

Relocation of jobs

***Development opportunities and
human dignity***

Socio-ethical considerations

*A study by the Group of Experts on
“World Economy and Social Ethics”*

*Published by the
German Bishops' Conference
Research Group on the
Universal Tasks of the Church*

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Brief notes on the
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The authors

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1. Introduction

The economies of the industrialised countries have been characterised for roughly two decades by an increase in uncertainty. In addition to changes in production methods and on the financial markets, the growing international networking of the goods and service markets plays a central role in this increased uncertainty. Since in the course of economic globalisation enterprises advance onto the goods markets of other countries, competition between them increases. Good market positions carved out by enterprises are being questioned more rapidly and more radically than was previously the case. Countless smaller and medium-sized enterprises, as well as increasingly also some larger ones, must almost continually fight for their continued existence. In many cases, they can only avert bankruptcy through severe cut-backs such as the closure or sale of whole parts of the enterprise.

The increase in uncertainty and the rhetorical dramatisation of these developments in the public globalisation and location debates cause fear and concern among many citizens in the industrialised countries. Such fears eat away at the substance, above all when people's own jobs or those of friends, relatives and acquaintances are or appear to be at risk. Even in Germany, fear of losing one's own job and drifting into social decline increasingly influence the life of society. Even if German companies are comparatively successful on the international goods markets, structural mass unemployment ("basic unemployment") has been on the increase for decades. The risk of becoming unemployed and then not finding employment subject to social insurance makes many workers highly insecure. Finally, given the cuts which have taken place in social policy in recent years, unemployment more quickly leads to circumstances which

are to be regarded as constituting poverty in comparison to the possibilities open to the majority of the population.

Globalisation debates in the industrialised countries have focused for several years on the internationalisation of the corporate value creation process: The management share out the processes of production and service in sub-stages and transfer them over all national borders in each case to those locations which appear to them to be the most favourable, mostly from a cost point of view. “Offshoring”, as the technical term for this cross-border relocation of individual production or service elements and the concomitant jobs, plays a prominent role in the economic policy debates of the industrialised countries. Interest focuses above all on the relocation of jobs from the industrialised countries to developing and transformation countries, for instance from the USA to Central America and Asia, or from Germany to Central and Eastern Europe.

Offshoring, which an enterprise carries out from an industrialised country to a developing or transformation country, means however not only that (first of all) jobs are lost in the respective country of the North, but at the same time also that new jobs are created in a country of the South or East. Hence, the employment problem in these economies plays a role. In the majority of countries, this goes far beyond the officially-registered unemployment. People from the poorer population groups cannot at all afford not to be in gainful employment here. Given the lack of a sufficiently well-functioning network of social security, many families who do not find jobs in an enterprise try to survive with a small farm or business, frequently heavily orientated to their own needs. According to estimates, roughly 1.4 billion workers throughout the world must fight for their very survival (almost) daily, most of them living in the developing countries and in the poorer transformation countries. Some of them are in informal

employment, and some in formal dependent employment, but they and their families live in absolute poverty.

The extent of the poverty in many developing and transformation countries does not reduce the need of people who are unemployed in the industrialised countries, for instance here in Germany, who only find precarious employment, or who must survive as poor people in a rich country. One thing should however not be set off against the other. At the same time, there is a narrowing of the viewpoint in many debates in Germany and in other industrialised countries where heated debates are going on regarding relocations of jobs to poorer countries: These debates largely fail to note the impact had by the relocations on the respective target countries. It is however only possible to reach an ethically well-founded evaluation of offshoring activities if the remote effect of the phenomenon is included. The analyses and reflections of the present study are to be regarded as an invitation to supplement one's own view of the cross-border job relocations by this perspective.

The Christian-socioethical view of the offshoring phenomenon presented in this study is characterised by the tradition of the Catholic social teaching. Since the Encyclical “Rerum Novarum” published by Pope Leo XIII in 1891, many socio-ethical statements of the Popes and of the general assemblies of the episcopate have considered the matter of gainful employment. In their ethical reflections on work, the Popes and Bishops saw that dependent employment had become the standard form of gainful employment in the industrialised countries with the considerable growth of the industrial sector. Since employees depend on their jobs to safeguard their livelihoods, and are subject to the employer's right to issue instructions in terms of working hours, a fundamental asymmetry is characteristic of dependent employment. For this reason, the danger always remains in these employment relationships that employees are treated *exclusively*

as a means to an end, for instance in order to achieve high profit targets, and are not also respected in their human dignity, in other words as holders of fundamental rights. The warning against the danger that workers are treated like a good in the production process, or merely as a tool, goes like a red thread through the social teaching of the Popes, Councils and bishops' synods.

The Catholic social teaching uses the principle of the “priority of labour over capital” against forms of gainful employment with which people are stripped of their dignity: Unlike capital (or in Nature), with the “production factor” of labour, people themselves contribute to the production process. Labour may therefore not be deployed in an enterprise simply as a means to make a profit or for other corporate goals. Nor may it be seen exclusively as a production or cost factor. Because workers are persons who have dignity, it is strictly prohibited in ethical terms to let people work under undignified conditions. Because they are persons with self-determination, workers should be able to be involved in the internal corporate processes of opinion-forming and decision-making. And because they are persons who seek to express themselves through their work, the value creation process is to be organised where possible so that workers contribute their whole being and in this respect can develop their personalities in their work. Jobs can only be created and retained in the existing economic system if a profit can be made with their assistance. Nonetheless, in the perspective of the Catholic social teaching the deployment of capital should serve the well-being of the people who work together in the enterprises.

The principle of the “priority of labour over capital” offers a decisive direction and guide for the analyses and reflections of the present study: Fundamental changes in enterprises' strategies and organisation forms, such as in the case at hand the increase in offshoring, are primarily to be examined in terms of how they affect workers' life and work perspectives – as well as those of the

unemployed who depend on gainful employment. These include above all the questions: Do they create more gainful employment? Do they make it more likely that workers can be in gainful employment in decent conditions? How do they change the outlook to shape working conditions such that they meet workers' vital needs and expectations?

The worldwide phenomenon of offshoring consists of sub-phenomena which can be distinguished using the regions of origin of the transnational enterprises which engage in offshoring, and of the destination regions of these activities. The most important players are transnational enterprises headquartered in an industrialised country. Recently, however, more and more enterprises from threshold or transformation countries are also offshoring. This is largely a matter of using cheap locations in poorer developing or transformation countries. Despite several spectacular cases, one may presume all in all that there is little offshore commitment on the part of these enterprises in the industrialised countries. The offshoring activities of the transnational enterprises from the industrialised countries are primarily focused on relocations of sub-steps of the value creation process to other industrialised countries. The present study however relates exclusively to the offshoring activities of enterprises from the industrialised countries in the developing and transformation countries. Even if these activities are as a whole less widespread, they entail particular ethical questions going back to the major difference in the level of economic development between the regions of origin and the destinations of offshoring.

This restriction of the topic, as well as the definition below, creates a division of the countries into three groups. The *industrialised countries* include all states which were already members of the Organisation for Economic Cooperation and Development (OECD) at the fall of the Iron Curtain. The group of *transformation countries* includes primarily the states of Central

and Eastern Europe. This group of countries includes the states of South Eastern Europe which were formerly members of the Council for Mutual Economic Assistance (COMECON), but also Russia, the other countries of the Community of Independent States (CIS) and Mongolia. The latter are referred to in this study as poorer transformation countries. All other countries (including China and Vietnam, which one may also count among the transformation countries) are referred to here as *developing countries*. They include the group of threshold countries (e.g. Brazil, Argentina, India, China, South Korea and Thailand) which have a particularly important role because they are more closely integrated into the world economy. By contrast, the poorest developing countries, whose populations are largely effected by extreme poverty, are in many cases hardly integrated into the world economy at all.

The scale of the phenomenon and its significance for the development of the international division of labour are considered in the next chapter (Chapter 2). Then, the impact of these activities on employment and on the quality of gainful employment in the countries involved is studied (Chapter 3). A further discussion covers the ethical criteria by which such cross-border corporate strategies can be judged as fair (Chapter 4) and proposes measures with which the various players are to contribute to more offshoring activities on the part of the transnational enterprises from industrialised countries in developing and transformation countries corresponding to these criteria (Chapter 5). The study closes with remarks on the debate on job relocation (Chapter 6) pursued in the German public.

2. Offshoring in the context of the international division of labour

The world economy has undergone fundamental change in recent decades. No society is able to ensure or to continually increase its own prosperity in isolation today. A major part of the added value is created in enterprises which must compete via the price and quality of their goods with enterprises in other countries, in many cases far away. As this intensification of international trade impacts people in the various regions of the world, it becomes the subject of controversial discussion.

Classical economic theory understands an increase in international competition as an expansion of the division of labour that is advantageous for all parties. Division of labour means that the players involved each specialise in the production of specific goods, in providing specific services or in individual sub-steps of this value creation process, and then exchange the respective results of their work between themselves. It is advantageous for all involved in such a situation if each specialises in the goods or sub-services in which they have a cost or quality advantage against all others (or with whom their backwardness in productivity is less prominent). If one leaves out of the equation the increase in some cost factors such as the transport costs, as a whole the advantages of the division of labour will be greater the more players are involved in it. Since with the increase in international competition the division of labour expands beyond nation-state boundaries, it is expected that many goods can be provided at lower prices as a consequence. This ultimately means that private households can consume more goods.

This view however leaves unmentioned the central role of economies of scale in various economic contexts. Such economies exist firstly within an enterprise. Mass production makes it

possible for a large enterprise to reduce the average unit prices of the products which it produces. Secondly, there are also economies of scale to be had by concentrating on a sector within a country or region. The costs for the provision of the goods of these sectors fall because the enterprises benefit from the shorter paths of their joint suppliers, from a labour market tailored to their needs or from an informal exchange of “know how”. The typical example of such a “cluster” is Silicon Valley, where several of the most important information and communication enterprises in the USA are headquartered. The individual enterprises benefit from the region-specific economies of scale gained by all being in the same place, and at the same time contribute to maintaining this advantage for the others. Such economies of scale mean that highly-developed rich regions and countries have a good starting position to attract even more corporate value-creating activity, and consequently to become even richer. Less well developed poorer countries, by contrast, have far fewer opportunities in sectors in which mass production is advantageous to establish a new branch of industry through their own strength. Under such circumstances, the increase in international competition leads to a situation in which the differences in development which are already in play become exacerbated further.

2.1 Change in the international division of labour

It is not only the volumes of international trade which have increased considerably since the nineties. Rather, the geographical structures of trade have also changed unmistakably. At the same time, the lion’s share of world trade remains a transaction between enterprises from the industrialised countries. At the same time, however, the governments of Central and Eastern Europe, in contrast to the days of the Eastern Bloc, are greatly concerned today to ensure broad integration of their economies into the

world economy. Whilst North-South trade used to be characterised by a clear division between the developing countries as suppliers of raw materials and the industrialised countries as providers of finished industrial products, there is a whole number of developing countries today which have been able to attract into their countries the production of products traded across borders, the provision of services for which there is an international demand, or at least sub-steps of this value creation process.

This change is the consequence of various transformation processes. The rapid development of modern telecommunications and transport has led to distance having lost its meaning in the world economy. After the failure of development strategies that had been incompatible with the world market, an economic policy has become the norm among the governments of developing and transformation countries – partly under the influence of the World Bank and the IMF – which aims to attract export-orientated enterprises on one's own territory.

The structural change in the world economy includes, furthermore, that in addition to trade in raw materials and finished products a cross-border exchange of individual production and service *elements* increasingly takes place. Many enterprises today split the supply chains of their goods into many steps and settle these in each case in those countries in which they expect special advantages with regard to cost or quality. This new form of international division of labour comes about partly as a result of cooperation between these enterprises and independent suppliers or service providers in other countries, and partly through foreign direct investment. This foreign direct investment includes the establishment and expansion of presences abroad and the acquisition of foreign holdings in which the purchaser obtains or expands a determining influence on the foreign enterprise. Having said that, this direct investment cannot always be understood as a contribution towards the new international division of labour.

Some investment for instance serves not the purpose of the relocation of production or service elements, but exclusively to secure sources of raw materials or to open up markets in the target country.

The activities outlined, with which the enterprises relocate parts of their supply chain to other economies, have been designated for several years with the neologism of offshoring, derived from the term “offshore” for cross-border. A sub-form of offshoring is nearshoring, where a transnational enterprise relocates sub-steps of the value creation process in enterprises or locations or offices to neighbouring countries. Despite the clear definitions, it is difficult to provide an empirical description of the offshoring phenomena. This is above all a result of two problems. *Firstly*, a distinction is seldom made in the statistical collation of foreign direct investment between on the one hand the relocation of production and service elements, and on the other hand investment orientated towards exploitation of raw materials or opening up new markets. It should however be noted here that market-opening direct investment frequently proves to be a first step into a new country by a transnational enterprise, followed if it is successful by further relocations of production steps and sub-services. *Secondly*, the offshoring activities are mostly not covered at all on the basis of cooperation relations with *separate* enterprises abroad. Despite these obstacles – in most cases on the basis of well-documented developments in foreign direct investment – statements can be made on fundamental trends in offshoring activities.

With regard to the sectoral attribution of offshoring activities, it is possible for instance to state that there is a worldwide trend towards the service sector, in particular towards financial services and services in commercial enterprises. As with the goods trade, where a clear distinction is made between trade in finished goods and the exchange of individual production steps counted as

offshoring, it should be noted with services that not every cross-border trade transaction can be attributed to offshoring. It is decisive for service offshoring that the provision of services and their utilisation take place in different countries. In other words, the purchaser of the service does not travel to the service provider for the provision of services, and vice versa.

If one looks at the transnational expansion of enterprises using foreign direct investment on a global scale, this relates primarily to mergers and acquisitions, and to a much lesser degree to new establishments abroad (“greenfield investments”). Enterprises frequently try to establish themselves in the target country with an acquisition, and then to found new enterprises in situ. Although the public perception of transnational enterprises continues to be characterised by the activities of a small number of large groups, small and medium-sized enterprises (SMEs) constitute by far the largest contingent of transnational enterprises in quantitative terms. Transnational SMEs prefer to invest in neighbouring countries, and with this nearshoring above all rely on cooperation between companies and on joint ventures with their foreign partners.

2.2 Offshoring of enterprises from industrialised countries to developing countries

The overall group of developing countries has been able to considerably increase its share as target countries of foreign direct investment in recent years. The group of countries still reached a share of 35 % of *newly-made* direct investment in 2005. When it comes to the total *stock* of foreign direct investment worldwide, the share of developing countries as target countries was 26 % in the same year. Raw materials, industrial goods and services extracted, produced or provided by subsidiaries of the

transnational enterprises in the developing countries and then sold to external parties had a value of approx. 1,900 billion US Dollars in 2005. In the same year, transnational enterprises employed roughly six million people in subsidiaries which they owned in these countries. The overall group of developing countries is also likely to have increased its share of offshoring activities in recent years. Two particularly prominent examples of developing countries which have managed to a considerable degree to attract offshoring activities into their country are China and India; they are frequently referred to as the “workbench” or the “office of the world”.

Despite a wide gap between the world’s economic regions and the individual economies, two commonalities can be named concerning the relocation of production and service elements to the developing countries. *Firstly*, foreign direct investment flowing into developing countries is largely constituted by the formation of new enterprises, so that new capacities are frequently created – unlike direct investment in industrialised countries. Where these new establishments serve neither to exploit raw materials nor solely to open up new markets, they are part of offshoring. *Secondly*, the service sector plays a major role in offshoring in developing countries. Patient data from the industrialised countries are already being evaluated on the Caribbean Islands, administration of E-Learning platforms has been commissioned to subsidiaries and partner firms in South Africa, telephone customer care and standardised legal and business advice is being purchased in India, and logistics services are being coordinated from the Philippines. The speed and low cost of intercontinental data exchange permit one to presume that this trend will continue. In this, the staff-intensive service sector gives the developing countries the opportunity to fully exploit their competitive advantage of low wage costs. For developing countries which can hardly become competitive in industrial

production, or indeed not at all, a new opportunity may even lie in the expansion of services to overcome the concentration of their exports on the raw materials sector and to achieve a more favourable integration in the world economy to enable their internal economies to grow.

There have been highly differing degrees to which the developing countries have been able to bring sub-steps of production and service into their countries, the transnational enterprises having relocated them from the industrialised countries. An approximate guideline for the assessment of the differences may be that the value added in the enterprises, which are the subsidiaries or offshoring partners of the transnational enterprises, is particularly high in those countries (calculated per capita of the population) in which the markets are growing dynamically. The availability of qualified employees, low wage costs, as well as low transport costs by virtue of the geographic proximity to at least one industrialised country also have a positive impact on the scope of the offshoring activities. The linguistic skills of the population in the developing country also takes on considerable significance. Countries particularly benefit in the customer service area (e.g. Call Centers) in which many employees speak English or the language of another industrialised country. Even if there are prominent counterexamples (such as China), it can also be found that the attractiveness of a location increases by virtue of the reliable protection of economic rights, above all the rights of disposal of the owners.

More than half of all foreign direct investment flowing into developing countries is currently attracted by the greater region of Southern, South Eastern and Eastern Asia. Two-thirds of this amount flowed in recent years to China alone (including Hong Kong). It is noticeable here that the lion's share of foreign direct investment comes from investors who are resident in the region itself. Direct investment flowing to Southern, South Eastern and

Eastern Asia also involves to a great degree high-tech firms in the fields of motor technology and electronics, in addition to establishing and expanding service companies, in particular in telecommunication and finance.

Despite considerable increases in recent years, foreign direct investment in the Near and Middle East, in particular in the United Arab Emirates, Saudi Arabia, Turkey, Bahrain and Jordan, does not even account for two percent of worldwide direct investment. Direct investment takes place here above all in the fields of energy extraction, transport and telecommunication.

Foreign direct investment has also been increasing in Latin America in recent years, having reached a share of almost 5 % of worldwide direct investment in 2005. Amongst other things, the respectable growth rates of the national product of countries such as Argentina and Chile have played a major role in the increase in direct investment. Only a small share of capital flows goes into the service sector here. Particular significance has been attached for some time to nearshoring on the part of US enterprises, such as the clothing and shoe industry in Mexico.

Foreign direct investment in Africa accounted for almost three percent of all foreign direct investment worldwide in 2005. The ten largest destination countries (South Africa, Egypt, Nigeria, Morocco, Sudan, Equatorial Guinea, Democratic Republic of Congo, Algeria, Tunisia and Chad) received 86 % of all direct investment in Africa. 34 African countries, by contrast, received fewer than 100 million US Dollars year by year from direct investment. What is more, direct investment is dominated by raw materials, in particular oil production and the extraction of precious metals. These activities, which reflect the problematic concentration of exports of these countries on the primary sector, particularly do not count as offshoring.

Nonetheless, direct investment in the service sector, above all in finance in Africa, has also been on the increase in recent years. By contrast, the participation of foreign investors in African industry remains problematic. The main obstacles are the poor infrastructure, as well as the political instability of some African regions. Countries in which production sites were destroyed in civil wars and in comparable conflicts naturally find it difficult to acquire investors for participation in their production industries. By the start of the current decade, some African states managed to attract offshoring activities of the clothing industry into their countries. The WTO Multi Fibre Arrangement (MFA) however expired at the end of 2004, so that the trade quotas determined on this basis, which had restricted China's export potential for a long time, ceased to apply. Since then, foreign direct investment in the African clothing industry has fallen by 30 %. Having said that, more investors from Asian threshold countries have been active in Africa since the mid-nineties. India and Malaysia, for instance, are building up new enterprises in the production industries. The raw materials sector is by contrast the focus of the rapidly-expanding commitment of the Chinese in Africa.

2.3 Offshoring of enterprises from industrialised countries to transformation countries

Economic relations between Western and Central and Eastern Europe have developed quickly since the end of the Eastern Bloc. Some trends can be identified despite the problems that have been reported in the statistical recording of offshoring activities.

Also because of the linguistic knowledge of employees in Eastern Europe – with regard to services – the strength of this economic area lies particularly in activities of internal company administration (back office) and increasingly in more complex

business processes (business process offshoring). The offshoring activities of enterprises from the old EU Member States in manufacturing in Central and Eastern Europe have also intensified, however. This is by far the most important target sector of foreign direct investment for German enterprises. German direct investment in this sector alone had already exceeded a value of 20 billion Euro in 2004.

The new Member States of the European Union are pushing their economic structural change, and are successfully attracting foreign direct investment, as well as cooperation between foreign and domestic enterprises. Even if the developments differ markedly from one country to another, it is nonetheless possible to recognise trends. Many countries have liberalised their trade and are connecting their markets to the European Single Market. Privatisation and modernisation programmes create an investment-friendly climate for Western European firms as a whole. Cooperation with Western European firms is the only possibility for many Central and Eastern European enterprises to participate at least indirectly in a market to which they could not gain access by themselves.

Apart from gaining access to new markets, the countries of Central and Eastern Europe are attractive for enterprises from the old EU Member States, above all for cost reasons, as target regions of offshoring strategies. They seek to save wage costs by relocating individual production or service elements. This wage cost advantage however contrasts not only with lower work productivity in the target countries. One should rather also include the special costs of any commitment abroad, such as infrastructure costs, transaction costs for interpreters and lawyers and costs caused by cultural differences in the working methods. Because of their cultural and geographical proximity, these costs are much lower from the point of view of many Western European enterprises in Eastern and Central Europe than in other target

countries. This feature favours above all the commitment of German transnational enterprises in Central and Eastern Europe. What is more, there is the advantage that a knowledge of German is widespread in some transformation countries. Since the legal certainty for foreign investors and cooperation partners is increased by taking on the set of EU rules, one may presume that the commitment of Western European firms in these countries will also be high in the years to come.

Enterprises opting for offshoring activities in Central and Eastern Europe solely because of the wage cost advantage however frequently oversee the risks of a relocation of production steps and sub-services. Even if the re-relocation from Central and Eastern Europe to Western Europe has by no means reached the degree of offshoring activities of Western European transnational enterprises to the East, problems in production quality, a lack of flexibility and above all underestimated coordination and communication costs have led a large number of enterprises to end their commitment abroad after a few years. Middle management with insufficient quality awareness and little customer orientation is decried as an inheritance of the planned economy. The cost of bureaucracy, for instance visas, is too high in the view of a large number of enterprises. Whilst almost all Central and Eastern European states have been able to reduce corruption in the public sector in recent years, corruption is however still particularly commonplace in the view of managers in Romania, Poland and Bulgaria. Technology-intensive enterprises as a rule opt against investment and cooperation projects if they fear that their proprietary rights will not be protected, or that there will be unwanted technology transfers. With legal disputes between foreign enterprises and local partners there is a clear tendency in some countries on the part of the courts to rule in favour of the domestic parties.

There are for instance certainly factors which disfavour a continuation in the strong growth in the offshoring activities of Western European firms in Central and Eastern Europe. Particularly strong dependencies of the partner enterprises in Central and Eastern Europe on their Western European cooperation partners have led some governments in these countries to introduce statutory regulations intended to prevent or make more difficult majority holdings in domestic enterprises by foreign investors. What is more, the stable tendency of a real increase in the value of Central and Eastern European currencies as against the Euro (i.e. one caused by inflation differences) entails pronounced price increases in the Central and Eastern European subsidiaries and partner companies on world markets. The wage cost advantage is also starting to disappear regardless of the exchange rate. The wage increases exceed in some transformation countries the per se very high growth in labour productivity. Hence, wages have more than doubled in the last ten years in for instance Poland, the Czech Republic and Hungary. For this reason, there are sectors such as the textile industry in which Central European enterprises have already relocated parts of their production to sub-contractors who are farther East, for instance in Ukraine or in Moldavia. The states of Central and Eastern Europe are winning in the competition between the offshoring destination countries when it comes to tailored products which need to be delivered quickly and flexibly. By contrast, China has now become the better-priced supplier for products which are less critical in terms of time and which have long product cycles.

The offshoring activities of German enterprises in Central and Eastern Europe, and the associated job relocations, have repeatedly been the subject of public debate in Germany since the mid-nineties. In fact, German investment constitutes the lion's share of all foreign direct investment in this region. In particular,

small and medium-sized enterprises are taking part in this nearshoring. The Czech Republic, Hungary and Poland alone account for roughly 80 % of the entire German investment volume in the ten new EU Member States. The interest of German enterprises in investment in these countries as a whole has grown very considerably in the past twenty years. If one views the value of all direct investment held by German enterprises abroad, the old EU States and the USA continue to constitute the most important target regions, whilst Central and Eastern Europe only reached 6 % of total German direct investment in 2004. However, as to new direct investment, the share of the ten new Member States of the European Union for 2006 is estimated to be roughly 40 %. This target region is therefore still ahead of the old EU Member States and China.

3. The impact of offshoring on the income systems of the countries involved

After an initial stocktake of the offshoring phenomenon, we now consider the impact of these developments on the number of jobs and on the quality of gainful employment in the countries involved.

3.1 Impact in the developing countries

3.1.1 Impact on employment

Even if there are as yet few empirical studies of the impact of offshoring activities on the target countries, it is generally presumed that the positive employment effects outweigh the negative ones. If one disregards the negative examples still to be discussed, that is establishments with undignified working

conditions, this positive impact of the *direct* influence of offshoring activities on employment of the target country is evident: The commitment of foreign enterprises creates new regular jobs in which the wage level is frequently higher than in native enterprises which produce exclusively for the domestic market. Where offshoring slows the emigration of qualified labour to richer countries, this is also an important long-term contribution to development; and finally, this group plays a major role for the long-term development of productivity.

The *indirect* employment impact, in other words the impact of offshoring on the number of jobs in other enterprises, is of decisive significance for offshoring activities not only benefiting small sub-groups of employees, but also being able to exert a positive impact on the entire labour market of the target country. If subsidiaries and partners of the transnational enterprises are not successfully incorporated into economic cycles, only islands of prosperity and growth will be established – a development that some economists currently fear will occur in India, China and Mexico. The risk of growth remaining restricted to regions or sectors is all the greater, the lower the performance of possible domestic suppliers. On average, hence, the growth effects of offshoring from the industrialised countries will be higher in threshold countries (as well as in transformation countries) than in developing countries with a low per capita income. Many subsidiaries and partners of the transnational enterprises work with domestic *sub-contractors* to whom they commission mostly simple, undemanding production steps which are highly labour-intensive and only require a low level of skills. The indirect employment impact of offshoring in the target country includes the influence of the offshoring subsidiaries and partners on the other sectors of the economy. To assess these, it is vital to answer two questions: To what degree does a transfer of knowledge and technology take place? And: Do the changes which were triggered

in other sectors have stronger positive effects on the number of jobs than the negative ones, or vice versa? Firstly, it can be stated that offshoring activities in general can only trigger increases in productivity in other sectors if the technology and skills level there is not too low. Secondly, it should be clarified how the productivity increases concomitant with the knowledge and technology transfer in other sectors affects the number of those employed there overall. Positive effects can be anticipated for instance if these sectors are now competitive at international level or can improve their competitiveness. However, jobs are lost in those cases in which enterprises are unable to increase the sales of their goods faster than their productivity. In this respect, the fears of many people in the developing countries are understandable that the rationalisation processes triggered by offshoring in other sectors could lead to job losses. However, this negative employment effect is part of a structural change without which it is impossible to ensure strong economic growth and to effectively combat poverty in the long term.

3.1.2 Impact on the quality of gainful employment

Transnational enterprises from the industrialised countries also pay attention to the amount of wages when selecting the developing countries in which they establish or buy subsidiaries or seek partners. For instance, empirical surveys of direct investment which flow into developing and transformation countries show that if two similar economies have achieved roughly the same development status, the one where the wage level is lower will generally attract more direct investment. Nonetheless, most empirical studies clearly contradict the hypothesis that transnational enterprises force developing and transformation countries into a race to the bottom when it comes to wages and social standards.

With regard to the amount of wages, some empirical studies *firstly* show that transnational enterprises pay on average somewhat higher *wages* in their subsidiaries in the developing countries than domestic enterprises. Some of this difference as against the national average value, which can be proven at the various levels of work skills, can be explained by the fact that transnational enterprises establish or buy specific types of subsidiaries. Their commitment is for instance concentrated on particularly productive sectors and on urban regions in which domestic enterprises also pay higher wages. But even if one takes account of these and similar factors, most empirical studies show that a wage bonus ensues from transnational enterprises. Other studies however indicate that transnational enterprises above all buy efficiently-producing enterprises in the developing countries where worker salaries are relatively high, and that average remuneration *falls* after the take-over. Accordingly, there is therefore said not to be such a wage bonus in many transnational enterprises. Where the bonus is demonstrable, it is greater when remuneration is higher than when it is lower. The latter suggests that the boards of most transnational enterprises and their subsidiaries are focusing on motivating and retaining good workers. In comparison to domestic firms, transnational enterprises, firstly, have a hard time assessing job-seekers' motivation and performance. Secondly, because of their higher technological standard, they have made relatively high investments in the company-specific skill-building of their employees. So that the acquisition and skill-building costs, which are above average for this reason, do not take place too often, it is worthwhile for them to retain good workers in the enterprises by paying higher remuneration.

Secondly, there are many transnational enterprises which disregard *worker rights* when seeking possibilities to reduce production costs in offshoring, and deliberately seek production

sites where virtually no social and environmental standards apply, or where these are hardly applied by the responsible government. The high level of attractiveness of China as an “extended workbench” of major transnational enterprises evidently also has something to do with the low level of worker protection. Nonetheless, it is not possible to claim that all transnational enterprises prefer to make their direct investment in countries where worker rights are badly protected. On the contrary, the majority of empirical studies available reach the conclusion that – despite prominent exceptions – those developing and transformation countries which are better able to attract relatively high direct investment are those which not only respect civil protection and political participation rights, but also keep the share of child labour low, permit independent trade unions and allow them to strike, and which grant the right to collective bargaining with employers on wages and working conditions. Managers in many enterprises are evidently hoping that they will tend to be better able to carry out their transactions in an ordered social and political environment in which the rights of employees are also clarified, and are enforced in the case of a conflict.

The studies evaluated here calculate average values and reflect major trends for the lion’s share of transnational enterprises. This leads to a comparatively positive view of the consequences of their direct investment for workers in developing countries, which however should not close our eyes to the fact that there are also many transnational enterprises which act differently. As the many authentic reports about “sweatshops” show, many transnational enterprises are seeking to gain cost advantages by outsourcing manufacturing stages into establishments where business is done by dubious means. The subsidiaries or partners in the developing countries not infrequently have workers, and in some cases also children, working under conditions where they are prone to accidents, or which ruin their health in medium or long term.

Extremely poor working conditions are being repeatedly disclosed among suppliers. It is noticeable here that some offshoring enterprises and their subsidiaries and partners in the developing countries frequently change their suppliers. This is a way to make it virtually impossible to check whether there are breaches of labour standards to which the transnational enterprises or their customers (such as major retail chains) have promised to adhere in highly-publicised voluntary undertakings. The sub-contractors themselves also frequently change their workers in order to minimise the risk of resistance to poor working conditions by taking on young, inexperienced employees. Foreign workers are frequently recruited who are not sufficiently informed of their worker rights. Most of them work with no notice periods and live in permanent insecurity and dependence. There are no written employment contracts, and wages are paid irregularly, late or incompletely. Cases repeatedly come to notice even among the suppliers and sub-contractors of well-known branded manufacturers in which fundamental worker rights are flagrantly violated or workers must work in conditions which are extremely harmful to their health. The studies of the International Labour Organisation (ILO) and other sources report of sweatshops with working hours of more than 15 hours per day, with regular weekend work or with avoidable extreme burdens caused by time pressure or heat and noise at the workplace. Prominent examples come from the textile and electronic industries.

The so-called export processing zones are particularly problematic. These are territories in which the enterprises and establishments located there are officially exempted by the government of the developing country from some of the provisions otherwise applicable in the country. In most cases, the government of a developing country designates a territory near to a port or large city as an export processing zone, equips it with a comparatively good infrastructure, grants customs and tax relief

and rescinds large numbers of worker rights. This applies to a particular degree to the right of association, in other words to the right of workers to combine to defend their common interests and in particular to form trade unions.

Export processing zones have expanded quickly in the past 30 years. 13 million people were working in such zones in 2002 according to estimates of the ILO. Particularly well known are the export processing zones in Central America, especially in Mexico, known as “maquiladoras” or “maquilas”. More and more tax- and customs-free zones have been designated since the mid-sixties, with the aid of which growth in economically-underdeveloped regions was to be accelerated. US enterprises use the maquiladoras for nearshoring; this means that they provide the individual parts for processing and then re-import the semi-finished goods produced in the maquiladoras, largely by women.

The export processing zones in several countries have proven to be motors of economic growth in their region. They have helped to strengthen the domestic export economy in some Asian countries and on Madagascar. At the same time, however, the ecological cost linked with the export processing zones and above all the social costs to be borne by the workers and their families have been very high. There are export processing zones in which workers are neither paid worse, nor have fewer rights than in enterprises which are located in the same economy, but outside the zone. In most of the export processing zones, however, at least workers’ right of association is restricted. In fact, almost all managers of enterprises engaging in offshoring in export processing zones state, when surveyed, that the exceptional labour law regulations had been a major factor in their location selection. These boards evidently consider export processing zones to be attractive locations for investment, offering them special possibilities to save production costs – whilst ensuring their own rights of disposal – by failing to support worker rights. Over and

above this, there are many indications that especially low wages are paid in export processing zones, minimum standards of worker protection are disregarded and the rights of workers are flagrantly violated. Many women have to repeat monotonous production steps in health-damaging conditions for 60 hours per week. Some are even subject to physical violence and sexual harassment.

3.1.3 Contribution to economic development

Despite the restrictions that have been outlined, one may presume that the majority of offshore activities of transnational enterprises from the industrialised countries have a positive impact on the gainful employment systems of the target countries in the Southern hemisphere. They frequently help to build competitive export sectors, and hence contribute to growth and employment. The majority of subsidiaries of transnational enterprises respect the labour laws of the country and offer better working conditions than the average of domestic employers.

Having said that, one should avoid setting excessive development policy hopes on the expansion of offshore activities. The labour laws observed by transnational enterprises are sadly lacking in many countries when it comes to social security and minimum wage requirements. Accordingly, observing the national laws alone does not ensure that the offshore activities really have a positive long-term impact on the economic and social development of the country. The production sites and service centres of transnational enterprises and their domestic partners frequently offer “isolated islands” hardly benefiting the relatively undeveloped economy of the target country. Only developing countries which have a comparatively high economic development status can be considered as target countries of offshoring. It is not only the case that offshoring has a productivity-increasing impact on the target country, but also that

the efforts of transnational enterprises to find offshoring partners or to establish or purchase subsidiaries above all target those economies which have already reached a higher level of productivity. And finally, the positive employment impact is largely restricted to relatively small segments of the formal labour market. By contrast, those who work in the informal economy, and this is the majority of the population in many developing countries, rarely benefit *directly* from the offshoring activities of foreign enterprises. Direct positive effects on their living conditions can only be achieved if the offshoring partners and subsidiaries of the transnational enterprises in situ pass on jobs at fair conditions to those working on an informal basis, for instance to cottage workers. Since it is virtually impossible to regulate informal gainful employment by statutory minimum standards, such fair conditions are however rare. The vast majority of those who work in the informal economy can benefit from offshoring activities at best *indirectly* and in the medium or long term. This takes place if offshoring helps ensure that dynamic economic growth is initiated in the economy as a whole which makes it possible for many in informal employment to move to the formal economy and increases the income of broad groups of the population in a sustainable manner.

3.2 Impact in the transformation countries

3.2.1 Impact on employment

The collapse of the command economy and the transition to a market economy made adjustment processes unavoidable which had a major impact on the labour markets of all transformation countries and left deep impressions on the living conditions of workers and their families. The collapse of the Council for Mutual Economic Assistance entailed a considerable fall in demand for

the products of enterprises in these states. The employment policy stakeholders in those states of Central and Eastern Europe which became Members of the European Union in 2004 reacted completely differently to this “demand shock” than those responsible in the CIS states. The development paths of these two groups of countries differ greatly to the present day.

The enterprises in *today’s Central and Eastern European EU Member States* reacted to the collapse in demand by reducing their production and with large numbers of redundancies. The mass unemployment arising here was a consequence of the structural distortion from the period of the centrally-planned economy and of a structural change in which the oversized industrial sector shrank faster than the until then underdeveloped service sector could grow. There was a period of economic development in the second half of the nineties in which the national economy grew, but employment did not. This growth without an increase in employment (“jobless growth”) led to a rapid increase in average labour productivity and real wages, which however made it even more difficult for older or less highly-skilled employees to gain access to the labour market. This dynamic economic growth has been a major factor in attracting offshoring activities of transnational enterprises on a large scale from the industrialised countries to today’s Central and Eastern European EU Member States since the collapse of the Eastern Bloc. This attractiveness was further increased for foreign enterprises by a relatively high level of worker skills, a rather well-established infrastructure and the administrative policy reforms which the governments of these countries developed energetically in pursuit of the goal of EU accession. The extensive offshoring activities then in turn made a considerable contribution to the growth of gross domestic product and to employment in these countries.

Unlike in the EU accession countries, there was no dramatic collapse in employment in the states of the CIS after the collapse

of COMECON, but of gross national product and industrial production. In *Russia and Ukraine*, where statistical records of developments are relatively good, the adjustment to the massive fall in demand on the labour markets took place via wages above all. Whilst an attempt was made to limit increases in unemployment and to continue to employ millions of workers in establishments with only low added value, average real wages collapsed. According to official information, for instance in Russia its level had fallen by 1998 to approx. 35 percent of the average real wages paid prior to the start of the reforms. Such a massive fall in wages, which pushed millions of workers and their families into livelihood-threatening poverty, was possible because there was no effective social security against unemployment and inability to work which would then have taken on the role of a minimum wage threshold. The widespread poverty, and the polarisation of incomes which this entailed, made economic policy reforms more difficult. The necessary structural change in the economy did not get underway until the mid-nineties. Since at the same time corruption remained widespread and foreign investors had a very hard time legally enforcing compliance with contracts, the framework for offshoring activities in Russia and in Ukraine was very poor until only a few years ago. The contribution made by these activities to economic growth and employment in these countries was therefore correspondingly low for a long time. Whilst the CIS states have been able in recent years to benefit somewhat more from the offshoring strategies of transnational enterprises, they have been able to attract jobs into the country which the enterprises removed directly from the industrialised countries, or – in a second phase of relocation – from the EU accession states, which are now less favourable in terms of cost. In comparison with these, they however remain much less attractive for foreign enterprises as locations for production and services.

3.2.2 Contribution to economic development

The overall effect of the relocation of production and service elements on the economic development of the transformation countries is to be regarded as positive – even more clearly than in the case of the developing countries. Through their capital and technological and entrepreneurial know-how, the Western enterprises make available production factors which these economies cannot (yet) produce themselves in sufficient quantities. All in all, therefore, one may count on a clearly positive contribution by offshoring activities to employment in the transformation countries. This applies especially to the Central and Eastern European EU States. In these cases, it is not only the offshoring activities of transnational enterprises from Western Europe which are particularly extensive. Rather – in comparison to most developing countries and to the transformation economies situated further East – the skill level of workers is also very high and the infrastructure is very good. For this reason, domestic enterprises can benefit to a considerable degree here, not only from supply contracts from transnational enterprises' subsidiaries and partners, but also from the transfer of knowledge and technology which is connected to offshoring. Although the growth rates for the relocation of jobs to these countries have fallen in recent years, one may presume that the positive influence will also continue in the years to come.

The influence of subsidiaries of transnational enterprises and partners on the quality of work in the transformation countries is also to be assessed as generally positive. On average, they offer higher wages and better working conditions than domestic enterprises. The difference is particularly pronounced in Russia and in Ukraine, since many local enterprises there still breach contracts with their workers and frequently offer them poor working conditions. At the same time, the demand among

subsidiaries and partners of transnational enterprises for skilled workers – which can be observed above all in the Central and Eastern European EU accession countries – leads in the long term to a growing supply of well-educated technicians and academics. Such an improvement in the level of workers' skills then also benefits the local economy.

Furthermore, the danger that powerful transnational enterprises will wrestle incisive concessions from the national governments, and hence circumvent the possible positive development contribution of offshoring activities, is much lower in the transformation countries than in most developing countries. Russia and Ukraine are basically pursuing a course of preventing foreign groups from gaining power. And because of their inclusion in the EU-wide processes of legal harmonisation and political coordination, the Central and Eastern European accession countries are better able than many threshold countries to avert attempts on the part of transnational enterprises to exert political influence.

The positive assessment of offshoring activities in transformation countries is also spoiled somewhat by it being above all those regions in these states which are more highly developed economically and which are undergoing more dynamic growth which benefit from the relocation of jobs. Also, the impact of a location policy aiming above all to establish growth centres is that offshoring helps to create a situation in many countries in Central and Eastern Europe in which prosperous urban centres on the one hand and structurally-weak regions with established mass unemployment on the other hand develop separately from one another.

3.3 Impact in the industrialised countries

3.3.1 Positive and negative effects

There has been controversial discussion in the industrialised countries for several years on the impact of offshoring on the home economies. As to traditional economic theory, one may assume in principle, similar to trade in finished goods, that there is also a cost-reduction effect when it comes to the cross-border exchange of sub-steps of the value creation process which also benefits the transnational enterprises' home countries.

In principle, constellations are possible in which offshoring once more nullifies, or at least considerably reduces, this trade advantage in the medium term for the home country of the transnational enterprises. This is the case for instance if the outsourced contribution to the value chain (e.g. the transaction of account postings) triggers learning processes in the target country (e.g. development of better software) and this also increases productivity in those sectors in which the country previously imported goods from the industrialised country in question. This productivity increase in the target country of offshoring then leads to a situation in which the transnational enterprise's home country can export fewer goods to this target country, and trade between the two countries decreases further. Constellations such as these are however likely to be rare. Offshoring leads in most cases to a long-term expansion of trade activities between the countries involved, and hence also to a cost reduction for those goods in the provision of which sub-stages are now also integrated which are entrusted to subsidiaries or partners abroad.

This cost reduction entails an entire bundle of effects on the transnational enterprises' respective home countries. In a normal case, the cost reduction permits *firstly* a fall in the sale price of the final product (and of the goods provided by using it). In the final

analysis, it is the consumers within this economy who benefit from this. Because consumer goods prices fall, they can acquire more goods with their income. The cost reduction is *secondly* advantageous for the well-positioned insiders of the transnational enterprises, in other words for the entire group of equity suppliers, managers and members of staff: Firstly, they (or a sub-group of them) can transform the part of the cost savings that are not passed on to customers in the shape of lower sales prices into increases in their own income. Secondly, the price reduction increases the competitiveness of these domestic enterprises towards foreign competitors. The sales proceeds which therefore rise are in turn reflected in higher incomes for the highly-influential insider groups of the transnational enterprises.

This impact contrasts with negative effects for those groups of employees in the industrialised countries whose jobs are being relocated abroad or are at risk from such relocation. Now, in recent years it has been above all the group of the (relatively) low skilled who were affected by falling incomes, unemployment and/or insecure employment. Many economists presume that the offshoring activities of domestic enterprises, which relocate jobs to transformation and developing countries, made a major contribution towards this. However, there are other reasons which may occur for the pronounced negative trend among the low-skilled, related not infrequently to purely domestic economic developments. Technological changes for instance lead to a situation in which the labour of the low-skilled workers in the production processes of many goods is no longer needed. Another chain of explanations is that the selection processes on the labour markets become more fierce in times of sustained mass unemployment. Even if jobs are available which have a simple activity profile, the lower-skilled are competing with workers who have attained a higher skill level – frequently in a different sector. Since formal qualifications are interpreted by many employers as

an indication that the applicant has the necessary staying power or adequate social skills, the lower-skilled job-seekers frequently lose out. They often remain unemployed for a long time, and have at best the opportunity to get back into employment when they accept considerable losses as to income and social security.

Since there are a variety of reasons for the negative labour market development among the lower-skilled, the question arises of how great is the influence of offshoring from industrial to developing and transformation countries on this development. The assessment of the dimension attaching to the job relocation discussed here is vital in seeking a reply to this question.

3.3.2 The scale of the phenomenon

All estimates of *how many* jobs are relocated as a result of offshoring from an industrialised country to developing or transformation countries are highly insecure. Empirical studies are not possible on the basis of the economic statistical data available on the question of how many jobs are cut in the establishments and offices of an industrialised country because the enterprises of the country relocate production and service elements to *separate* partners in other countries. Data are in each case only available on the *subsidiaries* abroad; to put it another way, here too only foreign direct investment can be studied.

In order to be able to evaluate correctly the number of jobs lost through foreign direct investment, the insight is vital that each job which is created in a foreign subsidiary does not correspond to a job which is cut in the home country of the enterprise investing abroad. Rather, various values are to be deducted from the total of jobs in foreign subsidiaries. For instance, jobs should not be included in the calculation in those subsidiaries which the investing enterprise has built or bought in order to open up new

markets for its own products or in order to offer a product in the target country of the direct investment which can only be provided close to the customer. These so-called non-tradable goods, in the provision of which enterprises invest across borders, include for instance services of the energy industry or telecommunication, as well as some foodstuffs. Over and above this, it should be taken into account that productivity is rather lower in the subsidiaries located in transformation or developing countries than in the industrialised country from which the investing enterprise originates. Because of these factors, several new jobs created in a target country of offshoring frequently relate to only one job lost in the home country of the transnational enterprise.

Job relocations to Central and Eastern Europe play the most important role as to offshoring by German enterprises, both de facto and in the public debate. According to a recent study, there were more than 750,000 employees in subsidiaries of German firms in these countries in 2004, when ten states of this region acceded to the EU. The number of jobs lost in the German establishments and offices of the enterprises because of this direct investment is however much lower. As described above, workers should be deducted who are accounted for by such foreign direct investment, who are deployed in order to open up new markets, or who facilitate the provision of non-tradable goods close to the customer. One should also consider the differences in productivity and some smaller factors not described here. All in all, one then comes to roughly 130,000 jobs which German transnational enterprises relocated from Germany to the ten Central and Eastern European countries between 1990 and 2004. If one follows this study, of the approx. 27 million workers in Germany subject to obligatory social insurance in Germany, not even 0.5 % were affected by job relocation to these countries.

In an international comparison between countries whose enterprises use offshoring, the USA head the pack with a

considerable start. Public attention in the United States focuses on the relocation of IT jobs, above all to Asian threshold countries such as India or the Philippines. The fact that a large section of the population in many nations has a mastery of English already made it easier years ago for US firms to relocate call center or back-office activities to countries with a lower wage level. Complex production processes and services are now increasingly following. One study suggests that the US economy has lost between 1.2 and 1.6 million IT jobs to threshold countries. Furthermore, an estimated roughly half a million simple-task jobs have been lost through offshoring since 1999. Somewhat more than 1 % of the civilian working population in the USA has been affected by the two movements of job relocation together.

3.3.3 Overall impact

Having said that, the outlined losses in Germany and in the USA, as they are expected to also be similar for other industrialised nations, should not be simply mixed up with the overall effect exerted by offshoring (achieved via direct investment) on employment in the industrialised countries in question. Rather, the above effect must also be observed that the production stages and sub-services purchased more cheaply abroad increase the competitiveness of domestic enterprises. How strongly this advantage affects employment in the home countries of the enterprises using offshoring is contentious. In the final analysis, it must hence remain unresolved whether the employment impact of offshoring is not also positive in the industrialised countries. For instance, it is by no means ruled out that the relocations, hotly-discussed in the economic policy debates of the industrialised countries – such as of production stages from Germany to Central and Eastern Europe, or of IT services from the USA to India – will not lead to an overall reduction, but to maintenance or indeed

to expansion of employment in the industrialised countries concerned.

In addition to the positive and negative effects on the number of jobs, one may presume that offshoring – in particular the threat of it – also impacts working conditions in the industrialised countries. The option of relocating jobs abroad evidently noticeably strengthens the position of company management in their negotiations with worker representatives in the existing establishments. The latter consider themselves repeatedly faced with having to choose between two evils as a result of the company board's offshoring plans: between the evil of the loss of a lot of jobs and the evil of accepting worse working conditions, in particular wage-cuts and longer working hours. Even if an industrialised country presumably has so far lost hardly any jobs through relocation to developing or transformation countries, this does not therefore mean that the offshoring phenomenon has not had a considerable influence on the economic and social development of this industrialised country.

4. Ethical criteria for development-promoting offshoring

An ethical reflection on international structures and processes is not only about their consequences for the population of a country or of a group of countries. Rather, it is to include the impact of the phenomena on all people affected. Central significance attaches here to the question of how fundamentally affected are the interests of the various groups of persons concerned. In order to be able to reach a weighting here, first of all the economic and social fundamental rights and the obligations corresponding to them are emphasised below. With regard to the job relocations surveyed in this study, a part of these fundamental rights is then

bundled in the “decent work” concept, to which the standards of “fair work” and the targets of “good work” are compared. Finally, the question is asked as to the weighting of the various interests affected by offshoring, and the criterion of the benefit to development for the reflection on the global economy in terms of fairness and ethics is introduced.

4.1 Human rights and the obligations corresponding to them

In the context of Christianity and of a philosophy which is bound by the inheritance of the Enlightenment, it is regarded as the core of ethics that people recognise one another as persons with equal dignity who must treat one another “always at the same time as an end and never merely as a means to an end” (Immanuel Kant). The moral rights of all people on the basis of their human dignity are spelled out in human rights. These comprise:

- *rights of defence*, which are to protect the fundamental freedom of the individual against state encroachment and against impairment by fellow humans,
- *political participation rights*, which guarantee to all citizens equal participation in the processes of societal opinion-forming and decision-making,
- *as well as economic, social and cultural rights*, with which fair participation is to be guaranteed in the most important areas of activity of society and a minimum level of development opportunities – corresponding to the level of development and the cultural concepts of society.

The right to life plays a central role as one of the economic, social and cultural human rights. This includes the right not to suffer from a health-impairing lack of food, clothing, housing or medical

treatment, in a nutshell: not to have to live in extreme poverty. In addition to this right to the goods which are necessary to keep people physically alive, there are above all those fundamental rights which guarantee to all adult citizens fair participation in society. As divergent as the individual countries and groups of countries may be, equal participation in society for the majority of citizens of each of these countries is ultimately contingent on gainful employment.

Equal participation in society requires that the individual and their households have sources of income with which they can ensure their livelihood. In all countries, only a minority of citizens, mostly only a negligible minority of them, has assets guaranteeing them a livelihood in the long term. Social welfare state transfers, which would guarantee a life without extreme poverty, do not in general exist in the poorer developing and transformation countries. Therefore, only gainful employment (including work in the subsistence economy) can be considered a source of income which is indispensable (even if it is not sufficient) for participation in society in these countries. In the industrialised countries too, almost all citizens obtain through gainful employment those resources which they need – corresponding to the prosperity level of the country – for a dignified life and for participation in the processes of political opinion-forming. But even in an industrialised country in which there is an adequate basic income in this sense regardless of gainful employment, equal participation in society for most citizens would be tied to them (or their respective partner) having gainful employment or at least having had such employment in the past. The industrialised countries are still organised as working societies. This means not only that regular income and social security are closely related to gainful employment, but that in most cases this also plays a central role for social recognition, self-respect and the personal development opportunities of men and women. Equal

participation in society in the industrialised countries is hence also contingent now and in the foreseeable future on access to regular gainful employment. In summary, it can hence be stated that despite considerable differences in the concrete form and in the reasoning, there is a moral right to access to gainful employment.

The rights of defence are an obligation incumbent on *all* people to omit acts which might affect these rights. More difficult is the *attribution of concrete obligations* in political participation and in most economic, social and cultural fundamental rights. However, one finds that it is necessary to establish and maintain complex political and economic institutions to guarantee these human rights. Such laborious tasks can only be shouldered by political communities which, firstly, have sufficient resources and whose members secondly know that they are sufficiently strongly tied. Despite globalisation, exclusively state-organised societies still meet both conditions today. For instance, economic, social and cultural human rights in principle also impose an obligation on all people, but for pragmatic reasons in each case firstly on the citizens who live together in a society, as well as on their government. Finally, the citizens of a country are in general best able to establish and uphold those institutions by means of which these human rights are realised in their own society for all.

This does not mean however that the rights of political participation and the economic, social and cultural fundamental rights for people who live in other countries cannot give rise to obligations. This can be made clear by taking the example of a developing country in which the right to the means for physical subsistence as a minimum is not afforded to all citizens. Shared responsibility for bringing about this right is incumbent on the governments of the industrialised countries, and hence ultimately on their voters, for instance if the developing country does not have sufficient resources or if in its political development it is still so far removed from minimum democratic standards that the

government of the country does not accommodate the existential needs of most citizens in its political decisions. In this case, the governments of industrialised countries are for instance obliged to do their utmost by means of development cooperation to support the democratic and economic development in this country.

One must however presume that the poorer developing countries are also subjected to considerable external influences when it comes to such development policy efforts. They are frequently faced with massive interventions on the part of industrialised countries' national governments, of international organisations or of multinational groups of companies. Furthermore, they are embedded in a large number of international institutions whose structures exert a strong influence on political and economic development in these countries. The massive product volume-related promotion of the agricultural industry in the industrialised countries leads for instance to a situation in which the domestic markets of many developing countries are flooded by agricultural products from the industrialised countries and the local agricultural industry cannot develop. The structures of the global institutions, as well as the policy of the international institutions, are largely determined by the governments of the industrialised countries. At the same time, most major multinational groups which play a major role in developing countries have their headquarters in the countries of the North. Also for this reason, the players in the industrialised countries shoulder a significant responsibility for ensuring that the right to those goods which are necessary for physical subsistence can be generally realised in the developing countries. This includes not only the members of the governments and of the group boards as players sharing responsibility, but also the citizens of the industrialised countries. As voters of the governments, as consumers of the goods provided by the groups, and possibly as investors or employees of these enterprises, they do ultimately exert a certain influence on

political decisions and economic strategies. This influence becomes a relevant value above all when the citizens get together in parties, associations or civil society initiatives and coordinate their activities.

4.2 Decent, fair and good work

Economic and social human rights also include rights relating to the quality of gainful employment. These rights of workers are presented below as elements of the moral call for *decent* work. Then, it is made clear that in addition to these universal moral claims to decent work there are also other legitimate ethical claims to the design of employment: Firstly, minimum standards of *fair* work, which in each case in a certain society entail an obligation for all employers, but which may not apply in other societies, secondly targets of *good* work, i.e. work meeting the fundamental needs of workers and their families. Using these norms and targets for the quality of gainful employment, the normative principle “priority of labour over capital”, which is a fixed element of the Catholic social teaching, can be developed and lent concrete form.

4.2.1 Decent work

The phrase “decent work” is used by the International Labour Organisation (ILO), where the concept of “*Decent Work Worldwide*” stands for a comprehensive ILO programme to provide all people access to remunerative work in freedom, dignity and safety. Four extensive groups of goals have central significance here: the promotion of rights at work, the multiplication of productive work, the improvement of social protection and the introduction and expansion of social dialogue between employers, employees and governments. If this ILO “Decent Work Worldwide” concept is hence a matter of goals and

strategies, the term “decent work” in this study serves as an expression of a group of minimum standards established within the framework of human rights, which are claimed to apply over and above all cultural differences. To put it differently, in all countries the citizens, their governments, domestic and foreign enterprises, as well as the governments of other countries and the multilateral organisations which influence the development in the country, must endeavour to ensure as far as they are able that the working conditions correspond to these minimum standards. These are – to put it in the definitions of the ILO – above all labour rights.

The *ILO Core Labour Standards* play a central role in the efforts to assert work-related social standards universally. These encompass the prohibition of exploitative child labour, the prohibition of forced labour, freedom of association, including the right to collective bargaining, as well as the prohibition against discrimination at work in remuneration or in any other way. The Core Labour Standards do not contain minimum standards for health protection at work, working hours and remuneration, but constitute frameworks to be understood as necessary in order to promote effective material protection in these fields. These aspects are however central to answering the ethical question of whether a certain form of gainful employment violates workers’ dignity.

In order to be able to formulate concrete recommendations for action, the question must be answered as to who can be obliged to do what on the basis of a minimum standard that is founded on human rights. If one asks the question as to the obligations that are incumbent on employers, it should be borne in mind above all that there may be a difference as to whether a minimum standard that is founded on human rights requires them to omit actions, or may impose on them positive obligations to act.

Obligations to omit: Building on various ILO agreements on ratification of which the states undertake an obligation under international law, the following five minimum standards can be formulated. Employers may not offer jobs violating one or several of these norms:

- *No restriction of the freedom of association:* The workers in the enterprise may not be prevented from establishing a collective representation of interests.
- *No forced labour:* No one may be forced to work, as takes place frequently by abduction, (threat of) violence or confiscation of identity papers. All forms of bonded labour are also ruled out.
- *No discrimination:* No one may be discriminated against at work on grounds of his/her gender, sexual orientation, race or skin colour, religious or political conviction, national identity or social origin. The prohibition of discrimination relates inter alia to access to work and training, remuneration, working hours and further training and promotions.
- *No starvation wages:* The remuneration for full-time workers may not be so low that (where appropriate after deduction of taxes and charges) they cannot buy all the goods they need to ensure their physical survival in the long term.
- *No health risks:* Gainful employment may not place workers' health at risk, either in the short term (e.g. by risk of accident) or in the medium or long term. This prohibition applies not only to gainful employment of children, but – as anchored in separate ILO agreements – also to that of men and women. Any form of gainful employment where for instance the work premises (light, air, humidity, etc.), the

machines, tools or material cause considerable impairment to the workers is morally prohibited. Also the working hours may not be arranged such that they undermine workers' health in the long term.

Not all who work or have others work with them in the establishment are obliged by these omission standards in the same manner. For instance, there are many in business in the developing nations and in some transformation countries who themselves live close to physical subsistence or who work in conditions that make them ill. Even if others, such as family members or friends, work with them in their trade, they are not employers who voluntarily provide a job in which they have someone work for them under the conditions determined by them. In contradistinction to the owners of corporate enterprises or the owners of partnerships who do not live at subsistence level, the above omission obligations should be partly placed into perspective for such persons who themselves live at the edge of physical subsistence as working microtraders. Where they in turn only make an income that is inadequate for physical subsistence, they firstly cannot be ethically obliged to offer a much better work income to their employees. Finally, no one can be obliged to provide something which is beyond their means. On the other hand, however, the obligation to do without the labour of others altogether under such conditions would also not make sense; by complying with this prohibition, the situation of those who have previously worked in the microenterprise would become very much worse. Having said that, the various obligations to omit cannot all be ignored. The prohibition of forced labour outlined above for instance also applies to these traders without restrictions.

Obligations to act: Over and above the first outlined omission principles, employers are also subject to obligations to act founded on human rights which they should meet as far as they

are able. Together with their own employees, the respective government and other stakeholders, they must contribute to the socio-economic and political development of the country in such a way that the establishment of a social order becomes more probable in which the following standards of decent work are guaranteed for all:

- *Guarantee of worker representations:* The freedom of association is also to be guaranteed by the state. The development of collective representations for employees of the formal economy (free trade unions), as well as for informal workers (self-help organisations) is to be promoted. If there are free trade unions, the employers – where appropriate via their associations – must negotiate with these on working conditions and remuneration. The employees are to be enabled to have a say in the enterprises through their collective representation.
- *Termination of exploitative child labour:* Child labour which poses a danger to health, signifies excessive physical or mental burdens or hinders the emotional and social development of the child is to be counteracted. A sensible means to this end is to reduce livelihood-threatening poverty by providing sufficient work income to the parents, to provide free elementary education and enforce the general obligation to attend school, as well as to inspect the establishments.
- *Equality:* Equality of the sexes and of social minorities at work is to be actively promoted. In accordance with sexual equality, it should be ensured that economic and social policy measures can exert an impact on the various circumstances of men and women in a highly differing manner.

- *Minimum income:* Standards of adequate remuneration must be adopted on the basis of which all full-time workers and their families have the necessary means at their disposal for physical subsistence. Economic and political circumstances which are beneficial to their general maintenance should be brought about. To ensure the physical subsistence of family members, where possible and necessary, supplementary state family promotion transfers should be introduced. If several adult family members are able to engage in gainful employment and it is not culturally customary for both parents to work, these different sources of income can be taken into account when determining the remuneration standard to be ensured.
- *Sufficient health protection for all workers:* Corresponding statutes on working conditions and working hours are to be adopted and implemented. The microenterprises which to date have been running on the edge of physical subsistence are to be provided with economic possibilities so that all involved in this activity can work without taking health risks.

4.2.2 Fair and good work

Whilst the term “decent work” stands for the minimum standards in gainful employment founded on human rights, which are to be adhered to and brought into being in *all* cultures and societies, it is possible to relate the term “fair work” to minimum ethical standards which are to be adhered to or brought about in the employment *of a specific* society. For instance, such social rights reflect not only the prosperity level of society; rather, they also express the ideas of a good social order which are shared by the citizens of this country – at least in the majority. However, although these minimum standards in many cases are specific to a

society or culture, and as a result no universal application can be claimed for them, they are binding for *all* in *this* society. They apply in each case to *all* employers who offer jobs in this economy. One example of such culture-specific rights, obligatory in the respective society, are the co-determination rights of worker representatives in the supervisory councils of large German corporate enterprises, which are recognised by most citizens of the Federal Republic of Germany as ethically legitimate.

Depending on the state of their political and legal system, societies are able to lend concrete form to a larger or smaller part of these ethical claims in statutory norms and then to implement them in the economy. At least when it comes to countries with a well-functioning rule of law, it is therefore possible in the “fair work” concept to think of the fundamental standards characterising the labour and social law of this society.

When it comes to the design of employment, ethics do not however have to restrict themselves to determining and reasoning universal and society-specific minimum standards. Rather, statements may also be made on how the working conditions in an enterprise can be refined if it already meets the minimum requirements of fair work. Particular significance attaches to the mandate to design employment relationships such that they meet the vital needs and wishes of workers and of their family members. Over and above the minimum standards of fair work, this is for instance a matter of a less one-sided encumbrance of employees and about opportunities to develop personality, as well as for instance about family and partner-friendly working hours or possibilities to take leave from work. Such goals can be summarised under the term “good work”.

4.3 Offshore activities beneficial to development

The impact of the institutions on the survival, development and participation opportunities of the poor plays a central role in the fairness reflections of Christian social ethics and of many sets of philosophical ethics. In the present, almost all developing and poorer transformation countries, in which the most absolutely poor live, are also integrated into the global economy in many ways. It seems obvious in this respect not only to study the national economic structures in each case, but also the institutions of the global economy, for their impact on the opportunities of people who live close to physical subsistence. Above all, they must be examined as to whether they make a positive contribution towards enforcing their right to the goods which are necessary for physical subsistence.

Now, however, the poor themselves are only directly involved in global economic transactions in rare cases. They only get an opportunity if one considers that they are indirectly affected by these transactions. Finally, the poor themselves are in some cases (potential) employees, suppliers or customers of those enterprises and financial institutes which partake of cross-border economic relations, and they are citizens of a state whose government or central bank participates in international economic transactions. Over and above this, the living conditions of the poor are also touched upon if international economic transactions have a cumulative impact on their economies.

The fairness and ethical reflection of world economic structures is hence above all a matter of the indirect impact of international economic transactions on opportunities for the poor. The criterion of development promotion can be formulated as a decisive yardstick for such a reflection. Accordingly, structures of the global economy can be referred to as being beneficial to

development if they make as big a positive contribution as possible towards bringing about growth processes by means of which the income and circumstances of broad groups within the population are improved in a sustainable, considerable way in the developing and poorer transformation countries which are integrated into the global economy. Only such a sustained, broad growth process makes it possible for many people in these countries, who previously were absolutely poor, to have the right to the goods needed for physical subsistence being ensured. It should be presumed here that the growth process can only encompass broad groups within the population if it is employment-intensive. The newly-created jobs are to be dignified so that the advantages for workers are really sustained. In particular it is to be ensured that workers' health is not undermined either by poor working conditions or by starvation wages.

The fairness criterion of development promotion can also be related to the offshoring activities of transnational enterprises in the developing and poorer transformation countries. These are consequently referred to as promoting development if they meet two preconditions: Firstly, they are to have a relatively strong positive employment effect in these target countries, and in this sense to contribute to economic growth encompassing broad sections of the population. And secondly, the newly-created jobs should meet the ethical claims of decent and fair work.

Four constellations are theoretically possible in the ethical evaluation of the impact of offshoring on the *participating* economies:

- (1) The relocation of production or service elements positively impacts the target country of offshoring in the South or East *and* in the country of origin of the transnational enterprise in

the North. In addition to the additional employment in the target country, under some circumstances not only are there advantages for consumers in the industrialised countries, who can now buy the products more cheaply, but also the secure employment prospects of the employees in the transnational enterprises' home country are improved as their employment is continued. In the ethical evaluation of such a win-win constellation between the economies involved, it is above all considerations of fairness which are relevant for the intrasocietal distribution of the advantages and burdens, and less for the economic relations between the economies.

- (2) The fairness criterion "development promotion" is also not needed in each case in which the negative impact of offshoring in both countries, that is in the target *and* in the origin country, is more incisive than the advantages. In such cases, it emerges from efficiency considerations that offshoring cannot be referred to as ethically preferable.
- (3) In cases in which only the transnational enterprises' origin countries in the North have an overall advantage from relocation, whilst the target countries in the South and East would primarily undergo disadvantages, the criterion of development promotion would ethically justify rejecting these forms of offshoring. Such a rejection would above all be reached if the mostly indirect impact of offshoring on the absolutely poor living in the developing and poorer transformation countries were to be largely assessed as negative.
- (4) A clear priority finally also marks the fairness criterion of development promotion in cases in which the developing and poorer transformation countries, and in particular the absolutely poor living there, had more advantages than

disadvantages, and at the same time the disadvantages outweigh the advantages in the industrialised countries: A considerable improvement in the survival opportunities of the extremely poor in the developing and transformation countries as a result of offshoring takes on a greater weight from this perspective than the loss of welfare in the industrialised countries, which could be avoided by preventing offshoring activities. Such a constellation however can only be referred to as fair if the following three conditions are met: Firstly, offshoring contributes to growth in the target countries which encompasses broad groups of the population, and hence also improves the living conditions of those who live close to physical subsistence. Secondly, the employment arising in the developing or transformation country is to be assessed as decent and fair work. And thirdly, the employees affected by dismissals in the industrialised countries are fairly compensated; they are offered sufficient social security, can participate in sensible further training measures and have realistic prospects for new jobs.

5. The outlook for action for offshoring that is beneficial to development

The relocation of production and service elements from industrial to developing and transformation countries is a phenomenon with several significant sub-aspects which all require political input. Two particularly important aspects should be briefly mentioned: Firstly, there is a need in the industrialised countries for social and employment policy tools which give social security and good opportunities to find a new job to citizens who have lost their jobs because of such offshoring activities on the part of their employers (cf. Chapter 6). Secondly, political need for action also

emerges from the fact that the offshoring activities of transnational enterprises are concentrated largely on those transformation and developing countries which in any case already have good dynamic growth. Such offshoring may even have a negative impact on poorer developing countries, such as those in Africa which are unable or virtually unable to attract foreign enterprises into the country for direct investment or offshoring cooperation. This is above all the case if the relocation of sub-steps of the value creation process by the transnational enterprises increases the competitiveness of countries with which they compete (or could compete) on international goods markets. Those poorer developing countries which hardly attract offshoring activities then find it even more difficult to retain competitive export sectors (or to build new ones). They remain stuck in the role of global raw materials suppliers. This is a form of integration in the global economy which is scarcely advantageous for internal growth processes and hence for a lasting, broadbased reduction of extreme poverty in the home country. In order to compensate for such disadvantages of poorer developing countries and to enable them in the long term to become target countries of job relocation themselves, there is a need inter alia to intensify development cooperation with these countries. Above all, the governments of the industrialised countries and the international organisations strongly influenced by them should make greater efforts to help the poorer developing countries which so far have hardly been integrated into the global economy to find access to the global economy that promotes their internal economic development sustainably.

These two fields of political input with regard to offshoring activities and their consequences remain unconsidered in the following considerations on sensible action perspectives. This chapter is exclusively about the impact of job relocation on the target countries in the South and East: How can the activities of

transnational enterprises be designed such that they are development-promoting, in other words that they have as positive an impact as possible on the long-term economic development of the target countries, above all on the opportunities for the poor living there? The various stakeholders can contribute to a differing degree to realising the goals formulated in Chapter 4.

5.1 Governments of the developing and transformation countries

First and foremost, it is the governments of the respective countries which are responsible to assert rights at work and to appropriately monitor enterprises. In this respect, political demands address the governments of these countries first of all when it comes to the social rights of employees in the developing and transformation countries. They are obliged to introduce legally-binding minimum standards for gainful employment, in the social field as a whole and in environmental protection, and to implement them in the production sites and offices of the country. Their policies must aim to enable all groups of employees to benefit sustainably from economic growth processes, whilst retaining the competitive advantages as against the industrialised nations.

Having said that, such monitoring expectations of the governments of the developing and transformation countries have the decisive disadvantage that not a small number of them are unable to deal with such complex tasks at all. The poorer a country is, the weaker are the structures of its state order in most cases. Many governments of developing and transformation countries see themselves exposed to fierce competition to provide the most attractive location conditions for offshoring activities. They are frequently powerless in the face of the demands of the

transnational enterprises and attempt to entice them to or hold them in the country by offering massive tax relief and other investment incentives which are expensive for the state budget. Some governments are even under pressure to keep their labour and social standards low, as well as their environmental regulations, in order to be able to attract labour-intensive production sites.

In principle, the efforts of developing countries to create an investment-friendly climate in order to become the target of production and service relocation from the industrialised nations are naturally legitimate. Location disadvantages, such as the high costs of bureaucracy, political instability, poor infrastructure and corruption may however be more significant than the slight cost advantage which a government may also create for the foreign enterprises by enabling them to have their workers produce under undignified conditions. In some international comparative studies, the rule of law, including in particular the effective guarantee of workers' freedom of association, has proven to be a location advantage which is more significant for many foreign investors than the cost saving resulting from low social and environmental protection standards.

A special political challenge is posed by export processing zones. A priority task for the governments also consists of guaranteeing the freedom of association of employees in these special zones. The work of the trade unions may not be restricted in favour of short-sighted location policy. If violations occur of the Core Labour Standards, the national development agencies – but also the World Bank and UNIDO – have to stop subsidies and investment promotion. The statutory framework must ensure that the enterprises producing in the special zones also participate in the ecological costs of their production and at least by means of adequate wages and by providing decent jobs make a contribution to the social development of the country. However, even then the

legitimacy of export processing zones remains questionable, given that these serve exclusively to create competitive advantages as against domestic enterprises for foreign enterprises settling there, and hence contradict the important goal of creating equal opportunities between all enterprises operating in a country.

In order to counter a mutual race to the bottom when it comes to social and environmental standards, there is a need for decisive cooperation between the governments involved. Already at regional level, it would be possible in each case for the governments of a certain group of developing countries, such as an economic community of neighbouring states, to agree with one another on binding minimum standards and to implement them in their national labour and social law.

5.2 The governments of the industrialised countries

In comparison to the governments of most developing and transformation countries, the governments of the industrialised countries in general do not only have more resources, but are also better able in legislative and administrative terms to effectively regulate enterprises. If the governments of these countries coordinate their methods, they are the political players with the greatest potential to influence the transnational enterprises. It is vital here that the governments of the industrialised countries should shoulder their responsibility not only for the jobs in their own country, but indeed also for the working conditions in those production sites and offices which are used by the enterprises of the country in other countries, above all in countries of the East and South. For the enterprises resident there which relocate some of their jobs to developing or transformation countries, governments can determine framework conditions making it more

likely that these offshoring activities have a development-promoting effect in the target countries. They can for instance issue binding regulations by which the enterprises resident there are obliged not to tolerate any undignified jobs, even in the establishments and offices belonging to their foreign subsidiaries or partners.

The governments of the industrialised countries unfortunately make virtually no use of their considerable possibilities to act; their commitment to decent working conditions in the establishments and offices which the transnational enterprises resident there use in the countries of the South and East is to the present day only minimal. In future, the governments should for instance further develop the tools of their foreign trade promotion such that only those enterprises which keep to minimum social and ecological standards enjoy the promotion. Furthermore, public procurement must be reorganised so that contracts are only awarded to those enterprises which prove that they adhere to the most important social standards, in particular the ILO Core Labour Standards. Whilst German local authorities are required to adhere to ecological criteria in their procurement, these only rarely include social criteria. Procurement regulations posing obstacles to the preferment of enterprises that operate on an ecologically- and socially-sound basis are to be amended. At European level, there is therefore an urgent need to adapt the EU's Public Sector Directive.

5.3 Transnational enterprises

State governments (and international organisations) have the task of adopting and asserting binding regulations ensuring that the human rights-based minimum demands of decent work apply by law worldwide. Nonetheless, the responsibility for the quality of the jobs, and hence also for adherence to these minimum

standards, initially lies with the (decision-subjects of the) enterprises themselves which have people working in these jobs in order to attain their profit targets. The demand to create decent working conditions in the developing and poorer transformation countries hence initially addresses the enterprises resident in these countries, as well as the transnational enterprises active there. The transnational groups may neither offer via subsidiaries nor via partners in situ jobs which place in danger the health of employees or where the wage that is disbursed is so low that it cannot sustainedly ensure their physical subsistence. Furthermore, they should neither resist trade unions or force anyone to work, nor should they discriminate against employees.

Since transnational enterprises have sufficient resources – despite international competition – they have in addition to these obligations to omit also positive obligations to act: In the context of their possibilities, they are to contribute towards the political, economic and social development of the target country of their production and service relocation by which adequate health protection is achieved for all workers, child labour is abolished, minimum wage regulations are established which sustainedly ensure subsistence, and that effective representations of workers can be established. In view of the managerial weaknesses of many developing countries' governments and of the problems encountered by the industrialised countries' governments in agreeing on joint regulations for entrepreneurial activities and to implement them in a coordinated fashion, transnational groups take on a major administrative co-responsibility. They exert a major influence on the economic, social and political development of the societies in which they produce or provide services, not only by virtue of their economic activities, but also through their de facto political power. This influence corresponds to a responsibility which transnational enterprises can only meet by entering into a long-term commitment in the offshoring target

countries. Purely short-term offshoring activities where an enterprise only uses the current cost advantages extant in a country and moves on as soon as another country appears to offer more favourable conditions have virtually no positive effect, and not infrequently even have a negative impact on the economic development of the target country. Long-term ties to the locations, by contrast, make it easier for enterprises to indeed do justice to the social responsibility which they assume by providing services in situ.

Respecting the obligations to omit and act naturally entails costs. In view of the enormous cost advantage offered by job relocation to developing and poorer transformation countries, this cost disadvantage is however virtually negligible. From an operational point of view, managers must furthermore also compare the higher costs to the lower risk of damage to their image or to their brand. How large the damage can be if undignified working conditions are discovered in foreign subsidiaries or partners is made clear by the losses made by some manufacturers because of the anti-sweatshop campaigns. Hence, the “investment” in decent and fair jobs in subsidiaries or partners (or their suppliers) in countries of the South or East can certainly be worthwhile for transnational enterprises.

In recent years, a growing number of enterprises has been trying to close the “responsibility gap” which has arisen between the internationally-binding minimum standards of decent work on the one hand and the real world of work in many establishments and offices in the developing and transformation countries on the other. One should mention here above all the many codes of conduct in which individual groups or the enterprises of a whole sector fix in writing their understanding of social responsibility (CSR – Corporate Social Responsibility, cf. also Corporate Citizenship) and promise to adhere to specific social and environmental standards. These various codes differ greatly in

some cases as to the scope and binding nature of the regulations. The “codes of conduct” are particularly widespread in those sectors which have been in the headlines in recent years because of particularly poor working conditions – above all in the textile and clothing industry. The primary topics of the codes are working conditions, sustainable use of resources and consumer protection. The United Nations Global Compact, to the principles of which more than 3,000 enterprises in various sectors and countries of origin have undertaken an obligation since 2000, also considers the fight against corruption, in addition to these topics. The International Standards Organisation (ISO) is planning to introduce an international standard for Corporate Social Responsibility (ISO 26000) for 2009, on which governments, enterprises, NGOs (Non Governmental Organisations) and other interest groups are now working. Even if the tendency of enterprises to enter into voluntary undertakings is uninterrupted, it must be emphasised that such codes (“soft law”) are good either for lending concrete form to legally-binding regulations (“hard law”) or as a temporary aid for statutory norms which have not yet been adopted or implemented, but that they cannot replace them in the long term. The reference to the increasing significance of “Codes of Conduct” with which the European Commission tried to justify its waiver of legally-binding provisions in 2002 appears in this sense only to be a reproachable excuse for inaction.

The sectoral and in-company codes will only lead to an improvement in working conditions in the target countries of the relocations if certain criteria are met: The rules contained in the codes may not undercut the provisions of the Core Labour Standards. If the target country has already established further-reaching labour standards in law, these must be adhered to. The undertaking must accommodate the entire product range and should also aim to apply to the entire supply and service chain of the enterprise. In order to be able to include suppliers and cottage

workers in the protection of the “code of conduct”, enterprises should avoid frequently changing suppliers, and instead should attempt to establish long-term supply relationships. Long-term relationships with suppliers are not only sensible for economic reasons, but also make it possible to work together with suppliers on the implementation of an undertaking. In this sense, they are a major precondition for implementing a code of conduct at least in large sections of the individual supply chain. Furthermore, the purchasing and supply conditions must be fair (prices, deadlines) so that the downstream establishments and offices in the developing and transformation countries are able to offer jobs meeting the requirements of decent and fair work.

So that a “code of conduct” can become an effective tool to improve working conditions, it is decisive that an independent, plausible and viable institution is commissioned with monitoring. In-company monitoring systems have to date almost always proven to be inadequate to observe compliance with the code rules and to initiate necessary change processes in the enterprises. However, the effectiveness of external monitoring institutions is also restricted in many cases either by financial dependence on the company management, or by internal company information being passed only selectively.

5.4 Trade unions and works councils

There may be tension among the staff of groups that operate internationally if highly-divergent labour and social standards apply at the various production locations. In the long term, one may presume in this respect a harmonisation process in which the social benefits gradually approach the standards of the industrialised countries in the group as a whole. In order to be able to form such processes, the trade unions in German enterprises should increasingly push forward the establishment of global

central works councils. With their aid, they tend to be more able to react to strategies of the group boards attempting to play off the various enterprise locations against one another and to force them into a mutual race to the bottom. The experience with European works councils indicates the need for, as well as the obstacles to and the opportunities of transnational dialogue processes in which the employees' representatives of various countries learn to view the developments taking place in the group not only from their own national perspective.

It is vital for the prospects for success (and the moral legitimacy) of the trade unions' attempts to influence developments in enterprises that the employees' representatives of the various locations are not played off against one another by group management. Instead, they should agree on joint strategies with which they pursue common goals. When interests diverge, they should define a target spectrum together, and in doing so should accommodate the different interests in a balanced manner. Employees' representatives from the industrialised countries must naturally also represent the particular interests of the workers in their countries. If, however, there are also some among the employees of their transnational enterprise who live close to the physical subsistence level in a developing or poor transformation country, they should always have in mind, when establishing their own goals and strategies, the special interests of these people, which take priority from an ethical point of view. In a similar manner, trade union representatives in the developing countries must also include in their considerations the interests of those who work on an informal basis where these are involved in the supply chains of their enterprises.

An initiative for International Framework Agreements was launched in the nineties by international trade union federations. Transnational enterprises and the international sector-specific trade union federations (Global Union Federations, GUF)

negotiate in this initiative on agreements to establish a formal, global and sustained social dialogue. The agreements guarantee to the trade unions that agreed minimum standards will be monitored within a group. The inclusion of suppliers is mentioned as a goal in some International Framework Agreements, but has not yet taken place. To date, there have been only 55 International Framework Agreements worldwide. In order to push forward an evaluation of the first Framework Agreements and to be able to carry out effective control, the international trade union federations must be strengthened. This is only possible if the national member unions have sufficient means at supranational level to act towards the group management as competent interlocutors which are able to enter into negotiations.

5.5 Civil society organisations

As long as most undertakings on the part of the enterprises are voluntary and there are only few possibilities to enforce compliance with social standards by law in developing and poorer transformation countries, the civil society players take on a particularly important role. Through their public relations work – partly bundled in campaigns –, they exert pressure on the transnational enterprises which is indispensable for progress towards development-promoting offshoring activities. Such organisations, as well as critical media, are frequently the only ones which examine compliance with fundamental social standards. “Naming and shaming” activities have had a major effect in the past, and have triggered the drafting of sectoral codes of conduct, for instance in the clothing and sports article industry. If the enterprise boards are once alarmed by massive public criticism, then in most cases the NGOs can increase their opportunity to sustainedly influence corporate policy using less confrontational strategies.

The willingness to engage in dialogue with open enterprise boards has for instance opened up new successes for the Clean Clothes Campaign: CCC. Trade unions and NGOs, consumer organisations, church groups, media and women's rights organisations work together in this melting pot to achieve better working conditions in the textile industry worldwide. Dialogue with local authorities is also an element of the campaign, as is issuing realistic warnings to firms which constantly abuse worker rights. These must expect broad-based media campaigns and the disclosure of their production conditions.

A major role is also played by NGOs and other interest groups in the development of seals and model codes of conduct. They can work together on certification procedures to award seals of quality guaranteeing minimum social standards in enterprises, and check adherence to the standards. A number of such seals has already been created. The Rugmark seal has become the norm in the production of hand-woven carpets. The Flower Label programme seal was created for the production of flowers. Currently, however, there is a risk that consumers lose their orientation through the large number of seals that are already in existence, and can no longer recognise which seals meet which standards.

NGOs in the developing and transformation countries can reveal shortcomings and call for changes together with the players in the industrialised nations. From the point of view of an enterprise, the plausibility of any monitoring institution which it funds can be increased by persuading local NGOs to cooperate in the control process. It is however vital here that the financial independence of the organisations is maintained.

5.6 International Organisations

Because of the lack of staying power of many governments in poorer countries and of the insufficient willingness of industrialised countries' governments to seriously strive to regulate transnational enterprises in a coordinated fashion, there are so far no effectively-binding rules for the jobs offered by transnational groups and their partners. This gap cannot be closed by undertakings being entered into on the part of the enterprises, Framework Agreements between group boards and trade unions, or by the public relations work done by NGOs. Already today, the work of the international organisations is hence a major further contribution to the development-promoting design of offshoring activities. In some cases, it is the organisations which provide important tools for the international coordination of government activities, and partly they themselves push the agenda for the regulation of enterprises' activities under social law. If the organisations intensify their efforts towards a coordinated approach on the part of the state governments and also engage in concerted mutual efforts to achieve coherence in their own activities, their significance in this policy field will continue to increase in future.

The four areas of internationally-recognised Core Labour Standards which are codified by the International Labour Organisation (ILO) in eight Core Labour Standards (cf. section 4.2) designate measures of worker rights to be seen as minimum recognition of human rights. The principles and rights are binding on the 180 member States of the ILO simply by virtue of their membership of the ILO; they also have the status of obligatory human rights without ratification of the ILO Conventions. In the "Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy", updated in 2006, the ILO goes beyond these fundamental rights and

obliges the transnational enterprises amongst other things to undertake sustained employment promotion and create healthy working conditions in developing countries. In particular also for the establishments and offices in economically-weak countries, the groups call for safety at work, fair wages and fair working conditions. The ILO is however hardly equipped with sanctions against countries and enterprises in which the Core Labour Standards or other social standards are disrespected. Nonetheless, with its decent work agenda the ILO is the decisive institution to formulate and implement labour rights at an international level. Its tripartite organisation structure has also proven itself as an advantage here, as the individual member States are linked not only via representatives of the governments, but also via the trade unions and employers' associations. In order to be able to implement international labour and social standards effectively, the ILO should be equipped with a workable sanctioning authority towards unruly states and enterprises. A labour jurisdiction which can at least impose fines would be sensible.

The United Nations adopted the "International Covenant on Economic, Social and Cultural Rights" (Social Covenant) in 1966. The Covenant calls amongst other things for the right to work and to training, to favourable working conditions and a fair wage serving to ensure a suitable livelihood. Safe working conditions, leave and break times are also established as the right of workers to social security. The United Nations Human Rights Commission also summed up workers' rights in 2003 in the "UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights". An attempt was made to accommodate the splitting of the corporate value creation process through offshoring by expanding enterprises' area of responsibility for respect for rights at work in comparison to the Social Covenant. Transnational enterprises accordingly no longer have to ensure only that decent working conditions prevail

in their own establishments and offices and in those of their subsidiaries, but also in all licensees, suppliers and sub-contractors, in other words in each link in the supply chain. In view of the scope of the concomitant human rights claims to transnational groups, it is not surprising that the implementation of these UN norms gives rise to many more problems than that of the ILO standards. As long as the international agreements are however not transferred into national law, employees' organisations and NGOs are unable to proceed against violations committed by the transnational enterprises and their partners.

In contrast to other international global economic policy players, the OECD has taken serious initial steps towards also pursuing labour and social law objectives in its efforts to influence the international division of labour by drafting and revising the "OECD Guidelines for Multinational Enterprises". In the version revised in 2000, the Guidelines constitute the most extensive code of rules for the operation of enterprises on which state governments have been able to agree so far. The voluntary principles and standards agreed here relate not only to rights at work, but also to human rights in general, environmental concerns, the fight against corruption, consumer interests and many more besides. The OECD Guidelines also do not offer legal recourse, but in contradistinction to the international sets of rules mentioned above, there are nonetheless implementation and monitoring mechanisms for them. National contact points in the OECD countries serve as appeal instances to which the interest groups can turn in order to report violations of the Guidelines. At the end of the investigations initiated here, the contact points attempt together with the reported enterprises to draft a final declaration naming ways to remedy the shortcomings. Unfortunately, willingness to implement the Guidelines thoroughly, and to this end to equip the national contact points with effective sanctions, is rather rare among the industrialised

countries' governments so far. For this reason, this monitoring system, the implementation of which has at least been initiated, has had very little impact so far. The mechanisms that are already available can be effective if they are supplemented by "naming and shaming" activities on the part of NGOs in which these make the omissions of the enterprises known to the public.

Despite their massive shortcomings, the OECD Guidelines for Multinational Enterprises are the international agreement by which the governments of the industrialised countries have so far most clearly committed themselves to their responsibility to implement social (and ecological) standards for jobs in transnational enterprises in the developing and Eastern transformation countries. In this sense, it suggests itself to strengthen the associated institutions. The public relations work for the OECD Guidelines and the work of the national contact points is to be increased so that the various groups of those who are affected by the enterprises' activities (or who could be affected) know about the content of the Guidelines. In Germany, the contact point should be structurally upgraded and no longer allocated only to the Ministry of Economics, but should have an interdepartmental base by being connected to the Ministries of Labour, Environment, Economic Cooperation and the Foreign Office. Complaint procedures against German enterprises abroad are to be made easier by NGOs and trade unions in the offshoring target countries being enabled to also report shortcomings to the German Embassies in situ. Finally, the Federal Government should exclude enterprises which do not adhere to the Guidelines from foreign trade promotion, and should for instance refuse to grant them investment guarantees or Hermes credit guarantees.

5.7 An international agreement to regulate offshoring activities

Despite many activities on the part of various players, there have only been limited successes in recent years in reducing the incidence of poor working conditions and the disregard for worker rights in the developing and poorer transformation countries. All in all, the commitment of multinational enterprises in these countries makes a small contribution towards growth processes by means of which the income of broad groups of the population is increased, and hence poverty is combated in a sustained manner. It is evidently equally as difficult to achieve major progress with regard to this goal of offshoring that is beneficial to development by means of non-binding undertakings on the part of the enterprises as through the incomplete statutory provisions enacted by the mostly weak local governments.

Sustained progress in this direction is not to be expected for the majority of the developing countries, and for many transformation countries, until the governments of the industrial, transformation and developing countries make serious efforts by means of coordinated measures to enforce social standards that are binding in terms of international law. In order to regulate the activities of transnational groups in the countries of the South and East in a legally-binding manner and to be able to reduce their possibilities to play off state governments against one another, there is therefore a need for a binding multilateral set of regulations. The goal of a corresponding international agreement would be to implement worldwide minimum human rights standards with regard to the quality of work in the establishments and offices of the transnational enterprises and their partners.

This multilateral agreement is to make minimum standards such as the ILO Core Labour Standards actionable in all its signatory

states. Each government would be obliged to implement compliance with these minimum standards not only in the establishments and offices on their territory, but also in the value creation processes overseas of those transnational enterprises which are resident on their territory. The agreement would hence also have to contain provisions establishing how the governments inform one another of violations of the rules, when which government must take legal steps against a transnational enterprise failing to comply with the rules, and how the governments of the transnational enterprises' home countries are to work together with the target countries of offshoring activities. The enterprises can be guaranteed legal certainty on the basis of unambiguous rules. For instance, it would have to be ensured that none of the participating countries may exclude an enterprise from their domestic markets with the justification of preventing social dumping if the enterprise complies in its own establishments and offices with the minimum labour law standards set out in the agreement, and at the same time ensures that its suppliers and sub-contractors provide service in a manner conforming to the rules.

When introducing such a multilateral offshore agreement, an international Court would also have to be established at which both states and transnational enterprises violating the provisions of the agreement could be charged and convicted and imposed with sanctions. To this end, civil society players, international organisations and enterprises would also have to be admitted as parties before the Court in addition to states.

Negotiations in the context of the OECD took place in the second half of the nineties on a Multilateral Agreement on Investment (MAI). The goal of the negotiations was to reach an agreement on the liberalisation of international investment. The intention above all was to restrict to a minimum the influence of the nation-state governments of the countries in which the transnational enterprises invest. Since the MAI project was unilaterally

orientated towards reducing all state influences, its failure does not mean that efforts to reach a multilateral agreement on the social structure of offshoring activities would be devoid of prospects from the outset. In comparison to efforts to refine the WTO rules by means of social standards, the agreement proposed here would have the advantage that the economic transactions which it would regulate would be less extensive. The agreement would not relate to all commercial goods, but only to the offshoring activities of transnational enterprises, and hence to the cross-border activities of those players who can be relatively easily made accountable by application of a coordinated procedure of the governments of the industrialised countries. Despite this restriction of the materials to be regulated, the proposal of a multilateral offshore agreement may appear courageous to some participants in the current political discussions. This would however be so advantageous for workers in the developing and poorer transformation countries, as well as at least indirectly for those who are living in absolute poverty there, that one could not lose sight of this goal in light of the growing insight into the significance of sets of international rules and institutions.

6. Conclusions for the debate in Germany

The relocation of jobs by domestic enterprises to countries in Central and Eastern Europe is repeatedly the subject of heated debates in Germany. The impression is frequently created here that Germany is in a comprehensive process of deindustrialisation. Some appear to believe that there will soon only be group headquarters in Germany, in which the goods produced abroad – and in many cases also already developed there – are merely “ennobled” by applying the group’s own well-established

brandname. The considerations submitted in this study justify the following position determination.

Vital significance attaches to distinguishing clearly between the scope of the actual job relocation and the significance attaching to the relocation option of the enterprise boards for the development of employment in German enterprises. This study was concerned above all with the analysis and the ethical reflection of the actual relocations: Even if the results of empirical studies must always be adapted to such a complex phenomenon with a suitable portion of precaution, there is no indication in the present surveys that the actual job loss caused by offshoring in Germany has already been such that it would be threatening for the economic future of the country. The negative scenario prevailing in the excited debates is likely in this respect to be based only on individual cases, of which (almost) everyone has heard in his/her environment, and which in some cases was presented in the media in a highly emotive manner. In contradistinction to this, with a sober view of the studies that have been published to date, it is to be stressed that it is still an open question whether there are not in fact more rather than fewer jobs in Germany because of the offshoring strategies pursued by enterprises here. The previously evidently comparably slight losses linked to the relocation of production and service elements to other countries must be compared directly to the jobs which were retained or additionally created in German enterprises because these were able to ensure and improve their international competitiveness by consistently including their establishments and service centres abroad.

If one adds to the ultimately open job balance the advantage which consumers have because they can acquire some goods more cheaply because of offshoring, it becomes clear that the relocation of jobs to countries with a lower wage level by no means implies a profound crisis for the German economy. This is rather a major sub-phenomenon of the intensifying international division of

labour which pushes the structural change in the German economy. The question remains unresolved of whether the advantages and disadvantages ensuing for the German economy from such accelerated structural change add up more to a positive or more to a negative overall effect. If in the overall impact the negative really outweighed the positive, the disadvantage as a whole would by no means to be assessed as dramatic.

If a constellation were to emerge in future in which the disadvantages of job relocations to countries in the East and South are more significant for the citizens of Germany than the advantages, it would be necessary in an ethical reflection for this loss of prosperity in Germany to be weighed up against the overall advantage which is probably felt by people in other countries from such offshoring. It should be considered in this assessment that the survival interests of people who live near subsistence level in the developing and in the poorer transformation countries are more weighty in an ethical evaluation of this international phenomenon than the personal development and social participation interests of the citizens of our country, which as such are completely justified. In other words, from an ethical perspective, the reduction of absolute poverty in the developing countries would take priority *in the case of conflicting targets* over an increase in prosperity in Germany. Furthermore, it should be included that the prosperous Federal Republic, with its high-performing state institutions, is relatively well able to manage and socially compensate for the structural change accelerated by offshoring.

Ethically-founded acceptance of job relocation from Germany to developing and poor transformation countries is however contingent on the newly-created jobs in the target country being decent and fair, and on the offshoring activities there having a sustained, positive impact on the economic development of the country. The right to *decent* work means above all that the subsidiaries and partners of the transnational enterprises in situ do

not restrict workers' freedom of association and may not force anyone to work (for instance by threatening violence) or discriminate against them at their workplace, that the wage which they pay for a full-time job must at least be sufficient for physical subsistence, and that the working conditions in the establishments or offices may not be harmful to health. The newly-created jobs can only satisfy the right to *fair* work if over and above this they correspond with the labour and social law applicable in situ without restrictions. The impact of offshoring activities on the economic development of the target country is *sustainably positive* if exclusively decent and fair work is created in the outsourced parts of the supply chains, and if they also promote economic growth which sustainably covers broad income groups and hence – at least indirectly – serves to fight poverty (criterion of development promotion). In order to promote such offshoring activities, the governments of most industrial, transformation and developing countries should agree on coordinated measures to implement legally-actionable minimum standards for the quality of gainful employment (including the ILO Core Labour Standards). With regard to this goal, the present study proposes a multilateral agreement on offshore activities.

In addition to the above requirements as to how they can be beneficial to development in the target country, the economic and social policy context in Germany is also relevant for the ethical assessment of offshoring activities engaged in by German enterprises in developing and transformation countries. There must be good social security for workers in Germany who lose their jobs because of offshoring. Furthermore, they must have realistic prospects for finding a regular job once more, for instance after suitable skill-building measures. This is not only necessary from an ethical point of view, but is also an important precondition for the acceptance of broad integration of the Federal Republic in the global economy being maintained among citizens.

The arguments which were summed up above in this final chapter related exclusively to the *actual* job relocations, whose overall effect on jobs in Germany was assessed as being rather slight. In accordance with the distinction that was introduced at the beginning of the chapter, offshoring however also influences the development of gainful employment in Germany, and this goes back to the *announcement* of offshoring plans by the enterprise boards. This takes place much more frequently than the actual relocation of jobs. It is evident that the worker representatives are frequently able to prevent offshoring projects by making concessions. Not infrequently, however, the boards appear to threaten relocation plans which they do not seriously intend to implement. Such announcements cause a large number of employees in German enterprises to fear for their jobs. Particularly following the social reforms of recent years, they fear to slip quickly into a life of poverty. The possibilities open to management to threaten a relocation of production and service elements, and the uncertainty caused to workers by such threats, have caused considerable changes in the power relationships in German enterprises, employers gaining advantages and employees' representatives losing them. It may seem to be reproachable from an ethical point of view if management threatens job relocations which in fact would not be "profitable". This however changes nothing about the fact that this happens again and again, and in many cases is indeed effective. Hence, it might make more sense to state that under the conditions of today's international division of labour the trade union representatives are not less but more significant in comparison to the sixties and seventies. In conflicts where job relocations are being negotiated, it is particularly important for worker representatives to have good access to company data which are significant in this context. Furthermore, they should be enabled together with their own experts (for instance with economists

specialising in the possible target countries of offshoring) to participate in the deliberations on the planned relocation and possible alternatives. For the good of the enterprise as a whole, confidentiality must be ensured of course. If the worker representatives are involved in this manner, the management will hardly be able to fool them with exaggeratedly pessimistic analyses and prognoses.

The Churches in Germany should act together with civil society organisations to ensure that a serious ethical and political debate takes place in the public with regard to the impact of offshoring activities engaged in by German enterprises in which the survival interests of the poor in the developing and in the poorer transformation countries are also tackled. The “priority of labour over capital” stressed in the Catholic social teaching can be an important signpost for church contributions to these debates. It entails an obligation to above all evaluate economic change processes according to how they impact working and job-seeking women and men and their families. Anyone from this perspective who would like to ethically illustrate the relocation of jobs from the countries of the North to those of the South or East will hence have to consider the fact that workers in the industrialised countries are seriously destabilised by the threat of job relocation. At the same time, it must be considered that the survival opportunities of the absolutely poor in the developing and poorer transformation countries can increase if a growth process is accelerated by means of offshoring which reaches broad sections of the population.

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