

Offshoring of Jobs: A Major Issue for Canada

by Can D. Le^(*)

Two weeks ago, Industry Canada organized an excellent conference in Ottawa on Global Supply Chains, a currently hot topic in both developed and developing countries. It is hot because of its serious implications on domestic employment and wealth creation. Canada has been struggling with this issue over the last 10-15 years.

Essentially, the heart of the Global Supply Chains issue is the move of domestic jobs to other countries, and in the North American context, the specific concern is “offshore outsourcing” or the loss of jobs to overseas countries.

Gary Gereffi, a professor at Duke University, summarizes this issue very well in his presentation “The New offshoring of Jobs and Its Implications for Skills and Consumers”. Referring to the U.S., Gereffi looks at the trends in global outsourcing of U.S. jobs: in the 60s and 70s it involved basic factory jobs such as in shoes, clothings, electronics, toy, and appliances, evolving to routine service work such as call centres, and back office jobs dealing with banking operations and credit card tasks, then to accounting, medical records, and software. Recently, this trend encompasses designs, brands, and even innovation activities.

Gereffi identifies some of the factors leading to this trend, such as: the new driving forces (global buyers, suppliers, and intermediaries), the rapid rise of new production centres in developing countries such as China, India, Mexico..., and their ability to develop higher quality to enter value chains such as speed, quality, information technology, responsiveness, and health and safety. While these developments have resulted in increased imports and lower prices in developed countries, they are also responsible for the loss of millions of jobs in the affected countries, and the growing gap between the “connected and “disconnected”, i.e. between the rich and the poor, in the developing world.

The data on the mixes of exports from Canada and Mexico to the U.S. provided by Gereffi reveal some opposite trends. For example, the shares of all technology-based manufactures, particularly high-technology products, in Mexican exports to the U.S. increased in the 1985-2003 period, in contrast to the decline in the shares of primary and resource-based products. On the other hand, in the case of Canada, almost the reverse is true: while the shares of medium-technology and high-technology manufactures fell, those of primary products, and to a lesser extent, low-technology products, increased in the same period. These trends show a deliberate policy by the Mexican government to orient their exports towards the areas of high value-added and high-pay jobs.

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Emek Basker, who teaches at the University of Missouri, uses Wal-Mart to illustrate the global supply chains in the context of the retail sector in the U.S.

According to Basker, who conducted the research with university colleague Pham Hoang Van, Wal-Mart started its business with the first store in Rogers, Arkansas in 1962. Currently, its worldwide sales amount to over US\$250 billion, with 1 million employees and 3,000 stores in the U.S. (212 in Canada). With the “Buy American” campaign of 1985-1992 a thing of the past, Wal-Mart imported US\$18 billion worth of goods from China in 2004. Basker and Van suggested that the U.S.’ trade liberalization policy has contributed to, and amplified, the rise of large retailers such as Wal-Mart. As these retailers grow, the range of their merchandise expands and the need for lower-priced imports increases even more. As a result, “offshore outsourcing” will continue unabatedly for years to come.

Aaron Sydor, Acting Director, Current and Structural Analysis, International Trade Canada – another speaker at the conference – looks at the implications of the rise of global value chains, specifically in developing countries such as China, on Canada. With foreign affiliates accounting for close to 28% of Chinese industrial production, 58% of its exports, and employing more than 10 million people, China’s share of U.S. imports more than doubled, from 6.1% in 1995 to 12.4% in 2004. On the other hand, Canada’s share dropped from 19.5% to 17.4% during the same period. The globalization of economic activities has resulted in a worldwide shift in manufacturing exports. While the U.S., the European Union, and Canada all saw a decline in their shares of world manufacturing exports, Asia – with the emergence of China, India, Japan, and the Newly Industrialized Countries such as South Korea, Taiwan, Hong Kong, and Singapore – saw its share more than doubling, from 9% in 1980 to 21% in 2004. This shift has also entailed a re-adjustment of research and development activities of multinational enterprises (MNEs). Consequently, Canada’s share of R&D expenditures of foreign affiliates fell from about 5.4% in 1993 to 4% in 2002.

The above trends require urgent actions by industrialized countries to halt or reverse the resulting erosion of employment prospects and wealth of their citizens. What should Canada do? Aaron suggests that a mix of international and domestic policies is needed to make Canada an attractive location for global value chain activities. Peter Hall, Vice-President and Deputy Chief Economist of Export Development Corporation, proposes a multi-faceted strategy, including overcoming the “economies of scale” barrier, for example by improving access to trade financing; investing in physical infrastructure; accommodating displaced workers; educating future generations by matching skills and requirements; and retaining and attracting high value-added jobs, for example by exploiting Canada’s structure advantages, research and development (R&D), and improved access to early financing.

One option for Canada which merits attention is to orient its exports from the primary and resource-based areas towards the medium and high-technology areas with high value-added and high-pay jobs, just like Mexico has been doing over the last 15 years.

While the above policy initiatives are all important in addressing the issue at hand, another idea also deserves policy makers' urgent attention: the commercialization of R&D results. At an annual level of over \$25 billion a year, or about 1.96% of Gross Domestic Product (2005 figures), Canada's R&D efforts seem low compared to other major industrialized countries. However, the R&D intensity of Canada's manufacturing heartlands such as Ontario and Quebec is higher than the average of the OECD countries. Canada's excellent R&D centres, exemplified by the ever-expanding National Research Council and its internationally renowned scientists, are in the best position to help it cope with the job offshoring trend. Translating the scientists' findings into commercial products requires a concerted effort by government at all levels and the private sector.

J.J. Brown, the author of a thoroughly researched and extensive book on Canadian science and technology, *Ideas in Exile: A History of Canadian Invention*, published almost 40 years ago, observed in his conclusion: "*The story of Canadian invention and technology can be seen as a melancholy procession of golden opportunities which we have let slip through our fingers. We have let them go abroad to be developed by other nations because we have not the vision to see their potential*". This sounds eerily true even today. Perhaps there are other reasons why Canadian inventions have not been fully exploited at home. It's both imperative and urgent that this issue should be investigated further.