Opinion of the European Economic and Social Committee on ‘Global trade integration and outsourcing: How to cope with the new challenges’

(2008/C 10/17)

On 16 February 2007 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on Global trade integration and outsourcing: How to cope with the new challenges.

The Consultative Commission on Industrial Change, which was responsible for preparing the Committee’s work on the subject, adopted its opinion on 12 September 2007. The rapporteur was Mr Zöhrer and the co-rapporteur was Mr Lagerholm.

At its 438th plenary session held on 26 and 27 September (meeting of 26 September), the European Economic and Social Committee adopted the following opinion by 151 votes to one, with eight abstentions.

1. Summary

1.1 The changes in trade and the increasing integration of economies into the system of world trade are driven by a wide range of factors. One of the most important factors in this is the development of an international division of production that has led to an increasing number of intermediate products (goods and services) being traded at various stages of the production process. Trade in intermediate products is one of the most significant driving forces behind industrial change and represents a particular form of the international division of labour.

1.2 In this context, outsourcing is measured by the external trade flows of intermediate products, which differs from the usual definition and to some extent overlaps with what is known as offshoring. In order to make this distinction, one could therefore use the term ‘offshore outsourcing’.

1.3 There are a number of reasons behind this offshore outsourcing. Lower labour costs (lower wages and/or lower social protection) are the most prominent in the debate. However, above and beyond this, prices of raw materials and proximity to emerging growth markets also play a significant role. Cost advantages arising from less strict environmental laws or tax advantages can also drive offshore outsourcing.

1.3.1 The phenomenon of offshore outsourcing is not a new development, but is synonymous with the organisation of production based on the division of labour, under which businesses specialise in what they do best and most cost-effectively. Information technology and cheap communication speed up this development and make cross-border trade possible in many new sectors — especially in the service sector.

1.3.2 A cheap and efficient transport system is a fundamental prerequisite for offshore outsourcing.

1.4 The volume of goods currently being traded across the world is fifteen times greater than in 1950 and its share of global GDP has tripled. Worldwide trade in services is now reaching similar growth rates to that in goods, and is growing faster than GDP. Services account for just under 20 % of international trade.

1.5 Between 1992 and 2003, the share of intermediate goods in overall imports rose from 52.9 % to 54.1 % and of capital goods from 14.9 % to 16.6 %. The share of consumer goods fell slightly. Amongst intermediate products, there is a significant shift towards the parts and components category.

1.6 Trends also vary widely at regional level. While the share of intermediate products in imports has fallen in the EU-15, Japan and the USA, it has risen in China, south-east Asia and the new EU Member States (EU-10).

1.7 The rapid growth in trade in services has mainly taken place in the ‘other services’ category, which includes business-related services. Within that, financial, computer and information services are growing particularly strongly. The winners from service outsourcing are the USA, the EU-15 and India, the latter having done particularly well.

1.8 Overall, the EU has successfully maintained its leading position in world trade in both goods and services. The European economy is the market leader in a wide range of mid-technology industries and in capital-intensive goods. The increasing trade deficit with Asia and the EU’s rather weak performance in the area of ICT give cause for concern.

1.9 Offshore outsourcing increases trade, which increases prosperity overall. However, the Committee is also aware that there are losers as well as winners in this game, and that the losers are usually easier to identify, as the impact is immediate (for example workers who lose their jobs).

1.10 Given that these developments in trade in intermediate products are on balance positive for the EU, the latter would be well advised to adopt a positive and proactive attitude towards free but fair worldwide trade and an active globalisation strategy. That said, particular care must be taken within the EU to ensure that the benefits that arise are shared out.
1.11 The EU must act in favour of fair conditions and (economically, socially and environmentally) sustainable development in world trade.

1.12 The EU should be aware of its strengths and build on them. In particular, the above-mentioned mid-technology sectors are often characterised by high levels of innovativeness. Beyond this, however, investment in equipment and ideas is needed in new areas.

1.13 In the light of the development of offshore outsourcing, more, detailed analyses are urgently needed. The Committee recommends that the Commission launch such analyses, which should include possible scenarios in the short and medium term, and that it involves the relevant stakeholders in the process. Such analyses could also form part of the sectoral analyses under the new industrial policy and serve as a basis for the discussions under sectoral social dialogue.

1.14 The answers to the challenges for Europe arising out of the integration of world trade and the increasing offshoring of European production lie mainly in the Lisbon strategy. In this context, the Committee highlights the following points as being key to an adaptable, competitive Europe within the process of globalisation:

— Completion and strengthening of the internal market
— Promotion of innovation
— Stimulation of employment.

2. Background to and justification for the opinion

2.1 The changes in the field of trade, and the increasing integration of economies into the system of global trade, are driven by a range of factors (trade liberalisation, lower transport and communications costs, rising incomes, increasing international division of labour, etc.). One of the most important factors in this is the development of an international division of production that has led to an increasing number of intermediate products (goods and services) being traded at various stages of the production process. This increase in intermediate trade, described here as outsourcing, is giving rise to the restructuring of numerous production processes at global and regional level, and is also happening in many areas of the service sector.

2.2 The industrialised countries' traditional comparative advantages in terms of their skilled workforce and their technical know-how in relation to their products and/or production processes are subject to increasing pressure from a number of directions. In this rapidly changing environment, the EU is faced with new competitors that have come into existence a wide range of sectors of the economy and in a high value-added service sector. The challenges for EU businesses are thus increasing apace.

2.3 Trade in intermediate products is one of the most significant driving forces behind industrial change and represents a particular form of the international division of labour, which is rapidly eclipsing more traditional forms of globalisation. It is patently obvious that the globalisation of markets, along with technical progress, makes it possible to fragment the production process of a particular product into a series of various upstream and downstream stages that are usually spread across several countries.

2.4 This opinion seeks, first of all, to examine the extent to which the worldwide phenomenon of outsourcing of goods and services is being driven mainly by developments in Asian countries (in particular China and India), and by the integration of the new EU Member States. At the same time, it is important to look at whether and to what extent the EU is vulnerable following the emergence of new global trading powers and the changes to comparative advantage that goes with it, in particular with regard to those markets in which the EU currently has a leading position. These are first and foremost those that are medium-tech and capital intensive in nature, such as the automobile and pharmaceutical industries and the manufacture of specialised equipment.

2.5 The phenomenon of relocations is not dealt with in this opinion, as it has already been covered in other Committee opinions.

2.6 In short, this means that we are dealing here with an interesting phenomenon in industry that will force businesses in the EU to develop the comparative advantages from which they have benefited in the past but are no longer guaranteed, not even in entirely new economic sectors such as services. By examining this development process, it would be possible to identify sectors that are currently weak or may become so in the future, and to advise industries in the EU to take the appropriate decisions.

3. Development of global trade

3.1 The following analysis is based on a study published in October 2006 by the European Commission Directorate-General for Economic and Financial Affairs as Number 259 of the Economic Papers series (1).

3.1.1 This study covers the period between 1990 and 2003. This is of interest because significant changes affecting Europe took place in global trade at the beginning of the 1990s. The PR China began to play a bigger role in international trade, which led to its accession to the World Trade Organisation. The further realisation of a single market led to deeper integration within the EU. The political and economic opening of the countries of central and eastern Europe, and their integration into the EU, led to an expansion of the single market. Thus, the EU had 12 Member States at the beginning of this period, compared to 27 today.

3.1.2 At the same time, significant changes took place in India, Russia and Latin America (in particular Brazil), which have strengthened these countries' position in global trade.

(1) Economic Papers, Number 259: Global trade integration and outsourcing: How well is the EU coping with the new challenges by Karel Havik and Kierian McMorrow.
3.1.3 Since no reliable data are available for the period following the completion of this study in 2003, there is no basis on which to make statements about developments since then. However, one can assume that, where the study refers to the EU-10, similar trends can also be observed for Bulgaria and Romania. The example of the textile industry shows that the developments observed are, if anything, speeding up.

3.2 The volume of goods currently being traded across the world is fifteen times greater than in 1950 and its share of global GDP has tripled. Worldwide trade in services is now growing at rates similar to those of goods (about 6 % per year on average since 1990) and is thus rising faster than GDP. Services account for just under 20 % of international trade. Services account for just under 20 % of international trade.

3.2.1 While overall trends are broadly stable, the growth rates in the various categories of goods and services have been seen to diverge sharply.

3.2.2 As mentioned in the introduction above, the international division of labour is one of the most significant driving forces in the development of global trade. This division of labour is leading to ever-increasing volumes of intermediate trade (in goods and services). This growth in intermediate trade (e.g. in semi-finished goods, parts and components) or ‘outsourcing’ reflects the reorganisation of many production processes on a global or regional level — as opposed to on a national basis — and is a mirror image of the enormous growth in FDI flows (foreign direct investment) from less than 5 % of world GDP in 1980 to over 15 % by the late 1990s. However, not all foreign direct investment is related to outsourcing.

3.2.3 Globalised production systems, which, in conjunction with the emergence of powerful information and communications technologies (ICT), lead to outsourcing or, to use another term, ‘vertical specialisation’, are also having an impact on many areas of the service sector.

3.2.4 The internationalisation of production processes at regional and global levels is generating increased intra-industry and intra-firm trade. A country’s exports from a given industry are increasingly dependent on imports of intermediate goods, which are either produced by the same industry or by a subsidiary of a multinational.

3.3 Overview of trade by stage of production

3.3.1 Using the UN’s Broad Economic Categories Classification, it is possible to classify products according to their final use (e.g. whether they are intermediate, consumer or capital goods).

3.3.2 Between 1992 and 2003, the share of intermediate goods in overall imports rose from 52.9 % to 54.1 % and of capital goods from 14.9 % to 16.6 %. The share of consumer goods fell slightly. In the area of intermediate goods, there has been a significant shift towards the parts and components category, particularly in the ICT and car industries.

3.3.3 Trends also vary widely at regional level. While the share of intermediate products in imports has fallen in the EU-15, Japan and the USA, it has risen in China, south-east Asia and the new EU Member States (EU-10).

3.4 These comments do not take account of trade and trends within the EU-15. It must be noted, however, that it is here that by far the bulk of individual EU Member States’ trade is conducted between two thirds and 80 %. In this context, outsourcing is thus measured exclusively by the external trade flows of intermediate products, which differs from the usual definition and to some extent overlaps with what is known as offshoring. In order to make this distinction, one could therefore use the term ‘offshore outsourcing’.

4. Reasons for increasing offshore outsourcing

4.1 There are many different reasons why a company decides to move its business operations or parts of it abroad. The lower cost of labour seems to be the most prominent at the moment. But factors like lower prices of raw materials and being near the growth market also play an important role. Factors that may militate against such a decision include low productivity, uncertain legal systems, poor infrastructure, unfavourable trade conditions (e.g. customs duties, standards) and lack of scope for monitoring and remedial action should problems arise.

4.2 Moving production facilities or indeed sourcing goods previously made by firms themselves is not a new development. Substituting foreign for domestic labour has been a common practice in all industrialised countries for many years. The phenomenon of outsourcing is effectively synonymous with the division of labour and with companies remaining competitive and cost-conscious while specialising in what they do best. What is new, however, is that information and communication technology (ICT) in recent years has made outsourcing of whole new types of services — and production of goods — possible. IT and cheap communication today facilitate companies to outsource most things that can be reproduced/conducted in digital form, such as IT-support, back office, call-centres, software programming, and some R&D functions.

4.2.1 Similarly, ICT has enabled additional outsourcing in goods manufacturing, as intermediate inputs can now be seamlessly sourced from multiple suppliers. Just-in-time production techniques rely heavily on ICT to simultaneously coordinate the production and delivery of individual parts and components from different manufacturers operating over varying distances.
4.3 What can be outsourced can normally also be offshored. Offshoring may take the form of a transfer of particular tasks within an organisation to a foreign location or to an independent supplier.

As said, this is not an entirely new phenomenon but the rapid development in ICT and the accompanying drop in the cost of communication have enabled many new inputs of particularly services to be traded across borders. Today such tasks as technical drawing in architecture, radiologist readings of X-rays, or certain legal services may be sent overseas. Hence, the development of ICT has expanded international trade by lowering transaction costs and making entirely new things tradable. This is not unlike the impact of the international container system in the 1950s, which also caused international trade to soar (1).

4.4 In this opinion we concentrate on offshore outsourcing. But in the general political debate this is often mixed up together with the issue of FDI. For example there are developments that are often presented as forms of outsourcing/offshoring but are in fact part of expansions of business operations abroad to cater to the local markets. In order to determine whether a particular relocation of a production facility is an example of offshoring it is necessary to determine which market is to be serviced. An expansion of business operations abroad for the sole purpose to serve foreign markets (horizontal FDI) won’t necessarily—not even in the short run—have any negative effects on employment in the home country. On the contrary: it might have very positive effects both on profitability and on employment at the headquarters of the firm.

4.5 But of course, it is not only lower labour costs (low wages and/or lower social protection) and the need to get closer to markets that make companies relocate production. The drive can also be lower costs, due to i.e. less strict environmental regulations or tax-advantages. An interesting example of recent offshoring, that can illustrate this, is what has happened in the European cement industry. Because of the very sharp increase in energy prices in Europe—partly caused by the EU trading system for CO2 emissions—and the direct limitation on CO2 emission for the industry, some European cement producers have outsourced the production of clinker to China.

4.6 Last but not least, a cost effective and efficient transport system is a precondition for offshore outsourcing.

5. Goods outsourcing

5.1 Outsourcing, defined in the study as the contracting-out of production areas to external suppliers or to dedicated subsidi-
aries established outside the EU, is a reflection of the following factors:

— World trade flows are being driven by the internationalisation of production structures and the rise in global FDI flows.

— World imports of intermediate goods (especially parts and components) and capital goods are on the increase. This is also resulting in rising levels of intra-industry and intra-firm trade.

— There is a sharp increase in complementary, two-way, trade flows between industrialised and developing/emerging countries. The share of intermediate products in imports to the EU-15, the USA and Japan is falling, while it is at the same time rising in their less advanced regional partners.

— Given the global companies involved, outsourcing of certain production phases is a particular feature of the ICT and automobile industries.

6. Services outsourcing

6.1 Global trade in services has been growing rapidly since the mid-1990s, attaining growth rates similar to those of trade in goods, and thus rising much faster than GDP. Services trade rose from 3.8% of overall GDP in 1992 to 5.7% in 2003.

6.2 While the transport and tourism categories have been growing in line with GDP, the big growth area here has been in the ‘other services’ category, which includes business-related services. Within that, financial, computer and information services are growing particularly strongly.

6.3 In net terms (exports less imports), the winners in the services outsourcing market have been the USA, the EU-15 and India; in relative terms, India has experienced the greatest gains.

7. EU strengths and weaknesses

7.1 Since 1990, the EU has, overall, successfully maintained its leading position in world trade in both goods and services. This is to some extent due to the fact that the investment-intensive phase of the global catch-up process in the early 1990s favoured those industries that manufacture capital-intensive goods—an area in which the EU holds a relatively strong position. The EU is the market leader in a variety of medium-technology and capital-intensive goods industries and is particularly strong in worldwide automobile production, in the pharmaceuticals industry, in the field of specialist equipment and in financial and business services.

(*) Containerisation is an inter-modal system of transporting the general cargo or product in lots using ISO standard containers. The goods can be easily moved from one location to another in these containers which can be loaded intact onto the container ships, trucks, railroad, cars and planes. The concept of containerisation is considered as the key innovation in the field of logistics which has revolutionised freight handling in the twentieth century and dramatically reduced shipping costs.
7.1.1 Between 1992 and 2003, the EU’s external trade surplus rose from 0.5% to 1.5% of GDP and makes a significant contribution to GDP growth.

7.1.2 A key EU strength is also undoubtedly its own internal market, which not only offers a stable legal framework but also a correspondingly large domestic market. As a result of enlargement, some of the outsourcing has taken place in the new Member States.

7.1.3 The study shows that, in some manufacturing fields, such as the automobile industry, offshore outsourcing tends to focus on specific regions (from the EU-15 to the new Member States; from the USA to Mexico and Brazil; from Japan to south-east Asia and China). This is largely explained by the distance-related costs involved, e.g. for transport. In the case of the new technologies and services, however, these costs play a less important role.

7.2 At the same time, however, the study also highlights a number of areas of concern: geographically, the EU’s growing trade deficits with Asia in general; and, technologically, the EU’s somewhat poor performance on the ICT front. One particular factor that must be borne in mind here is that some developing countries are keen to get ahead quickly in the value chain and are thus investing a great deal in R&D and training.

7.2.1 To date, Asia’s success on the world market has largely been in product areas such as ICT, which, from a European perspective, have been less important than other areas such as the automobile industry, pharmaceuticals or the chemical sector. Over the last fifteen years, many Asian countries have specialised in the export of ICT products (3). It is to be expected that, as they develop further, these countries will also turn their attention to those industries in which the EU has so far been dominant (as the example of the textiles industry shows).

7.2.2 The EU and China enjoy strong complementarities in terms of their trade structures, with the EU specialising in medium-high technology and capital goods, and with China focusing on low-technology, labour-intensive and ICT-related product areas. This complementarity pattern translates directly into favourable terms of trade trends for the EU, with many EU Member States presently enjoying significant gains in their pricing power relative to emerging market powers such as China. These results suggest that the catching-up processes of large emerging economies such as China can be a mutually beneficial process, with strong per capita income gains for both the developed and developing world.

8. Winners and losers of offshore outsourcing

8.1 Offshore outsourcing generates more trade, frequently in new types of inputs and in new sectors. We know from theory and empirical studies that trade generates wealth, thus the offshore outsourcing should assumingly increase world welfare. A complicating factor here is of course the fact that the cost advantages that cause the offshoring of a certain production can be an effect of less strict environmental regulations concerning environmental effects of a global nature. But if that is not the case, we can assume that offshoring increase world welfare. But we also know that trade often generates both winners and losers and the question is who will be the winners and who will be the losers in Europe of the growing offshoring.

8.1.1 Of course, the decision from a company to outsource a certain task can turn out to be a bad decision from the company’s point of view. There may be many reasons to that. Customers may not like to be served by call-centres overseas, companies may not receive the intermediate goods in the required quality at the specified time, cultural misunderstandings may occur between companies and clients or across international borders, or proprietary information may be leaked to competitors.

8.1.2 But here we have to start with the assumption that the decision to offshore or offshore outsource a task by a company (or government) is implemented in a successful way. What winners and losers may then be identified?
8.2 Winners

8.2.1 European companies engaging in offshoring and offshore outsourcing.

These get access to potentially large cost savings, mostly arising from lower labour costs. In the longer term, these companies will also gain access to new pools of skilled labour, both directly through their own offshore facilities and indirectly through offshore outsourcing from local suppliers. Furthermore, for companies located in European countries with well regulated labour markets, offshore locations generally will sometimes allow a more flexible management of their workforce levels. Development of new markets may also very well start with the location of an offshore facility there. Such local production facilities can allow European companies to produce goods and services at prices that make sales in low-wage countries possible.

8.2.2 European countries that supply offshored and offshore outsourced production and services.

With the accession of the twelve new Member States in 2004 and 2007, the European Union now contains several large suppliers of offshored and offshore outsourced products and services. However, some EU-15 countries, especially Ireland, have also benefited as ‘offshore production locations’. Supplying countries’ benefits are straightforward: In the short term benefits are in terms of the jobs generated and the investment attracted, and those in the longer term are in terms of the technology and skill transfers to local populations that accompany offshore and offshore outsourcing decisions by companies.

8.2.3 Consumers of offshored and offshore outsourced production and services.

Ultimate consumers of offshored goods and services may benefit from lower prices of the items they consume. There has, for instance, been estimated that between 10 and 30 percent of the price decline in semiconductors and memory chips during the 1990s occurred because of the globalisation of the IT hardware industry. Consumers may also benefit from expanded business hours in many services industries — for instance the opportunity to reach a company call-centre in Bangalore after 5 pm GMT/CET. Price declines will, depending on the extent of offshoring and offshore outsourcing relative to the total, drive inflation lower and thereby lead to greater purchasing power.

8.3 Losers

8.3.1 European workers who lose their jobs because of offshoring and offshore outsourcing.

Workers who lose their jobs as a consequence of offshoring and offshore outsourcing are the obvious and immediate losers. Those who lose their jobs are a small and concentrated group hit hard, relative to the much more numerous and diverse group of winners from offshoring and offshore outsourcing, who (with the possible exception of companies) will all benefit only relatively little individually. This asymmetry between winners and losers makes the political economy of offshoring identical to most other discussions of free trade and import competition. The European Globalisation Adjustment Fund set up by the Council at the Commission’s prompting provides the EU with a way of helping this group, albeit with limited resources.

8.3.2 European companies unable to adopt ‘best practices’ through offshoring and offshore outsourcing.

The fundamental problems plaguing Europe today is low productivity growth. As globalisation accelerates, for more and more industries offshoring and offshore outsourcing strategies are a competitive imperative for companies and companies unable to restructure their operations with the use of offshoring and offshore outsourcing of particular intermediate inputs or tasks will be at a competitive disadvantage against both their non-EU competitors and EU competitors able to do so. That means that they risk to face slower growth and may ultimately either be driven completely from the marketplace or choose to relocate their entire production outside their countries of origin — in both cases likely with larger job losses occurring than if offshoring and offshore outsourcing had been possible at an earlier stage.

9. The need for action and recommendations

9.1 The Committee has in the past issued several opinions on the subjects of world trade and globalisation in general (4), most recently in the opinion on The challenges and opportunities for the EU in the context of globalisation (REX/228 — Rapporteur: Mr Malosse). In that opinion, the Committee advocates inter alia a common strategy to contend with globalisation, a planetary State governed by the rule of law, the balanced and responsible opening-up of trade, a faster pace of integration, and globalisation with a human face.

9.1.1 Not least because these developments in trade in intermediate products are on balance positive for the EU, the latter would be well advised to adopt a positive and proactive attitude towards free worldwide trade and an active globalisation strategy. That said, particular attention must be paid to ensuring that the benefits that arise are shared out and to the political discussion. The EU must act in favour of fair conditions and (economically, socially and environmentally) sustainable development in world trade.

9.1.2 EU trade policy must increasingly be aimed at improving social and environmental standards worldwide and at finding a political approach that combines solidarity with self-interest and benefits everyone. More progress needs to be made on dismantling non-tariff trade barriers, especially where there is discrimination against European businesses. In connection with offshore outsourcing, the Committee stresses its call for better protection of intellectual property.

9.1.3 The current debate on climate change, greenhouse gas emissions and sustainable development will increasingly lead to re-evaluation of many aspects of globalisation, including trade. Developing countries are already looking for greater assistance, or ‘capacity building’, in the use of cleaner technologies. Greater attention will be given to the use of cleaner, more energy-efficient use of transport, especially to transport by sea, where appropriate. Environmental considerations will carry greater weight in decisions as to the future location of manufacturing plant and subsequent distribution of goods. The Committee therefore looks to the Commission, where it is not already doing so, to undertake separate studies into the trade-related aspects of the wider climate change debate.

9.2 The EU should first of all be aware of its strengths and build on them. In particular, the above-mentioned mid-technology sectors are often characterised by high levels of innovativeness. Beyond this, however, investment (in equipment and ideas) is needed in new areas. The seventh framework programme (2007-2012) highlights some of these opportunities. This avenue should be pursued further and more intensively (1).

9.3 In the light of the rapid development of offshore outsourcing, more analyses (taking into account sectoral and regional differences) are urgently needed, especially since the study mentioned in this opinion paints only a very broad picture and does not take account of the latest developments.

9.3.1 The most recent EU enlargements have created new opportunities for outsourcing towards the new Member States and this requires very careful analysis, since both the winners and the losers are within the Community. If we consider that offshore outsourcing towards the new and future Member States is to make a positive contribution to the cohesion strategy, it is logical to examine the future direction of the relevant EU financial instruments.

9.3.2 No detailed studies are available on the further impact of outsourcing on employment and skills.

9.3.3 The Committee recommends that the Commission launch such analyses, which should include possible scenarios in the short and medium term, and that it also involve the relevant stakeholders in the process. Surveys of decision-makers in businesses sometimes paint a different picture than that given by trade statistics.

9.3.4 Such analyses could also form part of the sectoral analyses under the new industrial policy. They could also serve as a basis for the discussions under sectoral social dialogue, thus providing the latter with an additional means of dealing with and anticipating change. (On this subject, see various CCMI/EESC opinions.)

9.4 The answers to the challenges for Europe arising out of the integration of world trade and the increasing offshoring of European production lie mainly in the Lisbon strategy. In this context, the CCMI highlights the following points as being key to an adaptable, competitive Europe within the process of globalisation:

- Completion and strengthening of the internal market
- Promotion of innovation
- Stimulation of employment.

9.4.1 The further development and expansion of the single market with the aim of optimising the free movement of goods, services, people and capital will make a significant contribution to enhancing competition and will thus boost business, innovation and growth.

9.4.2 The internal market can fully become a reality only when the legislation has been fully and properly transposed and has come into force. The Commission and the Council must ensure that Member States do not delay this process.

9.4.3 Developing technology and attracting innovation to the Union are critical to ensure that Europe can compete in the global marketplace. Doing so will have the impact of increasing the number of high skilled jobs in the EU and thus make the EU a more attractive location to undertake business and investment.

9.4.4 To help promote innovation the patent process has to be cost-effective and simple. At present a patent that would offer EU-wide protection for inventions is substantially more expensive and complicated than the US patent. A cost-effective Community Patent must come in operation.

9.4.5 A concerted effort must be made to hit the 3 % target of GDP set down by Lisbon to be earmarked for national research and development spending within the shortest possible timeframe. As the key figures on science, technology and innovation released by the Commission on 11 June 2007 show, in 85 % of cases, delays in achieving that target are the result of poor investments from the business sector. At the same time, however, a high degree of R&D can be achieved if major private-sector commitment is accompanied by high levels of public investment. Within the EU, the public sector (that is to say, the Member States) must therefore continue to invest in R&D so that private-sector R&D activities continue to develop. Moreover, governments should introduce an innovative funding policy to promote R&D investments.

9.4.6 Investment in information and communications technology would promote efficiency in government and speed connections between consumers and markets within Europe. The development of a comprehensive network of broadband internet connections must be a priority.

(1) On this point, see the EESC opinion INT(269) — 7th R&D framework programme, December 2005.
9.5 Employment policy is particularly important in this process. This is a matter of, firstly, finding new employment opportunities for those who lose their jobs as a result of offshore outsourcing, and secondly, maintaining standards for workers' skills and adaptability. Workers who lose their jobs as a result of relocation increasingly find it particularly difficult to find a new job. Just a few years ago, it was generally possible to find a new job within three to four months. This process can now drag on for several years, as more and more labour-intensive production is relocated and no adequate alternative is on offer. Flexible, well-trained and motivated workers are the key to Europe's economic competitiveness.

9.5.1 In this context too, therefore, the Committee highlights the conclusions of the Wim Kok report (6) in relation to
— Increasing the adaptability of workers and businesses, thus increasing their chances of anticipating change
— Bringing more people on to the labour market
— Increased and more effective investment in human capital.

9.5.2 In a world of rapid change, technologies arrive and quickly become out of date. European governments must ensure that their citizens are able to adapt to this new environment, to ensure opportunity for all. There is an urgent need for modern social and labour market policies geared towards promoting opportunity and employability, through the provision of skills and steps to promote workers' adaptability and capacity for retraining and their geographical mobility. Central to this ambitious challenge is the need for national education and skills policies, designed and implemented by Member States, and built on the foundation of investment in education and lifelong learning to equip people to adapt to change and to new areas of comparative advantage. As was emphasised in the Lisbon agenda, this should include 'new basic skills, such as IT skills, foreign languages, technological culture, entrepreneurship and social skills'.

9.6 Alongside workers' skills, it is very important that offshore outsourcing does not lead to an additional loss of know-how. An environment must be maintained that makes Europe an attractive location for research and development. For this to happen, the role of universities (in particular technical subjects and the natural sciences) needs to be rethought, along with their European networking and their cooperation with industry.

9.7 Europe's competitiveness will first and foremost be based on a knowledge-based, innovative economy and a solidarity-based social model ensuring strong cohesion. Europe cannot win a competition with low social or environmental standards.

Brussels, 26 September 2007.

The President
of the European Economic and Social Committee

Dimitris DIMITRIADIS

(6) Report of the Employment Taskforce headed by Wim Kok, November 2003. The taskforce started its work in April 2003 and reported to the Commission on 26 November 2003. The Commission and the Council integrated the findings of the report into their Joint Employment Report, which confirmed the need for decisive action by Member States along the lines suggested by the taskforce.