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# When jobs disappear and workers do not...

International relocation of production and the  
European Economy

EUROFRAME SPECIAL TOPIC



# Relocation: visible disadvantages

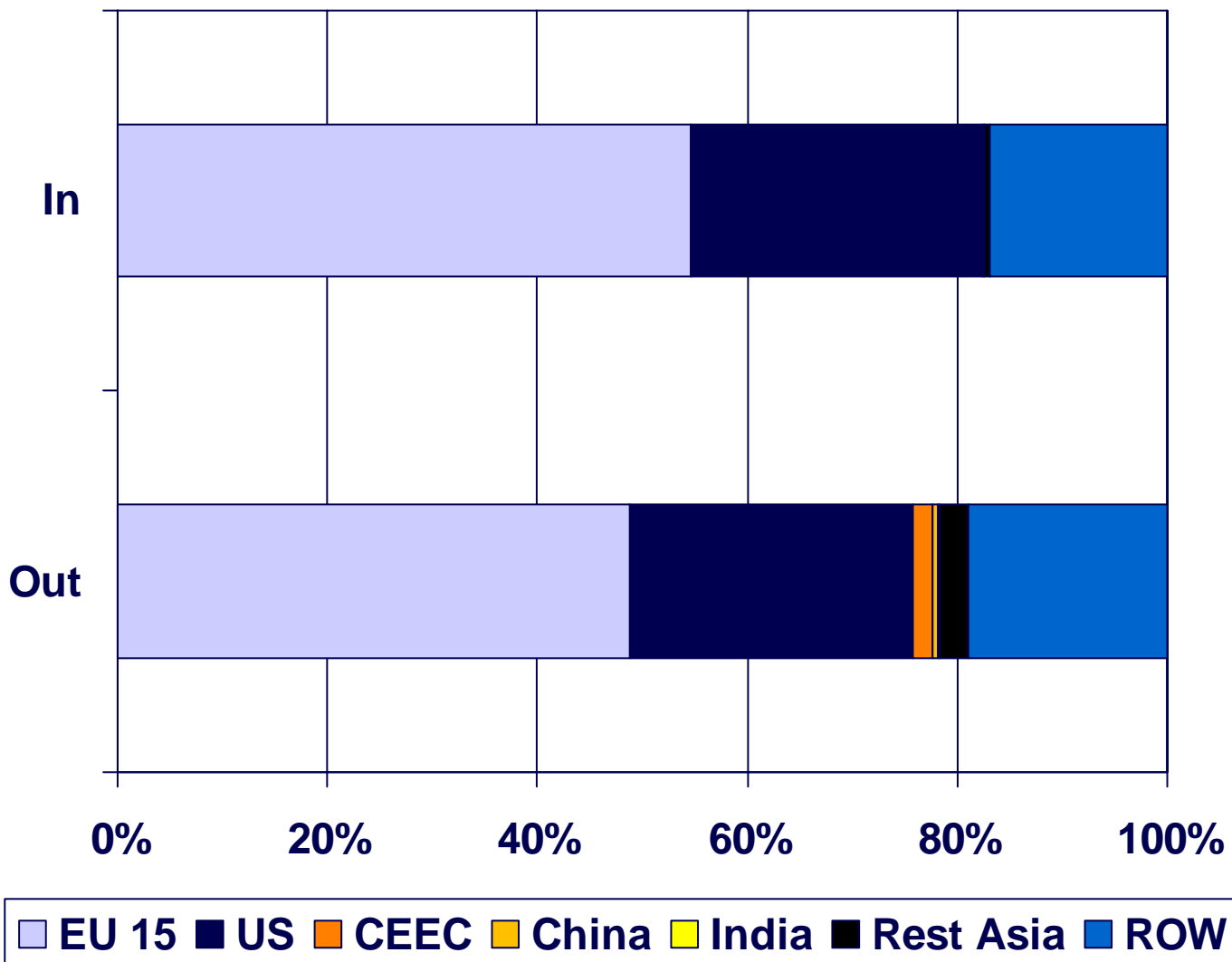
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- Low cost competition (specific sectors)
- Deteriorating position of low-skilled workers
- Job losses
- Break-up of clusters
- Policy competition: corporate taxes



# Foreign direct investment four largest EU member states, 1996-2001

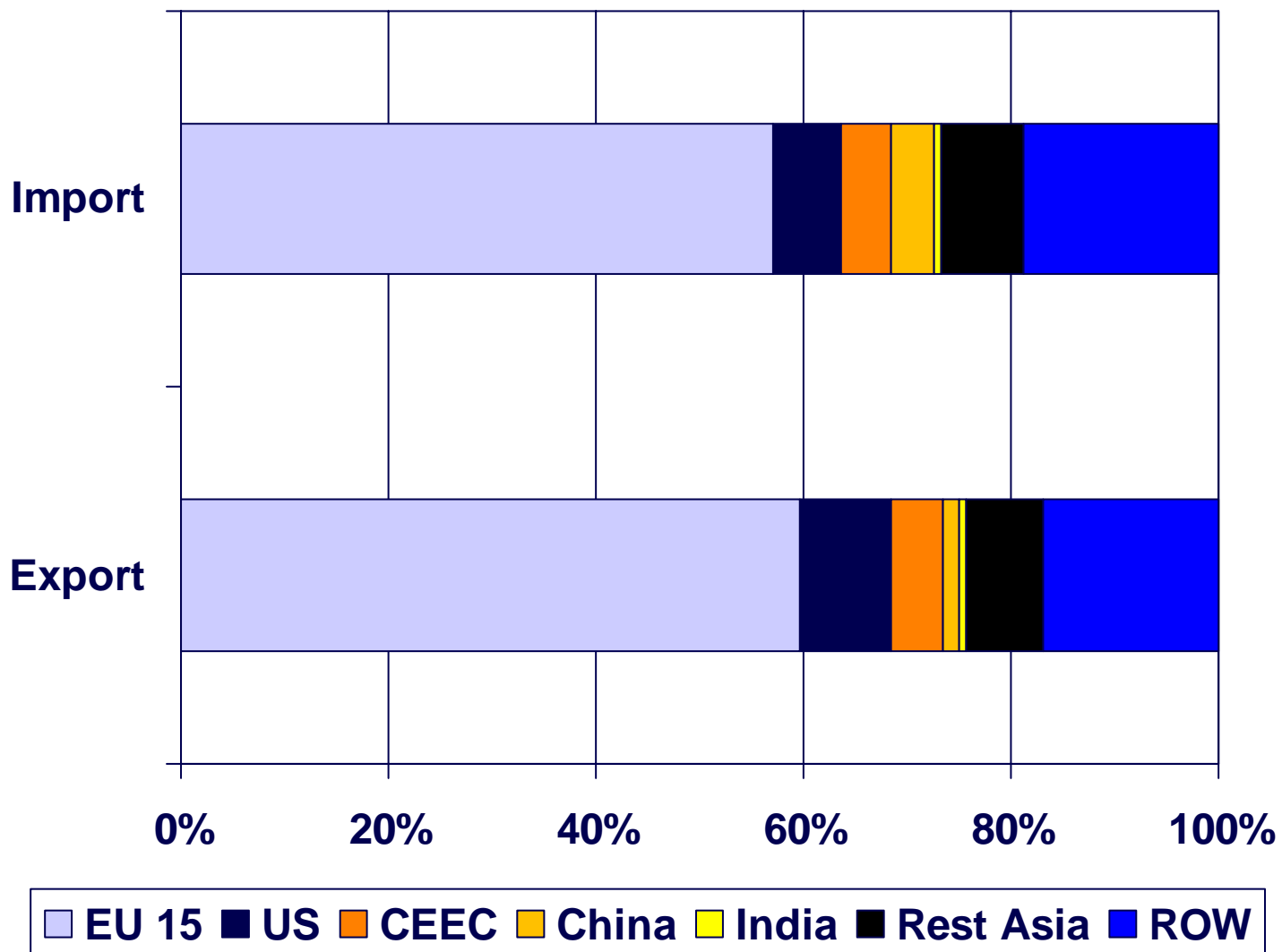
Special topic relocation





# EU 15 goods exports and imports 2003

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# Disadvantages in perspective

- Low cost competition (specific sectors)
  - ▶ European workers compete more with each other
  - ▶ sectoral restructuring
- Deteriorating position of low-skilled workers
  - ▶ mainly skill-biased technological change
- Job losses
  - ▶ small part of job flows
- Break-up of clusters
  - ▶ mixed evidence except R&D
- Policy competition: corporate taxes
- Access to markets and suppliers



# Advantages spread across the economy

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- Gains from trade
- Lower mark-ups (gain for consumers)
- Better exploitation of scale economies
- Greater scope for the most productive companies, boosting average productivity
- Expand the range of available product varieties
- International exchange of ideas and technologies



# Policy

Special topic relocation

- Both sides of the coin
  - ▶ Visible disadvantages in perspective
  - ▶ Gains hard to observe, but no less real
  
- Facilitate sectoral restructuring
- Skill upgrading: education, training
- Support R&D
- Coordination on corporate taxes
- Social security: position low skilled
  - ▶ dilemma: inequality - unemployment