PERFORMANCES OF FOREIGN AFFILIATES IN THE OECD COUNTRIES

International investment is a key element in the process of global industrial restructuring, growing twice as fast as trade or production between 1985 and 1990. The slowdown observed during the 1990-92 recession was followed as of 1993 by an upturn in a number of countries, the United States in particular.

In order to measure the impact of direct investment on host country economies, the OECD Secretariat has carried out a study based on the findings of a detailed survey (to be issued annually as of 1994) among firms under foreign control in 15 OECD Member countries, covering the period 1980-90. This first ever study is devoted mainly to the impact of foreign investment on employment, productivity, technology and trade. It also contains two monographs concerning the United States and Japan.

The share of foreign affiliates in host country industrial activity

During the period 1980-90, foreign investment penetration increased in the majority of countries, especially the United States and the United Kingdom (see Diagram 1), while import penetration remained stable. In Canada and Australia, on the other hand, the level of penetration by foreign affiliates was already very high, but declined slightly, while import penetration increased. The same happened in Germany and Japan, although the level of import penetration was low or even (in the case of Japan) negligible.

By the early 1990s, therefore, the share of foreign affiliates in total sales and manufacturing employment was above 25 per cent in Ireland, Canada and Australia, and below 5 per cent in Finland and Japan, with the other countries recording figures between these two extremes (see Diagram 2). In the United States, a quarter of domestic demand for manufactures was met half by imports and half (12.5 per cent) by local production by foreign affiliates. In Japan, 6 per cent of this demand was met by imports and 3 per cent by output by foreign affiliates. In the majority of European countries, domestic demand for manufactures was met to the extent of over 30 per cent, or even as much as 40 per cent by
imports, and only between 3 and 15 per cent by the output of foreign affiliates, the exceptions being the United Kingdom and France where the figure was in the region of 18 per cent.

Impact on employment

Between 1980 and 1990, manufacturing employment in foreign affiliates increased sharply in many countries (notably the United States, the United Kingdom, Sweden, Portugal, Ireland, Turkey, Austria and Italy), while it fell in domestic firms. Only in a few countries (Japan, Canada, Germany, Australia and France) did foreign affiliates reduce their workforce in manufacturing industry, but even then the pace was slower than in domestic firms (see Diagram 3). It should be noted, however, that employment in domestic firms increased in two countries -- Japan and Germany.

The United States slowed the pace of its outward investment between 1980 and 1990, as a result of which the numbers employed by American affiliates worldwide fell, particularly in Europe and Japan (down 30 per cent). Within Europe, the decline was sharpest in Germany (down 24 per cent) and France (down 16 per cent) and much less marked in the United Kingdom (down 3.3 per cent).

Conversely, it was also in the United States that the numbers employed by foreign affiliates grew the most. Between 1980 and 1990, the numbers rose by 2.7 million, including 1.1 million in manufacturing. European affiliates contributed to this increase in the numbers employed to the extent of 52 per cent and Japanese affiliates to the extent of 19 per cent. European affiliates invest proportionately more than their Japanese counterparts in manufacturing industry, but provide more jobs in services -- three times as many for the same volume of sales.

It was also noted that, in all the countries for which information was available, per capita compensation of employees was higher in foreign affiliates than in host country firms (see Diagram 4). Throughout the 1980s, labour productivity in the majority of foreign affiliates was higher than in domestic firms in terms both of levels and rates of growth. Productivity growth in foreign affiliates was attributable mainly to increased production capacity, while in domestic firms it was accounted for in large part by labour shedding.

Technological links

The share of foreign affiliates in total R&D expenditure in manufacturing is tending to increase. On the other hand, foreign affiliates’ R&D intensity (R&D expenditure as a proportion of turnover or production) tends to be lower, or at best equal to the average for host country manufacturing industry as a whole, with the exception of the United States, Ireland and Australia (see Diagram 5).
The bulk of the technologies used by foreign affiliates derives from the parent company (sometimes more than two-thirds). Also, analysis of the patents filed in the United States by a large number of multinational enterprises shows that, in the vast majority of cases, the technology continues to be produced in the country where the head office is located.

Some 40 per cent of patents filed in Europe by the United Kingdom derive from foreign firms, compared with 17 per cent in Germany and France. European Union and EFTA affiliates, on the other hand, file three times as many European patents in Germany as in the other European countries.

**The impact on trade**

The study confirms that the development of foreign affiliates contributes significantly to the growth of trade, such companies tending to export and import more than domestic firms and being a major instrument in globalisation. The bulk of their imports come from the parent company via intra-firm trade which accounts, according to some estimates, for more than a third of international trade.

The two monographs -- on the United States and Japan -- contain detailed analysis, at sectoral level in particular, of the influence of foreign affiliates on the trade balances of the two countries.

Journalists may obtain a copy of the report from the OECD Press Division, 2 rue André Pascal, 75775 Paris cedex 16 (tel. 45 24 80 88 or 80 89 - fax. 45 24 80 03).

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