REVIEW ARTICLE

World Investment Report 1994: Transnational Corporations, Employment and the Workplace

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The annual *World Investment Reports* (WIRs) produced by the UNCTAD Division on Transnational Corporations and Investment have become eagerly awaited sourcebooks, providing clear, digestible statistics on international investment and production and up-to-date accessible analysis of a key feature of the world economy. *WIR94* concentrated on employment and the workplace. This is a logical development from *WIR93* which examined transnational corporations (TNCs) and integrated international production. This progression is logical because labour remains the single most important immobile (or non-tradable) resource. Although TNCs can increasingly integrate and control flows of capital, technology, organizational skill and management expertise, it is not possible to transfer large numbers of workers between locations, except at a prohibitively high cost. The immobility of labour has to be combined with a second crucial factor—individual national Governments wish to regulate their own labour markets. Consequently, Governments follow independent labour market policies as if labour markets were entirely insulated from other national labour markets. As *WIR94* shows, such independent policies are becoming increasingly difficult to implement. Figure 1 is a highly stylized attempt to explain why the internationalization of firms is causing a conflict of markets and of governance of those markets.

The market for capital can be regarded as international. National policies with respect to control of domestic interest rates or control of the foreign exchange value of a national currency are increasingly under threat from mobile capital. Huge balances of mobile capital can be moved, largely by TNCs, at a moment's notice, across the exchanges. Funds can be raised in country A and instantaneously be moved to countries B, C or D. Barriers between national stock markets, bond markets and futures markets are declining into trivial cost and time penalties. National policies, to be realistic, have to recognize this international interdependency and to account for its effects.

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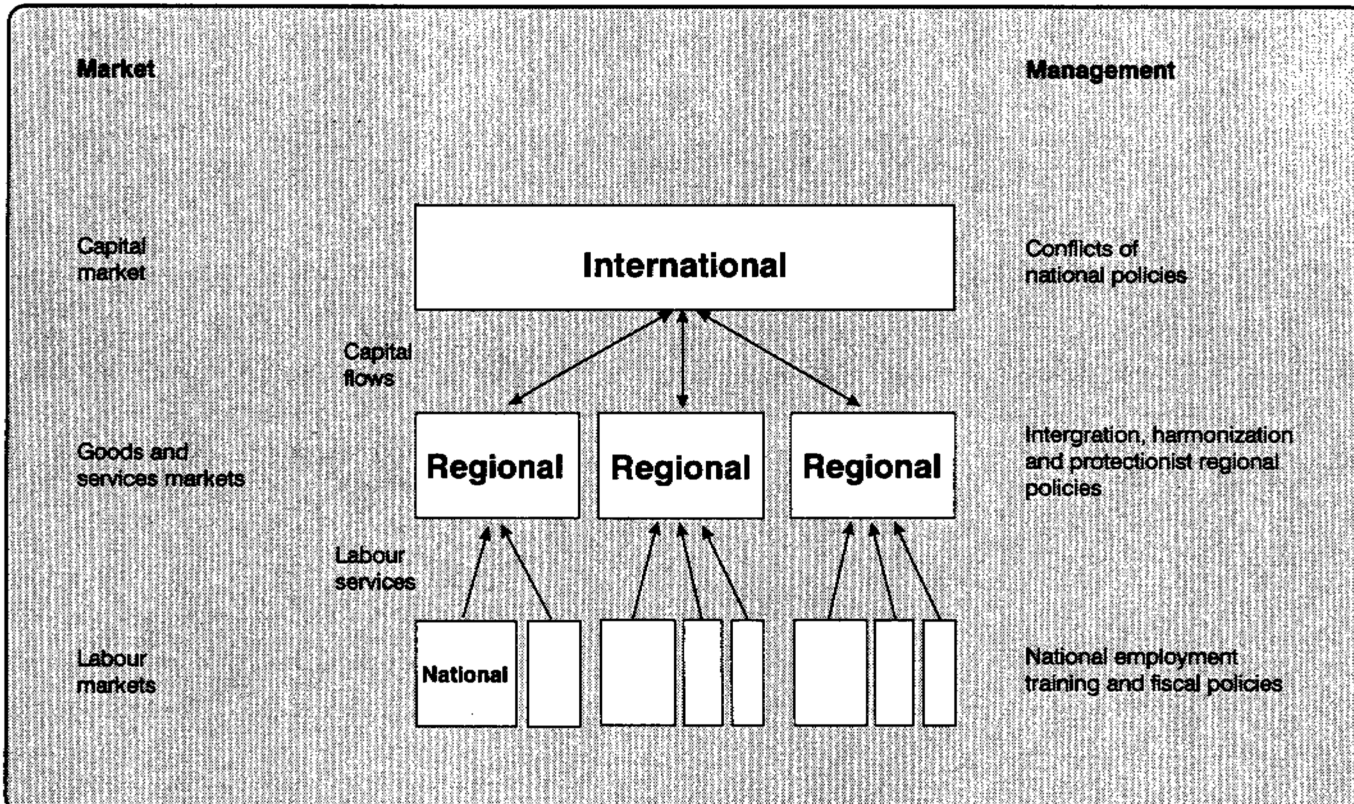
Figure 1. Internationalization of firms: conflict of markets



At the level of goods and services markets, regional integration and harmonization, combined with protectionist external policies are producing trade blocs of increasing significance. The European Union, the North American Free Trade Agreement (NAFTA), Mercosur in Latin America and the emergence of the Asia Pacific Economic Cooperation (APEC) agreements are significant players on the world stage. Goods and services flow freely within these blocs, but are subject to inhibitions between them. The European Union is moving towards complete harmonization of standards, regulation and fiscal provision. The enlargement of NAFTA southwards and consolidation in the Asia-Pacific region are so far looser forms of national cooperation but there is a march of inevitability towards a consolidation of these blocs. The major beneficiaries, of course, are TNCs which can exploit economies of scale and harmonize their strategies across regions. The real conflict comes when one considers labour markets. Governments regard the regulation of *national* employment, training and educational policies as their sole prerogative. Thus, one observes attempts by Governments to control, regulate and direct national policies on unemployment and wage rates. This is proving increasingly difficult in a world of almost perfectly mobile capital and regionally orientated goods and services markets. Relocation by TNCs is a major threat to employment policies and can often frustrate national wage-level controls. It is in this context that the work embodied in *WIR94* is so important.

This analysis is given another twist by concern about competitiveness at both the national and the firm level. It is possible to speak of the competitiveness of a nation (or of any economic space) in terms of its locational attractiveness. A key feature of locational attractiveness is the quality of its indigenous labour force. This, together with its natural resource endowment and market size and growth, will largely determine its quantum of inward foreign direct investment (FDI). There was much concern in *WIR93* about (the creation of) dynamic comparative advantage. An essential feature of the improvement of comparative advantage over time is upgrading the labour force. This can be done by indigenous investment combined with judicious training and educational policies but, except for industry leaders, it is increasingly done by attracting FDI. Thus, employment, training, educational and human resource development policies become not only desirable ends in themselves, but are also major components of an integrated growth and development strategy relying on attracting innovative inward FDI from foreign TNCs. Such a policy often mandates wage restraint in order that particular national labour forces should not "price themselves out of jobs" or more accurately out of international competition for the location of those jobs. This may also have wider macroeconomic consequences for instance in fiscal policy (where high taxes might drive away job-creating inward FDI), in regulatory policy and in environmental policy.

The international flow of capital places a constraint on independent national labour market policies. Countries that are heavily reliant on attracting inward investment must consider the implications of these policy constraints—or end up with schizophrenic attitudes!

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The special feature of *WIR94* is the attention paid to employment, human resource development and industrial relations. The impact on these issues of globalization and the policies of TNCs has long been a focus of research in international business. The mid 1990s provide a good time to take stock of the evidence of the impact of TNCs on these issues, particularly with respect to employment because the heat has rather gone out of the argument.

Chapter IV of *WIR94* is an extensive survey of the evidence on TNCs and employment. Although TNCs account directly for over 73 million jobs worldwide (60 per cent in parent companies), this amounts to only 3 per cent of the world's labour force. Their concentration in capital- and technology-intensive production limits direct employment effects. The estimate of *WIR94* is that, including indirect employment (linked purchases creating secondary jobs), employment by TNCs is 150 million. Their effect on the job market is disproportionate in that many of these jobs are potentially mobile between locations—and these footloose jobs are higher skilled, higher productivity and higher paid than non-TNC employment. The quantity, quality and location of jobs in TNCs all have immense significance for home and host countries and for the world economy. Generally speaking, the studies reviewed in *WIR94* show that inward FDI has overall been considered to have a positive effect on employment creation whilst the effects of outward FDI do not seem deleterious, especially when considered in a dynamic context, as a consequence of improving competitive advantage which increases employment both at home and abroad as a company exploits its competitive advantage through both exporting and FDI. Concerns still remain, notably those arising from the "deep integration" strategies of TNCs, and those represented by the *délocalisation* debate in France. Neither line of argument seems either theoretically or empirically supportable: evidence for declines in employment at home in Swedish TNCs being associated with a period of reorganization, retrenchment and rebuilding of competitive advantages.

Chapter V examines the influence of TNCs on human resource development. The role of formal education, training, research and development and the use of expatriate staff are paid particular attention. Transnational corporations are found to have a significantly positive effect on training, although their contribution to education is limited to the tertiary level, particularly business-management education. The main focus of training is on technical and managerial personnel. The internalization of research and development is subject to controversy, and *WIR94* does not come to an overall judgement on this issue; it merely notes the variation by nationality and industry sector in the proportion of research and development carried out abroad. Similarly, the use of expatriates by TNCs varies by industry and sector, but a key determinant of the share of expatriates is the age of the investment: the newer the investment, the more expatriates that are used. This chapter includes an interesting section on the conditions required to maximize the contribution of TNCs to human resource development in a given host country (pp. 241-242). The key requirements are: the addition of training requirements which would not have been forthcoming in the absence of TNCs, the bearing of the costs by the firm and not by employees (through reduced wages) or the taxpayer, retaining the benefits in the host country rather than losing them through the international transfer of staff and, finally, some mechanism for the diffusion of skills. This last point raises the possibility of conflict between the interests of TNCs and host countries in the human resource development area, for a TNC will wish to retain skilled staff and to prevent diffusion through labour turnover and ''breakaways'' (the creation of new firms by former TNC staff).

The further issue to consider is human resource development as a factor inducing inward FDI. Firms will be looking for the optimum location for their activities, and consequently the efficiency wage will be a crucial location factor (wages taking productivity into account). Thus, who pays for training becomes a cat-and-mouse game between TNCs and host countries. There may be a time profile to this game. In period one, the host may invest in basic education to attract TNCs. In period two, vocational training may be jointly paid for by TNCs and the host country, with basic education being covered by the host country. As a country develops and locational attractiveness becomes secure, the burden may be transferred to TNCs and other private sector interests.

The changing industrial relations situation in TNCs is examined in chapter VI. Again, the ''conflict-of-domain'' issue arises. Transnational corporations are by definition international in orientation but most labour organizations are of purely national scope. Indeed, TNCs are the key mechanism through which national labour markets are affected by international capital conditions and regional changes in goods and services markets (figure 1). Foreign direct investment by TNCs is not a pure capital flow—it is the means by which technology, management skills and new organizational forms are transferred between countries. Innovations, then, are often introduced because of the central role of FDI as an international transmission mechanism. This is no less true in the area of industrial relations than elsewhere. There is a long tradition of research that examines the inward transmission of innovations in industrial relations. To take the example of the United Kingdom, following *WIR94*, a first wave of innovation from the United States (productivity bargaining, plant level negotiation) was followed by imports from Japan. The Japanese management style has involved increasing worker flexibility, although it is also concerned with one union (or no union) deals, single status plants and no-strike clauses. *WIR94* further identifies a "third wave" following complex integration strategies which are associated with firm-specific employment systems. This could presage a fragmentation of national labour markets. The lowest level of figure 1 may be horizontally fragmenting into international but segmented labour markets. This segmentation may be sectoral, sub-sectoral or even firm specific, with job transfers being easier within firms internationally rather than between firms nationally. The implications of this radical break need further investigation. If this trend is correctly specified, what role is left for unions? Would not intra-company unions then seize the remants of power that national unions have lost because of internationalization?

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There are four chapters on policy. The first (chapter VII) examines policies liberalizing FDI. Chapter VIII addresses corporate social responsibility. The third policy chapter focuses on trade union approaches to international production, and chapter X is again an examination of Government policies towards human resource development and TNCs.

The two chapters on Government policy (VII and X) can be taken together. It is unquestionably the case that the past 20 years have seen a profound move towards the removal of barriers to international FDI flows, and the replacement of such policies by attempts to attract inward flows. Even such a *dirigiste* regime as that of France has markedly changed policies and created the "Invest in France Bureau", headed by a person of ambassadorial level. *WIR94* examines the impact of the GATT Uruguay Round for FDI, which even though it did not explicitly address FDI *per se*, resulted in a number of relevant provisions. These include trade-related investment measures, trade in services, trade-related aspects of intellectual property rights and dispute settlement. Pages 278-286 contain an excellent succinct analysis of the implications of the Uruguay Round for FDI.

The final chapter of *WIR94* examines the role of Government in (*a*) achieving a competitive edge as a location for TNCs through an active human resource development policy; and (*b*) channelling FDI into areas with potential for human resource development. Sceptics will feel that there is more than a little ''clutching at straws'' by those still hankering after the *dirigisme* of earlier United Nations attitudes to TNCs in this attempt to rescue a role for Government. However, a more healthy attitude is to recognize the positive role that Governments can play in providing merit goods such as a good infrastructure (education, public goods, national education and training facilities) and legitimately contribute to upgrading the welfare and standard of living of their voters by helping to upgrade immobile resources (skilled workers) to enhance their locational advantages. How far Governments should go beyond this, helping the market to work more effectively is a major bone of contention, not least in current debates within the European Union.

The policy chapter addressed to TNCs (chapter VII) concerns corporate social responsibility. There follows an interesting philosophical discourse on the concept of social responsibility and several examples of the stated policies of eight TNCs on social responsibility, especially employee and labour standards. The conflict between the demands of the shareholders (the ultimate owners of TNCs) and the stakeholders approach is aired, and a discussion follows on the possibilities of international principles applying in a situation of potential cultural relativism. It is perhaps inevitable that the conclusion falls back on relating the loosening of international organizational strictures in TNCs to more accommodating attitudes to local needs (a non-proven link) and appealing to the ''long run corporate self interests'' of TNCs to carry out responsive actions. These are deep and difficult waters.

Trade-union approaches to international production are investigated in chapter IX. One response to the internationalization of production has been to create international union organizations for the collection and exchange of information, demonstrating international solidarity and, occasionally, transnational bargaining. It is possible to argue that, up to the present time, these efforts have been premature because of the existence of primarily national labour markets (figure 1 again). If some of the above strands of analysis are brought together, it is possible that the fragmentation of national labour markets will lead to international labour segments that can be identified and manipulated by cross-national sectional trade unions. The literature of the 1970s on transnational collective bargaining may then have a relevance to this brave new world, although it will be within a small number of global companies rather than, as before, on the rather more grandiose scale envisaged.

International normative guidelines on industrial relations (ILO driven) are examined, as are international labour standards, which need immense care as they are often used as a front for old-style protectionism. The European models are rehearsed, but the key problems in this area are between developed and developing countries where the need to protect the exploited can conflict with demands to protect advanced country firms from "social dumping". Again, these are deep waters, and the danger is seen of trying to provide a summary of a situation still riven with deeply conflicting philosophical positions, with interested parties very willing to seize on these positions for their own self-interest.

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The role of the *World Investment Reports* in providing clear analyses of TNC activities and FDI trends is a major contribution to academia, business planning and, hopefully, the improvement of national Government and international institutional policy making. *WIR94* does not disappoint. The opening three chapters analyse global trends, regional trends and the development of "integrated international production" (globalization).

On the global scale, the interpenetration of economies through FDI by TNCs continues apace. *WIR94* analyses the numbers of TNCs (although here the base data are very poor), the top 100 TNCs and FDI flows. New factors identified are the uneven emergence from recession in the world economy, the surge in mergers and acquisitions (although there is curiously little on international alliances between firms) and, as always, there is concern that FDI flows do not reach to the poorest nations.

In the chapter on regional trends, volatility in the ranking of home and host countries in FDI flows is shown, and particular attention is paid to the upgrading or restructuring of the Japanese economy. This reviewer cannot be alone in expressing regret that developments in the Japanese economy are always presented as planned (By whom? Is MITI's remit now global? Does it have the capability of complete foresight in an increasingly global economy?), whereas the rest of the benighted human race is at the mercy of unmitigated uncontrolled (market) forces! However, the coverage is balanced, inflows and outflows into the United States and Western Europe are analysed with care and the explosion of China as a major FDI recipient is given the prominence it deserves. How long China's dominance as a host country will last is an important question. Is it possible that the liberalization of the Indian economy will provide a serious rival location for mobile TNC investment? India is analysed in an important section on pages 81-83, as it may be the next locational superstar. Central and Eastern Europe are striving to attract inward investment against very difficult conditions—so far the contribution of foreign affiliates to GDP is around 3 per cent. Difficulties of establishing property rights, building institutions that allow entrepreneurship to flourish, legislative reform and removing corruption are the key barriers to attracting inward investment.

Chapter III of *WIR94* charts the continued central role of TNCs (and their direction of resources) in the world economy. The historical dimension of international integration is charted through its ups (golden ages) and downs (protectionist retrenchments). The link with enabling technologies is drawn and the consolidation of the domination of the world market by the Triad (North America, European Economic Area and Japan) is revisited. An interesting section (pp. 136 *et seq.*) examines complex integration strategies in TNCs, following my colleague Hafiz Mirza's innovative analysis. Fortunately, *WIR94* does not go overboard for globalization. If that much used word means anything for TNCs, it means globalization of the customer base. It is by no means self-evident that TNCs must have production bases in every market, even in every significant market. The imperative is to reach the customers as effectively as possible, and, as before, that means designing a market-servicing strategy that makes exporting, licensing, FDI and strategic alliances to match changing cost and demand conditions.

The "recent trends" section of *WIR94*, in other words, meets, and in parts surpasses, the high expectation regular readers will have deriving from earlier reports.

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WIR94 tackled a difficult and complex subject, the relationship between TNCs and the workforce, with a considerable degree of success. In areas where factual data are available and previous analyses have established largely agreed positions, *WIR94* presents a concise sourcebook which will profit those interested and allow even experts to follow the subject in further depth by using the bibliography and contacting named experts and their previous work. It is, necessarily, less successful when leaping into uncharted waters and particularly where conflicts of philosophy and unresolved conceptualization limit what an "impartial observer" can conclude. This rubric should guide future topics for inclusion in *World Investment Reports*. The style, too, reflects these points. *WIR94* is at its most successful where it can link conceptual developments to practical illustrations. Some of the "boxes" included in the text are self-standing gems (many are excellent for teaching purposes, too).

The role of *WIR94* as a key sourcebook is completely fulfilled. UNCTAD's Division on Transnational Corporations and Investment is to be congratulated for its input into improving the debate on TNC strategy, Government policy towards TNCs and into understanding the process determining the future shape of the world economy. ■