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Foreign Direct Investment and Employment in a Host Country: the Case of Polish Manufacturing

Introduction

Poland, like other Central- and East-European Countries, opened its economy to foreign direct investment (FDI) because it expected foreign capital to speed up the process of transformation and economic growth. FDI benefits the host country in the form of the direct transfer of investment, technology, know-how and management skills, thus enhancing macro- and micro-economic restructuring and creating positive externalities. Once foreign firms are presented in a country, they have a significant impact on the economy of the host country in the field of sourcing, competition, ownership relations and economic policy.

The most interested in investing in Poland are European investors – 73% of overall investment. From European Union Poland received until the end of 2000 almost \$31 billion – 67% of the total value of FDI in Poland. Until 1993, FDI flew from United States, large EU economies (Germany, The Netherlands, France) or “neighbourhood countries” (Austria and Sweden). The second wave included South Korea, Ireland, Portugal – countries not present during the first wave of FDI or present on a small scale.

The years 1990-2000 witnessed fundamental changes in the Polish economy. The country moved from the centrally planned economy to a system based on the market rules. The structure of the centrally planned system in Poland led the state-owned firms which dominated the economy to employ more people than were actually needed. The liberalisation of economic activity caused an increase in competition from both: domestic, private enterprises and foreign companies. Hit by a loss of demand during transition, these firms tried to survive by

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shedding labour. The rising unemployment caused the growth of many serious social and economic problems in the country.

The study investigates the impact of FDI enterprises operating in Poland on the performance of the employment in Polish industry during the period 1993-2000. Since almost one half of FDI is concentrated in Polish manufacturing the empirical research focuses on that sector. The analysis is based on unpublished firm level data compiled by the Polish Central Statistical Office (*GUS*) on an annual basis for 1993-2000. Since the release of individual firm level data is prohibited by Polish law, data are aggregated up to the three-digit level of the EKD – the Polish correspondence to the NACE. Aggregated three-digit data are not provided if they refer to less than three firms. There are two exclusive types of firms within each industry: locally-owned (private and public) and foreign-owned. Firms with at least 10% of shares owned by foreigners are defined as foreign.

FDI is defined as a form of international capital movement that differs from other forms in the way and duration of the investment's commitment. In accordance with the IMF and OECD definition, capital investment abroad is regarded foreign direct investment if the purpose is to establish and maintain permanent equity relations with the foreign company and at the same time to exercise a noticeable influence on the management of that company.

The paper is organised as follows. Section 1 describes the potential employment effects of inward foreign direct investment. Section 2 presents the main results of research done in Polish manufacturing. Section 3 concludes.

1. Foreign direct investment and employment in a host country

The recent rise in unemployment in a number of countries in the context of the growing globalisation of the world's economic activity has focused the attention on issues related to FDI and its potential employment effects in a host country. Transnational corporations (TNCs) are major organizers of economic activity and an important source of capital, technology, managerial and organizational know-how for both developed and developing economies. They can play an important role as employers, generating employment directly as well as indirectly through backward and forward linkages. In general, inflows of FDI are not necessarily associated with a net generation or displacement of employment to such an extent as to have a significant influence on the aggregate level of employment. "The primary impact of both inward and outward direct investment in employment is likely to be on its industrial composition, its skill mix, its quality and its productivity, rather than on its amount" (Dunning J. H., 1993). The possible effects of FDI on the labour market in a host country shows table 1. Employment creation is one of the many aspects

which are related to inward foreign investment, although it is passionately debated. FDI may have direct and indirect as well as quantitative and qualitative effects on employment, each of which may be positive or negative.

The quantitative effects of FDI on the volume of employment include (ILO, 1984):

- jobs created directly by setting up new foreign affiliates or expanding existing affiliates, and indirectly by stimulating additional employment in suppliers and distributors (see table 2). Indirect effects are on the whole positive and substantial. They can generate the same or more jobs than TNCs create directly (the cases of Thailand, Philippines). A number of studies which estimated indirect employment effects for individual MNC subsidiaries in some developing countries showed that the number of jobs generated indirectly depended on the industry. Strong effects were found for the automobile and food processing industries, while textile and clothing, electronics and mechanical engineering showed weaker effects.
- medium-time effects generated through the increased demand stimulated by improved efficiency and restructuring of competing firms,
- employment preservation by acquiring and restructuring firms that would otherwise go bankrupt,
- decrease of employment through disinvestment and closure of foreign affiliates, the liberalisation of protected (often inefficient) activities, changes in parent company strategies, or the restructuring of acquired firms in host countries.

The qualitative impact of foreign capital on employment means changes in: wages, job security, skills and labour productivity. Foreign affiliates:

- generally pay higher wages than domestic firms in similar activities, especially in industries that demand higher levels of skills and technology or in export-oriented activities where high quality and timely delivery are needed. However, there are also some export-oriented activities such as simply assembly operations where a foreign investor takes advantage of low-wage labour. The result: an increase of intra- and inter-industry wage gap.
- tend to offer greater job security than domestic firms. This results from their size, competitive position and need for a stable workforce. However, investors, who are motivated by low wages offer insecure employment, since they can move to other countries as wages rises.
- tend to upgrade employee skills by investing in training. Firms, including TNCs, always undertake some forms of training, at the minimum to ensure that technologies in use are deployed efficiently. However, the decision to invest in more advanced forms of training depends on the returns they expect, their time horizon, and the extent of competition they are exposed to. TNCs can

contribute to skill upgrading by investing directly in training in their affiliates. They can also induce or support their local suppliers to train workers to meet their quality standards. They can influence local competitors or unrelated firms that emulate their practices. Foreign investors can also induce the government or industry association to set up training facilities. The role of TNCs in skill building differs by sector, industry and among host countries. For instance, some TNCs may start with training employees in low-skill categories and invest in further training over time as their wages rise and more complex technologies are used. In others, rising labour costs and technological upgrading may not converge. In the case of FDI in export-oriented activities where their advantage depends primarily on low wages and simple technologies, TNCs can just move on to other locations as wages rise. Or, TNCs in more complex activities may not find it economical to use more advanced technologies because the cost of training is higher than that of relocating to countries with better skill endowments.

– generate technological spillovers for the local firms. Generally, spillovers occur when the multinational corporations (MNCs) can not reap all the productivity or efficiency benefits that follow in the host country's local firms as a result of the entry or presence of MNCs affiliates (see Blomstroem M., Kokko A., 1997). This means for instance the case of a local firm improving its productivity by coping technology used by foreign enterprise. Another kind of spillover takes place if the entry of an affiliate leads to more severe competition in the host country, so that local firm is forced to use its technology and resources more efficiently. High competition may, in some cases, force locally-owned firms to search for new, more efficient technologies. There are many case studies that describe the role of MNCs in technology transfer but only a few present productivity spillovers through FDI. Positive spillovers on labour productivity in local firms were found in Mexico (Blomstroem M., Kokko A., 1994). There were no spillovers in Moroccan manufacturing (Haddad M., A. Harrison, 1993). Negative impact of foreign presence was found in the Czech Republic (Djankov S., Hoeckman B., 2000). In Poland the only group of local firms, for which positive labour productivity spillovers were detected are state firms, especially those which were initially most backward and those in weak competition industries (Żukowska-Gagelmann K, 2000). There are not enough case studies for comprehensive conclusions. What the reaction is – and how important the spillover effects are – is likely to depend on the initial conditions in the market, and how much of an impact MNC entry makes on concentration and competition. The standard literature on multinationals claims that FDI tend to reduce the level of concentration and increase competition in host country industries. The empirical verification showed different results for developed and developing countries. Entry by multinationals into the latter will have different

effects, and increase concentration. While the influence on a concentration level in a developed economy with a relatively big market may only be weak, it may be strong in developing countries with small markets. Furthermore, since domestic enterprises in developing countries are relatively small and technologically weak, by transferring high technology multinationals may drive local competitors out of business and concentration increases. In general, technology and knowledge transfers are expected to be higher, the higher the level of education of labour force in a host country, the tougher the competition with existing (domestic and foreign) firms, and the fewer the legal and institutional impediments to the operations of foreign firms.

Direction and magnitude of the employment impact are likely to be highly industry – and country – specific. They depend on:

- size, resource endowments and development levels of the host country, including the effectiveness of local institutions in maintaining competitive conditions and avoiding restrictive practices,

Growth of employment resulting from FDI is likely to be concentrated in economies that can support rapid restructuring and efficient new production activities. An important factor that shapes the capacity of host economies to attract employment-generating FDI is the quality of the labour force: the level and composition of skills available. High labour quality enables a host country to attract FDI into high value-added activities (the case of Hong Kong, Singapore and Taiwan). The size of the domestic market, in conjunction with the growth prospects of the host country play an important role when foreign investors decide to relocate production. FDI can be also very sensitive to factors related to general macroeconomic performance, such as inflation, fiscal and monetary policies etc. Finally, the efficiency of the labour market in a host country (labour laws, institutions, unionisation, industrial relations etc.) influences employment generation in foreign enterprises.

- the amount of net investment,

Employment generation depends upon the size of foreign investment, especially in case of FDI in labour- or human-resource intensive sectors. Countries abundant in low-cost labour that establish export-oriented trade regimes may promote significant employment generation by attracting export-oriented activities. Countries with import substituting regimes can attract market-seeking investment. These are likely to create employment. However, employment growth in market-seeking foreign affiliates in such regimes tends to slow over time if high level of protection is maintained and lead to technological lags.

- the sector and industry of the investment,

The sector and industry of investment matter in so far as some processes are more labour-intensive than others. There is also different level of concentration

and competition in the industrial activities. The impact of FDI on local competitors will depend on the characteristics of the sector. These include: the number and size of existing firms, the composition of their output, their innovatory capacity, the market prospects for the industry and whether or not existing firms are operating at surplus capacity and the extent to which the industry is protected from competition (by import controls, subsidies etc). The impact of multinational activity on competitors in selected industries is presented in table 3.

– the motivations for FDI, the type of the initial investment (or mode of entry), the international production strategies of MNCs,

The mode of entry is a very important factor determining labour market outcomes in a host country in the short-term. The direct impact of FDI through mergers and take-overs differs markedly from that of greenfield FDI. A greenfield investment generates new employment, while an acquisition transfers responsibility for existing employees – who may then be laid off by the new owner. Employment remains constant or declines. Lay-offs are likely for three main reasons (World Investment Report 2000): rationalising, enhancing efficiency (particularly in privatised enterprises) and reducing excess capacity. In the long-term, if the restructuring is successful, employment in foreign affiliates acquired through mergers and acquisitions (M&As) may increase. Employment effects of M&As depend also on the motivation of the foreign acquirer. While market- and strategic-asset-seeking cross-border M&As tend to have a neutral or positive direct impact on employment, efficiency-seeking M&As show evidence of both: decline and increase of employment (example: employment in the automotive industry in the Triad decreased in 1980s and 1990s; at the same time in some developing countries such as Argentina and Thailand employment rose, while in Brazil it declines. The system of integrated international production (table 4) may be expected to introduce substantial changes in the way in which FDI influence employment. Under a “stand-alone” strategy, most of the employment of labour necessary for host country production occurs in the foreign affiliates, with the exception of occupations at the highest skill levels (such as R&D) that are concentrated in the parent company. If investment is motivated by market size rather than low wages, employment in foreign affiliates is likely to be relatively stable. Indirect employment creation through establishing local linkages with suppliers is a frequent pattern. “Simple integration” does not involve reproducing the parent firm’s occupational structure in foreign affiliates. They supply their parent firms with specific inputs or products that they can produce cheaper abroad. The size and quality of employment generated in affiliates depend upon the locational advantages that attract FDI. If MNC invests to take advantage of low-cost labour, low-skilled jobs are located in foreign affiliates, and the highly paid jobs

remain in the parent company or in plants in countries with higher wages. If FDI is attracted by the availability of scarce natural resources, the quantity and quality of employment depend on the capital intensity and technological sophistication of the activity and the degree of processing that takes place in the host country. In case of “simple integration” strategy, indirect employment creation may be minimal since foreign affiliates rely on transformation of imported inputs. In “complex strategy” each affiliate specialises in a product, process or function integrated within a global network of international production. Value-adding activities are no longer replicated across different locations, but rationalised and consolidated so as to reap efficiency and scale advantages. Employment quantity in different locations depends on the role of a particular affiliate within the network. Deep integration may imply higher employment quality in foreign affiliates in order to maximise the efficient performance of a firm’s global system.

- the character of international production and its reliance on imports,

If FDI substitutes for domestic production it may drive local firms out of the market. If international production complements domestic investment it contributes to output growth by releasing financial, technological and managerial bottlenecks for the expansion of domestic activity. However, employment effects may differ over time. In long-term, domestically-owned firms may adapt to the new competition and take advantage of the foreign activity (through imitation of new products, technologies, work organisation).

- host country policy towards FDI,

Governments can take measures that increase FDI inflows generally. These may take the form of fiscal incentives (tax rebates and exemptions), financial incentives (subsidised loans and grants) and non-financial incentives (for instance, basic infrastructure provision). Governments may also decide to attract FDI to particular regions or industries where unemployment is especially acute (Special Economic Zones in Poland). When government’s objective is to upgrade employment and improve the skill base, it can draw upon various options for attracting FDI in sophisticated skill-intensive industries and for encouraging foreign firms to provide training to local employees. For instance, governments might offer a combination of levies and grants for training or double deduction for the costs of sending employees to training programmes. Policies affecting employment are not made in isolation, but are closely linked to institutions that evolve over time. Each country’s policy towards FDI would vary, depending upon its level of development, its industrial strategies, the nature of its education and the role assigned to FDI (World Investment Report 1999). Developing countries – especially those technologically less advanced or with large unemployment – are likely to focus on FDI that employs basic skills. The policy of developed, economically advanced countries will concentrate on

attracting latest, most sophisticated technologies in order to strengthen their skills edge. In both cases, a combination of good industrial relations, reasonable government policy and competitive markets is necessary.

Multinational Corporations are sometimes regarded as constituting an unstable element in the host economy, for two reasons. First, the ease with which they transfer production from one country to another is in sharp contrast to the difficulties of such a move for indigenous firms with no "foreign operations". MNCs could be motivated to make such a move by changes in host country policy, its tax and labour legislation. Second, multinationals may increase instability in a host economy during a major recession because preservation of employment in parent-country plants may be given priority over employment in foreign plants. A recession may also give the company an excuse to pull out from the host country, on the grounds of inadequate demand or availability of more attractive investment incentives elsewhere. According to defenders of multinationals, MNCs do not constitute an especially unstable element in the host country. Even during a recession, their reactions do not harm it more than those of non-MNCs. Multinationals may be viewed either as "snatchers", concerned with seizing a quick profit or as "stickers", building up a long run business (McAleese D., Counahan M., 1979). Thus, "snatchers" would reduce employment very sharply during recessions or periods of political change, while "stickers" would behave like local firms in coping with the difficulties.

The impact of multinationals on the level and structure of domestic employment basically arises from the output they produce and the methods they choose to produce the output. Depending on the extent of the local innovating and production capacity, the policies of host governments, the kind of inward direct investment and strategies of the MNCs themselves, the domestic employment effects may vary from being strongly positive to strongly negative.

2. Empirical research

There is a strong relationship between the type of FDI and progress in transition. In more advanced economies dominate exporters and wholly owned subsidiaries while in countries lagging in transition foreign investors are mainly active as distributors, local suppliers, setting up joint-ventures. The progress in transition determines not only the type of investment but also its effect on the structure and level of employment in the host economy.

One of the models that presents changing relationship between employment and FDI during the transition process is the stage model outlined by Mickiewicz,

Radosevic and Varblane (Mickiewicz T. et al., 1999). The model is based on following facts of FDI in Central Europe:

- Dominance of market seeking investments; factor cost considerations are secondary (Lankes, H.P., Venables A.J., 1996) – lower costs attract FDI inflow but only in conjunction with the attractiveness of the host market (Meyer K., 1998).
- Horizontal investments enter Central Europe relatively early; vertical FDI flow into a host country as transition progresses and integrate the host economy deeper into the world production networks than horizontal ones. In countries advanced in transition FDI is more export oriented, more integrated into MNCs, and more likely to be wholly owned.
- FDI flow either into relatively stable or promising (with growing market perspective) branches (Hunya G., 1997).

The model consists of three stages:

1) In the first stage foreign investors intend to gain host market share or use the country as a cheap offshore location. In this phase foreign investments concentrate on domestic market. FDI is limited to: distribution parts of the value chain, assembly-type activities and low value-added branches of processing industry. On one hand the investors take advantage of being first at the market, on the other hand they have to take into account economic risk and uncertainty in transition economies. In this stage capitalisation and technology content of FDI tend to be low. As a result, the size of employment generated by FDI is relatively small but they already improve quality of organisational structures and managerial skills in domestic firms, especially in subcontracting.

2) The conditions for FDI activities improve as transition progresses. In this stage, foreign investments are attracted by combination of following factors: cost advantages, skill endowments and the opportunity to serve the local market directly rather than through export. Foreign investors start to set up local subsidiaries, capitalisation and technology content of investment increase. It generates demand for diversified skills. Foreign presence has a significant impact on the size and structure of employment in a host economy.

3) In the third stage, local suppliers are transformed into regionally or globally rationalised exporters. CEECs are treated as “export platforms” for labour intensive activities, delocalised from home country. The time horizon of FDI expands. Deepening cooperation with domestic subcontractors leads to increase in their employment. Inflows of foreign technology, investments in skill formation (in close cooperation with domestic educational institutions) and better access to world production and distribution networks improve productivity in industry. Generally, foreign firms tend to offer higher wages than domestic ones but as the share of FDI in total employment increases, domestic contractors

also start to pay higher wages for skilled labour and the wage gap declines. This situation may cause reallocation of labour from foreign to domestic firms.

According to the stage model, the employment effects of FDI differ as transition progresses. The object of the analysis is the interaction of foreign and domestic controlled employment in Polish manufacturing. The choice of manufacturing as a representative sector was not accidental. FDI flows into Poland have gone primarily into the industrial sector. The share of production activity in total foreign investment amounted to 42,5% in 2000. The volume of FDI in manufacturing activity in 1993 and 2000 is presented in table 5. At the end of 2000 the most dominated branches by foreign capital were: manufacturing of transport equipment (EKD 34 and 35) with 2,42 billion PLN invested by foreign investors and production of food articles and beverages (EKD 15) – 1,11 billion PLN. The biggest foreign investors in the production of means of transport were the following car concerns: Fiat, Daewoo, General Motors, Isuzu Motors Limited and Volkswagen AG. The most important investors in manufacturing of food products and beverages were Coca Cola, Nestle, Pepsico, and in the beer industry: Harbin BV and Heineken.

In 1993-2000 the share of foreign firms in total production of manufacturing has increased by almost 3% to nearly 14%. In the same period their share in employment rose from 3,5% to nearly 9%. Branches where the share of employment in foreign investment enterprises (FIEs) is particularly high are: manufacture of animal feeds (157) – 39% of overall employment, production of parts and accessories for motor vehicles (343) – 37%, manufacture of electrical equipment (316) – 33%, production of textile goods (174) – 30% and manufacture of soap, perfumes and cleaning preparations (245) – 29%. A net reduction of above 200 thousand jobs in total manufacturing (especially in public sector) was accompanied by almost 90 thousand jobs created or preserved (taken over) in foreign firms.

The diversity of changes in employment in 1993-2000 is shown in table 6. All branches of manufacturing, for which the FDI data for both 1993 and 2000 are available (52 branches), have been classified into four groups depending on foreign investors- and total manufacturing contribution to job creation/destruction (methodology adopted from Mickiewicz T. et al., 1999)

The first group includes those branches in which both total and foreign investment enterprises (FIEs) employment increased in 1993-2000. These are sectors that have passed initial restructuring and have prospects for development and “survival” at the Common Market of EU. FDI have created/preserved employment especially in labour intensive industries. This confirms the patterns of FDI in transition countries in the third stage (see stage model above). One of the reasons for employment growth in domestic firms may also be deepening

cooperation of FIEs with Polish subcontractors. The largest amount of jobs created or taken over by firms with foreign capital was in: production of parts and accessories for motor vehicles (343) – 15 411 jobs, manufacture of furniture (361) – 9 802, manufacture of electrical equipment (316) – 7 434, production of motor vehicles (341) – 7 338, manufacture of plastics products (252) – 4662 and in production of food products (158). The share of these six sectors in total employment generated or preserved by FIEs in 1993-2000 amounted to 55%.

The second group build those branches where overall employment declined, but employment in FIEs increased. These are sectors which are undergoing a substantial restructuring after privatisation. In this case, employment growth in FIEs may be more than in other cases connected with take-overs of existing firms. The highest amount of jobs was created/preserved in manufacture of glass and glass products (261), production of fabricated metal products (287), manufacture of general purpose machinery (292) and production of textile goods (174). Employment growth in FIEs could not compensate for the loses in domestic manufacturing.

The third group consist of those sectors in which both total and FIEs' employment is declining, most probably as a result of rationalisation processes through layoffs in both domestic and foreign firms. This group build only two branches: manufacture of ready-made clothing and accessories (182) and production of footwear (193). Both branches are labour intensive.

There are no sectors of Polish manufacturing that fulfil conditions of the fourth group. This may suggest that domestic firms are not able to generate employment in those areas where foreign investors are either not able or not interested in employment creation.

The role of foreign firms as measured by their share in domestic industry output is stronger than that measured by their contribution to total employment in a host country. This implies that labour productivity (LP) in firms with foreign capital is on average higher than the productivity of domestic industry. Results of the research confirm this presumption. In 2000 the average LP of foreign firm was by 50% higher than that of total industry, while the wages were on average by 25% higher than these of overall industry. In 1993-2000 both LP and wages in foreign firms rose faster than the same indicators for total manufacturing (LP in FIEs by 270%, in total manufacturing by 130%, wages by 102% and 44% respectively). The branches with the highest FIEs' labour productivity in were: production of office, accounting and computing machinery (300), manufacture of motor vehicles (341), manufacture of soap, perfumes and cleaning preparations (245), production of veneer and wood panels (202), manufacturing of radio and television equipment (323), production of dairy products (155) and manufacturing of prepared animal feeds (157).

The fact that the share of foreign firms in domestic capital stock is higher than their share in employment (table 5) means that they use more capital-intensive technologies than domestic industry as a whole. The conclusion is confirmed by the results of research. The average capital/labour ratio of FDI is by nearly 60% higher than that of overall industry.

Conclusions

The analysis shows that in 1993-2000 employment growth in FIEs did not compensate for the decline in domestic controlled employment. However, the effects differ between industries. FDI may be treated rather as complement than as substitute for employment creation. Foreign presence has a positive impact on performance of domestic industry as a whole in terms of both usage of capital-intensive technologies and labour productivity. Generally, foreign firms tend to offer higher wages than domestic ones but it is expected that as the share of FDI in total employment increases, domestic contractors also start to pay higher wages for skilled labour and the wage gap declines. In long time perspective, this situation may cause reallocation of labour from foreign to domestic firms.

The employment impact of FDI is not confined to their effects on direct employment. Foreign investors engage in a network of economic interlinkages with local units. They create jobs through forward and backward linkages or destroy them through displacement of existing firms. Both indirect and spillover effects do not necessarily and automatically appear in a host country. According to existing case studies there is no strong evidence of presence of those effects in Polish manufacturing. In long term perspective this situation may change.

It is important to create an appropriate climate and conditions to encourage foreign investors to get involved in economic activities in Poland. The "Strategy of increasing investments" introduced by Polish government in 2001 defines the directions of necessary actions aimed at increasing FDI inflow. A good climate for foreign investors is essential for attracting FDI after completing privatisation. In the face of integration process into the European Union it is necessary to create conditions for investing in Poland which should not differ from those offered to foreign investors by Poland's neighbouring countries. The policy towards FDI should concentrate on attracting investments both into labour - and human intensive industries. One important policy objective is to encourage investing firms to upgrade their value-added activities and invest in activities that enhance the comparative advantage of indigenous resources.

In general, technology and knowledge spillovers of FDI are expected to be higher, the higher the level of education of the labour force in a host country, the tougher the competition with existing (domestic and foreign) firms, and the fewer the legal and institutional impediments to the operations of foreign firms.

Priority should be assigned to policies that help to upgrade human and technological capabilities of Polish firms. Only if policy helps strengthen domestic sectors and promotes linkages between foreign- and Polish-owned firms, considerable FDI contributions to Poland's integration can be expected.

Appendix

Table 1. The range of potential effects of foreign direct investment on the quantity, quality and location of employment in a host country

| Area of impact | Inward foreign direct investment | | | |
|----------------|---|--|---|---|
| | direct | | indirect | |
| | positive | negative | positive | negative |
| quantity | Adds to net capital and creates jobs in expanding industries. | FDI through acquisition may result in rationalization and job loss. | Creates jobs through forward and backward linkages and multiplier effects in local economy. | Reliance on imports or displacements of existing firms results in job loss. |
| quality | Pays higher wages and has higher productivity. | Introduces practices in, e.g., hiring and promotion that are considered undesirable. | Spill-over of "best practice" work organization to domestic firms. | Erodes wage levels as domestic firms try to compete. |
| location | Adds new and perhaps better jobs to areas with high unemployment. | Crowds already congested urban areas and worsens regional imbalances. | Encourages migration of supplier firms to areas with available labour supply. | Displaces local producers, adding to regional unemployment, if foreign affiliates substitute for local production or rely on imports. |

Source: World Investment Report 1994.

Table 2. Indirect employment-generating effects of transitional corporations in host countries

| Type of effect | Illustration |
|-------------------------------|--|
| Vertical | |
| Upstream (backward) linkages | Employment indirectly generated by foreign affiliates in their local suppliers of raw materials, parts, components and services. |
| Downstream (forward) linkages | Employment indirectly generated by foreign affiliates in their local customers such as distributors, service agents etc. |
| Horizontal | |
| Narrow | Employment indirectly generated (or displaced) in local enterprises competing in the same industry as foreign affiliates. |
| Broad | Employment indirectly generated in local enterprises active in industries other than those of foreign affiliates. |
| Macroeconomic | Employment indirectly generated throughout the host economy as a result of spending by foreign affiliate workers or shareholders, or displaced as a result of the increased import content of production |

Source: ILO 1984.

Table 3. The impact of MNCs on local competitors in selected industries

| | |
|--|---|
| 1. Semiconductors (UK and Continental Europe) | Displacement of many (but not all) competitors or potential competitors. |
| 2. Pharmaceuticals (Denmark, UK, Philippines) | Foreign firms dominate the sector. Noticeably improved efficiency of indigenous sector. There is considerable competition between foreign affiliates. |
| 3. Offshore oil supplies industry (Europe) | Caused rationalisation and regrouping of domestic firms. Substantial government intervention by some countries to promote national champions. |
| 4. Autos (UK) | Displacement of competitors. |

Source: Dunning J. H., (1993).

Table 4. The strategies and structures of transnational corporations

| Strategy | Intra-firm linkages | Foreign affiliate type | Degree of integration |
|--|---|---|---|
| Stand-alone e.g. multi-domestic | Ownership, technology, finance; mostly unidirectional | Miniature replica of the parent firm | Weak |
| Simple integration e.g. outsourcing | Ownership, technology, markets, finance, other inputs; mostly bi-directional; subcontracting | Rationalised producer of one or a few elements in the value chain | Strong at some points of value chain |
| Complex integration at the regional or global levels e.g. networks | All functions; mostly multi-directional | Product or process specialist | Potentially strong throughout value chain |

Source: World Investment Report 1994.

Table 5. Basic data on manufacturing in Poland, 1993-2000, in million PLN (in fixed prices)

| Total | 1993 | 2000 | Changes 1993-2000 in %, 1993=100 |
|-----------------------------------|-----------|-----------|----------------------------------|
| capital | 33.5 | 62.6 | 186,3 |
| production | 71.7 | 166 | 231,5 |
| employment | 1 962 430 | 1 759 631 | 89,7 |
| Foreign firms | | | |
| capital | 0.7 | 8.3 | 1 185 |
| production | 2.08 | 23.1 | 1 106 |
| employment | 68 435 | 157 870 | 231 |
| Share of foreign firms in: | | | |
| total capital | 2,08 | 13,25 | Total manufacturing=100 |
| total production | 2,90 | 13,92 | |
| total employment | 3,5 | 8,97 | |

Source: CSO database, own calculations.

Table 6. Classification of branches of manufacturing by the type of employment change*

| Groups | Branches of manufacturing industry | No of sectors |
|--|--|---------------|
| 1. employment, both total and FIEs is increasing | 152, 155, 157, 158, 203, 205, 212, 221, 244, 245, 251, 252, 266, 275, 281, 282, 285, 300, 312, 316, 323, 341, 343, 354, 361, 366 | 26 |
| 2. total employment is declining, but employment in FIEs is increasing | 151, 153, 174, 175, 177, 201, 202, 222, 241, 246, 261, 264, 268, 272, 287, 291, 292, 294, 295, 311, 332, 333, 342, 351 | 24 |
| 3. employment, both total and FIEs is declining | 182, 193 | 2 |
| 4. total employment is increasing, but employment in FIEs is declining | | 0 |

* All branches of manufacturing, for which the FDI data for both 1993 and 2000 are available

Source: CSO database, own calculations.

Abstract

The paper presents potential effects of foreign direct investment (FDI) on the quantity, quality and location of employment in a host country. Empirical analysis shows direct impact of FDI on employment creation or preservation in Polish manufacturing during transition. In 1993-2000 employment growth in foreign investment enterprises did not compensate for the decline in domestic controlled employment. The most interested in investing in Poland are European investors. Foreign presence has a positive impact on performance of domestic industry as a whole in terms of both usage of capital-intensive technologies and labour productivity. Further econometrical research and more data are necessary to show indirect and spillover-effects of FDI in this area. These effects can have an impact equal or even higher than the direct creation of jobs in foreign firms.

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