

Overview of Foreign Direct Investment and Foreign Direct Investment's Effect on Employment

Author's Details:

⁽¹⁾Thi Ngoc Mai Pham ⁽²⁾ Quang Khanh Pham ⁽³⁾Thi Thu Huong Nguyen

⁽¹⁾⁽²⁾⁽³⁾ University of Economics - Technology for Industries, Vietnam

Correspondence: Thi Ngoc Mai Pham, 456 Minh Khai, Hai Ba Trung, Ha Noi

Abstract:

The article has reviewed the research related to foreign direct investment and the effects of foreign direct investment on the employment. Based on an overview of foreign direct investment related concepts and theories, the article is the foundation for future empirical studies on foreign direct investment and its effects employment.

Keywords: Foreign direct investment, employment

1. Introduction

Along with globalization, countries around the world have been actively opening the economy and integrating into the world economy. Foreign direct investment (FDI) plays an important role in economies, especially in developing countries. According to data of the United Nations Conference on Trade and Development (UNCTAD) (2018), the global FDI inflows increased from about 207 billion USD in 1990 to about 1,762 billion USD in 2015, about 8.5 times. In particular, the amount of FDI into developing countries from 35 billion USD to about 765 billion USD, about 22 times. The share of FDI in developing countries also increased significantly, from 17% in 1990 to about 43% in 2015. Another issue that always receives top priority in socio-economic policies of governments is creating jobs for workers. High unemployment can cause serious consequences and social evils in countries where labor is abundant and the system of social welfare is limited, especially in developing countries. The question is how open economic policies, or FDI inflows, affect employment in host countries. A number of studies have been done to quantify this relationship.

2. Literature review

2.1. Overview of foreign direct investment

2.1.1 Definition of foreign direct investment

According to WTO (1996): Foreign direct investment (FDI) occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage that asset. The management dimension is what distinguishes FDI from portfolio investment in foreign stocks, bonds and other financial instruments. In most instances, both the investor and the asset it manages abroad are business firms. In such cases, the investor is typically referred to as the "parent firm" and the asset as the "affiliate" or "subsidiary".

Similar to WTO's definition in 1996, Unctad (2007) defined Foreign direct investment "as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)". Foreign direct investment implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. Foreign direct investment may be undertaken by individuals as well as business entities.

According to World Development Indicators: “Foreign Direct investment (FDI) is investment made to acquire a lasting interest in or effective control over an enterprise operating outside of the economy of the investor. FDI net inflows are the value of inward direct investment made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, net of repatriation of capital and repayment of loans. FDI net outflows are the value of outward direct investment made by the residents of the reporting economy to external economies, including reinvested earnings and intracompany loans, net of receipts from the repatriation of capital and repayment of loans. These series are expressed as shares of GDP” (WDI 2007).

There is an existing definition by International Monetary Fund (2004) that states: Foreign direct investment enterprise is “defined as an incorporated or unincorporated enterprise in which a foreign investor owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise”. The numerical guideline of ownership of 10 per cent of ordinary shares or voting stock determines the existence of a direct investment relationship. An effective voice in the management, as evidenced by an ownership of at least 10 per cent, implies that the direct investor is able to influence or participate in the management of an enterprise; it does not require absolute control by the foreign investor”. However at the present, IMF propose a new definition in which “Foreign direct investment enterprise is an enterprise (institutional unit) in the financial or non- financial corporate sectors of the economy in which a non-resident investor owns 10 per cent or more of the voting power of an incorporated enterprise or has the equivalent ownership in an enterprise operating under another legal structure”.

OECD (2008) has the same definition of foreign direct investment as the IMF, but OECD has a clearer idea of foreign investors. According to OECD, Foreign direct investment reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship. Some compilers may argue that in some cases an ownership of as little as 10% of the voting power may not lead to the exercise of any significant influence while on the other hand, an investor may own less than 10% but have an effective voice in the management. Nevertheless, the recommended methodology does not allow any qualification of the 10% threshold and recommends its strict application to ensure statistical consistency across countries. A foreign direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10% of the voting power of a corporation (enterprise), or equivalent for an unincorporated enterprise, resident in another economy. A direct investor could be classified to any sector of the economy and could be any of the following:

- i) an individual;
- ii) a group of related individuals;
- iii) an incorporated or unincorporated enterprise;
- iv) a public or private enterprise;
- v) a group of related enterprises;
- vi) a government body;
- vii) an estate, trust or other societal organization;
- viii) any combination of the above. In the case where two enterprises each own 10% or more of each other’s voting power, each is a direct investor in the other.

Direct investment includes the initial equity transaction that meets the 10% threshold and all subsequent financial transactions and positions between the direct investor and the direct investment enterprise, as well as qualifying FDI transactions and positions between incorporated and unincorporated fellow enterprises included under the FDIR. Direct investment is not solely limited to equity investment but also relates to reinvested earnings and inter-company debt. Direct investment includes inward and outward financial transactions/positions between directly and indirectly owned incorporated and unincorporated enterprises. The extent of the direct investment relationship is determined according to the Framework for Direct Investment Relationships. Some relationships may exist between enterprises which may exhibit the characteristics of direct investment even though there are no links which qualify as direct investment. Such borderline cases should not be treated as direct investment.

The Law on Investment of Vietnam (The Law No. 67/2014/QH13 dated 26 November 2014) does not directly introduce the concept of foreign direct investment, but the interpretation of foreign direct investment can be drawn from the concepts of “investment”, “direct investment”, “foreign investment” and “offshore investment” specified in the law. Pursuant to Article 3, Vietnam Investment Law 2014: “Business investment means an investor’s investing capital to do business by establishing a business organization; making capital contribution, buying shares or capital contributions to a business organization; making investments in the form of contracts or execution of investment projects” and “Foreign investor means an individual holding a foreign nationality or an organization established under foreign laws an making business investment in Vietnam”. While Investment Law 2014 stated “Foreign-invested business organization means a business whose members or shareholders are foreign investors”, the Circular No.06/2019/TT-NHNN dated 26 June 2019 of Vietnam make this point more clearer: “Foreign investor means any individual that has a foreign nationality or any organization that is established in accordance with a foreign country’s law and makes direct investment”.

In general, FDI can be interpreted as an international form of investment in which a country's investor invests wholly or partially enough capital for a project in another country to gain control or take part in controlling of that project. The nature of foreign direct investment is aimed at maximizing the benefits, seeking profits in the host country through capital movement (in cash and assets, technology and management level of the foreign investment) from the home country to the host country.

2.1.2 Characteristics of foreign direct investment

Foreign direct investments are commonly made in open economies that offer a skilled workforce and above-average growth prospects for the investor, as opposed to tightly regulated economies. Foreign direct investment may include provisions of management or technology as well. The key feature of foreign direct investment is that it establishes either effective control of or at least substantial influence over the decision-making of a foreign business. FDI is primarily private investment with the main purpose of maximizing benefits. Transnational companies (TNCs) seek the most profitable investment opportunity and are largely unconcerned with other issues such as poverty, inequality, working conditions or the environment (Torado and Smith, 2012). The investor shall make investment decisions, make decisions on production and business activities and take responsibility for profit and loss. Foreign investors are free to choose their investment fields, investment markets, investment scale and technology. They will make decisions that are most beneficial to them.

Foreign investors must contribute a minimum percentage of capital in their legal capital or charter capital pursuant to the laws of each country in order to gain control of or participate in controlling enterprises receiving investment. The laws of countries are often different in this regard. According to IMF and OECD regulations, this percentage is 10% or more. Meanwhile, the 2005 Investment Law of Vietnam does not specify it. Contribution of the parties in the charter capital or legal capital will define the rights and obligations of each party, and profits and risks are also divided based on this ratio. The income that an investor earns depends on the business results of the enterprise in which they invest.

Direct investments, where not only capital is being exported, but also technical and technological processes, know-how, work organization and so forth, the owner of capital reserves both function of ownership as well as the management function, i.e. Exporter of capital organizes and controllers the use of capital. FDI usually comes with technology transfers to the host countries. Through FDI activities, the host country can receive advanced technology, techniques, and management experience. However, developing countries also face the risk of becoming technological landfills of developed countries due to outdated technology transfer, causing environmental pollution. In addition, mainly from developing countries flowing to developed countries, FDI is also a way to take advantage of modern scientific and technical development in the host country.

2.1.3. The role of foreign direct investment in the host country

Supplementing domestic capital

Theories of economic growth all show the role of savings and investment in economic growth and poverty reduction. The first and most often-mentioned contribution of FDI to a nation's development is the role that fills the resource gap between the desired investment and domestic savings mobilization (Torado and Smith, 2012, p. 689). FDI can help countries break the vicious cycle of underdevelopment. Although FDI accounts for only a small part of the total investment in developing countries, it is still the largest source of foreign capital flowing into these countries (Torado and Smith, 2012, p. 686).

In addition, foreign firms are often said to pay higher wages than domestic firms for workers of the same quality in the host country, not only in developing countries but also in developed countries (Lipse, 2004). This higher level of income may force domestic firms to raise average wages to retain skilled, high-quality workers. Since then, raise the average income, increase savings and return rates, increase domestic investment, contributing to economic development.

Foreign businesses also increase the revenue of the state budget from taxes. By levying income taxes on TNCs and engaging in these companies' financial-related activities, developing country governments are said to be better able to mobilize public funding for development project (Torado and Smith, 2012, p. 689).

Increase labor productivity

A second channel through which FDI can affect the host country's economic growth is human capital formation. According to OECD (2002), FDI has not only a direct influence on human capital enhancement but also an indirect effect. The improvement of the human capital can occur through training that workers receive during the observation of new operations developed by multinationals (Loungani and Razin, 2001; OECD, 2002). In fact, it happens often that the labor force is not able to use the new technologies introduced by MNFs, which leads them to provide the necessary training that lead to the upgrading of skills in the host country (Borensztein et al., 1998; Ietto-Gillies, 2005). Görg and Greenaway (2004) also report that MNFs generally invest in training, being impossible to lock-in such resources.

The training provided by MNFs can be beneficial to other firms and to the locality, since labor trained in one firm often moves to other local firms (Görg and Greenaway, 2004; Ietto-Gillies, 2005). Lim (2001) mentions that many employees use new knowledge to create their own firms and then they will transmit their knowledge to the workers of this new firm. OECD (2002) states that MNFs are responsible for human capital enhancement of the host countries, also because they demonstrate to local authorities the need to have a qualified labor force (the indirect effect). In this way, countries try to attract FDI via enhanced human capital.

Introduce new industries and connect global production networks

One of the main contributors to FDI in many cases is the introduction of new manufacturing industries into a country or a drastic change in the composition of manufacturing activities (Lipse, 2004). The penetration of a TNCs will bring changes in horizontal (competitive) as well as vertical (linking with buyers and suppliers) to

the host country. Foreign firms provide technology and linkage with other parts of the production network to help complete the set of resources needed for the development of new industries (Dobson and Chia, 1997). TNCs have a role in shifting production activities in developing countries towards exchangeable goods, and between these goods, shifting from import to export (Blomström, 1990). FDI enterprises can stimulate competition, improve resource allocation, especially in industries with high barriers to entry, which limit the level of domestic competition in receiving countries to invest. In other words, the accession of TNCs can create additional momentum for development and innovation in the domestic market (Lall, 2000).

FDI contributes to the integration of the host country into the global economy particularly by engendering and boosting foreign trade flows (exports and imports) (OECD, 2002). Positive effects occur if FDI contributes to increased exports, which depends on the motivations underlying the investment. The positive impact on the host country's exports tend to be higher in the case of FDI motivated by the availability of natural or human resources in the host country or in the case where the host economy is used as a platform for penetration via exports into third countries (OECD, 2002; Ietto-Gillies, 2005). Additionally, the export operations of MNFs may influence local firms in several ways (Blomström and Kokko, 1998). Blomström and Kokko (1998) suggest that some local firms become multinationals suppliers or subcontractors, which leads local firms to export, although they do not always export under their own name. The exports operations of MNFs could help local firms to enter the same foreign markets due to the creation of transport infrastructure or resulting from the dissemination of information about the markets (Blomström and Kokko, 1998). Also, Görg and Greenaway (2004) report that through collaboration or imitation, local firms can learn from MNFs on how to penetrate export markets.

Another form of local firms' integration in the international market is through their inclusion in the MNFs' strategy. This may lead local firms to follow the MNFs to other markets or even replace other suppliers in multinationals subsidiaries in other countries (OECD, 2002). The OECD (2002) study refers to the trade associations that MNFs are generally prominent members, as important sources to pass knowledge about the world market, because they are a center for exchange of relevant experiences.

Transfer of new technologies and know-how

FDI can affect economic growth through the transfer of technology and know-how, and this impact can be much positive.

According to Frindlay (1978), FDI is a way to improve a country's economic performance through the transmission effect of more advanced technologies and management practices introduced by multinational firms (MNFs). In fact, MNFs are often regarded as the more technologically developed firms, which is explained by the fact that MNFs are responsible for almost all the world's spending on research and development (R&D) (Borensztein et al., 1998). Also, Ford et al. (2008) consider MNFs as a major source of technology dispersion, due to their presence around the world.

Although technology transfers can occur in different ways, such as "backward" linkages with local suppliers, linkages with competing or complementary firms in the same industry, migration of skilled labor, and the internationalization of R&D, OECD (2002) report that the evidence of positive spillovers is strongest and most consistent in the case of "backward" linkages. Through "backward" linkages with local suppliers, the new technologies are transferred in the form of training, technical assistance and other information provided in order to improve the quality of suppliers' products (Rodriguez-Clare, 1996; OECD, 2002). Additionally, quoting Lall (1980) Lim (2001) reports that many MNFs also provide support to their local suppliers in purchasing raw materials and intermediate products, assist suppliers to find additional customers and even in the improvement of its facilities. Quoting Narula (2003), Kottaridi (2005) mentions another strong source of technology transfer: the link that MNFs establish with local research entities, such as public institutes and universities.

As suggested by the discussion of the motivations behind a decision to engage in FDI, there are good reasons to think that MNCs are important vehicles for the direct and indirect transfer of technology between countries. Superior technology or capacity to innovate figure prominently among the attributes a firm engaging in FDI relies on to compensate for the cost disadvantage, relative to local firms, associated with foreign operations. This technological superiority of many MNCs has led researchers to emphasize the efficiency-enhancing characteristics of their foreign investment.

FDI is very often associated with secondary benefits through the diffusion of technology to firms in the host country. This diffusion may be deliberate, such as when technology is licensed by the affiliate to a domestic firm, or it can be in the form of a technological spillover which occurs when the activities of the multinational firm yield benefits for local economic agents beyond those intended by the multinational.

An example of a deliberate diffusion is the upgrading of the technological capabilities, by the MNC, of local firms doing business with the MNC, for example when such upgrading is required to meet specifications demanded by the MNC. Technological spillovers can be horizontal or vertical. A horizontal technological spillover occurs, for example, when the affiliate has a new technology that is subsequently copied or learned by competing firms. A vertical spillover occurs when the affiliate transfers, free of charge, technology to firms supplying inputs or servicing “downstream” operations (for example distribution or retailing). The distinguishing feature of technological spillovers, which are an example of what economists term “positive externalities”, is that the benefits they bring to the host country are not taken into consideration in the MNC's investment decision. Such benefits will be captured in full by the host country unless they are “competed away” in a bidding process to attract the FDI, in which case a part - perhaps all - of these indirect benefits will be captured by the MNC.

In many circumstances, FDI may result in a greater diffusion of know-how than other ways of serving the market. While imports of high-technology products, as well as the purchase or licensing of foreign technology, are important channels for the international diffusion of technology, FDI provides more scope for spillovers. For example, the technology and productivity of local firms may improve as foreign firms enter the market and demonstrate new technologies, and new modes of organization and distribution, provide technical assistance to their local suppliers and customers, and train workers and managers who may later be employed by local firms. Foreign subsidiaries may themselves conduct research and development activities aimed at adapting the parent firm's innovation to local conditions. Clearly FDI leads to more extensive personal interaction with foreigners and exposure to new ways of doing things than does trade.

Increase competition

FDI can also play an important role in improving the factors of production and accumulation of capital in the host country, due to the competition it creates. First, because of their superior capabilities, MNFs are able to enter into sectors with high entry barriers, reducing or eliminating existing monopolies in these sectors, which will change the structure of the national economy (Blomström and Kokko, 1998). The presence of multinational subsidiaries affects the existing equilibrium in the market, forcing local firms to take action in order to protect their market shares and profits (Blomström and Kokko, 1998). According to the same authors, the increased competition causes an increase in R&D expenditures by local firms, and in some cases local firms take advantage of the improvements made to gain more market share and also become multinationals' suppliers. De Mello (1997) and Driffield (2000) also report that existing firms are forced to improve their technology and methods to face competition, making investments in equipment and in its employees. Even if local firms are unable to imitate the MNFs' technology or production processes, they are subject to greater pressure to use the existing technology more efficiently (Görg and Greenaway, 2004).

FDI is probably a key element in the process of creating a better economic environment, with consequent positive effects on economic growth (Hansen and Rand, 2006). In fact, FDI is a source of change in host countries' firms. In the case of FDI being achieved by takeover or by a process of privatization, MNFs force the

adoption of their policies and procedures in the firms they acquire, and these measures are usually complemented by the incorporation of workers from other subsidiaries of the multinational (OECD, 2002). The changes are especially important if the practices used by the MNF are more efficient than existing ones, which will generate efficiency gains. The structure of local firms suffers also changes by copying the structures used by MNFs, which are considered more efficient (Hansen and Rand, 2006).

In addition, FDI also has a role to create more jobs for workers, which will be analyzed in the following section.

2.1.4. Classification of foreign direct investment

By mode of penetration

There are several forms of capital investment in the form of foreign direct investments. For example, forms of foreign direct investments are so-called

Greenfield investments (GI), which include the complete construction of production facilities ("on the wasteland") in other countries, and mergers and acquisitions (M&A), i.e. investment through mergers and takeovers (World Bank). Mergers represent joining of two or more separate and independent international companies in the new entity. The acquisition involves merging of foreign company by its purchase, in which way the company that was merged gets a new owner and a new management.

Greenfield FDI as investments in foundation of new companies and factories without supporting infrastructure, contribute to increasing the production capacities of a country and hiring new employees, and are therefore of special importance for countries in transition. They have a significant effect on increasing the total investment, but it is difficult to attract them, because they are more sensitive to the investment climate.

With mergers and acquisitions, there is a change of ownership of existing resources, so this form of investment does not lead to increase in output and employment. There are four different types of M&A: Horizontal, Vertical, Conglomerate and Concentric M&A:

- Horizontal M&A: Two companies come together with similar products/ services. By merging they are expanding their range but are not essentially doing anything new;
- Vertical M&A: Two companies join forces in the same industry but they are at different points on the supply chain. They become more vertically integrated by improving logistics, consolidating staff and perhaps reducing time to market for products.
- Conglomerate M&A: Two companies in different industries join forces or one takes over the other in order to broaden their range of services and products. This approach can help reduce costs by combining back office activities as well as reduce risk by operating in a range of industries
- Concentric Merger/Acquisition: In some cases, two companies will share customers but provide different services.

M&A may even happen that in the initial period there is a reduction in capacity and release a number of workers. However, mergers and acquisitions may cause an increase in total investment in the future and contribute significantly to the country's economic growth through improving the operation of companies and technology transfer. Also, this type of investment can solve the problem of survival of domestic firms that are dealing with bankruptcy. A particular challenge for investors are abandoned and neglected sites and buildings, mostly in urban areas, so called brown field investments. After a long period of inactivity, building land becomes ecological, social and also aesthetic problem of the city. Therefore, through appropriate policies and instruments investors should be encouraged to re-enable the use of existing industrial facilities and sites where there is already existing infrastructure.

By other criterias

Investors can invest capital in the form of joint venture as well. For example, one of the classifications of FDI, which originates from the World Bank, is the partition according to the investment motives. According to this division, for the purposes of determining the target group of investors, there are:

- Investments that require resources (investments that require natural resources such as minerals, raw materials and agricultural products; investments that require less expensive or specialized labor force);
- Investments that require market (investments coming to the markets where the imports of certain products are high; investments that track movement of its customers - large companies; investments that track specific market trends and engage local suppliers);
- Investments that require increase of production productivity, including the rationalization of production, or linkage of manufacturing operations with other companies aiming to reduce costs and / or specialize production, and finally;
- Investments that require existing capacities in order to maintain and promote long-term goals of their company.

Motives for the export of capital in the form of direct investment are different. The aim is to achieve high profits and to provide raw materials and energy basis, in order to ensure the continuity of domestic production. Also, the goal may be to produce final goods using raw materials, that are then being sold at high prices in the country from which the raw materials were imported, or to realize high profits by selling these products at the global market, because the demand for them is great and prices are very high. The motives can be also seen in import substitution opportunities, economies of scale, avoidance of tariff barriers, creating new space for its activities, the achievement of economic and political dominance, the provision of militarystrategic objectives and so on (Pero 2011).

Besides, FDI can be classified: According to the factors affected during the investment process, there are two types of FDI: development and defensive FDI. According to the orientation of the host country, there are 3 types: FDI to replace imports, FDI to increase exports and FDI to other directions of the government.

Currently, Vietnamese Law does not have specified rules on FDI classification which make business environment more flexible and convenient for foreign investors.

2.2. Foreign direct investment's effect on employment: theoretical foundations

2.2.1. Channel effects of FDI on employment

The impact of FDI on employment in the host country can be channeled directly or indirectly, whether it is positive or negative (Jude and Silaghi, 2010). While creating jobs is considered by the national governments to be a potentially important contribution of FDI to the economy of the host country, most of the analysis about the effects of FDI on employment issues identify both positive and negative impacts (Jenkins, 2006), and depends on a number of factors. Table 1.1 summarizes the effects of FDI on the job market. The paper will only focus on analyzing the impact of FDI on quantity of jobs.

Direct effect

Directly, the type of the initial investment (or mode of entry) – greenfield or acquisition – by a TNC is one factor governing labour-market outcomes in a host country in the short-term (UNCTAD, 1994). Greenfield investment involves the creation of investing directly in entirely new production and business establishments or expanding existing production and business establishments, building more factories, purchasing additional

machines and equipment that lead to recruit more workers and create more jobs. New jobs can be created directly through the establishment of foreign subsidiaries or the expansion of old businesses. In contrast, with regard to M&A, there may be a process of restructuring and rationalizing the operations of the business in order to take full advantage of the potential of the business so that the workforce remains the same or even dropped.

The nature of the invested industry is also a factor to consider. The TNCs invest in a country to pursue an import-substitution production strategy and take advantage of trade barriers. If imported competitive goods require capital and/or technology-intensive production methods, the operation of these TNCs will not have a significant impact on the labor market. The reason is that they will hire fewer workers per unit of investment than similar domestic firms. However, if TNCs pursue a strategy of producing goods primarily for export, competitive pressure will force businesses to use the lowest cost techniques that often mean labor-intensive production (Abor and Harvey, 2008).

The effect of FDI on employment will be higher when the labor-intensive sector is invested compared to the capital- and/or technology-intensive industries. In particular, if FDI is in the form of new investments in labor-intensive industries, the effect of employment growth will be significant (Jenkins, 2006).

Indirect effect

Indirectly, the linkage between foreign enterprises and domestic enterprises can cause certain impacts. In other words, domestic enterprises can become suppliers of raw materials or take advantage of the low-cost output of foreign businesses. The high level of connectivity enables domestic enterprises to expand production in order to maintain the development of the value chain from production to consumption, creating more jobs for workers. However, if the level of linkage is low, foreign enterprises are too dependent on imported raw materials to take advantage of localization, domestic suppliers will gain little benefit which will not cause much fluctuations on the labor market.

The competition stimulates the development of domestic enterprises, but can lead to the mutual substitution between foreign and domestic enterprises also. Accordingly, there will be no impact, even an adverse impact on employment in the host country. Foreign firms increase the level of competition and force less efficient domestic firms to withdraw from the market or shrink production, cut off labor (Karlsson et al. 2009). Workers who lose their jobs may eventually be attracted to other businesses or industries but the conversion costs will be huge (Davidson and Matusz, 2001)

FDI is always accompanied by technology transfer. Domestic enterprises have access to new technologies through spillover effects. That means an increase in average labor productivity. The same amount of goods as before will be produced by less labor resulting in a reduction in labor (Jude and Silaghi, 2010). However, increased labor productivity may increase production scale and income level. Higher output levels will require more labor, thus creating new jobs (Pariently, 2005).

2.2.2. The impact of foreign direct investment on employment: Theoretical Background

Many studies around the world have been conducted to quantify the effects of foreign direct investment on employment. Studies are conducted in many countries, not only in developing countries but also in developed countries (Balcerzak and Zurek, 2011). Some studies only stop at the overall data of FDI and employment, while others disaggregate into smaller groups according to criteria such as mode of entry, investment sector or skill-based labor group. Massoud (2008) argues that different FDI groups have different effects, even contradictory influences and should not be considered as a homogeneous group under the name of FDI when studying the impact of FDI on employment.

The results obtained are controversial due to the lack of uniformity. While the majority of studies show a positive impact of FDI inflows on job creation for the host country, others have shown the opposite or even almost no effect. This is understandable because in theory, FDI can affect employment in host countries through

various channels, both positive and negative. Other factors such as the mode of market penetration of TNCs, invested economic sectors and labor skills are also analyzed and thought to make FDI effect on employment. This section will focus on analyzing a number of quantitative studies on the impact of FDI on employment (Table 1.2).

Studies in the world

- Studies in developed countries

Bailey and Driffield (2007) studied the industrial manufacturing sector in England, using the Generalized Method of Moments (GMM). The research period 1984 - 1996 was divided into 2 small periods 1984 - 1992 and 1993 - 1996 due to the change in data collection structure. In general, FDI has an impact on labor demand in the UK, although trends and levels of influence vary over time and by type of worker. Specifically, the influence of FDI was greater in the first period (1984 - 1992), when British industries were declining rapidly. In particular, FDI reduces the employment of unskilled labor in enterprises, although this effect is relatively small in the later period (1993 - 1996).

Meanwhile, Balcerzak and Zurek (2011) use the Vector Autoregressive Model (VAR) and find that the shock of FDI causes a significant reduction in the unemployment rate, but only in the short term in Poland from 1996 to 2009. In the long term, the study found no significant effects.

- Studies in developing countries

Fu and Balasubramanyam (2005) studied Township and Village Enterprise (TVEs) in 29 provinces of China in the period 1987-1998, using GMM method, Two- Stage Least Square (2SLS) regression combined with instrument variables (IV). The estimation coefficient of the FDI variable is positive and statistically significant, showing the positive contribution of FDI to employment growth in the manufacturing sector of village enterprises.

Craigwell (2006) studied in the English-speaking and German-speaking countries of the Caribbean (20 countries) between 1970 and 2003 using a Fixed Effect regression (FE) method. The results show that 1% of the increase in FDI tends to increase the demand for labor to approximately 1%. In addition, the biggest impact of FDI appears in the early stages when new capital inflows and influence will diminish over the following years. According to Craigwell, FDI creates more benefits in a stable macroeconomic environment. In other words, more trade liberalization policies, better absorption capacity of the domestic economy, and more developed financial markets will increase the impact of FDI on employment in these countries.

Using the Autoregressive-Distributed Lag Model (ARDL), Pinn et al. (2011) studied Malaysia in the period 1970-2007 showed that FDI is a significant contributor to employment growth in the host country.

Using the VAR model, Wong and Tang (2008) who studied the industries and services in Singapore between 1997 and 2005, and Aktar and Ozturk (2009) in Turkey were not found significant impact of FDI on employment. Wong and Tang (2008) argue that the presence of multinational companies (MNCs) is less inclined to create links with domestic industries. MNCs have vast international resources and networks, while the business practices of local firms are not yet consistent with the global market.

Rizvi and Nishat (2009) studied the effects of FDI on employment in three Asian countries: Pakistan, India and China in the period 1985 - 2008. The results show that FDI has no significant impact on job creation in Pakistan, India and China.

Karlsson et al. (2009) analyze the direct and indirect effects of FDI on large and medium-sized enterprises and some enterprise representatives with less than 10 employees and annual turnover of more than 5 million CNY in China between 1998- 2004. The rate of employment growth in foreign enterprises is relatively high. FDI tends to increase employment in private enterprises but has little effect on non-private businesses.

Vacaflares (2011) studied 12 Latin American countries between 1980 and 2006, using the GMM method. The results show that FDI has a positive influence or FDI creates more jobs for Latin American countries. Analyzing gender-based effects, the study shows the net positive impact of FDI on the labor market mainly through the male labor force, which is about 20% larger than the entire labor force.

Banga (2005) studied the impact of FDI on the labor market in 78 industries according to the 3-digit national industrial classification (NIC) index in India between 1991 and 1998. Although FDI make the nominal wage higher, FDI does not create more jobs in research industries. Banga said that FDI has not been invested in export- oriented labor-intensive industries, but mainly on capital-intensive industries such as chemicals, automobiles or pharmaceuticals.

Massoud (2008) studied the panel data in the period 1974-2005 in 24 economic sectors including 2 agricultural sectors, 9 industries and 13 service sectors in Egypt. Using the instrument variable (IV) and the Two-Stage Least Square (2SLS), the results indicate the effects of FDI on employment depending on sector characteristics and mode of penetration. FDI generally does not show a clear direct impact on labor demand. Only when put FDI in relation to the technological gap, FDI has a negative effect, reducing the employment rate. On the other hand, FDI into industry and FDI under new investment have a positive effect on job creation, in relation to the level of human capital (which measured by the average number of high school years of the population 25 age and country's export amount). In contrast, FDI into agriculture and services together with FDI in the form of acquisition and merger (M&A) has a negative direct impact. Massoud said that the new investment activity leading to the increase in labor demand is when the quality of labor resources exceeds a certain level. If not, foreign companies will tend to hire experts from developed countries who have capable of comprehension foreign companies' production technologies. M&A lead to the process of replacing domestic competitors with restructuring, rationalizing production and business activities, accompanied by labor cuts thanks to new technology, leading to reduce employment rate.

Nunnenkamp and Bremont (2007) studied 197 production industrial sectors in Mexico between 1994 and 2006, using the GMM estimation method. While a one- year delay in FDI has a positive effect, with a moderate level of employment problems in Mexico, FDI at the time of investment was not statistically significant. In particular, the impact of FDI on blue-collar employment is diminishing for skill- intensive industries. The study rejected the notion that FDI has an immediate direct impact on skilled labor.

Abor and Harvey (2008) studied production industries in Ghana between 1992 and 2002 using the 2SLS regression method for random effects. The results show a positive and statistically significant relationship between FDI and employment. Accordingly, firms with relatively larger inflows of FDI will hire more employees or firms with higher levels of foreign ownership tend to have higher levels of employment than firms with low foreign ownership rates or no foreign ownership. Abor and Harvey stated that FDI can affect the production scale of businesses, thereby increasing labor demand leading to increased employment. In addition, the study also shows that the extent of the impact of FDI varies by industry and location. While businesses in the textile, wood, household, metal and chemical industries tend to show significantly higher levels of employment than the garment industry, the study did not show a noticeable effect for the bakery and machinery manufacturing industry. Regarding location, the results show that businesses in Kumasi are less likely to hire a larger labor force than Accra while the variable is not statistically significant for Takoradi and the Cape Coast. Abor and Harvey explain that, because wood and household wood products often require labor-intensive production methods, there is a tendency to expect to create more jobs. Countries that focus on export-oriented activities with abundant cheap labor often tend to create more employment opportunities. Some non-traditional exporters are concentrated in textile, wood and household wood products, so they also expect higher employment rates. Accra firms can be relatively larger, resulting in higher levels of employment.

Studies in Vietnam

Quantitative research on the relationship between FDI and the issue of creating more jobs for workers in Vietnam is limited (Jenkins, 2006). Therefore, in this section, the author will focus on analysis of research conducted by Jenkins (2006).

Assessing the direct impact of FDI, Jenkins said that, although a large amount of FDI into Vietnam in the 90s of the 20th century and an important contribution of foreign companies to the output of the economy, the number of employees employed in foreign-invested enterprises is still relatively low. The most important factor can explain this statement is technology. Foreign enterprises use scientific and technological advances, increasing labor productivity, leading to a low rate of labor per unit of value added. In addition, due to the low level of vertical linkage between foreign enterprises and domestic enterprises, foreign enterprises are too dependent on imported inputs and they tend to focus on the industry has little vertical linkage, low added value per output unit. Both above results make the rates of employment per output unit of foreign firms is lower than domestic firms.

In order to explore the indirect effects of FDI on employment in Vietnam, Jenkins (2006) developed an econometric model that similar to the model of Greenway et al. (1999). The labor demand function based on the Cobb-Douglas production function has a constant elasticity between capital and labor, with the contribution of foreign enterprises to the technological efficiency parameter. The results obtained are contradictory and statistically significant. In other words, the industries whose foreign ownership increased significantly during 1995-1999 tended to lag behind in terms of employment growth. Indirect effects of FDI occur through production activities of domestic enterprises and technological effects. Jenkins (2006) shows that foreign enterprises grow strongly, reducing market share, leading to a reduction in the growth rate of non-state enterprises. On the other hand, this will create competitive pressure on state-owned enterprises, leading to a reasonable requirement of enterprise activities to increase labor productivity. Shrinking production or increasing labor productivity means reducing labor.

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