

*Written in early 2006 in response to arguments about the benefits of Globalization and challenges the idea that much of the world is now subject to global competition. The argument is made that really only a few industries compete globally and the rest of society is protected in various ways.*

## **GLOBALIZATION – TRUE BELIEVERS**

January 1, 2006 will witness the opening of our fifth factory in Mexico. Much of the increased production is the transfer of the cutting and sewing portion of our Canadian production of leather furniture to a lower labor cost factory in Mexico. Since this portion of the labor represents a little more than 50% of the labor in the finished product, the labor required to produce a sofa in Canada will be reduced by half and ‘voila’ our productivity in that part of our Canadian business will have increased by 100%.

Many economists and business leaders speak about globalization with a passion that approaches religion. This frequently includes the CCCE (Canadian Council of Chief Executives). We speak as if ‘all of us’ are part of globalization and must rise to the challenge. Lets investigate that assumption just a little. The aspect of globalization that affects us most directly is in the access to jobs and the impact on the security and payment for that work. How many of us really face personal competition arising from globalization? Does globalization affect the livelihood of anyone on the staff of the CCCE just as one example? It does reduce the price of goods and is if anything positive for them. Which jobs are actually subject to the winds of globalization? Lets begin by listing those occupations or employer categories which in varying ways are effectively immune from international competition.

- All elected officials in Canada at the National, Provincial, and all other levels.
- Virtually every employee of the civil service in all of these Governments
- All educational services from Kindergarten through University (the only competition comes from high cost US institutions based presumably on quality and product)
- All health services – here the monopoly is legislatively explicit
- Canadian military and law enforcement staff
- All construction services – often protected by unions and sometimes by provincial restrictions plus the reality that most work be done on site
- All transportation services – since by definition transport within Canada must be performed by employees under Canadian rules. Examples such as cabotage rules in air transport are explicitly designed for this purpose.
- All services associated with hospitality including lodging and food services
- Virtually all financial services – only simple repetitive back-office work can possibly be out-sourced
- Tourist services that are performed in Canada
- Virtually all personal services since it requires a physical presence in Canada – and then work is under Canadian rules and rates – from hair-dressing to golf lessons.
- All retail jobs
- All warehousing and supply management

- Most professional positions such as lawyers, accountants and others because they require licensing and are effectively unions that exclude external competitors
- Live entertainment when performed in Canada
- Agricultural work in industries subject to supply management
- Industries based on the exploitation of natural resources that must be exploited where they exist (oil, gas, minerals, forests etc.)
- Agricultural production based on access to land and the industries that support this production.
- Many manufactured products based on rules of origin (my industrial neighbor manufactures urban buses that must have final assembly in the US – effectively precluding competition beyond North America)
- Manufactured products that are highly specialized to North America such as farm machinery
- Processed products that do not lend themselves to international transportation such as the bottling of soft drinks
- Publication of newspapers –by law must be printed in Canada
- And many more....

So what jobs are subject to globalization? An international market price for oil is not the same thing as the ‘globalization’ we are speaking of. That is a matter of supply and demand not usually an advantage based on access to less expensive labor. So what is left.

- Consumer products that are standardized, mass-marketed and tend to have a relatively high labor cost with moderate transport problems. Examples are:
  - consumer electronics
  - textiles
  - apparel and shoes
  - toys
  - plastic and metal components
  - residential and some contract furniture
  - and similar industries
- Semi-processed materials such as steel and paper. These offshore industries benefit from the almost free transport of raw materials out of North America (imbalance of the container flow) allowing it to be processed and returned in a more finished form – empties going back to Asia become a new form of indirect subsidy
- Automotive and similar – this industry has been impacted by high-cost Japan and Europe for years – based on factors other than labor. The supply chain is important and the industry is learning to use Mexico effectively to lower its cost base.

If you put all of the vulnerable jobs in one column and the effectively non-vulnerable jobs in another, you would conclude that possibly 20% and maybe as few as 10% of the jobs in Canada (or the US) are directly impacted by global competitors. Additional jobs are however impacted by the appearance on the labor market of a population that is

pushed out of the vulnerable industries and competes for the jobs they are capable of performing. This results in labor competition in North America that may reduce the wages in otherwise unaffected industries. Where did all the seamstresses go when those jobs disappeared?

The point I want to make as we begin another year celebrating a strong Canadian currency toward which we did not contribute through our superior work ethic (since our productivity as a nation is claimed to be low) and our trade surplus substantially based on the market for commodities – we should consider more deeply what globalization is really all about.

In my business we speak 40 languages as first language and the jobs we offer are frequently a stepping-stone to a better career and life and especially for their children. This mix will be a feature of our workforce for a long time as we increasingly become an immigrant society. What will our economy look like when the benefit of resources either ends or swamps many other enterprises that compete externally? Given that our natural endowments are not evenly distributed what will that do to our national political consensus?

We speak about globalization far too glibly – because it really does not affect the great majority of us. How would we individually respond if each of our jobs was equally at risk? The economist is the person who can have his head in the fridge and feet in the oven and be comfortable on average. As a society we tend to forget about those at the extremes and celebrate the averages.

These are some of my thoughts as I consider how to tell more of my loyal Canadian colleagues that they are being asked to sacrifice their careers on the altar of globalization while those preaching the virtues of this great event are fully protected.

Sincerely,

Art DeFehr