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Trade, Jobs and Adjustment
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Ladies and Gentlemen,

I am very happy to be at the OECD Forum 2004 as the representative of the OECD business community, organised in the Business and Industry Advisory Committee to the OECD, and to discuss with you the challenging issues of "trade, jobs and adjustment".

These issues are indeed currently at the centre of the very heated debate in many capitals of the OECD member countries dealing with some of the consequences of globalisation.

Recently, a former official from the Reagan administration remarked that "the United States will be a Third World country in twenty years".

He made that prediction because of white-collar job losses from the outsourcing of service sector employment to India and China.

Sadly, and as this statement shows, it is a matter of fact that the world trading system and more concretely countries' commitments to market liberalisation are under attack on many fronts.

Not only have governments failed to make progress in Geneva in the current Doha Round of trade liberalisation.

At the same time, wide-spread misconceptions regarding the benefits and perceived costs of global free trade and investment are tempting policy makers to overreact and implement measures which are harmful to the world economy.

Not only governments, but also companies engaged in worldwide sourcing and international investment find themselves more and more in a defensive position against both public opinion and some policy makers.

I think we have to take all a step back and ask ourselves: what is really new in the current debate?

We all know that changing business patterns, the consequences of increased Foreign Direct Investment and of "outsourcing" and "off shoring" have been stirring up public debates for decades.

Therefore, the issue of how companies and sectors can adjust to restructuring pressures stemming from international trade liberalisation is not at all a new issue.

What is new is that now not only traditional manufacturing, but also the service sector and higher-value activities are confronted with the phenomenon of global sourcing.

In manufacturing industries, worldwide sourcing has already transformed companies from vertically integrated production structures to highly specialised production units linked by global supply chains.

We have to face reality: today the service sector is also being reshaped by international developments in the same way manufacturing was in the past. But just as low-wage China has not taken all of the manufacturing capability in OECD countries, low-wage India is not going to take all of our service sector production.

However, and let me stress this right from the start: business recognises the potential of this restructuring process to generate hardship, be it for a single employee, be it for a company or even an entire sector.

At the same time, we all must recognise that the issues at stake today are increasingly complex. This complexity tends to be not reflected in media coverage of alleged job losses attributed to worldwide sourcing by companies.

What is true is that new patterns of industrial production have major implications for business and society. Comparative advantages are shifting, new sources of competition are being created, technology and communications is advancing and consumer preferences are changing.

In the view of business, the political debate on "outsourcing" must refrain from focusing on establishing limits on inward and outward foreign investment. Protectionist policies that will restrict cost-effective investment decisions and competition that will increase costs and limit the allocation of resources to their most productive uses must be rejected vehemently.

The opposite is required: governments need to implement policies which encourage economic growth, spur trade and thus offer companies the opportunity to create employment.

Ladies and Gentlemen,

What are the policy implications for OECD governments, or more concretely, what new policies are needed to promote growth and employment in OECD countries?

Let me try to tackle this systematically.

First, there is the issue of how governments can directly react in order to ease the pressure on companies and employees which both may be affected by change resulting from the new patterns of industrial production in a global economy.

This is the task of structural adjustment policy. The OECD has just started a new horizontal project on "Trade and Structural Adjustment" and has successfully involved all directorates of the OECD in this exercise which we in the business community regard as very timely and relevant.

The starting point of this project should be that "outsourcing" is not a zero sum game and that many jobs are either kept or created during the process of worldwide sourcing as efficiency gains are transferred to consumers in terms of lower prices or re-invested in new businesses.

I do believe that appropriate structural adjustment programs are vital to addressing the disruptive impacts of trade liberalisation and maintaining political support for open trade.

Ladies and Gentlemen,

That brings me to the second option governments have in seeking to ease the pressure on companies and employees affected by the changes generated by new patterns of industrial production in a global economy.

As a matter of fact, adjustment to trade-related impacts represents only a fraction of all of the dislocations caused by competition and innovation in domestic markets. Therefore, any adjustment programs directed at trade impacts should be integrated into a larger strategy, with major efforts made to address on-going, non-trade related adjustment needs within national economies.

I am convinced that therefore, longer-term adjustment responses will necessarily involve a broader range of policies, including macroeconomic, job creation and competitiveness initiatives, regulatory policies--and labour market adjustment policies.

We in the Business and Industry Advisory Committee to the OECD believe that for OECD economies to respond to these challenges, the right policy mix must encompass a range of complementary measures:

Promotion of worldwide free trade as key to stimulating economic growth;
Investment in education, training and re-skilling;
Fostering innovation;
Broader structural reforms.

Ladies and Gentlemen,

I will not take more of your time and go into these measures in detail.

Let me only sum up: Business believes that governments should not let the outsourcing debate be hijacked by those simply criticising the transfer of jobs overseas. The political debate must refrain from trying to set limits on inward and outward foreign investment.

Protectionist policies that will restrict cost-effective investment decisions and competition, increase costs and limit the allocation of resources to their most productive uses must be rejected vehemently.

The opposite is required: it is time to implement policies that encourage economic growth, spur trade and by this give companies the opportunity to create employment.

Much remains unknown about the role of outsourcing and off shoring in OECD economies and the impacts on employment and productivity.

BIAC believes that the OECD can be very helpful in injecting much needed rationality into this debate. Be it by analysing the return benefits of foreign direct investment to the home country, or be it by analysing the scale of adjustment pressures stemming from improved productivity rather than worldwide sourcing: the potential role for the OECD in clarifying this debate is enormous and BIAC encourages the organisation to undertake this analysis.

Thank you for your attention!

Annex:

Proposed Language in case you want to be more specific on the policy responses

Let me tackle each of these measures more specifically:

Promotion of worldwide free trade as key to stimulating economic growth

I will continue to reiterate that the world trading system and the open markets that it promotes are essential to sustainable economic growth, supporting and diffusing innovation and technology, and reducing poverty by creating wealth.

Multilateral trade policy has an important complementary role in helping countries absorb and capitalise on the growth and development potential of a rapidly changing global marketplace. For over 50 years, the disciplines of the GATT/WTO system have made a major contribution to economic growth and improved living standards around the world.

On this basis, BIAC would like to express its strong concern to OECD governments about the continued stalemate of the current Doha Round.

We wish to emphasise that OECD business remains strongly committed to the multilateral trading system with the WTO at its centre. It remains our firm belief that multilateral liberalisation of international trade is vital to lifting the developing world out of poverty and to creating business opportunities for both OECD and non-OECD companies.

Investment in education, training and re-skilling

With regard to this point, I would like to note that education plays an increasing and crucial role in the "innovation policy" of OECD countries. The quality of human capital is a key contributor to innovation and economic development and is becoming ever more important in the context of the knowledge society.

And as trade in services and information grows, tomorrow's economy will increasingly call for employees with new skills and competencies beyond those in the traditional economy.

Therefore, an efficient education system, adapted to the needs of the labour market, and the improvement of skills and employability are both crucial to continued economic growth and increased employment.

Fostering innovation

In fact, research done by the OECD has shown that while information and communication technology has emerged as a significant source and force multiplier for economic performance, an even more fundamental source of growth is innovation.

The development of new products, processes and services drives improvements in productivity. At the same time, it also facilitates the fulfilment of numerous societal needs, such as improved health and environmental protection.

As has been elaborated by the OECD, innovation often involves organisational as well as technological change and requires sizeable complementary investments in worker training, manufacturing and marketing, in addition to investment in R&D.

Governments need to foster investment and innovation through government funding and sponsoring of research and development and offering of tax incentives for R&D.

Broader structural reforms

Ladies and Gentlemen,

There are many analytical uncertainties surrounding the "outsourcing debate".

What is certain is that governments must take on the growth and employment challenges involved with new patterns of industrial production including the not-new phenomenon of outsourcing.

Apart from the need to apply sensitive adjustment policies, BIAC continues to make its case in favour of the necessity of structural reforms that will stimulate demand and activate supply in labour markets.

The need for structural reforms implies: fostering entrepreneurship, allowing for greater flexibility to manage human resources, activating the supply side of the labour market addressing the needs of all groups and, stimulating investment in human capital formation and the promotion of life long learning.

Other key concerns continue to be the heavy burden of taxation and social security contributions, which constitute a barrier to employment, in particular with regard to unskilled or low-skilled workers. Low activity rates of certain parts of the population (for example: older workers, young workers, and women) must be tackled. Increasing employment rates will be crucial in view of the demographic changes we face.