

Foreign Direct Investment

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Map of the lecture

- Lecture Homepage:
<http://ces.univ-paris1.fr/membre/toubal/M2/fdi/FDI.htm>.
 - The exam consists on an essay.
- ① General Introduction
 - ② Part 1: The Proximity Concentration Trade-Off
 - ③ Part 2: Vertical FDI and the Organisation of the Firm

What Has Happened Since 1994?

- Three major developments in the world economy
 - ① Information and communication technology (ICT) revolution
 - ② Deepening of trade liberalization and continuing transportation cost
 - ③ Political developments expanding the reach of globalization

Information and communication technology (ICT) revolution

- Processing power and memory capacity of computers have doubled approximately every two years (Moore's law)
- Cost of transmitting a bit of information over an optical network has decreased by half roughly every nine months (Butters' law)
- Number of internet users has increased by a factor of 100, growing from around 20 million users in 1994 to more than 2,000 million users in 2010

Deepening Trade Liberalization

- Gradual dismantling of man-made barriers during the 1990s and 2000s
 - gradual expansion of the European Union
 - NAFTA (1994)
 - Mercosur (1991-94)
 - ASEAN FTA (1992-2003)
 - multitude of smaller PTAs under the umbrella of GATTs Article XXIV
 - China's accession to the WTO (2001)
 - expiration of the Multifiber Agreement (2005)
- World's weighted average tariff applied on traded manufactured goods fell from 5.14% in 1996 to 3.03% in 2010
- Technological developments since 1994 have also reduced quality- (or time-) adjusted costs of transporting goods across countries
- Investments in infrastructure in LDCs have also contributed to the spread of globalization

Political Developments

- Fall of communism brought about a remarkable increase in the share of world population actively participating in the process of globalization
- Ensuing ideological shift to the right in large parts of the globe
- Mainstream capitalist policies became more friendly towards globalization
 - trade liberalization
 - relaxation of currency convertibility and balance of payments restrictions

An Implication of These Three Developments

- Gradual disintegration of production processes across borders
- Made in France should now read Made in the World

⇒ Common Feature : Multinational Firms

- Every author has his/her pet word to describe this phenomenon:
 - “delocalization”
 - “slicing of the value chain”
 - “fragmentation of the production process”
 - “disintegration of production”
 - “vertical specialization”
 - “global production sharing”
 - “unbundling”
 - “offshoring”
 - “flattening of the world”

Map of the lecture

- Let's revisit the evidence on the strategies of multinational firms
- Focus on the micro aspects:
 - ① entry into foreign markets
 - ② organization of global production
 - ③ management of the firms and productivity
- Extend to their global impact: growth, employment, economic development...

⇒ Data intensive question

The data

- Needs for detailed firm-worker level data: overall picture and evaluation
- Needs for surveys: Management practices and firm performance
- Needs for qualitative and quantitative analysis

⇒ Combine different micro-datasets mostly from France...

- Workers (DADS)
- Balance sheet (BRN): employment, value-added, sales
- Ownership and Nationality (LIFI)
- Trade information (Custom data)
- Intra-firm trade (EIIG survey '99)
- Location of plants (STOJAN)

... German (MiDi), U.S. (BEA) and Japanese (Toyo Keizai) data as well

Facts 1: The bulk of outward FDI flows between developed countries

Table 2: Regional breakdown of activities of German MNEs, 2001

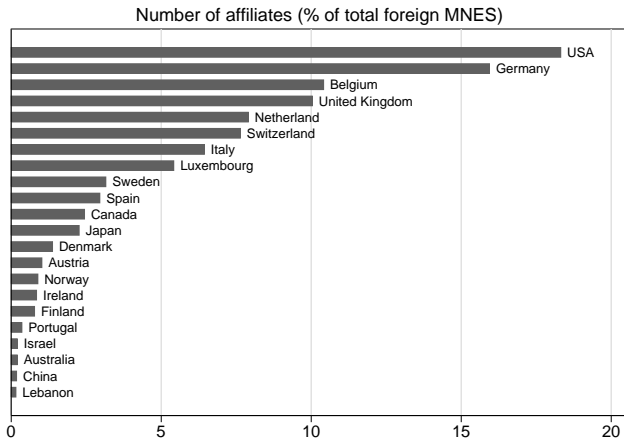
	FDI stocks	Affiliate sales	Employees	Number of affiliates	FDI	Affiliate sales	Employees	Number of affiliates
	(€ mn)	(€ bn)	(1,000)		(%)	(%)	(%)	(%)
Total	699,035	1,347.1	4,558	33,588	100.0	100.0	100.0	100.0
Developed Countries	602,439	1,096.1	2,802	23,333	86.2	81.4	61.5	69.5
European Union	271,793	553.5	1,644	15,362	38.9	41.1	36.1	45.7
United States	286,963	377.4	799	4,046	41.1	28.0	17.5	12.0
Other	43,683	165.2	359	3,925	6.2	12.3	7.9	11.8
Transition Countries	40,515	119.4	964	5,619	5.8	8.8	21.1	16.7
CEECs	29,679	87.1	726	4,414	4.2	6.5	15.9	13.1
China	6,855	22.6	134	661	1.0	1.7	2.9	2.0
Other	3,981	9.7	104	544	0.6	0.6	2.3	1.6
Developing countries	56,081	131.6	792	4,636	8.0	9.8	17.4	13.8
Latin America	31,290	65.3	320	1,678	4.5	4.8	7.0	5.0
Asia	20,569	51.1	338	2,275	2.9	4.0	7.4	6.8
Other	4,222	15.2	134	683	0.6	1.1	3.0	2.0

Notes: The data are taken from the database *International Capital Links* from *Deutsche Bundesbank*. CEECs = Central and Eastern European Countries.

Source: Buch et al. (2005).

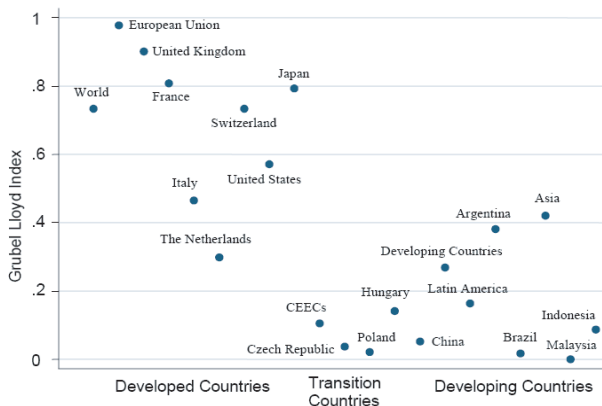
Source: German Data. Buch et al. (2005, Econ. Policy)

Facts 2: The bulk of inward FDI flows between developed countries



Source: French Data. Fontagné and Toubal (2010, CAE)

Facts 3: Two-way FDI flows are common between pairs of developed countries



Source: Buch et al. (2005).

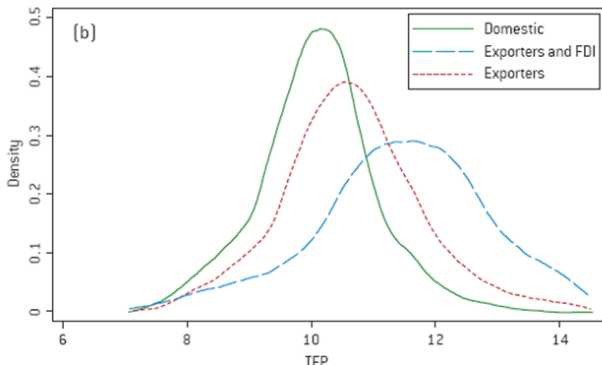
Source: German Data. Buch et al. (2005, Econ. Policy)

Facts 4: Industry characteristics (Markusen (2002))

- The proportion of MNEs is higher in sectors that :
 - have high levels of R&D expenditures over sales
 - employ large number of nonproduction workers
 - produce new and/or complex goods
 - have high levels of product differentiation and advertising
 - feature high productivity dispersion (Helpman, Melitz and Yeaple, 2003)

Facts 5: Firm characteristics

- negatively associated with plant-level scale economies
- positively associated with size, up to a threshold size level



Source: European Data. Bruegel

Facts 6: The few leading the many

TABLE 1 – Contribution of firms to economic activities by ownership structure and year - in France

	# of firms			Jobs		Sales		Value-added		Exports		Imports	
	IND	MNE	FME	MNE	FME	MNE	FME	MNE	FME	MNE	FME	MNE	FME
1999	82.4	14.4	3.3	42.5	21.1	47.0	28.5	42.3	30.4	42.9	40.3	33.7	53.4
2000	82.8	13.9	3.3	41.1	22.3	44.2	33.4	42.6	30.9	42.2	45.2	35.2	53.7
2001	82.2	14.4	3.4	40.6	23.4	42.4	35.5	40.2	32.8	39.3	49.1	31.9	57.1
2002	81.6	15.0	3.4	41.1	23.7	43.5	35.0	40.8	33.0	43.2	46.7	32.5	57.7
2003	81.3	15.3	3.3	41.3	23.6	42.6	34.8	40.5	33.2	38.0	50.2	29.6	59.7
2004	80.8	15.9	3.3	41.9	22.8	43.4	33.8	41.1	32.2	37.2	48.5	30.8	55.6
Average	81.9	14.8	3.3	41.4	22.8	43.8	33.5	41.2	32.1	40.5	46.7	32.3	56.2

This table displays the percentage contribution of independent French firms (IND), French multinational firms (MNE), and foreign multinational firms (FME) to the economic activities of the French manufacturing industry. Figures are based on authors' computations from 4 datasets : BRN, STOJAN, LIFI, and the French custom data. Sales, exports, and imports are expressed in current Euro. The row "Average" is the simple arithmetic average of yearly contributions.

Source: French Data. Kleinert et al. (2015, AEJ)