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Social Aspects of International Business in Central and Eastern Europe within the European Integration Process

Abstract

The aim of this paper is to assess the activities of international business from the point of view of its effects on the labour markets of those accession countries which are undergoing systemic transformation. This analysis covers two spheres, i.e. foreign trade and the activities of transnational corporations in the Central and Eastern European Countries (CEECs) in light of their accession to the European Union.

Many of the countries undergoing economic transformation from centrally-planned to free-market economies experienced high trade deficits in the initial period of ownership transformation, in part owing to the predominance of import in the economic activities associated with foreign investment, which in turn exercised a negative effect on their labour markets. Subsequently the trade deficit was incrementally reduced as the share of firms with foreign capital in overall export began to increase and the overall national economies increased their capacities to bring in and handle foreign investment. This increase in exports and reduced trade balance had the effect of creating new jobs.

From the point of view of the host country, employment issues are among the most important aspects in reviewing the activities of transnational corporations. Countries undergoing systemic transformation and structural changes expect the activities of transnational corporations to result in increased jobs and improvement in their labour market situations. Nevertheless the experiences of various countries suggest that transnational corporations engaging in foreign investment create new jobs in host countries in a selective and „economical" manner.

Introduction

The aim of this paper is to assess the activities of international business from the point of view of its effects on the labour markets of those accession countries which are undergoing systemic transformation. This analysis covers two spheres, i.e. foreign trade and the activities of transnational corporations in the Central and Eastern European Countries (CEECs) in light of their accession to the European Union. An attempt will be made to answer the following research questions:

- What is the theoretical relation between international business and the situation on the labour markets of the economies undergoing transformation?;
- How has the European integration process changed, in recent years, the fundamental relationship between foreign trade and foreign direct investment and the labour market?;
- What are the social consequences of international business activities for those countries which have gained EU membership, for example Poland?

1. Foreign Trade and the Labour Market (theoretical aspects)

International trade theory emphasizes the substitutionality of the mutual flow of goods and the means of production (labour and capital). In particular it deals with two instances, when:

1) the flow of goods can be a substitute for the flow of the means of production;
2) the flow of the means of production can be a substitute for the flow of goods.

Both aspects can be illustrated using the example of countries A and B, both of which produce labour-intensive goods X and capital-intensive goods Y in accordance with the ordinary production factors. Country A has a large supply of labour, while country B has a large supply of capital. According to the theory of comparative costs and the theory of available resources, if one assumes a lack of mobility in the means of production between the countries then country A will specialize in the production of the labour-intensive goods X and country B in the production of the capital-intensive goods Y. If the lack of mobility in the means of production is overcome there will be a natural tendency for capital to flow from country B (where it is in relative large supply) to country A (where it is in relative short supply), and for the labour force to move from country A (where it is in relative large supply) to country B (where it is in relative short

supply).
In the long term this will lead country A to place restrictions on specialization in the production of labour-intensive goods, and country B to place restrictions on specialization in the production of capital-intensive goods. As a result the market prices of the means of production between countries A and B will tend to equalize.

Based on the above example one can postulate that trade in goods is the first phase in the theory of substitution process to the flow of the means of production between the two countries.

The second point concerns the situation where the flow of the factors of production between countries A and B leads in consequence to a reduction in the changes of the costs of production of goods X and Y between the two countries and to a reduction in the changes in the directions of specialization in relation to the earlier established model based on comparative price theory. In this case one can speak of a transformation from trade in goods to a flow of the means of production between the two countries(Molle 1990, pp. 128–129).

In the beginning of the 1990s analyses of the labour market took on a long-term perspective, in contrast to earlier analyses of the issue which were largely of a short-term nature. The rise in unemployment and/or falling wages in many highly developed countries caused analysts to increasingly believe that the economic situation of lower skilled workers may bring about a long-term trend which was not consistent with basic economic theory (*International trade and labour…*). The two main trends in structural changes which have been characteristic of the last 20 years are: the introduction and implementation of information technology; and the rise in world trade and global flows of capital. The increase in world trade may be attributed to the liberalization of the trade market in many developing countries.

The results of the Uruguay Round of GATT/WTO have also had a significant effect on the liberalization of trade, as has the creation of a number new regional integrated trading networks such as NAFTA and MERCOSUR in America, the intensified integration in Europe within the context of the UE, CEFTA and EEA, APEC in Asia, and others.

Based on observations from the period of the last twenty years one may assert that **there is a relationship between the reduction in the aggregated demand for labour and the increase in international trade**. While the average unemployment rate has risen in all countries, its increase has been most significant in the most highly developed countries, in particular in those of Europe (for example in the OECD countries the average unemployment rate between 1980–1997 increased 2 percentage points more than in the countries outside the OECD, where the increase did not exceed 0.5 percentage points) while the largest unemployment rate in the developing countries was noted in South America and Sub-Saharan Africa. The proportionate share of labour income in overall national income also fell, and this decline was greatest in the highly developed countries (*International trade and labour…*).

Based on income research conducted by A.K. Ghose (2001) Shelburne (2004) into 96 highly developed and weakly developed countries (excluding those countries undergoing systemic transformations), it can be concluded that within the context of the growing inequalities in income and the rise in income gaps between the rich and poor which can be observed over the past 20 years in the world economy, two other related processes are also visible:

- an increase in income inequality within countries;
- a decrease in income inequality between countries.

In accordance with the theory of international trade, those countries with the lowest income levels will profit more from the development of international trade than countries with high income levels, owing to the inflow of foreign investment which will naturally flow more to countries with low capital resources than to countries with a large supply of capital. Trade between countries will also bring about a reduction in barriers to the inflow of investment capital to developing countries and will aid the transfer and diffusion of technology, which will in turn accelerate development in poorly developed countries. Large countries which are poorly developed can gain an even greater advantage from international trade if it is focused, for example, on goods whose comparative advantage is based on scale of production. In such a case their large internal markets can be used to encourage both production and sale of such goods (Krugman 1981). In addition countries with large domestic markets are more able to attract foreign capital than countries with small domestic markets. Owing to the trade liberalization in industrial markets which has occurred within the GATT/WTO framework, this factor/process has been more visible in the last twenty years with regard to industrial goods than with regard to trade in services or agricultural and food products (Wysokińska 2001). Thus large countries with low income levels have generally benefited more from the development of international trade than small countries with low income levels.

Nevertheless it should be noted that countries with low income levels – both large and small – can also lose more as a result of international trade than highly developed countries, inasmuch as the development of international trade brings with it increased competition. Enterprises in countries with low income levels face stiff competition in their domestic markets as a result of the liberalization of trade, which can have a negative effect on the future economic growth of such countries. In order to trade competitively such countries may wind up specializing in the production of goods which are neither associated with the positive phenomenon of „*learning by doing*" nor aide in the improvement of their technological capabilities, which would enable them to „*catch up*" with the more advanced economies. Thus under certain conditions the long-term prospects for economic development may be more hampered than aided by liberalized trade.

The influence of the free flow of goods on labour markets also manifests itself within the **process of international economic integration,** which shows up as a consequence of the effects of both creating and withdrawing trade in goods affecting the following processes:

- Transferring the means of production (in the integrating countries) to their most effective applications in accordance with the principle of competitive advantage, resulting both from the lower costs of labour (which manifests itself in increased exports based on comparative advantage) as well as increased competitiveness vis a vis product quality (beyond cost competitiveness). As a result producers whose costs of production are too high to compete on the large integrated market will go bankrupt, which in turn increases unemployment, while the production factors (including labour resources) do not flow automatically to their most effective applications. However, this process is connected with the process of economic restructuring aimed at eliminating the least effective enterprises or even entire branches of industry which are unable to compete in the large integrated economic territory created by the free trade zone and/or common customs union. In practice this effect manifests itself primarily by increased imports, i.e., the penetration into domestic markets of competitive goods produced in other member states.
- The increased access provided within the integrated market for competitive exports from member states to the markets of other given member states positively influences the ability of producers to reap the benefits arising from scale of production, the lowering of production costs per unit, as well as their access to foreign technologies and management methods. The increase in scale of production and the new opportunities for export associated with the opening up of the markets of other member states allows producers to increase employment and thus to absorb some of the surplus labour resources freed up by the increased penetration of imports referred to above. As a result the size of enterprises will also increase, which not only gives them a more favourable negotiating position and greater access to capital, but also permits them to take maximum advantage of the existing labour resources, which brings with it new opportunities to implement innovative solutions and the possibility to attract highly skilled workers. Sales on the large integrated market can also lead to a reduction in costs, which results from the more

effective use of production capabilities as well as the employment of highly qualified workers in areas of technological production and management.

- Thus it can be seen that the influence of free trade on the employment situation in a given member state of a free trade zone may differ depending on which of the above two processes is predominant in a given market, and as a consequence depends on the economic policies and situation in a given country and its ability to compete in the international market.
- Economic theory thus indicates the positive effect of an integrated market for means of production on restructurization processes, provided that such liberalization is preceded by liberalization of trade in goods within the framework of a common customs union (Molle 1990). The positive effects of an increasingly integrated market for means of production are a result of the increased competitive position attained by well-managed business organizations, which in turn is a result of the increased advantages they attain based on scale of production of goods and services. Increased competitiveness in the capital market also has consequences for the protected (prior to the integration process) banking and financial institutions, which must increase the quality of the services they offer. This increased competition in the capital and labour markets may thus lead to positive effects for creditors, who previously were denied access to cheap foreign capital, as well as to producers of goods and services, whose ability to make use of cheaper and more accessible credit and access to a lower cost labour market will allow them to improve the competitiveness of the goods and services they produce, both within the integrated market as well as with regard to third countries. This process should in turn lead to other impulses favoring economic growth, once again both within the integrated market and with regard to third countries.

Based on the experience of the advanced integration process which has taken place in the EC countries of Western Europe, it may be concluded that:

- Structural changes in production and foreign trade are accompanied by a tendency toward decreased employment in industrial sectors, in favor of increased employment in industrial service sectors, especially computer and information based, telecommunications, medical, financial (both banking and insurance), as well as business.
- The Single European Market eliminated the barriers to internal trade within the European Union and created a genuine free trade zone. As a result, external import from outside the Union replaced local production in some sectors in some Member States. Analogously, the Single Market decreases trade possibilities if the remained external trade barriers lead to import from third countries replacing import from Member States. External trade may be

created if the uniformization of external trade barriers within the context of EU membership results in the implementation of lower external trade barriers in some member states, including both tariff and non-tariff barriers, than was the case prior to their accession to the Single Market. In such cases domestic production and inter-EU imports may be replaced by the importation of goods and services from non-EU countries. The possibility also exists that import from third countries may be eliminated or reduced *suppression effect* in instances where the Single Market allows firms which were previously uncompetitive to revive production based on economies of scale, thus forcing out imports from both third countries as well as other EU member states. Although the effects listed above are directly related to import costs,
in theory it is not difficult to expand the analysis to models which include competitiveness, the effects of scale of production, and the effects arising from entry into the Single European Market. The theoretical results of international trade models in conditions of imperfect competition suggest that further changes in trade practices arise automatically when the size of a given market increases the competition between firms and allows them to employ economies of scale and/or levels the playing field in each industrial sector. The increased inter-Union trade brought about by the elimination of non-tariff barriers will be directly proportional to the extent that such trade liberalization „cuts" cost and price differentials within the EU, which will lead to increasing the scale of production but reducing the number of firms on the market, all of which in turn will have a significant effect on the EU labour market.

- In the 1990's a number of structural changes in foreign trade could be observed, especially in Spain, Portugal, Ireland, and Greece, which exerted significant effects in the formation of the labour market. Based on analyses formulated on the basis of Eurostat data it can be concluded that the share of labour-instensive goods in the overall export of such countries declined. This structural change influenced the reallocation of human production resources in the Spanish and Portuguese labour markets, leading to a reduction in employment in the traditionally labour- intensive industrial sectors and the reallocation of such workers to other branches of industry.
- These processes were also influenced by the appearance of competitive imports from the countries of Central and Eastern Europe, which also carried with it implications for the restructurization processes in certain economic sectors of the EU countries, leading to a decrease in employment. Industries such as the textile/clothing and leather/footware industries, characterized by a high degree of labour-intensive production, underwent a systematic reduction in employment levels during their restructurization in the 90's,

declining by 750,078 persons, or about 26% (i.e. from 2,904,663 do 2,154,585 persons). This trend was especially visible in the lesser developed EU member states such as Ireland, Greece, Spain and Portugal. In Greece employment in labour-intensive industries declined by half in the 1990's, in Spain by more than 60% in comparison with the employment levels in such industries in the 1980's, while in Ireland and Portugal the decline was less precipitous and did not exceed 20% for the same period (*Eurostat Yearbook* 1998/1999, p. 390).

2. Social aspects of the activities of transnational corporations – theoretical aspects

2.1. The concept of social responsibility in foreign investments

The concept of corporate social responsibility is a broad-ranging topic, applicable as well to transnational corporations (*Social Responsibility*, 2001). It is commonly understood as the duty a corporation owes to the society of the host country(ies) in which it operates. Social responsibility covers aspects such as:

– corporate duty to support development;
– socio-political obligations;
– consumer protection;
– firm management;
– business ethical standards;
– protection of human rights;
– environmental protection;
– employment issues.

Issues surrounding the social responsibility of transnational corporations are not addressed directly in international investment agreements and contracts, although one can sometimes find certain references to the issue in some agreements, such as the inclusion of voluntary procedural codes. Obligations relating to the social responsibility of transnational corporations are generally considered to be associated with the maintenance of a balance between the promotion and protection of liberal market conditions for investors and the need to conduct a policy aimed at sustainable development. Standards of corporate social responsibility must be applied taking into account actual local conditions and cannot be abused for the attainment of protectionist aims. The national policy options in use and/or available to host countries vary widely, ranging from the complete absence of the issue in international investment agreements concerning transnational corporations, to the inclusion of non-binding standards, reservation of the right to regulate issues involving corporate social responsibility, the inclusion of clauses that the existing corporate standards relating to social responsibility will not be reduced, and up to the inclusion of universally binding provisions concerning the social responsibility of corporations.

2.2. The influence of foreign direct investment on the labour market

Foreign direct investment (FDI) exerts a wide-ranging influence on the labour markets of host countries. The potential effects of FDI on a labour market are schematically presented in Table 1. The scale of the effects, both direct and indirect, relating to quality, volume, and location, depend on a number of factors, among the most important of which are:

- the volume of FDI and the way in which foreign investors enter the market of host countries, i.e. the form of the investment, such as merger, acquistion or start-up from scratch *(so-called greenfield investment)*;
- the sector or branch in which the investment is directed;
- the strategic aims of the transnational corporation and, connected therewith, the extent to which national production will be replaced by transnational production undertaken within the structural framework of the transnational corporation, as well as the extent of cooperation with local enterprises;
- the policies of the host country vis a vis FDI (such policies should be aimed at strengthening the positive influences of FDI on the national labour market).

3. Foreign trade and the labour market in Poland – empirical aspects

In the 1990's the Polish economy underwent a process of liberalizing its trade markets within the framework of three free-trade zones: the European Community, EFTA, and CEFTA – as well as significantly liberalizing its trade market within the framework of WTO (whereby it reduced its customs duties by 39% for industrial goods and 36% for agricultural and food products since the beginning of the application of WTO provisions until the turn of the new century).

Liberalization of the trade market for industrial goods within the above-mentioned integrated groups was completed by the end of the 1990s, with the exception of the automobile market, liquid fuels, and steel, where liberalization was delayed by a year. Thus there is no reason to expect a further penetration of imports in upcoming years as a result of the liberalization of customs duties. Nevertheless the significant penetration of imports which has already occurred has influenced the Polish labour market by eliminating enterprises and industrial branches with low competitive capacity indicators, which either did not possess or lost their comparative advantage in terms of costs. As a result there has been an increase in structural unemployment.

With regard to Polish exports to the EU, up until 1998 a number of labour-intensive industries managed to maintain their comparative advantage (based on price competitiveness, as measured by the RCA indicator). These included, among others, furniture, appliances, construction equipment, sanitary and plumbing devices, clothing, wood and cork products, artificial fertilizers, metal, iron and steel production and products as well as non-ferrous metals, road and transportation equipment, leather and enhanced leather products, and rubber products. While among the aforementioned groups of products those with a relatively low level of processing were dominant in the export structure, such as furniture, clothing, and artificial fertilizer, nevertheless a positive trend was observable in the value-added index for some goods requiring a high level of processing (and thus employing highly qualified workers), including automobiles, transportation equipment, construction appliances and equipment, and sanitary and plumbing devices (Wysokińska,. Witkowska 2002, p. 320).

A new, although significantly lesser, impulse towards restructurization will be supplied by Poland's acceptance of the EU external customs tariff, which following its liberalization, within the framework of the WTO, for industrial goods should reduce Poland's current external (non-EU) tariff rate from 6,2% to 3,2% (Wysokińska, Witkowska 1999). This may mean the bankruptcy of some inefficient enterprises in industrial sectors which will be subject to and threatened by imports from third countries, in particular those from the non-EU Eastern Europe and Asia. The effect this phenomenon will have on the labour market will depend on the ability to adapt manifested by those industries threatened by the increased competition arising from import from third countries, as well as on their ability to make use of the new protective mechanisms which will be available. Following accession and full integration with the EU the Polish market may be better protected against unfair foreign competition (so-called excessive import, subsidized industrial import, as well as dumping prices).

It should be noted that if firms which adapt to EU norms and technical standards, including veterinary and sanitary standards, are able to increase their marketing activities and compete in the European and world markets, their increased export will have a positive and stabilizing effect on the Polish labour market.

4. The effect of the trade deficit on the Polish labour market

As a result of the near total liberalization of trade in all areas, Poland's foreign trade balance in the 1990's was characterized by a large – and growing – foreign trade deficit, the effects of which were keenly felt in the Polish labour market.

Poland's current foreign trade deficit, which in 1995 reached 6,035.8 million USD, increased to 20,185.3 million USD in 1999. In subsequent years it began to decline, dropping to 18,977.2 million USD in 2000, and to 15,177.2 million USD in 2001. As can be seen from the calculations contained in Table 2, it is estimated that Poland's foreign trade deficit in goods and services resulted in a loss of approximately 2,573,000 jobs in 1999, 2,300,000 in 2000, and declined to approximately 1,632,000 in 2002 (see Table 2). An analysis of the same data on the basis of Poland's balance of payments (data supplied by the Polish central bank, NBP) reduces the scale of this effect to 1,257,000 jobs lost in 1999, 1,315,000 jobs lost in 2000, and 734,000 jobs lost in 2001 (see Part II, Table 2 – calculations based on Balance of Payments).

- The explanation for the relationship between the trade deficit and unemployment level in Poland may be found in the systematic decrease in Polish exports of goods based on natural resources and/or labour-intensive processing methods during the period of economic transformation. While the increase in the production and export of goods based on capital investment (primarily from firms with foreign capital investment) as well as the small but growing increase in technological goods must be seen as positive signs, these processes have not sufficiently engaged the resources of the Polish labour market. Given the increasingly sharp competition on the Polish domestic market arising from imports, as well as the same increasing competition Polish export faces in the European markets (i.e. the UE, CEFTA, and EFTA – to which 80% of Polish export is directed), a large number of Polish workers have been eliminated from the job market and correspondingly the level of unemployment in Poland has risen. Although the above presented effects of restructurization must be considered as positive, nevertheless the effects they have had on the labour market demonstrate that the restructurization of the labour market, looked at from the point of view of the education and qualifications of workers, has not kept pace with the restructurization of the processes of production and trade, i.e. export. On the other hand the partial reversal of the negative trend which can be seen in 2001 and 2002 must be noted and attributed to the fact that for the first time in a decade growth in exports is exceeding growth in imports.

The negative effects on the labour market have been exacerbated by Poland's negative trade balance in services in the years 1999–2000 (see Table 3).

Table 3. Services in Poland's Balance of Payments, 1992–2000 (in mln ECU/Euro)

Category	1992	1995	1996	1997	1998	1999	2000
OVERALL INCOME FROM THE EXPORT OF SERVICES	1.2342	2.439	2.664	3.284	3.280	3.526	3.810
Transportation Services	582	812	736	960	870	771	943
Foreign travel	117	170	343	520	592	713	887
Remaining services:	543	1.457	1.585	1.803	1.818	2.042	1.980
– postal and telecommunications			122	224	209	237	209
– construction			191	117	173	80	68
– insurance			149	191	650	212	201
– financial			176	107	83	160	104
– information and computer			22	16	14	27	59
– author's rights, patents, and licensing fees			19	19	11	22	37
– remaining trade			698	769	618	1.230	1.248
– nontrade			176	333	45	65	53
– governmental (maintainence of representative offices)			32	26	15	9	1
OVERALL PAYMENTS FOR THE IMPORT OF SERVICES	977	2.324	2.829	3.015	3.734	5.257	5.635
Transportation Services	168	349	449	360	479	582	700
Foreign travel	102	323	492	599	687	877	978
Remaining services:	707	1.652	1.888	2.056	2.568	3.798	3.957
– postal and telecommunications			49	82	213	468	431
– construction			67	58	164	394	334
– insurance			258	191	579	234	311
– financial			176	164	149	223	215
– information and computer			106	76	75	145	221
– author's rights, patents, and licensing fees			103	107	117	366	515
– remaining trade			762	768	1.144	1.720	1.648
– nontrade			272	502	40	112	150
– governmental (maintainence of representative offices)			95	108	87	136	131

Source: own calculations by Z. Wysokińska based on NBP data.

5. The influence of foreign direct investment on the Polish labour market

To date the participation of foreign capital in the Polish economy in the form of DFI has brought about a constant increase in the number of persons employed in companies with foreign capital as well, as an increase in the share of such persons in the overall number of persons employed in Poland. In the year 2000 the number of persons employed in companies with foreign capital reached 966,500, which constituted 6.4% of the total number of persons employed in Poland and 10.3% of average paid employment (see Table 4). If we take into account the number of persons employed in companies with foreign capital in relation to overall employment in the enterprise sector, the percentage share of such workers rises to 19,6% (Chojna 2002).

Table 4. Number of persons employed in companies with foreign capital in Poland in the years 1992–2000

Year	Number of employees (in thousands)	Annual increase in number of persons employed (in thousands)	Rate of increase in persons employed (previous year =100)	Share in total number of employed persons in Poland	Share in average paid employment in Poland
				(%)	
1992	230.0	-	-	1.5	2.4
1993	310.2	80.2	134.9	2.1	3.4
1994	373.9	63.7	120.5	2.5	4.1
1995	495.3	121.4	132.5	3.3	5.3
1996	578.4	83.1	116.8	3.9	6.1
1997	684.6	106.2	118.4	4.4	7.0
1998	840.9	156.3	122.8	5.3	8.5
1999	923.5	82.6	109.8	5.8	9.6
2000	966.5	43.0	104.7	6.4	10.3

Source: GUS data and own calculations.

In comparison to 1992, the number of persons employed in companies with foreign capital has increased fourfold. In addition, the number of persons employed in companies with foreign capital includes only those companies registered in GUS, and thus may be **underestimated** inasmuch as the figures given are only for those firms which sent in statistical reports. In the year 2000, 14,668 firms with foreign capital were registered with GUS (GUS, Warszawa 2001).

The structure of persons employed in companies with foreign capital for the year 2000, according to sections of the PKD classification system, is set forth in Table 5.

Table 5. Strukture of Employment in companies with foreign capital*, according to sections of EKD, 2000

Category	Number of persons employed in firms with foreign capital		Share in the overall number of persons employed	Share in average paid employment
	in thousands	(%)		
Agriculture, hunting, forestry, and fishing and fish cultivation	4.8	0.5	0,1.	2.3
Industry	548.9	59.3	17.0	18.6
– mining and strip mining	3.0	0.3	1.3	1.3
– industrial processing	535.3	57.8	20.0	21.7
– generation and supply of electrical energy, gas, and water	10.5	1.1	4.4	4.2
Construction	26.0	2.8	3.2	3.9
Trade and repairs	160.6	17.3	7.7	12.1
Hotels and restaurants	26.6	2.9	11.8	18.4
Transport, storage, communication	101.8	11.0	13.1	15.5
Financial intermediation	3.6	0.4	1.2	1.4
Real estate, renting and business activities	45.6	4.9	5.5	7.4
Education	0.6	0.6	0.07	0.07
Health and social services	1.0	0.1	0.1	0.1
Other service, communal, and social activities as well as individual activities	6.2	0.7	1.6	2.2
Total	925.8	100	6.1	9.9

* – Firms with foreign capital employing ten or more persons.

Source: GUS data and own calculations.

Most of the jobs created by companies with foreign capital were in industry, where 548,900 persons were employed, which constituted 59.3% of the overall number of persons employed in companies with foreign capital. In terms of number of persons employed in such companies, the trade and repair sector occupied second place, employing 160,600 persons, which constituted 17.3% of the overall number of persons employed in companies with foreign capital.

A significant number of persons employed in companies with foreign capital could also be found in the transportation, storage, and communication sector (101,800, or 11%) and in the real estate, renting and business activities (45,600, or 4,9%). 3,600 persons were employed in companies with foreign capital in the financial intermediation, which constituted only 0.4% of the total number of persons employed in such firms, based on the statistics submitted to GUS.

The above data can be supplemented with information concerning the number of persons employed in commercial banks, based on data of the Bank Supervisor and Inspector's Office. According to their data banks with a controlling foreign capital interest employed 63,400 persons in 2001, which represents a 360% increase over the number of persons employed in such banks in 1998. This should not be interpreted, however, as the creation of a significant number of new jobs, inasmuch as the increase primarily reflects the fact that „Polish banks" with a controlling Polish stock interest were being replaced by „foreign banks" with a controlling foreign capital interest. During the same period the number of persons employed in banks with a controlling Polish stock interest dropped to 86,200, which represented a 150% decrease between 1998 and 2001 (see Table 6).

Table 6. Number of persons employed* in commercial banks

Category	1993	1994	1995	1996	1997	1998	1999	2000	2001
Banks with the majority of Polish capital interest of Polish capital	119,045	127,708	134,048	129,102	130,823	131,266	86,199	59,821	57,774
Banks with the majority of foreign capital	688	997	2,000	15,099	16,272	17,801	63,439	84,416	81,050

* – Taking into account only full time employees.

Sources: GINB data, cited in: K. Dąbrowska, M. Gruszczyński, *Kapitał zagraniczny a transformacja sektora finansowego w Polsce* (*Foreign capital and transformation of the financial sector in Poland*, PWN, Warszawa 2001, p. 76; R. Pac, *Inwestycje zagraniczne w polskim sektorze bankowym i ubezpieczeniowym* (*Foreign investment in the Polish Banking and Insurance Sectors*), [in:] *Inwestycje zagraniczne w Polsce* (*Foreign Investment in Poland*), Warszawa 2002, p. 138.

This fundamental change in the proportionate share of banks controlled by foreign as opposed to Polish capital is directly connected with the liberalization of the flow of capital which grew out of the framework of Poland's obligations within the OECD.

A comparison of the number of persons working in companies with foreign capital with the overall number of persons employed in particular sectors of the economy demonstrates that 17,5% of the number of jobs in industry are offered by companies with foreign capital, including 20% of the number of jobs in the processing industry, while 13.1% of the jobs in the transport, storage and communication are offered by companies with foreign capital, 11.8% in hotels and restaurants, and 7.7% in trade and repairs. It is clear that these are significant numbers from the point of view of Poland's overall economy.

Table 7. Labour productivity in companies with foreign capital employing 10 or more persons in 2000 (according to the PKD classification)

Category	Income from all activities (in million PLN)	Number of employees	Income per single employee (in million PLN)
All business entities in the national economy (filing financial reports)	1,194,794.5	4,714,863	0.253
Companies with foreign capital	405,755.8	925,827	0.438
including:			
Agriculture, hunting, forestry	1,035.7	4,846	0.213
Industry	209,058.0	548,923	0.389
– Processing industries	204,795.1	535,323	0.383
Construction	11,527.0	25,996	0.443
Trade and repairs	122,812.3	160,575	0.764
Hotels and restaurants	2,611.4	26,642	0.098
Transport, storage, and communications	34,853.9	101,805	0.342
Financial intermediation	3,370.6	3,639	0.926
Real estate services	18,770.8	45,594	0.411
Education	146.0	576	0.253
Health and social care	104.3	1,028	0.101
Remaining service, communal, and social activities, as well as individual activities	**1465.8**	**6,203**	**0.236**

Source: GUS data and own calculations.

Available data concerning the **work productivity** (Table 7) and **wages and salaries** (Table 8) of companies with foreign capital enables us to make judgments about the qualitative effect of the inflow of foreign capital on the Polish labour market (Chojna 1999). In the years 1997–2000 the **productivity of companies with foreign capital**, measured in terms of overall productivity per single employee, **was twice as high as the average for all business entities in the overall Polish economy.** According to the PKD classification, productivity was especially high in companies of financial intermediation (764,000 PLN per single employee) as well as in trade and repairs (926,000 PLN per single employee). In comparison to the average indicator for all companies with foreign capital, the productivity in the EKD sections was 3–3.6 times higher.

Data concerning the average monthly wage or salary in companies with foreign capital, set forth in Table 8, indicates that in 1999 it was 1.4 times higher than the overall average Polish wage, and 1.5 times higher than the average Polish wage in the private sector.

Table 8. Average monthly gross salary or wage in Poland, according to ownership sector (in euros)

Category	1995	1998	1999 [a]
Total	220.4	314.2	401.5
Public sector	240.4	346.8	433.7
including:			
– state ownership	248.1	363.3	463.3
– local governmental units' ownership	198.3	289.8	366.4
Private sector	191.1	285.5	374.5
including:			
– Polish private sector	173.2	250.8	325.2
– Foreign sector	286.9	421.7	564.5

[a] – Data for 1999 includes obligatory payments for social security (retirement pensions and disablity) and is not comparable to the data for previous years.

Source: GUS data and own calculations.

Besides the direct effects of FDI on the Polish labour market discussed above, the inflow of FDI also brings about **indirect effects, both positive and negative.** Indirect positive effects include the creation of jobs in companies which cooperate with companies with foreign capital. It may be estimated that such a process is occurring in Poland in, for example, the production of transportation equipment in the automotive industry, where a number of Polish firms are included in cooperation networks with foreign companies and Polish companies with foreign capital. **In addition to the direct effects of FDI on the labour market, one may estimate the indirect effects to amount to approximately 20–25 % of the overall number of jobs created by companies with foreign capital.**

In addition, foreign investors generally have a large impact on the creation of so-called **human capital resources,** especially in lesser developed countries. This process occurs naturally via the training of employees to accomplish different, more complicated tasks, as well as through the constant process of professional education. According to preliminary data, large foreign investors are making concerted efforts to improve their human capital resources via training programs and sending workers abroad to the home corporations or foreign affiliates for additional training. This migration of workers among various firms enables the local firms in the host country to ensure that they have highly qualified employees at their disposition without the need to invest significant sums of money. It also modifies the environment in which the firms operate, primarily through the imitation by local firms of the models and methods of operation of their foreign owners and/or affiliates.

The **negative indirect effects** connected with the inflow of DFI into the Polish labour market appear when, as a result of competitive pressures, increased imports replace domestic production in the host country, forcing national firms out of business and thus eliminating jobs. The scale of this effect is difficult to estimate. The high, and rising, share of imports by countries with foreign capital in relation to overall Polish import, 60.7% in 2001 (Durka 2002), would seem to confirm the thesis that this phenomenon is presently taking place in Poland.

The above analysis concerns both overall DFI flowing into Poland as well as DFI coming from EU member states. As a result of the growing share of DFI from the EU in relation to overall DFI inflow into Poland, it may be assumed that EU foreign investors are playing and will continue to play a dominant role in creating jobs in Poland.

Case Study nr 1

PHILIPS POLSKA AND THE POLISH LABOUR MARKET

Philips Polska has been operating in Poland since 1991. In mid-2002 the Dutch concern Royal Philips Electronics – the largest European electronic company, operating on an international scale – was in 31st place on the list of the largest foreign investors in Poland, having invested a total of 363.8 million USD. According to its projected investment plans, it plans to invest a further 70.6 million USD.

The company possesses 8 plants in Poland: Philips Lighting Poland in Pile; Philips Consumer Electronics Industries Poland in Kwidzyn; Philips DAP Industries Poland Sp. z o.o. in Białystok; Philips Lighting Farel Mazury in Kętrzyn; Philips Lighting Bielsko Sp. Z o.o. in Bielsko; Philips Lighting Pabianice Sp z o.o in Pabianice; Philips Poland Sp z o.o. in Warsaw; and Philips Ferpol Sp. z o.o. in Skierniewice.

All told, Phillips has created 8,500 new jobs in its Polish plants. Gross sales in all Phillips companies totaled 5.9 billion USD in 2002, which was 1.7 billion USD higher than the previous year.

According to the ranking of the „500 Largest Polish Firms" contained in the Polish weekly news journal „Polityka", in 2001 the Philips Consumer Electronics Industries Poland Sp. z o.o. in Kwidzyn was located in 46th place, with a total revenue of 2,202,155 thousand PLN, a net profit of 110,267 thousand PLN, and employing 2,078 persons. 90% of its production is directed for export. In addition to this company, Philips Lighting Poland S.A. in Pile was in 79th place, employing 3700 persons, and Philips Polska Sp. z o.o. in Warsaw was in 167th place, employing 230 persons.

Source: A. Maciejewski, *Produkcja głownie eksportowa* (*Major export production*), „Rzeczpospolita", 14. 11. 2000; A. Maciejewski, *Produkcja rośnie, zyski spadają* (*Production rising, profits declining*), „Rzeczpospolita", 30.08. 2001; *Lista największych inwestorów zagranicznych w Polsce w pierwszej połowie 2002 roku* (*List of the largest foreign investors in Poland in the first half of 2002*), PAIZ, Warsaw, 2002; Pięćsetka Polityki '01 (Five hundred, „Polityka" companies), supplement to No. 18, 2002.

Case Study nr 2

STATOIL'S INVESTMENT IN POLAND

The Norwegian oil company Statoil has invested a total sum of 300 million USD into Poland since 1992, placing it in 48th place on the list of the largest foreign investors in Poland in mid-2002. Its projected further investment – 100 million USD. Statoil owns a network of 131 petrol stations in Poland, located in 80 cities. It both builds new stations from scratch on purchased land and purchases and modernizes older stations. **Statoil employs 1,665 persons in Poland.** It held 57th place in the "Polityka" ranking.

Sources: A. Maciejewski, *Sto stacji w siedem lat (One hundred stations in 7 years*), „Rzeczpospolita" 2.02.2000; Statoil Polska, www.statoil.pl; *Lista największych inwestorów zagranicznych w Polsce w pierwszej połowie 2002 roku* (*List of the largest foreign investors in Poland in the first half of 2002),* PAIZ, Warsaw, 2002; *Pięćsetka Polityki '01* (*Five hundred, „Polityka" companies*), supplement to nr 18, 2002.

Case Study nr 3

DELPHI'S INVESTMENT IN POLAND

The American company Delphi has invested 150 million USD in Poland, placing it in 70th place on the list of the largest foreign investors in Poland. It plans a further investment of 30 million USD. **Delphi employs 4,700 workers in five production plants and in its Technical Center in Krakow.** Delphi Automotive Systems produces car parts and accessories and cooperates with companies such as Fiat, GM/Opel, and Isuzu. The first Delphi plant in Poland was a plant building electric bundles or quads in Jeleśnia. Now operating as Delphi Automotive Systems Poland Sp. z o.o., it occupied 189th place in the „Polityka" ranking, employing 2,747 persons. It built a plant from scratch in Tyche, in the Katowicki Special Economic Zone, for the production of hydraulically assisted steering mechanisms, components for axle shafts. drive shafts with the ABS system, and joint elements. **The plant employs 200 persons.**

Sources: A. Maciejewski, *Nie tylko dla Opla* (*Not for Opels only*) „Rzeczpospolita" 15.03. 2001; *Lista największych inwestorów zagranicznych w Polsce w pierwszej połowie 2002 roku (List of the largest foreign investors in Poland in the first half of 2002*), PAIZ, Warsaw, 2002; *Pięćsetka Polityki '01* (*Five hundred, „Polityka" companies*), supplement to nr 18, 2002.

Conclusions

1. Many of the countries undergoing economic transformation from centrally-planned to free-market economies experienced high trade deficits in the initial period of ownership transformation, in part owing to the predominance of import in the economic activities associated with foreign investment, which in turn exercised a negative effect on their labour markets. Subsequently the trade deficit was incrementally reduced as the share of firms with foreign capital in overall export began to increase and the overall national economies increased their capacities to bring in and handle foreign investment. This increase in exports and reduced trade balance had the effect of creating new jobs.
2. The above-described trends were evident in the Polish economy as well throughout the period of economic transformation and EU integration. In the 1990's one could observe an increase in the trade deficit with the EU, which brought with it the loss of approximately 1,500,000 jobs in Poland. Beginning with the turn of the new century this situation began to improve as a result of the growth in exports, particularly by firms with foreign capital, and the situation in the Polish labour market improved accordingly.
3. From the point of view of the host country, employment issues are among the most important aspects in reviewing the activities of transnational corporations. Countries undergoing systemic transformation and structural changes expect the activities of transnational corporations to result in increased jobs and improvement in their labour market situations. Nevertheless the experiences of various countries suggest that transnational corporations engaging in foreign investment create new jobs in host countries in a selective and „economical" manner.
4. In terms of creating jobs in Poland the activities of transnational corporations, and the effects thereof, do not differ from overall global trends. The share of transnational corporations in overall job creation is significantly less that their share in total revenues. As a result it may be concluded that the social effects of the activities of transnational corporations, understood in terms of cushioning the effects of unemployment and the creation of new jobs, are weaker than their economic effects, understood as their position and strength in the national economies of the host countries.

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