

New challenges for old labour markets

Globalisation implies new challenges for labour markets in Western countries. It is much too simple to assume that mainly low-cost jobs are in the line of fire. New technologies and patterns of competition mean a much more complicated picture.

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So far, globalisation has been mainly a win-win process. Trade and investments have boosted productivity and profits. New jobs have been created in countries like China and India, while real income has risen in Europe as consumers have benefited from inexpensive imports. This has caused demand for new jobs to increase, primarily in the service sector.

The reason why unemployment is high in Europe is not the rise of China and India per se, but rigid wages and lingering regulations, which create high thresholds for the creation of these new jobs. A more flexible labour market would mean more jobs in Europe.

However, it is not self-evident where these new jobs would come. Most people assume that the chal-

lenge from Asia mainly comes in the form of low-cost jobs in industry. But this is incorrect. The days are past when offshoring only concerned manufacturing.

Today, competition for jobs is not simply between companies or even sectors. More kinds of individual tasks can now be performed in another country, courtesy of new information technology. Not only physical products that can be put in boxes or containers are traded, but also information and bits. At the same time, the cost of transportation and international trade – physical as well as electronic – is falling drastically.

As a result, all companies – irrespective of size and sector – can offshore many different kinds of jobs. These may involve industrial workers



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in manufacturing, but they can also involve call centres, back offices, ele-

ments of auditing and analysis. Even some medical services can now be performed over the Internet.

The kind of tasks that are transferable changes over time, as technology changes. But what cannot be offshored now is the kind of personal services where you need physical interaction: transportation, the police, care of the young and elderly, dental services, hair-dressers etc.

I want to draw two conclusions. Firstly, one cannot simply claim any longer that high-skilled tasks are better protected from competition than low-skilled tasks. The radiologist will face competition (as X-rays can be screened and analysed over the Internet), but not the nurse. Secondly, as companies react to globalisation, competitive patterns will change more rapidly.

While economists previously used to talk about “comparative advantage” as something rather slow-changing (one country had an advantage in commodities, another in skilled labour, a third in unskilled labour etc.), companies are now scanning the globe much

more rapidly, searching for possible ways of lowering costs and increasing productivity by moving teams of employees or even individual tasks to new locations.

Economists have different labels for this new and rapidly-changing pattern: “Kaleidoscopic comparative advantages”, “unbundling” (of the production process), “competition of tasks”. The point is that European countries cannot assume that the competition will come only from low-cost jobs. It will come in many shapes and forms and challenge many more tasks than we are used to.

I believe globalisation is still a win-win process. But as a result of the new patterns of competition, resistance to globalisation can be expected to rise among several white-collar groups that have so far been reliably pro-trade.

Consequently, to avoid political backlashes and rising protectionism, the labour market must become much more flexible. It is necessary to lower the thresholds for creating new jobs in Europe.

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