CHAPTER IX

GENERATING EMPLOYMENT AND STRENGTHENING THE SKILLS BASE

A. The importance of employment, employment quality and skills for development

Employment, employment quality and the skills at the disposal of workers are linked to development in several ways. Labour and human resources with skills and knowledge are indispensable factors of production in all economic activity. Increasing the quantity of labour employed in productive activity generally contributes to increasing output and income. If the increase in employment is accompanied by an increase in the quality of employment, by investment in human skills and knowledge, there is also an increase in value added per employee, leading to rising wages and improved conditions of work. Furthermore, employment creation and upgrading are important means for countries to achieve an equitable distribution of income and minimum standards of welfare for their people. Thus, for all countries, developed and developing, reducing unemployment, moving towards full employment, and raising the quality of employment are critical components of development. In developing countries, where public-support mechanisms for the poor and unemployed are often lacking, these processes are particularly important. They provide the means whereby economic development translates into social and human development through a more equitable sharing of the benefits of growth, reduction in social exclusion, and broadening of choices.

All these dimensions of the employment-development link are of importance for developing countries. The labour force in the developing world, 2.3 billion strong in 1995, is growing each year at around two per cent (ILO, 1998a; World Bank, 1997). The numbers of chronically under- and unemployed remain large, as population growth and increasing labour force participation rates continuously add new entrants to the workforce. In 1997, open unemployment ranged from three to 15 per cent in the urban areas of Latin America and five to 20 per cent in those in Africa; in addition, there is a substantial amount of hidden unemployment. Economic crises, like the recent one in Asia, inflict sharp shocks. It is estimated that total job loss resulting from the Asian crisis could reach 20 to 25 million (ILO, 1999). However, unemployment rates may not reflect this, although they rose significantly, from three per cent to nearly eight per cent in the Republic of Korea and from one per cent to four per cent in Thailand. As the experience of Mexico after the peso crisis shows, such problems last – unemployment remains high for some time. Furthermore, the processes of liberalization and structural adjustment often make it difficult to maintain formal-sector employment, at least for

some time after the implementation of the changes they involve. As existing employment opportunities diminish, either because of structural adjustment policies or because of restructuring due to growth and technological change, many countries find it difficult to create new employment in competitive activities.

Increasing employment thus ranks high as a policy objective for developing countries. Raising the quality of employment ranks equally high: increasing the quantity of employment must be accompanied by the creation of higher paid, more secure jobs with better working conditions and an improvement in the skill content of employment. There is an increasing recognition that raising employment rates and improving employment quality are complementary rather than conflicting factors in the development process. Improving employment quality necessarily involves investment in human capital through education and skills creation that increase productivity and lead to "a better use and production of ideas" (ILO, 1998, p.3); this contributes to increased demand for labour and, thereby, to the generation of employment. Moreover, as economies grow and rising incomes create demand for new and improved products, improving the skill levels and knowledge base of the labour force is necessary for restructuring production towards higher value-added activities. The shift also allows higher wages and improved conditions of work. Rapid technological change further increases the urgency of improving employment quality (chapter VII).

In the new global context (chapter V), an increasing proportion of the world's labour force is engaged in activities that compete with or are linked -- through international trade and international production -- to activities taking place in other countries. This means that national labour markets are becoming increasingly interdependent. Maintaining or increasing employment and its quality in a particular country requires that its labour markets must be responsive not only to changes related to development and growth within the country, but also to changing conditions worldwide. At the same time, globalization through international production creates scope for TNCs and foreign firms generally to play a role in the generation and upgrading of employment and the building up of skills in host countries. The role and impact of TNC activities in these respects varies, however, according to the type or motivation of FDI, the industries in which TNCs invest, the strategies they adopt, and host country conditions. They also depend significantly on the policies of host countries on FDI for increasing employment quantity, improving employment quality and strengthening human resource capabilities and for minimizing any negative effects that FDI may have in these respects.

B. TNC strategies and their implications for generating employment and building skills

TNCs, like other enterprises, combine labour and other factors of production to generate goods and services. The quantity and quality of employment generated within a firm — regardless of whether it is a TNC or not — depend mainly upon the industry group to which it belongs, the production activities in which it is engaged, and its size. The activity in which a firm is engaged, and the technological parameters of that activity determine the capital-, labour- and knowledge-intensities of its production, although there is usually a range of technological options and hence combinations of labour with capital that are available to producers to choose from, depending upon, among others, relative factor costs. The size of a firm, on the other hand, determines whether a large or small amount of labour is employed, given the combination of labour, capital and knowledge that are required to produce one unit of output. It also determines the extent to which a firm can invest in training and the building up of skills.

While these determinants of the volume and nature of employment are the same for all firms, there are some factors that suggest that the behaviour, practices and role of TNCs with respect to employment and skills upgrading may differ in some respects from those of other firms. These include the larger size and greater technological sophistication of many TNCs, the competitive pressures under which they operate, and their ability to deliver, by means of FDI, non-tradable goods and (especially) services. Among other things, because of their size, many

TNCs are employers of larger total numbers of workers than uni-national firms in the same industries. At the same time, because of their technology-intensity and competitive behaviour, they are likely to generate smaller numbers of jobs than other firms of equal output size.

The principal difference between TNCs and other firms, however, is that TNCs distribute their production activities and, hence, employment, between their internationally dispersed facilities. The distribution of employment by size and quality among different locations depends upon several factors. It depends upon the TNC's motivations for and strategies with respect to international production and on the locational advantages of different countries. It also depends upon labour market conditions in host and home countries, including the availability and cost of labour of various skills and capabilities.

While FDI of all types involves employment in host countries, some FDI is motivated specifically by considerations directly related to the employment of skilled or unskilled labour. Resource-seeking and efficiency-seeking FDI in manufacturing and services is often made with the specific objective of accessing low-cost labour for labour-intensive production or taking advantage of relatively abundant supplies of educated and skilled workers. For market-seeking FDI, on the other hand, the availability and cost of labour or skilled human resources is not the main consideration in the choice of location, although it is likely to be one of several secondary factors that determine the investment location decision.

Given the broad motivations that underly TNCs' decisions regarding FDI, their strategies and the resulting organizational structures of their international production activity affect in a number of ways the intra-firm distribution of employment among home and host countries:

- Under a "stand-alone" strategy, in which a TNC replicates in its foreign affiliates much of the value-chain of the parent firm (with the exception, typically, of technology development and finance that are retained at headquarter operations), affiliates in host countries perform the tasks necessary for production to service the host-country and/or neighbouring markets (UNCTAD, 1994a, chapter III). Accordingly, most of the employment of labour necessary for host country production occurs in the foreign affiliates. Indeed, if foreign affiliate sales replace exports from the home country, that may be accompanied by a reduction of employment in the home country facilities within the TNC systems. Replacement of actual or potential employment in parent firms by that in foreign affiliates does not, of course, occur if the foreign investment is motivated by high tariffs or other restrictions on the home country's exports. It also does not occur where FDI is the only means of serving foreign markets, as for many services that by their very nature require proximity between the provider and the customer.

  On the whole, FDI made under stand-alone strategies is likely to result in a higher firm-wide level of employment (especially under conditions of growing demand), since the firm's employment structure is replicated in various locations, than that made by firms of similar efficiency under other strategies (discussed below). The distribution of employment will, of course, depend upon the scale of operations in different locations. Employment in foreign affiliates is likely to be relatively stable or secure, since such investment is motivated by market size rather than low wages or labour cost advantages that might be relatively short-lived. (In protected host country markets, however, this stability depends upon continued protection: liberalization could lead to production and employment reduction.) Moreover, employment in foreign affiliates is likely to involve greater occupational diversification, with the exception of occupations at the highest skill levels (such as R&D) that are usually concentrated in the parent company. In keeping with this, training in foreign affiliates is likely to create a broad range of operational skills, although the degree of expertise and the rate at which skills are upgraded depends on the extent of competition that they face. However, stand-alone affiliates in protected host country markets with import-substituting regimes may not impart state-of-the-art skills. They may upgrade employee skills only slowly, as compared with affiliates in similar activities producing for

more open markets. In service industries, in which most FDI is market-seeking (although the situation is changing for some information-intensive services) foreign affiliates are particularly apt to reproduce abroad the factor proportions used in home countries, including the skill and capital intensities of their parent firms (UNCTC, 1989). This has positive implications for the quality of employment in service affiliates as compared with that in manufacturing affiliates.

- Under a "simple integration" strategy, in which a TNC locates one or a few elements of its value chain in its foreign affiliates, the latter undertake -- typically with technology obtained from the parent firm -- a limited range of activities to supply their parent firms with specific inputs or products that they are in a more competitive position to produce (UNCTAD, 1993a, 1994a). Simple integration does not involve reproducing the parent firm's occupational structure in foreign affiliates; rather, it introduces a complementary hierarchy of occupations within a TNC system across different locations. Employment quantity and quality in a host country depend upon the nature of the locational advantages that attract FDI. If, as is the case in labour-intensive manufacturing for export, a TNC invests to take advantage of low-cost labour, low-skilled jobs are located in foreign affiliates, and the more skilled and highly paid jobs remain in the parent firm or in affiliates in countries with higher wages. Firm-wide employment may be lower (than in firms of similar size pursuing stand-alone strategies for market-seeking FDI), since the objective of an integration strategy is to rationalize production to take advantage of specific locational advantages of host countries. But the share of employment in foreign affiliates producing labour-intensive products is likely to be larger. Affiliate employment in particular locations will, however, be less secure than in the case of stand-alone foreign affiliates: unlike market size, low labour costs are an advantage that can be dissipated when wages rise or when other low-cost labour locations offer additional inducements, and the labour-intensive activities in which such FDI takes place have low sunk costs, making exit easy (chapter VIII).

  A suitable combination of wages and skills may also lead to some higher value-added jobs being located in manufacturing foreign affiliates established under simple integration strategies. This is done, for example, in affiliates that move from the production of low value-added labour-intensive products to that of skilled-labour-intensive products for export as labour market conditions in a host country change. Service affiliates established to take advantage of low-cost educated and skilled personnel to perform functions that can be integrated with other activities conducted elsewhere within TNCs' production systems can also provide higher quality employment, as illustrated by data processing jobs that have been located in Jamaica (UNCTAD, 1999a) or the more sophisticated computer software activities that have been located in India (Lateef, 1997). If the locational advantage that attracts FDI is in the form of the availability of scarce natural resources, the quantity and quality of employment depend considerably upon the capital intensity and technological sophistication of the extractive or agricultural activity and the degree of processing that takes place in the host country.

- Under "complex integration" strategies, each TNC affiliate specializes in a product, process or function integrated with those of other units within the TNC's regional or global network of integrated international production (UNCTAD, 1993a; UNCTAD, 1995a). Deeper integration of this kind provides efficiency gains for a TNC and could result in a smaller system-wide workforce for a given output size than the other two strategies mentioned: specialization and consolidation of business functions in various locations have a rationalizing effect on total firm employment when compared, for example, to the replication of value-adding activities in all host locations as in a stand-alone strategy, or limited specialization among locations as under simple integration strategies. Employment quantity in different locations depends upon the role assigned to the parent firm or a particular affiliate within the network. With respect to employment quality, however, deeper integration can imply a convergence in certain elements of the employment package in order to maximize the efficient performance of a firm's overall production system; this may imply higher employment quality and greater skill formation in foreign affiliates.

Furthermore, the location of activities within a firm becomes more responsive to a variety of created assets (particularly the cost and quality of human capital). Hence, the home country no longer has the same hold on a TNC's highest- quality jobs as it has under stand-alone or simple-integration strategies.

The motivations and strategies of individual TNCs – each with its firm-specific advantages, including, among others, those arising out of its international production networks – interact with the locational advantages of particular host countries to determine how much FDI the latter attract, in what industries, and of what kind. Simultaneously, they determine the size and quality of employment and the potential for skills upgrading directly in foreign affiliates. Different organizational forms and structures have different implications and potentials in these respects. In addition to these direct effects, there are indirect effects on employment and related skills building that occur through competition, production linkages and multiplier and accelerator effects of income generated by FDI. Moreover, TNC strategies and behaviour with respect to investment and, hence, employment, human resource management, and investment in skills formation change in response to changes in global, regional or country-specific conditions affecting their competitive positions and profit opportunities. Globalization and increased global competition are leading TNCs to shift towards more complex corporate strategies and integrated international production structures. These involve a greater geographical dispersion of TNC activities, increasing coordination and specialization of the activities of individual affiliates, and greater importance being attached to created assets in making locational decisions. Host developing countries can, by taking TNC strategies and changes therein into account, harness the potential of FDI to generate employment and, in particular, create jobs of good quality and impart skills to the workforce under conditions prevailing at any given time. They can, moreover, induce TNCs to sustain their employment-generating investments, upgrading the quality of employment they provide by moving into higher value-added production, and increasing the training and skills available to human resources in foreign affiliates and local enterprises linked to them.

C. FDI, employment and skills in host developing countries

1. Employment generation

FDI generates employment in host countries directly and indirectly. Foreign affiliates of TNCs employ people in their mines, plantations, manufacturing plants and service establishments (direct employment). They also cause employment to be created in enterprises that are suppliers, subcontractors or service providers to them; the latter include domestic firms as well foreign affiliates of other TNCs, some of which may be established because of associated investments attracted to the country by the demand for their products or services from original investors (indirect employment). Foreign affiliates also indirectly create employment by adding to output and incomes and thereby, further investment. Other things remaining the same, inward FDI thus has both direct and indirect effects that add to employment generation in a host country.

These positive effects may, however, be offset by a loss of employment caused by TNC activities. Such effects may also be direct or indirect. If FDI enters a host economy through mergers and acquisitions (M&As), it may lead to significant labour shedding in the acquired firms -- the newly created foreign affiliates -- as they restructure their activities in line with the objectives underlying the M&As. Moreover, as noted in chapter VI, FDI could, under certain conditions, crowd existing firms out of business, creating unemployment for their workers. It may also induce local competitors to shed employees, either by reducing the local firms' production due to a decreased share of the market or because of efforts by local firms to increase their efficiency and competitiveness by downsizing their labour force.

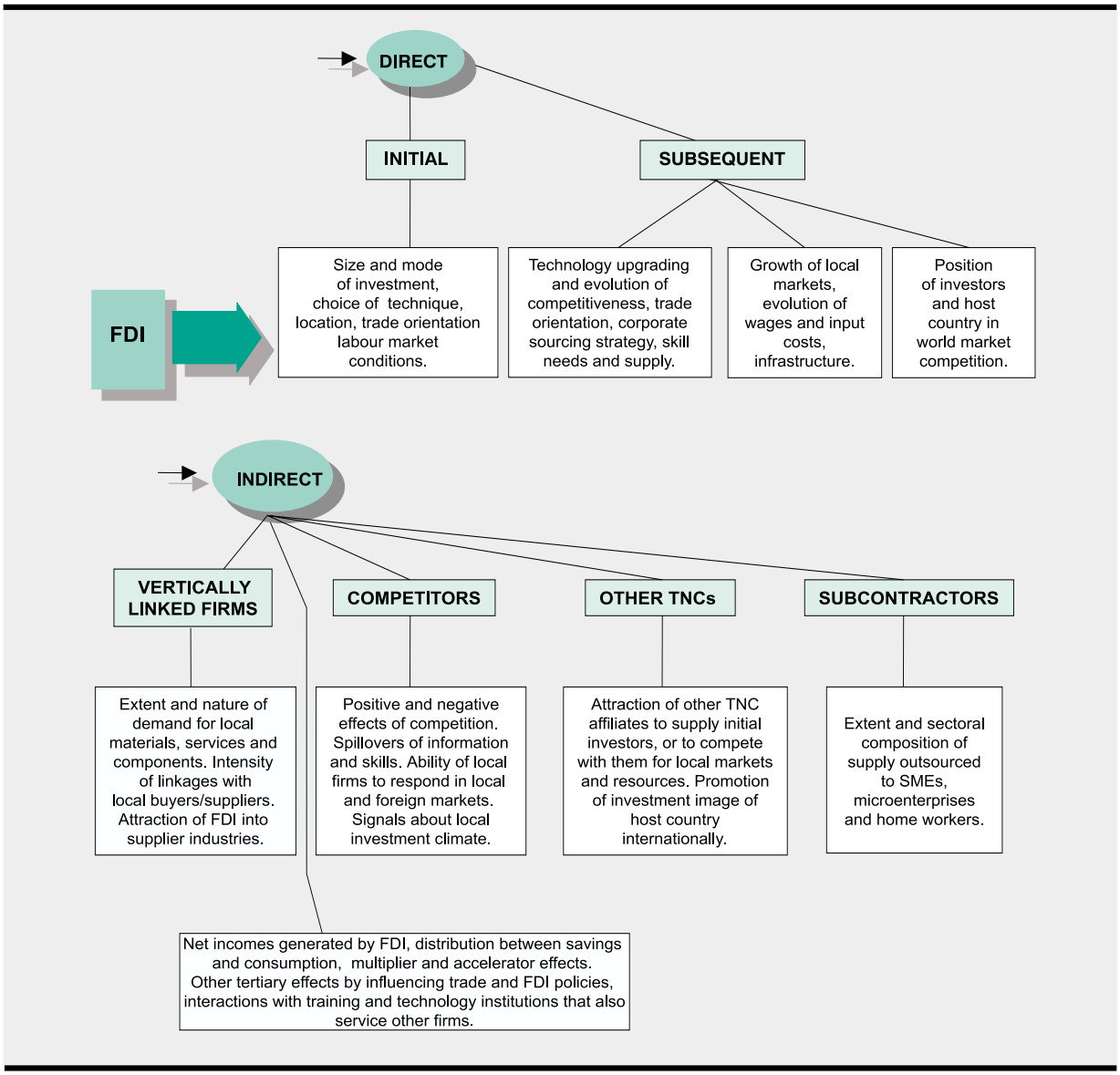
The balance of these various effects is difficult to assess and is likely to vary among host countries and industries. Effects may also vary over time. A short-term loss of employment may be more than offset by longer-term gains if FDI raises the competitiveness, efficiency and export-orientation of domestic firms, thereby raising their production levels, or stimulates the

establishment of new local or foreign supplier firms. On the other hand, if FDI is footloose, or adversely affects local enterprise development or holds back technology upgrading, the long-term employment and skill effects may reverse short-term gains or worsen short-term losses. Since it is difficult to specify the counterfactual – what would have happened if an investment had not taken place – the final effect is uncertain. However, a closer look at the nature of direct and indirect effects under various conditions, and empirical evidence throw further light on how and to what extent FDI may affect employment generation in host developing countries.

The direct and indirect effects of FDI on employment generation in host economies depend upon several factors (figure IX.1). A few of them deserve particular attention while considering the effects in developing host economies.

- As noted above, direct employment effects differ by the mode of entry of FDI. If investment is in greenfield sites (new production facilities), it generates new demand for workers. Entry through M&A, on the other hand, not only does *not* create new demand for workers but may lead to labour shedding, either immediately or with a time lag. In developed

Figure IX.1. Factors influencing the effects of inward FDI on employment quantity



Source: UNCTAD

countries, where M&As are the major mode of entry for FDI, they almost invariably lead to lay-offs, at least initially (see table III.20 for some examples); in developing countries, the effects are less clear. Some M&As salvage moribund enterprises and contribute to conserving employment . Others could reduce total employment in the host economy by dismissing labour or by out-competing local firms. Whether or not employment subsequently rebounds depends on a host of factors, including productivity, multiplier and growth effects. Comprehensive quantitative assessments, tracing employment levels over time for different M&As, are scarce.

- Employment generation by TNCs depends upon the size of FDI in general and especially that of FDI in labour- or human-resource intensive activities. Given labour-market conditions, this depends on the trade and industrial policies of a host economy. Countries with abundant low-cost labour that establish export-oriented trade regimes and an environment conducive for FDI can promote significant employment generation by attracting export-oriented activities. As the early experience of East and South-East Asia, and subsequent experience in China show, simple processing activities for exports in foreign affiliates create large numbers of jobs, initially at low wages and requiring low skills (UNCTAD, 1994a, chapter IV; UNCTAD , 1995a, chapter V). Whether this employment is sustainable over time depends on several factors, including whether technologies and skills in affiliates are deepened and improved as wages rise (chapter VII). Countries with import-substituting regimes can also stimulate employment generation by attracting FDI, especially when their markets are large; however, employment growth in market-seeking foreign affiliates in such regimes tends to slow over time if high levels of protection are maintained and lead to technological lags or constrict economies of scale. In general, a competitive environment that places fewer barriers to the entry of new firms tends to generate more sustainable growth in output and employment. However, much depends upon how competitive conditions are introduced: a sudden shift to competitive structures carries the possibility of widespread labour-shedding resulting in unemployment that could take time to resolve; for example, in some Latin American countries, liberalization led to a dramatic shift towards capital-intensive industries and methods, and high unemployment levels (Katz, 1998; Chudnovsky, 1999b).

- As developing countries move towards more liberal trade and industrial regimes, their ability to sustain employment in tradable goods and services depends partly on how quickly these activities can be restructured to face international competition. It also depends on whether new FDI flows in: while large domestic markets remain a strong magnet for FDI, the growth of employment in the new global context depends increasingly on host economies' competitive capabilities (chapters VI and VII). Thus, growth of employment resulting from FDI in the tradables sector is increasingly likely to be concentrated in economies that can support rapid restructuring and efficient new production activities. However, given the growing importance of the services sector, both because of shifting consumption patterns as incomes grow and because of the growing importance of producer – including infrastructure – services in production, the potential for FDI to contribute to sustained employment growth in non-tradable service activities, such as finance, trade, tourism and utilities, should not be overlooked (chapter VII).

- A third important factor that shapes the capacity of host economies to attract employment-generating FDI is the quality of the labour force: the level and composition of skills available, and the training potential of managers, technicians and workers. In some developing economies, the authorities have pursued ambitious and comprehensive education policies that have resulted in skill levels well above the developing country averages. In some cases, as in the Republic of Korea and Taiwan Province of China, skill levels are even above levels found in many developed countries. For instance, in international rankings in terms of high-school-level numeracy, the top-scorer countries in 1997 were the Asian newly industrializing economies and Japan.[1] High literacy and numeracy levels make it easier to upgrade work-place related and technical skills and this enabled these economies to climb up the value chain (Green *et al.*, 1999) including, as

in Hong Kong(China), Singapore and Taiwan Province of China, by attracting FDI into increasingly higher value-added activities.

Some of the best outcomes in terms of skill formation are found where governments and enterprises have worked together to improve the training system. Singapore, for example, has used focused training programmes effectively, not just for upgrading the industrial structure but also for attracting high-quality FDI. Its labour force has been consistently ranked as the best in the world since 1980 by Business Risk Intelligence Service, a United States consultancy firm (table IX.1). A number of other Asian countries also figure relatively high on this ranking. While all such evaluations should be treated with circumspection, they are suggestive of the general trend.

- Finally, the efficiency of the labour market and the quality of labour market institutions, such as labour laws, unionization and industrial relations in a host economy have an important role to play in the extent and manner of employment generation in foreign affiliates. If labour cannot move easily to new jobs or enter new types of employment arrangements, or if information on job opportunities is not transparent and accessible, investment may not result in commensurate employment opportunities. Similarly, if there is labour market segmentation by gender, ethnicity or other factors, investments are likely to create less employment or upgrade it less efficiently than where labour markets work well. On the other hand, where labour markets are open and well organized, and where industrial relations function smoothly and facilitate communications and exchange of information, they can serve to channel employment opportunities and stimulate ideas on how to upgrade skills as well as employment and working conditions. Thus, well-functioning institutions and appropriate regulations that ensure an efficient, fair and equitable functioning of labour markets are a precondition for harnessing FDI to employment generation.

Table IX.1. Labour force evaluation index [a] for selected economies
(Points scored out of 100)

Economy	1980	1990	1995
Canada	48	53	55
China	-	32	39
France	62	58	65
Germany	59	66	66
India	37	43	42
Indonesia	47	42	44
Japan	67	73	73
Malaysia	48	51	54
Philippines	60	58	57
Singapore	81	77	79
Switzerland	73	77	75
Taiwan Province of China	73	69	69
Thailand	39	49	52
United Kingdom	42	54	56
United States	53	64	67

Source: Based on information retrieved from Singapore, Economic Development Board website (www.sedb.com.sg), 1997.

[a] Index prepared by Business Environment Risk Intelligence. The index measures the quality of the workforce according to the following criteria: relative productivity and legal framework (each with a weightage of 30 per cent), worker attitude (25 per cent) and technical skills (15 per cent).

Comprehensive data are lacking with respect to the employment directly and indirectly generated by foreign affiliates in developing countries. Estimates, which must be interpreted with caution, suggest that direct employment in foreign affiliates in developing countries numbered around 17 million (table IX.2) and may be as high as 26 million (Aaron and Andaya, 1998, p.10) in the mid- to late 1990s.[2] In terms of direct employment, thus, TNCs account for a negligible part (around one to two per cent depending on the estimate) of the total workforce in developing host countries taken as a group, although the proportion is somewhat higher if considered in relation to formal employment. In the manufacturing sector, employment in developing-country affiliates is considerably larger in a number of economies (table IX.3; chapter I; UNCTAD, 1994a, chapter IV). With the growth of international production, the share of employment within TNCs that is located in foreign affiliates in developing countries is on the rise, as indicated by data for selected host countries (annex table A.I.7) and data for foreign affiliates of United States and Japanese firms (annex tables A.IX. 1 and A.IX.2; box IX.1).[3] Data

for the 100 largest TNCs over the period 1991-1997 show that employment (in developed and developing countries combined) in foreign affiliates is increasing, albeit slowly (chapter III.A): employment in the foreign affiliates of the top 100 TNCs world-wide increased by two per cent in 1995-1996 and nearly one per cent in 1997 (UNCTAD, 1998a, p. 41). Employment in the foreign affiliates of the top 50 developing country TNCs also rose, by 17 per cent per annum, roughly doubling during 1993-1996 (UNCTAD, 1998, p.52), a result of growing transnationalization of developing country firms. In 1997, however, this growth came to a halt, and employment in foreign affiliates of developing-country TNCs declined by 10 per cent.

Table IX.2. Estimated employment in TNCs

(Millions of employees)

Economy	Total employment in TNC [a]	Employment in affiliates in developed countries	Employment in affiliates in developing countries
All countries			
1985 [b]	65	15	7
1995 [c]	78	15	15
1998 [c]	86	17	19
Memorandum:			
Employment in TNCs from:			
United States (1996) [d]	26.4	4.9	2.7
Japan (1995) [e]	5.6	0.8	1.4
Germany (1996) [f]	..	2.0	1.0

Sources: UNCTAD, based on United States Department of Commerce, 1998; Japan MITI, 1998a and Deutsche Bundesbank, 1998, FDI/TNC database and UNCTAD/Erasmus University database.

[a] Including parent firms and foreign affiliates.
[b] Parisotto, 1993.
[c] UNCTAD estimates. Affiliate employment in developed and developing host countries is estimated by applying the shares of developed and developing host countries, respectively, in total employment of foreign affiliates of German, Japanese and United States TNCs to total employment in foreign affiliates in the world. Total TNCs employment is the sum of employment in affiliates thus estimated, and employment in parent firms, estimated by adding the parent employment in Japanese and United States TNCs taken together to estimates for parent employment in other countries, based on the ratio of home to foreign employment as indicated by data for the largest 100 TNCs for 1996, and on 1985-1995 average annual growth of total parent employment, for 1998.
[d] From annex table A.IX.1.
[e] From annex table A.IX.2.
[f] Deutsche Bundesbank, *Kapitalverflechtung mit dem Ausland*, May 1998.

The employment generated within the foreign affiliates of TNCs is very unevenly spread among host developing countries, reflecting the uneven distribution of FDI (box IX.1; annex tables A.IX.1 and A.IX.2). In the relatively few host developing countries that have attracted significant FDI inflows, affiliate employment tends to account for large shares of manufacturing- sector employment (table IX.3). This is particularly so in countries where EPZs or similar special arrangements for export production are large relative to other industrial activity. In other host countries, not surprisingly, shares are much lower.

Indirect employment created by foreign affiliates in a host country can be large – significantly larger than that created directly – where linkages to local producers are strong. For the manufacturing sector as a whole, indirect employment effects in the formal sector range between one and two times the number of jobs created directly in affiliates (UNCTAD, 1994a). Depending on the activity, product, supplier capabilities, the extent of outsourcing and the size of the affiliate, the employment multiplier can be much larger.[4] Activities that involve a large number of input suppliers (like food processing) or subcontractors and service firms (engineering and electrical products) tend to generate substantial indirect employment.[5] In the latter category, however, the effect depends on the level of sophistication of the supplier network.

Table IX.3. Employees in foreign affiliates as a percentage of total employment in selected developing economies

Economy	Year	Manufacturing sector	All industries
Brazil	1995	13.4	3.5
China	1997	..	4.1
Hong Kong, China	1994	16.0	12.8
Indonesia	1996	4.7	0.9
Malaysia	1994	43.7	..
Mexico	1993	17.9	3.3
Nepal	1998	1.9	..
Singapore	1996	52.1	..
Sri Lanka	1996	54.4	22.1
Taiwan Province of China	1995	21.1	11.1
Turkey	1990	3.2	..
Viet Nam	1995	14.9	5.3

Source: Annex table A.I.7.

Production and, hence, employment linkages between foreign affiliates and local firms change over time. To start with, unless compelled to do otherwise, foreign affiliates prefer to source material inputs and services from

Box IX.1. Employment in foreign affiliates of TNCs from the United States and Japan: recent trends

The size and distribution of employment in foreign affiliates reflect the importance of foreign affiliates in TNCs' production activities and the distribution of those activities among the different locations where TNCs operate. Trends in foreign affiliate employment reflect changes, if any, in the importance and distribution of foreign affiliate activities. In recent years, for United States TNCs, employment in foreign affiliates has been growing faster than employment in parent firms (annex table A.IX.1). Furthermore, for TNCs from the United States as well as from Japan (annex table A.IX.2), employment in foreign affiliates in developing countries has been growing faster than that in foreign affiliates overall.

TNCs from the United States employed approximately 26 million people world-wide in 1996. Of these, one fourth were in foreign affiliates – over a third of that in developing countries. Of the 5.6 milion employees of Japanese TNCs world-wide, 40 per cent were in foreign affiliates – over 60 per cent of that, in developing countries. Reflecting the distribution of United States and Japanese FDI among regions, employment by developing country affiliates of both United States and Japanese TNCs is concentrated near their respective home bases. Thus, almost 60 per cent of employment in United States foreign affiliates in developing countries is in Latin America, while almost 90 per cent of employment in Japanese foreign affiliates in developing countries is in Asia.

The bulk of foreign affiliate employment for United States as well as Japanese TNCs is in the manufacturing sector. For United States firms, the machinery industry accounts for 20 per cent of developing country affiliate employment, while food, chemicals, and transportation equipment each account for roughly 10 per cent. In the case of Japanese TNCs, one third of the employment in foreign affiliates in developing countries is in the electrical machinery industry (mainly assembly of consumer electronics).

Asia has displayed remarkable dynamism with respect to employment in foreign affiliates: employment in American and Japanese affiliates in some industries in the region increased by 10 to 20 per cent annually until the financial and economic crisis of 1997-1998 (annex tables A.IX.1 and A.IX.2). Growth rates of foreign affiliates employment in Latin America have been much lower (about one third of that in Asia in the case of United States TNCs and negative in the case of Japanese TNCs) and employment in foreign affiliates in Africa decreased during 1990-1996 (annex tables A.IX.1 and A.IX.2). The differences in rates of growth of foreign affiliates employment in different regions reflect, to some extent, differences in the rates of growth of FDI inflows as well as differences in the regions (chapter II) and the greater share of FDI in Asia that goes to labour-intensive manufacturing. The slower growth of affiliate employment in Latin America is also due, at least partly, to difficulties encountered by TNC operations in domestic market-oriented activities in the context of trade liberalization, and downsizing of employment in that context as well as that of privatization.

Source: UNCTAD, based on annex tables A.IX.1 and A.IX.2.

suppliers with whom they have long-established linkages. At the same time, firms also often prefer to have their suppliers close to them. Thus, TNCs source inputs from suppliers in their home countries, or induce those suppliers to establish affiliates in the host economies where they operate – unless, of course, suitable suppliers are available in the host country. This has been observed, for example, in the electronics industry of Malaysia and the automobile industry in Mexico (Lall *et al.,* 1999 and van Assouw *et al.,* 1999). As domestic capabilities develop, however, supplier relationships change. In industries and technologies where domestic firms have good capabilities or can be brought to acceptable levels with some assistance, TNCs often resort to and develop local supply networks (chapter VII). Where domestic capabilities are weak, however, such linkages are less likely to grow, constraining the potential for FDI to promote employment indirectly. In the latter situation, the indirect impact on employment through backward linkages may depend, in the short run, on the extent to which supplier firms from the home country or other countries are induced to invest in a host country, and in the long run, on the successful building up of domestic capabilities.

Indirect employment effects may also occur because of TNCs' sourcing inputs or final products from sub-contractors and agents who in turn rely on production by workers or households in the informal sectors of host developing countries. This "putting out" system is more common among TNCs as buyers for retailers than in TNCs that are engaged in production, since it involves simple activities that do not involve scale economies. In some manufacturing

industries, there is heavy reliance on outsourcing that directly or indirectly involves putting out (box IX.2). This has raised concerns that the international production networks of TNCs contribute to the informalization (or "re-informalization") and casualization of labour in certain industries (ILO, 1998a).

Box IX.2. Home work and TNC distribution channels

In some industries – typically, industries characterized by considerable variation in output levels in the course of a season or year, requiring simple manual tasks and hence capable of relying on low-skilled labour and portable machinery – firms, including TNCs, tend to outsource (directly or indirectly) some product lines to homeworkers and microbusinesses (Chen *et al.,* 1999; Prügl and Tinker, 1997). Examples are the garment, and footwear industries which have short production runs as fashions and models change from season to season, and the toy industry, where output volumes fluctuate heavily, peaking around major holidays and receding in other periods. In some segments of those industries, the volume of work outsourced is substantial. [a]

Some types of TNCs source most or even all their supply from home work. They are buyers of the outputs of such production lines for their wholesale or retail networks, and usually place orders through intermediaries. Hence, they are not responsible in a legal sense for the conditions of work that prevail in such arrangements. However, the precarious terms and conditions under which workers are employed in the supply chains in these industries, especially where work is outsourced to home workers, have attracted the attention of labour and consumer groups, and the general public. What are the problems facing homeworkers, and what could TNCs do to address them?

Often, homeworkers are informally employed and therefore do not receive the protection accorded by recognized employment relationships. This has a number of consequences for the conditions of work. First, homeworkers usually are paid at piece-rates, and these have often been found to lie below minimum wages, or to require extremely long work hours to meet strict deadlines for delivery of orders (ICFTU, 1999b). In some instances, no margin is allowed for rejects, so that flawed items are not paid for, reducing the wages earned. Secondly, as this type of work is undertaken in the household, family members other than the contracted worker become involved; often, this includes children. Thirdly, contractual relations are often tenuous, and workers often depend on one major buyer, rendering them vulnerable to tight control as regards wages as well as the amount of work available, and hence the income earnable. Job security is usually low; social insurance or other benefits accorded to workers directly employed in factories do not usually accrue to home work. Also, home work was, until recently, not amenable to group action to defend common interests, via unions or other forms of organization. For the garments industries in particular, it has been observed that wages of homeworkers in developing and developed countries are linked and hover at similar relatively low levels (Yanz *et al.*, 1999).[b]

There are remedies, however. At the international level, in 1996, the ILO adopted the Convention on Home Work (Convention 177). The Convention aims at placing homeworkers on an equal footing with other workers (who are employed under recognized employment relationships) with regard to key labour standards: the right to organize; protection against discrimination in employment and occupation; protection in the field of occupational safety and health; remuneration; statutory social security protection; access to training; minimum age for admission to employment or work; and maternity protection. Complementing this Convention, various consumer movements monitor the supply chain of goods, such as garments and footwear, through all their stages and seek to ensure that work conditions are socially acceptable. Examples include the Netherlands-based Clean Clothes Campaign, and the Australian-based Fairwear.

In response, TNCs are formulating and adopting codes of labour practice voluntarily, often in conjunction with NGOs. These voluntary codes set standards that apply throughout their network, including in work outsourced to suppliers and their subcontractors. For instance, over 30 transnational retailers and over 60 TNCs that are manufacturers or wholesalers have subscribed to a "Homeworkers' Code of Practice".[c] It defines work conditions and pay rates homeworkers should receive and transparency regarding occupational classification.[d]

Source: UNCTAD.

[a] Some surveys have examined shares of home work in a number of manufacturing industries, but these are not necessarily TNC-related. Shares of home work in the textiles and clothing industries have been estimated as follows: Venezuela, 45 per cent; Argentina, 20-30 per cent; Mexico, 30 per cent; Thailand, 40 per cent (Chen *et al.,* 1999).

[b] Thus, certain garment stitching activities have returned to developed countries, where some of them are undertaken at rates of pay and other conditions comparable to those prevailing in developing countries (Yanz *et al.*, 1999).

[c] Proposed by the Australian NGO Fairwear.

[d] For instance, it has developed a timing manual where garments are classified by levels of complexity which become the standard for fixing sewing time rates translated into pay rates for homeworkers. There are also indications of the minimum and maximum amounts of work a home worker can receive from a contractor over a two-week period. (website vic.uca.org.au/fairwear/cop.htm).

Where FDI is concentrated in industries such as clothing, agro-processing, electronics assembly and certain services, women workers account for most of the employment generated by foreign affiliates in developing countries. Many of these affiliates produce labour-intensive products for export. This "feminization" of manufacturing employment – and of exports – (Standing, 1999; Joekes, 1999) is particularly characteristic of EPZs, where the share of women in production-line employment can be as high as 70 to 80 per cent (table IX.4). This pattern of employment by gender reflects the occupational structure of these industries (in developing and developed countries alike), the export-orientation of TNC production in these industries, and more generally, a preference of employers for young, low-wage, semi-skilled workers perceived as docile and undemanding (Heyzer, 1986; Razavi, 1999, forthcoming) (box IX.3)

Table IX.4. Women's employment in selected export processing zones in developing economies

Country	Number of women workers as a percentage of all workers	Main industry
Bangladesh 1998	69	garments, leather, shoes, electronics
Dominican Rep. 1998/1999	58	garments, electronics
El Salvador 1997	80 [a]	garments, electronics
Fiji 1999	80 [b]	garments, food
Haiti 1998	69 [c]	garments
Jamaica 1997	90	garments
Madagascar 1997	60	garments, leather
Mauritius 1997	68	garments, flowers
Nicaragua 1997	72	garments, flowers

Source: Van Heerden, 1999.

[a] In maquiladora.
[b] In free trade zones.
[c] In apparel only.

Box IX.3. FDI and the employment of women

There is considerable interest in the impact that FDI has had, over the past 20 years of increasing globalization, on the employment conditions of women and men in developing countries and in particular, in its implications for the role of women in paid employment and their well-being and advancement in the work place. A systematic relationship between FDI and women's employment in the secondary sector first emerged in South East Asia where, from the 1970s onwards, large numbers of women were drawn into export-oriented manufacturing employment. By the 1980s, it was obvious that women were very much part of a "new" phase of industrialization involving the location of low-value added activities in low-labour cost countries, including by firms from higher-wage countries in order to maintain or improve their competitiveness in labour-intensive products in world markets. Indeed, this led to a rethinking of the prevailing ideas regarding the impact of industrialization on women in developing countries, which was that it would marginalize and include women from the labour market, while men would benefit from the increasing specialization of labour (Boserup, 1970). In response to the emerging reality of women's participation in export-oriented manufacturing, the "marginalization" thesis was replaced with the "inclusion" thesis.

The implications of "inclusion" for women are, however, still a matter of debate. An "optimistic" view observes that working conditions in TNCs or their affiliates are relatively superior – and therefore preferable – to those prevailing in local enterprises in the formal as well as informal sectors. The fact that women are employed in foreign affiliates exerts some pressure on local firms to employ women where this was traditionally not the case, or to upgrade work conditions to meet those of competing foreign affiliates. Moreover, paid employment – of any kind, and whether in TNCs or domestic firms – empowers women's personal lives, as they earn an income and have an identity that gives them independence from their families (Lim, 1990). In this assessment, the feminization of labour observed in affiliates and export-oriented domestic firms has a positive gender effect. On the other hand, a "pessimistic" view argues that the global search by producers for low-cost labour that drives FDI flows and international production on the one hand, and the increasing incorporation of women into export-oriented manufacturing on the other, are accompanied by a distinct gender gap in wages and work conditions; women are paid lower absolute wages, and subjected to more difficult working conditions, since – so runs the pessimists' argument – they are more patient and less militant than the predominant males in the workforce (Elson and Pearson, 1981, p. 24).

There is general agreement, since the early 1990s, that a feminization of labour has taken place in the export industries of developing countries. Indeed in many developing countries, women workers comprise at least half of employment in export industries in the manufacturing sector and as many as

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(Box IX.3, concluded)

three-quarters or more in EPZs (Joekes, 1999; Tzannatos, 1999; table IX.4). In other words, women's work in foreign affiliates or firms with non-equity links to TNCs is an important element in the globalization process. However, the integration of women into the globalized world economy in this manner, and the competitiveness of exports from the firms and countries involved may be due, among other things, to a wage gap between women and men workers. Although empirical evidence is inconclusive, in some TNC systems and in some EPZs, for example women's wages are 20 to 30 per cent lower than men's in the same manufacturing industry (Horton, 1999, Standing, 1999). In others, firms comply with the standard of equal pay for equal work. Moreover, the spread of export-oriented industrialization has been patchy and uneven geographically, rather than truly global. There is, furthermore, considerable diversity in how women experience industrial employment, and the outcomes for women of employment in the export-oriented industries are not uniform. This is because the implications of labour market entry and wage earning for the workplace conditions facing women (as well as their role in society) differ significantly depending on the context – that is, the existing gender and kinship relations of each society, the overall economic context in terms of growth processes, rural-urban linkages and social policy design and delivery.

With regard to the workplace, a field study examining two production sites in Shenzhen, China and Hong Kong (China) illustrates how the context might matter (Lee, 1995): two affiliates of the same TNC, managed by the same team of managers, producing the same products, and using the same technical labour processes, developed distinct patterns of shop-floor politics. These location-specific gendered patterns can be explained in terms of local and communal institutions like local networks of friends, kin, and immediate families, and the status of women in each of them, which, in turn, affected how the factory regime in each of the two affiliates was negotiated and how the workers – predominantly women – actively influenced the notion of workers' gender to bargain their workplace situation. The export-oriented production processes in both sites in some ways reproduced gender hierarchies, providing employment that was in many ways exploitative under working conditions that were far from ideal. But these "despotic" labour regimes were at the same time both contested and invested with different meanings by different parties. In the Hong Kong (China) affiliate, women workers used family obligations as a pretext to circumvent certain managerial demands, and cited gender-based inconvenience and their parenting responsibilities at home to reject management demands for assignments which required cross-border commuting or overtime work. In the Shenzhen factory, where the labour regime was highly hierarchical and "despotic", young women subscribed to the notion of "maiden workers" – without family responsibilities – and came to terms with authoritarian control. In their view, strict supervision in the factory was combined with relative freedom from supervision outside the factory, as well as increased autonomy of personal life conferred by cash earnings.

Source: UNCTAD, based on Razavi, 1999.

2. Employment quality

Because of their size, technological sophistication and origin principally in developed countries, TNCs are often expected to be better employers than domestic firms. Foreign affiliates are expected to offer higher remuneration and superior conditions of work, investing more in training and imparting more modern skills to their workers. On the other hand, recognizing that TNCs, like all private enterprises, are driven by the profit motive, some observers, including trade unions, have concerns regarding the possibilities for TNCs to exploit their advantage of mobility over labour, which is largely location-bound, to squeeze wages and labour standards and indirectly induce governments to weaken their regulation of labour markets. These concerns are reinforced by layoffs and resort to informal employment caused by privatization and by the implementation of structural adjustment programmes in some developing countries, and by the decline in real wages that has taken place following trade and investment liberalization in several countries and economic crises in some (Miyoshi, 1998; ILO, 1997a; UNCTAD, 1997b), even if the decline in wages is not directly related to FDI. The experiences of many developed countries in which employment has become increasingly casual and precarious (through, for example, part-time work and short-term contracts with insufficient protection against lay-offs) have also reinforced concerns regarding the consequences for employment quality (ILO, 1998a). At the same time, both governments and unions are increasingly conscious of the potential

benefits that FDI and TNC operations might contribute in a globalizing world towards upgrading employment quality provided that institutions for labour representation and collective bargaining are in place. Plugging into the international production and distribution networks of TNCs can be an effective way of accessing new skills and technologies. This, in turn, can be helpful to introducing better work practices and upgrading employment.

Again, comprehensive data are lacking. Studies for some countries suggest that, in general, the workforce directly employed in foreign affiliates enjoys higher remuneration and more favourable conditions of work than that employed in domestic firms in host countries (UNCTAD, 1994a). This applies not only to developed countries but also to developing countries.[6] This tendency reflects a number of factors.

- Foreign affiliates tend to be more concentrated in higher capital-, skill- and marketing-intensive industries than national firms, and productivity in such industries is generally higher than in others. In developing countries, there are also pronounced disparities between foreign and domestic firms in size, technology and production organization, (even within the same industry), explaining the prevalence of intra-industry wage differentials (Jenkins, 1991; UNCTAD, 1994a, p. 198).

- World-market oriented foreign affiliates need a reliable workforce to meet quality-control standards and production schedules (UNCTAD, 1994a; Kaplinsky and Posthuma, 1994). In particular, when affiliates are part of global networks of interdependent producers, quality and efficiency dictate the need for a well-trained, stable and experienced workforce (box IX.4). Affiliates in such industries tend to take root in the host environment and offer good wages, benefits and work conditions. They also have high sunk costs for training, infrastructure and supplier systems. By offering attractive inducements, foreign affiliates can induce capable workers to join and to remain with them, and reduce the risk of production errors and delays. These inducements are likely to be especially costly in countries in which local skilled labour and managers are scarce and where there is a cultural bias in favour of domestic firms among prospective employees. Wage differentials *vis-à-vis* domestic firms are also likely to be particularly large where the affiliate has invested in generic skills that workers can transfer to other firms. In the case of such skills, foreign affiliates may also offer higher wages in an effort to poach experienced workers from other firms.

- The size and visibility of many TNCs may make them more prone than smaller domestic firms to unionization and union pressure, as well as national or international action concerning standards of employment.

Box IX.4. New forms of work organization and training needs

Over the past two decades, new forms of organizing production have been adopted in many TNC systems, in parent plants as well as in affiliates. They include total quality control, continuous improvement of processes and products, and group work. Just-in-time delivery and production in small batches to varying specifications are increasingly important in many industries. Moreover, the production of tradable goods increasingly requires compliance with quality standards imposed or recommended by importing countries. They include the various ISO standards, and special codes in some consumer industries, especially foods.

Such demands on process and product quality can only be met if workers are highly motivated and well skilled. Motivation requires an equitable share in the outcome of work and relative job security, as well as a say in day-to-day workplace decisions and shop-floor arrangements. Skills need to be such that workers are able to work on a variety of tasks and jobs within their work team, and that they can anticipate and handle at least minor assembly-line problems, such as minor technical breakdowns. Such competencies require training both on the job and more formally. They also requires that training be continuous.

Source: UNCTAD, based on Humphrey, 1993; Kaplinksy and Posthuma, 1994; Galhardi, 1998.

Notwithstanding the general tendency towards higher wages in foreign affiliates than in domestic firms in similar activities, wages in the former in low value-added activities based on simple technologies are low. In particular, affiliates in labour-intensive assembly operations in EPZs offer low remuneration, often lower than that in the larger enterprises operating in the main host economy, and/or catering to the domestic market (ICFTU, 1999a, p. 24f).[7] In fact, low labour costs are the competitive advantage sought by these TNCs in investing in certain industries or certain locations, such as EPZs. Locating in EPZs may even, in some cases, place affiliates outside the normal wage norms or laws (box IX.5; annex table A.IX.3).[8] Firms in such low-skill industries also tend to be footloose and have little incentive to upgrade the skills and capabilities of their employees (chapter VII). An important consideration, as far as employment quality is concerned, is how rapidly workers can move out of these kinds of jobs into more remunerative occupations. This would require technological and industrial capacity building and boosting trade competitiveness in some higher-value-added industries in which countries might have dynamic comparative advantage (chapters VII and VIII). Needless to say, real wages paid by TNCs in developing countries are generally much lower than those paid in developed countries. These differences are explained in part by differences in labour market conditions as regards supply, and also in part, by differences in labour productivity; generally, productivity in manufacturing in developing countries tends to be roughly 40 to 50 per cent of that in the same industry in developed countries.[9] Notably, wages for low- or unskilled workers are much lower in labour-abundant developing countries than in developed (or for that matter, developing) home countries where labour supplies are less plentiful. It is precisely this wage differential – which is, of course, related to the restrictions on the mobility of labour across borders – that attracts FDI in labour-intensive activities to developing countries. However, labour productivity in some labour-intensive activities is unlikely to differ much between countries, regardless of the level of development.[10], but wages paid by affiliates in developing countries may be at times far lower than warranted by productivity differences.

Box IX.5. Enhancing labour productivity in EPZs: recent trends

EPZs are a strategy to foster exports as well as to promote employment by attracting foreign and domestic investors into export industries by avoiding the constraints imposed by trade interventions on the domestic economy and centralizing the provision of infrastructure and services (chapter VIII). In developing countries, they are often intended to take advantage of low-cost labour, and sometimes offer more liberal labour regimes than elsewhere in the economy, with restrictions on unionization and other forms of collective bargaining (annex table A.IX.3; ICFTU, 1999a, p. 24f). In some zones, working hours or minimum wage provisions do not apply or are not heeded. Most zone-operating countries emphasize employment creation in the first phase of their strategy, and expect that as the pool of experienced workers expands and skill and technology transfers take effect, there will be an evolution towards higher value-added activities, improved work conditions and linkages reaching into non-zone enterprises, which would lead to additional and improved employment in the economy concerned.

The experience of EPZs with respect to attracting employment-generating FDI is mixed. A few have succeeded in generating a considerable number of jobs, of which the majority have gone to women; most of them are in low-skill, low-wage activities. They tend to involve little investment in training by the enterprises concerned and suffer high rates of turnover of workers. The repetitive nature of the work and low social status attached to it mean that many workers leave zone employment as soon as they can afford to.

The advantages of EPZs as a means of generating employment for low-cost, low-skilled labour based, in some cases, on special market access for regional exports, are becoming increasingly undermined by intense competition among developing countries to attract FDI into EPZs, shifting trade relationships, and most importantly, intensifying competitive pressures in the global economy. Global competition now places an increasing premium on speed and reliability in reacting to market trends. This increasingly favours investment locations with highly skilled workers and state-of-the-art infrastructure. For example, the world's leading semiconductor maker, Intel, cited the availability of skilled workers as the major factor in choosing to locate its new Latin American plant in Costa Rica (box VI.7). Singapore continues to attract large amounts of investment on the basis of its highly qualified workforce, despite high wage levels. In fact, high quality human capital is the factor that increasingly determines the quality of inward investment.

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(Box IX.5, concluded)

Host countries are recognizing that fiscal incentives, infrastructure provision, and low-cost labour are not the decisive factors inducing investments in the long-term. "Smart" zones (van Heerden, 1999) have adopted a number of strategies to ensure that labour productivity is continuously upgraded. Measures include incentives to investors to undertake human resource development. Examples include the Penang Skills Development Centre in Malaysia (box IX.7) and the Skills Development Fund in Singapore (Lall, 1996), which provide assistance towards or reimburse a percentage of training costs. In other instances, investment promotion agencies and training institutes enter agreements to ensure adequate supplies of skilled personnel.

Providing skills is not enough, of course, if the social infrastructure is deficient. In many EPZs, workers face difficult commuting problems. In others, housing is cramped, uncomfortable or unsanitary. As a result, workers have trouble maintaining the intensity of production required in highly competitive export industries. Some progressive EPZ employers therefore provide transport, housing, on-site meals, or health- and childcare facilities. To encourage this, some countries, such as the Dominican Republic, offer tax incentives to investors who import equipment for workers' housing and transport.

More broadly, the political environment is also important. Zones with coherent and comprehensive policy frameworks which emphasize human resource development, good working and living conditions and stable labour relations – "the high road" approach – attract quality investors. As labour turnover diminishes, the workforce's familiarity with the jobs to be done improves, and so does the quality and reliability of production. Zones with poor working conditions and low levels of compliance with the labour laws are more likely to attract firms that use low levels of skill and invest little in training – such firms have been dubbed "swallows" that fly away to cheaper locations at their convenience (ICFTU, 1999a, p. 3).

A forward-looking approach to zone-management would therefore encourage and reward best practices in priority areas of human resources development, R&D, information technology, or social services. Steps that could be taken include:

- providing the zone with sufficient financial resources and budgetary autonomy to undertake promotional efforts, monitoring, upgrading, and other activities that can facilitate targeting of quality investors;
- ensuring that the zone is connected to on- and off-site transportation, employee housing, and other facilities that serve to attract and retain a quality workforce;
- establishing, and possibly giving incentives to, specialized zones such as science parks, or technology zones that draw on high-skilled employees;
- accepting — or even inviting — the services of private EPZ developers if they offer to establish facilities that could support skill- and knowledge-intensive production;
- fostering good industrial relations, adhering to and giving support for implementation of core labour standards;
- contributing to systematic skills upgrading through incentives, subsidies, training centres etc.
- providing specialized business services and new trade-facilitation technologies (such as, for example "smart cards" -- magnetic cards used to track shipments) or high-speed telecommunications (such as teleports) which might attract and build up new skills in the workforce.

Source: UNCTAD, based on van Heerden, 1999, forthcoming; annex table A.IX.3; The Services Group, 1999.

With respect to terms and conditions other than remuneration, working conditions and employment standards in foreign affiliates, in general, are not less favourable than those of comparable national employers; often, they rate better than the average in local firms (UNCTAD, 1994, p. 200). In particular, large, well-established and visible TNCs are likely to comply with international standards and not to undercut the labour standards of their host (and home) countries. They apply corporate labour standards uniformly across TNC systems to reap economies of scale, develop marketing advantages or win shareholder approval.[11] In addition,

their brand-name products are often subject to intense scrutiny where consumer groups or NGOs are sensitive to labour-standard or health issues. They adhere to minimum-wage, working hours, overtime and compensation regulations, and regulations regarding the provision of health services or leave, as they seek to attract and retain qualified workers and protect their reputations. Many of the larger TNCs from developed countries are likely to be found in this group (UNCTAD, 1994a; Nelson 1996).[12] However, other affiliates, especially those driven by cost saving and who produce for the lower end of the market, are often more lax. This is also related to the fact that some host governments may relax requirements on employment standards, and exempt some investors from the labour laws applicable in the host economy, as is the case in some EPZs (annex table A.IX.3) .

Many labour markets – in developing as well as developed economies – are frequently segmented by factors such as ethnicity or gender. In some cases, TNCs build on such segmentation: for example, as noted, women account for the major proportion of employment in foreign affiliates in low-value added assembly activities. Differences in wages between female and male workers – even those performing similar jobs or with the same skill levels – have been noted, with women typically earning lower wages than men in national firms as well as foreign affiliates in both developed and developing countries (Elson, 1994; Joekes, 1999; Horton, 1999; Standing, 1999).[13] Such segmentation reflects broader social and economic forces (Elson, 1999). But, TNCs could help redress such inequities by acting as role models for local firms, implementing, for example, measures that enable women to stay employed even when they take on family responsibilities, and investing in the training and promotion of women employees (Yanz *et al.*, 1999; ILO, 1998a, pp. 139). There is no systematic evidence, however, to suggest that they play such a role.

3. Upgrading skills

Sustaining and upgrading employment increasingly requires the workforce to be multi-skilled and reasonably mobile, and to be able to assume wider responsibilities than under traditional systems of management and work division (box IX.4). Employability in the new context needs the upgrading of skills on a continuous basis, often with changing specialization. As technology cycles become shorter, therefore, flexible lifetime learning becomes an essential part of skill formation (ILO, 1998a, p. 107).

The level and evolution of workforce skills in an economy depend directly on the following factors (Ernst, Ganiatsos and Mytelka, 1998):

- pre-employment formal (primary, secondary or tertiary) education;
- pre-employment formal and informal vocational or industrial training;
- formal vocational training during employment, either by the employer or by outside institutions;
- skills acquired informally by experience and learning – so-called “tacit” skills;
- specialized training offered for workers who have to upgrade or change occupational group (or wish to);
- “lifetime learning” offered by different parts of the education system.

There is a complex interaction between these different modes of skill formation, in particular between the general education system and enterprise-financed training. Firms, including TNCs, always undertake some form of training, at the minimum to ensure that technologies in use are deployed efficiently. However, the decision to invest in more advanced forms of training depends on the returns they expect, their time horizon, and the extent of competition they are exposed to. The profitability of training also depends upon the skills provided by the education system, the prospects of retaining trained workers or the “appropriability” of returns to training investments.

Firms, regardless of ownership, have greater incentives to offer advanced training where they can build on employees’ general and cognitive skills, that is where the education base is

strong.[14] Otherwise, the expected economic returns of further training will be low and firms will invest only in minimal operational training, mostly on the job. Similarly, where firms are protected from competition, particularly from international competition, they are less inclined to invest in advanced or up-to-date training. The issue of the "appropriability" of investments in skill formation is a problem that applies particularly to the creation of general, transferable skills that allow employees to move to better paid jobs in other firms. (Skills that are firm-specific do not earn commensurately high wages elsewhere).

TNCs can contribute to skill upgrading by investing directly in training in their affiliates. They can also induce or support local firms, notably their suppliers and buyers, to do so as well. They can influence local competitors or unrelated firms that emulate their practices. They can interact with training institutions to improve courses and teaching materials. They can induce the government or industry associations to set up new training facilities (box IX.7). They may attract or induce training institutions from their home countries to set up similar establishments in host countries. In some instances, governments in conjunction with business associations have established training facilities. For example, in Thailand, training programmes are being run jointly by international chambers of commerce from various countries and the Thai government organized in a consultative working group (Brimble *et al.,* 1998).

All firms train their employees on the job. Some also invest in formal training, within the firm or in specialized training institutions. TNCs tend to be more aware than other firms of the benefits of training and have well-developed routines, systems and materials for training. They tend to use advanced technologies and management systems that call for more intensive training. They can transfer trainers across countries, and send employees to different parts of the TNC system (and to suppliers) for training. TNCs in the same industry sometimes collaborate in offering training courses to each other's employees and to employees of suppliers.

Like other firms, TNCs are reluctant to invest in training if they cannot earn a sufficient return and a large part of the benefits of their efforts accrues to other firms. There is a range of options that firms can choose to remedy these problems. For instance, an enterprise can offer a premium for loyalty whereby wages or other benefits increase more than proportionately when employees stay with a firm, or give incentives in the form of promotion for successful trainees. It can offer bonded training where it provides training only if employees contract to stay on for a designated period after the completion of the training. It can offer financial support for training courses or sabbaticals that employees fund themselves (Godfrey, 1997).

The role of TNCs in skill building differs by sector, industry, or even product line, and among host countries. For instance, some TNCs may start with training employees in low-skill categories and go on to invest in further training them over time as their wages rise and more complex technologies are used. In others, however, rising labour costs and technological upgrading may not converge. For example, in the case of FDI in export-oriented activities where their advantage depends primarily on low wages and simple technologies, TNCs may just move on to other locations as wages rise. Or, TNCs may be in more complex activities but may not find it economical to use more advanced technologies because the cost of training is significantly higher than that of relocating to countries with better skill endowments. In these cases, the host economy may be in a "low-skill trap" where its competitiveness depends on keeping wages low (and providing little education to the workforce); this allows it to produce only low-technology products. In turn, firms have little inducement to invest in skill upgrading because their employees lack the educational base to make training effective. The only way out of this "trap" is for the government to raise basic skill levels and to persuade firms to invest more in training their employees.

Large firms in developed countries, transnational or otherwise, have accumulated extensive expertise in enterprise-provided training. As employee skills have become more significant as competitive assets, they have increased their investment in training. Foreign affiliates are generally better equipped to provide training than local firms in developing countries. Affiliates are more aware of training needs and have established systems to recognize

and reward skill formation. They have access, through the TNC system, to training budgets, departments and personnel, as well as training materials and facilities in other affiliates or headquarters. However, in developing host countries, the level of skills of workers and the intensity of training in affiliates provide a mixed picture. In TNCs investing abroad to utilize their technological advantages, skills and training both in management and on the shop floor tend to be better than in uni-national and local firms. In TNCs investing to take advantage of low-cost labour, the average skill levels may be lower, and relatively little may be invested in further training. Even in low-wage operations, however, export-oriented investments must have high standards of quality and delivery, and so need good skills at supervisory, technical and managerial levels. To some extent, such skills and capabilities can be obtained through frequent visits and other forms of intra-firm cooperation for skills transfer to developing country affiliates (box. IX.6). In the long run, however, building up local capabilities can be cost-effective for firms as well as skills-enhancing for the host country. Various micro-level studies confirm that the skill level in affiliates is a function of the industry, corporate strategy and market orientation.[15]

Evidence also suggests that TNCs react to the availability of skills in host economies by raising technological content and upgrading their investments, in turn contributing to skill upgrading. They provide training on a general level; they also undertake advanced training and work with industry associations, suppliers and governments (box IX.7). However, the extent of training and collaboration is much higher in countries with advanced educational systems, and in technology-intensive activities for export markets.

The issue for developing countries that host foreign affiliates exporting unprocessed, low-value commodities or low-skill manufactures is to enter the virtuous circle of skill upgrading, higher value-added activity and greater better-quality FDI. How can they change the skill mix and ensure that skilled workers find employment commensurate with their skills, and better remunerated, while moving up from their established base of competitiveness in low-skill activities? How can they draw upon the resources offered by TNCs to upgrade their human-capital base while keeping their economy cost-competitive and attractive?

Box IX. 6. Falling "co-operation costs" and global production

In recent decades, new and improved technologies have significantly reduced transportation and communication costs. As a result, it has become easier and much cheaper than before not only to move goods and transmit blueprints, designs, and product specifications between locations, but also to move people and their services around the world. This has made it possible for TNCs to use highly-skilled employees who have the practical know-how essential to make and market products of world quality and who live in one country to participate in the running of production facilities in affiliates in other countries, by means of monthly visits by air for a day or two and frequent phone calls in between. In other words, it has made it feasible for less-skilled or less experienced employees in developing-country affiliates and supplier firms to "co-operate" on a regular basis with developed-country managers, designers, engineers and marketing experts.

The know-how of these highly-skilled workers – design, production, packaging and marketing techniques – comes mainly from experience, not from classroom education and training, and from international connections and facility in cross-cultural communications acquired as a result of particular biographies and career paths. Skills of these sorts cannot be easily or quickly copied or multiplied, which makes them globally scarce and able to command high salaries. Historically, such skills were supplied to the foreign affiliates of TNCs by expatriates and involved long-term relocation of both employment from work in the parent firm and of residence from the home country. However, since the late 1980s, a number of TNCs appear to be moving towards "distance-management", wherein professionals based in the parent firm become increasingly involved with production decisions and processes in foreign affiliates without relocating to a host country; instead, they rely on intermittent field visits and intense communication via new information technologies.

For a TNC as well as the high-skilled employees, there are several advantages from these new forms of cooperation within the TNC system. First, there are economies from the clustering of highly-skilled employees: continuous interaction and face-to-face contact within professional peer groups in the parent plant ensure the acquisition and maintenance of expertise which might atrophy or become

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(Box IX. 6, concluded)

obsolete if those personnel were relocated to foreign affiliates. A second type of economy of scale arises as skills are applied in different locations across the TNC system, enabling the managers and technicians concerned to enhance further their expertise by giving them insight into differing host-country economic and socio-cultural circumstances. A further benefit is the saving that accrues to the TNC as an employer who would have had to pay high salaries to expatriate managers and high skilled staff and to the employees and their families who are spared dislocation costs, although the intensity of work load and stress is likely to increase considerably.

The trend towards reduced reliance on expatriate staff is illustrated by the experiences of Siemens joint ventures in China, described in a recent study (Münch, 1997). In 1992, there were roughly 800 employees, including 50 expatriates, in the company's several joint ventures in China. By 1996, total employment had increased to 8,070, and expatriate employment stood at 100 persons, reducing the share of expatriates in total employment from seven per cent to one per cent. Siemens and its partners are reportedly planning to keep a ceiling on expatriate employment in their joint ventures in China at 100 persons, even under major expansions, and to rely instead on training local middle-level managers with technical or accounting backgrounds. Managers are to be trained in China, with secondment of Chinese managers to Siemens plants in Germany.

For developing countries, the question arises of how this emerging trend in TNC management affects the transfer of know-how and skills. On the one hand, there is a risk that some of the spillover effects expected from TNC presence – such as technological and organizational know-how – might be weakened if the most highly skilled labour becomes increasingly concentrated in developed economies and does not rotate into affiliates in developing countries. On the other hand, local managers stand to benefit from greater responsibility and involvement in decision-making, especially when training and upgrading enable them to absorb technical expertise as well as link into the parent firm's culture.

Source: UNCTAD, based on Tang and Wood, 1999; Münch, 1997.

Box IX.7. Training initiatives in Malaysia

Penang (Malaysia) has a concentration of high technology activities, with many major electronics TNCs engaged in export-oriented activities. The Penang Skills Development Centre (PSDC) was launched in 1989 in response to growing skill shortages. The initiative, land and some financial support came from the State and Federal Governments. The local university and some large United States electronics TNCs participated in the initial venture. Other TNCs and local firms then started to participate and private industry continued to play a leading role in the institution. PSDC borrowed trainers and equipment from the companies, and devised a range of training programmes suited to their needs. Full cost was charged for its services to companies that sent employees for training, and the programmes were continually upgraded and adapted to evolving skill needs.

The PSDC caters to the free trade zones and industrial estates in Penang where there are (in the late 1990s) a total of 650 factories employing over 170,000 workers. Roughly 30 firms and 50 foreign affiliates are members of the PSDC, and over half of the members are from the semiconductor and electronics industries. PSDC has established several training programmes, training centres, and laboratories and workshops for hands-on-training. Since 1989, it has conducted roughly 2,000 courses with 40,000 participants. Workforce transformation programmes have been developed in collaboration with a number of TNCs. These programmes provide the skills needed for production operations to take on basic technical duties previously performed by engineers.

Initially, the PSDC was unique, but now most States in Malaysia feature a similar institution to train shop-floor workers. To fund such enterprise-oriented training, the Government of Malaysia in 1992 established the Human Resource Development Fund (HRDF). Firms in the manufacturing industry with more than 50 employees are required to register with the HRDF Council and pay a levy of one per cent of their monthly payroll. Firms with fewer than 50 workers can also register, and are required to contribute 0.5 per cent of the payroll, and in their case, the HRDF contributes twice the amount contributed by employers.

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(Box IX.7, concluded)

The HRDF is designed to:

- Produce a better-trained, productive and efficient workforce;
- Enhance productivity increases; and
- Ensure that the level of training is fine-tuned to each enterprise's technological environment.

Training schemes combine both formal classroom study and factory training and can be designed to cause minimum disruption to production. Thus it can be provided either on-the-job and/or off-the-job. The HRDF also supports industry-managed training centres , which are expected to ensure that training is tailored to the knowledge and skill requirements of the enterprises concerned. The Fund also encourages collaborative training. If, for example, large enterprises, such as TNCs, have excess training capacities, they can offer training places to employees of other enterprises, particularly the smaller enterprises which may not have the expertise and resources to formulate and run their own training programmes, or which function as sub-contractors to TNCs. Such training is also eligible for HRDF training grants.

Source: UNCTAD, based on Lall, 1996; Penang Skills Development Centre; Human Resources Development Council of Malaysia (websites http//:www.psdc.org.my and http//:www.malaysiaexpo.com.my; retrieved in July 1999).

D. Conclusions and policy implications

The employment-generating potential and the role that inward FDI might play in upgrading employment and building the skills base of an economy depend primarily on the amount and type of FDI that a country receives and the strategies of the TNCs involved in making the investments. Except in highly capital-intensive activities such as mineral resources exploration, FDI can add to the quantity of employment in a host country, especially if it involves the establishment of new production enterprises without the crowding out of existing ones. The quality of the employment generated in foreign affiliates is often as high as or better than that in comparable domestic firms. However, the sustainability and growth of employment provided by foreign affiliates vary considerably among host developing countries, depending upon whether foreign affiliate activities are upgraded as labour market conditions and the structure of domestic and foreign demand change over time. The prospects for such upgrading are high if the domestic educational and skills building systems and TNCs' own contributions to training and human resource development continuously improve the skills and capacities of workers so that they are able to adapt to higher technology-intensities and changes in tasks assigned to them in production.

Good policies are crucial, as governments pursue the twin goals of generating employment and enhancing its quality. Policies affecting employment are not made in isolation, but are closely linked to institutions that evolve over time. The latter comprise the labour market framework, including, among others, industrial relations and collective bargaining mechanisms; the framework for business, including commercial laws and competition policy, and business sector organizations such as chambers of commerce; and the system of education and training institutions that provides generic and specialized skills development. Furthermore, governments are increasingly subject to influences and pressures from constituencies inside and outside their countries. These factors have implications for the formulation of employment- and skill-generation policies by developing countries, including policies for maximizing the contributions and minimizing adverse effects arising from FDI and TNC operations in their economies.

Each country's policy needs in the area of FDI as it relates to employment and skills upgrading vary, depending upon its level of development, its trade and industrial strategies, the nature of its education and training system, and the role assigned to FDI. Some developing countries – especially those economically less advanced or with large numbers of unemployed persons – are likely to attach priority to increasing employment, and fostering a shift from simple

to higher value-added production. This would suggest focusing on FDI that employs basic skills. To attract such FDI, governments need to ensure that labour markets are efficient, that the education and training system is able to meet emerging skill needs, and that firms invest in additional job-related training. Economies that have less pressing unemployment problems or are more advanced technologically are likely to focus on maintaining and strengthening their skills edge. For them, focusing on policies to induce TNCs to introduce the latest, most sophisticated technologies and to back that up with advanced training and diffusion of best practice in skill creation and work organization would be more appropriate. In either setting, a combination of good industrial relations, well-conceived government policy and competitive markets is necessary.

Traditionally, governments, employers, employees and their representative institutions have been the main players in employment policy. Things are changing, however: roles and responsibilities are shifting and new actors are appearing on the scene. The role of governments has generally diminished, but a variety of government policy instruments continue to influence employment. Parallel to central governments, local governments have become active, often attempting to increase employment by attracting new economic activity. They offer incentives ranging from tax advantages to industrial parks, technology centres, regional growth triangles, or the more classical EPZs. At times there are "locational tournaments" among districts within countries, as well as among countries (Mytelka, 1998a).

A second influence on employment-related policies is that of trade unions. Over the past decade, economic restructuring, globalization and economic crises have weakened trade unions. Membership has declined in many countries – both developing and developed.[16] This has reduced their capacity to advise and influence governments towards best labour practice. In response to globalization, and to re-capture their influence, international associations of trade unions are currently devising a more internationalized approach when formulating strategy for negotiations and consultations to achieve labour-related objectives –a difficult task indeed (UNCTAD 1994a, chapter VI and IX; Breitenfellner, 1997).

In addition to governments, enterprise management and labour unions, other "stakeholders" also now take an active interest in labour issues and influence government policy. They include consumer groups and other NGOs concerned with environment issues or human rights concerns, and company shareholders. Consumer activism, for example, has served to reinforce trade union pressure, particularly in some consumer goods industries, as illustrated by the recent campaigns for better work conditions, higher remuneration, workplace safety, job security, or compliance with core ILO labour standards (see, for example, Lee, 1997).[17] Some company shareholders and investor groups are also screening investment patterns against social criteria, including labour-related issues, with an eye on "ethical investment" (chapter XII). This too is likely to influence government employment policy, albeit indirectly and over time. Last but not least, in the new context, TNC systems, including parent firms and/or their foreign affiliates, have emerged as agents that influence employment policy and can play a role in influencing employment conditions and the skills being used.

The discussion below examines policy areas and measures that influence the volume and skill-intensity of TNC-generated employment, and proceeds to consider the broader context of the industrial relations in which such measures and activities are anchored.

1. Employment policies and instruments

Based on their primary objectives with reference to employment, government policies can be grouped into two sets: those related to employment creation and those related to employment and skills upgrading. These can be further divided into policies that work directly and those that work indirectly to influence FDI and TNCs. The former typically include policies that explicitly focus on FDI and are in the domain of investment-promotion agencies or similar government-run or para-statal agencies. Most policies, however, work indirectly by enhancing

the labour market environment and institutions, industrial relations, and the skills quality and mix of human resources. They include, for example, the measures available under trade, industrial, competition and infrastructure policies. They also include various measures and incentives for promoting the development of local firms – potential partners for FDI and competitors of foreign affiliates. In a long-term perspective, they comprise policies related to science and technology and human resource development policies. By affecting the composition of industries, supplier chains and linkages, and the quality and regional distribution of employment in a host economy, these policies have a bearing on the amount and type of employment generated by inward FDI (figure IX.1).

a. Employment creation

If the objective is to increase the quantity of employment generated within host economies by TNCs, the menu of options for governments includes the following measures:

- Governments can take measures that increase FDI inflows generally. Investment in greenfield plants is likely to create additional employment – provided local enterprises are not crowded-out of the market. Investment by means of M&As can help conserve existing employment and, over time, help it to expand. Policies and measures to attract FDI – generally or in specific activities – have been described in chapter VI.

- Governments can target certain types of "employment-intensive" FDI. Since different industries feature different direct and indirect employment effects, a case can be made for pro-active market-friendly policies or careful selective intervention (Lall, 1995a, p. 534). For example, governments might decide to attract investment into industries that are labour intensive – such as garments or services – or which feature strong linkages with suppliers in the host country, so that employment in supplier networks is stimulated. A variant of this is to attract FDI to particular regions of the host economy where unemployment or underemployment is especially acute. Similarly, targeting by industry or region can be used to create employment for groups deserving affirmative action or to address poverty. A government might choose, for example, to increase the employment of women if it is felt that improving women's economic status will contribute towards overcoming poverty and enhancing development.

- Fiscal incentives may be provided to encourage employment generation by foreign affiliates. These may take the form of tax deductions or transfers such as subsidies on inputs, or preferential loans. For example, affiliates can be offered a reduction of taxes on profits through a double deduction of labour costs from profits. This could be linked to the numbers of jobs created in a given industry or economically depressed area. A refinement in this strategy is to target labour-intensive projects or industry segments. An investment could be assessed as labour-intensive based on threshold labour-capital or labour-output ratios, or simply when it creates a specified minimum number of jobs within a given time frame. The caveat on such measures is that TNCs' investment decisions are based on a host of variables, so that the incentives offered may merely be "icing on the cake" and divert scarce government funds away from expenditure on much needed public goods such as transport or educational infrastructure. Also, such measures face problems of definition and measurement (of costs and benefits), and risk being manipulated or abused through rent-seeking behaviour.[18]

- To even-out employment among regions, wage tiers differentiated by districts might be applied, provided that a collective bargaining mechanism is involved in establishing such systems of graded minimum wages. These may serve to attract FDI into economically depressed or remote areas. The effects of such wage policies are mixed, however, since the choice of investment location is driven primarily by productivity and labour quality, as well as other factors unrelated to labour costs, rather than nominal wages.

- Another increasingly popular policy measure that is relevant for efforts to induce FDI in order to increase employment is to provide industrial parks where the basic industrial

infrastructure is put at the disposal of firms under guarantee that services in the park will be reliable and of good-quality. In addition, EPZs are measures that have a long tradition and have in general included the availability of amenities required for industrial production. Over the past decade, cross-boundary arrangements to tap resources – growth triangles – have also emerged and, in some of these, employing local labour is a major rationale inducing participating governments to engage in the projects. These arrangements generally feature some type of incentive structure and governments need to weigh the cost of foregone tax revenue and outlay on the zone's infrastructure against the benefits generated in terms of direct and indirect employment and export earnings. As discussed earlier, these special areas, designed to attract low-cost labour-intensive FDI, may sometimes be accompanied by a laxity of employment and labour practices. These need to be avoided by instating labour regulations and collective bargaining mechanisms. Maintaining standards has proven conducive to efficiency, productivity and performance in the long term (box IX.5).

b. Upgrading employment and skills

The importance of improving the quality of employment generated and upgrading the skills and skills-acquiring capabilities of workers is difficult to overstate (ILO 1997a). It may appear to conflict, at least initially, with the need to raise the volume of employment. In fact, however, as discussed earlier in this chapter, the two objectives may actually converge in many cases. When governments' objectives with respect to inward FDI and the activities of TNCs include those of upgrading employment and improving the skills base, they can draw upon various options for attracting FDI in technologically more sophisticated and skill-intensive industries and activities and for encouraging TNCs to enhance the training, formal and informal, provided to employees.

Policies for human resource development are the groundwork. Basic education ensures that the population is not only employable and mobile, but is also able to take in new skills and responsibilities. Since such education is in essence a public good, [19] it needs to be delivered by governments.

As regards policies for human resource development related to FDI, if the goal is to attract FDI into skill-intensive industries and activities, as discussed earlier, the most powerful factor is the education and skill base of the workforce that determine its productivity and capability to learn on the job. Singapore provides a striking illustration of heavy national investments in education and training with a view to attracting FDI while inducing it to upgrade (box VII.ll; Lall, 1996). Many of the Central and Eastern European countries have also attracted FDI due to the high educational and technical qualifications of their workers.

If the objective is to upgrade the quality of the labour force, governments have several options regarding workforce training and education, including measures directed at foreign affiliates:

- Governments can rely on the public education system. They can launch schemes to provide specific forms of training for activities they wish to promote. However, many developing country governments are constrained by limited budgets and prefer to reserve resources for primary education. In such cases, publicly-run training programmes may be weak and inefficient, since salaries and equipment are meager, so that qualified instructors are not available. One remedy is to use official development assistance to implement training programmes. There is, however, still a problem in that it is difficult for governments to anticipate the precise training needs to correspond to the FDI attracted and the jobs generated over time.

- Governments can initiate public-private training partnerships to complement publicly-funded or TNC-based training. In such partnerships, governments and TNCs, or their affiliates in the host country concerned, can each seek to influence employment effects in

accordance with their respective priorities, while sharing the financial burden of training. For instance, governments might offer compensation to firms by granting tax deductions on training expenditure, subsidizing training costs through financial transfers, financing the salaries of instructors, or offering training premises and equipment. They can encourage firms to collaborate with each other or with government training institutions. Governments can foster the development of private-public training centres and institutes; modalities of sharing could be to provide public premises free of cost but require participating affiliates to cover trainers' salaries and building-maintenance costs, and to supply training materials and equipment.

- Governments can foster employee-training programmes by companies, including foreign affiliates. A combination of levies and grants for training is one instrument that is widely used. To encourage affiliates to offer training, it can allow double deduction for expenses incurred in-house, or for the costs of sending employees to training programmes. Another fiscal measure is to penalize firms that invest too little in training.

- Skills audits are yet another technique: governments undertake surveys among affiliates and supplier firms to ascertain their current and projected training needs, and register the skill requirements of prospective investors. This information then needs to be channelled to the appropriate training institutions. A combination of such tools has allowed a number of governments to succeed in creating a "training culture" -- an environment where the value of continuous skills upgrading is generally appreciated -- thereby enhancing a country's reputation as a suitable location for skills-intensive investment. Providing recognition to affiliates that have been especially active in the realm of employee training and certifying course content and achievement, are other measures to foster company-based training.

- Governments can rely on private institutions for certain purposes. Private education may outperform public education, particularly in vocational training, if governments face resource constraints for purchasing the equipment needed for apprenticeships and vocational training.

The above measures refer to human resources development for workers at the shop-floor level. An equally important element in attracting FDI that will upgrade employment is to ensure that TNCs find professionals and provide local training as well. This includes technicians and engineers; plant, personnel and sales managers; accountants and market analysts. A number of policy instruments can be used for this purpose. Payroll taxes can be calibrated financially to benefit local employment or a large share of high-skill employment, expatriate or local. A longer-term strategy is for governments to train actively, or arrange for the training of, local professionals. Tertiary education in areas such as engineering and management can be provided publicly – with host government assistance or through official development assistance – or commercially. Parallel with that, conditions with respect to the share of local staff in affiliates' management can be negotiated with investor TNCs, or incentives such as rebates on wage-based taxes can, again, be offered.

If governments choose to attract commercial providers of professional training and education, they might need to adapt their regulatory framework with respect to foreign participation in educational services. This might mean allowing entry of certain types of professional training institutions run by foreign entities or more actively, granting tax incentives to them. TNCs may have a special interest here – as users of such services for their employees, or as providers of education services (box IX.8).

It was noted earlier that gender imbalances, notably wage gaps between the wages of women and men workers, prevailed in foreign affiliates as well as in domestic firms. If governments are interested in upgrading employment, one avenue to consider is to institute and implement equal wage policies and to give incentives to firms to retain women workers. When women's wages are not commensurate with those of men workers, they are more prone to withdraw from the formal-sector labour force when they take on family responsibilities.

Box IX.8. FDI in business education: recent trends and considerations

To be competitive, developing countries need the skills of highly-qualified managers, scientists, engineers and civil servants. These require basic as well as higher education. Traditionally, governments play an important role, directly and indirectly, in the provision of educational services, and are wary of foreign service providers in this culturally and politically sensitive area. However, given the constraints on public expenditure, private delivery of higher education is often used to supplement public investment in institutions of higher learning, and that could be expanded to include foreign providers as well. Business or management schools are a reasonable candidate for such private foreign delivery, since they cater specifically to the enterprise sector, where costs and benefits are more easily discernible.[a] Moreover, managers familiar with modern business practices, especially organizational and managerial practices in use in developed countries, are in rising demand in domestic firms and foreign affiliates in developing countries. China, for example, projects a need for a staggering 1.4 million MBA graduates for the early 2000s. Current enrolment is 30 000 students. [b]

Accordingly, a number of developing countries are opening the business and technical education segments of their educational services to foreign private service providers (WTO, 1998b). This has coincided with the need of many business schools, especially those in developed countries, to find new sources of revenue.[c] Several universities from developed countries have established programmes of business management in developing economies and economies in transition.[d] They have entered into joint ventures with local partners (for instance drawing on venture capital such as that of alumni[e]), collaboration with corporate universities [f], direct investment in educational facilities (local offices in host countries or actual campus sites) or non-equity alliances with ministries of education[g] or chambers of commerce [h]. Courses on offer range from ad-hoc executive management courses to full-fledged multi-year MBA programmes.

For host countries, the presence of foreign business schools can offer some advantages, notably in comparison with the prevailing principal modes of delivery of educational services across borders, by means of student attendance at universities abroad, or (to a lesser extent) distance learning through postal or electronic means. On the educational side, they can increase student numbers and expose them to internationally recognized curricula and teaching styles. Graduates can tap into worldwide networks of alumni. This, in turn, can facilitate soft technology transfer – for instance, organizational practices - and thereby attract TNCs who seek local staff with global management qualifications. Financially, in-country training could contribute to easing balance-of- payment problems. In many developing countries, as many as 30 per cent and more of tertiary-level students were studying overseas in the early 1990s (UNDP, 1997, pp. 180-181); the provision of educational facilities locally may therefore have a positive effect on the balance of payments. Indeed, to reduce foreign exchange outflows associated with study abroad, several economies in Asian and the Pacific have allowed domestic private universities to offer courses accredited at overseas universities, or foreign universities to set up subsidiaries in their country (WTO, 1998b, pp. 7-8.). Moreover, if run efficiently, business schools in a country can become a hub of training for a region and attract students from neighbouring countries, thus generating foreign exchange from this services export, or becoming "educational TNCs". Several Southeast Asian countries have been pursuing the former avenue. Examples include Malaysia and Thailand - whose English-medium fee-paying management courses are attractive to students from throughout the region - and several universities in Latin America which have developed MBAs jointly with foreign business schools.[i]

These emerging trends point to two possible policy considerations for governments:

- Governments might consider opening selected areas of educational services to FDI, for example specifically to augment the number of business-oriented programmes available. While relaxing some entry requirements, they might nevertheless impose defined quality standards such as requiring accreditation in established MBA systems [j], and more generally require compliance with the relevant standard-setting conventions under the auspices of UNESCO or other international organizations (WTO, 1998b, p. 17). In their commitments under the GATS (WTO, 1995), for example, most of the 21 countries which, so far, have made commitments on educational services (WTO, 1998b, p. 22) have included limitations in their schedules designed to retain government influence over the sevices. Examples include:
  - making partial commitments which limit entry to specified sub-sectors;
  - retaining equity ceilings and limitations on the acquisition of real estate;
  - having limitations on national treatment;
  - limiting access to public financial assistance for foreign students;

/ ...

(Box IX.8, concluded)

- making prescriptions on authorization and licensing requirements, and
- making specifications on the presence and required qualification of natural persons engaged in higher education (WTO, 1998b, pp. 11-12 and 22-24).

- A second consideration for policy makers is to look beyond business education training geared to managers for the private enterprise sector, to public administration training for staff in governments and parastatals. Such programmes might be cross-subsidized from MBA programmes, or co-funded from bilateral development co-operation programmes.[k] This could contribute to capacity building in the crucial area of policy formulation and implementation.

Source: UNCTAD, based on *Financial Times Survey: Business Education*, 17 May 1999; *International Herald Tribune* 10 May 1999; Hiebert, 1999; and websites of the following institutions: Association of MBAs; Harvard University; International Association for Management Education; International Executive Development Center; International Institute of Management Development; Loyola University (Baltimore); Monash University; Mt. Eliza University; Tulane University; Wharton School of Business.

[a] Management expertise is predominantly a "private" asset - students regard business school fees as an investment from which they will appropriate high income as a result of the training received. Hence, management training is less contentious than other areas of higher education as far as private, domestic or foreign provision is concerned.
[b] Data from www.aacsb.edu, July 1999.
[c] *Financial Times*, 17 May 1999.
[d] Random examples include Bocconi University (Italy), active, inter alia, in the Russian Federation; Monash University (Australia), present in Suva, Jakarta, Hong Kong, China and Kuala Lumpur; the University of Bath Business School (United Kingdom) which has an alliance with the Malaysian Institute of Management; the London Business School (United Kingdom) which cooperates with Hong Kong University of Science and Technology; and McGill University (Canada) which runs several business schools in China.
[e] Harvard Business School is currently exploring this modality in the MERCOSUR countries.
[f] The latter are becoming major competitors to or co-providers with conventional business schools. For example, the International Institute of Management Development at Lausanne is the result of a merger between two former corporate universities in Switzerland, those of Alcan, Geneva and Nestlé, Vevey (*Financial Times,* 17 May 1999). In the United States alone, there are as many as 4,000 corporate universities, many of them based within TNC systems.
[g] For example, CIAPA in San José, Costa Rica was founded in 1975 as a private research institute, in a collaboration between the Government of Costa Rica and Tulane University.
[h] The International Executive Development Center (IEDC) in Slovenia, for example, was established in 1986 by the Chamber of Commerce of Slovenia and private companies as contributors.
[i] For instance, ILADES in Santiago de Chile offers MBA courses delivered in Spanish; the degree is conferred by the Sellinger School of Business and Management, Loyola College (Baltimore).
[j] Such as, for example, those of the International Association for Management Education (AACSB) (St Louis, Missouri) or the Association of MBAs (London).
[k] For example, some Canadian and Australian business schools cover public management in their teaching programmes in developing countries, and have partnerships with the public management academies found in many developing countries; the Fundacao Getulio Varga in Sao Paulo, Brazil, is a business school that also offers a degree in public administration; it has a cooperation arrangement with Bocconi University (Italy). Similarly, the Centro de Investigación y Adiestramiento Político y Administrativo in Costa Rica (CIAPA) offers research and seminars for high-level government officials and other professionals on political, social and economic issues in Latin America.

Where family-care amenities (day care, support for ailing or elderly family members) are available, it is easier for women to retain their employment. Longer tenure of these employees is usually in the interest of affiliates, since they have provided some on-the-job training. Experienced workers are an asset. Therefore, government measures enabling or supporting the longer-term employment of women workers can reinforce the goal of upgrading employment in the host economy. Possible tools include equal wage laws; moral incentives such as awards for compliant affiliates (designations such as "government-certified equal-opportunity employer"); the provision of government-funded social facilities; and subsidies and tax breaks for affiliates that provide such facilities or invest particularly in the training of women workers and women professionals.

2. Industrial relations

Whether a government is primarily concerned with generating a large number of jobs, or moving an increasing number of workers into higher-quality jobs requiring more skills and paying good wages, the industrial relations regime has a strong role to play. The type of institutions, laws, and standards in place with respect to trade unions and their collective bargaining rights, and labour-management relations vary greatly among countries and regions. The differences among countries are often influenced more by socio-cultural factors than by strictly economic ones. Regardless of how labour and management interact with each other, stable and reliable relations and collective bargaining frameworks are necessary both for TNCs and their affiliates to function effectively and for host country employment objectives to be met. Where industrial relations are unstable, tense or frail, both FDI and employment are likely to be fraught with problems.

Many foreign affiliates recognize, and have bargained with, trade unions for decades. Others do not, either because their workforce has not insisted on such relations or because management has resisted or suppressed union organization (ICFTU, 1999a). In looking for a pattern in trade union relations with TNCs, it is clear that the dominant influence is the prevailing industrial relations system in the country concerned. The "nationality", or home country, of a TNC is also important, but there are plenty of examples of foreign affiliates following the norms of the country in which they are located rather than the norms of their home country. However, there are signs of change both in management thinking about relations with trade unions and in union strategies for addressing the need to represent workers in companies that are planning and acting with a global perspective.

This global perspective is reflected in increasing international contracts among trade unions. These contacts are accelerating especially within the European Union as a result of the European Union Directive on European Works Councils (UNCTAD, 1994a, pp. 249-273 and pp. 364-369). Such arrangements seems to be more common in firms in which national-level union management relations are widespread and an international dimension is a logical step for both sides. The discussions usually take the form of consultations rather than collective bargaining over contracts of employment; these remain at the national level. Examples include works councils established by agreements between Danone and the International Union of Food, Agriculture, Hotel, Restaurant, Catering, Tobacco and Allied Workers Associations (IUF), and between Statoil and the International Federation of Chemical, Energy, Mine and General Workers' Union (ICEM), and AXA and the International Federation of Commercial, Clerical, Professional and Technical Employees (FIET).

For unions, the main objective is to enlarge the opportunities for workers to organize and advance their interests. They have therefore focused on a series of core labour standards enshrined in seven ILO Conventions (box IX.9; annex table A.IX.4). These codes are universal and apply to both domestic and foreign firms in a country.[20] In addition, unions have sought commitments from companies and industry associations on the independent verification of systems for monitoring the observance of these codes. In the meanwhile, a plethora of corporate codes has emerged. Some of them are formulated in cooperation with NGOs and, to some extent, are beginning to complement the long-established OECD Guidelines[21] and the ILO Declaration of Principles Concerning Multinational Enterprises and Social Policy (box IX.9; annex table A.IX.4) – the principal international codes focusing specifically on TNCs. Nevertheless, the latter remain in force, and many governments and some sections of the business community are ready to respond to trade union proposals to update and strengthen these universal instruments.

As a result of these various interlocking trends, the dialogue between unions and TNCs is becoming increasingly complex and sophisticated. It is also no longer restricted by national boundaries and has an international character that is likely to evolve still further. The question of whether unions and TNCs are "enemies or partners" is becoming harder to answer and perhaps obsolete. Antagonistic relations tend to be publicized more frequently than the more subtle forms of contact and dialogue over issues of common concern.

To conclude, good industrial relations can serve to enhance employment and further the goal of upgrading employment quality and skills in foreign affiliates. Their merit is to facilitate communications, and to accommodate constructive negotiations which can bridge the conflicting objectives of governments, TNCs and their affiliates, and the representatives of labour. Functioning industrial relations are a prerequisite if severe imbalances are to be avoided; they are thus in the best interests of domestic development as well as long-term FDI.

Box IX.9. Core labour standards and FDI

Since its inception in 1919, the International Labour Organization has been promoting fundamental rights at work. In this effort, conventions – international treaties subject to ratification by ILO member States — and recommendations — non-binding instruments setting out guidelines to orient national policy and action – are the key instruments. Conventions and recommendations are designed to have a concrete impact on working conditions and practices, and they establish benchmarks against which the rights and conditions of workers are measured.

Out of over 180 existing conventions, the Governing Body of the ILO has identified seven "core conventions" as fundamental to the rights at work. They were reaffirmed recently in the Declaration on Fundamental Principles and Rights at Work and its Follow-up (adopted by the ILO Conference in 1998). These conventions are relevant to all employers, including TNCs and their affiliates. They include :

- Two conventions concerning the abolition of forced labour (conventions 29 and 105). They are the least contentious and most widely adopted ; most countries bar the import of products produced by forced labour.
- Two conventions assuring basic rights for both employers and workers: freedom of association and the right to organize and to collective bargaining (conventions 87 and 98). These conventions assure a smooth flow of information between labour and management, and enable a productive settlement of disputes. Collective bargaining can help to clear labour markets and ensure that workers' wage or other employment-related demands receive due consideration. For affiliates operating in an environment that they do not know well, trade unions and collective bargaining can render the local labour market more transparent and predictable.
- Two conventions regarding discrimination : that prohibiting discrimination on the basis of race, colour, sex, religion, political opinion, national extraction or social origin, which might impair equality of opportunity or treatment in employment or occupation (convention 111); and the convention on equal remuneration for men and women workers for work of equal value (convention 100). These conventions reflect basic human rights. Moreover, they can function as a lever for upgrading employment, for instance if they help in assuring all groups of the labour force of equal remuneration. When offering equal pay for equal work, employers contribute to overcoming segmentation in labour markets, and this might serve as a signal to employees that it worthwhile to upgrade their skills since this will lead to higher wages, regardless of their gender or social affiliation.
- The minimum age convention (convention 138) , which stipulates that adolescents cannot be employed before reaching the end of compulsory schooling and at least 14 years of age. This convention has come into the limelight in recent years, as ethical investor groups and consumer and labour rights NGOs demand that employers in general, including transnationals, their affiliates and subcontractors, adhere to minimum age regulations.

Other conventions that have a bearing on the activities of affiliates include :

- The convention on minimum wage fixing (convention 131);
- The convention of the working environment (air pollution, noise and vibration, convention 148);
- The convention on home work (convention 177) (box IX.2).

With respect to TNCs specifically, the ILO adopted the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy in 1977. Its aim is to encourage the positive contribution that TNCs can make to economic and social progress and to minimize and resolve the difficulties to which their various operations may give rise. The Declaration exhorts Governments to ratify the core conventions and TNCs to comply with them. The Declaration also recommends practices regarding the employment of local labour and local sourcing as mechanisms to increase employment in host economies. Governments, transnationals, and trade unions report to the Governing Body of the ILO every three years on the effect given to the Declaration.[a]

Source : UNCTAD, based on ILO (www.ilo.org/public).

[a] For ratification status in member States of the ILO, see annex table IX.4.

Notes

1 *The Economist*, 29 March, 1997. The Republic of Korea and Singapore also ranked among the top scorers in science.

2 Estimates for employment in EPZs range from three to 4.5 million (Van Heerden, 1999 and annex table A.IX.3). In some countries, EPZ employment is included in estimates of employment generated by foreign affiliates; in others, it is recorded separately and so it is not clear whether the figure is in addition to, or included in, that for total employment in foreign affiliates.

3 It is difficult to judge if EPZ employment has increased, as consistent data over time are not available.

4 For a discussion of indirect effects, see Parisotto, 1995; Aaron and Andaya 1998; Dupuy and Savary 1993. Employment multipliers by industry are available on a consistent basis only for the United States, where the Department of Commerce calculates from input-output matrices the additional employment created for each new job in a given industry. In manufacturing, these multipliers range from three to as high as seven (the latter in food and kindred industries). (See United States Department of Commerce, Bureau of Economic Analysis, 1999.) The prospects for substantial indirect employment generation are illustrated at the firm level by the automobile plant established in the mid-1980s by Nissan, the Japanese automobile manufacturer, in Sunderland in Northern England, a region hard hit by a decline in its traditional industrial base. The plant grew over the next 10 years to employ 4,350 people. Several suppliers and subcontractors located production facilities in the region, accounting, collectively, for 20,000 employees (Bridge, 1998, p.2).

5 A recent study for Thailand, for example, provides indirect employment multipliers for FDI in that country on the basis of a 1980 input-output table for that country. The indirect multiplier for total manufacturing is 1.7; the multipliers range from 7.8 in the non-electrical machinery industry and 6.5 in food, beverages and tobacco, to 0.5 in wood and wood products (Brimble, *et al.*, 1998, pp. 12 and 29).

6 Some developing economies for which studies show that foreign affiliates pay generally higher wages than local firms include Côte d'Ivoire; Hong Kong, China; Indonesia; Malaysia; Peru; Singapore; Thailand; and Venezuela (UNCTAD, 1994a; Aitken *et al.*, 1995; Ramstetter, 1994).

7 For instance, EPZs in India and Mauritius pay lower wages than the rest of the manufacturing industry (Joekes, 1995, p. 27); the ICFTU reports that in 1995, in Manila, the minimum wage was $5.27 but in one EPZ surveyed, it was $4.90, and that similarly, up to 30 per cent of workers in six Asian countries studied received wages below the legal minimum wage for their occupation. In Sri Lanka and Bangladesh, when workers earned the minimum level, it was reportedly due to overtime work. (ICFTU, 1999a, pp. 24-25).

8 The implications of this low-wage employment for the welfare of the workers involved depends upon the alternative employment opportunities that would have been available if the FDI had not taken place. Obviously, where there are few other employment opportunities or none, there is a net increase in economic welfare from the generation of even low-paid jobs. Workers may also accept lower wages in order to achieve at least a certain minimum level of income (Elson, 1996). In the wake of the Asian crisis, some impoverished groups were prepared to accept "sweatshop jobs" as a last resort, preferring an unsafe and underpaid job to no work, or to prostitution. See for example Aaron and Andaya, 1998, p. 20; ILO 1999.

9 For example, the average value added in manufacturing for a group of nine developing economies was $31.00 as compared to the average for a group of 12 developed countries of $76.00. In some industries, such as glass and glass products, other non-metallic mineral products, iron and steel and non-ferrous metal, the average for the developing countries was close to 50 per cent of the developed-country average. In others, such as machinery, both electrical and other, the developing-country average was close to 30 per cent of the developed-country average. (Based on data from UNIDO, Industrial Database, 1998. The developing economies included in this comparison were Chile, Colombia, China, India, Malaysia, Republic of Korea, Singapore, Taiwan Province of China, and Uruguay. The developed countries were Canada, Denmark, Finland, Germany, Greece, Japan, Netherlands, Portugal, Ireland, Sweden, United Kingdom and United States).

10 An example from the garment industry illustrates this: in the mid-1990s, labour costs (wages plus social security and related costs) ranged from over $20 per hour in developed countries such as Switzerland, Japan, and Germany to less than $2 per hour in most developing countries. In the East Asian newly industrializing economies, hourly wages costs stood at $3 to $5. This was one factor in generating outward FDI from these locations, and relocation of TNCs from the East Asian economies to other host countries (Lall, *et al.,* 1999, pp. 21-22), and *Far Eastern Economic Review*, 30 March 1999.

11 Analogous effects are observed with respect to compliance with environmental standards (chapter X).

12 Consumer goods industries, where compliance with social standards is a component of brand-specific goodwill, place greater premium on "reputation" and tend to be better employers than those with less public interface; see Nelson, 1996, p. 47.

13 Data for the 1980s to mid-1990s for a number of developing countries show that women's wages (not controlled for occupational group) are at 50 to 90 per cent of male wages (Tzannatos 1999, pp. 557-559; Standing, 1999, pp. 593; Horton 1999). These data are for all firms, domestic and foreign. Studies focusing specifically on TNCs have found similar patterns: in foreign affiliates in Brazil, for example, wages of men workers were double or more those of women workers. The grading of female and male occupations was such that hourly wage rates for men workers were higher than those of women in the same areas of employment and occupation (Humphrey, 1987, p. 41). This has also been observed in the garment industry in some developing countries (Elson, 1994). In the newly exporting segments of some developing countries' industries, it has been noted that the wage gap between male and female workers is small or absent and, in some countries, there is strict adherence in EPZs to payment of equal wages (ILO, 1998c). But male resistance to equal wages and the concentration of women workers in EPZs are conducive to a fine classification of occupations and their allocation to one or another gender, allowing room for wage discrimination to enter by the back door (Joekes, 1999).

14 This assumes that all firms are fully aware of the benefits of training. This is often not the case, even in advanced industrial countries. Many firms are unaware of their skill needs or of the benefits of further training, especially when the managers themselves are not highly educated. In developing countries, this problem may apply particularly to SMEs, and is less likely to apply to foreign affiliates. On the economics of training within enterprises, see Godfrey, 1997.

15 A study of Japanese affiliates in Brazil, for example, found that the introduction of total quality circles and just-in-time production methods required workers with above-average skills. These firms required workers with at least primary level education (eight years). Where they could not find sufficient qualified workers, they invested in adult education and short courses in literacy, numeracy, and group work techniques (Humphrey, 1993, p.109). The same pattern was observed in TNCs in the automotive industries in Thailand, which required at least full primary school education, and undertook training efforts (van Assouw, *et. al*, 1999). In contrast, another survey, also in Thailand, found that TNCs had lower shares of skilled employment in total employment than locally-owned firms across a variety of industries, such as electrical and computer industries. The share of skilled employees in total employment of United States and European affiliates was 16 per cent, in Japanese affiliates 15 per cent, and in Asian newly-industrializing enterprises affiliates 10 per cent, compared to 18 per cent in local firms (Cortes *et al.,* 1998, p. 14). The explanation probably lies in the low-technology nature of assembly operations in ostensibly high-technology industries.

16 ILO press release, 22 December 1997.

17 In some instances, protectionist motives may lie at the origin of such initiatives, as for example when rising trade in developed countries arouses a fear that cheap imports will adversely affect domestic industries.

18 For instance, if the assessment of the fiscal incentive or concession to be granted is left to the foreign investment agency to determine on a case-by-case basis, this can be an arbitrary or non-transparent process.

19 It cannot be fully appropriated by individuals, it cannot exclude freeriders, and spillovers benefit all society.

20 It is interesting to note that some of the developing countries with the highest rates of compliance with the codes, including several Latin American countries, are among the largest recipients of FDI.

21 The OECD Guidelines for Multinational Enterprises, adopted in 1972, deal with a number of issues with an indirect bearing on industrial relations and contain a chapter referring directly to employment and industrial relations (see UNCTAD, 1994a, pp. 350-351; OECD, 1986).