
PART TWO

EMPLOYMENT, HUMAN RESOURCE DEVELOPMENT
AND
INDUSTRIAL RELATIONS

Chapter IV

Transnational corporations and employment

Introduction

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 draw upon large resources and account for a significant volume of investment and value-added activities worldwide. As a result, TNCs play an important role as employers, generating employment opportunities directly as well as indirectly through backward and forward linkages and by stimulating economic growth. Given their importance, TNCs also have a significant qualitative impact on the labour markets in the countries in which they operate.

Overall, TNCs are estimated to account directly for a total of over 73 million jobs worldwide, of which over 60 per cent are in parent companies, primarily based in developed countries, and 40 per cent in their foreign affiliates. About 12 million — more than a half of foreign affiliates' total — are directly employed in foreign affiliates in developing countries. However, TNC employment constitutes only a negligible proportion — about 3 per cent — of the world's labour force. Given that TNCs are primarily engaged in capital- and technology-intensive activities, their relatively modest direct contribution to overall employment levels in home and host countries is not surprising. At the same time, TNCs account for about one-fifth of paid employment in non-agricultural activities in developed countries and some developing countries, suggesting that

their direct contribution to employment in manufacturing and services is far from negligible. In addition to direct employment, considerable employment opportunities are indirectly generated by TNCs through a variety of linkages with subcontractors, suppliers and other enterprises in home and host countries. Estimates for a number of developing countries suggest that at least one-to-two jobs are generated indirectly for each worker employed by foreign affiliates.

Taking into account both direct and indirect employment, a conservative estimate of the total number of jobs associated with TNCs amounts to 150 million. Workers in TNCs, moreover, typically belong to the core workforce in modern, technologically advanced activities in manufacturing and services. Furthermore, the quality of employment provided by TNCs is at least as significant as the number of jobs directly and indirectly generated by them. Not least, the spill-over and catalytic effects of TNC activities have implications for the quantity and quality of employment in host and home countries through the development of human resources and the spread of technological, managerial and organizational advances that stimulate economic growth.

The distribution of jobs across countries and regions is influenced by the locational choices of TNCs. Although the bulk of their investment, production and employment is within their home countries, through their extended geographical networks they help to organize the international division of labour and influence national patterns of industrial specialization and, thus, patterns of employment in home and host countries. A distinctive feature of today's world economy is the greater ease with which factors of production can be shifted across national borders (chapter III). Given their resources, their capability to gather information worldwide and their capacity to manage geographically dispersed organizational structures, TNCs are at the forefront of the process of resiting economic activities. Under the growing pressure of global competition, the speed with which patterns of operations are changing in response to changes in locational advantages and comparative costs has increased considerably.

The recent rise in unemployment in a number of countries in the context of the growing globalization of the world's economic activity has focused the attention of policy makers on issues related to employment (box IV.1). The causes of unemployment are varied and complex, with many of them only marginally related to TNCs, and this chapter does not attempt to address them. Rather, its focus is on one specific aspect of the employment situation — the role played by TNCs in generating, displacing or relocating jobs, focusing particularly on the implications of the growing integration of their international production activities. This role assumes particular importance in the context of regional integration arrangements, such as the European Union, the North American Free Trade Agreement (NAFTA) and others that facilitate foreign direct investment (FDI) and international production by TNCs.

Any attempt to assess the employment effects of TNCs encounters various conceptual and empirical problems that defy a simple resolution. The discussion in this chapter considers the role of TNCs within a framework that takes into account the wide range of potential quantitative and qualitative effects of TNCs on employment in home, as well as host countries. In doing so, it not only attempts to provide a picture of recent trends and developments in employment by TNCs, but also to relate employment effects to the evolving strategies of TNCs, as reflected in the way in which international production is pursued and organized. A key observation of the chapter is that the shift towards integrated international production strategies and the growing complexity of the links between parent companies and their geographically dispersed affiliates are changing the ways in which TNCs distribute work in enterprises under their governance, as well as the nature of the interactions between TNCs and the surrounding economic environments. The potential labour-market implications of this new trend are still largely unexplored, but are receiving increasing attention from policy makers.

Box IV.1. The unemployment problem in developed and developing countries

The early 1990s are witnessing one of the most serious employment crises since the Great Depression of the 1930s. According to the International Labour Office, at the beginning of 1994 there were at least 120 million registered unemployed worldwide. Although this figure is by itself alarming, it does not include those who never registered as unemployed or those who stopped looking for a job because they regarded further search as futile. In addition, there were about 700 million workers that were underemployed, i.e., engaged in an economic activity that did not permit them to reach a minimum standard of living (ILO, 1994). A consensus has emerged among governments on the need to put employment as a priority item in the policy agenda.

Developed and developing countries alike are concerned about their employment situation, although the nature of the problem and the underlying factors differ considerably between the two groups of countries. To a considerable extent, the current high unemployment rates in developed countries reflect cyclical fluctuations in the level of economic activity. However, they also reflect structural problems related to labour-market performances, rapid technological change (including a shift towards less labour-intensive technologies) and shifting competitive positions of countries in world markets. In response to these factors, industries and firms in developed countries have undertaken a number of steps that are broadly referred to as "restructuring". By and large, restructuring has involved downsizing or shedding labour. In developed countries taken as a whole, an important -- perhaps the most important -- factor has been the growth of the labour force due to the increasing participation of women of working age (Glyn and Gregg, 1994).

The structural and longer-run factors are evident, for example, in the fact that, even after five years of steady economic growth, fuelled partly by plans for a single market in Europe, unemployment in the European Community still stood at 12 million persons or 8 per cent of the Community's labour force in 1991; these figures rose further to 17 million persons or 11 per cent of the labour force by end-1993 (CEC, 1993b). Employment creation has been much stronger in the United States, but a large part of new jobs were created in low-skill, poorly paid activities in services, with a considerable decline in real wages for unskilled workers. In developed countries taken as a whole, unemployment remained above 6 per cent and reached an estimated 35 million people jobless in 1994 (OECD, 1993a). This widespread unemployment is characterized by an uneven incidence across the various segments of the labour force: young and low-skilled workers, in fact, are primarily affected. In the European Community, a particular problem for all age groups is that a significant share of the unemployed have been off the employment rolls for more than one year (OECD, 1993a). The inability of countries to address fully the long-run and structural problems mentioned above with macroeconomic policies and labour market institutions that had served them well earlier during a period of rapid growth partly underlies the current focus on the issue.

In developing countries, the situation is often one of chronically high rates of unemployment and underemployment, reflecting poverty and low rates of development due to physical and human capital constraints and low technological capabilities, compounded in many cases by rapid population growth. Open unemployment rates present a highly inadequate picture of the position in developing countries, but even they are high: in sub-Saharan Africa, for example, all countries had double-digit unemployment rates during the mid-1970s to 1992. In Asia, countries like India and Pakistan have had unemployment rates above 15 per cent, despite respectable growth rates of gross domestic product during that period, and in Latin America, urban unemployment has been above 8 per cent. Only the East Asian countries have enjoyed low rates of unemployment, below 3 per cent, in the period mentioned above (UNDP, 1992, p. 35). These trends apply mostly to urban areas. Employment for the majority of the population of developing countries still means agricultural work with its seasonal fluctuations and, often, low productivity of the underemployed. In general, rates of growth of employment have been well below rates of growth of output. Thus, most developing countries continue to be concerned that opportunities for gainful employment grow more rapidly, contributing to the economic welfare and strengthening the social and political role of those benefiting from the new jobs.

The chapter is divided into four sections. Section A outlines the range of potential employment effects of international production and makes an effort to relate particular employment patterns to the three major phases of the strategic evolution of TNCs, that is, from stand-alone to simple integration and, finally, to complex strategies. Section B analyses employment data in an effort to offer a comprehensive empirical picture of the main trends of the size and geographic distribution of employment in TNCs. Section C reviews some evidence on the quality of employment in TNCs and how it affects labour markets, and takes a close look at the specific effects of the tendencies towards complex corporate strategies and the emergence of an integrated system of international production. Section D examines some labour market implications of the cross-border linkages that integrated international production has the potential to construct; although tentative, the discussion in that section aims at shedding light on some of the challenges that are likely to confront policy makers in developed and developing countries in the near future. The conclusions contain some observations with respect to the policy implications of the trends discussed in the chapter.

A. The employment effects of international production: a conceptual overview

1. The range of employment effects

The impact of international production on employment depends upon several factors. The type of the initial investment (or mode of entry) — greenfield or acquisition — by a TNC is one factor governing labour-market outcomes in a host country in the short-term. Greenfield investment involves the creation of new plant, equipment and employment. A merger or take-over, on the other hand, could imply that employment remains constant (or declines), since a firm has simply changed to foreign ownership. The sector and industry of the investment also matter in so far as some processes are more labour-intensive than others. Employment creation also depends on whether international production substitutes for domestic production, i.e., whether, for a given level of output, foreign firms drive local ones out of the market, or whether international production complements domestic investment and contributes to output growth by releasing financial, technological and managerial bottlenecks for the expansion of domestic activity. Employment effects over time may also differ. Employment contraction in an industry may result in the early stages of FDI in a host country, as domestic firms adjust to the competitive pressures exerted by foreign affiliates. However, employment prospects may improve at a later date as domestic firms adapt to the new competition and the activities of foreign affiliates exert a positive effect on the growth of output, for example, through the introduction of new products, technologies and approaches to management and work organization.

For many countries, the matter is further complicated at the national level by the need to distinguish between the separate effects of inward versus outward investment and between their respective direct and indirect employment consequences. For example, indirect employment creation through a foreign affiliate's forging of linkages in a host economy can be at least as significant as the jobs directly created by that affiliate. In contrast, if an affiliate switches to reliance on imports, FDI can trigger domestic restructuring with negative indirect employment effects in industries related to TNCs through backward and forward linkages.

In short, international production by TNCs has direct and indirect consequences for employment, with positive and negative dimensions often occurring at the same time and, for any national economy, these need to be evaluated separately for both inward and outward investment. Table IV.1 sets forth a range of *possible* outcomes of inward and outward investment for national labour markets. These potential effects apply not merely to the size of employment, but to the

Table IV.1. The range of potential effects of foreign direct investment on the quantity, quality and location of employment

Area of impact	Inward foreign direct investment				Outward foreign direct investment			
	Direct		Indirect ^a		Direct		Indirect ^a	
	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative
Quantity	Adds to net capital and creates jobs in expanding industries.	Foreign direct investment 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.	Creates or preserves jobs in home location, e.g., those serving the needs of affiliates abroad.	Relocation or "job export" if foreign affiliates substitute for production at home.	Creates or preserves jobs in supplier/service industries at home that cater to foreign affiliates.	Loss of jobs in firms/industries linked to production/activities that are relocated.
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.	Skills are upgraded with higher value production as industry restructures.	"Give backs" or lower wages to keep jobs at home.	Boosts sophisticated industries.	Downward pressure on wages and standards flows on to suppliers.
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.	Some jobs may depart from the community, but may be replaced by higher skilled positions, upgrading local labour-market conditions.	The "export" of jobs can aggravate regional/local labour-market conditions.	The loss of "blue collar" jobs can be offset by greater demand in local labour markets for high-value added jobs relating to exports or international production.	Demand spiral in local labour market triggered by layoffs can lead to employment reduction in home-country plant locations.

Source: UNCTAD, Division on Transnational Corporations and Investment, based partly on Campbell, 1993.

a A more detailed explanation of the indirect effects is provided in table IV.12.

quality and location of jobs as well. Of course, each of the possible impacts shown in table IV.1 is but a static and partial statement of the potential labour-market outcomes of international production. It says little about the ultimate impact of international production on national labour markets, since that depends on macroeconomic factors specific to individual countries and industries, and the dynamic effects due to the reaction of firms in home and host countries to the changes in competition and industrial specialization engendered by the activities of TNCs. How domestic firms, national policies or labour markets might respond to particular patterns of inward and outward investment — and thus alter employment outcomes — cannot be predicted from the configurations of the various effects illustrated in table IV.1. The findings of some attempts at an assessment of the overall impact of international production by TNCs on employment in home and/or host countries and problems confronting that assessment are summarized in box IV.2. The complexity of the factors that determine the employment impact of FDI (drawing upon the experience of Japanese FDI in the United States automobile industry) is further illustrated in box IV.3.

In general, inflows or outflows of FDI are not necessarily associated in most countries with a net generation or displacement of employment to such an extent as to have a significant repercussion on the aggregate level of employment or, more precisely, to release or impose significant constraints on the macroeconomic management of the economy, the ultimate determinant of employment levels. This may apply differently across countries according to the size and degree of internationalization of an economy, with relatively small, highly internationalized economies, such as Sweden, Switzerland or Singapore, being more affected by the investment decisions of domestic or foreign TNCs. Whatever the size of an economy, however, international production can have important effects on industry structures, the composition of exports and the specialization of an economy, and it is through these channels that labour markets are mostly affected in the long term: "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, 1993b, p. 368). In other words, it is not so much the level of FDI accruing to or leaving an economy that has major implications for employment, but rather, the quality of the interactions generated by the activities of TNCs in a country. Among other variables, the strategies underlying international production by TNCs and the organizational structures they establish play a role in explaining these interactions. It is to this question that the discussion now turns.

2. Linking corporate strategies to employment effects

The strategies of TNCs and the related organizational structures (chapter III) have potential implications for the direct and indirect employment effects of international production. Corporate strategies may influence the amount of employment in different ways (table IV.2). The effects arise, in part, through the consequences of the strategies on the firms' overall level of output. But irrespective of how and whether total output and employment are influenced, these strategies are likely to be associated with different patterns of direct and indirect employment creation or loss. Under stand-alone strategies, a new foreign affiliate may serve a market formerly serviced from the home country through exports. Some production and employment loss in the home country could be one direct result. But if a foreign investment is motivated by high tariffs on the home country's exports, *not* making the investment could result in an erosion of the firm's competitiveness, with negative consequences, ultimately, for home-country employment by the firm. In the services sector, however, FDI may be the only means of serving foreign markets, since many services continue to be non-tradable. For instance, establishing foreign affiliates by an insurance TNC will, most likely, not have negative consequences as regards its home-country workforce and may even boost domestic employment by creating jobs that provide services for the affiliates abroad. For the host country, a stand-alone affiliate may imply relatively stable or secure

Box IV.2. Assessing the employment impact of international production

There is no simple method of evaluating the impact of international production on employment in home and host countries. Part of the problem lies in the lack of data, aside from figures on direct TNC employment which, too, have significant limitations. There is an additional difficulty of modelling the full range of indirect employment implications. Furthermore, any measure of the employment impact should be weighed against the opportunity cost of what would have happened in the absence of international production. For instance, the acquisition of an enterprise by foreign investors is often followed by rationalization and employment reduction. At the same time, the acquisition may keep the enterprise alive. In a similar vein, outward FDI may imply a reduction in employment in the home country, as production and jobs are relocated elsewhere; but some of these jobs would have been lost even in the absence of investment abroad. Another major problem is to take into account the widespread and dynamic effects that the operations of TNCs bring to a host economy. A full assessment of the whole range of employment effects of international production requires an extended time framework; alternative scenarios to be used as benchmarks; and a complex dynamic model capable of taking into account all the interactions between the activities of TNCs, the nature of competition and the structure of the markets in which they operate, as well as the policies pursued by governments. No empirical study thus far takes into account all of these aspects.

Various attempts have been made to quantify the employment impact of FDI at the macroeconomic level for individual host or home countries. These studies have mainly relied on aggregate data on the number of jobs in TNCs, coupled with measures of the estimated employment effects associated with changes in the structure of the external trade engendered by the activities of TNCs in a host country.^a

In general, positive employment effects have been found to be associated with inward FDI, although not necessarily to an extent commensurate with the size of FDI accruing to an economy. In the case of the United States, for instance, large FDI inflows in the 1980s were accompanied by a minor positive impact on employment and wage rates (McGuire, 1994; Glickman and Woodward, 1989). This was largely explained by the predominance of acquisitions as a mode of entry. Even in the case of greenfield investments, the net increase of employment in the newly established foreign affiliates must be weighed against some loss of jobs in local competitors and their suppliers.

Concerning the employment effects of outward FDI, the issue of an "export" of jobs has been widely debated in the United States and the United Kingdom, traditional home countries of the largest TNCs. Evidence for these two countries suggests that the employment impact has been "marginally positive to neutral", as the immediate loss of jobs is generally compensated by increases in employment as a result of enhanced competitiveness of the parent companies at home and the growth of their exports to their affiliates abroad (Dunning, 1993b, p. 364). In this sense, international production has been complementary to the expansion of national production. Indeed, conceptually, it can be argued that the expansion of production abroad is largely a sign of competitive strength and the accumulation of technology and other proprietary assets by firms, and that these advantages filter back to the home economy not only in the form of additions to income, but also through multiplier and indirect effects on employment. In recent years, however, there has been a renewed interest in the issue of relocation of jobs following the high degree of transnationalization of firms from an increasing number of economies that has coincided with the spread of unemployment in developed countries. Indeed, in some countries such as Sweden, there is some evidence of a shift from complementarity to substitution between TNC production at home and abroad in recent years (see box IV.5). Whether this is a transitory phenomenon -- in the case of Sweden, the result of readjusting patterns of production by domestic TNCs to regional integration in the European Union -- or an indication of changing TNC strategies in light of structural changes at home and in the world economy cannot be fully judged at the present time.

a For a broad review, see Dunning, 1993b, and OECD, 1994b.

employment, since the motivation for the firm's presence is the country's market, rather than the more fleeting competitive advantage of low labour cost. The indirect consequences of an affiliate's presence, however, are not easily predictable. It is conceivable that an affiliate has such a strong competitive advantage that it causes more sluggish domestic firms to lose market share and jobs. On the positive side, the foreign affiliate may establish strong relationships with local suppliers and boost indirect employment.

The direct impact of a simple integration strategy on employment is somewhat different. Outsourcing labour-intensive activities from affiliates or subcontractors can involve a decline in home-country employment engaged in low value-added production and an increase in relatively low-skilled employment in the host country. Indirectly, the same strategy may increase higher value-added employment in the home country or help to secure jobs that may have been at risk as rising labour costs reduced a firm's competitive advantage. The direct loss of jobs from outsourced production is thereby offset somewhat; the overall employment effect for the home country depends upon the net balance between jobs lost by the decision to outsource and those created to service the expansion of international production. For host countries, direct employment creation is the usual result of simple integration strategies. Meanwhile, the multiplier (or indirect) effects of establishing a foreign affiliate will vary. The international division of labour that a simple integration strategy engenders probably does not displace existing local capacity in export-oriented activities (a negative indirect effect), but the degree to which indirect jobs are created by the affiliate's presence could be relatively substantial or quite minimal (as is frequently the case in export processing zones).

The quality of employment is also determined by corporate strategies. In stand-alone strategies, the majority of the occupational structure of a parent firm is reproduced in the affiliate. One exception to this pattern of occupational replication is that the highest value-added activities, such as research and development, usually remain with the parent company. Here it may be noted that, while stand-alone strategies tend to occupy an early chronological niche in the overall spread of international production, it cannot be said that the importance of these strategies has diminished: restrictions to trade and the resulting motivation for "tariff-jumping" investment are one factor underlying their persistence. More importantly, because of the non-tradability of many services, much FDI in the services sector follows the stand-alone pattern. Service firms have fewer opportunities than industrial firms to split up the production process into segments and move labour-intensive activities to developing countries to take advantage of lower labour costs. That is because many services still cannot be traded at arm's length, but rather have to be produced where and when they are consumed. As a result, foreign affiliates in services tend to reproduce abroad the factor proportions used in home countries, including the skill, research-and-development and capital-intensity levels of their parent firms, with positive implications as regards the quality of employment and the transfer of technology to services affiliates as compared with those in manufacturing (UNCTC, 1989b, chapter V).

In contrast, in separating the locations of production and consumption, simple-integration strategies introduce a complementary hierarchy of occupations across different national locations, that is, an international division of labour based on specific locational advantages of host countries. If, as is often the case in manufacturing FDI, those advantages relate to low-cost labour, the more skilled and highly paid jobs remain with the parent firm, while lower skilled jobs are organized around the affiliate. However, a suitable combination of higher wages and skills could result in some higher value-added jobs being located in the host country as well.

The location of employment also depends on firms' strategies. Foreign direct investment based on stand-alone strategies is frequently market-seeking and flows largely to the developed and the larger or higher income developing countries (or regions within countries). With some exceptions (discussed below), services-sector TNC employment is highly concentrated in devel-

Box IV.3. Japanese foreign direct investment in the United States automobile industry: an illustration of the complexity of the employment effects

Japanese FDI in the United States has been subject to public debate associated, among other things, with its repercussions on the labour market. In the automobile industry, according to some observers, Japanese automakers have transferred technology and skills, provided more training than domestic automakers, paid higher salaries, assured job security and increased labour productivity (Reich, 1991b). In contrast, Japanese automobile affiliates have been criticized by others as mere assembly outposts provoking job losses in the United States automobile industry (Howes, 1991). As these opposing views suggest, the actual picture is more complex than that presented by either of the above and provides a good illustration of the different ways in which TNCs may affect employment.

Relative to other foreign firms, Japanese manufacturing TNCs, including those in the automobile industry, have shown a greater propensity for greenfield investments, rather than acquisitions, with positive direct and indirect employment consequences. On the other hand, since Japanese work and production-organization methods require less employment for the same level of output than that required by domestic automobile producers, their cost advantages over domestic producers result in indirect, negative employment consequences for the latter.

As with many new investors, at the outset, Japanese affiliates in manufacturing relied greatly on parts and components supplied through imports from Japan, thus generating minimal positive indirect employment effects in the United States through backward linkages with local suppliers. Increasingly, however, local-supply linkages for parts and components are being established. Frequently, these linkages emanate from the establishment of Japanese auto-components affiliates in the United States; a "second wave" of the same mix of positive direct and negative indirect employment consequences as those associated with final-assembly firms is thus generated.

More efficient work organization and more broadly defined jobs with greater authority devolved to lower levels within the firm have been some of the positive, direct effects of Japanese affiliates on employment quality in the automobile industry. Indirect effects have also been positive as domestic firms have consciously emulated techniques of Japanese human resource management. On the other hand, Japanese practices differ greatly from the traditional work practices in that industry. It has been observed that "working smarter" in Japanese firms also means "working harder" (Sengenberger and Campbell, 1993). At the very least, the traditional "wage/effort" bargain struck in the domestic industry has changed. Many Japanese affiliates have remained non-union in an industry that was once 100 per cent unionized, leading to pressures for adjusting industrial relations. Finally, with reference to the "extended workbench" or "transplant" affiliates, an additional question is whether the highest value-adding jobs remain at home.

Japanese investments have generally tended to locate in non-industrial areas in the United States, creating new opportunities for industrial employment in underdeveloped regions where surplus labour from agricultural activities exists. At the same time, the positive effect of the GM/Toyota joint venture, NUMMI, was the revitalization of a traditional production site and re-employment of a laid-off workforce (Rubenstein, 1992, pp. 250-262). Locations selected by Japanese firms have often been those in which trade unionism is not firmly established.

There can be little doubt that the competitive stimulus provided by Japanese affiliates has hastened the revitalization of the United States industry. However, FDI in the United States automobile industry in the 1980s faced a relatively saturated domestic market in which gains in market shares by Japanese producers represented a loss of shares by domestic producers. Furthermore, competition from Japanese affiliates in the United States automobile industry in the 1980s may have provided a stimulus to outward investment by United States automobile producers. The loss of domestic market share may have encouraged domestic United States producers to focus more resources on their investments abroad, including those through the expansion of international sourcing of parts and components from the *maquiladora* in Mexico.

oped countries, where the largest markets for services are located. Simple-integration strategies, on the other hand, are mainly linked to resource- and asset-seeking (including labour-seeking) motives for FDI and often involve developing countries. The proximity of developing countries, or regions within those countries, to final markets in the developed world remains an important locational criterion for some simple-integration strategies — as is clear from the growth of the *maquiladora* in Mexico — but it is less important for some industries (e.g., textiles and electronics assembly) or certain business functions (e.g., data processing).

Labour-market outcomes of international production become more complex as the cross-border integration of production within TNCs increases (table IV.2, proceeding from left to right). Whether the issue is the quantity, quality or location of labour, the distinction between inward and outward employment effects becomes less separable and clear. In a simple-integration strategy, by which firms construct a complementary division of work and jobs across borders, inward employment effects (i.e., those in the host country) are appreciably more determined by home-country decisions than in the world of the stand-alone foreign affiliate. The outward employment effects (i.e., those in the home country) of simple-integration strategies are also more debatable than those of stand-alone strategies. In particular, the question of whether simple integration constructs a complementary division of labour across borders or whether, on the contrary, a host-country labour market substitutes for what had been home-country jobs has long been a point of controversy (Campbell and McElrath, 1990).

The need to consider inward and outward effects at one and the same time rises in proportion to the level of integration. It is thus in the emerging model of deep integration that distinctions between inward and outward labour-market effects are least clear-cut (table IV.2, extreme right). With respect to employment quantity, for example, one of the advantages of deep integration is that TNCs can achieve efficiency gains; the most that this might imply for a firm's workforce as a whole is a global or system-wide reduction in employment. This is because the consolidation of individual business functions in various locations of a firm's integrated system would probably have a rationalizing effect on total firm employment when compared, for example, to the replication of individual activities in a stand-alone strategy. But exactly where in a firm's system employment will decline or increase is more difficult to evaluate in terms of the traditional home versus host country or skilled versus unskilled labour distinctions. Deep integration implies that the location and quality of activities is less anchored in that traditional dichotomy. Rather, location (although still in large measure determined by proximity to final markets) becomes more responsive to a variety of created assets, of which employment quality may be a key aspect. Since individual activities might be located anywhere, it no longer seems to make sense to consider the home country as having a particular hold on the firm's highest quality jobs.

As indicated above, the emerging system of integrated international production may be expected to introduce substantial changes in the way in which TNCs influence employment and how to evaluate the overall employment effects of transnationalization. Obviously, these changes have only just begun, and uncertainty remains as to their magnitude and direction. Nevertheless, recalling the various elements of an integrated strategy, it is plausible to assume that a range of employment effects will result from the major tendencies associated with the new strategies, namely, a fuller or more pronounced geographical separation of production from consumption; a fuller or deeper integration across locations of a firm's value-adding activities; and a greater reliance on created assets, such as workforce quality and organizational innovation, as critical components of the ownership advantages of TNCs. The implications of these tendencies for the quality and locational distribution of jobs are more fully discussed in sections C and D, after a review of recent trends in direct and indirect employment in TNCs.

Table IV.2. Relating corporate strategies to employment effects

Item	Stand-alone strategy	Simple-integration strategy	Complex or deep integration strategy
Employment quantity	Local market-serving may mean a higher firm-wide level of employment since firm's employment structure is replicated in various local markets. Indirect employment creation through establishing local linkages with suppliers is a frequent pattern.	Foreign-affiliate employment is export-oriented and probably direct employment-creating, although some jobs will be lost in home-country units (while others may be gained). Indirect employment creation may be minimal since foreign affiliates rely on transformation of imported inputs.	Overall, in a firm, employment may decline if the firm is in transition from a former stand-alone strategy. One reason is that value-adding activities are no longer replicated across different locations, but rationalized and consolidated so as to reap efficiency and scale advantages. The balance between home and host-country effects is no longer clear since the integrated producer faces a new set of locational choices in which the home-country location cannot be assumed to have an advantage.
Employment quality	Replication of the parent firm's occupational structure in a foreign affiliate setting, with the exception of the highest value-added jobs (<i>viz.</i> , research and development, headquarters functions). Industrial relations often follow the national pattern as the foreign affiliate is more embedded within its host-country institutional framework.	Creates an international division of labour in which low-skilled, low value-added jobs may be predominant in the foreign affiliate. Avoidance of trade unions may be one outcome, as the integration strategy is based primarily on low labour costs, and integration increases system-wide vulnerability.	Deeper integration can imply a trend towards convergence in certain elements of the employment package in order to maximize the efficient performance of a firm's overall global system. Here, too, differences in quality assigned to home versus host-country locations are more difficult to predict. A certain labour market specialization in given affiliates does seem implied since an integrated producer may assign global or regional responsibility for individual activities to individual locations.
Location	Since the objective is primarily local market serving, the geographical dispersion of firm activities (and employment) will be within major market areas, and thus more concentrated. A country's trade-tariff policies may be one factor encouraging inward foreign direct investment in place of trade.	Since the objective is primarily resource- or asset- (e.g., low-cost labour) seeking, location decision may be more dispersed than with a stand-alone strategy.	The integrated producer may separate more fully the location of production from consumption of the final product. This is not to say that proximity to final markets is no longer an important location criterion, but it does imply that there is no longer any need to perform all value-adding activities close to the final market. Integrated production is more strategic asset-seeking and, given that the quality and cost of human resources are important considerations, it may imply a broader range of locational choices than the other two strategies.

Source: UNCTAD, DTCL, based on Hamill, 1993b.

B. Recent developments in employment in transnational corporations

1. Direct employment by transnational corporations: recent trends

(a) Global trends

During the past two decades, the magnitude of employment provided by TNCs has grown, along with the proliferation of TNC activities and the growth in worldwide flows and stocks of FDI. However, during the past decade, the number of persons directly employed by TNCs (that is, parent companies and their affiliates) has increased much more slowly than the nominal value of FDI flows and stock. While the growth of employment in TNCs was only moderately below that of FDI during 1975-1985, the divergence between the rate of direct employment growth corresponding to TNCs and that of the increase in the world stock of FDI widened after 1985 (table IV.3).

The level of global direct employment by TNCs is subject to cyclical fluctuations in economic growth and influenced by shifts in industrial composition and differential regional and country growth rates, as well as by changes in the organization of TNC activities. Several cyclical and structural factors adversely affected employment growth in TNCs during the past decade; they included slow economic growth in the developed countries in the early 1980s and again in the early 1990s, and a trend towards greater use of labour-saving technologies. In fact, data for a sample of 300 of the largest TNCs indicate noticeable cyclical fluctuations in direct employment which, at the end of the 1980s was lower than in 1980 and it is likely to have declined further following the slowdown in economic activity worldwide in the early 1990s (box IV.4).

Several factors related to the organizational strategies and forms of TNC activities may have contributed to the declining trends observed in employment in the largest TNCs:

- A decline in direct employment in TNCs may be associated with the transition to integrated international production, as firms restructure their activities in ways that increase efficiency across the whole production system.
- A second downward pressure on direct employment may have arisen from the adoption of new methods of work organization, such as "lean production" techniques (Sengenberger and Campbell, 1993), or through the application of advanced manufacturing technologies to traditional processes. Integrated strategies may lead to a more rapid diffusion of such labour-displacing organizational and technological innovation as a result of a greater interdependence across affiliates, since "best-practice" work organization must be diffused across the entire corporate system if individual elements of the system are not to produce a drag on the entire system.
- A third impact on direct employment could arise if corporations, in rethinking their intra-firm organization of corporate functions, replace in-house activities by inter-firm outsourcing and subcontracting arrangements. Integrated international production may thus be associated with an overall decline in direct employment, but an increase in employment indirectly generated among subcontractors and external suppliers.

It is important here to underscore that integrated strategies *per se* do not portend a decline in the level of employment within TNCs. Rather, it is the transition to such strategies that may have unfavourable implications for current employment in established firms undertaking these strategic changes. New firms that adopt integrated strategies from the start do not need to restructure their existing assets.

Table IV.3. World foreign-direct-investment stock and estimated employment in transnational corporations, 1975, 1985, 1990 and 1992

(Millions of dollars and millions of employees)

<i>Item</i>	1975	1985	1990	1992
Outward FDI stock	282	674	1 649	1 932
Estimated employment in TNCs	40	65	70	73 ^a
Employment in parent companies at home	..	43	44	44 ^a
Employment in foreign affiliates	..	22	26	29 ^a
Developed countries	..	15	17	17 ^a
Developing countries	..	7	9	12 ^a
China	-	..	3	6
<i>Memorandum:</i>				
Employment in United States TNCs	26 ^b	25	25	..
Of which:				
employment in foreign affiliates	7	6	7	..

Source: UNCTAD, Division on Transnational Corporations and Investment, based on UNCTC, 1988a, p. 24; and Parisotto, 1993, p. 34.

^a Preliminary estimate.

^b 1977.

As regards the influence of the considerable expansion of FDI activities on the amount of employment accounted for by TNCs, although a certain number of firms became transnational over the period — thereby adding to the total number of employees in TNCs — the most prominent effect was an increase in the share of employment in foreign affiliates.

In host developed countries, that increase was less the result of direct job creation than that of a process of exchange or reshuffling of ownership of already existing employees. A significant part of FDI flows to developed countries during the second half of the 1980s took the form of mergers and acquisitions by TNCs, as opposed to greenfield investments, thus resulting in employment-acquisition, in many instances accompanied by restructuring and rationalization of employment, rather than employment creation. A growing shift in the sectoral composition of FDI towards services, such as trading, finance and real estate, that are less labour-intensive than manufacturing also contributed to the relatively slow increase in employment in foreign affiliates compared with the growth of FDI. In short, while there has been a certain amount of net direct employment creation, the quantitative picture with respect to total employment in TNCs in the developed countries — where most FDI is located — has not changed significantly despite the dramatic expansion of FDI. The employment generating effects of FDI have been more visible in host developing countries, partly as a result of the preponderance of greenfield investments that added to net production capacity and the labour-intensive nature of the operations established by TNCs in many of these countries (figure IV.1).

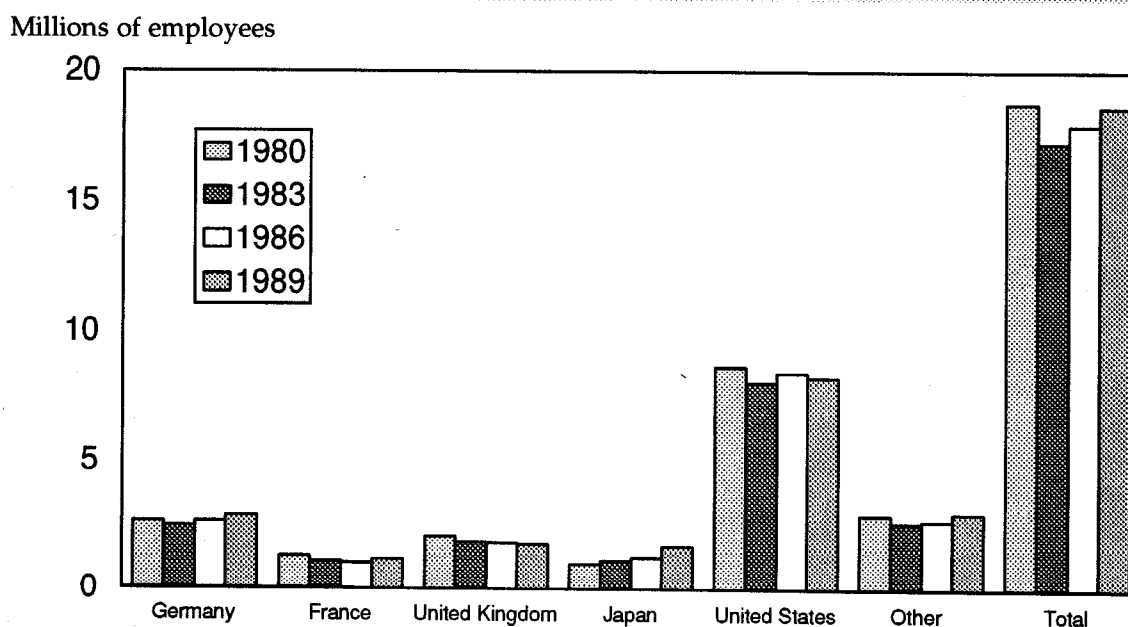
Box IV.4. Employment in the largest transnational corporations

The largest TNCs account for a significant proportion of the activities of TNCs worldwide. It has been estimated, for example, that the top 100 TNCs accounted for about one-third of the combined outward stock of FDI of their countries. As far as employment is concerned, these companies accounted for about 12 million people in 1992, of whom about 40 per cent worked in affiliates abroad (chapter I).

The evolution of total employment over the 1980s for a sample of over 300 leading industrial TNCs is shown in the accompanying figure. Direct employment fluctuated with the business cycle, registering a decline in the recessionary climate of the early 1980s and renewed growth in the latter half of the decade, only to decline once again by the early 1990s. While the companies for which this pattern is recorded account for a tiny fraction of the total population of TNCs, they are by far the largest in employment terms. Cyclical fluctuation in employment in the largest firms thus highlights the cyclical character of employment in TNCs taken as a whole.

In the first half of the 1980s, these largest well-established TNCs undertook a massive reduction in employment. It was in the second half of the 1980s that these leading companies increasingly resorted to major national and cross-border mergers and acquisitions. This produced an intricate reshuffling of transnational and national ownership patterns, which was mainly "internal" to TNCs in highly transnationalized industries. Overall, global TNC networks of production and distribution expanded, as indicated by a general increase in employment in affiliates abroad; but total direct employment at the end of the 1980s – at least in a large sample of leading industrial TNCs – was actually lower than in 1980, particularly for TNCs from Europe and the United States.

Figure 1. Employment in 343 leading transnational corporations, by country of origin, 1980-1989



Source: Parisotto, 1993, p. 47.

(b) Developed countries

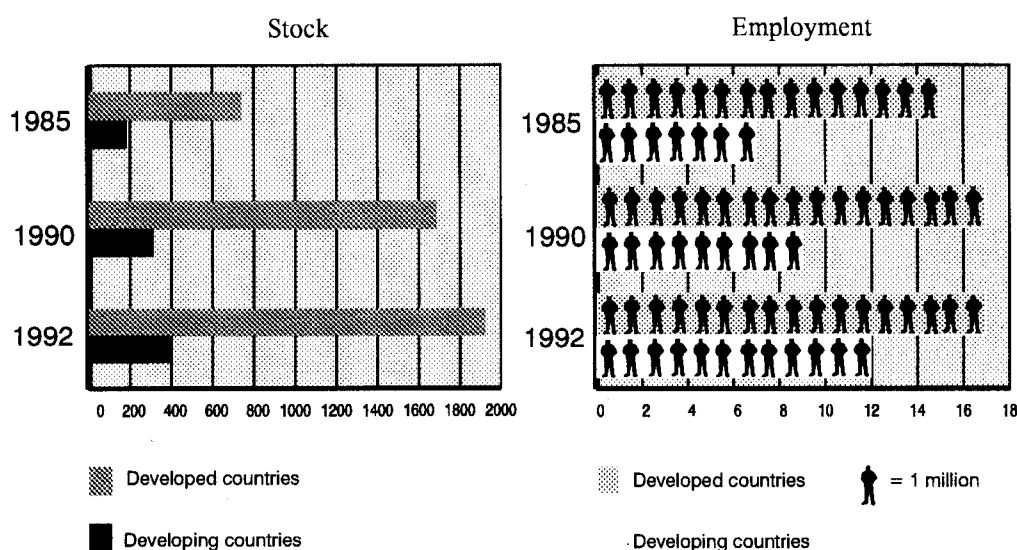
Almost two-thirds of employment in TNCs is accounted for by parent companies' operations at home, primarily in developed countries, and, of the remainder, two-thirds is in their foreign affiliates in developed host countries. It is important to underline that, except for the United States, there are no comprehensive data on the total number of employees in TNCs.

Estimates suggest that the amount of total direct employment generated by TNCs from the major developed countries broadly parallels the significance of their home countries as outward investors, with TNCs from the United States accounting for the largest number of employees, followed by those based in the United Kingdom, Germany, Japan and France (table IV.4). During the 1980s, particularly in the second half of that decade, employment in foreign affiliates of TNCs based in major developed home countries rose (table IV.5). For instance, employment in foreign affiliates of Japanese TNCs more than doubled from 716,000 in 1980 to 1.6 million in 1991.

Increases of employment were also registered in the foreign affiliates of TNCs based in other major developed countries. In the case of the United States, however, there was virtually no growth in employment in foreign affiliates during the period 1982-1991. Employment increased in foreign affiliates in services, but that hardly compensated for the decline in manufacturing employment. A large and growing portion of outward FDI from the United States during the past decade took place in services, particularly financial (non-banking) activities, resulting in a shift of FDI stock towards services in general and financial activities in particular. These services accounted, however, for a much smaller share of total employment in foreign affiliates of United States TNCs, reflecting their lower employment-generating capacity as compared with manufacturing. A similar development took place in the case of Germany and Japan. In all the three countries, manufacturing accounts for a relatively higher share of employment in foreign affiliates than its share of total outward FDI stocks (table IV.6): manufacturing accounted for between 70 and 80 per cent of employment in foreign affiliates at the beginning of the 1990s, while its share

Figure IV.1. Inward foreign-direct-investment stock and estimated employment in foreign affiliates, 1985, 1990 and 1992

(Millions of dollars and millions of employees)



Source: UNCTAD, Division on Transnational Corporations and Investment.

in total FDI was between 30 and 50 per cent. This relationship holds true also for nearly every industry. Differences are minor for the chemical industry, but they are more evident in the textiles, leather and clothing, electrical equipment, motor vehicle and other manufacturing industries, in particular for Japan. Correspondingly, the opposite pattern in the relative distribution of employment versus FDI stock characterizes both the primary and tertiary sectors.

A main change in the 1980s was the decline in the share of outward FDI stock in the primary sector, coupled with a corresponding decline in the employment associated with this investment. The share of the tertiary sector in outward FDI stock increased by over 10 percentage points in Germany and the United States and about 18 percentage points in Japan. The corresponding increase in the share of employment in foreign affiliates associated with this shift was more modest, ranging around 4 percentage points in Germany and the United States and an even smaller increase in Japan (table IV.6).

Therefore, the shift of outward investment towards the tertiary sector lowers the rate at which foreign affiliate employment grows. That sector is, of course, very diverse, ranging from labour-intensive activities, such as hotels, restaurants and retail trade, to industries such as public utilities and finance. Public utilities are capital intensive and provide relatively little employment. They have recently reappeared as a destination for developed countries' outward FDI, and seem likely to grow further in importance as developing countries attempt to improve their communications systems. A large part of the increase in FDI in the tertiary sector in the 1980s, however, was accounted for by FDI in financial services, insurance and real estate. While these industries are not very intensive in their use of physical capital, they provide little increase in employment because they are typically intensive in the use of financial capital and technology, rather than labour. To some extent, the likelihood of gains in employment from FDI in finance has been reduced by policies of the host countries. In many countries, foreign banks are barred or discouraged from retail banking, a relatively labour-intensive part of banking, and are confined to international or TNC lending, with less need for host-country labour.

With the notable exception of United States TNCs, the growth rate of employment in foreign affiliates of developed country TNCs was generally higher than that of total national employment in developed home countries (table IV.7). Moreover, it appears that, during the 1980s, TNCs themselves probably generated less additional employment in their operations at home than in their affiliates abroad, which partly attests to the increasing importance of production abroad for TNCs. For example, employees in foreign affiliates abroad as a proportion of total employees in Swedish industrial TNCs rose from 41 per cent in 1986 to 61 per cent in 1990. At the same time, employees in operations at home declined sharply, both in absolute terms and as a share of total industrial employment in Sweden (box IV.5).¹ In the case of United States TNCs, the ratio of employment in foreign affiliates to total TNC employment rose slightly from 21 per cent in 1982 to 23 per cent in 1991 (Mataloni, 1993).

The geographical distribution of employment in foreign affiliates varies across developed home countries. A quarter to one-third of employment abroad of TNCs based in France, Germany, Italy and the United States is in developing countries, mainly Latin America and South, East and South-East Asia and the Pacific (table IV.8). Japan is a major exception in this respect, with over half of employment in foreign affiliates of Japanese TNCs being located in developing countries, primarily in the Asian-Pacific region (table IV.8). Smaller countries, such as Finland, Sweden and Switzerland, tend to have a much higher concentration of TNC employment in developed countries, mainly in the European Union. It is worth noting that developing countries generally account for considerably lower shares of the outward FDI stocks than their shares of employment in foreign affiliates of TNCs based in the major developed countries.²

The growth of employment in foreign affiliates during the 1980s has been strong in host developed countries (table IV.7), particularly in North America and the European Union,

Table IV.4. Outward and inward stock of foreign direct investment and related employment, selected developed countries, 1990

(Millions of dollars and thousands of employees)

Country	Year	Outward FDI stock	Employees in TNCs originating in country		Year	Inward FDI stock	Employees in foreign affiliates in country
			Total worldwide	In foreign affiliates			
Australia	1989	29 569	846 ^a	..	1987	39 689	200 ^b
Belgium and Luxembourg	1989	22 651	266 ^c	..	1980	7 306	349 ^d
Canada	1984	35 888	1 174	..	1986	66 934	1 329
France	1990	110 126	3 680 ^e	2 100	1989	60 588	773 ^b
Germany	1990	151 551	4 459 ^f	2 337	1990	119 619	1 789
Italy	1991	12 702	1 110 ^h	511	1990	57 985	506 ^b
Japan	1990	202 450	4 064 ^g	1 550	1990	34 630	182
Netherlands	1981	40 311	1 454 ⁱ	1 071 ⁱ	1989	54 979	196 ^b
Sweden	1990	49 842	1 110 ^j	590	1990	11 759	206
Switzerland	1990	65 731	1 095 ^j	779	1988	25 299	130 ⁱ
United Kingdom	1981	88 222	5 484	1 390	1990	203 905	775 ^b
United States	1991	466 870	24 909	6 833	1991	414 358	4 809

Source: UNCTAD, Division on Transnational Corporations and Investment, based on Parisotto, 1993, and national official sources.

a Sample of 34 companies.

b Manufacturing only.

c Sample of 15 companies.

d 1978.

e Sample of 100 companies.

f Sample of 87 companies.

g 1989.

h 1987.

i Estimate for 1981.

j 1988.

although employment has diminished slightly in the affiliates of United States TNCs in the latter region. The share of employment in foreign affiliates relative to total national employment is, nevertheless, low for the major host developed countries and regions, amounting, for instance, to just 4 per cent in the case of the United States in 1990 and 3 per cent in the European Community taken as a whole in 1988.³ In Japan, it is barely visible. But the share of foreign affiliates in manufacturing employment is generally higher. Attaining between 10 and 20 per cent or more of total manufacturing employment in most developed host countries (table IV.9), manufacturing

Table IV.5. Selected home and host countries: employment in foreign affiliates, total and manufacturing, selected years

(Thousands of employees and percentage)

Country	Employment in inward affiliates (Thousands)				Employment in outward affiliates (Thousands)			
	Year	Total	Manufac- turing	Share of manufacturing in total (Percentage)	Year	Total	Manufac- turing	Share of manufac- turing in total (Percentage)
France	1980	..	812	..	..	..	..	..
	1986	..	718	..	..	..	..	..
	1990	..	773	..	1992	2266	1359	60
Germany	1980	1636	1240	76	1980	1743	1312	75
	1986	1500	1071	71	1986	1788	1276	71
	1991	1830	1224	67	1991	2370	1660	70
Italy	1986	..	476	..	1986	..	322	..
	1991	..	508	..	1991	..	511	..
Japan ^a	1980	215	178	83	1980	716	611	85
	1990	182	145	79	1986	921	726	79
					1991	1621	1261	78
Sweden ^b	1980	114	56	49	1980	326	..	..
	1988	195	117	60	1987	488	458	94
	1990	224	128	57	1990	590	523	89
Switzerland	1985	..	..	..	1985	644	539	84
	1992	..	..	..	1992	1079	837	78
United States ^c	1981	2417	1300	54	1982	6640	4429	67
	1986	2938	1412	48	1986	6250	4120	66
	1991	4809	2215	46	1991	6898	4270	62

Source: UNCTAD, Division on Transnational Corporations and Investment, based on national official sources.

^a Excluding banking, finance and insurance.^b Manufacturing includes mining.^c Non-bank affiliates.

Table IV.6. Distribution of outward foreign direct investment stock and employment in foreign affiliates of transnational corporations based in Germany, Japan and the United States by industry/sector, selected years

(Percentage)

Sector and industry	Germany				Japan ^a				United States ^b			
	1991		1983		1990		1982		1991		1982	
	Stock	Employment	Stock	Employment	Stock	Employment	Stock	Employment	Stock	Employment	Stock	Employment
Primary	1	1	4	1	8	2	24	5	8	1	21	8
Agriculture	-	-	-	-	1	1	2	2	-	-	-	2
Mining	1	-	1	-	7	1	22	3	1	-	2	2
Petroleum	1	-	2	-	-	-	-	-	7	-	18	4
Secondary	52	70	61	74	34	80	36	79	44	70	42	67
Food, beverages and tobacco	1	2	1	2	2	2	2	2	5	10	4	8
Textiles, leather and clothing	1	4	1	4	2	6	4	11	-	1	1	1
Paper	1	2	1	2	1	1	2	3	3	4	2	3
Chemicals	17	15	20	20	5	5	7	6	9	11	9	9
Coal and petroleum products	2	1	1	1	-	-	-	-	5	4	4	2
Rubber products	1	2	-	1	-	-	-	-	1	1	1	2
Non-metallic mineral products	2	3	2	2	-	-	-	-	2	3	1	3
Metals	2	4	4	4	4	4	8	9	2	1	2	4
Mechanical equipment	6	7	6	7	0	0	-	0	7	10	5	8
Electrical equipment	9	15	10	13	12	33	8	29	4	7	3	10
Motor vehicles	9	14	10	13	0	0	-	-	5	12	5	13
Other transport equipment	0	0	1	0	5	15	4	11	0	3	0	1
Other manufacturing	1	1	3	4	4	14	3	9	2	5	3	4
Tertiary	46	30	36	25	58	18	40	16	47	29	34	25
Construction	1	2	2	2	1	1	1	1	0	1	-	1
Distributive trade	4	19	4	16	13	12	18	13	14	3	16	14
Transport and communications	1	2	1	2	-	-	-	-	2	4	1	1
Finance and insurance	18	3	11	2	-	-	-	-	11	7	4	4
Real estate	17	0	11	-	-	-	-	-	17	0	9	-
Other services	5	4	7	3	44	5	21	2	3	14	2	5
Total	100	100	100	100	100	100	100	100	100	100	100	100
Total (billions of dollars and thousands of employees)	259	2375	123	1617	240	1550	47	881	467	6898	215	6816

Source: UNCTAD, Division on Transnational Corporations and Investment, based on United States, Department of Commerce, 1985, 1993c, 1993e; Ministry of International Trade and Industry of Japan, 1984, 1992; Deutsche Bundesbank, 1991, 1993.

a Data for Japan exclude banking and finance; other services include real estate, transport and communication; motor vehicles include other transport equipment.

b Data for the United States exclude banking.

Table IV.7. Annual average rate of change of employment in foreign affiliates of transnational corporations, by home country and host region, and of total domestic employment, selected developed countries

(Percentage)

<i>Host region</i>	<i>Germany (1982-1991)</i>	<i>Italy ^a (1985-1991)</i>	<i>Japan ^b (1982-1990)</i>	<i>Sweden ^a (1982-1990)</i>	<i>Switzerland (1985-1990)</i>	<i>United States ^c (1982-1991)</i>
All areas	3.5	8.0	9.7	7.1	7.2	0.3
Developed countries	4.1	10.1	16.1	7.3	6.9	0.6
North America	3.2	16.9	18.9	9.5	10.0	-0.0
European Union	4.3	6.2	17.6 ^d	9.3	6.2	0.5
Other Europe	6.7	14.7	..	-0.6 ^e	10.5	3.8
Other developed countries	0.8	..	..	-6.3	-5.9	1.1
Developing countries	1.8	8.0	4.3	-6.2	8.4	-0.1
Latin America	1.6	6.1	1.7	..	1.6	-0.1
Africa	-0.6	4.7	-1.4	..	21.5	-3.3
Western Asia	-3.0	45.2	-5.3	..	..	-10.7
South, East and South-East Asia and the Pacific	3.7	8.3	8.0	8.0	15.4	2.3
<i>Memorandum:</i>						
Rate of change in total domestic employment						
All sectors ^f	1.0	0.4	1.1	0.7	1.6	1.6
Manufacturing	-3.4	-0.0	1.0	0.1	-1.3	0.1

Source: UNCTAD, Division on Transnational Corporations and Investment, based on national official sources.

a Manufacturing only.

b Excluding banking, finance and insurance.

c Excluding banks.

d All Europe.

e Nordic area only.

f Including banks.

continues to account for the bulk of TNC employment, although the transnationalization of the services sector has increased rapidly in terms of FDI shares in recent years. The manufacturing industries in which foreign affiliate employment has been highest in developed host countries have been the chemical, electronic and automotive industries.⁴ In these industries, employment generated by foreign affiliates in the past three years has either stabilized or continued to grow. On the other hand, employment has declined in metals and metal manufactures and, in some cases, in the oil industry.

With a few major exceptions (Canada, Germany and Japan), the employment shares of foreign affiliates in total manufacturing employment in host developed countries increased during the 1980s. This trend reflected large FDI inflows that either created new jobs or shifted the ownership of production activities to foreign TNCs, as well as better employment performances

**Table IV.8. Distribution of employment in foreign affiliates,
by host region, selected developed home countries
(Percentage and thousands of employees)**

<i>Host region</i>	<i>France (1992)</i>	<i>Germany (1991)</i>	<i>Italy ^a (1991)</i>	<i>Japan ^b (1990)</i>	<i>Sweden ^a (1990)</i>	<i>Switzerland (1990)</i>	<i>United States ^c (1991)</i>
Developed countries	72.1	74.7	63.0	49.5	86.4	79.5	69.0
North America	..	21.5	11.5	30.1	22.9	20.0	13.3
European Union	45.5	35.1	49.1	13.5	55.9	46.0	40.1
Other Europe	1.1 ^d	13.9	8.0	0.6	4.9 ^e	11.1	3.1
Other developed countries	-	4.2	-	3.3 ^f	2.8	2.4	12.5
Developing countries	27.9	25.3	32.9	52.5	13.6	20.5	31.0
Latin America and the Caribbean	8.6	15.2	19.0	..	9.9	9.0	19.5
South America	..	12.6	..	7.4	..	..	9.3
Central America	..	2.7	..	..	..	..	9.6
Caribbean	..	0.0	..	..	..	..	0.7
Africa	13.4	2.2	5.2	1.0	0.1	3.0	1.2
Western Asia	..	0.6	..	0.5	..	0.9	0.7
South, East and South-East Asia and the Pacific	5.9 ^g	7.3	5.1	43.6	3.6	7.5	9.6
Total	100	100	100 ^h	100	100	100	100
Total (Thousands of employees)	2 266	2 375	511	1 550	308	1 048	6 898

Source: UNCTAD, Division on Transnational Corporations and Investment, based on national sources.

a Manufacturing only.

b Excluding banking, finance and insurance.

c Excluding banks.

d Eastern Europe only.

e Nordic countries.

f Including developing countries in Oceania.

g Including Western Asia.

h Including unallocated.

of foreign affiliates relative to domestic firms (OECD, 1993b). The latter result can be partly explained by the concentration of TNCs in science-based and scale-intensive industries that experienced a higher rate of growth of output (or a lower decline) relative to labour-or resource-intensive industries in developed countries during the 1980s (Papaconstantinou, 1993).

Box IV.5. International production and employment: the case of Swedish transnational corporations

The internationalization of the Swedish economy, traditionally high, experienced a remarkable acceleration in the second half of the 1980s. Outward FDI was primarily directed towards developed countries, particularly in Europe, motivated mainly by the need to consolidate access to the forthcoming European single market. Although small Swedish TNCs were dynamic foreign investors, the 13 largest TNCs played the primary role in the growth of FDI. Takeovers were the main mode of entry (accounting for 80 per cent of Swedish FDI in the European Community), suggesting that little new employment was directly generated. The employment implications for host countries were, however, far from neutral: employment was cut in some affiliates, e.g., in Italy and France, or shifted among affiliates in different countries.

Sweden is a particularly interesting case because the Swedish economy is highly internationalized in comparison with the size of its domestic market. The strategic choices of Swedish TNCs concerning investment abroad are likely to have a considerable impact on industrial performance, and hence employment, particularly at home. In the late 1980s, there were signs of a shift from complementarity to substitution of investment abroad in relation to investment at home, as attested by the weak export performance of TNC production in Sweden, a change in the nature of intra-firm trade and the declining share of TNC employment at home coupled with the strong growth of employment in affiliates abroad (table 1). This pattern – growth of employment abroad and decline in employment at home – was more strongly pronounced in Swedish TNCs in modern industries such as chemicals, electronics and transportation.

Table 1. Employment in Swedish industrial transnational corporations, selected years
(Percentage of total industrial employment in Sweden)

Item	1974	1978	1986	1990
Parent companies in Sweden	46	48	48	67
Affiliates abroad	31	35	46	42
Total	77	83	95	109
Total industrial employment in Sweden (thousands of employees)	922	930	777	728

Source: based on data obtained from the Industrial Institute for Economic and Social Research, Stockholm.

Restructuring and expansion of Swedish TNCs abroad seems also to have been associated with an upgrading of the role of foreign affiliates as a result of deeper integration strategies. There was a stronger growth of exports, productivity and research and development in the affiliates abroad relative to TNCs' operations at home. Although these changes were also associated with various other factors, e.g., differential growth rates and exchange rate fluctuations, they were largely influenced, particularly in the European Union, by the reorganization of corporate organizational structures, a new division of labour across networks of TNCs' affiliates and a shifting of functional responsibilities.

Outward FDI from Sweden to developing countries has been primarily greenfield and thus employment-generating in nature. Taken as a whole, however, the foreign affiliates of Swedish TNCs in developing countries registered a decline in employment during 1986-1990, because the reduction in employment due to disinvestments was larger than employment created in newly established affiliates. This reduced the share of developing countries in Swedish foreign-affiliate employment from 18 per cent in 1986 to 14 per cent in 1990. Affiliates in the Association of South-East Asian Nations countries, particularly in electronics and transport, were the main exception. Low labour-cost sites in developing countries have therefore benefited only to a limited extent from the internationalization and integration strategies of Swedish TNCs, although recent information suggests that FDI by Swedish TNCs in developing countries and countries of Eastern Europe has begun to rise.

Source: based on data obtained from the Industrial Institute for Economic and Social Research, Stockholm.

(c) *Developing countries*

Because developing countries are overwhelmingly host rather than home countries for TNCs, it is the employment in foreign affiliates located in their economies that is of greater relevance for them. Indeed, less than 10 million workers out of the total of more than 70 million directly employed in TNCs were employed in foreign affiliates in developing countries in 1990; the number increased to an estimated 12 million in 1992 (table IV.3). In general, such employment has comprised less than two per cent of the economically active population of most of the developing countries for which data are available (table IV.10). In most developing countries, the employment directly provided by TNCs is thus virtually inconsequential at the aggregate level; in other words, few, if any, of the large numbers of poor in the developing world that are often rural and either unemployed or underemployed have any prospect of working in a foreign affiliate. However, the overall share mentioned above conceals disparities between and, more importantly, within countries reflecting the pattern of FDI. Over the 1980s and early 1990s, for example, a

Table IV.9. Selected home and host countries: share of employment by foreign affiliates in total manufacturing employment, various years

(Percentage)

<i>Country</i>	<i>Year</i>	<i>Home country ^a</i>	<i>Year</i>	<i>Host country ^b</i>
Australia	..	..	1987	23.8
Austria	1982	34.1	1985	36.5
Denmark	..	..	1986	12.4
Finland	1988	36.7	1988	8.4
France	1992	30.1	1990	16.4
Germany ^c	1992	24.0	1992	17.0
Greece	..	..	1977	21.3
Ireland	..	..	1987	42.8
Italy	1991	10.8	1991	10.7
Japan	1991	8.1	1990	1.0
Netherlands	1987	60.5 ^d	1987	14.0
New Zealand	..	..	1990	23.7
Norway	1981	2.5	1989	6.4
Portugal	..	..	1984	12.9
Sweden ^e	1990	47.0	1990	11.5
Switzerland	1992	95.5	...	..
Turkey	..	..	1990	3.2 ^d
United Kingdom	1981	22.9	1990	14.9 ^d
United States	1991	20.8	1991	10.8

Source: UN-TCMD, 1993b, except where indicated otherwise.

a Ratio of total employment in affiliates abroad of TNCs originating in country to total manufacturing employment in country.

b Ratio of total employment in foreign affiliates in country to total manufacturing employment in country.

c Data obtained from R. Jungnickel, 1994.

d Data obtained from OECD, 1993b.

e Manufacturing includes mining.

number of Asian countries with dynamic economies, as well as a few other countries such as Mexico have attracted considerable FDI and have become more fully integrated into the international division of labour, with significant benefits in terms of the direct and indirect generation of new jobs. Generally, however, countries with higher shares of employment in foreign affiliates to total employment have tended to be economies that have small populations, such as Botswana, Jamaica or Singapore (table IV.10). Among the larger developing economies, Malaysia is the only country with the share of foreign affiliates in total employment exceeding two per cent. In contrast to its limited significance relative to aggregate employment, however, the role of TNC employment in the modern manufacturing sector of developing countries is often substantial (table IV.10). Indeed, TNCs account for one-fifth or more of total manufacturing paid employment in a number of countries, both large and small, e.g., Argentina, Barbados, Botswana, Indonesia, Malaysia, Mauritius, Mexico, the Philippines, Singapore and Sri Lanka.

Judging from data on employment in foreign affiliates of TNCs from the major home countries, employment in foreign affiliates in host developing countries expanded during the 1980s. However, while some developing countries saw a growth in direct employment in foreign affiliates, others, including several countries in Africa, West Asia and Latin America, experienced a decline (table IV.7). Employment also increased rapidly in export processing zones of developing countries growing at an annual rate of 9 per cent during 1975-1986 and 14 per cent during 1986-1990 (Parisotto, 1993, p. 61).

Since 1991, FDI inflows into developing countries and economies in Central and Eastern Europe have been rising considerably faster in relation to those into developed countries (chapter II). Major opportunities for foreign investors have been provided by large privatization programmes in many developing countries, including Argentina, Chile, Indonesia, Hungary, Mexico, Peru, Singapore and Venezuela. The employment impact of the participation of TNCs in privatization programmes may be uncertain, at least in the short-term, as streamlining of employment by the new owners is likely to occur. Most of the increase of foreign affiliate employment in recent years has been concentrated in China, where joint ventures and greenfield investments of a largely labour-intensive orientation expanded at a rapid rate. Employment in foreign affiliates in China increased from 0.9 million in 1987 to 3.2 million in 1990 and further to 6 million in 1992.⁵ If the current trend towards the expansion of FDI into developing countries continues, the pace of employment generation by TNCs can be expected to grow rapidly in the future.

A question of some interest to developed home countries is the extent to which affiliate employment in developing host countries represents a relocation of jobs formerly situated in their economies (box IV.6). As discussed earlier, the effects of outward FDI on home country employment are not easy to assess. Among other things, they are influenced by the pattern and motivation of FDI, for instance, whether it is resource-seeking or market-seeking investment. In the case of developing countries, available data suggest that about half of the FDI they receive is in the primary and tertiary sectors (UNCTAD-DTCI, 1993a, p. 62). These investments are typically location-bound and involve little, if any, relocation of production and, hence, employment from home countries. As far as FDI in manufacturing is concerned, it is often meant to serve domestic markets (i.e., it is market-seeking); and, for a number of reasons, such markets cannot be served by exports, e.g., in the case of high tariff barriers or low-cost domestic competition. In fact, such investment rather maintains or creates employment in home countries, to the extent that foreign affiliates are dependent on home country firms for intermediate products or services. The remainder of manufacturing FDI represents, therefore, the maximum potential for relocation effects. Although data limitations make it difficult to arrive at an estimate of these latter effects, the magnitude is likely to be low, especially also in relation to the size of labour markets in developed countries. This is not to say, however, that employment in a few specific industries (e.g., electronics and textiles) may not have been considerably affected. Larger displacement

Table IV.10. Employees in foreign affiliates, by host developing country/area, all sectors and manufacturing, latest available year

(Thousands of employees and percentage)

Economy/area	All sectors			Manufacturing			Year
	Number of employees in foreign firms (Thousands)	Share of economically-active population (Percentage)	Share of paid employment (Percentage)	Number of employees in foreign affiliates (Thousands)	Share of economically-active population (Percentage)	Share of paid employment (Percentage)	
Africa							
Botswana	35	8	..	6	..	36 ^a	1989
Cameroon	35	1	10 ^a	34	..	..	1984
Côte d'Ivoire	61	1	14 ^a	34	..	..	1984
Mauritius	..	..	..	35	26	33	1990
Rwanda	6	..	..	2	14	..	1989
Senegal	41	1	..	26	..	..	1984
Tunisia	..	..	..	47	..	..	1990
Zaire	67	1	30	44	..	..	1984
Asia							
China	4831	..	..	..	..	..	1991
Hong Kong	..	..	..	81	12	..	1991
Indonesia	..	1	..	400	7	24 ^b	1985
Korea, Republic of	315	2	..	288	9	15 ^c	1978
Malaysia	215 ^d	4	..	188 ^e	..	..	1984
Philippines	184 ^d	..	..	124	5	20 ^f	1988
Singapore	270	21	26	193	5	58 ^g	1988
Sri Lanka	..	..	..	71 ^h	8	40	1989
Taiwan Province of China	250	..	..	160	..	..	1989
Thailand	205 ^d	..	..	183	9	15	1986
Latin America and the Caribbean							
Argentina	..	..	..	185	..	32 ⁱ	1984
Barbados	..	..	..	3	19	31	1989
Brazil	..	..	..	909	14	..	1977
Colombia	..	..	..	81	..	16 ^f	1981
Jamaica	87	10	12	36	26	..	1988
Mexico	756 ^j	2	12	516 ^k	8	21	1988
Panama	24	..	3	4	6	..	1988
Uruguay	24	2	..	15	7 ^k	..	1988

Source: UNCTAD, Division on Transnational Corporations and Investment, based on Parisotto, 1993, p. 56; and International Labour Office, *Yearbook of Labour Statistics*, various years and national official sources.

a Modern sector.

b Firms with 20 or more workers.

c Firms with five or more workers.

d Data for 1990. e Majority-owned foreign limited companies.

f Firms with ten or more workers.

g Private sector firms with ten or more workers.

h Foreign firms in Greater Colombo area 1986, paid employment in firms with five or more workers.

i Firms with 300 or more workers.

j Instituto Mexicano del Seguro Social.

k 1987 Censo Economico Nacional.

effects may actually have taken place through trade, reflecting the emergence of independent producers in developing economies, as well as intra-firm trade or reliance by TNCs on subcontracting arrangements with suppliers in developing countries. Recent empirical work by the Organisation for Economic Co-operation and Development (OECD) suggests that even the impact of trade between OECD and developing countries on unemployment in developed countries has not been large. Estimates on the employment content of net imports from developing to developed countries, i.e., employment displaced through trade, range from 1 to 9 million person-years.⁶

For many developing countries, one of the most discussed aspects of employment-creation is the establishment or expansion of export processing and other special economic zones. These zones are a significant avenue in terms of the number of jobs created through FDI (table IV.11).

Box IV.6. The *délocalisation* debate

A debate over the shifting of manufacturing production to other countries, especially those with lower wages and labour standards, and its significance for rising unemployment at home has surfaced in Europe. The debate has been particularly vigorous in France, which is currently experiencing one of its most severe post-war recessions: In 1993, GNP growth was negative, and 3.5 million people, constituting 12 per cent of the economically active population, were unemployed. *Délocalisation* became a popular word, in referring to cases such as the closing of the Hoover plant in Dijon to relocate production to Scotland.

A number of reports prepared by special committees of the Parliament of France, including, among others, a much-publicized report presented by Senator Jean Arthuis, have argued the existence of a link between relocation and unemployment (Arthuis, 1993a). That report presents an account of the "alarming situation" regarding the increasing number of jobs lost due to the relocation of production, and estimates that over one million jobs are threatened in France as a result of *délocalisation*. Three factors are identified as elements of a chain reaction leading to a potential loss of jobs in France.

- Technological progress is allowing companies in some industries (for example, textiles, electronics and toys) to transfer downstream and upstream segments of production to lower-cost countries.
- Countries such as China, Madagascar, Mauritius and Taiwan Province of China, as well as countries in Central and Eastern Europe, that have opened or are opening to international trade are becoming additional potential sites for relocation. In particular, according to the report, Central and Eastern Europe could become a preferred site as a result of its substantial industrial potential and the absence of significant cultural or infrastructure constraints.
- The recession itself forces companies to reduce production costs, including through relocation of production segments to low-cost countries. The report identifies three successive generations of relocations, namely, traditional consumer products, services and intangibles. The last of these could, potentially, affect all sectors (Arthuis, 1993b).

The report presents evidence of the existence of a link between relocation and unemployment, showing, for example, that firms in three industries affected by relocations (electronics, textiles-clothing and footwear) have reduced by half their number of employees in France during the past decade. The report suggests that the "rules of the game" are not respected by some Asian economies: it claims that currencies of the newly industrializing economies are undervalued, their exports are sold at "dumping" prices, while their domestic markets are closed to French exports. The report proposes a number of measures to address the problem, including tax measures, other protective measures at the national and European levels and more stringent rules governing international trade. "Within the framework of international trade negotiations, the Community should obtain a selective increase of custom duties in the sectors most affected by job relocations.... Like the United States, the EEC must have its Chapter 301, i.e., an external trade protection instrument, serving as a deterrent..." (Arthuis, 1993a, p. 8).

The report drew the attention of the Government of France and academia to the need for examining more rigorously the problem of *délocalisation* as regards its definition and quantitative dimension.

At present, nearly 200 zones in approximately 60 developing countries directly provide about four million jobs; additional export processing zones are planned for at least 20 more countries. In China alone, more than two million persons were employed in such zones in 1990 (Starnberg Institute, 1991).⁷ There are several other countries that are success stories in terms of job-creation through export processing zones, but others have been less successful (table IV.11). It is important to note that TNCs are not the only investors in these zones, although they have a crucial role in the initial stages. The participation of local employers varies considerably across the various zones, but it generally increases over time as the zones' activities get rooted and attract the attention of local entrepreneurs.

The process of evolution of export processing zones partly reflects the changing labour cost advantages of developing countries for TNCs. A distinction can be made between the first

Critics of the report have pointed out that the FDI-employment linkage is complex and that unemployment created by technological changes or recession should not be attributed to FDI (Madeuf, 1994, p. 22). Academic research and government institutions (e.g., Sorbonne, OFCE and Ministère de l'Economie) questioned the magnitude of relocations presented by the Arthuis report (Borotra et al., 1993). A group of experts estimated that, currently, less than 5 per cent of the FDI stock held by French TNCs abroad represents *délocalisation* in the strict sense of the term, i.e. the transfer of production units abroad coupled with the closure of a domestic production unit (Madeuf, 1994, p. 3). The Arthuis report claims that production is being shifted to South-East Asia and Central and Eastern Europe. Affiliates in South-East Asia, however, employ only a small fraction of the employees abroad of French TNCs (5 per cent), and their relative share of total FDI outflows is negligible (less than 2 per cent). Furthermore, a large part of this investment seems to target the growing Asian markets rather than seeking to reduce production costs for export purposes. An analysis of trends in international trade also produced contrasting findings: in 1992, France's trade deficit with the rapidly growing South-East Asian countries was 4 billion French francs; with the newly industrializing economies, France had a surplus of 6 billion French francs in 1993 (Hatem, 1994). According to a recent study carried out by the Direction des Relations Economiques Extérieures (DREE, 1993) an estimated 70 per cent of imports from South-East Asia may be the result of *délocalisation* in its broad sense, that is, including imports resulting from trade and subcontracted manufacturing. On the other side, there has also been a marked improvement in French exports to South-East Asian countries, especially in exports of capital goods. In examining all these elements, a recent study (Mathieu and Steerdyniak 1994) estimated the loss of employment in France due to the growth of the relative economic importance of South-East Asian countries to be 190,000 to 230,000 since 1980. At the same time, it has been noted that French commercial relationships have increased with countries such as the Republic of Korea and Singapore in which wages and social protection are the highest, as well as with countries that were, or progressively became, open to trade and investment.

Policy options regarding *délocalisation* have been widely debated and the employment issue has become a test of the effectiveness of government policies. One of the measures proposed to encourage employment creation has examined ways of reducing the cost of unskilled labour. One proposal, made by Senator Arthuis, suggested the introduction of a social value-added tax "...in order to prevent the consumer of imported goods from being exempted from his participation in the financing of national solidarity" (Arthuis, 1993a, p. 7). This has been rejected on the basis of the argument that it would not alleviate costs borne by the enterprises (Borotra and Chavanne 1993; Mathieu and Steerdyniak 1994). Other initiatives have instead suggested the introduction of selective wage reductions (mainly for unskilled labour), by partially exempting firms from the payment of certain social charges. Finally, as far as trade policies are concerned, protectionism is only a limited option, since France, the world's fourth largest exporter, would be the first loser in a more restricted trade environment (DREE, 1993 and Hatem, 1994). The Ministry of Trade is increasing efforts to encourage the development of economic relationships with the dynamic economies of Asia and Latin America. At the multilateral level, there are proposals for the inclusion of a new clause in the multilateral trade framework, implemented under the new World Trade Organization, addressing the question of union rights, child and prison labour and related social matters. Other measures advocated have included the strengthening of trade policies

Table IV.11. Employment in export processing zones and other special zones in developing countries, 1990 (or latest available year)

(Number of employees)

<i>Economy or area</i>	<i>Number of economic processing zones in operation</i>	<i>Number of employees</i>
Africa	31	230 648
Botswana	1	13 000
Egypt	7	25 000
Ghana	1	2 600
Lesotho	1	..
Liberia	1	..
Mauritius	7	90 000
Morocco	1	1 500
Senegal	1	1 200
Swaziland	1	..
Togo	1	3 971
Tunisia ^a	9	93 377 ^b
Asia and the Pacific	57	2 666 349
Bahrain	2	4 600
Bangladesh	1	10 000
China	7	2 200 000
Fiji ^a	-	..
India	6	30 000
Jordan	1	..
Korea, Republic of	2	21 910 ^b
Macao	4	60 000
Malaysia	10	98 900
Pakistan	3	2 000
Philippines	5	43 211 ^b
Sri Lanka	2	71 358
Syrian Arab Republic	6	..
Taiwan Province of China	3	70 700
Thailand	1	27 990
Tonga	1	..
United Arab Emirates	2	5 500
Yemen	1	..
Latin America and the Caribbean	85	1 087 449
Antigua and Barbuda	1	..
Argentina	1	..
Aruba	2	800
Bahamas	2	8 000
Barbados	-	20 000
Belize	1	600
Brazil	1	137 000
Chile	1	8 500
Colombia	8	7 000
Costa Rica	4	6 000
Dominica	1	..
Dominican Republic	18	150 000
El Salvador	1	5 890
Grenada	1	..
Guatemala	1	55 000
Haiti	2	43 000
Honduras	3	3 000
Jamaica	4	18 000
Mexico	23	460 000
Netherlands Antilles	1	300
Nicaragua	1	..
Panama	1	6 476
Puerto Rico	2	155 000
St. Kitts and Nevis	1	583
St. Lucia	2	1 500
St. Vincent	1	400
Trinidad and Tobago	1	400
Total	173	3 953 107

Source: ILO-MULTI database, based on Starnberg Institute, 1991 and other sources.

a There are no geographically demarcated export processing zones, but industrial areas in which a number of exporting enterprises enjoy conditions similar to those generally granted in the zones.

b 1991.

generation of zones (i.e., those in the 1970s or early 1980s) that are now reaching maturity, and the second generation, including export processing zones that have experienced considerable expansion throughout the late 1980s and early 1990s.

- * The former category includes “mature” zones in countries or areas like Mauritius, the Philippines, the Republic of Korea and Taiwan Province of China. These zones have gone through the full life cycle of a typical export processing zone. Initially, employment in the zones expanded rapidly thanks to sustained FDI in labour-intensive operations. As wages and working conditions improved and restrictions on union activities became less severe, capital-intensive production gradually replaced labour-intensive activities, and there was a decline in FDI inflows that triggered a fall in employment as labour-intensive production was relocated to more convenient locations.
- * The second category includes zones in countries like China, the Dominican Republic, Guatemala, Mexico, Sri Lanka and Tunisia. These registered a considerable expansion in the late 1980s, partly as a result of the relocation of investment in simple, labour-intensive manufacturing production from the newly industrializing economies of Asia.

The experience of both categories of zones suggests that the establishment of export processing zones can be a useful strategy for the generation of employment through FDI. However, it has definite limitations, both in terms of the kinds of jobs generated (see the discussion on quality of employment below) and the long-term sustainability of those jobs. Production in the majority of the export-processing zones has been concentrated either in textiles and garments or in electrical and electronic products, suggesting that the attraction of low-cost labour, even when reinforced by other incentives, is confined to FDI in a limited group of industries. Furthermore, over time, as labour costs increase, such FDI is likely to relocate and countries can maintain the level and growth of FDI and related employment only by investing in education and skill enhancement and encouraging TNCs to invest in more technology-intensive processes and products. Such a strategy has been pursued successfully, for example, by some of the newly industrializing economies of Asia.

Large, well-established TNCs have been the primary targets of promotion efforts by export processing zone authorities. However, with the exception of large TNCs in electronics, the majority of foreign investors in these zones are small and medium-sized firms. The latter, in fact, are more attracted by the incentives offered by the zones and the low costs of production than are their larger counterparts, since their locational decisions are often more influenced by short-term cost considerations. From the viewpoint of employment, this is useful for developing countries because affiliates of small and medium-sized TNCs tend to be relatively efficient generators of employment, with higher labour-capital ratios than affiliates of large TNCs or indigenous firms in developing countries (UNCTAD-DTCI, 1993c, pp. 115-116).

Some developing economies — particularly in the Asian region — are also emerging as home bases for TNCs. During 1986-1990, partly in response to rising labour costs at home, outward investment by companies from these economies increased rapidly — twice as fast as that from the developed countries — and now accounts for some one-third of inward FDI in a number of Asian countries. Indeed, TNCs from these economies are largely responsible for the rapid growth of inward FDI (chapter II) and related employment in China. Although their share in FDI inflows worldwide remains small, their significance as employers for home as well as host countries has increased and is likely to grow further. This is of relevance for host developing countries, where the greater proportion of FDI from developing economies is located.

2. Indirect employment effects and spill-overs

In addition to the numbers of those directly employed, TNCs, like other enterprises, generate employment opportunities through various linkages with enterprises in home and host countries and multiplier effects (table IV.12). As a general rule, for each job directly generated by a TNC, one to two may result indirectly from backward and forward linkages (see below). *Backward linkages*, e.g., through the purchasing of raw materials, parts, components and services from subcontractors and external suppliers, are among the principal channels through which TNCs can indirectly contribute to employment generation. The importance of these effects has grown in recent years, following the trend towards a deeper division of labour and the declining degree of vertical integration that is occurring within the largest firms. These firms progressively focused on a smaller part of the value-added chain, relying increasingly, for technological or flexibility reasons, on national and international outsourcing. Employment, as a consequence, is being gradually externalized (box IV.7). *Forward linkages*, such as ties between TNCs and the distributors of their products, can also create jobs, although not to the same extent as backward linkages.

Table IV.12. Indirect employment-generating effects of transnational 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, services etc.
Downstream (forward) linkages	Employment indirectly generated by foreign affiliates in their local customers (e.g., 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: adapted from ILO, 1984a.

Based on the results of various empirical investigations with respect to the relative significance of the indirect employment effects of the activities of TNCs in host countries, a number of observations can be made:⁸

- Indirect effects are on the whole positive and substantial; under certain conditions, they generate roughly the same or more number of jobs than TNCs create directly. Indeed,

Box IV.7. Working for manufacturers without factories

A growing number of TNCs in manufacturing are separating the physical production of goods from the research-and-development and marketing stages of the production process (UNCTAD-DTCL, 1993a), relying for the former on a dense network of independent (but often closely monitored) suppliers and for the latter on their own efforts. As the tasks directly performed by these TNCs have shifted to higher-value added activities, the number of jobs in subcontractors located in both developed and developing countries has increased rapidly. Such subcontracting is popular in the garment and footwear industries but is also spreading to other manufacturing activities as well as services. Prominent examples are Nike (United States), Ikea (Sweden) and Benetton (Italy).

Nike (United States), a footwear company with annual sales of nearly \$4 billion in 1993,^a subcontracts 100 per cent of its goods production. Nike itself currently employs 9,000 people, while nearly 75,000 people are employed by its independent subcontractors located in different countries. These figures reflect the division of labour in value added: Nike's own team of highly skilled workers focuses on the services part of the production process, including design, product development, marketing, distribution, data processing, sales and administrative tasks. Labour-intensive manufacturing tasks are performed by the workforce at the subcontractors' facilities in developing countries. Apart from a powerful media-driven image, a key source of the company's profitability is its performance-oriented inventory-control system, *Futures*.^b Nike manages to get orders from retailers in advance in return for guaranteed delivery times and discounts making it possible for it to organize timely production from its different producers located abroad.

The location of Nike's subcontractors and the associated employment has shifted over time. From its inception, the company sourced almost all its shoes from independent producers. But the original suppliers in Japan, the United States and the United Kingdom have been partly replaced by producers in developing countries, including China (which now supplies about 25 per cent of Nike's shoes) and the Republic of Korea, Malaysia, Taiwan Province of China and Thailand. In an attempt to achieve both flexibility and stability, Nike has created a set of clearly differentiated supply relationships that have implications for the quality of employment provided by subcontractors (Donaghu and Barff, 1990). There are three groups of suppliers in Nike's network:

- The most important are what the company calls the *developed partners*, mainly located in the Republic of Korea and Taiwan Province of China, who participate in joint product development and concentrate on the production of newest product designs. Given the rising labour costs in these locations, labour intensive activities previously performed by suppliers in these countries were relocated to other countries. However, the relationship with Nike of these old suppliers was, if anything, strengthened as they started to manufacture higher value-added products, working exclusively for Nike on the basis of a minimum monthly order.
- The second group of Nike's suppliers, called *developing sources* offer low labour costs and the opportunity for Nike to diversify assembly sites. Currently, they are located in China, Indonesia and Thailand. Nearly all are exclusive suppliers to Nike and as such receive considerable assistance from the company with a view to upgrading their production to form the next generation of *developed partners*.
- The third group, called *volume producers*, are large scale factories serving a number of other independent buyers. They generally manufacture a specific product for Nike, but they are not involved in any new product because of fears of leakage of information to competitors. Orders from Nike for suppliers from this group fluctuate, with variations of 50 per cent between monthly orders.

Backward linkages with further employment generation are generated by all of Nike's suppliers, but only for non-proprietary components and material inputs.

Another well-known TNC that relies heavily on subcontracting is Ikea (Sweden). This company manages from its headquarters and through its main affiliates an entire value-added chain covering market analysis, product design and development, material testing, production and construction design, stock management, transport and sales to consumers. It has its own department stores worldwide and issues a yearly catalogue. Ikea itself currently employs 25,000 people. Like Nike, the only thing it does not do is the actual manufacture of the goods it sells; that generally takes place in independent companies (approximately 2,300 firms of various size), located in 70 countries, developed as well as developing, generating employment especially in activities requiring skilled or semi-skilled

labour. However, in certain countries, such as in Central and Eastern Europe, Ikea has recently helped in financing new investments and the modernization of production facilities. The company has strict procedures for selecting its suppliers, which have to meet its quality requirements and delivery deadlines. It also constantly tries to improve and rationalize production, introducing new technology and quality upgrading among its suppliers, encouraging them to improve production methods and work organization and invest in new machinery. Ikea has also encouraged its suppliers to engage in new planning routines and diffuse the use of computers because its suppliers may be linked to its computer network to receive orders (ILO, 1991b).

Like Ikea, Benetton (Italy) relies on its computer network to receive orders and monitor sales. However, the company, which defines itself a "clothing service company" rather than a simple manufacturer or retailer, subcontracts not only some parts of its goods production but also a large part of its trading outlets. The firm has built a system of flexible franchising (no royalties and no stock return) and its worldwide shops are mostly owned by unrelated enterprises. In manufacturing its goods, the company undertakes in-house only the parts of production that it considers crucial, including design, cutting, dyeing and packing. These activities rely on the creativity of the firm's 200 hundred young designers and its high-technology cutting and packaging plants. This organization of activities has resulted in Benetton itself employing a total of 3,500 persons, as compared with an estimated 45,000 to 50,000 persons employed in its subcontracting facilities. However, in order to maintain close linkages with its own factories and the flexibility of last-minute dyeing of garments to respond to sales trends, Benetton's suppliers are located mainly in Europe where 80 per cent of the firm's clothes are manufactured. Unlike many of its competitors, Benetton locates only a small fraction of its clothes' production in developing countries.^a

These and many other examples suggest that subcontracting has contributed towards building up competitive advantage and domestic specialization in the industry concerned in countries where subcontractors are located, providing opportunities for employment and improved quality of employment. The clothing and textile industries in Hong Kong and Taiwan Province of China have successfully moved up in the international market, at least partly on the basis of subcontracting: many firms were able, after a long experience in subcontracting, to start production under licensing, and even to develop local brand-name products (OECD, 1993c). Similarly, in electronics, subcontracting represents the fastest growing aspect of the industry, involving TNCs from both sides of the Atlantic and East Asia (Boswell, 1993). Growing subcontracting linkages between electronics TNCs and local firms have been established in Malaysia, Singapore, Taiwan Province of China and Thailand. For example, some United States TNC affiliates in Malaysia subcontract up to 20 per cent of their production to local firms located in other Asian countries in order to handle periodic fluctuations in market demand (Lim and Fong, 1991). Lately, Asian firms, based mainly in Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China, pushed by rising costs and labour shortages, have also started to establish their own networks of subcontractors, mainly in low technology, labour-intensive products.

Subcontracting has sometimes been criticized because of the heavy pressures it places on subcontractors to cut prices and labour costs, especially in the case of long subcontracting chains; possible fluctuations and instability of employment in supplier firms; and the subcontractors' lack of control of the market. However, the outsourcing of production, as these examples well show, also requires close co-operation between different participants in the value-added chain, particularly in view of the relatively short product-development schedules, customer-oriented production and high standards of quality that are demanded by TNCs relying on subcontracting. This makes it possible for large as well as small and medium-sized firms, including ones located in developing countries, to access international markets and new production opportunities without bearing the risks attached to exports and independent marketing. In many cases, subcontracting provides opportunities not only for employment creation through production for the world market but also for skills upgrading, quality control, access to new technology and major advances in manufacturing production.

a *Forbes*, 3 January 1994.

b "Can Nike just do it", *Business Week*, 18 April 1994, pp. 86-93.

c "Benetton: the next era", *The Economist*, 23 April 1994.

estimates for the early 1980s based on input-output analyses suggest that one to two jobs were generated indirectly for each job directly created by foreign affiliates in the case of Thailand, the Philippines and Association of South-East Asian Nations countries taken as a whole (Miranda, 1994, p. 19 and Watanabe, 1993, p. 136). A much lower coefficient (one indirect job for every four direct jobs) has been estimated, however, in a similar exercise for the Mexican *maquiladoras* in 1989, largely as a result of the prevalence of off-shore assembly production (Fuentes *et al.*, 1993, p. 176). In general, the direct creation of jobs in export processing zones has been considerable in many countries, but the indirect employment effects of these zones are rather weak owing to few backward and forward linkages. Based on a series of eight recent case studies of foreign affiliates in developed and developing countries, it has been estimated that the average coefficient of indirect employment generation is 1.6; in other words, 1.6 jobs are generated indirectly as a result of one job directly created by the affiliates (Dupuy and Savary, 1993). This result takes into account only the employment generated indirectly through backward linkages (average coefficient equal to 0.9) and forward linkages (average coefficient equal to 0.7).

- ④ Indirect effects vary to a great extent in accordance with the modalities of FDI projects, the industry of the investment, the sourcing strategy of the foreign investor and the conditions in the host country. The nature of each affiliate and the degree of its integration within the global network organized by the parent company were major factors in explaining large differences across the various affiliates (Dupuy and Savary, 1993). Affiliates that were strongly rooted in a host country and mainly oriented to the domestic market accounted for significant local procurement (e.g., Capral-Nestlé in Côte d'Ivoire). Assemblers of final products, highly integrated in the global sourcing strategy of the parent company, had negligible indirect employment effects (e.g., the affiliates of NEC in Thailand). The most interesting case was that of highly integrated affiliates characterized by a variety of tasks, including intermediate and final assembly for the national and international market, which accounted for strong backward linkages with the host economy (e.g., IBM-Montpellier in France and Fasa-Renault in Spain).
- ④ Linkages with local enterprises are likely to increase over time as foreign affiliates get rooted in the host economy, as illustrated by the case of Nissan Motor Manufacturing (United Kingdom) Ltd. (box IV.8). As far as foreign affiliates of Japanese TNCs are concerned, the local procurement ratio in 1989 was 63 per cent among manufacturing affiliates established before 1970 and 45 per cent among those established in the first half of the 1980s (Watanabe, 1993, p. 139). In some cases, and sometimes also in response to local-content rules, major foreign investors have induced their traditional supplier firms at home to follow them to the host countries.

Major narrow and broad horizontal employment effects are likely to result from the role of TNCs as catalysts in bringing about long-term structural transformation in a host economy, for instance by introducing advanced technical standards, providing a stimulus to the endogenous accumulation of technological and organizational capacities and creating links with world markets. In this regard, quantitative effects are considered as closely interwoven with qualitative and other spill-over effects, as long as the latter help to generate sustained economic growth and employment in the host countries. Not much evidence is, however, available on the importance of the qualitative effects and the conditions that are necessary to optimize the advantages of FDI for employment in a host country. The newly industrializing economies of East Asia have been able to gain skilfully in terms of industrial restructuring and employment from the presence of foreign investors, particularly when the development of local capacity in some industries, e.g., electronics, has been supported by sectoral programmes and competent guidance by the host government (Henderson, 1993, p. 40). The experience of Mexico is similar (UNCTC, 1992c, p. 86). On the other hand, in many other developing countries, a similar virtuous circle of industrial restructuring leading to employment upgrading has not yet emerged.

Box IV.8. The indirect employment effects of Nissan in the United Kingdom

In addition to the direct employment created in the overseas affiliates of TNCs, jobs may be generated through local linkages with supplier companies. The extent of local linkages has been a particular area of controversy in the case of Japanese companies who have been accused of establishing "screwdriver" plants abroad that rely heavily on parts and components imported from Japan. Such plants, it is argued have been set up to circumvent real or threatened import restrictions on Japanese exports. Such accusations were probably true in the initial phase of Japanese direct investment abroad. As the case of Nissan shows, however, there has been an evolution in plant status overtime associated with a strategy of localization. This is illustrated clearly in the case of Nissan Motor Manufacturing (United Kingdom) Ltd.

The origins of Nissan (U.K.) date back to 1984 when Nissan (Japan) signed an agreement with the Government of the United Kingdom to build a car plant in the United Kingdom. Initially, the plant at Sunderland, in the North East of the country, was a simple assembly operation supplying mainly the domestic market and relying heavily on imported parts and components from Nissan's factories in Japan and elsewhere. In line with Nissan's overall strategy of localization, however, there has been a rapid evolution in plant status in a fairly short period of time. This evolution has involved the introduction of new product ranges, a substantial increase in local content (which is now 80 per cent) and of exports. Nissan now exports over 80 per cent of its annual output of 246,281 vehicles mainly to Germany, Italy, France and Spain, but to over 30 countries in total (including exports back to Japan). The plant is now United Kingdom's largest car exporter, with 182,207 Primers and Micras exported to 36 countries in 1993. As a consequence of the rapid evolution of plant status in a short time period, total employment at the plant has increased from 470 initially (1986) to 4,250 currently.

Detailed information on the multiplier/indirect employment effects of Nissan's Sunderland plant are not available. It is possible, however, to trace the plant's increasing integration with local suppliers (since the United Kingdom is a member of the European Union, local in this context implies European suppliers).

Nissan's initial intention in 1986 was to have a 60 per cent local (European Union) content at the Sunderland plant by 1990. At the official opening ceremony in September of that year the President of Nissan Motor Company announced an acceleration of its United Kingdom manufacturing programme, which would see local content rising to 60 per cent by 1988, and this was successfully achieved. This has subsequently risen to 80 per cent for the Micra range; although transmission systems, cylinder blocks and diesel engines continue to be imported from Japan. The plant now uses 197 European suppliers accounting for an average annual expenditure of £850 million. Two thirds of suppliers are located in the United Kingdom, with other major component suppliers based in Germany, France and

C. International production and the quality of employment

The quality of the employment generated by TNCs is an area of principal concern for policy makers in both host and home countries, as governments compete vigorously to attract or retain investments by TNCs in activities that provide high-wage, high-skill jobs. As with the question of employment quantity, the range of direct and indirect effects is quite broad, and each individual effect may be positive or negative (table IV.1). There is a general agreement, however, that TNCs provide employment on conditions that, on the whole, compare favourably with those prevailing among domestic firms in host countries. This conclusion is supported by a relatively large amount of empirical and anecdotal evidence. Indeed, TNCs tend to be concentrated in high skills- and marketing-intensive industries and use more capital-intensive technologies and superior managerial and organizational techniques. These features — together with the increasing importance of skills and quality of work in generating competitive advantages — account for more favourable conditions and opportunities for workers in TNCs. Thus, in general, TNCs have a large and increasing potential to exert a positive qualitative influence on labour markets and working

Spain. Thirty suppliers are located in the area immediately surrounding the plant in the north east of the United Kingdom.

The importance of such high local content can be emphasized by examining the cost structure of Nissan's product range, with 70 per cent of final product value being accounted for by parts and components, (table 1).

Table 1. The cost structure of Nissan (UK) product range
(Percentage)

<i>Item</i>	<i>Share of total costs (Percentage)</i>
Parts/components	70
Labour costs	10
Energy	10
Other costs	<u>10</u>
Total	100

Nissan estimates that the total permanent employment generated in the north east of the United Kingdom from its Sunderland plant is 8,029 (i.e., a multiplier of 1.7) comprising the following:

Direct employment at Nissan (UK) (1992)	4,600
Subcontractors, e.g., catering etc.	247
Other Nissan companies	162
Component suppliers - on site	<u>1,020</u>
Total permanent employment on site	6,029
Other north east region component suppliers (approx.)	<u>2,000</u>
Total permanent employment generated in the North East region of the United Kingdom	8,029 (approx.)

Source: based on information obtained from Nissan Motor Manufacturing (United Kingdom) Ltd.

conditions in home and host countries. This section reviews main issues related to the impact of TNCs on the quality of employment, broadly defined, and discusses some potential implications of integrated international production for employment quality. (The importance of TNCs as a source of training and human resource development in the countries in which they operate will be discussed more fully in chapter V.)

1. Quality of employment in transnational corporations

Generally speaking, at the aggregate and industry levels, the workforce directly employed by foreign affiliates enjoys superior wages, conditions of work and social security benefits relative to the conditions prevailing in domestic firms. In developed countries, for instance, the average level of wages and salaries in foreign affiliates has been found without exception to be above that in domestic firms, and the gap between affiliates and domestic companies continued to grow during the 1980s (OECD, 1993b). The increase in wage differentials in favour of foreign affiliates ranged from over 10 per cent in France, Ireland, Sweden and the United Kingdom to a peak of 134

per cent in Turkey (OECD, 1993b). In the United States, affiliates of foreign TNCs pay, on average, wages almost 30 per cent above those paid by locally owned firms; even within manufacturing, foreign affiliates' wages are more than 12 per cent higher.⁹ In Indonesia, Malaysia, Peru and Thailand, on average, TNCs pay generally higher wages than local companies (Hill, 1993a, Yong, 1988, Vasquez, Aparicio-Valdez and Benedo, 1989, Sibunruang and Brimble, 1989).

A number of closely-related factors explain why remuneration generally tends to be better in foreign affiliates than in local firms:

- Productivity in foreign affiliates tends to be higher on average than that in domestic firms. Foreign affiliates tend to be concentrated in high skill, marketing and capital-intensive industries in which the occupational mix of employment often differs from that in national firms.¹⁰ Thus, for instance, while foreign affiliates in the United Kingdom have approximately a 20 per cent productivity advantage over similar domestic producers and, therefore, pay more than domestic firms (Davies and Lyons, 1991), correcting for the difference in the distribution of firms across industries brings the average wage gap to

Box IV.9. Labour compensation in transnational corporations in developing countries

It has been observed in many countries, particularly developing countries, that foreign affiliates pay higher wages, or total labour compensation, than locally owned firms. That fact, by itself, does not imply that foreign-owned firms have any impact on the host country's labour market. It could be that TNCs are in industries that require higher skills than the average domestic firm. Or the functions that TNCs place in a host-country market may be of a type, such as sales or purchasing, requiring relatively high skill. Or TNCs may locate in higher-wage geographical locations, such as the largest cities in host countries.

On the other hand, it might be that TNCs drive up the price of high-skill labour for all employers by increasing the demand for it. They might drive up the price of city labour for all employers, relative to that of rural labour, by locating their operations in large cities.

Still a third alternative might be that TNCs pay more than local employers for labour of the same quality. That could occur, for example, if the Government encouraged the unionization of firms owned by foreigners, or if other pressures, including those from the home country, are imposed on TNCs to pay higher than usual wage levels. It is also conceivable that workers would consider foreign firms less desirable as employers than local firms and therefore require some additional compensation to work for them (although the opposite may be more frequently the case, at least in developing countries). In these cases, the impact of the TNC presence would be felt by their own employees, but might not spread to employees of local firms.

A comparison of foreign manufacturing affiliates with locally owned firms in Côte d'Ivoire, Morocco and Venezuela shows that, in every industry in which the difference was statistically significant, foreign affiliates paid higher wages (Harrison, forthcoming). The unweighted averages of the ratios of TNC wages to local firm wage levels in industries in which they differed significantly were: Morocco: 1.9; Côte d'Ivoire: 1.5; and Venezuela: 1.5. The ratios for all manufacturing industries together were similar, except in the case of Côte d'Ivoire, where TNCs were reported to pay 20 per cent less than local firms, on average. It is difficult to explain that figure since TNC/local firm wage ratios were below 0.8 in only one of the 12 industries, rubber manufacturing, for which it is also reported that the output per worker in foreign affiliates was only half that in local firms, while the growth of total factor productivity in foreign affiliates outpaced that in local firms by more than in any other industry. On the whole, therefore, most of the evidence for these three countries points to higher average compensation in foreign affiliates in manufacturing than in local firms, whatever the reason. Compensation was higher in foreign affiliates in general and within individual manufacturing industries, quite consistently in two of the three countries.

about 6 per cent (Driffield, 1991). In the United States, on the other hand, foreign ownership *per se* did not account for differences in wage levels, as these were entirely explained by industry mix and size of establishments (Howenstine and Zeile, 1994). Disparities between foreign and domestic firms in size, technology and organization of production are especially pronounced in developing countries and explain the prevalence of large wage differentials, even when comparisons are made at the firm level (Jenkins, 1991 and box IV.9).

- World-market oriented strategies require well-disciplined workers who can be counted upon to meet quality-control standards and production schedules decided upon on the basis of the position that a foreign firm occupies in a production network. An option for reducing the risk of production errors and delays is to offer attractive inducements to workers to join and remain with foreign affiliates rather than national firms. These inducements are likely to be especially costly in countries where local skilled labour and managers are scarce.

Similar findings are reported for a number of economies in Asia in the manufacturing sector (Ramstetter, 1994). The percentage differences between foreign affiliates and local firms in manufacturing over various periods of time, beginning with 1972 and ending in 1991, were as follows for four Asian economies:

<i>Economy</i>	<i>Wage differential</i>
Hong Kong	21.4 ^a
Malaysia	-16.9 ^a
Singapore	37.7 ^{bc}
Taiwan Province of China	1.1 ^b

a Nominal values.

b Real values.

c Non-oil manufacturing.

Additional data on a large sample of domestic firms and foreign affiliates in Thailand for 1990 suggest that wages, average labour productivity (value-added per employee) and capital intensity (total assets per employee) were, on average, higher in foreign affiliates of TNCs from developed countries than in local firms. They also show that affiliates of developing country TNCs tend to be characterized by lower average labour productivity and capital intensity than local firms.^a However, a closer examination reveals a large variation across industries that renders any differences observed among different groups of firms statistically insignificant. In other words, variations of wages, capital intensity and average labour productivity are much more pronounced across industries than across firm groups. To investigate the statistical significance of the differences further it is thus necessary to perform an analysis at the firm level. After controlling for a number of industry- and firm-level characteristics, wages remain higher in developed country affiliates than local and other foreign firms in Thailand. However, there are few significant differences observed in terms of labour productivity, the relatively high labour productivity of developed country affiliates apparently being accounted for by relatively high capital intensity and other industry- and firm-level differences.

a Based on an analysis of 1990 data on promoted firms obtained from the Board of Investment, Thailand.

- The likelihood that TNCs offer favourable wages, training and working conditions to prospective employees is most pronounced in circumstances in which the host-country culture is biased in favour of domestic companies.
- Because of their high-visibility profile, TNCs are in part motivated to offer good pay, benefits and working conditions in order to fend off any possible national or international criticism concerning the standards of employment that they provide.
- The large size of many foreign affiliates¹¹ could make them more prone than smaller domestic firms to unionization and the pressures that come from organized labour to comply with national legislation and practices intended to protect worker rights.

Even if industry mix and size of establishment account for all of the differences between foreign affiliates and local firms, this does not necessarily mean that TNCs do not affect wage levels. If TNCs enlarge the high-wage sector in a country or the large-plant share of an industry, they may raise the wage level even if they are identical to local firms in their operations. That is likely to be the case even aside from "indirect" effects on labour markets. The higher average wage levels in foreign affiliates, even if they are associated with industry mix and establishment size, are most likely an influence raising wage levels in general.

While TNCs may pay a premium for attracting quality labour in developing countries, there is, predictably, a sizeable gap between their levels of remuneration in developing and developed countries. For instance, the average compensation in United States TNCs foreign affiliates in developing countries is about one-half of the average compensation of parent companies in services, and one-quarter in manufacturing (UNCTAD-DTCI, 1993a, p. 64). This suggests that — while wages and salaries differ in both manufacturing and services as between TNC operations at home and in host countries — the gap is much smaller in services. The reason is that, since the free standing nature of most service affiliates results in the replication of the technology and capital intensity of operations by the parent firm to a significant extent, labour productivity at home and in foreign affiliates are likely to be similar.

When it comes to other aspects of employment policies — such as conditions of work, working hours and holidays, fringe benefit policies, recruitment policies and practices, standards of safety and health, employment security and training — TNCs need to adapt these to the legislation of their host countries, although foreign affiliates generally have a great deal of autonomy in the determination of wages and working conditions beyond minimum national requirements.¹² In general, it appears that the standards adopted by foreign affiliates are not less favourable than those of comparable national employers, although often they are above the national average. Fringe benefits, training, safety and health are the areas where this is usually the case, although there may be significant differences between developed and developing countries.

More detailed information on the labour and social practices of TNCs is available for a few industries, such as food and beverages as well as banking:

- In food and beverages, it appears that the level of wages, working conditions and welfare benefits offered by TNCs are often better than those of local companies. As part of their company policy, a number of parent firms in this industry have applied concepts such as company-sponsored housing, social activities or profit-sharing for workers in their home countries, and these benefits are now frequently offered to affiliate employees as well. The assessment by trade unions of the employment conditions that prevail among foreign affiliates in that industry is generally positive, although the situation may be quite different in some developing countries and concern is sometimes expressed with respect to the conditions of seasonal and part-time workers (ILO, 1989b, pp. 156-157).

- Intensified competition, technological change and diversification of activities are influencing employment in international banks, as labour-intensive activities in retail banking are being replaced by new capital- and technology-intensive activities; the increased tradability of banking services is likely to add to this as well (UNCTAD-DTCI and the World Bank, 1994). On the whole, employees in foreign affiliates are in a more advantageous position than those in domestic banks. Transnational banks "have proven particularly imaginative and generous as regards fringe benefits — mainly, it is true, for career professionals and expatriate staff at overseas locations" (ILO, 1991a, p. 147). However, training seems to be mainly concentrated at headquarters, and limited attention, compared with domestic banks, is being given to training of local staff in foreign affiliates.

While generally progressive in terms of pay and conditions of work offered to host-country employees (compared with domestic companies), the record of a number of foreign affiliates with respect to their workers leaves room for improvement. An important area of concern relates to the quality of employment in small, formally independent producers based in developing countries who participate as subcontractors in the dense network of international inter-firm arrangements that are ultimately organized and driven by producers, buyers or distributors from developed countries. Such arrangements are quite common in a broad range of export-oriented, light manufacturing industries, such as textiles, garments, toys, footwear and sporting goods. These have been of increasing importance in the rapidly growing economies of the East and South-East Asian region. With TNCs at the top of such subcontracting chains and, therefore, more or less involuntarily involved, some corporations, such as Levi Strauss (United States), have adopted strict guidelines governing the choice of foreign subcontractors in which they insist on subcontractors' respect of workers' rights, for example, not utilizing child labour or physically abusing workers (chapter VIII).

The international division of labour in the electronics industry is characterized by two distinct patterns. One is organized and driven by TNCs; with foreign affiliates tending to have a better record than their locally-owned counterparts. The other is driven by major buyers in developed countries and organized in commodity chains via a dense network of subcontracting firms. The latter pattern consists in original equipment manufacturer arrangements whereby the purchaser supplies the designs, some of the components, monitors production quality and ultimately markets the product under its own brand name, while the original equipment manufacturer merely assembles the final product. Locally-owned firms integrated in commodity chains, however, may often have more problematic working conditions, especially when they are linked to TNCs based in East-Asian economies (Henderson, 1993, p. 34).

Concern regarding substandard conditions of work in subcontractors to TNCs is, however, in many instances at least partly misplaced. Though the quality of the jobs provided through outsourcing arrangements in developing countries has usually not been up to the standard of formal-sector employment (and, at the lower levels of the subcontracting chains, job quality is often dismal), such jobs by and large are vital for creating income-earning and on-the-job training opportunities that enable otherwise underemployed workers to escape poverty. Inasmuch as it upgrades their human capital, managers and workers alike in subcontracted firms stand to benefit from the concern and training given them by foreign affiliates with regard to quality control and on-time delivery of their output. This symbiotic working arrangement between TNCs and their suppliers particularly characterizes the efforts of Japanese affiliates to replicate abroad their home-country subcontracting arrangements (Watanabe, 1993, p. 169).

A second area of widespread concern regarding employment conditions in the operations of TNCs has to do with export-processing zones. Given the predominance of assembly-type operations in the textiles and garments and electronics industries, the type of employment that has been created consists primarily of unskilled and semi-skilled jobs. Young women on average make up around 70 per cent or more of these zones' employees (box IV.10), although their

Box IV.10. Women's employment in transnational corporations

In the past two decades, the proportion of women that entered the workforce has increased dramatically. In some developed countries, such as the United States and the United Kingdom, women now account for nearly 50 per cent of the labour force.¹ A larger proportion of women than men usually works in services and, since in most developed countries new jobs created are mainly in services, women's jobs have been less under threat than men's jobs during the recent recession. Nevertheless, even in countries where the proportion of working women is high, there are still substantial asymmetries in the division of labour by gender. Women in general are still paid considerably less than men in comparable jobs, and still occupy a restricted range of jobs. This is slowly changing in some developed countries, but the patterns vary extensively from one country to another (Coré, 1994).

This is also reflected in the positions occupied by women employed in TNCs. Women have provided TNCs in some industries with the flexibility they seek: cost-cutting initiatives, undertaken by TNCs, such as part-time work or adaptable working hours, have evoked favourable responses among female workers.² For example, the introduction of part-time jobs at Philips Electronics (the Netherlands), favoured because of its positive effect on labour costs, has dramatically increased the number of women employed. However, the proportion of women in the five highest layers of that company's management remained very low. An investigation by the company suggested that the reasons for women's lower position have much to do with their family responsibilities (that are typically higher than those of men) and the need to combine family with a career. Besides, "old boy's networks" favour men for higher positions; women have reportedly to be qualitatively twice as good as their male colleagues to move up.³

Corporate responses to facilitate women's careers during the initial years of child rearing have been limited. Only a few large TNCs, in some countries (e.g., Germany and Denmark), offer part-time professional jobs to mothers and both parents. Moreover, women are denied career opportunities on various other grounds as well, as shown by a survey of sixty managers of United States TNCs, who expressed hesitation in selecting women for assignments abroad on grounds of concern for women's physical safety, hazards of travelling and, especially for single women, isolation and loneliness (Adler, 1987).

In developing countries, the employment of women by TNCs has added to employment opportunities for women in organized industry. Many foreign affiliates in labour-intensive assembly industries employ women, mainly those in young age groups. This has benefited an otherwise discriminated-against segment of the labour force and has opened up job opportunities that pay higher wages than most traditional occupations for women. Furthermore, it has improved women's access to education and has given them a higher measure of independence. For example, the majority of women workers surveyed in affiliates of TNC electronics firms in Malaysia considered their lives to have significantly improved since they started working in those factories (Lim and Fong, 1991). But there is also widespread criticism due to foreign firms' preference for, and manner of, employing young women. Young female workers employed by TNCs face particular problems. For example, in TNC data-processing activities in Brazil, Jamaica and Malaysia, women frequently suffer from exhaustion,

proportion has begun to fall in a number of export processing zones. The zones' employment record is mixed, reflecting as it does the limited and unequal opportunities that exist in many developing countries in terms of access to good quality jobs. Working conditions in these zones tend to involve long hours, including overtime and night shifts, and labour turn-over is often higher than in national companies. Moreover, unionization rates are low, job-security is limited, opportunities for training and skills-enhancement are poor, and there are few if any backward linkages to the host-country economy. On the other hand, evidence also shows that wages — when allowance is made for the difference in gender composition (suggesting that TNCs do not contribute significantly to bridging wage inequalities by gender) — tend to compare favourably with the levels prevailing in the host country for comparable work (Reyes-Castro and Domínguez, 1993; Hein, 1988; Ho, 1993; Sivalingam, forthcoming). Facilities also tend to be better than in local

migraine anxiety and stress because of the intensive nature of their tasks and the long hours for which they are immobilized in front of computers. A high rate of abnormalities in respect of pregnancies and childbirth has also been observed (Pearson and Mitter, 1993).

In export-processing zones, in which around 80 per cent of the labour force comprises women from the age of sixteen, working conditions are often poor and hazardous to health. Workers in these zones, especially in electronics, are often exposed to radiation, toxic substances and chemicals without warning or safety equipment. In addition, production is often speeded up, working hours are 25 per cent longer than elsewhere and wages are lower (between 20 to 50 per cent lower) than those of men working in the same zones. These conditions contribute to an early burn-out, with the women leaving the company by the time they are 25 years old (Kamel, 1990). Sexual harassment by male supervisors and job insecurity can be other problems faced by these women workers (Kamel, 1990).

The reasons for employing young women in export processing zones include, among others, that they are typically unmarried and without family responsibilities and, as one employer in the *maquiladoras* in Mexico put it, because they do not have too much experience and can be shaped to the employers' needs by appealing to their "feminine sensibilities" (Kamel, 1990 p. 40). Many employers view women as more pliant and less prone to claim their rights or to participate in union actions. For instance, only 10 per cent of female workers in the *Maquiladoras* are unionized, although women also start organizing when they get some work experience (Kamel, 1990).

Women are often employed in the informal sector of developing countries. In Latin America, for example, they account for 39 per cent of the total informal sector workforce.⁴ Women in the informal sector are often at the very end of the subcontracting network of TNCs, paid on the basis of pieces produced, rather than working days and unprotected by labour legislation.

It is important to note that negative experiences of female workers in TNCs as well as other enterprises are often related to broader phenomena, such as rural-urban migration, gender subordination in society and other traditional cultural factors. At the same time, it should be underlined that for many women in developing countries or backward regions, factory work in TNCs is a step upwards towards economic well-being and independence: the alternative is often even lower paid jobs, for example, as domestic servants. For women who do not wish to return to traditional roles, but to work, for fair wages and with fair working conditions and prospects of career development, TNCs may some times offer the first opportunity for change.

a The term "working women" refers here only to women who work in the paid labour force, and does not include unpaid work.

b "The war between the sexes", *The Economist*, 5-11 March 1994, pp. 79-80.

c "Survey shows up shortage", *Philips News*, 15 April 1994.

d "Seccion Latinoamericana", *Comercio Exterior*, April 1991, pp. 367-371.

firms outside the zones, which suggests that standards of health and protection from industrial accidents can be more readily safeguarded. Finally, it should be kept in mind that export processing zones represent job opportunities, however meagre, for persons with no better options.

2. Indirect qualitative effects

Indirect qualitative effects on the labour market can be considered as one component of the positive externalities that can be generated by the activities of foreign investors that ultimately should lead to improved overall technical and social progress and allocative efficiency. In principle, when superior production systems of TNCs are transferred abroad, superior techniques

filter out to the host economy as workers in foreign affiliates and local suppliers are trained in new skills and local employers are confronted with new management methods and organizational patterns.

The migration of managers and skilled staff from foreign affiliates to local firms is the principal example of indirect qualitative effects that can benefit a host economy. Albeit limited, the mobility of skilled labour has an important qualitative impact and represents an effective avenue for spreading technical knowledge and fostering a host country's managerial and technological capabilities. Evidence for some developing countries, however, shows that the importance of labour mobility as a channel for transferring skills and technological competence is limited, partly because of the better wages and conditions enjoyed by skilled employees in TNCs. In a sample of foreign affiliates in Malaysia, a high turnover occurred mainly among sales and production workers (Yong, 1988, p. 69). The mobility of professional and technical employees in foreign affiliates was minimal, given, among others, the lack of enticements to move to employment in the domestic sector. In Kenya, the mobility of the managers trained in foreign firms was lower than in other kinds of firms (Gershenberg, 1987b).

Technical assistance to local suppliers is another avenue for transferring advanced knowledge and encouraging training and skill formation. The main examples can be found in the affiliates of Japanese TNCs in Asia and in developed countries. Deep and stable relationships with a network of external suppliers are an important element in the functioning of Japanese-style organization of production. For various reasons, Japanese affiliates have made attempts to replicate overseas their subcontracting system by means of technical assistance and incentives to local suppliers to improve quality and reliability. Progress in raising local procurement has been slow so far, but in ASEAN countries, a limited number of indigenous component manufacturers have emerged, such as Thai Engineering Products Company, which, equipped with numerous computer-numerically controlled machine tools, cater to many transnational companies operating in the region (Watanabe, 1993, p. 140).

Finally, TNCs play a major role in the international diffusion of organizational and technological innovations that have an impact on working conditions, labour productivity and human resource management (chapter V and VI). Significant effects derive from the introduction of "best practices" in host countries. The automobile industry in the United States and the United Kingdom is an important example of how Japanese firms train more and give their workers slightly higher benefits, such as additional insurance, profit sharing, discounts and attendance bonuses, than other firms. The most significant new features introduced by Japanese firms in the United States, however, derived from the new patterns of work organization (teams, quality circles etc.). This has produced conscious emulation efforts by United States automakers, with positive effects on the industry (box IV.3).

3. Integrated international production and the quality of jobs

The tendency of TNCs to shift to more complex corporate strategies in recent years and the emergence of an integrated international production system (chapter III) have significant potential implications for the quality of the jobs generated by these corporations. It should be noted that the transition to complex strategies appears to apply most thoroughly at present to major established firms which, however, account for a large share of total employment in foreign affiliates.

The integration of production across affiliates and the creation of a variety of inter-firm relations can have several impacts on the quality of employment. Four observations in particular can be made regarding the possible implications of complex strategies for employment quality:

- Greater integration means a greater interdependence across formerly discrete or relatively autonomous segments of a firm's labour force attached to different production units. A certain interdependence in aspects of the employment package among geographically dispersed affiliates may result, for example in ways in which work is organized and production is scheduled to meet corporate-wide demand and requirements. In this sense, an essential element of integrated international production is that outputs from each affiliate are inputs elsewhere in the system. The scheduling of production across borders is a much more internally driven process than production of stand-alone operations catering to the demands of any given national market. This is particularly clear in the case of vertical inter-firm networks in just-in-time production. But the same integration of production schedules would presumably apply to intra-firm global production networks. It is possible to conceive of a certain loss of autonomy of local affiliates with respect to the pace of work and production. One electronics affiliate in the Philippines, for example, is the sole global source for a component used internally in the firm's worldwide production network. Its production schedules are updated frequently in the course of the workday, according to requirements set centrally by company's management.
- Another consequence of a higher level of integration is the possibility that certain aspects of employment quality tend to converge across national labour markets (Papaconstantinou, 1993; Frenkel, 1991). The quality of inputs depends not on physical factors alone but, increasingly, on the training and organization of human resources. If firms rely not only on the timing, but also on the quality of particular inputs in their integrated production systems within and between firms, the wider diffusion of "best-practice" strategies with favourable consequences for employment quality could be one outcome.
- In integrated production strategies, the role of the affiliate is moving away from the traditional patterns of parent-affiliate relations (Hamill, 1993b). One important question related to employment quality is the position in which a particular affiliate is located in a firm's value-added chain. As noted earlier, some affiliates may acquire global responsibility for a particular product line or function for the firm as a whole. Because of their enhanced role and status, those affiliates (or product/functional specialists) are likely to be characterized by higher quality employment and job security. A second and related point is that integrated production may be associated with a decentralization of value-adding activities traditionally located at the parent firm or headquarters, such as research and development (OECD, 1993b). One implication is that the highly integrated international producers may allocate critical functions (and associated high-quality jobs) wherever they appear to be most profitable, thus surrendering parent firm home country operations to affiliates in other countries (Cantwell, 1992).
- Finally, in their search for the appropriate location of their various business functions integrated TNCs are increasingly attracted by created assets such as labour quality, critical skills and a good social, as well as physical, infrastructure. To the extent that such assets can be generated by government policies, opportunities for interventions aimed at enhancing locational advantages may increase.

The patterns discussed here are still emerging; systematic empirical evidence therefore is limited. It is not clear, for example, to what extent a broad-based convergence in the terms and conditions of employment is taking place across borders and for what groups of employees. Of course, contradicting forces and frictions embedded in national environments will influence the process. But the logic of the emergence of an integrated international production system suggests that development will move in this direction. The management of integrated TNCs tends to pursue policies that, over the long term, lead to a more highly skilled and presumably better remunerated workforce. In doing so, it increasingly endeavours to take full advantage, for the

corporate system as a whole, of critical skills and innovatory solutions that are available in any part of the system.

The positive implications for labour quality, of course, are not only the result of the adoption of new corporate strategies and structures. They have their roots in the corresponding trends towards innovation and quality production as main tools to compete, the diffusion of best-management practices and the pervasive introduction of technology that requires workers with higher skills and problem-solving capacities. The combined effects of complex corporate strategies and these latter trends on human resources development will be examined, among other things, in chapter V, while chapter VI will highlight some implications for the conduct of industrial relations.

D. The growing interdependence of labour markets

Several issues deserve attention in connection with the implications of the growing degree of transnationalization in general and the emerging tendency towards integrated international production in particular for world labour markets. The first is the question of the geographical dispersion of global production systems. The second is the tendency for patterns of integration to produce greater specialization of dispersed labour markets. The third is the question of what these tendencies mean for the autonomy of national labour markets and the influence of cross-border integration on their structures.

Foreign direct investment is not evenly distributed across countries, although its pattern does tend to be more dispersed than that of international trade (UNCTAD, DTCI, 1993a, p. 173). As has been noted earlier, the locational pattern of much FDI is determined for the most part by access to markets. The new complex strategies, however, involve a greater geographical separation of production from consumption and, in so doing, they imply a greater dispersion in the global production system than if the latter were governed by market-seeking FDI or arm's-length international trade alone.

The greater dispersal of TNC operations is what most distinguishes integrated international production from other forms of TNC strategy. A growing number of operations and functions may be located wherever the needed labour, assets and infrastructural requirements are present, thus widening the range of potential jobs in foreign affiliates. Even service activities, once characterized as being relatively non-tradable, now participate in an electronic division of labour in which physical proximity to users no longer matters (Reich, 1991a; Arthuis, 1993b, UNCTAD-DTCI and the World Bank, 1994). Thus, as human resources as created assets gradually gain precedence in global competition over such considerations as proximity to main production facilities and consumer markets, a fuller separation of production from consumption is likely to result, and individual value-adding activities are likely to become more dispersed transnationally.

It is important to underline, particularly for developing countries, that low wages in themselves may not be sufficient to attract sustained FDI unless they are coupled with conditions, such as a suitable infrastructure and labour force quality, capable of granting reasonably high productivity and the efficient organization of production in the affiliates. Vast differences in nominal labour costs across developed and developing countries are to a large measure offset by parallel differences in labour productivity. Unit labour costs are thus much more similar across locations than nominal wages (table IV.13).

Indeed, an important factor encouraging the relocation of many TNC jobs from developed to developing countries has been the rapidly rising quality of the workforce in many of the latter countries, together with their continuing generally low wage and benefit structures. For instance, in terms of university graduates, China and Brazil rank third and fifth in the world in numbers of

Table IV.13. Hourly wages and index of unit costs in the international clothing industry, 1987 and 1992

(Deutschmarks and percentage)

Economy	Average hourly wage including social costs, 1992		Unit costs ^a			Productivity assumed, ^b 1992
	Deutschmarks	Index ^b (Percentage)	1992 Index ^b (Percentage)	1987 Index ^b (Percentage)	Change, 1987-1992 (Percentage)	
Developed economies						
Austria	18.14	66	75	82	15	100
Denmark	28.71	105	110	115	20	100
France	15.81	58	75	80	17	95
Germany ^c	27.30	100	100	100	26	100
Italy (North)	27.77	102	101	108	18	100
Italy (South)	18.53	68	81	..	..	90
Portugal	6.00	22	43	33	61	85
Spain	10.44	38	60	54	38	90
Switzerland	25.06	92	97	97	25	100
Turkey	5.50	20	45	40	41	80
United Kingdom	13.77	50	63	56	44	100
United States	11.92	44	85	74	44	90
Developing economies						
Dominican Republic	0.94	3	32	..	..	70
Hong Kong	5.25	19	39	44	11	90
India	0.52	2	32	..	..	40
Jamaica	1.27	5	30	..	..	72
Malaysia	1.44	5	29	..	..	65
Mexico (United States-border)	2.53	9	37	..	..	70
Morocco	1.81	7	34	41	3	70
Sri Lanka	1.54	6	39	42	16	65
Taiwan Province of China	5.74	21	43	..	..	85
Tunisia	2.66	10	35	40	9	75
Viet Nam	0.42	2	28	..	..	50
Central and Eastern Europe						
Former						
Czechoslovakia	1.72	6	26	..	..	80
Estonia	0.96	4	29	..	..	80
Poland	1.87	7	30	..	..	70
Slovenia	3.33	12	36	..	..	80

Source: Jungnickel, 1994.

a Total of overhead and variable production costs (including transportation) per processed standard minute. A medium-sized model factory producing with medium-level technology on a subcontracting basis was assumed for all countries, with differences in productivity resulting from national circumstances.

b Germany = 100.

c Including only the western states of the Federal Republic of Germany.

science graduates, while Brazil, China, Mexico, the Republic of Korea and the Philippines all place ahead of, for instance, France and the United Kingdom in the number of engineering graduates (Johnston, 1991). Under such circumstances, TNCs bring to developing countries a technology and managerial package which, when combined with the available high-quality local labour force, can generate increased productivity and a significant competitive advantage at a fraction of the labour costs of developed-country settings.

Based on current apparent trends, however, it appears that the redistribution of jobs through integrated international production has mainly a regional focus. Specific business functions can be conveniently centralized in sites that serve as global sources of specialized inputs or services for a TNCs global production system, but the relocation of jobs so far has been most apparent in the intra-regional distribution of value-added activities across developed and regionally proximate developing or former centrally-planned economies. To date, these regional linkages appear more pronounced than interregional modalities of investment and employment, which suggests that proximity to consumer markets is still important for many kinds of operations by these TNCs. Cross-regional linkages through a TNC may be motivated by traditional market-seeking factors; within a given regional market, however, a firm may attain its greatest degree of cross-affiliate integration (Morrison and Kendall, 1992).

Greater labour market specialization also seems to be occurring to the extent that integrated affiliates participate in only some of the activities in a firm's global value chain and that the strategic assets now sought by integrated producers have a greater human-capital component, that is, consist of created assets. Both of these factors have a potentially significant influence on patterns of locational advantage within a firm and its network of affiliated and non-affiliated units, as well as across countries. Since human-capital-based advantages are not merely sought by major firms, but are also partly transferred by them in the form of organizational and managerial innovations, it is at least plausible that internationally integrated production could accentuate patterns of employment segmentation within national labour markets, while contributing to a cross-border convergence of wages and other conditions in some occupations or industries. The emerging pattern of integrated international production may indeed be accentuating disparities between certain core activities and jobs that are dispersed throughout a firm's international production system, and — particularly with the rise of vertical inter-firm production linkages — a growing periphery of jobs, many of which are less stable and less highly remunerated than those at the core (Sengenberger and Campbell, 1993).

Finally, it may be that the autonomy of national labour-market regulations or welfare systems could be eroded to some extent by the process of cross-border corporate integration through FDI. The reason is that TNCs have greater leeway nowadays to locate their activities in those locations with the right mix of quality and costs. For integrated international producers, geographically distant labour markets compete directly for the same jobs. An automobile maker wishing to restructure its network of affiliates may want to refurbish the capital equipment in one of its affiliates, maximize the weekly operating time and perhaps add a third daily production shift. In choosing among different affiliates in different countries, the firm may discover that regulations concerning operating time vary substantially across these settings. The extent to which countries accommodate in adjusting to proposed changes in the organization of work and production, i.e., the extent to which national labour-market regimes are flexible, can play an important role in the decision-making process. Wide disparities may exist in this respect between labour markets among countries. Even among developed countries, there are considerable differences between social welfare and security systems affecting labour. Not surprisingly, differences between developed and developing countries are significantly greater. Local labour-market policies and regulations may influence positively or negatively the attractiveness or advantages of a particular location.

The declining autonomy of national social and labour policies should be considered in the broader context of globalization. Overall, national institutions have become more open to the influence of international economic trends. For example, the concern expressed by some with respect to the North American Free Trade Agreement is not only that the agreement may result in a loss of jobs in the United States, but also that the inclusion of a low-wage, unorganized workforce of rising quality within the North American market will apply further downward pressure on United States working conditions and living standards (Appelbaum, 1993). Similar concerns apply in Western Europe relative to Central and Eastern Europe.¹³

Given the disparities that exist between labour-market conditions, as well as local policies and regulations relating to labour, the question is whether integrated international production, with its increased scope for locational choice, might result in a further downward adjustment of social and labour standards, as local policy environments compete for a share of international production. The policy issue that is raised by this process is whether social policy regulation at the international level should and could minimize such social policy competition and its attendant social costs, an issue that is briefly addressed in chapter IX.

Conclusions

The recent increase in unemployment in the context of the growing globalization of the world's economic activity has focused attention of policy makers on the role of TNCs in the generation, relocation and distribution of jobs. Although the fundamental factors underlying current unemployment problems relate to macroeconomic and structural imbalances in developed countries and resource constraints in developing countries, TNCs, as a major force in the transnationalization of the world's economies, influence in many ways the quantity and quality of jobs available worldwide and their locational distribution.

The international activities of TNCs experienced a remarkable growth during the late 1980s, directly reflected in the doubling of the value of world FDI stock over the 1985-1990 period. The expansion of outward FDI flows was accompanied by an increase in the number of persons employed in the foreign affiliates of TNCs from the major developed countries. Nevertheless, the global quantitative picture with respect to total employment in TNCs did not change significantly during the period owing to a number of factors, including slow growth of employment in TNCs in their home countries, reshuffling of ownership rather than greenfield investments abroad and a shift of FDI towards services. More recently, with the increase in FDI inflows to developing countries, it is likely that employment generation by TNCs in these countries will increase further.

The role of TNCs in locating or relocating production and jobs in different countries is receiving growing attention. A few spectacular cases of relocation involving plants that close one day in one location to open soon thereafter at a different location have aroused particular concern, especially from the perspective of employees. Moreover, in some industries, a large-scale relocation of production activity has taken place over time due to changing patterns of comparative cost, resulting in widespread closures of plants in traditional locations. In general, greater mobility of capital and technology under the governance of TNCs may bring about dramatic shifts in production and employment at the local, national and regional levels, generating considerable albeit temporary strain on workers in certain industries and/or labour markets. The low occupational and, at least in the short-term, geographical mobility of labour relative to capital may also contribute to making adjustment more difficult and socially painful. Although it is increasing for some groups of workers, labour mobility does not match capital mobility.

A distinction can be made between relocation through FDI within developed countries and from developed to developing countries. The former may have, as a whole, a neutral employment

impact (as the effects of cross-border movements may cancel each other out) or a generally positive effect as a result of higher allocative efficiency, increased national industrial specialization and economic growth. Nevertheless, the disparities in national patterns of industrial specialization, rates of economic growth and employment creation across developed countries or locations within countries can be exacerbated by cumulative movements of foreign capital, particularly in the context of regional integration.

The location of TNC production, or parts of it, in developing countries has been linked by some to the growth of unemployment in developed countries. Such a concern finds its ground in some features of the employment situation in developed countries, particularly the long-term shift in the composition of manufacturing employment from labour-intensive to high-technology and capital-intensive industries, as well as the decline of demand for, and the fall in the wages of, unskilled workers. These developments are probably the result of a long-term adjustment process activated, among others, by the relatively large supplies of low-cost unskilled labour in developing countries. However, increased internationalization reflecting a greater ease of relocation of production may bring unskilled labour in developed countries more rapidly into direct competition with comparable labour in an increasing number of low-wage countries. From this point of view, while providing considerable benefits in terms of lower costs of production, lower prices for consumers, higher flexibility and enhanced competitiveness, TNCs may have a globally positive effect on employment in developing countries while exacerbating the pressure on labour markets in developed countries to adjust rapidly and move to higher value-adding activities. However, the quantitative impact, in terms of jobs transferred to developing countries through FDI, does not have major implications for the spread of unemployment in developed countries, mainly because of the modest size of outward FDI that has relocation implications.

Overall, international production contributes to employment opportunities, not so much by directly increasing demand and employment in the short-run, as through higher allocative efficiency, the strengthening of competitiveness and increased opportunities for output growth in both home and host countries. As emphasized particularly by industrial organization explanations of FDI, TNCs generally enjoy specific competitive advantages based on their superior proprietary technological and organizational capacities. These can ultimately filter out to local producers in home and host countries by means of various spill-overs and linkages and assist in reviving or enhancing prospects for growth through increased competition and efficiency and technological gains. The ultimate employment impact of the process of industrial change engendered by TNCs depends, among other things, on the capacity of local firms to adapt and take advantage of the presence of TNCs. In developing host countries, where this capacity can be weak, TNCs could still have a major catalytic or tutorial role in stimulating learning processes and fostering economic development, and thus contributing to increased employment. It is these long-term effects, based on the package of resources that TNCs provide for development, rather than the direct employment effects *per se*, that should be of primary interest to host developing countries. Furthermore, the long-term employment effects of international production by TNCs should not be considered as a zero-sum game. However, the distribution of gains between countries or locations, as well as groups of workers, may be uneven, and government policies have an important role to play in facilitating change, ensuring an equitable distribution of benefits and minimizing hardship for those most seriously affected through job losses or wage reductions.

Turning to the quality of the employment, available evidence suggests that, at the aggregate and industry levels, the workforce directly employed by TNCs generally enjoys superior wages, conditions of work and welfare services relative to the conditions prevailing in domestic firms. Transnational corporations tend to be concentrated in high skill, marketing and capital-intensive industries and, within industries, to use relatively more capital intensive techniques and superior managerial and organizational structures. These structural features — together with the increasing importance of skills and quality of work in generating competitive advantage — account for

more favourable conditions. Transnational corporations, therefore, have a large and increasing potential to exert a positive qualitative influence on labour markets and working conditions in home and host countries.

While stand-alone and simple integration strategies have traditionally dominated TNC behaviour and still characterize a large portion of their operations, the shift to more complex corporate strategies in recent years and the emergence of a system of integrated international production has significant potential implications for the quantity, quality and location of the jobs generated by TNCs. These include a greater geographical dispersion of TNC activities, a greater scope for placing abroad individual value-adding activities, increasing coordination and specialization of the activities of individual affiliates, and greater importance being attached to created assets in decisions as to where to locate. The employment implications that follow from this tendency are still at an embryonic stage and have not yet been taken into account in national policy formulation, either for their many potential advantages or for their potential costs.

Given the unemployment problems facing many countries, retaining or attracting TNC operations with a view to maintaining or adding to jobs available is a frequent objective of governments, both national and local, in developed as well as developing countries. In fact, competition for FDI may tempt governments to offer visible or invisible concessions, including in the social and labour fields as an incentive to attract TNCs and create badly needed jobs. This reflects a genuine policy dilemma faced in particular by developing countries, between the need to create jobs and that of raising labour standards. Policy formulation in this respect should recognize the complex factors determining employment and go beyond simple measures for attracting additional inflows of investment *per se* or, in the case of home countries, discouraging outward investment. In the current context of growing global competition and integrated international production, the key policy issue is how to attract or retain value-adding activities in a way that maximizes the long-term contribution by TNCs to national production capacities as well as local employment levels.

For those countries that are home to TNCs, integrated international production implies that efforts at preserving current employment levels and keeping good jobs at home by restricting outward investment may generate only temporary benefits, which have to be balanced against the possibility of substantial employment losses in the long-term if national firms become internationally less competitive in the process. In other words, it may be better for TNC home countries to ensure the survival of their firms by encouraging them to focus on higher value-added activities than to protect them in order to preserve employment, at the cost of becoming less efficient producers. As suggested at various points in this *Report*, the capacity to organize activities in an integrated way across different geographical sites is a critical element in ensuring the efficiency and competitiveness of home-based firms and, hence, their capacity to generate output growth and employment in the long-term. The choice of policy and the extent to which a country may try to influence its firms to choose efficiency and competitiveness leading to long-term growth will depend upon the overall policy context. The cross-border redistribution of jobs that is implied by international production overall and integrated strategies in particular, can be associated with an increasing need for rapid labour-market adjustments, particularly painful under conditions of widespread unemployment in which each single job counts. That burden could be minimized if, first, all countries play by the same rules, that is, pursue similar, open policies with respect to FDI and, secondly, an overall mix of macroeconomic, industrial and social policies exists in each country to ensure satisfactory employment levels and adequate living standards.

A lesson for large countries that wish to retain or attract TNC operations could come from small countries. Small countries have generally been prompt in recognizing the need to let their national firms develop their international production networks as a way to increase the opportunities for a significant generation of jobs, especially high-quality jobs at home. In competing for

FDI without the advantage of having a large local market, they have, in some cases, focused on attracting investment, both domestic and foreign, in selected areas in which they have a potential to specialize. The challenge for large countries, particularly developed countries with large domestic labour markets, is to develop a wide range of skills to enable their labour forces to compete successfully in the international economy.

The widening of the scope of value-added activities that might be located abroad and the growing reliance of integrated strategies on created assets, such as a well-educated and trained workforce, also implies that relocation creates more opportunities overall, as well as opportunities for the creation of higher-skilled jobs for host countries that are well-equipped for the international division of labour that is being shaped by TNCs. In this respect, enhancing the quality of the labour force is likely to be a main avenue for policy interventions for developing and developed host countries oriented at attracting FDI, with high potential effects on employment. Created assets are, indeed, at least to an extent, within the scope of local or national policy control. It should be recalled, however, that this may be a necessary, but not a sufficient factor, since the supply of high-quality human resources would appear to be growing across locations. Moreover, except for very specific needs, TNCs are most likely to be attracted by the combination of an educated labour force with a social and physical infrastructure capable of generating high productivity and efficient organization of production.

Participation in integrated international production need not occur only through attracting FDI, given the rise in importance of a variety of non-equity forms and inter-firm channels of participation. Specific policies could be enacted with a view towards encouraging maximum employment benefits not only from TNCs that establish affiliates locally, but also from those located outside the national borders and linked to local enterprises through non equity arrangements. Policies that focus on the upgrading of local capacities to provide efficient and specialized inputs to TNCs through such arrangements could have a significant employment impact on the host country and help to increase the local embeddedness of TNCs.

Finally, as national and local authorities in developed and developing countries struggle to present themselves favourably as candidates for the location of production by TNCs, concern is mounting that this competition may lead to some decline of the autonomy of national social and labour-market policies and exert a downward pressure on social and labour standards in countries that are home or host to TNCs. National and international policy makers may need to consider ways and means of minimizing such social policy competition for attracting investment as well as avoiding a wasteful incentive war, while taking positive steps to strengthen their attractiveness, including, among others, through the development of their human resources.

Notes

1 The latter share rose from 46 per cent in 1974 to 48 per cent in 1978 and 1986 and then declined to 42 per cent in 1990.

2 For Japan, the developing countries' share of outward FDI stock was 30 per cent in 1990. For France, Germany and the United States it was 12, 15 and 25 per cent respectively. See UNCTAD-DTCI (1993a).

3 The share for the European Community refers only to inward FDI from non-European Community countries; see Parisotto (1993), p. 54.

4 However, in the United States (which became the largest host to FDI flows during the 1980s), the largest increase in affiliates' share was registered in services (trade, insurance and other services).

5 China State Statistical Bureau (1992) and, for 1992, statement of the Minister of Foreign Trade and Economic Cooperation at the International Conference on Transnational Corporations and China, Beijing, September 1993.

6 These estimates do not take into account the labour-saving technical progress stimulated in developed countries in reaction to competition from developing countries (Papaconstantinou, 1993, p. 21).

7 It should be noted that many export processing zones never lived up to the expectations of their creators in terms of attracting FDI and creating employment. A number of factors explain these failures, including poor planning; inconvenient location; insufficient attention to the basic infrastructure such as roads, airports, telecommunications or electricity supply; and lack of effective promotion and mismanagement (UNCTC, 1990b, chapter I).

8 For a full review of the literature on the issue see Jécquier, 1989.

9 Based on data from the Census-BEA link project (Howenstine and Zeile, 1994).

10 In Canada, in 1985, for example, each manufacturing foreign affiliates provided a higher share of non-production jobs compared with Canadian enterprises (Bradley and Kumar, 1990).

11 For instance, in 1990, the average foreign affiliate in manufacturing was from 4 to 17 times larger than the average domestic enterprise in Germany, Japan, Ireland, Sweden and the United Kingdom; see OECD (1993b), p. 48.

12 This (and the following) information is based on the views expressed by government's, employers' and workers' organizations in periodic surveys in individual countries carried out by the ILO in the context of the Tripartite Declaration on Multinational Enterprises and Social Policy (chapter IX); these are conducted every three years; the last one covered the period 1989-1991.

13 For example, "East Europe threatens even deeper erosion of the west's job base," *The Wall Street Journal Europe*, 9 December 1993, p. 1.