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# Einführungsreferat
Introductory Notes

## Investitionsstrategien, Arbeitsbeziehungen und Standortentwicklung - Erfahrungen zwischen Mutter- und Tochterunternehmen

Investment Strategies, Industrial Relations and Relationships between Parent Companies and Subsidiaries

**5. Internationale Konferenz der Otto Brenner Stiftung vom 17. bis 19. Mai 2004 in Prag**

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# The Effects of German Direct Investments on the Processes of Location Development and Industrial Relations in the New EU Member States

## Introduction: The Environment of the EU-Enlargement

Many people fear that due to the Eastern enlargement of the EU the European Social Model will be threatened by economic and social dumping.
But fears emerge too when looking at the EU integration from an "Eastern" point of view: Are we going to be competitive enough to preserve our jobs in spite of increasing labour costs? Are we going to become the poorhouse of Europe, second-class EU citizens, etc.? There are two things that I would like to make clear: firstly, **the European Social Model is indeed under pressure**, but this challenge is not imposed on it by the EU enlargement. The opening of EU markets has begun long before the fall of the Iron Curtain. Since that day, almost all of the restrictions on the free movement of goods and capital have been removed and borders became pervious also for illegal migration. The negative powers that could threaten West Europe were unleashed fourteen years ago.
Secondly, the EU enlargement should rather be viewed as an attempt to integrate the less developed parts of our continent in order to be able to get the "destructive powers" of competition under control. Looking at it from this perspective, we would see a win-win-situation, where each party benefits from the progress of the other and that would increase the competitiveness of Europe in the global level. For globalisation is the real challenge that Europe is facing. To say it clearly, the European Social Model is not endangered by Poland or the other Central Eastern European (CEE) countries but by China and the USA. Additionally, history has shown that competition is the relevant driving power of development. But capitalism and competition can be tamed and controlled on the basis of shared values. This is what the EU enlargement is about.

At the same time, we have to make sure that the EU enlargement does not become a one-wayroad. Enlargement is going to stimulate reforms in West Europe which are essential to strengthen its global competitiveness. Countries, like Germany and France, that are changing rather slowly, are going to face an increasing pressure to make reforms. Making old and ossified bureaucratic structures and control mechanisms more flexible and less severe seems to be overdue anyway. It is globalisation that makes it necessary. The EU enlargement is nothing but a possible solution and opportunity to go about the reforms that have been protracted. Doing so, it is important to speed up these reforms in a way that the basic achievements of the European Social Model are not undermined.

## 1. Foreign Direct Investments (FDI) and the Development of the Industrial Landscape of CEE Countries

Privatisation and FDIs have lead to spectacular changes in the industry of CEE countries in recent years. The eight CEE countries have absorbed FDI in a total value of 117 billion US dollars until the end of 2003. Three of these countries have benefited the most from this development: Poland approximately 40 billion USD, the Czech Republic 32 billion USD and Hungary 29 billion USD. Slovakia has been in an intensive catch-up process in the last few years. As a consequence, productivity grew massively in these countries albeit to different degrees as shown in table 1:

*Table 1*
***Development of the industrial labour productivity until 2000***
*(data in per cent; 1989 =100 %)*

| CZ | SK | HU | PL | SL | RO | BG |
|---|---|---|---|---|---|---|
| 131,2 | 122,2 | 220,2 | 187,5 | 151,5 | 101,2 | 118,9 |

Source: WIIW 2002

A comparison of the data concerning the level of productivity of the accessing countries achieved by 2001 (table 2) shows that Hungary took the leading position with 70 per cent of the average of the EU-15 followed by Slovakia and the Czech Republic. Taking the development of real wages into account it becomes obvious that the high level of productivity results in some countries mainly from the relatively low level of wages.

*Table 2*
***Labour productivity (LP) / at purchasing power parity for the GDP / (LP) real wages in the industries of the candidate countries in 2001***
*(data in per cent; EU-15 = 100 %; wages at purchasing power parity)*

| | CZ | SK | HU | PL | SL | RO | BG | EE | LV | LT |
|---|---|---|---|---|---|---|---|---|---|---|
| **LP** | 58,56 | 62,1 | 71,3 | 48,5 | 47,5 | 27,1 | 29,2 | 29,8 | 24,5 | 28,9 |
| **wages** | 51,9 | 42,2 | 46,5 | 52,7 | 76,6 | 24,8 | 25,6 | 37,7 | 28,3 | 34,7 |

Source: WIIW 2002; based on internal calculations

From the point of view of potential investors, unit labour costs are just as important as the combined factor of productivity and labour costs when calculating competitiveness. Unit labour costs varied in 2001 from 20 per cent of the EU average in Slovakia to 66 per cent in Slovenia. This fact enabled CEE countries to increase their export performances in recent years. The total volume of exports of the ten accessing countries tripled between 1990 and 2001. This of course, leads to increasing competitive pressure.
The structure of industrial exports to the states of the EU-15 has substantially improved in respect of quality. The share of labour intensive sectors decreased while high-tech sectors employing highly skilled personnel increased fast. Regarding Hungary, the share of high-tech sectors in the total volume of industrial export grew from 20 to 50 per cent between 1995 and 2001, while the share of labour intensive sectors decreased from 20 to 10 per cent. All in all, it shall be noted that the Czech Republic, Slovakia, Slovenia and Hungary have a smaller share of labour intensive EU exports than Greece or Portugal. These facts show clearly that the industrial and investment landscape of Europe is undergoing dramatic changes.

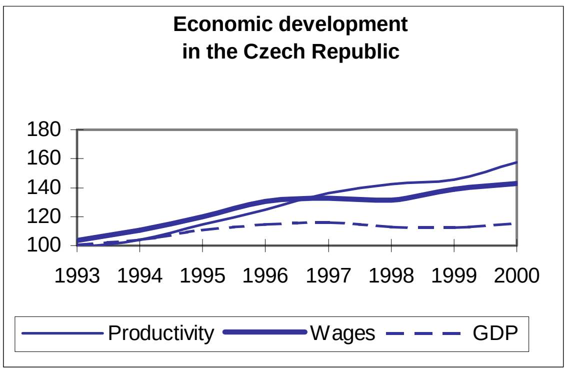
## 2. Social Price of Transformation – Wage Development and Productivity

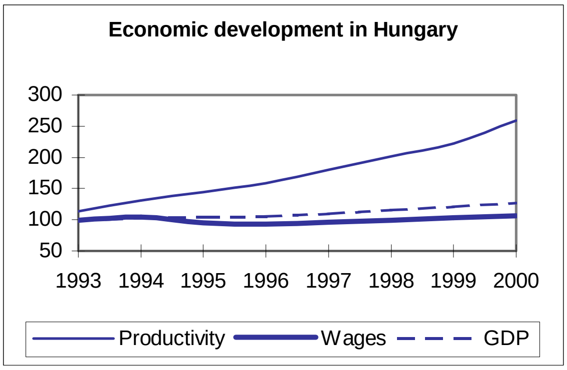
One should not forget that these counties had to pay a high social price for the successful transformation. In Hungary for example, more than one million jobs were lost in the wake of the transformation process, even though the labour market situation of this country is better than that of the other states. The employment level fell initially from almost 70 per cent to a low of 52 per cent and increased again somewhat by the middle of the 90ies to the present level of 57.5 per cent. Taking a closer look at the wage development shows two important facts: firstly, wages are low not only if compared to EU-wages, and secondly, the development of wages lags behind the development of industrial productivity. This phenomenon was particularly characteristic for the core period of the structural transformation between 1993 and 2000. Chart 1 shows the development of these factors in the Czech Republic, Hungary and Poland.

It is obvious, that especially in Hungary, the development of wages was much slower than the increase of productivity during the period of ”accumulation”. These data are clear indicators of the social price people had to pay for the successful transformation and modernisation. Interestingly, Slovakia has been showing the same characteristics since 2000.
Hungary has left this critical period behind. The average gross wage has increased from 350 Euros to 578 Euros since 2000. This fact has been subject to severe criticism articulated by the EU Commission and different experts. Hungary has, however, not yet exhausted its productivity reserves accumulated in the past. This wage development seems to be enormous, but this data is deceptive for the Hungarian currency (HUF) has been appreciated. Thus, increase in real wages was considerable but was not that ”dramatic” as it might seem at the sight.
Charts 2 and 3 show the average gross wage level of CEE countries compared to the EU-15 in Euro at exchange rate parity, and in Euro at purchase power parity (PPP).

*Chart 1*

***Wage development and economic development*.**





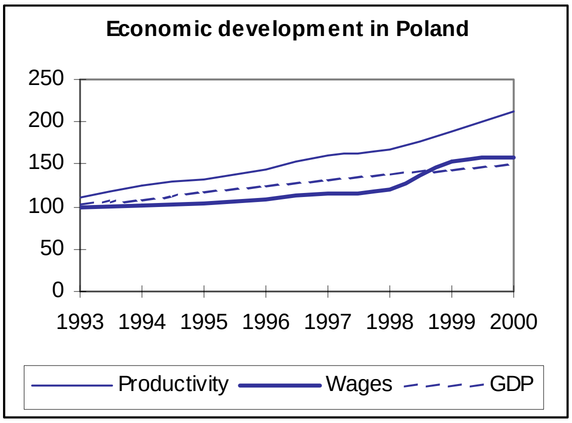
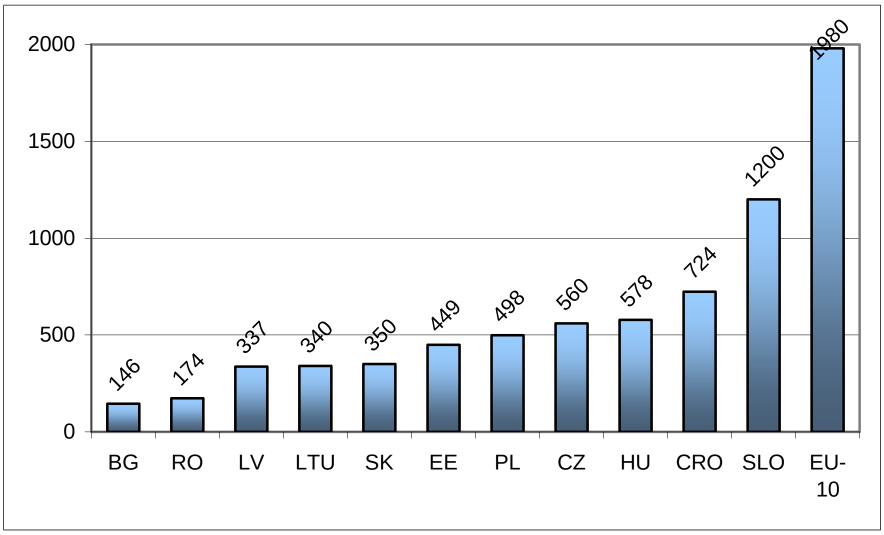




*Chart 2*

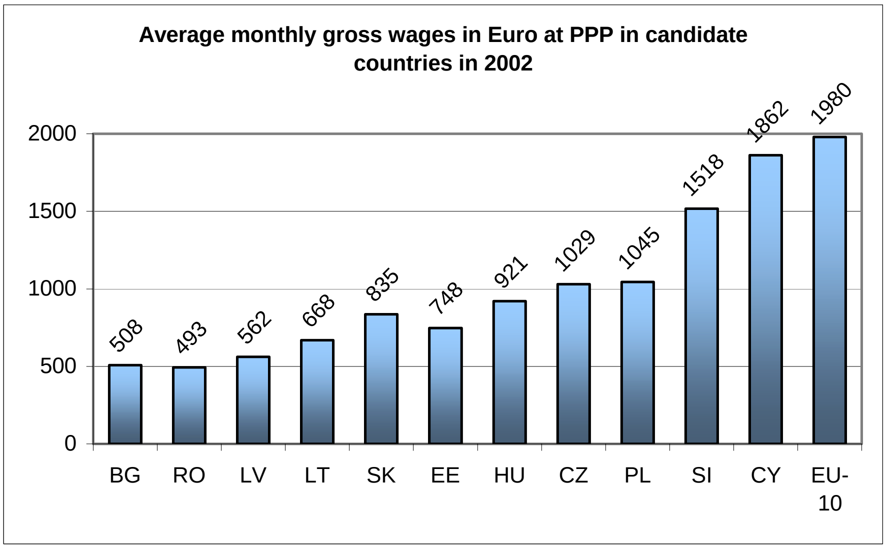
***Average gross wages in Euro in EEC countries at the end of 2003***




source:: EGI 2004, for CRO WIIW (2003)

*Chart 3*

***Average gross wages in Euro at PPP in CEE countries in 2002***




Note: EU-10 covers DK, DE, ES, FR, IRL, NL, AU, PT, FI, UK.
Source: WIIW *Statistical yearbook on candidate countries, 2003*

Figures concerning wages at PPP are important indicators when comparing the standard of living in single countries. Based on this data, five of the CEE countries have higher rates than Portugal. Numbers at PPP are decisive when talking about a potential influx of migrants.
When evaluating location factors, wages at the exchange rate parity have to be looked at. It shall be noted in this context, that wages increased considerably in CCEE countries in recent years. Wages have almost doubled in Hungary in the last three years and Estonia too shows considerable increase in wages from 285 Euros in 2000 to 449 Euros in 2003. To this effect, the dynamics of wage development in some CEE countries shall be paid attention.

*Table 4*
***Dynamics of wage development in three CEE countries (gross wages in Euro)***

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | Change (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BG** | 106.6 | 76 | 87 | 63.6 | 66.6 | 97.7 | 102.7 | 115 | 123 | 139 | 146 | 37.7 |
| **HU** | 252.7 | 267 | 239 | 245 | 271.5 | 281 | 305.3 | 337 | 403 | 504 | 578 | 129 |
| **CZ** | 170 | 202 | 238 | 284 | 298 | 323 | 344 | 379 | 430 | 509 | 560 | 229 |

Source: WIIW database 2003, ETUI 2004

The average wage in 1990 amounted for example in Hungary to approximately 120 Euros. That means that wages have increased at Euro basis almost to their fivefold amount during the transformation process. (Real wages have not increased so significantly when analysed at the national currency.) It is obvious that such a development would not have occurred under normal circumstances. This process is the result of an increase in real wages and the appreciation of national currencies compared to the Euro. These facts have to be considered when discussing wage dumping. On the other hand, it is true that unit labour costs have dropped in many cases in spite of the considerable wage development and thus, the competitive potential has grown.

An other important factor of competitiveness is the hourly wages shown in table 3.

*Table 3*
***Labour costs per hour in Euro in 2003***

| CZ | SK | HU | Pl | DE | USA | Jap | F | Esp | Ita | ZA | China |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 6.1 | 5.4 | 7.8 | 7 | 33.1 | 27.4 | 28.6 | 22.7 | 17.8 | 15.4 | 7 | 7 |

Source: Frankfurter Allgemeine Zeitung January 29th, 2004. Data on Western Countries, CEE countries, South Africa (ZA) and China of the VAG Group

## Industrial environment in CEE countries- a few conclusions

**Cheap labour** still plays an important role but the tendency shows that it is not the decisive factor anymore. Since conditions became more complex one should be careful with precipitate conclusions.

In the run-up of today's debate, notions like "wage dumping", "social dumping" and "tax dumping" in East Europe are often used. We have addressed questions like: the reasons for cheap labour in these regions and the actual level of wages above. But we have to clarify some issues concerning the thesis of "social dumping". Facts show that social welfare systems of most CEE countries are fully developed, in some aspects even rather generous. (In the early 1990ies, János Kornai talked about the "premature welfare state".) Social benefits i.e. in the field of family and maternity support are more generous in CEE countries than in Western countries. CEE countries are more advanced at reforming their pension schemes than some of the EU-15, like France or Germany. Though, the actual financial level of the single benefits in CEE countries is lower than in the old EU-states for benefits are linked to wages. With certain exceptions, the proportional share of social benefits in the GDP is as high as that of the EU-15 countries.

Corporation tax is an important factor regarding "tax dumping". However, it plays only a minor role if it comes to investment decisions for it is relatively easy to manipulate by applying transfer prices. Taking a closer look at the total tax burden including payroll tax and social security taxes shows that the CEE level is not at all lower than it is in the countries of the old EU albeit there are considerable differences in both groups of states. Selecting the numbers of single countries like Estonia or Slovakia and generalizing them for the whole region could lead to wrong conclusions. These numbers support the line of arguments for a kind of a harmonisation of taxes - the minimum tax rate in particular - within the EU region. It shall be noted here, that CEE countries have largely waived their rights to tax relieves by accessing the EU. There are of course a limited number of transitional arrangements and the effects of former agreements will tail off in time. The accession has in principle contributed to bringing these instruments and other forms of government subsidies into line with the EU practice.

It is also very important to mention that accessing countries are shouldering a great burden after having agreed to adopt the “acquis communautaire”. Against this background, the financial support coming from the Structural Funds of the EU (a total amount of 42 billion Euros for the ten accessing countries until 2007) can only be regarded as a symbolic aid when compared to the amount necessary for environmental investments. However, the support financed by the Structural Funds is granted for harmonising environmental standards and not to fill the budget gaps that emerge due to alleged “tax dumping”.

## 3. Investment Strategies, Transnational Enterprises and the Second Wave of Structural Transformation in CEE Countries

The large wave of foreign investments attributable to privatisation has been completed in most countries of this region. Thus, the flow of foreign capital slackened except in such countries where the opening of markets and restructuring measures were delayed, like in Slovakia where FDI has only started to increase in the past few years.
There are, however, new processes that develop in parallel. The industry of Europe is going through a reorganisation process. New industrial networks emerge, companies merge streamlining their structures. Nobody expects that the accession of CEE countries is going to trigger a new wave of direct investments, at least not among large enterprises. An increase in investment activities of small and medium-sized enterprises (SMEs) is rather probable since these companies are more likely to benefit from low transaction costs.

**Qualitative changes in FDIs** are more important than their volume. Since the second half of the 1990ies, we have been witnessing a process in Central East Europe that is often referred to as “the second wave of structural transformation”. The specialisation of FDI has gradually shifted **from labour intensive mass production with little value added at low wages to high-skill and high-tech activities with high value added**. At the same time, more and more production plants that are based on cheap labour are being relocated to countries further East in most cases to China.

Against this background, it is foreseeable that Central East Europe cannot rely on cheap labour as its only competitive advantage in the long run. This wouldn’t be a forward-looking strategy anyway. CEE countries will only get an opportunity to get integrated into European up-market industrial co-operations if an increase in value prevails over job processing. There is evidence that this development has already started inasmuch as the quality of human resources at a certain location is becoming a more and more important factor for foreign

investment decisions. This positive tendency is also shown by the fact that more and more transnational enterprises relocate their research and development bodies to Hungary, the Czech Republic or Poland (Alcoa, Audi, General Electric, Philips, Siemens, Nokia, pharmaceutical and IT enterprises).
Looking at it from this point of view, it is worth while coming back to the issue of industrial environment in the CEE countries. The conventional cliché of ”centre and periphery” says that in the classical division of labour peripheral regions have the following characteristics: low wages, low level of productivity, low-skilled human resources. This cliché has never really applied to CEE countries. One of the advantages of CEE countries has been the relatively high qualification of their workforce since the very beginning. There were of course some distortions regarding the qualification structure due to the social industrialisation of these economies.
Since the middle of the 1990ies, there has been a considerable change in this respect. CEE countries have a large pool of highly qualified, innovative and flexible labour. This factor plus the wage level that is still rather low make up one of the most important competitive advantages of this region. Studies have shown that the lack of highly qualified labour in some countries of the EU-15 was one of the reasons for enterprises to decide in favour of relocation.

## 4. Trade Unions and Labour Relations - Weakening of Organisation during the Transformation Process

Czechoslovakia was the only one among the “Visegrád-countries” where old trade unions have been completely reformed or replaced by new organisations during the transition period. The level of unionisation of CMKOS for example, fell during the 1990ies from the initial level of 80 per cent to 30 per cent. Trade union movement in Poland is characterised by the rivalry of two trade unions: the Solidarnosc, the reform trade union with religious affiliation and the OPZZ, the traditional trade union with party-political affiliation. The mutation of the trade union Solidarnosc to a political party has weakened its position as a representative of the interest of labour. It even came into a conflict whenever debates emerged at the plant level. The Hungarian trade union movement is absolutely disunited. There are six competing trade union confederations. However, Hungary took an other course than Poland. The old Hungarian communistic confederation SZOT has undergone a reform process. Its successor organisation, the MSZOSZ initially had 720000 members and was firmly entrenched in the workforce. (It got 50 per cent of the vote in the works council election in 1993). This confederation still dominates although the number of its members fell year by year.

*Table 5.*
***The most important umbrella organisations of trade unions***

| **Country** | **Trade Union Umbrella Organisations** |
|---|---|
| Poland | Solidarity (NSZZ Solidarnosc)<br>OPZZ |
| Czech Republic | Czech Moravian Trade Union Confederation (CMKOS)<br>Association of Independent Trade Unions (ASO)<br>Trade Union of Bohemia, Moravia and Silesia (OSCSM)<br>Confederation of Arts and Culture (KUK) |
| Hungary | Autonomous Trade Union Confederation (ASZSZ)<br>Confederation of Professional Trade Unions (ESZT)<br>Democratic League of Free Trade Unions (FSZDL)<br>National Federation of Workers' Councils (MOSZ)<br>National Confederation of Hungarian Trade Unions (MSZOSZ)<br>Forum for the Cooperation of Trade Unions (SZEF) |

source: EU Commission (2002): p. 93

## Co-operation Instead of Confrontation

In the first phase of transformation, people were faced with cuts in real wages by one third, and with unemployment that increased from 0 to far over 10 per cent. Given this social hardship, the calmness of trade unions of these four countries was distinctive. There were hardly any industrial actions or acts of protest. A good example is the austerity programme introduced by the Hungarian government in 1995. Employees had to put up with a 12 per cent cut of their real wages and trade unions did not take any action whatsoever. The same applies to the Zeman administration in the Czech Republic.

Thus, it can be established that the role trade unions in CEE countries played during the transformation process significantly differd from the role of Western trade unions. Western unions' priority is to protect the interests of employees by negotiating and signing collective bargaining agreements which stipulate wages, social security payments and working conditions. Trade unions of these four CEE states rather played the role of a kind of "multi-functional social actors" in their countries. Given the basic dilemma of confrontation and co-operation in the trade union strategy, they decided for co-operation, however, they have not managed to achieve significant improvements for their members and other employees.

Trade unions played in the first place a political role during the transformation process and thus, they took up an old communistic tradition. In addition, they have neglected their function of shop-floor and social protectors. Their severe problem of legitimation is rooted in this attitude. These unions are perceived by the population as a relic of old times. Unions lost a considerable part of their members in the 1990ies and this tendency does not seem to change. The level of unionisation decreased from between 80 and 90 per cent at the beginning of the decade to 30 or even below 20 per cent at present.

*Table 6.*
***Level of unionisation and coverage of bargaining agreements in 2002***

| state | coverage of collective bargaining agreements | level of unionisation |
|---|---|---|
| CZ | 25-30 | 30 |
| HU | 45-50 | 22 |
| Pl | 10 | 15 |
| MT | not specified | 60-70 |
| SK | 50 | 40 |
| SL | almost complete | 41,3 |
| EE | not specified | below 15 |
| LV | below 20 | 30 |
| LT | 10-15 | 15 |

*Source: EIRO on-line 2003, ETUI 2003*

It is a fact that trade unions in CEE countries had only a minor influence on the development of corporate cultures in their countries. It can be concluded that the weakness of their organisations was not the only reason for it. They set other priorities and had a self-image that was not primarily shop-floor-oriented.

It should be pointed out that the notable wage gain in CEE countries in the recent period was established in an environment of weak trade unions and low wage demands. Thus we have to assume that other factors have also played a role in this development. It is obvious that processes of wage development got their own dynamics. Thus, the plain conclusion that a weak social dialog leads to social dumping seems to be somewhat precipitate.

An other interesting phenomena is that while sectoral collective bargaining agreements come under increasing pressure of the German government, in CEE countries sectoral agreements are supported from above not only by using national but also EU funds. And indeed a positive development could be observed in recent years although opposite tendencies are still rather strong. (There are enormous differences between the economic situation of single companies within the same sector and employers' associations oppose sectoral collective bargaining agreements.)

**The main obstacles to well functioning labour relations** in CEE countries are:

- relatively weak position of trade unions as a consequence of:
  - problems of legitimation
  - conflicts emerging from trade union pluralism
  - decreasing level of unionisation
  - a lack of strategies when dealing with SMEs and new economic structures
  - exaggerated political engagement on the national level in particular
- diversification of employers' organisations that are half-hearted when it comes to their engagement in the social dialogue
- distorted structures of the social dialog
  - oversized national level (tripartism)
  - weak sectoral structures
- the dual system of industrial relations that did not emerge through an organic ripening
- functional errors in the relation between works councils and trade unions.

One advantage of trade unions of CEE countries over unions in the EU-15 are their diverse experiences with rapidly changing situations.

## Representation of shop-floor interests and co-operative industrial relations

The union system of CEE states on the shop-floor level also differs considerably from that of the EU-15. While approximately 70 per cent of employees are covered by sectoral collective bargaining agreements in West Europe this rate amounts to a mere 10 to 20 per cent in CEE countries. The basis of trade unions in single works have eroded mainly during the privatisation process and the liquidation of state-owned enterprises. This process seemed to be unavoidable given the economic conditions and the weak protecting function of the labour legislation.

The dilemma of co-operation and confrontation appears on the shop-floor level too: Representation of interests is done according to old traditions, where trade unions used to be the long arm of the company management. The resulting behaviour pattern and system of values (i.e. identifying with the management) did not prove to be that helpful during the transformation process given the new economic reality. Old co-determination models (based on an ideology of self-administration of companies in Hungary and Poland) were abolished during the process of privatisation. Introducing works councils in Hungary in 1992 could not establish a new system of co-determination. The reasons for it are that works councils were not given enough authority and their relation to the respective trade unions is rather problematic.

No general tendency can be established concerning the **representation of interests at works level** in the 1990ies. CEE countries took different courses:

Poland: The monopoly power of trade unions in companies is codified in the legislation. There is no majority for the idea of a works councils model in the Polish society.

The three Baltic countries stand for a monistic model.

Hungary: Introducing works councils in 1992 creates a dual system of representation of interests that is dominated by trade unions.

Slovenia: A dual system of representation of interests was introduced in 1993.

Slovakia: The dual system has been applied in the past years.

Czech Republic: By introducing a new labour code, Czechia took a completely different route that had not existed in Europe before. It is often referred to as the "Czech model". Plant employee representation remains monistic. It is either done by a works council (as long as no trade unions are represented in a company) or by the representation of a trade union. The works council of a plant has to resign as soon as a trade union representation is established. This system is only going to have a future if trade unions seize this opportunity.

*Chart 4*

***Plant employee representation in CEE countries***

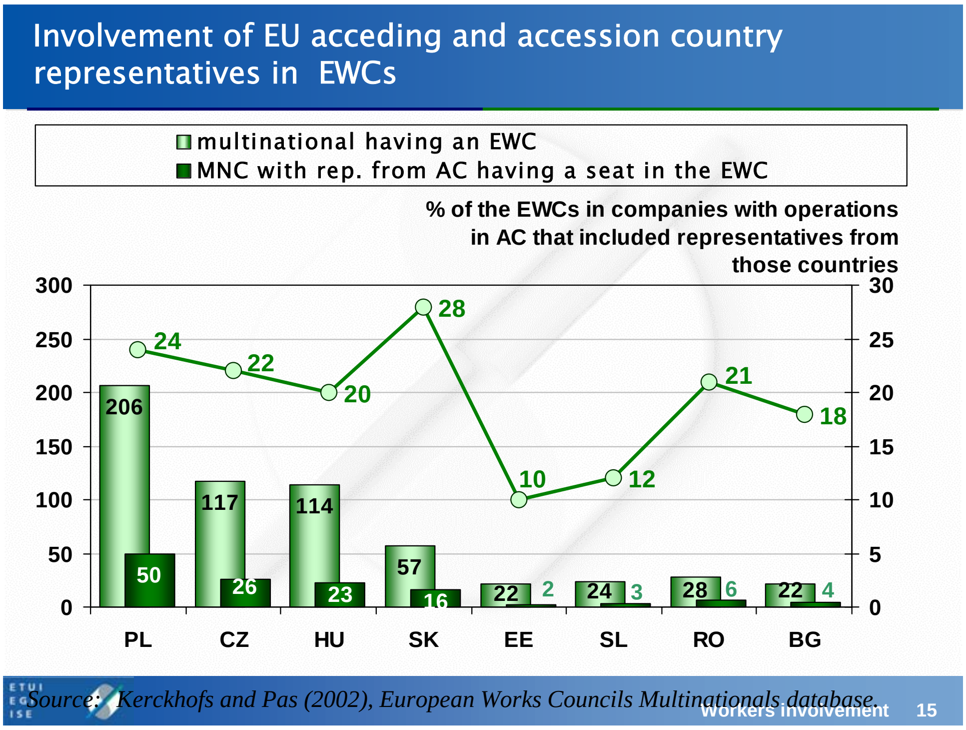
National workplace IR in ACC + CC

| | Dualistic Model | Monistic Model | Monistic with complementary channel for non-TU-companies | | Inform. | Consult. | Codeterm |
|---|---|---|---|---|---|---|---|
| SLO | WC+TU | | | | Y | Y | Y |
| HU | WC+TU | | | | Y | Y | Y |
| CZ | | | TU | Empl. council | Y | Y | Y |
| SK | WC+TU | | | | Y | Y | |
| PL | | TU | | | Y | Y | Y |
| LV | | TU + electd rep. of non-unionised employees | | | Y | Y | Y |
| EE | | TU + electd rep. of non-unionised employees | | | Y | Y | |
| LTU | | TU | | | Y | Y | |
| BG | | | TU | Gen.meeting of empl. | Y | Y | |
| RO | | | TU | Empl.rep. | Y | Y | |
| CYP | | TU | | | Y | Y | |
| MT | | TU | | | Y | Y | |
| TR | | TU | | | Y | Y | |

ETUI EGI ISE Source: ETUI. KEY: y= yes

Key: WC = works council, TU = trade union

*Chart 5*
***Participation of accessing countries and their representatives in European Works Councils***




No doubt, that certain minimum standards of shop-floor information and consultation are going to be introduced in the wake of the accession. But given the present situation, it does not mean that these standards are going to be adopted by setting up works councils and trade union representations nation-wide.

## 5. The Influence of European (German) Enterprises on Corporate Culture and Industrial Relations

In general, transnational enterprises have a positive effect on the development of corporate culture. They bring new technological and management know-how, renew work organisation and promote the labour culture. Most subsidiaries of larger foreign enterprises have sound industrial relations and collective bargaining agreements. Enterprises often adopt themselves to the local conditions. Industrial relations function better in companies that used to be owned by the state and were later privatised and where trade unions have been represented traditionally than in new greenfield companies where it is rather difficult to set up union representation.

Experiences show that there are two main approaches followed by foreign enterprises for shaping industrial relations: The first one is the “adaptive approach” according to which the company management adopts its industrial relations to the traditions and legal framework of the respective country and fulfils only minimum requirements. The second is the “innovative approach” where the management tries to transfer the corporate culture of its own country to the foreign subsidiary. While doing so they do not only change the organisation of the company, the style of the management and the structure of production but also the industrial relations. Saying it in a rather oversimplified way, Asian enterprises tend more to transfer the culture of their homeland. Efficiency is the main priority of American companies. They are willing to accept a co-operative corporate culture if it helps to accomplish this goal but they are not putting extra effort into establishing such a system. European and German enterprises in particular tend to follow the “innovative approach”. However, they adjust their own models to the local circumstances if structures are relaxed and flexible enough to do so.

Last but not least, **dealing with human resources** plays an important role in the corporate culture. The influence of foreign investors can be evaluated as generally positive. Some enterprises caused frustrating experiences by poaching the existing pool of highly qualified labour without investing into any noticeable qualification programme. They tailored the volume of their investment to the locally available human resources and resorted to foreign workers as soon as local sources exhausted. It shall be noted here that plant-intern vocational training structures were destroyed in the wake of the structural transformation when many large enterprises were liquidated or fragmentised. The system of vocational training and further training went through a crisis and has only recovered to some extent in the recent years. Some of these countries had training funds that were financed through training levies paid by employers. These funds have played an important role. Transnational enterprises were also seriously engaged in vocational training and further training.

Some large companies started a co-operation and set up their own common training centres (like Flextronics, one of the largest electronic enterprises, and four other smaller companies).

Previous experiences show that most foreign enterprises do not act as missionaries that do their utmost to transfer their own structures to the CEE countries. They are rather interested in a system that works efficiently and as far as it is possible on a co-operative way given the local circumstances.

## 6. Changes in the practice of transnational enterprises in CEE states

The intensity of competition is mainly determined by transnational enterprises. They adjust their wage policy to the local conditions even in such CEE economic regions where the level of production equals to the EU average. Enterprises exploit differences between single accessing countries. However, “dumping” reserves are declining in this region. Transnational companies are still able to avoid raising wages substantially (corresponding to the development in production) in the Czech Republic or Hungary, where labour reserves are slowly exhausting as long as Slovakia and Poland offer more favourable conditions given the high rate of unemployment in these countries. At present, wages are approximately 40 per cent lower in Slovakia then the Czech or the Hungarian average. Additionally, the Slovakian government offers foreign investors comparatively generous conditions. Major FDI acquired by Slovakia in the last few years will lead to a progress. Thus, Slovakia is going to catch up fast with the other “Visegrád-states”. Reinforced by the EU enlargement, these facts are going to effect wages too. As a result, transnational companies will no longer be able to avoid paying higher wages corresponding to the development of production. This depends on how well employee’s representatives of CEE countries manage to improve their cross-border co-operation in the future. Employees’ representatives have only looked at Brussels and neglected their connections to neighbour countries up to now. Thus, the “Vienna Memorandum” signed recently by metal workers’ unions of Bavaria, Austria, the Czech Republic, Slovakia and Hungary stipulating their will of intensifying co-operation is a positive sign.

All in all, it is foreseeable that a relatively homogenous and integrated labour market is going to develop in Central East Euorpe in the following years and that the pressure on transnational enterprises to revaluate their human resources policy is going to grow. Thus, it would be positive if new EU countries would permanently ensure free movement of labour among themselves.

The Czech Republic and Hungary have only considered introducing restrictions against the EU-15 states on the basis of the reciprocity principle but that would primarily not apply to the accessing countries. The final decision should be made according to the current migration situation.

Here are a few reasons why European transnational companies are going to pay more attention to co-operative enterprise structures including a certain level of co-determination in the future:

- an increase in activities with high value added is going to induce a higher level of worker participation for it will become an additional factor of productivity;
- adopting respective EU directives in national legislations is going to increase pressure on enterprises to comply with them on an everyday basis;
- opportunities to realize short-term profits by taking advantage of low standards are going to vanish due to the consolidation of the labour market and the legislation on competition in CEE states.

Over the medium term, transnational enterprises are going to have only two options in CEE countries: They either pull back from this region or they adjust themselves to the consolidated situation. There are going to be some sectoral differences, but all in all, it is expected that co-operative forms of corporate cultures and employees’ participation are going to result in efficiency gain and are not going to become merely decorative elements.