

## **OECD FORUM 2005**

### **FUELLING THE FUTURE: Security, Stability, Development**

#### **Globalisation, Outsourcing and Structural Adjustment**

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Thank you for the opportunity to speak about a topic close to my heart.

In the long term globalization is not a zero sum game. It is, at that, here to stay, and its positive effects are threefold;

- a. it offers employment;
- b. it enhances flexibility and thus innovation;
- c. opens up new markets.

Overall, almost everybody will agree that the net effect is positive.

- Manufacturers can better survive. By diversifying production in a number of countries, the company can sustain and at that offer lower prices. And it can use funds for investing in the future. Through global supply chain management they can be effective and efficient in developing markets.
- Obviously, we have for instance seen relocation of IT services to India. But apart from the cost argument, the availability of a performing workforce with great skills played a big role. And let us not forget, people working in this industry in India are our customers of tomorrow.
- We have just recently started attracting large companies from China as well. Insourcing starts to be a real part of the equation.

In order to make us more competitive, we need to work vigorously on the Lisbon agenda. We are half way now and we need to redouble our efforts. Trade and Investment should be an integral part, notably in fostering the economic incentives.

There are other risks; risks for employment notably.

Let me highlight this by examples.

I ordered an empirical study into the nature and extent of relocation by Dutch companies: Vision on relocation: nature, extent and effects of relocating business activities. Some results may interest you.

- So far, there is no mass relocation abroad. Of the job losses in past years, only 1% (9.000 persons) are due to relocation, and by the way mostly to the rest of Europe.
- But at the same time there is an increase in jobs, in terms of sectors, employment and companies, inter alia to India & China, and mostly high on the value chain (sales & marketing: + 16%, R&D: + 8%).

- Cost saving is mentioned by 62% of companies as the decisive factor, of which wage costs are an obvious element but also costs of transport and starting up a business.
- Primarily, low-skilled labour (45%) and to a lesser extent higher skilled labour such as in ICT (16%) are being relocated.
- 5% of companies were relocating because of dissatisfaction with the business climate, which does worry me as every company relocating for this reason is one too many.

The study is available in English outside this room.

Transition is painful: Short term effects are very visible. One town, one sector, manual labour can see very negative effects.

Therefore, transition needs to be managed: A crucial role for governments and politicians. Social consequences should be high on our agenda. In itself, the increased flexibility is both good and inevitable. But the care of governments is wider than just the economic and growth figures.

What should we do?

Policy-wise, there are three major tasks under the condition that we ensure workers have an adequate level of social protection, which by the way is important as well for a flexible labour market. Our tasks;

1. enhance employability of workers through (re)education & training with a focus on new – upscale – industries;
2. keep our labour market flexible;
3. Inform the public at large.

Let me explain this last point. The public opinion seems to be focused on negative effects of outsourcing, which may tempt politicians to seek refuge in protectionism.

Public concern needs to be addressed and put perspective with facts.

1. We should address the potential gains

Explain the macro-economics; I dwelled upon that earlier

2. We should not support anxiety, but “back the winners”

We should explain better advantages and short-term disadvantages, rather than joining in spreading anxiety in certain constituencies that may be perceived as being at risk.

Let us not forget that the average citizen in the shop – whether we like it or not – primarily looks at price and quality, and much less to where product was made.

The business community needs opportunities to optimize circumstances for their production. And let’s not forget many existing industries survived thanks to relocation in past.

“Good money” should be spent on supporting our own winners rather than on industry bound to phase out.

3. Give full benefit to the pro active

Those that have pro-actively sought to adapt, should not see their slower competitors reaping benefit from their lack of actions.

As an example I might point to the Dutch horticulture sector. This unsupported sector survives and – indeed – is top of the bill. The pride of being in business makes them cope with the uncertainties attached. That is an example we should set perhaps for others as well.

4. Show that we understand and address the short term disadvantages

The best way to do that is by having adequate social, regional, and labour policies. Social measures accommodate consequences for citizens. We need to invest in people. We have so much going for us in Europe and the OECD countries. Let's invest in those assets and be competitive.

Perhaps this fourfold agenda is not easy, but we need to do it.

In the long term Governments need two parallel policies:

1. Improving business and investment climate through.
  - a. Education
  - b. Fostering labour market flexibility
  - c. Sound taxation policies
  - d. Address the costly problems of administrative burden, traffic jams etcetera.
  
2. Invest in the strengths of our own regions; not by harbouring them from the storm. There I have proposed a threefold agenda:
  - a. Creating positive energy;
  - b. Committing individuals and groups such as town councils, university boards and business clubs;
  - c. So not support ailing industries, but rather create possibilities for new industries.

In conclusion, politics of fear are always wrong. Globalisation is a positive force, an opportunity. It gives extra impulses for innovation, and for a growing economy. We should not close our eyes for the adverse effects, but let us not forget either that these are relatively short term effects. When and if we create excellent business opportunities globalisation offers to all.

Thank you.