PROGRAMME OF RESEARCH AND ACTIONS ON THE DEVELOPMENT OF THE LABOUR MARKET

THE EMPLOYMENT EFFECTS

OF

INTRA-EEC FOREIGN DIRECT INVESTMENT

By:
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For:
Commission of the European Communities

Study n° 78/1
SUMMARY

This study is a preliminary attempt to estimate the employment effects of intra-EEC foreign direct investment.

The methodology is mainly concerned with examining effects on employment at the micro level in one industry - plastics and synthetics. It is found, in the majority of the 8 cases studied in depth, that such investment has had a positive effect on employment. Exceptions arise from post EEC entry rationalisation of production and from cutbacks in foreign employment in a period of recession. Of critical importance is the "alternative position" assumption - we find that foreign and domestic investment are far from perfect substitutes and for a firm to compete effectively often requires a product or presence in a foreign market, even within a customs union. Indirect job creation is found to be positive, but is estimated to be smaller than previous studies have suggested.

This is a tentative conclusion and requires much fuller investigation. Clearly, a much broader study is required to establish employment effects with any certainty and to enable cross-industry comparisons to be made. The methodology for such an investigation has been established in this pilot study.

This study was financed by the Commission of the European Communities as part of its Programme of Research and Actions on the Development of the Labour Market. The analyses and the results presented do not necessarily reflect the views of the Commission nor do they commit it to a particular view of the labour market or on other policy matters.

The report has been made available for information only. It should not be quoted or referred to in published material without the authority of the Commission.

Enquiries relating to the study should be addressed to the Directorate General for Employment and Social Affairs - attention of Division V/B/2 - Commission of the European Communities - 200, rue de la Loi - 1049 - Bruxelles.
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SUMMARY REPORT

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1. **Objectives**

The major aim of this project is to investigate, on a small sample basis, the employment effects of intra-EEC foreign direct investment (FDI). Further objectives are an estimation of the effect on skill levels and wage levels in the EEC as a whole, and to assess the importance of technology transfer via such foreign direct investment.

The study is based on 8 cases in one industry (plastics and synthetics) and cannot therefore be considered in any way definitive. However, we believe that the study goes some way towards refining methodology and is important for its presentation of the findings of detailed case investigations.

2. **Methodology**

The difficulties encountered with official data at a macro level, and recognition that the issues which concerned us could only be successfully dealt with at the level of the firm itself, made it desirable that we concentrate our attention not on the economies of member countries, but on the behaviour of firms within those economies. Information was gathered from a sample of eight firms by a structured questionnaire.

Of critical importance in an attempt to ascertain the impact of intra-EEC FDI on employment is the relevant "alternative position", i.e. what would have happened if the investment under investigation had not taken place. Several possibilities arise; in the absence of the FDI either (i) the firm would have invested at home and possibly serviced the target market via exports, or (ii) an investment outside the EEC would have been undertaken and the target market supplied from there, or (iii) no investment at home or in other locations would have been undertaken. The alternatives to the EEC investment outside the source country, i.e. the 'actual' situation, are therefore:

(i) An investment in the source country (+ exports)

(ii) An investment outside the EEC

(iii) No investment, no replacement by exports

Clearly, the effect on employment in the EEC is different in each case:

(i) If the alternative is home investment, the employment-creating effect of the 'actual' investment may be either greater or less than the alternative, i.e. the actual jobs created may merely substitute for 'home' employment and therefore the real employment effect can be positive or negative for the EEC as a whole.

(ii) If the alternative is an investment outside the EEC, then the 'actual' investment is likely to be job-creating for the EEC, except in the extreme situation where the investment outside the EEC creates more jobs in the source country than the 'actual' EEC investment adds to total employment in the EEC as a whole.
(iii) If the alternative is no investment, then the 'actual' investment is clearly employment-creating.

It is most likely that the firm would consider (i) and (iii) as alternatives rather than (ii) except for "offshore" type investments, set up specifically to service the source country market.

Alternative (i) is of great interest. The effect of the alternative position here is bound up with an examination of the technology of production.

The amount of employment created by a particular investment will depend on the labour intensity of production - or on the capital labour ratio. Consequently it might be expected that a given investment in a cheap labour country (UK, Ireland) will yield a greater employment return than in a dear labour country (West Germany) if the multinational enterprise (MNE) is responsive to factor costs. We are thus interested in the degree to which firms utilise a given technology throughout the EEC, and how far this is modified in response to factor price signals (particularly wage rates). If MNEs are responsive then the location of investments and the production process will be interdependent. The choice of the plastics industry allows us to examine this issue in a situation of changing and "malleable" technology, and across a wide product and process range.

The integration of national economies can be expected to have two opposing effects on the nature of integration of MNEs within the boundaries of the union.

(i) The removal of tariffs and barriers to trade and investment may be expected to result in decreased horizontal integration because firms will seek to reach minimum efficient scale by removing duplication of plants and reaping maximum economies of scale by centralising activities.

(ii) The increased division of labour which becomes possible internally can be expected to lead to increased vertical integration. Firms will take the opportunity to specialise and perhaps introduce component specialisation.

The type of effect on employment is obviously very different according to the pressures which integration imposes. We seek to identify these pressures by designing our questionnaire to account for both types of integration.

A major factor which complicates all the above is the question of the introduction of new technology. The general statement that investment creates jobs may be invalidated by the introduction of labour saving technology which reduces total direct employment. Such technology may create jobs elsewhere in the economy, however, and we need to trace this through the system before we can judge overall effects. This technology effect may or may not be linked to the FDI decision.

Technological intensity will be strongly related to skill levels and investments in technology intensive products and processes may increase demand for certain types of skilled labour, possibly at the expense of unskilled workers.
In addition to direct, or internal, employment effects, foreign direct investment has employment implications external to the investing firm. Indirect positive effects on employment in the host country can arise from subcontracting, transport, demand for services, for marketing facilities, for Government infrastructure, from construction expenditure and from re-investment of funds received as a result of a takeover by a foreign entrant. Negative effects can arise from displacement of local producers by foreign investors. Attempts to quantify such effects pose great problems.

3. Summary of Case Studies

Table 1 summarises for each of the eight case studies the estimated direct effect on EEC employment. It also shows the relevant host and source countries of the direct investments.

4. Conclusions

Several general themes are apparent in the motivation to invest in other EEC countries. The case studies show that managers consider the alternative to foreign direct investment to be the loss of markets and of export opportunities. This is reinforced by the more positive desires to provide a more effective service to clients by being in close proximity to them; to cater for local purchasing preferences; and to adapt fully to local specifications and standards. An additional factor, which may arise from the choice of industry, is the high cost of transporting, warehousing and insurance in relation to the value of the product. Fluctuations in foreign exchange rates between European countries have also provided an extra barrier to attempts to compete through exports in the EEC market as a whole. In essence, foreign direct investment is felt to be necessary to effective competition in terms of price and quality of service.

Multinational companies are major vehicles for the international transfer of technology. Technology can be transferred internationally in various degrees of "embodiment" - via the export of technology intensive goods, via licensing, and embodied in the production process as direct foreign investment.

No general pattern emerges from the case studies as regards the effects of the transfer of technology in foreign direct investment. Nevertheless, in common with many other sectors of manufacturing industry, the plastics and synthetics sector is becoming increasingly capital intensive, because of the embodiment of advances in technology. A useful distinction can here be made between product innovation and process innovation. Additional increases in employment may arise from the stimulus to the level of activity given by the introduction of new technology in (i) increasing demand by extending the product range (product innovation) and (ii) lowering production costs (process innovation). However, innovation in the production process may result directly in a fall in employment because of substitution of capital for labour. Examples of these contradictory effects of technological advance evidenced in the case studies are (i) the saving of jobs in the face of import competition and (ii) increased capital intensity reducing employment. In many of the cases studied the "new product effect" is a noticeable characteristic of the foreign direct investment in creating employment directly, but it is apparent that through the impact of new technology, old products are sometimes replaced with a consequent loss of jobs. Such an effect is difficult to measure.
TABLE 1.  Estimated Direct Employment Effects of Sample Firms on overall EEC Employment

<table>
<thead>
<tr>
<th>Case</th>
<th>Source Country</th>
<th>Subsidiary Examined</th>
<th>Estimated Direct Effect on EEC Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UK</td>
<td>Germany &amp; France</td>
<td>Positive</td>
</tr>
<tr>
<td>2</td>
<td>UK</td>
<td>Germany</td>
<td>Positive, but small</td>
</tr>
<tr>
<td>3</td>
<td>Ireland</td>
<td>UK</td>
<td>Negative, but small</td>
</tr>
<tr>
<td>4</td>
<td>UK</td>
<td>Ireland &amp; The Netherlands</td>
<td>Positive</td>
</tr>
<tr>
<td>5</td>
<td>Germany</td>
<td>UK</td>
<td>Positive</td>
</tr>
<tr>
<td>6</td>
<td>Germany</td>
<td>UK</td>
<td>Positive</td>
</tr>
<tr>
<td>7</td>
<td>UK</td>
<td>France</td>
<td>Overcome by Effects of Recession</td>
</tr>
<tr>
<td>8</td>
<td>UK</td>
<td>The Netherlands</td>
<td>Negative after UK entry to EEC</td>
</tr>
</tbody>
</table>
Our case studies found that the employment market situation was a more important influence on investment decisions in the larger firms than the smaller ones. Large firms are more sensitive to labour cost differentials across the EEC than are smaller firms. Very few production jobs were lost in the source country as a result of foreign investment and supporting technical jobs were often created in the source country to service the foreign investment. In the eight case studies, reorganisation and rationalisation have been introduced gradually and there have been no significant wholesale transfers of production internationally.

The nature of integration within the firm is important in determining employment effects. Increased EEC market integration appears to increase functional or vertical integration but to decrease horizontal integration.

In examining the evidence on the indirect employment creation effects of the sample investments, arising from purchases of goods and services in the host country as input, we find that this effect is much less than other studies have suggested and that even a 1:1 relationship of direct : indirect jobs created exaggerates the effect.

In only one of the companies we studied has there been complete closure of a foreign subsidiary within the EEC. Our evidence suggests that multinationals make strenuous efforts to avoid layoffs.

The transfer of technology through foreign direct investment is a critical factor in determining the structure of employment in the firm. In common with the experience of other industries, there is no evidence from our case studies to suggest that the multinationals adapt their own technology to the available supply of labour. But whereas it is the norm for multinationals to train labour for the utilisation of their existing technology, the plastics and synthetics industry employs an above average proportion of semi-skilled and unskilled labour. Consequently, skilled employment provision is limited and systematic training of labour is restricted in scope.

At managerial level, the tendency is to train local personnel to replace expatriates, but it was noticeable that very little transfer of management from the subsidiary to the parent company took place except on a short term basis for training. Other short term transfers involved technical and supervisory workers and those directly involved in setting up a new operation (mainly middle management).

Our interviews showed that, although major decisions on investment flows and financing are taken by the parent, local management exercises a large measure of autonomy in respect of wage bargaining and conditions of employment and that these are significantly affected by local circumstances. Recruitment of management for subsidiaries is also the prerogative of the parent company although a definite preference for the appointment of, or if possible, promotion of, local nationals was apparent in most cases.

Labour turnover appears to be primarily determined by local employment conditions. Generally, labour turnover in our sample of firms is low but in the one instance where this was definitely not the case, the rate of turnover had influenced the expansion path of the firm, by causing it to subdivide its activities between two separate plants.
The whole spectrum of company attitudes to Trade Unions was evidenced in our sample. At the one extreme, the firm involved the Trade Unions before making a decision to invest in a particular country, with a view to securing guarantees on all aspects of labour relations. At the other extreme the firm based its strategy on avoiding the recruitment of organised labour. In general, the larger firms at least prefer to work with established Trade Unions. The attitude of multinationals towards the recognition of Trade Unions is an important issue for the Trade Unions themselves and further investigation of this problem could usefully incorporate their views as well as those of the companies.

A clear implication for Government policy arises with regard to the investment incentives offered to attract industry in the various member countries. Without exception, in the cases studied, such incentives were not the overriding determinant in the investment decision. Where such incentives were offered, they were generally regarded as a bonus. Of more importance were the need for a market presence, cost factors and the local employment market conditions. Doubts have been expressed about the permanence of the employment created in response to investment incentives alone. Rising unemployment is in danger of causing Governments to adopt "beggar-my-neighbour" policies with regard to such subsidies, which may lead to only temporary increases in employment.

The implications for competition policy appear to be that the opportunity costs of preventing a firm's "preferred" investment should be carefully evaluated. It seems that the alternative to a foreign direct investment may not be a home investment plus exports but in some cases no investment at all. In other words, foreign direct investment and domestic investment are far from being perfect substitutes. Our study also indicates the need for a more detailed investigation of the relative implications of greenfield versus takeover investments for employment. The employment creating effects of a takeover can be as significant as those of a greenfield development, particularly where the infusion of new technology strengthens the taken-over company's product-market position. A wider investigation is necessary to establish the circumstances which determine such an outcome.
FORSCHUNGS- UND ACTIONSPROGRAMM ZUR ENTWICKLUNG DES ARBEITSMARKTES

DIE AUSWIRKUNGEN VON DIREKTER, ZWISCHENSTAATLICHER AUSLANDS-INVESTITION IN DER EG AUF DIE BESCHÄFTIGUNGS诸GE

ZUSAMMENFASSENDER BERICHIT

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für
Kommission der
europäischen Gemeinschaften

Arbeit Nr. 78/1

Der vorliegende Bericht wird nur zu Informationszwecken zur Verfügung gestellt. Er darf ohne die Zustimmung der Kommission in Veröffentlichungen nicht zitiert oder verwendet werden.

Weitere Information zu diesem Bericht gibt das allgemeine Direktorat für Beschäftigung und soziale Angelegenheiten zu Händen von Division V/B/2 - Kommission der Europäischen Gemeinschaften - 200, rue de la Loi - 1049 - Bruxelles.
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1. Ziele

Das Hauptziel dieses Projektes ist die Untersuchung der Auswirkungen von ausländischer Direktinvestition (foreign direct investment - FDI) innerhalb der EG auf die Beschäftigungslage auf einer beschränkten Erhebungsbasis. Weitere Ziele sind Schätzungen der Auswirkungen auf Fertigkei und Lohnstand in der EG insgesamt und die Beurteilung der Wichtigkeit des Technologie- transfers über solche ausländische Direktinvestition.

Die Untersuchung beruht auf 8 Fällen in einem Industriezweig (Plastik und Kunststoffe) und kann deshalb in keiner Weise als definitiv betrachtet werden. Wir glauben jedoch, daß die Untersuchung einen gewissen Beitrag zur Verbesserung der Methodik leistet und in ihrer Darstellung der Ergebnisse detaillierter Falluntersuchungen von Wichtigkeit ist.

2. Methodik

Die durch öffentliche Datenangaben auf einer Makroebene aufgeworfenen Schwierigkeiten und die Erkenntnis, daß die anstehenden Aufgaben nur auf Firmenebene selbst gelöst werden konnten, machten es erstrebenswert, daß wir unsere Aufmerksamkeit nicht auf die Wirtschaft der Mitgliedstaaten konzentrierten, sondern auf das Verhalten der Firmen innerhalb dieser Wirtschaftsordnungen. Die Information beruht auf einer 8 Firmen umfassenden Erhebung anhand eines strukturierten Fragebogens.

Bei dem Versuch die Auswirkungen der FDI innerhalb der EG auf die Beschäftigungslage zu ermitteln ist die relative „Alternativposition“ von kritischer Wichtigkeit, d.h. die Frage, welche Entwicklung stattgefunden hätte, wenn die zur Diskussion stehende Investition nicht
eingetreten wäre. Es ergeben sich mehrere Möglichkeiten; bei einem Ausbleiben der FDI hätte die Firma entweder (i) im Ursprungsland investiert und möglicherweise den Zielmarkt im Ausland durch Exporte beliefert, oder (ii) es hätte eine Investition außerhalb der EG stattgefunden und der Zielmarkt wäre von dort beliefert worden oder (iii) es wäre weder im Heimatland noch in anderen Ländern investiert worden. Die Alternativen zu der EG-Investition außerhalb des Ursprungslandes, d.h. also die „tatsächliche“ Situation sind deshalb folgende:

(i) Investition im Ursprungsland (+ Exporte)
(ii) Investition außerhalb der EG
(iii) keine Investition, kein Ersatz durch Exporte

Es ist offensichtlich, daß die Auswirkungen auf den Beschäftigungsmarkt in der EG in jedem einzelnen Falle verschieden sind:

(i) Wenn als Alternative eine Investition im Ursprungsland stattfindet, kann der arbeitsbeschaffende Effekt der „tatsächlichen“ Investition entweder größer oder geringer sein als die Alternative; d.h. die tatsächlichen neu geschaffenen Arbeitsplätze sind möglicherweise Ersatz für Beschäftigung im Ursprungsland und der wirkliche Arbeitsbeschaffungseffekt kann für die EG als Ganzes positiv oder negativ sein.

(ii) Wenn als Alternative eine Investition außerhalb der EG stattfindet, dann schafft die „tatsächliche“ Investition wahrscheinlich neue Arbeitsplätze für die EG, abgesehen von der extremen Situation, in der die Investition außerhalb der EG mehr Arbeitsplätze im Ursprungsland schafft als die „tatsächliche“ EG-Investition zur Gesamtbeschäftigung in der EG als Ganzes hinzufügt.
(iii) Wenn als Alternative keine Investition stattfindet, dann schafft die „tatsächliche“ Investition eindeutig neue Arbeitsplätze.

Es ist höchstwahrscheinlich, daß die Firma eher (i) und (iii) als Alternativen in Erwägung ziehen würde als (ii), mit der Ausnahme von „ursprungslandnaher“ Investitionen, die speziell für den Markt des Ursprungslandes aufgebracht werden.


Die Integration der Wirtschaftssysteme verschiedener Länder läßt zwei einander entgegengesetzte Auswirkungen auf die Art der Integration von MNEs innerhalb der Grenzen des Zusammenschlusses erwarten.

(i) Die Abschaffung von Tarifen und Schranken für Handel und Investition dürfte zu einer geringeren horizontalen Integration führen, weil Firmen den minimalsten Leistungsgrad zu erreichen versuchen, indem eine Duplikation von Fabriken aufgehoben wird und durch die Zentralisierung von Aktivitäten maximale Kostenersparnisse durch optimale Betriebsvergrößerung erzielt werden.

(ii) Die zunehmende Arbeitsteilung, die intern möglich wird, dürfte zu verstärkter vertikaler Integration führen. Firmen werden sich nach Möglichkeit spezialisieren und eventuell Bestandteilspezialisierung einführen.

Die Art der Auswirkung auf die Beschäftigungslage ist offensichtlich je nach Druck der Integration sehr verschieden. Wir versuchten diese Druckwirkungen zu identifizieren, indem wir unseren Fragebogen so anlegten daß beiden Arten von Integration Rechnung getragen wird.

Technologische Intensität wird in enger Beziehung mit dem Fähigkeits-
stand der Arbeitskräfte stehen und die Investitionen auf dem Gebiet
technologieintensiver Produkte und Verfahren könnte die Nachfrage
nach bestimmten Arten von Fachkräften erhöhen, möglicherweise auch auf
Kosten von ungelernten Arbeitern.

Zusätzlich zu direkten oder internen Auswirkungen auf die Beschäfti-
gungslage hat eine ausländische Direktinvestment beschäftigungsbe-
zogene Begleiterscheinungen, die außerhalb der investierenden Firma
liegen. Indirekte, positive Auswirkungen auf die Beschäftigung im
Gastland ergeben sich möglicherweise aus Zulieferungsaufträgen,
Transport, Bedarf an Dienstleistungen und an Regierungsinfrastruktur,
aus Konstruktionsausgaben und aus Niederinvestition von Kapital, das
als Ergebnis einer Firmenübernahme durch einen ausländischen Bewerber
zur Verfügung stellt. Negative Auswirkungen können aus der Verdrängung
lokaler Hersteller durch ausländische Investoren entstehen. Der Ver-
such der Qualifizierung solcher Auswirkungen bringt große Probleme
mit sich.

3. Zusammenfassung der Fallstudien

Tabelle 1 gibt für jede der 8 Fallstudien eine zusammenfassende
Darstellung der geschätzten Direktwirkung auf die Beschäftigungs-
lage in der EG. Es werden außerdem die relevanten Gast- und Ursprungs-
länder der direkten Investition angegeben.

4. Schlußfolgerungen

Die Motivation in anderen EG-Ländern zu investieren, weist eine Reihe
allgemeiner Kennzeichen auf. Die Fallstudien zeigen, daß Manager als
Alternative zu ausländischer Direktinvestition den Verlust von Markt-
und Exportmöglichkeiten befürchten. Dies wird bestätigt durch den
positiveren Wunsch, durch größere Nähe den Kunden einen wirksamere


spruchlichen Auswirkungen technologischer Entwicklungen, die in den Fallstudien zum Vorschein kommen, sind (i) die Einsparung von Arbeitskräften angesichts der Konkurrenz von Importgütern und (ii) erhöhte Kapitalintensität, welche das Beschäftigungsniveau senkt. In vielen der untersuchten Fälle ist die „Neuproduktauswirkung“ ein hervorstechendes Merkmal der ausländischen Direktinvestition bei einer unmittelbaren Schaffung neuer Arbeitsplätze; es wird jedoch deutlich, daß alte Produkte durch den Effekt neuer Technologie manchmal ersetzt werden, was einen Verlust von Arbeitsplätzen zur Folge hat. Ein derartiger Effekt läßt sich nicht ohne Schwierigkeiten messen.

Tabelle 1. Geschätzter direkter Beschäftigungseffekt von Testfirmen auf die Beschäftigungslage in der EG als Ganzes

<table>
<thead>
<tr>
<th>Fall</th>
<th>Ursprungsland</th>
<th>überprüfte Tochtergesellschaft</th>
<th>geschätzter Direkteffekt auf Beschäftigung in EG</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UK</td>
<td>BRD &amp; Frankreich</td>
<td>positiv</td>
</tr>
<tr>
<td>2</td>
<td>UK</td>
<td>BRD</td>
<td>positiv aber gering</td>
</tr>
<tr>
<td>3</td>
<td>Irland</td>
<td>UK</td>
<td>negativ aber gering</td>
</tr>
<tr>
<td>4</td>
<td>UK</td>
<td>Irland &amp; Niederlande</td>
<td>positiv</td>
</tr>
<tr>
<td>5</td>
<td>BRD</td>
<td>UK</td>
<td>positiv</td>
</tr>
<tr>
<td>6</td>
<td>BRD</td>
<td>UK</td>
<td>positiv</td>
</tr>
<tr>
<td>7</td>
<td>UK</td>
<td>Frankreich</td>
<td>durch Rezessions- effekte überwunden</td>
</tr>
<tr>
<td>8</td>
<td>UK</td>
<td>Niederlande</td>
<td>nach EG-Zeitritt durch UK negativ</td>
</tr>
</tbody>
</table>

Die Art der Integration innerhalb der Firma ist bei der Bestimmung der Beschäftigungseffekte von Bedeutung. Eine zunehmende IG-Marktintegration scheint zu einer verstärkten funktionalen oder vertikalen Integration, aber zu einer geringeren horizontalen Integration zu führen.


Nur in einer der von uns untersuchten Gesellschaften kam es zur dauerhaften Schließung einer ausländischen Tochtergesellschaft innerhalb der IG. Unsere Untersuchungen deuten darauf hin, daß multinationale Gesellschaften jede Anstrengung unternehmen, um Entlassungen zu vermeiden.

Auf der Ebene des Managers besteht die Tendenz zur Schulung örtlicher Mitarbeiter, die dann Ausländer ersetzen; es war jedoch erkennbar, daß sehr wenige Management-Leute von der Tochtergesellschaft ins Stammhaus versetzt wurden, außer zu kurzfristigen Schulungszwecken. Andere kurzfristige Versetzungen betrafen Arbeitskräfte in einer technischen und beaufsichtigenden Kapazität und solche, die direkt bei der Vorbereitung einer neuen Unternehmung beschäftigt waren (also haupstänlich mittleres Management).

Aus unseren Interviews wird deutlich, daß wichtige Entscheidungen über Investitionsleistung und Finanzierung zwar vom Stammhaus getroffen werden, daß aber das Management an Ort und Stelle in Fragen der Lohnvereinbarung und Arbeitsbedingungen über ein beträchtliches Maß an Selbstständigkeit verfügt, da diese Bedingungen entscheidend durch die örtlichen Umstände beeinflußt werden. Die Einstellung von Management-Personal für Tochtergesellschaften ist ebenfalls die vorrangige Aufgabe der Muttergesellschaft, obwohl in den meisten Fällen eine deutliche Bevorzugung von einheimischem Personal bei der Neueinstellung
oder möglicherweise bei der Beförderung festzustellen war.

Das Phänomen des Arbeitsplatzwechsels scheint in der Hauptsache unter dem Einfluß der lokalen Beschäftigungsbedingungen zu stehen. In unseren Beispielsfällen ist der Arbeitsplatzwechsel niedrig, mit der Ausnahme einer Firma, für die dies ganz deutlich nicht zutraf, und in der das Ausmaß des Arbeitsplatzwechsels den Expansionskurs der Firma beeinflußte, indem ihre Aktivitäten auf zwei getrennte Fabrik­anlagen aufgeteilt wurden.


Eine klare Folgeerscheinung für die Regierungspolitik entsteht mit Hinsicht auf die Investitionsleistungsprämien, die in den verschiedenen Mitgliedsländern als Anreize für eine Industriearbeitnehmer-gründeten werden. In den hier untersuchten Fällen waren solche Leistungsprämi...
nicht der bestimmende Faktor bei der Investitionsentscheidung. Wenn solche Leistungssprämien angeboten wurden, spielten sie hauptsächlich die Rolle einer zusätzlichen Vergünstigung. Von größeren Bedeutung waren die Notwendigkeit einer Marktgegenwart, Kostenfaktoren und die Bedingungen auf dem örtlichen Beschäftigungsmarkt. Es wurde auch die Dauerhaftigkeit von Arbeitsstellen bezweifelt, die nur als Folge von Investitionenleistungsprämien allein geschaffen wurden. Steigende Arbeitslosigkeit kann zu der gefährlichen Situation führen, in der die Regierung in Sachen Subvention eine Unterverhaltung einnimmt, die jedoch nur zu einer vorübergehenden Beschäftigungszunahme führen kann.

PROGRAMME DE RECHERCHE ET D'ACTIONS SUR L'EVOLUTION DU MARCHE DE L'EMPLOI

EFFETS SUR L'EMPLOI DES INVESTISSEMENTS DIRECTS ETRANGERS ENTRE PAYS MEMBRES DE LA CEE

RESUME DU RAPPORT

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Pour :
Commission des Communautés Européennes

Etude n° 8/1
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Les analyses et les propositions présentées concernant le marché du travail et d'autres domaines n'engagent pas la Commission. Le rapport a été issu dans un but simplement informatif. Il ne doit pas être cité ou utilisé comme référence dans une publication sans l'autorisation de la Commission.

Toute demande de renseignements concernant l'étude devra être adressée à l'Administration Générale de l'Emploi et des Affaires Sociales - à l'attention de la Division V/B/2 - Commission des Communautés Européennes - 200, rue de la Loi - 1049 - Bruxelles.
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1. **Objectifs**

Le but principal de ce projet est de rechercher, à petite échelle, les effets de l'Investissement Direct Étranger entre pays-membres de la CEE sur l'emploi. L'étude a pour objectifs secondaires d'estimer l'effet sur les niveaux de qualification et de salaires dans la CEE entière, et d'évaluer l'importance du transfert technologique résultant de tels investissements directs étrangers.

L'étude a pour base l'analyse de huit cas dans une industrie (les plastiques et synthétiques) et, de ce fait, ne peut en aucun cas être considérée comme définitive. Cependant, nous pensons que l'étude aide quelque peu au raffinement de la méthodologie et est importante du fait même qu'elle présente des conclusions sur des études de cas détaillées.

2. **Méthodologie**

Du fait des difficultés rencontrées dans le rassemblement de données officielles à un niveau global, et de la conscience de ce que les questions qui nous concernaient ne pouvaient être traitées avec succès qu'au niveau de l'entreprise même, il nous a paru désirable de concentrer notre attention non pas sur les économies des pays membres, mais sur le comportement des entreprises au sein même de ces économies. Les informations ont été recueillies à partir d'un échantillon de huit entreprises à l'aide d'un questionnaire structuré.

La "possibilité de rechange" envisagée, c'est-à-dire ce qui serait arrivé si l'investissement à l'étude n'avait pas eu lieu, est d'importance critique pour toute tentative de constatation de l'impact sur l'emploi des investissements directs étrangers à l'intérieur de la CEE. Plusieurs possibilités se présentent; dans l'absence d'investissement direct à l'étranger ou bien (i) l'entreprise aurait investi dans son pays d'origine et peut-être touché le marché-cible par des exportations, ou bien (ii) un investissement aurait été entrepris à l'extérieur de la CEE et le marché-cible desservi depuis là, ou bien (iii) aucun investissement n'aurait été entrepris ni dans le pays d'origine ni ailleurs. De ce fait, les alternatives à l'investissement au sein de la CEE et en dehors du pays d'origine, c'est-à-dire à la situation "réelle", sont les suivantes:

(i) Un investissement dans le pays d'origine (+ exportations)

(ii) Un investissement en dehors de la CEE

(iii) Aucun investissement, pas de remplacement par des exportations

De toute évidence, l'effet sur l'emploi dans la CEE est différent dans chaque cas:

(i) Dans le cas où l'alternative est l'investissement dans le pays d'origine, l'effet de création d'emploi de l'investissement ayant réellement eu lieu peut être plus important ou moins important que celui de cette alternative; c'est-à-dire que les emplois "réellement" créés peuvent ne représenter qu'une substitution de l'emploi dans le pays d'origine et, de ce fait, le véritable effet sur l'emploi dans la CEE entière peut être positif ou négatif.
(ii) Dans le cas où l'alternative est un investissement à l'extérieur de la CEE, l'investissement ayant réellement eu lieu risque d'être créateur d'emploi pour la CEE, à l'exception de la situation limite dans laquelle l'investissement à l'extérieur de la CEE crée plus d'emplois dans le pays d'origine que l'investissement ayant réellement pris place dans la CEE n'ajoute à l'emploi total de la CEE prise plans son entier.

(iii) Dans le cas où l'alternative est aucun investissement, alors l'investissement ayant réellement eu lieu est nettement créateur d'emploi.

Il est plus vraisemblable que l'entreprise considère (i) ou (iii) comme alternative plutôt que (ii) sauf pour des investissement du type "offshore", réalisés spécifiquement dans le but de servir le marché du pays d'origine.

L'alternative (i) offre un grand intérêt. Dans ce cas, l'effet de la situation alternative est lié à l'examen de la technologie de production.

La quantité d'emplois créés par un investissement spécifique dépend de la proportion de main d'œuvre utilisée pour la production - ou du ratio capital-travail. En conséquence, si l'entreprise multinationale (MNE) est sensible aux coûts des facteurs, on peut s'attendre à ce qu'un investissement réalisé dans un pays à main d'œuvre bon marché (Grande Bretagne, Irlande) crée plus d'emplois que dans un pays à main d'œuvre chère (Allemagne de l'Ouest). Ce qui nous intéresse donc, c'est le degré avec lequel les entreprises utilisent une technologie donnée dans toute la CEE, et jusqu'à quel point ceci est modifié en réponse aux coûts des facteurs (en particulier taux de salaire). Si les MNEs sont sensibles à ces coûts, alors la localisation des investissements et le processus de production seront interdépendants. Le choix de l'industrie des plastiques nous permet d'examiner cette question dans le cas d'une technologie changeante et "malleable", ainsi que pour une large gamme de produits et de méthodes de production.

On peut s'attendre à ce que l'intégration des économies nationales aie deux effets opposés sur la nature de l'intégration des MNEs à l'intérieur des frontières de l'Union.

(i) La suppression des tarifs et barrières au commerce et à l'investissement peuvent résuler en une intégration horizontale amoindrie parce que les entreprises vont chercher à atteindre un minimum d'efficacité en supprimant la duplication d'usines et recueillant le maximum d'économies d'échelle par la centralisation des activités.

(ii) L'augmentation de la division du travail qui devient possible peut conduire à une intégration verticale accrue. Les entreprises saisiront l'opportunité de se spécialiser, et, peut-être, d'introduire une spécialisation par composants.

L'effet sur l'emploi sera, bien évidemment, d'un genre très différent suivant le type de contraintes imposées par l'intégration. Nous avons cherché à identifier ces contraintes en élaborant un questionnaire de telle sorte qu'il prenne en compte les deux types d'intégration.
Un facteur d'importance qui complique la discussion ci-dessus a trait à l'introduction d'une nouvelle technologie. L'affirmation générale, à savoir que l'investissement est créateur d'emplois, peut être rendue nulle par l'introduction d'une technologie économisant la main d'œuvre et, ainsi, réduisant l'emploi direct total. Une telle technologie peut, cependant, créer des emplois ailleurs dans l'économie, il est donc nécessaire de suivre ce phénomène à travers le système avant de pouvoir juger de l'effet global. Cet effet d'ordre technologique peut être ou ne pas être lié à la décision d'investir.

Le degré d'intensité technologique sera fortement lié aux niveaux de qualification et les investissements dans des produits et procédés à technologie poussée peuvent augmenter la demande pour certains types de main d'œuvre spécialisée, peut-être à dépend de la main d'œuvre non spécialisée.

En plus d'effets directs, ou intérieurs, sur l'emploi, l'investissement direct étranger peut avoir des implications extérieures à l'entreprise qui investit. Des effets positifs indirects pour l'emploi du pays hôte peuvent provenir d'un besoin de soustraitance, transport, d'une demande de services, d'infrastructures de vente ou gouvernementales, de dépenses de construction et du réinvestissement des fonds reçus à la suite d'un rachat par un nouvel investisseur étranger. Des effets négatifs peuvent provenir du remplacement de producteurs locaux par des investisseurs étrangers. La quantification de tels effets pose de sérieux problèmes.

3. Résumé des Études de Cas

Le tableau 1 résume pour chacune des huit études de cas l'effet direct sur l'emploi dans la CEE. Il montre aussi les pays d'origine des investissements directs ainsi que leurs pays hôtes.

4. Conclusions

Plusieurs thèmes généraux sont apparents dans la motivation d'investir dans d'autres pays de la CEE. Les études de cas montrent que les directeurs considèrent que l'alternative au investissement étranger direct est la perte de marchés et d'opportunités d'exportation. Ceci est renforcé par les désirs plus positifs de fournir un service plus effectif aux clients en étant localisé près d'eux; de pourvoir aux préférences locales d'achat; et de s'adapter complètement aux spécifications et standards locaux. Un facteur supplémentaire, qui peut provenir du choix de l'industrie, est le coût élevé du transport, de l'entreposage et de l'assurance relativement à la valeur du produit. Les fluctuations dans les taux du change entre pays européens ont aussi fourni une barrière supplémentaire aux tentatives de concurrence par l'exportation dans l'ensemble de la Communauté. En essence, l'investissement direct étranger est ressenti comme une nécessité pour une concurrence effective en fait de prix et de qualité du service.

Les compagnies multinationales sont des véhicules majeurs du transfert international de technologie. La technologie peut être transférée internationalement sous différentes formes - sous forme d'exportation de biens à technologie avancée, sous forme de brevets, ainsi qu'incorporée aux procédés mêmes de production en tant qu'investissement étranger direct.
### TABLEAU 1
Effets de la création d'emplois directs sur l'emploi total de la CEE estimé à partir d'un échantillon d'entreprises

<table>
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<tr>
<th>Cas</th>
<th>Pays d'origine</th>
<th>Succursale étudiée</th>
<th>Effet direct estimé sur l'emploi dans la CEE</th>
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<tbody>
<tr>
<td>1</td>
<td>G.B.</td>
<td>Allemagne &amp; France</td>
<td>positif</td>
</tr>
<tr>
<td>2</td>
<td>G.B.</td>
<td>Allemagne</td>
<td>positif, mais léger</td>
</tr>
<tr>
<td>3</td>
<td>Irlande</td>
<td>G.B.</td>
<td>négatif, mais léger</td>
</tr>
<tr>
<td>4</td>
<td>G.B.</td>
<td>Irlande &amp; Pays Bas</td>
<td>positif</td>
</tr>
<tr>
<td>5</td>
<td>Allemagne</td>
<td>G.B.</td>
<td>positif</td>
</tr>
<tr>
<td>6</td>
<td>Allemagne</td>
<td>G.B.</td>
<td>positif</td>
</tr>
<tr>
<td>7</td>
<td>G.B.</td>
<td>France</td>
<td>dépasse par les effets de la récession</td>
</tr>
<tr>
<td>8</td>
<td>G.B.</td>
<td>Pays Bas</td>
<td>négatif après l'entrée de la G.B. dans la CEE</td>
</tr>
</tbody>
</table>
Aucun modèle général n'émerge des études de cas en ce qui concerne les effets du transfert de technologie dans l'investissement direct étranger. Néanmoins, de même que beaucoup d'autres secteurs de l'industrie de produits manufacturés, le secteur des plastiques et synthétiques utilise de plus en plus le capital, à cause de l'incorporation d'avances technologiques. Il est possible de faire, ici, une distinction utile entre innovation pour un produit et innovation pour un procédé. Des augmentations supplémentaires d'emploi peuvent resulter de la stimulation du niveau d'activité provenant de l'introduction d'une nouvelle technologie en (i) augmentant la demande par l'élargissement de la gamme de produits (innovation pour un produit) et (ii) en réduisant les coûts de production (innovation pour un procédé). Cependant, l'innovation du processus de production peut résulter directement dans une chute de l'emploi du fait de la substitution du capital à la main d'œuvre. Les exemples de ces effets contradictoires de l'avance technologique mis en évidence dans les études de cas sont (i) la protection d'emplois en présence de concurrence de l'importation et (ii) une intensité de l'utilisation du capital réductrice de l'emploi. Dans beaucoup des cas étudiés, l'"effet nouveau produit" est une caractéristique évidente de l'investissement direct étranger pour la création directe d'emplois, mais, il apparaît que l'impact de la nouvelle technologie se traduit, quelques fois, par le remplacement des produits anciens accompagné d'une perte d'emplois. Un tel effet est difficile à mesurer.

Nos études de cas ont montré que la situation du marché de l'emploi a plus d'influence sur les décisions d'investissement des entreprises plus grandes que sur celles des entreprises plus petites. Très peu d'emplois de production ont été perdus dans le pays d'origine du fait de l'investissement à l'étranger et des emplois techniques de soutien ont souvent été créés dans le pays d'origine pour aider l'investissement à l'étranger. Dans les huit études de cas, réorganisation et rationalisation ont été introduites graduellement et il n'y a pas eu de transferts internationaux significatifs, en masse, de production.

La nature de l'intégration à l'intérieur de l'entreprise est importante pour déterminer les effets sur l'emploi. L'intégration accrue du marché de la CEE semble augmenter l'intégration fonctionnelle ou verticale mais diminuer l'intégration horizontale.

En examinant les témoignages sur l'effet de création indirecte d'emplois des investissements échantillonnés, provenant d'achats de biens et de services dans le pays hôte comme "inputs", nous trouvons que cet effet est bien moindre que ne l'avait suggéré d'autres études et que même une relation 1:1 d'emplois directs : indirects créés l'exagère.

Dans une seule des entreprises étudiées, il y a eu fermeture complète d'une succursale étrangère à l'intérieur de la CEE. Notre témoignage suggère que les multinationales font des efforts acharnés pour éviter les licenciements.

Le transfert de technologie par investissement direct étranger est un facteur critique pour la détermination de la structure de l'emploi dans l'entreprise. Similairement à l'expérience d'autres industries, aucune preuve ne ressort de nos études de cas pour supporter la suggestion que les multinationales adoptent leur propre technologie à l'offre disponible de main d'œuvre. Mais, alors que la norme pour les multinationales est de former la main d'œuvre à l'utilisation de leur technologie existante, l'industrie des plastiques et synthétiques emploie une proportion de main d'œuvre semi-specialisée et non spécialisée au-dessus de la moyenne. En conséquence, la provision d'emplois spécialisés est limitée et la formation systématique de la main d'œuvre réduite dans sa portée.
Au niveau de la direction, la tendance est à la formation du personnel local pour remplacer les expatriés, mais il est sensible que très peu de transfert de cadres a lieu depuis la succursale vers la compagnie-mère si ce n'est à court-terme dans un but de formation. D'autres transferts à court terme impliquent techniciens et surveillants ainsi que ceux directement engagés dans la réalisation d'une nouvelle opération (essentiellement cadres moyens).

Nos entretiens ont montré que, bien que les majeures décisions sur les flux d'investissement et le financement soient prises par la compagnie-mère, une grande part d'autonomie est laissée à la direction locale en ce qui concerne les négociations de salaires et les conditions d'emploi et que celles-ci sont significativement affectées par les circonstances locales. Le recrutement de la direction des succursales est aussi une prérogative de la compagnie-mère, quoiqu'une préférence marquée apparaisse dans la plupart des cas pour la nomination, ou si possible, la promotion de cadres locaux du pays hôte.

Les mouvements de personnel apparaissent essentiellement déterminés par les conditions locales de l'emploi. En général, les mouvements de personnel dans notre échantillon d'entreprises étaient faibles, mais, dans le cas où ceci ne s'appliquait définitivement pas, le niveau de ces mouvements avait influencé le chemin d'expansion de l'entreprise en la forçant à subdiviser ses activités en deux usines séparées.

Le spectre entier d'attitudes à l'égard des syndicats a été mis à l'évidence dans notre échantillon. A une extrémité, l'entreprise contactait les syndicats avant de prendre la décision d'investir dans un pays particulier, dans le but d'assurer des garanties sur tous les aspects des relations du travail.

A l'autre extrémité, l'entreprise organisait sa stratégie de façon à éviter le recrutement d'une main-d'œuvre organisée. En général, les plus grandes compagnies, au moins, préférent travailler avec les syndicats établis. L'attitude des multinationales à l'égard des syndicats est une question d'importance pour les syndicats mêmes et une enquête plus poussée pourrait utilement incorporer leurs points de vue aussi bien que ceux des compagnies.

Une implication nette pour la politique gouvernementale se dégage pour ce qui est des encouragements à l'investissement offerts pour attirer les industries dans différents pays membres. Sans exception, dans les cas étudiés, de tels encouragements n'étaient pas le déterminant majeur à la base de la décision d'investir. Dans le cas où ces encouragements étaient offerts, ils étaient généralement considérés comme une gratification. De plus grande importance était le besoin d'être présent sur un marché, les facteurs-coût et les conditions du marché local de l'emploi. Des doutes ont été émis quant à la permanence de l'emploi créé en réponse aux seuls encouragements à l'investissement. Le chômage croissant risque de pousser les gouvernements à des politiques de "mendiage" auprès de leurs voisins pour de telles succursales, ce qui peut conduire à des créations d'emploi seulement temporaires.

Les implications pour la politique concurrentielle apparaissent dans la nécessité d'évaluer soigneusement les coûts d'opportunité qui surgissent si l'entreprise ne peut réaliser son investissement "préféré". Il semble que l'alternative à un investissement direct à l'étranger soit non pas un investissement dans le pays d'origine accompagné d'exportations mais, dans certains cas, aucun investissement. En d'autres termes, l'investissement direct à l'étranger et l'investissement domestique sont loin d'être de parfaits substituts. Notre étude montre aussi le besoin d'une recherche plus détaillée sur les implications relatives sur l'emploi d'investissements réalisés à partir de création complétée contre des investissements réalisés par rachat. Les effets créateurs d'emploi
d'un rachat peuvent être tout aussi significatifs que ce d'une complète création, en particulier lorsque l'introduction d'une nouvelle technologie renforce la position de la compagnie rachetée dans son marché-produit. Une recherche plus étendue est nécessaire pour établir les circonstances qui déterminent un tel résultat.
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1. Introduction

The major aim of this project is to investigate, on a small sample basis, the employment effects of intra-EEC foreign direct investment (FDI). Further objectives are an estimation of the effect on skill levels and wage levels in the EEC as a whole, and to assess the importance of technology transfer via such FDI.

This Report is made up as follows. Section 2 outlines the methodology used. Section 3 gives estimates of intra-EEC foreign direct investment stocks and flows at the macro level. Section 4 presents case studies of individual firms' direct investments within the EEC and Section 5 is a summary and draws tentative conclusions.

A study based on only 8 cases and in only one industry (plastics and synthetics) cannot be considered in any way definitive. However, we believe that this study is important in refining methodology and in the presentation of a limited number of actual cases.

2. Methodology

2.1. Background

As unemployment in member countries of the EEC has risen, so the question of the possible loss of jobs resulting from the foreign direct investment of multinational companies has been more loudly voiced. The impact of multinational companies on employment in host (receiving) countries and in source (capital exporting) countries has received scant attention in the literature. Such studies as there have been can be broadly divided between those concerned with the impact of multinational enterprises (MNEs) in developing economies and those whose focus is the industrialised economies. Of the two, the latter has attracted far less interest than the former, notwithstanding the fact that a United Nations report in 1973 estimated that in 1970 MNEs contributed to employment by creating or maintaining some 13 to 14 million jobs in all market economy countries, and that 11 to 12 million of these were in industrialised economies.¹

Many studies have been conducted into the effect of FDI on individual host countries - both Governmental² and Private studies³.

2.1.1. Host Country Studies

From the point of view of the host country, the impact of foreign investment is generally considered beneficial to employment. The opening of new factories (a "greenfield" development) creates employment and evidence suggests that the labour force expands rapidly in the early years of such a development before levelling off. If, alternatively, the investment takes the form of a takeover of a local firm, employment will at first be likely

²See (90) and (102) in Annotated Bibliography
³UK: Hodges (47), France: Johnstone (61), Ireland: Buckley (15), McAleese (72,73), Wales: Davies and Thomas (27), Scotland: Forsyth (36), Hood and Young (48), West Germany: Jungnickel (62), Netherlands: Stubenitsky (93), Belgium: Thoman(94).
to remain stable, or even fall slightly, most probably at management level, but in the longer term it is likely to rise as the firm taken over is strengthened. The diversification of a local economy which often accompanies a foreign investment is also beneficial to employment.

All such arguments are commonly advanced in support of foreign investment. But there are also opinions expressed to the contrary. For example, the stability of the employment created by multinational companies is called into question by the vagaries of the business cycle. In times of recession, particularly when the phases of the cycle are synchronised between countries as they are increasingly within the EEC, a foreign investor is more likely to effect cuts in employment in a subsidiary than in the parent company. In fact the evidence for such a view is mixed. A French study on the impact of foreign investment on unemployment\(^1\), admittedly concerned with a period when "recession" was nothing more than a slow down in the rate of growth, found that in some regions of France no foreign enterprise established between 1962 and 1971 had closed by the end of 1971, and in the country as a whole, few foreign subsidiaries had shut down. This apparent stability is no less significant because of reductions in the labour force in times of slack, which is equally a feature of indigenous companies. Indeed the report suggested that national companies were more prone to shed labour than foreign companies, for a number of reasons. (i) Foreign companies invest usually on a long-term basis. (ii) The timing of the investment is frequently made to coincide with the trough in the business cycle. (iii) The companies usually belong to expanding industries supplying the world, rather than the national, market. (iv) The scale of the investment and the diversified product range of many large MNEs gives added security to employment.

Similarly, a study on foreign firms in the Republic of Ireland\(^2\) found that employment loss from foreign owned firms was not noticeably different from that of indigenous enterprises. The reasons adduced were (i) the greater effort MNEs put into planning investment, (ii) MNEs are sensitive to their "host" country image, (iii) MNEs are more adept at adapting both production processes and the type of output produced in response to changing domestic costs and world demand, (iv) multi-plant economies confer advantages in the form of risk-spreading, capital raising, R & D and sales promotion, which leave MNEs in a stronger position to take a longer-run view of a plant's operation than a national firm. This final point is strongly supported by Scherer et al\(^3\), who present evidence which suggests that there are several very real economies available from multi-plant operation.

The generally favourable light in which the employment effects of foreign investments are seen in industrialised host countries is tempered by observations on the skill-levels of the employment created. For it has been suggested that only "lesser-order" activities will be allocated to subsidiaries, all skilled, technical and planning work being concentrated in the

---


Here again the specific impact of an investment is likely to depend very much on the industry (particularly the kinds of goods produced), and the size of the company. The French study referred to above found little difference between the training programmes of multinational and local companies. An equally important issue here is the number of employees (particularly management) coming from the parent company; and the promotion prospects from within the subsidiary company.

2.1.2. Source Country Studies

When we turn to studies which examine the impact of FDI on source countries, then far less information is available. The Reddaway Reports are the exception to the predominantly US bias of official information on outward FDI. The US reports were a reaction to labour criticism that outward FDI substitutes for domestic employment. The American Federation of Labor-Congress of Industrial Organizations (AFL-CIO) has criticised US multinational enterprises on two grounds: (i) that they have directly, and adversely, affected job creation in the US; and (ii) that they have reduced American competitiveness abroad, particularly through the export of technology and through reduced opportunities for US exports. This latter concern also relates to a more widely studied aspect of the impact of multinational enterprises, viz. the balance of payments effect. The focus of our concern is the impact of MNEs on employment. On that score a number of arguments have been put forward to counter the views of the AFL-CIO.

The US Chamber of Commerce, for example, showed that the multinational corporations increased their employment in the USA by 31.1% between 1960 and 1970 compared with an average of 12.3% for the industrial sector taken as a whole. The Emergency Committee for American Trade showed that US multinationals during the 1960s had a rate of job creation 75% above that of other industrial corporations. A study by R. Stobaugh et al estimated that in 1970 US foreign direct investment in manufacturing resulted in perhaps 600,000 US jobs. R.G. Hawkins, however, showed that the results of such studies as those mentioned above depend crucially on the methods of estimation and assumptions used. Hawkins' analysis attributes the net effect on employment to the aggregate of several opposing factors which he summarised as "local production displacement effect; export stimulation effect; home office employment effect; supporting firm employment effect". He was unable to show conclusively one way or the other that multinationals have either a positive or negative impact on employment in the USA and considered that job creation and job loss largely cancelled each other out.

4 "The role of multinational corporations in the USA and World Economies", Washington, 1972.
What few of these studies considered was whether domestic investment was a valid alternative to foreign investment. Does, for example, the export of part of a company's production facility in increasingly competitive markets provide a better foothold than the export of goods manufactured in the home market? Such a consideration is important for the viability of the parent company. Expansion to cater for exports may be short-lived if the company is unable to compete.

Most studies of outward FDI have concentrated on the balance of payments impact of FDI (e.g. Reddaway considers the pay off in terms of "recoupment periods" - the time taken to pay back the original capital outlay), not the employment impact. The "Tariff Commission Report" considered employment and wage levels of US industry abroad but its results are suspect.1

These large sample surveys are not as appropriate as in-depth case studies of individual foreign investment decisions for measuring the employment effects of FDI.

2.1.3. Studies at Firm Level

A major previous study at individual firm level is that by Stobaugh and others on "Nine US Investments Abroad"2. The concern of Stobaugh's study was the effects of US FDI on the balance of payments and employment level of the USA. The study concentrated on nine investments in nine major US industries.

An interview study of UK direct investment abroad (including the EEC) by smaller firms, was conducted by Newbould, Buckley and Thurwell, but its concern was managerial processes, not employment effects.3

2.1.4. Studies of Intra EEC Direct Investment at Firm Level

Concern with progress, or lack of progress, towards European integration has led to intra EEC FDI being seen as a major integrating process. It has been said, however, that the firms which have taken most advantage of integration are subsidiaries of US firms within the EEC. Recent studies have shed more light on investment (and divestment) policies of MNEs within the EEC, but this has often been of US firms.4

2.1.5. Macro-information

Macro information on stocks and flows of FDI is woefully inadequate as Section 3 below shows. It is virtually impossible to derive expectations on the basis of such information.

2Stobaugh et al op.cit.
4Van den Bulke (105), Hood and Young (48), Dunning (32).
2.2. Formulation of Methodology

2.2.1. Preliminary

The difficulties encountered with official data, and recognition that the issues which concerned us could only be successfully dealt with at the level of the firm itself, made it desirable that we concentrate our attention not on the economies of the countries to be included in the study, but on the behaviour of firms within those economies, even though the firms' impact on employment in the countries where they invest was our prime concern. Further, a decision was taken to limit our enquiry to only one industry and the plastics and synthetics industry was chosen because of the diversity of product range associated with manufacturing in that industry, together with the continuing development of new technology which typifies the recent growth of the industry. It was felt that differences between industries might influence the results and investigation of a single industry removes this bias.

Further, we hoped to limit the analysis to a sub-section of the nine member countries. This proved to be difficult to control because of lack of prior knowledge of the location of manufacturing subsidiaries. Our final sample includes the UK, Republic of Ireland, West Germany, France and the Netherlands as either host or source countries.

2.2.2. Data Collection Methodology

Information was gathered by a structured questionnaire. It was important that we apply what, in another context, Yves Sabalo and Raul Trajtenbrg refer to as "a uniform scheme of analysis", to each of the investments chosen for study. This is relevant because our report is not a comparison of different cases but a "synthesis", intended to draw out the common threads in the impact of the multinational enterprises on employment in the member countries. To this end we used the questionnaire in appendix 1.

The questions move from general motivation to the impact of labour matters and precise details on employment. We tried to avoid forcing the labour issue on the interviewee by asking about general motivation. In all cases, a senior representative of the firm was interviewed and subsequent telephone calls or letters were exchanged to clarify points at issue.

2.2.3. The Alternative Position

Of critical importance in an attempt to ascertain the impact of intra-EEC FDI on employment is the relevant "alternative position", i.e. what would have happened if the investment under investigation had not taken place. Several possibilities arise; in the absence of the FDI either (i) the firm would have invested at home and possibly serviced the target market via exports, or (ii) an investment outside the EEC would have been undertaken and the target market supplied from there, or (iii) no investment at home or in other locations would have been undertaken. The alternatives to the EEC investment outside the source country, i.e. the 'actual' situation, are therefore:

(i) An investment in the source country (+ exports)

(ii) An investment outside the EEC

(iii) No investment, no replacement by exports

Clearly, the effect on employment in the EEC is different in each case:

(i) If the alternative is home investment, the employment-creating effect of the 'actual' investment may be either greater or less than the alternative; i.e. the actual jobs created may merely substitute for 'home' employment and therefore the real employment effect can be positive or negative for the EEC as a whole.

(ii) If the alternative is an investment outside the EEC, then the 'actual' investment is likely to be job-creating for the EEC, except in the extreme situation where the investment outside the EEC creates more jobs in the source country than the 'actual' EEC investment adds to total employment in the EEC as a whole.

(iii) If the alternative is no investment, then the 'actual' investment is clearly employment-creating.

It is most likely that the firm would consider (i) and (iii) as alternatives rather than (ii) except for "offshore" type investments, set up specifically to service the source country market.

The motivation of the firm is clearly very relevant and so is its view of the alternative. However, it is important to try to back up the subjective judgements of the interviewee by reference to objective data. An example is where the interviewee claims that it would have been impossible to service a particular host market by exports. It is possible to examine the size of imports of the product in question and more technically to estimate the propensity to import of the country and product in question.

2.2.4. Capital:Labour Ratios and Technology

Alternative (i) is of great interest. The effect of the alternative position here is bound up with an examination of the technology of production.

The amount of employment created by a particular investment will depend on the labour intensity of production - or on the capital:labour ratio. Consequently it might be expected that a given investment in a cheap labour country (UK, Ireland) will yield a greater employment return than in a dear labour country (West Germany) if the MNE is responsive to factor costs. We are thus interested in the degree to which firms utilise a given technology throughout the EEC, and how far this is modified in response to factor price signals (particularly wage rates). If MNEs are responsive then the location of investments and the production process will be interdependent. The choice of the plastics industry allows us to examine this issue in a situation of changing and "malleable" technology, and across a wide product and process range.
2.2.5 Nature of Integration

The integration of national economies can be expected to have two opposing effects on the nature of integration of MNEs within the boundaries of the union.

(i) The removal of tariffs and barriers to trade and investment may be expected to result in decreased horizontal integration because firms will seek to reach minimum efficient scale by removing duplication of plants and reaping maximum economies of scale by centralising activities.

(ii) The increased division of labour which becomes possible internally can be expected to lead to increased vertical integration. Firms will take the opportunity to specialise and perhaps introduce component specialisation. 1

The type of effect on employment is obviously very different according to the pressures which integration imposes. We seek to identify these pressures by designing our questionnaire to account for both types of integration. A separate questionnaire was used for vertical and horizontal direct investments.

2.2.6 Greenfield Ventures versus Takeovers

It may be that the difference in the employment creating effect of Greenfield Ventures versus Takeovers is not as great as a priori thought would suggest. The capital which the taken-over firm acquires may be used to invest in further employment-creating activities. This is difficult to trace and to estimate but conceptually should not be ignored. We can of course obtain exact information on the direct employment effects of both kinds of venture.

2.2.7 Full Employment Assumption

Many studies (balance of payments etc.) are carried out using the assumption that Governmental policies will ensure full employment. It is doubtful if this assumption is still tenable. Consequently direct employment creation (or reduction) will have "multiplier" effects on demand and on secondary employment creation. Such secondary employment creation may well be adduced to vary according to the particular EEC economy under consideration. Employment effects may also be generated by the contributions of MNEs via taxes etc. to public funds, used for employment purposes. Member nations are, however, likely to differ little in this respect.

2.2.8 Sourcing Policy

The "sourcing policy" or market servicing arrangements of the firm under investigation will have employment implications. It is therefore of interest which markets are served from which production plants and which markets are intended to be served from particular foreign investments at the outset. The division of exports between plants clearly determines the amount of employment at each location.

This factor may well be linked to the size of the firm making the investment. It is more likely that larger and more sophisticated firms will have a coherent sourcing policy, whilst smaller firms use ad hoc decision making to determine market servicing. Research also indicates wide differences between nationalities of ownership of firms and industries in sourcing decisions.¹

2.2.9. Differences in Host Country Environment

It is possible that differences in the environment of EEC countries may result in the employment effects being different according to the countries of origin and destination of the investment.² Particularly important might be the laws and customs related to employment practices such as regulation of overtime, ease of dismissal of workers and trade union regulations. Effects on the costs of labour to investors arise from social security payments and other non wage costs met by the investor.³

2.2.10. Technology

A major factor which complicates all the above is the question of the introduction of new technology. The general statement that investment creates jobs may be invalidated by the introduction of labour saving technology which reduces total direct employment. Such technology may create jobs elsewhere in the economy, however, and we need to trace this through the system before we can judge overall effects. This technology effect may or may not be linked to the FDI decision.

Technological intensity will be strongly related to skill levels and investments in technology intensive products and processes may increase demand for certain types of skilled labour, possibly at the expense of unskilled workers.

2.3. Summary

We hypothesise that the effects of intra-EEC FDI on employment will fall into four categories:-

(i) industry specific influences
(ii) region specific influences
(iii) nation specific influences
(iv) firm specific influences⁴

We have attempted to reduce industry specific variations by looking only at one particular industry, plastics and synthetics. Nation specific variations are reduced by examining only a subgroup of source (UK, Germany, France, Italy, Spain)¹⁰³.¹⁰⁵

¹P.J. Buckley and R.D. Pearce (19)
²H. Voogd and H. Van Steeten (107)
³ILO (54)
⁴P.J. Buckley and M. Casson (16)
Ireland) and host (UK, Germany, Ireland, France, Holland) nations. Our questionnaire is designed to pick up differences in employment effects arising from firm specific and region specific factors.

In a short, pilot, project such as this it will not be possible to answer all the questions posed (some, such as industry variation in employment effect, are specifically ruled out), but we hope to go some way towards refining the methodology and, on the basis of a small sample, giving some extremely tentative conclusions.
3. **Macro Data**

The inadequacy of statistical data at a macro-level for dealing with certain issues we would have wished to investigate (e.g. the share of foreign direct investment in total investment; estimates of capital-labour ratios, etc.) means that this section is largely concerned with data on direct investment. Even here the degree of harmonisation in the data is minimal, so that the problem of making legitimate comparisons between countries still exists and demands suitable caution in interpreting the information supplied.

3.1 Foreign Participation in Member Countries

Table 3.1.1 provides a breakdown by country of origin of foreign participation, measured in the different ways shown in the footnotes to the table, in certain of the member countries of the EEC. It is readily apparent from the table that the USA is the major source of direct investment in most countries.

The member countries of the EEC have established particularly strong intra-Community flows of direct investment, all, except the UK (which still has a very high proportion of investment originating in the USA), receiving between one quarter (Italy) and two-fifths (Belgium, France and Ireland) of total foreign investment from their partners. The UK itself attracts a relatively smaller percentage of foreign investment from the other EEC countries than other member countries do, but the table shows how this investment has increased between 1962 and 1974.

The manufacturing sector is still, in most host countries, the major recipient of foreign direct investment. Within manufacturing, the share of output accounted for by multinational enterprises varies from country to country and according to the yardstick used. As a percentage of the turnover of all manufacturing enterprises, the share of MNE's within the EEC ranges from 33 per cent in Belgium, which, like France and Germany can be classed as heavily penetrated, to 14.2 per cent in the UK (moderately penetrated) and 8 per cent in Denmark (slightly penetrated). These figures, together with estimates of the share of foreign-owned firms in manufacturing employment, are shown in Table 3.1.2.

The difference between the figures for the share of employment and the share of turnover accounted for by multinational enterprises, which is low in Germany but high in Belgium, may be accounted for by the different sectors of manufacturing in which MNE's are established, (e.g. labour-intensive as opposed to capital-intensive sectors) and their scope for economies of scale. But it may also reflect a difference in productivity between MNE's and domestic companies.

We have been unable to find reliable statistics to compare the percentage multinational enterprises provide of total employment with their percentage share of the total wages and salaries bill. In those countries for which such data are available, such as Austria, Norway, Sweden and the UK, the evidence suggests that multinational enterprises pay a higher share of the wages bill than the share they provide of total employment. In the case of the UK, the corresponding figure to the 10.3 per cent share of employment is 11.8 per cent of wages and salaries, still comfortably below value added.
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<tr>
<td>Australia</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td></td>
<td>..</td>
<td>0.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Japan</td>
<td>0.1</td>
<td>1.7</td>
<td>0.8</td>
<td>..</td>
<td>0.2</td>
<td>0.1</td>
<td>-</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>Other5</td>
<td>1.3</td>
<td>2.2</td>
<td>18.7</td>
<td>0.5</td>
<td>15.0</td>
<td>2.6</td>
<td>..</td>
<td>3.3</td>
<td>9.2</td>
</tr>
<tr>
<td>Total intra-EEC6</td>
<td>30.3</td>
<td>35.2</td>
<td>40.7</td>
<td>44.1</td>
<td>41.8</td>
<td>23.9</td>
<td>37.5</td>
<td>9.8</td>
<td>16.1</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

1. Cumulative flow of direct investment
2. Persons employed in enterprises with foreign participation (Industry only)
3. Capital investment: cumulative total
4. Stock of direct investment
5. Including above countries for which data are not available
6. Excludes Ireland as a country of origin

TABLE 3.1.2 Employment in Foreign Owned Firms: % of Total Manufacturing Workforce and Turnover

<table>
<thead>
<tr>
<th>Country</th>
<th>Definition of Foreign Control</th>
<th>Number Employed (% of total workforce in manufacturing)</th>
<th>Turnover %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany (1972)</td>
<td>20%</td>
<td>22.4</td>
<td>25.1</td>
</tr>
<tr>
<td>Belgium (1968)</td>
<td>20%</td>
<td>18.3</td>
<td>33.0</td>
</tr>
<tr>
<td>Denmark (1971)</td>
<td>..</td>
<td>..</td>
<td>8.0</td>
</tr>
<tr>
<td>France (1973)</td>
<td>20%</td>
<td>19.4</td>
<td>27.1</td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>14.9</td>
<td>21.0</td>
</tr>
<tr>
<td>U.K. (1971)</td>
<td>50%</td>
<td>10.3</td>
<td>14.2</td>
</tr>
</tbody>
</table>

Source OECD op cit. p.11.

This tendency is again attributable mainly to the sectoral differences in the activities of multinational enterprises, and in particular to the degree of technological progressiveness which is reflected in the skill-levels of the workforce.

Table 3.1.3 shows, for the United Kingdom, the percentage share of foreign establishments in wages and salaries, value added and investment for the sectors of manufacturing industry. The variation between sectors is readily apparent from the table.

A profile of the sectoral penetration of foreign-owned companies in manufacturing industry is shown for Germany, France and the UK in Table 3.1.4. The table shows the share of multinational enterprises in each major sector of industry according to the number of persons employed. Sub-sector 35, the manufacture of chemicals, plastic products etc., is, across all three countries, the most highly penetrated by foreign enterprises, although in Germany it comes second in terms of employment percentage to the basic metals industry. The extent of foreign penetration in Italy, as measured by the percentage of total capital of a sample of large companies held by non-residents, is shown in Table 3.1.5 by sector of manufacturing industry.

3.2. Trends in Direct Investment Flows

The size and rate of increase of inflows and outflows of direct investment have varied appreciably between member countries. Table 3.2.1 shows net direct investment flows for Belgium-Luxembourg, Denmark, France, Germany, Italy, the Netherlands and the United Kingdom over the periods 1961-65,
While the United Kingdom and the Netherlands have improved their creditor position over that time, the other countries have remained structurally net debtors. The percentage increases of average annual outflows for the period 1971/74 compared with 1966/70 were, in the order in which the countries are listed in the table, 2.94, 8.39, 2.46, 2.78, 1.35, 2.23 and 3.37. The corresponding increases of inflows were 2.13, 2.34, 2.74, 2.69, 1.54, 2.20 and 2.45.

Tables 3.2.2, 3.2.3 and 3.2.4 show that foreign-owned firms in manufacturing are, on the whole, larger than domestic enterprises. In Belgium, for example, (Table 3.2.2) 36 per cent of firms with over 1000 employees are foreign-owned, whereas only 0.6 per cent of firms with less than 20 employees are foreign-owned. In France (Table 3.2.3) 22.5 per cent of firms employing more than 2000 are foreign-owned (although this rises to 31.7 per cent for firms between 1000 and 1999); but only 2 per cent of firms employing between 20 and 49 are foreign-owned. In the UK (Table 3.2.4), for manufacturing industry as a whole, the average size by number of persons employed is 477 for foreign-owned establishments, but only 80 for domestic establishments. By contrast, in Mining and Quarrying, domestic establishments are bigger than foreign-owned ones.

TABLE 3.1.3 Percentage Share of foreign establishments* in wages and salaries, value added and investment in manufacturing industries, UK 1971

<table>
<thead>
<tr>
<th>ISIC Code</th>
<th>Wages &amp; Salaries</th>
<th>Value Added</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Manufacturing</td>
<td>11.8</td>
<td>13.3</td>
<td>16.2</td>
</tr>
<tr>
<td>31 Food, Drink, Tobacco</td>
<td>9.5</td>
<td>12.2</td>
<td>9.8</td>
</tr>
<tr>
<td>32 Textiles</td>
<td>2.6</td>
<td>4.1</td>
<td>12.9</td>
</tr>
<tr>
<td>33 Wood</td>
<td>1.0</td>
<td>1.1</td>
<td>0.8</td>
</tr>
<tr>
<td>34 Paper</td>
<td>2.7</td>
<td>3.4</td>
<td>2.7</td>
</tr>
<tr>
<td>35 Chemicals &amp; Plastics</td>
<td>23.8</td>
<td>27.2</td>
<td>21.4</td>
</tr>
<tr>
<td>36 Non-metallic minerals</td>
<td>5.0</td>
<td>6.9</td>
<td>5.5</td>
</tr>
<tr>
<td>37 Basic metals</td>
<td>6.2</td>
<td>6.0</td>
<td>10.5</td>
</tr>
<tr>
<td>38 Machinery &amp; Equipment</td>
<td>16.2</td>
<td>16.6</td>
<td>24.9</td>
</tr>
<tr>
<td>39 Other</td>
<td>6.9</td>
<td>9.2</td>
<td>7.4</td>
</tr>
</tbody>
</table>

*Over 50% participation

Source: OECD op. cit. p.51
TABLE 3.1.4  Share of employment represented by enterprises with foreign participation in the main industrial sectors

<table>
<thead>
<tr>
<th>ISIC Code</th>
<th>Germany (1972) (&gt;20% Foreign participation)</th>
<th>France (1973) (&gt;50% Participation) (Between 20 - 50%)</th>
<th>U.K. (1971) (&gt;50% Participation)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% 000's</td>
<td>% 000's % 000's</td>
<td>% 000's</td>
</tr>
<tr>
<td>2 Mining &amp; Quarrying</td>
<td>12.5 34.7</td>
<td>.. .. ..</td>
<td>10.3 804.1</td>
</tr>
<tr>
<td>3 Manufacturing</td>
<td>22.4 1854.2</td>
<td>14.9 661.5 4.5 198.9</td>
<td>8.5 87.3</td>
</tr>
<tr>
<td>31 Food, Drink, Tobacco</td>
<td>26.2 139.1</td>
<td>.. .. ..</td>
<td>2.1 23.0</td>
</tr>
<tr>
<td>32 Textiles</td>
<td>.. ..</td>
<td>6.0 45.4 1.6 12.0</td>
<td>0.9 2.3</td>
</tr>
<tr>
<td>33 Wood</td>
<td>.. ..</td>
<td>4.3 7.4 1.0 1.7</td>
<td>2.6 15.6</td>
</tr>
<tr>
<td>34 Paper</td>
<td>.. ..</td>
<td>7.3 21.8 2.7 8.1</td>
<td>23.0 132.5</td>
</tr>
<tr>
<td>35 Chemicals &amp; Plastics</td>
<td>26.9 258.7</td>
<td>26.2 155.6 3.8 21.3</td>
<td>4.6 13.2</td>
</tr>
<tr>
<td>36 Non-metallic minerals</td>
<td>.. ..</td>
<td>10.4 23.3 3.2 7.3</td>
<td>5.3 29.0</td>
</tr>
<tr>
<td>37 Basic metals</td>
<td>30.8 235.3</td>
<td>9.1 37.8 5.8 24.0</td>
<td>14.7 509.0</td>
</tr>
<tr>
<td>38 Machinery &amp; Equipment</td>
<td>25.9 977.8</td>
<td>17.6 341.0 6.4 124.1</td>
<td>5.9 12.2</td>
</tr>
<tr>
<td>39 Other</td>
<td>.. ..</td>
<td>12.4 9.2 0.5 0.4</td>
<td>.. ..</td>
</tr>
<tr>
<td>6 Wholesale &amp; Retail etc.</td>
<td>6.4 208.1</td>
<td>.. .. ..</td>
<td>.. ..</td>
</tr>
</tbody>
</table>

Source: DECO op.cit. p.15, 18, 36 & 42.
### TABLE 3.1.5 Italy: Foreign Penetration by Sector in "Large Companies"

<table>
<thead>
<tr>
<th>Sector</th>
<th>1973 Capital held by non-residents as % of total capital of large companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>21.6</td>
</tr>
<tr>
<td>Textiles</td>
<td>21.1</td>
</tr>
<tr>
<td>Metallurgy</td>
<td>8.6</td>
</tr>
<tr>
<td>Mechanical Engineering</td>
<td>24.8</td>
</tr>
<tr>
<td>Chemicals</td>
<td>23.1</td>
</tr>
<tr>
<td>Paper &amp; Cardboard</td>
<td>18.9</td>
</tr>
<tr>
<td>Others</td>
<td>26.0</td>
</tr>
<tr>
<td>Total Manufacturing</td>
<td>21.3</td>
</tr>
</tbody>
</table>

Source: OECD op.cit. p.49
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total net inflow</td>
<td>Average annual inflow</td>
<td>Total net outflow</td>
<td>Average annual outflow</td>
<td>Total net flow</td>
<td>Average annual net flow</td>
<td>Total net inflow</td>
<td>Average annual inflow</td>
<td>Total net outflow</td>
<td>Average annual outflow</td>
<td>Total net flow</td>
</tr>
<tr>
<td>Belgium / Luxembourg</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>1214</td>
<td>242.8</td>
<td>282</td>
<td>56.4</td>
<td>932</td>
</tr>
<tr>
<td>Denmark</td>
<td>341</td>
<td>62.8</td>
<td>44</td>
<td>8.8</td>
<td>297</td>
<td>59.4</td>
<td>357</td>
<td>71.4</td>
<td>59</td>
<td>11.8</td>
<td>296</td>
</tr>
<tr>
<td>France</td>
<td>1108</td>
<td>221.6</td>
<td>1289</td>
<td>257.8</td>
<td>-181</td>
<td>-36.2</td>
<td>1696</td>
<td>339.2</td>
<td>1352</td>
<td>270.4</td>
<td>344</td>
</tr>
<tr>
<td>Germany</td>
<td>2746</td>
<td>549.2</td>
<td>1315</td>
<td>263</td>
<td>1431</td>
<td>286.2</td>
<td>3519</td>
<td>703.8</td>
<td>2772</td>
<td>554.4</td>
<td>747</td>
</tr>
<tr>
<td>Italy</td>
<td>1703</td>
<td>340.6</td>
<td>680</td>
<td>135</td>
<td>1023</td>
<td>204.6</td>
<td>1933</td>
<td>386.6</td>
<td>986</td>
<td>197.2</td>
<td>947</td>
</tr>
<tr>
<td>Netherlands</td>
<td>605</td>
<td>121</td>
<td>702</td>
<td>140.4</td>
<td>-97</td>
<td>-19.4</td>
<td>1687</td>
<td>337.4</td>
<td>1923</td>
<td>384.6</td>
<td>-236</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1406</td>
<td>281.2</td>
<td>1795</td>
<td>359</td>
<td>-389</td>
<td>-78.8</td>
<td>1586</td>
<td>317.2</td>
<td>1910</td>
<td>382</td>
<td>-324</td>
</tr>
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</table>

Contd.................
### TABLE 3.2.1 Continued

<table>
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<tr>
<th>Country</th>
<th>Total net inflow</th>
<th>Average annual inflow</th>
<th>Total net outflow</th>
<th>Average annual outflow</th>
<th>Total net flow</th>
<th>Average annual net flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium/Luxembourg&lt;sup&gt;1&lt;/sup&gt;</td>
<td>1551</td>
<td>517</td>
<td>498</td>
<td>166</td>
<td>1053</td>
<td>351</td>
</tr>
<tr>
<td>Denmark&lt;sup&gt;1&lt;/sup&gt;</td>
<td>502</td>
<td>187.3</td>
<td>297</td>
<td>99</td>
<td>205</td>
<td>68.3</td>
</tr>
<tr>
<td>France</td>
<td>3720</td>
<td>930</td>
<td>2665</td>
<td>666.25</td>
<td>1055</td>
<td>263.7</td>
</tr>
<tr>
<td>Germany</td>
<td>7579</td>
<td>1894.75</td>
<td>6163</td>
<td>1540.75</td>
<td>1416</td>
<td>354</td>
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<tr>
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<td>2377</td>
<td>594.25</td>
<td>1070</td>
<td>267.5</td>
<td>1307</td>
<td>326.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2973</td>
<td>743.25</td>
<td>3433</td>
<td>858.25</td>
<td>-460</td>
<td>-115</td>
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<tr>
<td>United Kingdom&lt;sup&gt;2&lt;/sup&gt;</td>
<td>3121</td>
<td>780.25</td>
<td>5158</td>
<td>1289.5</td>
<td>-2037</td>
<td>-509.2</td>
</tr>
</tbody>
</table>

<sup>1</sup>To 1973 only

<sup>2</sup>Inflows: excluding oil and insurance
Outflows: excluding oil

Source: OECD op. cit. p.38
<table>
<thead>
<tr>
<th>ISIC</th>
<th>TOTAL</th>
<th>1-19</th>
<th>20-49</th>
<th>50-99</th>
<th>100-199</th>
<th>200-499</th>
<th>500-999</th>
<th>1000+</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>3</td>
<td>18.3</td>
<td>0.6</td>
<td>3.1</td>
<td>6.9</td>
<td>12.2</td>
<td>19.4</td>
<td>30.0</td>
<td>36.0</td>
</tr>
<tr>
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<td>13.2</td>
<td>0.2</td>
<td>3.3</td>
<td>3.4</td>
<td>13.8</td>
<td>19.7</td>
<td>33.5</td>
<td>24.4</td>
</tr>
<tr>
<td>32</td>
<td>9.2</td>
<td>0.4</td>
<td>1.7</td>
<td>6.1</td>
<td>9.6</td>
<td>9.0</td>
<td>19.4</td>
<td>33.5</td>
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<tr>
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<td>0.1</td>
<td>1.6</td>
<td>2.6</td>
<td>6.7</td>
<td>16.7</td>
<td>4.3</td>
<td>85.2</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>8.4</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>35</td>
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<td>5.4</td>
<td>15.1</td>
<td>29.1</td>
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<td>42.4</td>
<td>50.1</td>
<td>35.6</td>
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<td>14.6</td>
<td>1.3</td>
<td>3.2</td>
<td>3.7</td>
<td>5.1</td>
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<td>16.7</td>
<td>22.0</td>
<td>32.8</td>
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<td></td>
<td></td>
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<td>39</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD op.cit. p.70
TABLE 3.2.3 FRANCE - Breakdown of enterprises with foreign participation in industry as a whole by size groups (1973) (%)

<table>
<thead>
<tr>
<th>Size group of firm by employment</th>
<th>Percentage of Firms</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Foreign Enterprises</td>
<td>Domestic Enterprises</td>
<td>TOTAL</td>
</tr>
<tr>
<td>20 - 49</td>
<td>2.0</td>
<td>98.0</td>
<td>100</td>
</tr>
<tr>
<td>50 - 99</td>
<td>6.4</td>
<td>93.6</td>
<td>100</td>
</tr>
<tr>
<td>100 - 199</td>
<td>9.0</td>
<td>91.0</td>
<td>100</td>
</tr>
<tr>
<td>200 - 499</td>
<td>15.5</td>
<td>84.5</td>
<td>100</td>
</tr>
<tr>
<td>500 - 999</td>
<td>22.7</td>
<td>77.3</td>
<td>100</td>
</tr>
<tr>
<td>1000 - 1999</td>
<td>31.7</td>
<td>68.3</td>
<td>100</td>
</tr>
<tr>
<td>2000 and over</td>
<td>22.5</td>
<td>77.5</td>
<td>100</td>
</tr>
<tr>
<td>Overall percentage</td>
<td>18.1</td>
<td>81.9</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: OECD op.cit. p.71.
TABLE 3.2.4  UNITED KINGDOM - Average size of Establishment by number of persons employed (1971)

<table>
<thead>
<tr>
<th>ISIC</th>
<th>Foreign Owned Establishments (50% share)</th>
<th>Domestic Establishments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2....</td>
<td>55</td>
<td>156</td>
</tr>
<tr>
<td>3....</td>
<td>477</td>
<td>80</td>
</tr>
<tr>
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<td>271</td>
<td>80</td>
</tr>
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<td>125</td>
<td>56</td>
</tr>
<tr>
<td>35....</td>
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<td>39....</td>
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<td>48</td>
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</table>

*Source: OECD op.cit. p.75*
3.3 Intra-EEC Foreign Direct Investment: The Case of the UK

Tables 3.3.1 to 3.3.4 show direct investment relationships between the UK and the rest of the EEC in both flow and stock terms. Attempts to produce comparable tables showing the relationships between other member countries and the rest of the EEC were thwarted by lack of available information. The need for harmonisation of data on foreign direct investment amongst member countries is clear; and an area to which attention might usefully be directed.

In examining the flow data in Tables 3.3.1 and 3.3.2, it can be seen that both inflows and outflows increased fairly steadily, although cyclically throughout the period 1963 to 1977. A more consistent picture is given by the stock figures in Tables 3.3.3 and 3.3.4. Over the period 1963 to 1974, UK investment in every other member country has increased significantly, to stand at a total of £2,196.5 million in 1974. Similarly, investment into the UK by other member countries has grown, in some cases dramatically, reaching a total of £1,084.2 million in 1974. The UK's largest foreign investment stake is in W. Germany, followed by France. The largest investor in the UK is the Netherlands, followed by Belgium/Luxembourg.

3.4 Intra-EEC Direct Investment: Major Investors

Table 3.4.1 shows intra-EEC direct investment for the year 1971 (figures are available for UK, Germany, France and the Netherlands only). The UK is the largest single source of intra-EEC direct investment, Germany the largest recipient. In 1971, British investment in Germany was the largest single component of the stock of intra-EEC foreign direct investment.

A comparison with Table 3.4.2 shows that there is great scope for increase in the scale of intra EEC direct investment (c.f. the scale of US and UK investment abroad).

3.5 Conclusion

The macro data are sparse and unreliable. It is difficult to draw any firm conclusions from these data. However, they do show that the role of multinational firms is an important one; worldwide, within the EEC and in individual member countries. Investment flows of the magnitude illustrated will have important employment implications. However, it is at the micro level that such effects can best be studied and to which we now turn. It will be appreciated that in the interests of confidentiality, the anonymity of companies collaborating in the study has to be preserved.
### TABLE 3.3.1

**INTRA-EEC FOREIGN DIRECT INVESTMENT: FROM THE UNITED KINGDOM TO OTHER EEC COUNTRIES**

*(FLOW FIGURES IN £ MILLION STERLING)*

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<td></td>
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</tr>
<tr>
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<td>64.1</td>
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</table>

**Notes:**

1. A minus figure denotes net disinvestment.
2. Denmark was a member of E.F.T.A., and not the EEC, until 1973.
3. Ireland was not a member of the EEC until 1973.

These figures include unremitted profits. They do not include oil companies. The sources of the figures in Tables 3.3.1 to 3.3.4 are: BUSINESS MONITOR M4 Overseas Transactions; Tables 16, 17 and 3.1. 1969, 1972 ff. and 1976; 1977 figures from Trade and Industry, 23 March 1979.
### Table 3.3.2: Intra-EEC Foreign Direct Investment: Int'l United Kingdom from Other EEC Countries

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<td>8.5</td>
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<td>5.8</td>
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<td>11.4</td>
<td>33.2</td>
<td>36.4</td>
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<td>8.9</td>
<td>46.7</td>
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<td>72.2</td>
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</table>

Notes:

1. A minus figure denotes net disinvestment.
2. Denmark was a member of E.F.T.A., not the EEC, until 1973.
3. Ireland was not a member of EEC until 1973.

### TABLE 3.3.3  INTRA-EEC FOREIGN DIRECT INVESTMENT: FROM THE UNITED KINGDOM TO OTHER EEC COUNTRIES

(Stock figures in £ million sterling)

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<td>72.7</td>
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<td>239.5</td>
<td>290.2</td>
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<td>180.5</td>
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<td>302.5</td>
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<td>114.4</td>
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<td>205.9</td>
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<td>237.3</td>
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<td>527.9</td>
<td>626.6</td>
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<td>550.7</td>
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<td>1191.4</td>
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**Notes:**

1. Danmark was a member of E.F.T.A., not the EEC, until 1973.
2. The Republic of Ireland did not join the EEC until 1973.

The figures do not include oil, insurance or banking.
### Table 3.3.4 Intra-EEC Foreign Direct Investment: Into United Kingdom from Other EEC Countries

(Stock figures in £ million sterling)

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<th></th>
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<td>22.4</td>
<td>40.4</td>
<td>61.8</td>
<td>134.2</td>
<td>209.7</td>
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<td>18.4</td>
<td>17.7</td>
<td>23.9</td>
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<td>87.0</td>
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<td>102.3</td>
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<td>179.4</td>
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<td>218.3</td>
<td>256.3</td>
<td>304.6</td>
<td>337.1</td>
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<td>12.8</td>
<td>15.0</td>
<td>19.3</td>
<td>25.6</td>
<td>40.0</td>
<td>55.9</td>
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<td>61.4</td>
<td>83.6</td>
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<td>178.4</td>
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<td>248.5</td>
<td>278.2</td>
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<td>472.9</td>
<td>576.9</td>
<td>836.5</td>
<td>1084.2</td>
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**Notes:**
1. Figures for Belgium and Luxembourg are not given separately.
2. Denmark was a member of E.F.T.A., not the EEC, until 1973.
3. Ireland was not a member of the EEC until 1973.

The figures do not include oil, insurance and banking.
**TABLE 3.4.1 Intra-EEC Direct Foreign Investment Matrix:**
4 major EEC investors (1971) ($US millions)

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<th>Investor</th>
<th>U.K.</th>
<th>France</th>
<th>Germany</th>
<th>Netherlands</th>
<th>Sum of Investee Countries</th>
</tr>
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<td>X</td>
<td>797</td>
<td>2567</td>
<td>493</td>
<td>3857</td>
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<tr>
<td>France</td>
<td>210</td>
<td>X</td>
<td>448</td>
<td>16</td>
<td>674</td>
</tr>
<tr>
<td>Germany</td>
<td>221</td>
<td>771</td>
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<td>408</td>
<td>1400</td>
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<tr>
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<td>569</td>
<td>n.a.</td>
<td>735</td>
<td>X</td>
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<td>1000</td>
<td>1568</td>
<td>3750</td>
<td>917</td>
<td>X</td>
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n.a. - not available

**Source:** Derived from sources in Table 3.4.2.
### TABLE 3.4.2 Direct Foreign Investment Matrix of the Eight Largest Investor Countries (1971) ($US millions)

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<th>Switzerland</th>
<th>France</th>
<th>Germany</th>
<th>Canada</th>
<th>Japan</th>
<th>Netherlands</th>
<th>Sum of 8 Countries</th>
<th>Worldwide</th>
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<td>1,888</td>
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<td>5,209</td>
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<td>1,821</td>
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<td>X</td>
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<td>X</td>
<td>2,000</td>
<td>1,110</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>4,845</td>
<td>9,895</td>
</tr>
<tr>
<td>France</td>
<td>315</td>
<td>210</td>
<td>773</td>
<td>X</td>
<td>448</td>
<td>592</td>
<td>38</td>
<td>16</td>
<td>2,382</td>
<td>9,540</td>
</tr>
<tr>
<td>Germany</td>
<td>650</td>
<td>221</td>
<td>810</td>
<td>771</td>
<td>X</td>
<td>606</td>
<td>40</td>
<td>408</td>
<td>3,506</td>
<td>7,380</td>
</tr>
<tr>
<td>Canada</td>
<td>3,339</td>
<td>705</td>
<td>20</td>
<td>71</td>
<td>133</td>
<td>X</td>
<td>n.a.</td>
<td>21</td>
<td>4,289</td>
<td>5,916</td>
</tr>
<tr>
<td>Japan</td>
<td>1,142</td>
<td>35</td>
<td>3</td>
<td>n.a.</td>
<td>33</td>
<td>1,142</td>
<td>X</td>
<td>n.a.</td>
<td>1,213</td>
<td>4,471</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2,220</td>
<td>569</td>
<td>78</td>
<td>n.a.</td>
<td>735</td>
<td>n.a.</td>
<td>n.a.</td>
<td>X</td>
<td>3,602</td>
<td>3,580</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>74,437</td>
<td>151,490</td>
</tr>
</tbody>
</table>

1Japanese investments in the United States and Canada combined
2The amount disclosed in the U.N. statistics (Multinational Corporations, op.cit.) is probably too low

4. The Case Studies

4.1. Case Study 1

Case Study 1 has as its subject a large UK based company with over sixty operating subsidiaries in the United Kingdom, continental Europe, Australia and North America. The firm's activities are divided into five main areas; Packaging, Capsseals, Engineering, Fashion and Leisure.

The total number employed, as at the end of the 1978 financial year, was 9,976, 2,655 of these being employed in overseas subsidiaries. Fixed assets stood at approximately £33 million and with a net working capital figure of £33 million plus a further £1 million invested in companies the Group did not own, the total assets employed in 1978 were £67 million. The Group's turnover at the end of 1978 was £156.9 million; materials and services cost £92.1 million leaving a Value Added figure of £66.8 million.

Of this Value Added figure, £49 million was distributed in wages and salaries. This meant that each employee contributed approximately £8,860 to Value Added at an average wage of £4,900 per annum. Although this represented an increase of more than 12% in terms of Value Added per employee over the previous year, the Value Added for each £ of employment cost dropped by around 3%. In other words, wages increased at a greater rate than Value Added in 1978. Capital investment is seen as the means to reverse this tendency, and there has been a significant increase in capital expenditure over the last two years, particularly on plant and machinery for new products and increased productivity. In 1978, investment expenditure totalled over £13 million, £3 million of this being used to move into the American plastics market.

Whilst capital investment is seen as a necessary part of the company's drive for increased productivity, there is also a commitment to close or sell those companies within the Group which remain unprofitable. In 1978 two businesses were sold, one in the engineering division which had made losses totalling £145,000 over the year, and one in the Packaging division which lost £40,000.

Given our interest in the plastics industry, our main concern here is with the Packaging division of this International company. In terms of fixed assets, numbers employed and total sales, this is without doubt the largest division within the United Kingdom as Table 4.1.1 shows. However, taking the ratio of capital employed to sales achieved we find that the packaging sector is the least productive. (Table 4.1.2) This finding is clearly borne out if we look at the labour/capital ratio and labour/sales ratio for each division (Table 4.1.3). The division is the most highly capitalised in the Group, yet it shows the lowest rate of return on capital at £1 capital to £2.6 sales within the U.K. Even so, the packaging division as a whole contributed £64.4 million to a total worldwide Group sales figure of £158.9 million, and this represented 40.5% of total sales. In terms of size then, the packaging division is clearly the most important division within the Group.

The Packaging division has plants in Canada, Australia, France, Germany and the United Kingdom. The main area of activity, and the one with which we are concerned, is within the European Community. Out of total sales for the division of £64.4 million only £2 million was generated by non-EEC subsidiaries. Approximately £22.4 million was turned over by the United Kingdom subsidiaries which means that the bulk of sales, £40 million, was achieved by subsidiaries within continental Europe.
Table 4.1.1  Numbers employed, total plant and machinery involved and total sales achieved for each division of Company within the United Kingdom

<table>
<thead>
<tr>
<th>DIVISION</th>
<th>NUMBER EMPLOYED</th>
<th>PLANT AND MACHINERY (£)</th>
<th>TOTAL SALES (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Packaging</td>
<td>2,349</td>
<td>8,695,998</td>
<td>22,393,017</td>
</tr>
<tr>
<td>Capsseals</td>
<td>1,175</td>
<td>3,193,650</td>
<td>16,297,250</td>
</tr>
<tr>
<td>Engineering</td>
<td>1,555</td>
<td>5,055,305</td>
<td>16,711,585</td>
</tr>
<tr>
<td>Fashion</td>
<td>501</td>
<td>841,179</td>
<td>17,425,782</td>
</tr>
<tr>
<td>Leisure</td>
<td>1,671</td>
<td>2,558,301</td>
<td>20,376,174</td>
</tr>
</tbody>
</table>
Table 4.1.2  Return on Capital Employed in UK

<table>
<thead>
<tr>
<th>DIVISION</th>
<th>SALES PLANT/MACHINERY</th>
<th>PLANT/MACHINERY AS % OF SALES</th>
<th>RATIO: £ PLANT TO SALES (APPROX.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Packaging</td>
<td>22,393,017 / 8,695,998</td>
<td>38.3</td>
<td>1 : 2.6</td>
</tr>
<tr>
<td>Capsseals</td>
<td>16,297,250 / 3,193,650</td>
<td>19.59</td>
<td>1 : 5</td>
</tr>
<tr>
<td>Engineering</td>
<td>16,711,585 / 5,055,305</td>
<td>30.25</td>
<td>1 : 3.3</td>
</tr>
<tr>
<td>Fashion</td>
<td>17,425,782 / 841,179</td>
<td>4.82</td>
<td>1 : 20.7</td>
</tr>
<tr>
<td>Leisure</td>
<td>20,376,174 / 2,558,301</td>
<td>12.55</td>
<td>1 : 8</td>
</tr>
<tr>
<td>DIVISION</td>
<td>L/K RATIO</td>
<td>LABOUR/SALES RATIO</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
<td>--------------------</td>
<td></td>
</tr>
<tr>
<td>Packaging</td>
<td>1 : 3,702</td>
<td>1 : 9,533</td>
<td></td>
</tr>
<tr>
<td>Capsseals</td>
<td>1 : 2,718</td>
<td>1 : 13,870</td>
<td></td>
</tr>
<tr>
<td>Engineering</td>
<td>1 : 3,251</td>
<td>1 : 10,747</td>
<td></td>
</tr>
<tr>
<td>Fashion</td>
<td>1 : 1,679</td>
<td>1 : 34,782</td>
<td></td>
</tr>
<tr>
<td>Leisure</td>
<td>1 : 1,531</td>
<td>1 : 12,194</td>
<td></td>
</tr>
</tbody>
</table>

**TABLE 4.1.3** LABOUR-CAPITAL RATIOS AND SALES (£) PER EMPLOYEE IN UK
There are five subsidiaries in Europe, three in France and two in Germany. The French subsidiaries are located in the North, in Paris, and in the South. They all represent 'Horizontal takeovers' and were acquired by the Group in the early 1960's. They service the French market basically, but they also manufacture for export to Rumania, USSR, Austria and the Far East. The major items that are produced are plastic jars for cosmetics, lipstick holders and aerosol valves and pumps.

TABLE 4.1.4 Breakdown of numbers employed and sales achieved in France, 1978

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Number Employed</th>
<th>Sales(£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>670</td>
<td>12</td>
</tr>
<tr>
<td>Paris</td>
<td>360</td>
<td>13.3</td>
</tr>
<tr>
<td>South</td>
<td>432</td>
<td>7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,462</td>
<td>32.3</td>
</tr>
</tbody>
</table>

Table 4.1.4 shows the numbers employed and the sales achieved in France in 1978. The labour to sales ratio for the total French operation works out at approximately one employee to £22,000 of sales, a figure vastly superior to that in the United Kingdom.

One reason for this is that more modern technology has been introduced into France recently, although the workforce has not expanded. The K/L ratio is higher in France than the United Kingdom, and, according to the interviewee, the workforce is more productive. There have been no industrial disputes since the Group took over the French companies.

There has been a substantial expansion in the French operations since the Group acquired them and it was estimated that, along with the massive capital investment, the workforce had grown by about 15% between the years 1962-63 and 1977. This means that approximately 91 jobs were created in that time. Of course, in terms of total EEC employment figures, it cannot be concluded that the Group's investments were job creating. It may be that the export substitution effect of the investments robbed the UK of jobs, or even that those employed came from factories elsewhere in France, thus having no overall effect on employment whatsoever. The director interviewed felt that both of these possibilities were unlikely. First, this was basically the Group's first real move into the French plastics market and it was carried out because they had to be in the market to compete; this ruled out exporting and there was, he claimed, no loss of exports from the UK in consequence of the move. Secondly, unemployment, at least in Southern France, was high and most of the labour came from this pool.
A detailed analysis to substantiate such a claim was not possible in the case of France, but we were able to undertake such an analysis on the German subsidiaries. Given the Group's awareness of the need for a logical corporate policy, the rationale behind each and every investment is similar. Therefore, it is reasonable to project the findings from a detailed study of one investment, albeit cautiously, on to those of another.

The Group has three sites in a city in the Eastern region of West Germany. Its first move was to take over an existing company. This company had not been a competitor but was an ailing producer of goods totally unrelated to any in which the Group had an interest. It was the site, and the need to produce in the German market, that made the takeover an attractive proposition. This need was felt because a high percentage of the Group's customers are multinational companies and, as a supplier, the Group was aware of the importance of operating near these concerns. As the interviewee said "If we (the Group) had not done so our competitors would have". The possibility of servicing the German market through exports from other of the Group's plants was ruled out because, we were told, the Germans are very "chauvinistic" and tend to purchase German produced goods where possible. One other factor was mentioned as being very important in the decision to invest in Germany, and this was the fact that Germany was considered to be a country where high profitability could almost be guaranteed.

The takeover presented no problems whatsoever. The possibility of labour problems was gone into extensively and the results of this investigation were attractive to the Group. It was found that there was a good industrial environment in which the labour laws were firm but in no way inhibitive to management decision making. The productivity of labour was thought to be "very good" whereas turnover of labour was low. Again, the industrial relations record was "very good" whilst the degree of unionisation was "attractively low". (A common theme - good industrial relations seems, in the eyes of employers, to be a function of weak unionisation). Unionisation was so low in fact, that the need to consult with the unions did not exist and hence was not carried out. However, the labour force was considered to be very co-operative.

To sum up, the Group's motives for investing directly into Germany were (i) the need to be near its customers, (ii) the difficulty of servicing the market through exports, (iii) the attractive level of profits to be made in Germany, and (iv) the productivity and co-operation provided by a German labour force.

When production began in this unit, a total labour force of 25 was employed. Of these, thirteen were male and twelve were female. They were entirely local and none, it was claimed, would have had jobs had the investment not been made. The city is an old one and not predominantly industrial. Even now it has a high unemployment rate, and all the evidence suggests that the investment was employment creating rather than employment diverting. Within the EEC as a whole this must be true of the investment, given the validity of the claim that servicing of the market from outside Germany was not a possibility.

Roughly 10% of the workforce was highly skilled¹ (as it still is) and this labour, though local, was trained in France or the United Kingdom before returning to Germany to work. Another 20% were semi-skilled and were trained within the factory. 70%, mainly female, were unskilled.

¹Throughout the case studies the interpretation of "skilled" is apprenticeship or equivalent.
Initially three managers were employed. All of them were local although they received their training in France or the United Kingdom. It was, and is, the Group's policy to enlist local management whenever possible.

This initial investment employed, at the end of 1978, 152 people. As was the case originally this can be broken down into approximately 10% skilled (trained locally under an ongoing apprentice scheme); 20% semi-skilled and 70% unskilled, the unskilled being made up largely of female staff. There are now 6 managers, again all of them local. The investment has therefore increased employment by over four-fold in thirteen years. Table 4.1.5, below, summarises this increase.

Table 4.1.5 Increase in numbers employed broken down into sex and skill levels, between 1965 and 1978

<table>
<thead>
<tr>
<th>Total employed when production started</th>
<th>Total employed end 1978</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>13</td>
<td>58</td>
</tr>
<tr>
<td>Female</td>
<td>12</td>
<td>88</td>
</tr>
<tr>
<td>Managerial</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>28</td>
<td>152</td>
</tr>
<tr>
<td>Skilled (incl. managerial)</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>Semi-skilled</td>
<td>5</td>
<td>31</td>
</tr>
<tr>
<td>Unskilled</td>
<td>18</td>
<td>106</td>
</tr>
</tbody>
</table>

The Group was so pleased with the success of this investment that they made a second one in the same city shortly afterwards. This second investment was a 'Greenfield' move, a new plant being erected on an industrial estate. Although this plant was not producing the same type of goods as the initial investment, the co-operation and productivity of labour was so attractive as to induce the Group to base a diverse sample of operations in the area.

The first investment produced finished goods from raw materials (aerosol spray valves etc. from granules) whereas the second investment bought in goods from other plants within the Group and modified them for the local market; thus a pharmaceutical bottle would have a special cap fitted to comply with national regulations.

The second investment employs (end 1978) 80 people and is highly capital intensive, with a turnover of £5.47m. at the end of 1978 compared with a turnover of £2.67m. in plant one. Bought-in goods cost well over £3m. in
plant two. Even so, value added works out at approximately £30,000 per employee in plant two, whereas in plant one, even disregarding bought in cost of raw materials, value added was only about £15,000.

TABLE 4.1.6 Total employed, skill levels and sex, end 1978 in investment 2.

<table>
<thead>
<tr>
<th>Male</th>
<th>36</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>42</td>
</tr>
<tr>
<td>Managerial</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>80</td>
</tr>
<tr>
<td>Skilled (incl. managerial)</td>
<td>10</td>
</tr>
<tr>
<td>Semi-skilled</td>
<td>20</td>
</tr>
<tr>
<td>Unskilled</td>
<td>50</td>
</tr>
</tbody>
</table>

The higher value added achieved by the more capital intensive plant has been noted by the Group and they intend to expand plant one on a capital intensive basis. This expansion will entail a move, as the present plant is sited in the old city and there have been complaints from residents about the noise level generated by the plant. When the move is made advantage will be taken of the opportunity to invest in new capital equipment. This will mean that, in spite of the fact that an expansion of production is envisaged, there will be no expansion in the labour force, indeed it is felt that capital will replace some female labour. At the same time, it is likely that skill levels will improve as men are trained to set and maintain the new equipment. At present no estimates have been made as to how many jobs will be lost nor as to how many of the semi-skilled men will be trained to a higher level.

The Group now has another operation in the same area. This is a sales operation which at present employs 5 German warehousemen, who at present turn over about £1m. of sales per annum within Germany. This operation is expected to expand, with a figure of £2m. turnover being envisaged. It is not known just how many more people the operation will employ, but something like treble the existing number is thought probable.

We are now in a position to draw conclusions on the German investment. From the evidence in other case investigations the claim that it is difficult to compete through exports to the German market has some substance. That being so, it is not likely that the employment created in Germany was merely a substitution for employment in other countries where the Group has manufacturing operations. Add to this the fact that the goods are relatively cheap to produce, and therefore that transport costs would be totally disproportionate to the finished article, and we must agree that exporting was
not an attractive proposition. Another point to note is that the investment was made in an area of high unemployment and therefore most of the workforce come from a pool of unemployed - they were not simply transferred from one company to another.

From all of this it is safe to conclude that the Group's investment in Germany was employment creating, adding to the aggregate of employed within the EEC as a whole.

It is true that the move now is towards capital intensive production and in some ways this could be inimical for job prospects. However, the new technology embodied in such a move should lead to an increase in skill levels, and it is considered unlikely that the expansion of output through more capital-intensive methods of production will significantly reduce existing employment levels. On the evidence to date, it is clear from this case study that, in this instance, foreign direct investment has been employment creating.

Earlier the Group's French investments were mentioned. There we said that it should be possible to project from one detailed analysis of an investment evidence to suggest whether or not, under similar circumstances, the effects in one case would be likely to follow in another.

As with the German investment, the French ones were seen as necessary if the Group was to compete effectively in the market. Thus servicing them from elsewhere was ruled out on the grounds that it was easier to sell to the French if the firm was producing in France, and that anyway the transport costs of doing otherwise would be disproportionately large. If this is so then the jobs created in France could not have been created elsewhere. The investment was also in a high unemployment area and so again it is unlikely that the jobs were simply shifted from one factory in the area to another.

The pattern then is very similar to the one in Germany and we would conclude that the foreign direct investments of this Group have been quite clearly employment creating, adding to the aggregate of jobs within the European Community. Although the development of new technology will increase the capital/labour ratio in future expansion of activity, this is thought unlikely seriously to threaten existing jobs and will be beneficial to skill levels among those currently employed. Expansion of the overall European market in the firm's major product lines has reinforced our view that this employment was provided in additional capacity, i.e. employment in this firm did not reduce employment in its competitors within the European Community.
4.2. Case Study 2

Our second case study, in contrast to the first, was carried out on a small UK company based in the Midlands. Early in the 1960's it was under different ownership and struggling to survive. At that time it was manufacturing solder and lead products for the building industry. It is now a thriving small business, employing some fifty people, with a turnover of £800,000 per annum, and producing such diverse goods as moulded display products, building and plumbing materials, toy products, and a variety of goods used in other industries (e.g. spools for textile machinery, top pieces for heels in the shoe trade), all of which are produced in plastic by the process of injection moulding.

The company has had European connections for some considerable time. Indeed it was as long ago as 1910 that the company's founder first set up operations in Cologne. A typical entrepreneur of the period, he was in fact a Frenchman who first began his business operations in some derelict London warehouses. It was here that the lead and solder business was started. On a trip to Germany he decided that here too there was scope for his ambitions and he set up a factory in Cologne. Germany was the country of his major expansions from then on, and by 1948 he had another plant in Berlin. The German and British concerns were not very closely related and by 1948 the German companies, foreseeing the move away from lead in the plumbing business, had already made the switch to plastic fittings. The British concern, however, was still producing lead products for which it found that the demand was falling. By 1960 it was in serious trouble.

One of the company's suppliers of specialised machinery had noted this decline whilst being aware of the potential market for plumbing goods in the building trade. This supplier finally took the company over whilst retaining the original name. A quick change to plastics was essential and the first and most important move was to strike up a much closer relationship with the Cologne company to take advantage of its technical know-how and strong financial position. There is no doubt that the survival of the British side of the business at that time was owed completely to the German concern.

Early in the sixties the move from London to the Midlands took place. This move meant that the plant could be organised from scratch and, with the backing of Cologne, money could be spent on developing the most modern and efficient specialised equipment.

The Midlands factory, with its modern plant and innovatory products, took the company from strength to strength and its share of the market rose considerably.

Geographically, the markets of the separate concerns tend to be mainly local. The UK plant has continued to service the UK market and its share of the market has increased. There has also been a growth in exports from the UK to the Middle East, the Far East and Ireland. Cologne services the Ruhr and Dusseldorf whilst the Berlin operation concentrates upon Northern Germany. In 1967 it was felt that, if the share of the German market was to be held and improved, then there would be a need for the introduction of efficient new technology. This is where the help that Cologne gave to the UK plant had its payoff. Now that the UK plant was efficient and profitable the techniques used there and the machinery employed could be used as a model for a new
investment into Germany. This investment in Frankfurt took place in the period 1967-1968. Although a factory was already in existence at this time it was not empty; it had been used for a purpose other than that for which it was now to be used. The investment therefore can be classified as 'Greenfield Horizontal' - that is, it was the setting up of a totally new operation for the production of the types of goods that the company was already producing elsewhere. This investment in fact represented the company's first consciously strategic foreign direct investment in the sense that it was part of a corporate plan, whereas the previous move into Germany was the product of entrepreneurial impulse.

By the end of 1980 the Frankfurt plant will have been closed and production moved to a new factory in Hanover. The reasons for this move will be considered shortly.

There may of course be many reasons for investing in a foreign country - proximity to market, cheap labour, government grants are some obvious examples - and it may well be that some decisions are consciously affected by all of these considerations. Very often it is the "unconscious" elements in the decision which have the greatest bearing upon the problem with which we are mainly concerned; the effects of foreign direct investment on employment. We start, therefore, by discussing this company's conscious motives for investment and then go on to consider the conclusions that can be drawn from answers given to other questions.

There was never any question as to the country of destination of the investment. The company had had German connections since 1910 and the ensuing operations followed "for no other reason than that they were already in Germany", in other words, "history rather than economics was the reason the company invested further in Germany". History may have dictated the fact that the company was servicing the German market, but sound economics dictated the fact that in order to service this market they should be in it, particularly given the view held by the Managing Director that "exporting to Germany would not have been successful, as Germans prefer German goods; hence direct investment under the auspices of a German name was the only possibility". This is a view that has been endorsed by several companies and it was certainly a strong motivating factor in the case of this company when deciding to make its investment in Frankfurt.

Not only was it a question of identity. Although the production costs in the UK would have been cheaper than they were in Germany, the cost of transportation and warehousing necessarily incurred by an exporting policy would have forced up the prices of the goods to a completely uncompetitive level. The transportation and warehousing costs would have been out of all proportion to other costs given the low price of the product and its comparative bulk.

There were two other important reasons for investing in Frankfurt. One was the need to achieve continuity of product in Germany. The Cologne operation was still producing substantial quantities of solder and lead products and it was important to exploit fully the expertise in plastics production developed in the UK if advantage was to be taken of the growing demand for plastic plumbing materials in the German market. The German concern had a good share of the market and if this market share was to be increased, or even maintained, then they had to produce the more modern materials then being demanded. This, of course, required the necessary
equipment for producing these goods and the most advanced technology for this was in operation at the UK plant. Thus the second of the reasons for the investment mentioned above was to inject the advanced UK technology into Germany.

This modern technology meant, of course, that the production process was highly capital intensive, and this made it doubly attractive as a necessary part of the company's operations in Germany, for not only did it mean that the most up-to-date goods could be produced, it also meant that the number of employees required to operate it would be small. This, the managing director said, was a very important consideration given the cost of labour in Germany. It is not clear why this should have been such an important consideration in view of the type of labour (mainly unskilled) that the company employed elsewhere in Germany and intended to employ in Frankfurt.

90% of all the labour employed in Frankfurt is 'guest' labour, that is, it is made up of non-EEC nationals. It is also female; indeed all the unskilled labour is female 'guest' labour - the only Germany employees being the small core of skilled labour essential to the smooth running of the factory and the machinery.

This 'guest' labour is considerably cheaper than German labour, and this was a point of which the company was aware before deciding to make the investment. The managing director estimated that, because of this availability of cheap labour, labour costs in Germany represented the same proportion of turnover, approximately 20%, as they did in the UK.

The managing director told us that they were aware of the labour legislation in Germany but that such legislation played no part in the investment decision. He pointed out that the "social costs"1 per employee were very high and almost doubled the monetary wage paid to each individual, hence the need to employ sophisticated capital to reduce the dependence on labour. These "social costs" are embodied in national labour legislation and cannot be avoided. An important point that he made, however, was that this legislation does not cover 'guest' workers. They do not have security of employment; they have no legal rights of redress; they are not organised, nor do they belong to a trade union. An awareness of these facts, it would seem, is useful in deciding on an investment, and although it was said that the labour laws played no part in motivating the firm to carry out the investment, clearly the possibility of a cheap, malleable and easily dispensed-with labour force could be an attractive proposition. As only a very small number of skilled men would be required to maintain production then the "social costs" and high wages required to attract these men only constituted a relatively small cost. There was no need to consult a trade union. There was no need to worry about the rights conveyed upon the workforce by law; they had no such rights. Nor was there any need to worry about the cost of redundancy should redundancy be required; there would be no such costs. Clearly then, this state of affairs could prove a very strong motivating force, even if not consciously stated as such, in making an investment, particularly given that such a pool of labour existed and was readily available.

1"Social costs" are such things as insurance cover, safety regulations, sports facilities, security of tenure etc., which increase the "direct" costs of labour.
Such considerations are about to prove useful to the company. By 1980 it is expected that the Frankfurt plant will have closed down completely and all operations will have moved to Hanover. The present workforce will be laid off (except the skilled workers who have an important part to play in setting up the Hanover operation) at no cost to the company. Of course it could be argued that, as there is not the 'guest' labour available in Hanover, the cost of cheap labour is not a prime consideration in the company's decisions. It can be noted however, that there is a good deal of unemployed rural labour in Hanover; labour that is cheaper than the national average. On the other hand, as this is German labour, it will be covered by the national legislation and the company will face the "social costs" of employing this labour. This particular investment is to be highly capital intensive and although it represents an expansion in terms of size of factory and production, it will not employ any more people than were employed in Frankfurt. This fact certainly lends more weight to the managing director's point that capital intensity is essential in such a high-wage country and gives it more relevance in the light of this new investment decision.

There is another point to make about the proposed Hanover investment. Because of the high level of unemployment in this area the West German Government provides assistance to firms investing in the region. The company which is the subject of this case study is making its Hanover investment as a direct response to this Government inducement. This is slightly surprising when this decision is seen in the light of the answer given by the managing director to the question "Did you investigate the possibility of Government inducements to invest in Frankfurt?". The gist of the reply was as follows: "No, but we would take them if they were offered - they would not be of such importance as to lead us to make an investment unless we felt that that investment made sense on economic grounds regardless of any inducements. In fact, we are rather reluctant to deal with Governments at all".

Again, it seems that there are motivating factors which are not seen as such by a company, or at least they are not openly admitted to have been of any real significance.

The investment in Frankfurt was a success. The only real problem the company encountered was the expected one of cash flow. This problem was overcome because the UK plant was in a position to be able to support the new operation until that operation became self-supporting, just as the UK plant itself had been supported by the Cologne concern whilst it broke into the plastics market.

There were no problems with unions, no problems acquiring labour, and no problems in securing the co-operation of the labour force. This may have been due to amicable industrial relations or to the weakness of the labour force. The company's decision to invest in Frankfurt seems, at least commercially, to have been vindicated.

We turn now to an assessment of the net employment effects of this investment. We are concerned here with the question of the overall effects that this investment had on employment within the EEC. If it led to a total increase in jobs within the community then the investment can be said to have been employment creating; if there was, overall, no such increase, a situation that would arise if jobs were provided in the host country at the expense of jobs in the source country, then the investment can be classified as employment substituting.
Whilst we accept that the creation of jobs per se may be desirable, the quality of those jobs, and the opportunities for raising skill levels provided by an investment are important, not only for the individuals employed in those jobs, but for the area in which the investment has been made. Thus, when assessing net employment effects, such considerations should be included.

The investment under consideration has been classified as 'Greenfield Horizontal'. This is an important consideration because it means that the venture was a totally new operation bringing into existence capacity that had not existed before. Compare this situation with a 'takeover', which may simply mean a transference of ownership and have no material effects whatsoever, unless the capital acquired in the sale is put to further productive use, and the nature of the investment clearly becomes a factor of considerable importance. Prima facie, a 'Greenfield Horizontal' venture seems logically to imply employment creation. However, as we are concerned with overall effects within the EEC, this proposition is by no means self-evident. If, for example, the market to be supplied by the new investment could have been supplied by exporting from the source country, then the investment may rob the source country of those jobs necessary to manufacture the goods for export.

One question we put to the Managing Director was this: "Had you previously supplied this market through exports?" His answer was an unequivocal "No", on the grounds that this would have been impossible for the reasons we mentioned earlier, i.e. Germans will "only" buy goods they believe to have been made in Germany by a German company. If this is true, then it is clear that jobs were not transferred from the source to the host country in the manner mentioned above. Nor was there any evidence to suggest that the effect on competing firms in Germany was to reduce their employment. We must thus conclude that the investment was employment creating, but to what extent? Table 4.2.1 gives the total numbers employed by the company when the company started production in 1968, broken down into skill levels and sex.

Table 4.2.1 Number Employed when production started (1968) with skill levels and sex

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Male</td>
<td>2</td>
</tr>
<tr>
<td>Female</td>
<td>3</td>
</tr>
<tr>
<td>Total employed</td>
<td>5</td>
</tr>
<tr>
<td>Skilled (Male)</td>
<td>2</td>
</tr>
<tr>
<td>Skilled (Female)</td>
<td>-</td>
</tr>
<tr>
<td>Semi-skilled (Male)</td>
<td>-</td>
</tr>
<tr>
<td>Semi-skilled (Female)</td>
<td>-</td>
</tr>
<tr>
<td>Unskilled (Male)</td>
<td>-</td>
</tr>
<tr>
<td>Unskilled (Female)</td>
<td>3</td>
</tr>
</tbody>
</table>
Table 4.2.2 gives the same information as at the end of 1978.

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Total employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skilled (Male)</td>
<td>2</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Skilled (Female)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Semi-skilled (Male)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Semi-skilled (Female)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unskilled (Male)</td>
<td>4</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Unskilled (Female)</td>
<td>15</td>
<td>-</td>
<td>15</td>
</tr>
</tbody>
</table>

It would appear then, that, from its inception in 1967 to the end of 1978, this investment had led to the creation of 21 jobs. In terms of creating jobs for EEC nationals the benefits seem to have been very small, as most of the unskilled labour were 'guest' workers.

In terms of quality the standard of the jobs provided was extremely poor. The high-level technology employed required only two skilled men to maintain it and for the rest the cheapest possible labour (female 'guest') was all that was required. Admittedly, the two skilled workers were local Germans and were trained by the company, but there is no on-going training scheme.

The company prefers to use local management and, if more were needed they would always use Germans if they were available. Much of the company's success was attributed to the quality of management and the fact that this management was local and therefore "au fait" with local economic, industrial and labour practices. The company prefers to bring local young men up through the company rather than recruit experienced personnel from elsewhere, although one of the chief reasons for this is that it believes that if a man would move to it for more money, then he would leave for more money just as readily.

Within the EEC, this small company essentially supplies unrelated local markets. Local production is thought to be essential because of high transport and warehousing costs for a low-value product and (in Germany) customer desire to have a home produced product. The employment effect of the Frankfurt investment was minimal. However, this case illustrates the value of foreign investment in allowing the internal transfer of knowledge and skill, which maintains viability in adverse conditions, and therefore maintains employment. The early (1910) investment in Cologne provided the expertise to enable the parent UK firm to switch to plastics when faced with a decline
in the market for its traditional products and a reverse transfer of the innovations in the UK with capital from Cologne established the new [Frankfurt] plant in Germany. Without these international links it is unlikely that the firm would have survived.

Although the employment created by the Frankfurt investment was small and the quality of jobs poor, it is perhaps worthwhile to generalise from this single small company to small firms in general. Individually, the effect of any single small firm will be small, but collectively small firms may have a significant impact on the level of employment in the aggregate.
4.3. Case Study 3

The third case study is a large company based in the Irish Republic with subsidiaries throughout the world. It is established in four continents, producing in Europe, Africa, North America and Australia. A major part of the Group's activities consists of the production of packaging materials. The range of products includes corrugated paper, labels, polythene bags and polyethylene film. The Group also has interests in the print industry. Table 4.3.1 gives a breakdown of principal activities and turnover from each of these in 1978.

Table 4.3.1 Principal activities and turnover of the Group in 1978

<table>
<thead>
<tr>
<th>Principal activities</th>
<th>Turnover (£000) 1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>Print and Packaging</td>
<td>69,286</td>
</tr>
<tr>
<td>Corrugated paper and board</td>
<td>69,902</td>
</tr>
<tr>
<td>Print related</td>
<td>16,591</td>
</tr>
<tr>
<td>Distributing</td>
<td>15,618</td>
</tr>
<tr>
<td>Other Activities</td>
<td>4,289</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>£175,686</strong></td>
</tr>
</tbody>
</table>

In Table 4.3.2 turnover is broken down geographically, showing the United Kingdom to be the principal centre of the Group's activities. The United Kingdom is also the area of most efficient and profitable activity for the Group, due mainly to the flexible packaging division. This division produced

Table 4.3.2 Turnover for 1978 by Geographical Area

<table>
<thead>
<tr>
<th>Geographical Area (by market)</th>
<th>Turnover (£000) 1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Ireland</td>
<td>49,019</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>87,396</td>
</tr>
<tr>
<td>United States of America</td>
<td>23,471</td>
</tr>
<tr>
<td>Nigeria</td>
<td>14,009</td>
</tr>
<tr>
<td>Other Territories</td>
<td>1,791</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>£175,686</strong></td>
</tr>
</tbody>
</table>
profits in 1977 almost double those of the previous year, despite the fact that one particular unit made substantial losses. The best performer in the packaging field was a North-West England based factory which forms the subject of our study. The Group is keen to make further investments within the UK, particularly in the packaging and paper industries.

At January 1978, the Group employed a total of 8,810 people, a marginal increase over the previous year. The aggregate remuneration of these employees amounted to £37 million, which gives an average salary/wage of £4,199 per employee per annum. On a turnover of £175,686 million Value Added represented £57,795 million. Each employee thus contributed, on average, approximately £6,560 to Value Added. In 1977 Value Added amounted to £45,791 million with an average contribution per employee of £5,213. The difference between Value Added per employee and remuneration per employee in 1977 was £1,767 whereas the difference in 1978 was £2,361 which clearly indicates that productivity increased substantially over the year, facilitating higher profits as well as an increase in earnings. It also reflects the "pruning" policy of the Group, whose aim is to reduce manning levels to a figure commensurate with the more sophisticated technology which is being introduced. Thus, although it is true that the number of employees increased between 1977 and 1978, on a strictly comparable basis there were some plant by plant reductions, "reflecting our need to be always competitive, with appropriate establishment levels at each of our locations".

The Group’s attitude towards legislation within the labour relations field is positive and every attempt is made to translate such legislation into practice as quickly as possible. Throughout the Group labour stoppages between January 1977 and January 1978 were non-existent. One problem facing the Group, however, is that of absenteeism which, they claim, is as high as 15% in some plants.

The company in question dates back to the 1920’s and was actually started by a Lancashire tailor, who required boxes in which to pack his products. Following delays in delivery he acquired the Irish company who had previously been his supplier. The company expanded and by the 1960’s was turning over £1 million and considering international expansion. They acquired three plants in North West England, one of which is the subject of our study. All were Horizontal Takeovers.

The Irish plants service Ireland, the United Kingdom and Continental Europe. The UK plants service the United Kingdom, Continental Europe, the Middle East, Canada, North Africa, Singapore and Ceylon.

All three investments made in the 1960’s in the United Kingdom are still in operation and have been followed by others. Until the investments in the UK the market had not been exploited by the Group. Indeed, as a supplier of other firms’ packaging requirements, the Group became aware of the need to locate its packaging division in a market if they were to make any real impact on it. This provides the first real motive for foreign direct investment.

The Group had decided upon a strategy whereby they would eventually produce in the North American market and, if possible, the Australian market. It was felt that the logical route to take was via the United Kingdom. This, plus the fact that they required a plant for converting plastic film into packaging for sale in the UK market, meant that the
availability of such a plant in North West England almost dictated the
decision to carry out the takeover. Although other countries had been
considered as investment possibilities, this opportunity was taken because
it fitted nicely into the Ireland-UK-USA expansion route.

The question of Government inducements was never explicitly considered,
but had they been offered they would have been considered as no more than a
bonus. As far as the Group was concerned the viability of the prospective
investment was the only important consideration. In the case of the invest­
ment which is the subject of this study, no Government inducements were,
in fact, offered.

The major problem, according to the interviewee, was that of change.
As he put it, "Assimilating change is never easy", and the plant in question
had to move from the production of paper to the production of packaging made
from plastic film. Another problem which arose in the mid-1970's was caused
by the changing nature of demand for wrapping. In addition, from being one
of the few producers of polythene wrapping the Group found itself in compet­
ition with all the major packaging producers, who themselves had made the
switch to this type of wrapping. This led to a very interesting move by the
company. In effect, a backward integration took place. A £$ million invest­
ment was undertaken in Ireland (with help from the Irish Government), the
rationale behind which was the need to produce blown film within the Group
to provide the UK plant with a secure supply of the input needed to remain
competitive within the market. Thus the UK investment induced a further
investment in the home country which increased vertical integration within
the Group.

The Group as a whole is very sensitive to the question of labour problems.
The major reason for this is that the main unions with which it deals are
the powerful print unions. With this in mind the company has prepared a very
comprehensive checklist which is consulted before an investment is made. It
was made clear to us that there have been occasions when, as the interviewee
put it, "because of unions' intransigence investments have been shelved with
a consequent loss of jobs".

Labour costs are high (approximately 60% of operating costs) and there­
fore the company needs to be sure that this labour is efficient and co­
operative. As we were told, "If material costs are high then labour costs
must be controlled", the implication being that unless unions would co­
operate on manning levels then an investment would not be made.

From all this it follows that productivity of labour was investigated,
as was labour turnover, industrial relations, degree of unionisation and
the likely response of the unions. In the case of this takeover the unions'
response was 'positive' as was the company's attitude towards the unions.
That the Group's approach to the investigation of the labour situation is
thorough is exemplified by the fact that they are proposing to invest in
France and they have already screened forty to fifty companies using their
checklist of possible areas of difficulty with labour.

When the company took over the plant in N.W. England there were 310
employees. Of these, 250 were male and 60 were female. In terms of skill
the figures break down as follows: 34% were skilled; there were no semi­
skilled workers, and 66% were unskilled. The skilled workers were all male.
(Table 4.3.3)
Table 4.3.3  Number employed in 1965 in terms of sex and skill levels

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>250</td>
</tr>
<tr>
<td>Female</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>310</td>
</tr>
<tr>
<td>Skilled (Male)</td>
<td>105</td>
</tr>
<tr>
<td>Skilled (Female)</td>
<td>-</td>
</tr>
<tr>
<td>Semi-skilled (Male)</td>
<td>-</td>
</tr>
<tr>
<td>Semi-skilled (Female)</td>
<td>-</td>
</tr>
<tr>
<td>Unskilled (Male)</td>
<td>145</td>
</tr>
<tr>
<td>Unskilled (Female)</td>
<td>60</td>
</tr>
</tbody>
</table>

By the end of 1978 the number employed had fallen to 274, a loss of 36, the majority of them male employees. The figures at the end of 1978 were: male 220, female 54. The percentage of skilled to unskilled remained the same, with all the skilled jobs being in the hands of men. By the end of 1980 it is expected that the figures will be about the same, although production is expected to increase with expanded output being facilitated through increased capital investment. £12m. is to be invested in the plant in the near future to enable plastics conversion to be carried out more efficiently. This capital investment will not involve any labour expansion although the company foresees problems with the unions over this. The company feels that over-manning is obvious at the moment and thus there is enough 'slack' in the labour force to be taken up to man the additional machinery. Union leaders have been flown to Germany to see the proposed technology in action, but as yet remain unconvinced. This worries the company for they have had similar problems in the past and on these occasions have refused to invest where the unions have stood firm in their refusal to accept cuts in manning levels. Indeed the dissemination of new technology throughout the Group's companies will result in an overall loss of jobs.

The company's corporate policy towards the type of management it requires is clear - to employ local management where possible. The North West plant was taken over as a going concern with the management force being 100% UK nationals. However, since then the management structure has been totally overhauled and all but one of the original management have been replaced. The new management is still 100% local in line with stated policy. There is an on-going management training scheme and the company prefers to promote from within, although, naturally, if the right material is not available they will buy in suitably qualified personnel.
This backward vertical takeover slightly reduced employment in the host country (UK) because production was rationalised after the takeover in accordance with the Group's needs. In the period 1965 to 1978 approximately 40 jobs were lost. Future expansion in the level of output will be based on more capital-intensive technology which is unlikely to increase employment in the UK. There was no adverse effect on source country (Irish Republic) employment. There may have been a secondary effect on employment in the host country arising from the possible re-investment of the income from the takeover; we have been unable to quantify this effect.

A further interesting point to emerge from this case is the importance attached by the Group to the investigation of labour market conditions prior to a foreign direct investment. This requires a willingness on the part of trade unions to co-operate with the group in setting appropriate manning levels for a given technology.
4.4. Case Study 4

Case Study 4 represents an interesting example of a foreign direct investment which was originally made by an Irish firm in the United Kingdom stemming from an altruistic motive on the part of the Irish company towards its Dublin-based workforce. This resulted in the formation of an autonomous United Kingdom company which then invested back into Ireland and further afield.

A large Irish company, with operations throughout the world, employed a considerable number of tradesmen in the packaging of its major commodity. The packaging they produced was becoming obsolete and the company was importing a more modern type of packaging from a company in Warwick, England. As these imports grew and the original packaging represented less and less of the Irish concern's requirements, the possibility of mass redundancies for the skilled tradesmen in Dublin became a real one. Consequently, it was decided to set up at the head office plant in Dublin the technology required to produce the materials being imported from Warwick, using the Dublin tradesmen whose jobs were in danger to manufacture the new product. Initially then, the company we are now investigating stemmed from a vertical investment at home (Dublin) which saved the jobs of some 100 skilled workers.

It was not long before the facilities in Dublin were found to be inadequate to produce the desired quantities. The Irish company then made a bid for the Warwick firm and carried out a takeover (vertical) of this concern. Thus the group we are considering started out life as a peripheral concern of the large company who needed packaging for its products, and the concept of a worldwide plastics company had not been considered at this stage. Also at this stage, the investment was Irish, the country of investment being Britain. Eventually the large plastics concern was to become United Kingdom based and its investments were to be worldwide.

Let us look at the motivation for the initial Irish investment and the subsequent developments before we trace the growth of the large UK company. Obviously no other countries were considered for the investment because the aim was to service the main product's requirements and the workforce which would otherwise have been made redundant was at the main site anyway. Nor were any Government inducements considered or offered. No subsidiary factors were involved in the decision to invest.

The most pressing problem involved in the new production facility was that of training the workforce to their new task. They were skilled men and proud of their trade and to some extent were indignant at the thought of becoming machine operatives instead of men in charge of a whole and unique manual operation.

Obviously the usual considerations of industrial relations problems, absenteeism, laws and regulations concerning contracts of employment and so on which an investing company usually has to consider, did not figure largely in the company's thoughts in this case as they already knew the workforce and all the regulations governing them. Although labour costs were some 60% of total costs the new products, being small and lightweight, were expensive to transport, and as long as labour costs were reasonable it was considered cheaper to produce the goods in situ rather than to import them.
As we have seen, as the demand for the plastic packaging products grew, the importation of extra numbers from Warwick became essential. Finally, the Irish company took over the Warwick firm and on this basis it can be concluded that initially the investment was a vertical takeover by an Irish parent in the United Kingdom. As demand grew the Dublin operation ceased and moved to the outskirts of the city to a new industrial estate. Here then, we had a Greenfield Vertical operation, but as the plastics operation grew it became a subsidiary in its own right and further investments must be designated 'horizontal' as plastics became a major part of the company's operation.

It was at this point that the plastics side of the business became autonomous and broke off from the Irish headquarters to set up its H.Q. in the UK. From now on each investment is designated as being made by a United Kingdom parent. Figure 4.4.1 sets out the path of the investments.

Figure 4.4.1 Investment Path: Ireland → UK; UK → Ireland, Holland, Singapore
The company is now one of Europe's largest processors of plastic materials, with a total production capability in the moulding and injection processes and post-moulding services. The products include a wide range of industrial containers as well as custom moulded components for use in every kind of commercial and industrial application. With a wide spread of factories in Europe and the Near East the company has production capability in machine sizes of up to 2,500 tonnes and is able to produce articles from the smallest and most delicate to large articles such as chairs. The list of commodities the company produces is a long one and contains such items as telephone cases, bottle crates, plastic drums and barrels, boxes and trays, tubs for storing and transporting bulk commodities, tough corrosion-free tanks for handling liquids and the 'squeezy' type bottles which contain washing up liquid.

Apart from the Dublin concern, the Group now has another plant in the Republic of Ireland. This plant was acquired in 1973. It is 35,000 sq.ft. in size and specialises in blow moulding, producing containers from one pint to 45 gallons in size. Approximately 90% of the output is for the home market (the plant's products hold 75% of the Irish market for plastic containers), and the rest is exported to the United Kingdom. This investment was a horizontal takeover although it did represent an extension to the company's range of products. The firm had not previously produced the type of goods that it now produces and so it was not a competitor of the new controlling company. When it was taken over there were only 20 employees there, now there are 90. All of these are local people including the five managers (two of whom were there before the takeover). All of the employees were trained in Warwick at some stage in their employ, indeed the company is very keen on training and each of their managers attends in-course training at least once per year, receiving lectures and instruction in new manufacturing techniques. Many of the employees were previously unemployed. Indeed, the company is very concerned about the problems of rural poverty in Ireland and always considers this in its investment decisions.

Naturally the economic factor was very important in motivating it to invest in the Irish Republic and the company saw that labour would be readily available and that the area offered a strategic position from which to exploit the Irish market for plastic containers. However, they created 70 jobs in five years and the prospect is that more will be needed as the company plans to expand on this site in 1980.

There were no problems - and none was anticipated - in terms of labour relations; there is no union and people were glad of jobs. The labour laws and statutory regulations in Ireland are by no means restrictive and the workforce depends upon a company's conscience rather than its legal obligations for decent facilities and treatment. The only problem the company did have was absenteeism, which was commonplace at first. This problem has now been largely overcome.

In January 1972, the company made its first move into Continental Europe. A Dutch company was acquired. Situated a few miles north of the German border and adjoining the autobahn from the Dutch coast to industrial Germany, this moulding company provided a strategically excellent site in which to exploit the Northern European market. Unable to expand physically the existing injection moulding factory, it was decided to build a specially designed plastics conversion plant on the outskirts of town on a 20,000 square metre site. When officially opened in September 1974 this factory was considered to be the most sophisticated in the European plastics industry.
Materials-handling containers are one of the strengths of the plant which includes a range of moulded shipping pails from 1 to 25 litre capacity for products ranging from cream to paint, salted herring to chemicals. Other containers, trays, crates, baskets and tubs are produced for the horticultural, food, fishing, drink and tobacco industries. Custom mouldings to exacting technical specifications are also produced for Dutch industry plus a varied range of domestic products.

The motivation for this investment was to enter the European market. It was felt to be essential to be near prospective customers. (They now have a 45% share of the Continental European market.) No government inducements were offered, or rather, none was sought as the sole criterion was economic viability.

A thorough investigation of the labour laws was carried out, as was negotiation with the only union involved. Labour turnover, absenteeism and industrial conflict were found to be almost non-existent, and the union was very encouraging in its attitude.

The plant employed approximately 100 people when it was taken over; by the time the new development was completed 250 employees were required. Of these 200 were male and 50 female and approximately 20% were skilled tool-fitters - all male. All the other employees are classed as semi-skilled. The workforce is 100% local, as are the ten managers. Three managers were originally from the plant which was taken over, the other seven coming from firms within the area. The majority of the workforce was unemployed prior to the investment, although a small number moved from other firms. As with the Irish workforce, all of the Dutch employees received training, and all new employees receive initial training prior to taking their place on the machines. As with the Irish investment, the Dutch one was undoubtedly employment creating. Table 4.4.1 summarises these effects in terms of skill and sex for both Ireland and Holland.

This unique investment path, which started in Dublin from a desire to preserve jobs and resulted in the setting up of a new company with backward linkages into Ireland and new interests throughout the world, can quite definitely be designated employment creating on the evidence of the investments we have examined.

If we include the one hundred jobs that were preserved - which indeed we should - we can state categorically that within the EEC 330 jobs were directly created through foreign direct investment in the period 1973-9. Competitors were not replaced, at least initially, as the demand was internal to the firm and the older trade replaced was not allowed by the firm to have employment reducing effects. Again expansion in product demand led to an increase in market size and the innovations introduced by the company in effect created a new product. Other producers of the old product may have been replaced but we believe such employment displacement to be small, and not only due to the switch to plastics but to an exogenous decline in demand for the old product.
TABLE 4.4.1 Employment increase by sex and skill levels in Ireland and Holland

<table>
<thead>
<tr>
<th></th>
<th>IRELAND 1973 (pre-investment)</th>
<th>IRELAND 1979</th>
<th>HOLLAND 1972 (pre-investment)</th>
<th>HOLLAND 1979</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Male</td>
<td>12</td>
<td>70</td>
<td>80</td>
<td>200</td>
</tr>
<tr>
<td>Female</td>
<td>8</td>
<td>20</td>
<td>20</td>
<td>50</td>
</tr>
<tr>
<td>Skilled (Male)</td>
<td>4</td>
<td>20</td>
<td>16</td>
<td>40</td>
</tr>
<tr>
<td>Skilled (Female)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Semi-skilled (Male)</td>
<td>8</td>
<td>40</td>
<td>64</td>
<td>160</td>
</tr>
<tr>
<td>Semi-skilled (Female)</td>
<td>-</td>
<td>-</td>
<td>20</td>
<td>50</td>
</tr>
<tr>
<td>Unskilled (Male)</td>
<td>-</td>
<td>10</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unskilled (Female)</td>
<td>8</td>
<td>20</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL EMPLOYED</td>
<td>22</td>
<td>95</td>
<td>103</td>
<td>260</td>
</tr>
<tr>
<td>INCREASE THROUGH INVESTMENT</td>
<td>73</td>
<td></td>
<td>157</td>
<td></td>
</tr>
</tbody>
</table>
4.5. Case Study 5

Case Study 5 concerns a large German based plastics company with operations in Germany, France, Austria, the United Kingdom (Wales), America and Canada.

Some of these concerns serve only their own domestic market, e.g. the French concern serves the French market and the United Kingdom operations service the United Kingdom market, although the German operation still exports a considerable amount of its output to the UK. The French investment was made in the 1960’s and the two United Kingdom investments, both in Wales, were made in 1974 and 1978. All of these operations are still functioning.

The company specialises in the production of goods for use as inputs by other firms; the plastic extrusion process is the major technique employed by the company.

The range of products manufactured includes refrigerator gaskets, bumper bar pads, hose-pipe and ‘edge-lipping’ (used by furniture manufacturers on table edges etc.). The major consumer product of the company is a plastic clothes line.

The interviewee cited three main factors in motivating the German company to invest in the United Kingdom. First, the constantly, and wildly, fluctuating exchange rate between the German Mark and the Pound Sterling, which made exporting difficult. Secondly, the high transportation costs of the products meant that competition with United Kingdom manufacturers through exports from Germany was not realistic. Thirdly, the United Kingdom government was offering selective regional investment grants. Wales was one of the regions where the Government wanted to establish industry, hence the company chose to take up the grant offered and invest in Wales. Another factor, closely related to the second one mentioned above, played an important part in the decision to undertake foreign direct investment. This was the need to be in the market that the company wished to service.

Given this necessity and the lucrative grants on offer the decision to invest was not a difficult one to make. Indeed, as the interviewee stated, it did to some extent blind the company to some other considerations it now feels might have been usefully undertaken.

These relate mainly to the industrial relations situation in the United Kingdom. Whilst it is true that the labour laws and statutory conditions of employment were looked at, and found to be not unduly onerous, such questions as the productivity of labour, labour turnover and the industrial relations record in the area were ignored. One reason for this failure was the difficulty involved in actually assessing the likely industrial problems, given that the area of the proposed investment was not industrialised to any great extent. There was therefore little to use as a yardstick. One advantage, so far as the company was concerned, was the fact that there were no unions involved, which meant of course, that none had to be consulted.

Since the investment the company has found that productivity is low, far lower in fact than the equivalent amount of labour can produce in Germany in the same time and with the same type of technology. This fact must be seen in the light of the equally important fact that wage rates are low at the Welsh plant, not only in comparison with those in Germany, but with those in other areas of the United Kingdom.
Although the labour force was said to be 'reasonably co-operative', a major complaint the company has concerns labour turnover and absenteeism, which is very high at one of the plants.

The major problem that was encountered on setting up the new plant was that of finding skilled labour. In an attempt to solve this problem local labour was trained in the necessary skills by experienced Germans. Another problem was that of persuading women to undertake shift work. This problem has not yet been solved and the turnover of female labour is very high.

One important decision that was made as a result of the industrial relations problems in the United Kingdom was to break the investment into two smaller, separate units, in the belief that a small plant was more conducive to good industrial relations than was a large one. Thus instead of expanding the first plant, established in 1974, a new plant was built on another site in Wales in 1978.

The turnover (end 1978) at the first plant is £1.1m. with a labour force of 130 people. The number employed when the plant was first operational in 1974 was 50 plus four managers brought in from Germany. We can break the labour force down in terms of skill levels and sex as shown in Table 4.5.1.

Table 4.5.1  Number employed in 1974 and 1978 in first UK plant in terms of sex and skill levels

<table>
<thead>
<tr>
<th></th>
<th>1974</th>
<th>1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers (German)</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Managers (Local)</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Male</td>
<td>30</td>
<td>65</td>
</tr>
<tr>
<td>Female</td>
<td>20</td>
<td>65</td>
</tr>
<tr>
<td>Total employed</td>
<td>50</td>
<td>130</td>
</tr>
<tr>
<td>Skilled (Male)</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Skilled (Female)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Semi-skilled (Male)</td>
<td>21</td>
<td>48</td>
</tr>
<tr>
<td>Semi-skilled (Female)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unskilled (Male)</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Unskilled (Female)</td>
<td>20</td>
<td>65</td>
</tr>
</tbody>
</table>

The second plant started in 1978 with a labour force of 55, which is projected to rise to over 100 by 1982.
All of the management that came from Germany was replaced there, thus no loss of employment was suffered in Germany to offset that created in Wales. The labour force was all local and many of them were trained in Germany, before working back at home. There is no formal training scheme at the Welsh plant, although those who are thought to be foreman material are taught as they go along and are introduced to the processes of every department.

Much of the labour had been unemployed prior to this investment, but the company were very wary of the unemployed and even now claim, in the light of the rate of turnover, that many of these people were unemployable. However, the majority of the workforce at the first plant were previously unemployed and clearly the investment did create jobs in this area of Wales.

The plant is technologically advanced, just as are the factories in Germany, and capital intensity is considered to be essential if the company is to be competitive. Any further expansion will be in terms of capital expansion at the first plant and should there be a need for area expansion, this will take place at the second plant. Even this is likely to increase labour at no more than a ratio of one to three in terms of output per machine/man. Eventually the company intends to reduce its total labour force as capital intensity increases with the introduction of German technology. (Technological progressiveness is crucial in Germany and the company considers that this type of knowledge is essential within the company and can be transferred across national boundaries as easily as any other asset that the firm possesses.) It is clear that as technology advances jobs will be lost and this, the interviewee suggested, was a fact of life that all industrial nations must face up to.

We can thus say that the investment in the United Kingdom has created approximately one hundred and eighty jobs (end 1978). We now turn to the overall effect on EEC employment.

If, for instance, the jobs created in Wales were created at the expense of jobs lost in Germany, then the investment would have been employment diverting rather than employment creating. Was this the case?

The investment was of the Greenfield Horizontal type. Prima facie this would seem to imply employment creation, but, of course, such an investment may, as has been said, have been made at the expense of labour in the home country. In this instance this was not the case. It was necessary to enter the United Kingdom market in order to compete realistically with those firms already in it.

The company had, however, been exporting to the United Kingdom market from its plants in Germany, France and Austria. On setting up the Welsh plant some twenty five to thirty per cent of this export trade was replaced by production from direct investment. Even now some sixty to seventy per cent of the market is serviced via exports and the aim is to reduce the proportion of exports to forty per cent.

The question now is: if exports are to be cut by sixty per cent, what effect is this likely to have on the employment level in those factories in Continental Europe which had been producing the goods for export? The interviewee said that no redundancies had been caused, nor were likely to be, and the plants in question had switched to the production of alternative products.
The market had been serviced only from member countries of the European Economic Community. The company in question had a market share in the UK of approximately fifty per cent prior to making the investment and now has a market share of eighty to ninety per cent. It was suggested that this increase in market share was at the expense of the company’s competitors, but the employment effects on the other companies in the market could not be assessed by the interviewee. It is clear that the company’s increase in market share was a result of direct investment and could not have occurred without it.

To conclude, it seems that the investment was employment creating, though by just how much it is difficult to say. Approximately 180 jobs seem to have been directly created, although job creation will not in future be so rapid as the firm moves to a more capital intensive technology. Like many of the case studies we have considered so far, it seems that the greatest threat to employment is technology. In addition, some jobs in competing firms in the UK seem likely to have been replaced.
4.6. Case Study 6

Case Study 6 concerns a large West German multinational company with a worldwide network of subsidiaries. It has a range of products which include synthetic leather, oil seals, coated fabrics and non-woven textiles. This case study relates to a subsidiary producing non-woven textiles in Yorkshire. The company’s involvement in this market is considerable and in 1978 it achieved a worldwide turnover of 528 million Deutschmarks from this operation alone, employing a total of 3,500 people in its various subsidiaries.

In the subsidiary with which we are concerned, the turnover at the end of 1978 was £15m. and the workforce numbered 730 people.

The German company first became involved with this Yorkshire subsidiary in 1954. The best techniques yet available for the production of non-woven textiles had been developed in Germany, but even so they found it difficult to penetrate the British market because of the geographical divide between production base and market. They discovered a company - the one under discussion - with expert knowledge of, and an established reputation in, the non-woven textile market. They decided to offer their technical expertise to this company in return for a 50% shareholding in it. This infusion of technology led to an increase in the UK market share of the company to around 65%. Markets in Japan, Australia and Continental Europe were (and still are) also serviced from the United Kingdom.

In 1963, the Group to which the original UK concern belonged was taken over by a large British concern and the German company found itself in partnership with a United Kingdom giant. Things never went smoothly in this relationship, with each partner finding its own plans frustrated by those of the other. Furthermore, the United Kingdom company in question had a reputation for asset stripping and not only did this cause problems and uncertainty in Germany, but also amongst the workforce in the Yorkshire subsidiary. In 1966 the German concern decided to take over the plant completely and bought out the United Kingdom company’s 50% shareholding. The subsidiary now produces a variety of non-woven textile goods.

The major motivating factors that led to the investment being made were the availability of factory space on the site in question; the desire to have an experienced manufacturer as a partner; the fact that the area was a good centre for the distribution of its output; the desire to be in a market which was expanding, particularly as the techniques available to the firm were sufficiently advanced to ensure success; and finally, the fact that in 1954 the German firm could not hope to take a large UK market share without direct investment because of the existence of tariff barriers. No other countries were considered for this investment as the potential in the UK was considered to exceed any alternatives.

The investment went smoothly from the beginning and there were no problems involved in setting up the production facilities. A break-even position was achieved within 18 months of the plant starting production.

The question of labour difficulties, laws, obligations and so on caused no problems because all of these matters were well understood by the firm with whom the German company went into partnership. Thus the Germans took the advice of the host concern in these matters and left labour relations to the UK firm. Labour costs represent about 40% of total costs, which in turn
represent 85% of turnover. The question of labour costs did not worry the Germans in the least (particularly given the high cost of labour in Germany) and they were (and are) highly satisfied with the productivity of their British labour force. It compares favourably with that of any of the company's labour forces anywhere in the world and was quoted by the interviewee as being "high".

Labour turnover is low (around 6%) and the industrial relations record is "excellent" - indeed there has never been a stoppage caused by an industrial dispute at the plant. There is one union in the plant and it is a closed shop; this condition was imposed upon the German concern from the start by their prospective partner, but, as they were assured, "this made for better, not worse, labour relations and everyone knew where they stood". The unions were happy to work with a strong company, as they saw this as a route to expansion and a guarantee of security.

The information so far relates to the initial 50% investment of the German company. As we have said, in 1963 the position changed. The Germans' partner was now a large UK concern, and one which made the unions uneasy, as they had seen this company acquire and sell off other firms and the workforces become redundant. When, in 1966, the German company decided to take over the firm completely the plan was welcomed with relief by the unions, who were becoming convinced that their jobs were in danger. Consequently the workforce co-operated fully with the German parent and relationships were, and remain, amicable. The firm provides security, social and sporting facilities and channels of communication which are easily accessible to everyone. If we accept that the jobs of the workforce would have been lost had the German company not taken over, then these jobs can be counted as being preserved by the assumption of total control in 1966. If we look at the current level of employment, we can see that, leaving aside the possibility of jobs saved, this foreign direct investment has been job creating. The possibility of exporting to the UK from Germany was ruled out by tariff barriers. Thus there was little scope for job creation through increasing exports from Germany. We can thus rule out the possibility that the investment was merely employment diverting.

If we look at Table 4.6.1 we can see how the labour force has expanded since the company invested in the UK in 1954, broken down by skill levels and sex. All of this labour is, and always has been, local, and no labour imported at any stage, even when introducing new technology from Germany. All management is local; indeed one reason the investment was made was to draw on Yorkshire experience in the textiles field. If possible, the company will continue to recruit local personnel.

At the time of the 100% takeover (1966) the total labour force was approximately 500, so that in addition to the jobs preserved, approximately 230 further jobs have been created in the firm.

Every member of the labour force undergoes some training and those who come in as unskilled labourers are given the opportunity to train for semi-skilled work. The firm has training instructors, training operatives, and at a higher level, skilled men and managerial staff are sent on external courses to update their skills. The company prefers to recruit from within where possible. It is felt very strongly that all members of the workforce should be kept informed as to the impact and potential of new technology, both in its favourable aspects of widening skills, and its potentially unfavourable effect on employment.
Table 4.6.1 Increase in labour force and managerial staff since 1954

<table>
<thead>
<tr>
<th></th>
<th>1954</th>
<th>End 1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male (app.)</td>
<td>200</td>
<td>490</td>
</tr>
<tr>
<td>Female (app.)</td>
<td>100</td>
<td>240</td>
</tr>
<tr>
<td>Total (app.)</td>
<td>300</td>
<td>730</td>
</tr>
<tr>
<td>Skilled</td>
<td>90</td>
<td>200</td>
</tr>
<tr>
<td>Semi-skilled</td>
<td>180</td>
<td>400</td>
</tr>
<tr>
<td>Unskilled</td>
<td>30</td>
<td>130</td>
</tr>
<tr>
<td>Plus: Managers</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>Increase</td>
<td></td>
<td>442</td>
</tr>
</tbody>
</table>

When the future prospects for employment are examined, the company intends to expand in the near future, but this expansion will be capital intensive. The new technology which is to be introduced will affect total employment in the long run, making some jobs unnecessary. However, the company intends to ensure that no redundancies occur by shifting the "displaced" labour force into a new operation in the same plant.

There can be no doubt that this particular foreign direct investment was in itself employment creating and did not substitute for jobs in the source country (Germany). It is clear that the great majority of those taken into employment came from a regional pool of unemployed textile workers. However, employment has increased in this firm because its share of the UK market has risen; therefore its output must have substituted to some extent for that of indigenous UK firms. On the other hand, the advanced technology imported from the German parent company has almost certainly meant that the share of the UK market accounted for by imports has not increased as much as it would otherwise have done. In other words, in this instance technology has had the beneficial effect of maintaining employment in the face of severe non-EEC import competition.
The seventh Case Study concerns a company which manufactures a specialised product for industry, using plastic as an important input. The Headquarters of the company is in South East England. There it employs 150 people and has a turnover approaching £2 million. It has a subsidiary in France which has a turnover between £½ and £¾ million.

In 1969, the UK company set this up as a sales subsidiary which began production — or more accurately finishing and installation — in 1977. Also in 1969 the company took over its former agent in Belgium, first as a sales subsidiary, which it converted to a production subsidiary in 1974. The Belgian company was closed in 1978. The company also closed its Dutch subsidiary in 1978, which had been operating only a short time.

The company intended to become more competitive by investing in its main market — the EEC. The product is one with a large "service" element and management felt that (i) there were large barriers to export, "too many things to go wrong", (ii) they needed to give quick service, and (iii) the cost of exporting increased the "delivered site" price.

A further motive was the desire to achieve an integrated cross-EEC network of production and service companies. This aim was destroyed by the recession following the "oil crisis" of 1973. Plants in Holland and Belgium were closed with the loss of over forty jobs in the two, and production and service was concentrated on France. Belgium and Holland are now serviced by licensing local companies. Ironically, the French unit was set up to complement the (now defunct) Belgian unit.

A further pressure for closure came because the company found that 'the Common Market is not so common" for it was found that centralising EEC facilities would not be successful because of the desire for local (i.e. national) facilities. In addition, currency fluctuations and language difficulties put pressure on this plan to centralise activities.

At the peak of its employment (1977) the French company employed 30. Currently 15 are employed: 10 male, 5 female, all of whom are at least semi-skilled installation and service workers. The company project that employment in the French unit will increase, beginning in 1980. Turnover 1978-9 in France is up on the previous year, on a smaller workforce.

All labour currently employed was recruited locally and trained by the firm. All management except the Chief Executive is French. The firm now say that their policy is to employ entirely local managers and to take more care with labour training — they made some mistakes in Belgium on this, and have revised their policy.

The investment was a Greenfield venture (after a sales subsidiary had been established) and was intended to supply the EEC market on an integrated basis with other units. No replacement of British or other EEC units' output was envisaged. However, recession and closure meant that all units shed labour. It is notable that this retrenchment was less severe in the parent country (UK) than in the foreign subsidiaries.
Had the plan been carried through, the employment effects in the EEC would have been positive, for the firm had only a small market share and was hoping to improve this by a more extensive network of local production and servicing facilities. This would not have replaced exports and employment from the UK and would indeed have increased UK employment because components and finished product would have been needed to supply the other EEC units.

The effects of recession on this firm caused retrenchment and reduction of employment in the EEC, including two plant closures. This has overridden the employment creating effects of the planned growth, so that employment outside the UK is now (1979) below what it was in 1974.

An employment creating plan based on extension of production and service units in the EEC to increase the firm's small EEC market share was destroyed by the recession of the mid 1970's. The products of the firm rely on demand from factory building, extension and renovation. Their market was destroyed and the firm retrenched by closing two of its three foreign units. Possibly a factor in this was the over ambitious nature of the plan and the lack of awareness of the firm that the EEC is not completely homogeneous. Particular difficulty was encountered in adapting to differences in the laws and customs of individual countries.
4.8. Case Study 8

Case Study 8 concerns a UK firm with a production subsidiary set up in 1962 in the Netherlands and sales offices in Belgium and Germany. It manufactures cooling units, of which a major part is plastic. Its 1978 turnover in the UK was £3 million and the number employed 450; in the Netherlands 70 were employed and turnover was £1.2 million. Each of the non-UK sales and production units service only their national markets. Nearly all production is sold within the EEC.

The firm invested in the Netherlands in 1962, leasing a small factory. In 1964 it moved to a larger factory nearby. The major motivations for investing in the Netherlands were (i) that the firm then faced a 17½% duty on its products, and (ii) the "irritations of exporting", e.g. damage in transit and missing delivery dates. In addition, the sales staff in the Netherlands wanted the firm to manufacture there and the labour costs at the time (including social security costs) were low. The investment was of the Greenfield Horizontal type, although the full process of production was not carried out in the Netherlands for all products. There was therefore a vertical "finishing" element also, with components supplied from the UK. The firm paid a high investment premium on the foreign exchange required for the investment in accordance with British exchange control practice at the time.

The investment was not as successful as had been hoped - the Dutch unit did not generate sufficient business. Rising labour costs and social costs (estimated at over two thirds of the wage rate by the firm) plus difficulties in attracting skilled labour made the plant less competitive than had been hoped. The decision was therefore taken to contract operations in the Netherlands gradually. Total labour costs were a vital element in this decision. The firm felt that the general productivity of labour was lower in the Netherlands than in the UK: "the British workforce knocks spots off our Dutch people". The firm had to double its direct labour costs to cover the other costs of employment in the Netherlands.

The employment in the Netherlands is shown in Figure 4.8.1.

Figure 4.8.1. Employment in the Netherlands
From a peak of over 80 in 1968, the employment has fallen to 70 (end 1978) and is projected to decline further.

Local labour was trained internally, but this training programme has been abandoned with the reduction in the workforce. All local management (2 people) were recruited locally and the firm felt that this was a mistake - they felt that local management had not represented their interests at all well and that they should have employed a Briton as General Manager with a local man assisting him.

The plant in the Netherlands replaced very little of the previous exports to that country. The firm is mainly a contract supplier. The UK firm's plan for the Dutch unit is to convert it into a sales unit (like Germany and Belgium). The entry of Britain into the EEC is a major factor in this decision. As the product is labour intensive, rising labour costs in the Netherlands have made production uneconomic (when compared to the UK). The firm is gradually replacing labour with capital as an intermediate stage in its long-term plan to move to sales only.

This investment, to manufacture behind a tariff wall, with comparatively cheap labour, was undermined by Britain's entry into the EEC and the relative rates of change in labour costs. The firm would not now manufacture in the EEC outside its home base but would prefer to have sales units plus exports from the UK. The effect of the investment on EEC employment was at first positive (1962-1968/9) but the increased costs in the Netherlands and expansion of the EEC have reduced the viability of this employment, which has been falling since its peak of 1968/9. Some employment in the UK will be substituted for the future fall in Dutch employment but the overall employment in the EEC by this firm will decline as it is moving over to more capital intensive techniques and to the centralisation of production in the UK, supported by sales units in other EEC countries.

The employment effects observed in this case were the result of two important pressures - (i) the need to substitute capital for labour to maintain competitiveness; and (ii) the need to concentrate production in order to benefit from economies of scale. This is consistent with the theory that, in a unified market, firms will seek to derive maximum advantage through a single plant of minimum efficient scale.
5. Summary and Conclusions

5.1. Preamble

This study has been concerned with the estimation of employment creation arising from investment by EEC firms outside their home country. The sector chosen to study these effects was the plastics and synthetics industry. This was chosen for the reasons mentioned in the introduction plus the fact that the industry displays an average level of foreign involvement compared to other manufacturing sectors. For example, in a ranking of industrial sectors classified according to the level of foreign involvement in France, plastics and synthetics were close to being the median, both in terms of number of employees and sales. Clearly, concentration on one industry restricts the general applicability of our conclusions, but has the merit of reducing inter-industry variability.

5.2. The Motivation for Foreign Direct Investment within the EEC

Several general themes are apparent in the motivation to invest in other EEC countries. The case studies show that managers consider the alternative to foreign direct investment to be the loss of markets and of export opportunities. This is reinforced by the more positive desires to provide a more effective service to clients by being in close proximity to them; to cater for local purchasing preferences; and to adapt fully to local specifications and standards. An additional factor, which may arise from the choice of industry, is the high cost of transporting, warehousing and insurance in relation to the value of the product. Fluctuations in foreign exchange rates between European countries have also provided an extra barrier to attempts to compete through exports in the EEC market as a whole. In essence, foreign direct investment is felt to be necessary to effective competition in terms of price and quality of service.

5.3. Transfer of Technology

Multinational companies are major vehicles for the international transfer of technology. Technology can be transferred internationally in various degrees of "embodiment" - via the export of technology intensive goods, via licensing, and embodied in the production process as direct foreign investment.

No general pattern emerges from the case studies as regards the effects of the transfer of technology in foreign direct investment. Nevertheless, in common with many other sectors of manufacturing industry, the plastics and synthetics sector is becoming increasingly capital intensive, because of the embodiment of advances in technology. A useful distinction can here be made between product innovation and process innovation. Additional increases in employment may arise from the stimulus to the level of activity given by the introduction of new technology in (i) increasing demand by extending the product range (product innovation) and (ii) lowering production costs (process innovation). However, innovation in the production process may result directly in a fall in employment because of substitution of capital for labour. Examples of these contradictory effects of technological advance are (i) the saving of jobs in the face of import competition in Case Study 6 and (ii) increased capital intensity reducing employment in Case Study 3. In many of the cases studied the "new product effect" is a noticeable characteristic of the foreign direct investment in creating employment directly, but it is apparent that through the impact of new technology, old products are sometimes replaced with a consequent loss of jobs. Such an effect is difficult to measure.
The effects of technology on skill levels are considered in 5.7 below.

5.4. The employment market situation and the direct employment effect of foreign direct investment

Our case studies found that the employment market situation was a more important influence on investment decisions in the larger firms than the smaller ones. Large firms are more sensitive to labour cost differentials across the EEC than are smaller firms.

An ILO study of the direct employment effect of foreign direct investment on the source country found that this was more often positive than negative. Our findings are similar. Very few production jobs were lost in the source country as a result of foreign investment and supporting technical jobs were often created in the source country to service the foreign investment.

In the eight case studies, reorganisation and rationalisation has been introduced gradually and there have been no significant wholesale transfers of production internationally. Case Study 8 illustrates the slow run down of employment involved in cutting down a foreign production unit after recession and retrenchment; Case Study 3, the reorganisation and reduction of employment after a take-over.

The nature of integration within the firm is important in determining employment effects. Increased EEC market integration appears to increase functional or vertical integration but to decrease horizontal integration. Case Study 8 is an example of the removal of tariff barriers leading to a centralisation of production, closure of plants and reduction of host country employment.

On balance, the estimated direct effect on EEC employment in each case is shown in Table 5.4.1. Case Studies 2 and 3 have had very small direct effects, one positive, one negative. In Case Study 7, attempts to increase employment were defeated by recession, and Case Study 8 had negative direct effects. For the period after the UK joined the EEC the other cases had a direct employment creating effect, taking the EEC as a whole.

5.5. Indirect Employment Effects

In addition to direct, or internal, employment effects, foreign direct investment has employment implications external to the investing firm. Indirect positive effects on employment in the host country can arise from subcontracting, transport, demand for services, for marketing facilities, for Government infrastructure, from construction expenditure and from re-investment of funds received as a result of a takeover by a foreign entrant. Negative effects can arise from displacement of local producers by foreign investors.

A study of Dutch based multinational enterprises found that establishing a foreign subsidiary creates 2 to 3 indirect jobs for each job in the subsidiary, mainly in the supply and service sectors. This estimate, from the

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<table>
<thead>
<tr>
<th>Case</th>
<th>Source Country</th>
<th>Subsidiary Examined</th>
<th>Estimated Direct Effect on EEC Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UK</td>
<td>Germany &amp; France</td>
<td>Positive</td>
</tr>
<tr>
<td>2</td>
<td>UK</td>
<td>Germany</td>
<td>Positive, but small</td>
</tr>
<tr>
<td>3</td>
<td>Ireland</td>
<td>UK</td>
<td>Negative, but small</td>
</tr>
<tr>
<td>4</td>
<td>UK</td>
<td>Ireland &amp; The Netherlands</td>
<td>Positive</td>
</tr>
<tr>
<td>5</td>
<td>Germany</td>
<td>UK</td>
<td>Positive</td>
</tr>
<tr>
<td>6</td>
<td>Germany</td>
<td>UK</td>
<td>Positive</td>
</tr>
<tr>
<td>7</td>
<td>UK</td>
<td>France</td>
<td>Overcome by Effects of Recession</td>
</tr>
<tr>
<td>8</td>
<td>UK</td>
<td>The Netherlands</td>
<td>Negative after UK entry to EEC</td>
</tr>
</tbody>
</table>

Source: See Case Studies Section 4 above
companies themselves, is likely to overstate such effects. These multiplier effects clearly depend on the nature of the investment and the level of activity and economic climate in the host country.

Attempts to estimate indirect employment effects of intra-EEC investment are fraught with difficulties. Estimates from companies themselves are liable to be non-objective and based on incomplete information. In certain cases, we have been able to arrive at tentative conclusions on the existence of the displacement effect, e.g. in Case Study 6 it was suggested that non-EEC imports rather than domestic UK production had been largely replaced, whilst in Case Study 5 displacement of competing domestic UK firms was likely.

In examining the evidence on the indirect employment creation effects of the sample investments, arising from purchases of goods and services in the host country as input, we find that this effect is much less than in the Dutch study and that even a 1:1 relationship of direct : indirect jobs created exaggerates the effect.

In the Irish Republic, approximately 5% of the total value of production in the plastics industry is represented by goods and services provided locally. Admittedly, this sector represents the smallest first-round linkage effect of five sectors examined (Food, Textiles, Metals and Engineering, Plastics and Chemicals); but the average first-round linkage effect was only 13% of the value of final output.¹ We would recommend the extension of this approach to the study of the effects of multinationals on the employment market in other industries and countries. Similarly, foreign owned firms have a higher import content than local firms, which accounts for the low level of the second-round linkage effects. Extension of this to our study requires the division of inputs between EEC and non-EEC purchases, as we are concerned with the overall employment effect on the community. As well as foreign ownership, size also exerted a significant influence on input purchasing in Ireland— the larger firms of both foreign and Irish ownership exhibiting a tendency to import a higher proportion of inputs.²

5.6. Closures and Job Security

In only one of the companies studied has there been complete closure of a foreign subsidiary within the EEC (Case Study 7). Our evidence suggests that multinationals make strenuous efforts to avoid layoffs. A good example of this is Company 8 which, in the face of severe trading difficulties, has adopted a strategy of gradual reduction of employment rather than abrupt closure. This is particularly noteworthy in what has been, for the plastics industry, a period of considerable adversity following successive increases in the price of oil. In these circumstances, it is significant that the positive effects on employment detailed in the case

studies have been maintained. The firms, however, clearly recognise that they are subject to the influence of exogenous factors and that employment levels cannot therefore be guaranteed. The more successful firms in the sample still forecast increasing levels of employment in the EEC in the medium term.

We cannot generalise from the experience of the plastics and synthetics industry to industry as a whole. In certain sectors of industry the effects of foreign investments on employment are not necessarily lasting. The experience of the textiles industry, especially in Belgium, is an example. A study by D. van den Bulke\(^1\) of disinvestment by foreign multinationals as measured by loss of employment showed that between 1960 and 1977, 107,378 jobs were lost because of plant closures or collective layoffs in Belgian industry. Twenty per cent were a result of decisions by foreign owned companies in Belgium. Approximately 60% of the total employment loss originating in foreign multinational corporations in Belgium was in other EEC owned multinational companies, and half of that was due to Dutch dis-investment alone, mainly in textiles and clothing.

A study of plant closures in W. Germany 1972-75\(^2\) revealed that less than 1% of the total number of plants closed in that period were foreign-owned enterprises - a total of 28 plants. Of these, only 6 companies originated from other EEC member states. The loss of employment resulting from intra-EEC disinvestment was less than 1% of the total loss of jobs through plant closures in West Germany 1972-75. This is consistent with the results of a study of closure in the Irish Republic\(^3\) which, contrary to widespread belief, showed that multinational corporations do not constitute an unstable element in the host country, but that the host country environment is more relevant to their performance than nationality of ownership.

5.7. Skills, training and the structure of employment

The transfer of technology through foreign direct investment is a critical factor in determining the structure of employment in the firm. In common with the experience of other industries, there is no evidence from our case studies to suggest that the multinationals adapt their own technology to the available supply of labour. But whereas it is the norm for multinationals to train labour for the utilisation of their existing technology, the plastics and synthetics industry employs an above average proportion of semi-skilled and unskilled labour. Consequently, skilled employment provision is limited and systematic training of labour is restricted in scope.

At managerial level, the tendency is to train local personnel to replace expatriates, but it was noticeable that very little transfer of management from the subsidiary to the parent company took place except on a short term basis for training. Other short term transfers involved technical and supervisory workers and those directly involved in setting up a new operation (mainly middle management).

\(^1\)D. van den Bulke op.cit. p.38f.
\(^2\)Bundesministerium für Arbeit und Sozialordung (20)
\(^3\)McAleese and Counahan op.cit. (74)
5.8. Other labour issues

Our interviews showed that, although major decisions on investment flows and financing are taken by the parent, local management exercises a large measure of autonomy in respect of wage bargaining and conditions of employment and that these are significantly affected by local circumstances. Recruitment of management for subsidiaries is also the prerogative of the parent company although a definite preference for the appointment of, or if possible, promotion of, local nationals was apparent in most cases.

Labour turnover appears to be primarily determined by local employment conditions. Generally, labour turnover in our sample of firms is low but in the one instance where this was definitely not the case, the rate of turnover had influenced the expansion path of the firm, by causing it to subdivide its activities between two separate plants (Case Study 5).

The whole spectrum of company attitudes to Trade Unions was evidenced in our sample. At the one extreme (Case Study 3), the firm involved the Trade Unions before making a decision to invest in a particular country, with a view to securing guarantees on all aspects of labour relations. At the other extreme (Case Study 2) the firm based its strategy on avoiding the recruitment of organised labour. In general, the larger firms at least prefer to work with established Trade Unions. The attitude of multinationals towards the recognition of Trade Unions is an important issue for the Trade Unions themselves and further investigation of this problem could usefully incorporate their views as well as those of the companies.

5.9. Implications for Government Policy

A clear implication for Government policy arises with regard to the investment incentives offered to attract industry in the various member countries. Without exception, in the cases studied, such incentives were not the overriding determinant in the investment decision. Where such incentives were offered, they were generally regarded as a bonus. Of more importance were the need for a market presence, cost factors and the local employment market conditions. Doubts have been expressed about the permanence of the employment created in response to investment incentives alone. Rising unemployment is in danger of causing Governments to adopt "beggar-my-neighbour" policies with regard to such subsidies, which may lead to only temporary increases in employment.

The implications for competition policy appear to be that the opportunity costs of preventing a firm's "preferred" investment should be carefully evaluated. It seems that the alternative to a foreign direct investment may not be a home investment plus exports but in some cases no investment at all. In other words, foreign direct investment and domestic investment are far from being perfect substitutes. Our study also indicates the need for a more detailed investigation of the relative implications of greenfield versus takeover investments for employment. The employment creating effect of a takeover can be as significant as those of a greenfield development, particularly where the infusion of new technology strengthens the taken-over company's product-market position. A wider investigation is necessary to establish the circumstances which determine such an outcome.
Data, at a macro level, on intra-EEC direct foreign investment are inadequate. Even where such data exist, there is a lack of consistency between member countries. This basic deficiency means that any implications one might seek to draw on the effects of such investment in terms of employment, value added, wages and salaries etc. are necessarily circumscribed. This has the obvious implication that data collection at a macro level needs to be undertaken much more systematically, preferably on a community-wide basis. It also means, as our pilot investigation shows, that many of the issues we have touched upon can only be dealt with at present by a much more broadly based investigation at the level of individual enterprise. In addition this should enable cross-industry comparisons to be made.
APPENDIX I - QUESTIONNAIRE
### APPENDIX I - QUESTIONNAIRE

**COMPANY SIZE 1978/79**

<table>
<thead>
<tr>
<th></th>
<th>EMPLOYEES</th>
<th>TURNOVER</th>
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<td>SUBSIDIARY</td>
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</tbody>
</table>
THE EFFECTS OF INTRA-E.E.C. FOREIGN DIRECT INVESTMENT ON EMPLOYMENT

QUESTIONNAIRE

SECTION I - PRODUCTS AND INVESTMENTS

1. In what years and in which E.E.C. country(ies) did you begin production?

2. Which markets do each of these investments serve? (N.B. Worldwide?)

3. Are all these investments still in operation?

If NO to 3

4. How long did this investment (these investments) operate?

5. Why was this investment (were these investments) closed?
6. Will you give me a general description of your current products manufactured by your plants within the E.E.C.?

THE FOLLOWING QUESTIONS WILL HAVE TO BE ASKED OF EACH INVESTMENT

SECTION 2 - MOTIVATION

7. What was the single most important factor that led your firm to set up production facilities in .................?

8. Will you now tell me what subsidiary factors were important in that venture?

9. Did you consider any alternative country(ies) for the investment?
   
   (If NO go to 12)

If YES to 9

10. Which country(ies)?
11. Why did you choose to invest in __________________________ rather than any of the others you considered?

12. Did you investigate the possibility of Government inducements to invest in __________________________?

13. Were any such inducements offered?

14. Did you take up these inducements?

15. How important a part did they play in your decision to invest in __________________________?

SECTION 3 - PROBLEMS

16. What was the major problem that you encountered in setting up production facilities in __________________________?
17. Were there any other significant problems?

18. How were these problems overcome?

SECTION 4 - LABOUR (GENERAL)

19. Did you investigate the Labour Laws, statutory conditions of employment etc. in .................?

20. Did your findings influence your decision to invest in ................. in any way?

21. What proportion of total costs are represented by labour costs in .................?

22. How important was the question of labour costs in your decision to invest in .................?

23. Was the general productivity of labour in ................. investigated?
24. Was labour turnover in .................. considered in your decision to invest there?

25. Was the industrial relations record investigated?

26. Was the degree of unionisation investigated in ..................?

27. Did you consult the relevant trades unions in .................. before you made the investment?

28. What was the unions attitude to your proposed investment?

29. How co-operative did you find the labour force?

30. **TOTAL EMPLOYED**

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>i)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>iii)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

i) When you started production in ..................

ii) End 1978

iii) Projected End 1950
31. Of which: Skilled %, Semi-skilled %, Unskilled %

32. Do you employ any guest labour? (i.e. Non-E.E.C. nationals)

If YES to 32

33. What proportion of your total labour force is 'guest'? 

If YES to 34

34. Did you 'import' any labour from your other plants?

If YES to 34

35. How much?

36. What skill level?

37. Were they replaced in the plants from where they came?

38. Did you train local labour?

39. Do you have an ongoing training scheme for new recruits?
40. What proportion of the present labour force is local\(^{(1)}\) and what proportion imported?

41. Do you have expansion plans in the near future?

42. Where do you intend to recruit your labour from to facilitate this expansion?

SECTION 5 - MANAGEMENT (GENERAL)

43. Did you intend recruiting local management personnel?

44. How many local managers did you recruit in Year 1?

45. What proportion of total management did that represent?

46. How many local managers do you employ now?

47. What proportion of total management does this represent?
48. Do you intend to recruit local management personnel in the future?

49. Do you have a scheme for training managers?

50. Do you prefer to recruit experienced personnel?

51. Who has responsibility for recruiting i) management? ii) labour?

SECTION 6 - TYPE OF INVESTMENT

52. Was your investment in a) a takeover of an existing plant or was it b) a totally new production unit?

53. Was the plant producing similar finished goods as you were producing elsewhere?

54. Did the products from this plant represent an extension of the range of your products?

55. Was this plant producing components required for the types of finished goods that you were already producing?
56. Had you previously supplied this market through exports?  

[If NO go to 62]

If YES to 56

57. From which of your other plants had you been servicing markets now supplied from this plant?

58. What was the effect of this investment on the production in the plant(s) from which you had been previously servicing these markets?

59. What proportion of exports were replaced in Year 1 in each of these markets?

60. What proportion of these markets are serviced through exports from any of your other plants now?

61. Is it expected that exports will be entirely supplanted by direct production?
62. Was this market serviced totally by other E.E.C. companies?

   (If NO go to 67)

---

If YES to 62

63. Prior to making this investment, had you anticipated an expansion in the market?

64. What share of these markets did you have before the investment?

65. What share of the market do you have now?

66. Has this growth been at the expense of your competitors?

---

67. Before your investment, what proportion of the market was serviced by imports from outside the E.E.C.?

68. What proportion of the market was serviced by Non-E.E.C. imports in Year 1 of your investment?

69. What proportion of the market is serviced by non-E.E.C. imports now?
70. Do you anticipate a decline in Non-E.E.C. produced goods in this market?

SECTION 2 - GREENFIELD HORIZONTAL - LABOUR

71. What type of technology did you employ in this direct investment? (N.B. need to elicit responses in terms of K or L intensity)

72. Was labour readily available to facilitate immediate production?

73. How many of your own employees did you use to set up the plant?

74. How many of these jobs were permanent?

75. Could you estimate how many people were employed in the construction of your plant?

76. What proportion of your skilled labour force did you 'import' from your other plants when this investment became fully operational?
77. What proportion of the skilled labour was local?

78. Did they come from other firms?

79. What proportion of your semi-skilled labour force did you 'import' from your other plants when this investment became fully operational?

80. What proportion of the semi-skilled labour was local?

81. Did these come from other firms?

82. What proportion of your present labour force is skilled?

83. What proportion of this skilled labour is 'imported'?

84. What proportion of this skilled labour is local?

85. Did this labour come from other firms in the area?
SECTION 3 - GREENFIELD HORIZONTAL - MANAGEMENT

86. Did you use members of your existing management team to get your new investment functioning?

87. Where were these managers transferred from?

88. Were they replaced there?

89. Did you recruit any local management personnel initially?

90. Do you recruit local management personnel now?

91. Where do you recruit them from?
SECTION 1 - GREENFIELD VERTICAL

56. Why did you feel the need to produce your own components?

57. Where had these components been supplied from before you began to produce them yourselves?

58. What proportion of your previous supplier's output would you estimate your business accounted for?

59. Could you say whether or not the loss of your business has had any significant effect upon your previous supplier(s)?

60. Has the ability to produce your own components led to an expansion of the production of finished goods in your other plants?

SECTION 2 - GREENFIELD VERTICAL - LABOUR

If YES to 60

61. Has this led to an increase in your labour force in your other plants?
62. By what amount?

63. What type of technology did you employ in this direct investment? (N.B. Need to elicit responses in terms of K or L intensity)

64. Was labour readily available to facilitate immediate production?

65. How many of your own employees did you use to set up the plant?

66. How many of these jobs were permanent?

67. Could you estimate how many people were employed in the construction of your plant?

68. What proportion of your skilled labour force did you 'import' from your other plants when this investment became fully operational?

69. What proportion of the skilled labour was local?

70. Did they come from other firms?
71. What proportion of your semi-skilled labour force did you 'import' from your other plants when this investment became fully operational?

72. What proportion of the semi-skilled labour was local?

73. Did these come from other firms?

74. What proportion of your present labour force is skilled?

75. What proportion of this skilled labour is 'imported'?

76. What proportion of this skilled labour is local?

77. Did this labour come from other firms in the area?

SECTION 3 - GREENFIELD VERTICAL - MANAGEMENT

78. Did you use members of your existing management team to get your investment functioning?

79. Where were these managers transferred from?
Were they replaced there?

Did you recruit any local management personnel initially?

Do you recruit local management personnel now?

Where do you recruit them from?
SECTION 1 - TAKEOVER HORIZONTAL

56. Did this plant previously belong to a competitor?

   If NO go to 59.

   If YES to 56

57. Which markets do you intend to service from this plant?

58. How had you previously serviced these markets?

59. Why did you want to enter this market?

60. Could you have serviced this market from any of your other plants?

61. Has the plant expanded since you took over?

62. Do you anticipate an expansion in the future?
63. Did you modify the plant in any way?
   *(N.B. Modern technology; Effects on K/L Ratio)*

SECTION 2 - TAKEOVER HORIZONTAL - LABOUR

64. How many people were employed in ............... when you took over?

65. What is the current labour force?

66. Do you anticipate an expansion in this number?

67. Did you transfer any labour from your other plants to .................?

   -----------------------------------------------
   If YES to 67

68. Was this labour replaced?

   -----------------------------------------------

69. What proportion of the labour force was skilled when you took over?

70. What proportion is skilled now?
71. Did you train local labour?

If NO to 71

72. Where did this skilled labour come from?

SECTION 3 - TAKEOVER HORIZONTAL - MANAGEMENT

73. Were you satisfied with the management in .................when you took over?

74. Did you replace any of the management?

If YES to 74.

75. Where did the replacements come from?

76. Did you increase the number of management personnel?

If YES to 76

77. Where did these people come from?
78. Did you regrade any of the management personnel?

79. Do you have a management training scheme?
SECTION 1 - TAKEOVER VERTICAL

56. Had this plant belonged to a previous supplier?

If NO to 56

57. Where had you been supplied from previously?

58. Had your business made up a large part of your previous supplier's output?

59. Why did you feel the need to produce your own components?

60. Did you expand production at .................?

61. How many of your plants do you supply with components from ...............?

If Not All in Answer to 61

62. Where do your other supplies come from?
63. Are you satisfied with these suppliers?

64. Have you any plans to take over any other plants for component production?

65. Did you modify the plant in any way?
   (N.B. Newer technology; Effect on K/L Ratio)

SECTION 2 - TAKEOVER VERTICAL - LABOUR

66. How many people were employed in .......... when you took over?

67. What is the current labour force?

68. Do you anticipate an expansion in this number?

69. Did you transfer any labour from your other plants to ..........?

   ---------------------------------------------
   If YES to 69

70. Was this labour replaced?
71. What proportion of the labour force was skilled when you took over?

72. What proportion is skilled now?

73. Did you train local labour?

If NO to 73

74. Where did this skilled labour come from?

SECTION 3 - TAKEOVER VERTICAL - MANAGEMENT

75. Were you satisfied with the management in ................. when you took over?

76. Did you replace any of the management?

If YES to 76

77. Where did the replacements come from?
78. Did you increase the number of management personnel?

If YES to 78

79. Where did these people come from?

80. Did you regrade any of the management personnel?

81. Do you have a management training scheme?
PROGRAMME OF RESEARCH AND ACTIONS ON THE DEVELOPMENT OF THE LABOUR MARKET

THE EMPLOYMENT EFFECTS

OF

INTRA-EEC FOREIGN DIRECT INVESTMENT

ANNOTATED BIBLIOGRAPHY

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Alan G Hartley
John R Sparkes

University of Bradford
Management Centre

For:
Commission of the European Communities

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Note D'Information DOC/LON/30/78 (1978) 8 p.  
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(5)  AMBASSADE DE FRANCE A LONDRES  
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Shows the extent of foreign control in different industries and its impact on the French economy, particularly as regards employment, sales and investment.
If so far the main purpose of multinationals was to get round tariffs, the present trend is towards increasing division of production between units to achieve economies of scale.

Multinationals are means of integrating economies in a different way than free trade; they respond well to regional incentives but do not always produce the type of integration sought by host countries.

Distills the literature on national policy implications of multinationals. Statistical analysis of US corporate income tax returns and comparison of US multinationals with domestic firms leads to policy conclusions recommending US action leading to neutrality in taxation and incentives to "unbundle" direct investment.

Union strategies are beginning to move towards internationalisation in response to multinationals.

Comparative analysis of European countries' policies (including member nations of EEC) towards US investors.
Suggests that divestment by multinational firms is increasing and analyses some influences leading to divestments.

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Argues that the distribution of income and the balance of payments position are the most important determinants of the level of employment. A higher share of wages in total income and a tendency for exports to exceed imports result in a higher equilibrium level of employment.

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Sixth in a series of analyses of which the previous reference was the first. This report covers 1976 and the 1970-76 period and is, in effect, an updating of the previous research done for the years 1960-75.

(23) CENTRAL OFFICE OF INFORMATION (UK)

"Britain's International Investment Position"

An inventory of the estimated value of the main components of Britain's public and private assets and liabilities for 1962, 1968 and 1969.

(24) M. CHARONOV

"La lutte des classes dans l'Europe des Trusts"
La Vie Internationale No. 4, April 1975, p. 59-67

An assessment of trade union responses to multinational enterprises in the European Economic Community.

(25) H.J. CHURDEN and A.W. SHERMAN

"Personnel practices of American companies in Europe"

Interview study finds that unions cooperate in Europe from a position of strength. US companies inflexible and find it difficult to adjust to this.

(26) G. DAVIES

"West German direct investment in Wales... a promising start"
Development Corporation for Wales, Cardiff, 1978, 63 p.

Attaches particular importance to the role of smaller firms in employment creation.
(27) G. DAVIES and I. THOMAS

"Overseas Investment in Wales"
Christopher Davies, Swansea, 1976, 221 p.

A detailed study of foreign investment in Wales for the Development Corporation for Wales. Finds foreign firms have contributed to employment creation and have maintained the competitiveness of the host economy.

(28) J. DE LA TORRE ET AL

"Corporate Responses to Import Competition in the US Apparel Industry"

Analysis of strategies adopted by US firms in the face of import competition.

(29) DELEGATION A L'AMENAGEMENT DU TERRITOIRE ET A L'ACTION REGIONALE
FIRMES MULTINATIONALES

"Investissements étrangers et aménagement du territoire"
Livre Blanc, Paris, 1973

A study of the impact of US foreign direct investment on unemployment in France. Concerned particularly with closures of foreign and domestic enterprises.

(30) V. DROUCOPOULOS

"Expanding the Frontiers of Capital: Evidence from West Germany"

Attempts to document the growth of West German foreign direct investment - shows that, in 1976, West Germany became a net creditor.

(31) J.H. DUNNING (ED)

"The Multinational Enterprise"

Collection of papers on multinationals; includes section on multinationals and labour.
(32) J.H. DUNNING
"The Location of International Firms in an Enlarged EEC"
An analysis of the impact of an enlarged customs union on location of firms within the countries of the union. Static and dynamic reactions for Multinationals considered separately for US and UK firms, drawing on trade and location theory.

(33) J.H. DUNNING (ED)
"Economic Analysis and the Multinational Enterprise"
Collection of papers by experts includes impact on location, on wages and salaries and on labour.

(34) J.H. DUNNING
"Evaluating the Costs and Benefits of Foreign Direct Investment: Some General Observations"
Conferencia Internacional sobre Economia Portugesa, Lisbon, 1977, p. 835-896
Concludes that the main contribution of foreign direct investment is the addition to value added and increases in exports. Finds that aggregate studies can be misleading and that a firm level, selective approach is necessary.

(35) J.H. DUNNING and P.J. BUCKLEY
"International Production and Alternative Models of Trade"
Assesses the effect of international production on explanatory power of "newer" trade theories.

(36) EMERGENCY COMMITTEE FOR AMERICAN TRADE
"The role of the multinational corporation in the United States and the world economies"
Washington, 1972, 47 p. + 132 p. data
Survey of 74 US multinationals. Finds that domestic (US) employment creation of these firms was 75% greater than all other manufacturing firms and that foreign investment stimulated US exports.
(37) N.S. FATEMI and G.W. WILLIAMS

"Multinational Corporations: The Problems and the Prospects"
A.S. Barnes, South Brunswick, 1975, 290 p.

An overview of the influence and role of USA-based multinational enterprises, including the impact of multinationals on employment and the balance of payments.

(38) D.J.C. FORSYTH

"US investment in Scotland"

Economic evaluation of impact of US direct investment in Scotland.

(39) R.H. FRANK and R.T. FREEMAN

"Distributional Consequences of Direct Foreign Investment"

An empirical study of the net effect of overseas direct investment by US multinationals on the level of domestic employment in the short run and on the level and distribution of domestic income in the long run. Estimates of "home-foreign substitution" are crucial. Conclusion is that a loss of jobs and a switch from labour to capital results.

(40) L.G. FRANKO

"The European Multinationals: A Renewed Challenge to American and British Big Business"

Describes the evolution of 85 Continental European Multinationals and their role in European integration.

(41) J. GENNARD

"Multinational corporations and British labour: a review of attitudes and responses"

Survey of UK labour and industrial relations practices and of union action. Short run union action likely to be directed to British Government; long run multinational cooperation likely.
(42) R.W. GILLESPIE

"The Policies of England, France and Germany as Recipients of Foreign Direct Investment"


An historic review of policies with a comparative statistical analysis. Finds policy unclear and confused.

(43) K.W. GREWLICH

"Direct Investment in the OECD Countries"


Shows how trade surplus countries have increased their share of direct investment. Deals with legal aspects and control of technology.

(44) H. GUNTER (ED)

"Transnational Industrial Relations"


Compilation of conference papers which includes impact of economic integration on labour relations systems.

(45) R.G. HAWKINS

"Job Displacement and the Multinational Firm: A Methodological Review"


Compares studies of US employment creation or displacement by US direct investment abroad and concludes that the estimating measures and assumptions are critical and that analysis is uncertain.

(46) J. HEINRICHS, F. FROBEL and O. KREYE

"The New International Division of Labour"


(47) M. HODGES

"Multinational Corporations and National Governments"


Case study of UK Government's relationship with multinationals over the period 1964-70 particularly with respect to motor car and computer industry.
(46) N. HOOD and S. YOUNG

"European Development Strategies of US Owned Manufacturing Companies located in Scotland"
Scottish Economic Planning Department, Glasgow, 1979, 214 p.

Demonstrates the influence of the entry of the UK into the EEC on US firms in Scotland. Scottish plants in danger of becoming basic production units only.

(49) T. HOUSTON and J.H. DUNNING

"UK Industry Abroad"

A detailed analysis and appraisal of British industry overseas with copious tables.

(50) G.C. HUFBAUER

"Synthetic Materials and the Theory of International Trade"

Discusses factors affecting decisions on transfer of technology - implications for licensing and direct investment as means of transmitting technology.

(51) G.C. HUFBAUER and F.M. ADLER

"Overseas Manufacturing Investment and The Balance of Payments"

Analysis of the impact of US foreign manufacturing investments on the US balance of payments, in terms of 3 models and measured in "recoupment periods" - the time taken to "pay back" the outflow.

(52) S.H. HYMER

"The multinational corporation and the law of uneven development"

Argues that multinationals will centralise planning and skill-intensive operations and only decentralise "lower order" activities.
(53) **INDUSTRIAL MARKET RESEARCH**

"How British and German Industry Exports"

Describes and compares the organisational pattern and methods employed by export executives in both Britain and West Germany.

(54) **INTERNATIONAL LABOUR OFFICE**

"Multinational Enterprises and Social Policy"

Conference report on the relationship between multinational enterprises and social policy, manpower, working conditions and labour relations in both the home and host countries. Covers relevant ILO conventions and international standards and includes recommendations for further research.

(55) **INTERNATIONAL LABOUR OFFICE**

"International principles and guidelines on social policy for multinational enterprises: Their usefulness and feasibility"

Examines the relevance to multinational enterprises of existing international labour standards that are geared to implementation within a national rather than international context.

(56) **INTERNATIONAL LABOUR OFFICE**

"The impact of multinational enterprises on employment and training"

Estimates that multinationals account for 13-14 million jobs. Examines direct and indirect effects of foreign investment but concludes that an overall macro-estimate of jobs lost or gained is meaningless. Analysis by sector is more productive and comes to a cautiously positive estimate that jobs may have been created worldwide in manufacturing.

(57) **INTERNATIONAL LABOUR OFFICE**

"Multinationals in Western Europe: The industrial relations experience"

Compares the industrial relations experience of multinational enterprises in the food industries and in the metal industries in six European countries. Special attention is paid to such issues as labour problems and union reactions connected with the investment, production and employment policies of multinationals.
(58) INTERNATIONAL LABOUR OFFICE

"Wages and Working Conditions in Multinational Enterprises"

Compares the remuneration, hours of work, holidays and retirement benefits provided for locally recruited personnel by foreign-owned firms and by locally owned firms.

(59) INTERNATIONAL LABOUR OFFICE

"Social and labour practices of some European-based multinationals in the metal trades"

The first of a series of ILO studies on the labour and social policies and practices of multinational enterprises. Based on information received in response to a questionnaire sent to the managements of multinational enterprises, workers' organisations, employers' organisations, host country governments and home country governments, it concentrates on matters relating to employment and training, wages and labour relations.

(60) INTERNATIONAL LABOUR OFFICE

"Social and Labour Practices of Some US-Based Multinationals in the Metal Trades"

Examines the role of USA-based multinational enterprises engaged in metal manufacture, with particular reference to employment policies and labour relations.

(61) A. JOHNSTONE

"United States Direct Investment in France"

Tight and excessive control from the US accounts for French fears of domination - recommends decentralisation.

(62) R. JUNGNICKEL ET AL

"Einfluss multinationaler Unternehmen auf Ausenwirtschaft und Branchenstruktur der Bundesrepublik Deutschland"

Includes attempt to construct intra-EEC direct investment stock matrix.
(63) J. KAHN

"Les travailleurs face aux sociétés multinationales"
Cahiers du communisme, 47(5), May 1971, p. 42-64

Implications of economic policy in France with regard to multinationals and economic integration and the implications for trade unions.

(64) A. KAMIN

"Western European Labor and the American Corporation"

Collection of comparative studies on labour relations in the USA and in Western Europe, and in particular the role of US-owned multinational enterprises, including employment policies in European Community countries.

(65) C.P. KINDLEBERGER

"European integration and the international corporation"

Examines the question of European economic integration as limited by the EEC. Analyses European feeling against US-based multinationals and reviews the problems facing US industry competing in the EEC.

(66) K.W. KUBRIN

"German Direct Investments in the United States and American Direct Investments in the Federal Republic of Germany"
German Studies Notes, University of Indiana, 1978, 67 p.

A study of cross-investment between the US and Germany.

(67) D. KUJAWA

"American Labor and the Multinational Corporation"

Study of the economic and social implications for the USA of multinational enterprises, with particular reference to the employment effects of US foreign investment.

(68) S. LALL

"Transnationals, Domestic Enterprises, and Industrial Structure in Host LDCs: A Survey"

Reviews the literature on relationships between transnationals and economic structure in LDCs.
(69) **C. Layton**

"Cross frontier Mergers in Europe"

On the barriers to international mergers in Europe and what Governments can do to remove them.

(70) **J.P. Martin**


Establishes rough orders of magnitude for the employment displacement effects of shifts in trade flows.

(71) **R. Mazzolini**

"European Transnational Concentrations"

A survey of senior management's perspective on the obstacles to corporate unions within the European Economic Community.

(72) **D. McAleese**

"Capital Inflows and Direct Foreign Investment in Ireland 1952-70"

Survey of capital inflows into Ireland with emphasis on direct foreign investment - shows benefits to Ireland.

(73) **D. McAleese**

"A Profile of Grant-Aided Industry in Ireland"

An analysis of the size, growth and economic effects of Grant Aided Industry in Ireland, which includes foreign owned firms.
D. McALEESE and M. COUNAHAN

"Stickers or Snatchers? Employment in Transnational Corporations during the Recession"


Concludes that the economic consequences of the nationality of ownership of a country's manufacturing sector may well be much less pronounced than is often believed. Evidence from the Irish Republic.

B. MENNIS and K.P. SAUVANT

"Multinational Corporations, managers, and the development of regional identifications in Western Europe"


Questionnaire survey of 220 Managers in Germany - they have pro-integration attitudes which are likely to find increasing expression in integrative corporate policies.

P.G. MUSGRAVE

"Direct Investment Abroad and the Multinationals: Effects on the United States Economy"


Analyses theoretically and empirically the long term economic implications of export of capital on economic structure including income growth and factor shares and short term effects on employment and balance of payments.

NETHERLANDS MINISTRY OF ECONOMIC AFFAIRS

"Survey of a number of Dutch-based multinational enterprises conducted by the Netherlands Government"


Notes the increasing importance of multinationals and lack of information on them. Survey covers 58 large enterprises with respect to organisation, policy, effect of Government incentives, R & D, Social Policy, commercial data and fiscal aspects. Commentary on international control of multinationals.
(78) G.D. NEWBOULD, P.J. BUCKLEY and J. THURWELL

"Going International - The Experience of Smaller Companies Overseas"


An interview study of 43 smaller UK firms with overseas production and 9 with overseas sales subsidiaries. Examines the management processes involved in setting up the firms' first foreign investments. Evaluates management decisions by reference to a "success index" which is used to compare the outcomes of the decisions. UK firms have performed more erratically in the EEC than in the British Commonwealth.

(79) ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

"Penetration of multinational enterprises in manufacturing industry in member countries"


Attempt to collect data on interpenetration of OECD economies by direct investment.

(80) G. PELLICELLI

"Disinvestment of Foreign Multinationals in Italy 1972-76"


Advances some hypotheses to explain divestment in Italy by foreign multinationals.

(81) G. PENINOU ET AL

"Who's afraid of the Multinationals?"


A survey of European opinion on multinational corporations.
(82)  **A.J. PROUDMAN**  

"Market Entry Strategy for UK Mechanical Engineering Exports to the EEC"  


Attempts to find the successful export and "channel" decisions for UK firms' strategy in the EEC market.

(83)  **W.B. REDDAWAY ET AL**  

"Effects of UK Direct Investment Overseas, Interim and Final Report"  


The controversial "Reddaway Report" on the effects of outward foreign investment on the UK economy based on sample data. Assumes UK investment would have been replaced by other countries' investment as the "alternative position". Finds beneficial effects on the UK balance of payments.

(84)  **D.A. RICKS and A. CAMPAGNA**  

"Job Security in the Foreign-Owned Firm"  

Ohio State University, 1978, 7 p.  

Finds that, as far as employment and layoff policies are concerned, foreign firms in the USA behave much like their local counterparts.

(85)  **B.C. ROBERTS**  

"Multinational Collective Bargaining: A European Prospect"  

British Journal of Industrial Relations, March 1973, p. 1-19  

Analysis of the factors which may lead to the development of multinational collective bargaining in Europe.
(86) **D. ROBINSON**

"Part-Time Employment in the EEC - A Marginal Labour Force?"
Three Banks Review, June 1979, p. 61-76

Discusses the nature and implications of part-time employment and argues that part-time workers cannot be regarded as marginal employees.

(87) **R. ROUTHORNE and S.H. HYMER**

"International Big Business 1957-67; A Study of Comparative Growth"

Finds that European-owned Multinational Firms were growing faster than US multinationals in the period 1957-67. An econometric analysis of growth and profitability of multinational firms.

(88) **Y. SABOLO and R. TRAJTENBERG**

"The impact of Multinational Firms on Employment and incomes in the developing countries"

A methodological note on the employment effects of multinational firms in individual developing countries.

(89) **F.M. SCHERER ET AL**

"The Economics of Multi-Plant Operation: An International Comparisons Study"

Examines the dilemma that many firms operate more than one plant of minimum efficient scale - finds the answer in the economies of multi-plant operation. Compares 12 industries in 6 countries (including UK, France, West Germany).

(90) **M.D. STEUER ET AL**

"The impact of foreign direct investment on the United Kingdom"

Comprehensive survey of various aspects of foreign manufacturing investment in the UK - simulation study of balance of payments effects. Generally favourable conclusions on effect of investment on UK.
A study of the role of multinational enterprises in the restructuring of employment. A case study of the Netherlands clothing industry.

Attempt to determine the effect on US employment and balance of payments of nine foreign investments. Suggests that such effects are positive, particularly for white collar and skilled technical employment, but admits adjustments necessary in domestic economy.

A test of the theory that multinationals maximise sales subject to a profit constraint, based on questionnaire data from US subsidiaries in the Netherlands.

Description of the nature and effectiveness of investment incentives to attract foreign firms into depressed areas of a developed host country.

Review of the major sources of literature on industrial movement in the US and UK.
(96) UNITED NATIONS

"Multinational Corporations in World Development"

Source book for the UN "Eminent Persons Committee" set up to examine the role of Multinational Corporations in World Development. Wideranging study of the importance of multinationals, it includes estimates of the employment generated by multinationals in industrialised and developing countries.

(97) UNITED NATIONS, CENTRE ON TRANSNATIONAL CORPORATIONS

"Survey of Research on Transnational Corporations"

First of a continuing review of existing and ongoing research on the activities of Transnational Corporations.

(98) UNITED NATIONS, CENTRE ON TRANSNATIONAL CORPORATIONS

"National Legislation and Regulations Relating to Transnational Corporations"

Broad summary of national regulations concerning Transnational Corporations.

(99) UNITED NATIONS, CENTRE ON TRANSNATIONAL CORPORATIONS

"Transnational Corporations in World Development: A Re-examination"

Study of the legal, political and economic implications of Transnational Corporations - a sequel to (96).

(100) UNITED STATES CHAMBER OF COMMERCE

"The Impact of US Foreign Investment on US Employment and Trade"
National Foreign Trade Council, New York, 1971

Confirms the higher rate of job creation of US multinational enterprises over all other industrial enterprises.
(101) **U.S. CHAMBER OF COMMERCE**

"United States Multinational Enterprises: Report on a Multinational Enterprise Survey (1960-70)"


Survey of 160 American international companies to determine the implications for US employment and trade of the role of US multinational enterprises.

(102) **UNITED STATES CONGRESS, SENATE COMMITTEE ON FINANCE**

"Implications of multinational firms for world trade and investment and for US trade and labor" (The Tariff Commission Report)


Report on the role of US multinationals in Trade and Investment and in Employment and Labour questions in the USA.

(103) **U.S. CONGRESS, SENATE COMMITTEE ON FINANCE**

"Multinational Corporations and the World Economy"


Report on the role of USA-based multinational enterprises, the influx of US private foreign investment in W. Europe, and covers employment in manufacturing.

(104) **UNITED STATES EMERGENCY COMMITTEE FOR AMERICAN TRADE**

"The role of multinational corporations in the USA and world economies"


Shows beneficial effects on US employment of US Foreign Direct Investment.

(105) **D. VAN DEN BULCKE ET AL**

"Investment and divestment policies of multinational corporations in Europe"


Analyses the statistics on investment and divestment in the EEC and examines influences on corporate decisions, union reaction and the action of regional authorities.
R. Vernon

"Influence of national origins on the strategy of Multinational Enterprise"
Revue économique, 23(4), July 1972, p.547-62

Origins of multinational enterprise will influence strategy including home markets, relative rates of capital and labour prices, business cultures, etc.

H. Voogd and J. Van Stetten

"The Determination of Regional Disparities in Western Europe",

Attempts to find a systematic measure of regional disparity in the EEC.

L. Warner and L. Turner

"Trade Unions and the Multinational Firm"
Journal of industrial relations, 14(2), June 1972, p. 143-170

Industrial relations is the most decentralised management function in multinationals but unions will need to consolidate to protect labour - first steps are likely on a cross-EEC basis.

P.J. Weinberg

"European Labor and Multinationals"

An analysis of international labour action and cooperation within Europe and particularly the EEC, based on a questionnaire and interview study of unions, multinationals and trade secretariats.

G.N. Yannopoulos

"Economic integration and labour movements with reference to the EEC Countries"

G.N. Yannopoulos and J.H. Dunning

"Multinational Enterprises and Regional Development: An Explanatory Paper"
University of Reading, Discussion Papers on International Investment and Business Studies, No.21, April, 1975, 43 p.

A discussion of foreign investment and its effect on regional development policies in a number of member countries of the EEC.