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THE IMPACT OF FOREIGN DIRECT INVESTMENT ON THE POLISH LABOUR MARKET IN THE CONTEXT OF THE EU ENLARGEMENT

1. Foreign Direct Investment and the Labour Market in the Context of the EU Enlargement

The impact of foreign direct investment (FDI) on the labour market of a host country is diverse. The scope of that direct and indirect impact (quantitative, qualitative and locational) depends on several factors. The most important are (Witkowska 2000, pp. 647–668):

– the volume of FDI and the way the investor embarks on the host market, i.e. the form of investment (fusions, takeovers, greenfield investments),

– the sector / branch structure of foreign investment,

– strategies of transnational corporations, together with the extent to which they replace home production with the production of the whole transnational, and the extent to which they cooperate with local companies,

– the host country's policy concerning FDI (which should aim at supporting the positive impact of FDI on the labour market).

The FDI impact on the labour market is different when the host country participates in the process of the EU enlargement (Witkowska 2001, pp. 122–128). The accession to the customs union may stimulate not only additional investment from third countries but also investment seeking best localisation in the integrating area. Accessing to the customs union results mainly in the creation and movement of investment. Changes within the integrating area trigger companies' reactions such as defensive investment instead of import, offensive investment instead of import, investment in reorganisation and rationalised investment.

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The process of forming a single internal market makes companies face the vital issue of reorganising their production in order to boost their competitiveness. Removing physical, technical and fiscal barriers makes that reorganisation even more urgent in the context of the customs union. Characteristic features of a given industry also influence that process. In the 'developed' branches of industry, the countries abounding in semi-qualified or general labourers may attract new efficiency seeking investment. In technologically intensive industries, which seek qualified engineering and, potentially, researchers working on innovation processes, such type of production may be moved to more economically developed areas.

Consumer preference and barriers within a company also influence the reorganisation process. Differing consumer preference, as well as linguistic and psychological barriers, helps to maintain the segmentation of national markets. It results in the 'presence effect', when a transnational corporation feels a need to keep its branch offices on national markets and to stay close to the customer. Consumer preference and required modification of a product may inhibit the reorganisation of production in transnationals at the European scale.

The formation of a single internal market demands that transnational corporations reorganise their production in a much deeper way than in the case of the customs union. It means that employment can be reduced in some host countries and increased in others, because of moving production to better localisations. While the whole integrating area may suffer a slight reduction of employment, that reduction may be radical in individual countries which close their branch offices and consolidate transnationals' activities. If these countries offer advantageous localisation however, employment may increase.

It can be estimated that the European integration process forces transnational corporations to accelerate the process of replacing the stand-alone strategy with the strategy of simple and deep integration[1]. In less developed countries direct investment, seeking new sources of effectiveness, may result in an increase of the labour-absorbing FDI and an employment of semi- and less qualified labourers. Such investment may eliminate local companies (local alternatives of using labour force) from the market; generally though they create more jobs. Obviously, the localisation advantage created by the lower cost of labour factor disappears when salaries increase. Activities aiming at the free movement of persons within the single internal market will help to equal the labour factor cost in the EU. Nevertheless, taking into account that workers' migration is limited by cultural, institutional and territorial factors, this equalisation will be neither easy nor fast. The resultant of the impact of those opposite forces will push foreign investors into subsequent reorientations of activity.

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[1] For those strategies, see: *World Investment Report 1994. Transnational Corporations, Employment and the Workplace*, New York and Geneva: UN, 1994.

As for investment in technologically intensive industries aiming at their access to innovation and human resources, quantitative impact on employment may be concentrated in some places within the integrating area. Such investment also produces indirect results such as dissemination of knowledge; it triggers learning processes among labourers. In case investments in technologically intensive industries take place in a less developed country of the integrating area (which seems probable), they usually have no real domestic alternatives. They rather create jobs than reduce them in the host country. Since investments in technologically intensive industries tend also to be capital-absorbing, the quantitative impact on employment may be limited.

Out of the predicted results of introducing the economic and monetary union, foreign investors will appreciate the reductions in the cost of transaction owing to the common currency and in the cost of gaining capital due to decreasing interest rates and gradual convergence of inflation rates in order to attain the lowest ones within the EU. Foreign investors from third countries who embark on the monetary union will profit (just as local producers) from the above-mentioned results. This may stimulate additional investment in the integrating area.

The impact which the activities of transnational corporations have on employment within the integrating area will still be influenced by the above-mentioned results of integration. It seems that saving on cost of transaction will also stimulate direct investment within the EU. Such a tendency has already been observed in the single internal market. It means that the potential effect of 'moving jobs' into the monetary union will be intensified at the cost of third countries, provided favourable conditions (the branch structure of FDI and the way the foreign investor embarks on the common market).

To sum it up, participating in the integration processes seems to reinforce the positive FDI impact on the labour market.

2. The Influence of Foreign Direct Investment on the Polish Labour Market in the Pre-accession Period

There has been a continuous inflow of foreign capital in the form of foreign direct investment (FDI) in Poland since 1992. No sooner than in 1996 though that inflow was significant enough to enable Poland to surpass Hungary and the Czech Republic in the annual streams of FDI. The NBP (National Bank of Poland) data, included in the UNCTAD report, show that until the end of 2001 direct foreign investment in Poland amounted to 42.4 billion USD, while the annual stream of FDI that year amounted to 8.8 billion USD[2]. For the first time

[2] *World Investment Report 1994. Transnational Corporations and Export Competitiveness*, New York and Geneva 2002, p. 305, 313.

The data above can be completed with the statistics compiled by the GINB (General Inspectorate of Banking Supervision), concerning employees of commercial banks. It demonstrates that banks with dominant foreign capital employed 63.4 thousand people in 2001, which makes a 3.6-times rise in employment compared to 1998. It was not only related to creating new jobs but rather to moving some part of employment from 'the sector of banks with dominant Polish capital' to 'the sector of banks with dominant foreign capital'. In the same year the number of those employed in banks with dominant Polish capital amounted to 86.2 thousand and was 1.5-times smaller than in 1998 (see Tab. 3). This important change of ratio must have resulted from the liberalisation of the flow of capital in order to meet the liabilities towards the OECD.

Table 3. Number of employees[a] of commercial banks

Specification	1993	1994	1995	1996	1997	1998	1999	2000	2001
Banks with dominant Polish capital	119045	127708	134048	129102	130 823	131266	86 199	59 821	57 774
Banks with dominant foreign capital	688	997	2000	15 099	16 272	17 801	63 439	84 416	81 050

[a] Measured as full time employment

Source: the GINB data, quoted after: K. Dąbrowska, M. Gruszczyński (2001, p. 76; Pac 1999, p. 35).

Comparing the number of employees in companies with foreign capital with the total employed in economy proves that those companies provide 17.5% of total employment in industry, 20% in industrial manufacturing, 13.11% in transport, storing business and communication, 11.8% in hotel industry and catering trade, 7.7% in commerce and repairs. These are obviously significant shares in the context of the whole economy.

Available data concerning productivity of labour factor (Tab. 4) and salaries in companies with foreign capital (Table 5) help to complete – with qualitative elements – the description of the impact of FDI on the Polish labour market (Chojna 1999, p. 35). In 1997–2000, productivity in companies with foreign capital, measured as total activity income per employee, was twice as high as the average of all Polish enterprises. In the cross-section of the section of the PCA, productivity was particularly high in financial intermediation companies (0,764 million PLN per employee) as well as commerce and repairs (0.764 million PLN per employee). Compared with the average indicator for all companies with foreign capital, productivity of labour in those sections of the ECA (European Classification of Activity) was 3–3.6-times higher.

Table 4. Productivity of labour factor in companies with foreign capital employing 10 or more people in 2000 (according to the PCA classification)

Specification	Total activity income (millions PLN)	Number of the employed	Income per employee
Total enterprises in national economy (sending in their balance sheets)	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
industrial manufacturing	204 795.1	535 323	0.383
Building industry	11 527.0	25 996	0.443
Commerce and repairs	122 812.3	160 575	0.764
Hotels and catering	2 611.4	26 642	0.098
Transport, storing, communication	34 853.9	101 805	0.342
Financial intermediation	3 370.6	3 639	0.926
Real estate service	18 770.8	45 594	0.411
Education	146.0	576	0.253
Medical and social services	104.3	1028	0.101
Other services, municipal, social and individual activities	1465.8	6203	0.236

Source: As same as Tab. 1.

The data concerning the average salary in companies with foreign capital in 1999, presented in Tab. 5, were 1.4-times higher than total salaries in Polish economy and 1.5-times higher than in the private sector.

Table 5. Average gross salary in Poland, according to property sectors (euro)

Specification	1995	1998	1999[a]
Total	220.4	314.2	401.5
Public sector including property:	240.4	346.8	433.7
state	248.1	363.3	463.3
local authority	198.3	289.8	366.4
Private sector including property:	191.1	285.5	374.5
private domestic	173.2	250.8	325.2
foreign	286.9	421.7	564.5

[a] The 1999 data involve obligatory social security contributions (pension, retirement pension and sick pay); the 1999 data cannot be compared with the data concerning preceding years.

Source: As same as Tab. 1.

Apart from the above-mentioned direct impact on the labour market, the inflow of FDI has also the indirect – positive and negative – impact. We can observe the positive indirect impact when, due to the inflow of FDI, new jobs are created in companies cooperating with those with foreign capital. It can be estimated that such an impact takes place e.g. in production of means of transport (car industry), where Polish companies join cooperation networks. To that direct qualitative impact we can add the indirect impact of 20–25% of total jobs created by companies with foreign capital.

Moreover, foreign investors help to a great extent to create the so-called human capital, especially in less developed countries. Continuously improving their qualifications, employees are trained to perform new, more complicated tasks. According to available data, foreign employers invest in Polish human capital for instance by offering training schemes and sending employees to parent or associated companies abroad. The migration of employees between companies provides local enterprises with already qualified staff, so that they do not have to incur expenditure. Company environment has also been changing: local companies adapt to the standards of their foreign counterparts.

The inflow of FDI in the Polish labour market has the negative indirect impact when the pressure of foreign investors' competition and their excessive import replacing domestic production eliminate local companies and thus reduce jobs. This result is difficult to estimate. The continuously increasing share of foreign companies' import in total Polish import (60.7% in 2001) (Durka 2002, p. 60) seems to confirm such a scenario.

The above analysis refers to total FDI in Poland, FDI from the EU included. The EU investors take a vital part in job creation since they increasingly contribute to total FDI in Poland.

3. Foreign Direct Investment and the Polish Labour Market in the Context of Poland's Accession to the EU – Projection of Results

The experience of the EC member states demonstrates that subsequent accession waves and wider integration have entailed two basic phenomena: the creation and moving of investment, both significant for the labour market. Less developed countries such as Portugal and Spain used to attract investment which was evident in the absolute increase of the FDI streams from other member states and the increase of their share in total FDI of those two countries. Other states such as Ireland began to attract third-countries investors, e.g. American ones. Those countries used to have a big unemployment rate (Ireland and Spain in particular) and eventually won the difficult struggle against it. Foreign investment played an important role in helping to overcome that problem.

It can be expected that Poland's accession to the EC will entail the results similar to those in less developed member states in the process of the EC enlargement. Poland would then be able to participate in the creation and moving of investment since after accession it would strengthen its localisation advantages and become more attractive for foreign investors from the EC member states and third countries. The scope of stimulation of the FDI streams and the subsequent benefit for the labour market will nonetheless depend on the GNP growth rate. The correlation between the FDI streams and the GNP growth is widely known. In highly developed countries, in the long term, the period of the 1% increase (or decrease) of real GNP was accompanied by the 3.4% increase (or decrease) of real FDI (Julius 1990, pp. 28–29). In the case of a less developed country, that correlation may slightly differ, yet undoubtedly the multiplier mechanism working up and down gets activated.

Supposing that the economic growth in Poland continues to go up (which is possible), we can expect that the annual inflow of FDI will amount to 9–10 billion USD. Since privatisation opportunities are expiring, most of that would be greenfield investment creating tens of thousands of new jobs a year. The case studies preceding my analysis in this book prove that foreign investors already settled in Poland make further investment plans which should in result create more jobs. To this number one should add jobs created (or maintained) around companies with foreign capital (approximately 40% of the number of those companies' employees). One should however keep in mind the possibility of eliminating local companies from the market (due to increasing competition) and of reducing jobs due to that process.

The EU budget for 2004–2006 includes financial means for structural activities which can play a vital part in modernising farms and in revitalising rural regions. A coherent state policy and an immense organisational effort to attract and effectively use the financial means from the EU budget will be the condition *sine qua non* for the improvement of the situation in agriculture and rural areas.

As a result of the negotiations in the "Agriculture" domain, Poland gained more favourable conditions that those initially offered by the European Union; unfortunately, some of its essential postulates were rejected. Thus both during the transition period, i.e. 2004–2006, and in subsequent years, Polish agriculture will have to change a lot in order to become comparable with and to compete with the agriculture of the EU countries.

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BEZPOŚREDNIE INWESTYCJE ZAGRANICZNE A RYNEK PRACY W POLSCE

Wpływ bezpośrednich inwestycji zagranicznych (BIZ) na rynek pracy kraju przyjmującego może być bezpośredni lub pośredni, przy czym zależy on od wielu czynników o charakterze ilościowym, jakościowym i terytorialnym. Szczególnego znaczenia nabiera zależność pomiędzy BIZ a rynkiem pracy kraju uczestniczącego w procesie integracji europejskiej. W artykule przeprowadzona została analiza poziomu i struktury zatrudnienia według ważniejszych branż w przedsiębiorstwach z udziałem kapitału zagranicznego na tle pozostałych przedsiębiorstw w Polsce w latach 1993–2001 z próbą określenia spodziewanych efektów w zakresie strumieni BIZ po wejściu Polski do Unii Europejskiej.