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Financial crisis and international capital movement, Employment adjustment by multinational enterprises.

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Summary

Indeed, the international capital movement heavily influences on the financial and economic crisis, but the portfolio investment and the foreign direct investment have different implications. The multinational enterprises do not only play the main and leading role for the employment adjustment in the EU, but they also represent both of the eastern shift, and the evolutionary character of the EU.

Contents

As many suggest, the international movement of capital has been playing the significant role during a series of financial crisis starting from the sub-prime loan problem in 2007. There are two types of the international capital movement; the portfolio investment and the foreign direct investment (FDI). Indeed, both of them contribute to improve the host economy through internationally transferring the necessary resources from outside. The portfolio investment can finance the deficits of current account and/or of government budget, and makes it enable to soften or postpone the austere policy constraining economy, which might well be required by such deficits otherwise. The FDI increases the productivity, and improves the efficiency of host economy through the transfer of such intangible assets as the technology and skill not available in host, the international network of production and distribution and so on. Even if there are some differences of quantitative and qualitative effects, both have positive impacts on the host economy concerning.

The difference between these two types of international investment is brought about by the speed of movement. Because of the advancement of the information technology and the deregulation for the financial services, the portfolio investment moves across the border instantly and hugely very much. The portfolio investment accelerates the birth and growth of financial bubble through the inflows into host economy in very short time span, while, in the process of economic decline, it boosts the economic crisis through rapid running away from the host. Thus, it is often received negative assessment. What were said at the days of the accumulated debt problem of Latin America in the 1980s, and of the Asian financial crisis in 1997, are applied to the Euro crisis at the moment[1]. This leads the positive assessment on the FDI[2].

On the other hand, since the FDI brings together with the large sank costs caused by the transfer of intangible assets into the host, the short-term decline in the economy does not always spontaneously lead to the “divestment” by the investing company. The multinational enterprises (MNEs), which actually conduct the FDI, and have more financial capability, are likely to be resilient against economic crisis more than the general domestic firms. If this is true, the FDI can be expected to have the propping-up effects against the decline of economy and employment under the economic crisis after the Lehman-shock.

The above assessment does not mean, however, that MNEs would always maintain the employments irrespective of the economic conditions. Rather, facing with the economic integration like the EU, which possesses the asymmetrical character with the market integration on one hand, and the structural divergence in the production process, and shows different economic performances among member states, on the other hand, the MNEs have to actively and uniquely undertake the production and job adjustment including both the increase and the decrease. This issue will be further looked at, and the implication will be considered in more detail.

It is never easy task to confirm the entry and exist of MNEs. Indeed, the international balance of payment shows the status of the country concerning the inflow, outflow and balance of FDI. However, it is not sufficient to analyse the production and job adjustment by MNEs. Under such difficult condition to obtain the appropriate data and information, the European Restructuring Monitoring (ERM) database of the Eurofound, an agency of the EU, provides the dispensable information on large scale restructuring including both the increase and the decrease of jobs not only by MNEs, but also by others including the public institutions[3]. Making use of this ERM database, we can understand the job restructuring by MNEs in the EU. Thus, this author obtained and constructed the original database of non-financial top 100 MNEs listed in the World Investment Report 2004 by the United Nations Conference on Trade and Development (UNCTAD). Despite of that the top 100 MNEs were examined, the ERM database covers only 80 firms on the job-reduction cases, and 69 firms on the job-creation[4].

The ERM database reports that the total restructuring cases in the EU are 11,977, the job creation is 2,418, 110, and the job reduction is 3,818,244 between 2004 and 2011. Among these total cases, the main MNEs have played the major role. According to the data obtained from the ERM database, it is affirmed that MNEs increase 271,103 jobs, and reduce 471,841 jobs during the same period. These numbers represent 11.2% and 12.3% in the total job creation and reduction, respectively. In other words, just only 80 MNEs conduct more than one tenth of total restructuring in the EU, and the implication is quite significant.

The other point to be mentioned besides the size of restructuring is the forward movement character of restructuring by MNEs. Following the restructuring cycle from 2004 to 2011, the share of MNEs in total job reduction reached at the peak with 18.9% in 2008, when the Lehman-shock occurred, and then declined it. On the other hand, the job creation slightly comes to increase from 2009, and reached at 12.4% in 2011, which is higher than the average, 11.2%. Indeed, the speed of adjustment by MNEs is not so dramatic as the portfolio investment forces, it seems to exceed the general adjustment pace of the EU economy. This observation is in accord with the previous research, which found that the response of MNEs to the economic conditions in the host became quicker than before along with the development of the integration scheme like the EU and the NAFTA[5].

Table-1 The share of large MNEs in total job restructuring

	2004	2005	2006	2007	2008	2009	2010	2011	Average
Job creation	16.8	9.7	14.7	7.8	10.8	9.2	12.2	12.4	11.2
Job reduction	14.9	16.0	16.1	11.4	18.9	7.1	7.8	5.9	12.3

Source: author's calculation based on the data collected from European Restructuring Monitor database

The restructuring by MNEs including both job creation and reduction is also simultaneously conducted as the leading force to the eastern shift of production in the EU economy. Large MNEs create 119,446 jobs in Western Europe, while they reduce the jobs with the scale of 442,750. Thus, the net effect of restructuring is the loss of more than 300,000 jobs. Contrary to this, the increased employments in the new member states of the EU in Central and Eastern Europe are 151,657, and the reduction is 29,091 jobs. The net creation of jobs reaches more than 120,000. This eastern shift can be explained by various factors from the difference of wage level and economic growth, the improvement and stability in business environment brought about by the introduction of "acqui"[6], and so on. At the same time, the R&D facilities are mainly established in Western Europe, and we can point out that the upgrading of FDI also occurred[7].

Another point to be added is that MNEs do not only shift the eastward, but also conduct the job reduction in Central and Eastern Europe. Especially, Czech Republic and Slovenia experiences the job adjustment by MNEs, and Bulgaria, Hungary, and Romania also show such movement though with less extent. In Czech Republic, MNEs reduce 14,629 jobs which are about 80% of job creation, 17,532, by top MNEs. Two third of job creation, 1,533, is reduced, 1,042, in Slovenia. These two countries are the most economically developed countries among new member states, and Czech Republic, in special, has been developing with large amount of inward-FDI from the earliest stage of the shift from the planned economy to the market one. As a result, both countries are at the position nearby to the member states in Western Europe, rather than the emerging economy in the enlarged EU. We can say that this is reflected in the restructuring pattern by MNEs. The experiences of these two countries suggest that, along with the economic development of other new member states, there is possibility to shift from the unilateral recipients of inward-FDI and jobs to the mixed type with the divestment and job reduction.

(This article is translated from its Japanese version by this author himself, which was uploaded to MUFG Bizz Buddy Web Site, November, 28, 2012, for the expatriates of Japanese firms abroad by Mitsubishi Tokyo UFJ Banking Group.)

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[1] As emphasising this issue, for example, Takemori, Shumpei (2012) Euro Hatan, soshite Doitsu dakega Nokotta (Euro Destruction, and Only German Remains: Japanese), Tokyo: Japan Economic Journal.

[2] The article of The Economist (Aug. 18th, 2012), which reports the budget problem of Slovenia following after Southern Europe and Ireland, points out that the problem of this country is the low level of inward FDI.

[3] The formal name of Eurofound is "the European Foundation for the Improvement of Living and Working Conditions". The ERM data is reported on the following homepage almost everyday. http://www.eurofound.europa.eu/emcc/erm/index.php?template=searchfactsheets

[4] For the detail analysis, see the Ando, Ken-ichi (2013) "Zai-ou Takokuseki Kigyou no Jigyou Kakudaito Shkushou ni kansuru Shiron (Preliminary study on the business expansion and shrinking by the multinational enterprises within Europe, Japanese)", Economic Review (Shizuoka University), vol. 17, no. 4, forthcoming.

[5] Concerning the EU, see, for example, Filippaios, Fragkiskos and Papanastassiou, Marina (2008) "US outward foreign direct investment in the European Union and the implementation of the Single Market:

Empirical evidence from a cohesive framework", Journal of Common Market Studies, vol. 46, no. 5, pp. 969- 1000, and, Buckley, Peter J., Jerremy Clegg, Nicholas Forsans and Kevin T. Reilly (2007) "A simple and flexible dynamic approach to foreign direct investment growth: The Canada-Unite States relationship in the context of free trade", The World Economy, 2007, February, pp. 267-291, on the NAFTA.

[6] "Acquis (aquis communautaire)" is the whole of the EU law, and new member countries are requested to accept it, and to change the national laws. This also contributes to set up the same legal conditions in new members as the old Western members.

[7] Japan External Trade Organisation (JETRO) (2012) Zai Oushuu Toruko Nikkei Seizougyou no Keiei Jittai, 2011 (Japanese Manufacturing Affiliates in Europe and Turkey, 2011 Survey, Japanese), Tokyo: JETRO, reports that there are 479 Japanese R&D facilities in Europe, and 462 among them are set up in Western Europe.

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