



# Key themes in global industrial relations: Minimum wages and relocation of production



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European Foundation for the Improvement of Living and Working Conditions

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# Introduction

With economic globalisation growing ever deeper and international competition intensifying, it is increasingly clear that Europe's industrial relations systems do not exist in isolation, and cannot be studied as such. Acknowledging this fact, since 2000 the European Foundation for the Improvement of Living and Working Conditions has, through the European Industrial Relations Observatory (EIRO), conducted an annual project comparing and 'benchmarking' aspects of industrial relations in the European Union and the world's two other largest economies – Japan and the USA. However, globalisation means that these developed economies now face a mounting challenge from rapidly developing economies such as China and India. To take this into account and widen the perspective, the Foundation's project has, since 2004, started to look at industrial relations in Asia more widely and also in Latin America.

The main written product of the Foundation's work in this area has, until now, been an annual comparative report examining basic industrial relations actors and processes – such as collective bargaining, trade unions, employer organisations, labour legislation and employee involvement – in the EU, Japan and USA, and summarising the main developments in the year in question. The 2003–04 report (*Industrial relations in the EU, Japan and USA, 2003–4* (TN0502102F)) added a more thematic approach, looking at how the EU, Japan and the USA deal with two very topical issues – the increasing level of international migration (especially labour migration) and pensions provision (particularly occupational pensions) at a time of demographic change. The present report develops this thematic focus further, concentrating solely on two particular topics of current interest. It also expands the geographical scope, including information from two developing countries, Brazil and China.

The two topics chosen for consideration are the setting of minimum wages and the industrial relations aspects of cross-border relocation of production. The first is an essentially 'national' issue (although of course minimum wages play a part in areas such as the relative labour-cost position of countries) and highlights very effectively the differences and points of similarities between industrial relations systems, in such areas as the respective roles of law and collective bargaining, or the input of the social partners. The second topic is more 'transnational', as relocation necessarily involves two or more countries, and often involves a direct comparison between their industrial relations systems and the outcomes of these systems. Relocation is also the way in which globalisation is most directly and immediately felt by workers and employers, especially in those countries that lose production and jobs through outward relocation; the differences in how these processes are managed are often revealing of the distinctive aspects of national industrial relations systems.

These issues were discussed at a workshop held in London on 24–25 November 2005, bringing together researchers, practitioners and policy-makers from around the world. The present report draws on the debates at the workshop and on a number of reports prepared by experts. The information on Europe draws heavily on two EIRO comparative studies, based on reports from EIRO's national centres across Europe:

- *Minimum wages in Europe*, Lothar Funk and Hagen Lesch, Cologne Institute for Economic Research (IW), August 2005 (TN0507101S);
- *Relocation of production and industrial relations*, Roberto Pedersini, Fondazione Regionale Pietro Seveso, February 2006 (TN0511101S).



The information on the other countries is based mainly on national reports commissioned by the Foundation:

- for Brazil, Hélio Zylberstajn of the University of São Paulo;
- for China, John Benson of the University of Tsukuba, Tokyo;
- for Japan, Hideo Higuchi of the Japan Institute for Labour Policy and Training;
- for the USA, Sean Sweeney of the Cornell University School of Industrial and Labor Relations.

The EIRO studies referred to in this report are available at the EIROonline website at: [www.eiro.eurofound.eu.int](http://www.eiro.eurofound.eu.int)

All of the countries examined in this report – the EU Member States, the two EU acceding countries, Brazil, China, Japan and the USA – have some system for regulating pay at the lower end of the lower market, so providing a floor for wage levels across the economy. These systems differ in many ways, and their differences provide a useful insight into the distinctive aspects of the industrial relations systems of the various countries. There are significant and often revealing variations in areas such as the role of law and collective bargaining, the input of trade unions and employers, and the respective roles of the various levels (national, regional, sectoral etc).

As well as the light they shed on national industrial relations systems, minimum wages are of interest in themselves. Although, as we will see, the proportion of the total national workforce paid at the minimum wage rate varies considerably between countries (as does the value of the minimum wage as a proportion of average pay), the differences between absolute minimum wage rates at least provides an indication of the scale of differences in wage levels and labour costs between countries. Furthermore, minimum wages are often controversial and at the centre of debates involving social partners, policy-makers and researchers. Significant issues include whether: minimum wages reduce employment opportunities and price low-skilled workers out of jobs; provide effective protection for those at the bottom of the labour market, especially for those in low-pay sectors (where women are often over-represented); have a redistributive effect: or serve as a genuine anti-poverty tool (with debate, for example, over whether this aim is undermined if many minimum wage beneficiaries are not in low-pay households). All these debates are ongoing, although it is beyond the scope of this report to deal with them in any detail.

This article provides a factual description of the main points of minimum wage-setting systems in Europe, Japan, the USA, China and Brazil and examines the current absolute and relative levels of minimum wages, before looking at the views of the social partners on the issue.

## **Basic systems**

Over three-quarters of the 32 countries examined have what can be broadly described as a statutory minimum wage system with national application. These are 18 out of 25 EU Member States, the two EU acceding countries (Bulgaria and Romania), Brazil, China, Japan and the USA. In the remaining eight European countries – Austria, Cyprus, Denmark, Finland, Germany, Italy, Norway and Sweden – collective agreements (at sector level in most cases) are the main mechanism used for regulating minimum pay rates (see Box 1 below for details).

Within these broad categories of statutory and bargaining-based systems, there are a number of distinctions and qualifications. For example, in several cases treated as ‘statutory’ – such as Belgium and Greece – the national minimum wage is set by an intersectoral agreement, which is given legislative force. Most countries with statutory systems set a single national minimum wage rate (including all such European countries). China and Japan, however, while having an overall national legal framework, set differing rates at the regional or local level. (Japan also has a parallel system of industry-specific statutory minima, usually at regional level.) The USA has a national minimum wage rate, but most states also set their own rates, and when they exceed the national minimum it is these rates that apply – as happens in about a third of cases. It should also be noted that in many of the countries with statutory minimum wages, the legal minima are supplemented by minimum rates set in collective agreements. The level and coverage of such agreements varies,

however, as does the relationship of their minima to the national minimum rate. (An example of this is Brazil where, in addition to the statutory minimum wage, there is a 'wage floor' of higher minimum rates set by decentralised collective bargaining.) Among the countries with bargaining-based systems, it should be pointed out that Cyprus also has a statutory minimum wage for a few specific occupations.

**Box 1. Countries without a statutory minimum wage**

In Austria, Denmark, Germany, Italy, Norway and Sweden, there is no statutory minimum wage. Low-wage protection is instead provided by the high coverage rate of collectively agreed minimum wages, generally laid down in sectoral agreements. (Cyprus also falls into this group, with statutory minimum wages applicable only for six specific occupations, and sectoral bargaining generally applying elsewhere.) The percentage of employees covered by these collectively agreed minimum wages ranges from approximately 70% in Cyprus, Germany and Norway to almost 100% in Austria and Italy (although this excludes 'irregular' workers, who make up a relatively large share of the Italian labour market). In Denmark, the proportion of employees covered by collectively agreed wages is between 81% and 90%, while in Finland and Sweden, the figure is 90%. This means that, in these countries, a high proportion (at least two-thirds) of all dependent employees are protected by collectively agreed wages.

This high level of coverage may be supported by various forms of legal force for the sectoral agreements. For example, the high coverage rate in Finland is due to the fact that collective agreements have 'erga omnes' applicability in their sectors: this means that all employers, including non-organised employers, are obliged to pay at least the collectively agreed minimum wages. Similarly, in Italy, collectively agreed minimum pay levels apply to all workers: they represent the compulsory minimum even for employees of firms that do not belong to employer associations. In Germany (and to some extent Norway), it is possible to extend collective agreements to non-organised employers; however, this mechanism is not exercised as extensively as it is in Finland and Italy.

The coverage levels of collectively agreed minimum wages are not always uniform across the economy: in Germany, for example, there are some sectors (for example, business services and personal services, such as health and social work) and regions (in the east) with low coverage rates, in which wages and minimum standards on working time are not set by collective agreements.

Comparing the relative level of the lowest collectively agreed wages in this group of countries with the relative level of statutory minimum wages (in comparison with the gross average wage in both cases) it appears that the lowest collectively agreed wages are as high as the statutory minima in the 'high minimum wage' group of statutory minimum wage countries, i.e. those that have statutory minimum wages in excess of 45% of the average wage.

It should be noted that Germany has statutory minimum wages for four specific branches of construction: the main construction industry; the roofing industry; the painting industry; and the demolition/wrecking industry. These are based on regulations introduced to implement the EU 'posted workers' Directive (96/71/EC). These branch-specific statutory minimum wages, set by the sectoral social partners, cover around 800,000 workers in these industries (or 2.1% of all employees in Germany). The government has recently proposed that the posted workers law should be extended to all sectors of the economy in order to fight 'wage dumping'.

**Setting minimum wages**

In the countries with statutory minimum wage systems, the rate is set by the government (usually at national level, but at lower levels in some cases – see below) through some form of legislative

measure (see Table 1 on pp. 6-7). However, in most cases, representatives of employers and workers have an input into setting the rate, which can vary from a merely advisory role to reaching bilateral agreements that are essentially ‘rubber-stamped’ by law. The relevant regulations usually lay down some criteria to be taken into consideration in adjusting the minimum wage, such as inflation or developments in average wages. However, in only a few cases of indexation, such as Luxembourg’s, is an automatic increase triggered by – for example – prices rising by a certain amount.

In most cases, minimum wages are adjusted on a regular basis, as laid down either in the relevant regulations or by custom. They are most commonly adjusted on an annual basis, as in Brazil, Japan and 17 EU Member States (Belgium, Bulgaria, the Czech Republic, Cyprus, Estonia, France, Hungary, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and the UK, plus Poland and – sometimes – Spain). Adjustments are made twice a year in Greece and the Netherlands (under normal circumstances) and, sometimes, in Poland and Spain. Statutory minimum wages are adjusted regularly, but generally at intervals longer than of one year, in Ireland, Latvia, Lithuania and Luxembourg. In some cases the frequency of increase may be changed, for example, through extraordinary freezes – for example, as in the Netherlands recently – or through the application of indexation. In China and the USA, there appears to be no fixed frequency of adjustment. In the USA, increases in the federal minimum wage are a purely political matter, and the rate has not been adjusted since 1997.

With regard to the method and criteria for adjustment, the social partners play an important role in some ‘old’ EU Member States (the EU15). In Ireland, minimum wage increases are negotiated by the social partners at national level as part of the country’s current series of social pacts. In Greece, minimum wage increases are determined in the framework of national general collective agreements (signed by the social partners, usually every two years), with the government giving them legal force. In Belgium, the national minimum wage (based on an intersectoral agreement given legal force through a royal decree) may rise through either being linked to increases in prices or through an agreement between the social partners. Elsewhere, the social partners play only a consultative or advisory role. For example, in France, the minimum wage is adjusted by decree after the government has consulted the social partners, with increases reflecting consumer prices, increases in manual workers’ hourly wages and government policy. The Spanish government adjusts the national minimum wage on the basis of consultations with the social partners, and of forecasts for inflation, productivity and the general economic situation. In the UK, the government decides on minimum wage adjustments, on the basis of recommendations from the Low Pay Commission (LPC), made up of a chair, three members from business, three from trade unions and two independent academics. In its recommendations to government, the LPC takes the economic and social implications of any increase into account. An example of a country with less social partner input is the Netherlands, where the minimum wage is adjusted by the government, based on the development of collectively agreed pay deal. However, in the event of severely adverse economic developments, or a rise in unemployment or the number of employees with disabilities, the government can abandon this mechanism temporarily, as is currently the case.

Among many new EU Member States, there is a special role in minimum wage-setting for tripartite councils, particularly in the central and eastern European countries (CEECs). In these cases, the government decides on national minimum wage adjustments after reaching (or seeking) an agreement with the social partners. In the Czech Republic, Poland and Slovenia, the decision is linked primarily to the expected development of consumer prices. With the exception of Poland,

other economic indicators play only a minor role in these countries. In Hungary, negotiations over minimum wage adjustments are integrated into an annual intersectoral pay bargaining round (there is no accepted adjustment formula or automatic mechanism). The adjustment of statutory minimum wages in the two acceding countries, Bulgaria and Romania, is mainly a matter for the government. Adjustments have usually been implemented unilaterally by the government in Bulgaria. In Romania, the government decides after consulting the social partners, with the level of the adjustment depending on the economic and social situation. In Malta, increases in the national minimum wage are linked to changes in the cost of living. The government sets the wage in accordance with recommendations made by the Employment Relations Board (ERB). Apart from the national minimum wage, the government establishes sectoral minimum wages in agreement with the ERB. In Cyprus, the government adjusts the minimum wages for specific occupations on the basis of social partner decisions; these take into consideration various factors, especially the 'cost-of-living allowance' through which wages are indexed.

**Table 1 Adjustment of statutory minimum wages**

Country	Frequency of adjustments	Adjustment body	Adjustment criteria
Belgium	Annual	Social partners	Indexation (minimum wage rise is linked to 'health index' of prices)
Brazil	Annual	Government decision	Maintaining purchasing power and compensating for inflation
Bulgaria	Regular (no fixed period, but annual since 2000)	Government decree; usually implemented unilaterally by the government	Economic and social situation
China	No fixed period, (no more frequently than annual)	Local government decision, following consultation with unions and employers	Local standards, cost of living, average family size, average wage, productivity, employment rate and other economic conditions
Czech Republic	Annual	Government, after consulting the social partners	Consumer prices index
Cyprus	Annual	Government in consultation with the social partners	Various factors (especially consumer prices index)
Estonia	Annual	Government decree, based on decision by the social partners	Various factors – in particular forecast for consumer prices index, labour productivity and economic situation
France	Annual	Government decree, after consulting the social partners	Development of prices index and basic hourly manual worker's wages
Greece	Twice a year	Government by law (different laws for private and public sector), based on national collective agreement	Consumer prices index
Hungary	Regular	Government, after an agreement is concluded by tripartite council	Negotiations are integrated into the annual intersectoral bargaining round
Ireland	Every 16 months (in practice)	Government and social partners through social pacts; recently, Labour Court has a role	Negotiated as part of national pacts
Japan*	Annual	Regional government decision, on basis of recommendations of tripartite regional minimum wage councils, themselves based on national guidelines from central council	Cost of living, wages of similar workers and industries' capacity to pay

Table 1 (continued)

Country	Frequency of adjustments	Adjustment body	Adjustment criteria
Latvia	Irregularly, depending on political considerations (every 1–2 years)	Government, after consulting the social partners	Pressure from social partners, budgetary considerations and minimum wage increase plan agreed by social partners and adopted by cabinet in 2003
Lithuania	Regular	Government, upon recommendation of tripartite council	No specific criteria
Luxembourg	Every two years, or when triggered by indexation	Government decision	Developments in the economy and incomes, especially movements in real pay; also automatic indexation when prices rise by specific amount
Malta	Annual	Government, upon recommendations made by the Employment Relations Board	National minimum wages increase linked to the cost of living index
Netherlands	Twice a year (frozen since 2003)	Government decision	Development of collectively agreed wages
Poland	Once or twice a year	Tripartite commission, with reference to proposals and information presented by the government	Forecast for consumer prices index and other economic indicators
Portugal	Annual	Government, after consulting the social partners	Workers' needs cost of living, degree of development of forces of production, economic and financial stability
Romania	Annual (since 2002)	Governmental decree, after consulting the social partners	No formal criteria, although the government decides to adjust the minimum wage according to developments in the cost of living, consulting the social partners
Slovakia	Annual	Government, based on a decision made by social partners (tripartite agreement)	Relationship with average wage and subsistence minimum, plus whole economic situation
Slovenia	Annual	Government, based on a decision made by social partners (tripartite agreement)	Expected inflation
Spain	Once or twice a year	Government, after consulting the social partners	Forecasts for inflation, productivity, economic situation
UK	Annual (in practice, since 2000)	Government decision, based on recommendations by the Low Pay Commission	Whole economic situation (taking into account economic and social implications)
USA	No fixed period at federal level; annual in a few states	Government decision (federal and state)	No formal criteria (cost of living in a few states)

\* Refers to more extensive regional (prefectural) minimum wage system, not industry-based system

Source: EIRO for EU; national reports for other countries

In Brazil, adjustments are decided essentially unilaterally by the national government (a vote in Congress, on a government proposal), taking into account the maintenance of the minimum wage's purchasing power. Social partner input is limited to lobbying. In China, it is the authorities at local level that make the decision, based on a range of economic, employment, pay and other facts, although trade unions and companies are supposed to be consulted. Similarly, in Japan, the key decision-making level is local (although it occurs within guidelines laid down at national level), and

is based to a large extent on social partner input at both levels. In the USA, as noted above, the federal minimum wage rate is decided by Congress, with neither formal social partner input (their role is solely a lobbying one) nor adjustment criteria. The same generally holds true of the minimum wages set by some individual states, although Washington and Oregon increase their minimum wage moderately each year to keep pace with the rising cost of living.

### **Exemptions and structural characteristics**

In all EU countries that have a statutory minimum wage, with the exception of Belgium and Cyprus, all adult employees are covered (in principle). In Belgium, the minimum wage affects only private sector employees; in Cyprus, it covers only some specific occupations. Only a few groups of adult employees are exempted. Apprentices are exempted in Belgium, France and Spain (where people with disabilities are also exempted) as are civil servants in France. In Malta, all employees who are covered by sectoral minimum wages (implemented by wage-regulation orders) are excluded from coverage by the statutory minimum; these sectoral minimum wages are established by the government in accordance with the recommendations of wage councils.

All adult employees appear to be covered by the statutory minimum wage in Brazil and China (where part-time workers have a special hourly rate, rather than the normal monthly rate that applies to full-timers). The same is generally true in Japan, although local labour authorities may authorise dispensations on an individual basis for workers in some specific groups, such as those with a reduced work capacity (e.g. because of disability), in probationary periods, receiving approved training or with very low hours or light duties. The US federal minimum wage is generally applicable, but some employers are exempt, notably those with annual revenues of less than USD500,000 (EUR400,000), unless they are involved in interstate commerce or in the production of goods for commerce.

A few countries have a single statutory national minimum wage rate that essentially applies to all non-exempt workers without distinction – examples are Bulgaria, Estonia, Hungary, Lithuania, Romania and Slovenia. However, it is much more common for one or more differentiated rates to apply to workers, depending on where they work and/or their personal/work situation – see Table 2 on p. 9.

None of the EU countries with a statutory minimum wage system sets different rates between regions. However, this occurs to varying extents in the other countries considered, possibly reflecting the large size of these countries when compared with most European states. Differentiation appears greatest in China, where there is no national rate: the 30 or so individual provinces set their own rates, with further differentiation between regions, cities etc. within provinces. Similarly, each of Japan's 47 prefectures sets its own minimum wage rate, although there are national-level guidelines for increases. In the USA, all but six of the 50 states have their own minimum wage alongside the federal minimum wage. In around two-thirds of states, these rates are no higher than the federal minimum, but in 17 cases the state minimum wage is higher (by up to around 40%) and thus applies. In Brazil, the law allows separate regional rates to be set, above the national minimum, but this has apparently only ever happened in two cases under the current system. (Prior to the 1980s, the minimum wage was set at the regional level.)

Differentiation of statutory minimum wages by sector is rare. It exists to some extent in Cyprus (where the only statutory minimum wages are those set for a few sectors) and Malta. In Japan, industry-based minimum wages are set for specific sectors, almost always at prefecture level (there is only one example of nationwide minimum wage for a specific industry). There are currently 249 such minimum rates, covering around 4 million workers (about 8% of the total), and on average they are higher than the general prefectural rates. Industry-based minimum wages are not required for all sectors, but are set only when relevant workers and employers see a need to fix a minimum wage higher than the general rate for the prefecture. This will be carried out by the prefectural authorities following deliberation by a specific industry minimum wages council; it may be done either with a view to improving conditions of employment or ensuring fair competition. Differentiation by sector is also possible in Brazil, but apparently does not occur in practice.

**Table 2 Structural characteristics of statutory minimum wages**

Country	Differentiation by regions or sectors	Differentiation by age	Differentiation by qualification / occupations / other
Brazil	Above national minimum wage, regions may set higher wages, , but very rare in practice	No	No
China	No national rate. Rates set at provincial level, and within provinces, varying rates may be set for different regions, cities, etc	No (as far as is known)	No (as far as is known)
EU	No countries have regional rates (although possible by law in Latvia). Sectoral rates exist only in Cyprus (in a few cases, with no national minimum) and Malta (in addition to general minimum)	Younger workers receive lower rates in 10 Member States (Belgium, Czech Republic, France, Ireland, Latvia, Luxembourg, Malta, Netherlands, Slovakia, UK)	Some differentiation in 12 Member States: Czech Republic (disabled people), Cyprus (length of service), France (disabled people, specific working conditions), Greece (length of service, marital status, blue- or white-collar), Ireland (length of service, training), Latvia (qualification/occupation), Luxembourg (qualifications), Malta (sectoral rates may vary by occupation), Poland (length of service), Slovakia (disabled people), Spain (disabled people and apprentices), the UK (length of service, training)
Japan	Separate rates set for each prefecture (47 in total) and for some sectors, almost always at prefecture level (industry rates cover only about 8% of workforce)	No	No
USA	Alongside federal minimum, 44 out of 50 states have own minimum wage, which is above federal rate (and thus applicable) in 17 cases. A few cities also have own rates	Federal minimum wage – yes (employees under 20 for first 90 days of employment)	Federal minimum wage – lower rates possible for full-time students, student learners, apprentices, workers with disabilities and staff who receive tips

Source: EIRO for EU; national reports for other countries

In Europe, it is relatively common for younger workers to receive a lower statutory minimum wage rate. Sometimes this will be increased as the worker gets older; it may also be linked to length of work experience. Of EU Member States, 10 have such a system: Belgium, Czech Republic, France,



Ireland, Latvia, Luxembourg, Malta, the Netherlands, Slovakia and the UK. In some countries, the lower rate or rates apply only until workers reach the age of 18 (France, Luxembourg, Malta), but in others they continue into the early 20s (Belgium, the Czech Republic, the Netherlands and the UK) or apply to over 18s during training or in the initial period of employment (Ireland and Poland). In the non-European countries examined, age differentiation exists only in the USA, where employees under 20 are entitled to the 'youth sub-minimum wage' (82.5% of the full rate). However, the lower rate is in effect only for the first 90 days of employment.

Differences in statutory minimum wages based on qualifications or occupation exist in 12 EU Member States – the Czech Republic, Cyprus, France, Greece, Ireland, Latvia, Luxembourg, Malta (only for sectoral minimum wages), Poland, Slovakia, Spain and the UK. The differentiations mainly take account of disabilities, work experience or training status. Outside Europe, such a system appears to operate in the USA, where certain full-time students, student learners, apprentices and workers with disabilities may be paid less than the minimum wage under special certificates issued by the Department of Labor, while a sub-minimum wage also applies to many employees who receive tips, such as waiting staff.

### **Beneficiaries**

As Table 3 opposite shows, the percentage of employees with earnings at the minimum wage level is markedly different between countries. According to the latest available figures, of the 19 countries for which data are available, in 12 the percentage of earners who are beneficiaries ranges from 1% to 5% (the Czech Republic, Ireland, Japan, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, the UK and the USA). The lowest proportions, at around 1.6%, are found in Japan and the USA. Above the 1%–5% range, there is a sizeable gap until Hungary, with a rate of 11.4%, and France, at 13%. Rates of 15%–18% are recorded in Brazil, Latvia, Lithuania and Luxembourg, while Romania is out on its own at 28%.

In the EU, according to Eurostat figures, the proportion of full-time employees earning the minimum wage is usually higher for females than for males, except in Hungary and Poland, where the male percentage is higher, and in Latvia where the percentages are almost equal. In the UK, the Netherlands, Malta, Portugal and the Czech Republic, the female percentage is twice or more that of males. In Romania, Luxembourg and Ireland, female percentages are 30%–90% higher than those of men. Where data are available, this pattern seems to hold true in non-European countries. For example, in Brazil, 33% of women and 25% of men earn the minimum wage or less, while in the USA, 3.6% of female workers earn the minimum wage, compared with 1.8% of men.

Young workers often seem to be over-represented among minimum wage earners, as in countries such as the Netherlands and the USA. The same applies to part-time workers – for example, in France and again in the USA. As to the sectoral distribution of minimum wage earners, relatively little information is available, but what there is (e.g. from Brazil, the Czech Republic, France and the Netherlands), suggests over-representation in sectors such as agriculture, the textiles/clothing industries, hotels/catering, retail and domestic work.

In China, the main groups of minimum wage recipients are rural migrant workers, workers in badly performing state-owned enterprises and redundant workers who still have a nominal relationship with their employer.

**Table 3 Proportion of employees earning statutory minimum wage\***

Country	Coverage
Belgium	n/a
Brazil	Probably over 15% of all employees (18% of workers earn from 50% to 100% of minimum wage, with great majority at 100% level)
Bulgaria	n/a
China	n/a
Czech Republic	2%–3% of all employees
Cyprus	n/a
Estonia	n/a
France	13% of all employees (2.9 million employees)
Greece	n/a
Hungary	11.4% of all full-time employees
Ireland	4.5% of all private-sector employees (57,000 employees, excluding agricultural)
Japan	1.6% of all employees (proportion who have to receive wage rises due to revision of minimum wage, or were being paid less than the minimum wage before the revision)
Latvia	15.7% of all employees
Lithuania	18.4% of all employees and 10.1% of full-time employees
Luxembourg	15.1% of all full-time employees
Malta	3.5% of all full-time employees
Netherlands	2.1% of all employees (130,000 employees)
Poland	4.2% of all employees
Portugal	4.0% of all full-time employees
Romania	28% all employees
Slovakia	2%–4% of all employees
Slovenia	2.7% of all employees
Spain	1%–3% of all employees
UK	5.0% of all employees (1.5 million employees)
USA	1.6% of all employees (2.7% of all hourly-paid workers, or 2 million, earning at or below the minimum wage)

\* Available figures at end 2005

Source: EIRO for EU, except Eurostat for Hungary, Luxembourg, Malta and Portugal; national reports for other countries

## Minimum wage rates

Among EU Member States with statutory minimum wages, the current rates vary enormously, underlining the fact that the Union includes countries that are still at very different stages of economic development (see Table 4 on p. 13). Within the EU, the minimum wage in 2005 ranged from about EUR115 per month in Latvia to slightly over EUR1,500 in Luxembourg – around 13 times higher. The two acceding countries (Bulgaria and Romania) have even lower rates, at EUR77 and EUR86 respectively in 2005.

Overall, looking at all European countries examined with statutory minimum wages, three groups with distinct levels of statutory minimum wages can be distinguished:

- the first group includes Bulgaria, Romania and the new Member States, apart from Malta and Slovenia. Here, statutory monthly minimum wages varied between EUR77 and EUR251 in 2005;

- the second group, with monthly minimum wages between EUR375 and EUR591, includes two new Member States – Malta and Slovenia – plus Portugal, Spain and Greece;
- the third group, with statutory monthly minimum wages in excess of EUR1,000, includes Luxembourg, Ireland, the UK, the Netherlands, France and Belgium.

Among the ‘old’ EU Member States (the EU15) with a statutory minimum wage, the average rate stands at a little over EUR1,000 a month, while the new Member State average is around a quarter of this figure. For the whole EU, the average is in the region of EUR640.

Looking beyond Europe, the federal minimum in the USA and the average regional minimum in Japan are both broadly around the EUR700 mark when converted into a monthly rate. This falls between the second and third group of European countries – above the ‘Mediterranean’ countries and Slovenia, but below the higher minimum-wage northern European countries. The Brazilian rate, at around EUR111 per month in 2005, is a sixth of the EU average; it is just below the lowest EU minimum (Latvia) but above that of Bulgaria and Romania. No average rate can be calculated for China, given the great diversity of minima set at regional and lower levels. However, for the purposes of Table 3, as an illustration the average minimum rate for a few major cities/areas is given; at around EUR54 per month, this is some three-quarters of the lowest European rate (Bulgaria’s) and well under a tenth of the EU average.

In the EU, nominal statutory minimum wages have generally increased fairly rapidly over the last 10 years, especially in the new Member States (such as Hungary and the Czech Republic). The increase in the EU15 states has not been as great (although it has been considerable in Greece and the UK). Taking inflation into account, minimum wages have (according to Eurostat) increased by more than consumer prices in most recent years in Bulgaria, the Czech Republic, Estonia, Latvia, Malta, the Netherlands, Romania, Slovakia, Slovenia and the UK. In Belgium, France, Greece, Hungary, Ireland, Lithuania, Luxembourg, Spain, Poland and Portugal, the minimum wage has risen in line with, or behind, consumer prices in most years. In Japan, the average regional minimum wage was rising by around 2% a year over 1995–8, but growth slowed thereafter and has been under 0.2% a year since 2001. However, despite the minimum wage being almost static in the past few years, Japan’s negative inflation up until 2004 meant a real rise each year. The USA’s federal minimum wage has been frozen since 1997, and inflation has thus eroded its value. In Brazil, the nominal value of the minimum wage increased threefold from 1995 to 2005. Taking inflation into account, the real rise over this period was 31% (with a real increase in most years).

International comparisons of wage rates based purely on conversion into one currency, as well as being dependent on exchange rates, do not give much indication of the value of the various minimum wages. Applying Purchasing Power Parities (PPPs) for households’ final consumption expenditure removes the effect of price-level differences. Eurostat has done this for the EU, acceding countries and the USA (see ‘Minimum wages 2005’, Pierre Regnard, *Statistics in focus – population and social conditions 7/2005*, Eurostat). It finds that, while the uses of PPPs rather than euros does not affect the ranking of the countries’ minimum wages (for instance, Luxembourg’s is still the highest and Romania’s still the lowest), differences in their levels are markedly reduced. Removing differences in price levels between the countries shows the purchasing power of the minimum wage to be higher in the new Member States, Spain and Greece (also the USA, but only slightly). The 13-fold gap between the lowest and highest minimum wages in Europe is reduced to a five-fold difference when PPPs are used.

**Table 4 National minimum wage (adult rate), 2004–2005, in national currency (gross)**

Country	Frequency	2004	2005
Belgium	Monthly	EUR1,210	EUR1,234
Brazil	Monthly	BRL260 (EUR96.10)	BRL300 (EUR110.90)
Bulgaria	Hourly	BGN0.71 (EUR0.36)	BGN0.89 (EUR0.46)
	Monthly	BGN120 (EUR61.43)	BGN150 (EUR76.70)
China <sup>1</sup>	Monthly	CNY547 (EUR53.90)	n/a
Czech Republic	Hourly	CZK39.60 (EUR1.24)	CZK42.50 (EUR1.43)
	Monthly	CZK6,700 (EUR210.09)	CZK7,185 (EUR241.25)
Estonia	Hourly	EEK14.60 (EUR0.93)	EEK15.90 (EUR1.02)
	Monthly	EEK2,480 (EUR158.50)	EEK2,690 (EUR171.92)
France <sup>2</sup>	Hourly	EUR7.61	EUR8.03
	Monthly	EUR1,286.09	EUR1,357.07
Greece	Daily	EUR25.01	EUR26.41
	Monthly	EUR559.98	EUR591.18
Hungary	Hourly	HUF305.00 (EUR1.21)	n/a
	Daily	HUF2,440 (EUR9.70)	n/a
	Weekly	HUF12,000 (EUR47.68)	n/a
	Monthly	HUF53,000 (EUR210.60)	HUF57,000 (EUR229.79)
Ireland	Hourly	EUR7.00	EUR7.65
Japan <sup>3</sup>	Hourly	JPY665 (EUR4.86)	n/a
Latvia	Hourly	LVL0.474 (EUR0.71)	LVL0.474 (EUR0.68)
	Monthly	LVL80 (EUR120.26)	LVL80 (EUR114.90)
Lithuania	Hourly	LTL2.95 (EUR0.85)	LTL3.28 (EUR0.95)
	Monthly	LTL500 (EUR144.81)	LTL550 (EUR159.29)
Luxembourg	Hourly	EUR8.31	EUR8.69
	Monthly	EUR1,438.01	EUR1503.42
Malta	Weekly	MTL53.88 (EUR125.89)	MTL55.63 (EUR129.40)
Netherlands	Monthly	EUR1,264.80	EUR1,264.80
Poland	Monthly	PLN824 (EUR182.03)	PLN849 (EUR211.04)
Portugal	Monthly	EUR365.60	EUR374.70
Romania	Hourly	ROL16,340 (EUR0.40)	ROL18,230 (EUR0.50)
	Monthly	ROL2,800,000 (EUR69.12)	ROL3,100,000 (EUR85.61)
Slovakia	Hourly	SKK37.40 (EUR0.93)	SKK39.70 (EUR1.03)
	Monthly	SKK6,500 (EUR162.41)	SKK6,900 (EUR178.76)
Slovenia	Monthly	SIT117,500 (EUR491.45)	SIT122,600 (EUR511.75)
Spain	Daily	EUR16.36	EUR17.10
	Monthly	EUR490.80	EUR513.00
UK	Hourly	GBP4.85 (EUR7.14)	GBP5.05 (EUR7.39)
USA (federal) <sup>4</sup>	Hourly	USD5.15 (EUR4.14)	USD5.15 (EUR4.14)

Note: See p. 14 for an explanation of the footnotes.

\*Conversions into EUR, where necessary (using average exchange rates for 2004 and 2005 from European Central Bank, except for Brazil, where rate is average over September 2005–February 2006)

<sup>1</sup> China: figure, given as an illustration only, represents the average of the monthly minimum wage in a small number of provinces, cities or other areas (which probably include some of the higher rates): CNY600 in Shenzhen, CNY570 in Shanghai and CNY495 in Beijing (as reported by the Xinhua News Agency, 2004); CNY494 (fourth of seven categories) in Guangdong (as reported by China Labor Watch, 2004); CNY574 in Dongguan (as reported by China Labor Watch, 2005)

<sup>2</sup> France: rate cited applies only to workers on a 39-hour week, following recent moves to a statutory 35-hour week (workers on a 35-hour week currently receive a slightly lower rate, but harmonisation is in process).

<sup>3</sup> Japan: figure is a weighted average of all prefectural minimum wage rates. The weighted average of industry-based minimum wages, whose coverage is much lower, was JPY756 (EUR5.52) per hour in 2003.

<sup>4</sup> USA: 17 states have a minimum wage above the federal level, standing in October 2005 at: USD7.00 (EUR5.63) per hour or more in Alaska, Connecticut, Oregon, Vermont and Washington (the highest, at USD7.35, or EUR5.91); USD6.50 (EUR5.22) to USD7.00 in California, Illinois, Massachusetts, New York (from 1 January 2006) and Rhode Island; USD6.00 (EUR4.83) to USD6.50 in Delaware, the District of Columbia, Florida, Hawaii, Maine and Minnesota; and USD5.70 (EUR4.58) in Wisconsin.

Source: EIRO for EU; national reports for other countries (except China, for which sources are cited above).

### Relationship with average earnings

Table 5 opposite gives the statutory minimum wage as a proportion of average monthly gross pay in 2004 (or the most recent available year in several cases). In Europe, the proportion ranges from 29% in Romania to 51% in Ireland (the only country where the minimum wage is more than half of the average pay). Three broad groups of countries can be distinguished in this respect:

- the first group, where the proportion varies between 29% and 38%, includes the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Spain;
- the second group, with proportions of between 40% and 44%, includes Bulgaria, Cyprus, Malta, Portugal, Slovakia, Slovenia, and the UK;
- the third group, with proportions in excess of 45%, includes Belgium, France, Greece, Ireland, Luxembourg and the Netherlands.

Among the countries for which the relevant data are available, over the past decade (or since 2001 in the cases of Ireland and the UK, which had no statutory minimum wage before then), the value of the minimum wage compared with the average wage has: increased somewhat in Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Slovakia, Slovenia and the UK; remained fairly stable in France and Ireland; and fallen back in Belgium, Malta, the Netherlands, Poland, Romania and Spain.

Japan would fall into the first group of European countries, with a (regional average) minimum wage of 36.6% of average wages in 2004, a figure that has risen very slightly from 35.9% in 1995. The US federal minimum wage, at 32%, also falls into the first European group (being higher only than that in Romania) and this proportion has fallen steadily in recent years (having stood at 50% in the 1960s). The Brazilian minimum wage as a proportion of average pay is, similarly, at the level found in the first group of European countries (36%), but the proportion has risen rapidly in recent years, having stood at under 24% in 2000. Equivalent figures cannot be produced for China, given the highly decentralised nature of minimum pay setting and great regional variations in wages. Purely as an indication, the average 'money wage' nationwide stood at CNY1,170 per month in 2003, according to the National Bureau of Statistics. Comparing this with our illustrative minimum wage rate (see Table 3 above), the minimum rate is 47% of the average.

**Table 5 Statutory minimum wages as a percentage of the average gross wage**

Country	2004
Belgium*	46
Brazil**	36
Bulgaria	40
China	n/a
Czech Republic	37
Cyprus	41
Estonia	34
France**	46–48
Greece	47
Hungary	36
Ireland	51
Japan	37
Latvia	38
Lithuania	38
Luxembourg*	49
Malta	44
Netherlands*	45
Poland	36
Portugal*	43
Romania	29
Slovakia	41
Slovenia	44
Spain	33
UK	40
USA***	32

\*2002; \*\*2003; \*\*\*2005

Source: EIRO for EU, except Eurostat for Luxembourg and Portugal; national reports for other countries – Japanese figure is for prefectural average minimum wage.

## Views of the social partners

In countries with a statutory minimum wage system, trade unions seem unanimously in favour of the existence of this type of wage floor. By and large, they see it – at least potentially – as an effective way of combating poverty and low pay, both in general and in terms of closing the gender wage gap. There are also specific national arguments in favour of minimum wages – for example, Japanese unions stress the system's importance in light of the country's highly decentralised manner of setting pay and conditions, and of a perceived need to restrain wage differentials. However, unions in many countries have two main areas of discontent: the level of the minimum wage and some of its structural features.

The view that the minimum wage is currently set at too low a level, thus reducing or even almost nullifying its significance as a means of protecting employees, is shared widely among trade unions. This is a common union complaint in EU countries such as Belgium, Greece, Hungary, Ireland, Latvia, Malta, Romania, Slovenia, Spain and the UK, and in the USA. Some unions argue

that the minimum wage should represent a 'living wage' (as in the UK) or should be set at a level that takes family needs into account (as in Poland and Slovenia).

The suggested response is of course to increase the current minimum wage rate, with the most significant hikes demanded especially in the new EU Member States and acceding countries (for instance, in Bulgaria, the Czech Republic, Romania and Slovakia). Major rises are, however, also called for by some unions in several EU15 Member States, such as France. In countries such as Romania and Slovakia, unions want the minimum wage pegged at a much higher proportion of average wages (60% in both cases) than at present. Other arguments cited for increasing the minimum wage include the beneficial knock-on effects on the wages collectively agreed at sector and company level (Bulgaria) or improved incentives to work (Czech Republic). Irish unions argue that a higher minimum wage would boost employment, first by increasing the spending power of the low-paid and, second, by spurring employment growth in low-paid sectors through guaranteeing basic levels of pay. For US unions, an increase in the minimum wage would push the wages of all lower-paid workers upward and thus help to reverse the trend towards greater inequality in American society. However, their efforts are currently targeted mainly at state and local levels, because of the unlikelihood of the Republican-controlled Congress raising the federal minimum or introducing 'living wage' legislation. Japanese unions are also in favour of raising minimum wage levels, pointing to the low proportion of workers affected by revisions of minimum wage levels, and the large gap between the minimum wage and the average wage. For Brazilian unions, an increase in the real value of the minimum wage would increase the earnings of less-qualified workers (and those receiving social benefits, which are linked to the minimum wage), resulting in higher consumption, more production, more jobs and increased tax revenues.

Structural changes demanded by unions include: a repeal of current age-related differentials in Belgium and the UK; adding new occupations to the limited number currently covered by minimum wage legislation in Cyprus; and the introduction of separate rates for skilled, unskilled and white-collar workers in Hungary. Improved enforcement mechanisms are a major demand for unions in Cyprus. In 2005, Brazilian unions successfully campaigned for the establishment of a board, including social partner representatives, to draw up a standing policy for increasing the value of the minimum wage. Unions in some new EU Member States with underdeveloped systems of sectoral collective bargaining, such as Estonia and Lithuania, while in favour of a statutory minimum wage, argue that its significance will decline if sectoral agreements setting their own minimum rates become more widespread. Some unions also acknowledge that current minimum wages are a 'blunt instrument' with regard to, for example, addressing gender inequality where women often work part time, as in France.

Employers and their organisations differ rather more in their views on statutory minimum wages. Outright opposition and calls for wholesale abolition of the system are rare among the main employers' bodies – although Bulgarian and Slovakian employer organisations arguably appear to come close to this position, while Cypriot employers believe that the country's limited system of occupational minimum wages is unnecessary, given high unionisation and bargaining coverage. The overall picture is one of general, if sometimes grudging, acceptance of the fact of a statutory minimum wage. (This includes countries such as Ireland and the UK where there was some employer opposition before its recent introduction.) Such acceptance is, however, frequently accompanied by resistance to further increases (any increases, or over a certain level) and calls for

structural changes to the system, usually on the grounds that it acts as an obstacle to hiring because it increases labour costs.

In some EU countries, employers by and large seem to express little in the way of criticism of the current minimum wage system and its effects – examples are Hungary, Lithuania, the Netherlands, Poland and Spain. In a larger group of countries, there is considerable employer concern about the actual or potential rate of increase, or opposition to any increase at all. For example, Estonian, Irish, Lithuanian, Slovenian and UK employers warn that further increases could endanger employment, notably in some sectors (especially small and labour-intensive businesses) and/or age groups. Czech employers want slow or no growth in the minimum wage following major rises in recent years, while a general policy of restraint is promoted by Greek employers. US business representatives are strongly opposed to any increase in the federal minimum wage (which has been frozen since 1997), arguing that this would destroy jobs, force small businesses into bankruptcy and reduce the opportunities for unemployed people to find work. Brazilian employers, while not being overly concerned about the statutory minimum wage as such (which is generally below negotiated wage floors), are worried about the economic effects of overly large increases.

In other countries, employers want trade-offs for minimum wage increases, or are unsure about such rises. Employers in Romania support a modest rise in minimum wages, conditional on social contributions and profit taxes being reduced. Employers in Latvia have mixed opinions on whether an increase in the minimum wage would help to stop the labour emigration that is a current feature of the country's labour market or whether it would affect competitiveness adversely.

Employers' proposals for change often focus on greater differentiation of minimum wages with regard to skills, regions and/or sectoral differences, as in Estonia, Slovakia and the UK, or on changing the adjustment mechanism or criteria, as in Estonia, France and Malta. Japanese employers support a minimum wage system on the grounds that it contributes to economic stability and growth. However, they want to abolish the industry-based system that currently exists alongside the regional minimum wages system in some sectors and regions (see above), arguing that it has a negative effect on the competitiveness of industries. With regard to the regional system, they maintain that it is functioning effectively and oppose comparing the minimum wage level to the average wage or fixating on achieving a certain rate of coverage.

Japan is one of the few countries where a significant minimum wage reform is currently on the joint agenda of the social partners. A Study Group on the Minimum Wage System was set up by the government in 2004, made up of government officials and representatives of workers, employers and 'public interest' groups. The group released its report in March 2005, defining the role of the minimum wage as 'a safety net to protect all workers from unreasonable wages' and proposing a number of reforms, such as a re-evaluation of the standards and levels for fixing regional minimum wages and a fundamental review of the industry-based minimum wage system that considered abolishing or reforming it. It also suggested that fines for violations be increased and that the minimum wage should cover temporary workers. A minimum wages committee has been considering the proposals. As noted above, the Brazilian government has also agreed to set up a board, with social partner involvement, to review the minimum wage.

In a few of those European countries without a statutory minimum wage at present, the introduction of such a scheme is topical. The Austrian government has proposed a statutory



monthly minimum wage of EUR1,000 for full-time workers, while Norway is currently debating statutory minimum wages as a possible means of preventing an influx of low-paid workers from the new EU Member States. Germany has recently been discussing the extension of the 'posted workers' Act (see Box 1) to include other sectors in order to fight 'wage dumping' involving foreign workers, especially from new EU Member States. As for social partner views, there is no debate on this issue at all among them in Sweden (which is also true for the government), while in Denmark, the social partners support the existing situation, as does the government. In Austria, neither trade unions nor employers call for a statutory minimum wage, as both regard the protection afforded by the high coverage rates of collective agreements as sufficient. Similarly, neither the Finnish government nor the social partners are in favour of a statutory minimum wage, although employers call for the possibility of deviating from collectively agreed minimum wages. In Italy, employers call for a regional differentiation of collectively agreed minimum wages between northern and southern Italy, but trade unions reject this proposal. In Germany, trade unions support the current proposals to extend the posted workers Act to other economic sectors, while employers oppose this move.

Finally, in China, given the economic and political set-up, it is quite hard to distinguish between the views of state, employers and unions on the minimum wage issue. However, there is a current debate that addresses the following issues: which workers should be covered; the type of standards required; the correct balance between employee protection and 'market incentives'; the reasons why many workers appear to tolerate employers paying below the minimum rate; and the attitude to enforcement of local governments.

# Relocation of production and industrial relations

A visible feature of deepening economic globalisation is an apparently increasing tendency for companies to transfer all or part of their operations from one country to another. Typically – or at least in its most high-profile form – this involves companies headquartered in advanced industrialised economies closing or scaling down their operations in those countries (their home country or others) and moving them to less developed economies. The process can involve the production/assembly of goods or the provision of services; the main focus, however, here is on the former. It is known variously as ‘relocation’, ‘offshoring’, ‘delocalisation’ and ‘offshore outsourcing’. Such relocation may be internal, with the firm moving production or service provision from its operations in one country to its new or existing operations in another. Alternatively, it may be external, and involve the purchase of products or services – usually previously manufactured or provided internally – from an external company in another country (a process termed ‘outsourcing’). The focus of this section is principally on the internal form.

Relocation has become a major preoccupation among industrial relations practitioners, policy-makers and researchers in a number of countries, particularly those from which the tendency is for production or service provision to be relocated (such as many western European states, the USA and Japan). This is because the process inevitably involves restructuring and, in almost all cases, a loss of jobs in those countries. At company level, relocation is often a source of conflict in the country that is ‘exporting’ jobs; this may result in agreements being signed that mitigate its effects or reduce the job losses or, more rarely, reverse the decision. Furthermore, the threat of future relocation may be used explicitly or implicitly to influence bargaining outcomes in such companies. Beyond the company level, countries that lose production and jobs to relocation often see a debate involving the social partners, public authorities and others over issues such as: the wider employment, economic and social effects; measures to prevent or dissuade companies from relocating; the attractiveness of the country concerned as a place to do business or as an investment location; and, linked to the previous point, the level of costs, especially labour costs, and the degree of regulation, not least of employment.

In destination countries of relocation, the process is less controversial, as it brings jobs and economic activity to areas that are often at a relatively low level of development. However, the employment conditions and industrial relations arrangements that apply at the relocating company’s new or expanded operations may be a matter of debate – for example, local trade unions will often be keen to establish or expand their presence – or in some cases collective bargaining. Beyond the company level, there may be a national debate on how to increase or maintain the country’s attractiveness to investors, or on whether the price for being investor-friendly is too high, in terms of low levels of worker protection or wages.

Overall, relocation raises important issues about the following: the effects of an increasing mobility of capital on industrial relations; the bargaining power of multinational companies and their ability to go ‘regime shopping’, with resulting pressures on governments and trade unions to accede to demands for deregulation of labour markets and reduced labour protection; and concerns about ‘social dumping’ and a ‘race to the bottom’ in labour standards. In this context, this chapter provides an overview of some industrial relations aspects of relocation in both the countries that are the main sources – western Europe, Japan and the USA – and some of the principal

destinations – China, central and eastern Europe and Brazil (Luxembourg and Portugal are not included in the material on western Europe).

### **Scale of the phenomenon**

Attempting to assess the extent of current relocation processes is beyond the scope of this report. Briefly, it should be noted that relocation of production – a company moving all or some of its manufacturing or assembly activity from its operations in one country to its operations, existing or new, in another country – is hard to measure on a world scale, with a lack of clear indicators of its extent. The issue is not without controversy, with greatly varying figures and estimates produced by different sources. It does seem clear from United Nations Conference on Trade and Development (UNCTAD) data that the shares of total foreign direct investment (FDI) received by some less economically advanced countries – notably China, followed at some distance by the CEECs and, even further behind, Mexico and India – have increased greatly in recent times. FDI is by no means the same thing as relocation of production – for instance, FDI includes investment that involves simply expansion in foreign locations rather than just shifts from one country to another; furthermore, the UNCTAD figures include services. However, such investment flows are very likely to include transfers of production capacity to these areas.

A variety of surveys and monitoring exercises provide evidence on relocation of production at national or regional level; all have their limitations, but still contribute to an overall picture. For example, in Europe, surveys of businesses show a high interest in, and attention to, relocation of production: relocation is mentioned as a concrete option, either realised or envisaged in the near future, by a significant and seemingly increasing number of firms. In practice, however, relocation is currently happening on only a small scale. The European Restructuring Monitor (ERM) (see <http://www.emcc.eurofound.eu.int/erm/>) records company restructuring cases across the EU and Bulgaria and Romania, on the basis of national newspaper reports. It has found that cases of relocation still form a relatively small proportion of all restructuring cases (around 5% of reported cases and resulting redundancies over 2002–05).

The data for the USA are similarly contradictory and controversial. For example, a Bureau of Labor Statistics (BLS) survey of ‘mass lay-offs’ in the first quarter of 2004 found that redundancies attributable to outward relocations accounted for just 2.3% of jobs lost during the period. However, this survey is widely thought to have major shortcomings, and research conducted for the US–China Economic and Security Review Commission (by researchers from Cornell University and the University of Massachusetts) found that the number of jobs lost to international relocations in the first quarter of 2004 was five times higher than the BLS figure (and possibly up to 10 times higher). Indeed, the researchers suggest that perhaps one in four of all US workers ‘involuntarily displaced’ in 2003 lost their jobs as a result of outward relocations. The trend is said to be increasing, and some 80% of jobs moved offshore are in manufacturing.

### **Nature of the debate**

The debate over the level of relocation continues. For the purposes of this report, it suffices to say that relocation is occurring to such a degree that it has become a topic for public, political and industrial relations debate in many countries, especially those from which production is being relocated. The overall trend is for the direction of relocation to be primarily (although not always

exclusively) outward from western Europe, Japan and the USA and inward to the CEECs, China and other emerging economies (see Table 6 overleaf). However, the picture is somewhat more complicated in Europe. Unusually, the direction appears to be mainly outward from Slovenia and Cyprus, while several other new EU Member States, such as the Czech Republic and Hungary, have mixed trends, with inward relocation increasingly focusing on higher-quality and higher value-added activities, while outward relocation of lower value-added production is emerging. A somewhat similar situation applies in Ireland: the country has long been a preferred destination for relocations, especially in the ICT sector and in services, but it is losing low-skilled and labour-intensive production.

It should also be noted that there is considerable relocation within the old EU15. Moreover, industries are relocating outwards from these countries not just to the CEECs and China, but also to other Asian countries, such as India, and to Africa and Latin America. Outward relocation from new EU Member States is often towards neighbouring non-EU countries, as well as Asia and Africa. Beyond Europe, outward relocation from Japan is increasingly in the direction of China, although industry is also moving to other Asian countries (such as Indonesia and Malaysia), and is still moving, to some extent, to Europe and the USA. In the USA, relocation to China and India has become prominent. Mexico, however, still seems to be the main destination, with other Latin American countries also significant.

The prevalent direction of relocation is thus from economically more advanced countries to less advanced countries: this strongly suggests that firms are searching for locations that allow lower production costs (including labour costs) and that provide easier access to expanding markets. Indeed, labour costs are a widely cited factor in relocation decisions – the scale of the differences in costs is suggested by the wide variations in minimum wage rates given in Table 4 (p. 13). Further such evidence can be seen in the case of Mexico: manufacturing wages in the country range from one seventh to one fourteenth of those in the USA depending on the industry, and appear to be stagnant or falling in real terms.

Mature markets, in which the competitive edge of costs and prices is often decisive, are most affected by the relocation of production. The principal sectors affected include car manufacturing and automotive components, textiles and clothing, shoes, metalworking and electrical appliances and components (see Table 6 overleaf). These are major traditional mass-production sectors, which often require relatively simple technologies and a low-skilled labour force. Consequently, the impact on employment levels in the countries from which such production is being relocated can be substantial.

The sensitivity and topicality of relocation is essentially linked to outward transfers, due to their direct impact on employment, their link to concerns about the competitiveness of firms and their close association with the challenges of a globalised economy. It is thus not surprising that the debate on relocation is more developed in countries where fears of losing competitive advantages to emerging and low-cost economies are high. The issue seems particularly 'hot' in the USA and some western European countries, notably Belgium, Denmark, Finland, France, Italy, the Netherlands, Norway, Spain and the UK.

Conversely, the subject is less prominent in countries where inward relocation prevails, such as most CEECs and, apparently, China. (In a number of CEECs, however, the picture is changing, as

new trends such as outward relocation emerge.) Understandably, the topic occupies a lower profile in those countries where the impact of either inward or outward relocation is limited, such as the Baltic states and, it is reported, Brazil.

**Table 6 Importance in public debate and main features of relocation of production**

Country	Importance in debate	Principal direction	Destinations/sources	Main sectors involved
Brazil	<i>Low</i>	<i>Inward and outward</i> , but apparently not at high levels at present. Few specific, direct data but the number of inward greenfield projects is falling, and there is increasing investment abroad; (much internal relocation within country, from higher-cost south-east)	No data	No data
China	<i>Medium-low</i>	<i>Inward</i> mainly	<i>Inward</i> from Japan, Taiwan, Hong Kong, USA and Europe	<i>Inward</i> : mainly labour-intensive and mass-production industries
Europe	<i>High</i> : Belgium, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Malta, Netherlands, Norway, Poland, Slovakia, Slovenia, Spain, UK <i>Medium-high</i> : Greece, Hungary, Sweden <i>Medium-low</i> : Austria, Bulgaria, Romania <i>Low</i> : Cyprus, Estonia, Latvia, Lithuania	<i>Mainly outward</i> : Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Slovenia, Spain, Sweden <i>Mainly inward</i> : Bulgaria, Latvia, Lithuania, Poland, Romania, Slovakia <i>Both inward and outward</i> : Czech Republic, Estonia, Hungary, Ireland, Malta	<i>Outward</i> from EU15 to CEECs, Asia (especially China and to a lesser extent India) and less frequently Africa and South America, plus USA in some cases (eg France and Netherlands); also considerable intra-EU15 relocation <i>Outward</i> from some new Member States (Cyprus, Czech Republic, Hungary, Malta, Slovenia) to CEECs, other eastern European countries, Asia (especially China) and North Africa <i>Inward</i> to CEECs from EU15, Asia and USA. To Ireland from USA and other EU15	<i>Outward</i> from EU 15: labour-intensive and mass-production industries (e.g. car manufacturing, automotive components, textiles/clothing, shoes, metalworking, electric appliances/components food/processing), plus services in some cases <i>Outward</i> from new Member States: labour-intensive and mass-production industries (see above) in cases such as Cyprus, Estonia, Hungary, Malta, Slovenia <i>Inward</i> to new Member States: labour-intensive and mass-production industries (see above), but increasingly higher-technology sectors in cases such as Czech Republic, Hungary, Latvia, Slovakia <i>Inward</i> to Ireland: higher-technology sectors

Table 6 (continued)

Country	Importance in debate	Principal direction	Destinations/sources	Main sectors involved
Japan	<i>Medium—high</i>	<i>Mainly outward</i>	<i>Outward</i> to other Asian countries (increasingly China, more traditionally countries such as Thailand, Indonesia, Malaysia and Singapore), USA and Europe (both declining) and, to a lesser extent, Central and South America. (However, some evidence of some companies moving manufacturing back to Japan recently)	<i>Outward</i> in sectors such as textiles, manufacturing of ICT equipment, transport machinery (notably manufacture of automobiles), electronics and chemicals
USA	<i>High</i>	<i>Mainly outward</i>	<i>Outward</i> mainly to Mexico, China, India, other Latin American countries and other Asian countries	<i>Outward:</i> to Mexico, traditionally industries such as garment assembly but increasingly higher-value sectors such as automotive and aerospace; to China, both low-skill light manufacturing and higher-end engineering; and to India, mainly telecommunications, IT, finance and transportation

Source: EIRO for Europe; national reports for other countries

## Positions of the social partners

As noted above, the extent to which relocation is a prominent topic of debate varies considerably from country to country: in general it is a much hotter issue in those countries where the prevailing trend is outward. The same applies to the extent to which trade unions and employer organisations focus on the issue; of necessity, this section focuses mainly on countries that are primarily experiencing outward relocation. In a country such as China, it is reported that there is little involvement by the social partners in relocation processes and debates.

### Employers

#### *Europe*

In outward-relocating European countries, employer organisations generally argue that relocation of production is a legitimate option for businesses – perhaps inevitable – if firms are to pursue competitiveness and growth. Furthermore, they argue that offshoring brings benefits both to the relocating firms (and their employees) and to their domestic economy, through the positive effects of a strengthened ability to compete on global markets and cope with foreign competition. Relocation is seen as being an opportunity for firms. It should not be restrained; instead, decisions about relocation should be left to the management of individual companies.

At the same time, however, employers often prefer to avoid relocation, both because it suggests that there are problems with the domestic business environment and because of its complexity and the uncertainty of its outcomes. They then argue that the competitiveness and attractiveness of domestic economies should be promoted by interventions that reduce or eliminate the need for relocations.

Different organisations emphasise different types of interventions; generally, however, they include:

- ‘neoliberal’ interventions, such as labour market deregulation, tax reduction, reduced social contributions and welfare state reforms;
- supportive industrial and innovation policies;
- industrial-relations related initiatives, aimed at ensuring wage moderation and supporting firms’ competitiveness and work flexibility.

Employers don’t question relocation as a company strategy. Rather, they focus on the reasons behind relocation, and on ways to address these, with a view to reducing the perceived need for relocation.

### *Japan*

In Japan, the Japan Business Federation (Nippon Keidanren) employer confederation takes a very similar position on the need for unconstrained relocation, where firms see fit. It maintains that individual companies need to relocate overseas to cut costs and thereby strengthen their international competitiveness. It also stresses a perceived wider benefit little mentioned in Europe, arguing that relocation provides a form of ‘international contribution’ through the technology transfer and job creation that occur as a result. At the same time, like many of its European counterparts, Nippon Keidanren wants to ensure that domestic industry remains strong and competitive, not least on employment grounds. In a recent document entitled *Issues and outlook for strengthening industry*, it states: ‘We consider that some reduction in employment in the manufacturing industry is unavoidable, but in order to avoid a sudden hollowing-out of employment it is necessary to enhance industrial strength and secure domestic manufacturing bases within Japan.’

### *USA*

In the USA, employers’ views are similar to those in the EU. They generally see relocation as a way to improve profit margins and/or survive in an ever more competitive global economy. They regard their actions as helpful to the US economy overall, although unfortunate for redundant workers and the communities affected in the short term. Any pandering to protectionism (which is essentially dismissed by employers in all the countries examined) or regulation of companies’ actions will, employers maintain, inflict severe damage on the US economy and impede processes of renewal and growth. Some manufacturers are noticeably less comfortable with relocation as an option. However, they point to the high costs of doing business in the USA (as do many European employers in relation to their own countries), particularly the costs of healthcare and pension coverage for employees. In addition, US manufacturers make ‘neo-liberal’ complaints about the level of regulation that they face. As the National Association of Manufacturers puts it, they ‘are saddled with regulatory compliance costs, corporate tax rates, and litigation costs that are generally more burdensome than those faced by manufacturers in our major trading partners.’ Unless policy-

makers take steps to remove these additional costs, it is argued, relocation will continue and bankruptcies will mount.

### Trade unions

#### *Europe*

Trade unions in outward-relocation European countries focus principally on the management of relocation at company level. While recognising that relocation is a feature of today's economic environment, and generally eschewing protectionism, they demand full consideration of relocation's social and employment consequences. They essentially argue that, since cost competition with emerging economies is not viable, consultation procedures and collective bargaining should help identify alternatives to relocation or, if the parties agree that it is unavoidable, contribute to creating a set of measures to cushion the negative impacts on workers.

The unions want an institutional environment that is conducive to their involvement in relocation decisions at company level and that constrains – indirectly or directly – the possibilities of relocating production. They mostly consider relocation as a threat, both for workers and for the domestic economy as a whole.

Unions support a number of approaches for coping with the challenges of relocation (the emphasis on each varies between and within countries):

- A 'traditional' approach that promotes the role of industrial relations at the level of firm. This may be through a requirement for the early disclosure of information and the setting up of consultation procedures, with a view to reaching an agreement either on alternative solutions or on the implementation of the relocation and the handling of its impacts. This traditional approach demands a strengthening of the role of European Works Councils (EWCs) and the development of cross-border union cooperation. It also supports:
  - the cross-border harmonisation of employment conditions, through the enforcement of International Labour Organisation (ILO) standards;
  - the establishment of Europe-wide agreements on basic employment conditions and labour protection;
  - the definition of common tax policies – to avoid social dumping and reduce the incentives for 'regime shopping' based on labour protection differentials.
- An 'interventionist' or 'restrictive' approach that aims to reduce the direct benefits or even the possibility of relocation. This may take the form of rules requiring a commitment to maintain production at a certain location for a minimum period when a multinational decides to set up a new plant. Alternatively, it may mean an obligation that public subsidies be returned if production is transferred abroad before a certain period has elapsed. Unions also support regulations that require a substantial contribution on the part of relocating firms to covering the social costs of such relocation: this may take the form of the mandatory provision of retraining or outplacement. They are also in favour of limiting the extent to which public welfare services cover the social costs of relocation without any assistance from the relocating firm. Unions believe that such measures would help to add a 'social dimension' to relocation decisions and reduce the negative repercussions on local communities. These rules could be particularly strict when relocation concerns profitable activities.



- A 'proactive' approach. This is not explicitly directed towards regulating relocation; rather it aims to balance the impact of relocation by fostering employment creation in high-skilled sectors, in which European economies enjoy substantial comparative advantages. The proactive approach focuses mainly on the contribution of the social partners to training and innovation policies. It relies on cooperation at company level to manage relocation in a way that mitigates its social consequences.

The first two approaches can arguably be implemented irrespective of the features of a national industrial relations system. The third, however, seems to presuppose a participatory framework, with developed social dialogue at both national and decentralised levels.

Several unions in Nordic countries take the position that relocation is less problematic for trade union strategies than is usually thought. They maintain that unions should not try to avoid relocations by concession bargaining, especially on wages, since the international division of labour actually benefits wage earners. Danish unions, as well as supporting a number of 'traditional' and 'restrictive' measures, argue that the challenges of relocation are creating new jobs, increasing educational levels and placing more emphasis on innovation. Similarly, the Swedish Metalworkers' Union (Metall) has recently expressed its opposition to measures that make relocation more difficult or expensive. It argues that only the development of a competitive environment can support the growth of the Swedish economy, thereby providing new job opportunities to counterbalance those transferred abroad. This approach suggests that, although relocation needs to be governed by industrial relations and must not be left unchecked, it should not be opposed as such, since it can place 'virtuous constraints' on the development of national economies. A less radical version can be found in Germany, where the Confederation of German Trade Unions (Deutscher Gewerkschaftsbund, DGB) maintains that relocation should not make unions change their wage policy, as German firms continue to demonstrate their competitiveness through good export performance. In other words, concession bargaining is not the right answer: there are other ways to address the issues raised by globalisation and relocation.

Some unions in Europe seem to downplay the threat of relocation. However, all of these cases are found in countries where the industrial relations system provides substantial support to trade union action, while the social protection system contributes significantly to reducing the negative effects of relocation on the workers involved.

#### *Japan*

The Japanese Trade Union Confederation (Rengo) also expresses an understanding of relocation by Japanese companies as an inevitable trend linked to globalisation. In response, it stresses the 'traditional' approach defined above: ensuring that the companies' operations overseas are in compliance with core labour standards and the Organisation for Economic Cooperation and Development (OECD) guidelines for multinational enterprises, and favouring cross-border cooperation between trade unions organising in Japanese companies' overseas operations and the relevant domestic unions (although such cooperation has generally not yet taken shape). Unions also seek labour-management consultation at company level over the employment effects of relocation, although there is no indication that they are calling for such voluntary consultation to be placed on a legal footing. Rengo is also in favour of the implementation in Japan of industrial, employment or regional development policies to tackle the economic and employment impact of relocation.

### USA

US trade unions seem rather less accepting of the basic fact of relocation and its rationale than most unions in Europe and Japan. They argue that the loss of manufacturing and white-collar jobs is turning the USA into a society more divided than ever between rich and poor. They also argue that companies are taking advantage of cheap foreign labour and repressive conditions in developing countries that drive down the cost of labour downwards. As the American Federation of Labor–Congress of Industrial Organizations (AFL–CIO) put it in a resolution adopted in 2004: ‘Like Americans everywhere, we believe that American corporations have a moral obligation to create and to keep good jobs in America. We support raising living standards around the world, but we steadfastly reject and resist any notion that improving living standards elsewhere requires sacrificing good jobs and living standards for American workers and their families.’

Among the responses proposed by US unions are a number that involve a complete rewriting of the rules governing the global economy, such as a reform of trade agreements such as the North American Free Trade Agreement (NAFTA) to include enforceable protections for the rights of all workers. There are also suggestions for healthcare reform, such as lowering health insurance costs, which add to the cost of doing business in the USA. Other proposals fall more readily into the classification used above. Unions want interventionist measures such as: government tax incentives focused on job creation in the USA; amended public procurement procedures so that ‘American taxpayers are not subsidising the flight of US jobs’; the denial of government R&D funds to companies that transfer the technology, intellectual property and other by-products of this investment overseas; and the creation of a better safety net for redundant workers. Among ‘traditional’ approaches, there seems to be considerable emphasis by some US unions on building cross-border alliances and campaigns with unions in other countries. While there have been some successful campaigns, for example with independent Mexican unions, results appear to have been limited so far.

Unions in many countries, notably the USA and western Europe, criticise what they see as the frequent opportunistic use of relocation threats by firms, as a strategy to put downward pressure on workers’ demands during collective bargaining. For example, there is reportedly well documented evidence to indicate that the option of relocation has been used by some US employers to strengthen their hand at the bargaining table. Other companies, apparently, have threatened to relocate should their employees wish to pursue union recognition: a significant number have acted on this threat. Another critical issue highlighted by unions, especially in Europe, is the emerging tendency for firms to consider relocation even when their economic and financial performance is good, in order to increase profit margins. According to trade unions, this shows an excessive attention to ‘shareholder value’, to the detriment of the interests of other stakeholders – notably those of workers.

**Table 7 Main social partners' positions on relocation of production (in outward relocation countries)**

	Main viewpoints	Main proposed measures
Employers	<p>Relocation of production is a fully legitimate option and sometimes inevitable if firms are to pursue competitiveness and growth.</p> <p>The benefits of relocation accrue both to the relocating firms (and their employees) and to their domestic economy. (In Japan, international benefits are also stressed.)</p> <p>The social impacts of relocation must be duly taken into account (mainly Europe and Japan).</p> <p>Relocation processes indicate problems with the domestic business environment in terms of competitiveness and attractiveness for business activity.</p> <p>Relocation is both a complex and uncertain process.</p> <p>The competitiveness of domestic economies is crucial and should be promoted by specific measures.</p>	<p><i>Market-oriented:</i> labour market and other deregulation; tax reduction; reduced social contributions and welfare state reforms</p> <p><i>State intervention:</i> supportive industrial and innovation policies to guide industrial restructuring.</p> <p><i>Industrial relations:</i> wage moderation; work and organisational flexibility; pacts for employment and competitiveness (mainly Europe)</p>
Trade unions	<p>Cost competition with emerging economies is not viable.</p> <p>Consultation procedures and collective bargaining should help identify alternative solutions to relocation.</p> <p>If the parties agree that relocation is unavoidable, a set of measures to cushion the negative impacts on workers should be jointly defined.</p> <p>The institutional environment should support the involvement of unions in relocation decisions at company level (mainly Europe) and should constrain indirectly or directly the possibility of relocating (mainly Europe and USA).</p> <p>Companies should maintain good jobs in home economy (mainly USA).</p>	<p><i>Traditional:</i> promotion of the role of industrial relations at firm level (e.g. early information rights, or consultation procedures aimed at reaching agreement on alternative solutions – mainly Europe); harmonisation of cross-country working conditions (e.g. enforcement of ILO standards, cross-border agreements on basic employment conditions and labour protection); a strengthened role for EWCs (Europe) and cross-border union cooperation</p> <p><i>Restrictive:</i> rules on a minimum stay when a multinational decides to set up a new plant (mainly Europe); an obligation to return public subsidies if production is transferred abroad (Europe and USA); tax incentives and public procurement rules that promote domestic jobs (mainly USA); a substantial contribution by relocating firms to cover the social costs of offshoring, such as mandatory provision of retraining and outplacement services, or participation in public welfare expenses (mainly Europe). Unions suggest that these rules could be particularly strict when relocation concerns profitable activities (mainly Europe).</p> <p><i>Proactive:</i> policies aimed at balancing the negative impact of offshoring by fostering the development of business activity and employment creation in high-skilled sectors – for instance, through investment in education and innovation research</p> <p><i>Other:</i> rewriting of rules governing the global economy (mainly USA)</p>

Source: based on EIRO for Europe, national reports for USA and Japan.

## Management of relocation processes

It is probably in the management of the process at company level that the differences in national industrial relations systems are expressed in the clearest and most concrete way.

### Outward relocations

#### *Industrial relations context*

In those European countries where outward relocation is the main trend, a basic floor of rights is laid down by EU-wide legislation on informing and consulting employees and their representatives in restructuring generally and in specific areas such as collective redundancies. Country-specific legislation builds on this to give workers' representatives a variety of rights in restructuring situations (such as relocations). Such rights usually entail information and consultation; in a minority of countries they also include negotiation rights over a limited range of issues. However, the *decision* to restructure is never negotiable by law; consultation and negotiations most often deal with the *consequences* of restructuring, usually seeking to limit the harmful effects for employees. Beyond these statutory rights, the potential influence of trade unions and workers' representatives over relocation decisions will essentially depend on such factors as trade union (or works council) presence and organising capacity, or the terms of any relevant collective agreement (see the 2001 EIRO comparative study, *The involvement of employees and collective bargaining in company restructuring* (TN0107201S)). Trade union density and collective bargaining coverage vary considerably among and within the (mainly western) European countries most affected by outward relocation; both, however, are generally relatively high and significantly higher than in countries such as Japan and the USA (see *Industrial relations in the EU, Japan and USA, 2002* (TN0401101F))

In Japan, there is no legislation governing employee participation at enterprise level, but employee-management cooperation frequently exists in practice. According to the most recent figures, over 40% of establishments with 30 or more employees (and a higher proportion in larger firms) have a 'labour-management consultation organisation' – a permanent structure in which labour (represented in around two-thirds of cases by trade union representatives) and management consult on issues related to management, production, working conditions and welfare. The matters dealt with by such organisations often include restructuring, lay-offs and redundancies. Participation takes many forms, notably written explanation by management, the exchange of opinions, discussion and agreement. These organisations would appear to be the main channel for workers and their representatives to discuss, or exert influence over, company relocation decisions. Again union presence and strength is likely to be a factor, and it is worth noting that union density in Japan currently stands at just over 19%.

Similarly, the USA has no legislation requiring employee participation on restructuring/relocation, or indeed on any other subject, and non-statutory representational forms of company-level employee involvement are rare. Any input by workers' representatives into company relocation decisions would appear to depend entirely on a strong trade union being present and able to engage in bargaining on the issue. However, union density in the private sector is only around 8% and, as we shall see below, union involvement in such situations is not common.

*Europe*

The 2005 EIRO comparative study *Relocation of production and industrial relations* (TN0511101S) examined recent cases of relocation as reported by the EIRO national centres from across Europe. It found that in most cases the outward relocation exercises involve the following basic stages:

- the firm announces its intention to relocate production abroad;
- an information and consultation process starts, which in many countries includes negotiations proper;
- after the completion of the consultation process and, where relevant, of negotiations, the company implements its final decision.

The process involves different degrees of conflict and the final outcomes are, to varying degrees, influenced by consultations or collective bargaining (depending on national industrial relations systems and company-specific conditions). The process implies a reactive or passive role for industrial relations – especially for trade unions, which intervene in the decision-making process at a late stage when it is difficult to reverse the firm's decision to relocate. In general, it is also the case that, where trade unions have little or no presence at plant level, relocation decisions by company management often remain undisputed. In such circumstances, relocation decisions are constrained essentially only by legal requirements for information disclosure, consultation and negotiation with employee representatives, and possibly by pressures exerted by political authorities.

In the majority of reported cases, the announced relocations were eventually implemented, although specific measures were often negotiated to minimise the social impact of the relocation and/or cut the number of planned job losses (examples include the cases of Delphi Packard Austria, DSM, Lego and Salcomp summarised in Table 8). These examples illustrate the different ways in which trade unions and works councils are informed, consulted and involved in drawing up measures to cushion the blow to workers made redundant by relocation, or reduce the number of planned job losses (see the Zoppas case in Table 8). It should be noted that this approach is not restricted to western Europe: there are also cases in some CEECs, where relocation is rarer (see the examples of IBM and Lisca Fashion in Table 9). However, in general, industrial relations play a much smaller role in these countries, given that the presence and strength of trade unions and employee representative structures is often low.

**Table 8 Examples of the role of industrial relations in relocation processes from western Europe**

Case study	Role of industrial relations
<p>In summer 2004, the management of <b>DaimlerChrysler's Mercedes</b> car division, announced that part of the production of its Sindelfingen plant in Baden-Württemberg would be relocated to other sites in Germany and to South Africa if workers' representatives did not agree to cost savings of at least EUR500 million per year, in order to offset a number of advantageous terms and conditions, notably extra working time breaks and bonuses, which applied at Sindelfingen but not at other plants.</p>	<p>The relocation was prevented by an agreement signed in July 2004 that introduced a comprehensive package of measures that affected the whole group. These measures included the cancellation of a 2.79% wage increase scheduled for 2006 for around 160,000 staff at the German Mercedes division's car plants. Also instituted were working time flexibility measures to reduce overtime costs for 20,000 employees in all of DaimlerChrysler's German development and planning departments. A supplementary accord was then signed for service and support employees, who will have their weekly working time progressively increased from 35 hours to 39 without compensation, while new recruits will receive lower wages close to those paid in the service sector. For the employees of the Baden-Württemberg Mercedes plants, breaks will be reduced and partly devoted to training, while bonuses will remain for existing workers but will not apply to new employees. The deal also introduced restrictions on the use of temporary work, but increased work flexibility for younger workers, new recruits and fixed-term contract employees, who may be redeployed within the company over a period of three years, depending on the needs of the various sites. Through the agreement, DaimlerChrysler committed itself to guaranteeing jobs and earnings in Germany at least until the end of 2011.</p>
<p><b>Danish Crown</b> announced at the end of 2004 that it would close its Tulip meat factory at Ringsted in Denmark and relocate production to Germany, if a new local collective agreement failed to introduce a cost reduction equivalent to a wage cut of 15%.</p>	<p>The cost-cutting agreement sought by management was accepted by the majority of the Ringsted plant's workforce, but was rejected by the Danish Food and Allied Workers' Union (Nærings- og Nydelsesforbundet, NNF), which argued that it was not in line with the relevant sectoral agreement. Union representatives were then involved in a second round of negotiations and a new agreement was reached, which envisaged a 14% reduction in wages and defined a different distribution of wage cuts among the various groups of employees. The agreement was meant to be part of a special pilot scheme allowing substantial deviations at decentralised level from the conditions set by the sectoral agreement. This time it was the employees who rejected the deal in a ballot. The result appeared to be influenced to some extent by pressure exerted by the workers at other meat plants, who went on strike to oppose the deal on wage reduction. Shortly after, the Ringsted plant was closed and production relocated to Germany.</p>

Table 8 (continued)

Case study	Role of industrial relations
<p><b>Delphi Packard Austria</b> is a subsidiary of the US-based automotive components group Delphi Corporation. In May 2005, the company announced that it would cut its 650-strong, mainly female, Austrian workforce by 170 over the course of 2005. Due to pricing pressure, the labour-intensive cable production operation was to be relocated to Hungary and Romania, where manual labour costs are significantly lower.</p>	<p>The works council strongly opposed the job cuts in Austria, arguing that the workforce had already nearly been halved during the previous six years and that workers' wages were 24% below the national average. It pointed out that the company had been profitable in recent years and argued that management is seeking purely to maximise profits. The works council is fighting to maintain the remaining Delphi production lines in Austria, making plug systems and injection moulding. A social plan has been agreed to accompany workforce reductions, with which the Metalworking and Textiles Union (Gewerkschaft Metall-Textil, GMT) and the works council are satisfied. It provides financial support for the employees affected, taking into consideration their personal situation (e.g. whether they are sole wage earners or have school-age children). Workers' representatives are optimistic about the prospects of establishing a re-employment scheme but since the workers concerned are highly specialised, placement may be difficult.</p>
<p>In December 2004, <b>DSM</b>, a Dutch-based chemicals multinational, announced the relocation of a substantial proportion of its antibiotics production to India and China, where it already had a strategic alliance with a local pharmaceuticals company and a network of factories. This would result in the closure of plants in the Netherlands and restructuring elsewhere, with the total loss of 400 jobs, 250 of which in the Netherlands (out of a total workforce of 7,500). The relocation was to be completed in the first half of 2005 and was aimed at making savings in the face of reduced profit margins, 'very poor' market conditions and competition from low labour-cost countries, such as India and China.</p>	<p>The effects on employees of the relocation from the Netherlands were dealt with in a social plan on restructuring previously negotiated between DSM management and workers' representatives. Thus the company has tried to ensure that all former employees find other employment, has provided financial compensation and has protected pension schemes. Some of the arrangements are dependent on the age of the employees. Finally, the company has committed itself to report to trade unions on the number of former employees who are still redundant.</p>
<p><b>Lego</b>, the Danish-owned toy manufacturer (7,300 employees worldwide in 2005), started a major restructuring exercise in 2004 due to financial losses, initially moving some production to the Czech Republic, with at least 100 job losses in Denmark. In August 2005, it was announced that all activities in Switzerland would be relocated to the Czech Republic, with more production gradually to be relocated to the Czech Republic, Romania and Bulgaria, on the grounds of lower labour costs. Over the next three to five years, all production of Lego bricks – 90% of which are currently produced in Denmark – will be relocated to CEECs. Lego will furthermore have a single outsourced European distribution centre, in the Czech Republic, with five existing centres (employing 300 workers) in Denmark, Germany and France closed over 2006–2007.</p>	<p>Trade unions at Lego in Denmark were informed and consulted about the plans, holding several meetings with management. Under Danish legislation, management has a duty to inform, hear and consult unions about such plans, but the final decision lies entirely with the management. Collective redundancies may take place on the grounds of restructuring necessary to secure the survival of the company, and the employer has a duty to find alternatives, such as other jobs or vocational training, in cooperation with the trade unions and the regional public employment service. Shop stewards at Lego were heavily involved in such negotiations over the effects of the relocation, but reportedly accepted (along with the majority of employees in Denmark) that it could not be prevented, despite the loss of jobs. Instead they focused on improving the employability of the employees affected. One interesting outcome was that some employees who lost their jobs in Denmark due to relocation have been sent to the receiving Lego subsidiaries to train employees there.</p>

Table 8 (continued)

Case study	Role of industrial relations
<p><b>Salcomp</b> is a Finnish telecommunications firm that mainly produces chargers for mobile phones. It was formerly part of Nokia before being sold to a Swedish equity fund in 1999. All production took place at Kemijärvi in Finland until 1998 when the company started producing chargers in China, then expanding production to Brazil in 2000. The Finnish workforce, which stood at 600 at its peak in 2000, was gradually cut thereafter. Then, in September 2003 Salcomp announced that it would cut its 345-strong Finnish workforce by 280 and shift all production from Finland to China in 2004. Only white-collar personnel at company headquarters and at an R&amp;D unit would remain in Finland. The reason given for shifting production to China was to be close to growing Asian markets and to cut production costs, especially labour costs. The Kemijärvi plant had become unprofitable in 2003 and management argued that the company had no choice but to relocate production abroad. The factory was the last in Europe still producing chargers and trying to compete with producers in low-cost countries.</p>	<p>The announcement of the closure of the Kemijärvi plant was followed by a six-week period of statutory cooperation negotiations, as required by Finnish law. This demands negotiations with unions on important changes including closures, cutbacks, transfers or reductions of activities). No industrial action occurred. According to the chief shop steward at the factory, the negotiations consisted mainly of going through the individual notice periods of the workers affected and of determining how many employees were to be let go each month. He claimed that there was very little to negotiate because the company had already made up its mind prior to the negotiations about the steps to be taken. The number of redundancies was, nevertheless, reduced somewhat as a result of the negotiations, and the final number of direct dismissals stood at 261. The Salcomp case was instrumental in launching a public debate in Finland on the relocation of production.</p>
<p>In early 2004, the Italian-owned <b>Seves</b> group announced the closure of its Sediver glass factory in France, which employed around 300 workers producing electric insulators, and the relocation of its production to China.</p>	<p>Following opposition to the closure by employees and the intervention of the Minister for the Economy and Finance, in summer 2004 management suggested a compromise whereby half the jobs would be saved in exchange for a pay cut, an increase in working time, and an exemption allowing the firm to introduce early retirement at 54. Management also asked for a EUR6 million subsidy under an 'anti-relocation' grant scheme set out in the 2005 French state budget. However, the unions refused what they regarded as a 'double blackmail' of the employees and the state. Talks and conflict continued and the firm eventually offered to maintain production at the French location, but only of low value-added glass blocks, while confirming the relocation to China of the core production of electric insulators. In summer 2005, employees blocked attempts to extinguish the kiln, which would have made the resumption of production impossible, and kept the kiln working in order to retain operating capacity for any potential buyer. However, the police intervened and the factory was closed. In August 2005, protests continued with former Sediver employees blocking the lorries that were supposed to take away the stock of electric insulators still present on the company premises.</p>
<p>At the end of 2003, the management of the <b>Siemens</b> software plant at Herentals in Belgium announced, following a reduction of some 600 jobs in previous years, that a further 130 jobs would be cut in 2004, due to the relocation of part of the site's production to southern and eastern Europe.</p>	<p>Consultation and negotiations between trade unions and management produced an agreement that saved 44 jobs through an increase in weekly working hours from 37 to 38, without additional pay. In order to provide an incentive for workers to accept the working time increase, a later accord introduced a pay rise of 1% per year. The deal on working time has a two-year duration and can be extended periodically after a joint review.</p>
<p>In summer 2004, <b>Siemens</b> announced the relocation to a Hungarian plant of the work of 2,000 employees at two German mobile phone plants. The reason cited was that German labour costs were 30% higher than in Hungary, due to higher wages and shorter working hours.</p>	<p>Relocation from Germany was prevented by a deal that introduced a number of measures, including an increase in weekly working hours from 35 to 40 with no compensation and the substitution of some existing bonuses with performance-related pay. At the same time, the agreement granted job protection for two years and envisaged an additional investment of EUR30 million in the two plants.</p>



Table 8 (continued)

Case study	Role of industrial relations
<p>The Italian-based <b>Zoppas</b> group manufactures heating components sector. Since the early 1990s, it has expanded internationally and now has plants in Germany, Romania, Brazil, the USA and Mexico and China. As part of this strategy, in June 2004 Zoppas announced a restructuring plan that, over the next two years, would lead to the dismissal of 620 workers, out of a total in Italy of 1,400. The plants to be affected were the Irca brand factories in the provinces of Treviso and Pordenone. The plan also envisaged the closure of two factories and the restructuring of a further two, with a large part of production being transferred to other group companies in Romania, China, Mexico and Brazil.</p>	<p>Trade unions organised a series of strikes and demonstrations in which the local community and authorities participated. In September, the dispute was the subject of national negotiations (between the social partners), promoted by the Ministry of Labour and Social Policies. The presidents of the provinces of Pordenone and Treviso intervened, asking for suspension of the collective redundancies projected in the plan. In October the dispute was resolved by the signing of an agreement by the Veneto regional government, regional employer associations and regional union organisations. Under this deal, Zoppas will reduce the number of redundancies from 620 to 417, with two years of benefits from the Wages Guarantee Fund (an income support measure that does not involve dismissals) and a financial incentive for voluntary redundancies. The workers dismissed will be assisted in their search for new jobs by a support and counselling service. The local governments, with the backing of the employers and the unions, will organise training and retraining courses for the workers affected by the restructuring. The Veneto regional government will organise training courses with priority access for Zoppas workers affected by the restructuring in order to furnish skills demanded by other sectors.</p>

Source: EIRO

‘Social plans’ typically comprise: financial incentives and compensation for redundant workers; interventions to improve their employability (training and job search support), often in cooperation with public employment services; and commitments to avoid compulsory redundancies and rely on voluntary departures instead. Where a reduction in the number of planned redundancies is achieved, this is usually through specific agreements aimed at increasing productivity through changes in working time duration and organisation, improved work flexibility and lower labour costs (see the example of Siemens in Belgium in Table 8). The deals reached sometimes include wage restraint, as illustrated by the case of Bortex in Table 9. In certain cases, however, trade unions have refused to grant concessions to avoid relocation-linked redundancies: closures and/or job losses have resulted, often amid considerable conflict and controversy (see the cases of Danish Crown and Sediver in Table 8).

Finally, a number of cases were reported where a planned relocation was subsequently cancelled. However, this outcome seems to be very rare. Two prominent examples are those of Siemens and DaimlerChrysler, summarised in Table 8. These occurred in the German metalworking industry, where the strength and influence of trade unions is, comparatively, very high. Both agreements were possible due to the existence of specific ‘opening clauses’ in the collective agreement for German metalworking, allowing company-level deviations from the sectoral agreement’s provisions.

**Table 9 Examples of the role of industrial relations in relocation processes from the new EU Member States**

Case study	Role of industrial relations
<p><b>Bortex</b> is a Maltese clothing manufacturer that produces men's suits. It currently has about 250 employees. It transferred part of its production to Tunisia in 2003, Bulgaria in 2004 and China in 2005. The reason was that clients had dropped the prices they paid and the firm had to reduce labour costs to remain viable.</p>	<p>The General Workers' Union (GWU) and management have been in continuous consultation over the relocation situation, with the company keeping the union informed about developments. Over 2003–5, GWU has accepted a form of wage freeze, by postponing renewal of the company collective agreement, so as not to burden the firm with extra production costs. Relocation has, to date, not caused any redundancies in Malta.</p>
<p><b>IBM</b>, the US-based IT multinational, announced in October 2002 that it would close its Hungarian hard-disk manufacturing facility at Székesfehérvár, employing 3,700 mainly unskilled workers (2,100 employed directly and 1,600 through a temporary work agency) and relocate its production to Asia. The reason given was the global slowdown in the PC industry, and the Székesfehérvár plant was already underutilised. Production was to cease in November 2002; in the first half of 2003 all its machinery would be relocated to Asia.</p>	<p>The company announced that it would begin to make employees redundant from January 2003 onwards, and that it would cooperate with local trade unions in developing a package to handle the plant closure. In November 2002, an agreement was signed between IBM and the unions and the works council concerning the rules for the redundancy process. The agreement stipulated that the company would give 3,400 employees notice in January 2003, and the remaining 300 would be dismissed in June 2003. IBM accepted that it would make severance payments not only to employees hired directly by IBM but also to those hired through temporary work agencies. Furthermore, IBM agreed to waive the repayment of company housing loans and continue to pay education fees in 2003 for those who had begun a training programme under the company's education support scheme. The company would pay workers their average wages for December and a severance payment of five to seven months' pay in addition to the payment stipulated by the law. Only direct IBM employees were entitled to the additional provisions stipulated by the company collective agreement.</p>
<p><b>Lisca Fashion</b> is a Slovenian-owned garment manufacturer, with 640 employees at present. It has production units in Serbia and Turkey and opened facilities in Romania in 2000 in order to cut production costs on some lines, but without cutting jobs in Slovenia. However, further relocation announced in 2003 led to the loss of 100 jobs, and the process was repeated in 2005 (with relocation to Turkey and China), with 120 jobs to be lost.</p>	<p>The relocations in 2003 and 2005 were expected and in both cases trade unions and the Lisca employees' council were informed in accordance with the law, and programmes to support redundant workers were set up. Unions report that they achieved good redundancy payments in bargaining and that protected categories of workers (such as older workers, pregnant women and people with disabilities) were redeployed by the company and not dismissed. The Ministry for Labour, Family and Social Affairs agreed that workers who started work before the age of 18 and/or have more than 35 years of employment will receive special benefits.</p>

Source: EIRO

### Japan

In Japan, the announcement of a total or partial relocation of a firm's production will often lead to trade unions within companies initiating labour–management consultation (see above) to seek agreements to protect employment levels or conditions. Very little is made public about the process or the results; such lack of information makes it difficult to ascertain the content and outcomes of these consultations. However, some general information is provided by a survey carried out in 2003 by the Japanese Electrical Electronic and Information Unions, among its 500 member unions and the relevant companies. Almost 300 responses were received: in more than 600 past cases of restructuring, 80%–90% of the respondents stated that labour–management consultation occurred when restructuring was carried out, and more than 90% stated that unofficial discussions occurred before a public announcement.

However, with regard to management plans to close Japanese factories or shift operations overseas, in the past 10 years there has been almost no media coverage of cases in which such plans were cancelled or changed due to industrial action by unions or breakdowns in negotiations. It appears that in most cases, trade unions have been obliged to accept such restructuring plans. The 2003 survey mentioned above asked respondents if there were differences of opinion between management and labour during the discussions: only about 10% responded that there were 'large differences of opinion', with more than 80% stating that there were not. The survey does not cover cases in which the company ceased to exist or the union faced dissolution as a result of the restructuring. Moreover, the possibility that labour-management relations were relatively good in the cases of the respondents means that it is not possible to generalise from these results; they can, however, be said to indicate a certain trend. So it would seem that the case of Mitsumi Electric (see Table 10), in which unions took strike action in opposition to a relocation announcement and negotiations led to the plan being changed, was an unusual one.

#### *USA*

In all but rare instances, the process of relocation operates outside of the realm of labour-management relations in the USA. The weakness of trade unions and the lack of a social dialogue tradition have almost entirely removed the issue from the industrial relations arena. Specifically, little in the way of labour-management dialogue or procedures has been set up to minimise the insecurity and hardship that international relocations can bring. With only 8% of private sector workers organised in unions, most employers have no party with which to negotiate or engage in dialogue with around this question – even although the workers affected are disproportionately union members. In unionised companies, an announced relocation may be subject to collective bargaining whereby a union attempts to negotiate a better outcome for employees facing redundancy. Unions have on occasion sought to mobilise community and religious organisations as well as local elected officials in an effort to pressure companies to consider the broader implications of a shift of production overseas. These efforts, however, almost invariably amount to little more than 'damage control' that may lead, at best, to an improved severance package or a longer period of notice before the redundancies take effect.

The Maytag case summarised in Table 10 has many typical features. Over the years there have been numerous instances of concessionary bargaining and a general deterioration of the industrial relations environment as companies restructure, reposition and relocate. The union, community, and local elected officials all complain loudly about the negative impact the closure will have on the workers affected and the local economy. However, these protests and complaints normally have no real effect on the final outcome, even if they do contribute to a public clamour for a policy shift towards better protection for affected workers or incentives for local industry to develop.

**Table 10 Examples of the role of industrial relations in relocation processes from Japan and the USA**

Case study	Role of industrial relations
<p><b>Maytag Corporation</b> is the third largest US-based domestic appliance maker. In September 2004, it closed its facility in Galesburg, Illinois. A total of 1,300 production employees, earning an average of USD15 (EUR12) per hour, were affected, while 300 supervisory and managerial employees also lost their jobs. The work in Galesburg was gradually moved to a Maytag factory set up in Mexico, where workers earn USD2 (EUR1.6) per hour. Some of the work was subcontracted to the Mexican operation of Daewoo, the Korean multinational, and some was relocated internally to a plant in Iowa. The original announcement of the closure was made in October 2002 when the company said that it would phase out production in Galesburg over a 26-month period ending in December 2004. The company released little information regarding the reasons for the closure, except that the plant was 'not competitively viable'.</p>	<p>The collective bargaining environment inside the Galesburg plant reportedly began to change just after the 1993 passage of NAFTA. In 1994 the company pressed the union (the local branch of the International Association of Machinists) to make contract concessions, particularly in the area of benefits. The union attempted to persuade the company that a 'Made in America' identity would make better business sense over the long term. It also suggested that management adopt the 'high-performance work organisation model' used successfully by companies such as Harley-Davidson. In the 2002 collective bargaining round, management proposed a further round of 'take-it-or-leave-it' concessions, with the company maintaining these were necessary in order to keep the plant operating in the USA. This nearly resulted in a strike, before another concessionary settlement was reached. However, this did not prevent the announcement of the plant's closure in October 2002. The company made 360 people redundant around the time of the announcement, and the remaining workers' employment was terminated on schedule by the end of 2004.</p>
<p><b>Mitsumi Electric Co. Ltd</b> is a Japanese-owned electronics company that manufactures parts for computers, games machines and televisions. In 2005, it employed 2,700 people. From the 1970s, the company started to shift its manufacturing bases to Taiwan and other parts of Asia, reducing the size of its domestic operation by closing its manufacturing bases in Japan. For example, in January 2001, the company announced that it would close its Tsuruoka plant in March that year, as its business performance had deteriorated. At that time, the Tsuruoka plant had already halved its workforce to about 160 and, with most other operations having been relocated to the Philippines, it was manufacturing magnetic heads for computers. Subsequently, in 2003 Mitsumi Electric announced that 500 jobs would be lost due to operations being relocated to China and Malaysia. Now, almost all of the firm's manufacturing is carried out overseas and its remaining domestic operations are concentrated on R&amp;D activities.</p>	<p>Following the announcement of the closure of the Tsuruoka plant, Mitsumi Electric was hit by strikes, which attracted attention as such action is very rare in large Japanese companies. Tsuruoka employees were asked to put in applications to transfer to other Mitsumi Electric factories in the region. The Mitsumi Electric trade union opposed this on the grounds that it was effectively a dismissal of staff and, on the day following the announcement in January 2001, the union called a 24-hour strike that involved 3,000 workers in nine different factories around Japan. In addition to refusing to work overtime and on holidays, the union threatened another strike, this time for 48 hours, at the end of the month. However, towards the end of the same month negotiations produced a commitment from management that 'we will carry out a shift in our operations and will continue to employ these workers', thereby avoiding the second strike. As a result, in April the plant was leased to the machinery manufacturer Tohshin Parts Ltd on the basis of a promise by Mitsumi Electric to subcontract work and supply technological support. The jobs of 80 workers were secured by transferring them to the Tohshin payroll, around 30 workers were transferred to other factories in the region, and just under 70 people lost their jobs.</p>

Source: National reports

## Inward relocation

### Europe

Inward relocations in Europe mainly occur in CEECs. In these countries (although there are exceptions) trade union membership and strength is generally relatively low compared with western Europe; it is often especially weak in the private sector and in greenfield operations; and collective bargaining coverage is generally lower and workplace employee representation structures are often less developed. (See the 2002 EIRO report *Industrial relations in the EU Member States*

*and candidate countries* (TN0207104F.) Against this backdrop, the greatest concern for trade unions in inward relocations is developing union activity in the new plants. Inward transfers are invariably welcomed, as they bring jobs and contribute to the economic growth of the destination areas/countries. However, the development of industrial relations structures and processes at these locations is not guaranteed: firms relocating to places where industrial relations actors are weak often tend to rely on unilateral action more than they do in their domestic plants. A lack of any trade union representation at the new sites is reported in a number of cases of inward relocations to CEECs. Examples do exist, however, of companies trying to export some elements of their traditional domestic industrial relations models to foreign sites: this applies to some relocations of German firms to central Europe. This 'industrial relations deficit' at many inward-relocation sites, along with the generally lower level of interest in the issue in the countries concerned, makes it difficult to cite relevant cases in the same way as for outward relocation.

#### *Outside Europe*

Looking outside Europe, it is difficult to discuss the role of industrial relations in inward relocations to China. (No relevant information is available for Brazil.) In China, industrial relations structures and processes arguably do not exist as understood in more developed industrial countries. Collective bargaining at enterprise level was permitted by legislation adopted in 1995, and is thought to cover around 15% of the workforce. However, the extent to which this can be considered genuinely free bargaining is questionable, not least because the state exerts an influence, through local labour departments (which may, for example, object to the terms of agreements). The official trade union movement, made up of enterprise and industrial unions affiliated to the All-China Federation of Trade Unions (ACFTU), is closely linked to the state. While there have been some moves towards freer collective bargaining and more independent unionism, the overall system of industrial relations remains underdeveloped, and key ILO Conventions on the right to collective bargaining have not been ratified.

To the extent that information is available, it appears that operations relocated to China are generally marked by a lower level of trade union involvement than in domestic state-owned enterprises, most of which have trade unions. According to ACFTU (<http://www.acftu.org.cn/news.htm>), 160,000 out of 480,000 overseas-funded enterprises, or 33%, have trade unions. Membership in these overseas-funded enterprises has reached 6.14 million, accounting for 38% of the total workforce in the sector (overall union density in China is thought to be somewhere around 60%). ACFTU states that the majority of overseas-funded enterprises 'are able to respect China's laws and support workers in forming trade unions', which seek to 'protect workers, actively coordinate labour relations, help the development of enterprises and seek benefits for workers'. However, it reports that unions still face many difficulties in organising workers in overseas-funded enterprises, and that some enterprises 'defy the country's laws and refuse to allow trade unions in their enterprises using one pretext or another'.

Data are available from research for two (anonymous) cases of inward investment to China, which indicate the range of industrial relations practices that may apply at inward-relocation sites. These comprise one of a number of Chinese sites owned by ElectroCo, a subsidiary of a major electronics multinational, and the only site operated by FilmCo, a joint Japanese-Chinese private company specialising in film animation. The ElectroCo site is in Shanghai and employs some 560 workers, while the FilmCo site is in Beijing and has 130 employees. The reason for both companies locating

in China was access to markets and cheap, but well-trained labour. In the case of ElectroCo, the relocation was part of a global strategy. FilmCo, on the other hand, was a small start-up company with Japanese and Chinese capital, and the prime markets for its films are Taiwan and Japan. Industrial relations at ElectroCo are characterised by a sophisticated HRM system, recognition of a trade union and some collective bargaining. It also has a 'workers' congress' – a workplace employee representation body. By contrast, there is no union or collective bargaining at FilmCo (only a workers' congress) and HRM practices are basic.

### **Cross-border issues**

While cross-border trade union cooperation is advocated in the debates on how to confront the challenges of globalisation and relocation, it seems quite rare in practice in actual cases of relocation. This might be connected with a lack of proper trade union counterparts in the destination countries of relocation, as there may be no unions to cooperate with in the plants to which production is being transferred. Moreover, at the time of relocation, the interests of the workers at the plants involved may diverge substantially and collaboration can prove particularly difficult.

However, actual cooperation with trade unions in the foreign countries concerned is not always required in order that unions in outward-relocation countries take an interest in working conditions at the destination locations. For instance, in a 2003 dispute at British Telecom over the offshoring of call-centre activity from the UK to India, the Connect trade union (which organises professional and managerial staff) reached an agreement with management that included a commitment by the company to ensuring the good treatment of workers in offshored operations. Worldwide 'codes of conduct', 'global agreements' or 'international framework agreements' signed in multinational companies can have similar effects. In recent years, increasing numbers of multinationals have signed such accords, which commit the company – and sometimes its suppliers and business partners – to observing certain standards and principles in its operations worldwide. These standards and principle refer to various aspects of workers' rights, employment and other areas related to corporate social responsibility. The 50 or more companies concerned include major manufacturing multinationals based in western Europe (such as Arcelor, BMW, Bosch, Danone, DaimlerChrysler, EADS, Indesit, Renault, SKF and Volkswagen) and, to a lesser extent, the USA (e.g. Ford and GM Europe), although not Japan so far. Such agreements are usually signed by international trade union organisations, and sometimes EWCs. Less frequently they are signed only by national unions (as in 2004 at the Italian components multinational, Bitron).

Genuine cross-border union cooperation can more easily develop after relocation has taken place or within a multinational. An example of this is the case of trade union and works council representatives at Siemens in Germany, Austria, the Czech Republic and Slovakia, who met in July 2005 to consult about the company situation, both generally and in each country. In some cases, trade unions in the parent company provide support to workers' representatives in the foreign subsidiary, as reported for the Hungarian operations of Audi, the German-based auto group. This kind of cooperation is part of the standard practice of many European trade unions, but seems less developed in Japan and the USA. In Denmark, for instance, this is an element of unions' strategy to prevent 'social dumping': they favour the transferring the national traditions of cooperation and participation to foreign subsidiaries and supporting unions abroad, at both plant and sectoral levels. The potential for cooperation between unions in a multinational's different national

operations can be multiplied when formal structures are in place, such as EWCs. This is probably why many European trade unions have stressed the prospective crucial role of EWCs in dealing with relocation processes.

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*This report examines two topical issues – minimum wages and the cross-border relocation of production – from the perspective of industrial relations. Drawing on comparative analysis from the European Industrial Relation Observatory (EIRO), it looks at the situation in the 25 EU Member States, in two ‘developed’ countries – Japan and the USA – and two ‘developing’ countries – Brazil and China. Minimum wages, while essentially a national issue, plays a part in areas such as the relative labour-cost position of countries. The report highlights the differences and points of similarities between different countries, in such areas as the respective roles of law and collective bargaining and the input of the social partners. Relocation is more ‘transnational’, involving the transfer by companies of all or part of their operations from one country to another two or more countries, and hence lending itself to a direct comparison between industrial relations systems and the outcomes of these systems. The report looks at the way in which globalisation is most directly and immediately felt by workers and employers, especially in those countries that lose production and jobs through outward relocation.*

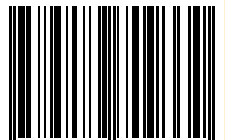
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