Impact of globalisation on industrial relations in the EU and other major economies
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Impact of globalisation on industrial relations in the EU and other major economies
In 2005, the European Commission called for a renewal of the Lisbon strategy in an effort to refocus its attention on economic growth, better jobs and social cohesion, with the central aim of making the European Union the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth. In reaching this objective, the policy declaration mentions explicitly the crucial role to be played by renewing the European social model. Both social dialogue and industrial relations are identified as key aspects influencing the modernisation of the European social model in light of the effects and challenges arising from globalisation.

Against this background, the European Foundation for the Improvement of Living and Working Conditions launched a research project on the Quality of industrial relations in the 25 European Member States prior to further enlargement in January 2007 and in the Global 7 (Australia, Brazil, China, India, Japan, South Africa and the US) countries in 2004. The project aimed to facilitate policymakers and practitioners by increasing comparability and understanding of industrial relations in the EU25 and Global7 countries, with the aim of highlighting the strengths and weaknesses of the European social model in global competition. Important input for the project came from the Foundation seminars on ‘Industrial relations, future trends and challenges of globalisation’ held in late 2006, in addition to the valuable assistance of national industrial relations experts and the International Labor Organization. However, one of the issues to emerge from the seminars and experts’ contributions was the need for better cooperation between the social partners, in order to innovate in terms of their services and cope with the changing aspirations and needs of businesses and a new-generation workforce.

This timely report addresses a knowledge gap, providing the appropriate methodology and data sources for a more comprehensive comparison of industrial relations systems across the EU25 and the Global7 countries. In doing so, it analyses the various components of industrial relations systems – actors, processes, outcomes and impact – while looking at which type of social model may survive in terms of global competition. The report therefore explores the most significant effects of globalisation, including labour market flexibilisation, increasing labour migration, the rise of atypical employment forms, as well as changes in work content and working conditions. The key issue for the social partners will be to establish a balance between a modernised European social model and labour market flexibility to maintain workers’ social protection and companies’ competitiveness.

The report is particularly unique in terms of the number of countries it covers and the variety of variables used, providing an important piece of research to fuel the debate on the challenges that industrial relations face in an era of increasing globalisation. We hope that the analysis will make a useful contribution in paving the way for policymakers to review the framework for increased labour market flexibility while also shaping the policies which seek to define a modernised European social model.

Jorma Karppinen
Director
Willy Buschak
Deputy Director
### Country codes

**EU15**

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**Country abbreviations**

- **EU25**: 25 EU Member States (post May 2004)
- **EU15**: 15 EU Member States (pre May 2004)
- **EU10**: 10 new Member States that joined the EU in May 2004
- **CEE countries**: Central and eastern European countries
- **Global7 countries**: Australia, Brazil, China, India, Japan, South Africa and the US
## Glossary of acronyms

### Australia
- **ACTU** - Australian Council of Trade Unions
- **ACCI** - Australian Chamber of Commerce and Industry
- **AiG** - Australian Industry Group
- **BCA** - Business Council of Australia
- **MTIA** - Metal Trades Industry Association
- **AIRC** - Australian Industrial Relations Commission
- **NWC** - National Wage Case

### Brazil
- **CUT** - Unique Workers’ Central
- **FS** - Union Power (*Força Sindical*)
- **NCST** - New Workers’ Central Union
- **CGT** - General Confederation of Workers (*Confederação Geral dos Trabalhadores*)
- **SDS** - Social Democratic Union (*Social Democracia Sindical*)
- **CAT** - Autonomous Workers’ Central
- **CONLUTA** - Militant Confederation
- **PT** - Workers’ Party (*Partido dos Trabalhadores*)

### China
- **ACFTU** - All-China Federation of Trade Unions
- **CEC** - China Enterprise Confederation
- **CEDA** - China Enterprise Directors’ Association

### India
- **AITUC** - All India Trade Union Congress
- **INTUC** - Indian National Trade Union Congress
- **HMS** - Indian Labour Organisation (*Hind Mazdoor Sabha*)
- **BMS** - Indian Workers’ Union (*Bhartiya Mazdoor Sangh*)
- **CITU** - Centre of Indian Trade Unions
- **AIOE** - All India Organisation of Indian Employers
- **EFI** - Employers’ Federation of India
- **SCOPE** - Standing Conference on Public Enterprises
- **CIE** - Council of Indian Employers

### Japan
- **JILPT** - Japan Institute for Labour Policy and Training
- **RENGO** - Japanese Trade Union Confederation
- **ZENROREN** - National Confederation of Trade Unions

### South Africa
- **COSATU** - Congress of South African Trade Unions
- **FEDUSA** - Federation of Trade Unions in South Africa
- **NACTU** - National Council of Trade Unions
- **Nedlac** - National Economic Development and Labour Council
- **BUSAA** - Business Unity South Africa
- **LRA** - Labour Relations Act
United States of America

BLS  US Bureau of Labor Statistics
NLRA National Labor Relations Act
AFL-CIO American Federation of Labor and Congress of Industrial Organizations
NLRB National Labor Relations Board
FLSA Fair Labor Standards Act
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Globalisation is a driving force in global economic development today. It concerns all actors in the economy, ranging from individuals and households to governments. Globalisation will greatly affect the social partners, as traditional labour relations will have to deal with entirely new and very dynamic situations. Migration, relocation, changes in human capital and technology are only a few of the challenges that social partners are currently facing. Several factors – that is, a changing labour force composition, a shift from blue-collar to white-collar workers in developed countries, rising self-employment and a growing informal sector of the economy in developing countries – put trade unions increasingly under pressure to maintain or expand their current membership levels and/or coverage rates. If industrial relations systems do not adjust to the globalising world economy, the danger arises that companies will relocate their production to countries with fewer restrictions on business activities, such as countries with less regulated labour markets and lower labour costs.

This study aims to outline the similarities and differences in both basic structures of and current developments in industrial relations, by looking at the actors, processes, impacts and outcomes. Moreover, it will benchmark the European Union (EU) industrial relations systems against its major competitors – the Global 7 (Global7) countries which include Australia, Brazil, China, India, Japan, South Africa and the US – in an era of deepening economic globalisation. The purpose of this research is to analyse the pressures of globalisation on national industrial relations models of the EU Member States, in particular examining the global pressures from competitive countries and the challenges facing industrial relations, especially in the EU countries. A better understanding of global trends would help to modernise and make European national industrial relations models more dynamic.

In terms of the theoretical framework, the analysis is based on the ‘Dunlopian’ system approach, according to which industrial relations consist of actors, processes and outcomes. All of these components of the industrial relations system affect working life, particularly with regard to labour productivity, employment and income distribution (Figure 1). Each of the globalisation dimensions considered in this study – the internationalisation of markets, increasing competition, free movement of capital and labour, informational globalisation through the rapid development of information and communication technologies (ICT) and the rising importance of markets – also influences working life and represents serious challenges to the national industrial relations systems (Figure 2). Such challenges may affect the institutional system of industrial relations as a whole in terms of, for

Figure 1  Model of industrial relations systems
The European Foundation for the Improvement of Living and Working Conditions, in cooperation with national experts (see Annex 2 for the list of national experts), has produced industrial relations country profiles for the Global7 countries and the 25 EU Member States (EU25) before the entry of Bulgaria and Romania to the EU in January 2007. Each country profile provides an overview of the main industrial relations features, actors, processes and outcomes; the latter are presented in a concise format based on common indicators, thus allowing for comparison between countries. However, these country profiles only offer snapshots of the actual situation in the countries examined. According to these profiles, each country has its own model of industrial relations. These models vary from being well and strictly structured to becoming very liberal models. In some of the countries surveyed, negotiations for collective agreements are centralised while in others these negotiations are more decentralised. Trade union and employer organisation density, as well as collective bargaining coverage and workplace representation, are, on average, highest in the EU15 countries and lowest in the Global7 countries. The research also reveals that a trend towards Europeanisation of industrial relations exists in the EU countries. This process may not be progressing rapidly, but EU legislation and regulations are gradually developing in the same direction. National economies depend on each other and the eurozone countries pursue joint interest policies that force EU countries to follow similar economic policy guidelines. In addition to the Europeanisation of industrial relations, globalisation is increasingly influencing national economies and labour markets. Over the past decades, this trend has been accentuated when capital transfer across borders was made easier due to less stringent regulations. As a result, markets are internationalising, competition is increasing, global markets are integrating and ICT promote networking.

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**Figure 2  Challenges of globalisation on industrial relations**

**GLOBALISATION**
- Internationalisation of markets
- Increasing competition
- Free movement of capital and labour
- Informational globalisation through rapid development of ICT
- Rising importance of markets

**IMPACTS OF GLOBALISATION**
- Increasing integration of global economic activities
- Rising competitiveness
- Relocation of economic activities
- Structural changes in the economy
- Rapid technological advancements and innovation
- Knowledge society, networking, social capital
- Labour market flexibilisation
- Increasing labour migration
- Rise of atypical and non-standard employment forms
- Changes in working conditions and work content
- Job-skills mismatches, multi-skilling, need for lifelong learning

**INDUSTRIAL RELATIONS SYSTEM**
- **ACTORS**
  - Trade unions, employer organisations, government
- ** PROCESSES**
  - Collective bargaining, workers’ participation, industrial actions, conflict resolution
- **OUTCOMES**
  - Wages, working time, working conditions
- **IMPACTS**
  - Productivity, job and employment security, industrial peace

Sources: Kauppinen, 2006; Mills and Blossfeld, 2005; authors’ modifications.
Therefore, the research focuses on comparing and benchmarking the national industrial relations systems and their outcomes in light of impacts and challenges arising from globalisation. Benchmarking is a continuous and systematic process for comparing the performance of, for example, organisations, economic processes and policies with that of the 'best in the world'. Moreover, it helps countries to gather information in a systematic way in order to take steps towards improving their own activities (see also Annex 1 for a more detailed discussion on benchmarking methodology). The report does not offer a performance classification of the global or European industrial relations models. Instead, the benchmarking exercise aims to highlight the diversity of the industrial relations systems under examination. Hence, it does not provide any policy recommendations that would fit all of the countries. Nevertheless, the study identifies several 'good practice' examples of industrial relations. At the same time, it is important to note that the European and non-European countries covered in this study are noticeably different in terms of their culture, history, society and economy. Thus, best practice examples in one country or region will not inevitably represent best practice in another country or region.

The study also looks at the impacts and challenges related to general macroeconomic and labour market developments, as well as to social changes. Different indicators are used to assess the macroeconomic, demographic and labour market development of countries; a factor and cluster analysis groups countries according to their economic and labour market performance. On the basis of these clusters, the report examines whether or not industrial relations systems are homogeneous within these country groups.

This type of analysis depends largely on the statistics and comparative information available. The report uses the country profiles as a basis for comparison of industrial relations systems in different countries. It should be noted that if no particular source is given, the data and observations originate from the country profiles. However, such an approach raises methodological questions since comparisons are difficult between individual countries, such as Australia, Japan and the US, and a structure, such as the EU. Diversity is huge among the Global7 countries: they are significant in size, with very varied cultures and religions. Some comparison is also made between the three bigger comparative and benchmarking groups: the EU15, EU10 and Global7 countries. As these country groups are internally diverse, such comparisons do not allow strong conclusions to be drawn. The study also refers to other sources to obtain comparative information, such as the World Bank (WB), the International Monetary Fund (IMF), Eurostat, the International Labour Organization’s Key Indicators of the Labour Market (KILM) database. Furthermore, the websites of social partners in the Global7 countries and articles of the European Industrial Relations Observatory (EIRO) concerning the EU25 countries were consulted to gain an understanding of the social partners’ views on the processes and challenges of globalisation. Without doubt, this overview is not comprehensive, but it sketches out the main issues discussed and some standpoints of social partners.

First, the report will address the different aspects of globalisation and the impact of globalisation on industrial relations. The following chapters will focus on the actors, processes and outcomes of industrial relations and their influence in the EU25 and Global7 countries; each chapter will offer a comparative analysis of these industrial relations components in the countries under consideration. The concluding chapter will link industrial relations with the general economic and social development. In conclusion, the report will highlight the challenges that globalisation represents to industrial relations systems in the countries examined in the study.
Globalisation and its effects

Globalisation and its dimensions
Globalisation can be defined as a process of increasing global connectivity, integration and interdependence in the economic, social, technological, cultural, political and institutional spheres. Globalisation refers, for instance, to the processes that reduce barriers between countries and involve greater integration in world markets, thus increasing the pressure for assimilation towards international standards (Macdonald, 1997; Frenkel and Peetz, 1998; Ali, 2005). The economic aspects of globalisation are the most visible and important ones. These include intensifying economic competition among nations, rapidly expanding international trade and financial flows and foreign direct investment (FDI) by multinational corporations (MNCs), disseminating advanced management practices and newer forms of work organisation and in some cases sharing of internationally recognised labour standards. Globalisation enhances competitiveness, both at company level and national level, which leads company management and governments to adopt strategies designed to increase labour effectiveness in terms of productivity, quality and/or innovation. In general, globalisation involves economies that are opening up to international competition and that do not discriminate against international capital. Therefore, globalisation is often accompanied by a liberalisation of the markets and the privatisation of productive assets. At the same time, globalisation has obviously contributed to raising unemployment, increasing casual employment and weakening labour movements (Ali, 2005).

The various dimensions of globalisation affect the world in different ways.

- Economic globalisation is the convergence of prices, products, wages, interest rates and profits towards the standards of developed countries. The extent to which an economy will globalise depends on the importance of certain processes at play, such as labour migration, international trade, movement of capital and integration of financial markets.

- Political globalisation relates to the increasing number and power of international organisations which influence or govern the relationships among nations and which safeguard the rights of countries arising from social and economic globalisation.

- Informational globalisation refers to the rapid development of ICT worldwide, such as a global telecommunications infrastructure allowing for greater cross-border data flow.

- Cultural globalisation means greater international cultural exchange and growth of cross-cultural contacts between nations and people. It also involves the expansion of multiculturalism and improved individual access to cultural diversity, as well as the growth of international travel and tourism, while at the same time developing and establishing a set of universal values.

Effects and challenges of globalisation
The effects of globalisation are particularly difficult to categorise as they are often interrelated in rather complex ways. The following discussion highlights some of the globalisation effects in relation to the economy, society and labour market; therefore, these aspects are also important concerning future developments of industrial relations.
Effects of economic globalisation

The most important effects of economic globalisation include the following:

- increasing integration of global economic activities;
- rising competitiveness;
- relocation of economic activities;
- structural changes in the economy;
- rapid technological advancements and innovation.

Countries need to respond to the increasing integration of global economic activities, which lead to intensifying competition among producers and a greater and more varied offer of diverse sources and destinations of FDI. Capital is significantly more mobile in an open international environment than the labour force. MNCs have had and will continue to play a key role in these changes. Companies have been seeking to rationalise their operations in order to further strengthen their competitiveness, by reducing both wage and non-wage labour costs. MNCs are relocating their business activities while also subcontracting and substituting technology for human labour. All of these processes are creating very complex international production networks. Available evidence suggests that larger MNCs generally pay higher wages than local companies; in any case, MNCs match or exceed the level of working conditions and other employment benefits in the local labour markets. MNCs’ relationships with trade unions are influenced by both the management and workforce relations in the company’s country of origin and the situation in the host country. In general, it seems that MNCs prefer not to recognise trade unions or to bargain with them; however, they do so where it is required – by law, for example (Macdonald, 1997; Ali, 2005).

Increased competition in global markets has created the demand for more specialised and better quality items. This has led to a higher volatility in product markets and shorter product life cycles which, in turn, requires companies to respond quicker to changes in market demand. In terms of production organisation, new technologies increase the scope for greater flexibility in the production process and resolve any information and coordination difficulties which previously limited the production capacity of enterprises in different locations around the world (Macdonald, 1997). Due to the growth in competitiveness, companies increasingly focus on the demands of international and domestic niche markets in a way that contributes to a growing individualisation and decollectivism of work. In cases where enterprises are servicing more specialised markets, smaller and more limited production processes are involved. Moreover, new technology has made it possible to produce the same level of production output with fewer workers. In both situations, an increased emphasis is placed on workers having higher value capacities and skills to perform a variety of jobs. This development has blurred the functional and hierarchical distinctions between different types of jobs and between labour and management in general. In addition, efforts to improve products through innovation, quality, availability and pricing have led companies to set up cross-functional development teams, thus transcending the traditional boundaries between engineering, manufacturing and marketing. These developments have been accompanied by the erosion of the standardised, segmented, stable production process which had facilitated collective industrial relations (Macdonald, 1997). These changes are also associated with a continuing shift in
employment from manufacturing to service-oriented industries – in other words, jobs shift from traditional manual occupations to various forms of white-collar employment.

However, not all of the countries are at a similar stage of development and obvious inequalities among countries and continents emerge. In terms of technology, some countries cannot enhance development at the same pace as others since access to new technologies is not free. These countries depend on the willingness of those countries which have the technology to provide them with access. As a result, some countries remain excluded from the technological developments that globalisation can bring about. At the same time, economically advanced countries of which the markets are saturated seek to access the emerging markets of developing and transition economies to sell their products. On the other hand, developing countries face many barriers in terms of accessing the markets of the most developed countries for their products and services. Therefore, the impact and the pace of change vary from country to country.

**Labour market effects**

In terms of the labour market, the most influential effects of globalisation include the following:

- flexibilisation of labour markets;
- increasing labour migration;
- rising atypical and non-standard forms of employment;
- changes in work content and working conditions;
- skills mismatch, multi-skilling and the need for lifelong learning.

Employment issues are critical to every country. However, countries have approached these issues in different ways and employment standards thus vary widely across countries. Research partly attributes the differences between countries to the stage of their development at a given point in time. Nevertheless, employment standards continue to play a key role in determining a country’s competitive advantage in terms of labour market development. Due to growing competitiveness, many countries are obliged to relax their employment protection mechanisms in order to increase their labour market flexibility. Therefore, a new balance between labour market flexibility and social protection will have to be established (HM Treasury, 2005). Several countries propose labour market reforms as a way of coping with the challenges of flexibilisation while providing an adequate level of job and employment security. As a result of intensified competition, companies are now being required to innovate to deliver ‘the right product at the right price and time’ (Macdonald, 1997). Hence, company management should also focus on promoting enterprise efficiency, both in terms of labour market flexibility and labour productivity.

Overall, employment rates are increasing, but non-standard forms of work such as part-time, fixed-term and self employment are also rising. Broad social developments in many countries have also led to an increasing participation rate of women in the labour market which, in turn, has augmented the demand for atypical forms of employment. As a result of these developments, working conditions do not improve for a lot of workers while their job security may decline. *Benchmarking working Europe 2007* raises the question of whether the increase in employment is a trade off against the quality of employment (ETUI-REHS, 2007). Moreover, the study argues that building employment
growth on sub-optimal solution, such as involuntary part-time and other non-standard employment relationships, will only undermine Europe’s efforts to become a knowledge-based society. In developing countries, outsourcing and subcontracting are part of a global trend towards lower employment standards, ‘casualisation’ of labour and permanent unemployment. The real problem for developing countries relates to underemployment and disguised unemployment. For example, the Congress of South African Trade Unions (COSATU) claims that outsourcing and subcontracting are backdoor attempts to introduce labour market flexibility in the country – in other words, lowering the employment standards (Pillay, 2006).

In contrast, the majority of developed countries face serious labour and skill shortages which threaten their sustainability of economic growth, productivity performance and international competitiveness. In the EU, rising labour shortages will put a push on increasing labour migration within the EU and also from non-EU countries. The Organisation for Economic Cooperation and Development (OECD) Employment outlook 2001 already highlighted that ‘while admissions of new permanent foreign workers are currently very few in number, especially in the European OECD countries, the temporary employment of foreigners appear to be becoming more widespread’. The temporary employment of foreign workers introduces flexibility into the labour market while also increasing competition between foreign and domestic labour with varying implications for the countries sending and receiving workers. The latter countries have introduced several policy measures to restrict labour market access for migrant workers, thus limiting competition for work between foreign and domestic workers.

Another area of enterprise activity to be affected by globalisation concerns the organisation of work. To achieve the flexibility and productive efficiency required to respond quickly and effectively to market changes, the need arises to reorganise work; for example, to put greater emphasis on team-based activities or to improve connections across business units within a company. Related changes have seen a ‘flattening’ of management hierarchies and the transfer of greater operational responsibility and authority to lower level managers, supervisors and work teams. All of these changes aim to increase workers’ commitment to the company and its business goals, as well as to establish closer relationships between managers and workers based on consultation and cooperation (Macdonald, 1997). The European Trade Union Institute for Research, Education and Health and Safety (ETUI-REHS) argues in its 2007 benchmarking working report that while globalisation and rapid changes in economies demand that workers become proactive, adaptable, multi-skilled, responsible and competent, these demands put additional pressure on workers, thus exacerbating their difficulties at a time when working conditions are deteriorating and wages are compressed. The result of these changes will be at an unbearable price, notably a growth in ill-health associated with a decrease in quality of life and unfair costs for individuals and society.

However, to become aware of the benefits arising from global integration, countries will need effective education and training systems in order to supply the higher skill levels, which underpin strong and flexible labour markets, economic growth and high employment, address inequalities and ensure social cohesion (HM Treasury, 2005). In countries where competition is based on quality and innovation, governments emphasise the need for adequate skills training to improve workers’ competencies. This is particularly true for countries where shortages of qualified labour exist. Lifelong learning represents one way of enabling workers to tackle the challenges of a new working environment. From a policy perspective, it is important to know the amount of training that is being offered, as well as how the training opportunities are distributed among the working population and
how the workers perceive these opportunities. Lifelong employability that is based on the need for continuous learning, as well as the updating and upgrading of skills, is considered to be a viable alternative to lifelong employment.

Impact of globalisation on different country groups

Figure 3 summarises the major trends in relation to the free movement of capital, labour and production in the global market. It shows that certain features of globalisation, such as production relocation, outsourcing, investments and migration, impact differently on selected country groups; this report differentiates between three groups of countries, namely:

- the EU15, plus Australia, Japan and the US;
- the 10 new Member States (EU10) that joined the EU in May 2004, although some reservations exist about Cyprus and Malta;
- Brazil, China, India and South Africa.

In terms of production relocation, outsourcing and investments, the EU15, Australia, Japan and the US are acting as source countries while Brazil, China, India and South Africa are destination countries. In the case of labour migration, the direction of migration flows is opposite: workers migrate from Brazil, China, India and South Africa to the EU15, Australia, Japan and the US. The EU10 countries occupy a very interesting and challenging position between these two country groups. At the beginning of their accession to the EU when income differences were large compared with the EU15, these countries behaved like less developed countries. While catching up with the more advanced economies of the EU, the EU10 countries start to act increasingly like the ‘old’ EU Member States. They become attractive destination countries for migrants from non-EU countries, and companies move their jobs to countries with lower labour costs.

Figure 3  Impact of globalisation on different country groups

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<td>Migration</td>
<td>Destination country</td>
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Nevertheless, globalisation affects all countries and Figure 3 only outlines the current situation. Meanwhile, the world markets continue to change constantly; therefore, it may happen that China will face the same problems in the future as Europe is confronting today: an ageing population and labour shortages. Although China and India are currently destination countries in terms of investments, job relocation and outsourcing, they may become source countries in the near future, when production processes move to other developing countries such as Indonesia and Malaysia.
Globalisation and industrial relations

Globalisation impacts directly and indirectly on industrial relations systems and its actors. The European economy is a good example of illustrating the different effects of globalisation on industrial relations. This is due to the fact that, over the past years, Europe has had to deal with strong challenges stemming from globalisation in the form of intensified competition, the transfer of investments, production relocation outside of Europe, job losses, unemployment and rapid structural changes. Europe's performance has diverged from that of its competitors in North America and Asia: in this regard, the productivity gap has widened and the investments in research and development (R&D) have been inadequate (Sapir, 2003; HM Treasury, 2005). Therefore, European labour markets are currently facing major challenges. On the one hand, high expectations exist related to the competitiveness of the European economy. This means that labour markets will have to become more flexible as employers demand further deregulation of the labour market in order to successfully cope with worldwide competition. The casualisation of labour is also growing due to economic liberalisation, changes in ownership and technology, in addition to cost-cutting competitive strategies of employers. On the other hand, the European social model underlines the importance of employment security and social cohesion as workers seek greater job security in light of rapid structural change and job relocation outside of Europe. The key issue is how to find a balance between a modernised European social model and the flexibilisation of labour markets while remaining competitive.

Pressures of globalisation affect employment relations and industrial relations at regional, national and international levels. These pressures interact with national characteristics of: the economic and political system; the type of government; legislative developments; industrial stages; the exposure to globalisation; the influence of labour and the state in each country; and different policies regarding industrial relations.

Figure 4 highlights some of the effects and challenges that globalisation has on industrial relations systems. As already mentioned, globalisation increases the competitiveness and inequality among countries. Productivity growth constitutes the key element of the economic convergence process. It is therefore important to note that productivity growth should be higher than wage growth; otherwise, it could harm employment growth. Over the past 20 years, the process of globalisation has accelerated as the internationalisation of trade, services, communications, transportation and investments has increased. Under globalisation, investments are easily made worldwide, and industries and services move from one country to another, thus restricting opportunities for permanent employment relationships to the benefit of economic performance. Driven by further technological advances, production processes are becoming increasingly fragmented, which enables economic activities to become more international, specialised and tradable. To improve their competitiveness, many MNCs sought to relocate their business operations to countries where labour is cheaper and workers are less protected. In an effort to attract investments, many countries have bid against each other in order to be able to lower wage levels and working conditions. As a result, living standards have been stagnating or even declining in these countries.

In addition to the effects of globalisation, Europe, as well as some other economically more advanced countries, must also meet the combined challenges of low population growth and an ageing population. In light of these challenges, countries will have to improve labour productivity, employ more people and guarantee long-term growth and social cohesion. In this context, it appears to be
impossible for developed countries to handle their current demographic situation without allowing for labour migration originating from developing countries; in particular, the migration of skilled workers is encouraged. At the same time, developing countries, especially China and India, are facing further population growth and a labour surplus. At least over the next 20–30 years, these countries will have a relative advantage over the more developed countries assuming they are able to control labour costs, since most of the labour intensive production will be concentrated in these countries and their neighbouring regions.

Although the current phase of globalisation facilitates the free movement of capital, as well as of goods and services, restrictions on cross-border movements of people have not been eased. Therefore, it remains a challenge for developing countries to overcome visa requirements and other restrictions regarding the free movement of labour. However, since labour migration raises competition between foreign and domestic workers with varying implications for countries sending and receiving labour, the latter countries have implemented legal measures to restrict labour market access for migrant workers, thus limiting job competition between foreign and domestic workers. Like any of the developed countries, the developing countries also fear losing skilled workers who were educated and trained at great public expense. At the same time, the developing countries will have to establish a reliable system for providing literacy and vocational skills training to all potential candidates in the labour market together with a support system to guarantee basic health and social security cover for workers. Nonetheless, the main problems that developing countries are currently facing relate to underemployment and disguised unemployment.

**Figure 4 Effects and challenges of globalisation on industrial relations systems**

Globalisation has a contradictory impact on industrial relations. On the one hand, it is accelerating economic interdependence between countries on an intraregional and interregional basis and encouraging similar business approaches of individual companies in competitive markets. This may lead to some convergence in industrial relations arrangements worldwide. On the other hand, evidence exists that industrial relations in some countries resist the convergence trend; such resistance from industrial relations actors is based on particular national and regional circumstances, such as in Europe and Asia (Macdonald, 1997). The effect of globalisation on industrial relations
procedures and their substantive outcomes depends on the conditions under which industrial relations take place within a country. For instance, the pressure for greater flexibility in the use of labour is omnipresent, but the outcome is constrained by cultural norms valuing hierarchy and security. Countries’ strategies vary due to historical circumstances, resources and internal political dynamics, including the influence of trade unions. Thus, the extent and impact of globalisation differs between countries, resulting in similar concerns for policymakers yet leading to variable responses and industrial relations outcomes (Frenkel and Peetz, 1998). No common understanding exists in research concerning the influence of globalisation on industrial relations; the viewpoints of the social partners mainly reflect two directions (Thelen and Wijnbergen, 2003).

1. Globalisation pushes all countries towards economic liberalism based on the interests of a free market and minimal government interference, namely neoliberalism and deregulation. Globalisation processes thus encourage companies to lower labour costs and increase labour market flexibility while undermining the power of trade unions to prevent this trend.

2. The impact of globalisation varies considerably according to the institutional setting within each country, since the institutional framework influences employer strategies and business interests. Therefore, a stronger emphasis on economic growth based on free market forces and reduced government regulation will emerge in the liberal market economies but not in any of the coordinated market economies where companies have a stake in preventing deregulation.

The Benchmarking working Europe 2007 report argues that ‘much depends on the nature of the process of globalisation. If for example, a new sector, such as ICT, is driving the expansion of global trade and world exports, then the economy needs to rely more on external flexibility in order to shift employment to new companies and sectors. In the first half of the present decade, however, the expansion of global trade has been dominated by the existing industries, such as steel, chemicals, machinery and transport equipment. In this case, the process of change can rely equally on internal flexibility of workers and jobs moving inside existing firms’ (ETUI-REHS, 2007, p. 7). In the long term, the first scenario will probably be more realistic, at least for developed countries.

Research about tensions and challenges associated with globalisation focuses mainly on international issues, namely on: labour standards and trade; the problem of adjusting to international competition; the cross-cultural management of work and the transfer of ‘best practice’ examples; and the prospects for transnational trade unionism and collective bargaining. Giles (2000) argues that the majority of studies look at globalisation as an ‘external’ factor which affects industrial relations. In other words, globalisation is examined in terms of its ‘impact’ on what lies within the field. Globalisation is also commonly perceived as being external to individual countries and national labour legislation, thus originating ‘above’ the national level. In this context, globalisation is regarded as a pressure that comes from ‘outside’ the country. Since globalisation is portrayed as emanating from the outside, it is frequently reduced to a small number of relatively discrete changes or trends which, like other transformations in the industrial relations environment, represent challenges to or pressures on national industrial relations systems and institutions.
Most of the countries under examination – except Brazil, China, India and the US – have ratified the Internal Labour Organization (ILO) Convention No. 87 of 1948 concerning Freedom of association and protection of the right to organise. ILO Convention No. 98 of 1949 concerning the Application of the principles of the right to organise and to bargain collectively was ratified by all of the countries under observation, except China, India and the US. These conventions place an obligation on national governments to introduce legislation which provides for these principles to be applied. However, no explicit reference to freedom of association exists in the Australian constitution. The Brazilian constitution is somewhat ambiguous, and in practical terms it does not provide freedom of association.¹ In the EU25, trade unions and employer organisations are free and independent associations and the statutory right is recognised throughout the EU.² The institutional context in the EU is solid and the basic rules of national labour law systems have not been changed in recent years (European Commission, 2006c).

Trade unions in EU25 and Global7 countries

Trade union density
The trade union density which is measured as the ratio of actual to potential membership differs significantly among the countries examined, ranging from 80% in Denmark to 2.6%–6% in India (Figure 5). In the EU25, the density rates are higher in the Nordic countries, while France, Spain and most of the EU10 show relatively low trade union density rates. The overall weighted trade union density rate in the EU stands at about 25% of wage earners (Van Gyes et al, 2007). Trade union density in Australia, Brazil, India, Japan and the US is lower than the EU25 average, but it is higher in China and South Africa. Nevertheless, these figures are not fully comparable, as they concern only the formal sector in India and South Africa. For example, in India, only 13% of the labour force is in regular paid employment and barely 7% is in the organised sector and only 4% in the unionised sectors of the economy. The Brazilian unionisation rate is overestimated for the following two reasons: first, Brazilian trade unions are entitled to a ‘union contribution’ which equals the wage of one and which is compulsorily and controlled once a year; secondly, older workers in rural areas need a statement from the trade union justifying that they are rural workers, in order to receive their pension benefit.³

According to Van Gyes et al (2007), a downward trend in union density has been emerging across Europe: most of the EU Member States experienced a decline in trade union density over the period from 1995 to 2004, with trade unions in most of the central and eastern European (CEE) countries facing dramatic membership losses. For example, the largest membership declines were recorded in Hungary (75%), Poland (55%), the Czech Republic and Estonia (about 50%). These severe declines in trade union density rates were mostly due to changes of the economic system: the former semi-governmental trade unions, which mainly offered additional social benefits to workers, were replaced with modern trade unions, as workers’ representative bodies started to protect workers’ interests. In

¹ According to Brazilian expert Hélio Zylberstajn, Article 8 of the Brazilian constitution does provide for the freedom of association for trade unions. However, the same article stipulates that not more than one trade union should be present in the same ‘territorial basis’ and that the smallest territorial basis should be the municipality. In other words, the constitution explicitly refers to freedom of association, but it does not provide for it.

² For more detailed information on the right to join trade union organisations and employer organisations in each of the EU25 Member States, see, for example, Valdés Dal-Re (ed.), 2006.

³ According to Hélio Zylberstajn, many workers believe that they are trade union members because of the compulsory union contribution; therefore, they may give an affirmative answer to the respective trade union membership question in the household survey. In rural areas, many workers become trade union members just before they retire, in order to receive the pension benefit, thus increasing the actual rate of unionisation.
the EU15, membership losses have been considerable in Austria, Germany, Greece, Ireland and Portugal, ranging from 20% to 30%. During the 1990s, trade unionism also declined dramatically in Australia, decreasing from 40.5% in 1990 to 22.4% in 2005. Peetz (1997) argues that the speed and size of trade union membership decline in Australia is due to legislative changes, which make it more difficult for employees to become members of trade unions and which increase employer hostility towards trade union membership.4 In India, the trade union movement is losing momentum, and in Japan the trade union density rate is also continuously decreasing. Trade union density remained stable in the US over the last year; however, it has also declined over the last two decades, with a density rate of 20.1% in 1993 and 12.5% in 2005. While the majority of countries face declining trade union membership rates, Brazil and China have been experiencing some expansion in trade union membership. Moreover, South Africa also recorded a rapid growth in trade union membership during the 1980s and 1990s, which was primarily the result of full trade union rights being extended

4 From 2004 to 2005, trade union membership increased by 70,000 people in Australia, which did not correspond to an increase in the trade union density rate since employment also grew strongly during this period.
to public sector employees. However, over the past five years, trade union density rapidly declined in South Africa, falling from close to four million members in 2001 to about three million members in 2006. This is due to tighter regulations in relation to trade union registration and to the fast casualisation of the workforce.

**Main national trade union organisations**

In the EU, most trade unions are organised on a sectoral or occupational basis, with the traditionally more powerful blue-collar unions losing influence and the white-collar unions gaining in importance (European Commission, 2006c). Across Europe, public sector trade unionism is becoming increasingly significant in many of the Member States; this is largely as result of loss of power in the private sector and an enhanced mobilisation in the public sector due to increased privatisation and the introduction of new management principles (Van Gyes et al, 2007, p. 7). In Brazil, India and South Africa, trade unions have well-established links with the main political parties and have considerable influence despite low density rates. In South Africa, the trade unions are also organised along racial lines. In many of the EU Member States and Global7 countries some trade unions are not affiliated to any trade union confederations, but have maintained an autonomous status.

Table 1 outlines the number of the main national trade union organisations in the countries under examination (for a more detailed description of the organisational structures in the EU25, see Van Gyes et al, 2007 and European Commission, 2006c; for further information on trade union organisations in the Global7 countries, see Annex 3). In Australia, the vast minority of trade unions are affiliated to the Australian Council of Trade Unions (ACTU) which represents almost 100% of trade union members in the country. China also has one central trade union organisation – the All-China Federation of Trade Unions (ACFTU), which has a matrix-based structure with its organisation being extended vertically and horizontally into provinces, cities, counties, districts, streets, communes, sectors and companies. By the end of 2004, under the leadership of the ACFTU, 31 trade union federations existed in provinces, autonomous regions and municipalities which were directly under the control of the government and 10 national industrial unions were in operation. In Japan, the Japanese Trade Union Confederation (RENGO) is the biggest of the main trade union organisations, although some other smaller trade union bodies argue that they are also major trade unions. Among the EU25, Austria, Ireland, Latvia, Slovakia and the UK have only one central trade union confederation.

In the US, the main national trade union organisation – the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) – split into two organisations in the summer of 2005, reducing the size of AFL-CIO and also forming the Change to Win Federation. The split occurred due to different viewpoints among the affiliated unions in relation to the organisational management, role and activities of AFL-CIO. Greece, Malta, Portugal and Spain together with Estonia have two main trade union confederations; in Estonia, Greece and Malta, the central trade union confederations are divided between the public and private sectors.

In other countries – for example, in France, Hungary, Italy and Slovenia, as well as in Brazil and India – trade unions have a rather complicated and fragmented confederate structure. In the EU Member States, divisions at confederate level are often based on political and/or religious principles. In this instance, the Scandinavian countries, namely Denmark, Finland and Sweden, are exceptions as trade union bodies are organised along occupational lines. Brazil and India have several central
trade union organisations, most of which are controlled by different political parties, while the central trade union organisations in South Africa are divided along political and racial lines.

Table 1 Number of main national trade union organisations

<table>
<thead>
<tr>
<th>Number of main trade union organisations</th>
<th>EU15</th>
<th>EU10</th>
<th>Global7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Austria, Ireland, UK</td>
<td>Latvia, Slovakia</td>
<td>Australia, China, Japan*</td>
</tr>
<tr>
<td>2</td>
<td>Greece, Portugal, Spain</td>
<td>Estonia, Malta</td>
<td>US</td>
</tr>
<tr>
<td>3</td>
<td>Belgium, Finland, Germany, Luxembourg, Netherlands, Sweden</td>
<td>Lithuania, Poland</td>
<td>South Africa</td>
</tr>
<tr>
<td>4</td>
<td>Denmark</td>
<td>Cyprus, Czech Republic</td>
<td></td>
</tr>
<tr>
<td>5 and more</td>
<td>France, Italy</td>
<td>Hungary, Slovenia</td>
<td>Brazil, India</td>
</tr>
</tbody>
</table>

Note: In Japan, regulation of the main trade union organisation is inexistent; RENGO is a central trade union organisation, but some other smaller trade union organisations argue that they are also main trade union organisations. Sources: EIRO, Country profiles, 2006; National experts’ comments, 2006.

A variety of trends exists regarding the organisational structures of trade unions in the countries examined. Trade union mergers, as well as splits, have occurred in several countries in recent years. According to the Commission’s report Industrial relations in Europe 2006, merger activities took place in several EU Member States in 2006: in Malta and Lithuania, negotiations were held in relation to possible mergers between trade union confederations; in Slovenia, five public sector organisations founded a new trade union confederation; and in Denmark, a new cooperation agreement was signed. Among the Global7 countries, the New Workers’ Central Union (NCST) was established in Brazil in 2005, for example. NCST was founded by trade unions which were mostly affiliated to the official state-registered industry-wide federations and national sectoral confederations. These trade unions united for the first time ever to form a central trade union organisation, with the aim of resisting President Lula’s attempt to reform labour law. At the same time, organisational divisions of trade unions have taken place in Brazil: the Militant Confederation (CONLUTA) – a new central trade union organisation – was recently established by trade unions formerly affiliated to the Unique Workers’ Central (CUT) and Workers’ Party (PT) in opposition against President Lula’s government policies. In the US, the major split in AFL-CIO came about as a result of large trade unions leaving the federation to form Change to Win in September 2005. The trade unions in question argued that AFL-CIO focused too many of its resources on politics and not enough on workers’ representation in key sectors.

Employer organisations in EU25 and Global7 countries

Employer organisation density

Membership density of employer organisations is an indicator which is comparable with trade union density. Employer organisation density is defined as a proportion of the total employee population
working for a private sector company that is a member of an employer association (Van Gyes et al., 2007, p. 11). Looking at the density rates in the countries examined in this study, it appears that they vary significantly, ranging from a density rate of 100% in Austria to 20% in Poland (see Figure 6). In the EU, the weighted average employer rate of organisation stands at about 55%–60%. On average, therefore, a considerable majority of private sector employees in the EU25 work for a company that is also a member of an employer organisation (ibid, p. 8). Unfortunately, no comparable data exist for the Global7 countries for several reasons: the majority of these countries do not gather such statistics; no reliable estimates of employer organisation membership density exist, as is the case in Australia; or the concept of membership density of employer organisations is missing, as in Japan. Only for China, a respective figure was recorded in 2004 which stood at 62%. In general, employer organisations appear not to be confronted with a declining membership density; this is probably due to the fact that employers are active in networking and lobbying activities in various fields, such as in economics, competition policy.

**Figure 6** Employer organisation density rates, by country, 2004 (%)

![Graph showing employer organisation density rates](image)

**Notes:** The density rate is measured as the percentage of employees working in the country for employers that are members of an employer organisation. According to Swedish expert Anders Kjellberg, the employer organisation density rate in Sweden stands at about 76%.

No data are available for Australia, Brazil, India, Japan, South Africa and the US.

Sources: EIRO, Country profiles, 2006; National experts' comments, 2006.

**Main national employer organisations**

Historically, the organisational development of employers followed two different logics in the EU. First, in many European countries, a system of commercial chambers has been established with quasi legal status. In most of the countries, these chambers became purely administrative bodies and service organisations, or they specialised in lobbying activities related to the product market. These chambers, however, play an important role in the industrial relations system in countries such as...
as Austria, Luxembourg, Slovenia and, to a lesser extent, Cyprus. Secondly, all of the EU Member States, including those with an important chamber system, have seen the establishment of employer organisations based on voluntary membership; in most cases, these organisations required an official registration or recognition for being active in the field of industrial relations. The power and the role of the main national employer organisations are important factors in terms of centralising and coordinating a country’s industrial relations system (for a more detailed description of the main national employer organisations in the EU25, see Van Gyes et al, 2007 and European Commission, 2006c).

Table 2 highlights the number of main national employer organisations in the different countries under examination (for further information on the employer organisations in the Global7 countries, see Annex 4). The power and structure of employer organisations vary across the countries studied, as does the number of main national employer organisations in each country. Some countries, such as Italy, Hungary and Portugal, encounter difficulties in establishing unified employer umbrella organisations.

### Table 2  Number of main national employer organisations

<table>
<thead>
<tr>
<th>Number of main employer organisations</th>
<th>EU15 countries</th>
<th>EU10 countries</th>
<th>Global7 countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Finland, Spain, UK</td>
<td>Estonia, Latvia</td>
<td>China, Japan</td>
</tr>
<tr>
<td>2</td>
<td>Austria, Germany, Ireland</td>
<td>Cyprus, Lithuania, Slovakia</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Denmark, Greece, Netherlands, Sweden</td>
<td></td>
<td>Australia, India, US</td>
</tr>
<tr>
<td>4</td>
<td>France</td>
<td>Czech Republic, Malta, Poland, Slovenia</td>
<td></td>
</tr>
<tr>
<td>5 and more</td>
<td>Belgium, Italy, Luxembourg, Portugal*</td>
<td>Hungary</td>
<td></td>
</tr>
</tbody>
</table>

Notes: In Brazil, some sectoral employer organisations are present, while in South Africa and the US business organisations exist that do not play an identifiable role in national industrial relations.

* In Portugal, four important employer organisations are present, of which all have a bargaining role at national level, namely the Confederation of Portuguese Industry (CIP), the Confederation of Commerce and Services of Portugal (CCP), the Confederation of Portuguese Farmers (CAP) and the Confederation of Portuguese Tourism (CTP); other trade organisations, such as the Entrepreneurial Association of Portugal (AEP) and the Portuguese Industrial Association (AIP), do not participate in national collective bargaining (for a more detailed discussion, see the EIRO Country profile for Portugal, 2006).


There are no centralised employer organisations as such in Brazil, South Africa and the US. Nevertheless, Brazil has five national sectoral employer organisations in sectors such as manufacturing, commerce, financial intermediation, transportation and agriculture. These employer bodies are organised in a similar way to the country’s trade unions. In South Africa, a large number of business associations that are organised along sectoral, racial and political lines are affiliated to a single employer organisation for tripartite bargaining and consultation. In the US, no national intersectoral employer body has been identified which plays a role in industrial relations; employers in the US are generally organised in industry associations and in general business associations, such as the US Chamber of Commerce. In some EU Member States, macrosectoral organisations are more
significant than the main general federations, and those main organisations do not always play a significant role in collective bargaining. While the leading employer organisations play a significant role in industrial relations in the smaller western European economies, in the large economies – as in Germany, for example – sectoral employer organisations are more important (European Commission, 2006c, p. 9).

A variety of trends emerge in terms of the organisational structures of employer confederations. In the CEE countries, mergers and divisions of employer confederations occur on a larger and occasionally more turbulent scale (ibid, p. 10). In recent times, mergers have also taken place in several of the EU15 countries, for example in Finland, Luxembourg and the Netherlands. Such merger activities among employer confederations result from a push for economies of scale or the integration of industrial relations interests and trade interests (ibid, p. 10). In China, the China Enterprise Confederation (CEC) and the China Enterprise Directors’ Association (CEDA) were the major representatives of Chinese employers until 1988. After the merger of these two employer organisations in 1988, only one major non-governmental employer body is present in the country. Looking at the organisational structure of employer bodies in Australia, a considerable number of mergers have taken place among employer organisations. The most noteworthy of these mergers has been the formation of the Australian Chamber of Commerce and Industry (ACCI) in 1992, resulting from the merger of national employer associations of state-based Chambers of Commerce, Chambers of Manufacturers and the Australian Council of Employers Federations. The Australian Industry Group (AiG) was established in 1998 as the result of a merger between the Metal Trades Industry Association (MTIA) and the Australian Chamber of Manufacturers. In Japan, the business federation Nippon Keidanren is an economic organisation which was created in May 2002 through the merger of the Japan Federation of Economic Organisations, Keidanren, and the Japan Federation of Employers’ Associations, Nikkeiren.

Splits between employer organisations over the issue of ‘representativeness’ have also occurred in some European countries. For example, the main general employer organisation in Denmark, the Danish Confederation of Employers (DA), is undergoing an organisational restructuring process because a major member organisation, the Confederation of Danish Industries (DI), has expressed doubts about the need to be serviced by a central employer confederation (ibid, p. 10).

**Future challenges for industrial relations actors**

The EU15 have on average the highest trade union density while the Global7 countries register the lowest union density rates, with the EU10 falling between these two country groups. However, all of these country groups are highly diverse; thus, drawing up any generalisation means taking into account country-specific aspects, such as historical and cultural developments, as well as legislation and the role of the state. Moreover, it should be noted that trade union density is only one indicator and does not provide the whole picture: for instance, trade unions can play a particularly influential role in society despite a low membership density rate, as is the case in France where the collective bargaining coverage is 90%. Another example in this instance is the Brazilian formal sector where all workers are covered, although the country's overall unionisation rate is estimated at only about 20%. Nevertheless, if trade unions become too demanding in terms of workers' interests, employers may relocate production to countries where labour markets are less regulated and trade unions are less powerful. In this respect, the Global7 countries and the EU10 have a competitive advantage. In reality, however, membership density and trade union influence do not represent the most critical
factors for employers when it comes to the relocation of production processes; instead, labour costs, labour market flexibility and the openness of the economy, as well as other factors, determine an employer's decision to relocate production processes.

The EU15 also show, on average, the highest employer organisation membership density while significantly lower density rates have been recorded in the EU10. Membership data for the Global7 countries is lacking in most cases; comparative figures only exist for China while some qualitative information is available about other Global7 countries. However, employer organisation density rates unveil little about the influence of these organisations in society, since small employer associations can have a particularly powerful position in society. Furthermore, a country's traditions and historical developments are also of high significance. In the EU15, the membership rate of employer organisations is much higher than that of the other countries examined in this study. This is related to the fact that EU-level social dialogue has been ongoing for several years and employers therefore show greater interest in being organised in federations. In most of the EU10 countries, employer organisations had to be established or re-established after the economic and political transition process and employers thus faced the need to join employer federations. In terms of joining a federation, employers consider it important to know whether the federation actively participates in lobbying activities of the government and/or other international organisations. In the EU10, the consolidation processes will most probably intensify as employers are increasingly facing the need for representation in different industry and sectoral negotiations and industrial relations coordination at EU level. In addition, in the EU10 trade union organisations or employer organisations are often missing in certain sectors of the economy (see, for example, the sectoral studies conducted by the Catholic University of Louvain5 and EIRO6).

Despite existing differences between these country groups, both trade union and employer organisations are facing common challenges in all of the countries surveyed. These challenges concern several issues, such as membership rates, services offered to members, the scope of activities and the effective use of available resources. As already highlighted, the majority of countries have to deal with declining membership rates and/or a fading role of trade unions in society. Various reasons can be attributed to such developments.

■ In many countries, the manufacturing and public sectors constituted the traditional support base of trade unions. Due to structural economic changes, trade unions are losing their traditional membership base, that is, blue-collar workers in most of the countries examined in this study. Trade unions are currently experiencing considerable difficulties in maintaining and increasing their membership levels, as the source of economic growth in many countries is increasingly coming from the services sector. In the services sector, many workers are better qualified and have demonstrated a certain reluctance to join trade unions. An increasing services sector also means a growing number of smaller enterprises, in which it is more difficult to set up a trade union.

■ Traditional full-time permanent employment is declining, and simultaneously the proportion of non-unionised members in the labour force is increasing in all of the countries surveyed. According to the Commission's report Industrial relations in Europe 2006, these tendencies will

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5 Since 1997, the Labour science institute of the University of Louvain has been coordinating a comparative research programme examining different aspects of industrial relations systems. For research papers, see http://www.uclouvain.be/en-4333.html
6 See EIRO webpage http://www.eurofound.europa.eu/eiro/comparativestudies.htm for different sectoral studies (for example, agricultural, postal, airline, etc., sectors).
particularly affect the new EU10. In the latter countries, the existence of different flexible employment arrangements is relatively new. In light of this, the trade unions have to cope with rising self-employment, as well as with a relatively large agricultural sector in some countries such as in Poland.

In China and India, the policies and practices include, among others, the elimination or marginalisation of trade unions, as well as exempting export processing zones from national labour legislation (Venkata Ratnam, 2006). These countries have thus restricted the establishment of trade unions, as well as the scope of collective bargaining; they also retain the right to intervene in the bargaining process and in industrial disputes in a wide variety of circumstances (Macdonald, 1997). Furthermore, the significant size of the informal sector in the economy, which is particularly the case in Brazil, India and South Africa, has thus restricted the potential membership base of trade unions and continues to prevent trade unions from sharing a relatively equal bargaining power with the employers.

In the future, trade unions will most likely face declining membership levels, and as several researchers (see, for example, Macdonald, 1997; Ali, 2005; Venkata Ratnam, 2006) have highlighted, one way of increasing trade union membership is to develop social partnership in non-traditional sectors of the economy, such as in the information technologies (IT) sector and in different branches of the services sector. Frege and Kelly (2004) argue that trade unions should also seek greater ‘empowerment’ of the workforce by targeting specific workplaces or occupational groups. Another option to counteract membership losses for trade unions is merging their organisations to cut back on the use of resources. To attract and/or retain members, the services of trade unions have to become more professional; this means innovating in terms of trade union activities, notably delivering new services, focusing on community-based activism, campaigning for local issues, as well as proposed welfare reforms (European Commission, 2006c). Trade unions will have to cope with changing aspirations and needs of a new-generation workforce. All of these aspects represent major challenges for trade unions; if unions do not adjust their activities to the changing economic situation, they may become marginalised and other forms of employee representation may take over their functions.

Overall, employer organisations are apparently not confronted with a severe decline in membership in recent times; this is probably due to the fact that employers are active in networking and lobbying activities in several fields of the economy. Nevertheless, these organisations face certain challenges related to the recruitment of new members and their organisational preferences, for example, in promoting membership among small and medium-sized enterprises (SMEs) or extending representation in the services sector. In Australia, changes in collective bargaining have led to many employer organisations playing a much less active role in bargaining; they have thus been forced to focus their attention on developing advisory services. Some of the Australian employer organisations have started demanding a fee for their services instead of continuing a membership-based revenue model. Furthermore, employer organisations face increasing pressure from their members to cut down on resources, enhance the accountability of the leadership and be more assertive in promoting entrepreneurship (ibid). The power and structure of employer organisations play a significant role in determining the form and content of national industrial relations practices.

Due to the challenges arising from globalisation and an ageing workforce, the social partners in the majority of countries surveyed have realised that they should widen their scope of activities. Labour migration, production relocation, as well as the change in human capital and technologies, represent
only a few key challenges; many countries also face a relaxation in employment protection legislation and an increasingly flexible labour market. In the future, social partners will have to cope with more direct communication and direct workers’ participation, as with increasing atypical and non-standard patterns of employment; therefore, the need arises for more cooperation between the social partners. Macdonald (1997) argues that a broader approach to industrial relations should seek to harmonise industrial relations and human resources management, by expanding the boundaries of both fields. In the coming years, industrial relations will address, much more than they currently do, issues related to workplace relations and people. New practices are directed at improving the flexibility and skills of the workforce, within an environment that places more emphasis on communication, cooperation and trust between managers, workers and their representatives. At the same time, international integration and production relocation mean that cross-border and overseas cooperation will gain in importance, as will the improvement of working conditions, securing lifelong employability and increasing wages. All of these aspects will require a lot of lobbying in organisations between different interest groups.
Collective bargaining

Levels of collective bargaining
In terms of industrial relations, typical for all countries is that decisions are made in the triangle of the government, the employers and the trade unions. The shape of the triangle varies from country to country depending on the power balance between the actors involved and the traditions of industrial relations in the country (see Figure 7). It is also worth noting that a social dialogue triangle also exists at EU level between the Commission and EU-level employer and worker representative organisations. This type of ‘continental’ industrial relations model cannot be found on any other continent; it is thus a particular characteristic of the EU (Kauppinen, 2006).

Figure 7  Collective bargaining levels


Among the EU25, the national level as the main level of collective bargaining is characteristic only of Finland, Ireland and Slovenia. In Ireland, three-year national-level partnership agreements have been the tradition since 1987, and the latest 10-year social partnership agreement ‘Towards 2016’ continues this tradition of centralised national framework agreements. In Finland, however, the 2007 wage bargaining took place at sectoral level without any negotiations at national level, which has traditionally been the case since 1968.

In most of the EU countries, if multi-employer bargaining exists, this type of bargaining is organised below national level. The most common collective bargaining level in the ‘old’ EU Member States, as well as in South Africa, is at sectoral or, in some cases, also at regional levels. In South Africa, most of the industry sectors’ bargaining committees were established during the 1960s. The dramatic growth in the number of ‘independent’ black trade unions in the 1980s resulted in the emergence of plant-level and later company-level collective bargaining when large national companies concluded agreements covering all workplaces. In Brazil, sectoral collective bargaining takes place at municipal,
micro, regional or state levels, but rarely at national level. In most of the new EU10 and Global7
countries, collective bargaining takes place at company level.

**Collective bargaining coverage and trade union membership**

About two thirds of the EU25 workforce is covered by collective agreements. However, collective
bargaining coverage varies widely in the EU25: it is much lower in the EU10 – covering, on average,
between 30% and 40% of the workforce – than in the EU15 with around 75% of the workforce
covered by collective bargaining (see Figure 8; for a detailed description, see Van Gyes et al, 2007).
In the Global7 countries, with the exception of Brazil and the US, the coverage rates are lower than
the EU average (for the main features of collective bargaining in the Global7 countries, see Annex
5).

In some countries, the collective bargaining coverage rate corresponds with the density rates of trade
unions. Nevertheless, in most of the countries surveyed, remarkable gaps exist between these two
indicators; the most obvious example in this instance is France, which has one of the lowest trade
union density rates and one of the highest bargaining coverage rates in Europe. The single most
important explanation for this contrast is the presence of statutory extension procedures (see Table
6 and Table A4 in Annex 5). Thus, in many countries, government action continues to be a crucial
factor for the large-scale protection of workers by independently bargained bipartite agreements.

In terms of collective bargaining coverage, Figure 9 distinguishes between four different country
groups, namely:

- the Nordic countries – Denmark, Finland and Sweden – form a group of countries, in which both
  trade union density and collective bargaining coverage are particularly high;
- Cyprus and Malta also show a relatively high level of both trade union density and collective
  bargaining coverage but these rates are lower than in the Nordic countries;
- the third group of countries comprises most of the EU15, Slovenia and also Australia; in these
  countries, collective bargaining coverage is high, but trade union density stands at a relatively low
  level;
- the remaining countries form one group, in which both the trade union density and collective
  bargaining coverage rates are relatively low; within this country group, the Baltic countries – that
  is, Estonia, Latvia and Lithuania – together with India and Japan form a subgroup, in which the
  respective industrial relations indicators are at an extremely low level.

It is worthwhile noting that a high correlation transpires between the level of collective bargaining
and the coverage of collective agreements.

**Workplace representation**

A great variety of forms of workplace representation exists in the EU25; each type of workplace
representation reflects the particular characteristics of the industrial relations system in the country.
The main differences in workplace representation lie within the legal framework, the structures of
national industrial relations models and the level of participatory rights (for a detailed description of
workplace representation in the EU25, see Van Gyes et al, 2007, pp. 19–21). In many EU Member
States, the statutory law creates the national framework for representation, while in the Nordic
Figure 8  Collective bargaining coverage, by country, 2004 (%)

Notes: According to the EIRO report, *Industrial relations in the EU, Japan and USA, 2001* (http://www.eurofound.europa.eu/eiro/2002/12/feature/tm0212101f.htm), the collective bargaining coverage rate in the US was 15% in 2001; according to the Bureau of Labor Statistics (http://www.eurofound.europa.eu/eiro/2002/12/feature/tm0212101f.htm), the coverage rate in 2006 was 13%.

No data are available for Brazil and South Africa.


Figure 9  Trade union density and collective bargaining coverage, by country group, 2004 (%)

Note: No data are available for Brazil and South Africa.


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7 In Brazil, around 40% of employees are covered by collective agreements; the indication of a 100% of coverage refers to the formal sector which corresponds to about 40% of the labour market, according to Brazilian expert Hélio Zyliberstajn. Although Brazilian trade unions are not allowed to represent workers’ interests in day-to-day workplace matters, they are the legal representatives of the collective interests of an entire sector of the economy, which covers both organised and non-organised workers.
countries collective agreements form the basis for workplace representation which is supported by legislation on cooperation at workplaces. The most important piece of European legislation on workplace representation is Council Directive 2002/14/EC establishing a general framework for informing and consulting employees at company level, without harmonising workplace representation throughout Europe. Most of the EU countries have transposed the directive into national law and thus adapted their system of workplace representation according to the Council directive. The most significant statutory changes resulting from the transposition of the Council directive into national law occur in previously non-statutory countries, such as Ireland and the UK, as well as in some of the new EU Member States (European Commission, 2006c).

According to the Commission report Industrial relations in Europe 2006 and the EIRO country profiles, several differences come to light in relation to workplace representation in the EU Member States. In terms of structure, disparities arise according to whether workers' representation is elected by all employees, elected or nominated by trade union members within the company, or whether a combination of these two channels is practised. The different forms of representation may exist in parallel, which is often actually the case. For example, single-channel systems are adopted in Finland, Ireland and Sweden, while the dual-channel system is present in Denmark, Italy and Norway. Particularly significant variations occur with respect to the legal provisions of minimum thresholds for workplace representation: Portugal and Sweden have no such provisions, while Belgian law requires at least 100 employees to form a works council. Furthermore, participation rights of employee representatives also vary between the EU25. While statutory provisions in many Member States require employers to provide information on issues such as financial and business matters, employment levels and plant closures, as well as to consult with employee representatives on structural changes, co-determination or joint decision-making between both parties is less common in the EU25.

No comparable system of statutory consultation and participation of employees is present in the Global7 countries. The following paragraphs outline some typical features of workplace representation in the countries examined in this study (see also EIRO, Country profiles, 2006).

**Australia**

Australian workers do not have any statutory consultation and participation rights and workers' participation in decision-making processes at company level is entirely at the discretion of management. Traditionally, trade unions in Australia were granted exclusive jurisdiction to represent workers' interests and, once registered, they could claim coverage of groups of workers in particular occupations or industry sectors. The arbitration system granted trade unions recognition and provided them with access to industrial tribunals to settle disputes. Due to legislative changes in the early 1990s, trade unions no longer have the exclusive rights to represent worker's interests. In addition, employers have the discretion to determine the form of agreement which significantly curtails the ability for trade unions to negotiate on behalf of their members.

**Brazil**

Trade unions in Brazil are not allowed to represent workers in day-to-day workplace matters, despite being the legal representatives of the collective interests of an entire sector of the economy, which covers both organised and non-organised workers. To overcome this deficiency of the system, trade unions have used their legal rights of partial representation. Legislation provides for the possibility to form a Health and Safety Joint Committee in every workplace, as well as for job security for the elected members of such committees. Moreover, union-elected directors also benefit from the right
to job stability. Trade unions tend to increase the size of the union-elected board in order to grant job
security to a larger number of trade union representatives in each workplace.

China
In China, most companies, with the exception of new businesses and small enterprises, have ‘worker
congresses’; their role is to approve collective labour agreements and select trade union staff.

India
Indian labour legislation provides for the establishment of work committees and joint management
councils in companies, of which canteen and safety committees are statutory. All establishments
employing more than 250 workers should provide canteen facilities and set up a canteen committee.
At shop floor or plant level, different bipartite bodies are active, namely the work committees and
safety committees. The primary task of these committees is to monitor and control the enforcement
of labour legislation, as well as the health and safety of workers.

Japan
In Japan, employee participation at company level is not governed by legislation, but a high level of
employee–management cooperation exists in the form of a permanent structure. In these committees,
labour and management consult on issues related to management, production, working conditions
and welfare programmes for workers. It is a voluntary system, so that the role and functioning of the
joint consultation system depend largely on the company. In some companies, joint consultation is
a preliminary stage before collective bargaining, while in others different matters are discussed during
joint consultation and collective bargaining.

South Africa
South African legislation is based on the principle of ‘regulated flexibility’ or ‘flexible regulation’
which tolerates and recognises any type of mutually-agreed bargaining, as well as negotiating or
consultation structure. This has resulted in a large variety of types of employee participation initiated
by employers together with shop stewards. Although most trade unions lack the capacity to support
the participation of their shop stewards in such workplace representation structures and many unions
have non-cooperation policies in practice, shop steward committees have little option but to
participate in management-initiated structures or be ignored. In South Africa, almost all indirect
employee participation is union-based and is commonly practised through shop steward committees
and joint union–management task groups in most medium and large workplaces. In addition, many
companies have adopted individual forms of direct participation in problem-solving groups at shop
floor level as part of their initiatives to restructure work and increase the workers’ involvement in and
commitment to the company.

US
US legislation does not provide for structures such as works councils or board-level employee
representation. The National Labor Relations Act (NLRA) prohibits the formation of an employee-
dominated ‘labour organisation’ or ‘employee representation committee’ which deals with
management over pay, working time or employment conditions. The law establishes severe
restrictions on the formation of non-union bodies or committees that address the terms and
conditions of employment, which includes a wide range of issues, such as pay, training, productivity
and efficiency rewards, work assignments, job descriptions and classification, workload and quotas,
as well as recruitment and dismissal. In the US, the type of employee participation varies
considerably, ranging from teams that deal with specific workplace-related problems for short periods to groups that meet for longer periods. These include direct forms of employee participation, such as quality circles and self-managed work teams.

**Coverage of workplace representation**

Workplace representation coverage is defined as the presence of trade unions or similar organisations in a workplace relative to the percentage of employees working in the company (Van Gyes et al., 2007, p. 22). Among the EU Member States, workplace representation coverage differs substantially: while the EU average coverage rate stands at about 50%, it is over 80% in Finland and Sweden, but only 25% or less in the Baltic countries (see Figure 10). The presence and impact of workplace representation vary according to a range of factors, including the sector of activity, the establishment size and the occupational category.

Unfortunately, to date, information about workplace representation coverage in the Global7 countries is very limited. While some evidence exists that an increasing number of Australian organisations have adopted forms of consultation and participation, research for this study suggests that employee participation is largely limited to employee share ownership schemes. In China, some 41.7% of organisations had established worker congresses which covered 58.5% of employees by the end of 2004. In Japan, the joint labour–management consultation system is widely present in companies: in 2004, 37.3% of companies employing more than 30 workers had such consultation structures in place and up to 80.5% of unionised establishments had introduced such systems, as had 17.1% of companies without enterprise-based trade unions. In the US, workplace representation coverage stood at about 14.5% in 2004.

**Figure 10  Coverage of workplace representation, % of employees, 2004**

Notes: Workplace representation is measured as the presence of trade unions or similar organisations in the workplace relative to the percentage of employees (Van Gyes et al., 2007, p. 22). No data are available for Australia, Brazil, India, Japan and South Africa.


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8 In 1994, a survey which was conducted by the Dunlop Commission found that 75% of large employers had some form of employee involvement.
Industrial relations processes and future challenges

In most EU15 countries, collective bargaining at sectoral level predominates, whereas in the EU10 and Global7 countries bargaining mostly takes place at company level. In relation to the EU countries, social dialogue and collective bargaining at EU sectoral level also play a particularly important role and constitute specific features of EU industrial relations compared with other countries in the world. Collective bargaining at sectoral level requires better coordination between the social partners at sectoral and/or industry level, while providing greater social security for workers, as well as similar or equal working conditions throughout a sector or industry. On the other hand, company-level collective bargaining offers higher flexibility to employers and is often accompanied by a lower level of social security for workers. It is particularly difficult to assess whether the trend will be more towards sectoral or company-level collective bargaining in the EU as much will depend on how the new balance between social security and labour market flexibility will be established. Globalisation pushes towards more flexible labour markets and the relaxation of job security, while EU-level social partner negotiations aim to ensure at least a certain level of minimum employment standards for all workers in the EU25. As a result, social partner coordination and cooperation at EU sectoral level will intensify in the future. Consequently, the importance of collective bargaining at sectoral level in the EU10 may increase, which would lead to the establishment of new sectoral-level social partner organisations and/or a strengthening of their activities.

The current trend towards decentralisation and individualisation of employment contracts is negatively influencing the power and outcomes of collective negotiations. At the same time, legislative developments in each country, such as those favouring the flexibilisation of labour markets, affect collective bargaining processes, as do EU developments and regulations, such as those related to the information and consultation of employees, European Works Councils and working time. Their impact on collective bargaining could be relatively mixed in different countries. Traditional employment systems are under significant strain due to cost-cutting pressures and the fact that atypical non-standard employment relationships are increasingly becoming the typical standard form of employment. This, in turn, requires legislative amendments so that institutional changes will promote flexibility and productivity. The Commission report on Industrial relations in Europe 2006 underlines the fact that the relationship between collective bargaining and labour law will play a crucial role in the attempt to move towards ‘flexicurity’. Increased decentralisation and involvement of the legislator have implications for the autonomy of collective bargaining; therefore, the challenge is to achieve an appropriate institutional setting that allows for an economically viable and socially acceptable compromise.

When comparing the collective bargaining coverage rate, it is on average highest in the EU15, Australia and the US, while bargaining coverage is lower in the EU10, Brazil, China, India and Japan. The collective bargaining coverage rate is a significant indicator of the social partner organisations’ influence in society; however, it has be taken into account that collective bargaining is also affected by national legislation, particularly in terms of legal provisions for the extension of collective agreements.

On average, workplace representation rates are higher in the EU15 while being remarkably lower in the EU10 and Global7 countries. The previous discussion highlighted a great variety of forms of workplace representation in the countries examined in this research. The Global7 countries do not have a system of statutory consultation and employee participation comparable to that in the EU Member States. EU-level legislation in the form of European Council directives influences the
development of workplace representation in the EU25, as well as the business activities of MNCs. Nevertheless, a weak system of employee representation in several EU countries, especially in the private sector, continues to represent a challenge for the EU industrial relations system: for instance, employee representation remains low or lacking in influence in the new Member States and southern Europe, according to the Industrial relations in Europe 2006 report (European Commission, 2006c). In countries with strong institutions, the challenge lies more in adapting employee representation to the widening internationalisation and the network economy to ensure its contribution in the future.

Industrial relations continue to be divergent across countries because of differences in contextual factors, such as socioeconomic, cultural and techno-legal aspects. As a result of the increasing internationalisation of economic activities, managers from investing countries have to adapt their national management practices to the circumstances prevailing in different countries. This requires recognising the need for a better understanding of and sensitivity about issues related to industrial relations and human resources management practices in different cultural environments, as well as to different legal contexts, workplace rules and practices. Labour relations practices which apply in one country may not necessarily apply or be appropriate in another.

However, future industrial relations systems at the workplace should facilitate change, promote flexibility and prepare the workforce to be able, adaptive and attuned to respond to the challenges of globalisation (see, for example, ETUI-REHS, 2007; European Commission, 2006d). The competitive pressures exerted by globalisation are resulting in greater emphasis being placed on improving workplace relations through increased bipartite consultation and cooperation, in addition to higher-level contributions to company performance from workers. Increasing attention is also being given to ensuring that business and employment relations policies and practices are in place and that these are conducive to innovation and flexibility. Furthermore, these policies should aim to integrate technology and work organisation, as well as to provide for continuous productivity improvements, increased customer responsiveness and the delivery of high quality products and services. Improving equity and worker participation in decision-making processes at company level are increasingly being considered as required elements of such strategies.

Nevertheless, in many countries, little emphasis has so far been put on building strong bilateral relations between managers and workers or their representative trade unions. Several authors argue for taking a broader perspective on employment relationships (see Macdonald, 1997; Venkata Ratnam, 2006; Ali, 2005). They believe that the scope of industrial relations should extend to all aspects of work-related activities that are part of the interaction between managers, workers and their representatives. Furthermore, they consider that industrial relations should also include those activities related to company performance such as job design, work organisation, skills development, employment flexibility, job security, as well as a range of issues associated with human resources management. Thelen and Wijnbergen (2003) claim that, in Germany, for example, employers have heavily invested in competitive strategies that rely on high quality and often ‘just-in-time’ production; German employers therefore depend to a greater extent on stable relations with their workers at plant level and are more vulnerable to open industrial conflict. In the future, the incidence and importance of direct communication, direct participation and non-standard patterns of employment will increase. If regulations on workplace representation become too strict in Europe, then – as in the case of increased trade union influence – employers may prefer to relocate production processes to other countries where the legislative burden restricting business activities is lower.
Increasing competition and openness of the economy could lead to changes in the organisation of production. Just-in-time production processes, an increase in quality standards and project-based activities augment the pressure on employers; therefore, the need arises for cooperation with workers’ representatives (see, for example, Thelen and Wijnbergen, 2003; Macdonald, 1997; Ali, 2005). For economical reasons, employers cannot afford having to face dissatisfaction among employees and the possibility of industrial action. As a result, the cooperation between management and workers will most likely improve, but the form such cooperation will take is very much country specific.

Even if globalisation leads to competitiveness and economic efficiency, it should not be allowed to undermine human rights and employment rights. Each country should provide the framework conditions which ensure the effectiveness of industrial relations institutions and employment practices being adapted in such a way that they are transferable to the different cultural settings of developing nations. Current legislation should promote industrial relations with fewer conflicts and less confrontation. The EIRO country profiles (2006) reveal that the general trend is towards a declining number of industrial actions in recent years. However, data on industrial action should always be looked at with caution as the results highly depend on the year of observation, the availability of information, the general economic situation of the country surveyed, as well as on trade union membership, their power and financial resources. In addition, it should be taken into account that various countries have a different legislative background with regard to conflict resolution mechanisms; differences also exist between the countries in relation to the right to engage in industrial relations activity and the processes of industrial conflicts. Comprehensive figures for the EU25 and Global7 countries concerning industrial action are not available and where data are available the resulting picture of workdays lost due to strike action is mixed (see Figure 11).

**Figure 11** Average number of working days lost due to industrial actions (per 1,000 employees), by country, 2004

Note: No comprehensive data are available for Belgium, the Czech Republic, Greece, Luxembourg and Slovenia, as well as for Brazil, China and India.

Within the EU15, notable differences come to light between a few countries where an average of over 200 working days per 1,000 employees were lost due to industrial actions a year – namely in France and Spain – and those where 20 or fewer working days were lost – as in Austria, Finland, Germany, Ireland, the Netherlands, Portugal and Sweden. In most of the new EU10, relatively few working days per 1,000 employees have been lost due to industrial action in recent years. In the Global7 countries, with the exception of China, the number of conflicts and strike actions has declined over the past years (for a more detailed discussion of this issue, see Annex 6).

Nonetheless, the reasons for multiple or declining industrial actions vary between the different countries. For example, in Australia, falling levels of unionisation and increasing restrictions on strike activity have played a key role in reducing the incidence of industrial conflict. In South Africa, strikes declined significantly after the democratic transition in 1994. In Brazil, the main sources of industrial conflict almost vanished with the opening of the economy to external competition and the privatisation of state-owned enterprises, combined with the control of inflation. In addition, slow economic growth has led to relatively high levels of unemployment. All of these factors have contributed to a low level of industrial conflict. In India, workers are increasingly more cautious and hence reluctant to go on strike for several reasons, notably the fear of job insecurity, concern about the ineffectiveness of strikes and growing awareness that company survival is a prerequisite for employment and income security. Trade unions are hesitant to call for strike action because this may lead to job losses and/or the closure of plant units. Only in China, the number of labour disputes has increased as employment relations have become diversified and more complex. Industrial disputes mainly occur in economically developed regions where issues such as pay, insurance and termination of employment contracts are the major causes of these disputes.
Wage bargaining

Main trends and developments in wages

Wage bargaining is the most important practice of industrial relations systems in all countries surveyed. Figure 12 illustrates the collectively agreed pay increase and the actual nominal pay increase in most of the countries examined in this study; unfortunately, reliable data on collectively agreed pay increases are unavailable for all of the countries under observation. In the EU25, wages still differ markedly: alongside the traditional north–south divide in wages, the east–west divide has also gained prominence within the enlarged EU. However, in terms of the pace of wage increases, the CEE countries have started catching up over the last 10 years (European Commission, 2006a). According to the Industrial relations in Europe 2006 report, multi-year bargaining cycles take place in a number of countries, namely in Belgium, Denmark, Finland and Sweden; collective agreements in these countries have generally provided quite moderate pay increases in recent years. As the economic situation is improving and unemployment rates are declining, trade unions in several of the ‘old’ EU Member States, notably in Germany and the Netherlands, request higher pay demands for the coming years. In some of the CEE countries, such as Estonia, Latvia and Lithuania, labour shortages and economic growth have led to rapid pay increases over the past years, while Cyprus, the Czech Republic and Malta have experienced relatively modest pay increases over the same period.

The Global7 countries are at different stages of development and therefore significant differences emerge in relation to wage levels and pay increases. Pay developments in Brazil, China, India and South Africa are comparable to those of the EU10, since these countries were generally experiencing higher pay increases than the other Global7 countries or the EU15.

- Compared with the more developed economies, average earnings are relatively low in South Africa. In the 1990s, real wage increases stood at, on average, 4.2% in services and 2.3% in agriculture, mining and manufacturing. Despite these increases, the majority of South Africans in paid employment earn particularly low wages; domestic and farm workers, who account for about 17% of overall employment in the economy, earn on average wages below the poverty threshold. Although the extent to which employers comply with legislation is unclear, the rise in employment in the informal sector is evidence enough that many employers have abandoned the regulatory framework of labour by operating unregistered businesses or employing unregistered workers.

- In India, trade unions have bargained for higher wages for their members during the 1970s and 1980s and often secured higher wages for permanent workers at the expense of atypical workers. During the late 1980s and 1990s, when the number of permanent employed workers began to decline rapidly and other forms of employment were on the increase, trade unions began to push for non-discrimination in remuneration between temporary and permanent workers and to taper off existing wage differentials.

Australia and the US have experienced moderate aggregate real wage growth in recent years, but the distribution of these wage increases has become increasingly uneven. Over the last years, Australia has moved from a highly centralised system of wage determination to a highly fragmented one, which is producing differential wage outcomes. Data from collective agreements and the database monitor compiled by the Workplace Research Centre at the University of Sydney have found that pay increases provided for in non-union collective agreements are consistently lower than those set out in collective agreements negotiated by trade unions. In the US, a significant wage
differential exists between workers who are represented by trade unions, thus covered by collective bargaining, and non-unionised workers. For the latter group, bargaining plays a far less important role in setting the overall national pay increases in the US than in most EU countries. Japan is an exception in this regard, since the collectively agreed pay increased while the national average pay decreased. According to a survey by the Japanese Ministry of Labour, the average total cash earnings including overtime pay decreased by -1.4% between 2001–2004, but total cash earnings started to increase again by 0.6% in 2005.9 Due to unfavourable economic conditions, the wage negotiations which take place in the spring of each year have been difficult for the trade unions over the past few years, since they were forced to choose between maintaining employment levels and pay rises.

**Statutory minimum wages**

National minimum wages are fixed in 18 of the 25 EU Member States, as well as in Australia and Brazil. In the EU25 and in Australia, with some rare exceptions, the governments usually decide on the yearly wage amendments after consultation with the social partners in tripartite bodies (for more information, see Van Gyes et al, 2007, p. 27 and Annex 7). The main criteria used to determine the minimum wage include the relation to average earnings and to minimum subsistence allowances, along with a compensation level for inflation rates. In some countries, labour productivity progress is a factor used in calculating the minimum wage. Regional and industry-wide minimum wages are determined in China, India, Japan, South Africa and the US.

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9 In Japan, the average collectively agreed pay increase as the result of ‘Shunto negotiation’ amounted to 1.67% in the case of companies with more than 1,000 employees over the period 2002–2005 and to 1.20% in the case of companies with fewer than 300 employees over the years 2002–2004.
The importance of minimum wages may differ across countries. For example, in Brazil, the minimum wage is a tool for alleviating poverty while appearing to represent a fiscal burden as the calculation of the minimum wage also applies to social security benefits. In the EU15, it is most common for minimum wages to serve as standards for all persons not covered by collective agreements or for those employed under the lowest categories of the wage scale. However, in most of the EU10, apart from Slovenia, the statutory minimum wage also serves as a pointer for collective bargaining at company or sectoral levels (Van Gyes et al, 2007, p. 28). At present, the minimum wage in most of the EU10 is well below the overall European average (see Figure 13); when calculating the purchasing power standards (PPS), the statutory minimum wage in many of the EU10 only amounts to about a third of that of the upper group of western countries. In countries like Estonia, Latvia and Poland, the defined minimum wage is still well below national average earnings, representing less than a third of the average level. However, the statutory minimum wage still grows at a faster pace than the average actual wage in some of these eastern European countries.

**Wage inequality and gender pay gap**

Gender-related wage differentials persist in all of the countries surveyed. In the EU25, women’s earnings account for on average around 80% of men’s earnings (see Figure 14). Overall, it seems as if the gender pay gap is narrowing slightly. The reasons for the gender pay gap have to be interpreted in the wider context of labour markets, industrial relations and pay setting systems in the EU Member States, in addition to issues related to the existence of minimum wages, qualification structures and a country’s social security system. Overall, the gender pay gap is larger in the majority of the Global7 countries than in the EU25. In Australia, Japan and South Africa, the main reason for the gender pay gap lies in the different employment patterns of women as more women work part time and/or under atypical employment contracts than men do.
In South Africa, a racial pay gap is also evident alongside the gender pay gap. Over the years, the racial wage gap has narrowed among managers, which might be explained by the country’s emphasis on redressing the ‘apartheid’ job structure through implementing employment equity legislation. In the 1980s, evidence shows that the organisation of black semi-skilled and unskilled workers into trade unions had a significant impact on narrowing the wage gap. However, the transition to democracy also brought about economic restructuring, trade liberalisation and the intensification of international competitive pressures. As a result, real wage increases for low-skilled workers in the formal sector were curbed in the mid 1990s. Altman (2005) found that the narrowing wage gap reversed from the mid 1990s and the gap between relative wages widened. This outcome was due to the following three developments: (a) declining real wages of low-skilled African workers, particularly in small private sector companies; (b) stagnant wages of semi-skilled, skilled and high-skilled female workers; and (c) rising earnings among high-skilled male workers and managers with third-level qualifications.

**Working time bargaining**

**Main trends and developments in working time**

As with other indicators, differences come to light in relation to the legally defined working time and/or the collectively agreed working time arrangements among the countries studied in this report. In the EU15, as well as in Australia, Brazil and Japan, collective bargaining plays a key role in the setting of working time. However, the nature of this role differs widely across countries, with different bargaining levels – intersectoral, sectoral or company level – playing diverse roles, and bargaining...
coverage varying considerably. Furthermore, the importance of bargaining differs considerably between sectors and groups of workers.

In many countries, collective bargaining initiatives have to deal with the reduction of working hours as a strategy to combine flexibility and employment security. These initiatives are considered as being complementary to a legal norm of maximum working time. In the EU10, the active role of collective bargaining in setting weekly hours is relatively often missing, especially in many CEE countries. In many instances, collective agreements do not deviate from the statutory weekly working time which usually amounts to 40 hours a week (see Figure 15). In China, collective agreements generally replicate the statutory minimum requirement on working time and related issues.

Figure 15 Collectively agreed weekly working time, by country, 2000–2004 (hours)

Notes: For Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia and Slovakia, the figures provided reflect the statutory normal working hours.

No data are available for Australia, India, Japan, South Africa and the US.

Annual working hours

Figure 16 outlines the average annual number of hours worked per person in most of the countries surveyed. In the EU10, Brazil and China, these figures are higher than for the majority of the EU15. During the 1980s and 1990s, many European countries saw major reductions in working time, although occurring at different paces and in different ways. In the past few years, significant reductions in working time have been rare among the countries studied, with the exception of France where the 35-hour working week was introduced in 1998. The average working time has also been reduced in Brazil over the period 2001–2005, with the average weekly working time decreasing from 42.5 hours to 41.8 hours. In Japan, the 1989 revised labour standards introduced the five-day working week; the average annual working time also decreased due to a growing number of part-time workers who work relatively short hours.
On the other hand, Australia and China experienced increases in average working time over the past years. The amount of average hours worked in Australia has been rising since the mid 1980s despite significant increases in part-time employment. Much of this increase in working hours relates to unpaid overtime. In China, weekly working hours have risen slightly in urban areas over the past three years, from 44.9 hours a week in 2001 to 45.5 hours a week in 2004. It should be noted that, in most cases, people in rural regions work even longer hours than those in urban areas. However, the actual amount of working hours varies significantly between sectors of the Chinese economy.

Figure 16  Annual number of hours worked per person, by country, 2004 (hours)

Notes: For Austria, data refer to 2003.
No data are available for Cyprus, Estonia, Latvia, Lithuania, Malta and Slovenia, as well as for Brazil, China, India and South Africa.

Industrial relations outputs and future challenges

In relation to the topics covered in collective bargaining, considerable differences emerge between the countries surveyed. Wage bargaining is the most important practice of industrial relations systems in all of the countries. Most of the EU15 have traditionally had relatively centralised collective bargaining arrangements, by applying wage increases on a sectoral or an industry-wide basis; however, the actual implementation mechanisms vary from country to country. In most of the EU10 and Global7 countries, more decentralised bargaining arrangements have been applied. Nevertheless, the trend is towards a more decentralised approach in the majority of countries (see also Chapter 3 on ‘Processes of industrial relations systems’).

Wage developments and wage flexibility or rigidity are core issues of the ongoing debate on raising competitiveness and maintaining social cohesion in each of the EU Member States. Figure 17 sketches out a comparison of the increase in average real wages and productivity growth of the
countries surveyed for the period 2000–2004. The increase in real wages is given in terms of real labour compensation – as measured by Eurostat – which takes into account employees’ wages and employers’ social contributions. Increases in real wages remained below the rates of productivity growth in most EU countries; the only exceptions are the Czech Republic, Hungary, Luxembourg, Malta, Portugal, Slovenia, Sweden and the UK. In the Netherlands and Finland, the average growth of real compensation has been equal to the average growth of productivity over the observed years. If wage pressure remains continuously higher than productivity growth, then the risk arises that jobs may be relocated. However, differences exist between the country groups: in the EU15, wage and productivity growth have been relatively low, while in the EU10, except in Cyprus and Malta, increases in wages and productivity have been relatively high. The Baltic countries – Estonia, Latvia and Lithuania – have experienced particularly high productivity growth and real wage increases over the observed period.

At the same time, if the wage gap between the EU15 and EU10 remains significant, this will become the main push factor of labour migration from the new to the ‘old’ Member States. Population ageing also influences migration between the EU15 and EU10, and in those countries where labour shortages arise, this will become the most important pull factor for migration within the EU. Migration flows will also impact on the trade union movement in both the EU15 and EU10.

In the global economy, statutory minimum wages play an important role when it comes to the relocation of production processes. It is obvious that high labour costs, including high minimum wages, have led to the relocation of production processes from the western to the eastern hemisphere: first, jobs have moved from the ‘old’ EU Member States in western Europe to the new EU Member States in eastern Europe, and in the near future these jobs may move even further east to low-cost countries such as China, India and Indonesia. Such a move in terms of production relocation has already taken place in the textiles and clothing industry, for example, and it looks as if the shipbuilding industry may follow the same path soon. In many countries, average wages are

![Figure 17 Average real compensation increase per employee and average labour productivity increase, by country, 2000–2004 (%)](image-url)

Source: European Commission, 2006a
correlated with minimum wages, so that an increase in the minimum wage will impact negatively on the country’s competitiveness. This in turn will establish good ground for production relocation.

Working time bargaining is also an important practice of industrial relations systems in all of the countries surveyed. In many instances, however, collective agreements only replicate the statutory minimum requirements of working time and related issues, particularly in the EU10. Nevertheless, in recent years, collective bargaining initiatives in many countries were dealing with the reduction of working time as a strategy to combine flexibility and employment security; the resulting agreements are considered as being complementary to the statutory maximum working time. Many EU15 countries saw major reductions in working time during the 1980s and 1990s, so that significant changes in the statutory working time have been rare over the past few years. Workers in Brazil, China and India have a longer statutory maximum working week – amounting up to 48 hours a week in India – than workers in the EU25; the collectively agreed weekly working time in these non-EU countries also exceeds that of the EU25 Member States. The annual average working time is generally longer in the Global7 and EU10 countries, compared with the EU15.

Moreover, it is important to examine any further challenges arising for industrial relations in the era of globalisation. According to research, the EIRO country profiles and articles, as well as information on the social partners’ websites, it appears that in the context of globalisation the social partners mostly debate the following issues: labour shortage or surplus and skills mismatch; labour migration; labour market flexibilisation; the change from job security to employment security; the rise of non-standard employment relationships; quality of working conditions; and education, multi-skilling and lifelong learning. The following discussion does not intend to be comprehensive, but it outlines the main issues discussed and some of the social partners’ views.

**Rapid technological changes, rising competitiveness and job relocation**

Employment issues are critical to every country; however, each country has approached these issues differently and employment standards vary widely across countries. This is partly due to the existing differences between countries in terms of their development at a given point in time. Employment standards continue to play a key role in determining a country’s competitive advantage in the global market. Overall, employment rates are increasing, but simultaneously atypical forms of employment such as part-time and fixed-term employment, as well as self-employment, are rising. As a result of these developments, working conditions for many workers are not improving while their job security may be declining.

**Changes in work content and working conditions**

Globalisation in conjunction with the rapid changes in economies demand that workers become proactive, adaptable, multi-skilled, responsible and competent. At the same time, these demands put additional pressure on workers as their work is intensifying and they are required to have more skills overall and better knowledge. Nonetheless, this extra effort is not always rewarded with a higher wage premium. These changes in working conditions may result in a growth in ill health, notably greater mental and physical strain, associated with a decrease in quality of life and problems in reconciling work and family life.
Skills development and lifelong learning
Lifelong learning represents one way of enabling workers to tackle the challenges of a new working environment. From a policy perspective, the amount of training being provided is an important factor to consider, as are the ways in which these training opportunities are distributed among the working population and how the workers themselves perceive these opportunities. Lifelong employability that is based on the need for continuous learning, as well as the updating and upgrading of skills, is considered to be a viable alternative to lifelong employment. Trade unions, in cooperation with employers, should develop reasonable training schemes, so that workers can adjust more easily to rapidly changing situations. Private initiatives should receive public support in the form of active labour policy measures.

Labour mobility
The emergence of low-cost economies in world trade requires a flexible European labour market that can handle rapid change. In this context, Europe should not try to maintain workers in jobs that will inevitably disappear. Instead, professional mobility in the labour market should be promoted to allow workers to move more rapidly to the jobs being created in new sectors of the economy and to activities that are more in line with the European competitive advantage. The process of ‘creative destruction’, which is induced by globalisation, needs to be matched by a labour force that is sufficiently mobile. As a result, competition between foreign and domestic workers will increase with varying implications for countries sending and receiving labour; the latter countries have implemented legal measures to restrict labour market access for migrant workers, thus limiting job competition between foreign and domestic workers. Managing these processes represents a major challenge for the social partners as the whole concept of having a ‘lifetime job’ is changing, and the socioeconomic and political landscape is shifting from job protection to employment protection.

Overall, following the analyses of the information sources used in this study, it seems that the trade unions tend to oppose globalisation. Most of the trade unions' concerns, which come to light in their discussions, relate to labour migration and the possible effects on employment, as well as to issues such as income inequalities and ageing. At the same time, the employers consider globalisation as an opportunity to become more competitive. They believe that employing foreign workers is one way of coping with skills shortages in national labour markets, while also underlining the importance of developing the national education systems.
Macroeconomic and labour market developments

Macroeconomic developments in EU25 and Global7 countries

Differences in income levels are significant in the countries surveyed, given that the income level is measured as gross domestic product (GDP) per capita in terms of purchasing power parity (PPP) (see Figure 18). In the US, where markets operate more efficiently, globalisation generates more wealth but also greater income inequality. In contrast, in Europe, where welfare states are more generous and markets less efficient, globalisation generates less additional wealth and not as much income inequality (Sapir, 2003). Although income differences are huge, the growth potential is particularly good for countries showing lower income levels (see Figure 19). Growth in the Chinese economy has been highest during the past five years and, as some prognoses forecast, this growth is set to continue. Growth prospects are also excellent for India and South Africa, while Brazil will rather follow the pattern of developed countries showing a growth rate of below 4% (see United Nations, 2007).

Deutsche Bank (DB) Research has initiated the project of ‘Global growth centres’ (see Bergheim, 2006), with the aim of identifying the countries with the highest GDP growth in the period 2006–2020 on the basis of an interdisciplinary and structured approach. Key indicators used by forecasters include population growth, human and physical capital developments and openness of the economy. According to DB Research’s prognoses, the highest GDP growth rates will be in China, India and Malaysia over the period 2006–2020. Several factors such as strong population growth, a rapid improvement in human capital and increasing trade with other countries allow for an average real GDP growth of more than 5% a year in these three countries. In their pursuit of attaining the growth level of an economically developed country by the year 2020, China and India must maintain their current high GDP growth rates of over 8% and 7%, respectively. This necessitates increased usage of natural resources, such as energy and water, which in turn compounds the problem of emissions (NIC, 2004). Rather than a major slowdown, the world economy may be facing a rebalancing of

Figure 18  GDP per capita, by country, 2005 (in PPP, in constant 2000 international $)

Note: PPP = Purchasing power parity (constant 2000 international $).
growth levels across regions, with growth slowing down in Japan and the US and gaining momentum in Europe (HM Treasury, 2005).

Europe has to adapt to the changing balance of global economic activity, in which an increasing proportion of global production output will be produced in the rising Asian economies and other rapidly growing emerging economies. Productivity growth measured as GDP per person employed (see Figure 20) constitutes the key element in the convergence process: if less economically developed countries would like to accelerate their catching up process, they should first increase their productivity output.

**Figure 19  Average annual real GDP growth, by country, 2000–2004 (%)**

![Graph showing average annual real GDP growth by country, 2000–2004.](image)

Note: No data are available for Australia, India and South Africa.

Over time, the EU and the US will account for a gradually diminishing share of production output worldwide. Europe must take advantage of the increasing rewards from innovation as both global competition and the speed of technological change increase. Compared with its competitors that are equally developed economies, Europe’s performance in terms of innovation remains relatively poor. Moreover, evidence exists which suggests that much of Europe’s entrepreneurial potential remains untapped. Greater emphasis should be put on the development of the IT and services sectors. In some cases, this will also mean reducing employment protection while increasing labour market flexibility (HM Treasury, 2005).

The need arises to respond to the increasing integration of global economic activity, which appears in the form of intensifying competition among producers and the offer of increasingly diverse sources and destinations of FDI. The EU has been unable to benefit from inward FDI to the same extent as the US in recent years, thus missing out on associated benefits of productivity through the impact of FDI on skills, innovation and technology, as well as competition (HM Treasury, 2005). In many
Asian countries, including China and India, the pursuit of economic development based on export-oriented industrialisation includes increased FDI and market liberalisation policies. Such policies and practices consist of, among others, the elimination or marginalisation of trade unions, the exemption of export processing zones from national labour legislation, and selective immigration as a means of ensuring an adequate and flexible labour supply (Venkata Ratnam, 2006).

Over the past 20 years, the globalisation process has accelerated as trade, communications, transportation and investment have increased. Under globalisation, investments are easily made worldwide, and industries and services move from one country to another, thus restricting opportunities for permanent employment relationships to the benefit of efficient economic performance. To improve the competitiveness of companies in light of industries exporting their business activities to countries with low labour costs, European employers called for the liberalisation of national economies. Europe has to rise to the challenge of increasing tradability of goods and services and relocation of economic activities. Driven by further technological advancement, production processes turn out to be increasingly fragmented, which enables economic activities to become more international, specialised and tradable. Estimates suggest that about five million services jobs in the US and Europe could be relocated abroad by 2015 (European Commission, 2006b). Many MNCs have been engaged in a ‘race to the bottom’, by seeking to locate their business operations in low-wage countries where workers are the least protected. In an effort to attract investment, many countries have bid against each other in order to be able to lower wage levels and working conditions. As a result, living standards have been stagnating or even declining in these countries. Economic prosperity represents only one side of the coin, and how the world economy will develop over the next few decades depends on several factors, namely on the way countries will cope with the changing demographic situation, production relocation, increasing energy prices, in addition to rising social exclusion and inequality.

Figure 20  Average annual labour productivity, by country, 2000–2004 (1990 USD)

Notes: Labour productivity is measured as GDP per person employed (1990 US $). No data are available for Brazil, China, India and South Africa. Source: KILM database, 2005.
Labour market developments in EU25 and Global7 countries

Due to a low birth rate, the European and Japanese population will decline, while the average life expectancy will increase. Overall, population ageing and a declining workforce will render the existing welfare systems and pension plans in the EU unsustainable; therefore, the European social model should be modernised. In the era of continuous population ageing, countries must be able to make active use of young workers, women, senior citizens and other groups of people to overcome possible labour shortages. At the same time, a growing labour force remains the greatest challenge for South Asia, notably China and India: over the past decade, the labour force has increased at a high rate of 2.1% a year. Between 2005 and 2006, employment grew by 11.7 million people. Compared with other regions, South Asia’s employment to population ratio is slightly lower (see Figure 21), which is mainly due to the significant discrepancy between the labour market participation rates of men (82.2%) and women (36.0%).

The ETUI-REHS report on Benchmarking working Europe 2007 argues that the emergence of low-cost economies in world trade requires a European labour market that is able to cope with these changes. In the face of globalisation, Europe should allow for greater professional mobility on the labour market. The latter should be promoted so that workers move more rapidly to the jobs being created in new sectors of the economy and to activities that are more in line with the European competitive advantage. The process of ‘creative destruction’, induced by globalisation, needs to be matched by a labour force that is sufficiently mobile. In developing countries, however, outsourcing and subcontracting are part of a global trend towards lower employment standards, casualisation of labour and permanent unemployment. According to the ILO’s Global employment trends (2007), unemployment has declined in most regions worldwide, except in South Asia and Southeast Asia and the Pacific10 (see Figure 22 and Table A5 in Annex 8).

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10 Since the financial crisis in 1997–1998, the economies in Southeast Asia and the Pacific have experienced slower economic growth than in the pre-crisis years. In 2006, the region’s GDP expanded by 5.4%. Within the region, economic performance was poorest in the Pacific, according to the employment and unemployment rates (ILO, 2007).
Globalisation requires flexibility and some governments yielded to the pressure by relaxing employment protection which, in turn, resulted in a number of negative effects on labour markets and social structures. For the social partners, this move by governments represents a great challenge in relation to introducing more flexible labour relations in terms of different atypical employment forms, like fixed-term and temporary employment contracts, teleworking, part-time work and temporary agency work (see Figure 23 and Figure 24).

Most of the EU25 and some Global7 countries are currently facing serious skill shortages; for these countries, this situation is threatening the sustainability of economic growth, productivity performance and international competitiveness. In the EU, rising labour shortages will add to the pressure on governments to allow for greater labour migration inside the EU and also from non-EU countries. When looking at migration flows between the new and the old EU Member States during the two years after enlargement, evidence shows that labour migration has been very limited and not large enough to affect the EU labour market in general. Different analyses have also found that the migration flows after enlargement in May 2004 have positively impacted on the economies of the EU15 Member States and that the employment rate has increased in several countries since enlargement.\(^{11}\) Hence, the apprehension among old Member States that a wave of migration would crowd out native workers was not justified. First research results also reveal that the sectoral composition of national workforces has not changed significantly over the years 2003–2005, which indicates that the limited inflow of workers from the EU10 Member States did not displace national workers (European Commission, 2006b).

The majority of countries fear that migrant workers may take over jobs from their citizens, in particular the positions held by low-skilled workers. The challenge for policymakers in terms of

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\(^{11}\) See also the Foundation’s analyses of the 2005 Eurobarometer survey results on geographical and labour market mobility, which are available online at: http://www.eurofound.europa.eu/areas/populationandsociety/migration.htm.
migration and for businesses is to ensure that developed countries are recognised as a destination of preferred choice for scarce skilled migrants. However, labour migration of skilled workers is not and should not be considered as a universal solution to cope with skill shortages in the labour market or an alternative to a robust domestic effort for adequate education and vocational training. While labour shortages exist in the economically developed countries, the developing countries have a labour surplus and are thus seeking free access to jobs in developed countries. Although globalisation is currently facilitating the free movement of capital, as well as goods and services, restrictions on
cross-border movements of people have not been eased. As a result, developing countries still face the challenge of overcoming visa and other legislative restrictions regarding the free movement of labour. At the same time, the developed and developing countries alike are afraid to lose skilled workers, who have been trained at great expense to their home country.

**Industrial relations and economic and labour market developments**

One of this study's aims is to find out whether a link exists between a country's stage of development and its industrial relations systems. On the basis of a factor and cluster analysis (for methodological comments, see Annex 9), countries have been grouped according to their current economic and social situation. These country groups have been analysed in terms of whether the industrial relations systems – particularly, when looking at the indicators describing actors and processes – are relatively similar within these groups.

Different indicators have been used in the analysis, in order to determine a country's demographic and employment situation, its wealth and its level of expenditure on health, education and R&D.\(^{12}\) This represents a challenging task, as it is particularly difficult to find comparable information about all EU25 and Global7 countries. The indicators for which data are available for all of the countries under examination are relatively scarce. As a result, the choice of indicators to include in the analysis was rather limited and only 12 variables were used in the factor analysis (for definitions and sources of variables, see Annex 9). All variables fulfil the main assumption of a factor analysis that an underlying structure exists among the variables – that is, variables are logically related.

Four factors were retained in the analytical model, which show a sufficient variance and yield a tractable solution.\(^{13}\) The factors used in the analysis and their components are as follows (see also Table A7 and Table A8 in Annex 9):

- population growth comprises indicators such as fertility rate, dependency ratio and life expectancy;
- general economic development is determined through indicators such as GDP per capita and GDP growth, and health expenditures as a percentage of GDP;
- labour market development consists of the employment to population ratio and the youth unemployment rate;
- the human capital and research factors consist of the following indicators, namely school enrolment, total public expenditure on education and on R&D (as a percentage of GDP), as well as the number of researchers engaged in R&D per one million people.

In order to compare different countries, the countries were grouped using a cluster analysis by means of factor scores. As result of the cluster analysis, six different country groups were established, namely:

- Nordic countries – Finland and Sweden;

\(^{12}\) The idea was to use structural indicators (for data and methodology, see Eurostat), which allow for assessing the progress towards the Lisbon objectives; unfortunately, no comparable information about the Global7 countries could be gathered.

\(^{13}\) An oblique rotation was employed, as it was assumed that different indicators may be strongly related. Results of the factor analysis show that four indicators account for 97% of common variance.
old EU Member States and Global7 countries showing a higher GDP per capita – Austria, Belgium, Denmark, France, Germany, Ireland, Luxembourg, the Netherlands and the UK, in addition to Australia, Japan and the US;

- new EU Member States having a higher GDP per capita and the southern European countries – Cyprus, the Czech Republic, Hungary, Malta and Slovenia, as well as Italy, Portugal and Spain – plus Brazil;

- new EU Member States showing a lower GDP per capita – Estonia, Latvia, Lithuania, Poland and Slovakia – as well as Greece;

- Global7 countries with a lower GDP per capita – China and India;

- the outlier is South Africa14.

On the basis of these country clusters, the analysis examined how similar or different the industrial relations systems are within the different country groups. In order to evaluate the similarity or diversity within the country groups, the averages were calculated for the different industrial relations indicators, as well as the variation coefficients. Variation coefficients of which the value is below 0.3 indicate a high similarity in the country group (see Table 3).

Table 3 Industrial relations indicators in different country clusters

<table>
<thead>
<tr>
<th>Industrial relations indicators</th>
<th>Statistical indicators</th>
<th>FI, SE</th>
<th>AT, AUS, BE, DE, DK, FR, IE, JAP, LU, NL, UK, US</th>
<th>BRZ, CY, CZ, ES, HU, IT, MT, PT, SI</th>
<th>EE, EL, LT, LV, PL, SK</th>
<th>CHI, IND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade union density</td>
<td>Mean</td>
<td>74</td>
<td>31.6</td>
<td>33.7</td>
<td>18.5</td>
<td>21.2</td>
</tr>
<tr>
<td></td>
<td>Variation coefficient</td>
<td>0.1</td>
<td>0.6</td>
<td>0.6</td>
<td>0.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Employer organisation density</td>
<td>Mean</td>
<td>62.5</td>
<td>70</td>
<td>51.6</td>
<td>31.7</td>
<td>61.6</td>
</tr>
<tr>
<td></td>
<td>Variation coefficient</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Collective bargaining coverage</td>
<td>Mean</td>
<td>87</td>
<td>67.4</td>
<td>71</td>
<td>34.5</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Variation coefficient</td>
<td>0.1</td>
<td>0.4</td>
<td>0.3</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Workplace representation</td>
<td>Mean</td>
<td>88</td>
<td>54.9</td>
<td>43.1</td>
<td>31.5</td>
<td>58.5</td>
</tr>
<tr>
<td></td>
<td>Variation coefficient</td>
<td>0.0</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Collectively agreed pay increase</td>
<td>Mean</td>
<td>2.9</td>
<td>3.1</td>
<td>4.7</td>
<td>6.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Variation coefficient</td>
<td>0.1</td>
<td>0.3</td>
<td>0.6</td>
<td>0.3</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ calculations, 2007.

In terms of industrial relations similarities and differences within the different country groups, the factor analysis reveals the following findings.

- The first group of countries, made up of Finland and Sweden, present the most similarities between their industrial relations systems. Finland and Sweden are also particularly similar with regard to a number of other aspects, such as being both rather small countries, highly...
homogeneous, export oriented and showing a high level of income per capita. It is a well-known fact that, in the Nordic countries, the social partners historically have a great impact on the entire society. Furthermore, these countries show the highest trade union density and collective agreement coverage rates. Highly centralised negotiations and more cooperative relations between the social partners have lead to a certain balance between social security and labour market flexibility. Most likely, such a development would not have taken place without well-established industrial relations in these countries.

- The second country group consists of a larger number and more diverse set of countries, including the Anglo-American countries of Australia and the US, nine of the EU15 countries and Japan. Since these countries are diverse in their economic and social settings, it is not surprising that their industrial relations systems are also somewhat different. However, these countries also show certain similarities: they are all developed economies, with a high income level per capita. The industrial relations systems also have several common features, but the degree of similarity is not as great as it was among the first set of countries.

- In the three remaining country groups, the industrial relations indicators are relatively diverse. These country groups embrace the countries which are in a less advanced stage of economic and social development. Since these countries are much unlike each other, it is not surprising that their industrial relations systems are also rather different.

These findings reveal that industrial relations indicators are not directly related to the countries’ economic developments, or to their progress in terms of the labour market and human capital. The Commission report on Industrial relations in Europe 2006 also finds that the tests carried out on a global scale show few convincing relationships between industrial relations and the macroeconomic performance of countries. However, it appears that, in industrial relations systems with high rates of both trade union density and collective bargaining coverage, income inequalities and wage distribution are more limited, while average wages and fringe benefits are higher. Moreover, training opportunities are better, the unemployment rate is generally lower and unemployment is less persistent. The study concludes that the complementarities and interrelationships between the industrial relations system and economic and social development make it possible to reach different objectives of economic and employment performance in a variety of ways, depending on the national circumstances and pathways of adaptation. In fact, there is a need for a longitudinal analysis on the relationship between economic and social development and industrial relations.

Brazilian expert Hélio Zylberstajn argues that these results indicate three different development stages of national societies. If this is the case, industrial relations systems would evolve simultaneously and would become increasingly similar. As countries approach the model of industrial relations prevailing in Finland and Sweden, the industrial relations system would ‘converge’ and present an increasing number of similar indicators. In this instance, indicators of industrial relations systems would be related to the economic context as well as to developments in the labour market and in human capital in each country. However, this issue needs further and deeper investigation in future studies.

Obviously, nobody can deny an indirect influence of the social partners on the socioeconomic development of the countries. In this respect, the best examples are again the Nordic countries: in general, these countries rank highly in different competitiveness rankings, show high employment rates and the income level per capita is above the EU average. At the same time, industrial relations
in the Nordic countries are characterised as being relatively centralised, with high rates of both trade union density and collective bargaining coverage. In addition, greater cooperation and less confrontation exist between the social partners of the Nordic countries, compared with those of some other EU countries. Furthermore, as the Nordic industrial relations model shows, trust and cooperation between the social partners are two key elements of industrial relations in these countries. In the Scandinavian countries – Denmark, Finland, Norway and Sweden – the social partners have traditionally played a key role in decision-making processes and administrative arrangements in terms of labour market and training policies. Today, the role played by the social partners is the result of historical developments in these countries and of their high level of organisation. Additionally, the influence of the social partner organisations is vital in ensuring that policies are adopted, implemented and accepted. The countries’ authorities thus depend on cooperation between the social partners with regard to flexicurity arrangements. In order to have a strong input, however, the social partners and other civil society representatives need to be adaptable, willing to work together and ready to address real-life situations in new ways and with a broader perspective.
Globalisation is viewed as a process of increasing global connectivity, integration and interdependence in different areas affecting today's society, namely in the economic, social, technological, cultural and institutional fields. The economic effects of globalisation are the most visible and important ones, including the increasing integration of global economic activities, rising competitiveness, relocation of business activities, as well as structural changes in the economy, innovations and rapid technological advancements. Economic changes and globalisation processes directly affect labour market developments and social cohesion in the countries studied. In terms of labour market developments, the most significant effects of globalisation include labour market flexibilisation, increasing labour migration, the rise of atypical employment forms, as well as changes in work content and working conditions. At the same time, globalisation brings about greater job-skills mismatches and the need to promote lifelong learning and multi-skilling.

However, the impact of globalisation and the pace at which changes take place vary between different country groups, as well as between one country and another. The European labour markets are currently facing major challenges: on the one hand, high expectations exist in relation to the European economy's competitiveness. This means that labour markets will have to become more flexible as employers demand further deregulation of national labour markets in order to successfully compete in the global market. The casualisation of labour is also growing due to economic liberalisation, changes in ownership and technology, in addition to cost-cutting competitive strategies applied by employers. On the other hand, the European social model underlines the importance of employment security and social cohesion, as workers seek greater job security during a time of rapid structural change and job relocation. The key issue is how to find a balance between a modernised European social model and the flexibilisation of labour markets while remaining competitive.

Globalisation strongly influences the social partners' attitudes since traditional labour relations have to cope with entirely new and very dynamic situations. Each of the globalisation dimensions considered in this study – the internationalisation of markets, increasing competition, the free movement of capital and labour, ICT and the rising importance of markets – has an impact on working life and represents serious challenges for national industrial relations systems. This includes the social partners' role in society, the significance of negotiations on different aspects of working life and the importance of workers' participation. The various pressures arising from globalisation affect employment and industrial relations at all levels, notably at company, sectoral, regional, national and international levels.

However, globalisation has a contradictory impact on industrial relations. On the one hand, globalisation accelerates the economic interdependence between countries on an intraregional and interregional basis and encourages individual companies to take a similar business approach in competitive markets. As a result, industrial relations arrangements may converge to a certain extent around the world. On the other hand, clear evidence exists that social partners resist this trend towards convergence; in general, such resistance is based on particular national and regional circumstances, such as those in Europe and Asia. No common understanding emerges among researchers concerning the influence of globalisation on industrial relations; the viewpoints mainly reflect two different schools of thought. Some authors argue that globalisation pushes all countries towards economic liberalism based on the interests of a free market and minimal government interference, namely neoliberalism and deregulation. In this context, globalisation processes encourage companies to lower labour costs and increase labour market flexibility while undermining the power of trade unions to prevent this trend. Other researchers claim that the impact of
globalisation varies considerably according to the institutional setting within each country, since the institutional framework influences employer strategies and business interests. Therefore, a stronger emphasis on economic growth based on free market forces and reduced government regulation will emerge in the liberal market economies but not in any of the coordinated market economies where companies have a stake in preventing deregulation.

To compare the industrial relations systems of different countries, a selection of information sources were used, including country profiles and relevant international statistics from the ILO, World Bank and Eurostat databases. The country profiles and relevant statistics indicate that industrial relations continue to be divergent across the countries surveyed due to existing differences in contextual factors. The country profiles reveal that each EU Member State, as well as each Global7 country, has its own model of industrial relations and each country carries over its particular historical, economic, political, social and individual characteristics into this model. Diversity is significant among the different countries, firstly due to the number of countries surveyed, and also taking into account the varied cultures, religions and historical developments. When comparing trade union and employer organisation density rates, collective bargaining coverage and workplace representation coverage rates, the results reveal that these indicators are, on average, highest in the EU15 and lowest in the Global7 countries while the EU10 fall between these two country groups. Collective agreement negotiations are generally more centralised in the ‘old’ EU Member States than in the EU10 countries and even more decentralised in the Global7 countries. However, the overall trend is towards a more decentralised collective bargaining approach in the majority of countries under examination.

A great variety in terms of workplace representation exists in the countries surveyed. In the Global7 countries, there is no comparable system of statutory consultation and participation of employees as in the EU Member States. However, a weak system of employee representation in several countries represents a further challenge to the EU; employee representation or its influence is relatively low in the new Member States and southern European countries. While in countries with strong institutions, the challenge lies more in adapting employee representation to increasing internationalisation.

In addition, considerable differences emerge between the countries surveyed in the subject areas of collective bargaining. Wages define the most important bargaining topic of industrial relations in all of the countries. For instance, national minimum wages are defined in 18 out of the 25 EU Member States, as well as in Australia and Brazil. As average wages are correlated to minimum wages in many countries, the increase of minimum wages will impact negatively on the competitiveness of a country and provide sufficient ground for production relocation. Over the period 2000–2004, wages and productivity have developed differently in the country groups under examination: in the EU15, wage and productivity growth were relatively low, while in the EU10 – except in Cyprus and Malta – increases in wages and productivity were relatively high. In Brazil and China, wage growth has been higher than productivity growth, while in Japan wages declined and productivity increased over this period. However, if the wage pressure is continuously higher than productivity growth, jobs may be relocated. Working time is also an important bargaining topic of industrial relations. Nevertheless, collective labour agreements relatively often repeat the statutory minimum requirements in relation to working hours and related issues, especially in the new EU Member States.

Overall, the country groups are internally highly heterogeneous. Hence, all of the conclusions drawn up as part of this analysis should be handled with caution, since specific aspects relating to each country, such as historical and cultural developments, legislation and the role of the state, have to
be taken into account. The following paragraphs highlight some of the main differences between the country groups.

■ In the Global7 countries, workers are less unionised and less protected; it is often the case that only formal sector employees get a chance to participate in social dialogue. Low trade union density is accompanied with a relatively low rate of collective bargaining coverage which underlines the weakness of the trade unions in these countries. Furthermore, employers are also less organised. As a result, confrontation between the social partner organisations is much higher in the Global7 countries when compared with the EU Member States. Labour markets are more flexible and employment protection stands at a relatively low level which, in turn, increases the competitive advantages of these countries. Moreover, inequality is much higher in the Global7 countries than in the EU25.

■ The EU10 fall between the EU15 and Global7 countries, showing higher social partner organisation density rates and collective bargaining coverage rates than the Global7 countries. As a result, workers are better protected and inequality is lower in the EU10 when compared with the Global7 countries. It should be noted that a lot of developments in the EU10 are initiated through progress at European level: for example, the need to participate in sectoral social dialogue at EU level, as well as the requirement to implement European Council directives on workplace representation and working time. This shows that the Europeanisation process is ongoing and that EU legislation and regulations are gradually forcing the development of industrial relations in the EU10.

■ In the EU15, the industrial relations indicators – trade union and employer organisation density rates, collective bargaining coverage and workplace representation – are reflecting, on average, the highest scores. This indicates that employees are generally more protected in the EU15 and that they enjoy greater employment security and social guarantees. In addition, social cohesion is higher in the EU15 societies than in those of the other country groups included in the research. However, in the majority of the EU15 countries, this framework is usually accompanied by a more rigid labour market, which in some cases diminishes the competitiveness and growth rates of these countries. The fact that the industrial relations systems in the EU15 are more developed than in the other countries surveyed is partly due to the historical developments in each country, but also to their participation in EU-level social dialogue for a longer period of time compared with the EU10.

Despite the many differences and specific national features, some common characteristics in industrial relations come to light in the countries examined: trade unions are recognised by employer organisations and the state; collective bargaining is voluntary; the collective agreement extension clause is relatively common; and employee participation at company level takes place through a variety of information and consultation mechanisms. In short, industrial relations actors and their objectives are similar in the countries surveyed, but the implementation mechanisms and the scope of activities, as well as the influences and output of the social partner activities, remain different from one country to another.

**Future challenges**

The challenges that industrial relations actors will face in the future are in essence quite similar for all of the country groups. These challenges concern issues relating to membership levels of trade
unions and employer organisations, the services offered by these organisations to their members, the scope of activities and effective use of available resources. Over the past years, the majority of countries have registered a decline in trade union membership. Sectors with strong industrial relations traditions are also declining. New sectors like those driven by IT and personal services are mostly based on individual and flexible employment relationships, and companies operating in these new sectors are usually relatively small. All of these aspects imply that trade unions should change their traditional approaches to workers’ representation and find new and flexible forms of representation. To maintain current membership levels and/or attract new members, trade unions will have to innovate in terms of their services and cope with the changing aspirations and needs of a new-generation workforce. In addition, trade unions will need to extend their activities to sectors of the economy which so far are not covered by them. The situation in Brazil, China, India and South Africa is even more complicated and trade unions in these countries should tackle the problems related to the informal sector, education issues and working conditions. While employer organisations are not confronted with a drastic decline in membership levels, they also face the challenge of attracting new members, particularly among SMEs and in the services sector. Employer organisations face increasing pressures from their members to economise on resources, as well as to be more assertive in promoting entrepreneurship and greater flexibility on labour markets. Today, direct communication and direct workers’ participation are increasing, as are atypical and non-standard patterns of employment; therefore, the need arises for more cooperation between the social partners.

The current trends towards deregulation, decentralisation and individualisation of employment contracts are negatively impinging on the outcomes and authority of collective bargaining. Legislative developments in each of the countries surveyed, as well as EU legislation and developments in social dialogue at EU level, also shape collective bargaining. Their impact on collective bargaining may be relatively mixed in different countries. While globalisation pushes towards more flexible labour markets and the relaxation of employment protection legislation, Europeanisation processes try to guarantee at least a certain level of minimum standards for all workers in the EU. As a result, coordination and cooperation of the social partners at EU sectoral level will most probably intensify in the future. In light of this, collective bargaining at sectoral level in the EU10 may also gain in importance and new sectoral-level social partner organisations may be created and/or their activities strengthened in the future.

According to the information sources used in this study, the major challenges that countries and their social partners will have to face in the near future are related to the following aspects of globalisation.

**Rapid technological changes, rising competitiveness and job relocation**

To improve the competitiveness of companies in the global market, employers demand the liberalisation of national economies. Some governments yielded to the employers’ pressure in light of the European Commission promoting policy measures to find a new balance between labour market flexibilisation and a modernised European social model. For the social partners, it is a great challenge to introduce more flexible labour relations in terms of different atypical employment forms, such as fixed-term and temporary employment contracts, teleworking, part-time work and temporary agency work. In particular, for the EU10, such different flexible labour arrangements are relatively new. In light of this, the trade unions have to cope with rising self-employment, as well as with a relatively large agricultural sector in some countries.
Labour shortage and migration
In the majority of countries examined, the population will decline due to a low birth rate while the average life expectancy is continuing to increase. This means that most countries face the challenge of an ageing population and declining workforce. Therefore, the existing welfare systems and pension schemes will not be sustainable and the European social model thus needs to be modernised.

Increasing labour shortages in the EU25 will put pressure on governments to allow for greater labour migration from outside the EU. Some of the Global7 countries – Japan, Australia and the US – encounter similar problems, while the population in China and India is increasing rapidly and domestic economies cannot always absorb the expanding labour supply. These countries support production relocation and outward migration, but they also fear losing their qualified workforce to other countries. Most of the EU10 are facing two problems at once: despite a declining labour supply, they also have to cope with a significant labour outflow to more advanced economies. This situation is set to improve with the ongoing economic convergence processes which will lead to an income level in the EU10 comparable with that of the EU15.

Changes in work content and skills development
In the future, increasing attention will be paid to ensuring that business and employment relations policies and practices that support innovation and flexibility also cover the following fields: technological advancements; new forms of work organisation; continuous productivity improvement; customer responsiveness; and the delivery of high quality products and services. Greater competition and openness of national economies could cause changes in the organisation of production processes. Therefore, the scope of industrial relations should extend to all aspects of work-related activities that are part of the interaction between managers, workers and their representatives. Industrial relations should also include those activities related to company performance such as job design, work organisation, skills development, employment flexibility, job security, as well as a range of issues associated with human resources management.

Industrial relations are not just about wages and working conditions; for example, more emphasis should also be put on lifelong learning and vocational training programmes, recruitment of new workers, in addition to employment and social protection activities. Updating and upgrading skills is one option for workers to ensure lifelong employability, and multi-skilling has been proven to offer the required flexibility and resilience to both employers and employees.

Among other things, this study links industrial relations to general economic and human development. The analysis used indicators of socioeconomic development and of the environment. The factor and cluster analysis revealed how similar or different the industrial relations systems are within the different country groups. The results indicated that only Finland and Sweden, forming one country group, have relatively similar industrial relations indicators. Indicators are also relatively similar in the group of Anglo-American countries – Australia and the US – and in the group of traditional European countries – Austria, Belgium, Denmark, France, Germany, Ireland, Luxembourg, the Netherlands and the UK – plus Japan. In the other country groups, the industrial relations indicators are relatively diverse. These results show that industrial relations are not directly related to a country’s developments in terms of the economy, human capital and the labour market. It can thus be concluded that increasing competition, growing labour migration and global market integration will weaken traditional industrial relations in Europe.
In conclusion, it can be said that further workplace industrial relations systems should be put in place, which facilitate change, promote flexibility and prepare workers to be able, adaptive and attuned to respond to the challenges of globalisation. Traditional employment systems are under significant strain due to cost-cutting pressures and the fact that atypical non-standard employment relationships are increasingly becoming the typical standard form of employment. Consequently, legislation will have to change so that institutional changes will promote flexibility and productivity. Moreover, the need arises to pay greater attention to issues confronting the workforce in unorganised sectors of the economy. Collective bargaining should cover atypical forms of employment, such as fixed-term employment contracts, part-time work, temporary agency work and telework. The best guarantee against possible job loss is to avoid workers’ skills sets from becoming obsolete by promoting continuous training and retraining, while updating and upgrading skills is the ideal way to ensure lifelong employability.

There are no universal models for social partners in the global sense. Only time will show which type of social model will survive in terms of global competition. It will also be of interest to see what Europe has to offer to the rest of the world, what Europe needs to learn from other countries and whether the European social model can be used as a benchmark for the rest of the world. All of these are still open questions. Overall, the European economy is based on a social market economy, with the public sector providing a certain amount of social protection. All EU Member States have accepted common values of social protection which are reflected in the European social model. At the same time, Europe’s labour market is overregulated and rigid causing an insufficient employment increase. In this respect, Europe should learn from the global arena how to increase labour market flexibility, as well as how to make use of different employment contracts and flexible forms of work. If Europe is able to show that a balance between labour market flexibility and its social model is possible and working successfully, then it can prove to the world that this combination is a success story.
Bibliography


Annex 1
Benchmarking methodology

Benchmarking is a continuous and systematic process for comparing the performance of organisations, economic processes and policies, for example, with the ‘best in the world’. In addition, it helps to gather information in a systematic way to take steps towards improving one’s own activities. While benchmarking can be carried out in many different ways, it generally involves the following steps (see Figure A1):

- a planning phase – during this phase, the object that is to be benchmarked will be identified, as well as the way in which performance measures are defined, the items with which the benchmarked object will be compared and the information sources; in this study, national industrial relations were benchmarked against the globalisation processes. Determining the performance measures and critical factors is a highly important step since the choice of these factors will influence the entire benchmarking process and, to a large extent, the outcome of the research.

- an analysis phase – this stage of the benchmarking process includes the elaboration and interpretation of data, the identification of performance gaps and the analysis of potential reasons for existing performance gaps. While doing this exercise, it should be kept in mind that benchmarking is a learning process going beyond mere comparisons as it also aims to create an understanding of the underlying processes that cause different levels of performance. A minimum

Figure A1 Steps of benchmarking process

Source: Fahrenkrog et al, 2002; authors’ modifications.
requirement in this phase is that benchmarking must not be limited to a quantitative comparison of different indicators; the quantitative comparison is only a starting point for further and deeper analysis. In this phase, benchmarks should be analysed in relation to best practice examples which should be examined in great detail, especially concerning the conditions under which best practice is achieved. Moreover, recommendations should be derived from this analysis as to how the framework conditions can be adjusted to the best practice case. These recommendations should then form part of a dialogue with the actors concerned in the next phase.

- an action phase – this phase includes reporting, the adjustment of objectives and strategies, as well as the elaboration of action plans and policies. This phase has to be carried out in a cooperative way, if benchmarking is to play its role as an ‘open method for policy coordination’. In competitive benchmarking, one is often restricted to secondary sources of information and statistics.

After these benchmarking activities, a control and revision phase takes place. This phase comprises monitoring the implementation of action plans and policies, and identifying possible deviations. The monitoring of action plans and policies becomes more important when the results and conclusions of the benchmarking process are disseminated. Benchmarking is intended to be a continuous learning process and the benchmarking exercise should be repeated on a regular basis.


- Policy has to take into account a number of objectives and no single indicator can be employed to cover the diversity of policy goals. This means that the process of identifying best practice examples and specifying the performance measures, as well as the critical success factors, in the planning phase is extremely important and a delicate process at the same time. Therefore, benchmarking processes have to be based on timely, internationally comparable and policy-relevant data, and only commonly accepted indicators should be used in the research process.

- However, even when indicators and benchmarks are selected carefully, problems may arise in relation to their international comparability. One should be aware that definitions, concepts, ways of data collection differ largely between countries; for example, the importance of the informal sector and the different role of social actors in Latin America and Asia raise questions at a conceptual level of the benchmarking process.

- It is rather difficult to establish or to understand the relation between policy intervention and the change in outcomes. Policy effects where they can be established have a high degree of context dependency as not only one but rather several ways exist to design a successful policy. Furthermore, what may work for one system might not necessarily be transferable to another system.

Therefore, the benchmarking process has to acknowledge the diversity of the respective national systems. It will not provide one-size-fits-all policy solutions, but will rather identify good practice examples. Countries are characterised by their different systems and therefore what is regarded as best practice in one country or region may not be considered an example of best practice in another.
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### Annex 3

Main national trade union organisations in Global7 countries

**Table A1 Main national trade union organisations in Global7 countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number, division</th>
<th>Confederation</th>
<th>Main characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUS</td>
<td>1</td>
<td>Australian Council of Trade Unions (ACTU)</td>
<td>The vast majority of trade unions are affiliated to ACTU which represents almost 100% of trade union members.</td>
</tr>
<tr>
<td>BRZ</td>
<td>Several, 6–7 most influential* Political</td>
<td>Unique Workers' Central (CUT)</td>
<td>The largest trade union, with a politically left-wing orientation (linked to Lula's Workers' Party). Some 1,655 trade unions are affiliated to CUT, with a reported membership level of 7.7 million workers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Union Power (FS)</td>
<td>The second largest, centre-oriented trade union, with 642 affiliated trade unions and a reported membership rate of 2.1 million workers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New Workers’ Central Union (NCST)</td>
<td>NCST was established in 2005 and counts 533 member trade unions, with a membership rate of about one million workers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>General Confederation of Workers (CGT)</td>
<td>CGT is a centre-left oriented trade union, which originated in the Communist Party. CGT has 148 affiliated trade unions, with a reported membership rate of 2.6 million workers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Social Democratic Union (SDS)</td>
<td>SDS was established within the Social Democratic Party and unites 153 trade unions.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Autonomous Workers’ Central (CAT)</td>
<td>CAT comprises 46 trade unions with 300,000 members.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fight Confederation (CONLUTA)</td>
<td>CONLUTA is a radically left-wing oriented trade union and lacks significant representation levels.</td>
</tr>
<tr>
<td>CHI</td>
<td>1</td>
<td>All-China Federation of Trade Unions (ACFTU)</td>
<td>Some 31 trade union federations exist in provinces, autonomous regions and municipalities, which are under the direct control of the government and 10 national industrial trade unions. By the end of 2004, the membership figure stood at 137 million workers.</td>
</tr>
<tr>
<td>IND</td>
<td>Several** 5 more influential Political</td>
<td>All India Trade Union Congress (AITUC)</td>
<td>AITUC is affiliated to the Communist Party of India.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Indian National Trade Union Congress (INTUC)</td>
<td>INTUC is affiliated to the Congress Party and one of the biggest trade unions, with a membership rate of six million workers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Indian Labour Organisation (Hind Mazdoor Sabha) (HMS)</td>
<td>HMS has no formal affiliation to any political party; the trade union, however, is committed to the principles of socialist philosophy.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Indian Workers’ Union (Bhartiya Mazdoor Sangh) (BMS)</td>
<td>BMS keeps close links to the Rashtriya Swayamsevak Sangh and Bharatiya Janata Party, but the trade union is not affiliated to any political party. BMS is one of the biggest trade unions, with a membership rate of 7.6 million workers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Centre of Indian Trade Unions (CITU)</td>
<td>CITU is affiliated to the Marxist Party of India.</td>
</tr>
</tbody>
</table>
Note: * In the Brazilian case, the reported membership figures are exaggerated, since when adding these figures up, the total affiliated membership would cover almost the entire formal sector. Hence, trade union power in Brazil should not merely be evaluated through union membership figures; the political influence and activity of worker representation in Brazil goes beyond what the numerical figures would indicate.

** In addition to these five trade unions, at least seven other national-level trade unions exist, with which the government holds consultations (see list in Wikipedia, http://en.wikipedia.org/wiki/Indian_Trade_Unions).

*** In Japan, regulation of the peak trade union organisation is inexistent; however, Japanese people consider without doubt that RENGO is a peak trade union organisation. But some other small trade union organisations exist and argue that they are also peak trade union organisations, such as the National Confederation of Trade Unions (ZENROREN) with its 701,000 members.

Source: EIRO, Industrial relations country profiles, 2006; National experts’ comments, 2006; Venkata Ratnam, 2006.

The following paragraphs outline the roles of the main national trade union organisations in the Global7 countries (EIRO, Industrial relations country profiles, 2006)

**Australia**
Between 1983 and 1996, ACTU played a central role in a social pact with the Australian Labour Party government. This initially involved ensuring that affiliated trade unions complied with a centralised incomes policy in return for increases in social wages. From 1989 until 1996, ACTU played an active role in promoting a bargaining policy based on productivity growth at both sectoral and company level. Since the election of the conservative Howard government in 1996, ACTU has changed its strategic direction and used its position in the trade union movement to promote the development of an ‘organised’ culture in its member unions, as well as to campaign openly against recent industrial relations reforms.

**Brazil**
Important trade union bodies are not allowed to bargain; thus, their role is primarily political. Such trade unions represent workers in specific organisations.
China
Since 1949, the role of trade unions in the Chinese planned economy was based on principles, which was to serve the needs of the Communist party, notably to: pass the party's directives down to ACFTU’s branch members who may or may not be members of the party; promote enterprise productivity; organise entertainment activities; and distribute welfare benefits. In the course of the transition to a market economy, the trade unions’ role has been challenged, but they have been under little pressure to adapt to the changing employment relations. Although ACFTU and its affiliated member unions have been the driving force behind the implementation of tripartite coordination and collective agreements, today they are largely irrelevant to workers due to their subordinate position and inability to bargain independently.

India
Over a dozen national trade union centres exist in India today; five of these have a membership rate of over 500,000 workers in at least four states and four sectors of the economy. The latter is the criterion for a representative workers’ body at national level, which was laid down by the Indian Labour Conference in 1982. In addition to these five representative trade unions, at least seven other national-level trade unions exist with which the government holds consultations. In India, almost all major national trade union centres have about 25 sectoral federations each. Although the official number of registered trade unions is about 50,000 unions, the actual number may well exceed 100,000 of such organisations since trade union registration is not compulsory according to the Indian Constitution. Trade unions are particularly fragmented and their unity suffers due to political polarisation. The large quantity of existing trade unions creates uncertainty and causes disharmony among the unions. Competition among trade unions is not only weakening the trade union movement, but it also leads, in certain cases, to the adoption of policies aimed at short-term gains at the expense of long-term benefits for trade union members. Trade union unity has been a topic of discussion among trade unions since 1968. One of the proposals put forward involves the formation of a Confederation of Trade Unions, in which all trade unions can retain their individual identity yet come together to offer alternative blueprints to government policies that affect the economy, industry and working class.

Japan
RENGO is made up of sectoral trade union federations. RENGO sends delegates to the central government and local government advisory committees in various policy fields, including labour and social policy; these advisory committees are tripartite bodies. RENGO negotiates with the national government and employer organisations on issues such as employment standards, tax systems and social security, which cannot be settled at sectoral or company level.

South Africa
Three main trade union federations exist in South Africa; all of these are involved in the National Economic Development and Labour Council (Nedlac). There is no direct link between tripartite bargaining over policy issues and legislation at national level and bargaining over terms and conditions of employment at sectoral level.

United States
Many AFL-CIO leaders believe that a revival of the trade union movement is most unlikely without a change in labour law. They have been engaged in a major congressional campaign to win support
for the Employee Free Choice Act. The proposed legislation seeks to overcome the most serious obstacles to trade union organisation and to collective bargaining negotiations for a first agreement. The legislation aims to increase the penalties for employers who refuse to bargain while also ensuring that first agreement disputes will be resolved via mediation and arbitration. Despite the split in the summer of 2005, the two trade union confederations – AFL-CIO and Change to Win – recently formed a National Labour Coordinating Committee to combine forces when it comes to political initiatives. AFL-CIO has also established ‘Solidarity charters’ that allow trade unions affiliated to Change to Win to cooperate with AFL-CIO member unions in local labour councils.
Annex 4

Main national employer organisations in Global7 countries

Table A2 Main national employer and business organisations in Global7 countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Number</th>
<th>Confederation</th>
<th>Main characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUS</td>
<td>3</td>
<td>Australian Chamber of Commerce and Industry (ACCI)</td>
<td>ACCI represents over 350,000 enterprises employing more than four million Australians.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Australian Industry Group (AIG)</td>
<td>AIG represents 10,000 employers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Business Council of Australia (BCA)</td>
<td>BCA comprises the Chief Executive Officers of Australia’s 100 largest organisations.</td>
</tr>
<tr>
<td>CHI</td>
<td>1</td>
<td>China Enterprise Confederation/China Enterprise Directors’ Association (CEC/CEDA)</td>
<td>CEC/CEDA has 545,000 members, representing 34 sectors of the economy in 30 provinces and 260 industrial cities and regions.</td>
</tr>
<tr>
<td>IND</td>
<td>3</td>
<td>All India Organisation of Indian Employers (AIOE)</td>
<td>In 2000, AIOE had 59 association members and 30 individual members.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Employers’ Federation of India (EFI)</td>
<td>In 2000, EFI had 27 association members and 172 individual members.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Standing Conference on Public Enterprises (SCOPE)</td>
<td>SCOPE is a representative employer organisation for the public sector. Over 95% of the companies established by the central government are members of SCOPE.</td>
</tr>
<tr>
<td>JAP</td>
<td>1</td>
<td>Nippon Keidanren</td>
<td>Nippon’s membership base of 1,662 organisations comprises 1,351 companies, 130 industrial associations and 47 regional economic organisations.</td>
</tr>
</tbody>
</table>


The main features of the most important national employer organisations in the Global7 countries are sketched out below (EIRO, Industrial relations country profiles, 2006).

**Australia**

Employers’ opinions and organisations have been highly fragmented in Australia, which reflects significant differences in employer interests across the sectors of the economy. With the changes in the bargaining structure that have taken place in Australia over the past two decades, Australian employers have fewer reasons to join employer organisations.

Traditionally, employer organisations in Australia played an active role in the settlement of industrial disputes and the setting of wages and working conditions. As collective agreements applied to entire industries and occupations, employer organisations were often directly involved in the bargaining process and in fact coordinated multi-employer bargaining. The changes in the bargaining structure have meant that many employer organisations have found themselves playing a much less active role in bargaining and have been forced to focus their attention on developing their advisory services. Some of the employer organisations have even started shifting towards a fee for service rather than a membership-based revenue model. Since the 1980s, employer organisations have started to play...
an increasingly active role in policy debates and especially in promoting industrial relations policy reform. The most significant organisation in this regard has been the BCA. Since its inception, the BCA has actively promoted deregulation of the Australian labour market and reform of the traditional industrial relations system. The Metal Trades Industry Association (MTIA), whose membership was mainly drawn from the manufacturing sector, traditionally adopted a pro-arbitration stance and was involved, informally, in the development of sectoral bargaining as part of the social pact in the late 1980s and early 1990s. However, since the mid 1990s, the MTIA and its successor organisation the AiG has become more pro-deregulation as its public support for work choices indicates.

China
CEC/CEDA participate in the legislative processes concerning industrial relations and promote cooperation between managers and workers; for example, through the participation in tripartite consultation and the implementation of a collective contract system.

India
Employer organisations in India have two types of roles in representing the interests of their members. First, they nominate representatives of employers in voluntary and/or statutory bodies set up not only to determine workers’ wages and employment conditions, but also for consultation and cooperation on social and labour matters in the national and global context. Secondly, they seek to defend employers’ interests against legislative or other measures by making submissions to the concerned authorities. They represent employers’ interests in issues relating to as legislation, voluntary codes, social security and wage increments in various committees and institutions, as well as in bipartite and tripartite bodies at national level. In 1956, after several initiatives and meetings, the Council of Indian Employers (CIE was set up to bring the AIOE and EFI – the two national-level employer organisations – under one umbrella. In 1973, SCOPE joined CIE. The main objective in setting up CIE was to ensure close cooperation and coordination between the three employer organisations, which together represent in particular the interests of large-scale industry in India. On behalf of the three organisations, CIE also represents the employers at government level on matters involving important issues of labour policy (Venkata Ratnam, 2006).

Japan
The mission of the Japanese employer organisation Nippon Keidanren is to accelerate growth of Japan’s and the world economy. Furthermore, the organisation aims to strengthen companies in the country to create added value in order to transform the Japanese economy into one that is sustainable and driven by the private sector, by encouraging the idea of individuals and local communities. It will also attempt to resolve international problems and to deepen economic relations with other countries through policy dialogue with governments, business groups and international organisations (Nippon Keidanren website, 2007).

South Africa
A great number of business organisations were developed along the lines of industry, race and politics. In some sectors of the economy, these organisations incorporate the role of representing industry interests, as well as being involved in employment relations. In 1994, the multi-sectoral national federation, Business South Africa, was launched to represent the interests of most business organisations in Nedlac. However, business organisations for black and white employers remained divided until the creation of BUSA in October 2003, through the merger of the Black Business Council...
and Business South Africa to create the first truly unified business organisation. The organisation focuses on three main areas of activity: social policy, economic policy and transformation policy which includes black economic empowerment. It is not involved in collective bargaining over terms and conditions of employment, which are determined directly by employer organisations in sectoral bargaining councils or in companies in the form of company-level agreements.
### Annex 5

Collective bargaining in EU25 and Global7 countries

Table A3 Collective bargaining coverage and extension practices in EU25 (% of all employees)

<table>
<thead>
<tr>
<th>Country</th>
<th>Collective bargaining coverage</th>
<th>Extension of (sectoral) collective agreements by law</th>
</tr>
</thead>
<tbody>
<tr>
<td>SI</td>
<td>100</td>
<td>All agreements</td>
</tr>
<tr>
<td>AT</td>
<td>98</td>
<td>Customary and workplace ‘option clause’</td>
</tr>
<tr>
<td>BE</td>
<td>96</td>
<td>Customary</td>
</tr>
<tr>
<td>FR</td>
<td>93</td>
<td>Customary</td>
</tr>
<tr>
<td>SE</td>
<td>92</td>
<td>Casually, not formally</td>
</tr>
<tr>
<td>NL</td>
<td>88</td>
<td>Frequent</td>
</tr>
<tr>
<td>FI</td>
<td>83</td>
<td>Customary</td>
</tr>
<tr>
<td>DK</td>
<td>83</td>
<td>Not formally</td>
</tr>
<tr>
<td>PT</td>
<td>80</td>
<td>Customary</td>
</tr>
<tr>
<td>ES</td>
<td>80</td>
<td>Frequent</td>
</tr>
<tr>
<td>IT</td>
<td>70</td>
<td>Customary for pay</td>
</tr>
<tr>
<td>CY</td>
<td>70</td>
<td>No regulation</td>
</tr>
<tr>
<td>EL</td>
<td>65</td>
<td>In certain cases</td>
</tr>
<tr>
<td>LU</td>
<td>58</td>
<td>No application</td>
</tr>
<tr>
<td>DE</td>
<td>57</td>
<td>Rare</td>
</tr>
<tr>
<td>SK</td>
<td>50</td>
<td>Possible</td>
</tr>
<tr>
<td>IE</td>
<td>45</td>
<td>On occasions</td>
</tr>
<tr>
<td>MT</td>
<td>56</td>
<td>No regulation</td>
</tr>
<tr>
<td>HU</td>
<td>40</td>
<td>Possible but rare</td>
</tr>
<tr>
<td>UK</td>
<td>36</td>
<td>No regulation</td>
</tr>
<tr>
<td>CZ</td>
<td>35</td>
<td>More frequent since court ruling in 2000</td>
</tr>
<tr>
<td>PL</td>
<td>35</td>
<td>Possible from 2000</td>
</tr>
<tr>
<td>EE</td>
<td>22</td>
<td>Possible from 2000</td>
</tr>
<tr>
<td>LV</td>
<td>20</td>
<td>Possible from 2002</td>
</tr>
<tr>
<td>LT</td>
<td>15</td>
<td>Possible from 2003 but no application</td>
</tr>
</tbody>
</table>

The main features of collective bargaining and collective bargaining coverage in the Global7 countries include those listed below (EIRO, Industrial relations country profiles, 2006)

**Australia**
Australia's bargaining structure has changed dramatically since the early 1990s, from one that was highly centralised to an increasingly fragmented structure. The most notable feature of change in the country's bargaining structure has been the decline in the percentage of workers who have their wages and employment conditions determined solely by awards and the increase in the proportion of workers who have their wages and employment conditions determined by collective agreements. A second notable feature of the changes in bargaining structure is the increasing share of employees whose wages and conditions are determined outside the formal bargaining institutions and which are governed only by common law contracts. While these figures include managerial and professional staff, the significant increase in common law contracts is closely related the increasing share of Australian employees that are employed on a casual basis.

**Brazil**
Brazil presents a curious combination of low levels of unionisation, the absence of trade union and/or worker representation at the workplace and, at the same time, a 100% level of bargaining coverage. However, this 100% bargaining coverage rate only refers to the formal sector which corresponds to about 40% of the labour market. Although Brazilian trade unions are not allowed to represent workers in day-to-day workplace issues, they are the legal representatives of the collective interests of the entire sector of the economy, including both unionised and non-unionised workers.

**China**
The ACFTU and other official Chinese sources often refer to collective bargaining as an important contributor to reaching collective agreements, although there is a lack of legislative and political support for independent collective organisations. Without this independent bargaining power or the right to stage industrial action, trade unions are not autonomous bargaining agents for workers. Instead of independent collective bargaining, trade unions and employers, together with other
interested bodies such as government employment authorities, engage in collective consultation on issues concerning employment relations. Although collective agreements have a wide coverage, they remain largely formal documents and rarely do more than re-emphasise the existing legal obligations of management and employees.

India
In India, barely 2%–3% of the labour force is covered by collective agreements. Even so, the balance of power is usually tilted more towards management, especially in areas which are exposed to competition and have an excess labour supply in relation to the demand for it. A shift emerges in the level of coordination and bargaining from national or sectoral to company level while the bargaining power of trade unions is shrinking. Since 1992, over 100 of the 240 central public sector corporations did not have wage revisions because the government announced that companies have to mobilise resources to pay for the workers’ wages and that the government would no longer subsidise wage increases (Venkata Ratnam, 2006). The influence and power of trade unions will continue to be undermined as long as unemployment and underemployment continue to rise.

The Indian government does not allow industrial workers in government undertakings to participate in collective bargaining; such undertakings include railways, postal services, telecommunications, and the Central Public Works Department. Levels of remuneration are decided by the government on the basis of Pay Commission recommendations. National labour laws do not force employers either to recognise trade unions or to engage in collective bargaining.

Japan
The concept of a ‘collective bargaining coverage rate’ does not exist in Japan, because almost all trade unions in Japan are company unions and each of these bargains collectively with each employer. In general, the bargaining covers only the members of each company trade union. The law provides for two exceptions to this general principle and extends the coverage of collective agreements to workers who are not members of the trade union. But these exceptions are rarely put into practice. In Japan, with bargaining conducted exclusively at company level and no mechanisms for the extension of agreements beyond the signatories, bargaining coverage matches trade union density.

South Africa
In South Africa, in some sectors of the economy, centralised bargaining at sectoral level is increasingly concentrated in a few large councils with national scope, while company-level bargaining with large national employers tends to predominate in sectors where trade union density is lower or inconsistent. While the number of industry bargaining councils has declined, the coverage of collective agreements has increased significantly since 1995, particularly because of the relatively recent inclusion of almost all public sector employees. No data currently exist on the extent and coverage of company-level agreements.

United States
The National Labor Relations Act (NLRA), along with other federal, state and local legislation, extends bargaining rights to 78% of workers in the US; however, trade union density is only 12.5%. Many of the remaining 22% of workers without bargaining rights include supervisors, managers and independent contractors. However, public sector workers in 12 states also have no bargaining rights, with domestic workers and about 300,000 agricultural workers being similarly excluded.
Annex 6

Industrial actions in Global7 countries

The main features of industrial actions in the Global7 countries are presented below (EIRO, Industrial relations country profiles, 2006).

Australia
In Australia, a pattern of significant decline has been recorded in the number of working days lost due to industrial actions per 1,000 employees since the early 1990s. While a number of factors contribute to industrial conflict, it seems reasonable to argue that declining levels of unionisation and increasing restrictions on strike activity have played a role in reducing industrial conflict in Australia. It is also worth noting that an increasing proportion of industrial action in the country is associated with the use of employer-initiated lockouts. In Australia, strike action is still only allowed during the negotiation period of an agreement. However, before any action is taken, a secret ballot must be conducted at the workplace and a majority of employees must vote in favour of taking such action. The applicant must pay 20% of the costs associated with the ballot, thereby making such an application a potentially expensive and time-consuming process.

Brazil
The rate of strike activity in Brazil was extremely high up to mid 1970s. Industrial conflict was exacerbated for two reasons: the permanently high inflation rates and the closed model of industrialisation. With the opening up of the Brazilian economy to external competition, the privatisation of state-owned enterprises, together with the control of inflation, the two main sources of conflict almost vanished. In addition, low economic growth rates have led to relatively high rates of unemployment. All of these factors combined have contributed to a low rate of industrial conflict. Strikes are almost confined to the public sector, where representation issues and bargaining processes are still at a less developed stage. Nevertheless, strike actions remain frequent in the public sector, involve large groups of workers and are of long duration.

China
As employment relations in China have become diversified and more complex, the number of labour disputes has increased. Labour disputes occurred mainly in economically developed regions. Pay, insurance issues and termination of employment contracts were the major causes of these disputes. The state neither permits workers the right to strike nor does it prohibit strikes. Requests for strikes have never been approved and have normally resulted in numerous negotiations and government intervention.

India
During the decade 1981–1990, India has lost 402.1 million working days due to industrial conflict, whereas in the subsequent decade, 1991–2000, the number came down to about half this amount: at 210 million days. This does not mean, however, that the industrial relations situation has improved dramatically. Workers are increasingly more circumspect and hence reluctant to go on strike because of the fear of job insecurity, concern about the futility of strikes and increasing awareness about the imperative need to consider company survival as a prerequisite for employment and income security. Trade unions are hesitant to call for strike action because it may lead to job losses or the closure of a particular business unit. It is even more striking to note that over 60% of the working days lost due to industrial action in the post-reform period since 1991 were due to lockouts and less than 40%
were due to strikes. The main reasons for work stoppages in India include: wages and allowances, staff cutbacks, indiscipline and violence, bonuses, leave and working time. One example of how trade unions are becoming more defensive than offensive with employers can be seen from the shift in their actions from strikes to law suits. In addition, instead of pressing for higher wages and improved benefits for workers, trade unions are arguing for maintenance of existing benefits and protection, as well as claims in relation to non-payment of agreed wages and benefits (Venkata Ratnam, 2006).

**Japan**
In Japan, there has been a shift from harsh confrontation towards cooperative relations. Since 1975, the number of industrial conflicts has steadily decreased and the number of person-days lost also declined significantly. Strikes mainly last less than half a day.

**South Africa**
The number of days lost due to strike action in South Africa increased strongly through the period of rapid trade union growth to average almost three million days lost in the 1980s and then stabilised at about four million days annually during the transition to democracy in the early 1990s. Strikes declined significantly after the democratic transition in 1994, averaging 1.1 million days lost annually in the period 2000–2005. Wage disputes accounted for 88.7% of the number of person-days lost due to strike action during the first three quarters of 2005.

**United States**
Major work stoppages, including strikes and lockouts, have decreased in the US over the last number of years. Overall, 22 strikes and lockouts were recorded in 2005: some 17 of these occurred in industry in the private sector and five took place in state and local government bodies in the public sector.
Annex 7
Statutory minimum wages in Global7 countries

The main features of the minimum wage systems in the Global7 countries include those listed below (EIRO, Industrial relations country profiles, 2006).

Australia
In Australia, the minimum wage is set by the state after it has been determined by the Australian Industrial Relations Commission (AIRC) through national wage cases which set award minima. Federal and state governments, employer organisations and trade unions can all make submissions to the AIRC. In making its decision, the AIRC must also take into account both economic and social factors.

China
From the early 1990s, China has had a system of minimum wage rules in place. Minimum wages have both a monthly and hourly component and apply to full-time and part-time workers. The monthly minimum wage takes into account factors such as a worker's and his or her dependents' minimum living costs, the urban resident consumer price index (CPI), social security and housing accumulation fund fees, average salary, economic development level and the state of the labour market. The hourly minimum wage takes into account the local monthly minimum wage, retirement pension and medical insurance fees, working conditions and intensity of work, work stability and the welfare of full-time workers.

India
Although the Minimum Wage Act of 1948 is a central piece of legislation in India, federal and individual state governments are responsible for the establishment of tripartite minimum wage advisory bodies to recommend minimum wage levels. Under the Minimum Wage Act, minimum rates of wages are not fixed in respect of all types of employment, but only in respect of certain employment types specified in the schedule of the act. The act does not define the minimum wage and does not contain any guidelines regarding what elements should be taken into consideration in setting a minimum wage. As a result, different fixing authorities have followed different sets of principles in fixing or revising minimum wage levels. In this regard, wide disparities exist in the minimum wage rates fixed in respect of different employment types within the country and in respect of the same employment types fixed by the different states (Venkata Ratnam, 2006).

Japan
The Minimum Wage Law of 1959 provides for a statutory minimum wage system in Japan. Regional minimum wages are determined for each region or state within the country, regardless of the type of industry or occupation. The minimum wage in a given state applies to all workers in all workplaces in that region. Two types of industry-specific minimum wages also exist – state level and national level. However, the number of workers covered by industry-specific minimum wages is limited. The role of industry-specific minimum wages is less significant than that of regional minimum wages.

15 The government may make additions to the list of employment types contained in the schedule. Therefore, the number of employment types added to the schedule varies from state to state.
Impact of globalisation on industrial relations in the EU and other major economies

South Africa
In South Africa, bargaining council agreements normally include a minimum wage, which often varies between urban and rural areas. Where no bargaining councils exist, the Basic Conditions of Employment Act of 1998 empowers the Department of Labour to set minimum conditions at sectoral level which will apply to all workers and employers in the sector.

United States
The US Congress passed the Fair Labour Standards Act (FLSA) in 1938 and thus established a statutory minimum wage. The majority of workers in the US are covered by the statutory minimum wage, while six states – Alabama, Arizona, Louisiana, Mississippi, South Carolina, and Tennessee – have no minimum wage law.

In the Global7 countries, where no statutory minimum wage is determined, the wage rates documented below apply.

China
In China, the minimum wage level varies between regions with the hourly wage ranging between CNY 1.73 (about €0.16)\textsuperscript{16} for Inner Mongolia and CNY 7 (€0.68) for Xinjiang, and the monthly wage ranging between CNY 340 (€33) for Gansu and CNY 690 (€67) for Shanghai, Jiangsu and Shenzhen. In most cities, these minimum wages are not sufficient to maintain basic living standards and they normally account for only about 20% of the city’s average income.

Japan
In Japan, the amount of the regional minimum wage depends on the situation of the economy and wages in each country region. In 2006, the minimum wage in Tokyo was JPY 719 (about €4.34)\textsuperscript{17} an hour, which was the highest among all regional minimum wages.

South Africa
In South Africa, major differences exist in sectoral minimum wages. In poorly organised sectors of the economy – such as agriculture and the retail and wholesale trade – weekly sector minima were set by the Department of Labour at ZAR 317 (about €32.60)\textsuperscript{18} and ZAR 375 (€38.56) for each sector respectively, while negotiated bargaining council minima in the mining and manufacturing sectors were set at ZAR 504 (€51.83) and ZAR 530 (€54.50), respectively, in 2004.

United States
The statutory minimum wage in the US has risen to US $5.15 (about €3.86)\textsuperscript{19} an hour. The protective value of the minimum wage has lessened considerably over the last two decades. Not only has its real value declined over time, but less than 3% of workers today are presently paid at the minimum wage rate.

\textsuperscript{16} The exchange rate used is €1 = CNY 10.306.
\textsuperscript{17} The exchange rate used is €1 = JPY 165.585.
\textsuperscript{18} The exchange rate used is €1 = ZAR 9.723.
\textsuperscript{19} The exchange rate used is €1 = USD 1.333.
Annex 8
Impact of industrial relations systems

Figure A2 Foreign direct investment, net inflows (% of GDP), 2004

Notes: *For Luxembourg, the respective figure is 335.9.
**No data available for Sweden.

Figure A3 Foreign direct investment, net outflows (% of GDP), 2004

Note: *For Luxembourg, the respective figure is 371.5.
### Table A5 Labour market indicators

<table>
<thead>
<tr>
<th>Region</th>
<th>Change in unemployment rate (percentage points)</th>
<th>Unemployment rate (%)</th>
<th>GDP growth rate (%)</th>
<th>Employment-to-population ratio (%)</th>
<th>Annual labour force growth rate (%)</th>
<th>Annual GDP growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>-0.2</td>
<td>6.1</td>
<td>6.4</td>
<td>6.3</td>
<td>4.9</td>
<td>5.2</td>
</tr>
<tr>
<td>Developed economies and EU</td>
<td>-0.4</td>
<td>7.8</td>
<td>6.8</td>
<td>6.2</td>
<td>2.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Central and Eastern Europe (non-EU) and Commonwealth of Independent States (CIS)</td>
<td>-0.5</td>
<td>9.7</td>
<td>9.4</td>
<td>9.3</td>
<td>6.4</td>
<td>6.3</td>
</tr>
<tr>
<td>East Asia</td>
<td>-0.3</td>
<td>3.7</td>
<td>3.5</td>
<td>3.6</td>
<td>9.2</td>
<td>9.2</td>
</tr>
<tr>
<td>Southeast Asia and the Pacific</td>
<td>0.7</td>
<td>3.7</td>
<td>6.6</td>
<td>6.6</td>
<td>5.8</td>
<td>5.4</td>
</tr>
<tr>
<td>South Asia</td>
<td>0.2</td>
<td>4.4</td>
<td>5.2</td>
<td>5.2</td>
<td>8.2</td>
<td>7.9</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>-0.5</td>
<td>7.9</td>
<td>8.1</td>
<td>8.0</td>
<td>4.3</td>
<td>4.7</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>-1.1</td>
<td>13.0</td>
<td>12.3</td>
<td>12.2</td>
<td>5.5</td>
<td>6.1</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>-0.4</td>
<td>9.2</td>
<td>9.7</td>
<td>9.8</td>
<td>5.6</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Note: * 2006 are preliminary estimates.
Annex 9

Factor and cluster analysis

Methodological comments on factor and cluster analysis
Factor analysis is a method for detecting structure in the relationships between a large set of variables. This method allows for the summarising of information on variables and for reducing initial sets of variables into new smaller sets of combined variables or factors. In the first phase of the analysis, factors are extracted from initial data and decisions must be made on how many factors to define. Although several criteria exist which help with this decision, the objective of the analysis was to determine at least 75% of common variance. The next step in the analysis involves rotation which means redistribution of variance between factors to achieve a more meaningful factor structure. In defining a perfect structure, every variable must be associated with only one factor. Oblique rotation is used, as it allows correlation between factors, since different aspects of globalisation are likely to be closely related. The next step in the analysis involves assigning names to factors based on variables highly connected to each particular factor. Lastly, the objective of the analysis is to also reduce information to a smaller set of variables, through which combined variables can be found.

The primary purpose of cluster analysis is to group objects together based on their characteristics. The analysis is used to simplify data and identify relationships among the observations. Objects are classified into groups based on their similarity to each other with respect to some predetermined selection criterion. Several methods can be used to calculate the (dis)similarity of the objects. The most well-known methods are correlation coefficient and several distant measures – such as the Euclidean distance\textsuperscript{20}, Mahalanobis distance\textsuperscript{21} and city block distance\textsuperscript{22}. It is possible to use hierarchical and non-hierarchical clustering procedures. In the former case, the number of groups is not predetermined, while in the latter case it is. Although several stopping rules (a mechanism for deciding whether to continue or stop a process on the basis of the present position and past events) are available, the selection of the final number of groups is determined by the researcher and is therefore highly subjective. Therefore, objects belonging to the same group are more similar to each other than they are to objects in other groups: in other words, resulting groups should exhibit high internal homogeneity within the group and high heterogeneity between the groups. In the cluster analysis, the complete linkage method and Euclidean distance is used as a measure of dissimilarities between countries. In the clustering process, the variables used are coefficients obtained from factor analysis.

However, certain weaknesses are associated with both factor analysis and cluster analysis which must be considered. The most significant limitation in this respect is that both of these methods are highly subjective. For example, in the factor analysis, deciding on how many factors to retain, which rotation method to use, which variables are considered to be connected to which factors, as well as the names of factors are all highly subjective. Hence, different solutions may be found from the same initial data. The cluster analysis can be characterised as atheoretical, exploratory and descriptive;

\textsuperscript{20} The Euclidean distance measures the straight line between two objects or values.

\textsuperscript{21} The Mahalanobis distance is based on correlations between variables by which different patterns can be identified and analysed. It is a useful way of determining the similarity of an unknown sample set to a known one, and it differs from the Euclidean distance in that it takes into account the correlations of the data set and is not dependent on the scale of measurements.

\textsuperscript{22} The city block distance, alternatively known as the Manhattan distance, is related to the Euclidean distance; while the latter corresponds to the length of the shortest path between two values (i.e. a straight line), the former is the sum of distances one would have to walk between two points in a city where one has to walk along city blocks; it thus represents the distance between two points in a city road grid and examines the absolute differences between coordinates of a pair of objects.
Impact of globalisation on industrial relations in the EU and other major economies

Moreover, it has no statistical basis on which statistical inferences can be drawn from sample to population, which makes it difficult to generalise the sample-based results in relation to the whole population. Furthermore, the results depend on the researcher’s decisions and the cluster solution is extremely dependent on the variables used in the analysis as the similarity measure.

Table A6 Indicators used in factor analysis

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Definition</th>
<th>Source</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fertility rate</td>
<td>The fertility rate is the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with current age-specific fertility rates.</td>
<td>World Bank</td>
<td>2004</td>
</tr>
<tr>
<td>Dependency ratio</td>
<td>The dependency ratio is the ratio of dependents – people younger than 15 years and older than 64 years – to the working-age population, namely those aged 15-64 years.</td>
<td>World Bank</td>
<td>2004</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>Life expectancy is the number of years a newborn infant would live if prevailing patterns of mortality at the time of birth were to stay the same throughout the child’s life.</td>
<td>World Bank</td>
<td>2004</td>
</tr>
<tr>
<td>Health expenditure (% of GDP)</td>
<td>Total health expenditure is the sum of public and private health expenditure. It covers the provision of both preventive and curative health services, family planning activities, nutrition activities, and emergency aid designated for health, but does not include the provision of water and sanitation.</td>
<td>World Bank</td>
<td>2003</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.</td>
<td>World Bank</td>
<td></td>
</tr>
<tr>
<td>GDP growth rate</td>
<td>GDP growth is the one-year rate of growth in real GDP. The annual percentage growth rate of GDP at market prices is based on constant local currency. Aggregates are based on a constant US $2,000.</td>
<td>World Bank</td>
<td>2003</td>
</tr>
<tr>
<td>Employment to population ratio</td>
<td>The employment to population ratio is defined as the proportion of a country’s working-age population that is employed. A high ratio means that a large proportion of a country’s population is in employment, while a low ratio means that a large share of the population is not involved directly in market-related activities, because they are either unemployed or outside the labour force altogether.</td>
<td>KILM</td>
<td>2004</td>
</tr>
<tr>
<td>Youth unemployment rate</td>
<td>Eurostat: Unemployment of people who are less than 25 years old, seasonally adjusted. KILM: The term ‘youth’ covers persons aged 15–24 years. UN: Unemployment rate of young people aged 15–24 years.</td>
<td>Eurostat (EU25 countries), KILM (Global7 countries), United Nations (China)</td>
<td>EU25 2003, India 2004, China 2000</td>
</tr>
<tr>
<td>Expenditure on R&amp;D (% of GDP)</td>
<td>Eurostat: Gross domestic expenditure on R&amp;D as a percentage of GDP. ‘Research and experimental development (R&amp;D) comprise creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society and the use of this stock of knowledge to devise new applications’ (Frascati Manual, 2002 edition, p. 63). HDR: R&amp;D expenditures. Current and capital expenditures (including overheads) on creative, systematic activity intended to increase the stock of knowledge. Included are fundamental and applied research and experimental development work leading to new devices, products or processes.</td>
<td>Eurostat (EU25, Japan, US, China), Human Development Report, 2005</td>
<td>Eurostat: 2003 HDR: latest year (1997–2002)</td>
</tr>
</tbody>
</table>
Annex 9: Factor and cluster analysis

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Definition</th>
<th>Source</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Researchers in R&amp;D (per million people)</td>
<td>Researchers in R&amp;D (per million people). People trained to work in any field of science who are engaged in professional R&amp;D activity. Most such jobs require the completion of tertiary education.</td>
<td>Human Development Report, 2006</td>
<td>Latest year (1990-2003)</td>
</tr>
<tr>
<td>Tertiary school enrolment (% gross)</td>
<td>Gross enrolment ratio is the ratio of total tertiary school enrolment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Tertiary education, whether or not it will lead to an advanced research qualification, normally requires as a minimum condition of admission the successful completion of secondary-level education.</td>
<td>World Bank</td>
<td>2000, DE 1995</td>
</tr>
<tr>
<td>Expenditure on education (% of GDP)</td>
<td>Total public expenditure on education as a percentage of GDP is the current and capital expenditures on education by local, regional and national governments, including municipalities (household contributions are excluded), expressed as a percentage of GDP.</td>
<td>World Bank</td>
<td>2003</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>Factor1</th>
<th>Factor2</th>
<th>Factor3</th>
<th>Factor4</th>
<th>Uniqueness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fertility rate</td>
<td>0.8999</td>
<td>0.1588</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependency ratio</td>
<td>0.8078</td>
<td>0.3259</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life expectancy</td>
<td>-0.5106</td>
<td></td>
<td>0.1637</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health expenditure (% of GDP)</td>
<td>0.7046</td>
<td></td>
<td></td>
<td>0.2476</td>
<td></td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.5699</td>
<td></td>
<td></td>
<td>0.3158</td>
<td></td>
</tr>
<tr>
<td>GDP growth rate</td>
<td>-0.8198</td>
<td></td>
<td></td>
<td>0.4343</td>
<td></td>
</tr>
<tr>
<td>Employment to population ratio</td>
<td></td>
<td>0.7515</td>
<td></td>
<td>0.1996</td>
<td></td>
</tr>
<tr>
<td>Youth unemployment rate</td>
<td></td>
<td>-0.9332</td>
<td></td>
<td>0.1529</td>
<td></td>
</tr>
<tr>
<td>Expenditure on R&amp;D (% of GDP)</td>
<td>0.6074</td>
<td></td>
<td></td>
<td>0.1929</td>
<td></td>
</tr>
<tr>
<td>Researchers in R&amp;D (per million people)</td>
<td>0.7885</td>
<td></td>
<td></td>
<td>0.1732</td>
<td></td>
</tr>
<tr>
<td>Tertiary school enrolment (% gross)</td>
<td>0.8682</td>
<td></td>
<td></td>
<td>0.2798</td>
<td></td>
</tr>
<tr>
<td>Expenditure on education (% of GDP)</td>
<td>0.6237</td>
<td></td>
<td></td>
<td>0.5907</td>
<td></td>
</tr>
</tbody>
</table>
Table A8 Kaiser-Meyer-Olkin measure of sampling adequacy

<table>
<thead>
<tr>
<th>Variable</th>
<th>KMO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fertility rate</td>
<td>0.5365</td>
</tr>
<tr>
<td>Dependency ratio</td>
<td>0.5208</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>0.7444</td>
</tr>
<tr>
<td>Health expenditure (% of GDP)</td>
<td>0.8236</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.7808</td>
</tr>
<tr>
<td>GDP growth rate</td>
<td>0.6104</td>
</tr>
<tr>
<td>Employment-to-population ratio</td>
<td>0.5572</td>
</tr>
<tr>
<td>Youth unemployment rate</td>
<td>0.5028</td>
</tr>
<tr>
<td>Expenditure on R&amp;D (% of GDP)</td>
<td>0.7485</td>
</tr>
<tr>
<td>Researchers in R&amp;D (per million people)</td>
<td>0.7324</td>
</tr>
<tr>
<td>Tertiary school enrolment (% gross)</td>
<td>0.7405</td>
</tr>
<tr>
<td>Expenditure on education (% of GDP)</td>
<td>0.5806</td>
</tr>
<tr>
<td>Overall</td>
<td>0.6747</td>
</tr>
</tbody>
</table>

Figure A4 Results of cluster analysis
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Globalisation is a driving force in industry today, affecting all actors in the economy, not least the social partners. Migration, relocation, labour shortages, competition, and changes in skills and technology are just a few of the challenges that social partners are currently facing. This report looks at industrial relations systems across 25 EU Member States and seven global economies: Australia, Brazil, China, India, Japan, South Africa and the US. It explores the most significant effects of globalisation, including labour market flexibilisation, increasing labour migration, the rise of atypical employment forms, as well as changes in work content and working conditions. Through an analysis of the various components of industrial relations systems (actors, processes, outcomes and impact), it tries to identify which type of social model may survive in terms of global competition. It highlights that the key issue for the social partners in the future is to strike a balance between a modernised European social model and labour market flexibility.

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