Relocation
Challenges for European trade unions

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Introduction

Throughout Europe increasing fears have been raised about employers relocating jobs to low-wage countries. Sluggish economic growth and continued high unemployment in much of the EU15, and low employment and income levels in the new member states (NMS) exacerbate these fears, and this has made relocation a hot topic in the media. Relocation (often referred to by the term delocalisation) has both an intra-European dimension and, against the background of the rapid growth of, in particular, China and India, a global dimension.

Companies seek to take advantage of newly emerged opportunities to exploit large differentials in wages and working conditions. Workers and unions fear that this will lead to a massive exodus of well-paid jobs in high-wage countries, to a weakening of labour's bargaining position and thus to a downward spiral of wages and conditions. Meanwhile the new member states, which suffered huge job losses when they opened up their markets at the beginning of the transformation, see foreign investment as the key modernisation lever and as a job creation factor (although the employment effects of FDI are sometimes ambiguous).

In response to such fears, it is often claimed – by mainstream economists, governments and employer representatives – that the overall impact of such processes will be to permit specialisation, promote trade, thus increasing productivity and raising living standards, in both low-wage and high-wage regions.

What is the real extent of production relocation and what is driving it? What are the potential threats to trade unions and workers? Are there also potential benefits and opportunities? What policies should unions be demanding from governments and what strategies should they themselves adopt to confront the challenges of relocation in an increasingly globalised economy and maximising the benefits for their members? In starting to address these difficult questions, let us start by looking at the known facts.

What has happened?

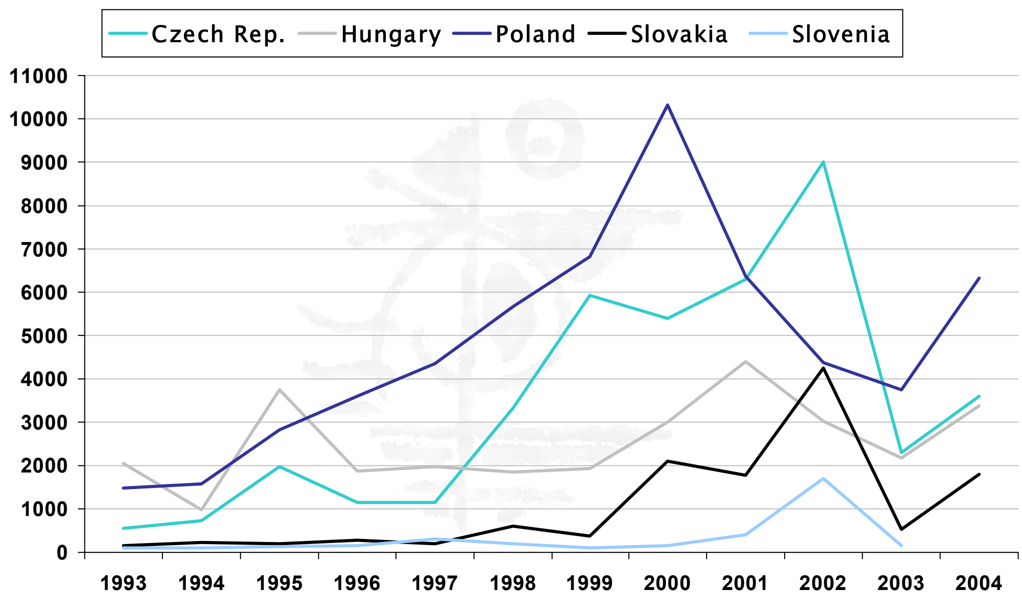
The available studies seem to suggest that, for the moment, the actual extent of relocation from the high-wage economies has been relatively limited; it accounts for only a small proportion of job losses, certainly given the amount of media attention given to the phenomenon. There is, however, considerable uncertainty concerning the future potential for such relocation.

To evaluate the evidence we need to consider some basic distinctions concerning types of foreign investment and relocation activity. Many types of foreign direct investment (FDI) – in particular that which establishes production facilities to serve local markets – do not involve a 'transfer' of jobs and are not usually perceived as a threat by source countries. Such investment is not discussed further here. On the other hand, there is the case in which entire production locations are closed in one country, only to be re-opened, at much inferior wages and conditions, abroad. But there are a range of intermediate cases where companies optimise their value chains in a more complex manner. Specific stages of production (often ancillary business services such as accounting, but also labour-intensive elements of the manufacturing value chain) are outsourced to foreign-based companies or subsidiaries (‘off-shoring’). In such complex cases it is very difficult to evaluate the employment impacts, either overall or in specific locations. It may result in job losses in the source country. However, optimising value chains may strengthen the company as a whole, securing jobs also at the central location. For example the German automobile industry, that extensively invested in low-cost locations, has managed to stabilise its position on the world markets and created jobs also at home in the second half of the nineties.

The available data on relocation are patchy and not always easy to interpret. We can start by looking at overall FDI, which covers all types of foreign involvement in establishing production abroad and thus sets a ‘ceiling’ to the dimensions of the issue. According to Eurostat the share of the NMS in the total FDI inflow to Europe, and their share in the FDI flow within the EU 25 remains rather marginal. Of the €77.2 bn inward FDI to EU 25 in 2003:€74.9 bn went to EU15 and just €2.3 bn to EU10. And while FDI from the EU15 to EU10 amounted to €6.9 bn in 2003, between the EU15 it was €183.7 bn.

If we regard the yearly FDI flow to the major NMS (Graph 1), a renewed intensity of investment can be observed in 2004, which, however, falls substantially behind pre-accession peaks, which largely reflected western involvement in privatisation programmes. It is not yet apparent, however, whether such FDI is set to level out or to pick up once more.

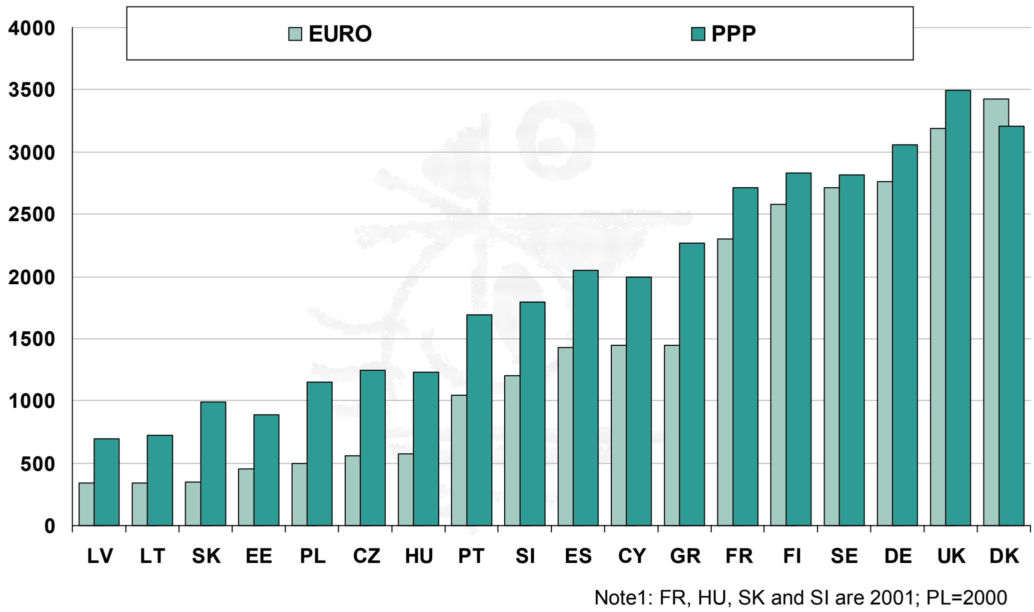
ETUI REHS **Figure 1: Inflow of FDI into the 5 accession countries between 1993 and 2003** (in € millions)



Source: WIIW, (2004)

Similar remarks apply at the global level. In the case of China, for instance, which has attracted much interest, FDI in recent years has represented a not insignificant 12% of total investment. Yet China only accounts for around 10% of global FDI: investment between the advanced capitalist countries is quantitatively far more important.

ETUI REHS **Figure 2: Average monthly wages in Euro and PPP, 2003 (NMS) and 2002 (EU15)**



Sources: ETUI/ETUC (2005) Benchmarking Working Europe, WIIW database

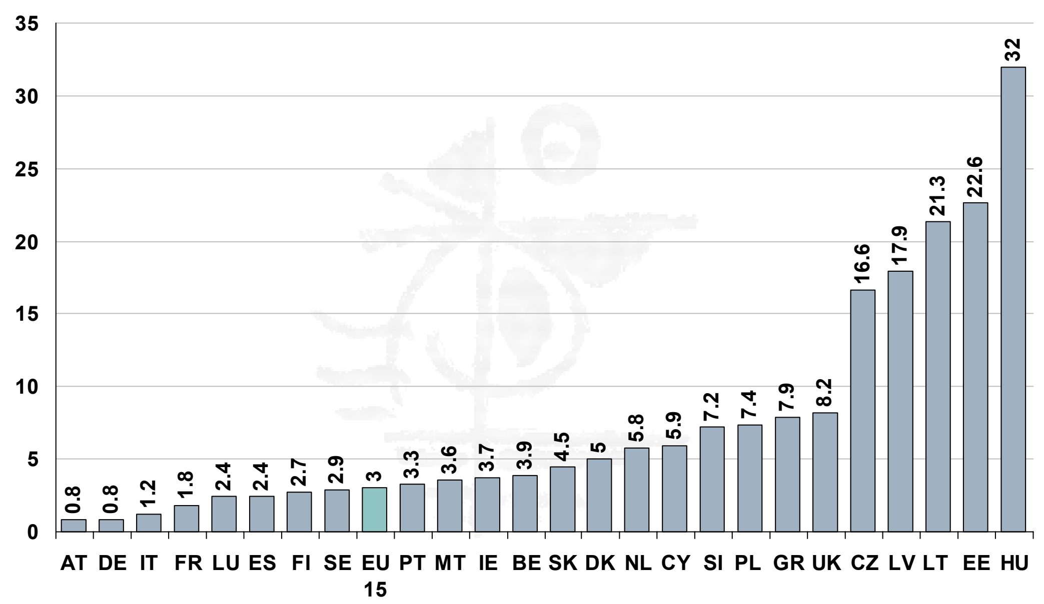
These figures need to be borne in mind when considering media reports and studies by research institutes and consultancies, most of which suggest that large numbers of jobs have already been relocated, or, more commonly, that there is a huge potential for this to occur in future. Such studies often rely on patchy evidence or bold assumptions about employer behaviour, while consultancies may also have their own agendas and interests. Due to its recent appearance as a topic of public debate, and the conceptual difficulties mentioned earlier, serious, and comprehensive research of the relocation phenomenon in the past few years is still lacking.

Overall relocation seems to have had a limited impact on employment to date, at the macro level; this does not mean that specific sectors and regions have not faced serious problems. The future is, as ever, uncertain: it is impossible to seriously predict how relocation will develop in the coming years. In the face of this uncertainty we turn to some of the major drivers of relocation.

Most often in the debate the huge differences in wages and working conditions are put forward as being the prime drivers of relocation. Turning first of all to the intra-European situation, the basic picture has two elements. Indeed, there are very substantial differences between the old member states (OMS) and the NMS – for example average wages in Germany are six times higher than in Estonia and five times higher than in Hungary in euro terms (Graph 2). At the same time, however, real wage growth has recently been substantially faster in many of the NMS (and their currencies have tended to appreciate against the euro), and thus the wage gap has diminished somewhat (Graph 3). So there are expectations of wage convergence, but it will certainly be many years before average wages in the NMS close the gap on the EU average.

On top of the wage differentials come issues such as longer working hours and greater flexibility in labour deployment. Of course these differentials need to be seen in the light of the considerable productivity differences between the countries. However, average productivity levels are not decisive: manufacturing productivity levels are closer and productivity differences in the subsidiaries of multinationals are often negligible. This also has implications for the types of jobs being re-located. There is some evidence that, at least in the case of the NMS, production relocation is no longer limited to labour-intensive manufacturing, but also to more sophisticated products and services, up to and including key areas like R&D. This also means that the NMS, too, cannot rely in the longer run on low-wage competitiveness.

Figure 3: Real wage growth 2001-2003 (2000=100)



Source: ETUI/ETUC (2005) Benchmarking Working Europe, Brussels

Wages and working conditions in newly industrialising competitors such as China and India are, of course, at much lower levels still (as is productivity), although the basic pattern of rising wages also applies here. A crucial difference is that these countries are not subject to the common rules and regulations of the European Union. This constellation means that relocation to such countries may be more profitable, but is also subject to greater uncertainty and risk. Indeed there has recently been a wave of (anecdotal) evidence of European and American companies re-locating back from such countries to production locations closer to home ('near-shoring'), in view of the legal-administrative, logistical, quality and other problems encountered.

Challenges for European trade unions

The challenges to trade unions can usefully be considered under three analytically separate aspects. Firstly, reducing incentives for relocation by developing forward-looking strategies at both the micro and macro level and with the involvement of social partners. Rather than the 'low road' of adaptation through cost-cutting, the aim would be to manage adaptation through a 'high road' strategy by upgrading activities through innovation, qualification and further investment, supported by active labour market policy. This needs a managing of structural change in a forward-looking way with the involvement of stakeholders. Securing the long-term future of a given production site (in the East or in the West) needs anticipation of change and coordinated interventions from various policy areas and by the social partners to manage that change.

Secondly, the actual relocation of companies, whenever it occurs, raises a whole set of adjustment problems for the workers affected, their families and local communities. Even if relocation, as some claim, is welfare-enhancing for all participating countries overall, workers facing job losses are in need of support and assistance in finding new employment. If there are indeed benefits from globalisation they must be shared also with those who bear the adjustment burden. This is also vital to sustain confidence, and thus demand and growth, and a willingness to engage constructively in change.

Thirdly, there are crucial issues arising from the threat of relocation – employers' 'exit option' – in the context of collective bargaining and also government policies. Arguably the whole delocalisation debate was prompted by a number of high-profile cases of concession bargaining (Siemens, DaimlerChrysler, Bosch, and others) in which employers threatened to move to low-wage countries if unions and employees did not make concessions in terms of wages or working time. Such examples – which have been given great prominence in the media and have served to change public perceptions – have been used by employers around the EU to pose similar demands, arguing that enlargement and globalisation require higher competitiveness based on lower labour costs. The risk here is that systematically workers throughout Europe will lose out to capital-owners, being played-off against each other: attempts to sustain national competitiveness by lowering wages and working conditions or by cutting corporate tax rates are fruitless, leading merely to a downward spiral.

Questions for summer school participants

Of course vast areas of government and trade union policies are relevant to the challenges presented by (potential) delocalisation. But some of the key issues can be summarised under five headings (with some ideas to stimulate debate) each should be considered with a view to the appropriate role for both national affiliates and the ETUC/EIFs:

Adjustment challenge
What can governments, unions and other actors do to cope with actual cases of adjustment, once they occur? What kind of security and re-adjustment support should displaced workers have a right to? How can the role of information and consultation and European Works Councils be strengthened to assure the effective involvement of workers in change and adjustment?

Anticipating change
How can, at national and company level governments, unions and employers better cooperate to assure continued productivity improvements through innovation and R&D, and so reduce the incentive for delocalisation? How can further training and life-long learning be guaranteed and planned in a way to contribute to the preservation of workplaces? What is the role of the EU (budget)?

Wages and collective bargaining
What is the role of concession bargaining, how to avoid beggar-thy-neighbour policies and downward spirals in which workers at different locations are played out against each other? By what means could upward wage convergence be strengthened in the NMS? What is the role of the coordination of collective bargaining? How can ETUC/EIF work in this area be strengthened? What is the role of supra-national minimum standards?

Getting the economic policy framework right
How to strengthen the employment orientation of macro policy to make adjustment more acceptable and ensure that alternative jobs are on offer to displaced workers? What can be done to limit corporate tax competition and 'regime shopping' by corporations?

Where to draw the line?
What are the situations in which 'protectionist' measures/bans on relocation are permissible? Which minimum standards must be entirely taken out of competition? What are the (corporate social) responsibilities of companies in relocation decisions?

Further reading

ETUI/ETUC (2005) *Benchmarking Working Europe 2005*, especially chs 3, 9, 10.

European Commission (2004) *Employment in Europe 2004*, ch. 5

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