Is Labour a Factor in Foreign Direct Investment? 
Revisiting the Argument in Light of the Ontario and Quebec Cases

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What levers are left to the nation-state to attract Foreign Direct Investment (FDI)?


But focus principally on R+D, high tech -- relative absence of attention to labour quality/talent and to labour as a political actor

However, with relative increase in importance of efficiency vs market and resource seeking MNC investment strategies has made labour cost but also productivity and quality more significant (Centre for the Study of Living Standards, 2008)

“Therewhile firms, and particularly transnational corporations can choose amongst an international array of locations, what differentiates those locations are their respective regional labor markets” (Christopherson and Clark, 2009, 34)

While the Welcome Mat is almost always present, access to regional markets can come at varied costs and must contend with the socio-political forces present in these territorially specific regional labour markets
## Ontario and Quebec FDI project

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<th>Interviews (number)</th>
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Evidence for differing explanatory perspectives I

(i) Neo-classical economics – labour as a ‘factor’ of production – narrow cost/productivity/skill focus

“Productivity tends to be lower in Mexico because of it's much cheaper labour costs. So, why would we invest in the - to the same extent in capital? You might have a couple more people doing the same job versus in Canada and the northern US, because of the higher costs of labour, productivity has to be part of the answer, or capital investment has to be part of the answer (Ontario, MNC, 10 February, 2015)

In fact, why locate in any high-cost location?

Caterpillar in London, Ontario closed when the UNIFOR union refused to sign a new collective agreement halving wage rates.
Evidence for differing explanatory perspectives II


K-W: The fact that you've got the talent pool, especially in southern Ontario, must be something that - you can go to firms and say look, we've got the people who can do this work. That's why a lot of them are here. Use the Google example in Waterloo. It's a prime case. (Toronto 12 February, 2015)

Ottawa: We have a bit of an automatic retention in the sense that people like to live in Ottawa. You have Federal Government benefits [so] you give up a lot to jump ship and go. We've had people who have been pulled away to California, it always looks sunnier, and we've had people come back. (Federal R+D centre, 20 February, 2015)

Sorel-Tracy, a traditional industrial location, focused inter alia on upgrading its social infrastructure (parks, cycle paths, quality of leisure activities) in order to attract the technical competencies required in advanced metal-working.

However, little attention to state policies underlying many of these advantages.
Evidence for differing explanatory perspectives III

iii) Global Production Networks (GPN) Coe et al, 2004; MacKinnon, 2012; Coe & Yeung, 2015) = importance of state/ regional institutions in ‘strategic coupling’ with TNCs

Focus is on regional specific assets such as skill, co-cooperativeness and other labour qualities emphasized in three activities of the value process:

- **Value creation** = transformation of materials & inputs into new products & services, primarily through firms, but role of extra-state actors in subsidies, indirect investment (infrastructure/education) and skill development (training)

- **Value enhancement** = addition of tangible & intangible inputs to existing goods or services ex. techno & organizational innovations / transfers, upgrading suppliers

- **Value capture** = capture by local actors of more value and retention in a region through territorially specific relations of production ex. Higher value segments of GPN value chain

While there is recognition of some state role in each activity, much more detailed analysis of actual state labour market policies and of the cross-cutting nature of political contention is to locate labour as a factor in the attraction/retention of FDI
The State of Labour: Canadian, Quebec and Ontario policies

Federal and provincial policies outcome of long debates/conflicts

Federal- increased decentralization of labour market policies after 1980s

But still significant role in skilled immigration policy

Investment attraction strategy highlights skilled/educated labour ‘most highly educated workforce in the world’
Que/Ont institutional context

Quebec-key role of post 1960 Quiet Revolution/Sovereignist Movement
Cross-class coalition – labour as social partners on FDI
Control of immigration and training tax
Thick meso-institutional framework: sector training councils, sub-regional
development forums and agencies
Strong state presence in key resources: hydro-electricity, public pension
investment

Ontario Liberal/NDP 1985-1995 –’progressive competitive’ model
Transition to high skill high value added model (People and Skills in the New
Global Economy, 1990)
Sector training councils, investments in post-secondary education, Centres
of Excellence programs
Control of labour market programs (2005)
Creation, enhancement and capture of value strategies within GPNs: Importance of higher education, skilled immigration

Then you have the universities and the colleges that are generating new talent. In terms of the talent side, we do the assessments of the universities, what type of graduates they're putting out, what type of barriers within [STEM] that they're focused on, big data is a big portion right now, interactive digital multimedia, so gaming and other interactive digital media is an area of focus. (Ottawa, 19 February, 2015)

So the fact that Waterloo is such a hotbed for generating engineers, computer software, computer engineers is a huge draw. They always want to see the universities. Our college is really aggressive in working with industry, so there's potential synergies there. They often see the university, they tour our research centres like the CIGI

It's really a growth area because the synergy between the academic environment and the research and the more applied research environment as we have is much stronger there. So you're growing that capability all the time through new academic research and a large number of research chairs in photonics over at the University of Ottawa. So that whole ecosystem. (Ottawa, February, 2015)

All the companies you start have to acquire talent from somewhere. If everybody pirates from everybody else, you've got a limited talent pool. So there constantly needs to be new blood coming in and with new blood comes new ideas and new energy and new motivations and all those other good things. Whether it be through immigration or otherwise, you must feed the bottom end of the system, because at the end of the day that is what breeds success, it's your employees.
Value Enhancement through training & technical expertise

Il y a déjà un bon système de formation. Et ils peuvent en obtenir de la part de la commission des partenaires. Mais vu que cela est une baisse d’emplois, il y a des aides gouvernementales qui vont accompagner la formation sur les nouveaux procédés (Union respondent, 2012)

Emploi Québec est un avantage pour la province de Québec. Le ministère de l’éducation intervient également. L’exemple du campus d’Ubisoft. Ubisoft a demandé au gouvernement que le ministère de l’Éducation coordonne la formation au niveau des techniciens avec les cégeps et les universités. Emploi Québec et le ministère de l’Éducation complètent donc les formations au besoin des nouveaux employés (Quebec Fund Manager, 2012).

Major MNC re-investments were made in the Sorel-Tracy and Saguenay regions because of specific technical and technological expertise in processes that do not exist elsewhere (ex. higher rates of recuperation of residual materials in metal transformation)
Low labour turnover, higher unionization facilitates human capital development

Labour turnover is also much lower than in the States. It’s a cultural thing. People tend to associate with a company and to stay there longer. (Federal government official 24 February, 2015)

In Quebec, we also have low employee turnover where language issues become an attribute which means more limited mobility. That is a huge attribute. Ex. even in Ericson in Mtl, in Dallas, they lost an engineer after 18 months which is part of the US culture. Quebec employees are more loyal (Quebec MNC subsidiary, 2011)

So for us the calibre of the workforce. We have very low turnover in Canada. I'm not sure what the turnover is in Mexico, but my perception is that it's more of a challenge In Mexico because you've got these big industrial sites and people... Turnover is very consistent for us. Quality is a factor. You can't say you have to come to Canada for quality but quality is definitely something where marginally we're ahead of them and productivity we're much better than Mexico. (Ontario MNC subsidiary, 10 February, 2015)
Positive industrial relations through long-term agreements and flexibility

Le syndicat comme un partenaire d’affaires. Il encourage la signature de conventions collectives à long terme, de manière à assurer une paix industrielle et une stabilité des coûts de main-d’œuvre. Dans ce cas-ci, le syndicat est un atout pour la direction locale. L’accès aux sources de financement « gouvernementales » est d’autant plus facilité par la bonne relation qu’entretient le syndicat avec sa direction locale. À l’inverse, le second point de vue dresse un portrait moins élogieux du syndicat. Les résultats des négociations collectives peuvent limiter la flexibilité de l’entreprise, notamment des équipes de travail. Le droit de gérance de la direction locale est ainsi limité.

For us the flexibility of the workforce and we've seen that in the last - I'd say the last two labour contracts have made substantial steps forward in the flexibility of the workforce in terms of scheduling hours. Because I think the challenge for all the companies is once we install all the capital equipment in the plant is how do we run it at maximum capacity. In the old days, we would have had very prescriptive labour contracts that would have said you have 10 job classifications and only that person can work on that job and if they didn't want to work on Saturday, that's it, too bad. Whereas now, we've really streamlined and reduced the number of job classifications. There's much more overlap.
Value capture

A) Higher segments of the value chain:

We’re not looking to attract low-level manufacturing and resource extraction jobs and that sort of thing. It’s not necessarily what we’re interest - so attached to that, I guess, if you’re looking pan-sectorally - you don’t start digging into the specific messaging for specific sectors - Canada has a very strong talent pool. I think if you really boil it down to the big things that Canada tends to be forward is, one, we’ve got a stable economy, a stable bank system, and talent. I’d say those are probably the two biggest ones (Federal government, 24 February, 2015)

What differentiates us from our competitors, why does IBM find value [here]? because its not because of our costs because the labour costs in Canada are more than they are in China or in Taiwan (Quebec respondent, 2011)
Value capture

B) Political contention in relation to scarce resources

C) Political contention in relation to legitimacy of public policies

Quebec metal industry relies on access to low-cost electricity: participation in and MNC attention to the specific relations of production in that territory is a condition of that access and this includes a range of counterparts: participation in meso-institutional arrangements (sector councils, regional economic forums, ...) and macro-institutional arrangements (quasi-corporatist bodies, legitimacy issues with regard to public policy)

Ontario auto industry was able to mobilize the effects of a strong union presence in the industry to reinforce the case for public support for new auto investments

MNC subsidiary managers are able to use their embeddedness in these arrangements to construct their case for re-investment and greater value capture in relation to their activities within the MNC.
Discussion

State strategies around labour key to value creation, enhancement and capture of higher value segments of GPNs

Product of prolonged debate and at times conflict

Organized labour more prominent in Quebec case, but significant in initial development of high skill high value added strategies in Ontario and automotive investment

But problems of underfunding of higher education, security and employment tensions around skilled immigration, and increasing international competition for FDI
Conclusions

Need to pay closer attention to development of state strategies and political contention around labour in attracting FDI

Not a product of administrative fiat but embedded in struggles around state policy formation which can be both contradictory and serendipitous

Canada has been successful in using policies around labour in attracting FDI in higher value added segments of GPN

But less a formal strategy than a product of conflicting demands within Canadian federalism and labour’s role in policy formation in Ontario and Quebec

Contradictions and tensions may not make these policies sustainable. Yet, the notion of smooth uncontested state strategies, not subject to contention by multiple actors, runs counter to our evidence. Is not such contention that pushes subsidiaries, often bound up in short-termism, to engage in policies more likely to secure more sustainable advantage?