

Loss, creation and maintenance of jobs in a global economy: an analysis on sector and firm level and from geo-territorial perspective

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1. General approach of the study

During recent decades, an increasing trend towards globalisation had a major effect on the economic functioning of individual firms and the economic structure of countries and regions. This gave rise to an extended body of literature which shows that globalisation has many faces and can be approached from many disciplines and different angles.

Therefore, this study is based on multi-disciplinary research with contributions from the field of economy as well as from socio-economic geography. All contributions share a focus on employment or, at least, on different impacts of globalisation on the Belgian economy. The common objective is to create complementary results to be able to draw, together, some important policy oriented conclusions about *the place of a (globalized) economy in the (Belgian) society* and more particularly, the effect of this economy on the loss, the creation and the preservation of jobs.

Even narrowing of the focus to employment leaves too many aspects to cover the whole issue, from an economic nor from a geographical point of view. Therefore, each research team selected a number of themes for in depth analysis. Without being exhaustive, these themes allow complementary conclusions on critical issues.

The economic research teams focused on *restructuring and employment on a sectoral and on a firm level*.

- The first sections of the study deal with *international trade*.

In this part, the influence of high(er) export and import competition on the Belgian labour market, is highlighted. International trade can be seen as one of the major explanations why the labour market situation of especially unskilled workers has deteriorated. Opinions are sometimes divided but a consensus that international trade has only a minor impact on the labour market can be deduced from literature. Technological progress, contrary to international trade, is seen as the most important motive for changes in wages and employment. Nevertheless, international trade and technological progress are not independent as an explanation for changes in the labour market. Therefore, an important objective was to deepen and to quantify the direct and indirect effects of international trade.

- The following part is based on a *micro-economic analysis of industrial restructuring processes that are caused by globalisation*.

The microeconomic analysis explores the consequences of the ongoing globalisation process for domestic employment by investigating three main modes of corporate restructuring through employee lay-offs: international relocation of production, entry and exit of firms, and downscaling of activities. Finally, an analysis of firm productivity is undertaken in order to examine how the competitive position of Belgium and thus the total demand for labour as well as preservation and growth of jobs, is

related to firm dynamics. The results on the relocation of industry, from Belgium to other countries, cover four aspects.

- (1) Relocation of production is put in a general perspective of firms' re-organization decisions by equally considering the alternatives of exit and downscaling without moving production abroad.
- (2) Relocation abroad is considered in more detail by examining the location choice of relocating firms and the impact of state aid on the relocation decision.
- (3) Focus is put on the interaction between entry and exit of Belgian and foreign firms in manufacturing.
- (4) The above mentioned interaction is confronted with a competition dynamic, especially the differences in productivity between Belgian and foreign firms.

The geographical research team focuses on *spatial differentiation of employment offered by foreign companies in Belgium and spatial dynamics*.

This part deals with three different aspects after discussing some theoretical issues.

- *The importance of foreign companies for Belgian employment and the regional and subregional differentiation of the spatial spread.*

Due to its structuring impact on the Belgian economy and its importance for regional economic policy, the main issue of this part is about the differential location pattern of foreign firms (and their –direct-employment) within Belgium, in general and according to sector and nationality. By using a detailed spatial level of analysis, the direct employment by foreign companies (establishments) in Belgium can be linked quite accurately with certain types of investment environments. The degree of urbanisation gets particular attention.

- *Impact of networks and networking on the Belgian labour market.*

Globalisation involves also networking and the existence of a network economy. This does imply that dynamics on the level of employment, induced by the presence of foreign companies in Belgium, are also situated on the level of indirect employment since (part of) the employment is offered by network partners in a broad sense. Therefore, this part of the research focuses on the extend by which foreign firms in Belgium unfold local, regional, national and/or international networking for different activities, notably for the supply of products, for routine or high-quality services, for transportation and for common research and development. The estimation of indirect employment tendencies is one of the main aims.

- *Impact of regional actors and factors.*

Even a small country like Belgium shows a multitude of regional and local factors that influence the attraction of the 'place' on firms in general and on foreign firms in particular. In the literature, a lot of attention is paid on the so called 'institutional thickness' or, in other words, on the role of (sub)regional actors in the development of the region.

In Belgium, the number of regional actors is not only relatively large but also spatially differentiated. Nevertheless, the question rises to what extend the principles, that are put forward in the international literature, have penetrated into practice and are implemented by the actors. Therefore, this part of the research aims insights i) in the knowledge, the attitude and the actions of regional development agencies related to globalisation in general and to foreign companies in particular and ii) in the extend to which this corresponds with region related location factors (within a 'think globally, act locally' approach).

In the following pages a number of policy oriented conclusions are put forward (ref. Chapter 10 in the book mentioned above).

2. Policy oriented key elements

2.1 Globalisation and labour market policy

One message keeps returning through-out the different approaches in this study. The core of the globalisation process is not the functioning of the labour market, but the business strategies of Belgian and foreign companies, the competitive position of the companies, regions and countries, and the search for productivity. The consequences for employment and the labour market are derived effects of this globalisation process.

These derived effects are however fundamental. They can be positive as well as negative. The conclusion is that Belgian companies do create jobs through their export-activities. In our country, foreign companies are responsible for an important percentage in total employment and this is also positive (refer 2.3). In addition, regional networks develop around core-enterprises that are mostly multinational of nature (refer 2.4). The other side of the globalisation picture is the loss of jobs through import competition and the ability of Belgian and foreign companies to decide to leave (refer 2.2). This can in return cause an accelerated unravelling of local networks.

A fundamental insight from this study is that the globalisation process improves productivity and competitiveness. The results show that an export strategy makes companies more productive. Belgian multinational enterprises are not weighed down by the same productivity handicap in relation to their foreign competitors as the Belgian companies that are primarily focused on the domestic market. Delocalisation of the domestic companies to foreign countries can hurt, but it is however a business strategy that consolidates the long term strength of Belgian companies.

This relation between globalisation, productivity and competitiveness implies that the debate on the employment effects of globalisation is broader than the number of jobs that are directly created or lost through import, export and multinational mobility of companies. Competitiveness and productivity release resources for the society to finance other activities. The industrial and service-providing companies, that are actively anticipating the globalisation process, make up the economic basis for local and non-market services (education, government, health care, ...). This research suggests that the direct creation of employment in the globally ruled part of the Belgian economy, is gradually reducing because of import competition, delocalisation, and labour-saving productivity gains.

A strong economic basis that creates employment in these sectors of the economy that are less exposed to international competition is therefore very important. Globalisation can offer a contribution.

What does this all mean for a policy that maximizes the positive consequences of globalisation for the labour market and tries to avoid the negative effects?

1. *The most effective policy for the labour market is probably not even a labour market policy.* This sounds paradoxical, but it isn't. The policy has to create an adapted environment and give incentives to Belgian and foreign companies with international ambition to (continue to) develop core activities in Belgium. The outlines of such general policy are described in the policy recommendations further on.
2. *The labour market policy may not strengthen the negative effects of globalisation.* In this respect, the relation between labour cost and productivity deserves special attention. Our study supports the proposition that an increase in labour cost contributes to the delocalisation towards countries that lie further away from Belgium. A balance between labour cost and productivity means that the growth in wages does not affect the competitive position but, at the same time, it supposes that the policy doesn't make social security contributions on labour unnecessary heavy. Since the results show that the less skilled workers are most effected by the negative aspects of globalisation, decrease in the tax burden may be focused on that particular group. Furthermore, because highly skilled employees are necessary to keep core

activities with a considerable added value in Belgium, it is equally important to pay attention to the group of 'knowledge workers' in the debate about tax decrease.

3. *The labour market policy can stimulate the reallocation of employees as a result of globalisation.* Globalisation requires a continuous and ever increasing flexibility of adjustment by companies. The result is that employees experience less job security, more mobility from existing to new functions and a larger need for reallocation from one company to another. From our research, it seems that this turnover of employees occurs mainly between industries within the same sector; this simplifies the reallocation. In practice reallocation stays a serious challenge that, from a policy viewpoint, can be supported by education, training, and effective labour mediation. This holds a fortiori when employees have to search for jobs in other sectors than those where they were previously employed.
4. *The quality of education is essential.* This study shows a growing share of skilled employees in the production process. Technological developments are indeed the principal cause of this evolution, but globalisation plays a part as well. In an economic system that asks for more skilled labourers, the quality of education is decisive.
5. *Use the basis of globalisation in a labour-friendly way.* There is room for employment initiatives to the extent that globalisation strengthens the economic basis. These measures are best oriented towards the victims of the globalisation process, in particular the less skilled employees.
6. *Do not forget the European dimension.* We can ask the question up to what point a small open economy can lead a social policy that deviates from the policy choices of the principal trade partners. And if a small country can impose restrictions on the company mobility and entrepreneurial flexibility that aren't worked out in a broader EU-context. The study shows that dislocating companies reject less jobs than similar companies which did not choose the delocalisation strategy. This suggests that excessive restrictions on enterprise mobility have a baleful influence on employment. To put it briefly, the European level is the proper level for labour market and social policy aspects, especially when measures are concerned that burden the competitive position of individual companies.

2.2 Delocation and dynamics on sectoral and firm level

Regional location conditions tend to change more quickly over time than before as a result of the globalisation process. As a consequence, certain activities become less competitive while others become more attracted towards Belgium. Relocation of activities to foreign countries and, in reverse direction, towards Belgium, have become unavoidable means of restructuring within a globalized network economy. From a policy perspective, relocation should be regarded as a continuous adaptation process, making it necessary to develop the right institutions to assist the process from an economic and social perspective within the framework of a regional partnership model. Workers that are laid-off due to relocation or other forms of downscaling should be supported to find jobs in new promising activities. From an economic perspective, downscaling and relocation of activities should be better anticipated. In a pro-active sense, regional authorities should provide the conditions such that global firms will find it attractive to locate key activities in Belgian regions so that they become the major nodes of the production networks of those firms. For attracting especially logistics and knowledge based industries, the emphasis will necessarily have to shift towards the provision of an efficient multi-modal transport infrastructure, a well developed techno-economic infrastructure including links with knowledge creating institutions, an efficient ICT infrastructure and a more flexible and less taxed labour market.

In an open and more competitive European market, there is less ground for state aid, especially after the enlargement with the new eastern European countries. Moreover, in those cases where state aid would be considered, a distinction should be made between 'greenfield' investment and 'relocation' investment. The distorting effect of aid to relocation projects appears to be more important, especially when it concerns relocations to adjacent regions.

Especially traditional and labour intensive industries are sensitive to relocation and downscaling. Hence, Belgium will have to concentrate on reducing the gross labour cost to companies, and to find new ways to stimulate the development of high quality, knowledge based industries. Encouraging human capital and R&D investments have to be important priorities. The high (para)fiscal burden on human capital discourages initiative and hinders a “chimney effect” that stimulates a general high-quality entrepreneurship in creating new employment for a large group of the population.

Globalisation stimulates dynamic adjustment processes through which less efficient firms are quickly forced to exit the economy. The best way of anticipating this process is to make companies more productive by innovation and technology transfer via collaboration with foreign companies and national and international centres of knowledge. Creating the necessary platforms for such learning to take place as well as providing incentives for cross-cooperation between firms and knowledge centres are essential ingredients of a new policy approach. Such incentives should not be restricted to national firms but should also foster cooperation with transnational firms.

The results of our research show that Belgian firms that have globalized their activities are on average more productive and grow faster. Without going into the debate of cause and effect, this evidence points out that firms that have widened their market have reinforced their competitive position. Public agents can help firms to grow more internationally by promoting firms and establishing links with diplomatic representatives in different parts of the world. Similarly, smaller and mid-sized firms should be given incentives to link up with larger firms and with established global network organizations.

Globalisation intensifies competition and causes more turbulence within industries. As a result, entrepreneurial risk has risen substantially. Access to venture capital and sharing the risk more widely are of utmost importance. Public authorities can stimulate this through providing various kinds of guarantee schemes to venture capitalists providers who invest in promising new activities. At the same they could provide incentives to the development of institutional capital funds, including pension funds, to invest in risky activities.

2.3 Spatial differentiation – location behaviour – location factors

The research shows a large impact of the foreign companies on the employment in Belgium. The direct and indirect employment together, stands for an estimated 20% of the total employment. For the industrial sector this share lies even higher (38% direct employment and approximately 50% if one takes into account the indirect employment). This is a strong point of our economy but it makes us vulnerably so that, besides the already existing traditional tracks, an active environmental and framework policy should be developed. One can doubt if this leads to regional anchoring of (foreign) economic activities but, within a context of international competition between regions, there is hardly a choice.

The study doesn't only highlight the differentiated spread of the foreign enterprises but also, and especially, their preference for urban areas. Large and regional cities, and the area around it, show a much higher number of foreign companies -of whatever nationality- than areas that fall outside the cities or urban districts. The factor 'Brussels' in terms of reputation plays an enormous role, even for areas as the district Halle-Vilvoorde and Nivelles. This presence of foreign enterprises isn't only important from the employment point of view but also because of the dynamics for a region and the learning process that can be induced by these companies.

A realistic translation of this simple assessment of differential spread into policy recommendations is not easy. On the one hand, it seems obvious pleading for incentives for foreign investments in regions where these foreign firms are less well represented. This corresponds to the traditional approach of regional development that focuses on regions 'lagging behind', a policy that was not always and not at all scales successful in the past. On the other hand, there exists a tendency of supporting (regions with) the strong characteristics (in this case, the presence of foreign companies) as to consolidate them. A presence of foreign firms today is by no means a guarantee for the future. These different

options are not exclusive in theory but, in practice, the financial resources may lack to execute both. Furthermore, this can't hinder a framework policy for endogenous start-ups of which the chances of survival are limited by the international competition.

The survey for this research revealed, among other things, the location motives of companies, since location factors were questioned. Because of the globalisation of the economy a number of scientists and policy actors think that the location behaviour of (foreign) companies escapes at the local and regional level and that the location strategies pass over local factors. There are however reasons (i) to doubt this (global-local paradox) and (ii) to assume that the region doesn't have another choice than to throw itself into the international competition battle between regions with the local/regional economic potential and the local/regional location features as tools. This approach asks, however, for a broadening of the concept 'location factor' and the incorporation into a strategic vision and a follow-up policy.

The same goes for the international literature about 'new regionalism' that pleads for more attention for the 'softer' environmental factors. Our research shows however that the input on foreign enterprises' location choices of this kind of location features isn't overwhelming. Only some elements score well such as proximity of or presence in a big city and good image. Anyway, for many companies these elements are connected. So a lot of companies opt for a big city (especially for Brussels) because of the good (read international) image that is associated with a certain dynamic, supported by a world port, international institutions etc. We could deduce that these factors increase in importance with the time so that they rather form a matter for the more recent establishments.

Nevertheless the research shows that foreign companies still decide largely on the basis of materially (e.g. infrastructure) and geographical (location) capital. The traditional subsidy mechanisms are hardly considered important by the foreign companies (they appeared of some importance only for a limited number of companies in the secondary sector). It is also worth mentioning that the results from the questionnaire revealed that no special importance was attributed to the presence of skilled workers. We found from the interviews that this surprising conclusion could be explained by the fact that there exists a kind of an 'automatic' expectation pattern regarding a high level of education in Belgium, linked to a large willingness to commute, to a degree that 'skilled labour' has developed beyond the status of 'location factor'.

The question that rises according to environmental (soft) location factors: is this an element from which we can't escape because foreign companies are indeed less sensitive for local factors, or do they just lack information? The little importance that is granted to 'good reception/ information supply by the government' is striking. From the interviews indications can be drawn that foreign companies, rather than considering them unimportant, just aren't familiar with the features and the potential of the local and regional location environment.

Amongst the policy actors uncertainty could be detected; nobody contests the importance of elements such as good infrastructure, well-equipped grounds or buildings but there is still a lack of insight concerning the importance of the new, 'soft' factors. Almost everybody agrees that a policy no longer gets its justification from partial interventions but a tangible implementation of a strategic vision on the development of a competitive location and enterprise environment was often absent.

2.4 Networking and institutional thickness

The research showed intensive networking between companies and this in the field of subcontracting of products and of services and transport, less in the field of R&D. This conclusion is not surprising since networking is inherent to the internationalisation, say globalisation, of the economy. Nevertheless, it clearly proves that insight in the international component needs to be looked at beyond direct employment. Furthermore, the results of the study reveal the particular characteristics of networks and networking of -Belgian and foreign- companies within the Belgian economy, both in terms of constancy, their nature and their territorial scope and spread. From the interviews with the companies it became clear that networking, incorporated by factors such as 'importance of subcontractors/ supporting services', 'presence of a cluster', 'historically built know-how', 'an atmosphere of thrust between the companies', (i) rarely was taken into account when choosing their

current location and (ii) was not systematically induced or stimulated by the regional or local policy actors.

Without willing to overemphasize the potential effect of a more intensive reception and succession policy for internationally operating companies, it seems that the government can make better use of networking as a form of a diversification and 'embedding' strategy. The SME-structure of the Belgian economy can strongly be promoted, so that the Belgian economic structure will better perform.

Our research shows also that this networking is (also) important for local and subregional economies since a lot of network partners of foreign companies in Belgium, are located within the same region or at least within the Belgian boundaries. This is an important element since, too often, the international network economy is associated with processes that escape from the proper territory. That's also why policy action must introduce and promote the economic advantages of networking and the accompanied competence building (by means of specialisation) on a more local level.

Nevertheless, company networks exceed (also and quite frequently) the regional and national borders and because company strategies don't take them into account, policy actions at European level are necessary.

The problem remains however that, apart from fieldwork such as carried out for our research and that depends on the benevolence of the companies themselves, little information about networking exists. The statistical apparatus offers few possibilities to retrieve the network structures.

The promotion of location factors and networking is only one aspect of economic policy. More in general, the role of the institutional organisations is seen as an important element in the economic attractiveness of regions and, in literature, the so-called institutional thickness is promoted as an important factor of competitiveness. The part of the study on institutional thickness showed a large discrepancy between the theory and the Belgian practice. The survey reveals that foreign enterprises (and mainly the smaller ones) and policy and development actors don't know much about each other and each others habits, and therefore act alongside each other (with the exception of e.g. some aid at tracing a suitable plot). As a policy recommendation, Belgian policy actors could pay more attention at the advancement of this vital communication and cooperation canals, especially with foreign companies that are already located in Belgium (for a long time).

We noticed also that the scientific theory concerning the relation between institutional thickness and regional-economic success and the different aspects about the 'new regionalism' approach have not equally penetrated into the regional economic policy institutions. This seems to indicate that there's a gap between the academic world and the regional development practice so that there should be more cooperation (networking!) between the regional policy and development actors and the researchers in the field of regional development (economic and regional geography) and geographical or regional economy ('space economy').