

**ZOFIA WYSOKIŃSKA, JANINA WITKOWSKA**

---

**Impact of Foreign Trade and Foreign Direct Investment  
on the Labour Market in Central and Eastern  
Europe. The Case of Poland**

**Abstract**

*The aim of this chapter is to assess the activities of international business from the point of view of its effects on the labour market of Poland as a country in Central and Eastern Europe which was in the process of undergoing systemic transformation. This analysis covers two spheres, i.e. foreign trade and the activities of transnational corporations in Poland. An attempt will be made to discuss the following issues:*

- *Implications of the international business on the situation on the labour market of the economy undergoing the transformation from the centrally planned into market economy;*
- *Consequences of the establishment of the free trade area with the EU in Poland and the trade liberalization process within the WTO for the Polish labour market during the accession period;*
- *Implications of the inflow of foreign direct investment into Poland on the labour market situation.*

**INTRODUCTION**

The aim of this article is to assess the activities of international business from the point of view of its effects on the labour market of Poland as a country in Central and Eastern Europe which is undergoing systemic transformation. This analysis covers two spheres, i.e. foreign trade and the activities of

transnational corporations in Poland. An attempt will be made to answer the following research questions:

- What is the theoretical relation between international business and the situation on the labour market of the economy undergoing transformation?
- What are the consequences of foreign trade for Poland's labour market?
- What are the consequences of foreign investors' activities for Poland's labour market?

## **1. FOREIGN TRADE AND THE LABOUR MARKET**

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

Based on observations from the period of the last twenty years one may assert that there is a relationship between the reduction in the aggregated demand for labour and the increase in international trade. While the average unemployment rate has risen in all countries, its increase has been most significant in the most highly developed countries, in particular in those of Europe (for example in the OECD countries the average unemployment rate between 1980-1997 increased 2 percentage points more than in the countries outside the OECD, where the increase did not exceed 0.5 percentage points) while the largest unemployment rate in the developing countries was noted in South America and Sub-Saharan Africa. The proportionate share of labour income in overall national income also fell, and this decline was greatest in the highly developed countries (UNCTAD 2001, p.1).

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

- An increase in income inequality within countries,
- A decrease in income inequality between countries.

In accordance with the theory of international trade, those countries with the lowest income levels will profit more from the development of international trade than countries with high income levels, owing to the inflow of foreign investment which will naturally flow more to countries with low capital

resources than to countries with a large supply of capital. Trade between countries will also bring about a reduction in barriers to the inflow of investment capital to developing countries and will aid the transfer and diffusion of technology, which will in turn accelerate development in poorly developed countries. Large countries which are poorly developed can gain an even greater advantage from international trade if it is focused, for example, on goods whose comparative advantage is based on scale of production. In such a case their large internal markets can be used to encourage both production and sale of such goods (P. Krugman, 1981, pp.950-959, pP. Krugman, 1995). In addition countries with large domestic markets are more able to attract foreign capital than countries with small domestic markets. Owing to the trade liberalization in industrial markets which has occurred within the GATT/WTO framework, this factor/process has been more visible in the last twenty years with regard to industrial goods than with regard to trade in services or agricultural and food products (Z. Wysokinska, 2001, pp.36-40). Thus large countries with low income levels have generally benefited more from the development of international trade than small countries with low income levels.

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

## **2. FOREIGN DIRECT INVESTMENT AND LABOUR MARKET OF HOST COUNTRIES**

Foreign direct investment (FDI) exerts a wide-ranging influence on the labour markets of host countries. The scale of the effects depend on a number of factors, among the most important of which are (UNCTAD 1994, p.166, J. Witkowska 2001, pp.89-90):

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

Foreign direct investment has both direct and indirect consequences for employment in a host country, with positive and negative dimensions often occurring at the same time. The potential effects of inward investment on labour market are related to quantity, quality and location of employment. Greenfield investment creates new jobs in new plants and a merger or acquisition, including privatisation, could imply that employment remains constant or declines. Indirect positive employment effects may also occur in host country if foreign affiliates establish linkages with domestic firms. On the other hand, if foreign affiliates rely on imports, this may bring negative indirect employment effects in industries related to foreign investors through backward and forward linkages. Qualitative effects are connected with wages and labour productivity changes and with spill-over of work organisation to domestic firms as well (UNCTAD 1994, p.167).

### **3. FOREIGN TRADE AND THE LABOUR MARKET IN POLAND**

In the 1990's the Polish economy underwent a process of liberalizing its trade markets within the framework of three free-trade zones: the European Community, EFTA, and CEFTA – as well as significantly liberalizing its trade market within the framework of WTO (whereby it reduced its customs duties by 37% for industrial goods and 36% for agricultural and food products since the beginning of the application of WTO provisions until the turn of the new century) (E. Synowiec, 1996, p.94).

Liberalization of the trade market for industrial goods within the above-mentioned integrated groups was completed by the end of the 1990s, with the exception of the automobile market, liquid fuels, and steel, where liberalization was delayed by a year. Thus there is no reason to expect a further penetration of imports in upcoming years as a result of the liberalization of customs duties. Nevertheless the significant penetration of imports which has already occurred

has influenced the Polish labour market by eliminating enterprises and industrial branches with low competitive capacity indicators, which either did not possess or lost their comparative advantage in terms of costs. As a result there has been an increase in structural unemployment (Z. Wysokinska, J. Witkowska, 2003, pp.59-66).

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

A new, although significantly lesser, impulse towards restructurization will be supplied by Poland's acceptance of the EU external customs tariff, which following its liberalization, within the framework of the WTO, for industrial goods should reduce Poland's current external (non-EU) tariff rate from 6,2% to 3,2% (Z. Wysokińska, J. Witkowska, 2002). This may mean the bankruptcy of some inefficient enterprises in industrial sectors which will be subject to and threatened by imports from third countries, in particular those from the non-EU Eastern Europe and Asia. The effect this phenomenon will have on the labour market will depend on the ability to adapt manifested by those industries threatened by the increased competition arising from import from third countries, as well as on their ability to make use of the new protective mechanisms which will be available. Following accession and full integration with the EU the Polish market may be better protected against unfair foreign competition (so-called excessive import, subsidized industrial import, as well as dumping prices).

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

#### **4. THE EFFECT OF THE TRADE DEFICIT ON THE POLISH LABOUR MARKET**

As a result of the deep liberalization of the Polish foreign trade in the first half of 90., Poland's foreign trade balance was characterized by a large - and growing - foreign trade deficit. This had the big impact on the Polish labour market.

Poland's current foreign trade deficit, which in 1995 reached 6,0 billion USD, increased to 20,2 billion USD in 1999. In subsequent years it began to decline, dropping to 19,0 billion USD in 2000, and to 15,2 billion USD in 2001. As can be seen from the calculations contained in Table 1, it is estimated that Poland's foreign trade deficit in goods and services resulted in a loss of approximately 2,3 million jobs in 1999, 2,3 million in 2000, and declined to approximately 1,6 million in 2002. (See Table 1). An analysis of the same data on the basis of Poland's balance of payments (data supplied by the Polish central bank, NBP) reduces the scale of this effect to 1,3 million jobs lost in 1999 and 2000, and 0,7 million jobs lost in 2001. (Own calculations based on official statistics issued by Main Statistical Office and the NBP (Polish Central Bank, See Part II of Table 1 – calculations based on Balance of Payments),

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

The negative effects on the labour market have been exacerbated by Poland's negative trade balance in services in the years 1999-2000.

**Table 1. The relationship between unemployment in Poland and its trade deficit in goods and services**

| CALCULATIONS BASED ON THE BALANCE OF TRADE |                                                                                                         |              |       |       |       |       |       |       |       |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------|--------------|-------|-------|-------|-------|-------|-------|-------|
| L.p.                                       |                                                                                                         |              | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001  |
| 1                                          | Gross value added for the whole economy                                                                 | billions zł. | 268,3 | 336,8 | 412,9 | 485,2 | 535,8 | 622,8 | 656,0 |
| 2                                          | Import of goods                                                                                         | billions zł. | 70,5  | 100,2 | 138,9 | 163,0 | 182,4 | 213,1 | 206,3 |
| 3                                          | Export of goods                                                                                         | billions zł. | 55,5  | 65,8  | 84,5  | 98,6  | 108,7 | 137,9 | 148,1 |
| 4                                          | Import of services                                                                                      | billions zł. | 7,4   | 9,7   | 11,2  | 14,6  | 19,6  | 2,26  | 20,3  |
| 5                                          | Export of services                                                                                      | billions zł. | 7,7   | 9,1   | 12,2  | 12,8  | 13,1  | 15,3  | 16,3  |
| 6                                          | Trade balance (positions.3+5-2-4)                                                                       | billions zł. | -14,6 | -35,0 | -53,4 | -66,1 | -80,0 | -82,5 | -62,1 |
| 7                                          | Trade balance (positions.3+5-2-4)                                                                       | billions USD | -6,0  | -13,0 | -16,3 | -18,9 | -20,2 | -19,0 | -15,2 |
| 8                                          | Approximate share of trade with the UE in the trade balance                                             | %            | 44,8  | 59,49 | 63,41 | 61,58 | 56,76 | 45,74 | 41,45 |
| 9                                          | Relationship between the trade balance and the gross added value for the entire economy (positions 6:1) | %            | 5,45  | 10,39 | 12,94 | 13,62 | 14,95 | 13,24 | 9,47  |
| 10                                         | Actively employed persons                                                                               | in millions  | 17,0  | 17,0  | 17,1  | 17,2  | 17,2  | 17,3  | 17,3  |
| 11                                         | Approximate number of jobs lost due to the negative trade balance                                       | in millions  | 0,9   | 1,8   | 2,2   | 2,3   | 2,6   | 2,3   | 1,6   |
| 12                                         | Approximate number of jobs lost due to the negative trade balance with the UE                           | in millions  | 0,4   | 1,1   | 1,4   | 1,4   | 1,5   | 1,0   | 0,7   |
| 13                                         | Registered unemployment                                                                                 | in millions  | 2,6   | 2,4   | 1,8   | 1,8   | 2,3   | 2,7   | 3,1   |
| 14                                         | Unemployment rate                                                                                       | %            | 13,1  | 11,5  | 10,2  | 10,4  | 13,1  | 16    | 18,5  |
| 15                                         | Share of unemployment caused by the negative trade balance to overall registered unemployment           | %            | 35,3  | 75,1  | 120,8 | 127,7 | 109,5 | 84,8  | 52,4  |

**Table 1. The relationship between unemployment in Poland and its trade deficit in goods and services – continuation**

| CALCULATIONS BASED ON THE BALANCE OF PAYMENTS |                                                                                                         |              |       |       |       |       |       |       |       |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------|--------------|-------|-------|-------|-------|-------|-------|-------|
| L.p.                                          |                                                                                                         |              | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001  |
| 1                                             | Gross value added for the whole economy                                                                 | billions zł. | 268,3 | 336,9 | 412,9 | 485,2 | 535,8 | 622,8 | 656,1 |
| 2                                             | Import of goods and services                                                                            | billions zł. | 70,9  | 100,2 | 140,8 | 184,9 | 199,9 | 248,9 | 238,6 |
| 3                                             | Export of goods and services                                                                            | billions zł. | 78,2  | 94,2  | 120,4 | 155,9 | 160,8 | 201,5 | 210,6 |
| 4                                             | Trade balance (position 3-2)                                                                            | billions zł. | 7,2   | -6,0  | -20,4 | -2,9  | -39,1 | -0,5  | -28,0 |
| 5                                             | Trade balance (position 3-2)                                                                            | billions USD | 3,0   | -2,2  | -6,2  | -8,3  | -9,9  | -10,9 | -6,8  |
| 6                                             | Approximate share of trade with the UE in the trade balance                                             | %            | 44,8  | 59,49 | 63,41 | 61,58 | 56,76 | 45,74 | 41,45 |
| 7                                             | Relationship between the trade balance and the gross added value for the entire economy (positions 6:1) | %            | 2,7   | -1,79 | -4,93 | -5,98 | -7,3  | -7,6  | -4,26 |
| 8                                             | Actively employed persons                                                                               | in millions  | 17,0  | 17,1  | 17,1  | 17,2  | 17,2  | 17,3  | 17,3  |
| 9                                             | Approximate number of jobs lost due to the negative trade balance                                       | in millions  | -0,5  | 0,3   | 0,8   | 1,0   | 1,3   | 1,3   | 0,7   |
| 10                                            | Approximate number of jobs lost due to the negative trade balance with the UE                           | in millions  | -0,2  | 0,2   | 0,6   | 0,6   | 0,7   | 0,6   | 0,3   |
| 11                                            | Registered unemployment                                                                                 | in millions  | 2,6   | 2,4   | 1,8   | 1,8   | 2,3   | 2,7   | 3,1   |
| 12                                            | Unemployment rate                                                                                       | %            | 13,1  | 11,5  | 10,2  | 10,4  | 13,1  | 16,0  | 18,5  |
| 13                                            | Share of unemployment caused by the negative trade balance to overall registered unemployment           |              | -17,5 | 12,9  | 46    | 56    | 53,5  | 48,6  | 23,6  |

**Table 1. The relationship between unemployment in Poland and its trade deficit in goods and services – continuation**

| IMPLICATIONS OF THE NEGATIVE TRADE BALANCE FOR UNEMPLOYMENT |                                                                                                                                                                                                    |             |      |      |      |      |      |      |      |
|-------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|------|------|------|------|------|------|------|
| L.p.                                                        |                                                                                                                                                                                                    |             | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| 1                                                           | Approximate number of unemployed caused by the negative trade balance (based on an average of two different methods of calculation used by the Polish National Statistics Office, GUS)             | in millions | 0,2  | 1,0  | 1,5  | 1,7  | 1,9  | 1,8  | 1,2  |
| 2                                                           | Approximate number of unemployed caused by the negative trade balance with the EU (based on an average of two different methods of calculation used by the Polish National Statistics Office, GUS) | in millions | 0,1  | 0,6  | 1,0  | 1,0  | 1,1  | 8,8  | 0,5  |
| 3                                                           | Share of unemployment caused by the negative trade balance to overall registered unemployment                                                                                                      | %           | ...  | 26,2 | 52,9 | 56,6 | 46,1 | 30,5 | 15,7 |

Source: Adapted from official statistics issued by GUS and the NBP (Polish Central Bank).

## 5. THE INFLUENCE OF FOREIGN DIRECT INVESTMENT ON THE POLISH LABOUR MARKET

To date the participation of foreign capital in the Polish economy in the form of FDI has brought about a constant increase in the number of persons employed in companies with foreign capital as well, as an increase in the share of such persons in the overall number of persons employed in Poland. In the year 2000 the number of persons employed in companies with foreign capital reached 966,500, which constituted 6.4% of the total number of persons employed in Poland and 10.3% of average paid employment (See Table 2). If we take into account the number of persons employed in companies with foreign capital in relation to overall employment in the enterprise sector, the percentage share of such workers rises to 19,6% (J. Chojna, 2002, p.35).

**Table 2. Number of persons employed in companies with foreign capital in Poland in the years 1992-2000**

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

Source: Adapted from official statistics issued by GUS.

In comparison to 1992, the number of persons employed in companies with foreign capital has increased fourfold. In addition, the number of persons employed in companies with foreign capital includes only those companies registered in GUS, and thus may be underestimated inasmuch as the figures given are only for those firms which sent in statistical reports. In the year 2000, 14,668 firms with foreign capital were registered with GUS (GUS, 2001, p. 9).

Most of the jobs created in the year 2000 by companies with foreign capital were in industry, where 548,900 persons were employed, which constituted 59.3% of the overall number of persons employed in companies with foreign capital. In terms of number of persons employed in such companies, the trade and repair sector occupied second place, employing 160,600 persons, which constituted 17.3% of the overall number of persons employed in companies with foreign capital. A significant number of persons employed in companies with foreign capital could also be found in the transportation, storage, and communication sector (101,800, or 11%) and in the real estate, renting and business activities (45,600, or 4.9%). 3,600 persons were employed in companies with foreign capital in the financial intermediation sector, which constituted only 0.4% of the total number of persons employed in such firms, based on the statistics submitted to GUS.

The above data can be supplemented with information concerning the number of persons employed in commercial banks, based on data of the Bank Supervisor and Inspector's Office. According to their data banks with a controlling foreign capital interest employed 63,400 persons in 2001, which represents a 360% increase over the number of persons employed in such banks in 1998. This should not be interpreted, however, as the creation of a significant number of new jobs, inasmuch as the increase primarily reflects the fact that "Polish banks" with a controlling Polish stock interest were being replaced by "foreign banks" with a controlling foreign capital interest. During the same period the number of persons employed in banks with a controlling Polish stock interest dropped to 86,200, which represented a 150% decrease between 1998 and 2001. This fundamental change in the proportionate share of banks controlled by foreign as opposed to Polish capital is directly connected with the liberalization of the flow of capital which grew out of the framework of Poland's obligations within the OECD.

A comparison of the number of persons working in companies with foreign capital with the overall number of persons employed in particular sectors of the economy demonstrates that 17.5% of the number of jobs in industry are offered by companies with foreign capital, including 20% of the number of jobs in the processing industry, while 13.1% of the jobs in transport, storage and communication are offered by companies with foreign capital, 11.8% in hotels and restaurants, and 7.7% in trade and repairs. It is clear that these are significant numbers from the point of view of Poland's overall economy (Own calculations on the base of Main Statistical Office - GUS -data).

Available data concerning the labour productivity (Table 3) and wages and salaries (Table 4) of companies with foreign capital enables us to make

judgments about the qualitative effect of the inflow of foreign capital on the Polish labour market. (J. Chojna, 1999, p. 35).

**Table 3. Labour productivity in companies with foreign capital employing 10 or more persons in 2000 (according to the PKD classification)**

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

Source: Adapted from official statistics issued by GUS.

In the years 1997-2000 the productivity of companies with foreign capital, measured in terms of overall productivity per single employee, was twice as high as the average for all business entities in the overall Polish economy. According to the PKD classification, productivity was especially high in companies of financial intermediation (764,000 PLN per single employee) as well as in trade and repairs (926,000 PLN per single employee). In comparison to the average indicator for all companies with foreign capital, the productivity in the EKD sections was 3-3.6 times higher.

Data concerning the average monthly wage or salary in companies with foreign capital, set forth in Table 4, indicates that in 1999 it was 1.4 times higher

than the overall average Polish wage, and 1.5 times higher than the average Polish wage in the private sector.

**Table 4. Average monthly gross salary or wage in Poland, according to ownership sector (in euros)**

| Category                              | 1995  | 1998  | 1999 <sup>a)</sup> |
|---------------------------------------|-------|-------|--------------------|
| Total                                 | 220.4 | 314.2 | 401.5              |
| Public sector including:              | 240.4 | 346.8 | 433.7              |
| - state ownership                     | 248.1 | 363.3 | 463.3              |
| - local governmental units' ownership | 198.3 | 289.8 | 366.4              |
| Private sector including:             | 191.1 | 285.5 | 374.5              |
| - Polish private sector               | 173.2 | 250.8 | 325.2              |
| - foreign sector                      | 286.9 | 421.7 | 564.5              |

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

Source: Adapted from official statistics issued by GUS.

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

In addition, foreign investors generally have a large impact on the creation of so-called human capital resources, especially in lesser developed countries. This process occurs naturally via the training of employees to accomplish different, more complicated tasks, as well as through the constant process of professional education. According to preliminary data, large foreign investors are making concerted efforts to improve their human capital resources via training programs and sending workers abroad to the home corporations or foreign affiliates for additional training. This migration of workers among

various firms enables the local firms in the host country to ensure that they have highly qualified employees at their disposition without the need to invest significant sums of money. It also modifies the environment in which the firms operate, primarily through the imitation by local firms of the models and methods of operation of their foreign owners and/or affiliates.

The negative indirect effects connected with the inflow of DFI into the Polish labour market appear when, as a result of competitive pressures, increased imports replace domestic production in the host country, forcing national firms out of business and thus eliminating jobs. The scale of this effect is difficult to estimate. The high, and rising, share of imports by countries with foreign capital in relation to overall Polish import (60.7% in 2001) (B.Durka 2002, pp. 60), would seem to confirm the thesis that this phenomenon is presently taking place in Poland.

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

## CONCLUSIONS

1. Many of the countries undergoing economic transformation from centrally-planned to free-market economies experienced high trade deficits in the initial period of ownership transformation, in part owing to the predominance of import in the economic activities associated with foreign investment, which in turn exercised a negative effect on their labour markets. Subsequently the trade deficit was incrementally reduced as the share of firms with foreign capital in overall export began to increase and the overall national economies increased their capacities to bring in and handle foreign investment. This increase in exports and reduced trade balance had the effect of creating new jobs.
2. The above-described trends were evident in the Polish economy as well throughout the period of economic transformation and EU integration. In the 1990's one could observe an increase in the trade deficit with the EU, which brought with it the loss of approximately 1,500,000 jobs in Poland. Beginning with the turn of the new century this situation began to improve as a result of the growth in exports, particularly by firms with foreign capital, and the situation in the Polish labour market improved accordingly.

3. From the point of view of the host country, employment issues are among the most important aspects in reviewing the activities of transnational corporations. Countries undergoing systemic transformation and structural changes expect the activities of transnational corporations to result in increased jobs and improvement in their labour market situations. Nevertheless the experiences of various countries suggest that transnational corporations engaging in foreign investment create new jobs in host countries in a selective and „economical” manner.
4. In terms of creating jobs in Poland the activities of transnational corporations, and the effects thereof, do not differ from overall global trends. The share of transnational corporations in overall job creation is significantly less than their share in total revenues. As a result it may be concluded that the social effects of the activities of transnational corporations, understood in terms of cushioning the effects of unemployment and the creation of new jobs, are weaker than their economic effects, understood as their position and strength in the national economies of the host countries.

## REFERENCES

- J. Chojna (2002), *Miejsce podmiotów z udziałem zagranicznego w gospodarce narodowej Polski* (The role of companies with foreign capital in the Polish national economy), in: *Inwestycje zagraniczne w Polsce* (Foreign Investment in Poland), IKiCHZ, Warszawa.
- J. Chojna (1999), *Miejsce podmiotów z udziałem kapitału zagranicznego w gospodarce narodowej Polski* (The role of companies with foreign capital in the Polish national economy), in: *Inwestycje zagraniczne w Polsce* (Foreign Investment in Poland), IKiCHZ, Warszawa.
- B. Durka (2002), *Udział podmiotów z kapitałem zagranicznym w polskim handlu zagranicznym* (The share of companies with foreign capital in Poland's foreign trade), w: *Inwestycje zagraniczne* (Foreign Investments), IKiCHZ, Warszawa.
- A.K. Ghose (2004), *Global economic inequality and international trade*, International Labour Office, Employment Paper 2001/2, Geneva.
- GUS (2001), *Działalność gospodarcza spółek z udziałem kapitału zagranicznego w 2000 roku*, *Informacje i opracowania statystyczne* (The business activities of companies with foreign capital in 2000. Information and statistical data), Warszawa.
- P. Krugman (1981), *Scale economies, product differentiation and the pattern of trade*, *American Economic Review*, vol. 70, No. 1.

- P. Krugman (1995), *Increasing returns, imperfect competition and the positive theory of international trade* in: G.M. Grossman and K. Rogoff, eds., *Handbook of International Economics*, vol. 3, Amsterdam: Elsevier Science.
- R. C. Shelburne (2004), *Trade and Inequality: The Role of Vertical Specialization and Outsourcing*, Paper presented at IT&FA Congress, San Antonio, May, 19-22.
- E. Synowiec (1996), *System celny*, (Customs System) in: E.Kawecka\_Wyrzykowska, E.Synowiec eds, *Unia Europejska. Integracja Polski z Unia Europejską*, IkiHZ, Warszawa.
- UNCTAD (2001), *International trade and labour market performance: major findings and open questions - Policy issues in international trade and commodities*, Study Series No. 20.
- UNCTAD (1994), *World Investment Report 1994. Transnational Corporations, Employment and the Workplace*, UN, N.York and Geneva.
- J. Witkowska (2001), *Rynek czynników produkcji w procesie integracji europejskiej. Trendy, współzależności, perspektywy*, (Factors Market in the Process of the European Integration. Trends, Interdependencies, Perspectives), University of Lodz, Lodz.
- Z. Wysokińska (2001), *Konkurencyjność w międzynarodowych i globalnym handlu technologiami* (Competitiveness in International and Global Trade in Technology), PWN, Warszawa.
- Z. Wysokińska, J. Witkowska (2002), *Integracja europejska. Rozwój rynków* (European Integration. The Development of Markets), PWN, Warszawa-Lodz.
- Z. Wysokińska, J. Witkowska (2003), *Analiza i ocena kosztów i korzyści przystąpienia Polski do UE w obszarze „mikroekonomia”*, w: *Korzyści i koszty członkostwa Polski w Unii Europejskiej*, Raport z badań, Centrum Europejskie Natolin, Warszawa.