

Globalisation: opportunities, threats and implications for the economic policy

A speech by Krzysztof Rybinski, Deputy President of the NBP.

A meeting with entrepreneurs who have participated in the economic climate survey carried out by the NBP. Regional branch of the NBP in Rzeszow, 10 March 2006.

Ladies and Gentlemen,

Welcome to the meeting in the regional branch of the National Bank of Poland in Rzeszow. First of all, I would like to thank very much the management of the branch for their efforts to organise this meeting. Since 1998 the National Bank of Poland has carried out quarterly and annual economic climate surveys of enterprises. Results of this survey allow a better assessment of the state of the economy and the outlook for inflation. They also constitute a vital element of the economic analyses carried out by the NBP. Therefore, I would like to thank all of you for your contribution to the accumulation of knowledge at the NBP about the current processes in the Polish economy.

Such knowledge, gained from people who create jobs, make investments and face domestic and foreign competition on a daily basis, is particularly important in the environment of the changing structure of the economy. Structural changes may bias results derived from econometric models used by central banks. Still as a student at the Faculty of Mathematics and Computer Sciences at the Warsaw University, back in the late 1980s, I assisted in the works on a model of the Polish economy carried out at the Faculty of Economic Sciences. Soon afterwards, as a result of the fundamental changes in the structure of the Polish economy, consisting in liberalisation of prices and opening to foreign trade, the model became useless as a tool of macroeconomic analysis. Nowadays, the changes observed in the Polish economy are neither so rapid nor radical any more. However, intensification of changes in the global economy, reported in the recent years, must have brought in many economic relations other than those known so far. There have been many structural changes whose force, permanence and significance cannot be assessed on an ongoing basis with the use of econometric models. In principle, such an assessment is feasible only after a few years, which — from the point of view of pursuing an effective monetary policy — is too

long a period¹. This is why in such periods the so-called soft data and information, obtained directly from entrepreneurs, gain particular significance.

There are numerous examples of such changes taking place in many countries. In spite of the fact that the interest rates of many central banks have been reduced to their historical lows in the recent years (they have been brought down to zero in Japan and were at the level of 1% in the USA for some time), and in spite of a high growth in prices of oil and other commodities, inflation in the largest world economies still remains low. The Federal Reserve Bank increased its interest rate from 1% to 4.5% over the past two years and the markets expect further rises, to the level of about 5.0%, whereas the interest rate on 10-year US Treasury bonds has been fluctuating at around 4.5% for a few years now. This phenomenon has even received an official name of “the Greenspan’s puzzle”. The yield curve in the US is inverted, which means that the interest rate on 2-year bonds is higher than that on 10-year bonds; in the light of the present knowledge, this should indicate an oncoming recession. Meanwhile, according to the present forecasts, the economic growth rate in the USA will slow down only slightly in 2006 and will remain close to the potential GDP. In 2005, the current account deficit in relation to the GDP in the USA exceeded 6%, and many forecasting institutions expect its further deterioration. Meanwhile, contrary to what the theory of economics says, the dollar exchange rate, instead of falling, appreciated against the euro by 13% in 2005. Although the US foreign liabilities exceed the assets by over USD 2.5 trillion, the current account income balance of the US in 2005 was positive. This has led to creation of a new hypothesis, according to which the USA exports “dark matter”². It claims that, since the US revenues on foreign assets are higher than the costs of servicing of foreign liabilities, some “other assets” must exist which, being measured incorrectly in the statistics, affect the “real” international investment position of the USA, which is not negative. In such a case, the US current account deficits observed in the recent years would be a statistical illusion. The aforementioned concept has stirred a very lively debate and has been forcefully criticised by many economists, including Willem Buiter³, a former EBRD chief economist.

Another puzzle, described by the Federal Reserve economist Kevin Lansing⁴, is the fact that the growing share of the US society is aging and will leave the period of their highest income level

behind. In such a situation, the Americans should be paying off their housing loans and accumulate savings. However, they do exactly the opposite thing. If this behaviour pattern does not change soon, many Americans may find themselves in a situation where retirement shall mean a radical decrease in their standard of living.

Of course, it is difficult to point out a single factor that leads to all those changes. Yet, there is no doubt that one of the most important factors changing the structure of the global economy is the rapid globalisation of financial markets, trade, manufacturing and — in recent years — of services and knowledge. Globalisation has many dimensions but today I would like to focus on just two aspects that are actually interrelated, i.e. global imbalances and globalisation of manufacturing, services and knowledge, which takes on the form of offshoring. At the same time, I shall omit many other globalisation-related themes, such as globalisation of financial markets or migration.

As I have mentioned before, one of the manifestations of globalisation in recent years are global imbalances. In 2005, the US current account deficit exceeded 5% of the GDP, and many forecasts of investment banks point to its further increase in 2006 and 2007⁵. The USA has had a negative current account balance for two decades now. However, the growing rate of the deficit has accelerated in the recent years, which has brought the negative net investment position of the largest economy in the world down to the vicinity of 30% of the GDP in 2005 and — according to all available forecasts — will continue to deteriorate it rapidly.

The large US current account deficit is related to a negative balance of household savings and a sharp increase in real property prices, observed not only in the USA but in all Anglo-Saxon countries⁶ in the recent years. Moreover, the US current account deficit is financed to a large extent from purchases of American debt securities by Asian central banks and — in the years 2004 and 2005 — to a growing increasing extent by public institutions managing foreign exchange reserves in oil-exporting countries. Foreign exchange reserves have increased substantially over the recent years. In China, for example, reserves of the People's Bank of China increased from USD 166 billion in December 2000 to USD 819 billion in December 2005, and it is broadly expected that — in terms of size of its foreign exchange reserves — China will

outdistance the to-date leader Japan, whose FX reserves reached USD 847 billion in December 2005, and that Chinese reserves will exceed USD 1 trillion in 2006⁷.

As yet, there is still no definition of global imbalances that would be commonly accepted by most of economists. In the economic literature of recent years most of the references to the problem of global imbalances concern the phenomena described above. Therefore, for the purposes of this speech, I shall assume that whenever global imbalances are mentioned, the term will mean a joint occurrence of the following factors:

- The high current account deficit in the USA.
- The negative household savings in the Anglo-Saxon countries, particularly in the USA.
- Sharp increases in real estate prices in Anglo-Saxon countries, which in some cases have characteristics of speculative bubbles.
- Strong accumulation of foreign exchange reserves by public sector institutions in the Asian and oil-exporting countries.

A combination of the above-mentioned factors, which is an unprecedented phenomenon in the history of the world economy, has triggered a lively economic debate concerning two issues. Firstly, attempts are being made to explain how these imbalances came into being. Secondly, both academic economists and strategists at investment banks are trying to assess the possible scenarios of further developments. Are global imbalances a normal phenomenon in the global economy and can they increase further without any harm to the outlook for a long-term global growth? Can a radical adjustment of these imbalances occur — and if yes, what will be the mechanism of such an adjustment and what will its consequences for the global growth be?

Let us begin with a presentation of the main hypotheses that explain the phenomenon of global imbalances. In 2003, three economists presented a hypothesis that an informal Bretton Woods regime had been reactivated⁸. The original Bretton Woods system was created after WWII and consisted in a formal obligation of its participant countries to maintain foreign exchange rates, determined against a gold parity, on a specific level, with acceptable deviations not exceeding 1 percent. The system ceased to exist in 1971 after president Nixon had taken a decision that the USA would no longer exchange dollars for gold according to the parity determined. The nature

of the reactivated Bretton Woods, often called Bretton Woods 2, is well conveyed in the motto used by the authors of this concept:

„(...) if I made an agreement with my tailor that whatever money I pay them, it returns to me on the very same day as a loan, I would have no objection at all to ordering more suits from him”
(Jacques Rueff, 1965, after Dooley et al. (2003))

The hypothesis of the existence of an informal Breton Woods 2 says that a system has been established in which it is profitable for the Asian countries to finance the US current account deficit, because it allows them to increase their exports to this market. Thus, it supports the economic development of the Asian countries and allows them to create new jobs, which is particularly important in China, where — according to various estimates — each year between 10 and 20 million of jobs should be created, due to migration from rural areas to cities. In order to maintain the competitiveness of their exports, the Asian countries intervene on the FX market, thus preventing appreciation of their currencies. They invest the purchased dollars in American bonds, thus financing the US current account deficit.

Another hypothesis that explains the mechanism of the occurrence of global imbalances has been formed by the present Federal Reserve Chairman, Ben Bernanke⁹. His major concept is that the large US current account deficit cannot be explained solely by internal factors. In the opinion of the present Fed chairman, external factors, which he has defined as a global savings glut, have played the key role. The hypothesis says that a substantial surplus of savings over investments in the Asian countries, together with the structurally high savings in Germany and Japan, have resulted in a global savings glut that has caused a boom on the US stock exchanges and an increase in the property prices, which has in turn resulted in a drop in household savings in the USA.

The Bretton Woods 2 and the global savings glut hypotheses are challenged by the IMF, which claims that the source of the current account surpluses is the excessively low level of investments in the Asian countries — except for China. Thus, according to the IMF, we deal with a global investment drought¹⁰, considering the fact that during the five years following the Asian crisis of

1997-1998, the level of investments was about 7 percentage points lower than during five years before the crisis. Therefore, an appropriate recommendation for these countries is not limiting their savings rate but enhancing their investment climate.

According to other hypotheses, the major factor behind the global imbalances is the low level of savings in the US household and public sectors¹¹, i.e. the fact that Americans spend more than they earn and that the budget deficit, from a substantial surplus in the year 2000, turned into a level estimated at 4.7% of the GDP in 2004. Another factor that is often indicated is the change in the economic policy of the Asian countries after the crisis of 1997-1998, when a decision was taken in many countries to establish huge foreign exchange reserves for the purpose of hedging against similar changes in the sentiment of financial markets in the future¹². Other hypotheses indicate higher investment attractiveness of the USA in comparison to other regions, measured — inter alia — with the higher potential economic growth rate¹³. There exists another hypothesis, according to which such a high current account deficit is optimal¹⁴, in the face of the expected higher future growth rate of the American economy in comparison to that of other developed economies. This hypothesis is based on the assumption that Americans increase their present consumption financed from loans, anticipating high future earnings that will allow them to pay off the loans, which is perfectly correct. Finally, there are papers which try to prove that ... there is no deficit. The above-mentioned article by Hausmann and Sturzenegger¹⁵ arguing for the existence of “dark matter” is an example of this approach.

In spite of many attempts to prove that the US current account deficit is in fact lower than it is believed to be and that it is even desirable, a vast majority of academic economists and many central bankers are seriously alarmed by the scale of global imbalances. Many papers have been written recently that show what may be the consequences of the scenario in which the financial markets — in view of no adequate measures undertaken by economic decision-makers — initiate adjustment processes by themselves¹⁶. If the financial markets start pricing in higher risk premium for American debt securities, the outflow of capital from this market — or even decreased capital inflows — may lead to a fall in bond prices, i.e. to a sharp increase in long-term interest rates, a slowdown on the property market, depreciation of the dollar and, consequently, stagnation or even recession, which may be observed globally.

In order to mitigate the probability of such a scenario, structural reforms should be implemented in many countries. The USA should substantially reduce its budget deficit and — via a reform of the pension system — increase the household savings rate. In the EU and Japan a series of structural reforms should be accelerated to raise the flexibility and competitiveness of the labour and product markets . In the Asian countries, and first of all in China, the exchange rate regime needs to be made more flexible, which should be preceded by reforms that would strengthen the financial system, also via a greater openness to foreign capital inflows. At present, it is difficult to assess the likelihood of the scenario involving a serious slowdown in the global growth; nevertheless, implementation of necessary reforms is proceeding slowly.

Before I move on to the other aspect of globalisation, let me repeat that I understand globalisation as a progressive process of international integration of national markets of goods, services, capital and knowledge. In practice, this means higher levels of trade and higher inflows of foreign investment, thanks to the intensified scale of those phenomena and thanks to including an increasing number of countries into the international economic processes. Taking into consideration the labour market, it may be observed that the inclusion of the CEE countries as well as the former Soviet Union countries, India, China, and other developing countries resulted in an increase in the global labour supply of 2 billion workers. Thus, we are witnesses to the establishment of the global labour market. Actions of international corporations undertaken to relocate manufacturing or orders to countries with lower manufacturing costs simply make use of the existing comparative advantages. The foreign direct investment (FDI) inflow between 1990 and 2004 increased more than threefold, amounting to ca. USD 648 billion in 2004. In the same period, the FDI inflow to developing countries was six times higher and in 2004 it amounted to USD 233 billion¹⁷.

A significant factor contributing to intensification of the above phenomena is trade liberalisation, which involves reduction or elimination of customs tariff rates and all other non-tariff barriers that increase the costs of trade. Studies undertaken so far¹⁸ point to a significant role of preferential trade agreements, which in the years 1993-1997 involved about 70% of all trade exchange of West European countries. Apart from preferential trade agreements, a factor of vital

importance to the liberalisation of global flows of goods are multilateral agreements within the WTO/GATT forum. Thanks to GATT agreements, there has been a sharp reduction in customs tariff rates from ca. 40% after WWII to 6% in the early 1990s and to 4% at the turn of the century¹⁹. A gradual reduction of barriers to trade is a slow process; however, it brings permanent benefits to each of the interested parties, as it leads to specialisation in production, which brings notable benefits in the form of maintaining a competitive position on the global market.

Proofs of growing links among economies can be found e.g. in the world trade statistics, according to which exports of goods and services have increased fivefold since 1980²⁰. In 2005, the value of global exports corresponded to 29% of the global GDP, compared to 20% in 1980. This also indicates that trade develops at a much higher rate than the global domestic manufacturing. In the new EU Member States the export-to-GDP ratio has increased by 15 percentage points only over the past 10 years²¹. Changes in the growth rate have been accompanied by changes in the structure of exports, which have been significantly influenced by the foreign direct investment. Specialisation of production, as a prerequisite for competitiveness, leads companies to seek adequate locations allowing them to gain a competitive edge over rival companies. An increase in capital flows in the form of foreign direct investments (and especially the establishment of branches of multinational corporations) and international trade liberalisation favour fragmentation of the production process, consisting in its division into parts located in different countries. Fragmentation of production is also enabled by enhanced transport and information transfer as well as their lower costs (i.e. the decrease in transaction costs).

The fragmentation of production is grounded in international differences in the endowments of factors of production and — as a result — in prices of these factors. Multinational corporations divide their production among many different countries in order to minimise costs and make use of advantages of local markets, such as inexpensive labour force or a favourable location. Research and development, on the other hand, and the part of the production process that requires the use of the most advanced technologies and with the highest value added, are often located in the home country, also due to poor protection of the proprietary rights in developing countries. Such a conduct allows the company to benefit from comparative advantages related to different production locations. Moreover, it enables the use of international differences in exchange rates,

interest rates, and government subsidies supporting selected types of economic activity, as well as of different structures of customs tariff rates and varying features of internal markets in particular countries, for the purpose of maximising profits. Research²² indicates that differences in remuneration constitute a significant factor that leads to relocation of jobs in manufacturing to the countries in our region.

Hence, the result of production fragmentation is the optimal use of the advantage of location of particular production stages and the reduction of the average cost. However, its side effect are additional costs related to linking of the particular stages into one via activities that have the nature of services (e.g. transportation, co-ordination and management).

The phenomena inseparable from all those mentioned above are offshoring and outsourcing. Offshoring consists in relocation of jobs and production or orders from the country where the company is based abroad – usually to countries with lower employment costs²³. Offshoring does not have to necessarily take place within a single enterprise. Outsourcing, on the other hand, consists in relocation of a part of services outside the company. OECD calculations have shown that ca. 19% of jobs in EU-15 have been threatened by offshoring²⁴. It should be noted, however, that for the developed countries this process does not mean losses of jobs. Mankiw and Swagel²⁵ cite research results, according to which relocation of jobs abroad may be positively linked to an increase in employment in the home country of the relocating company. It stems from the fact that foreign branches do not compete but rather complement the hitherto activity of companies, and thus help to improve effectiveness and quality, and lower costs, which may lead to an increased market for products or services of the given company, what may in turn result in an increase in employment in the home country. It is first of all the countries capable of manufacturing products and rendering services at a competitive price that gain a major advantage in acquiring new investments and creating new jobs. It is worth adding that the growing significance of offshoring has an impact on the distribution of remuneration in the countries, whose participation in the globalisation process is increasing. The wages of unqualified workers from the developed countries are falling, while workers with higher qualifications from countries with lower labour costs are being better rewarded.

Labour costs remain an important, although not a sole, factor of investment attractiveness of a given country. In A.T. Kearney's research²⁶ countries from our region, i.e. the Czech Republic, Poland and Hungary, are in the top eleven offshoring locations. The assessments emphasised the cultural similarity of the countries in our region to the west European countries, relatively low barriers to business activity for West European companies as well as high qualifications of our employees. While comparing the abovementioned countries it has been indicated that the grade for Poland is slightly lower than for the Czech Republic as regards the infrastructure and respect for intellectual property rights.

Offshoring in its broader scope constitutes a new idea of innovation in enterprise management²⁷. While as a result of production relocation the company may lower its costs substantially, a much more important advantage of offshoring is that it may become an incentive to change production processes. In extreme cases this may lead to a situation where a company divests itself of all processes that have no direct connection with production or services rendered.

Alan Blinder²⁸ goes even further and openly speaks about the third industrial revolution. He presents a vision of medical services which may be performed on a remote basis (an example of radiological examinations in India) as well as rendering many educational services via electronic ways of communication. Formerly, the natural resources of an economy were of prior importance; nowadays, the perspectives of an economy depend to a greater degree on the human factor. This factor is decisive, especially in new branches of the economy, related to the services sector. Thanks to the development of new information and communication technologies, there has been an increase in trade in services, which — until recently — have been considered non-tradable. The importance of the services sector in the economy should be stressed, as this sector constitutes a 70-percent share of the GDP in the developed economies. The whole accounting departments or customer support call centres outsourced are only some of the services that take advantage of new technologies. Some of those innovations have already become a permanent element of our reality: the possibility to purchase an airline ticket via the Internet, creation of inventory control systems in IT companies, a possibility to gather and process information on consumer behaviour. The aforementioned solutions embody the new forms of labour organisation and the development of new products and services, which are becoming increasingly common.

Research by van Ark²⁹ indicates that the results of a comparison of the growth in labour productivity in the services sector in the USA and the EU-15 in the past 10 years are in favour of the USA. The advantage of the USA has resulted primarily from a higher labour productivity in retail and wholesale trade and in the financial services. Among the causes for the lower increase in labour productivity in the EU countries one should mention lower innovative capabilities of the European companies and a lack of reforms that could have forced the sector to take advantage of its potential. There are still regulation barriers to business activity in Europe, which make it impossible to move freely across country borders³⁰. New information transfer technologies create a possibility of central processing of information, which is why limiting of the capability to take advantage of this process results in lower economies of scale. Moreover, the development of road transport still faces regulatory barriers. Finally, cultural differences, which are a natural barrier in business activity, should be mentioned.

While indicating the vital role of services in building a competitive edge of the American economy, we should also relate to EU solutions in the form of the so-called Services Directive, which has been recently adopted by the European Parliament. The basic objective of the directive, in its version proposed by the European Commission, is to create a single market for services covering the whole of the European Union and to abolish all the barriers that prevent or significantly hinder rendering services by entrepreneurs of a given country in other EU countries. However, the amendments introduced by the Parliament, which deleted the so-called “country of origin” clause, in principle allow maintaining the existing barriers, which will result in a more difficult and hampered process of increasing the effectiveness of the European companies, including their capability of taking advantage of offshoring.

This is why, in the era of globalisation, all initiatives that increase the region’s investment attractiveness play a vital role. The project of the City Council of Rzeszow, under which 60% of the city’s area will have a free access to the Internet, may serve as an example here. A parallel creation of a radio telephone network, allowing free calls between public institutions and the city inhabitants, make a step forward in the right direction.

On the other hand, the EU Commissioner for Regional Policy Ms. Danuta Hübner has emphasised how structural funds support development and innovation³¹:

„Let me present an example of a project whose implementation was made possible thanks to the Structural Funds. Here in Poland, the administration uses the European Regional Development Fund in order to create a research lab for the aviation industry in the vicinity of Rzeszow. The goal of the project is to create a modern centre equipped with the state-of-the-art research infrastructure and specialised equipment for testing of materials. Public and private partners are involved in this undertaking — they formed a consortium composed of the Rzeszow University of Technology, other technical universities, a group of aviation industry enterprises called “The Aviation Valley” and the Polish Aviation Institute”.

Globalisation influences the perspectives of the world’s major economies. In the USA, the discussion on relocation of jobs to the Asian countries became a lively element of political debate during the last presidential elections. Similarly, in Europe a debate is underway concerning the future of the single services market. There is no doubt, however, that any solutions of regulatory or protectionist nature may hinder all these changes only temporarily, as they are inevitable. The countries, whose politicians will understand the mechanisms of the global economy and will implement necessary reforms to improve the investment climate, will benefit the most from the globalisation processes. Entrepreneurs should also keep a sharp lookout on the globalisation processes currently underway, in order to respond to the emerging threats in a timely manner, but — first of all — in order to benefit from the great opportunities that they create.

Thank you very much for your attention.

¹ As presented by A. Blinder and R. Reis in „Understanding the Greenspan Standard”, presented at the Fed conference in Kansas City in August 2005. (Economic Performance in the Greenspan Era: The Evolution of Events and Ideas). An example of such delays in the possibility of recognising a certain phenomenon is the rapid acceleration of the growth trend in labour productivity in the USA in mid-90s. The former Federal Reserve President Alan Greenspan formulated a thesis that such an acceleration took place in 1995, whereas econometric models were capable to show it only after five years from its occurrence.

² Ricardo Husmann, Federico Sturzenegger “Global imbalances or bad accounting? The missing dark matter in the wealth of nations”, Harvard University working paper, January 2006.

³ W. Buiters “Dark Matter or Cold Fusion”, Goldman Sachs Global Economics Paper, January 2006.

⁴ K.Lansing “Spendthrift Nation”, Federal Reserve Bank San Francisco Economic Letter, November 2005.

⁵ According to World Economic Outlook published by the IMF in September 2005, the forecasted US current account deficit will amount to USD 759 billion in 2005 and will increase to USD 805 billion in 2006. Both values correspond to 6.1% of the forecasted GDP. Some forecasts by investments banks, however, indicate an increase in the forecasted current account deficit to 6.5% of the GDP in 2005 and to 7-8% of the GDP in 2006 and 2007.

⁶ An extensive discussion of the real property market can be found in A. Ahearne et al. „House Prices and Monetary Policy: A Cross Country Study”, Fed Board of Governors, International Finance Discussion Papers, September 2005.

⁷ If one considers the fact that China has already used USD 60 billion from their foreign exchange reserves in order to recapitalise two commercial banks, the People’s Bank of China has now the largest foreign exchange reserves in the world.

⁸ A series of articles on the topic was commenced with the work of M.Dooley, D.Folkerts-Landau and P.Garber „An Essay on the Revived Bretton Woods System“, NBER Working Paper 9971, September 2003.

⁹ A hypothesis of a global savings glut was formed for the first time by Ben Bernanke in March 2005 in his speech at a meeting of Virginia economists’ association.

¹⁰ For example in speeches by the IMF Managing Director Rodrigo Rato and the IMF Research Department Director Raghuram Rajan in January and February of 2006.

¹¹ For example M. Chinn “Getting Serious about Twin Deficits”, working paper, The Bernard and Irene Schwartz Series on the Future of American Competitiveness, CSR No. 10, September 2005.

¹² This hypothesis has been proved in: J.Aizenman, J.Lee “International Reserves: Precautionary vs. Mercantilist Views, Theory and Evidence”, IMF Working Paper WP/05/198, October 2005; and M-A Gosselin, N Parent “An Empirical Analysis of Foreign Exchange Reserves in Emerging Asia”, Bank of Canada working paper 2005-38, December 2005.

¹³ See R.Caballero et al. “An Equilibrium Model of Global Imbalances and Low Interest Rates”, MIT mimeo, September 2005.

¹⁴ C.Engel, J.Rogers “The U.S. Current Account Deficit and the Expected Share of World Output”, NBER working paper 11921, January 2006.

¹⁵ See footnote no. 2.

¹⁶ Examples of such estimations can be found in: S.Edwards “Is the U.S. Current Account Deficit Sustainable? And if not, How Costly Is Adjustment Likely to Be?”, NBER working paper 11541, August 2005; N. Roubini “Global Current Account Imbalances: Orderly or Disorderly Rebalancing?”, New York University Working Paper; M. Obstfeld M, K. Rogoff “The Unsustainable US Current Account Deficit Position Revisited”, prepared for 12-13 July 2004 NBER conference on G-7 Current Account Imbalances: Sustainability and Adjustment; H. Faruqee et al. “Smooth Landing or Crash? Model Based Scenarios of Global Current Account Rebalancing”, NBER Working Paper 11583; O. Blanchard et al. „The U.S. Current Account and the Dollar”, NBER Working Paper 11137 and many others.

¹⁷ Based on the data of UNCTAD.

¹⁸ J.-M. Grether, M. Olarreaga, “Preferential and non-preferential trade flows in World Trade”, WTO Staff Working Paper, September 1998.

¹⁹ M. Bacchetta and M. Jansen, “Adjusting to Trade Liberalization – the Role of Policy, Institutions” and WTO Disciplines, WTO Special studies No 7, April 2003.

²⁰ Based on the data of the IMF, World Economic Outlook Database 2005.

²¹ Based on the data from national accounts, source: ONZ.

²² E.g. B. O. Sascha et al., “Location choice and employment decisions: a comparison of German and Swedish multinationals”, CESifo Working Paper No. 1374.

²³ However, relocation of manufacturing to countries with lower labour costs need not to be a rule. Research by Aubert and Sillar (2005) indicated that between 1995 and 2001 in France less than a half of all relocated jobs (on the offshore basis) in manufacturing were moved to countries with low production costs. According to the authors, such results rather to a motive of enterprise restructuring, whereas the phenomenon of offshoring is limited primarily to large enterprises employing over 500 persons. See P. Aubert and P. Sillar, „Offshoring and Job Losses in French Industry”, April 2005, OECD working paper.

²⁴ OECD, “Growth in Services. Fostering Employment, Productivity and Innovation”, Meeting of the OECD Council at Ministerial Level, 2005, pp. 7.

²⁵ N. G. Mankiw, P. Swagel, “The Politics and Economics of Offshore Outsourcing”, American Enterprise Institute for Public Policy Research Working Paper, November 2005.

²⁶ A. T. Kearney’s 2004, „Offshore Location Attractiveness Index, Making Offshore Decisions”, Three categories of indicators were assessed: the financial structure with the weight of 40% (labour costs, infrastructure costs, tax and regulatory costs), employee skills and access to labour force — weight of 30% (accumulate business experience, easiness of employing workers, knowledge of foreign languages and education, social indicators, e.g. unemployment rate), business environment — weight of 30% (business conditions in the country, infrastructure, cultural adaptability, intellectual property protection).

²⁷ “The Future of Outsourcing, How it’s transforming whole industries and changing the way we work,” BusinessWeek, January 30, 2006.

²⁸ A. Blinder, “Fear of Offshoring”, CEPS Working Paper No. 119, December 2005.

²⁹ B. van Ark, “Europe’s Productivity Gap: Catching Up or Getting Stuck?”, an article prepared for the International Symposium on Productivity, Competitiveness and Globalisation, Banque de France, Paris, 4 November 2005.

³⁰ R. H. McGuckin, III, M. Spiegelman, B. van Ark, “The Retail Revolution - Can Europe Match U.S. Productivity Performance?”, The Conference Board, March 2005.

³¹ Speeches by the Regional Policy Commissioner Ms. Danuta Hübner at the conference RESEARCH AND INNOVATIONS – AN OPPORTUNITY FOR CONVERGENCE REGIONS, Warsaw, 13 February, 2006.