Around the world in 80 ways –
The truth about delocalisation

New players on the global stage

In a globalised world, national economies are connected through trade and foreign direct investment. Markets for goods and services are no longer confined by national borders – nowadays, the world is the marketplace. Increasingly, this is also the case for labour. When deciding where to produce certain goods or services, companies can look around the globe to source the production factor, 'labour', at the best available price for the quality required. In turn, this increases competition between workers. And with the rapid integration of large developing economies, principally China and India, European workers are putting in their bids on a market that has doubled in size within a decade.

American labour economist Richard Freeman has termed the arrival and rapid integration of large developing economies, such as Brazil, Russia, India and China, the 'great doubling' of the global labour market.

Measuring delocalisation

Not surprisingly, this creates uncertainties about job security. But is the fear of jobs moving on a massive scale from high-wage European countries to low-wage countries justified? Even though the most spectacular cases of delocalisation are picked up by the media and are sometimes well documented, it is difficult to find reliable data on the scale of the problem. This makes it hard to decide whether this is indeed a major, ongoing trend or a phenomenon limited in time and to certain geographical areas. Eurofound has analysed the information collected on cases of delocalisation between 2003 and 2006 in its European Restructuring Monitor (ERM). The ERM is currently the only source providing quantitative data on restructuring and its employment effects – including delocalisation cases (although the nature of the data used and its limitations must be recognised).

Set up in 2002, the European Restructuring Monitor records all restructuring announcements by companies in the EU27 and Norway leading to the loss or creation of more than 100 jobs.
www.eurofound.europa.eu/emcc/erm/index.htm

The scale of the problem

In the four-year period covered, 2003–2006, delocalisation accounted for approximately 10% of cases of restructuring involving job loss and 8% of announced job losses. Of the 3,475 cases recorded during that period, 356 dealt with companies relocating existing activities across a national border to another country. A total of almost 200,000 jobs were 'offshored' as a result. In comparison, all restructuring activities announced by companies during the period involved the loss of more than 2.4 million jobs. Somewhat surprisingly, there was no sign of an upward trend in delocalisation in the four-year period examined.

Delocalisation is not Europe's number one 'job-killer'. Only 8% of job losses between 2003 and 2006 were due to companies deciding to move activities to another country.

Whose jobs are lost?

From the above figures it can be seen that moving jobs to other countries is not the main reason, and not even a major reason, for jobs being lost in the EU. However, ERM data also show different effects on different countries and sectors. The proportion of ERM recorded job losses that are attributable to delocalisation varied from around 25% in Portugal and Ireland to less than 5% in the Netherlands and Belgium. A look at sectors shows that it is in high to medium-tech sectors rather than in low-tech sectors that delocalisation plays the more important role. The sector accounting for the highest proportion of EU jobs lost through delocalisation (one in four of the total) was banking and insurance, a service sector with a generally high-skill profile. Relatively few of the jobs lost from delocalisation were in more basic industries such as textiles and clothing. Again, there is substantial variation by country in the sectoral concentration. In countries such as Germany and Portugal, around 50% of the jobs lost due to delocalisation are in the automotive industry. In Finland, job loss due to delocalisation is concentrated in the electrical machinery sector, while 60% of the job loss in the UK stemming from delocalisation is in the area of banking and insurance.

Half of all delocalised jobs are in manufacturing and production. The other half are in service-oriented activities such as call centres, back-office and accounting functions.

Where have all the jobs gone?

Over 85% of all delocalised jobs from the EU15 are relocated to either Asia or the new Member States, with broadly equal proportions going to each region. Again, differences between Member States are evident in the destination of delocalised jobs. 85% of delocalised UK jobs were relocated to Asia, mainly to India, while a similar percentage of German jobs were relocated to the new Member States. Service-sector jobs tend to go to Asia, while manufacturing jobs are overwhelmingly relocated to the EU's new Member States. Ownership of a company does seem to play a role when it comes to location decisions. Domestic companies are less likely to delocalise than foreign-owned companies. One third of companies making a decision to delocalise were nationally owned. Just under one third were from other Member States, while 20% were US companies. In Germany, however, US enterprises were responsible for 65% of the jobs shifted abroad as a result of a delocalisation decision.

Although US multinationals have transferred a high number of jobs from EU15 countries, the great majority of those jobs have gone to new Member States.

What will the future bring?

At present, delocalisation only accounts for a relatively small number of jobs lost in Europe due to restructuring. However, competitive pressure from abroad leads to other forms of job loss. As European companies are increasingly exposed to foreign competition, a growing number of companies may not be able to withstand this competition and will have to dismiss employees. These jobs are not offshored: they are simply lost for both the company and the country. Also, the decision of where to create new jobs is not captured by the concept of delocalisation. It only describes a situation in which existing jobs are moved. However, the factors that influence a company's decision to relocate jobs to another country are likely to also play a role when decisions about new investments and job creation are taken. There is no doubt that the international division of labour will continue to shift as restructuring continues across the globe; delocalisation will remain one element of this change.

Further information

This fact sheet forms part of the Eurofound resource pack on *Around the world in 80 ways – today's global market place.* The pack explores the impact of globalisation, providing insights into developments, perceptions and measures dealing with its consequences.

For a copy of the pack or for further information on this area of activity, please email: globalisation@eurofound.europa.eu

To view the resource pack online and all other Foundation materials on this topic, please visit: www.eurofound.europa.eu/resourcepacks/globalisation.htm

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