Job exports: problem, opportunity, or both

By Can D. Le

Global supply chains (GSCs)—they’re a hot topic everywhere because they have a direct impact on employment and wealth creation. Canada has been struggling with this issue for more than a decade.

Essentially, the heart of the GSC issue is the move of domestic jobs to other countries. Recently Industry Canada organized a conference here to examine the growth of GSCs, their use by Canadian firms, and their implications for policy development.

Gary Gereffi, a professor at Duke University, summarizes the issue very well. 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 work for products such as shoes, clothing, electronics, toys and appliances. It evolved 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, the outsourcing trend encompasses design, brands, and even innovation activities.

Forces driving the trend include a new breed of global buyers, suppliers, and intermediaries, the rapid rise of new production centres in developing countries, and their ability to develop improved speed, quality, information technology, responsiveness, and health and safety. These have resulted in both increased imports and low costs and the loss of millions of jobs in developed countries, and a growing gap between rich and the not so rich in the developing world.

The mix of exports from Canada and Mexico to the U.S. reveals divergent trends. From 1985 to 2003, Mexico’s exports of technology-based manufactures to the U.S. increased, while exports of primary and resource-based products declined. On the other hand, the shares of exports of medium and high technology manufactures from Canada to the U.S. fell, while those of primary products, and to a lesser extent low-technology products, increased in the same period.

Edward J. (Ted) Picard, who teaches at the University of Missouri, notes that 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. He observes that trade liberalization 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 is expected to continue unabatedly for years to come.

Aaron Sydor, acting director of 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. He notes that China doubled its share of U.S. imports 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 U.S., the European Union, and Canada all see their shares of world manufacturing exports in decline, while Asia’s share—with the emergence of China, India, Japan, South Korea, Taiwan, Hong Kong, and Singapore—more than doubled from 9% in 1980 to 21% in 2004. This shift has also entailed a readjustment of research and development activities of multinationals and enterprises (MNEs). Consequently, Canada’s share of R&D expenditures of foreign affiliates fell from 5.4% in 1993 to 4% in 2002.

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, VP and deputy chief economist of the Development Corporation, proposes a multi-faceted strategy, including overcoming the “economics of scale” barrier: for example, by improving access to investing in physical infrastructure; accommodating displaced workers; educating future generations by matching skills and requirements; and retaining and attracting highly skilled workers by exploiting Canada’s structure advantages, research and development (R&D), and improved access to early financing, etc.

Above all, the commercialization of R&D results requires much more attention from policymakers. At an annual level of over $25 billion a year, or 1.96% of gross domestic product in 2005, 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, where R&D matters the most in the country— is actually higher than the average of the OECD countries. Excellent R&D centres, pioneered by the National Research Council and its internationally renowned scientists, are in the best position to help Canada cope with the job offshoring trend.

Translating the scientists’ findings into commercial products requires a concerted effort by government at all levels, as well as 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 familiar today.

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