

## GLOBAL VALUE CHAINS, OUTSOURCING AND EMPLOYMENT

**I**ncreased outsourcing of industrial production – often outside the OECD area – is of growing concern. Although this trend has existed for many years, it seems to have accelerated and extended beyond the manufacturing sector to services and higher-value activities. The process is driven by competitive pressure on companies to enhance productivity and reduce costs, which provides the long-term basis for rising living standards. But against a background of sluggish job growth, it presents the spectre of accelerated de-industrialisation and raises questions about the future of manufacturing in advanced economies.

### *Effects of outsourcing*

Solid facts to underpin policy responses are lacking. A wide range of anecdotal and often contradictory evidence is quoted in the public debate. The lack of an empirical foundation for understanding current economic trends is partly due to their complex nature, as well as to differences in statistical classification systems. Nevertheless, OECD data exist which can help shed some light on the effects of outsourcing.

For example, while outsourcing to developing countries has captured headlines, this is only part of the wider phenomenon of the globalisation of production and rising cross-border activities of multinational enterprises. These firms are adopting new business strategies which retain their core competencies while outsourcing a wide range of other functions, thus creating new business opportunities around the globe. OECD countries themselves have been major beneficiaries of these trends, as reflected in the contribution of inward foreign investment to employment and productivity in OECD manufacturing sectors.

### *Manufacturers are outsourcing services*

Confusion about outsourcing also stems from the blurred lines between manufacturing and services and resulting difficulties in interpreting sectoral trends. The amount of services embodied in manufacturing increased significantly in the last decades in most OECD countries. Much outsourcing is a reflection of the fact that manufacturing firms now buy services which they previously produced in-house. For example, they are realising efficiency gains and cost savings by purchasing ICT-based services and reorganising internally to better reap the advantages of information technology. Manufacturing jobs are being reclassified as services, and the skill requirements of services jobs are being upgraded.

### *Employment and productivity*

Still, much remains unknown about the role of outsourcing and offshoring in OECD economies and the impacts on employment and productivity. The degree to which greater

outsourcing of services is affecting overall employment growth in the OECD area is not certain. Nor is it clear how much employment has been lost and created in different OECD countries by the relocation of production facilities as opposed to the general growth in trade and expansion of multinational firms.

### ***Strengthening the empirical base for analysis***

By enhancing the empirical evidence and analysing the causes of changes in OECD manufacturing and services sectors, the OECD can inform policymaking in this area. Several OECD databases – on intra-firm trade, intra-industry trade and activities of foreign affiliates – can be updated and linked to shed light on global production and trade patterns. Input-output tables and structural and sectoral models can be used to track the complex relationships between manufacturing and services and the employment implications. Firm-level data can be explored to help explain new global business strategies.

During the coming two years, work will be directed toward developing a more systematic empirical overview of the impact of outsourcing on employment, productivity and innovation in different sectors and countries. For example, what have been the real job and wage effects of offshoring in the information technology industry? This work will build on the current OECD services study, to be the subject of a report to OECD ministers in 2005. It will help explain the changing nature of manufacturing and its strategic importance to OECD economies. And it should lead to a sounder basis for policies to strengthen growth, employment and productivity in OECD countries in a context of increased outsourcing and globalisation.

In addition, the outsourcing of business process services will be one of eight sectors examined in a major project on trade and structural adjustment. A starting premise of this work will be that such outsourcing is not a static zero sum game and that many jobs are either kept or created during the outsourcing process as efficiency gains are transferred to consumers in terms of lower prices or re-invested in new businesses.