

1. RESPONDING TO THE ECONOMIC CRISIS

1.12. Trends in the employment of foreign affiliates

Foreign affiliates contribute to a host country's international competitiveness through several channels. They provide access to new markets and new technologies for domestic suppliers and buyers along the value chain, generate knowledge spillovers for domestic firms, and invest a higher share of their revenue in research and development (R&D).

Over 1996-2006, trends in employment of foreign affiliates in the manufacturing sector have roughly paralleled total manufacturing employment in OECD countries. However, employment of foreign affiliates dropped further in the aftermath of the ICT crisis in early 2000 and has not since caught up. If this trend is maintained in the current crisis, manufacturing jobs losses would be larger in foreign affiliates than in domestic enterprises.

Employment under foreign control in Norway, Italy and the United States has especially followed trends in total manufacturing employment. In these three countries, manufacturing employment of foreign affiliates is likely to be more affected than in other countries. In Japan, foreign affiliates' employment has been less responsive to the employment cycle in manufacturing, but in any case, the weight of foreign affiliates in employment is so small as to be negligible.

The concepts of influence and control

The basic criterion for determining whether an investment is a direct investment is its capacity to exert "influence" on company management. The notion of influence is reflected, in statistical terms, in the holding of more than 10% of the ordinary shares or voting rights, while any investment below 10% is considered to be portfolio investment. The notion of influence does not allow for collecting data on the activities of multinational enterprises in a coherent and effective manner, whence the need to resort to the notion of "control".

The notion of control implies the ability to appoint a majority of administrators empowered to direct an enterprise, to guide its activities and determine its strategy. In most cases, this ability can be exercised by a single investor holding more than 50% of the shares with voting rights. The notion of control allows all of a company's activities to be attributed to the controlling investor. This means that a company's employees are all attributed to the controlling investor and the investor's country of residence.

Data on the activity of multinationals use the notion of "control" to a greater degree than the notion of "influence". Influence implies attributing production, value added, the number of employees and other variables according to shareholders' percentage stake in the enterprise, and it is the "financial" aspect that predominates. In the case of control, it is the "power to take decisions" and "decide corporate strategy" that comes first.

The term "foreign affiliate" is restricted to affiliates under foreign control. Accordingly, the geographical origin of a foreign affiliate is the country of residence of the ultimate controller. An investor (company or individual) is considered to be the investor of ultimate control if it is at the head of a chain of companies and controls directly or indirectly all the enterprises in the chain without itself being controlled by any other company or individual.

Source

OECD, calculations based on AFA database, July 2009.

Going further

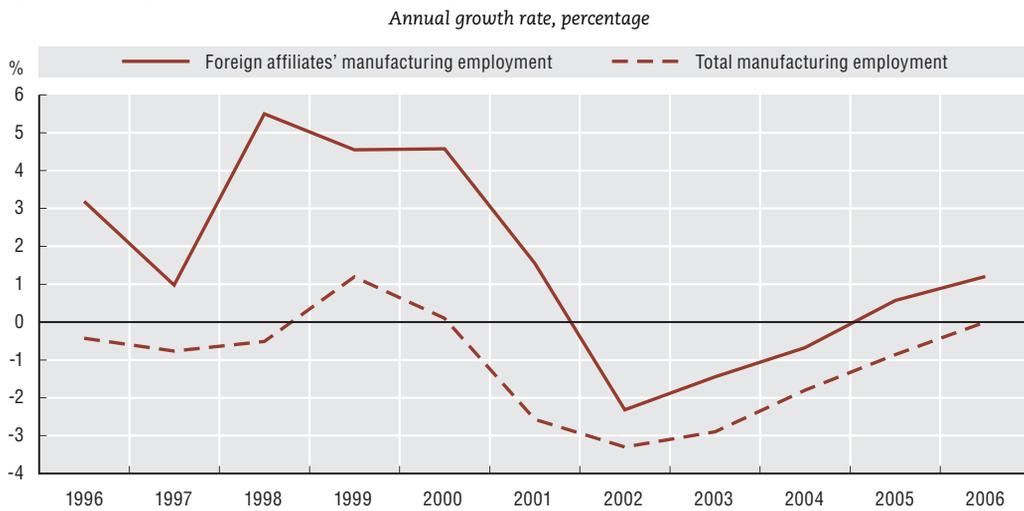
OECD (2005), *Measuring Globalisation: OECD Handbook on Economic Globalisation Indicators*, OECD, Paris.

Figure notes

Aggregate OECD includes the Czech Republic, Finland, France, Germany, Hungary, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, the United Kingdom and the United States.

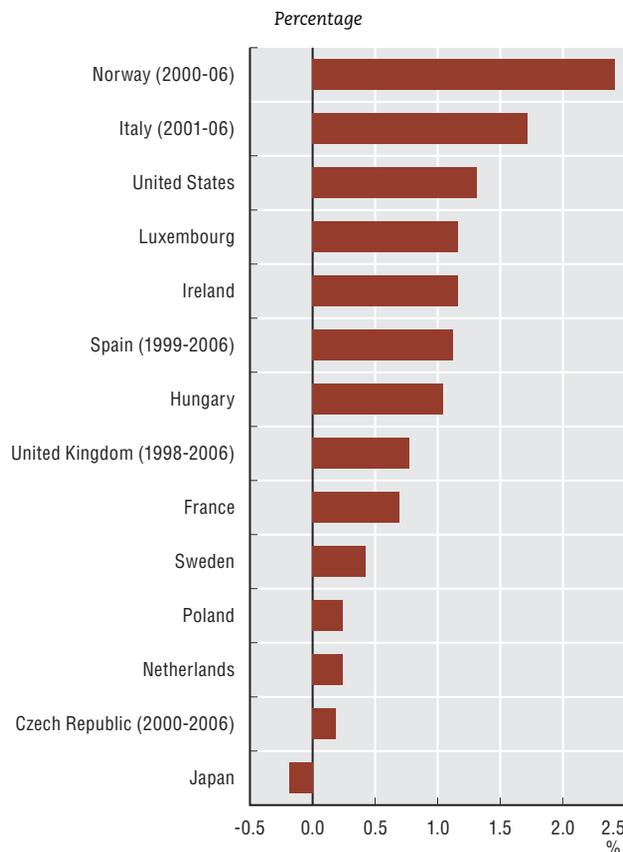
Responsiveness is measured as the estimated elasticity of foreign affiliates' manufacturing employment to total manufacturing employment. The estimation is based on an OLS regression on the first-order differences of natural logs. Only coefficients significant at the 10% level and below are reported.

Changes in foreign affiliates' manufacturing employment over the business cycle, OECD, 1996-2006



StatLink <http://dx.doi.org/10.1787/742618808087>

Responsiveness of foreign affiliates' manufacturing employment to the business cycles, 1996-2006



StatLink <http://dx.doi.org/10.1787/742627775615>



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