Multinational Enterprises Programme

Working Paper No. 44

The employment impact of multinational enterprises in Greece, Portugal and Spain

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International Labour Office Geneva

ISBN 92-2-105680-5

First published 1987

Printed by the International Labour Office, Geneva, Switzerland

PART I: EMPLOYMENT IN MULTINATIONALS

The approach taken in this study is to examine individual investments at the micro level. Both parent firm and local affiliate were interviewed wherever possible. External information was also utilised to check on statements or to provide objective rather than subjective information (e.g. on tariff levels).

Any such investigation is bedevilled by the existence of the "alternative position" problem. This is the difficulty of estimating what would have happened if the foreign investment had not taken place. Two immediate issues which arise from this are displacement of local projects and the competitive impact of inward investment.

The displacement controversy is centred on the probability that a local project would have emerged in the absence of the foreign direct investment. This is least likely in high technology areas where local firms do not have access to the knowledge required. It is more likely where standard technologies and skills, including management and marketing skills are employed. This issue is bound up with the "capital-intensity problem". The argument here is that multinationals create fewer jobs in less developed host countries because they employ techniques which are capital-intensive rather than labour-intensive (Emmanuel, 1980). The implicit assumption is that a more labour-intensive "local" project is a feasible alternative. If the alternative were no project at all (nil displacement) then any employment created by the foreign investor would be net employment creation. Evidence from the United Kingdom shows that labour-intensity is on average one-third higher in domestically owned enterprises than in foreign multinationals and only in one industry, instrument engineering, are foreign multinationals more labour-intensive (Buckley and Enderwick, 1985).

The employment impact of inward direct investment is alleged to depend on the mode of entry chosen by the multinationals. A "greenfield" entry on a new site can be seen to increase employment immediately and to add to the number of competitors in the industry. A takeover of an existing firm (or part of a firm) may actually reduce employment in its immediate effect and may reduce the number of competitors by taking out a local firm and possibly ending imports. It may be, however, that the difference in the employment impact of greenfield ventures versus takeovers is not as great as *a priori* thought might suggest. The capital which the owners of the taken-over facility acquire may be used to invest in further employment-creating activities. Often this is difficult to trace and to estimate, but conceptually it should not be ignored (Buckley, Hartley and Sparkes, 1979).

In addition to direct or internal employment creation or displacement, inward foreign investment will have external employment-creating effects. Indirect positive effects arise from subcontracting, transport services, demand for other services, for marketing facilities, for (government) infrastructure, from construction expenditure and from reinvestment of funds received as a result of a takeover by a foreign entrant. Negative external effects can arise from replacement of host country suppliers by foreign suppliers after foreign entry.

Recent theoretical work in the theory of location suggests that factor substitution, i.e. switching between capital-intensive and labour-intensive techniques has a very limited role in the location of production (Casson, 1984). Consequently, comparative labour costs become very important. If capital is mobile, then the crucial allocation decision is that of labour between industries. As this differs at different locations, it will be a

prime determinant of the pattern of international production. Second, increased specialisation as a result of technical progress in reducing transport costs, increasing the potential for economies of scale and extending the division of labour is more important than factor-saving advances in production. Thus the potential for international relocation and vertical integration is greatly increased. Third, new products are likely to be supplied on a monopolistic or oligopolistic basis. Because of restricted access to proprietory knowledge, barriers to entry strengthen the hold of vertically integrated multinationals (Casson, 1985).

Summary

In the case of the impact of multinationals on employment in the home (source) country, we can expect certain regularities which suggest that one alternative position assumption is the most appropriate in a certain case.

(1) Where there is no other way of servicing the particular host country market, then reverse classical assumptions apply. Such defensive investment will occur where tariffs, quotas or other restrictions prevent imports to the market, where a presence is required in order to penetrate the market (e.g. a large service element, the necessity to adapt the product to local conditions) and where transport costs rule out exporting.

(2) The situation where firms invest abroad in order to exploit resources which are not available in the source country requires the use of the reverse classical or anti-classical assumption.

(3) Investments designed to capture cheap labour may be regarded as substituting for investment and therefore jobs at home in the short run, requiring classical assumptions. In the long run, it is arguable that such investments increase jobs in the source country by preserving those jobs retained in the source country from extinction. Threats to the world-wide market position of advanced countries (e.g. from newly industrialising countries) can only be countered, it is argued, by moving the labour-intensive stages of the production process to cheaper labour countries. This process of offshore production may therefore require reverse classical assumptions in the long run.

Likewise, the employment impact on the host country of inward direct investment will be subject to certain regularities.

(1) The type of investment will be important. Technology-intensive operations are much less likely to have a feasible domestic alternative, but may be restricted in their employment impact because they are more likely to be capital-intensive. Skill intensity will also tend to be high, creating a small number of highly remunerated jobs. Similarly, labour-intensive offshore production-type assembly or fabricating operations ("screwdriver factories") may displace local alternatives but may create a large number of jobs in the host country. Investments in host market servicing activities may replace local competitors or may be additional. Extractive ventures may create additional jobs if the technology, skill or capital requirements are beyond the scope of indigenous firms.

(2) The indigenous attributes of the host country will also be important. Particularly relevant are the supplies of venture capital in the host country and the availability of entrepreneurial talent. Social attitudes towards risk-taking and business culture may be primary determinants of the extent to which local projects are a feasible alternative to foreign investment.

(3) The extent of indirect employment creation will depend on the purchasing policies of the foreign investors and the strength of the local economy in those sectors supporting the activities of foreign investors.

PART II: THE MACRO-ECONOMIC BACKGROUND: GREECE, PORTUGAL AND SPAIN

The first section below gives a summary picture of the three host economies. The second section analyses the legislative background of foreign direct investment in the three countries, with particular attention to British, French and German direct investment, and the third section details the amount and nature of inward investment. The final section gives some comparative results.

(1) The three host countries

(a) Greece

Since the early 1980s the stagnation of output combined with increasing labour costs and migrant workers returning from Western Europe have caused a deterioration of the labour market.

Whilst prior to 1979 the increasing labour force had been accommodated by an increase in the number of job vacancies, since 1980 unemployment has risen largely because of a fall in agricultural employment. At the end of 1982 unemployment totalled 212,000 (5.7 per cent of the working population); this went up to 8.3 per cent in 1985, although the real unemployment rate is estimated to be nearer the EC average of 10.4 per cent for 1983 because official records do not include people looking for jobs. Throughout the 1960s Greece enjoyed an economic boom based on the expansion of tourism, shipping and the industrial sector. Notwithstanding the first oil price rise in the early 1970s, an expansionary economic policy was pursued through an increase in both public and private consumption; during this period the foreign trade deficit was largely financed by revenue from tourism, shipping and Greek workers' remittances from abroad. Since the late 1970s, however, a large deficit in the balance of payments, high inflation and low productivity have been accompanied by a fall in foreign exchange earnings from shipping and foreign workers' remittances. Under the constraints of the growing debt service ratio and of continued inflation the growth in gross domestic product was severely curtailed in the 1980s. Gross domestic product per capita in 1981 was US$3,769 (OECD figures). Agriculture remains an important sector of the economy in spite of considerable physical limitations (only 30 per cent of the total land area is arable). With the exception of dairy products, meat and animal feeds, Greece is self-sufficient in foodstuffs. Agriculture accounts for over 20 per cent of exports and employs 30 per cent of the working population, the highest in the EC. Membership of the EC should in the longer term provide an impetus for improvement in what remains a rather inefficient industry, as Greece's agricultural production is complementary to that of other EC States. Although Greece's agricultural trade balance with the EC has since 1981 been negative, there are signs that the situation may correct itself: the EC has started to allocate substantial grants to the agricultural sector in the form of income-support payments to farmers, import restrictions to facilitate the sale of Greek products as well as assistance for restructuring and modernising the industry. In 1983 agriculture made up 17.5 per cent of GDP.

The manufacturing sector which in 1983 accounted for 18.2 per cent of GDP is characterised by relatively high labour costs and low capital usage. Food, beverages and tobacco, and textiles are the most important sectors (with 19.2 per cent and 15 per cent respectively of total manufacturing output in 1983).

Greece'e export relations with the EC are dominated by two industrial sectors: traditional manufactures and semi-processed and unprocessed minerals. Among the former are textiles, clothing, leather and fur: 75 per cent of Greek textile exports go to the EC (Vaitsos, 1982). Two-thirds of Greece's exports to the EC consist of minerals and related products. Table 1 shows Greece's foreign trade structure by geographical area: in 1983 the EC made up 52.5 per cent of total exports and 48 per cent of imports.

(b) Portugal

At the end of 1983 unemployment in Portugal totalled 448,700 or 9.8 per cent of the working population; among the worst affected were those seeking employment for the first time who made up 51 per cent of the total unemployed. Since the mid-1970s the arrival in Portugal of residents from the former colonies and the return of migrant workers have been contributing factors to the worsening unemployment situation.

Portugal's per capita income is only half that of Greece, making the country one of the poorest in Europe. According to OECD figures, gross domestic product per capita for 1981 amounted to a mere US$2,398, with only Turkey recording a lower figure among the OECD member States.

The sectoral breakdown of the workforce in table 2 shows that a quarter of the workforce is engaged in manufacturing, 22.9 per cent in agriculture, forestry and hunting, and 9.5 per cent in construction. The other 54 per cent of the labour force are spread across a wide range of professions. The agricultural sector, although employing 23 per cent of the working population, only accounts for 6 per cent of gross domestic product, whilst manufacturing and mining account for 30.2 per cent and services for 55.7 per cent of GDP. Low productivity in the farming industry (one of the least productive in Western Europe) was a source of concern in the negotiations for accession to the EC. Pressure is now being brought to bear on the agricultural community to adapt to more modern techniques which fall in line with the EC agricultural policy.

The manufacturing sector, which accounts for 85 per cent of Portugal's exports, is characterised by labour-intensive, low technology production processes which have traditionally specialised in low-cost and unsophisticated products such as textiles, leather goods and woodwork. Accession to the EC has increased the urgency to improve industrial production with a view to securing a larger share of foreign markets particularly as remittances from migrant workers decline and also in order to contain the burden of the foreign debt.

Nationalisation of over 50 per cent of Portugal's manufacturing industry in the mid-1970s meant that the State now controls the greater part of the steel, petrochemical, engineering, cement and brewing industries. However, in recent years, the nationalised sector has stagnated due to a combination of external factors (rising interest rates on borrowing abroad) and internal ones (the depreciation of the Escudo and overmanning). The Government has set as one of its priorities the reorganisation of the industrial sector: wage increases are to be kept below inflation, legislation is to be introduced to make it easier for companies to lay off surplus labour, and capital has been made available on easy terms to firms which require and make use of modern technology.

Table 1: Greece: Geographical breakdown of foreign trade (million US dollars)

	1977	1978	1979	1980	1981	1982	1983	1984
Exports								
Total OECD	1 614.2	2 044.0	2 350.4	3 105.4	2 495.0	2 701.7	2 645.6	3 358.6
of which:								
OECD Europe	1 432.0	1 822.7	2 058.5	2 767.3	2 080.2	2 284.5	2 493.1	2 846.3
EC	1 299.8	1 695.7	1 908.6	2 492.6	1 864.1	1 992.5	2 340.0	2 606.2
Germany, Fed. Rep. of	581.3	694.2	748.9	937.1	783.0	815.6	895.0	945.7
France	188.3	223.1	237.2	387.0	289.2	298.8	331.9	415.4
Italy	191.6	362.4	380.2	508.3	306.4	377.5	602.4	649.9
United Kingdom	136.4	145.0	201.0	216.4	216.0	205.9	215.9	302.2
Other OECD European countries	132.2	127.0	149.9	274.7	216.1	292.0	153.1	240.1
North America	150.5	173.8	236.4	318.7	393.2	395.8	295.4	428.5
Centrally planned economies	343.7	397.5	414.0	571.8	369.3	347.5	322.7	276.2
Other	765.3	894.4	1 123.7	1 558.5	1 442.3	1 250.8	1 490.4	-
Total	2 723.3	3 335.9	3 888.1	5 235.7	4 306.6	4 300.0	4 458.7	-
Imports								
Total OECD	3 701.5	4 292.5	5 705.4	6 720.9	5 595.0	5 826.5	6 294.4	6 244.1
of which:								
OECD Europe	2 973.7	3 462.9	5 089.9	4 928.2	5 038.0	5 305.5	5 188.7	5 143.1
EC	2 602.3	3 029.2	4 195.7	4 179.3	4 447.4	4 594.0	4 621.4	4 520.5
Germany, Fed. Rep. of	927.7	1 075.3	1 444.5	1 467.8	1 741.8	1 698.9	1 662.4	1 600.0
Italy	602.1	763.8	904.1	862.3	860.6	917.9	856.0	926.6
United Kingdom	289.4	289.5	552.4	481.3	436.4	363.1	396.8	379.8
Other OECD European countries	371.4	433.7	894.2	749.1	590.6	711.5	567.3	622.6
North America	372.4	433.1	506.1	561.8	493.5	465.0	392.9	310.3
Centrally planned economies	375.8	619.0	605.8	631.5	616.4	546.0	483.4	812.3
Other	1 699.3	2 846.1	3 307.4	3 179.0	3 294.3	3 564.7	2 855.0	-
Total	6 776.5	7 757.6	9 618.6	10 531.4	8 889.3	9 937.8	9 632.8	-

Source: OECD Economic Surveys, Greece, Nov. 1983 and Monthly statistics of foreign trade, OECD, Paris, May 1985.

Table 2: Portugal: Sectoral breakdown of the workforce in 1983

	Numbers	% of total workforce
Agriculture, forestry and hunting	952 000	22.9
Fishing	26 000	0.6
Mining	14 000	0.3
Manufacturing	1 055 000	25.3
Electricity, gas, water	37 000	0.9
Construction	394 000	9.5
Restaurants and hotels	107 000	2.6
Transport and communications	179 000	4.3
Financial services	114 000	2.7
Public administration, defence, private health, private education	516 000	12.4
Others	772 000	18.5
Total	4 166 000	100.0

Source: Lloyds Bank Group Economic Report, Portugal, 1984.

The textile industry which accounts for more than a quarter of all exports is dominated by a large number of small firms employing less than 50 workers. As the industry's labour costs are between 20 and 50 per cent below those in the other member States, Portugal had to accept severe terms with regards to the integration of its textiles into the EC: an initial three-year transition period was agreed with restrictions on shipments to the other EC countries.

The current account deficit increased in 1981 and 1982 to reach a peak of US$3.2 billion (3 per cent of GDP) against US$1.3 billion (5 per cent of GDP) two years earlier. An upturn in 1983 reduced the current account deficit for that year to US$1.7 billion. According to OECD calculations, almost two-thirds of the deterioration in the current balance between 1980 and 1982 was attributable to the contraction of the invisible surplus.

Table 3 shows Portugal's foreign trade structure by geographical area. The OECD countries of Europe make up over 70 per cent of Portugal's exports and over 50 per cent of its imports. The depreciation of the escudo in 1983 resulted in an increasing share of export markets, particularly to the EC. The strength of Portugal's foreign trade lies in textiles, clothing, leather, footwear and the wood industry. In 1983 textiles, clothing and leather goods accounted for 33 per cent of total exports. Portugal is still very dependent on exports of primary products, which makes it particularly vulnerable to sudden changes in those products' terms of trade. Since the early 1980s, however, the development of new industries such as electrical and electronic equipment, transport equipment and petrochemicals has boosted export performance.

Portugal has so far exploited few of its natural resources, particularly in the energy sector, with a resulting heavy burden on the import bill, which is dominated by mineral products (including crude oil). These made up 27.8 per cent of imports in 1983.

Table 3: Portugal: Geographical breakdown of foreign trade (billion escudos)

	1977	1978	1979	1980	1981	1982
	Exports					
Total	77.7	106.4	176.1	232.2	256.9	331.9
OECD countries	61.4	86.2	142.6	187.1	199.1	271.3
OECD Europe	54.0	75.6	127.1	168.7	179.6	243.3
Germany, Fed. Rep. of	9.2	14.0	21.6	31.4	32.0	43.0
France	6.2	9.6	17.1	24.3	32.3	43.6
Italy	2.9	6.1	10.4	13.6	10.9	16.0
United Kingdom	14.2	19.4	31.4	34.3	37.1	49.2
Other OECD European countries	21.6	26.5	46.6	65.1	67.3	91.5
United States	5.2	7.5	10.8	13.2	13.4	20.5
Other OECD countries	2.1	3.1	4.2	5.2	6.1	7.5
Non-OECD countries	16.3	20.3	33.5	45.1	57.8	60.6
including: OPEC	1.4	1.5	3.4	..	9.4	9.7
Previous escudo area	5.0	5.9	9.0	13.8	19.4	16.5
	Imports					
Total	190.7	230.1	331.9	465.8	609.0	749.0
OECD countries	138.7	177.4	243.3	318.5	418.1	518.4
OECD Europe	109.9	138.7	188.6	247.7	318.7	404.0
Germany, Fed. Rep. of	23.7	31.9	41.8	54.2	66.9	88.3
France	15.4	20.7	28.4	33.7	47.4	64.8
Italy	10.2	12.6	17.1	24.2	32.8	41.3
United Kingdom	19.8	23.2	30.7	40.8	49.2	58.1
Other OECD European countries	40.7	50.2	70.6	94.8	122.4	151.5
United States	19.4	27.1	39.0	50.9	72.9	81.0
Other OECD countries	9.4	11.5	15.7	19.9	26.5	33.4
Non-OECD countries	52.0	52.7	88.7	147.3	190.9	230.6
including: OPEC	20.6	27.1	47.9	..	113.5	144.9
Previous escudo area	2.5	1.5	3.2	2.1	2.6	3.3

Source: OECD Economic Surveys, Portugal, June 1984.

Portugal's trade policy since the early 1980s has consisted of preparing the economy for entry into the EC which implies the gradual removal of import barriers. Under an agreement with the other EC member States, Portugal has been allowed to maintain tariffs on some EC imports until 1993. Equally, some exports to the other member States are being allowed under reduced tariffs and increased quotas.

(c) Spain

Spain has achieved a more significant stock and a faster rate of expansion of foreign direct investment than either Greece or Portugal. Since 1959, when the goal of self-sufficiency was abandoned and the first economic plan drafted, Spain's rate of economic growth has outstripped that of most other European countries. This development was accompanied by a slow but gradual opening of the economy to foreign capital. Between 1962 and 1975 GDP per capita increased at the annual rate of 6.5 per cent: the industrial sector recorded the highest rate of growth (7.5 per cent per annum) whilst services and agriculture grew more slowly (5 per cent and 3.5 per cent per annum respectively). Industrial expansion was reflected in the growth of the automobile industry (from 40,000 vehicles in 1960 to 986,000 in 1978) and of the steel industry (from an output of 1.9 million tons in 1960 to 13 million tons in 1980). In GDP terms the Spanish economy doubled in size during the 1960s and was on course to do so again in the 1970s until the onset of the 1973 oil crisis, which hit Spanish industry particularly hard in view of its heavy dependence on imported energy supplies. The effects of the oil crisis on Spain's balance of payments are illustrated by the foreign debt which increased from US$3.6 billion in 1973 to US$24 billion in 1981.

The sectoral breakdown of the workforce for 1984 shows that 49.4 per cent are employed in the service industry, 25.4 per cent in manufacturing, 17.8 per cent in agriculture and 7.4 per cent in construction. Unemployment has risen steadily since 1977: in 1985 the registered unemployed totalled 2.9 million or 21.5 per cent of the workforce, twice the EC average. Unemployment is particularly acute amongst women. The worsening unemployment situation is the outcome of several factors: first, not unlike their Portuguese and Greek counterparts, an increasing number of Spanish workers abroad have been faced with redundancies and have returned home to swell the ranks of the unemployed. Secondly, in the post-Franco era, women have been encouraged to take up employment thus increasing the overall demand for jobs. Thirdly, Spain's population growth rate is in excess of the EC average and is likely in future years to exacerbate the unemployment situation.

Agriculture, the third largest employer, accounts for 9 per cent of Spain's GDP as against only 4 per cent in the EC. Agricultural exports represent about 20 per cent of total exports, with the EC Spain's single largest importer (60 per cent). The impact on agriculture of EC membership is likely to vary across the range of products; a precise assessment is difficult in view of the current reform proposals of the Common Agricultural Policy. The Commission has estimated that Spain's entry will increase the areas in use for agricultural purposes by 30 per cent and the agricultural labour force by 25 per cent. However, it is feared that Spain's poorest rural areas will suffer most: a report commissioned by the Madrid Institute of Economic Studies (Lloyds Bank, 1985) concluded that the dairy industry would be unable to comply with the higher standards set by the EC without substantial capital and livestock investment. The Treaty of Accession established a seven-year transition period for non-sensitive Spanish exports to the EC during which customs duties will gradually be abolished. Among Spain's sensitive exports, fruit and vegetables will have a ten-year transition period during which the EC pledged to reduce its external tariffs on an increasing scale.

A major feature of Spanish industry is the predominance of small enterprises, which are generally associated with the slow generation of technological innovation. According to the Spanish Ministry of Industry, 93 per cent of industrial companies employ fewer than 25 people. Since

accession many of these small companies have come under increased competition from EC firms which have access to economies of scale and greater financial resources.

Spain is the world's sixth largest car manufacturer: 1.17 million vehicles were produced in 1984, of which 61 per cent were exported. Some of the main car manufacturers have set up production in Spain: General Motors, Renault, Citroen, Peugeot, Fiat and Nissan. In 1983 SEAT, Spain's national car producer, signed an agreement with VW to share technology and market VW models in Spain. The heavy duties on imports of foreign cars will be removed over a seven-year transition period.

Spain's steel industry has experienced the same problems as most other West European steel producers: excess capacity, overmanning and low productivity. The decline in home demand, however, has stimulated the development of the export market: the Spanish steel industry is now the seventh largest gross exporter in the world.

Table 4 shows the distribution of Spain's foreign trade by geographical area. In 1984 the EC absorbed 49.1 per cent of Spain's exports and supplied 33.4 per cent of its imports. The other OECD countries made up another 20.3 per cent of Spain's exports and supplied another 20.6 per cent of its imports.

(2) The legislative background to foreign direct investment in Greece, Portugal and Spain

(a) Greece

Successive Greek Governments have encouraged the inflow of foreign investment. The policy of offering incentives to foreign investors was initiated in 1953 by Legislative Decree 2687 governing "the investment and protection of foreign capital". Under this law, an applicant seeking approval for the importation of foreign capital must lodge an application with the Ministry of Co-ordination. The recommendations which ensue are based on "the joint decisions of the Ministries of Co-ordination, Commerce, Industry and Finance, the Bank of Greece and two persons with high qualifications and experience in industrial matters".

Under the 1953 law, the foreign investor could transfer abroad imported capital at the rate of 10 per cent per annum (starting one year from the date of commencement of operations) and interest and profit not exceeding 12 per cent of the value of imported capital. The latter provision was relaxed under Legislative Decree 4256/1962 which increased the transferable value of capital and interest to 70 per cent of foreign exchange receipts. The above provision also enables exporting firms to repay foreign loan capital at the rate of 20 per cent per year provided that the foreign exchange remitted does not exceed 70 per cent of the firm's foreign exchange receipts.

Foreign capital imported into Greece must be of a "productive" nature. Article 2 of the 1953 law defines productive investment as "an investment aimed at the promotion of national production or which otherwise contributes to the economic advancement of the country".

Table 4: Spain: Geographical breakdown of foreign trade (billion pesetas)

	1979	1980	1981	1982	1983	1984
	Imports					
EC total	606.2	755.5	861.9	1 087.7	1 348.9	1 547.5
of which:						
United Kingdom	87.8	115.1	132.9	171.1	256.7	281.1
France	164.7	202.4	237.6	277.5	344.3	398.0
Germany, Fed. Rep. of	163.2	200.8	241.5	328.9	366.1	458.7
Italy	90.1	120.9	118.4	155.6	180.9	195.3
COMECOM	37.9	55.2	78.0	94.5	124.1	
Other European countries	98.8	112.4	133.9	183.9	230.3	
United States	211.7	318.8	412.4	482.0	495.5	519.3
Canada	15.9	19.4	20.6	20.9	23.6	
Other American countries	152.5	255.0	354.3	371.6	509.4	
Japan	39.9	60.5	79.4	110.6	139.9	141.8
Near-East	288.1	530.8	614.1	661.0	685.1	
Rest of the world	253.0	343.1	415.8	461.0	619.7	
Total	1 704.0	2 450.6	2 970.4	3 473.2	4 176.5	4 629.0
	Exports					
EC total	586.2	739.6	812.3	1 036.9	1 370.6	1 853.3
of which:						
United Kingdom	87.6	105.3	130.6	161.0	219.9	343.0
France	197.0	246.6	270.6	370.2	448.7	566.6
Germany, Fed. Rep. of	126.2	152.9	163.3	185.6	260.2	361.8
Italy	78.8	116.7	108.0	127.3	150.8	225.6
COMECOM	36.7	39.1	73.0	48.3	74.2	
Other European countries	127.6	143.6	153.6	175.6	212.5	
United States	85.1	79.4	126.9	145.5	206.6	361.1
Canada	10.4	10.6	16.6	15.2	20.6	
Other American countries	136.7	159.1	197.7	226.1	183.3	
Japan	24.6	19.2	30.0	28.3	43.3	
Near-East	49.8	100.1	150.9	179.2	216.2	
Rest of the world	188.0	218.5	327.4	405.3	511.1	
Total	1 221.4	1 493.2	1 888.4	2 260.2	2 838.6	3 771.0

Source: OECD Economic Surveys, Spain, 1984.

Concurrently with the above legislation, various incentives were introduced to encourage the establishment of new plants either by indigenous or foreign firms; the most significant measure included rapid depreciation allowances, capital subsidisation and exemption from income tax on reinvested earnings.

The introduction of systematic national planning in Greece in the 1960s earmarked the crucial role of foreign capital in the process of industrialisation. The introduction of successive foreign investment laws throughout the 1960s illustrated the Greek Government's above-mentioned intent; in 1961 legislation was passed enlarging the incentives outlined above; further legislation in August 1967 and April 1968 offered favourable terms on taxation and customs duties to foreign firms establishing regional headquarters in Greece for the purpose of co-ordinating foreign operations.

The relative success of the aforementioned laws in attracting foreign investors is illustrated by Ladopoulos (1975) who found that between August 1967 and May 1968, 231 companies established regional headquarters in Greece; by December 1972, the number had increased to 760 - of which 628 were in the shipping industry.

Amongst the guarantees offered to foreign investors is the security of property rights. The assets of enterprises established or substantially assisted by the importation of foreign capital are exempt from compulsory expropriation (Legislative Decree 2687/1953). Moreover, once approved by the Administrative Act, the terms and conditions of the contract cannot be amended unilaterally by the Greek Government. In the event of disputes, both the Greek Government and the foreign investor have recourse to independent arbitration.

The new Investment Law 1262 of 1982

The Socialist Government of Papandreou has put foreign investment incentives high on its list of priorities. Within months of coming into office, it set into motion the mechanism for revising the law passed a year earlier by the Conservative administration (Law 116/1981). The investment incentives of the 1982 law are in some respects similar to those which they replace, offering a choice of investment grants, interest subsidies and loans made for the purpose of investment, investment allowances and accelerated depreciation.

The extent of the above incentives depends upon the area where the investment is made. In an attempt to promote regional development and economic decentralisation, Greece has been divided into four investment areas (A, B, C, and D) according to domestic levels of economic development and industrial infrastructure. Area A (comprising the most developed cities and surroundings of Athens and Thessalloniki) is generally not eligible for grants except in the case of "special investments". The latter are grants of up to 30 per cent of total investment available when one of the following conditions is met: first, if the use of plant and machinery results in the protection of the environment; secondly, if gas or recycled heat are substituted for petrol and electricity; thirdly, if the investment results in the creation or extension of applied research laboratories; fourthly, if very advanced technology is employed.

Grants for area B vary between 10 and 15 per cent of total investment, and between 15 and 40 per cent for area C. Area D (comprising the remote islands and least developed border areas) enjoys the the most generous benefits: grants of between 20 and 50 per cent of total investment. Within

this area, pockets of "acute underdevelopment" will receive a minimum grant of 35 per cent. Furthermore, investments in areas B, C and D will attract an additional grant of 15 per cent if the energy saving and conservation measures outlined above are fulfilled.

The 1982 legislation departs from its predecessors in one major respect: it introduces state participation in the share capital of companies receiving grants if total investment exceeds 400 million drachmas. Such assistance, although attractive in principle, is reported to be a source of concern in some foreign business circles. The objections are twofold: first, the Greek Government's insistence on equity participation in large grant-assisted investments is associated with "state interference". The fear is that the new committees and bureaucratic procedures introduced for assessing the worthiness of a project could result in the haphazard and unequal treatment of applicants. The second objection is directed at the ceiling of grant-assisted investments; grants being offered in cash only as a percentage of the first 400 million drachmas: it is argued that larger investments most likely to introduce advanced technology will be "penalised" by the compulsory presence of state participation. For investments between 400 and 600 million drachmas, 50 per cent of the grant is in the form of state equity. For investments over 600 million drachmas, the grant given for the part of the investment exceeding this figure is entirely in the form of public participation.

In an attempt to preserve a degree of continuity with the law which it replaces, the new law of 1982 has made provision for transitional clauses. Investments which were approved by the Ministry of Co-ordination under Law 1116/1981 and published in the Government Gazette will continue to benefit from the incentives granted under that legislation. Investments already approved but not yet published will be reconsidered under the new law or, as far as geographical areas are concerned, under the provisions of the 1981 legislation. Finally, applications submitted but yet to be approved will have to be filed again under the new law.

The Greek Government has therefore moved to adapt its legal framework to EC regulations on freedom of capital movements. In addition, Greece has signed the contract of the Multinational Investment Guarantee Agency. It seems likely that the Greek Government will amend the Investment Law (incentives for regional development L1262/82) by allowing its automatic application to foreign investment projects which have been approved.

(b) Portugal

In the wake of the 1974 Revolution, the Portuguese Government set up the Foreign Investment Institute with the mandate of co-ordinating, supervising and authorising foreign direct investment. The rules governing foreign investment are set out in the Foreign Investment Code, enacted by Decree-Law 348/77 of 24 August 1977, subsequently amended by Decree-Law 174/82 of 12 May 1982. At the time of writing (Summer, 1986) the Code is being revised.

The 1977 law outlined the Government's concern for greater diversification of investment sources and more selective sectoral distribution. Under the "general regime", foreign firms are entitled to all the incentives available within Portuguese legislation without any discrimination regarding the origin of the foreign capital. Direct foreign investment which is subject to the "contractual regime" benefits from additional incentives (of a fiscal or other nature), reflecting the host country's three-pronged economic policy: to promote its export-oriented industries, to reduce its dependence on imports and to attract foreign capital to its cheap supplies of domestic labour. The list of "priority" industries

includes mining, fishing, processing of organic and inorganic chemicals, pharmaceuticals, food processing, textile and apparel manufacturing, cork and leather products, furniture, and refining of non-ferrous metals.

Three major objectives underlie Portugal's order of priority industries earmarked for foreign investment. First, to encourage foreign investment in heavy industry which draws on domestic supplies of raw materials (in particular iron ore, copper, lead, zinc); secondly, to develop the international competitiveness of traditional industries such as textiles. Although Portugal's exports of textiles to the EC are subject to quotas, the unsuitability of some products for European markets means that the value of exports often falls short of the permitted quota. A third objective is to attract foreign investment in industries where Portugal already has a technological or other comparative advantage (for example, light electrical equipment, electronics and telecommunication equipment).

Investment incentives

Central to Portugal's foreign investment promotion programme is the system of integrated investment incentives introduced in May 1980, which provides a variety of fiscal and financial incentives in the form of tax holidays, interest rate subsidies and grants for investments satisfying specific criteria. The scheme offers to foreign investors exemption from or a 50 per cent reduction on the following: conveyance tax on property purchase, manufacturing and complementary taxes for up to nine years, value added tax on gains from capital increases, capital gains tax on loan interest, plus speedy write-offs (in up to 12 years) of property assets. Additional incentives are negotiable on a case-by-case basis for major investments of particular interest to Portugal (in particular labour-intensive and advanced technology projects).

The incentives scheme, which does not discriminate between Portuguese and foreign capital, is based on a point system derived from three criteria: economic performance, sectoral priority and regional priority. Thus, high points would be allocated to an investment which brings in capital in priority sectors (such as basic chemicals, minerals or food processing) and is located in a less developed region.

Objections have been raised, however, about the lengthy submission procedure: the competent authority studying an application is entitled to a 90-day period from the date of submission, which can be extended by ministerial order for a further three months if the project falls within the general regime and for six months if subject to the contractual regime.

Foreign direct investments in Portugal are permitted in all sectors except those which are closed to private capital. These include insurance, public services and armaments. The State guarantees the transfer abroad of dividends and profits after deductions have been made for legal amortisation and taxes. No restrictions exist on the transfer abroad of the proceeds arising from the sale or liquidation of a foreign investment, unless there is a significant deterioration in the host country's balance of payments, in which case capital repatriation may have to be spread out over a number of years. There is, however, a further guarantee that the sum transferred per year shall not be less than 20 per cent of the total value.

(c) Spain

In 1959, on joining the European Organisation for Economic Co-operation (later known as the Organisation for Economic Co-operation and Development), Spain adopted an economic reform programme, known as the "Stabilisation Plan", which emphasised a more open policy towards foreign investment. This was intended to overcome three major domestic deficiencies: the growing current deficit on the balance of payments, the shortage of domestic savings (which alone could not sustain the projected level of economic growth) and the lag in technological development. A Decree introduced on 27 July 1959, which contained general guide-lines for participation in Spanish enterprises by foreign investors and Spaniards residing abroad, eliminated previous restrictions on capital repatriation and profit transfers stemming from investments signed after the above-mentioned date.

In 1963 a Government Decree fully liberalised foreign investment in 18 major industrial sectors by lifting restrictions on the percentage of capital that foreign firms and other non-residents could invest.

Whilst during the 1959-62 period the average annual inflow of direct foreign investment stagnated around 2 billion pesetas, it soared to 7 billion pesetas in 1963-67 and to 12.5 billion in 1968-72, reaching a peak of 14 billion pesetas (approximately US$230 million) in 1972. The main beneficiaries were the chemical industries, metal and mechanical sectors, motor vehicles and hotel industry.

In 1973, the Ministry of Industry issued a Decree which rescinded the 1963 law. The new legislation which consolidated the major provisions of previous laws into a single document (Decree No. 3021) illustrated the Spanish Government's gradual adoption of a more selective approach to foreign investment. The approval of new foreign majority investments was to become conditional upon three criteria: exporting, local sourcing of raw materials and local research and development.

The 1973 Decree received a mixed reception among foreign investors. Although foreign participation above 50 per cent required special government authorisation, the latter was liberally granted provided that at least one major contribution to the Spanish economy could be anticipated to result from the foreign investment. Of greater concern to the prospective foreign investor was the lengthy two-stage submission process to the Ministry of Commerce, which in turn referred the application to the Council for Foreign Investment. The authorisation procedure ranged from "four to six weeks for a comparatively small metalworking unit to eight months for a multi-million dollar chemical plant" (Business International, 1974). Most affected by the delays were pharmaceutical companies which regarded as unrealistic the Spanish Government's efforts to induce them to set up costly research and development facilities in Spain.

A second control mechanism consisted of industrial permits required by the Ministry of Industry regardless of the degree of foreign ownership. Three classes of industries were set up for this purpose; first, those where permits were granted on a case-by-case basis (including public utilities, mining, motor vehicles, electrical appliances, and the processing of oil); secondly, those in which permits were granted subject to the fulfilment of certain technical or minimum capacity requirements and local content rules (these included textiles, metal products and machinery, some chemicals and foodstuffs). Finally, in industries not mentioned above, permits were generally granted without restrictions.

Sectors of the Spanish economy where foreign participation is prohibited include national defence and private security services, public information agencies, newspapers and publishing, film production and broadcasting, the exploitation of mercury mines, and water for public consumption. In the air transport and public utilities sectors, the foreign investor does not require any authorisation for the first 25 per cent of capital invested; the same rule applies to the first 40 per cent of foreign capital invested in shipping and oil refining, and 49 per cent in mining.

The principal inducements for promoting investment in Spain's less developed areas include capital incentives (in the form of cash grants and long-term loans) and a variety of tax and tariff reductions for new or expanding industries in growth centres. An example of this regional incentive scheme was the Decree of October 1976 (No. 2622) designating Andalusia as a major development area. Additional benefits are also available to investments in industries considered to be of preferential or national interest: a law introduced in January 1977 (No. 6) conferred tax and financial benefits on mining companies.

The Decrees of 1981

Two Royal Decrees introduced in 1981 sought to bring a greater degree of liberalisation towards foreign investment. Decree 622/81 decentralised the authorisation procedure, thus reducing the time required to process applications, whilst Decree 623/81 regulated the conditions under which authorisations are made, thus reducing the element of discretion. In their quest for clarification, the Spanish authorities have defined more concisely the foreign investment regime. The foreign content of direct investment in Spain is subject to three sets of rules: first, if foreign participation exceeds 50 per cent, the investment is considered foreign to the extent of such participation. Finally, if foreign participation is 25 per cent or less, or if there is Spanish Government participation, the investment is treated as domestic. When a foreign firm holds less than 50 per cent of the capital of a Spanish company but exercises effective managerial control, the company is treated as a foreign investment.

An incentive under the 1981 legislation exempts foreign investments not exceeding 25 million pesetas from government authorisation either when a new business is set up or when an existing firm is taken over. The foreign investment can take the form of capital, patents and know-how, and plant and machinery. The latter, however, remain subject to general import duties. Some uncertainty persists, however, as to whether a foreign firm already established with an initial capital of below 25 million pesetas requires government authorisation in order to increase the value of its assets over the above-mentioned ceiling. The absence of specific regulations suggests that a degree of discretion continues to be exercised on a case-by-case basis.

(d) A comparative assessment of the three countries' legislation

Greece, Portugal and Spain share an overriding economic goal - the increase of national income via rapid industrialisation. In achieving this end, they all regard an increased inflow of foreign capital as an important element of the industrialisation process. Moreover, the constraints on rapid development also show similarities. A shortage of foreign exchange, arising from balance-of-payments difficulties, plagues each country. An economic structure tilted towards agriculture, a legacy of protection and of an

industrial sector unable to withstand world competition in many areas and a political structure developing from a period of dictatorship, all serve to constrain industrial development.

Liberalisation of foreign investment legislation dates from the 1960s in Spain and Greece, but Portugal is a relative newcomer, its major efforts dating only from the mid-1970s. In all three countries, incentives and legislation are still fluid as the host country tries to reconcile its needs with the necessity to be an attractive investment location for multinationals.

Consequently, all three countries provide an attractive location for multinationals in terms of the incentives offered. These are, of course, additional to the relatively low wages in these countries, their proximity to large markets and (prospective) membership of the European Communities and availability of raw materials. The incentives given in Greece discriminate mainly according to the location of the foreign investment. Portugal uses its incentive scheme to encourage priority industries but also attempts to include regional criteria. Spain's selective system of incentives and controls is designed to channel foreign investment in planned growth sectors of the economy.

Despite the attractions embodied in the incentives, considerable uncertainty attaches to the conditions which an individual foreign investor will face. Government approval is obviously necessary for incentives to an individual project and this leaves an area of discretion open to the host country. Portugal's incentives are particularly open to criticism for their non-transparency. Greece's welcome is now modified in view of the Socialist Government's requirement for state participation in large projects and general uncertainty on future plans. Spain has perhaps done most to codify and openly court new investment.

In conclusion, therefore, uncertainty in these Mediterranean countries does not present a barrier to the growth of inward investment. Future codification of investment laws is to be expected to provide a more stable framework for the investment which these countries are keen to encourage in their drive for industrialisation.

(3) Foreign direct investment

(a) Greece

Inflows of foreign direct investment by country of origin

Despite the passing of Legislative Decree 2687 in 1953 "for the protection of foreign capital", it was not until the early 1960s that foreign investment really took off. Table 5 shows the inflow of foreign capital under Law 2687/1953 between 1953 and 1976 according to the country of origin. It will be apparent that France accounted for 24.4 per cent of such capital (a total of $265.5 million) and was second only to the United States as a source of capital. In fact, one very large alumina project accounts for a high proportion of French investment. Investors from the Federal Republic of Germany contributed 5.7 per cent of the total ($60 million) but the United Kingdom had invested only $12.4 million up to 1976, a tiny 1.2 per cent of the total inflow. This is an unusual situation for Britain as a major foreign investor and it contrasts with Portugal and Spain. The importance of the "other" category is accounted for by the attempts of the Greek authorities to attract the wealthy Greek shipping communities back to Greece by concessions

and privileges. In fact these laws have led to the establishment in Greece of foreign commercial businesses (Nanopoulos, 1982; Petrochilos, 1985).

Table 5: Total gross inflow of funds for foreign direct investment in Greece subsumed under Legislative Decree 2687/1953 according to the country of origin of funds

Country of origin	Amount ($ million)	Percentage of total
United States	465.5	44.4
France	256.5	24.4
Germany, Fed. Rep. of	60.0	5.7
Switzerland	47.5	4.5
Italy	29.2	2.8
Netherlands	12.6	1.2
United Kingdom	12.4	1.2
Liechtenstein	6.8	0.6
Other	168.1	16.0
Total	1 049.6	100.0

Source: Hellenic Industrial Development Bank.
The capital inflows are for the years 1953-76.

Reproduced from N.C. Nanopoulos, 1982: "A model of inward foreign direct investment, licensing and imports: Its application across the Greek manufacturing industry". Unpublished Ph.D. thesis, University of Reading.

Attribution of the country of origin of the investment is fraught with difficulties (table 6). First a considerable proportion of "direct investment" originates from expatriate Greeks. Companies and individuals invest in Greece through countries such as Switzerland, Liberia, Luxembourg, Liechtenstein and Lebanon (although the latter includes flight capital from the war zone). Second, a large proportion of investment in the period covered by table 6 (1980-84) is not attributable to one origin country. This is because of large investments in aerospace, public works, mineral extraction, banking and strategic resources through international consortia and non-attributable sources. Between 1980-84, this category covered 45.8 per cent of total investments. These difficulties aside, the United States is the largest single investor with 25 per cent of attributable investment, France, Switzerland and the Federal Republic of Germany with over 10 per cent each but the United Kingdom has only a tiny 1.3 per cent of attributable investment. A comparative set of figures for 1953-76 gave the United States 44 per cent, France 24 per cent, the Federal Republic of Germany 5.7 per cent, Switzerland 4.5 per cent and the United Kingdom 1.2 per cent (Nonopoulos, 1982). The large discrepancy in the United States figure is largely due to allocations from consortia investments.

Table 6: Greece: Foreign investment by country of origin and capital approved under the provisions of Legislative Decree 2687/1953, 1980-84 (US$ million)

Country	Capital approved	% of total attributable[1]
United States	159.1	25.1
France	74.5	11.8
Switzerland*	68.4	10.8
Germany, Fed. Rep. of	63.1	10.0
Canada	50.0	7.9
Austria	47.9	7.6
Italy	33.3	5.3
Liberia*	27.6	4.4
Luxembourg*	26.0	4.1
Liechtenstein	21.5	3.4
Lebanon*	14.7	2.3
Libya	8.9	1.4
United Kingdom	8.1	1.3
Sweden	6.8	1.1
Saudi Arabia	5.4	0.9
Other countries*	18.4	2.9
Total above countries	633.7	100.0
Not attributable to one country[1]	535.6	
Total	1 169.6	

[1] This covers international consortia investments in public works, aerospace, mineral extraction and banking.

* Includes considerable amounts of investment by expatriate Greek companies and individuals.

Source: S.I. Papadopoulos and P.J. Buckley, 1986: "Foreign investment in Greece", in Work in Progress.

Inflows of foreign direct investment by industry

Table 7 gives an estimate of foreign direct investment in Greece under Law 2687/1953 up to 1981. It shows that approximately 70 per cent of the total foreign direct investment was in manufacturing. Transportation and tourism accounted for most of the rest. The most important industrial recipients in this period were petroleum, basic metals industries, chemicals, electrical machinery and transportation equipment (Papadopoulos, 1985). Thus non-traditional, relatively technologically advanced industries were the main recipients of inward foreign direct investment. It should be noted that two large projects are together responsible for about 30 per cent of foreign capital inflows in this period. These are the Aluminium of Greece project controlled by the French multinational Pechiney-Ugine-Kuhlmann set up to

Table 7: Foreign investment by sector and capital imported under the provisions of Legislative Decree 2687/1953, 1953-81 (US$)

Sector	Number of approvals	Capital approved	% share of capital approved	Capital imported	% share of capital imported
A. Industry by branches					
1. Food products, beverages	102	195 553 606	4.0	46 952 915	2.7
2. Tobacco	22	7 917 413	0.2	4 265 771	0.2
3. Textiles	6	117 794 482	2.4	33 411 209	1.9
4. Clothing, footwear	44	27 147 679	0.6	11 173 213	0.6
5. Wood	18	34 511 688	0.7	6 862 811	0.4
6. Paper	28	112 265 597	2.3	14 776 001	0.9
7. Furniture, furnishings	3	450 000	0.0	267 311	0.0
8. Leather	9	9 892 224	0.2	558 361	0.0
9. Chemicals	106	288 290 239	5.9	134 159 087	7.7
10. Plastics	30	15 811 649	0.3	7 245 008	0.4
11. Petroleum, coal	25	681 316 920	14.0	332 228 031	19.0
12. Non-metallic minerals	65	603 033 614	12.4	37 633 854	2.2
13. Basic metals	8	550 322 133	11.3	223 503 963	12.8
14. Metal products	71	83 014 647	1.7	21 705 266	1.3
15. Machines, appliances	38	15 347 273	0.3	3 704 904	0.2
16. Electric appliances, telecom equipment	86	109 066 442	2.3	75 592 167	4.3
17. Transport means, automobile articles	31	206 236 666	4.3	40 449 188	2.3
18. Shipbuilding	16	375 673 400	7.7	96 555 502	5.5
19. Miscellaneous	122	129 020 918	2.7	16 656 923	1.0
Total industry	890	3 562 666 590	73.3	1 107 701 485	63.4
B. Hotels, tourist enterprises	108	300 938 843	6.2	100 509 799	5.8
C. Transportation, storage	12	630 644 556	13.0	470 239 472	26.9
D. Livestock, agriculture, fishing	51	67 320 507	1.4	8 009 940	0.4
E. Mines, quarries, salterns	46	251 642 784	5.2	34 695 411	2.0
F. Banks, insurance	7	45 405 266	0.9	225 888 324	1.5
Grand total	1 114	4 858 618 546	100.0	1 747 044 431	100.0

Note: Investments approved and capital imported up to 30 June 1981.

Source: ETBA: Investment Guide in Greece, ETBA, Athens, 1983.

Reproduced from Papadopoulos, 1985.

produce alumina and aluminium from domestic bauxite reserves, and the Esso-Pappas complex, controlled by the Exxon Corporation of the United States, comprising a petroleum refinery, an amonia and petrochemicals plant and a steel mill (Nanopoulos, 1982).

Table 8: Foreign investment by sector and capital approved under the provisions of Legislative Decree 2687/1953, 1982-84

Sector	Number of approvals	Capital approved	% share of capital approved
A. Industry by branches			
1. Food products, beverages	6	42 835 885	22.6
2. Tobacco	1	393 823	0.2
3. Textiles	3	2 255 956	1.2
4. Clothing, footwear	1	265 963	0.1
5. Wood	1	18 200 000	9.6
6. Paper	-	-	-
7. Furniture, furnishings	-	-	-
8. Leather	-	-	-
9. Chemicals	3	5 352 597	2.8
10. Plastics	3	2 303 052	1.2
11. Petroleum, coal	2	8 250 000	4.3
12. Non-metallic minerals	-	-	-
13. Basic metals	-	-	-
14. Metal products	2	21 500 000	11.3
15. Machines, appliances	-	-	-
16. Electric appliances	5	6 838 319	3.6
Telecom equipment	-	-	-
17. Transport means	1	364 191	0.2
Automobile articles	-	-	-
18. Shipbuilding	-	-	-
19. Miscellaneous	3	842 551	0.5
Total industry	31	109 402 337	20.0
B. Hotels, tourist enterprises	5	37 904 077	20.0
C. Transportation, storage	-	-	-
D. Livestock, agriculture, fishing	3	13 200 000	6.9
E. Mines, quarries, salterns	3	29 475 560	15.5
F. Banks, insurance	-	-	-
Grand total	42	189 981 974	100.0

Note: Investments approved up to 31 August 1984.

Source: Ministry of National Economy: Investment Under Law LD 2687/1953, Ministry of National Economy, Athens, various issues.

Reproduced from Papadopoulos, 1985.

Table 8 shows foreign direct investment in Greece under Legislative Decree 2687/1953 from 1982 to 1984. Food products and beverages is the largest single industrial sector in terms of the percentage share of capital approved, with 22.6 per cent, followed by tourism (20.0 per cent), the extractive sectors (15.5 per cent) and metal products (11.3 per cent). The share of manufacturing industries in this period is down to 57.6 per cent and the share of technologically advanced industries is correspondingly down.

The offshore provisions mentioned above have also led to the establishment of foreign banks in Greece (Petrochilos, 1985).

Table 9: Foreign control of Greek industry: Sales of firms with foreign participation as a percentage of Greek production by industrial sector (1977)

Sector code	Industrial sector[1]	Foreign sales as % of total production
20	Food	5.4
21	Beverage	24.5
22	Cigarettes and cigars[2]	0.0
23	Textiles	5.5
24	Apparel and footwear	8.6
25	Wood and cork	6.5
26	Furniture	0.0
27	Pulp and paper	22.7
28	Printing and publishing	0.0
29	Leather[3]	16.6
30	Rubber and plastic products	24.6
31	Chemical industries	56.0
32	Petroleum and coal	71.1
33	Non-metallic mineral products	12.4
34	Basic metal industries	57.9
35	Fabricated metal products	14.9
36	Machinery	7.5
37	Electrical machinery and appliances	53.0
38	Transport equipment	52.5
39	Miscellaneous industries	4.1
	Average of all industries	25.5

[1] Establishments employing more than ten people and accounting for approximately 80 per cent of value added in manufacturing are included.

[2] Excludes tobacco processing.

[3] Excludes activities related to furs.

Source: Adapted from Nanopoulos, 1982, table 6.5.

Foreign control of Greek industry

Table 9 shows estimates of the proportion of total Greek industrial production which are represented by the sales of foreign-controlled firms. Sales of firms with foreign participation (25 per cent foreign equity ownership is used as the cut off) account for over 25 per cent of industrial production. This shows a high degree of foreign control of Greek industry. Sectors with a particularly high degree of foreign control are petroleum and coal (71.1 per cent), basic metal industries (57.9 per cent), chemicals (56 per cent), electrical machinery and appliances (53 per cent) and transport equipment (52.5 per cent). This confirms the picture given by the statistics of foreign capital inflow and also attests to the low state of development of indigenous Greek manufacturing industry.

The overall employment attributable to foreign direct investment in manufacturing stood at 96,110 in 1977, about 11 per cent of total employment in manufacturing (Petrochilos, 1983). Since then, job creation in foreign capital affiliated firms has been growing: jobs created under Law 1262/1982 since its inception (1 January 1982 until 31 December 1984) number 53,229 (Papadopoulos and Buckley, 1986).

Summary

Reliable information on foreign investment in Greece is sparse. It is possible that the figures for foreign capital presented above are an understatement of foreign involvement. In the course of our investigation we discovered the following numbers of firms with capital involvements in Greece: Federal Republic of Germany (June 1978) 102 firms, France (June 1979) 54 firms and United Kingdom (January 1979) 99 firms plus six advertising agencies. These numbers include service industry firms and undoubtedly many of the rest do not produce in Greece, but the numbers are such as to cast doubt on the relatively small capital inflows under 2687/1953 being taken as an accurate guide to total foreign investment. Data from the National Industrial Development Bank on flows under 2687/1953 essentially covers financial capital, and therefore includes foreign loans (possible to domestic firms). In addition, retained earnings are excluded. However, 2687/1953 does not cover the vast majority of all foreign direct investment.

Consequently, the above analysis should be treated with a great deal of caution and should be seen as indicative, not definitive.

(b) Portugal

Recent inflows

Table 10 shows the structure of foreign direct investment into Portugal in 1984. The major country of origin of the investment was the United States (35 per cent of the total); France, with 11.9 per cent was second, the United Kingdom, fourth with 9.7 per cent and the Federal Republic of Germany sixth with 4.1 per cent. Investment from European Community countries accounted for 35.5 per cent of the total, a figure equal to North American investment. The three origin countries which we are investigating (France, the Federal Republic of Germany and the United Kingdom) accounted for 25.7 per cent of the total investment, a total investment approval of $7,116 \times 10^6$ escudos.

Table 10: Foreign direct investment in Portugal, 1984

		Value (escudos 10^6)	%
(a) By main countries/regions			
Country	United States	9 671	35.0
	France	3 292	11.9
	Switzerland	2 796	10.1
	United Kingdom	2 679	9.7
	Netherlands	1 167	4.2
	Germany, Fed. Rep. of	1 145	4.1
	Japan	1 058	3.8
Region	European Community	9 826	35.5
	North America	9 825	35.5
	EFTA	3 686	13.3
	Tax havens	1 493	5.4
	Total	27 644	100.0
(b) By major sector of activity			
	Manufacture of metal products and transportation machinery and equipment	5 221	18.9
	Banks and other financial and monetary institutions	4 235	15.3
	Hotels and tourism	2 786	10.1
	Machinery (trade)	2 641	9.6
	Pharmaceuticals (trade)	1 721	6.2
	Chemicals	1 395	5.0
	Food, beverages and tobacco	1 327	4.8
	Metal ore mining	1 184	4.3
	Real estate operations and services rendered to enterprises	1 777	4.3
	Entertainment and cultural services	906	3.3
	Agriculture and mining	1 572	5.7
	Manufacture and construction	9 571	34.6
	Services	16 501	59.7

Source: IEE Annual Report, 1984.

Table 10 also shows the industrial structure of approved investment. The service sector was predominant in investment approvals, accounting for 59.7 per cent of the total. Banks with 15.3 per cent and hotels and tourism (10.1 per cent) were major contributors. In the manufacturing sector, metal products and transportation machinery and equipment accounted for 18.9 per cent of the total, chemicals for 5 per cent and food, beverages and tobacco for 4.8 per cent. Metal ore mining was a major contributor to the primary sector, accounting for 43 per cent of agriculture and mining's 5.7 per cent of the total.

Table 11 shows the authorisations of inward investment by origin country between 1978 and 1983. As flow figures for one year, they exhibit considerable variation year on year. The French contribution has been consistently high, ranging from 10.1 per cent to 25.4 per cent. British investment has contributed between 3 and 9.9 per cent and German investment has ranged between 3.1 and 7.4 per cent. The three countries together have accounted for between 22.1 and 41 per cent in an EC total varying between 26.2 and 52.3 per cent (in 1983).

The industry breakdown of investment authorisations, 1979-83, is shown in table 12. Investment in manufacturing industry has shown a regular decline - from 65.9 per cent of the total in 1978 (and 67.6 per cent in 1979) to 46.8 per cent in 1983 (and 34.6 per cent in 1984). Services accounted for more than half the total authorisations in 1983. Within the manufacturing industry, metallic products, machinery and transport equipment have accounted for 10 to nearly 30 per cent over the period. The chemical industry, wood, cork and paper and basic metallurgy have also been important contributors to the total in particular years.

Stock of foreign direct investment in Portugal

Table 13 shows the stock of foreign direct investment by nationality of origin in two estimates - one by the Foreign Investment Institute (FII) for 1978 and one for 1976 by the OECD. The two estimates are very different. OECD put the United States involvement at 47.6 per cent whilst FII gives it only 15.3 per cent! Estimates for the European Community countries are 48 per cent (FII) or 31 per cent (OECD). There is a close agreement on the United Kingdom's share at between 11 and 12 per cent but estimates from the Federal Republic of Germany and France are at variance (8.7 and 10.6 per cent respectively FII and 4.1 and 6.9 per cent OECD). The totals for the United Kingdom, France and the Federal Republic of Germany together are put at 31.2 per cent (FII) and 22.2 per cent (OECD). The major reason for the disparity in these two figures is that the Foreign Investment Institute's figures (column 1) attribute the origin of the capital to the place of residence of the immediate investor (Taveira, 1984). Consequently, United States affiliates in Europe which invest in Portugal are counted as European investors.

Table 11: Direct foreign investment authorisations in Portugal by countries of origin (unit: 10^3 escudos)

Country of origin	1978		1979		1980		1981		1982		1983	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Belgium	20 900	1.1	66 922	1.5	791 106	7.4	219 040	1.9	119 250	1.2	824 171	5.1
Denmark	12 101	0.6	65 693	1.5	230 156	2.2	136 040	1.2	6 050	-	48 930	0.3
France	426 309	22.5	748 223	17.3	1 698 643	15.8	2 940 235	25.4	994 924	10.1	3 152 461	19.5
Netherlands	120 583	6.4	462 469	10.7	975 781	9.1	474 057	4.1	91 026	0.9	364 962	2.3
Italy	27 480	1.5	7 343	0.2	9 251	0.1	26 244	0.2	65 442	0.7	67 700	0.4
Luxembourg	101 744	5.4	860 000	2.0	108 694	1.0	111 176	1.0	112 318	1.1	498 761	3.1
United Kingdom	57 695	3.0	217 810	5.1	1 055 230	9.8	759 132	6.5	613 430	6.2	1 609 354	9.9
Germany, Fed. Rep. of	141 553	7.4	132 969	3.1	498 205	4.6	1 049 650	9.1	565 569	5.8	1 162 077	7.2
Ireland	X	-	X	-	8 187	0.1	X	-	4 199	-	722 120	4.5
Greece	X	-	X	-	X	-	X	-	X	-	30	-
EC subtotal	908 365	48.0	1 787 429	41.4	5 375 253	50.1	5 574	49.3	2 572 208	26.2	8 450 566	52.3
Austria	X	-	X	-	X	-	3 191	-	2 721	-	500	-
Finland	X	-	X	-	1 328	-	4 995	-	X	-	1 208	-
Norway	65 600	3.5	12 250	0.3	3 005	-	66 100	0.6	16 300	0.2	X	-
Sweden	5 750	0.3	604 071	14.0	1 140 815	10.7	211 744	1.8	78 819	0.8	58 971	0.4
Switzerland	494 164	26.1	874 837	20.2	1 618 434	15.1	956 667	8.3	869 901	8.9	1 838 573	11.3
EFTA subtotal	565 514	29.9	1 491 158	34.5	2 763 582	25.8	1 242 697	10.7	968 747	9.9	1 899 192	11.7
Spain	46 016	2.4	271 787	6.3	349 064	3.2	267 966	2.3	1 695 524	17.2	1 541 742	9.5
Canada	36 405	1.9	2 300	-	205 440	1.9	5 000	-	3 340	-	68 400	0.4
United States	277 027	14.6	470 956	10.9	817 098	7.6	3 234 587	27.9	2 130 120	21.7	951 384	5.9
Japan	13 184	0.7	52 000	1.2	143 324	1.3	79 478	0.7	234 556	2.4	367 395	2.3
Others	46 890	2.5	246 860	5.7	1 079 840	10.1	1 023 543	9.0	2 225 897	22.6	2 902 995	17.9
Total	1 893 401	100.0	4 322 490	100.0	10 733 601	100.0	11 583 845	100.0	9 830 392	100.0	16 181 674	100.0

X = not registered.

Source: Foreign Investment Institute, Lisbon.

Table 12: Direct foreign investment authorisations in Portugal by sectors of activity (unit: 10^3 escudos)

Sectors of activity	1978		1979		1980		1981		1982		1983	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
1. Agriculture/fisheries	29 094	1.5	143 400	3.4	293 576	2.7	538 715	4.6	127 837	1.5	570 404	3.5
2. Mining industries	103 591	5.5	16 615	0.4	607 883	5.7	499 424	4.4	958 251	9.8	673 612	4.2
3. Food, beverages and tobacco industries	4 400	0.2	89 250	2.1	848 238	7.9	168 353	1.5	206 122	2.0	964 010	5.9
4. Textiles, clothing, leather industries	10 350	0.5	85 976	2.0	350 566	3.3	393 945	3.4	265 740	2.7	293 523	1.8
5. Wood, cork, paper industries	53 840	2.8	352 719	8.3	1 278 325	11.9	239 779	2.1	259 996	2.7	820 906	5.1
6. Chemical industries	370 850	19.6	681 689	16.1	1 324 409	12.4	721 107	6.2	440 377	4.5	856 193	5.3
7. Industries of non-metallic mineral products	4 388	0.2	21 830	0.5	15 433	0.1	65 524	0.6	67 101	0.7	19 300	0.1
8. Basic metallurgical industry	457 746	24.2	148 072	3.5	333 416	3.1	1 403 714	12.1	113 381	1.1	955 400	5.9
9. Manufacture of metallic products, machinery and transport equipment	196 773	10.4	1 248 807	29.4	1 700 797	15.8	2 493 276	21.5	2 616 645	26.6	2 139 832	13.2
10. Other manufacturing industries	3 950	0.2	13 600	0.3	114 620	1.1	15 040	0.1	67 100	0.7	116 002	0.7
11. Building and public works	13 870	0.7	66 763	1.6	66 384	0.6	96 153	0.8	135 559	1.4	184 450	1.1
Manufacturing industry	1 248 852	65.9	2 868 721	67.6	6 933 647	64.6	6 635 030	57.3	5 258 109	53.7	7 593 632	46.8
12. Wholesale trade	298 045	15.8	443 219	10.4	2 251 138	21.0	1 639 164	14.2	1 585 073	16.1	2 967 346	18.3
13. Retail trade	1 000	0.1	80 743	1.9	6 368	0.0	62 700	0.5	146 983	1.5	228 681	1.4
14. Restaurants and hotels	216 059	11.4	359 878	8.5	382 477	3.6	146 872	12.7	1 250 645	12.7	1 060 917	6.6
15. Transport	4 020	0.2	23 576	0.6	167 715	1.5	26 971	0.2	233 582	2.3	180 594	1.1
16. Banks and other financial institutions	90 000	4.8	308 961	7.3	631 455	5.9	1 708 931	14.8	726 190	7.4	2 796 537	17.3
17. Insurance	-	-	1 750	0.0	72 782	0.7	5 490	0.0	12 768	0.1	492	-
18. Real estate	34 776	1.8	150 714	3.5	190 545	1.8	-	-	515 398	5.2	1 061 488	6.6
19. Entertainment	450	0.0	150	0.0	3 724	0.0	32 980	0.3	11 750	0.1	89 273	0.6
20. Other services	200	0.0	7 378	0.2	93 750	0.9	6 707	0.0	89 894	1.0	202 714	1.3
Services	644 550	34.1	1 376 369	32.4	3 799 954	35.4	4 948 815	42.7	4 572 283	46.3	8 588 042	53.2
Total	1 893 402	100.0	4 245 090	100.0	10 733 601	100.0	11 583 845	100.0	9 830 392	100.0	16 181 674	100.0

Source: Foreign Investment Institute, Lisbon.

Table 13: Structure of the stock of foreign direct investment in Portugal by country of origin (%)

	FII - 1978	OECD - 1976
EC	48.0	31.0[a]
Belgium	5.8	1.2
Denmark	1.5	*
France	8.7	4.1
Netherlands	6.5	3.4
Italy	0.5	1.0
Luxembourg	2.5	1.2
United Kingdom	11.9	11.2
Germany, Fed. Rep. of	10.6	6.9
EFTA	24.0	9.0[a]
Sweden	5.9	1.7
Switzerland	18.0	6.5
United States	15.3	47.6
Spain	5.8	*
Japan	1.7	6.7
	100.0	100.0

[a] Estimates

* Unknown.

Source: IIE, 1982: "Investimento e Tecnologia" - 1/1982, p. 17.

Table 14 gives a comprehensive picture of foreign direct investment by economic activity in 1980 and 1981. Of the 858 firms identified as having foreign participation in 1980, 357 were in manufacturing, 261 in commerce, hotels and other services and 106 in banks and financial institutions. Within manufacturing the largest population of firms with foreign participation were metallic products and machinery (92), chemicals (83) and textiles, clothing and leather (63). The largest values of foreign investment were in the wholesale trade, metallic products and machinery, the chemical industry, paper and printing and food, beverages and tobacco. Stock value by sector was made up of 57.4 per cent in manufacturing, 29.2 per cent in commerce, hotels and other services and 8.2 per cent in banks and financial institutions. The manufacturing sector made up 56.8 per cent of the sales of foreign firms, but 75.37 per cent of their employment. Within foreign investors in manufacturing, metallic products made up 43.4 per cent of employment followed by the chemical industry 18.83 per cent and textiles, clothing and leather 14.42 per cent. The contrast in employment creation in manufacturing (75.37 per cent) and financial institutions (4.93 per cent) is immediately obvious.

An an example of the impact of multinationals from one country on one host country, the following section analyses direct investment from the Federal Republic of Germany in Portugal.

Table 14: Foreign direct investment in Portugal by economic activity

Sector of activity	No. of firms with foreign participation (1980) (I)(3)	Stock value of foreign investment 10^3 escudos (1980) (II)(3)	Stock value (1980) % Total (III)(3)	Stock value (1980) % Subtotal (IV)(3)	Sales (1981) % Total (V)(4)	Sales (1981) % Subtotal (VI)(4)	Employment (1981) (%) Total (VII)(4)	Employment (1981) (%) Subtotal (VIII)(4)
1 - Agriculture	43	302 899	1.3	100.0	0.05	100.0	0.16	100.0
2 - Mining and quarrying	15	390 820	1.7	100.0	0.21	100.0	0.89	100.0
3 - Manufacturing industry	357	12 895 043	57.4	100.0	56.81	100.0	75.37	100.0
31. Food, beverage and tobacco	45	1 061 974		8.2		9.96		6.17
32. Textile, clothing and leather	63	665 219		5.2		7.71		14.42
33. Wood and cork	15	125 101		1.0		0.93		1.46
34. Paper and printing	21	2 434 306		18.9		8.18		5.47
35. Chemical	83	3 926 396		30.4		23.13		18.83
36. Non-metallic minerals	15	215 955		1.7		4.59		4.78
37. Basic metal	11	858 734		6.7		4.96		4.02
38. Metallic products and machinery	92	3 476 539		27.0		39.61		43.40
39. Other manufacturing industries	10	78 018		0.6		0.74		1.14
4 - Electric, gas, water	-	-	-	-	-	-	-	-
5 - Construction and public works	27	197 443	0.9	100.0	0.79	100.0	2.14	100.0
6 - Commerce, hotel and other services	261	6 563 132	29.2	100.0	37.39	100.0	14.94	100.0
61. Wholesale trade	210	5 651 575		87.2	34.44	92.11		74.30
62. Retail trade	16	180 862		2.8		6.12		15.73
63 Restaurants and hotels	29	613 407		9.5		1.31		9.44
7 - Transport, storage and communication	30	285 788	1.3	100.0	1.35	100.0	0.94	100.0

Source: Foreign Investment Institute, Lisbon.

Table 15: Direct and indirect investment in Portugal by sectors of activity of the investors from the Federal Republic of Germany

	1976		1977		1978		1979		1980		1981	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Manufacturing industry	284	87.7	249	83.0	282	86.5	193	77.8	234	78.5	298	80.5
- Chemical industries	51	15.7	43	14.3	62	19.0	61	24.6	71	23.8	94	25.4
- Manufacture of metallic products and machinery	7	2.2	5	1.7	10	3.1	20	8.0	30	10.1	46	12.4
- Electro-technical industries	89	27.5	47	15.7	56	17.2	83	33.5	95	31.9	118	31.9
- Textiles and clothing industry	1	0.3	1	0.3	1	0.3	1	0.4	1	0.3	4	1.1
- Others	136	42.0	153	51.0	153	46.9	28	11.3	37	12.4	36	9.7
Trade	2	0.6	5	1.7	2	0.6	4	1.6	4	1.3	5	1.4
Holding companies	31	9.5	17	5.6	15	4.6	19	7.7	25	8.4	34	9.2
Other companies	0	-	24	8.0	20	6.1	27	10.9	25	8.4	27	7.3
Private investors	7	100.0	300	100.0	326	100.0	248	100.0	298	100.0	370	100.0

Source: Unpublished data of the Deutsche Bundesbank (25 May 1983).

Reproduced from Schlenk, 1983.

Table 16: Direct and indirect investment by investors from the Federal Republic of Germany in Portugal by sectors of activity of investment project

	1976		1977		1978		1979		1980		1981	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Manufacturing industry	178	54.9	105	35.0	143	43.9	150	60.5	196	65.8	245	66.2
- Chemical industry	34	10.5	23	7.7	39	12.0	17	6.9	29	9.7	33	8.9
- Plastics industry	5	1.5	3	1.0	4	1.2	5	2.0	7	2.4	6	1.6
- Ceramics and glass industry	2	0.6	1	0.3	2	0.6	2	0.8	3	1.0	3	0.8
- Manufacture of metallic products and machinery	6	1.9	5	1.7	10	3.1	19	7.7	28	9.4	44	11.9
- Electro-technical industry	99	30.5	49	16.3	57	17.5	81	32.7	90	30.2	111	30.0
- Precision and optical goods and watch production	X	-	X	-	X	-	11	4.4	17	5.7	20	5.4
- Leather and shoe industry	X	-	X	-	X	-	X	-	X	-	11	3.0
- Textiles industry	-	-	-	-	-	-	X	-	2	0.7	4	1.1
- Clothing industry	2	0.6	1	0.3	2	0.6	1	0.4	1	0.3	4	1.1
- Others	30	9.3	23	7.7	29	8.9	14	5.6	19	6.4	9	2.4
Service industry	32	9.9	60	20.0	59	18.1	87	35.1	89	29.8	108	28.2
Trade	13	4.0	23	7.7	30	9.2	57	23.0	64	21.4	93	25.1
Real estate and building construction	17	5.3	12	4.0	13	4.0	14	5.6	12	4.0	1	0.3
Other services	2	0.6	25	8.3	16	4.9	16	6.5	13	4.4	14	3.8
Other companies	114	35.2	135	45.0	124	38.0	11	4.4	13	4.4	17	4.6
Total	432	100.0	300	100.0	326	100.0	248	100.0	198	100.0	370	100.0

X = publication of these figures prohibited by German data-protection law.

Source: Unpublished data of the Deutsche Bundesbank (25 May 1983).

Reproduced from Schlenk, 1983.

Foreign direct investment from the Federal Republic of Germany in Portugal

Table 15 and 16 show foreign direct investment, 1976-81, the first by the sector of activity of the investor from the Federal Republic of Germany, the second by the sector of activity of the investment project. Most such investment originates in manufacturing industry, particularly chemicals and electro-technical industries but with metallic products and machinery and "others" well represented. A lower proportion of investment is destined for Portuguese manufacturing industry - around two-thirds in 1981 - as a proportion is directed to trade sectors in the host country. In Portugal, the electro-technical industry is the leading recipient sector followed by (in manufacturing) chemicals and metallic products and machinery.

Table 17 shows that aggregate direct investment from the Federal Republic of Germany reached DM 436.2 million in 1977 after a steady increase from 1962. This investment was estimated to have created 4,730 jobs in Portugal in 1975-76 according to Deubner (1982, table 18). The largest employers in manufacturing were Siemens (2,000), Hoechst (750) and Bayer (545). Employment in the largest seven German manufacturing subsidiaries was 2,290. Employment in German subsidiaries in the electrical industry also exceeded 2,175. This section has shown that multinationals from the Federal Republic of Germany have had a significant impact on employment in Portugal. These data suggest that over 4,700 jobs had been created in Portugal up to 1976.

Table 17: Direct investment from the Federal Republic of Germany in Portugal (aggregated from 1952 in million Deutschmark) and annual growth in percentage from 1962-77)

1962	15.9	
1963	18.3	+15.0%
1964	23.6	+29.0%
1965	28.0	+18.6%
1966	45.1	+61.0%
1967	55.0	+22.0%
1968	64.0	+16.3%
1969	67.8	+ 5.9%
1970	82.7	+22.0%
1971	110.4	+33.5%
1972	140.9	+27.6%
1973	197.7	+40.3%
1974	292.6	+48.0%
1975	370.8	+26.7%
1976	416.1	+12.2%
1977	436.2	+ 4.8%

Source: Deutsch-Portugiesische Handelskammer (16,17).

Reproduced from Schlenk, 1983.

Table 18: Employment creation by firms from the Federal Republic of Germany in Portugal (1975-76)

Name of firm	Employment in Portugal
Chemical industry	
Agfa Gavaert	370
Bayer	545
Beiersdorf	370
Hoechst	750
Kali-chemie	15
Schering	65
Wella	175
Electrical industry	
Osram	175
Siemens	2 000
Mechanical engineering	
Krupp	25
Kugalfisher	175
Publishing	
Bertelsmann	65
Total employment	4 730
Number of further manufacturing subsidiaries from the Federal Republic of Germany in Portugal:	25

Source: Deubner (12).

Reproduced from Schlenk, 1983.

Summary

Foreign direct investment in Portugal has been increasing in recent years, particularly in the service industries, although in manufacturing the following are all represented: chemicals, metal manufacture and machinery, basic metals, paper and printing and other manufactures.

(c) Spain

Inflows of foreign direct investment

As shown in table 19, actual inflows have grown spectacularly from an annual rate of just over 1.5 billion (current) pesetas to well over 100 billion current pesetas in 1982.

Table 19: Direct foreign investment flows into Spain (1959-82)
(Annual flows in billion pesetas)

Year	Inflow
1959	1.6
1960	3.6
1961	3.7
1962	2.3
1963	4.3
1964	5.1
1965	7.6
1966	7.9
1967	11.1
1968	10.3
1969	13.5
1970	12.7
1971	12.4
1972	14.0
1973	31.4
1974	11.7
1975	27.9
1976	13.5
1977	26.0
1978	56.8
1979	80.1
1980	72.0
1981	57.9
1982	113.4
1983	158.1
1984	267.0

Sources: Lloyds Bank Group, Spain: Economic Report 1983, p. 39. Business International, Spain: Europe's new industrial frontier, p. 26. Metra Consulting, Spain: Business Opportunites in the 1980s, p. 39. Economist Intelligence Unit, Spain: Prospects to 1985, p. 42.

Adapted from Hansen, 1983 for data up to 1982.

Inflows of foreign direct investment by country of origin

Table 20 shows authorised direct foreign investment in Spanish companies between 1974 and 1983. Companies from the Federal Republic of Germany and France have been very prominent investors in Spain. Indeed, in 1983, French firms were the biggest inward investors in Spain with firms from the Federal Republic of Germany in second place, investing respectively $213 million and $150 million in that year. In 1983, United Kingdom firms invested over $78 million (6.8 per cent of the total) and were the fourth largest national group of investors. United Kingdom investments in Spain have lagged behind those of France and the Federal Republic of Germany.

Table 20: Authorised direct foreign investment in Spanish companies by country of origin, 1974-83

	1974		1976		1978		1980		1982		1983	
	$ m	%	$ m	%	$ m	%	$ m	%	$ m	%	$ m	%
United States	52.0	24.6	29.6	14.7	184.86	24.7	277.74	24.8	357.58	23.1	134.15	11.7
Switzerland	35.1	16.4	5.2	17.5	115.15	15.3	188.70	17.0	299.74	19.3	104.36	9.1
Germany, Fed. Rep. of	39.8	19.2	32.5	16.3	113.55	15.1	133.32	11.7	159.91	10.3	150.30	13.1
France	26.2	12.6	15.8	7.8	80.21	1.4	134.96	11.8	67.71	4.3	213.00	18.5
Luxembourg	7.2	3.4	6.9	3.5	32.13	4.3	29.30	2.5	48.47	3.1	29.73	2.5
Netherlands	6.2	2.9	23.6	11.7	22.69	3.0	90.02	7.9	137.88	8.9	76.71	6.6
United Kingdom	10.0	4.8	19.5	9.7	20.51	2.7	36.45	2.9	87.20	5.6	78.19	6.8
Belgium	5.3	3.3	8.8	4.3	8.50	1.1	6.44	0.5	8.48	0.5	11.76	1.0
Italy	3.1	1.5	3.0	1.5	4.50	0.5	37.29	3.2	16.96	1.1	32.78	2.8
Japan	1.9	0.9	5.5	2.3	3.56	0.3	0.97	0.08	29.96	1.9	30.78	2.6
Sweden	6.0	2.9	10.4	5.1	-	-	7.04	0.6	15.88	1.0	8.42	0.7
Spain[a]	-	-	-	-	56.5	7.5	90.32	7.9	172.51	11.1	139.83	12.2
Others	14.9	8.4	10.7	5.6	106.76	-	172.96	9.2	146.87	9.8	136.55	12.4

[a] Spaniards residing abroad.

Source: Instituto de Comercio Exterior.

Reproduced from Multinational Business, No. 2, 1984.

Inflows of foreign direct investment by sector

Table 21 shows the inflow of authorised foreign direct investment by broad sector of activity. It will be seen that the service sector (banking and finance, other services) has attracted significant direct investment, particularly in 1983. Manufacturing (including minerals processing) accounted for 61.1 per cent of the total inflow in 1983, however, and has consistently attracted between 60 and 75 per cent of inward investment. Most of the remainder goes into commerce, hotels and restaurants.

Foreign control of Spanish industry

The extent of foreign control of major industrial sectors in Spain is shown in table 22. Overall, foreign-controlled companies account for approximately 47 per cent of turnover in major Spanish industries and for 43 per cent of employment. The most foreign-dominated sectors are motor vehicles and transportation equipment (81.4 per cent of turnover), electrical machinery (78.7 per cent), chemicals (77.7 per cent) and other industries (77.2 per cent). In these industries respectively, 81.5 per cent, 77.7 per cent, 75.8 per cent and 66.1 per cent of employment is within foreign firms.

It is clear that the decisions of foreign-owned companies have had and will continue to have a very large impact on the structure of Spanish industry and on employment in Spain.

Summary

Foreign direct investment has had a major effect on the development of Spanish industry. Foreign companies employ approximately 43 per cent of Spain's industrial workforce and in the key sectors of chemicals, electrical machinery and motor vehicles, employment in foreign-controlled companies accounts for over three-quarters of total employment.

Conclusion

It is apparent, from the brief survey of foreign direct investment in the three host countries, that Greece, Portugal and Spain are all heavily dependent on foreign investment for industrial and commercial development. In each country, critical industries such as chemicals, electrical engineering, motor vehicles and information-based technologies are heavily dependent on foreign investment. Consequently, the decisions of multinationals on where to invest and how to service markets will have a profound effect on employment in these countries.

France, the Federal Republic of Germany and the United Kingdom are major origins of firms with considerable investments in each of the countries, although British firms are under-represented in Greece. France is the largest origin for multinationals investing in Portugal, and in Spain it has recently begun to invest heavily. In Greece, French firms represent a quarter of all authorised foreign direct investment (second only to the United States). Enterprises from the Federal Republic of Germany are represented at a modest level in Greece but are consistently heavy investors in Spain and also contribute to investment and employment in Portuguese industry. British firms have relatively neglected these three host countries as investment targets. Their tiny representation in Greece has been mentioned, and whilst investment

Table 21: Authorised direct foreign investment in Spanish companies, 1974-83 by sector of activity (in dollar equivalent)

	1974		1976		1978		1980		1982		1983	
	$ m	%	$ m	%	$ m	%	$ m	%	$ m	%	$ m	%
Agriculture, forestry and fishing	3.7	2.1	0.5	0.2	2.4	0.4	17.5	1.5	36.4	2.6	22.2	1.9
Energy, water	-	-	0.6	0.3	7.4	1.0	-	-	2.2	0.1	9.6	0.8
Extraction/processing of minerals and chemical products	27.6	13.2	29.8	14.8	21.8	29.3	233.1	8.9	236.7	15.2	165.7	14.4
Metal industries	53.5	24.0	44.8	22.2	22.7	30.4	397.9	34.9	460.3	29.7	416.4	36.3
Other industries	71.8	36.3	46.9	23.3	9.2	12.5	170.6	14.9	373.8	24.1	120.2	10.4
Construction	2.0	0.9	0.12	0.6	11.5	1.1	9.8	0.8	9.7	0.6	16.0	1.4
Commerce, hotels and restaurants	16.8	8.1	71.6	35.5	14.4	19.3	226.0	19.8	233.1	15.0	175.8	15.3
Transport	-	-	0.19	0.1	3.6	0.5	2.3	0.2	52.8	3.4	5.3	0.4
Banking and finance	2.7	1.2	6.5	3.2	38.8	5.2	89.0	7.8	128.9	8.3	209.0	18.0
Other services	29.6	14.2	-	-	2.1	0.3	2.4	0.2	10.0	0.6	8.2	9.7
Total	207.8	100.0	201.1	100.0	748.5	100.0	1 138.8	100.0	1 549.5	100.0	1 146.2	100.0

Source: Instituto de Comercio exterior.

Reproduced from Multinational Business, No. 2, 1984.

Table 22: Relative importance of foreign-controlled companies in major industrial sectors of the Spanish economy

	% of turnover	% of employment
Minerals	52.42	17.50
Food, drink, tobacco	46.69	40.06
Textiles	29.92	10.56
Leather, footwear, clothing	8.80	7.32
Timber, cork, furniture	5.47	4.55
Paper and newspapers	21.40	26.15
Oil and related products	56.38	57.33
Chemicals	77.65	75.80
Non-metallic mineral products	61.19	63.28
Steel	28.19	34.58
Processing of non-ferrous metals	57.01	57.34
Manufacture of metal products	42.27	40.53
Non-electrical machinery	61.07	58.33
Electrical machinery	78.65	77.76
Shipbuilding	0.00	0.00
Motor vehicles, transport	81.41	81.50
Building and associated industries	9.91	11.90
Electricity, water and gas	1.21	0.57
Other industries	77.234	66.07
Total	46.94	42.84

Source: Economia Industrial, No. 180 (December 1978).

in Portugal matches that of enterprises from the Federal Republic of Germany, British firms' investment in Spain has recently been small relative to French and German firms.

Overall, investment by multinationals from France, the Federal Republic of Germany and the United Kingdom has played an important role in the industrial development of the three host countries and their location and market servicing policies continue to have a major impact on employment in Greece, Portugal and Spain.

The recent entry (1 January 1986) of the Iberian countries into the European Communities is likely to have a major impact on their prospects to attract foreign direct investment, and although this will have been anticipated to a certain extent by investors, its impact is worthy of further analysis. The following chapter begins this process by putting forward the methodology of our empirical research.

PART III: EMPLOYMENT IMPACT

(A) Methodology of the case studies

The sample of firms

A total of 19 firms were interviewed. Three broad industry groupings were covered: chemicals (including pharmaceuticals), engineering and automobiles. The sample includes five British firms, five from the Federal Republic of Germany and nine French firms. Ten of the firms' affiliates were in Spain, eight in Portugal and one in Greece. Table 23 shows the breakdown of the sample by nationality of parent, location of affiliate and industrial sector.

Table 24 shows the breakdown of the sample by industrial sector, subdivided by location and ownership. It shows that there are seven chemical firms, seven engineering firms and five automobile firms. United Kingdom firms are evenly distributed across the three sectors, firms from the Federal Republic of Germany are relatively concentrated in chemicals (three of five) and French firms are more numerous in automobiles (four of nine).

The questionnaire

The structured questionnaire (available upon request from the author) examines the major variables which determine the employment of a foreign direct investment (Buckley and Artisien, 1987). These include: the nature of integration within a multinational firm (we would expect the removal of barriers to trade and investment to decrease horizontal integration but to increase vertical integration as locations of production maximise economies of scale but differentiate their activities spatially), the size and speed of tariff reductions, elasticities of supply and demand for outputs, market sizes, transport costs, differential costs of labour, technical progress, government policies and the macro-economic environment and the relevant "alternative position".

(B) Results of the 19 case studies

Case study 1: French automobile company's direct investment in Spain

Case 1 is a large French-based automobile company. It set up its subsidiary in Spain in 1965 and in Portugal in the late 1960s. It was one of the first car manufacturing concerns to show an interest in the Spanish market and opened a sales distribution network in Madrid prior to the Second World War. After the war, its sale of cars to Spain was severely constrained by the host government's policy of economic isolation.

In 1965, the company offered its technical expertise to a Spanish car firm in return for a 50 per cent shareholding in it. In 1984, two-thirds of the output of the Spanish operations serviced the Spanish market; the other third was exported to France, from where it was re-exported in the form of kits to Latin America. The combined operations of the newly formed company led to an increase in the French company's market share both in Europe and Latin America.

Table 23: The sample by country of parent, location of affiliate and industrial sector

Parent country	Affiliate	Industrial sector
United Kingdom	3 subsidiaries in Spain	Pharmaceuticals
		Engineering
		Engineering
	2 subsidiaries in Portugal	Automobiles
		Pharmaceuticals
Germany, Fed. Rep. of	3 subsidiaries in Spain	Engineering
		Chemicals
		Chemicals/Pharmaceuticals
	2 subsidiaries in Portugal	Engineering
		Chemicals/Pharmaceuticals
France	4 subsidiaries in Spain	Automobiles
		Automobiles
		Chemicals
		Engineering
	4 subsidiaries in Portugal	Automobiles
		Automobiles
		Engineering
		Engineering
	1 subsidiary in Greece	Chemicals
Total	19	

Table 24: The sample by industrial sector, location and nationality of parent

Industrial sector	Number	Location	Nationality
Pharmaceuticals/chemicals	7	4 Spain	2 United Kingdom
		2 Portugal	3 Germany, Fed. Rep. of
		1 Greece	2 France
Engineering	7	4 Spain	2 United Kingdom
		3 Portugal	2 Germany, Fed. Rep. of
			3 France
Automobiles	5	3 Portugal	1 United Kingdom
		2 Spain	4 France
Total	19		

In 1973, the company had 14 affiliates and 45 sales and 30 after-sales outlets. By 1984, these had increased to 60 and 42 respectively.

The introduction of several new saloon models in the 1970s coincided with the firm's accelerated penetration of the Spanish market. The major product-related objective was to improve the quality and reliability of vehicles. The company was confident that its marginally higher price range (when compared with that of its competitors) had not adversely affected sales; on the contrary, a higher price was seen as a symbol of quality by the Spanish customer.

When production began in 1965, it employed 3,000 persons. Except for a dozen French technicians and advisers, the labour force was entirely local and it was claimed that none would have had jobs had the investment not been made. The evidence thus suggested that the investment has been employment-creating. This is strengthened by the fact that, due to Spain's import restrictions, the Spanish market could not have been serviced from France.

The workforce (see table 25.1) increased by over sevenfold within 18 years, reaching a peak of over 22,000 in 1979. Since then, however, employment has been stagnant, recording a small drop. As no immediate expansion is envisaged, the labour force will not increase over the next five years. Figures for 1983 can be broken down into approximately 26 per cent skilled (including managerial), 32 per cent semi-skilled and 42 per cent unskilled.

The overall growth in employment levels of the period 1965-1983 was accompanied by a substantial increase in the firm's share of the Spanish market, from 10 per cent in 1965 to over 35 per cent in the early 1980s.

The slow recovery of the Spanish car market in the wake of the oil crisis was reported to be a major factor in the company's future employment strategy: no major changes in the workforce are anticipated in the second half of the 1980s. Future investments in capital-intensive technology strengthen further the unlikelihood of increasing employment. Although the firm had no intention of increasing its level of new investment in Spain in the near future, Spain's entry into the European Community (EC) will necessitate a degree of integration, i.e. greater specialisation into a limited number of models suitable for the EC market.

Table 25.1 Breakdown of numbers employed and of penetration of Spanish market

Year	Numbers employed	Percentage of Spanish market
1965	3 000	10.0
1979	22 396	31.2
1980	22 027	37.1
1981	21 913	35.7
1982	21 813	35.7
1983	21 714	34.0

Lower labour costs in Spain than in France were described as an important factor in the decision to set up manufacturing in Spain and the degree of unionisation was inquired about. The firm was very pleased with the general level of productivity. Since the return of democracy, active consultation had taken place between management and the trade unions; a yearly meeting is convened to review salary settlements. No major problems with the unions were reported and the labour force was described as co-operative. The company's success in labour relations seemed to reflect its sensitivity to the question of labour problems: the company prepares a comprehensive check-list which is consulted by the unions before a major investment is made.

Except for a handful of French managers, the company has adhered to its stated policy of giving preference to local managers. There is an ongoing management training scheme, part of which is conducted at the company's headquarters in France. The company also gives priority to promotion from within the Spanish subsidiaries. Only for the appointment of senior managers is the decision taken in Paris, with local consultation.

The investment was a "horizontal take-over", and one of the plants acquired belonged to a small-scale competitor. It was the site and the need to produce in the Spanish market that made the take-over of this competitor particularly attractive. As a result of the take-over, the range of the firm's production was extended, with new models coming on to the market. The need to adapt French cars to Spanish road and weather conditions resulted in the introduction of specific suspension and heating devices. The Spanish subsidiaries also provide spare parts for the French market.

The company investigated the availability of government inducements which were reported to have played a part in the decision to invest in Spain. Accelerated fiscal amortisation, export assistance and the lifting of the export tax were mentioned. The current level of taxation on the firm's profit in Spain (35 per cent) compares favourably with the level of taxation in France (50 per cent).

Case study 2: French automobile company's direct investment in Portugal

The second case study involves the same parent car company as the first case study. It has two subsidiaries in Portugal. The Portuguese operations started in 1969. Ceilings on the number of vehicles which could be exported to Portugal in the mid-1960s (600 per annum) were instrumental in the decision to set up the subsidiaries. One subsidiary manufactures 10,000 vehicles per year, which are exported to France, the other has an output of 40,000 vehicles, 250,000 engines and 80,000 gearboxes. Most of this output is destined for the Portuguese market and third markets (mostly in the European Community).

The motivation for this investment was fourfold: first, to develop the Portuguese car market, i.e. to take advantage of the fast growing demand for French cars in the late 1960s; second, to service the Portuguese market; third, to increase production as it was felt essential to be near prospective customers; fourth, to draw on the plentiful supply of cheap labour.

No alternative country for the investment was considered at the time; the decision to invest in Portugal was predominantly determined by tax concessions: the firm was granted tax exemption on profit for ten years. From this we can assume that no investment would have been made elsewhere outside France at the time, and that the setting up of a subsidiary in Portugal was employment-creating for the host country.

The existing plant employed 1,600 people when it was taken over; of these, 1,200 were male and 400 female. In terms of skill, the figures break down as follows: 25 per cent were skilled, 20 per cent were semi-skilled and 55 per cent were unskilled. The majority of skilled and semi-skilled workers were male. Within three years of the start of operations, the labour force had doubled to 2,500, of which 1,825 were male and 675 female. The percentage of skilled to unskilled remained about the same, the only change being in the proportion of semi-skilled workers which had fallen, reflecting the company's policy of upgrading skills through labour training programmes. This last trend is best illustrated over the period 1972-83, when merely 5 per cent of the labour force remained semi-skilled. Over this period the skilled workforce increased from 28 per cent to 38.5 per cent of the total labour force. The percentage of males to females fell from 75 per cent male in 1969 to 68 per cent in 1983, but the overwhelming majority of skilled jobs remained in the hands of men.

Table 25.2: Numbers employed in 1969, 1972 and 1983 in terms of sex and skill levels

	1969	1972	1983
Male	1 200	1 825	2 400
Female	400	675	1 100
Skilled	400	700	1 350
Semi-skilled	320	440	200
Unskilled	880	1 360	1 950
Total employed	1 600	2 500	3 500
Increase through investment		900	1 900

The majority of the workforce hired after the take-over in 1969 was previously unemployed. Employment was created to the tune of nearly 1,000 during the first three years and another 1,000 over the next ten years. The initial recruitment of managerial personnel was conducted in France: approximately 15 French managers were recruited in the first year of operations, and less than five locally. Although the take-over agreement stipulated that the French firm had to re-employ the existing labour force, this excluded the existing team of Portuguese managers. The majority of French managers transferred to Portugal settled there permanently. By 1983, the number of managers was estimated to be about 30, the majority of whom are Portuguese.

The company's policy towards management in Portugal bears similarities to its Spanish operations: after the initial start-up phase, to train and employ local personnel in preference to expatriates. Responsibility for the recruitment of senior personnel is with the French headquarters. No plans were afoot to increase the workforce or take on additional managerial personnel over the next two to three years.

The company investigated the labour laws and statutory conditions of employment before starting operations and was aware that it could not terminate a contract with an employee during the first six months of employment. The labour laws seemed not to influence the company's decision to invest. Labour costs, however, were an important factor in the investment decision. The productivity of labour was described as satisfactory, but inferior to that in French plants. One of the subsidiaries was still going through a transitionary period: its operations started in the late 1970s and full capacity had yet to be reached. The company did not consider any alternative country for the investment when it set up its first subsidiary, but with its second investment the anticipation of Portugal's entry into the EC was an important siting factor, particularly the anticipated lowering of customs duties.

The most pressing problems encountered in setting up production facilities was that of horizontal integration, which called for a complete alteration of the existing production line due to the introduction of modern technology. The Portuguese subsidiaries manufacture the same range of models as the French plants.

The relevant trade unions are regularly consulted, and few strikes were reported. The French parent company thought that its good industrial relations record in Portugal reflected the employment stability it offered to the local labour force, as well as the higher wages and better working conditions than those offered by Portuguese firms.

In conclusion, it is clear that the investment was employment-creating for the host country but the possibility exists that some of the export activity could have been located in France. The attractions of cheaper labour and tax concessions might have bid away a proportion of these jobs from France. The company has also rationalised its investments, increasing vertical integration by building engines and gearboxes in Portugal.

Case study 3: French chemical company's direct investment in Spain

The third case study is a large French multinational chemicals company with a highly diversified production programme including organic and inorganic chemicals, agricultural chemicals, plastics and synthetic fibres and pharmaceuticals. It is established in four continents, producing in Europe, Africa, North America and South-East Asia.

The company set up its manufacturing base in Spain in the mid-1950s with the prime objective of servicing the Spanish pharmaceuticals market. During approximately the first ten years of operations, the subsidiary serviced almost exclusively the Spanish market. Since the mid-1960s, between 20 and 25 per cent of output has been exported to France and to third markets, principally those of Latin America.

Spain's imposition of high tariffs on French imports prompted the direct investment. Another motivation was the potential offered by the Spanish pharmaceuticals market. Government inducements did not enter into the investment decision as they were not available at the time. The company's long-standing sales involvement in Spain dates back to before the Second World War, and paved the way for the direct investment; no alternative country was considered at the time of the Spanish investment.

The investment was a greenfield venture (after a sales subsidiary had been established). At the peak of its employment (1965), the French company employed 4,800: of these, 450 were skilled (including managerial staff), 750 semi-skilled and 3,600 unskilled. Few females were employed because they were not sufficiently qualified. The majority of those taken on (particularly the unskilled) came from a pool of unemployed and part-time labourers.

If we look at table 25.3, we can see that the labour force subsequently declined over the next 20 years. By 1983, the number employed had fallen to 4,000, a loss of 800, the majority of them unskilled workers (600). Although the company expanded its investment programme over that period, the expansion was capital-intensive. The new technology, which was introduced and formed part of a rationalisation package aimed at reducing costs of production and increasing efficiency, made some jobs unnecessary.

Table 25.3: Numbers employed in Spanish affiliate in 1965 and 1983

	1965	1983
Skilled	450	400
Semi-skilled	750	600
Unskilled	3 600	3 000
Total employed	4 800	4 000
Jobs created through investment	+4 800	-800

The company has acquired a reputation for its training programmes: most members of the labour force undergo some training and those who come in as unskilled labourers are given the opportunity to train for semi-skilled work. The firm has training instructors, and skilled workers and managerial staff are sent on external courses (either in Spain or to France) to update their skills.

The company prefers to recruit from within where possible; failing this, the subsidiary defines the profile of the person required and hires an external employment "contractor" to advertise the job in the press and propose a shortlist of candidates. The company's policy is to keep the workforce informed of the impact of new technology, both in its favourable aspects on widening skills and its potentially damaging effect on employment. The company takes on qualified graduates on temporary six-months' approval prior to offering them permanent employment. Immigrant workers from North Africa occasionally join the labour force for short periods on their way to other European countries.

Labour laws and statutory conditions of employment were investigated but did not influence the decision to invest; nor did labour costs, although these were lower than in France (10 per cent of total costs in chemicals and 25 per cent in pharmaceuticals). As suggested above, the company is very sensitive to the question of labour relations: negotiations with the main Spanish trade unions took place before the company implemented its labour-saving programme. No "insurmountable" problems were encountered with the unions, whose overall attitude to future investment and employment was described as "co-operative".

One of the company's major concerns was to raise the level of technology of the subsidiary to French standards. The technological gap is reported to have narrowed considerably. Instrumental to the aforementioned objective is the company's policy of "twinning" each department in the subsidiary to a corresponding division in the French plants.

By 1983, all but one of the managers were Spaniards; this contrasted markedly with the earlier stages of production when all 15 managers were transferred from the French plants. The Spanish plant produces the same products as the French plants; no extension of the ranges of home products has been introduced.

Again the employment effect for the host country has been positive. The protected Spanish market could not have been serviced from France so the proportion of employment engaged in production for the Spanish market has not been diverted from France. It seems that the extra output exported could have been sourced from France, but it has contributed to the viability of the Spanish plants.

Case study 4. United Kingdom mechanical engineering company in Spain

The fourth case study is a medium-sized British mechanical engineering company specialising in brake linings. Its activities are divided into three main areas: friction materials (75 per cent), conveyor belting (20 per cent) and mechanical handling (5 per cent). It has affiliates in the United Kingdom, Federal Republic of Germany, Spain, United States, Canada, Australia and South Africa.

The company set up a brake lining subsidiary in a large Spanish city in 1953, essentially to service the Spanish market. Contractual restrictions do not allow the subsidiary to export to either the United Kingdom and the Federal Republic of Germany, or to licensee countries, unless special permission is granted. The company has had European connections since before the Second World War; its long association with a family business in Spain was instrumental in setting up manufacturing there. The anticipation of a growing motor industry in Spain was the factor which precipitated the investment. There was never any question as to the country of destination of the investment. Only when exports were felt no longer to be satisfactory was the direct investment envisaged.

The executives interviewed could not recall whether government inducements were available in Spain at the time. As far as the firm was concerned, the viability of the investment was the only important consideration. The Spanish market had, prior to the direct investment, been supplied through exports from England; in the first year of manufacturing, the entirety of exports in the brake lining division was supplanted by direct production, resulting in a loss of business for the British plant.

The firm acquired a large share of the brake lining market in Spain as few other manufacturers set up in Spain at the time. The firm's share of the Spanish market in 1983 was estimated at 28 per cent, compared with less than 10 per cent when the subsidiary was set up. This growth has been at the expense of competitors, some of whom, in spite of offering a cheaper product, have been unable to cut into the British firm's share of the market. Only a small proportion of the Spanish brake lining market is now serviced by non-EC imports, and the company anticipated no change in the foreseeable future as the Spanish market is well protected by tariffs. The only real problem the company encountered in setting up production facilities was in locating raw materials; this was overcome by a constant and thorough search for raw materials for a full two years before production started.

The investment was greenfield horizontal. When production began in the mid-1950s, a total labour force of 130 was employed. No employees were transferred from other plants within the group. The entire workforce was local and since there was little unemployment in the area at the time (1953), the overall majority of employees will have left other jobs. No information was available on the skills of employees taken on in 1953. By 1983, the investment employed 160 people, an increase of 30. Of these, 37 were managerial, 20 skilled and 103 unskilled.

The company did not feel the need to make a systematic investigation of labour laws and conditions of employment; this knowledge was gathered gradually during its long association with the host nation. Although labour laws were an important consideration, they had not played an essential part in the decision to invest; these matters were well understood by the company which took the advice of its subsidiary and left it in charge of labour relations. Labour costs represent about 38 per cent of sales. The question of labour costs did not worry the parent company (given the relatively high cost of labour in Britain), which was highly satisfied with the productivity of the Spanish labour force.

The industrial relations record has been good: except for a handful of strikes in the mid-1970s, the Spanish plant has been free of industrial disputes. There are two unions in the plant, one representing the shop-floor, the other the white-collar workers. A yearly consultative procedure with the two trade unions is strictly adhered to; both unions view favourably the British investment as a source of employment and job security. The company seeks to recruit local management personnel where possible. The British manager, transferred to Spain at the initial stages of production, remained on the site for a full year; he now visits the subsidiary several times a year for short periods. A training scheme is available for managers. When recruiting, the firm gives preference to experienced personnel. The responsibility for recruiting is shared between the parent company (which selects managerial employees) and the local manager who hires the workforce.

Investment policy is controlled from the firm's headquarters. Local investment up to a value of £5,000 is allowed without consultation with the headquarters; approval from the local Board of Directors is required for investments exceeding £5,000 and below £20,000; above £20,000, the firm's headquarters make the final decision.

The Spanish plant produces the same products as the home country, although the product range is narrower; the technology employed in Spain is less "sophisticated" than that used in other European plants. The level of taxation on the subsidiary's profit at 32 per cent is clearly lower than corporation tax on the firm's activities in Britain. Export incentives have clearly influenced the firm's export strategy: approximately 40 per cent of the subsidiary's output is exported. The company had no concrete expansion

plans for the near future, merely a consolidation programme of current activities. Declining profit levels since 1975 have raised the possibility of closure.

The firm's experience reinforces the claim that tariff protection in the host country acts as a major stimulating force for setting up a direct investment. It is clear that the company's increase in market share was a result of the direct investment and could not have occurred without it. Since this investment was of the greenfield horizontal type, this implies employment creation to the extent that the firm would probably (under the aforementioned circumstances) not have expanded its home operations or invested elsewhere at the time. However, a degree of caution is required as the investment was made at the expense of labour from other local firms. Whether or not, in real terms, this investment was labour diverting depended on the jobs vacated being filled again.

Overall therefore, for Spain, the probability is that this investment created employment. There was initially a decrease of employment in the source country (United Kingdom), when exports were replaced by direct investment. In the long run, it is likely that these exports would have been supplanted to a large extent by rival multinationals and indigenous investments in Spain. The switch in market servicing policy from the UK exports to direct investment must have decreased UK employment in the medium term for final goods production, although some intermediate goods supplies to Spain continued.

Case study 5: United Kingdom pharmaceuticals company in Spain

Case study 5 concerns a large United Kingdom-based pharmaceuticals company with operations throughout Western Europe. Some of these concerns serve only their own domestic market; others export large amounts of their output. The Spanish investment was made in 1979, when 50 per cent of the equity in the subsidiary was purchased; the other 50 per cent was purchased in 1982. Ninety per cent of the output services the Spanish market and 10 per cent the markets of Central America. The company's Spanish operations include the production of antibiotics and anti-rheumatic products.

Four main factors motivated the British company to invest in Spain. First, the size of the Spanish pharmaceuticals market, the sixth largest in the world. Secondly, the optimisation of income through local production rather than through distribution. Third, the obligation put on the company to register its products in Spanish was another motivating factor; fourth, the availability of Spanish-registered pharmaceuticals offered great potential for expanding exports to the Spanish-speaking countries of Central America, where the firm already had sales offices. Although both the Spanish and Central American markets had previously been serviced via exports, this was on a limited scale. To service the aforementioned markets from other plants would have been more difficult and time consuming.

The investment was a horizontal take-over. The number employed in the Spanish plant when it was taken over was 592. Within a few months of becoming operational, the firm shed 57 employees, most of whom were unskilled workers. In the first year of operations, 10 per cent were skilled and managerial, 15 per cent made up the administrative staff, 25 per cent were semi-skilled (including sales representatives), the remainder (50 per cent) were unskilled. In terms of sex distribution, the workforce was divided equally between males and females (see table 25.4).

Within three years, the introduction of a rationalisation programme reduced the workforce by 15 to 520, but more significantly, the skill mix was altered; the numbers of managerial, skilled and administrative staff increased by about 15 per cent, whilst the number of semi-skilled went up by 23 per cent. These increases were at the expense of the unskilled whose numbers declined from 263 in 1979 to 195 in 1982 (a reduction of 26 per cent). The male-female breakdown for 1985 remained unchanged, as the increase in the numbers of semi-skilled workers was brought about by upgrading previously unskilled labour based on the firm's own training programme. The figures for 1983 are identical to 1982 and mark the beginning of a consolidation period for the second half of the 1980s, during which a slight increase in the labour force is anticipated. The company's recruitment policy is to advertise job descriptions for skilled vacancies via local employment agencies. The subsidiary has total freedom to select its own workforce, except for the Managing Director who is appointed by the British parent company.

Table 25.4: Numbers employed in Spanish subsidiary in 1979, 1982 and 1983 in terms of skill and sex

	1979	1982	1983
Managerial and skilled	55	65	65
Administration	82	94	94
Semi-skilled (including reps.)	135	166	166
Unskilled	263	195	195
Total employed	535	520	520
Males/Females	approximately 50-50		

The firm's employment policy is to recruit local staff where possible; the labour force in 1983 was entirely local: only the Managing Director was an expatriate. Only during the first two-and-a-half years of operations were technical staff transferred from Britain on a temporary basis to supervise quality control.

The firm investigated labour laws and statutory conditions of employment, but its findings did not influence the decision to invest. Labour costs, representing only 9 per cent of total costs, were not, surprisingly, an important motivation for the investment. Total costs were a major preoccupation due to the lack of an adequate costing system at the Spanish plant. A pre-investment investigation of the Spanish plant's industrial relations record revealed no real problems. Spain's two major unions were consulted prior to the investment and responded favourably to it; the unions' ongoing co-operation forms part of an agreement with the firm that current employment levels will be sustained.

As the investment was of the horizontal take-over type, the firm exercised its option to re-employ the existing local management team under the leadership of a British Managing Director. By 1983, all nine managers remained Spaniards. The firm has no plans to recruit further management personnel in the immediate future. The subsidiary is in charge of most managerial appointments, except for the senior managers and Managing Director who are recruited by headquarters. The Spanish plant produces the same goods as the home country, with only two exceptions. The subsidiary's activities have extended the range of the firm's home products.

The firm did not encounter any major problems on setting up operations in Spain; on the contrary, it took over a firm which had good production facilities and an active research unit. A minor problem was caused by "combination" pharmaceuticals which are not accepted on EC markets. In an attempt to solve this problem, it was decided to gradually phase out "combination" products in anticipation of Spain's accession to the EC.

The firm was unimpressed by investment incentives. In fact, the firm is contractually obliged to discharge a number of obligations: these include spending an annual sum of 90 million pesetas on research, making new products from headquarters research available to the subsidiary, and keeping up existing employment levels. The level of taxation (33 per cent on profits), although lower than in Britain, was not regarded as a major issue in the investment decision.

The employment impact of this investment has been to maintain employment in Spain by the introduction of new technology and new products (apart from the fall due to rationalisation) and to divert only a small amount of employment from the United Kingdom. As the Spanish and Latin American markets have been difficult to service from the United Kingdom and because of the need to register and adapt products in the Spanish market, any employment diversion effects from the United Kingdom must have been small.

Case study 6: United Kingdom engineering firm in Spain

The sixth case study is a United Kingdom engineering firm with manufacturing operations in Europe, North and South America, Africa, India and Australia. It specialises in the production of friction materials for both the original equipment and the replacement equipment markets; these include disc pads and brake linings for motor cycles, disc pads, brake linings and automatic transmission products for cars, vans, trucks and buses and brake blocks for railway carriages. The company was established as a family firm at the turn of the century; within 25 years, sales had risen to about £1 million a year; by 1978, world-wide sales exceeded £130 million. It first contemplated manufacturing in Spain in the early 1960s; a joint venture was set up in 1963 and production started immediately. The United Kingdom company owns 34 per cent of the equity. The investment services principally the Spanish market, with some exports to North and West Africa.

The interviewees cited four main factors which prompted the investment: firstly, the rapid growth of Spain's vehicle market in the 1960s; secondly, the availability of development grants to set up manufacturing on the outskirts of Madrid; thirdly, tax concessions and cheap loans were described as very favourable; fourthly, the need to circumvent import duties which had become a serious obstacle to the firm's exports from Britain and France.

The decision to set up a joint venture in Spain grew out of previous association; the firm's French subsidiary had agents in Spain who perceived the opportunity for developing friction materials locally, and suggested the investment to the British parent company. Thus, the need did not arise to consider an alternative country for the investment at the time.

The Spanish market had, prior to the investment, been serviced through exports from the United Kingdom and France. In the first year of operations, exports were entirely supplanted by direct production, resulting in a drop in production in the United Kingdom and French plants and an unspecified number of job losses. The number employed when the plant was first operational in 1963-64 was 31 unskilled and semi-skilled workers, plus five skilled and

managerial staff. Over the next 20 years, the labour force increased by tenfold to 303 in 1982: of these, 193 were unskilled and 110 skilled and managerial. The firm's share of the Spanish market increased accordingly: from less than 10 per cent of the spare parts market for automobiles in 1963, it was servicing in 1982 50 per cent of the disc pad market, 47 per cent of the brake linings market and 69 per cent of the clutch market. The increase in market share was reported to have been at the expense of local manufacturers, six of whom accounted for over 80 per cent of the spare parts market in the mid-1960s. The employment figures for 1983 show a small drop of five on 1982, all unskilled workers.

Table 25.5: Breakdown of numbers employed and of penetration of Spanish market

Year	Skilled and managerial	Semi-skilled unskilled	Total employed	Percentage of Spanish market
1963	5	31	36	10% of spare parts
1982	110	193	303	n.a.
1983	110	288	288	(50% of disc pads (47% of brake linings (69% of clutch

Initially, one manager from the French plant was employed. Today, all managerial staff but one are local, although they all received their training in the United Kingdom or France. It has been and remains the group's policy to enlist local management wherever possible. However, the company had no intention to recruit new managerial personnel in the near future. Senior managers from the United Kingdom and French plants share responsibility for management recruitment at the Spanish plant. The Spanish venture produces the same range of friction equipment as the United Kingdom and French plants; no product adaptation was required for the Spanish market.

The setting up of the joint venture presented no major problem: the company associated the smooth running of operations with its minority ownership. Some minor difficulties arose with the Spanish authorities over the repatriation of profits, a problem not uncommon in other host nations with joint venture legislation. Labour laws were investigated, but did not influence the decision to invest in any significant way. Labour costs, estimated at 33 per cent of total costs, compared evenly with other countries where the firm operated. The cost of materials in Spain was deemed more important than that of labour. The attitude of the trade unions represented at the plant was generally favourable to the investment.

Although the firm had plans to expand the range of products in the near future, it did not intend to recruit labour to implement this expansion. Overall, this investment has not replaced employment in the source country as it was virtually impossible to export to the highly protected Spanish market. Some employment diversion from local companies to this subsidiary has occurred through the process of competition. Thus, the employment-creating impact in Spain is limited.

Case study 7: French multinational engineering firm in Portugal

Study 7 concerns a large French multinational with a world-wide network of subsidiaries. It has a range of products which include industrial equipment, railway passenger carriages, electrical and chemical products. This case study relates to a subsidiary producing alternators and rolling stock in Portugal. The company controls 45 per cent of the equity; the Portuguese Government, with 55 per cent of the equity, is the majority shareholder. The French company first became involved in Portugal in the early 1940s. A commercial branch was initially established. Subsequently, the French company discovered a small firm with a reputation in the electrical engineering industry. In 1943, it decided to offer its technical expertise to this company in return for a minority shareholding in it. This infusion of technology led to a significant but unspecified increase in the company's share of the Portuguese market. In the mid-1950s the French parent company became a 100 per cent shareholder, only to become once again, ten years later, a minority shareholder (with 45 per cent of the equity) when the Portuguese Government stepped in.

The major motivating factors that led to the investment were the desire to open up a new market and the availability of cheaper labour. Host government inducements were not investigated, nor were other countries considered for the investment. The investment went smoothly from the beginning and no major problem was reported in setting up production facilities.

The problems encountered concerned high manufacturing prices due to labour inefficiency (this was overcome by shortening the production process) and the absence of sound financial management. For its part, the subsidiary had to convince the parent company of the need to set up a separate marketing division in Portugal. The question of labour difficulties, laws and obligations caused no problems because all these matters were well understood by the firm with which the French company went into partnership. Thus, the parent company took the advice of the host concern in these matters and left labour relations to the Portuguese firm.

In 1944, the Portuguese firm employed approximately 700: all this labour was local and the majority were males. By 1983, the labour force totalled 2,700, an increase of 2,000 in four decades. This represented an increase in the number of female employees from 14 per cent to 29 per cent of the workforce (see table 25.6). The skilled labour (most of whom are engineers) are recruited from local polytechnics. Both skilled and semi-skilled staff are trained by the firm. Skilled and managerial staff are sent on external courses to update their skills. Up to the 1960s, a small number of French engineers (four or five) were posted to the subsidiary to provide technical assistance; this is no longer the case. The firm employs between 300 and 400 casual workers, but numbers are falling and expected to continue to fall. The subsidiary's output is destined primarily for the domestic market, which is the recipient of 98 per cent of hydro-mechanical products, 40 per cent of alternators and 35 per cent of turbines.

The industrial relations record was described as "very satisfactory". Most employees are union members, two-thirds of the workforce belonging to the same trade union. The trade unions have been favourable to the French investment and very co-operative. The company intends to restructure its operations in the near future; this will involve reducing the labour force to 2,000: the unskilled are expected to be worst affected by this job-saving programme. The aforementioned evidence suggests that this investment has, over the past 40 years, been employment creating; however, future prospects

are clearly less promising: the rationalisation programme projected for the second half of the 1980s will cut the labour force by between 20 and 25 per cent.

Table 25.6: Increase in the labour force since 1944

	1944	1983
Male (approx.)	600	1 900
Female (approx.)	100	800
Total (approx.)	700	2 700
Skilled	n.a.	130
Semi-skilled	n.a.	450
Unskilled	n.a.	2 100

Case study 8: French chemicals company in Greece

This case study was carried out on the same parent company as case study 3: a large French chemicals firm. The firm invested in Greece in the mid-1960s after two decades of exports. The investment is smaller than in Spain, with a workforce of 1,800 in 1983.

The major motivations for investing in Greece were twofold: first, to bypass tariff barriers; secondly, to increase sales to the Greek market. The firm felt that its presence in Greece not only as a supplier but also as a customer of local firms would enhance its image and result in higher sales. The bulk of the subsidiary's output services the Greek market, with less than 10 per cent being exported to France. As in the case of the Spanish investment, no alternative country to Greece was considered: the decision to invest grew out of the firm's own trading experience in Greece. As in Spain, the firm was unaware of the existence of government inducements, and doubted whether they would have played a part in the decision to invest had they been available. The company reported no major problem in setting up production facilities.

The investment, of the greenfield horizontal type, took on 500 employees in the first year of operations: of these, approximately 40 were skilled and managerial, 110 were semi-skilled, and the remainder (350) unskilled. Table 25.7 shows that, within eight years of the start of operations, the investment had created another 1,600 jobs. Thereafter, employment began to decline: 300 jobs were lost between 1973 and 1983. Table 25.7 also gives the breakdown of skills for 1965 and 1983, with a greater proportion of the workforce upgrading their skills over time. This confirms the company's sensitivity to training programmes as in the case of the Spanish subsidiary.

Labour laws and conditions of employment had, as in the Spanish case, no influence on the decision to invest. Although labour costs are lower than in France, profitability remains low because of the mediocre level of productivity. Similarities with the Spanish investment extend to the firm's negotiations with the Greek trade unions represented at the plant which were consulted prior to cutting down the workforce in the mid-1970s. The company's transfer of managerial assistance from France has, as in the Spanish case, been strongest at the earliest stages of production. By 1983, all but one of the subsidiary's managers were Greek.

Table 25.7: Numbers employed in Greek subsidiary in 1965, 1973 and 1983

	1965	1973	1983
Skilled	approx. 40	n.a.	220
Semi-skilled	approx. 110	n.a.	450
Unskilled	approx. 350	n.a.	1 130
Total employed	500	2 100	1 800
Jobs created through investment	+500	+1 600	-300

The Greek plant produces the same range of goods as the home country; no extension of the range of products is anticipated in the near future. The firm has increased its share of the market by becoming the third largest producer of chemicals in Greece, thus vindicating the firm's pre-investment assessment of a market potential in that country. The investment has not, however, entirely supplanted the firm's exports to Greece which, after a severe decline, remained fairly constant.

Case study 9: Chemical company from the Federal Republic of Germany in Portugal

The ninth case study is a large chemicals-pharmaceuticals company based in the Federal Republic of Germany with subsidiaries throughout the world. It is established in all five continents. In addition to pharmaceuticals, its range of products includes paints and synthetic resins, plastics, fibres, organic and inorganic chemicals and agricultural products and dyes (see table 25.8).

Table 25.8: Principal activities and sales of the group in 1982

Principal activities	Sales (DM millions)	%
Pharmaceuticals	6 216	18
Paints and synthetic resins	3 937	12
Plastics and waxes	3 633	10
Fibres	3 057	9
Inorganic chemicals	2 149	6
Agricultural products	1 859	5
Organic chemicals	1 776	5
Dyes	1 722	5
Welding, technology and industrial gases	1 565	4
Plastic film	1 426	4
Detergents	1 398	4
Technical information systems	1 348	4
Plant engineering	704	2
Consumer products	684	2
Joint ventures	3 512	10
Total	34 986	100

The Federal Republic of Germany, the European Communities and North America are the principal centres of the group's activities. The group employed a total of 182,154 people in 1982, a marginal decrease of 2,568 over the previous year. Over half of the group's workforce is employed in the Federal Republic of Germany, whilst the second largest concentration of the group's employees is in Europe (with 20 per cent of the total workforce). The aggregate remuneration of these employees amounted to DM9,395 million which gives an average salary/wage of DM51,000 per employee per annum.

The Portuguese investment dates back to the mid-1960s and was aimed primarily at the Portuguese market, which had previously been serviced by distribution agents. Although the Portuguese market could have been serviced from other plants, it was felt that the growing demand for pharmaceuticals in Portugal in the late 1950s and early 1960s, as well as increasing transport costs, justified the setting up of production facilities. The decision to invest in Portugal was reached independently of other European locations, and thus did not form part of the group's international investment strategy.

The question of government inducements was considered but did not play a major role in the investment decision. As far as the group was concerned, the viability of the prospective investment was the only important consideration. The major problem encountered by the firm was Portugal's general economic situation: high inflation, low purchasing power and customs duties were cited as the main restrictions on the company's activities. The company investigated Portugal's labour laws, but its findings did not influence the decision to start production. Although labour costs made up only a small proportion of total costs (between 5 per cent and 8 per cent) they were not instrumental in the decision to invest.

The investment was of the take-over horizontal type and the subsidiary is wholly owned. When the group took over the plant in Portugal in 1964, it introduced new technology and new products and increased capacity. There were 1,200 employees: of these 1,140 were males. In terms of skills, the figures break down as follows: 16 per cent were skilled; there were no semi-skilled workers and 84 per cent were unskilled. The skilled workers were all males (see table 25.9).

Table 25.9: Numbers employed in 1964 and 1983 in terms of sex and skill levels

	1964	1983
Male	1 140	1 700
Female	60	300
Total	1 200	2 000
Skilled (male)	192	200
Skilled (female)	-	40
Semi-skilled	-	-
Unskilled (male)	948	1 500
Unskilled (female)	60	260

By the end of 1983 the number employed had risen to 2,000, a gain of 800 over a 20-year period. The majority of employees remained males, but the proportion of women had risen from 5 per cent to 15 per cent of the workforce, with the overwhelming majority of skilled jobs still in the hands of men. By the end of the decade, it is expected that the figures will be about the same,

although production is expected to increase through increased capital investment. It was anticipated that this new investment would not involve any labour expansion.

The firm "imported" labour from its Spanish plants and those in the Federal Republic of Germany during the first few years of operations, but few of these staff (foremen and skilled workers) became permanent. The temporary nature of this labour transfer was illustrated by the fact that these workers were not replaced in the plants where they came from. The firm's employment policy is to recruit local staff where possible; at the end of 1983, 99 per cent of the labour force were local. The group's policy towards the type of management it requires is also to recruit locally. Whilst during the start-up phase of production most managers were transferred from the home country, today the situation has been reversed, with only a handful of expatriate managers still working in the Portuguese subsidiary. There is an ongoing management training scheme and the company prefers to recruit from within, although if no suitable staff are available it will bring in suitably qualified personnel. The Portuguese subsidiary has responsibility for recruiting, except for senior managers whose appointment must be endorsed by the parent company.

The level of unionisation at the Portuguese plant was described as "not very strong"; the group's relationship with the workforce was good. The firm was confident that the proposed capital expansion would receive the unions' co-operation even though no job creation was intended.

Overall, the employment effect for the host country has been positive. Although additional output could have been exported to Portugal from the Federal Republic of Germany, it is likely that, over a period of 20 years, these exports would have been supplanted by rival multinationals or even by indigenous Portuguese investment.

Case study 10. Chemicals company from the Federal Republic of Germany in Spain

This case study was conducted with the same parent company as case study 9, a large and highly product-diversified chemicals pharmaceuticals multinational with two subsidiaries in Spain. The group's Spanish operations started in the late 1950s when the growth in demand for pharmaceuticals prompted the setting up of a subsidiary. The Spanish market had previously been supplied through exports. During the first year of operation, exports were supplanted by direct production, with a resulting loss of business for plants in the Federal Republic of Germany.

The group set up its first subsidiary in Barcelona in 1959 for the production of pharmaceuticals, primarily to service the Spanish market. There was never any question as to the destination of the investment: the group's trading links with Spain dated back to before the Second World War and were instrumental in the decision to invest. The firm correctly estimated that the growing demand for pharmaceuticals would increase its share of the Spanish pharmaceutical market: from a mere 10 per cent in 1960, the firm now holds a 35 per cent share of the market. Although this growth has to a certain extent been at the expense of competitors, a major factor has been the increased capacity of the Spanish market.

As in the case of the group's investment in Portugal, government inducements did not play a major role in the investment decision: once it was decided to replace exports with direct production, the firm's objective was to make the investment viable and profitable. Labour laws and statutory

conditions of employment were investigated but did not influence the final decision to go ahead with production. Labour costs, although only a small proportion of total costs (between 10 and 15 per cent) were equally irrelevant in the overall decision.

The investment, of the greenfield horizontal type, took on approximately 1,000 employees in the first two years of operations; of these, approximately 100 were managerial and skilled, 250 were semi-skilled and 650 unskilled.

Table 25.10: Numbers employed in Spanish subsidiaries in 1959-60 and 1983

	1959-60	1983
Managerial and skilled	100	530
Semi-skilled	250	720
Unskilled	650	1 150
Total employed	1 000	2 400
Jobs created through investment	+1 000	+1 400

Table 25.10 also shows the firm's employment figures for 1983: as a result of the plant's expansion and the acquisition of a second subsidiary in 1982, the investment has created another 1,400 jobs. The total labour force of 2,400 breaks down as follows: 22 per cent are managerial and skilled, 30 per cent are semi-skilled and 48 per cent are unskilled. Table 25.10 illustrates that a greater proportion of the workforce has upgraded its skills over time. As with its Portuguese operations, the group's employment policy has been to recruit locally: with the exception of a few expatriate managers, the entire workforce is local. The Spanish subsidiaries are in charge of recruiting; the German parent company is consulted only for senior managerial appointments.

In conclusion, the employment impact of this investment has been to create employment in Spain. This, however, has been at the expense of a loss of jobs in the parent company country through a fall in exports.

Case study 11: Engineering company from the Federal Republic of Germany in Spain

This case study is a large engineering company based in the Federal Republic of Germany producing a wide range of products which include industrial equipment, telecommunications equipment, electrical cables and domestic appliances. The case study related to two Spanish subsidiaries producing radio and naval communications equipment, electrical distribution installations and gearboxes, motors and transformers. The German parent company owns 100 per cent and 75 per cent of the equity of the two subsidiaries.

The company first started trading with Spain in 1910 when a sales office was opened in Madrid; subsequently, exports to Spain increased and resulted in the setting up of the subsidiaries in 1974 and 1975. The motivating factors were twofold: first, to take advantage of Spain's lower wages and lower costs of production and, secondly, to use Spain as a springboard to expand sales to Latin America. Thus, the decision to set up production in Spain was reached independently of alternative locations.

The subsidiaries export 70 per cent of the electric motors and 20 per cent of the gearboxes to other European countries. A marketing and sales office in the Federal Republic of Germany channels the subsidiaries' exports to other European countries. The firm's largest share of the Spanish market is in railway equipment where it holds 50 per cent of the market; a recent order for one of Spain's undergrounds has boosted the company's sales further. The investment was a vertical take-over. The number employed in the Spanish plants when they were taken over was approximately 5,000. Within a year of becoming operational, the Spanish ventures had shed several hundred employees.

Table 25.11 shows that in the first year of operations half of the workforce was skilled and semi-skilled; the other half was unskilled. Ten years later (1984) the firm had shed 60 per cent of its workforce: most affected were the unskilled whose numbers were cut by 68 per cent. The reasons given by the firm for such drastic employment reduction were: firstly, in the fields of electrical installations and appliances, demand in Spain dropped over the past ten years; secondly, the slow-down of the Spanish economy combined with high levels of unemployment; thirdly, in the car-related equipment market figures for the first six months of 1984 showed that the registration of new vehicles was 25 per cent down on the same period for the previous year. More general factors included the oil crisis in the mid-1970s and Spain's "preoccupation with political matters rather than economic development".

Table 25.11: Numbers employed in Spanish subsidiaries in 1974-75 and 1984

	1974-75	1984
Skilled and semi-skilled	2 500	1 200
Unskilled	2 500	800
Total	5 000	2 000
Jobs lost through investment		-3 000

As the investment was of the take-over type, the company exercised its option to re-employ existing managerial staff under the leadership of a parent company manager transferred from one of the plants in the Federal Republic of Germany. Today, all but one of the subsidiaries' managers are Spaniards. The parent company takes charge of managerial recruitment, but leaves it to the subsidiaries to hire the non-managerial workforce. The firm's employment policy is to recruit local staff: 99 per cent of the workforce are local. In view of the cuts in the labour force over the past ten years, it came as no surprise that the firm had no concrete expansion plans for the near future.

The firm investigated labour laws and conditions of employment in Spain, but these did not influence its decision to invest. Labour costs, however, as mentioned above, were an important motivation for the investment. Local managers consult with the trade unions when decisions are to be taken which will affect the labour force. There was no indication that, in spite of continued job losses, the unions represented in the subsidiaries were particularly hostile to the firm's investment strategy. In terms of productivity, the executives interviewed thought that labour productivity in Spain was lower than at home.

The subsidiaries' output has extended the range of the firm's home products; the subsidiaries also manufacture components required for goods produced in the Federal Republic of Germany. In conclusion, this take-over reduced employment in the host country because production was rationalised after the take-over in accordance with the parent firm's needs. Between 1975 and 1984, approximately 3,000 jobs were lost, and any future expansion is unlikely to reverse that trend. It was not possible to assess whether the loss of exports from the home country had had an adverse effect on employment there.

Case study 12: Engineering company from the Federal Republic of Germany in Portugal

This case study was conducted on the same parent company as case study 11: a large German engineering group with a subsidiary in Portugal. It set up production in Portugal in the mid-1970s; its exports to Portugal date back to the mid-1950s. The investment services exclusively the Portuguese market. The firm has acquired a 5 per cent share of Portugal's domestic electrical appliances market, and 10 per cent of telecommunications and transport equipment.

The main motivation for the investment was the firm's perception that a market for telecommunication and transport equipment existed in Portugal at a time when electrification was gathering pace. The enterprise from the Federal Republic of Germany acquired 100 per cent of a subsidiary previously owned by a United Kingdom company. The decision to invest was the result of a given set of circumstances in Portugal at the time rather than part of a wider investment strategy. Therefore, the availability of government inducements did not affect the investment decision. The investment took over an existing workforce of 140: of these, 50 were managerial and administrative staff, 20 skilled workers and 70 were unskilled. The investment employs a relatively small workforce and is highly capital-intensive. Table 25.12 shows that ten years after the start of operations, the investment had created 40 jobs, with the proportion of managerial to skilled to unskilled remaining more or less the same. The group was so pleased with the success of this investment that it set up a sales operation to distribute the finished product within Portugal.

Table 25.12: Numbers employed in the Portuguese subsidiary in 1975 and 1983

	1975	1983
Managerial and administrative	50	55
Skilled	20	25
Unskilled	70	100
Total	140	180

The firm's training programme for staff was set up in collaboration with the German-Portuguese Chamber of Commerce; managerial and administrative staff are encouraged to study foreign languages on a day-release basis; skilled workers are trained in various departments of the firm on a part-time basis for a period of up to three years; the firm also takes on apprentices whom it not infrequently hires as permanent employees at the end of the apprenticeship. The level of unionisation has been of little concern to this

firm as the small-scale activities of the subsidiary have not attracted a strongly unionised workforce.

Two sets of problems were of concern to the parent company at the time of the investment: first, Portugal's poor economic performance. However, the host country's economic weaknesses seemed to be compensated by her links with African countries and accession to the European Community. Secondly, the subsidiary faced stiff competition from the imports of other multinationals; without the high technological input of its parent company, the subsidiary could not have survived the competition of other multinationals.

In conclusion, although capital intensive production can, in some respects, have an adverse effect on job prospects, in the case of this investment a small number of jobs was nevertheless created, and it is unlikely that future investment will significantly reduce existing employment levels. The evidence to date suggests that in this instance foreign direct investment has been employment creating.

Case study 13: Chemicals company from the Federal Republic of Germany in Spain

Case study 13 addresses itself to a large chemicals company from the Federal Republic of Germany with several subsidiaries in Spain. The subsidiary under consideration is the group's largest in Spain, with a workforce of just under 1,000 and a turnover in 1982 of approximately DM40 million. The subsidiary's highly diversified production programme includes industrial and agricultural chemicals, plastics, audio and video cassettes, pigments and products for the textile industry. This subsidiary was set up in 1966 and since 1973 has been owned 100 per cent by the parent company, which has invested in it around DM220 million since the start of operations. The subsidiary mainly services the Spanish market, with minor exports to other Mediterranean countries and Western Europe.

The success of this venture is illustrated by the other manufacturing basis which the parent company has established around Spain since the early 1970s. Trading links with Spain dating back to before the Second World War led up to the direct investment. Other motives included the potential offered by the Spanish chemicals market, the prohibitive tariffs on exports to Spain and the anticipation that local production would greatly reduce transport costs. An alternative destination - Belgium - was considered for the investment at the time. The choice of Spain was a function of the greater market potential there, as well as the desire to bypass Spain's tariff barriers.

The firm investigated the availability of government inducements but these were not a crucial factor in the investment decision. The executives interviewed ranked easy accessibility to raw materials and a good site for production as primary considerations. Labour laws and conditions of employment were researched by the company's legal experts, but their findings did not expose any major obstacles. Labour costs, representing a mere 3 per cent of production costs, were clearly a compelling reason to set up production in Spain. Labour productivity tended to be lower in Spain than in the Federal Republic of Germany, particularly among the smaller subsidiaries. This subsidiary's labour force, whose wages are above the Spanish national average, was described as very co-operative.

The investment was a horizontal greenfield venture. Table 25.13 shows that the investment was employment creating as 450 employees were taken on in the first year. Of these, 20 per cent were skilled, another 20 per cent were

semi-skilled, and the remainder (60 per cent) were unskilled. Table 25.13 also reveals that over the next two decades employment in the subsidiary doubled. Over this period, the proportion of unskilled workers fell from 60 to 50 per cent of the workforce, whilst that of semi-skilled rose (to 25 per cent in both cases), reflecting the company's policy of upgrading skills through labour training programmes. The initial recruitment of managerial personnel and of some skilled workers was conducted in the Federal Republic of Germany. A few foremen were temporarily transferred from home country plants where they were replaced during their absence. The impression gained was that the firm had no intention to increase the workforce in the next few years, and that a programme of rationalisation would soon be introduced with the dual objective of increasing the investment's technological input and maintaining existing levels of employment.

Table 25.13: Numbers employed in the Spanish subsidiary in 1966 and 1983

	1966	1983
Skilled	90	250
Semi-skilled	90	250
Unskilled	270	500
Total employed	450	1 000

Prior to setting up the subsidiary, the group had serviced the Spanish market through exports from one of its plants in the Rhine valley; at the end of the first year of manufacturing, exports from the Federal Republic of Germany had been totally supplanted by direct production, resulting in a loss of business and a small reduction in employment. However, the aforementioned losses were more than compensated by increases in the company's share of the Spanish market, particularly in the polymer and plastics industry, where it now ranks as one of the leading suppliers. In conclusion, this investment has been employment creating. Although there was initially a decrease in employment in the home country when exports were replaced by direct investment, in the longer term, there was a net employment gain as jobs were created in the subsidiary in response to business expansion.

Case study 14: United Kingdom pharmaceuticals company in Portugal

Case study 14 is a large United Kingdom-based pharmaceuticals company with operations throughout Europe, North America, Africa and Asia. The subsidiary under study was established in Portugal in 1976 to manufacture antibiotics. It is wholly owned by the British parent company and its entire output services the Portuguese market. The investment was a greenfield venture (after a distribution subsidiary had been established). Although the Portuguese market was being serviced through exports, growing demand for pharmaceuticals in Portugal in the late 1960s and 1970s prompted the investment. Here, as in many of the aforementioned case studies, the choice of host country was dictated by previous trading links.

Table 25.14 shows that the investment took on 72 employees in the first year of operations: the strength of the labour force lay in its marketing and sales division (62 per cent); 28 per cent of staff were unskilled and 10 per cent managerial and skilled. An expansion of operations over the next seven

years saw an increase in the numbers employed to 90, with the proportion of managerial, skilled and sales staff remaining unchanged, but with an increase in the percentage of unskilled workers. Employment trends to the end of the decade are less promising as the firm has no plans to increase the workforce unless there is a sudden upturn in the market.

Table 25.14: Numbers employed in Portuguese subsidiary in terms of skill and sex

	1976	1983
Managerial and skilled	7	10
Marketing and sales	45	45
Unskilled	20	35
Total employed	72	90
Males/females	Approximately 60-40	

The firm trains its own managers, particularly in marketing courses. Product training courses within the Portuguese subsidiary were geared to skilled workers. The executive interviewed acknowledged the existence of a trade union in the Portuguese factory but thought its influence on the workers to be weak, particularly among those with higher education. The company employs neither casual nor immigrant labour.

The parent company has regular contacts with the subsidiary over managerial, technical and financial issues. The subsidiary relies heavily on the parent company for new product development, which is centrally controlled and organised at the United Kingdom headquarters. No major problems were reported with the workforce. Some initial difficulties arose over import restrictions and the pricing of pharmaceuticals on the Portuguese market, but these were subsequently resolved. Overall, therefore, this greenfield investment created employment. Although no information is available as to whether the loss of exports from the source country resulted in a loss of jobs there, the assumption must be that the growth of the pharmaceuticals market in Portugal would have attracted rival multinationals, which would have supplanted the parent company's exports to Portugal anyway.

Case study 15: French engineering company in Spain

Case study 15 is a large French-based engineering multinational with a network of subsidiaries throughout Europe. The Spanish subsidiary was established in 1969 for the processing of aluminium products. The single most important factor which prompted the investment was the expanding car market in Spain in the late 1960s. No other location for the investment was considered at the time. The setting up of the Spanish subsidiary was the culminating point of the French firm's long trading relationship with Spain which goes back to 1920. The subsidiary was established at a time of expansion for the French parent company; other affiliates were established during this period too.

The investment services principally the Spanish market; the managing director told us that Spain's tariff barriers had been a disincentive to successful trading and that local production offered more scope for

expansion. Tax incentives, although available at the time, were unimportant in the decision to invest. The major problem, according to the interviewee, was that of intervention by the Spanish Government in the early 1970s. The parent company was encouraged by the host Government to increase its investment, but later regretted this decision because the new investment had resulted in a loss of revenue as the price of aluminium in Spain had risen above the world market price; this led the firm to disinvest in Spain, and no further expansion is planned.

The firm investigated neither Spain's labour legislation nor the degree of unionisation at factory level; little or no consultation with the trade unions took place prior to the investment. Labour productivity was described as "very reasonable" and labour as "very co-operative".

Turning now to employment considerations, the investment, of the greenfield horizontal type, took on 2,400 employees in the first two years of operations. Table 25.15 shows that the labour force remained constant after 1970, confirming the firm's disappointment with the capital injection of the early 1970s.

Table 25.15: Numbers employed in the Spanish subsidiary in 1970 and 1983

	1970	1983
Managerial	240	240
Skilled	1 800	1 800
Unskilled	360	360
Total employed	2 400	2 400
Jobs created through investment	+2 400	0

A striking characteristic of this investment is the high proportion of skilled workers (75 per cent); managerial staff make up 10 per cent and the unskilled workforce, 15 per cent. The firm, which gives priority to local labour, does not run any specific training schemes for new unskilled recruits. Initially, the parent company transferred managers from France; 10 per cent of the subsidiary's managerial team were French nationals during the first few years of operations. By 1983, all managers were Spaniards. A training scheme for Spanish managers was set up on the same lines as that of the French parent company. As in most aforementioned case studies, the responsibility for senior managerial recruitment rests with the French parent company, whilst labour recruitment is the subsidiary's responsibility. The subsidiary produces the same goods as the French plants; no extension of the home-product range took place.

In conclusion, the probability is that this greenfield investment resulted in a net employment gain. Although we know that the direct investment supplanted exports from France to Spain, it is highly unlikely that the ensuing job losses (if any) in the home country were anywhere near as high as the jobs created in the host (2,400). What can be ascertained more precisely is that the initial job creation reached a plateau in the early 1970s and that any future expansion will be capital-intensive and will be most unlikely therefore to increase employment in Spain.

Case study 16: French engineering company in Portugal

This case study was carried out on the same parent company as the previous case study, a large French engineering company with European subsidiaries. The subsidiary under consideration is Portuguese and was established in 1974 to service the European and United States markets. The subsidiary manufactures components for the car industry. The main motivation for the investment was Portugal's energy surplus in the early 1970s prior to the oil crisis. The availability of cheap land by the sea also influenced the siting decision because of the site's accessibility for importing raw materials and exporting manufactured goods. As in the case of the Spanish subsidiary set up by the same parent company, the decision to invest in Portugal was not the outcome of a careful examination of alternative countries, but essentially the result of the company's previous trading relationship with that country.

Few of the government incentives offered at the time were relevant to the siting decision: only tax inducements had some influence; having chosen one of Portugal's development zones, the company is exempt from taxation. The most pressing problem involved in the new production facility was that of the length of the contract with the Portuguese Government for the supply of energy; initially for a period of ten years, the contract was being renegotiated at the time of the interview (1983); the interviewee was hopeful that similar terms to the first contract could be negotiated.

The investment - a greenfield venture - took on a workforce of 170 in the first year of operations. Of these, the overwhelming majority (160) were males. In terms of skills, table 25.16 shows that 40 per cent were skilled, 25 per cent semi-skilled, another 25 per cent unskilled and 10 per cent managerial. Ten years hence, the investment had created another 80 jobs. The breakdown of skills for 1983 shows a greater proportion of semi-skilled and skilled workers, reflecting the skill upgrading of previously unskilled labour. The proportions for 1983 were managerial (10 per cent), skilled (42 per cent), semi-skilled (35 per cent) and unskilled (13 per cent). The sex distribution remained predominantly male (80 per cent).

Table 25.16: Numbers employed in the Portuguese subsidiary in 1974 and 1983

	1974	1983
Managerial	17	25
Skilled	69	105
Semi-skilled	42	88
Unskilled	42	32
Males	160	200
Females	10	50
Total employed	170	250
Jobs created through investment	+170	+80

Labour laws and conditions of employment were investigated but had no influence on the decision to invest. Labour costs, although lower than in the French plants, were regarded as a secondary motivation to the costs of energy, reinforcing the priority given by the firm to renewing the energy contract on favourable terms. As in the Spanish investment, the firm did not investigate the level of unionisation in the area, nor did it consult with local trade unions. In spite of this lack of consultation no major industrial relations problem was reported. The executive interviewed described the labour force as "very co-operative".

Local labour has been recruited wherever possible. At the end of the first year of operations, 16 of the 17 managers were Portuguese; in 1983 the entire managerial team was local. No immediate plans for further managerial recruitment were afoot at the time of the interview. The French parent company pursues the same recruiting strategy in Portugal as it does in Spain: it appoints senior managers and delegates the responsibility for non-managerial appointments to the subsidiary. But unlike its Spanish counterpart, the Portuguese subsidiary had no training scheme in operation. The subsidiary produces the same goods as the French plants; no extension of the home-product range has taken place.

This is a case where the investment was motivated by cheap inputs (energy) unavailable elsewhere. It is therefore likely to have been employment creating in Portugal. Employment effects on the source country, France, are less clear, but are unlikely to have been negative.

Case study 17: French automobile company in Spain

Case study 17 has as its subject a large French-based automobile company with affiliates throughout Europe. The firm set up its first subsidiary in Spain in 1957, and production started the following year. Since then, another two factories have been opened in the same area of northern Spain. The firm's activities in Spain date back to before the Second World War when a sales distribution network was established.

The primary motivation for this investment was to establish a direct presence in the Spanish market: the firm's sales to Spain had previously been constrained by the host government's import quotas. No alternative for the investment was considered at the time since the decision to invest in Spain was predominantly determined by the desire to circumvent import restrictions. The firm's initial investment in Spain was implemented without government assistance; subsequent investments were mildly influenced by government inducements, particularly fiscal and customs assistance. The subsidiary established in 1957 manufactures approximately 135,000 vehicles and 132,000 motors per year; 50 per cent of this output is destined for the Spanish market, the other 50 per cent is exported to France and other parts of Europe.

The investment, a greenfield venture, employed 100 employees at the end of the first year of operations (1958): of these, 88 were male and 12 female. If we look at table 25.17, we can see that by 1982, the labour force had increased substantially to over 8,000, of which approximately 85 per cent were male. Figures for 1982 can be broken down into 2 per cent managerial, 17 per cent skilled and 81 per cent unskilled. No figures of the skill distribution are available for earlier years.

Table 25.17: Numbers employed in Spanish subsidiaries in 1958 and 1982

Subsidiary I	1958	1982
Male	88	approx. 7 070
Female	12	approx. 1 251
Managerial	n.a.	144
Skilled and administration	n.a.	1 433
Unskilled	n.a.	6 744
Total employed in Subsidiary I	100	8 321

Subsidiary II	1982
Managerial	17
Skilled and administration	143
Unskilled	671
Total employed in subsidiary II	831

Subsidiary III	1982
Managerial	15
Skilled and administration	153
Unskilled	649
Total employed in subsidiary III	817

Added to the aforementioned growth in employment was the subsequent expansion in the firm's Spanish operations. The firm was so pleased with the success of its initial investment that it subsequently made another two investments in the same region of Spain. The first of these two subsidiaries was set up in 1973 for the production of transmission joints for cars. As table 25.17 shows, this second investment employs (end 1982) 831 people: of these 17 are managerial, 143 skilled and administrative, and 671 unskilled. The third subsidiary, which became operational in 1977, manufactures spare parts for cars. Its workforce totalled 817 in 1982; the skill distribution is similar to that of subsidiary II, with a preponderance of unskilled labour (79 per cent); skilled and administrative staff make up 19 per cent and managerial staff 2 per cent. On the commercial side, the success of the French firm's Spanish operations is reflected in the growth of its selling outlets (just under 900 in 1982).

The senior executive interviewed recalled that the firm had investigated Spain's labour laws, but that its findings had not in any major way influenced the investment decision. Labour costs, at 25 per cent of total costs, had played a small part in the investment decision. The firm was generally satisfied with the productivity of labour. The state-registered trade unions

under the Franco regime had given way, after the return of democracy, to more active consultation between management and trade unions.

The company's managerial recruitment policy is to employ local managers wherever possible. In 1982, 70 per cent of managerial staff were Spaniards. The firm has developed training schemes both for its workforce and management; part of the latter is conducted at French headquarters. Staff appointments, except for senior managerial posts, are made by the subsidiaries. French managers are transferred for temporary periods to the Spanish plants; their positions in France are left vacant during their absence.

The initial effect of setting up the Spanish subsidiary was to reduce the level of exports to Spain; in the longer term, however, the parent company increased its exports of related products to Spain. The executive interviewed stressed the importance of direct investment in securing a larger share of the market: prior to the investment, the firm's share of the Spanish market had been negligible; by 1982, it had acquired 8 per cent of the Spanish vehicle market.

In conclusion, this greenfield investment was clearly employment-creating both for the host and home countries; for the former, the setting up of two subsidiaries after the initial investment indicated a substantial growth in the company's activities; as far as the home country was concerned, after an initial drop in exports to Spain, the sale of related products to the Spanish market increased partly due to its manufacturing presence.

Case study 18: French automobile company in Portugal

This case study was carried out on the same French car company as the previous one. The subsidiary under consideration was set up in Portugal in 1962 to manufacture cars; half of the subsidiary's output is re-exported to France, the other half services the Portuguese market. The motivation for this investment was twofold: to establish a direct presence in the Portuguese market and to take advantage of the growing demand for French cars in Portugal. The firm had previously serviced the Portuguese market through exports from France, but Portugal's import quotas on French vehicles had restricted sales. No alternative country for the investment was considered at the time: the decision to set up the Portuguese subsidary was directly influenced by market conditions in the host country.

As in the case of its Spanish subsidiary, the French company's investment in Portugal was made without government assistance; only several years after the start of operations did government incentives become available. The investment was of the greenfield horizontal type; in the first year of operations, the firm took on 50 employees, 40 of whom were male. Over the next two decades, the workforce grew steadily and reached a peak of 630 employees in 1983. Table 25.18 shows that the sex distribution remained predominantly male (75 per cent). In terms of skills, the figures break down as follows: 70 per cent were unskilled, 20 per cent skilled and 9 per cent managerial and administrative.

The firm experienced few strikes at its Portuguese subsidiary and was generally pleased with the productivity and reliability of the local workforce. Portugal's relatively high unemployment enabled the company to hire labour from a large pool of unemployed. The firm pays its Portuguese workforce higher wages than the national average; in the words of one of the executives interviewed, this had helped to "limit the potential for industrial

unrest". The company's policy towards management in Portugal bears similarities to its Spanish operations: after the initial start-up phase during which French managers were transferred to the Portuguese plant, the firm's employment policy was to give preference to local personnel.

Table 25.18: Numbers employed in Portuguese subsidiary in 1962 and 1983

	1962	1983
Managerial and administrative	n.a.	55
Skilled	n.a.	134
Unskilled	n.a.	441
Males	40	470
Females	10	160
Total employed	50	630

Responsibility for the recruitment of the workforce is with the subsidiary; the French parent company is in charge of senior management recruitment. The most pressing problems encountered in setting up production facilities were training difficulties and an initial water shortage. The firm saw its greatest success in having increased its share of the Portuguese car market from a mere 1 per cent prior to the investment to 9 per cent in 1983. This growth had been mostly at the expense of other competitors. Overall, the conclusion from this investigation is that the investment was employment-creating.

Case study 19: United Kingdom automobile company in Portugal

The last case study addresses itself to the Portuguese subsidiary of a large United Kingdom-based automobile company with affiliates throughout the world. The subsidiary was set up in 1964-65 for the production of saloon cars, transit vans and trucks. The assembly line was built from scratch. During the first two years of operations, 90 per cent of the subsidiary's output serviced the Portuguese market; the remaining 10 per cent was exported to Italy. By 1984, the destination of the subsidiary's output had altered substantially: only 65 per cent of the vehicles manufactured were destined for the Portuguese market, with the share of exports up to 35 per cent (all of it to the EC countries).

Table 25.19 shows levels of employed for 1974 and 1984. In 1974, the firm employed 379 of whom 365 were skilled and unskilled; 14 were managerial. A rationalisation programme introduced in the mid-1970s resulted in a steady loss of jobs: over the next ten years, the workforce was cut by half (from 370 to 180). Further employment reductions were anticipated until the end of the decade. The trade unions objected to these job losses and a confrontation with the management resulted in frequent strikes. In conclusion, although this investment was initially job-creating, subsequent job losses offer poor employment prospects for the next five to ten years.

Table 25.19: Numbers employed in Portuguese subsidiary in 1974 and 1984

	1974	1984
Senior management	4	4
Junior management	10	10
Workforce	365	166
Total employed	379	180
Jobs gained/lost through investment	+379	-199

(c) The employment impact: direct employment effect

(i) The host country

Table 26 shows the results of the investigation of the 19 in-depth case studies. In general, the investments had a positive direct effect on host country employment. Only one case (11) had a negative impact on employment in the host country, although case 19 is likely to have a negative impact in the longer run and case 4 had some diversionary effects on employment and cases 5 (in particular), 6 and 12 had small positive effects. These cases, as exceptions, need some explanation.

Case 11 was a large engineering company from the Federal Republic of Germany which set up two subsidiaries in Spain in 1974 and 1975. The investment was a vertical takeover. After the takeover the new owners cut the workforce to such an extent that a labour force of 5,000 was reduced to 2,000 in 1984. This was due to initial overmanning and a decline in demand.

The other case where employment losses occurred (case 19) was a large United Kingdom-based automobile producer which set up a greenfield plant. This initially created 379 jobs. However, the firm introduced a rationalisation plan which caused a steady loss of jobs over ten years which cut the workforce to 180.

In general the investments created jobs in the host country. In the cases of these three host countries, full employment in the past has not been achieved and there is little evidence that jobs in foreign firms substituted for jobs elsewhere or drove local firms out of business. Only in particular circumstances (takeovers or rationalisation) did we find any evidence of job losses through inward foreign investment.

(ii) The source (home) country

The picture for the impact of foreign direct investment is much more mixed. Table 26 shows our estimates: three positive employment impacts, 13 negative (although this must be greatly qualified), two zero impact, one mixed over time (negative, then positive) and two where it is not possible to make an estimate.

Table 26: Summary of direct employment effects

Case No.	Direction of investment	Industry	Employment effect		
			Host country	Home country	Overall (1+2)
1	France - Spain	Automobiles	+	+ small	+
2	France - Portugal	Automobiles	+	-	+
3	France - Spain	Chemicals	+	-	+ small
4	UK - Spain	Engineering	+ some diversion or zero	- initially	+ small
5	UK - Spain	Pharmaceuticals	+	- small	zero
6	UK - Spain	Engineering	+ small	zero	+ small
7	France - Portugal	Engineering	+	- small	+
8	France - Greece	Chemicals	+	-	zero
9	FRG - Portugal	Chemicals	+	- at first, then zero	+
10	FRG - Spain	Chemicals	+	-	+ small
11	FRG - Spain	Engineering	-	?	-
12	FRG - Portugal	Engineering	+ small	zero	+ small
13	FRG - Spain	Chemicals	+	- then +	+
14	UK - Portugal	Pharmaceuticals	+	- then zero	+
15	France - Spain	Engineering	+	- small or zero	+
16	France - Portugal	Engineering	+	? small	+
17	France - Spain	Automobiles	+	+	+
18	France - Portugal	Automobiles	+	+ ?	+
19	UK - Portugal	Automobiles	+ then -	zero then -	+ then -

See text for explanation and qualification.

These mixed results arise because of the differences in the nature and outcome of the investment and its impact on the market servicing decision. In many cases the foreign plant substituted for exports from the parent firm and the compensating exports of intermediate goods to the foreign plant were insufficient to compensate for this loss. In other cases, there was a balance between loss of final goods business and increased exports to the foreign affiliates of intermediate goods. In other cases the affiliate was set up to service a market which could not be reached by exports from home.

Those cases where source country employment increased arose from the increase in related products outweighing the loss of exports to the final market. This is particularly true of case 17, a French automobile manufacturer in Spain. Case 1, also a French automobile manufacturer in Spain, had a small positive increase, whilst case 13, a French automobile manufacturer in Portugal, is likely to have made a small increase in home employment because of its increased market share in the host country arising from its preserved stimulating demand.

The two cases where we suggest a zero impact (6 and 12) arise because a new market was penetrated by the investment, with little or no linkage stimulation to employment in the source country. These are both engineering companies.

The cases of negative impact cover a spectrum. At one extreme (e.g. case 10) there was a straight switch from servicing the host country market by exports to a direct investment. At the other extreme are those cases where the investment was made to pre-empt the loss of the market which would have occurred anyway if the company had stuck to exports (case 9 is an example). In between are cases where some output was diverted from final goods exports but some compensation occurred because of intermediate goods. In many cases, the employment lost was small.

Case 13, a large chemicals company from the Federal Republic of Germany in Spain, is of interest. Initially, the employment impact in Germany was negative because the output of the Spanish plant replaced exports, but as the market grew and the Spanish affiliate gained market share, the employment impact in the Federal Republic of Germany became positive because of the importance of keeping the dynamics of the situation under review.

In sum the impact on employment in the source country varies greatly according to the type and nature of the investment. In nearly every case the investment was host market-orientated and so the market servicing decision (export versus investment) was crucial. However, it was not always possible to regard exports as a substitute for investment and in other cases, compensating exports improved employment at home.

(iii) Overall direct employment effect

Given the extreme difficulties of calculating the precise employment impact in both home and host country, the final column of table 26 must be taken with a large pinch of salt. It is calculated by adding together home and host employment impact - third country effects are everywhere negligible. This gives an overall European Community employment impact.

The most common outcome for direct employment effects is positive. In 15 cases a positive outcome is recorded, although five of these have a small positive result. Two of the investments approximate to zero, a positive host country impact being cancelled by an equal negative effect on employment at home. One case (11) has an employment reducing effect for the EC as a whole

whilst case 19 moves from an initially positive impact on EC employment to a negative one as a community-wide rationalisation programme comes into effect.

This positive result largely occurs because of the existence of strong "presence effects" which mean that a manufacturing investment within a national market remains the best way to meet competition even with a "Common Market". This effect is strong because a presence creates demand and allows the company to adapt its product to tap local demand more effectively.

Indirect employment impact

Indirect employment effects are those external to the investing firm arising from the purchase of local inputs and other effects which spill over from the investor. It is also possible that local employment is reduced by the displacement of local producers and the transfer of business away from local suppliers to the investing country.

In our sample, these effects varied considerably. Some investors had set out to take advantage of local inputs (cases 13 and 9, where the key input was cheap energy) and so linkage effects are great. Also in the construction period, for greenfield investors, purchase of local suppliers and of labour is great. However, in many cases, linkage effects were directed more to the home country and the purchase of local inputs was not great. Little evidence of displacement was found, perhaps because of the choice of industries, and indirect effects are not so great as to alter the overall impacts given in table 26.

Quality of employment provision

In general, the quality of employment created in the host countries in our 19 case studies was very high. The input of technology as part of the foreign direct investment package often upgraded employment possibilities and the firms in general provided a higher level of remuneration than local firms.

In most cases management was recruited locally and opportunities for managerial advancement in the host country were enhanced.

PART IV: CONCLUSION

Overall, the conclusion of the study is that foreign direct investment by multinational enterprises from the United Kingdom, France and the Federal Republic of Germany in Greece, Portugal and Spain is employment creating. In most of our case studies the employment effect in the host country was positive and although the effect was mixed in the source country, the overall impact was much more likely to be positive for the EC as a whole then zero or negative. Indeed, only one case (19) had an employment effect estimated to be negative for the EC as a whole.

These results must be interpreted with extreme caution. Firstly, the sample is small and was drawn from only three industries, albeit industries which are highly representative of foreign investment as a whole. Secondly, they are highly dependent on the surrounding assumptions of the analyst, in particular on the feasibility of servicing host country markets by exports from home. Thirdly, they are dependent on circumstances which prevailed when the investments were made up to the end of the investigation (1984-85).

Many of the firms in the sample made their investments before the host countries joined the EC, in some cases in anticipation of entry. As the hosts become more integrated into the EC, we can expect the firms to re-examine their investments and the way these investments are integrated into the companies' systems. Consequently, the rationalisation process across Europe may affect employment in future.

It is also likely that Portugal and Spain will attract an increasing amount of direct investment in future, although Greece's case is not so simple as its attractiveness as a location is in doubt (see Financial Times, 18 March 1986, "Everyone wants it made in Spain" and "Portugal sifts through the applications"). It therefore behoves policy-makers to examine the employment implications of inward investment. The picture for source countries is less clear but the balance suggests that a policy of benign neglect of outward investment is justifiable. The policies of the EC as a whole should favour intra-EC direct investment but a "watching brief" should be kept on their employment implications.

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