisation (or stages) of the global supply chain. While this has complicated the process, both in terms of coordinating supply chains and in analysing the consequences of trade, it would appear that the gains from trade and the distributional outcome have remained essentially the same as they were nearly 200 years ago.

Originally, trade was largely between countries with quite different productive capacities, often based on their different natural resources. By the 1960s, however, trade increasingly took place between developed nations, exchanging quite similar types of products. Around the 1980s, the key trend was the emergence of a number of Asian 'tiger' economies; at low cost, these economies delivered intermediate products with an increasingly high skill content to the developed world. Foreign direct investment played a key role in the development of these economies, which became an integral part of international

Figure 1: The stock of foreign direct investment (FDI) in % of GDP, 2000 and 2004



Note: EU15 = EU Member States pre-2004 accession

Advanced OECD = Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland, United States

NMS8 = Member States that joined in 2004, excluding Malta and Cyprus

ACCs = Bulgaria, Romania, Croatia

Tigers1 = Hong Kong, Republic of Korea, Singapore, Taiwan

Tigers2 = Indonesia, Malaysia, Philippines and Thailand

Source: Calculated from UNCTAD Foreign Direct Investment Data

production networks (IPNs), led primarily by US and Japanese multinational companies. IPNs have since grown in importance and are increasingly used by European companies.

Subsequent developments in information and communications technology have permitted a more efficient coordination of global supply chains and enabled a trade in services that are coded and transmitted digitally. This has opened up the potential for an even finer degree of specialisation in the supply chain and so enables international trade, not in final products, but in functions or tasks within firms. If this potential were fully realised, it would have massive implications for the scale and nature of structural change and the accompanying labour market adjustment. Firstly, while services make up roughly 70% of employment in Europe, they have previously largely been exempt from international trade: the potential labour market adjustment would therefore be unprecedented. Secondly, adjustment would take place not between different firms and sectors (as it has done previously), but within firms across a broad range of sectors. This has consequences for policy, which in many fields is currently sector based. In addition, the lack of a clear sector profile makes future structural adjustment more unpredictable.

### Offshoring in the EU

Although a radically new globalisation paradigm is debated, it is difficult to find concrete empirical evidence. Offshoring (the shift of jobs in Europe to other locations) is one indicator of a new phase of globalisation. But there is little evidence of a significant increase in this phenomenon either from

data or from other sources. According to the ERM, less than 8% of the job loss in Europe has been due to offshoring; moreover, there is no sign of a recent major increase. Manufacturing still dominates the offshoring statistics, most offshoring taking place in rather labour-intensive mid-tech sectors in the EU15 (the Member States before the 2004 accession) and in lower tech sectors in the NMS10 (the Member States that joined in 2004). The only service sector that shows significant levels of offshoring is banking and insurance.

Manufacturing jobs from the EU15 are offshored mainly to the NMS10, while service jobs are predominantly moved to Asia. However, offshoring is probably too narrow an empirical focus, as the location of new investment (and jobs) is not captured by the concept of offshoring. Moreover, the main negative impact of globalisation is almost certainly not that jobs are offshored, but that they are destroyed.

### The limits of globalisation

The importance of distance for trade shows no decline, according to trade flow data and econometric studies. The costs of transporting merchandise are largely dependent on the price of oil, and the marginal cost of digital communication is already close to zero: as a result, there is little reason to expect any imminent fall in transport costs. The empirical validity of a new globalisation paradigm, which entails massive trade and FDI flows and the end of distance as a hindrance to international trade, should therefore be treated with some scepticism. However, there is scope for an ever-finer slicing of the global supply chain, and for a significant increase in

the international trade in services, in the near future as firms learn how to better exploit the potential that technology offers.

### The role of China and India

The possibility of an imminent new globalisation paradigm is further enhanced by the other main recent characteristic of trade: the increasing participation of China, India and the ex-soviet states in the global market economy. The economic performance of China and India has been very impressive and both have increased their market share of EU imports. The success of these economies in European markets is not due solely to their size, however. Chinese manufacturing, and the provision of services from India, has exhibited strong growth in total factor productivity and there is no narrow economic reason to suppose that they will not continue to do so (see Figure 2). The research does, however, indicate that both political and environmental factors may prevent GDP and export growth from continuing at the current high rates.

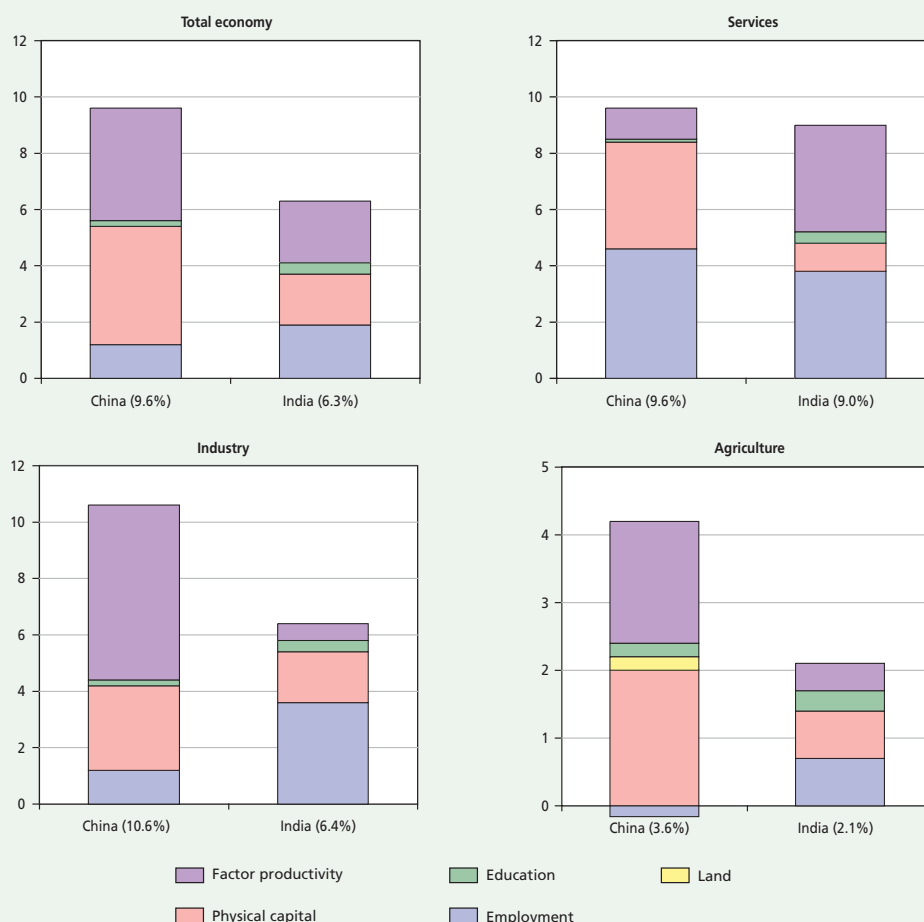
While the growth of China and India is viewed with concern from some quarters, practically all economists agree that trade liberalisation boosts

overall economic welfare in a country. Indeed, the strong performance of the world economy since the mid-1990s is some indication of these overall positive effects. There are of course winners and losers within countries, at least in the short-term, as labour is reallocated from the sectors that have lost out from trade liberalisation to those that have benefited.

### Maintaining competitiveness in high-tech sectors

Economists believe that trade liberalisation does enhance economic welfare. However, it must be emphasised that an increase in productivity in, for example, China, in those goods in which Europe has had a comparative advantage – such as high-tech products – can lead to a permanent loss of per capita real income in Europe. Economic welfare can be sustained in Europe only by maintaining a productivity gap in relation to China. As China is continually raising its productivity – even in the high-tech sectors – the only viable strategy for Europe is to ensure that it remains ahead of the pack. The only other alternative is protectionism, which yields other, greater losses. The lesson is that globalisation can pose problems and, due to their size, India and China can pose big problems.

Figure 2: The sources of economic growth in China and India



Source: Calculation from Bosworth and Collins (2007)

Table 1: Differences in trade-displaced workers: A comparison for 14 European countries, 1994–2001

	High international manufacturing competition	Medium international manufacturing competition	Low international manufacturing competition	All manufacturing	Services	All sectors
<b>A. Workers' characteristics</b>						
Age at displacement (years)						
15–24 (%)	10.4	13.1	11.6	11.8	12.2	11.4
25–52 (%)	75.1	75.8	78.1	76.4	78	76.9
55–64 (%)	14.5	11.2	10.3	11.9	9.8	11.7
Mean age	40.9	38.8	39.4	39.7	37.9	39.2
Share female (%)	31.7	44.9	26.2	34.8	43.2	38.2
Pre-displacement occupation						
White collar	31.9	20.0	27.1	25.9	73.3	48.5
Blue collar	68.1	80.0	72.9	74.1	26.7	51.5
Job tenure at time of displacement (years)						
Greater than 10 (%)	32.1	30.4	27.7	30.0	18.6	21.5
Mean job tenure	7.0	6.6	6.2	6.3	4.7	5.0
Hourly earnings on old job						
Mean (euro)	9.51	9.15	9.08	9.43	9.15	9.08
<b>B. Adjustment costs</b>						
Share re-employed two years later (%)	51.8	58.7	59.6	57.0	57.2	57.3
For re-employed						
Mean change in log earnings	0.001	-0.038	0.028	-0.001	0.073	0.040
Share with no earnings loss or earning more (%)	44.0	45.7	47.3	45.8	49.6	47.1
Share with earnings losses greater than 30 per cent (%)	5.4	7.0	6.8	6.5	8.4	7.5

Note: Countries covered are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom.

Source: European Household Panel, waves 1 to 8, April 2003.

No significant shift in the nature or extent of globalisation, entailing serious negative consequences for aggregate employment in Europe appears to have yet taken place. The 1970s and 1980s saw a massive decline in Europe in textiles, iron and steel, and shipbuilding; these periods were striking examples of shifts in the international division of labour, which had severe consequences for certain European regions (possibly more serious than the job losses currently being experienced). The major current concern is to maintain European competitiveness in high-tech activities so that they can constitute Europe's comparative advantage even in the future.

### Impact on the labour market

Trade produces both winners and losers. Policymakers tend to focus on the losers, as it is often those who are already most disadvantaged who suffer most – either through lower wages or unemployment. The labour market is one of the most imperfect of all markets: it is only in buoyant economic periods that most workers can move out of a declining sector and into an expanding one without incurring substantial, enduring losses. It is also important that this transition happens quickly: social exclusion can be a vicious

circle and the longer workers are out of the labour force, the more difficult it is to return. Some regions in the affluent EU15 countries still bear the scars from the crises in heavy industry, largely the result of earlier bouts of foreign competition.

An economically efficient Europe must focus on the big picture and pursue a policy of free trade; at the same time, a socially cohesive Europe must recognise that there are losers from trade liberalisation and ensure that they can recover from these losses. Currently, this aspect of the 'social market economy' is best exemplified by the external flexicurity model pursued in some Member States. This enables the labour market to adjust to foreign competition; at the same time, it provides those who lose out with the means to cope with their immediate losses, and provides them with the opportunity to regain their position in the labour market. The key policy issue is to ensure access to foreign markets and to ensure that the labour market adjustment occurs as quickly and painlessly as possible.

## Facing the challenge

How can policymakers deal with the impact of globalisation on individual workers? One policy response is the recently introduced European Globalisation adjustment Fund (EGF), which aims to finance active labour market policy (ALMP) measures for workers who lose their job, or are displaced, due to adverse trade conditions.

### Impact of ALMP

In the EU, no evaluations have been undertaken of ALMP measures specifically aimed at trade-displaced workers. However, when ALMP policy for the unemployed is examined (and the special circumstances of displaced workers are taken into account), it does appear that there are strong arguments for intensified job search measures including career orientation and counselling for displaced workers.

While training measures have a role, it is difficult to generalise on the type of training required; this will vary with the characteristics of the workers and the requirements of the local labour market. However, some of the few existing European evaluations of policy for displaced workers suggest that for training to have a positive impact, considerable resources are required; there is also some indication that training should be oriented towards more general education (schooling) measures than typically is the case for ALMP.

While temporary wage subsidies may have a role in other situations, they should only under exceptional circumstances be applied to displaced workers. Research shows that temporary wage subsidies generally do not create new jobs. Either they have no effect at all: a so-called 'deadweight loss' is incurred i.e. the person who gets the job would have got it even without the subsidy. Alternatively, subsidies lead only to the substitution of one worker for another

(the 'crowding-out effect'). For equity reasons, crowding-out effects are not acceptable in the context of displaced workers.

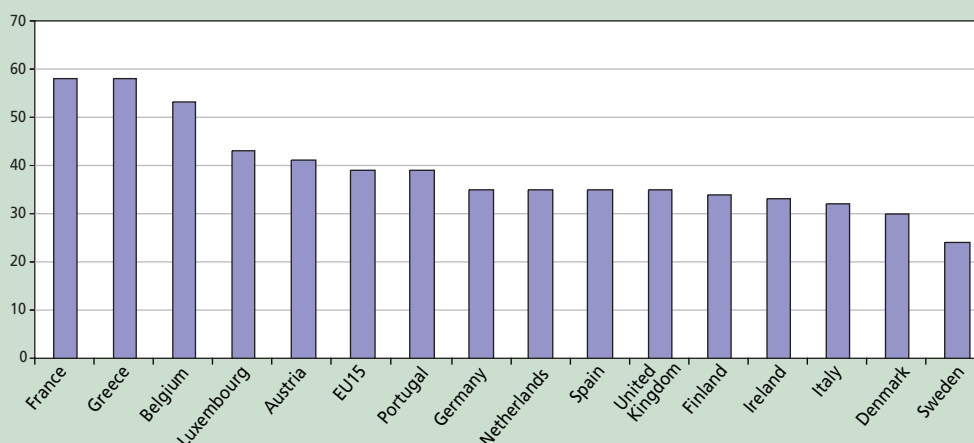
### The US experience

The Trade Adjustment Assistance is a measure in the US similar to the EGF. The experience of this measure indicates serious problems in its implementation, in terms of low take-up rates because it is poorly publicised, and difficulties and conflicts in determining which workers are deemed to have been displaced due to trade. In addition, it is viewed by many to be unfair, as workers displaced for other reasons receive very little assistance in the US. The motivation of the measure is political – to facilitate the passage of trade liberalisation legislation through the Congress.

### Challenges for the EGF

The European Globalisation adjustment Fund is similarly motivated in terms of compensating the losers of globalisation. The political and EU-level perspective has some further implications for the orientation of EGF measures. The strongest recommendation for EGF policy, coming from research, is what not to do: the EGF should not be used to finance temporary wage subsidies. The phenomenon of deadweight loss indicates that the EGF spending goes to the new employer of the trade-displaced worker; this is obviously not the purpose of the Fund. If the wage subsidy leads to crowding-out, the cost of trade-induced displacement is borne – not by the trade-displaced worker – but by the person who the employer would have otherwise employed: neither is this the purpose of the Fund. Thus, wage insurance, temporary wage subsidies, or any ALMP that results in crowding-out negates the valid political rationale of the EGF as a quid pro quo for trade liberalisation. When those who are crowded-out, or the wider public, become aware of these effects, this may have negative political consequences for the European Union.

Figure 3: Perceptions of the threat of globalisation for jobs (%)



Respondents were asked 'Does globalisation represent a threat to employment and companies in your country?'

Source: Eurobarometer, 2003

### Supporting mobility

In addition to the general recommendations outlined above for all displaced workers, the idea of an intra-EU mobility grant is promising. As only a few Member States have such a measure in place, this would largely avoid EGF funding simply replacing national funding. Moreover, an intra-EU mobility grant could be clearly identified as an EU measure providing obvious evidence of the EU's contribution to labour adjustment policies; in addition, of course, the free

movement of labour is fundamental to the Single Market. Given that there are high costs attached to moving between Member States, the level of grant aid required to have a decisive impact on the migration decision might be prohibitively high. However, such assistance with mobility would compensate the trade-displaced workers who are actively trying to improve their situation and – unlike a temporary wage subsidy – is not likely to lead to crowding-out effects.

### The Danish experience: vocational training

Globalisation is of some concern to workers in Europe; many believe it threatens their job. A recent Eurobarometer study found that citizens in Sweden and Denmark were most optimistic in this respect. These are two countries with a high degree of external flexicurity; it is argued that if workers are temporarily compensated for losing their job, and if they have good chances of getting a new one, they are less prone to such concerns. Both these countries may offer interesting perspectives on how to cope with some of the problematic aspects of globalisation.

A key, often-neglected element of the Danish flexicurity model, is adult vocational education and training. This contributes greatly to the reskilling of the workforce in response to shifts in competitiveness. Applied primarily to those in employment, its trainees gain competencies for the labour market rather than merely completing a course; in addition, waiting times are short and courses are scheduled in line with working time arrangements. Each year, the tripartite continuing training committees either develop or adapt approximately 500 adult vocational training programmes; these programmes reflect the new competencies required, in line with changing training and education needs. The competency descriptions set the framework for education and training development and new or updated programmes can be set up within six weeks. Many observers of the Danish labour market have come to the conclusion that it is not the policy design that is the most important element, but the way in which policy is implemented: the key factor is its corporatist structure, in which tripartite bodies engage in both formulating and implementing policy. The administrative flexibility and efficiency of the Danish system of adult vocational education and training, together with the involvement of the social partners, would appear to be a clear example of this.

### Involvement of European works councils

While the extent of jobs lost due to offshoring may be exaggerated in the public debate, it is undoubtedly a challenging issue for employees and their representatives and may become increasingly widespread in the future. As offshoring involves more than one country, there is an obvious role for institutions with employee representatives from all countries involved. While EU-wide collective agreements are of negligible importance due to their small numbers, European works councils (EWCs) are potentially an important forum in this context. It has been argued that the potential for EWCs to influence restructuring issues generally is related to the overall business strategy and in particular the extent to

which management is centralised in the international human resource management strategy.

Offshoring is a difficult issue for an EWC: it may be difficult for employee representatives to discuss the issue openly, due to the potential conflict of interest attached to obtaining investment for their respective national sites. From the perspective of employee representatives, it would appear that the national forum is still of great importance. Typically, much of the employee influence in restructuring relates to how compensation, re-training etc, is to be dealt with; this is seldom a transnational issue. These factors, together with the current relatively weak legal status of the EWCs, suggests that the national industrial relations forum is still of primary importance.

## Trade union involvement in Sweden

One interesting national approach is that of Sweden's largest white-collar union, SIF. It has a major presence in the technology- and knowledge-based sectors, which were previously 'safe' from offshoring, but may increasingly be exposed in the future: as a result, its policy advice to company-level unions is relevant to the current wave of globalisation. SIF's approach is proactive: it attempts to engage in social dialogue in a non-confrontational manner. The union takes the approach that offshoring is an extremely complex matter for the company, and that the company may make the wrong decision. SIF encourages the local union to engage with management as early as possible and provides guidelines to help the local union identify when an announcement of offshoring is imminent. The union's challenge to the management decision is largely based on its economic rationale: hence, the local union is also provided with a methodology for discussing the economic consequences of, and alternatives to, offshoring. According to SIF, common management errors include failing to carry out a dynamic cost calculation, underestimating the tasks currently performed in-house (and so under-specifying tasks in an outsourcing contract), and not fully investigating the potential for investing and boosting productivity in the current site.

This approach is deeply embedded in the consensual culture of Swedish industrial relations and is not obviously transferable to other countries (even though the legislative basis for information and consultation does not differ greatly in many other Member States). In Sweden, in general when unions consider restructuring, unions focus not on the decision to shed jobs but rather on how the negative consequences are managed for employees.

## The European Restructuring Monitor

The European Restructuring Monitor (ERM) began its operations in 2001. The ERM aims to give a picture of how much restructuring is taking place in European companies and how many jobs are lost or created as a result. It provides information on individual restructuring cases and allows for the compilation of statistics comparing countries, sectors and types of restructuring. Correspondents monitor their national press on a daily basis for reports on company restructuring. In 2004 the ERM covered only 18 countries; in 2005, the scope of the ERM was extended to all 27 current EU Member States and, most recently, Norway.

The ERM contains details of almost 3,500 cases of restructuring involving job losses in the EU Member States over the four year period 2003–2006.

Four issues of the *ERM quarterly* are published during the year: the online journal analyses trends observed for specific sectors and focuses in each issue on the restructuring activities in a specific country and in two companies. Given the nature of the methodology used, the figures provided by the ERM reflect general trends rather than giving a full and accurate account of restructuring activities in European companies.

There is a natural bias in the data collection towards large multinational companies, since activities in small and micro enterprises are not included. Furthermore, since only company announcements and not actual job losses are recorded, there is an inevitable information gap: following negotiations with employees and trade unions, the company may not carry out its announced plan.

Country size bias is also likely. In absolute numbers there is obviously much greater job loss in big countries. In terms of national impact, restructuring involving for example 100 employees will be a less frequently occurring and more prominent media event in Portugal or Greece than in Germany or the UK. This suggests that the reporting frequency will be higher in small countries than in big ones. Type-of-restructuring bias (in terms of internal restructuring, relocation, closure etc.) may also occur if public and media focus is more concentrated on certain types of restructuring.

The ERM also reports cases of job creation. As the major part of ERM cases are identified in newspapers, one could presume, in accordance with the journalist adage that 'the best news is bad news', that job losses are reported more than cases of job creation.

## Policy pointers

The political feasibility of the Union's liberal trade policy and the credibility of 'Social Europe' may partially depend on the European Globalisation adjustment Fund (EGF). The strongest policy recommendation for the EGF to emerge from research concerns what policymakers should not do.

- The EGF should not be used to finance temporary wage subsidies. When such subsidies have no effect on the hiring behaviour of the new employer of the trade-displaced worker, this simply allocates the EGF funding to the new employer.
- The EGF should not lead to crowding-out (the hiring of the trade-displaced worker at the expense of another worker). In this case, the cost of trade-induced displacement is shifted from the trade-displaced worker to the person whom the employer would have otherwise employed, had not the wage subsidy been available.
- The (limited) research evidence on the efficiency of ALMP for displaced workers suggests that job matching and career counselling should be an

important element in any adjustment package. There is also some indication that the orientation of training measures should be more general than typically is the case for active labour market measures.

- The idea of an intra-EU mobility grant is promising. As very few Member States have such grant aid, EGF funding would not be replacing national funding. Moreover, an intra-EU mobility grant would represent obvious evidence of the EU's contribution to labour adjustment policies. In addition, the free movement of labour is fundamental to the Single Market. And, unlike a temporary wage subsidy, grant aid for mobility is not likely to lead to significant crowding-out effects.
- Finally, the impressive economic performance and social cohesion in Denmark and Sweden shows that labour market adjustment can be made less painful than is the case in other parts of Europe. There are many factors behind this success, but the continual upgrading of the competencies of the labour force plays a vital role.

### Further information

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The full text of the report, *Restructuring and employment in the EU: The impact of globalisation*, is available at <http://www.eurofound.europa.eu/publications/htmlfiles/ef0768.htm>

ERM home page

<http://www.eurofound.europa.eu/emcc/erm/>

European restructuring monitor *quarterly*

<http://www.eurofound.europa.eu/emcc/erm/index.php?template=quarterly>

*Industrial relations in the EU, Japan, US and other global economies, 2005-2006*

<http://www.eurofound.europa.eu/publications/htmlfiles/ef0778.htm>

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