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FUELLING THE FUTURE: Security, Stability, Development

Sharing the Benefits of Globalisation

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Introduction

- Growing concern in Europe, as well as in the US over unfair competition:
 - social dumping
 - environmental dumping
 - tax competition
- Inter-industry trade and adjustment costs (breaking point: 2000)
- Welfare state at risk
- Globalisation has gone too far:
 - no longer win win game
 - growth in the South detrimental to the North
 - Benefits of globalisation are no longer shared
- Will Germany or France still have factories within a decade?

The civil society:

- The answer is NO
- 70% of the French consider outsourcing as a “serious Issue”
- 30% fear losing their job
- in the 2 largest EU countries citizens do consider that globalisation has gone too far (Eurobarometer)
- Globalisation no longer translates into shared prosperity

Economists are less alarming

- Costs, but also other determinants of location
- Specialisation and trade = shared benefits
- Difference between local and macro impacts
- Why there are still factories in Germany remains a mystery in a perfect competition world!
- German (as well as French) investments abroad concentrated in high income/costs countries

1. The facts: firstly domestic issues

- Conjunction of
 - economic slowdown amplified in industry
 - structural lack of job creation in continental Europe
 - dismissals translate into long term unemployment
- Unemployment firstly due to domestic policies (UKJGenn.)
- Recent studies (2004-2005) minimise the fears of locational competition:
 - Location of German firms: prominent impact of market size
 - A 1 % additional wage gap translates into 900 fewer jobs in G and 5,000 more jobs abroad.
 - France//UK: only a 12% to 26% difference in inward FDI explained by differences in regulations
 - 71% (87%/64%) of sales of US affiliates located in China (India/Mexico) are local sales

2. Globalisation is however profoundly affecting our industry

- New competitors benefiting from a wide spectrum of comparative advantages
 - industry : China, services : India
- Downward pressure on prices
 - low wages
 - limited environmental regulations
 - productivity of the North (foreign subsidiaries)
- Selection of firms - products - technologies
 - concentration of supply on top quality prod. (1/3 of world mkt)
 - nb of firms is diminishing (risk)
 - Breakdown of the VA chain

3. The machinery of a shared prosperity

- Two key issues
 - Technological lag between North and South
 - Institutions in the South
- Pace of technological progress and adjustment in the North
- Catching-up \leq productivity gains \leq institutions
- If new competitors catch up rapidly : IT: gains in variety & resistance of industry in the North.
- If new competitors miss distributing the benefits of growth (lack of democracy, dual economies): more devastating.

4. The policies

- Factories are following the clients... in the CEECS, or in China. But now, the most promising markets are also low-cost locations. Difficult to disentangle market access and cost motives
- Hence new challenges to be faced by the European industry
- Market access powerful attractor: macroeconomic policy mix matters
- Cost differentials do matter, and capacity to adjust even more: structural reforms to be completed. Safety net to be preserved.
- But: no hope to be placed in competing on wages or taxes
- Better keep the traditional (low elasticity) market positioning: techno, quality, innovation
- Let's promote the knowledge eco
- Promote institutional reforms in international fora.