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Global Employment Policy - Delocalisation of Labour in Development and Transformation Countries

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The competition on the global markets increases dramatically. Countless smaller and medium-sized enterprises must almost continually fight for their existence. In many cases, they can only avert bankruptcy through severe cut-backs or closing parts of the company in expensive industrialized countries and open new production lines in transformation and developing countries. "Offshoring", as the technical term for this cross-border relocation of individual production or service elements and the concomitant jobs, plays a prominent role in the economic policy debates of the industrialised countries. In Germany the recent debate was about the cell-phone manufacturer NOKIA who went from Bochum to Rumania. Classical economic theory understands an increase in international competition as an expansion of the division of labour that is advantageous for all parties.

This division of labour has changed within the course of Globalisation. It is not only the volumes of international trade which have increased considerably. Rather, the geographical structures of trade have also changed. At the same time, the lion's share of world trade remains a transaction between enterprises from the industrialised countries. This new form of international division of labour comes about partly as a result of cooperation between these enterprises and independent suppliers or service providers in other countries, and partly through foreign direct investment. This foreign direct investment (short FDI) includes the establishment and expansion of presences abroad. Despite the clear definitions, it is difficult to provide an empirical description of the offshoring phenomena. Therefore one has to use the available data on FDI to get at least the dimensions of Offshoring activities.

The overall group of developing countries has been able to considerably increase its share as target countries of FDI in recent years. They still reached a share of 35 % of newly-made direct investment in 2005. When it comes to the total stock of foreign direct investment worldwide, the share of developing countries as target countries was 26 % in the same year.

The service sector plays a major role in offshoring in these countries. But the distribution within the group of developing countries is very different. More than half of all FDI flowing into developing countries is currently attracted by the greater region of Southern, South Eastern and Eastern Asia. Two-thirds of this amount flowed in recent years to China alone. Despite considerable increases in recent years, FDI in the Near and Middle East does not even account for two percent of worldwide direct investment. FDI has also been increasing in Latin America in recent years, having reached a share of almost 5 % of worldwide direct investment in 2005. FDI in Africa accounted for almost three percent of all FDI that year. The ten largest destination countries received 86 % of all direct investment in Africa.

From a Western European perspective Offshoring of enterprises to transformation countries is the most important activity of Transnational Corporations (TNCs) regarding job losses. In the study you will find a detailed part on the new role of the transition economies. Giving the time I have now, I rather stick to the developing countries for now.

What is the impact of offshoring on the income systems of the countries involved?

Even if there are as yet only few empirical studies of the impact of offshoring activities, it is generally presumed that the positive employment effects outweigh the negative ones. There is for once the direct influence of offshoring activities on employment of the target country:

1. foreign enterprises create new regular jobs in which the wage level is frequently higher than in native enterprises.
2. offshoring can slow the emigration of qualified labour to richer countries – the brain drain

The indirect employment impact:

If subsidiaries and partners of the TNCs are not successfully incorporated into economic cycles, only islands of prosperity and growth will be established.

To assess the indirect employment impact, it is vital to answer two questions: To what degree does a transfer of knowledge and technology take place? And: Do the changes which were triggered in other sectors have stronger positive effects on the number of jobs than the negative ones, or vice versa?

Most empirical studies clearly contradict the hypothesis that transnational enterprises force developing countries into a race to the bottom when it comes to wages and social standards. No doubt: There are many TNCs which disregard worker rights and deliberately seek production sites where virtually no social and environmental standards apply. But nonetheless, it is not possible to claim that all TNCs prefer to make their investment in countries where worker rights are badly protected.

On the contrary, the majority of empirical studies available reach the conclusion that those developing and transformation countries which are better able to attract relatively high direct investment are those which not only respect civil protection and political participation rights, but also keep the share of child labour low, permit independent trade unions and allow them to strike, and which grant the right to collective bargaining with employers on wages and working conditions.

There is a lot of emotional discussion going on whether industrialized countries lose jobs in the process of Globalisation; and the majority of citizens might agree to this presumption. And for sure, there are positive and negative effects:

Positive: Offshoring leads in most cases to a long-term expansion of trade activities between the countries involved and a cost reduction of goods produced in the target country. Normally this leads to falling prices for consumers in the developed countries. This means a strengthened market position for the offshoring enterprise and better chances to survive in the global economy; hence securing employment (which is left) in these countries.

On the other hand: there negative effects for those groups of employees in the industrialised countries whose jobs are being relocated abroad or are at risk from such relocation. Now, in recent years it has been above all the group of the (relatively) low skilled who were affected by falling incomes, unemployment and/or insecure employment.

It is nearly impossible to evaluate the number of job that has been offshored in the last decade or so. But the Institut der deutschen Wirtschaft tried to measure the Job relocation from Germany to Central and Eastern Europe. All in all, one comes to roughly 130,000 jobs which German transnational enterprises relocated from Germany to the ten Central and Eastern European countries between 1990 and 2004 – meaning that not even 0.5 % of German employees were directly affected by job relocation to these countries. Similar studies exist for the USA saying somewhat more than 1 % of the civilian working population in the US has been affected.

If we reflect from an ethical perspective on the phenomenon of offshoring, one has to look on the working conditions of the new jobs created in less developed countries. Starting with the very fundamental human rights at work one can formulate the obligations corresponding to these rights: criteria for an evaluation of these new jobs in the developing countries are

- Decent work,
- Fair work and
- good work

You find a clear distinction in the study

To get to the point to answer whether Offshoring is ethical defensible or not, we have to ask the one question whilst keeping in mind the Right for Development as stated by the United Nations in 1986: does the target countries development benefits from the offshoring activities of TNC? But under what circumstances is this the case?

Structures of the global economy can be referred to as being beneficial to development if they make as big a positive contribution as possible towards bringing about growth processes by means of which the income of broad groups within the population are improved in a sustainable, considerable way. Only such a sustained, broad growth process makes it possible for many people in these countries, who previously were absolutely poor, to improve their living and working conditions substantially.

Let me give a brief outlook for action for offshoring that is beneficial to development – just in catchwords for the different actors at a time:

1. The Governments of the developing countries

- First and foremost, it is the governments which are responsible to assert rights at work and to appropriately monitor companies. But many governments of developing countries are frequently powerless in the face of the demands of the TNCs and attempt to entice them to the country by offering massive tax relief and other investment incentives. Some governments are even under pressure to keep their labour and social standards low, as well as their environmental regulations, in order to be able to attract labour-intensive production sites.
- In order to counter a mutual race to the bottom when it comes to social and environmental standards, there is a need for decisive cooperation between the governments involved – Regional Economic Communities play therefore a major role.

2. governments of the industrialised countries

- It is vital that the governments of the industrialised countries should shoulder their responsibility not only for the jobs in their own country, but indeed also for the working conditions in countries of the East and South. They can for instance issue binding regulations by which enterprises are obliged not to tolerate any undignified jobs, even in the establishments and offices belonging to their foreign subsidiaries.
- The governments unfortunately make virtually no use of their considerable possibilities to act; In future, the governments should for instance further develop the tools of their foreign trade promotion. Public procurement must be

reorganised so that contracts are only awarded to those enterprises which prove that they adhere to the ILO Core Labour Standards.

3. TNCs

- TNCs have to omit positive obligations to act: In the context of their possibilities, they are to contribute towards the political, economic and social development of the target country of their production and service relocation. This includes adequate health protection for all workers, child labour has to be abolished, minimum wage regulations have to be established which sustainedly ensure subsistence, and effective representations of workers have to be established as well.
- In recent years, a growing number of codes of conduct came up, in which individual groups or the enterprises of a whole sector fix in writing their understanding of social responsibility. So that a “code of conduct” can become an effective tool to improve working conditions, it is decisive that an independent, plausible and viable institution is commissioned with monitoring. The latest Report by the Special Representative of the Secretary-General John Ruggie is far too optimistic by favouring soft law instead of binding regulations.

4. Trade unions and works councils

- It is vital for the prospects for success of the trade unions’ attempts to influence developments in enterprises that the employees’ representatives of the various locations are not played off against one another by the management. Instead, they should agree on joint strategies with which they pursue common goals.
- The International Framework Agreements launched in the nineties by international trade union federations are a good tool for employee participation but there are yet very few. The international trade union federations must be strengthened. This is only possible if the national member unions give sufficient means to the supranational trade unions.

5. Civil society organisations

- “Naming and shaming” activities have had a major effect in the past, and have triggered the drafting of sectoral codes of conduct, for instance in the clothing and sports article industry.
- A major role is also played by NGOs and other interest groups in the development of seals and model codes of conduct. They can work together with TNCs and monitor the observance of the code of conduct.

6. International Organisations

- One of the most important international organisations to fight for rights at work is for sure the International Labour Organisation. But the ILO is however hardly equipped with sanctions against countries and enterprises in which the Core Labour Standards or other social standards are disrespected. Nonetheless, with its decent work agenda the ILO is the decisive institution to formulate and implement labour rights at an international level.
- In order to be able to implement international labour and social standards effectively, the ILO should be equipped with a workable sanctioning authority towards unruly states and enterprises. A labour jurisdiction which can at least impose fines would be sensible.
- Talking about the UN: The UN adopted the “International Covenant on Economic, Social and Cultural Rights” in 1966. The Human Rights Commission also summed up workers’ rights in 2003 in the “UN Norms on the

Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights". As long as the international agreements are however not transferred into national law, employees' organisations and NGOs are unable to proceed against violations committed by the TNCs.

- In contrast to other international global economic policy players, the OECD has taken serious initial steps by drafting and revising the "Guidelines for Multinational Enterprises". These Guidelines are the international agreement by which the governments of the industrialised countries have so far most clearly committed themselves to their responsibility to implement social standards for jobs in transnational enterprises in the developing countries. In this sense, it suggests itself to strengthen the associated institutions. The public relations work for the OECD Guidelines and the work of their national contact points are to be increased so that the various groups of those who are affected by the enterprises' activities know about the content of the Guidelines.

Finally - We propose: An international agreement to regulate offshoring activities

- In order to regulate the activities of transnational groups in the countries of the South and East in a legally-binding manner and to be able to reduce their possibilities to play off state governments against one another, there is therefore a need for a binding multilateral set of regulations. The goal of a corresponding international agreement would be to implement worldwide minimum human rights standards with regard to the quality of work in the establishments and offices of the TNCs.
- Allow me in conclusion to quote on of the most important maxims of the Catholic Social Teaching. It simply states: There is a natural "priority of labour over capital" – a natural "priority of labour over capital"