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The Comprehensive and Progressive TPP (CPTPP)

By Alan Oxley, Chair of the APEC Centre at RMIT University.

In December 2017, with President Trump having disavowed the Trans Pacific Partnership (TPP) free trade agreement, the remaining eleven governments ^[1] who negotiated it agreed to a set of changes – mainly setting aside some key positions inserted by the US - and aimed to adopt it in Vietnam when the APEC annual Summit convened in December 2017.

But Canada's Prime Minister Trudeau had reservations and adoption was deferred. Some minor changes were made to meet Canada's concerns and the agreement was renamed the Comprehensive and Progressive TPP (CPTPP). It is now set to be signed in March 2018.

At Davos, in late January, President Trump announced the Administration might be prepared to join an amended version of the agreement, although the US would seek additional changes. They were not spelt out. The suggestion was received politely.



Alan Oxley

After a year in government, Trump's approach to trade policy is clear. He wants all US free trade treaties revised if they do not deliver the US a surplus in trade in goods. This is not free market economics, this is mercantilism.

Both Mexico and Canada have surpluses in trade with the US. All three states have benefitted significantly from the NAFTA (North American Free Trade Agreement) but Donald Trump does not like it because the US does not have a trade surplus with those economies.

There is nothing wrong with a deficit in trade. Australia had one most of the time since Federation. Today Australia is rated by the OECD as the industrialized economy with the longest run of positive growth.

As well, the Trump negotiating technique is blunt and brutal. No one is yet prepared to say the review of the NAFTA agreement will be approved by the President. Some US trade analysts forecast that review will not be completed before the Trump term is completed. Trade agreements are usually only put before Congress in the third year of the Senate four year term. Too many other issues take priority in the first year. The House of Representatives has an election every two years. So the third year of a Senate term (which is the first year of a House term) is regarded as the most favourable time to put trade agreements before Congress.

Trade analysts are now speculating that President Trump's negative approach to trade policy means prospects to approve a review of NAFTA in the third year of his term is poor. Some contend the likelihood of a genuine Trump effort to renegotiate the TPP and bring in the US is low.

President Trump's other trade objective is challenge China. He recently observed China should never have been allowed to join the WTO. Yet China has been a responsible member since it acceded. It stands in sharp contrast to India who is not. The difference is China is a major trader in global markets. India is not.

That said, China faces major challenges. It could not meet the commitments in the CPTPP agreement because it does not have regulatory standards which protect investment and support liberalization of services. It privately tested the Obama Administration on participating in the TPP negotiations. Washington pointed out China could not provide the legal protection that commitments in the WTO and good FTAs require for liberal investment and services.

What has given the CPTPP agreement credibility is the new leading role of Shinzo Abe, Japan's Prime Minister. Japan is the world's fourth largest trading nation, but protectionist domestic interests, particularly farmers, have impeded its ability to lead. This has changed, ironically because of apprehension in Japan about China's more aggressive military activity in the South China Sea.

Japan is now the economic leader of the CPTPP. Any successful free trade agreement with broad scope needs a major economy to lead it. Already other Asian economies, such as the Philippines and Indonesia have indicated interest in joining the CPTPP agreement.

The Trump Administration recognizes it cannot upend its legal obligations as a party to the WTO agreement. The black letter law of the WTO agreements is little appreciated. It is uncommon in international agreements. This has not however prevented the US Special Trade Representative (effectively the US Trade Minister) from seeking to impede WTO processes by holding up approval of replacements to the WTO Appellate Body which adjudicates complaints by WTO members that others are in breach of WTO rules. The Appellate Body is short on judges.

The support for the CPTPP shows there is appreciation among APEC economies of the need for systematic liberalization of services and investment if economic growth is to be sustained.

The TPP is now the standard setter if the full benefits of liberalization by Asian Pacific economies is to be won. The major market economies must lead. Japan stepping up to the plate while the US looks elsewhere may be more than happenstance.

^[1] Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam.





Workforce Ready Challenges in the Asia Pacific: A Regional Wicked Problem?

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The successful transition of recent graduates from education to job is central to achieving sustainable development and building resilient economies. However, most of the countries across the Asia Pacific region are facing considerable challenges linked to ageing populations and skill shortages. On the one hand, graduates are finding increasing difficulty in attaining post-qualification employment. On the other, relatively high youth unemployment rates have persisted across the region.



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Some of the reasons for this persistence include supply-side variables, such as the lack of work experience and skills of graduates as well as a disconnect between tertiary education outcomes and the needs of employers. The demand-side variables include employers' perception of inexperience as a barrier, the costs of training as not being justifiable investments, and a raft of attitudinal issues around the commitment and behaviour of graduates themselves. The paradox of decreasing graduate work readinessⁱ and increasing youth unemployment therefore creates a wicked problemⁱⁱ that is persistent and often resistant to policy solutions that attempt to fill the gap between young people's expectations of attaining post-qualification jobs and their ability to achieve employment.

The nine-country (Table 1) comparative analysis presented in a recently published book, *Transitions from Education to Work: Workforce ready challenges in the Asia Pacific*ⁱⁱⁱ, suggest that the scope and the magnitude of the graduate work readiness challenge requires the key stakeholders to effectively communicate and co-operate for effective policy formulation and implementation. It is in this context, two of the key challenges: (a) skills-shortages, and (b) policy gaps across the region are highlighted next before discussing a potential way forward.

Table 1: GNI-based World Bank classification of case countries in Asia and the Pacific^{iv}

| Low (\$1,025 or less) | Lower Middle (\$1,026 and \$4,035) | Upper Middle (\$4,036 and \$12,475) | High (\$12,476 or more) |
|--------------------------|---------------------------------------|--|----------------------------|
| Nepal | India | Malaysia | Australia |
| | Lao PDR | | Singapore |
| | Indonesia | | Taiwan |
| | Vietnam | | |



Skills shortages

The varying stages of economic development of the nine case countries translates into diverse labour mobility opportunities and skill shortages. While the recently established ASEAN Economic Community can be viewed as a potentially positive step towards increasing flows of trade and investment as well as enabling the freer movement of skilled workers,^v it is likely that there will be winners and losers in this increasingly competitive labour market at the regional level. Consequently, issues related to jobs, work readiness of recent graduates, capacity building of developing countries in the region and intra-regional migration are likely to remain volatile for several employment sectors.

Table 2: Skills shortages and main causes of case countries in the Asia Pacific^{vi}

| Country | Skill shortages | Main causes |
|-----------|--|---|
| Nepal | Construction, Tourism | Outbound migration |
| Lao PDR | Construction, Agriculture/Forestry | Mis-alignment between skills needed and VET graduates |
| Vietnam | Manufacturing, IT sector | Mis-alignment between skills needed and VET graduates |
| India | Infrastructure, Auto-manufacturing, Construction | Demand supply mismatch, Low enrolment in vocational courses |
| Indonesia | Tourism, Agriculture/Forestry | Differences in the quality of training between private and public sectors |
| Malaysia | Healthcare, Finance | Reliance on foreign labour |
| Singapore | Construction, Tourism | Reliance on foreign labour |
| Australia | Construction, Professional Services | Maintaining employment rate |
| Taiwan | Manufacturing, Professional Services | Attracting foreign labour; long hours low pay |

As Table 2 depicts, construction, tourism, manufacturing and professional services are the top four sectors facing skill shortages across the region. The extent of these challenges varies to a large extent even within the same sector. For example, the construction sector has become a priority in Nepal following the 2015 earthquake. It has been estimated that over two million jobs will be required for the reconstruction and disaster recovery efforts. With an unemployment rate of less than 3 percent, primarily because of outbound migration, the Nepalese government is facing difficulties to find and train local workers for the reconstruction.^{vii} In contrast, nearly one-third of construction labour is comprised of foreign workers in Singapore, which is facing increasing competition from within and outside the region to secure much needed labour to boost economic growth.^{viii}

The varied nature of skill shortages has emerged as a thorny issue for both Higher Education (HE) and Vocational Education and Training (VET) sectors across the region. For example, lower middle economies such as India and Indonesia suffer from the lack of ability to provide students with appropriate industry-relevant skills, mainly because of outdated curriculum together with a lack of industry engagement.^{ix,x} These challenges, albeit slightly different, also exist in other countries of the region, including the higher-income ones such as Australia^{xi} and Taiwan^{xii}. Nonetheless, the misalignment between labour market needs and graduates, to varying degrees, can be identified as the single most important common thread across the countries.

Policy gaps

Although the demand for expanding HE and VET Education Service Providers (ESP) has increased in the region, the quality and market relevance of the ESPs remains a matter of concern.^{xiii} In this context, it is imperative to assess the state of policies and priorities to better serve the needs of labour markets and foster or sustain growth. Several similarities as well as differences in policies in terms of gaps can be noted across the region. The comparative analysis indicates that countries like Lao PDR, Nepal and Vietnam do not have a national qualification framework at the time of this research. Since the primary purpose of the framework is to raise quality and drive continuous improvement and consistency in education services and delivery, its absence suggests that policy impetus is rather weak in these nations.

The conventional mindset in many of the lower and lower middle-income countries such as Indonesia and India have been such that HE is often deemed more important and valuable than VET. Although there have been significant changes in this regard based on the evidence of linkages between a vibrant VET sector and rapid economic development, VET sector policy reforms remain sluggish in the region. This attitude, at least partially, explains the lack of an adequate emphasis on developing VET policies and linking it with national sustainable developmental priorities. Even a high-income economy like Australia has had its fair share of political interference, especially with respect to a focus on the privatisation of VET sector, which has had a significantly adverse impact on policy formulation and implementation, as well as graduate outcomes.¹¹ However, it is Singapore that has emerged as a front runner in the region, primarily due to significant investments in research and innovation activities and through complementing policy rhetoric with actions, thus preparing its workforce more effectively for the future. Since both HE and VET sector policies in Singapore are geared toward creating a flexible lifelong system of education with a focus on futuristic skills,⁸ it can certainly serve as a model for the rest of the region.

Way forward

The issues around workforce readiness across the Asia Pacific serve as a reminder that addressing the wicked challenge of work-readiness and skill mismatches in the Asia Pacific region is likely to be much more effective with a concerted policy emphasis on stakeholder engagement. Since work readiness is a global issue as well, countries in the region need to look both inward and outward to work together with stakeholders to foster regional sustainable development. For example, if universities cannot meet the

different skill requirements of tens of thousands of individual businesses, peak business groups can identify and communicate to universities the core skill and competency requirements of their constituencies. These business associations are critical links between education providers and businesses employing graduates. Formal ties through advisory boards and committees are one avenue for taking into account the perspectives of business, but other informal relationships including reference groups, industry forums and workshops are important ways of supporting knowledge transfer and learning. Policy initiatives that support a forward-thinking knowledge economy require a move away from bureaucratic and outdated HE and VET approaches to a learning environment that is flexible, responsive and accessible to meet the needs and demands of contemporary graduates and employers. There is no mistaking the urgency in relation to investing in human capital to build sustainable communities and resilient economies across the region.

This article is a synthesis of a comparative analysis included in the recently published book Cameron, R., Dhakal, S., & Burgess, J. (Eds.). (2017). *Transitions from Education to Work: Workforce Ready Challenges in the Asia Pacific*. Routledge. For more on the book <https://www.routledge.com/Transitions-from-Education-to-Work-Workforce-Ready-Challenges-in-the-Asia/Cameron-Dhakal-Burgess/p/book/9781138691759>

ⁱHillage, J., & Pollard, E. (1998). *Employability: developing a framework for policy analysis*. London: DfEE.

ⁱⁱClarke, M. and Stewart, J. (1997). *Handling the wicked issues: A challenge for government* in INLOGOV Discussion Paper, University of Birmingham, UK.

ⁱⁱⁱCameron, R., Dhakal, S. P. and Burgess, J. (Eds. 2018). *Transitions from Education to Work: Workforce ready challenges in the Asia Pacific*. Routledge, UK.

^{iv} World Bank (2017). *World Bank country and lending groups country classification*. Available at: <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>

^vILO/ADB (2014). *ASEAN community 2015: Managing integration for better jobs and shared prosperity*, Bangkok, International Labour Organization and Asian Development Bank.

^{vi} Dhakal, S. P., Burgess, J., and Cameron, R. (2018). *A Comparative Perspective on Work-Readiness Challenges in the Asia Pacific Region*. In Cameron et al. (Eds) *Transitions from Education to Work: Workforce ready challenges in the Asia Pacific* (Chap 12). Routledge, UK.

^{vii}Dhakal, S. P. (2018). *The State of Higher Education and Vocational Education and Training Sectors in Nepal: Implications for Graduate Work-Readiness and Sustainable Development*. In Cameron et al. (Eds) *Transitions from Education to Work: Workforce ready challenges in the Asia Pacific* (Chap 10). Routledge, UK

^{viii}Waring, P., Vas, C., and Bali, A. S. (2018). *Work Readiness in Singapore*. In Cameron et al. (Eds) *Transitions from Education to Work: Workforce ready challenges in the Asia Pacific* (Chap 7). Routledge, UK.

^{ix}Priyono, S. and Nankervis, A. (2018). *The Perfect Storm": Constraints on Indonesian Economic Growth Posed by Graduate Work-readiness Challenges*. In Cameron et al. (Eds) *Transitions from Education to Work: Workforce ready challenges in the Asia Pacific* (Chap 6). Routledge, UK.

^xPrikshat, V., Kumar, S. and Raje, P. (2018). *Antecedents, Consequences, and Strategic Responses to Graduate Work-Readiness: Challenges in India*. In Cameron et al. (Eds) *Transitions from Education to Work: Workforce ready challenges in the Asia Pacific* (Chap 8). Routledge, UK.

^{xi}Montague, A., Connell, J., and Mumme, B. (2018). *Graduate Employability in Australia: Time for a VET and HE Overhaul?* In Cameron et al. (Eds) *Transitions from Education to Work: Workforce ready challenges in the Asia Pacific* (Chap 9). Routledge, UK.

^{xii}Chang, M.W.S. and Conell, J. (2018). *Labour Market and Work Readiness Challenges: The Case of Taiwan?* In Cameron et al. (Eds) *Transitions from Education to Work: Workforce ready challenges in the Asia Pacific* (Chap 3). Routledge, UK.

^{xiii}Burgess, J., Cameron, C., Dhakal, S. and Brown, K. (2018). *Applicant Work-Readiness and Graduate Employability Challenges in the Asia Pacific*. In Cameron et al. (Eds) *Transitions from Education to Work: Workforce ready challenges in the Asia Pacific* (Chap 1). Routledge, UK.

Regaining the consensus for globalisationⁱ

By Emmanuel A. San Andres, Analyst, Policy Support Unit, APEC Secretariat

It was not very long ago when discussions about globalisation were so hopeful. Globalisation was an irreversible and unambiguous force for good. Trade openness and investment liberalisation were to lead us to unprecedented growth and prosperity, and therefore poverty reduction and rising living standards. Greater economic integration due to trade and investment linkages were also supposed to reduce the likelihood of wars and conflict. Those hopeful cheers about globalisation are long gone, and the public discourse on globalisation has increasingly been dominated by gloom and cynicism.

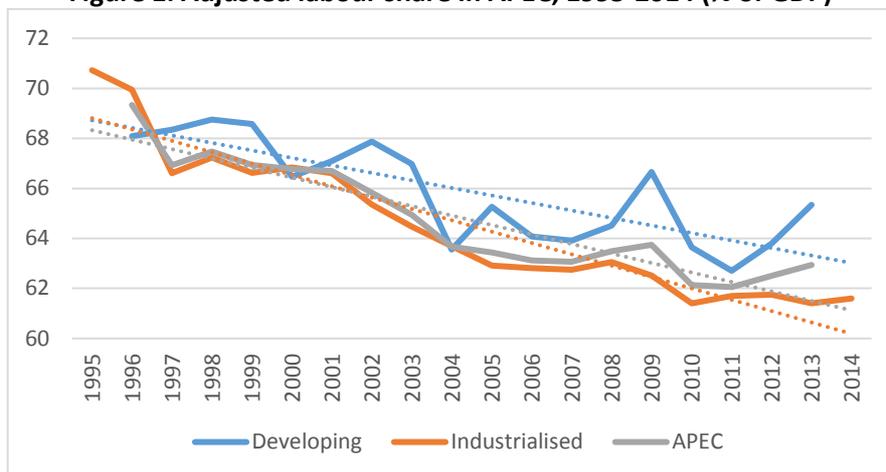


Emmanuel A. San Andres

For the most part, globalisation has delivered on its promise of greater growth and prosperity. Numerous studies have documented the benefits of trade and regional economic integration not only on economic growth but also on poverty reduction (Fajgelbaum and Khandelwal 2014; Wacziarg and Welch 2008; World Bank and WTO 2015). Technological innovation—a key ingredient in economic growth—is also synergistically related to globalisation.ⁱⁱ On one hand, the exchange of capital, knowledge, and information made possible by globalisation contributes to the advancement of technology through research and development. On the other, improved technologies for transportation, logistics, communication, and financial transaction push forward globalisation and regional integration through global value chains.

However, while globalisation is rightly credited with greater prosperity in recent decades, a key criticism is that its benefits have not been broadly distributed, adversely affecting workers due to ensuing changes in demand for labour and skills (Dabla-Norris et al. 2015; IMF, World Bank and WTO 2017). Indeed, even within the APEC region the labour share of GDP—a common macro-level indicator of distribution—has been on a downward trend in 1995-2014, coinciding with the period when globalisation and technological innovation were on an upswing (Figure 1).

Figure 1. Adjusted labour share in APEC, 1995-2014 (% of GDP)



Notes: Labour shares are adjusted to account for informal sector wages, which can be significant especially in developing economies. Computationally, we multiply the compensation of employees from national accounts data by the ratio (Employees + Self-employed)/(Employees). Industrialised APEC economies are Australia; Canada; Japan; New Zealand; and the United States; developing APEC economies are all other APEC economies not classified as industrialised. Aggregates are weighted by GDP. Compensation data are not available for Indonesia and Viet Nam. Dotted lines are trendlines. Source: ILO, OECD, UN, WB, economy sources, and PSU staff calculations.

This phenomenon of falling labour shares is not unique to APEC. Several studies have noted the decline of labour shares in recent years (e.g., IMF 2017; ILO and OECD 2015). A falling labour share indicates increasing income inequality: low-skilled workers bear most of the brunt of lower wages while middle-skilled occupations also experience a decline in real earnings. Meanwhile, a lower labour share translates to a higher capital share and, since the majority of capital owners belong to the top income distribution bracket, a higher compensation to capital leads to rising income inequality (IMF 2017). A falling labour share also indicates slower wage growth compared with the growth of labour productivity (Schwellnus et al. 2017), which has implications on the ability of markets to fairly compensate workers for their productivity. This decline in labour share, rising inequality, and a perception that the gains of economic growth have not been shared equally has contributed to increasing hostility towards economic integration and shifting preferences towards more inward-looking policies (IMF 2017).

The causes of the declining labour share of income are complex and multi-layered. First-order causes would be domestic policies: for example, studies have shown that tax policies, deregulation, and privatisation can contribute to a falling labour share (IMF 2017; OECD 2012). However, domestic policies alone cannot explain the trends in labour share being observed around the world. There must be forces at the international level that are causing this trend. Two main causes of falling labour shares have been identified in the literature, and they are the synergistic forces of globalisation and technological change (Autor et al. 2017; ILO and OECD 2015; IMF 2017).

Technological advancements in recent decades have not only made machines, robots, and computers more efficient in performing tasks, they have also made them more affordable through enhanced production methods and global value chains. Consequently, the relative cost of accessing production capital has fallen to the point that it is often more efficient for firms to automate certain tasks—i.e., replace labour with machines—particularly routine ones (OECD 2012; Driver and Muñoz-Bugarin 2010; Karabarbounis and Neiman 2013).

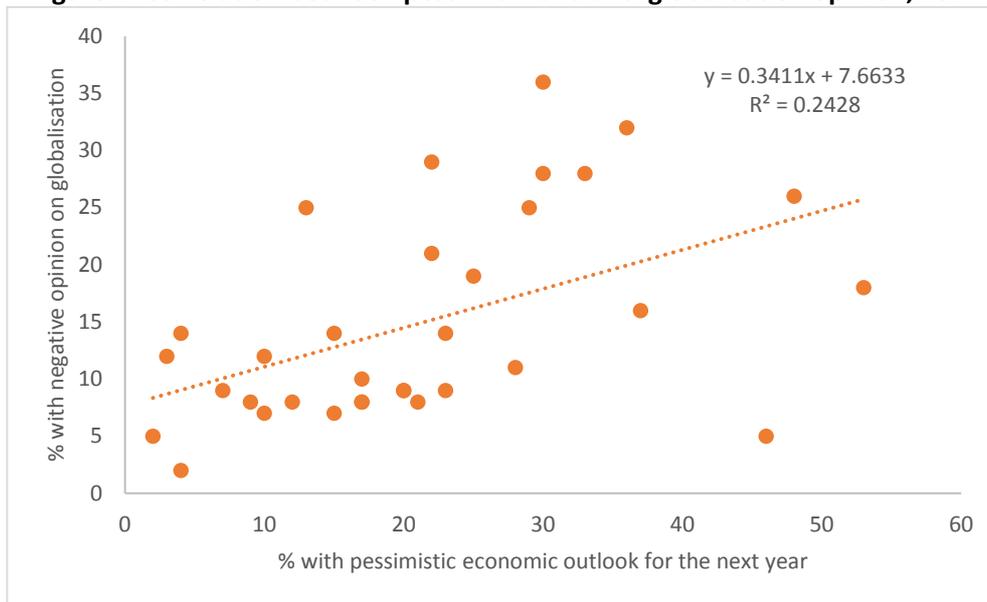
Analysis conducted by IMF (2017) which looked at changes in labour shares over the long term showed that technological advancement along with “routinisation” (i.e., the ability to automate certain job tasks) are the largest contributors to the declining labour income shares in developed economies. Even in labour-abundant developing economies, the increasing efficiency and cost-effectiveness of new technologies could tilt production capital-labour ratios in favour of capital.

Adding to the impacts of changing technology is globalisation which has led to the formation of global value chains and, therefore, more imports and offshoring (Amiti and Wei 2005; Hummels et al. 2011)—activities which have been associated with job losses, particularly at the middle-skill level. In the case of developed economies, competition from imports makes it imperative that lower-skill, labour-intensive stages of production are relocated to developing economies where wages are relatively cheaper. Imports also lead to access to cheaper capital goods (e.g., machines and computers), making labour relatively more expensive and hence encouraging firms to automate. Essentially, by facilitating factor reallocation and relocation, globalisation has lowered the bargaining power for labour to negotiate for higher wages (Harrison 2005).

Where do we go from here?

Regaining the consensus for globalisation requires reigniting people's hopes. Globalisation and technological advancements lead to many changes, and people's opinions on them hinge on whether these changes make them hopeful or pessimistic about the future. Public opinion data by Pew Research shows that people with a pessimistic economic outlookⁱⁱⁱ also tend to have a negative opinion on globalisation^{iv} (Figure 2). Indeed, if you think globalisation means jobs may be taken by a computer or shipped abroad, then you will not have a favourable opinion of globalisation.

Figure 2. Correlation between pessimism and anti-globalisation opinion, 2014



Notes: Data covers 940 respondents across 44 economies.

Source: Pew Research Global Attitudes data^v and PSU staff calculations.

Making people more hopeful about the future in the face of globalisation and technological change thus requires addressing structural unemployment. While structural unemployment has many causes, technological change and globalisation contribute to skills mismatches and economic realignments that can make workers insecure about the future.

Addressing structural unemployment and skills mismatches begins with improving access to and the quality of education and training, especially among disadvantaged groups and workers. Primary and secondary education is the bedrock of any future skills development and contributes to equalising opportunities for all people and allows them to access the new jobs created by technological change and globalisation.

In order to assist workers displaced by various economic forces, economies need to implement active labour market policies (ALMPs) that ensure a timely, coordinated, and holistic approach to responding to skills gaps and mismatches while providing support and protection to workers. ALMPs cover various aspects of skills development, social protection, and employment.

These include policies and programmes on skills training and apprenticeships, gathering and disseminating labour market information, providing unemployment benefits, and job counselling (Figure 3). Coordinating these policies and activities is crucial for equitably distributing opportunities and ensuring inclusive growth while assisting displaced workers and promoting efficiency in the labour market.

Figure 3. Active Labour Market Policies



Source: APEC Economic Policy Report 2017 Factsheet.^{vi}

The role of social protection and safety net programmes cannot be overemphasised. By providing assistance and income security to workers and households, these programmes help people weather uncertain economic environments. If designed as part of a set of coordinated ALMPs, they can also help unemployed workers find appropriate jobs and provide them with opportunities for skills development.

Hope and security for one’s future are aspirations shared by all people. Everyone wishes the best prospects for themselves and their families. Globalisation and technological advancements, by their dynamic nature, contribute to a sense of uncertainty and insecurity. Part of the attraction of anti-globalisation and protectionism is nostalgia for simpler and more certain days of yore: bringing back the jobs and communities of yesteryears without the nuances and complexities of today’s world. Regaining the consensus for globalisation requires retaking the high ground of hope, showing people that globalisation still holds the promise of greater—and this time more broadly shared—prosperity.

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ⁱ This article is adapted from the theme chapter of *APEC Regional Trends Analysis* November 2017 by E.A. San Andres, A. Wirjo and S.K. Singh: <https://www.apec.org/Publications/2017/11/APEC-Regional-Trends-Analysis-2017>

ⁱⁱ See, for example, National Research Council. 1988. *Globalization of Technology: International Perspectives*. Washington, DC: The National Academies Press. <https://doi.org/10.17226/1101>.

ⁱⁱⁱ To gauge economic outlook, respondents were asked, “Over the next 12 months do you expect the economic situation in our country to improve a lot, improve a little, remain the same, worsen a little or worsen a lot?”

^{iv} To gauge opinion on globalisation, respondents were asked, “What do you think about the growing trade and business ties between (survey country) and other countries – do you think it is a very good thing, somewhat good, somewhat bad or a very bad thing for our country?”

^v <http://www.pewglobal.org/datasets/2014/>

^{vi} <https://www.apec.org/Publications/2017/11/Fact-sheet---2017-APEC-Economic-Policy-Report>

A Perfect Storm for Globalisation?

By Mark Millar¹, Author of Global Supply Chain Ecosystems

A number of factors have combined to produce a perfect storm for globalisation – resulting in a more complex and ever-evolving landscape for business.

For a whole generation, globalisation has seen producers chasing the next low-cost manufacturing location, leading to increasingly complex and convoluted global supply chain ecosystems with profound inter-dependencies.

Out-sourcing and off-shoring initiatives originally fuelled the growth of low-cost labour-intensive manufacturing in Asia. As production was unbundled on a large scale, supply chains evolved to support this shift – expanding geographically and becoming ever more complex in the process.

But more recently, the increasing cost burden of managing global supply chains has led many companies to pursue near-shoring and on-shoring strategies. This results in more regional supply chains, whereby goods are produced in – and distributed from – locations that are closer to the end consumer market.

This shift – beyond global, to a more regional approach – is a key driver in the changing landscape of globalisation, with important implications for every company engaged in international trade.

Globalisation Stalled

During the 1990s and 2000s, international trade experienced a substantial boost from mass globalisation, resulting in a huge increase in the volume of inter-continental freight flows and yielding a bonanza for logistics service providers and freight forwarders around the world.

This globalisation frenzy was fuelled by an unprecedented combination of three key drivers in the pursuit of lowest-cost manufacturing

1. the out-sourcing of business activities to third parties,
2. the off-shoring of production to low-cost countries and
3. the un-bundling of vertically integrated manufacturing clusters into dispersed specialist production activities.

Capitalising on abundant supplies of low-cost labour, massive amounts of production were out-sourced and off-shored to emerging economies across Asia, empowering the region – in particular, China – to become the factory of the world.

However, just about anything and everything that could be out-sourced and off-shored to Asia, now has been. Hence, in recent years, we have seen only modest incremental growth in trade volumes.



Mark Millar



Developed Markets Fractured

Amongst the many complex factors behind the slowdown is the lingering Global Financial Crisis hangover-effect prevalent throughout developed markets. This is demonstrated through reduced demand for consumer goods, many of which have traditionally been imported via global supply chains.

However, also contributing to the slower growth of international trade is the recent rise in populism and protectionism, as developed markets have become fractured. A simmering under-current of anti-establishment sentiment, coupled with parts of society feeling left behind by globalisation, manifested itself through the Brexit and Trump electoral outcomes.

As articulated by WTO Director General Roberto Azevêdo *“The net positive effect of trade means nothing if you've lost your job. So we need better domestic policies to support people and get them back to work.”*

This populism is being reflected in more protectionist trade policy measures as governments increasingly introduce barriers to international trade – such as tariffs – to protect their domestic industries and local employment base.

According to Global Trade Alert, during 2017 more than 600 new discriminatory trade measures were introduced worldwide, compared to just 243 liberalising measures.

The Davos 2018 gathering - entitled ‘Creating a Shared Future in a Fractured World’ – reported that *‘economic prosperity and social cohesion are not one and the same’*.

Unintended Consequences of Global Supply Chains

Companies are also experiencing unintended consequences arising from the globalisation frenzy, namely the increasing cost burden of managing global supply chains.

The endless pursuit of low-cost labour solutions in faraway locations has had ramifications for system-wide costs. These are further amplified as the rising labour rates in China and elsewhere in Asia gradually erode the manufacturing cost advantage over developed market options.

‘Total supply chain cost’ is now coming into play, considering the full end-to-end cost implications. Front and centre on the business agenda are the additional cost burdens of globalised supply chains, as shown in the Exhibit below (Stank, Burnette and Dittman, 2014) which have become all too apparent through experiential learning.

| Unintended Consequences - Additional Cost Burdens of Globalised Supply Chains | |
|--|--|
| <p>TRANSPORTATION COSTS</p> <ul style="list-style-type: none"> • Freight Costs • Customs Duties and Tariffs • Brokerage Fees <p>COST OF ADDITIONAL INVENTORY</p> <ul style="list-style-type: none"> • Pipeline Inventory • Safety Stock <p>COST OF QUALITY AND OBSOLESCENCE</p> <ul style="list-style-type: none"> • Factor for Warranty Claims • Scrap and Obsolescence Risk • Inspection and Disposal Costs per Shipment <p>RISK COSTS</p> <ul style="list-style-type: none"> • Currency Risk • Country Risk • Competition (Intellectual Property) Risk • Job Switching Risk • Transportation Disruption Risk | <p>COST OF SCHEDULE NON-COMPLIANCE</p> <ul style="list-style-type: none"> • Expedite Costs (Air Freight) • Stockout and Lost Sales Costs <p>PAYMENT TERMS</p> <ul style="list-style-type: none"> • Cash Discounts • Payment Terms in Days Outstanding <p>COST OF ADMINISTRATION</p> <ul style="list-style-type: none"> • Offshore Supplier Qualification Costs • Cost of Administration Trips to Offshore Locations • Cost of Communication <p>COST OF RESPONSIVENESS</p> <ul style="list-style-type: none"> • Lead Time Costs • Flexibility Costs • Longer Quality Feedback Loop Costs • Port Congestion Costs |

Source: University of Tennessee – Global Supply Chains

This is leading to a far more balanced analysis when producers are deciding where to locate their sourcing and manufacturing operations. Moving production activities closer to consumption markets helps shorten distribution channels and reduce freight costs.

Near-Shoring – bringing it closer to home

Many companies across the developed markets in the USA and Europe are now moving, or are considering moving, some of their off-shored production closer to home – known as ‘Near-Shoring’.

Others are undertaking ‘On-Shoring’ initiatives – also known as Re-Shoring – which means bringing production all the way home, to produce locally within the domestic market.

Whatever the terminology, these initiatives involve the repatriation of manufacturing, production and assembly activities from remote locations such as China, to geographic regions located much closer to the end consumer markets.

In many applications, near-shoring re-visits lower-cost locations that are closer in proximity to the final consumption markets – for example, Mexico for North America and countries like Poland and Hungary to serve Western Europe. North Africa is now also on the agenda as a viable production base from which to serve European markets. Hence, for many businesses there will be some production activities – though by no means all – that migrate ‘closer-to-home’. Implementing such near-shoring initiatives will result in global supply chains becoming re-configured regionally - as ‘Made in North America for America’, or ‘Made in Eastern Europe for Europe’.

Emerging Markets Developing

However, this will not result in a mass exodus from manufacturing in Asia.

Largely because of the well-established, finely tuned and highly efficient global supply chain ecosystems that service the Asia-Europe and Asia-America trades; but also because the potential of the domestic consumer markets in the emerging economies is so enormous.

Worldwide economic growth is unquestionably concentrated in the east, with the Asia Pacific region accounting for 61% of global GDP growth during the decade 2015 to 2025.

For 2018, the IMF Forecast for Global Growth is 3.9%, whilst growth across Emerging Markets is forecast almost 25% higher at 4.9 per cent.

Empowered by globalisation, many emerging markets in recent years have enjoyed increased economic prosperity, creating new consuming classes and expanding consumption markets. The workers have become the shoppers, resulting in emerging markets that are growing faster than the developed markets.

As these 'new consumers' gain access to better and more stable incomes, their increased spending drives expansion in consumption markets. This in turn leads to growth in the amount of trade amongst and between emerging markets. Latest IMF data indicates that 46% of all emerging markets' trade is with other emerging markets, whilst some 30% of developed markets' exports are destined for emerging markets.

By 2020, 1.8 billion people in emerging markets will enter the 'consuming class' (Manners-Bell and Lyon, 2015) and by 2030, Asia will be home to two-thirds of the world's middle class, up from just 28% in 2009 (Pezzini, 2012).

These trends further augment the shifting landscape beyond globalisation - to a world in which international trade - and the related freight flows and their supply chains - adopt an increasingly more regional dimension. In fact, according to Transport Intelligence, more than half of total trade during 2017 was 'Intra-Regional' trade – ie Europe to Europe (25.8%), Asia to Asia (20.5%) and North America to North America (7%).

Regional Supply Chains drive business benefits

This potent combination of implementing near-shoring strategies whilst emerging markets are developing will further reinforce the trend towards more regional supply chains.

Deploying a more regional approach can generate substantial benefits for business – in terms of time, cost and service, whilst also reducing risk. These include

- Shorter distances resulting in lower transportation costs
- Being closer to home is easier to manage (overcoming some of the challenges of managing across time zones, languages, cultures, business practices and work standards)
- Better control over product quality through proximity to suppliers

- Mitigated impact of rapidly increasing labour rates in what were 'low-cost' environments
- Improved ability and responsiveness to tailor products for local domestic consumer markets
- Reduced supply chain risk: less distance, fewer borders, fewer complications, less risk.

Changing face of globalisation

Globalisation was originally spurred by growth in international trade fuelled by a shift in business models as companies rushed to take advantage of lower-cost overseas manufacturing through outsourcing, offshoring and unbundling.

Now, globalisation appears to be stalling, with the pendulum shifting again.

Whether producers are responding to trade barriers arising from populist domestic policies, seeking to mitigate rising labour costs in China and elsewhere in Asia, or planning to capitalise on opportunities in emerging economies, the shift towards regional supply chains is unmistakable.

But with established and complex global supply chain ecosystems already in place, multinational companies are by no means rushing to leave Asia. Although they originally came for the workers, they now remain for the shoppers.

The next few years will present a huge amount of uncertainty for global trade and global supply chains. But one thing is certain. This evolution will never fail to be fascinating, as it presents both opportunities and challenges, and as companies grapple with the ever-changing landscape of globalisation.

References

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