



SUMMARY

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This advisory report makes proposals for properly guiding the process of globalisation. It suggests ways to improve the position of the Netherlands in the globalisation process and to make that process fairer and more sustainable.

Policy challenges and policy scope (Chapter 2)

One aspect of globalisation is that regions and countries specialise. The rise of the Asian economies (the horizontal expansion of globalisation), the dividing up and relocating of production processes and jobs, and the associated growth of the international services market (the vertical expansion of globalisation) will accelerate the process of specialisation, and make it more unpredictable. This gives rise to a number of questions. What is the best way for the Netherlands to key into this process? How can we continue to build on our economic strengths? Should we worry about job losses? How can we reduce the uncertainty associated with the redistribution of manpower and resources that is part and parcel of specialisation?

Horizontal and vertical expansion also raises ethical questions about the globalisation process. For example, how do we deal with such issues as child labour and differences in environmental standards? How much responsibility do enterprises have in the supply chain, and how can we ensure that more countries and more people benefit from the globalisation process?

Three key policy challenges

The advisory report addresses these questions based on the broad concept of prosperity as defined by the Social and Economic Council. The purpose of this approach is to create a basis for sustainable development by achieving and maintaining a proper balance between people, planet and profit.

International trade results in countries being able to concentrate on what they are good at – their comparative advantage. By specialising – a process that is enhanced by scale and learning effects – all economies can, in essence, improve. Specialisation does, however, entail a redistribution of economic resources and manpower, leading, potentially, to losers and transition problems. Specialisation can also have distribution effects. And although globalisation is expanding horizontally, not all countries have, as yet, been integrated into the world economy. The impact of globalisation on prosperity in the broad sense depends mainly on the way we deal with transition problems and with the distribution effects between and within countries.

That brings us to the three key questions addressed in this advisory report:

- A What policy mix can the Netherlands/Europe Union use to prepare for the possible acceleration of the international specialisation process?

- B How can we promote sustainable globalisation?
- C How can we ensure that horizontal expansion and ancillary policy lead to more countries and more people benefiting from the globalisation process?

The policy scope for meeting these challenges

The advisory report argues that there is enough scope to guide the globalisation process properly through policy. There is more than one type of policy possible in the world today, and in that sense our world is not becoming any flatter. There are various reasons for this: agglomeration advantages; the possibility of regulating and guaranteeing public services (education, research, housing, pensions, healthcare); the fact that not all services are tradable (for example personal services); the positive effects of a sound social insurance system; the quality of government policy; the scope created by the tax system to adjust the tax base and tax rates to allow for changing circumstances; and, last but not least, the consultation economy. The claim that there is sufficient policy scope is confirmed by the OECD, which has shown in research that both Scandinavia and the Anglo-Saxon countries are well prepared for globalisation. Indeed, national policy accents are becoming increasingly important. In order for a country to be well prepared for globalisation, it must clearly define government's primary tasks (a sound education system, a social welfare system that "activates" the labour force, and safeguards for public interests). The European Union plays a crucial role in influencing and shaping the globalisation process as such, and that role has implications for the Netherlands as well.

*A What policy mix will enable the Netherlands to prepare best for the globalisation process?
(Chapter 3)*

In the past, growing competition from abroad led to major shifts in the Dutch economy. In the past few decades, the Netherlands has watched its leather, tobacco, textiles and shipbuilding industry disappear. These changes were painful ones for the individuals, cities and regions involved. Hardest hit were the low-skilled production workers. The losses were counterbalanced by gains in other areas, however, particularly in the business services sector, a growing area of specialisation for the Netherlands. Despite its losses, the Dutch economy has not declined; indeed, it has prospered.

Looking ahead, Dutch policy-makers must continue to consider the positive and negative impacts of the globalisation process. OECD research shows that the Netherlands remains competitive, despite the challenges posed by such rapidly growing economies as India and China. That is mainly because the comparative advantage of the Dutch economy is based on factors in which these countries do not excel. However, we cannot rule out the possibility that in the future, global economic competition will have negative effects for the economies of Europe – and therefore for the Netherlands.

The Social and Economic Council believes that Dutch (and European, see below) policy-makers must respond pro-actively to this challenge by making good use of the scope available for social and economic policy. The purpose of such policy should be to exploit

opportunities to expand production and employment via international trade and to redress the negative effects of the open economy as effectively as possible.

The Social and Economic Council's policy agenda has the right ingredients...

The Social and Economic Council has come to the conclusion that the policy agenda set out in its medium-term advisory report *Welvaartsgroei door en voor iedereen* [Increasing prosperity by and for everyone] has the right ingredients to prepare for a possible acceleration of the specialisation process. However, it also believes that parts of this agenda should be amended or intensified.

The pro-active social and economic policy strategy described in the medium-term advisory report focuses on arriving at a socio-economic system that is enterprising, resilient and responsive. Key elements of the strategy include: enhancing innovativeness, for example by focusing more on social innovation and creating greater scope for enterprise; support for employee mobility by introducing an individual training facility with a related appropriate dismissal system; working towards an “activating” participation society based on two foundations, i.e. income protection and employment participation; improving the labour market position of vulnerable groups; improving the market mechanism; and achieving a properly functioning corporatist consultation economy.

...but some points need to be intensified and developed in more detail

In view of the potential acceleration of the specialisation process, the growing importance of offering enterprises a good business climate, and the possibility that the specialisation process will become more refined and therefore more unpredictable, the Social and Economic Council believes its medium-term agenda should be intensified and tightened up on a number of related points:

- *The knowledge-investment agenda:* The Council proposes increasing public expenditure on R&D and would like to see innovation incentives made more effective, for example by combating fragmentation and compartmentalisation. The Council also wishes to see an improvement in the regulatory framework for innovation and a greater focus on social innovation.
- *Improving the business location climate, including the tax climate.* Part of this involves developing more effective policy on promoting international enterprise. In terms of the tax climate, this means a sweeping review of the income tax system, as part of a periodic assessment of whether the tax system is futureproof. By proposing such a review, the Council is aiming to help achieve the highest possible employment participation rate and to secure the Netherlands' international position as a business location. What must also be considered in the short term, whether or not as part of the income tax system review, is the impact of dividend tax on the business location climate.
- *Improving the efficiency of public administration.* This involves reducing the inhibiting effects of red tape and bureaucracy, combating compartmentalisation in government policy, and tackling physical infrastructure issues by developing a new spatial plan for

the Netherlands. Given the lengthy decision-making process and other procedures associated with spatial planning in the Netherlands, the Council believes that the new spatial plan should be drawn up by 2009 at the latest.

Lifelong learning should be mentioned in this context. The Social and Economic Council expects to receive a request for advice in 2008 that will allow it to develop more detailed policy proposals in this area.

Contribution of European policy (Chapter 4)

The Netherlands needs the European Union if it is to operate from a position of strength in the globalisation process. That will require effective decision-making at European level. The Social and Economic Council believes that the new Lisbon Treaty offers a sound basis for proper decision-making on cross-border issues and for respecting the principle of subsidiarity in the exercise of shared powers. The EU wishes to position its internal and external policy in such a way that it can key into the opportunities and challenges of globalisation.

Reinforcing the EU's internal economic policy: the Lisbon Strategy

The basis for the EU's internal economic policy is the Lisbon Strategy, which dates from 2000. The crux of this strategy is to modernise Europe into "the most competitive and knowledge-driven economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". The advisory report focuses in particular on the European dimension of the Lisbon Strategy: the completion of the internal market, the creation of a European knowledge area as part of that market, and the EU's energy and climate policy.

The EU is vital when it comes to improving the Netherlands' comparative advantages and business location climate, largely owing to the scale advantages of the internal market and the creation of a European knowledge area. The Social and Economic Council believes that the EU should focus even more on reinforcing the internal market, for example by tackling all kinds of superfluous rules and regulations in Brussels and by subjecting new rules to closer scrutiny. To reinforce the internal market, the EU should speed up implementation by the member states of the Services Directive, monitor proper compliance with that directive, and see that the free movement of workers between Bulgaria/Romania and the rest of the EU is introduced as quickly as possible.

The Council regards the introduction of a "fifth freedom", the free movement of knowledge, as a significant signpost for the continuing development of a European knowledge-driven economy, including the related migration of knowledge workers, students and researchers. Rules must be developed at EU level concerning knowledge migrants. The Council advocates increasing the EU budget for knowledge and innovation, something that will require a review of the European budget proposal.

Climate and energy policy as part of the Lisbon Strategy

Part of the Lisbon Strategy concerns Europe's contribution to tackling the global climate and energy problem. The key question is how the EU can lead the way in the climate debate and bolster its own economy at the same time.

The Social and Economic Council supports the European Commission's proposals concerning CO₂ reduction, renewable energy and energy efficiency. It believes that everything should be done to reach agreement in late 2009 in Copenhagen on worldwide CO₂ emissions targets for after 2012 (post-Kyoto protocol), in particular because Europe is responsible for only part of global CO₂ emissions. Should these targets turn out to be unfeasible, then the EU must reconsider how it can achieve them or what unilateral targets can be justified in relation to the competitiveness of Europe's enterprises. Permit auctioning cannot be an option in that case, and certainly not for energy-intensive sectors, correctly identified as constituting an exemption during the EU Spring Summit in March 2008. The Social and Economic Council also believes that the EU's Emissions Trading Scheme (EU ETS) must be reformed: the distribution of emissions rights across sectors and individual enterprises should take place at European, rather than national, level.

The EU's external policy: the rules of the game for the globalisation process

Like other EU member states, the Netherlands is too small to be able to influence and shape the rules of the game for the globalisation process as such, for example international trade. The EU, on the other hand, has sufficient mass behind its external policy to shape the process of globalisation in the interests of its private citizens and enterprises. The EU is increasingly setting worldwide consumer, technical and accountancy standards. Europe has proposed international rules and an international code of conduct for sovereign wealth funds, focusing on achieving greater transparency in the governance and investment policy of such funds. The Social and Economic Council believes that these proposals are a step in the right direction.

The EU also plays a highly significant role when it comes to determining the rules governing the world trading system (see below). The EU's internal Lisbon Strategy and external economic agenda should be more closely integrated in order to exploit the opportunities of globalisation to full advantage.

B How can we promote sustainable globalisation? (Chapter 5)

The liberalisation of international trade will go to increase social prosperity if trading takes place within a context of ancillary policy measures aimed at promoting sustainable development along three dimensions: economic, social and ecological. With respect to ancillary policy in the social dimension, the question is how the Netherlands can help promote the Decent Work Agenda of the ILO.

The Social and Economic Council has identified four complementary and mutually supportive methods for achieving sustainable globalisation:

- 1 by concluding treaties with, furnishing aid to and putting pressure on countries in which production takes place;
- 2 by setting requirements for import products or market access (trade measures);
- 3 by urging Dutch enterprises operating abroad to acknowledge their corporate social responsibility in their own production facilities and those of their suppliers;
- 4 by using quality marks and labels to help consumers make informed choices.

The Council emphasises the importance of policy coherence in this area. It has a number of recommendations to make for each of the foregoing methods.

1 Treaties, pressure, aid for production countries

The ideal way to achieve sustainable globalisation is to arrive at international agreements in the form of widely accepted treaties and conventions. Countries that have ratified such conventions can be held accountable for enforcing the associated standards and will receive help implementing them. This approach has already succeeded in various areas, small in number but nevertheless significant. One problem is how to increase the number of standards that can be applied in actual practice. Another important issue is how to find the right balance between helping countries implement standards and pressuring them to enforce them.

This advisory report focuses on how to hold countries accountable for enforcing the ILO labour standards and help them implement those standards (the Decent Work Agenda). Based on its own prior recommendations, the Social and Economic Council has prepared proposals for monitoring the ILO conventions more closely.

It acknowledges the importance of the Decent Work Agenda and points to the need for policy coherence in promoting that Agenda. It advises the Dutch government to encourage other UN bodies and international institutions and organisations to consider the importance of productive, sustainable employment in their decisions, while fully retaining their own differing missions and responsibilities.

Decent Work can only be achieved as a policy target if it is the product of a policy focusing on economic growth and the promotion of enterprise. In addition, a number of comments must be made about the concept as such: the differentiated nature of the Decent Work Agenda, the potential trade-offs between the various targets, and a proper balance between targets, measures and responsibilities.

2 Trade measures

Given the potential impact on world trade, the global trading system and the export opportunities of developing countries, the Social and Economic Council believes that political trade measures should be used with caution. They should certainly not be used

for protectionist purposes, particularly where they are unilaterally applied. As it is, the Netherlands has little leeway to impose unilateral trade measures, as the EU has the exclusive authority to act in foreign trade matters.

The key policy challenge in this area is to develop a set of widely accepted international standards where they do not yet exist (for example with respect to animal welfare) and to help consumers make better choices by using quality marks and labels on products that have been produced pursuant to these standards.

The ideal scenario would be to arrive at a series of widely accepted multilateral agreements setting out both concrete standards for sustainability and the relationship between such standards and trade. The Council is fully in favour of this approach. Because WTO law and other international treaties have equal legitimacy, such conventions or agreements must have the same force as the WTO rules. It would take a very long time to achieve this, however, as broad international consensus is required.

Bilateral and regional agreements also offer opportunities to incorporate clauses on labour standards, the environment and animal welfare. In addition, there must be international support for initiatives concerning sustainability and technology transfers.

The WTO has wanted to link labour rights and trade measures in its rules ever since its founding, but it has met with stubborn resistance from developing countries in particular. At present, such a link will only be possible if it is designed to reflect the current exceptions under WTO law. The WTO provision prohibiting forced labour would thus be interpreted as including the worst forms of child labour, i.e. those involving a certain degree of compulsion. The Council supports the Government's efforts to raise this topic for discussion within the European Union.

Where there are no international standards, voluntary quality marks and sector-specific agreements are an alternative means of addressing the sustainability aspects of trade. It is therefore important to clarify, as soon as possible, the scope for quality marks and certification in WTO law.

3 Supply chain responsibility of Dutch enterprises

Since the publication of the Social and Economic Council's advisory report *De Winst van Waarden* in 2000 (the translation, *Corporate Social Responsibility: A Dutch Approach*, was published in 2001), a string of new initiatives has been developed with respect to corporate social responsibility (CSR). A growing number of companies see CSR as a vital component of modern enterprise, both national and international, and report on their efforts in this respect.

The Social and Economic Council supports measures to encourage and facilitate CSR at all levels. A particularly complex theme at international level is that of supply chain

management, or how responsibility should be allocated in cross-border production chains. This issue has become all the more urgent now that production processes are being divided up and relocated to countries such as China and India.

In this advisory report, the Social and Economic Council makes a number of recommendations to the Dutch Foundation for Annual Reporting, government and industry concerning the international aspects of CSR in general and supply chain management in particular. In this way, the Council aims to promote good practices in this area. The Council has acknowledged its responsibility in this field by launching an initiative on international corporate social responsibility.

These recommendations are based on the notion, described in the advisory report *De Winst van Waarden*, that enterprises should determine for themselves, in consultation with their stakeholders, how to meet their CSR obligations and undertake socially acceptable supply chain management. With enterprises operating in such a wide range of circumstances, it would be impossible to prescribe precisely how they are to account for their actions in the supply chain. However, they can be expected to display the necessary transparency in this area.

The Council wishes to contribute towards developing a system of international CSR. By December 2008 at the latest, it will draw up a document describing and explaining its proposal for a normative framework for international corporate social responsibility. The document will be signed by the representatives on the Council on behalf of their members. The representatives will explicitly draw their members' attention to this document. This method will guarantee broad commitment to this initiative. The Council therefore calls on enterprises and sectors to support the initiative.

The document will focus in particular on the continuing development of supply chain management among the relevant enterprises and sectors, based specifically on the supply chain responsibility guidance paper published by the International Chamber of Commerce (ICC). At enterprise level, this specifically means integrating supply chain responsibility into commercial purchasing and risk management systems, clearly setting out expectations to suppliers, helping suppliers live up to their commitments and internalise change, tracking supplier performance, developing a policy for dealing with non-compliance and for holding the enterprise accountable for compliance.

The details will be reported in the relevant companies' annual reports or in separate annual sustainability reports, in accordance with the recommendations of the Dutch Foundation for Annual Reporting. Sectors may also publish reports on this subject. Based on this information, the Social and Economic Council will draw up an annual progress report that looks at the number of companies reporting on supply chain management along the lines described above, the various subjects that they report about, good practices, and general or specific problems and challenges. The annual progress report will be

discussed within the Social and Economic Council, which will set up a separate committee for this purpose. The committee will meet twice a year. In addition to discussing the progress report, the committee's agenda will be open to any subject related to implementing the normative framework referred to above and to developing and encouraging good practices in international CSR in general and supply chain management in particular.

The committee's precise working methods and composition have yet to be determined. It would be a good idea to involve the NCP in this committee's activities in some way or other (formally or informally).

The Social and Economic Council plans to evaluate the foregoing recommendations and its international CSR initiative starting in mid-2011 and concluding no later than 1 July 2012. Confident that the necessary progress will be made between now and that date, the Council does not believe there is a need to propose legislation in this area during that period.

4 More transparent choices for consumers

The Social and Economic Council supports the Government's efforts to create greater transparency in the numerous quality marks, certificates and other forms of product information related to sustainable consumption and production. The age-old divide between the calculating consumer and the well-meaning citizen must no longer prevent enterprises and government from improving such information. Although the Netherlands must certainly make its own separate improvements, any such national efforts to span that divide should, in the view of the Council, keep pace with international initiatives. To ensure uniformity and clarity, the Council would prefer to see goods and services sold exclusively in the domestic market comply as closely as possible with international agreements concerning quality marks, etc.

How can we ensure that more countries and more people benefit from the globalisation process? (Chapter 6)

In 1997, the Social and Economic Council observed that despite many years of international cooperation and policy efforts to combat hardship and privation at the source, poverty is still a problem in many developing countries. The world poverty map is very fragmented at the moment. Now that China and India have joined/rejoined the world economy, these countries have experienced tremendous growth and, in China at least, there has been a sharp decline in extreme levels of poverty. However, the number of people living in extreme poverty has increased in Africa, both in absolute and relative terms.

These data give rise to the following question: how can we ensure that more countries and more people benefit from the globalisation process? The challenge can be broken down into three steps:

- 1 Allow products from developing countries access to markets in the developed world and gradually open up markets in developing countries for investment from developed

countries. This is a very important means of promoting the integration of developing countries into the world economy.

- 2 Develop the private sector and good governance to ensure that the economy actually benefits from opening up the markets and that economic growth is generated.
- 3 Create the necessary conditions to ensure that economic growth also benefits the poor (pro-poor growth).

All three of these steps are important for integrating developing countries more closely into the world economy, and all three require coherent policy. This advisory report focuses on the first step towards enabling more countries and people to benefit from globalisation, i.e. market access for developing countries. A follow-up advisory report will focus on steps two and three.

Market access for developing countries

The Social and Economic Council observes that actual impact of preferential access to the European market for products from developing countries remains. Restricted tariff reductions, stringent origin rules, tariff escalation and non-tariff barriers can weaken the impact of a trade agreement. In addition, the large number of “sensitive products” designated by the EU means that developing countries derive significantly fewer benefits from trade agreements.

Economic Partnership Agreements

The Social and Economic Council believes that the social partners (labour and management) in the ACP countries should be consulted regularly about the negotiations with the EU concerning the Economic Partnership Agreements. The Council also advises the Netherlands to continue emphasising within the European Union that certain market segments in developing countries must be allowed to open up at a different pace.

Reform of the Common Agricultural Policy and impact on developing countries

The CAP reforms are intended to remove trade-distorting export subsidies and internal support schemes for farmers. Any further progress that the EU’s trade and agricultural policy can make in relation to the least developed countries lies primarily in the area of market access. Important points are:

- to reduce tariff escalation for agricultural products according to their degree of processing;
- to make origin rules more flexible in preferential trade agreements;
- to reduce the number of products identified as “sensitive” in trade agreements.

Promoting integration by providing aid for trade

Improving market access for developing countries will not, by itself, guarantee closer integration of these countries into the world economy. The “aid for trade” initiative is an example of ancillary policy that will encourage such closer integration.

The EU can promote the closer integration of developing countries into the world economy by:

- harmonising product standards on a worldwide scale while simultaneously helping developing countries overcome non-tariff barriers such as technical trade barriers, customs and administration procedures, and sanitary and phytosanitary measures;
- encouraging economic diversification in developing countries, in particular in those countries granted preferences.

Dutch policy efforts

The Netherlands can help promote better market access for products from developing countries by continuing its efforts to influence the EU's trade and agricultural policy and by focusing its bilateral policy on trade promotion. The Social and Economic Council recommends that the items described above should serve as the Dutch Government's point of departure in these efforts.

Concluding remarks (Chapter 7)

In its concluding remarks, the Social and Economic Council makes clear that the Netherlands has much to gain from a broadly supported approach to the subject of globalisation, the underlying premise being that a careful policy focused on sustainability can be of enormous benefit to the world, to Europe, and to the Netherlands. Such an approach emphasises the importance of properly guiding the adjustment processes associated with specialisation, something to which the consultation economy can make an important contribution. At global level, the point is to arrive at a process of globalisation that is of benefit to a growing number of people.