3 Policies for improving FDI impacts on job quality and skills

This chapter provides a Policy Toolkit to help governments boost the impacts of foreign direct investment (FDI) on job quality and skills. It describes the main transmission channels of FDI impacts on labour market outcomes and related policies and institutions that can act upon these channels. It builds on the OECD Policy Framework for Investment and is aligned with other OECD instruments and strategies such as the *Guidelines for Multinational Enterprises* and the *2018 Jobs Strategy*.

Main policy principles

1. Provide strategic directions and promote policy coherence and co-ordination on investment, employment and skills development

- Ensure that national development or economic plans provide coherent and strategic directions on investment, employment and skills development objectives and that investment considerations are integrated in employment and skills strategies and vice versa.
- Develop a dedicated strategy that articulates the government's vision on the contribution of investment to job quality and skills development. The strategy sets the goals, identifies priority policy actions and clarifies responsibilities of institutions and co-ordinating bodies.
- Strengthen co-ordination both at strategic and implementing levels by establishing, if inexistent, appropriate co-ordinating bodies or by considering to expand the mandate and composition of existing ones, such as boards of investment promotion agencies and national skills councils.
- Use public-private consultations and inclusive decision-making processes, including social dialogue, to negotiate, receive feedback and build consensus around reforms or programmes at the intersection of investment, employment and skills development.
- Involve investment bodies in labour market information and skill needs and anticipation exercises to reduce information gaps and inform the design, implementation, monitoring and evaluation of employment and skills policies that are better targeted.

2. Ensure that regulations support investment and labour market adjustments while promoting high-quality jobs and protecting the most vulnerable

- Promote labour provisions in international investment and trade agreements that raise labour standards, including by referring to ILO's international conventions and the OECD Guidelines for Multinational Enterprises (MNEs), allow for sufficient domestic policy space and establish institutional mechanisms to promote co-operation and monitoring of labour commitments
- Ensure adaptability of product and labour markets to foreign investors' entry and operations, and that the costs and benefits are fairly shared between workers and firms, by fostering competition and labour mobility while providing a level of employment stability that encourages learning in the workplace.
- Periodically assess existing regulatory restrictions on FDI against evolving public policy objectives on job creation and skills development and, where relevant, consider streamlining or removing them. Involve relevant bodies and social partners in such assessments.
- Set and enforce labour standards that support better working conditions to ensure that those practiced by foreign firms are not less favourable than those by domestic firms and are applied with the same level of diligence in all businesses and regions, including special economic zones.
- Ensure the right to collective bargaining and workers' voice arrangements, including within foreign MNEs and in special economic zones, and that these are adapted to a changing world of work and can promote collective solutions to emerging issues and conflicts.

3. Stimulate labour demand and develop skills through higher investment and targeted active labour market policies and programmes

- Financial support, particularly corporate tax relief, which aims at attracting FDI in job-creating or skill-intensive sectors or in regions with low employment rates should be subject to regular reviews. If used, favour support that is tied to the performance of firms in terms of jobs created

or trained workers, including workers of suppliers, and ensure that it addresses specific market failures and is developed through concerted efforts with all relevant bodies.

- Develop training programmes in line with development and investment strategies and in partnership with social partners, and that provide transferable, certifiable skills to facilitate labour mobility and help workers and job seekers move to better jobs, including those adversely affected by changing labour markets, the low-carbon transition and evolving needs of MNEs.

4. Align investment opportunities with labour market potential by addressing information failures and administrative barriers

- Adopt investment promotion activities based on the existing skill base and labour market potential that lower information barriers for investors. Support investors in identifying suppliers with high labour standards, and thereby also incentivise other companies to raise theirs.
- Ensure that job information and matching services reduce information gaps and lower search costs in labour and product markets and stimulate internal labour mobility, particularly of job seekers or workers in communities near foreign firms' activities. Develop these services through concerted efforts or jointly between investment bodies and public employment services.
- Raise awareness about labour standards and incentivise companies to disclose their compliance with them, including local suppliers engaging with foreign buyers that conduct due diligence checks to assess risks in their supply chain.
- Ensure transparency and consistency of procedures and requirements for obtaining permits from labour authorities, including permits for foreign workers.

3.1. Building more inclusive labour markets in a globalised economy

Achieving more inclusive labour markets are increasingly key priorities for governments – in developed and developing countries alike. While the global economy has been recovering from the global financial crisis for several years now, employment and wage growth remain sluggish, and levels of income inequality are unprecedentedly high in most countries. The COVID-19 pandemic has taken an additional toll on labour market resilience by causing activity to collapse and unemployment to soar. Poverty will rise for the first time since 1998, with hundreds of millions of jobs lost, and wage disparities will widen as income losses have been uneven across workers (OECD, 2020[1]).

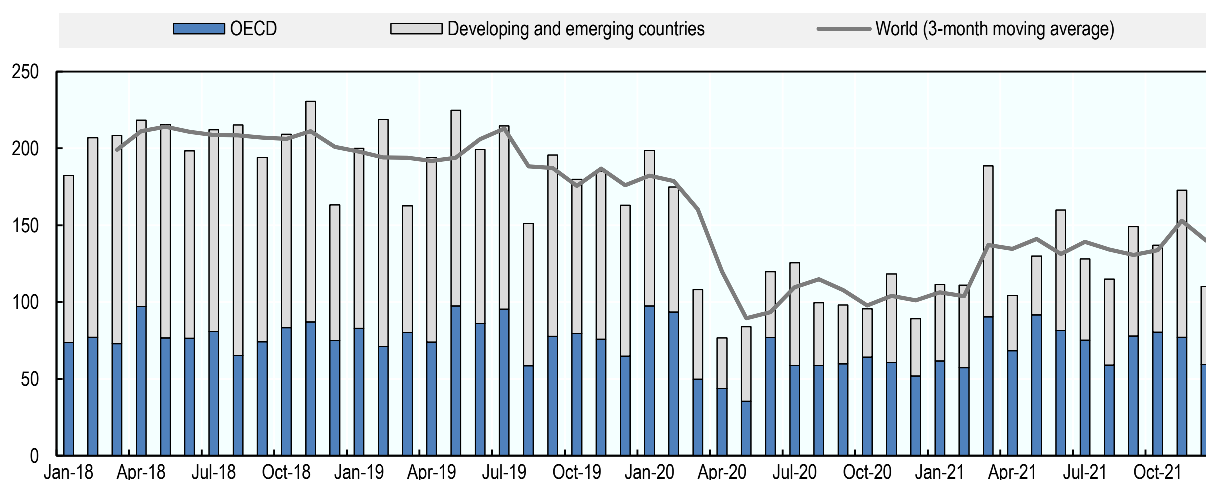
Policies in favour of job quality and skills development can play a significant role in building forward more inclusive labour markets and ensuring a fair and sustainable recovery. They can help improve well-being of individuals as well as support labour force participation, productivity and growth. Creating better jobs and developing skills figure prominently in the Sustainable Development Goals (SDGs), particularly SDG4 (education) and SDG8 (economic growth). These goals aim to increase the number of people with relevant skills for employment and ensure that all can work productively and receive fair wages. Employment creation, social protection, rights at work, and social dialogue – the four pillars of ILO's Decent Work Agenda – are an integral element of the 2030 Agenda for Sustainable Development. Creating good jobs is also at the core of the OECD Jobs Strategy, which goes beyond job quantity and considers job quality, in terms of both wage and non-wage working conditions, as a key policy priority (Box 3.1). The Strategy also insists on the need to equip people with the right skills in a context of rapidly changing skills demands.

Yet governments still lack a comprehensive policy framework that can help them think about how private investment – a key driver of labour market outcomes – influences job creation and skill upgrading. Investment, and particularly foreign direct investment (FDI), together with international trade, technological change and digitalisation, have been shaping the world of work, with both positive and adverse impacts on

host countries' labour markets (OECD, 2019[2]). The COVID-19 crisis is the most recent illustration of that, with the fall in global FDI adversely affecting job creation (Figure 3.1). Prior to the pandemic FDI flows were creating approximately 180 000 jobs every month, and considerably more in developing and emerging countries than in OECD countries. Between January and April of 2020, FDI-induced job creation contracted by over 60% globally. Furthermore, many of the jobs affected by the pandemic depend on the operations of MNEs and their suppliers in global value chains (GVCs). However, the pandemic has revealed how MNEs return to pre-crisis workforce levels more rapidly than domestic firms and adapt faster to new forms of work by ramping up remote working (OECD, 2020[1]; OECD, 2022[3]).

Figure 3.1. The impact of the COVID-19 crisis on jobs created through greenfield FDI

Direct jobs created in thousands (estimates)

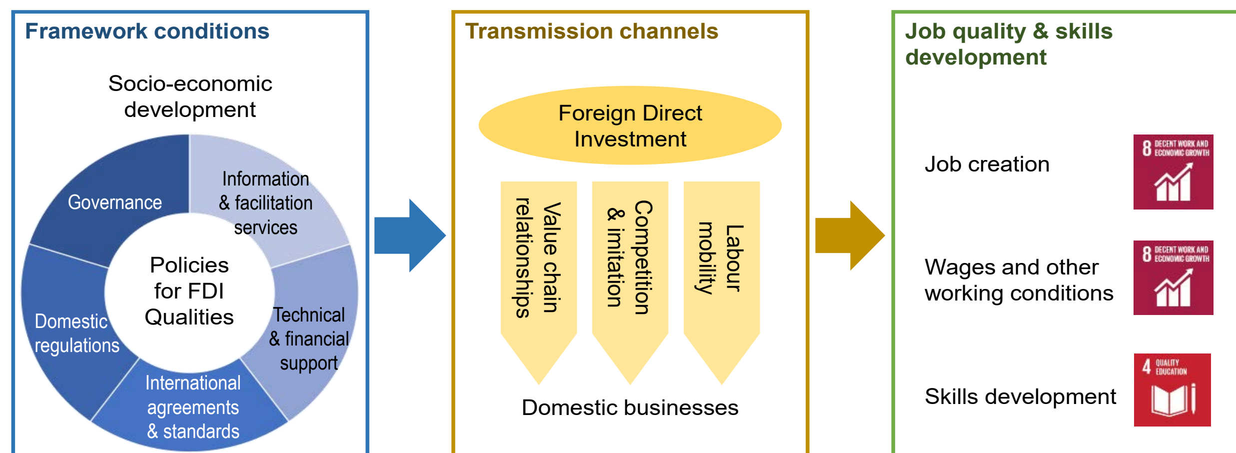


Source: OECD calculations from Financial Times fDi Markets.

3.2. FDI impacts on job quality and skills

FDI can have varying effects on host country labour market outcomes (Figure 3.2, right box). The establishment of a greenfield investment or a change in the nationality of a firm's ownership affects the demand for skilled and unskilled labour, with concomitant effects on employment and wages. Evidence shows that FDI has broadly positive impacts on job creation and earnings, but not all countries and all segments of the population benefit equally (OECD, 2019[2]). More FDI often leads to wage dispersions across firms and workers, mostly due to an increase in the skill premium. FDI can also affect other working conditions, including job security, occupational health and safety at work and core labour rights. Whether FDI improves or undermines working conditions depends on the type of activity of foreign firms and the extent to which they export home country practices and norms or adopt instead those of the host country.

Figure 3.2. Conceptual framework: FDI impacts on job quality and skills development



FDI effects on labour market outcomes involve several transmission channels (Figure 3.2, middle box). Outcomes can result from foreign firms' *direct* operations in the host country, such as hiring new workers or firing incumbents following a foreign takeover or offering better or worse working conditions than domestic firms. Foreign firms' direct operations have also *spillover effects* arising from:

1. Their value chain relationships with domestic firms, whether buyers or suppliers
2. Market interactions through competition and imitation (or learning) effects
3. Labour mobility of workers between foreign and domestic firms.

Value chain relationships or labour mobility between foreign and domestic firms can lead to knowledge sharing, and in turn raise productivity, wages and employment. The same spillovers occur when domestic firms imitate foreign competitors. FDI spillovers on labour market outcomes are often specific to certain segments of the workforce, industries, or locations. They are also not always positive if, for instance, foreign firms have irresponsible labour practices with their suppliers – particularly if the business relationship involves an activity with a higher risk of informal employment – or if competition for talent leads to lower quality of skilled labour in domestic firms. The intensity of such adverse impacts often depends on how fast the labour market adjusts to shocks. For instance, FDI does not increase the share of skilled workers and worsens wage disparities when skills shortages are severe and labour mobility is constrained.

The direction and magnitude of the combined direct and spillover effects of FDI on labour market outcomes ultimately depends on the economic structure of the host country and domestic firms' characteristics (size, productivity level, skill-intensity, business and labour practices), labour market characteristics (employment levels, skill base, unionisation rates, etc.) and the policies and institutions in place (Figure 3.2, left box). While the next section focuses on the policies, the following sub-sections describe how FDI affects specific outcomes, namely employment, wages and non-wage working conditions and skills. Annex Table 3.A.1 provides detailed questions for governments to self-assess the impacts of FDI on labour market outcomes.

Box 3.1. The OECD Jobs Strategy, Skills Strategy and Job Quality Framework

The key policy recommendations of the *2018 OECD Jobs Strategy* are organised around three principles:

I. **Promoting an environment in which high-quality jobs can thrive**. Good labour market performance requires a sound macroeconomic framework, a growth-friendly environment and skills evolving in line with market needs. Adaptability in product and labour markets is also needed, and the costs and benefits of this should be fairly shared between workers and firms, as well as among workers on different contracts by avoiding an over-reliance on temporary (often precarious) contracts through balanced employment protection schemes.

II. **Preventing labour market exclusion and protecting individuals against labour market risks**. Supporting the quick (re)integration of job seekers in employment is a top priority, but the new strategy also highlights the importance of addressing challenges before they arise by promoting equality of opportunities and preventing the accumulation of disadvantages over the life-course.

III. **Preparing for future opportunities and challenges in a rapidly changing economy and labour market**. People will need to be equipped with the right skills in a context of rapidly changing skills demands. Workers also need to remain protected against labour market risks in a world where new forms of work may arise.

The OECD also developed a framework for measuring and assessing job quality that guided its 2018 Jobs Strategy. The objective was to revise the 2006 Strategy, which had largely focused its recommendations on the quantity of jobs. The OECD Job Quality Framework measures three aspects of job quality: earning quality (including distributional aspects), labour market security and the quality of the working environment.

The key policy recommendations of the *2019 OECD Skills Strategy* are organised around three components:

I. **Developing relevant skills over the life course**. To ensure that countries are able to adapt and thrive in a rapidly changing world, all people need access to opportunities to develop and maintain strong proficiency in a broad set of skills. This process is lifelong, starting in childhood and youth and continuing throughout adulthood. It is also “life-wide”, occurring not only formally in schools and higher education, but also non-formally and informally in the home, community and workplaces.

II. **Using skills effectively in work and society**. Developing a strong and broad set of skills is just the first step. To ensure that countries and people gain the full economic and social value from investments in developing skills, people also need opportunities, encouragement and incentives to use their skills fully and effectively at work and in society.

III. **Strengthening the governance of skills systems**. Success in developing and using relevant skills requires strong governance arrangements to promote co-ordination, co-operation and collaboration across the whole of government; engage stakeholders throughout the policy cycle; build integrated information systems; and align and co-ordinate financing arrangements.

Source: (Cazes, Hijzen and Saint-Martin, 2015[4]; OECD, 2018[5]; 2019[6])

3.2.1. FDI creates both direct and indirect job opportunities but not necessarily for all

FDI affects employment growth or contraction through changes in labour demand. Effects differ by investor entry mode (greenfield project versus M&A) and vary by workforce type (skilled vs. unskilled). Greenfield FDI has a positive and direct effect on the demand for labour, leading to job creation, at least in the short term. A foreign takeover of a domestic firm could either have a positive or negative direct effect on jobs, but evidence shows that it can boost employment as acquired firms' productivity and market share grow (Coniglio, Prota and Seric, 2015[7]; Ragoussis, 2020[8]). In contrast, a divestment by a foreign firm can lead to a drop in employment (Borga, Ibarlucea Flores and Sztajerowska, 2020[9]; Javorcik and Poelhekke, 2017[10]). Irrespective of the entry mode, foreign firms often have a higher demand for skilled workers than domestic firms due to technology advantages (Bandick and Karpaty, 2011[11]; Hijzen et al., 2013[12]).

Whether there will be net employment growth will also depend on FDI spillovers on domestic firms operating in the same value chain, industry or geographical area. Foreign firms could introduce labour-saving techniques that are then adopted by domestic firms through imitation effects, leading to a transitory decline in labour demand, but the progressive integration of foreign firms into the local economy can create a positive effect on jobs in the long run (Jude and Silaghi, 2016[13]; Lee and Park, 2020[14]). FDI may also raise employment at domestic firms in the same location, but only for higher-skilled workers (Setzler and Tintelnot, 2021[15]; Steenbergen and Tran, 2020[16]). FDI spillovers on employment growth are found to be negative, if domestic firms are geographically far from foreign firms as imitation effects are less likely to occur while market competition effects are less sensitive to distance (Lembcke and Wildnerova, 2020[17]).

Foreign and domestic firms' adjustments on the labour market are broadly, albeit not totally, comparable (OECD, 2019[2]). During the COVID-19 pandemic, the resulting decline in FDI as well as crippled MNEs operations adversely affected job creation, with knock-on effects on incomes. For instance, the decline in greenfield FDI reduced potential job creation by half in the first five months of 2020 (OECD, 2020[1]). Nonetheless, foreign businesses have cut jobs less than domestic firms, although many still had had to lay off workers or reduce working hours. Perhaps some MNEs are more resilient to disruptions by relying on a larger set of suppliers and buyers. In addition, foreign firms have managed better than their domestic peers to adapt their modus operandi to the new work realities by ramping up remote working.

3.2.2. FDI raises wages but can also exacerbate disparities if absorptive capacities are poor

In a competitive labour market, there is no reason why comparable foreign and domestic firms should pay different wages to workers with similar skills. Wage differences between the two groups arise, however, often because of other firm- and industry-specific characteristics (Hijzen et al., 2013[12]). Indeed, it is membership in a multinational production network – instead of foreignness – that generates the foreign-firm premium (Setzler and Tintelnot, 2021[15]). Characteristics include firms' size, productivity level, workforce skill intensity, product market power, and working conditions, such as job insecurity. Foreign firms may still pay higher wages to workers with similar skills and tasks, for example, to reduce turnover and lower the risk of technology transfer to competing firms through labour mobility.

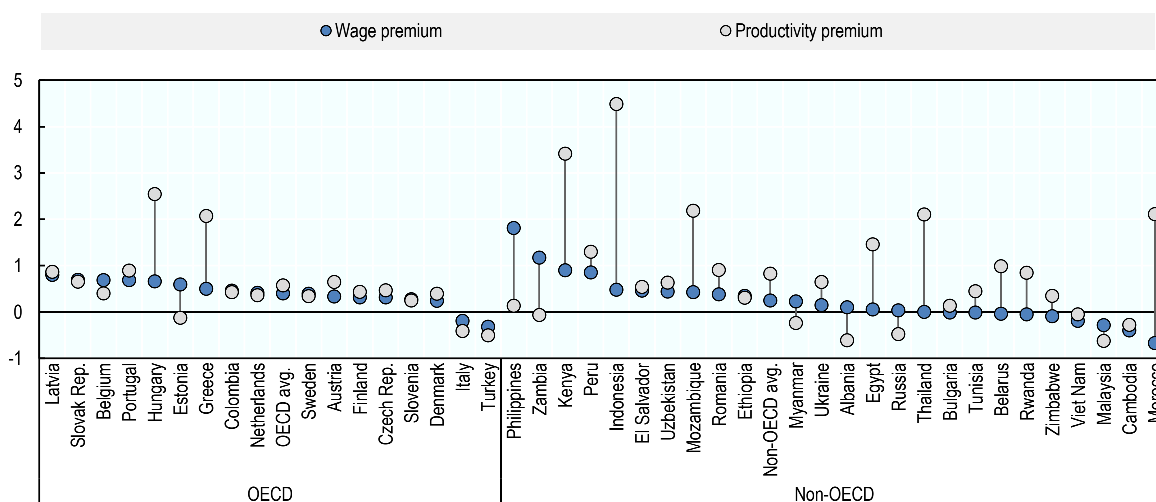
The FDI Qualities Indicators and wider evidence confirm the role of productivity, technology and skills as engines to enhance living standards: foreign firms pay higher wages than domestic firms. This is true only to some extent, however. Labour productivity in foreign firms is on average 72% higher than in domestic firms, but foreign firms pay only 31% higher wages, and this gap is larger among non-OECD countries (Figure 3.3). This means that performance premia of foreign firms are not fully translated into wage benefits for workers, possibly because MNEs are more active in highly concentrated markets – which in turn can generate rents. Such rents, and how they are shared with workers, can be due to policy pitfalls, such as barriers to competition (Criscuolo et al., 2020[18]). In developing countries, the foreign wage premium is smaller when institutional quality is higher (Blanas, Seric and Viegelahn, 2019[19]).

Foreign companies do not necessarily lift wages in all sectors and for all workers. The largest wage gains often benefit skilled workers and, in the case of a foreign takeover, those moving from domestic to foreign firms, rather than incumbents, revealing the importance of labour mobility as a crucial transmission channel of FDI impact on wages, at least in the short-run (Hijzen et al., 2013[12]). Foreign firms in low-paid activities do not always pay higher salaries than their domestic peers, however (OECD, 2019[2]). Foreign firms also do not necessarily improve earning conditions of all workers within the firm. For instance, following a foreign takeover, workers at the bottom-end of the wage distribution may not experience as much wage growth as they would have, had their firm not been taken over by a foreign firm (OECD, 2008[20]).

Foreign entrants' competition for talent with domestic firms drives up wages, but potentially reduces the ability of the latter to hire or retain more skilled workers (Lu, Tao and Zhu, 2017[21]). This effect is stronger, and lasts longer, in industries facing skills shortages and in locations with limited labour mobility. Beyond raising the demand for labour, especially of skilled workers, FDI affects competitors' wages through skill-biased technological transfer (imitation effects). Studies point to increased wages in domestic firms as a result of FDI in the same industry or location, particularly in developing countries where skilled labour is scarcer and the technology gap more substantial (Hale and Xu, 2020[22]). In a geographically large country like the United States, foreign firms' operations substantially increase the wages of higher-earning workers in local domestic firms (Setzler and Tintelnot, 2021[15]). FDI effects on wages can also occur in upstream or downstream firms having value chain relationships with foreign firms, but empirical studies are inclusive on the direction of these effects. The FDI Qualities Indicators show, to some extent, that local sourcing by foreign firms amplifies positive spillovers of FDI on wages (OECD, 2019[2]).

Figure 3.3. Foreign firms' wage and productivity premia in OECD and emerging countries

Do foreign firms pay higher wages and are they more productive than their domestic peers? (yes if score > 0)



Note: The figure shows OECD and non-OECD countries for which World Bank Enterprise Surveys were available from 2015 and beyond.
Source:OECD (2022[3]), FDI Qualities Indicators: 2022.

If FDI can enhance living standards, it may nonetheless raise disparities through higher wage dispersion within the foreign firm and between foreign and domestic firms. In general, inequality between firms accounts for a sizeable share of the levels in overall wage inequality. Recent work shows that wage premia due to productivity-related rents is an increasingly important driver of between-firm inequality, even more than differences in workers' characteristics, such as skills or gender (Criscuolo et al., 2020[18]). This is relevant in a context where some MNEs are viewed as "superstar" or "winner-takes-most" firms with large

market rents. FDI is likely to have a smaller impact on wage inequality in countries or regions with better absorptive capacity, including more adequate skills (Wu and Hsu, 2012[23]; Lin, Kim and Wu, 2013[24]).

3.2.3. FDI can improve non-wage working conditions but not in all sectors or value chains

Job quality also covers non-wage working conditions, including job security, occupational health and safety at work and core labour standards. Foreign and domestic firms may have differentiated impacts on these working conditions but, as for the foreign wage premium, differences often reflect firm- or industry-specific characteristics and are not specific to the ownership status. Foreign and domestic firms could be active in different sectors where companies have different survival rates, worker turnover rates, or propensities to use temporary contracts. Yet, other working conditions are shaped by foreign firms' intrinsic characteristics, such as more advanced management practices than in domestic firms, and good management can lead to higher job satisfaction and better health (Bloom and Van Reenen, 2016[25]). FDI effects on working conditions might also be contingent on foreign firms exporting their home country labour practices, and diffusing them to domestic firms, or responding instead to the host country's standards. Overall, there is little evidence that MNEs transmit their working conditions abroad (Almond and Ferner, 2007[26]).

Evidence on FDI impacts on job security is mixed. The FDI Qualities Indicators suggest that FDI is associated with lower job security. This could be due to the ability of MNEs to rapidly move activities across borders in response to wage movements or changes in regulations (Cuñat and Melitz, 2012[27]). The observed relationship could also reflect foreign firms' concentration in sectors with more exposure to trade fluctuations, or in areas with more flexible labour rules, such as in some special economic zones. Other findings show that, in the case of Sub-Saharan Africa, foreign firms provide more secure jobs, but not in countries with better governance and social policies (Blanas, Seric and Viegelahn, 2019[19]). The wider empirical literature examining these aspects does not provide a clear-cut response, however (Bernard and Sjoholm, 2005[28]; Bernard and Bradford Jensen, 2007[29]; Hijzen et al., 2013[30]; Javorcik, 2015[31]). There is also no evidence that foreign firms compensate workers for increased job insecurity or more difficult working conditions by paying higher wages (Hijzen et al., 2013[12]; OECD, 2017[32]).

There is a dearth of evidence relating FDI to occupational health and safety at work. Some studies suggest a positive correlation between fewer job accidents rates and FDI (Alsan, Bloom and Canning, 2006[33]) or find a negative effect of FDI on population health (Herzer and Nunnenkamp, 2012[34]). The FDI Qualities Indicators show that greenfield FDI tends to be concentrated in activities with higher risks of occupational injury, including in OECD countries, such as in manufacturing or infrastructure. During the COVID-19 pandemic, foreign firms managed better and faster than domestic business to adapt their modus operandi to the new work reality by ramping-up teleworking, potentially reducing workers' exposure to COVID-19 (OECD, 2020[1]). Fewer workers can telework in poorer economies, however – more skilled workers have higher odds to work remotely. MNEs could accelerate the adoption of new forms of work in host countries through competition and imitation effects, labour mobility, and relationships with their suppliers or buyers.

Evidence indicates that inward FDI and core labour standards, which cover the freedom of association, the abolition of forced and child labour and the eliminations of discriminations at work, are positively correlated, but not in all sectors (Kucera, 2002[35]; OECD, 2008[20]; Blanton and Blanton, 2012[36]). MNEs may shy away from investing in countries with low labour standards because of reputational risks and to fulfil international standards on responsible business conduct or core labour rights, sometimes adopted in home country regulations. This however does not say whether, once they are operating, foreign firms help improve working conditions, including in their relationships with local suppliers and buyers. Furthermore, while the positive relationship between FDI and core labour standards holds at the aggregate level, there are significant variation among sectors – mining, oil and gas and services may be important exceptions (Blanton and Blanton, 2012[36]). FDI mode of entry also matters. One study finds that M&As tend to have minimal, or slightly negative, effects on labour rights, whereas joint ventures and greenfield FDI can

improve workers' rights. The sectors and motivations associated with the two modes of entry increase more labour demand, improving the bargaining power of workers (Biglaiser and Lee, 2019[37]).

FDI impacts on non-wage working conditions may also be increasingly affected by trends in digitalisation, which are themselves accelerated by cross-border investment. New business models are emerging, including the platform economy, in which self-employed workers provide services through online platforms often owned by foreign firms. These flexible working arrangements have created new jobs but also raised concerns about job security, poor working conditions and a weak bargaining position vis-à-vis platform firms (OECD, 2019[38]). Work through platforms is still a limited phenomenon in both developed and developing countries, and the exact impact of FDI on related working conditions is yet to be explored.

Another way FDI can affect job quality is through impacts on informal employment. In the absence of labour rights or social security, informal workers have more precarious working arrangements and worst working conditions. The evidence is clear that jobs in foreign firms are largely formal, but the wider effects of FDI on employment formalisation are less obvious. Transition to formal employment is often faster in countries with higher economic growth and exposure to global markets, including through higher FDI (La Porta and Shleifer, 2014[39]; McCaig and Pavcnik, 2015[40]). Evidence from Mexico, Turkey or Viet Nam shows that FDI leads to higher levels of formal employment, although this impact is not systematic across regions and sectors (Escobar and Dougherty, 2013[41]; Cao, 2020[42]; Steenbergen and Tran, 2020[16]). Other evidence suggest that FDI leads to higher demand for informal labour through increased outsourcing from foreign to non-formal firms (Beladi, Dutta and Kar, 2016[43]). MNEs are increasingly seeking to enforce compliance with labour standards in their supply chain relationships, however, which can lead to less sourcing from informal firms (Narula, 2019[44]). Overall, FDI positive spillovers are relatively weak in the informal sector as informal firms are mired in low productivity, with limited absorptive capacity (Narula, 2020[45]).

3.2.4. FDI increases the demand for and supply of skilled workers but labour market adjustments can be costly

Foreign firms – especially from more advanced economies – often bring new technologies that require complementary skills. If, as a result, skilled employment increases more than unskilled employment, the share of skilled workers in the host country will also grow. Many studies have shown that FDI raises the demand for skilled workers. The most salient example is Mexico's maquiladoras where FDI has accounted for over 50% of the increase in the skilled labour wage share that occurred in the late 1980s (Feenstra and Hanson, 1997[46]). Other studies have confirmed since then that FDI has led to an increase in the demand for skilled labour (Bandick and Karpaty, 2011[47]; Peluffo, 2014[48]).

That foreign firms raise the demand for skilled-labour in a specific industry does not necessarily imply they operate in high-skilled sectors of the host economy. The FDI Qualities Indicators show that FDI tends to be concentrated in sectors with lower shares of skilled workers in countries with competitive wages and labour-intensive manufacturing activities (OECD, 2019[2]). FDI could also affect the demand for specific tasks that parent companies want to offshore (Autor, Levy and Murnane, 2003[49]). For instance, routine tasks can be more easily offshored, thus explaining why foreign affiliates in developing countries may be less skill-intensive than their parent company (but not necessarily less than domestic firms in the same industry). Foreign investors can also increase the supply of skills by providing training to their employees or to those of domestic companies as part of support activities (Crespo and Fontoura, 2007[50]). They may also induce local firms to invest in upskilling in response to rising competitive pressure from their presence in the market (competition effects) or to imitate more profitable foreign firms' practices (imitation effects), including by training workers (Blomström and Kokko, 2002[51]).

Through impact on the demand and supply of skilled labour, FDI can enlarge the share of skilled workers in the host country, which, in turn, creates a virtuous circle as new investors will select the location for their knowledge-intensive projects. Ultimately, FDI impacts on skill development will depend on how fast the supply side can respond to increased demand for skilled labour. When skill shortages exist in a region or

industry, labour market adjustments from an unskilled to a skilled labour force can be lengthy and costly (Hale and Xu, 2020[22]). In that case, foreign entrants will offer much higher wages to attract available talent, thus exacerbating wage disparities and crowding out employment in domestic firms, without raising the share of skilled workers in the host economy, at least in the short term. This illustrates the importance of addressing skill shortages and promoting labour mobility across regions and industries as ways to reap the benefits of FDI for skills while mitigating adverse distributional impacts (Becker et al., 2020[52]).

3.3. Policies that influence FDI impacts on job quality and skills

Policies that are conducive to investment in general influence FDI entering the host country and its labour market implications (OECD, 2015[53]). They are, however, not sufficient to act on the different – direct and indirect – transmission channels of FDI impacts on job quality and skills development. Beyond a conducive investment climate, policy makers must ensure that institutions, strategies and policies that are at the intersection of investment, labour and skills development create the conditions to improve FDI impacts while mitigating potential adverse effects (Table 3.1). These include product and labour market regulations that are adapted to foreign firms' entry and operations. But flexibility is not sufficient to deliver quality jobs and should be combined with measures that address specific market failures resulting from information failures or externalities resulting from FDI. Such interventions can cushion or amplify the spillover effects of foreign firms on the labour market, including distributional effects. Beyond measures implemented at national level, policy makers need to promote internationally agreed principles and conventions that can help ensure, inter alia, high labour standards in the operations of foreign firms.

Table 3.1. Policy instruments influencing the impact of FDI on job quality and skills development

Principle	Area	Instrument
Principle 1: Provide strategic directions and ensure policy coordination and coherence on investment, labour and skills development	Governance	Oversight and coordination bodies
		Public-private and social dialogues
		Labour market information and skills needs assessments
Principle 2: Ensure that regulations support investment and labour market adjustments while safeguarding quality jobs and protecting the most vulnerable	Domestic regulations	Product market regulations
		Labour market regulations and standards
		Collective bargaining rights and workers' voice
Principle 3: Adhere to and promote internationally-agreed principles that can help ensure high labour standards in the operations of foreign companies	International agreements & standards	Labour provisions in investment and trade agreements
		Adherence to OECD Guidelines on MNEs
		Global framework agreements
Principle 4: Stimulate labour demand and develop workers' skills through targeted investment and active labour market policies and programmes	Financial support	Corporate tax relief in targeted sectors or regions
		Corporate tax relief against job or training commitment
		Employment, wage or training subsidies
	Technical Support	Targeted training programmes, including for suppliers
		Training and skills development services (e.g. VET)
Principle 5: Align investment opportunities with labour market needs and skills base byaddressing information failures and administrative barriers	Information & facilitation services	Job search services
		Investment promotion and facilitation
		Corporate disclosure on labour standards
		Social support services (e.g. transport)
		Public awareness campaigns

The majority of policies do not explicitly target foreign firms, but they are particularly relevant to ensure that FDI has positive impacts on labour market outcomes. Indeed, the contribution of foreign firms to job quality and skills development is often linked to their performance, an aspect that does not justify developing specific policies for them. Nonetheless, the extent to which foreign and domestic firms react to the same policy setting can vary, together with their respective labour market outcomes. For instance, MNEs can choose to move production across subsidiaries following a policy change in one host country, an option that domestic firms do not have. Policymaking should take into consideration these differentiated impacts on foreign and domestic business, including through policy co-ordination. Policies considered in this Policy Toolkit build and expand on Chapter 8 “Developing human resources for investment” of the OECD Policy Framework for Investment (Box 3.2). Annex Table 3.A.2 provides detailed questions for governments to self-assess policies influencing the impacts of FDI on job quality and skills development.

Box 3.2. OECD Policy Framework for Investment: Core questions and principles for developing human resources for investment

1. Has the government established a coherent and comprehensive human resource development policy framework consistent with its broader development and investment strategy and its implementation capacity?
2. Is there an effective system for tackling discrimination that affects labour market outcomes?
3. What steps has the government taken to increase participation in basic schooling and to improve the quality of instruction so as to leverage human resource assets to attract and to seize investment opportunities?
4. Is the economic incentive sufficient to encourage individuals to invest in higher education and life-long learning, supporting improvements in the investment environment through a more qualified skill base?
5. To what extent does the government promote effective training programmes, including through involving the private sector?
6. Does the government have an affordable, effective and efficient overall health system?
7. What mechanisms are being put in place to promote and enforce core labour standards?
8. To what extent do labour market regulations support job creation and the government’s investment attraction strategy?
9. How does the government assist large-scale labour adjustments? What role is business encouraged to play in easing the transition costs associated with labour adjustment?
10. What steps are being taken to ensure that labour market regulations support an adaptable workforce and maintain the ability of firms to modify their operations and investment planning?
11. To what extent does the government allow companies to recruit workers from abroad when they are unable to obtain the skills needed from the domestic labour market?

Source:OECD (2015[53]), Policy Framework for Investment, 2015 Edition, https://doi.org/10.1787/9789264208667-en

3.3.1. Provide strategic direction and ensure policy co-ordination and coherence on investment, labour and skills development

FDI that contributes to inclusive labour market outcomes can hardly be achieved through fragmented and isolated policy design, delivery and evaluation. Governments, together with the private sector and social partners, should articulate a clear vision on the contribution of FDI to job quality and skills by ensuring that

national strategies provide coherent and interrelated directions on investment, employment and skills development objectives. It is equally important to strengthen co-ordination mechanisms – or establish them if inexistent – that can effectively support social dialogue and collective solutions to emerging labour market issues driven by FDI. Inter-agency collaboration can also improve data collection efforts to better monitor the impact of FDI and help inform the policy design and evaluation. In particular, involving investment bodies in skill needs assessments can help better anticipate future needs and adapt policies accordingly.

National strategies and plans can provide coherent and strategic directions by integrating investment considerations in employment and skills strategies and vice versa

Governments usually have no dedicated strategy relating FDI to job quality and skills, but most, if not all, set priorities and goals on investment, employment and skills development in various strategies and plans. Multi-year national development or growth plans provide overarching directions in a wide range of policy areas and, if well-articulated, a coherent vision to ensure that initiatives and reforms in one area (e.g. investment) support – or do not jeopardise – strategic goals in other areas (e.g. employment). Cross-cutting strategies can also steer policy action towards developing priority activities or value chains that are aligned with the country's aspirations and labour market realities. These national priorities, goals and policies ultimately affect the FDI transmission channels – the ways in which foreign firms have a direct and indirect impact on labour market outcomes – even when they are not strictly related to investment.

Coherent national development or growth plans also ensure alignment of objectives across specific strategies on investment, employment and skills development. In practice, this entails integrating investment considerations in, *inter alia*, employment and skills strategies and vice versa. This is the case of Rwanda, for instance, where the *2019 National Employment Strategy* includes specific goals on investment, such as to support investment with strong linkages in labour-intensive sectors (Table 3.2). The strategy clarifies responsibilities across a wide range of institutions, going well beyond the Ministry of Labour, and provides an estimated budget for each goal. Similarly, the *2011-20 Jordan National Employment Strategy* identifies FDI as a key driver of growth and delivers a diagnosis on its impact, indicating that FDI created mostly short-term job opportunities, often in the construction sector, with few long-term effects (OECD, 2022[54]). The strategy provides policy directions on investment, such as to align tax incentives to investors with the country's ambition of becoming a knowledge-based economy.

Table 3.2. Rwanda's 2019 National Employment Strategy includes specific actions on investment

Strategic goal: extend, prioritise and incentivise investment with strong linkages in employment-intensive sectors

Major Policy Actions	Lead implementing institution	Other implementing institutions
Place emphasis on choosing employment-intensive technologies	Ministry of Trade and Industry	Private Sector Federation; Rwanda Development Board
Consider the impact of investment on the number and quality of jobs created	Rwanda Development Board	Ministry of Trade and Industry; Private Sector Federation
Carry out comprehensive employment impact assessment of infrastructure investment	Ministry of Infrastructure	Rwanda Development Board; Private Sector Federation
Link incentive structures for FDI to the number and quality of jobs created and skills upgrading of local labour force	Ministry of Trade and Industry	Rwanda Development Board; Private Sector Federation
Target policy incentives to employment-intensive sectors and the participation of the poor in high-growth sectors	Ministry of Trade and Industry	Rwanda Development Board; Private Sector Federation

Source: OECD based on Rwanda's Revised 2019 National Employment Policy.

It is equally relevant to incorporate the labour market and skills dimensions into the country's investment strategy, and in a way that is adapted to the format of such documents. Some countries have comprehensive strategies that outline the government's objectives and reform plans to foster investment

and the roles and responsibilities of all relevant government bodies. Such strategies could provide clear policy directions on labour market reforms adapted to investors' entry and operations or on promoting high labour standards through international investment and trade agreements. Most investment strategies are narrower in scope and set the government's FDI attraction targets (e.g. sectors), tools (e.g. fairs, tax incentives, aftercare services) and performance indicators (e.g. average wages in foreign firms). They are increasingly taking into consideration quality jobs and skills as outcomes of FDI (OECD, 2020[55]). For instance, the development of Ireland's 2021-24 investment promotion strategy was informed by *Future Jobs Ireland*, which itself seeks to address challenges and opportunities for FDI arising from changing skills demand. FDI that support upskilling is a new focus of the strategy and is addressed through various initiatives to promote investments in training.

Co-ordination bodies with clear mandates and inclusive public-private and social dialogue support policy delivery at the intersection of investment, employment and skills

The formulation and implementation of strategic objectives at the intersection of investment, employment and skills development are complex, and do not fit neatly within a single governmental department or agency. They require the involvement of several ministries, implementing agencies, social partners, and the private sector, including the foreign firms themselves. Given the multitude of actors with different interests, achieving a consensus between a broad range of stakeholders within and outside government is difficult. It is therefore important that responsibilities are balanced, explicit, sufficiently funded, and mutually understood by all actors. It is also crucial to establish, both at strategic and implementing levels, appropriate co-ordinating bodies with clear mandates or to adapt the governance structure of existing bodies, such as boards of investment promotion agencies or skills councils, to be more inclusive and support collaborative decision-making, while managing the risk of undue influence from special interests.

In most countries, mandates over investment are separated from employment and skills, which are themselves scattered across various ministries and agencies – yet they are reasonably more integrated than with investment. Mandates are often enshrined in law or spelled-out in national strategies that often also define governance relationships with other bodies. Labour market ministries and agencies often set the country's labour policy, regulate industrial relations and provide public employment services to individuals. The governance of skills systems entails more collaboration across government departments, including investment bodies. Education ministries and agencies are often in charge of policies related to skills development, whereas labour market ministries and agencies devise policies that maximise the effective use of skills by promoting further training opportunities and labour market activation measures. Ministries of finance are responsible for ensuring that the resources exist and for aligning financial incentives to maximise the effectiveness of employment and skills policies (OECD, 2020[56]).[1]

Bodies mandated with investment policy often include departments in the ministry of economy or industry and investment promotion agencies (IPAs). They can play a key role by developing and promoting policies for regional, sectoral or broad economic development, in which employment and skills occupy a central place. Thus, while investment bodies may not be directly involved in employment or skills policies, they still actively shape impacts of FDI by promoting and facilitating investment in specific job-creating or skill-intensive sectors, granting tax incentives to firms investing in regions with low employment rates or influencing wider reforms through policy advocacy actions. Investment bodies can also be responsible of raising investors' awareness of labour and other sustainability standards. It is important to align allocated budgets with such responsibilities to ensure effective implementation.

The extent to which investment, employment and skills mandates can be integrated – or overlapping if not well-defined – depends on national context and is most likely greater in countries that receive significant FDI. In Rwanda's *2019 National Employment Strategy*, the Ministry of Trade and Industry and the Rwanda Development Board, the country's IPA, are assigned specific actions to improve the FDI contribution to job quality and skills (Table 3.2). In fact, one mandate of Rwanda's IPA is to align skills development with

labour market demands, including by co-ordinating and funding training opportunities (Box 3.3). Likewise, the Costa Rican or Thai IPAs have widened their mandates to also support skills development (OECD, 2021[57]). These cases are likely to be the exception rather than the norm, however, and they are not necessarily governance models for other countries with different contexts and priorities. But they illustrate how mandates can be partly integrated to leverage FDI for more inclusive labour markets, as long as responsibilities are clear, mutually understood by all and grounded in sound and coherent strategies.

Box 3.3. Promoting FDI, employment and skills under one umbrella agency: The case of Rwanda

Rwanda Development Board (RDB) is a government institution whose mandate is to accelerate Rwanda's economic development by enabling private sector growth. It is principally responsible for promoting domestic and foreign investments, but other key services include skills development and improving workers' employability.

The *2019 National Employment Strategy* indicates that while promoting exports to regional and international markets of goods and services, the opportunities for labour mobility should also be given much consideration by RDB. In its mandate to provide guidelines, analyse project proposals and follow up on the implementation of Government decisions in line with public and private investment, RDB should mainstream employment opportunities in project proposals.

RDB vision is skilling Rwanda for economic transformation. The Chief Skills Office was established under the RDB in 2018 to align skills development with labour market demands. The Chief Skills Office, together with key stakeholders in the skills development and employment promotion ecosystem, developed the National Skills Development and Employment Promotion Strategy (NSDEPS).

The Chief Skills Office is composed of two departments: the strategic development capacity department and the targeted labour market interventions department. It is mandated to provide effective oversight and co-ordination in the skills development and employment promotion ecosystem. Goals include promoting and co-ordinating sector skills, capacity development strategies and actions to respond to private sector needs; conducting labour market analysis to identify current and future skills needs in priority sectors and for key investment projects; and facilitating labour market integration through innovative partnerships and interventions.

Source: OECD based on https://rdb.rw/.

Effective horizontal co-ordination also can help achieve a better alignment across investment, employment and skills policies. In general, governments have no committees (or similar structures) exclusively dedicated to co-ordination between ministries, agencies and social partners dealing with labour and skills development and those responsible for investment. If they are to be created, such inter-governmental committees need clear and strong internal governance structures, and decision-making processes should be agreed on to maximise the commitment and involvement of all stakeholders, including technical agencies, the private sector, social partners, and specific groups that are of potential relevance such as youth representations. Establishing such dedicated committees may not be necessary, however, and could be even counter-productive, if other, narrower, co-ordinating mechanisms that already exist could be realistically adapted to help ensure some alignment across investment, employment and skills policies.

On the investment side, existing co-ordinating committees such as boards of IPAs could consider involving the labour and skills communities to help them voice their concerns with regards to FDI, better co-ordinate on specific measures and build consensus around future reforms that are of relevance to them (e.g. to introduce tax incentives for firms that provide training). In Jordan, for instance, the Minister of Labour sits in the Investment Council, a high-level co-ordinating body headed by the Prime Minister that sets the

country's investment strategy and oversees the work of the IPA (OECD, 2022[54]). In general, the presence of representatives from the labour or skills communities is not widespread across IPAs' boards (or similar structures). The status of such boards and the breadth of their co-ordinating role can strongly vary across agencies (OECD, 2018[58]). In many countries, boards of IPAs have solely an advisory role that is confined to investment promotion and facilitation activities.

It is equally relevant to envisage including representatives of investment bodies in committees co-ordinating employment or skills policies. They can, for instance, provide feedback on labour market reforms under discussion or voice the concerns of foreign investors in terms of training needs. In Ireland, the National Skills Council provides advice on skills needs and secures delivery of the identified needs, as well as bringing together a wide range of actors, including the CEO of IDA Ireland, the Irish IPA. The CEO is charged with providing regular updates on sectoral opportunities and potential target areas for increased FDI and advice on issues associated with the availability of skills to support employment. Respectively, the 2021-24 investment promotion strategy indicates that the IPA will collaborate with the Department of Education and Skills, the National Skills Council, or the Expert Group on Future Skills Needs.

FDI can be a forward-looking indicator of what jobs and skills will be in demand in the future and could therefore be integrated into skills anticipation systems

FDI is a key driver of GVCs and technological changes (e.g. automation and digitalisation) that influence the kind of jobs that are available, the skills needed to perform them and related working conditions (e.g. new working arrangements on teleworking). The costs and benefits of these megatrends are complex and increase the uncertainty surrounding the future of work. In this context, it is of paramount importance to build responsive skill assessment and anticipation systems that enable countries to react to changing labour market and skills demands (OECD, 2019[6]). FDI decisions can constitute a forward-looking indicator of what jobs and skills will be in demand in the near future, rather than trade flows that reflect past investment decisions (Hallward-Driemeier and Nayyar, 2019[59]). Collecting information on foreign firms' operations and skills needs will help governments developing adequate policies, such as training programmes, that can prevent skills mismatches and shortages as well as reduce retraining costs. For instance, ILO's "Skills for Trade and Economic Diversification" guide recommends disaggregating data between foreign and domestic businesses when FDI accounts for a significant part of a sector.

Many countries have put in place labour market information systems and tools for assessing and anticipating skills needs, but limited co-ordination between stakeholders is often a barrier preventing the information from being used further in policy making (OECD, 2016[60]). Ministries of Labour and Education, the statistical offices and employer organisations are the actors most frequently involved in skills assessment and foresight exercises. Involving the investment community, including the IPA and the foreign firms, in such foresight exercises could help reduce the gap between the information produced and the skills needs driven by FDI. IPAs have often access to unique information on MNEs' operations and run surveys to identify their challenges and skills needs (OECD, 2018[61]). Furthermore, IPAs are increasingly tracking FDI impact by setting key performance indicators (KPIs), including on employment, wages and skills (Sztajerowska and Martincus, 2021[62]). Such data could be shared or even automatically connected to skills assessment and anticipation systems to ensure that policy responses are timely, coherent and well-targeted.

3.3.2. Ensure that regulations support investment and labour market adjustments that create good job opportunities for all and are adapted to a changing world of work

Product and labour market regulations affect FDI location choice, characteristics and, in turn, labour market impacts. They also affect how labour markets adjust in response to FDI entry and spillovers – impact is likely to be greater in settings with more efficient resource reallocation. Solid collective bargaining institutions and high labour standards are however fundamental to ensure that FDI creates opportunities

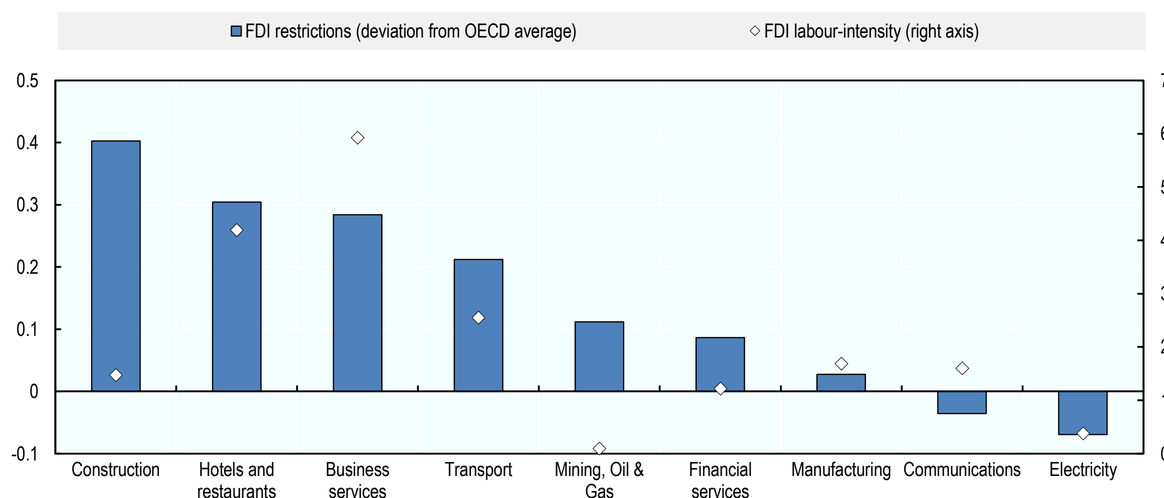
for all. Regulations also include internationally agreed principles that can be instigated by governments, such as by joining international conventions or including labour provisions in investment agreements. They can also consist of non-binding recommendations addressed directly to business, such as the OECD Guidelines for MNEs, or agreements between MNEs and global union federations to ensure common labour standards across an MNE global operation.

Openness to foreign investment and wider pro-competition policies can help ensure that expected labour market gains from FDI materialise and are fairly shared

Governments should periodically assess existing regulatory restrictions on FDI against evolving public policy objectives on job quality and skills development and, where relevant, consider streamlining or removing them. Discriminatory measures on foreign investors' entry and operations deter FDI and, in turn, potential labour market gains from higher investment. Forgone FDI benefits hinge on the labour or skill-intensity of restricted sectors as well as their propensity to increase labour supply – increased investment in higher education could support the growth of a skilled workforce. The type of discriminatory measure also matters. Joint venture requirements may push foreign investors to limit skills transfers while restrictions on the employment of foreign personnel in key management positions may limit the diffusion of managerial expertise (Moran, Graham and Blomström, 2005[63]). In Jordan, for instance, restrictions on full foreign ownership exist in business services, transport and tourism, while greenfield FDI has a strong job creation potential in these sectors, including for the many unemployed young graduates (Figure 3.4).

Figure 3.4. FDI regulatory restrictions and job-creating potential of greenfield FDI in Jordan

FDI restrictions: a value higher than zero indicates that restrictions in Jordan are higher than the OECD average



Source: OECD FDI Regulatory Restrictiveness Index and Financial Times fDi Markets; OECD (2022[54]), FDI Qualities Review of Jordan: Strengthening sustainable investment, https://doi.org/10.1787/736c77d2-en.

Governments often introduce FDI restrictions with the stated objective of protecting domestic firms (and their workers) from foreign competition or to ensure that FDI generates high development benefits, for instance when investor entry is conditional on mandatory job creation requirements. But these policies may not be optimal for tackling such concerns as they create uncertainty and negatively influence foreign investors' decisions (Mistura and Roulet, 2019[64]). By limiting competitive pressures, FDI restrictions also deter innovation and potential learning opportunities by domestic competitors, and related productivity spillovers that can help them retain their workers in better-paid jobs (Chapter 2). It is therefore essential to

involve labour market bodies and social partners when assessing the costs and benefits of FDI restrictions as it can help promote collective solutions and build consensus around meaningful liberalisation reforms.

Whether openness leads to positive impacts of FDI on labour market outcomes also depends on the time horizon. For instance, liberalisation can crowd out domestic competitors and increase wage inequality in the short term, particularly in non-tradable services where foreign firms are more likely to capture market shares such as in the construction sector. Indeed, FDI in services is often associated with the largest increases in wage inequality because lower-skilled workers can be displaced in favour of higher-skilled workers. In the longer term, services liberalisation improves productivity in other sectors and can generate significant labour market gains, although not necessarily for all segments of the labour force. Governments could prioritise the tradable services sectors with solid comparative advantages to limit the transitory labour market losses from liberalising other services FDI (Steenbergen and Tran, 2020[16]).

Together with FDI restrictions, other regulations affect the degree of product market competition, including state control of business enterprises and barriers to trade, innovation and entrepreneurship. Product market competition can reduce foreign firms' entry and operation costs, increase their productivity and, in turn, job-creating potential (Fiori et al., 2012[65]; Gal and Theising, 2015[66]). For instance, research on the role of product market regulations for the employment dynamics of entering and incumbent firms suggests that, in sectors that are more risky or financially dependent, more stringent product market regulation is negatively associated with the net job contribution of firms (Calvino, Criscuolo and Menon, 2016[67]).

Pro-competitive product market reforms and competition policy enforcement can also help achieve fairer sharing of productivity gains by foreign firms. As restrictions on FDI decrease, countries need to adopt and enforce sound measures to control anti-competitive practices (OECD, 2018[68]). Enhanced competition can help reduce rents of firms active in highly concentrated markets, and to share more fairly these gains with workers. In particular, strengthened competition could contain rents in "superstar" or "winner-take-most" MNEs operating in markets with high mark-ups and low labour shares (e.g. ICT services) because of large product market concentration (Autor et al., 2020[69]; Criscuolo et al., 2020[70]).

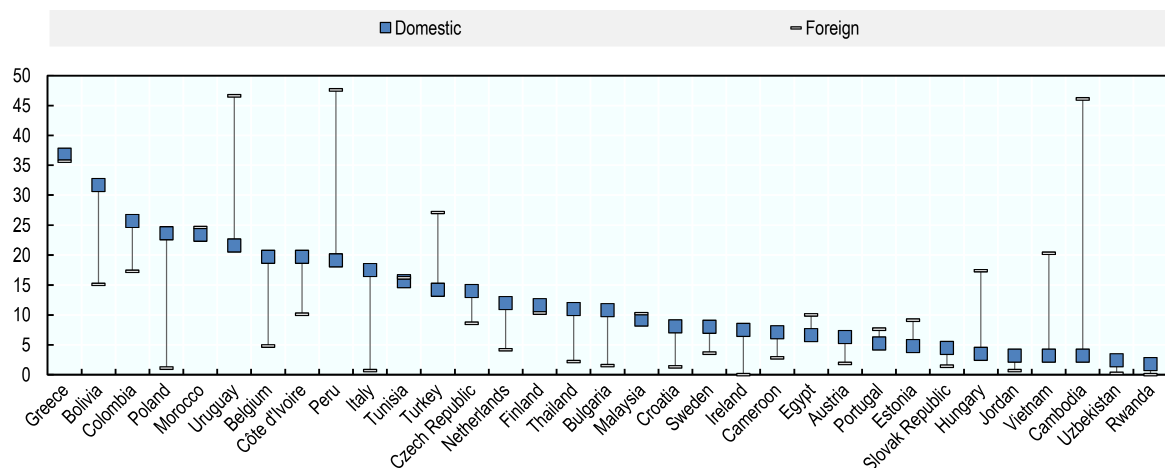
The impact of product market reforms on FDI and related labour market outcomes also depends on host country labour market regulations. For instance, when workers' bargaining power is high, possibly because of more stringent employment protection legislation, and the economy is far from full employment, a decline in firms' mark-up due to product market reforms can lead to larger employment increases than in a context with more flexible labour markets (Fiori et al., 2012[65]). The intuition behind is that, with less flexible labour markets, employment will be further away from its full employment level. This example shows that policy makers should take into consideration product and labour policy interactions when collectively thinking about ways to introduce reforms that can positively affect FDI impacts on labour market outcomes.

Balanced labour market regulations can support foreign firms' adjustments while providing a level of employment stability that encourages learning in the workplace

Stringent employment protection can increase firms' labour adjustment costs but also improves job quality. Greater flexibility of the host country's labour market matters for the location choice of investors and affects FDI volumes – and thus job creation – as well as their skill intensity. For instance, stringent legislation can deter FDI in the services sector more than in manufacturing (Javorcik and Spatareanu, 2005[71]). It may also dissuade R&D firms from locating their core innovation projects, as these need drastic employment adjustment because many workers with new skills are needed (Griffith and Macartney, 2014[72]). Impact can differ across contracts and, for instance, stringent legislation on regular contracts may affect FDI-related employment more adversely than rules on temporary work (Gross and Ryan, 2008[73]). At the same time, job security protects workers from being fired in response to small business fluctuations, encourages them to invest in long-term training and is often associated with better (mental) health (OECD, 2018[5]).

Once established, foreign firms do not appear to be more constrained by labour regulations than domestic firms, although they can be in some countries – including those with high FDI stocks (Figure 3.5). Employment protection legislation may matter less for foreign firms that can move production across subsidiaries located in different countries or that are attracted by markets with low production costs (Leibrecht and Scharler, 2009[74]; Cuñat and Melitz, 2012[27]). These firms may be able to bargain from a privileged position with host governments and unions, thus obtaining exceptions on hiring and firing practices (Navaretti, Checchi and Turrini, 2003[75]). Notwithstanding the additional leeway MNEs may have over domestic companies, their divestment decisions might still be affected by regulations such as those on collective dismissals – which often cover large firms – particularly footloose large foreign firms.

Figure 3.5. Percent of firms identifying labour regulations as a major constraint, by ownership



Note: The figure shows a group of selected OECD and non-OECD countries for which firm-level surveys were available from 2015 and beyond.
Source: OECD based on the World Bank Enterprise Surveys.

Employment protection legislation also affects how the wider labour market adjusts in response to FDI entry and spillovers. For instance, stricter employment protection can deter or delay labour mobility from domestic to foreign firms while it is typically via this channel that FDI enhances wages in host countries, at least in the short term (Hijzen et al., 2013[12]). However, it may protect vulnerable workers that otherwise would have been displaced and lose out via long unemployment spells or lower wages in post-displacement jobs, potentially in the informal economy. When local absorptive capacities are sufficiently high, i.e. when skills in demand by foreign firms are available, more flexible labour markets can host FDI without necessarily reducing employment or increasing wage disparities between foreign and domestic firms (Becker et al., 2020[52]).

Other regulations include working-time arrangements, minimum wages, occupational health and safety at work, legal guarantees of social insurance regimes or legislation on foreign workers – foreign firms tend to rely more often on foreign workers than their domestic peers do. Minimum labour standards ensure that those practiced by foreign firms are not less favourable than those by domestic firms. This helps to ensure that FDI is not worsening working conditions in the host country. Labour standards can be established through legislation, collective agreements or both. Core labour standards of the ILO aim to: 1) eliminate all forms of forced or compulsory labour; 2) effectively abolish child labour; 3) eliminate discrimination in respect of employment and occupation; and 4) ensure the freedom of association and the right to collective bargaining (see next sections). Labour market regulation must also enable companies to create formal jobs and avoid creating incentives for employers and workers alike to shift to, or remain in, the informal economy, where workers are not protected by labour laws and lack access to work-related measures of

social protection. Specific strategies are needed to encourage workers to move into the formal economy and to address social protection for workers in the informal sectors (OECD, 2015[53]).

Countries may not want to raise or enforce labour standards because they fear this will deter foreign investors. But empirical evidence suggests that lowering labour standards does not facilitate, and may even discourage, FDI and might also change its composition and related societal benefits (Kucera, 2002[35]; OECD, 2008[20]). This holds equally in special economic zones, where governments should further harmonise labour standards, in particular minimum wages or restrictions to freedom of association, with those in the wider economy. Evidence shows that there is no strong link between higher formal labour standards and better actual labour practices, indicating that labour standards are not always properly enforced (OECD, 2008[20]). This is likely to reflect institutional weaknesses and insufficient resources.

When foreign firms export their home country labour standards practices, and these are higher than those of the host country, then FDI may even improve working conditions, including through imitation effects or through relationships with suppliers. There is, however, limited evidence that foreign firms export their home country labour standards. But this depends on the type of labour practice. For instance, management practices are more advanced in MNEs than in domestic firms, and good management can be a critical component of a good job. Foreign affiliates of more gender-inclusive countries also tend to have higher shares of female workers (see Chapter 4). Furthermore, foreign firms have relied significantly more than domestic firms on teleworking during the COVID-19 pandemic (OECD, 2020[1]). With support from labour unions and employers' associations, they could play a role in adapting themselves to new work realities, and their good practices could serve as a basis for domestic reforms that can improve labour standards.

The right to collectively bargain and workers' representations can support better working conditions in MNEs but they must be adapted to a changing world of work

FDI – combined with trade, innovation, climate change and other factors – transforms the world of work and creates uncertainties on related labour market gains and losses. Collective bargaining systems and workers' voice arrangements help ensure that all workers benefit from these transformations by supporting solutions to emerging issues (e.g. automation, digitalisation, teleworking, protecting biodiversity), complement policies to anticipate skills needs, or support to displaced workers in new forms of work (OECD, 2019[38]). Collective bargaining can also support a fairer sharing of productivity gains by influencing the wage formation process. This is relevant in the context of foreign firms that poorly translate productivity-related rents into wage benefits, particularly for less skilled workers with lower bargaining power (OECD, 2019[2]; Criscuolo et al., 2020[70]). Indeed, sector-level collective bargaining is associated with lower wage inequality while bargaining and workers' representation at the firm-level can increase wages, productivity and job satisfaction (OECD, 2019[38]; Blanchflower and Bryson, 2020[76]).

Collective bargaining systems are generally based on a complex set of rules and practices, partly written in national laws and partly based on longstanding traditions. They can strongly differ across both developing and developed countries (Lamarche, 2015[77]; OECD, 2019[38]). The main aspects of collective bargaining are the level at which bargaining occurs (national or multi-sector level, sectoral level, or firm level), the coverage rate, the degree of co-ordination between social partners and the effective enforcement of collective agreement (OECD, 2019[38]). Governments should ensure the freedom of association and the right to collective bargaining for all workers and across the country, including in free or special economic zones where foreign firms often operate. In some countries, specific sectors or geographical areas are excluded from the right to organise and bargain collectively. In some other countries, laws can prohibit union pluralism or prevent foreign workers from forming unions (OECD, 2022[54]). Governments and social partners may also want to embrace the diversity of existing and evolving models of collective bargaining and workers' voice and consider to make collective bargaining systems more flexible and more inclusive.

A challenge for collective bargaining is to remain relevant in a globalised and rapidly changing world of work (OECD, 2019[38]). Technological and organisational changes are encouraging new forms of employment, blurring traditional categories, such as 'employer', 'employee' and 'place of work'. Employers' organisations, which are part of the collective bargaining system, are also being put to the test by changes to the world of work. They have an interest in ensuring a level-playing field for their members in the face of new competitors, who may circumvent existing labour regulations – for instance, digital platforms often consider themselves as matchmakers rather than employers (OECD, 2019[38]). As to FDI, existing, albeit limited, evidence indicates that foreign firms in host countries may not have sufficient incentives to join collective bargaining agreements or employers' associations (Jirjahn, 2021[78]).

Collective bargaining coverage has declined in most OECD countries, a trend that may have been accelerated by outward FDI to countries where industrial relations and collective bargaining are weaker (OECD, 2018[68]; Duval and Loungani, 2019[79]) – the role of outsourcing in this decline is yet to be clarified and may not hold for all countries. In the absence of broad membership, one way to maintain high coverage is to extend the coverage of collective agreements beyond the signatory unions and employer organisations to all workers and firms in a sector (OECD, 2018[68]). In some countries, extensions are issued to ensure the same treatment and standards to all workers in the same sector, in particular for workers of foreign firms (Hayter and Visser, 2018[80]). Extensions may have a negative impact when the terms set in the agreement do not consider the economic situation of a majority of firms in the sector. In order to alleviate these concerns, extension requests could be subjected to reasonable representativeness criteria, in line with the ILO Recommendation on collective agreements No. 91 (OECD, 2019[38]).

It is an open question how the decentralisation of collective bargaining affects MNEs' industrial relations. In practice, even when there is a right to collectively bargain in the host country, foreign firms' negotiation power may still differ from that of domestic firms, possibly reflecting union fears that wage demands (or negative shocks) may lead to the relocation of production (OECD, 2008[20]). Their higher propensity to bypass collective employee representation when going abroad could adversely affect rent-sharing with workers. It may also weaken MNEs' compliance with labour standards in GVCs. The OECD Guidelines for MNEs (OECD Guidelines) indicate that, in the context of negotiations with workers' representatives, or while workers are exercising a right to organise, MNEs should not threaten to transfer activity to other countries in order to influence unfairly negotiations or to hinder the exercise of a right to organise (Box 3.4).

One concrete consequence of the bargaining imbalance in foreign firms at the national level has been the development of transnational workers' representations to better co-ordinate workers' bargaining policies. Innovative cross-border mechanisms such as Global Framework Agreements (GFAs) have emerged to spread workers' rights, including the right to unionise and bargain collectively, within MNEs (Helfen, Schüßler and Stevis, 2016[81]). GFAs are non-binding agreements negotiated between a MNE and global union federations. They are instruments for regulating labour conditions and employment relations within MNEs and throughout their global value chains. As such, they can help protect the interests of workers and support transnational co-ordination of collective bargaining.

More than 300 GFAs have been signed by 2019, according to the ILO and the European Commission. In the EU, for instance, European Works Councils are consulted by MNE management on decisions at European level that affect workers' employment or working conditions. They can be established, as per EU directives, in companies or groups of companies with at least 1 000 employees in the EU and the other countries of the European Economic Area, when there are at least 150 employees in each of two Member States. The large majority of GFAs make reference to ILO Conventions – most often to ILO fundamental Conventions, and an increasing number are also referring to the OECD Guidelines for MNEs and the ILO MNE Declaration. Furthermore, most GFAs make reference to supply chain due diligence, even if supplier companies are not parties to them (ILO, 2016[82]). Evidence suggests that GFAs do have the capacity to improve fundamental rights at work such as freedom of association and the rights to organise and bargain collectively, although this also depend on the MNE home country labour practices (Bourque, 2008[83]; Papadakis, 2011[84]; Helfen, Schüßler and Stevis, 2016[81]).

GFAs can also benefit MNEs by helping them standardise their behaviour across the operations of subsidiaries and raise levels of trust in labour – management relations. Unlike domestic firms, MNEs must consider how different approaches to industrial relations can be implemented in the various countries in which they operate. This can be challenging for MNEs that wish to implement uniform global practices and standards, but that may be prevented from doing so due to varying policies across countries. With the engagement of global union federations, GFAs could potentially help address such challenges by serving as a basis for MNEs to promote global standards across their subsidiaries. This could also explain why foreign firms can be less interested in joining national employers' associations than in interacting with other subsidiaries of the parent company (Jirjahn, 2021[78]).

ILO's labour conventions and OECD's Guidelines for Multinational Enterprises can help raise labour standards of MNEs and their domestic partners along the supply chain

International labour standards are an essential component in the international framework for ensuring that the global economy, including FDI, provides benefits to all. The ILO Declaration on Fundamental Principles and Rights at Work (1998) represents the most widely accepted effort to define a set of core labour standards that may be considered universal. It covers eight fundamental conventions, namely the: Freedom of Association and Protection of the Right to Organise Convention; Right to Organise and Collective Bargaining Convention; Forced Labour Convention; Abolition of Forced Labour Convention; Minimum Age Convention; Worst Forms of Child Labour Convention; Equal Remuneration Convention; and Discrimination (Employment and Occupation) Convention.

The large majority of countries has formally subscribed to some or all parts of the ILO Declaration, with important implications at the national level, as ratification of ILO conventions is strongly correlated with changes in national labour laws. Indeed, many developing countries where poor labour practices in the operations of foreign firms have been a concern tend to have reasonable de jure labour standards, in some cases comparable to those in developed countries. Poor labour practices in the operations of businesses can reflect weak enforcement of national and international labour provisions. Indeed, non-compliance with international labour provisions continues to be a concern in many countries with weak rule of law.

The OECD Guidelines and ILO's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy are international instruments rooted in the ILO Declaration on Fundamental Principles and Rights at Work. They are voluntary recommendations by adhering governments, supported by employer and worker organisations, which are directly addressed to MNEs. The OECD Guidelines come with binding commitments and have a unique implementation mechanism called National Contact Points (NCPs), which are agencies established by governments to promote the Guidelines and related due diligence guidance, and to handle cases (referred to as "specific instances") as a non-judicial grievance mechanism. The Employment and Industrial Relations chapter of the OECD Guidelines covers the fields of employment, training, working conditions, and industrial relations (Box 3.4).

The OECD Guidelines recommend MNEs to carry out due diligence through their value chain relationships to address existing or potential adverse impacts on various aspects related to labour. Overall, countries are increasingly adopting due diligence legislation that covers various labour standards and that applies to MNEs supply chain operations. To support the implementation of the Guidelines, the OECD Due Diligence Guidance for RBC provides practical support to firms on implementation (OECD, 2018[85]). Implementing these recommendations can help companies avoid and address adverse impacts related to labour, industrial relations and human rights that may be associated with their operations, supply chains and other business relationships. The OECD has also developed practical actions in specific sectors. For instance, the due diligence guidance on child labour in minerals supply chains helps companies identify, mitigate and account for the risks of child labour in their mineral supply chains (OECD, 2017[86]).

Box 3.4. OECD Guidelines for Multinational Enterprises: Employment and Industrial Relations

MNEs should, within the framework of applicable law, regulations and prevailing labour relations and employment practices and applicable international labour standards:

- Respect the right of workers employed by the MNE to establish or join trade unions and representative organisations of their own choosing.
- Observe standards of employment and industrial relations not less favourable than those observed by comparable employers in the host country. Where comparable employers may not exist, provide the best possible wages and conditions of work, within the framework of government policies.
- To the greatest extent practicable, employ local workers and provide training, in co-operation with worker representatives and, where appropriate, relevant governmental authorities.
- Take adequate steps to ensure occupational health and safety in their operations.
- In considering changes in their operations which would have major employment effects, provide reasonable notice of such changes to representatives of the workers, and, where appropriate, to the relevant governmental authorities, and co-operate to mitigate practicable adverse effects.
- In the context of bona fide negotiations with workers' representatives on conditions of employment, or while workers are exercising a right to organise, not threaten to transfer activity in order to influence unfairly those negotiations or to hinder the exercise of a right to organise.

Source: OECD (2011[87]), OECD Guidelines for Multinational Enterprises, http://dx.doi.org/10.1787/9789264115415-en.

International trade and investment agreements can seek to raise labour standards and support monitoring of commitments

Trade and investment agreements can promote and facilitate FDI that positively influences host countries' labour market outcomes, including working conditions. Comprehensive free trade agreements (FTAs), including agreements with investment provisions, have been increasingly incorporating provisions on labour issues in one or several parts of the agreement. Some FTAs include references to labour or sustainable development in the preamble or in co-operation chapters while others have dedicated chapters or side agreements on labour.

Trade agreements can promote better labour practices by strengthening the incentives of governments to transpose international labour standards into national law. Some agreements contain government commitments to maintain, implement or strive to implement internationally recognised labour standards, most prominently ILO's 1998 Declaration and related Conventions (ILO, 2016[88]; Gaukrodger, 2021[89]). Labour provisions can also refer to government commitments on minimum wages, working hours or occupational safety and health. Some agreements include non-binding language, often in the preamble of the treaty, on the importance of sustainable development and the implementation of the treaty in a way that is consistent with national and international commitments on labour. Others explicitly require treaty parties not to lower labour standards.

A few treaties contain more specific commitments – often, albeit not always, in labour chapters of FTAs – to achieve better labour practices. For example, the labour chapter of the United States – Mexico – Canada Agreement (USMCA) requires Mexico to strengthen protection for collective bargaining and related enforcement tools. Another example is the ASEAN Economic Community Agreement, which includes provisions to facilitate labour mobility in specific high-skilled occupations.

Furthermore, the USMCA includes a provision in its dedicated chapter on labour issues requiring that a certain percentage of a car manufactured in North America be built by workers earning at least USD 16 per hour in order to qualify for preferential trade market access treatment. The chapter on labour issues also includes a provision on promoting information sharing and dialogue related to conditions of employment by enterprises operating in two or more parties – the provision explicitly refers to MNEs – with representative worker organisations in each of the co-operating parties.

Most agreements containing provisions on labour standards target government commitments to better practices. While this may help to strengthen incentives to protect basic labour rights and reduce the temptation of poor labour practices in order to gain a competitive advantage, they are likely to be less effective when poor practices reflect institutional weaknesses (OECD, 2008[20]). Agreements can also prompt workplace placement and skills development exchange programmes in parallel to the primary agreement, such as with the Australia-Indonesia CEPA (2019).

International investment agreements (IIAs) can be defined as standalone investment treaties (e.g. BITs) and investment chapters of FTAs. They thus overlap in part with FTAs and the provisions in FTAs referred above often apply to or affect both trade and investment. However, stand-alone IIAs rarely, albeit increasingly, contain provisions on labour issues. They are generally focused primarily on the protection of investors and investment.

The nature, design, context and interpretation of substantive investment treaty protection provisions and dispute settlement arrangements can be of key importance for investment impacts on labour market outcomes. The scope of absolute protections and government action with regard to their interpretation are key factors affecting policy space for non-discriminatory regulation. For example, investment protection obligations, if not carefully drafted and interpreted, may come into conflict with principles and labour standards included or promoted in ILO conventions. A number of recent treaties limit protection to discrimination or to direct expropriation and discrimination. Other treaties provide for state-state dispute settlement (SSDS) rather than investor-state dispute settlement (ISDS) for investment protection claims which tends to reduce both expansive interpretations and claims.

Some IIA provisions aim at preserving domestic policy space for governments to enact or update labour laws. They affirm governments' right to regulate to achieve legitimate policy objectives including in relation to labour standards. Treaty-based litigation between investors and governments often raise questions about the appropriate balance between protecting investments by covered investors and preserving the policy space of the host country.

Careful drafting of exceptions to IIA protections that give more room for governments to enact labour measures can be one way for treaty parties to preserve their right to regulate. Some agreements seek to exclude certain non-discriminatory measures or subject matters from ISDS claims in order to allow the state to meet public policy goals. These may cover the protection or promotion of workers' rights but the interpretation and effectiveness of clauses of this type in ISDS remains uncertain.

Some treaties prohibit governments from imposing performance requirements on covered investors to meet certain quotas of local employees or managers. Exceptions to these rules in some agreements can allow governments to require investors to employ or train local workers under certain conditions.

IIAs may also directly influence business conduct and impacts on labour market outcomes. A few agreements include provisions that encourage or require investors to observe RBC standards, contribute to skills development, or commit to pay a certain minimum wage. For example, the Brazil-Malawi BIT (2015) requires investors to make best efforts to strengthen local capacities, especially by creating employment opportunities and facilitating access of workers to training. More recently, the USMCA chapter on investment encourages enterprises to voluntarily incorporate into their internal policies those internationally recognised standards, guidelines, and principles of responsible business conduct addressing areas such as labour and human rights, including the OECD Guidelines for MNEs.

Table 3.3 describes a range of different types of explicit references to labour issues in trade and investment agreements (Table 3.3).

Table 3.3. Illustration of how FTAs and IIAs explicitly refer to labour issues

Policy objective	Type of reference	Examples of treaties
Encourage international co-operation	General promotion of progress in labour standards and co-operation	Armenia-EU Comprehensive and Enhanced Partnership Agreement (2017), Chapter 85-86.
	Commitment to co-operate on labour matters	EC-Uzbekistan Co-operation Agreement (1996), Art. 43.
Reinforce domestic law	Explicit safeguards or enhancements of labour standards	US-Mexico-Canada FTA (USMCA) (2019), Chapter 23 on labour
	Prohibitions on lowering of labour standards for the purpose of attracting investment	Japan-Jordan BIT (2018), Chapter 20; Japan-Switzerland FTA, Chapter 9 on investment, Art. 101; CARIFORUM-EU FTA (2008), Art 73
Preserve domestic policy space	Explicit affirmation of labour regulatory power of host state	Canada-EU Comprehensive Economic and Trade Agreement (CETA), Chapter 23
	Carve-out clauses for labour measures with respect to certain treaty provisions	US-Rwanda BIT (2008), Art. 13.
	Exclusion of non-discriminatory labour measures from ISDS	Canada – Mongolia BIT (2016), Art. 20
Influence investor conduct	Investor obligations or responsibilities related to labour standards	CARIFORUM-EU FTA (2008), Art 72; US-Mexico-Canada FTA (USMCA) (2019), Chapter 14 on investment, Art. 14.17, and Chapter 23 on labour, Art. 23.12

Source: This table contains selected examples of FTA and IIA provisions, based on the OECD FDI Qualities Mapping. The impact of these references is uncertain and is likely to depend on factors like treaty design, context and interpretation.

A significant challenge is to ensure implementation of provisions on labour issues for those Parties that do not enforce them. Overall, there is mixed evidence that such provisions can lead to a tangible improvement of working conditions in the domestic economies of the treaty parties. Some agreements follow a sanction-based approach to promote compliance with labour standards. For example, they condition market access on commitments relating to labour standards, allowing a treaty party to deny market access to products from a country where labour standards are routinely violated. By contrast, some trade agreements seek to use positive incentives. This is the case of the Cambodia – US Bilateral Textile Agreement (CUSBTA) made the extension of quota limits conditional on compliance with international and national labour laws, which induced Cambodia to accept ILO's support to enhance compliance, leading to a substantial increase in the possibility of forming trade unions (OECD, 2008[20]; 2018[90]). The EU's Generalised Scheme of Preferences Plus (GSP+) also makes use of positive incentives by granting special preferences to countries that have ratified and effectively implemented core labour and human-rights conventions.

More commonly, however, SSDS or softer forms of implementation like government consultations or third-party expert procedures are available for disputes about implementation of government commitments. Trade unions often express concerns that workers and unions do not have direct access to dispute settlement under agreements containing labour commitments, unlike covered investors under IIAs. Some recent agreements commit the treaty parties to establish inter-governmental committees or other bodies tasked with co-operation, dialogue and monitoring implementation of labour commitments; some envisage greater roles for NGOs and other stakeholders in these processes. Such frameworks could help address implementation gaps for institutions at the domestic level (ILO, 2016[88]). The USMCA establishes a committee to monitor Mexico's labour reforms and enforce USMCA labour provisions. The USMCA also establishes a company-specific labour enforcement system under Chapter 31 on dispute settlement, namely the "Rapid Response Labour Mechanism" that allows the US to take trade measures against factories that fail to comply with domestic freedom of association and collective bargaining laws including those adopted in connection with the treaty. The EU Chief Trade Enforcement Officer (CTEO) aims at

ensuring effective enforcement of treaty commitments on workers' rights, among others. It manages a single entry point where EU companies, trade organisations or non-governmental organisations can submit complaints about non-EU countries not meeting commitments made on workers' rights.

3.3.3. Stimulate labour demand and develop workers' skills through targeted investment and active labour market policies and programmes

Active policies and programmes can help governments act on desired labour market outcomes of FDI, including by influencing specific transmission channels of FDI spillovers. Some policies aim at stimulating labour demand by attracting FDI in specific sectors or locations. Other policies aim at increasing the supply of adequate skills or mitigate potential adverse effects of FDI by supporting displaced or vulnerable workers. Such mutually reinforcing policy interventions are warranted as FDI effects on the labour market are externalities that can be both positive and negative. They are also crucial to meet the challenges that automation, digitalisation and low-carbon transition – all accelerated by FDI – impose on the labour market.

Qualified tax incentives, based on the labour market outcomes of firms, can help address specific market failures but they need to be targeted and properly evaluated

Governments use a wide range of financial support instruments that may induce directly or indirectly firms to create jobs, raise wages and train workers. Incentives usually do not differentiate between foreign and domestic investors but some tend to target implicitly foreign firms – for instance through eligibility conditions on the minimum number of jobs. Incentives can distort competition, however, and are not always cost-effective in inducing firms to create quality jobs, although this can depend on the instrument and the targeting strategy. Governments should ensure that incentives address a well-identified labour market failure such as the existence of skills gaps or labour immobility (i.e. labour does not move to where it is in demand). Their appropriateness should be evaluated periodically to ensure that benefits materialise and outweigh the costs, and developed through concerted efforts across relevant ministries and agencies (such incentives could be as much seen as investment policies as active labour market policies).

There are a variety of tax and financial incentives, each targeting directly or indirectly a specific labour outcome and influencing a specific transmission channel of FDI. Some incentives – often tax holidays – do not explicitly target labour market outcomes but can be conceived with the goal of attracting investment that stimulates labour demand in labour or skill-intensive sectors or in regions with low employment shares. Governments also often design incentives that target explicitly specific labour market outcomes. For instance 12 of the 36 countries included in the OECD Investment Tax Incentive Database use incentives to promote job creation and quality while 6 countries grant incentives to support skills (Celani, Dressler and Wermelinger, 2022[91]). These incentives are based on eligibility conditions that define *who* qualifies for tax relief (e.g. a firm that creates a minimum number of workers) and can include design features that describe *how* relief from taxation applies (e.g. tax relief related to training expenditures) (Table 3.4).

Tax exemptions or reductions are typical instruments governments use to attract FDI that directly relates to specific labour market outcomes (OECD, 2022[92]). For instance, Jordan provides CIT reduction to manufacturing firms that raise the employment of Jordanian citizens from a pre-defined threshold (OECD, 2022[54]). Such eligibility conditions related to outcome require careful monitoring to ensure that the outcome has been met and to avoid fraudulent behaviour; for example, to ensure that a required number of jobs were effectively created. Such monitoring requires resources and administrative capacity, which may be scarce in developing countries. In some countries, the IPA can access social security data to calculate the number of jobs created or wages in foreign firms and whether they deliver on their promises. However, even if it is technically feasible to measure the number of new jobs in firms that benefit from an incentive, this does not necessarily mean that these jobs have been created thanks to the incentive. This raises difficulties when attempting to evaluate whether the benefits materialise and outweigh the costs.

Table 3.4. Targeting specific labour market outcomes through investment tax incentives

Type of target	Examples of criteria	Country examples
Eligibility conditions related to outcomes	• Employ a minimum number of workers • Create a minimum number of new jobs • Pay an average wage at a certain level • Reach a minimum level of spending on training	• Jordan provides CIT reduction to manufacturers that raise employment from a defined baseline. • Viet Nam provides reduced CIT rate for 10 years if the project has more than 3 000 employees
Design Features	• Wages of newly created employment • Wages of trainees and apprentices • Expenditure on training and education of employees • Expenditures related to building training facilities	• Thailand allows expenditures on employee training to be deducted at 200% of the actual cost for tax purposes. • Armenia provides enhanced deductions for new jobs created within the business plan.

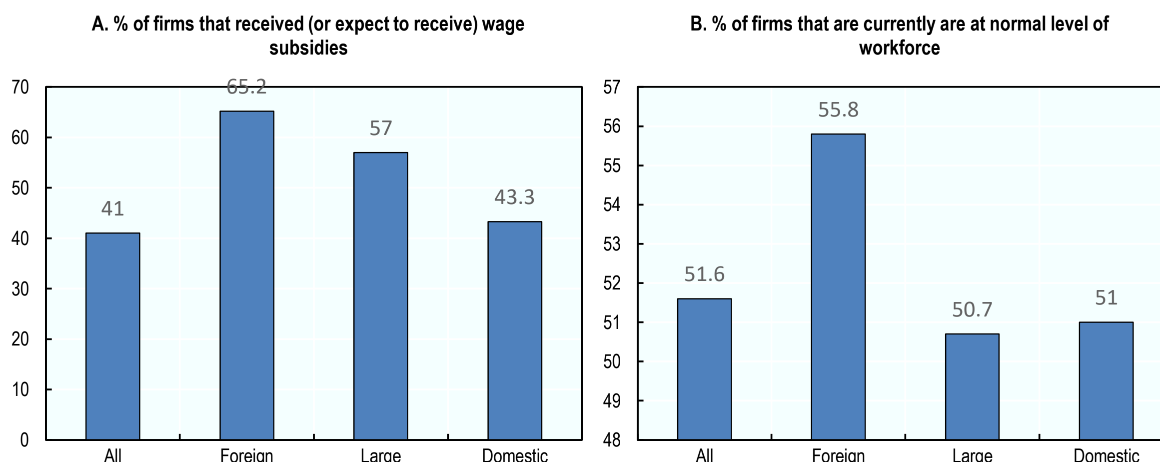
Source: OECD based on Celani, Dressler and Wermelinger, M. (2022), Building an Investment Tax Incentives database: Methodology and initial findings for 36 developing countries, https://doi.org/10.1787/62e075a9-en.

Subsidies and tax incentives such as allowances or credits are other instruments that can be directly tied to the performance of firms in terms of employment, the wage bill, or trained workers. They can target specific groups that the government supports as part of a national plan, such as R&D workers, youth transitioning from school to work or women (see Chapter 4). They can also influence transmission channels of FDI spillovers, such as support to firms that train workers of their domestic suppliers. Likewise, subsidies and tax incentives such as allowances or credits may benefit domestic firms that want to upgrade their workers' skills in response to foreign competitive pressure. Evidence on the effectiveness of incentives that are directly tied to objectives such as increasing employment or wages is mixed in both developed and developing countries (McKenzie, 2017[93]; Bown and Freund, 2019[94]). When they are not well targeted, incentives might benefit firms that did not need support to hire or train workers in the first place. Some evidence shows that interventions targeting geographical or sectoral labour mobility may work better than others (Duval and Loungani, 2019[79]).

Some governments, including local authorities, make special deals (or mega deals) with large companies, typically MNEs, operating in innovative or strategic sectors, and offer them upfront discretionary incentives packages against commitments to create a certain number of jobs. Such packages are not always cost effective and, while they may improve direct and indirect labour market outcomes, their impact from both a local or national welfare perspective is uncertain (Bartik, 2018[95]; Slattery and Zidar, 2020[96]). Furthermore, firms receiving upfront tax incentives could fail to fulfil employment requirements predicated on ex-ante contractibility because of rapidly changing or uncertain environments (Rodrik and Sabel, 2020[97]). In the United States, such discretionary deals are negotiated at the local level, more often in declining regions, and one-quarter of them go to large foreign firms (Setzler and Tintelnot, 2021[15]). If they are to be negotiated, firm-specific deals may be more effective if they include design features that describe how tax relief can apply ex post, i.e. depending on the actual performance of the firm.

Some incentives have a countercyclical nature and can mitigate the adverse effects of downturns on labour market by supporting firms, including foreign business. For instance, during the COVID-19 pandemic, many governments provided wage subsidies to employers to prevent layoffs and compensate for wage reductions. Foreign firms relied more than other firms on these subsidies, possibly because they tend to adjust labour by decreasing the number of hours worked, and thus lowering wages, more than through layoffs (Figure 3.6). This corroborates the possibility that foreign firms find it costly to reduce their workforce during a crisis: higher skilled staff are typically harder to find (OECD, 2020[1]). They may also be more resilient to crises due to their ability to shift temporarily production to other subsidiaries.

Figure 3.6. COVID-19 pandemic: Foreign firms relied more on active labour market policies



Note: Each indicator is an average of 19 countries covered by the World Bank Enterprise Survey "COVID-19: Impacts on Firms".
Source: Author's calculations based on the World Bank Enterprise Surveys "COVID-19: Impacts on Firms, Round 1".

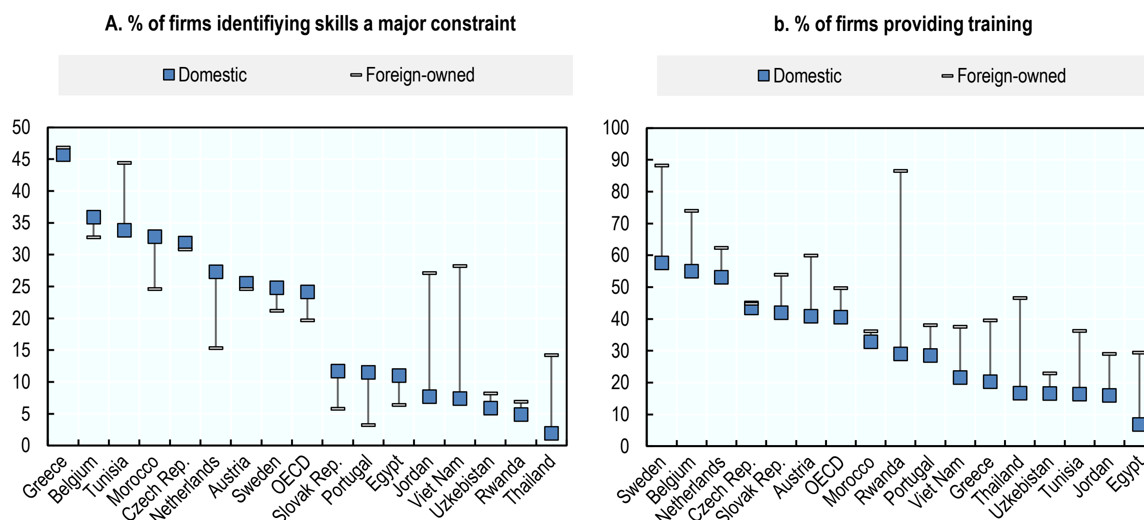
Skills programmes that are adapted to MNEs' changing skills needs support workers' mobility towards better-paid jobs while retraining those adversely affected

Skills development features prominently among the active labour market policies affecting a country's enabling environment for investment and inclusive growth (OECD, 2015[53]). Skills imbalances lead to higher risk of unemployment, lower wages and lower job satisfaction. They are also associated with lower labour productivity through a misallocation of workers to jobs (Adalet McGowan and Andrews, 2015[98]). By reducing skills mismatches and shortages, training programmes can help increase labour mobility and raise the share of skilled workers following a surge in labour demand from FDI entry, including in domestic firms that will be more able to absorb potential spillover benefits (Becker et al., 2020[52]).

Vocational training programmes can be very different in nature and may differ in their cost and duration, in their curricular content, and in whether or not, and how, the private sector participates, and may address a diverse public, from engineers in the ICT sector to disadvantaged youth in poor regions. Effectiveness largely depends on how these programmes are designed, on the quality of implementation, on the context in which they were developed, and on target population (Levy-Yeyati, Montané and Sartorio, 2019[99]). It is therefore crucial that skills development programmes are developed in line with national economic and investment plans, in consultation with workers, the private sector and relevant investment bodies.

Existing variations in skills shortages and training provision by firms across countries and between foreign and domestic firms suggest that there is ample room for policy intervention. Four patterns can be identified based on the World Bank Enterprise Survey. First, levels of skills inadequacy and training provision of foreign and domestic firms are largely driven by national factors, although ownership matters (Figure 3.7). Second, skills inadequacy is a major constraint for firms in the OECD area more than in developing economies. This could reflect more severe skills shortages in OECD countries, even if this observation may be driven by better business climates – corruption is more likely to be a major constraint in developing economies. Third, foreign firms in the OECD area suffer from skills inadequacy less than domestic business while the reverse is often observed in non-OECD countries. Different sectoral concentrations of the two groups of firms and higher cross-border labour mobility in OECD countries could explain such pattern. Fourth, foreign firms systematically provide more training than domestic firms, including in countries where they report being relatively less constrained by skills availability. This reflects MNEs' permanent need to adapt to competitive international pressure through reskilling and upskilling.

Figure 3.7. The extent of skills shortages and training provisions by foreign and domestic firms



Note: The figure shows a group of selected OECD and non-OECD countries for which firm-level surveys were available from 2015 and beyond.
Source: OECD based on the World Bank Enterprise Surveys.

Firms may provide training on their own costs but skills policies targeted at employers can also be covered by government subsidies (see previous section). In general, training support provided or subsidised by government agencies, though costly, have shown some success when well-designed and targeting the right beneficiaries (Bown and Freund, 2019[94]). For instance, sectoral training or re-training programmes in transferable and certifiable skills can facilitate labour mobility and help workers move to better-paid jobs (Katz et al., 2020[100]). They can reduce skills shortages in high-growth sectors where FDI may crowd out competitors unable to retain their talented staff. Sectoral training could be equally helpful to help mitigate the potential adverse impacts of FDI by retraining displaced or vulnerable workers affected by rapidly changing labour markets due to, inter alia, evolving needs of MNEs or because of the low-carbon transition (see also Chapter 5). On-the-job training support contribute to a more flexible workforce and, in turn, to higher wages; and foreign firms tend to strongly rely on them (Almeida and Faria, 2014[101]; Konings and Vanormelingen, 2015[102]). Providing all firms with financial support for training can, however, lead to deadweight losses. Companies that compete in high-productivity environments, such as foreign firms, need to provide training in any case because it is critical to their productivity and survival (Saraf, 2017[103]).

While reskilling and upskilling support is essential, pre-employment training programmes can help host countries prepare future workers, particularly youth transitioning from school to work, with relevant skills. In countries or regions that are large recipient of FDI, pre-employment training programmes could be even designed specifically to quickly respond to the needs of foreign firms considering to invest. One example is Assured Skills, a state programme in Northern Ireland, introduced by the Department for the Economy and Northern Ireland's investment promotion agency Invest NI, that prepares and trains workers for guaranteed jobs in new foreign firms (OECD, 2020[104]). Overall, governments must ensure that, in light of the different training programmes (sectoral, on-the-job, pre-employment trainings) and providers (public, private, NGOs) that could exist, that there is a solid accreditation and skills certification system.

The investment community can play an important role by participating in skills development initiatives. As illustrated by the example of Assured skills, training programmes are sometimes developed and implemented by IPAs in co-operation with relevant partners. For instance, the Costa Rican IPA established the Skills4Life Program, in partnership with the Ministry of Labour and the Ministry of Education, and as part of the National Employment Programme, to retrain students and provide an accompaniment plan to help recipients find work afterwards (Box 3.5). IPAs could also co-operate with the relevant agencies to identify and support existing or potential local suppliers of foreign firms with relevant training options (see

also Chapter 2). Sometimes, the foreign firms create their own training centres that serve beyond the company's needs. IPAs could support them in such undertakings and ensure that trainings are recognised by the relevant authority. In Jordan, for instance, Orange established a Coding Academy that offers a free training programme, accredited by the competent public authority, to young job seekers interested in digital technology who were unable to complete their university education (OECD, 2022[54]).

Box 3.5. IPAs as key partners in skills development: The case of CINDE in Costa Rica

Costa Rica is one country in which the IPA, CINDE, plays a particularly significant role in skills, through partnerships, studies and advocacy. Education and human talent is one of CINDE's identified strategic pillars. According to the IPA's 2019-22 strategy, the organisation identifies itself as a key player in supporting skills development for jobs of the future, and in the transitioning towards a knowledge economy. CINDE is fulfilling the strategy to boosting skills in Costa Rica in partnership with ministries, other agencies, universities, technical institutions and the foreign MNEs themselves, allowing the IPA to closely track patterns in emerging human talent.

In 2018, CINDE launched a partnership with the Ministry of Labour and the Ministry of Education, to create the Skills4Life Program, as part of the National Employment Program. Skills4Life retrains over 2 000 students per year in the English language, social skills in the workplace and also provides an accompaniment plan to help recipients find work afterwards. A 2020 initiative saw CINDE, in collaboration with Coursera, an online education platform, along with the Ministry of Labour, come together to launch an industry 4.0 train programme designed to benefit 50 000 recipients. CINDE is also part of a strategic partnership to boost education and skills development, with two key Costa Rican sustainable development NGOs, Crusa and Aliarse, as well as the Inter-American Development Bank.

CINDE also contributes to an overall understanding of the labour market and education outlook of Costa Rica, including skills needs, which encourages programmes that further boost the country's attractiveness as an FDI destination. One of these programs was launched in September 2021, Technological Seedlings, in which CINDE has partnered with Microsoft to boost the talent pool in certain high-tech sectors identified in CINDE's studies as needing the most new entrants. The training of these students has been relegated to the INA, Costa Rica's primary agency for learning and skills development, showing a strategic positioning of an IPA to actively shape skills development at home.

CINDE also incorporates digital tools in their talent development initiatives, such as their *Crystal Ball* programme that is directed at matching the supply of knowledge economy jobs with the demand. The programme uses an AI-based digital employment orientation platform that predicts and recommends learning paths to ensure users' employability opportunities, personalised based on experience, capabilities and interests, with the aim of impacting over 30'000 people.

Source: OECD (2022[92]), FDI Qualities mapping: A survey of policies and institutions that can strengthen sustainable investment; CINDE 2019-22 Strategy.

3.3.4. Align investment opportunities with labour market needs by addressing information failures on the product and labour markets and reducing administrative barriers

Together with financial and technical support, information and facilitation services can help address market failures that are preventing FDI from realising its labour market potential. Some policies such as linkages programmes can help connect foreign firms with the relevant skills while job search programmes help match job seekers with existing opportunities in MNEs. Other policies aim at raising awareness about

labour standards and helping companies disclose their compliance with them. This increases suppliers' prospects to engage with foreign buyers that conduct due diligence checks in their supply chain.

Investment promotion and facilitation activities that reduce information barriers for foreign investors must be based on the existing skill base and labour market potential

Through their activities, IPAs can help address specific market failure (e.g. low labour mobility) by reducing information barriers for foreign investors (e.g. existing skill base) and, thus, improve labour outcomes of FDI. In coherence with existing strategies, IPAs could adopt activities and tools providing information on the national skill base or on local labour market conditions. They can also ensure that material on labour regulations, skills support programmes or employment incentives are visible and easily accessible online. Importantly, IPAs can provide targeted facilitation and aftercare services, such as guiding existing foreign investors that are looking to hire workers with specific skills or in identifying domestic suppliers disclosing high labour standards, and thereby also incentivise other firms to raise theirs.

The relevance of IPAs is stronger when information asymmetries are more severe, markets less transparent and institutional conditions generally weaker. They can be particularly effective if governments' efforts also include attracting FDI to regions with low employment rates. Co-operation between the national IPA and regional development agencies or the existence of regional IPAs can contribute to higher inflows of FDI at the local level and to increased number of jobs directly created by the foreign firm (Crescenzi, Di Cataldo and Giua, 2021[105]). IPAs' activities in the region can cut operational or search costs of foreign investors (for example when setting up a training centre or contributing to its creation), reducing transaction costs when interacting with local actors. This can ensure that the distribution of FDI across regions is also governed by local labour market potential and not information asymmetries or transaction costs.

Another, albeit related, way through which IPA influence the impact of FDI on quality job creation and skills is through prioritisation – IPAs can prioritise FDI in labour- or skill-intensive sectors, target countries with better records of human rights or RBC or focus on foreign investors' size. An increasing number of IPAs are using project evaluation and prioritisation tools that allow them to focus their limited resources on the most valuable deals. For instance, the Lithuanian IPA only treats potential projects that are expected to create a minimum number of jobs – five for an R&D project and 20 for other projects. It also scores projects based on the expected wage firms' will pay to workers. Overall, job quality and skills are important goals for IPAs when setting their prioritisation strategy, although there can be large differences across agencies (Sztajerowska and Martincus, 2021[62]). IPAs set key KPIs to help them identify investments of higher job quality and that can contribute to upskilling. Targets and promotion activities should be coherent with national strategies and reasonably reflect the country's skill base and labour market conditions.

IPAs are also increasingly taking into consideration the global race for attracting talent into their activities. The mobility of human resources has become a central aspect of globalisation, alongside FDI, trade and R&D internationalisation (OECD, 2008[106]). Attracting talent, including foreign, and facilitating workers' entry and establishment is becoming intrinsically connected with FDI attraction, and thus becoming an activity of some IPAs. Agencies can help ensure transparency and consistency of procedures and requirements for obtaining permits from labour authorities, including permits for foreign workers. Notwithstanding the relevance or not of regulating the entry of foreign workers, it is crucial to simplify their entry procedures. Countries like Thailand, for instance, impose restrictions on the entry of foreign workers. To remain attractive to investors, the government established a Strategic Talent Centre to facilitate the admission of skilled foreign workers. The Centre provides a mechanism that recognises the qualifications of foreign experts interested to work in Thailand. Once their qualifications are recognised, the Centre, together with the national IPA, assist foreign job seekers with their visas and work permits (OECD, 2021[57]).

Public employment services can assist vulnerable communities adversely affected by FDI by reducing job search costs and stimulating labour mobility near MNE activity

While investment promotion and facilitation activities lower information barriers for investors, public or private employment services reduce search costs in the labour market for job seekers. Such support is particularly important to mitigate possible adverse effects of FDI on vulnerable communities such as the less educated, youth and women (Steenbergen and Tran, 2020[16])(Chapter 4). Indeed, some workers can lose out following FDI entry and spillovers via long unemployment durations or displacement to lower-paid jobs. Supporting job seekers or low-wage workers with job search assistance, certification of their skills, matchmaking services (e.g. MNEs secondment programmes), and advice on available training support can help them adjust to changes in the marketplace and find better job opportunities. Overall, active labour market policies have a stronger impact when they are offered in an integrated manner – for example, when employment services are combined with training support (Angel-Urdinola, Kuddo and Semlali, 2013[107]).

Search and matching programmes to stimulate internal labour mobility could particularly help job seekers from areas with lower employment rates. The largest market failures in labour markets occur geographically, with very different employment opportunities for the same skills depending on where individuals are located (McKenzie, 2017[93]). As FDI often creates more jobs in urban areas, governments could help nearby communities by lowering search costs and offering public information about available jobs (Steenbergen and Tran, 2020[16]). Programmes providing information about job opportunities in a different location or subsidising job search in different parts of the city by covering transportation costs has been found to be effective (Jensen, 2012[108]; Abebe et al., 2016[109]; Franklin, 2018[110]). In Jordan, for instance, the IPA itself, in partnership with the Industrial Estate Company, recently launched an initiative – the Gold Professions Initiative – to rehabilitate the skills of the local communities surrounding the industrial estates and match them with job opportunities at employers operating there (OECD, 2022[54]).

Raising awareness on labour standards and supporting companies disclose their compliance with them can facilitate MNEs' due diligence checks and responsible sourcing

Policies supporting supply chain linkages between foreign and domestic firms typically aim at upgrading local suppliers' capabilities, but those helping companies improve and disclose their labour standards compliance can be equally relevant. Effective corporate disclosure, both by foreign and domestic firms, is crucial in integrating them into more inclusive, albeit complex, supply chains. Businesses have a responsibility to prevent and address negative impacts of their actions on the labour market, including by conducting due diligence checks. Policies that raise awareness on labour standards and encourage corporate disclosure can act as an incentive for firms to improve working conditions. In particular, transparency on labour standards of suppliers reduce information costs for foreign investors, encouraging them to pursue partnerships, thus boosting the standing of these companies and their suppliers.

Initiatives aiming at raising awareness of labour standards and helping companies disclose compliance are diverse and implemented by a variety of actors, including IPAs and civil society. In some OECD countries, corporate disclosure is a requirement; such as in France, where very large companies must establish, implement and publish their due diligence plans to prevent human rights' abuses in supply chains, or in the UK, where companies with a turnover of over GBP 36 million annually must disclose their approach in preventing modern slavery in their supply chains. In most countries, however, initiatives to raise awareness on labour standards and supporting companies disclose their compliance with them often rely on international donors' support. One relevant initiative is ILO's Better Work (BW) programme, which engages MNEs, local governments, business, and labour in social dialogue around compliance and competitiveness (Box 3.6). BW created a transparency portal which discloses the names of registered businesses and their compliance with key labour standards, such as payment for overtime work, the conditions of migrant workers, implementation of collective agreements, and health and safety conditions.

Box 3.6. Better Work: An initiative that supports corporate disclosure and due diligence

Better Work (BW) is a partnership between the ILO and the International Finance Corporation (IFC), as an initiative to improve labour standards and competitiveness in the garment sector across developing economies. One of their motivations comes from a noticed correlation between compliance with labour laws and increased productivity, profitability and resilience for enterprises. Workers in factories who enjoy a clean, safe and equitable working environment are also more motivated and less likely to leave their jobs – all of which can improve business performance. BW is an example of the benefits of co-operative initiatives to boost corporate disclosure and compliance, which has the potential to create a more competitive environment that not only strives to meet international labour standards, but also one which has an increased ability to attract MNEs and seek deeper linkages with the supply chain.

BW includes labour actors at all levels of programme design, adoption, implementation, monitoring, and evaluation. This includes global union federations in the global advisory committee, trade unions at the national level, and the provision of an institutionalised form of collective worker voice at the factory level. This approach holds the prospect of better enforcement outcomes by bringing labour to the table in an active role and by fostering worker voice through interpersonal interactions between workers and managers.

In Jordan, for instance, the BW programme has been active since 2008, in co-ordination with the Ministry of Labour, where it works to improve working conditions and competitiveness in the garment industry and other exporting sectors. It is active on both the factory-level and institutional-level, and not only provides frequent reporting and advice on conditions in factories, but also encourages a dialogue between industry, government and international stakeholders, and also participates in the training of trainers, in order to create a more safe and productive Jordanian workforce.

BW includes a Transparency Portal which "discloses the names of the apparel factories registered with Better Work country programmes and their compliance with key national and international labour standards," which according BW, "transparency has the potential to stimulate factory progress, improve working conditions, bolster the competitiveness of the sector and encourage ethical sourcing." For example, in the case of Jordan, publicly reported issues have included those such as payment for overtime, the conditions of migrant workers, implementation issues of collective agreements, and health and safety resources and infrastructure. Importantly, BW's direct advisory role provides resources for these same factories, such as a Compliance Assessment Tool, to ensure that once disclosure comes, the garment sector, and often other sectors such as chemicals and light manufacturing are in compliance with Jordanian laws and international labour standards as much as possible.

Source: OECD (2022[92]), FDI Qualities mapping: A survey of policies and institutions that can strengthen sustainable investment; Pike (2020[111]), Voice in Supply Chains: Does the Better Work Program Lead to Improvements in Labor Standards Compliance?, https://doi.org/10.1177%2F0019793920911905

The OECD Due Diligence Guidance for RBC is another relevant tool for governments and enterprises seeking to implement the OECD Guidelines. The NCPs operating under the OECD Guidelines – sometimes hosted by the IPA – are requested to promote the Guidelines and related due diligence guidance. The OECD Due Diligence Guidance helps companies implement the due diligence recommendations for risk areas such as child and forced labour, working time, occupational health and safety, trade union and collective bargaining, wages and informality. Conducting due diligence not only with respect to foreign firm's own activities but also to their supply chains and business relationships is particularly important when these relationships include informal firms. Formal companies' leverage on informal firms may help prevent and address adverse impacts on labour rights or working conditions in the supply chain, or even incentivise informal firms to transition toward the formal economy (OECD, 2020[112]).

While it is central for firms to assess due diligence risks from an issue-specific perspective (e.g. labour), risk assessment across sustainability areas can be equally important. For instance, companies' taking action to reduce carbon emissions in order to address and adapt to the transition risks of climate change on their direct operations and supply chains should also consider potential adverse impacts on workers and local communities to ensure a just transition (see Chapter 5). In some countries, the NCP has been largely inactive due to limited financial resources and institutional clarity about their role (OECD, 2021[113]).

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Annex 3.A. Assessing the impact of FDI on job and quality skills

Annex Table 3.A.1. Core questions to assess the impact of FDI on job quality and skills

Dimension	Questions	Potential data sources
Structure of the economy	Which sectors and activities drive most labour market outcomes?	OECD and ILO statistics
	Does the country have a comparative advantage in labour-intensive sectors?	UN Comtrade Database
	Is there a productivity/skills gap between domestic and foreign firms?	OECD FDI Qualities Indicators
	Are observed regional disparities high in comparison with other countries?	OECD Regional Database
Labour market characteristics	What are the rates of employment and unemployment in the economy?	OECD and ILO statistics
	What is the percentage of child and forced labour?	ILO statistics
	What is the percentage of informal employment in the economy?	ILO statistics
	What is the percentage of skilled workers in the economy?	OECD and ILO statistics
	What is the extent of labour mobility in the economy?	National statistics and empirical research
	What is the extent of skills imbalances in the economy?	National statistics and empirical research
	What is the percentage of workers with the right to bargain? What is the trade union density?	OECD and ILO statistics
FDI characteristics	What types (greenfield vs. M&A) and motives of FDI are more conducive to positive labour outcomes in the economy?	Refinitiv; Financial Times' fDi Markets; World Bank Enterprise Surveys
	Is FDI concentrated in sectors with higher labour- or skill-intensity?	OECD FDI Qualities Indicators
	Is FDI concentrated in sectors with lower occupational injuries?	OECD FDI Qualities Indicators
	What is the share of FDI from countries that have adhered to the OECD Guidelines?	National statistics and empirical research
FDI transmission channels	Are average wages higher in foreign firms relative to domestic firms?	OECD FDI Qualities Indicators
	Do foreign firms train more theirs workers than domestic firms do? To which extent foreign they also train workers of their suppliers?	OECD FDI Qualities Indicators; National statistics and empirical research
	Is job security higher in foreign firms relative to domestic firms?	OECD FDI Qualities Indicators
	Is labour mobility between foreign and domestic firms happening and does it contribute to skills transfers and wage growth?	National statistics and empirical research
	Is FDI associated with positive/negative competition effects and imitation?	National statistics and empirical research

Annex Table 3.A.2. Core questions to assess policies that influence the impact of FDI on job quality and skills

Dimension	Instrument	Policy questions
Governance	National strategies and plans	Are the country's priorities in terms of labour market outcomes (e.g. create more jobs, increase the share of skilled workers, etc.) clearly defined? Is the country's FDI attraction strategy aligned with strategies related to employment, job quality and skills? Are these strategies aligned with broader development objectives?
		Do national development or economic plans provide coherent and strategic directions on investment, employment and skills development objectives? Are investment considerations integrated in employment and skills strategies and vice versa?
		Is there a dedicated strategy that articulates the government's vision on the contribution of investment to job quality and skills development? If yes, does the strategy sets the goals, identifies priority policy actions and clarifies responsibilities of institutions and co-ordinating bodies?
	Policy coherence and co-ordination	Are responsibilities across government ministries and agencies on investment, employment and skills development clearly defined, balanced, sufficiently funded, mutually understood by all actors and grounded in sound and coherent strategies?

Dimension	Instrument	Policy questions
		Is there a centralised mapping of all institutions involved in developing and delivering policies at the intersection of investment, employment and skills development? Do actors involved in governance decisions know about it and use it as a point of reference?
		Is there horizontal co-ordination between stakeholders at the same level of governance, i.e. strategic co-ordination between different ministries via inter-ministerial bodies and operational co-ordination between implementing agencies via working groups (e.g. skills councils), boards of directors (IPA's boards), etc.? Are the mandates and internal governance structures of the co-ordinating bodies clearly defined?
		Are there formal co-ordination mechanisms with social partners to receive feedback and build consensus around reforms at the intersection of investment, employment and skills development?
	Labour market information and skills assessment and anticipation systems	Do relevant institutions systematically undertake labour market impact assessment of their policies and programmes? Do they run skills assessment and anticipation exercises?
		Are investment bodies such as IPAs involved in labour market information and skills assessment and anticipation exercises? Are information on inward FDI characteristics and MNEs' activity used as forward-looking indicators of what jobs and skills will be in demand in the future in skills anticipation systems?
International agreements & standards	International labour standards	Has the country signed and ratified the fundamental ILO conventions related to core labour standards? Does the government comply with these conventions in practice, regardless of whether they have been ratified Are there measures are in place to ensure and promote the effective implementation of these conventions?
	OECD Guidelines for MNEs	Has the country adhered to the OECD Guidelines for MNEs and related OECD Due Diligence Guidance for RBC? If yes, to what extent do governments align their laws, regulations and labour relations with the Employment and Industrial Relations chapter of the Guidelines?
	International investment and trade agreements	Does the country promote the inclusion of provisions in international investment and trade agreements that raise labour standards, including by referring to ILO's conventions and the OECD Guidelines? Do agreements allow for sufficient domestic policy space and commit the parties to establish institutional mechanisms to monitor implementation of labour commitments?
Domestic regulations	FDI restrictions and wider product market regulations	Are existing regulatory restrictions on FDI periodically reassessed against evolving public policy objectives on job creation and skills development and, where relevant, streamlined or removed? Are relevant labour bodies and social partners involved in such assessments, and are potential liberalisation reforms designed in co-operation with them?
		Does the government ensure that wider product market regulations and competition policy are adapted to foreign investors' entry and operations and that they promote a fair sharing of benefits between firms and workers through fostered competition?
	Labour market regulations and informality	Does the employment protection legislation provide a level of employment stability that encourages learning in the workplace while allowing for enhanced labour mobility? Does the government take into account how labour market regulations affect foreign firms' entry and operations? Are labour market reforms discussed with public and private bodies in charge of investment?
		Is the right to collective bargaining ensured by the law and workers' voice arrangements promoted by the government? Does the right to collective bargaining exclude specific sectors or workers (e.g. foreign workers)? Are existing collective bargaining systems are adapted to a changing world of work and to MNEs' supranational activities? Does the government support global framework agreements between MNEs and global union federations?
		Are other labour regulations (e.g. minimum wage, temporary work, occupational health and safety, child and forced labour, etc.) aligned with international standards? Does the government ensure nation-wide implementation of these regulations, including in special economic zones?
		What measures are in place to protect workers at the margin of the labour force, including in the informal sector and migrant workers, if owing to their situation they are not covered by labour laws or social protection schemes? Does policy have a discouraging effect on employment in the formal sector? Do taxes and social security contributions excessively penalise those in the formal sector relative to the informal? Do regulations discourage operating in the formal economy?
Financial & technical support	Investment and employment incentives	If provided, is financial support, particularly corporate tax relief, which aims at attracting FDI in job-creating or skill-intensive sectors or in regions with low employment rates time-limited and subject to regular impact assessments?
		If provided, do incentives tied to the performance of firms in terms of jobs created, wages or trained workers, including workers of suppliers, aim at addressing specific market failures (e.g. labour immobility)? Are they developed through concerted efforts with all relevant bodies?
	Training and skills development	Are vocational training and skills development programmes developed in line with national development and investment strategies and in partnership with businesses and workers? Is there a unified accreditation system that certifies all programmes? Are training centres established by foreign firms regularly subject to accreditation? Do IPAs work with skills development agencies to identify and support

Dimension	Instrument	Policy questions
		local suppliers of foreign firms with relevant training options?
		Are vocational training and skills development programmes adapted to MNEs' changing skills needs and to rapidly evolving labour markets (e.g. green transition)? Do sectoral training programmes provide transferable and certifiable skills? Are there retraining programmes for displaced workers adversely affected by FDI? If they exist, do pre-employment training programmes help prepare future workers, particularly youth transitioning from school to work, with relevant skills?
Information & facilitation services	Investment promotion and facilitation services	Do investment promotion and facilitation activities information barriers for foreign investors based on the country's skill base and labour market potential? Do they support investors in identifying suppliers with high labour standards? Do they ensure transparency and consistency of procedures for obtaining permits from labour authorities, including permits for foreign workers?
	Public employment services	Do job search programmes and matching services reduce information gaps and lower search costs in labour markets and stimulate labour mobility, particularly of job seekers or workers in communities near foreign firms' activities? Do they support job seekers or workers in vulnerable communities such as lower-skilled workers or youth? Are there mechanisms to support co-ordination between investment and public employment services?
	Awareness raising and corporate disclosure of labour standards	If the country is an adherent to the OECD Guidelines, does the government raise awareness on the recommendations of the Employment and Industrial Relations chapter and is the National Contact Point sufficiently active and adequately staffed? Does the country raise awareness about the content of the ILO's Tripartite Declaration of Principles Concerning MNEs and Social Policy?
		Does the government incentivise companies to disclose their compliance with labour standards, including local suppliers, to facilitate due diligence checks and assess labour risks in supply chain? Does the government also encourages companies to assess risks not only from an issue-specific perspective (e.g. labour), but also across sustainability areas (for instance, do companies' that reducing carbon emissions in order to address the transition risks of climate change also consider potential impacts on workers and local communities to ensure a just transition?).

Note

[1] See OECD's self-assessment tool to help governments strengthen governance of skills systems (OECD, 2020[56]).

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