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ROLE OF FOREIGN DIRECT INVESTMENTS IN SHAPING LABOUR MARKET IN WARMIA AND MAZURY VOIVODSHIP

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Key words: foreign direct investment, labour market, multiplying effects.

Abstract

Foreign direct investment plays a significant role in shaping social-economic development of the host country and its particular regions by influencing whole economy, i.e. in the field of finances, technologies, competitiveness, employment and natural environment. Regionally, the crucial meaning has direct and indirect impact on labour market, which is even more extended by multiplying effects. Specific impact depends on many factors, i.e. ability of the region to adopt these effects by creating regional and local linkages, and strategies of enterprises with the share of foreign capital. These enterprises in Warmia and Mazury region are operating mainly in production and trade sections and can cooperate with many other units operating in the region. Positive impact is extended by export, but reduced by import. Among surveyed group of entrepreneurs, every forth declared to export own products, and every third to import. Production companies took considerable part in regional export, but they also imported a lot, while trade companies contributed to the import increase by purchasing abroad commodities for sale.

ROLA BEZPOŚREDNICH INWESTYCJI ZAGRANICZNYCH W KSZTAŁTOWANIU RYNKU PRACY W WOJEWÓDZTWIE WARMIŃSKO-MAZURSKIM

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Słowa kluczowe: bezpośrednie inwestycje zagraniczne, rynek pracy, efekty mnożnikowe.

Abstrakt

Bezpośrednie inwestycje zagraniczne odgrywają ważną rolę w kształtowaniu rozwoju społeczno-gospodarczego na poziomie kraju i poszczególnych regionów, wpływają na gospodarkę, np. w zakresie finansów, technologii, konkurencyjności, tworzenia powiązań i relacji z miejscowymi podmiotami, zatrudnienia czy środowiska naturalnego. W skali województwa decydujące znaczenie ma bezpośrednie i pośrednie oddziaływanie tychże inwestycji na rynek pracy, zwiększane przez efekty mnożnikowe. Wpływ ten zależy od wielu czynników, w tym zdolności regionu do przyswajania efektów mnożnikowych przez tworzenie regionalnych i lokalnych powiązań oraz strategii handlowej przedsiębiorstw z kapitałem zagranicznym. Przedsiębiorstwa zasilane przez kapitał zagraniczny w woj. warmińsko-mazurskim działają przede wszystkim w sekcji produkcyjnej i handlowej, w ramach których możliwe jest nawiązanie współpracy z wieloma innymi podmiotami gospodarczymi w regionie. Pozytywne oddziaływanie jest zwiększane przez eksport, a redukowane przez import. Wśród badanej grupy przedsiębiorstw co czwarte eksportowało wyroby, a co trzecie importowało. Do wzrostu eksportu najbardziej przyczyniały się spółki produkcyjne, które jednocześnie najczęściej importowały, spółki handlowe natomiast przyczyniały się do wzrostu importu towarów przeznaczonych do sprzedaży.

Introduction and methodology

The social-economic development of each region, and following eligible changes in the labour market, depends mainly on the scale and type of investment made within. Foreign direct investment (FDI) can be a favourable solution for the lack of capital accumulated by local or national entrepreneurs. According to the UNCTAD definition, FDI is defined as investment involving long-term relationship and reflecting a lasting interest and control of resident entity in one economy (parent company) in an enterprise resident in an economy other than that of FDI investor (*World Investment Report...* 1995, p. 383).

World economists, such as K. Kojima and T. Ozawa, assume on the base of own empirical studies that FDI causes number of positive changes in the host country economy and supports its social-economic development (KOJIMA 2000, pp. 375–401, OZAWA 1992, pp. 27–54). According to the investment development path (IDP) theory formulated by John H. DUNNING (1995, pp. 1–12), the economic development of a given country is strictly related to foreign investments, i.e. the inflow and outflow of investment capital. The model country should undergo five development stages, related primarily to the tendency to be an importer and exporter of FDI. This tendency depends on the investor's ownership advantages, the localisation advantages of the host country as well as on the advantages that the investor will acquire through the business *internalisation* process. At stage 1, internal FDI are made on a small scale, since the country is missing localization advantages and the only incentive are natural resources, for example, raw materials (so-called "fruits of the earth") as well as unqualified workforce. Internal investments increase along with GNP growth, which are not balanced with external investments due to sporadic ownership advantages of family businesses. Stage 2 begins with an increase in internal direct investments, resulting from a growing tendency on the market for foreign products' stage 3 is characterized by a gradual decrease in the growth rate of internal investments as well as by an increase in the growth rate of external investments. The economy reaches stage 4 when external investments exceed or equal internal investments and the growth rate of external investments exceeds that of internal investments. Stage 5 is characterized by the level of net external foreign direct investments fluctuating around zero. This is a scenario for industrially advanced nations. At this stage, companies globalize and their nationalities fade. Particular organizations act like mini-markets since they are based on a broad network of international agreements of cooperation. Stage 1 is typical of countries at a low level of economic development. Countries reach stage 2 and 3 as the GNP increases and the system changes. These stages are characteristic of countries in the transition phase. Stage 4 and 5 is achieved by highly developed economies, such as the United States and Japan (ŹRÓBEK et al. 2007, pp. 163–164).

FDI inflow shapes regional labour market; not only in the number of workplaces, but also in their quality. According to the relevant literature, FDI increases the regional employment directly by creating workplaces within the enterprise with foreign capital; or indirectly by stimulating the increase among collaborators (Fig. 1). This possibility does not mean that all companies gaining foreign capital will realise such employment increase. Indeed, acquired and restructured companies can sustain previous number of workers. In contrast, foreign investors through cost rationalization sometimes reduce employment. The same situation occurs when affiliate is closed down or competitors are being crowded out (*World Investment Report*... 1995, pp. 166–214). Not surprisingly, therefore, the presence of foreign capital raises the anxiety among workers and public opinion. Labour unions then demand the agreement on employing all workers of acquired company for indeterminate period (DZIEMIANOWICZ 1997, p. 136). Other significant contribution of FDI to labour market is introducing new quality by changes in wages, ways of human resource management, systems of motivations, standards or safety.

Concerns also arise about the impact of FDI on employment in other domestic firms, both collaborating and competing (*World Investment Report*... 1995, p. 166–214). Establishing, developing or reducing/closing activity leads to changes in income and employment in linked enterprises and is called "multiplying effect". It can be of two types: deriving from enterprise's with foreign capital demand, which enables the development of local/regional suppliers of goods and services; and from money earned by labourers and spent on goods and services provided by local/regional companies (*Dziesięć lat doświadczeń*... 2005, pp. 89–128). The researches conducted by Polish scientific units revealed that companies mainly seek for service suppliers in the same region, then country, and at last abroad. At the same time, resources of products and merchandises can be more diversified, and multiplying effects decrease with increasing marginal tendency to import. Nevertheless, there are signs that export orientation favours enterprise's development and increase its tendency to creating local/regional/national cooperation networks. According to J. WITKOWSKA (2000, pp. 652–656), real impact of FDI depends on strategies chosen by corporations: where they seek for suppliers and buyers, do they compete or collaborate with other local/regional business units.

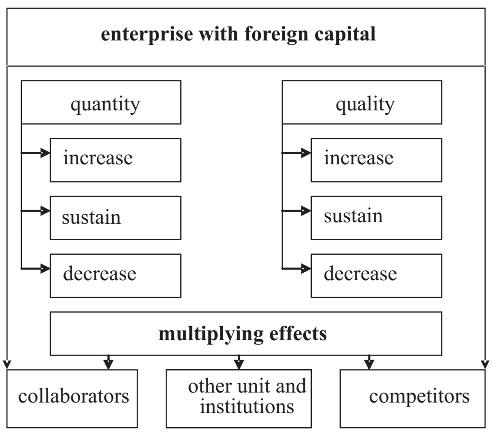

Fig. 1. Impact of the eterprise with the share of foreign capital on labour market in host country
Source: Own studies.

What determines whether or not FDI influence positively host country's labour market are mainly: the intensity of competition or collaboration, linkages between foreign affiliates and domestic suppliers and buyers, the type of activity, size and characteristics of company. Adopting positive effects requires abilities of local business units, what depends on the level of development and economy structure and also local authorities activities (*Dziesięć lat doświadczeń*... 2005, pp. 89–128). Although some evidence can be noticed that FDI also does provide some transfer of skills, expertise and knowledge, data on overall extent of such effects are scarce.

Warmia and Mazury voivodship is considered to be one of the less developed regions in Poland, characterised by various social and economical problems, i.e. permanent structural unemployment. Nevertheless, strengths of this region include presence of large domestic and foreign companies, and chances – economic development through increase of investment attractiveness and export competitiveness (*Konkurencyjność Warmii i Mazur*... 2005).

The aim of this article is to present potential influence of FDI on labour market of Warmia and Mazury voivodship, including multiplying effects and the role of supply-trade politics of the companies with the share of foreign capital. To reach this aim following method was applied: sectoral analysis of companies with the share of foreign capital[1] operating in the voividship and valuation of potential linkages. Moreover, some information on trade orientation declared by the group of these companies in not published declarations fulfilled for Statistic Office was analysed.

Potential influence of FDI on labour market of Warmia and Mazury voivodship – results

FDI does not mean only flow of capital, but also other production agents, such as technologies, management and marketing skills. It can be assumed that whole production set is being transferred, and capital *sensu stricte* is only crucial part (CYRSON 1981, p. 157).

Foreign capital in the form of FDI is considered to be relatively the most advantageous and safe form of foreign investment in host country because of its long-term perspective, stability, and rather mild reactions on short-term fluctuations on international finance markets (SZCZEPAŃSKA, TYMOCZKO 2005, p. 5). Moreover, "sunk costs" lead to difficulties in irreversibility of such investment (KARASZEWSKI 2004, p. 22).

Attracting foreign capital is often accompanied by expectations for regional development. W. KARASZEWSKI (2004, p. 22) named, among others, following anticipated effects: domestic capital stock supplementation, economy modernization and spill-over of modern solutions, improvement of export competitiveness, and decline in unemployment (direct and indirect impact on quantity, quality and localization). At the same time he underlined some concerns related to investment, such as production assets exploitation, crowding out domestic companies by strong competition, substitution of national production and import.

In 2006, almost 110 000 business units were operating in Warmia and Mazury region, and they consist of individual economic activities (75%), partnerships (11%) and other legal forms (*Zmiany strukturalne*... 2006). Some

[1] Registered in regional register REGON, June 2006.

of them had the share of foreign capital. First company with the share of foreign capital was registered in 1982. The number of companies with the share of foreign capital was slowly increasing during next seven years, and with the beginning of transition in Poland started rising systematically (Fig. 2.).

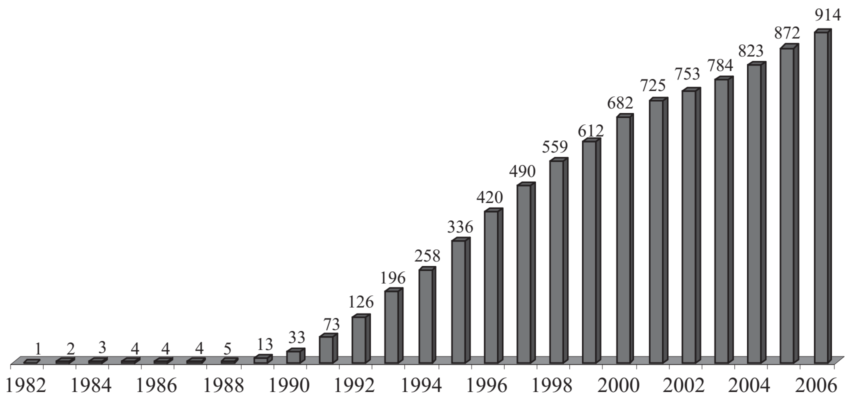

Fig. 2. Number of companies with the share of foreign capital registered in Warmia and Mazury voivodship in 1982-2006
Source: Own studies based on data from REGON.

The majority of companies were employing less than 10 workers (78%), and companies employing over 50 workers made only 8%. Every third company with the share of foreign capital was operating in the section "D" of Polish Activity Classification (PKD) called "wholesale and retail trade" repairs of automotive vehicles, motorcycles and articles of personal and household use', among which 70% were aggregated in wholesale trade. Companies from this section have considerable impact on labour market: contracts with local producers increase their incomes and motivate to employ new workers. But, if foreign affiliates purchase goods and services produced abroad, they can even decrease local producers' incomes and force them to cut down on production costs, for instance by employment reduction.

Processing industry (section D), with 28% companies with the share of foreign capital operating, was second important PKD section. In this branch, the majority consists of producers of food, wood and wooden products, furniture and metal products. This section can also create many local and regional linkages if producers choose local suppliers and buyers (Tab. 1). Analogically to trade section, decision on purchasing materials and components on local/regional/host country's market leads to multiplying effects.

Significantly smaller number of investors (less than 10%) chose other sectors of business activity, such as agriculture, business services, hotels and restaurants or construction. Considered as a group of small importance they were purposefully omitted in this paper.

Aggregation of foreign investors in production and trade sector is quite convergent with economic characteristic of Warmia and Mazury voivodship. According to GUS, in 2007 over half employees (57%) in the region was working in processing industry, and 20% in trade and repairs. Less then 10% workers were employed in construction and business services, while the share of hotels and restaurants and other sections was marginal.

Table 1

Potential regional and local linkages of companies from section D

Section D	Share (%)	Potential goods and services suppliers	Potential buyers
Food and beverages	19	agriculture and hunting, food and beverages, machinery, recycling, energy, water and gas, repairs, transport, finances and insurance, waste, other	food and beverages, wholesale and retail trade, hotels and restaurants
Wood and wooden products	15	forestry, wood and wooden products machinery, recycling, energy, water and gas, repairs, transport, finances and insurance, waste, other	furniture, wholesale and retail trade, construction
Furniture and other	12	wood and wooden products, textile, metal, synthetic, machinery, recycling, energy, water and gas, repairs, transport, finances and insurance, waste, other	wholesale and retail trade

Source: Own studies.

It should be taken into consideration that many companies with the share of foreign capital participate in international networks, what means international scale of linkages. Although introducing foreign capital to the enterprise can result in replacing local suppliers with import and have negative impact on local labour market by decreasing internal demand, operating within international network increases export ability and enables bigger scale of production with more workers.

According to surveys conducted periodically by Statistic Office in Olsztyn over the sample of companies with foreign capital, in 2004 every third company imported, every fourth one exported products, every sixth one exported commodities or materials, and every tenth one exported services (Tab. 2).

Interesting information can be drawn with sections D and G – there is a high sectoral concentration of export production. Almost 70% production companies, while only 6% trade companies exported products for sale. Every fourth production and trade enterprise exported commodities and materials, considerably less number exported services. Due to value: 99% of export was done by production companies, among which 23% were exported to mother company. While taking into consideration export of commodities and materials, significant share of trade companies can be noticed, however, it is still under the level of production companies (Tab. 2).

Table 2

Share of section D ang G in international trade

Export	% total	Share of section D	Share of section G
Products	100.0	99.0	0.3
to mother company	23.4	23.0	0.0
Commodities and materials	100.0	64.8	34.1
to mother company	11.6	17.2	x
Services	100.0	91.1	1.5
to mother company	24.1	x	x
Import			
Total	100.0	84.3	14.7
Resources, materials and semi finished goods for production	68.5	80.5	1.3
Commodities for sale	24.7	11.6	97.5
From mother company or dependent units	21.0	20.5	x

x – Secrecy of statistics.
Source: own studies based on data from Statistic Office.

Data presented in Table 2 can give a rough idea about the extent and sectoral pattern of import in 2004. Every third surveyed company imported, and the majority of them were operating in production section. More than half of surveyed enterprises did not purchase goods from potential suppliers from Warmia and Mazury, but abroad, including mother company and dependent units. This supply strategy does not increase number of workplaces in the region because regional demand is not generated. Leading importers came from section D (84.3%). Taking into consideration all importers, almost 70% spent their money abroad on resources, materials and semi finished products, and almost 25% on commodities for trade. Almost half of trade and repairs companies imported, mainly commodities for sale.

Summary

Foreign direct investment results in establishing new enterprises or reinforces already existing with capital by acquiring shares[2] and creates or reduces workplaces. Apart from number, foreign capital inflow influences the quality of workplaces. According to literature, FDI has direct impact on employment in the company or indirect while changing number and quality of employment among collaborators.

Indirect impact is related to multiplying effects. Supply effects depend on abilities of local companies to fulfil the demand of companies with the share of foreign capital and tendency to import. The largest group of FDI in Warmia and Mazury voivodship was operating in trade and production section. These sections usually create many linkages with suppliers and buyers operating in the region. However, in the sample separated by Statistic Office, every third company, mainly from production sector, decided on import. Thus, companies operating in the sector able to acquire in the region, decided to import resources, materials and semi finished goods for production purposes. Every third company imported commodities for trade. But, every fourth company with the share of foreign capital exported owns products, every sixth exported commodities or materials, and every tenth exported services. It should be noticed, that such acquisition strategy (high tendency to import and low to create regional and local linkages) did not contributed to the increase of workplaces in the region or have negative indirect impact on labour market. On the other hand, companies with the share of foreign capital contributed to export increase, which could be accompanied by increase of number of workplaces.

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[2] According to National Bank of Poland foreign investor needs to own more than 10% shares in Polish company to be classified as FDI.

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