

An Anglo-German Foundation Report

Standort UK?

German DFI and employment

*Ulrich Hoppe, Frank McDonald,
Heinz-Josef Tüselmann and David Williams*

Executive Summary

This paper reports the findings of a study on the impact of German direct foreign investment (DFI) into the UK on the number and type of jobs in both home and host countries.¹ The main proposition investigated is that employment growth and increase in skilled jobs in host countries is positively associated with embeddedness factors (as sets and inputs that can only be obtained if a firm is rooted [embedded] into its local area). Embeddedness factors include use of local suppliers, local networks and the strategic development of subsidiaries based on locally available assets. The study also investigates the effects of more traditional factors (for example entry mode, age, size and sector) that are considered to influence DFI. In addition, the study provides data on the number of jobs in the UK associated with German DFI and their distribution according to skill level.

The main findings with regard to embeddedness factors are that they are not strongly linked to employment growth and only marginally connected to the growth of skilled jobs. A strong link between embeddedness and the growth of skilled jobs was identified only for subsidiaries that were increasing their level of embeddedness. However, the number of subsidiaries that were developing such embeddedness was small. No strong effect of embeddedness-related DFI in the UK on parent companies was found. This indicates that the embeddedness-related employment effects of German DFI for both home and host countries are small.

The findings for traditional factors indicated that there was no consistent pattern between them and employment growth and type of jobs, except for size. The dominant motivation for German DFI into the UK was to supply and develop the British market. This indicates that jobs have probably been created, or at least defended, in Germany. Overall, the findings highlight that German DFI has probably created jobs in both home and host

¹ A full copy of this report with references and all the data gathered from the survey can be obtained by contacting H.J. Tüselmann, email h.tuselman@mmu.ac.uk

countries, but that the impact of increased penetration of the UK market by German firms is likely to have led to the loss of some jobs in UK firms.

The evidence on distribution of jobs showed that the new industries, the services sector and service activities were experiencing the highest employment growth rates. In most cases employment in the manufacturing sector and manufacturing activities were declining. The number of semi-skilled/unskilled jobs was growing faster than that of skilled jobs. However, in new industries and the services sector there was a significantly greater proportion of skilled jobs than of semi-skilled/unskilled.

The main motive for DFI into the UK was to exploit the market. Regulatory frameworks, labour costs and taxation were not found to be important incentives for German DFI.

For more information please contact:

Annette Birkholz
Anglo-German Foundation/Deutsch-Britische Stiftung
34 Belgrave Square, London SW1X 8DZ
Tel +44 (0)20 7823 1123, Fax +44 (0)20 7823 2324
E-mail ab@agf.org.uk, Website www.agf.org.uk

Heinz-Josef Tuselmann
Manchester Metropolitan University, International Business Unit, Aytoun Building,
Aytoun Street, Manchester M1 3GH
Tel +44 (0)161 247 3908, Fax +44 (0)161 247 6313, E-mail h.tuselman@mmu.ac.uk

Notes to the editor:

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The authors of the report are:

Ulrich Hoppe, German-British Chamber of Industry and Commerce; Frank McDonald, Manchester Metropolitan University; Heinz-Josef Tuselmann, Manchester Metropolitan University; David Williams, Manchester Metropolitan University