International Production and Employment

 Assoc. prof. Anca-Mihaela TEAU PhD
 Lecturer Cristina Elena PROTOPOPESCU PhD
 „Artifex” University of Bucharest

Abstract
The present article analyses the impact of an integrated international production system on the quantity and quality of employment, human resource development and, more generally, to the organization of work. As created assets have become more and more important in international competitiveness, employment effects (e.g., human resource development, industrial relations) associated with transnational corporations are of great interest to all host countries, in particular developing countries.

Key words and expressions: direct foreign investments, host country, international production, internationalization, labour market, origin country, trans-national companies (TNCs), world economics.

JEL Classification: F4, J21, L11

Global foreign direct investment (FDI) flows exceeded the pre-crisis average in 2011, reaching $1.5 trillion despite turmoil in the global economy. However, they still remained some 23 per cent below their 2007 peak. UNCTAD predicts slower FDI growth in 2012, with flows levelling off at about $1.6 trillion. Leading indicators – the value of cross-border mergers and acquisitions (M&As) and greenfield investments – retreated in the first five months of 2012 but fundamentals, high earnings and cash holdings support moderate growth.

Longer-term projections show a moderate but steady rise, with global FDI reaching $1.8 trillion in 2013 and $1.9 trillion in 2014, barring any macroeconomic shocks.

FDI inflows increased across all major economic groupings in 2011. Flows to developed countries increased by 21 per cent, to $748 billion. In developing countries FDI increased by 11 per cent, reaching a record $684 billion. FDI in the transition economies increased by 25 per cent to $92 billion. Developing and transition economies respectively accounted for 45 per cent and 6 per cent of global FDI. UNCTAD’s projections show these countries maintaining their high levels of investment over the next three years.

The international production of transnational corporations (TNCs) advanced, but they are still holding back from investing their record cash holdings.
In 2011, employment in foreign affiliates rose noticeably during the year, as TNCs continued to expand their production abroad in response to the rise in market opportunities in emerging markets. Globally, foreign affiliates accounted for 69 million jobs in 2011, an 8 per cent increase over the previous year. This stands in stark contrast to the 2 percent increase in employment projected globally for 2011 (ILO, 2012). Developing and transition economies increasingly account for the majority of employment in foreign affiliates. China alone, for example, accounted for 18.2 million, or 28 percent, of the total in 2010 (China National Bureau of Statistics, 2012). This trend continued to be driven by increased FDI generated by both efficiency-and market-seeking motivations, with much of the recent momentum being driven by the latter. A rapidly expanding middle class has attracted FDI in both the manufacturing and the services sectors as TNC executives seek to go “local” and improve their positions in emerging markets (PWC, 2012).

Trans-national companies play an important role as employers, generating employment opportunities both directly and indirectly, which depend on the type of the initial investment, sector or industry where the company activates, the way in which international production replaces internal production or completes it etc. Also, trans-national companies have a significant qualitative impact on labour market where they operate, offering jobs of a superior quality than the ones offered by internal companies from the host country. The explication is that TNCs tend to be concentrated in intensive industries in marketing and qualified manpower and to use more intensive technologies in capital and superior organisational and managerial techniques. These, together with the increase of the importance of labour quality in the generation of competition advantages, explain the more favourable conditions and opportunities for employees of TNCs. Thus, generally, TNCs have a great potential also in growth to exert a positive qualitative influence on the labour market and labour conditions from the origin country and host country. The studies from certain countries suggest that manpower directly employed in foreign subsidiaries enjoy salaries and working conditions and social security better than those offered by national firms. This is valid both for developed and developing countries.

The indirect qualitative effects on labour market can be considered as a component of the positive externalizations generated by TNCs’ activities. Mainly, when the superior production systems of TNCs are transferred abroad, the superior techniques are transferred to the host economy after the specialization of the workers from the foreign subsidiaries and of local suppliers, and after their confrontation with the new management and organizational methods. The migration of the qualified personnel and of the managers from the foreign subsidiaries to local firms is the main example of indirect qualitative effects the host economy can benefit of. The technical assistance grated to local suppliers is another means of transfer of advanced knowledge and encouragement of professional specialty.
The internalization of the production can also have negative consequences on the quantity and quality of the manpower occupation in the host country and origin country, among which we mention: dismissals resulted from the restructuring that follow acquisitions, the introduction of practices in employment and promotion that are considered undesirable, the erosion of salary levels, job relocation or export, if foreign subsidiaries replace home production etc.

The impact of international production on employment depends upon several factors. The type of the initial investment (or mode of entry) – greenfield or acquisition – by a TNC is one factor governing labour-market outcomes in a host country in the short term. Greenfield investment involves the creation of new plant, equipment and employment. A merger or take-over, on the other hand, could imply that employment remains constant (or declines), since a firm has simply changed to foreign ownership. The sector and industry of the investment also matter in so far as some processes are more labour-intensive than others. Employment creation also depends on whether international production substitutes for domestic production, whether, for a given level of output, foreign firms drive local ones out of the market, or whether international production complements domestic investment and contributes to output growth by releasing financial, technological, and managerial bottlenecks for the expansion of domestic activity.

Employment effects over time may also differ. Employment contraction in an industry may result in the early stages of FDI in a host country, as domestic firms adjust to the competitive pressures exerted by foreign affiliates. However, employment prospects may improve at a later date as domestic firms adapt to the new competition and the activities of foreign affiliates exert a positive effect on the growth of output, for example, through the introduction of new products and technologies.

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

In short, international production by TNCs has direct and indirect consequences for employment, with positive and negative dimensions often occurring at the same time and, for any national economy, these need to be evaluated separately for both inward and outward investment.

Mobilizing investment and ensuring that it contributes to sustainable development is a priority for all countries. A new generation of investment policies is emerging, as governments pursue a broader and more intricate development policy agenda, while building or maintaining a generally favourable investment climate. “New generation” investment policies place inclusive growth and
sustainable development at the heart of efforts to attract and benefit from investment. This leads to specific investment policy challenges at the national and international levels. At the national level, these include integrating investment policy into development strategy, incorporating sustainable development objectives in investment policy and ensuring investment policy relevance and effectiveness. At the international level, there is a need to strengthen the development dimension of international investment agreements, balance the rights and obligations of States and investors, and manage the systemic complexity of the international investment agreements regime.

References
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