

# The European Commission's science and knowledge service

Joint Research Centre



# FDI : Antecedents and Implications for Policy

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# The race to the bottom: is it true for all FDI?



## **Race to the bottom:**

Nations lower labour standards to attract FDI

**RQ:** True for all FDI activities?

HP: Lower labour standards attract mainly low skill FDI

# Data and Methods

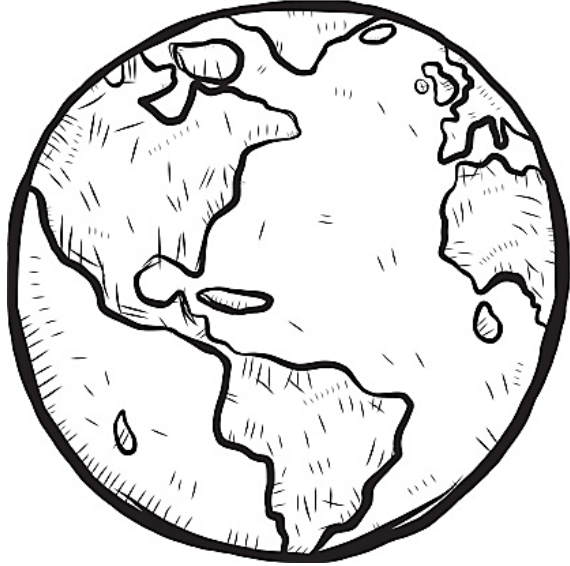
**fDi Market:** Greenfield FDI inflow Manufacturing vs Knowledge intensive (R&D, ICT, E&T, HQ)

**OECD-ILO:** Collective bargaining, non-wage labor costs, skills, controls (GDP capita, tax, patents)

**Count data model (2SRI)**

$$FDI_{cj,t}^k = f_{cj,t}(Barg, LAC, Skill, x, FE)$$

# fDi in KI activities



More skilled

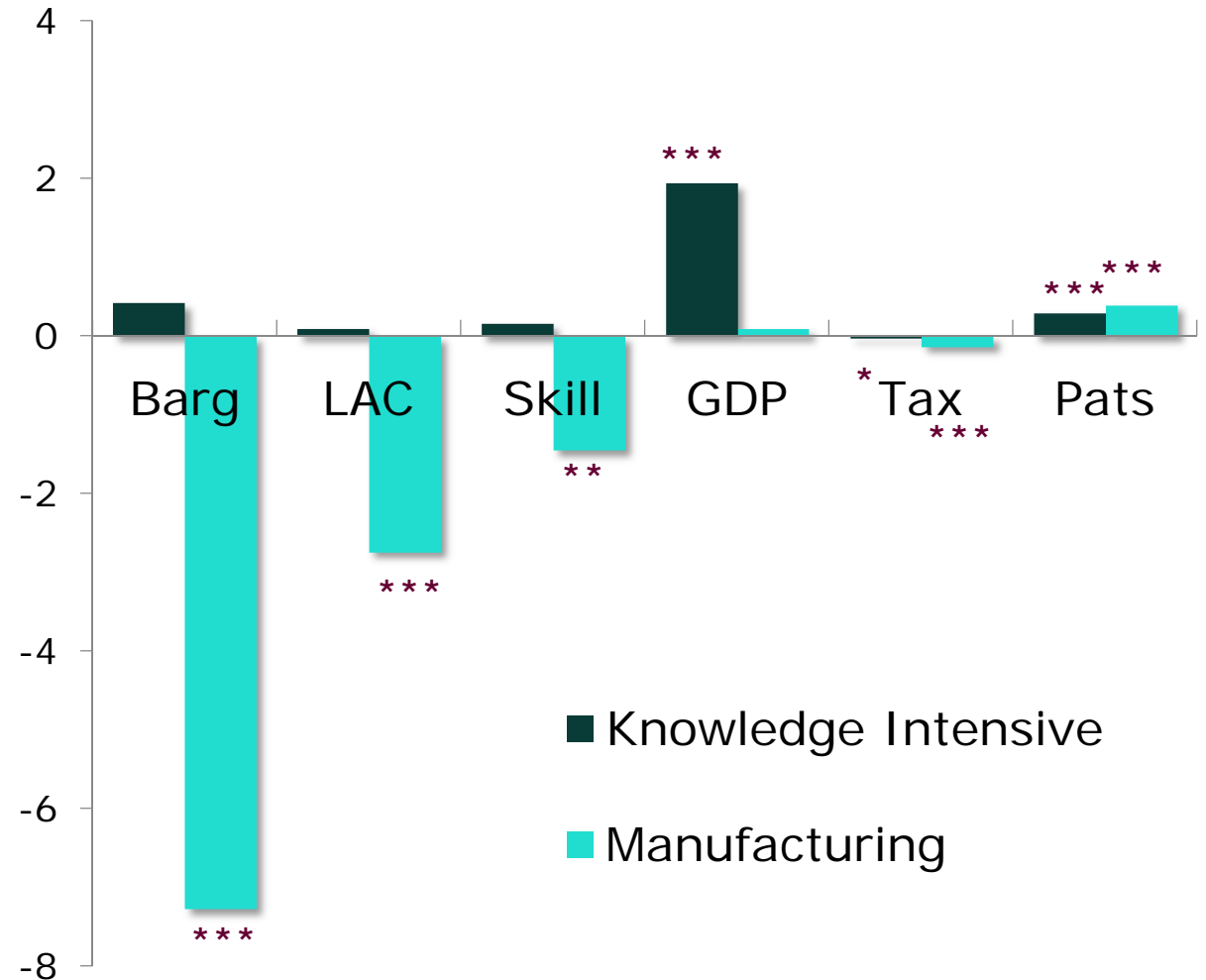
Higher Collective Bargaining Coverage

Higher Adjustment Labour Costs

Higher GDP capita

Lower taxes (HQ effect?)

More patents



# FDI and domestic entry

## Competitive pressure

- Exit of local businesses
- Slow replacement entry



## Positive spillovers

- Transfer of foreign tech
- Creation of business opportunities

# Data and Methods

**fDi Market:** Greenfield FDI inflows in Knowledge intensive (R&D, ICT, E&T, HQ) activities

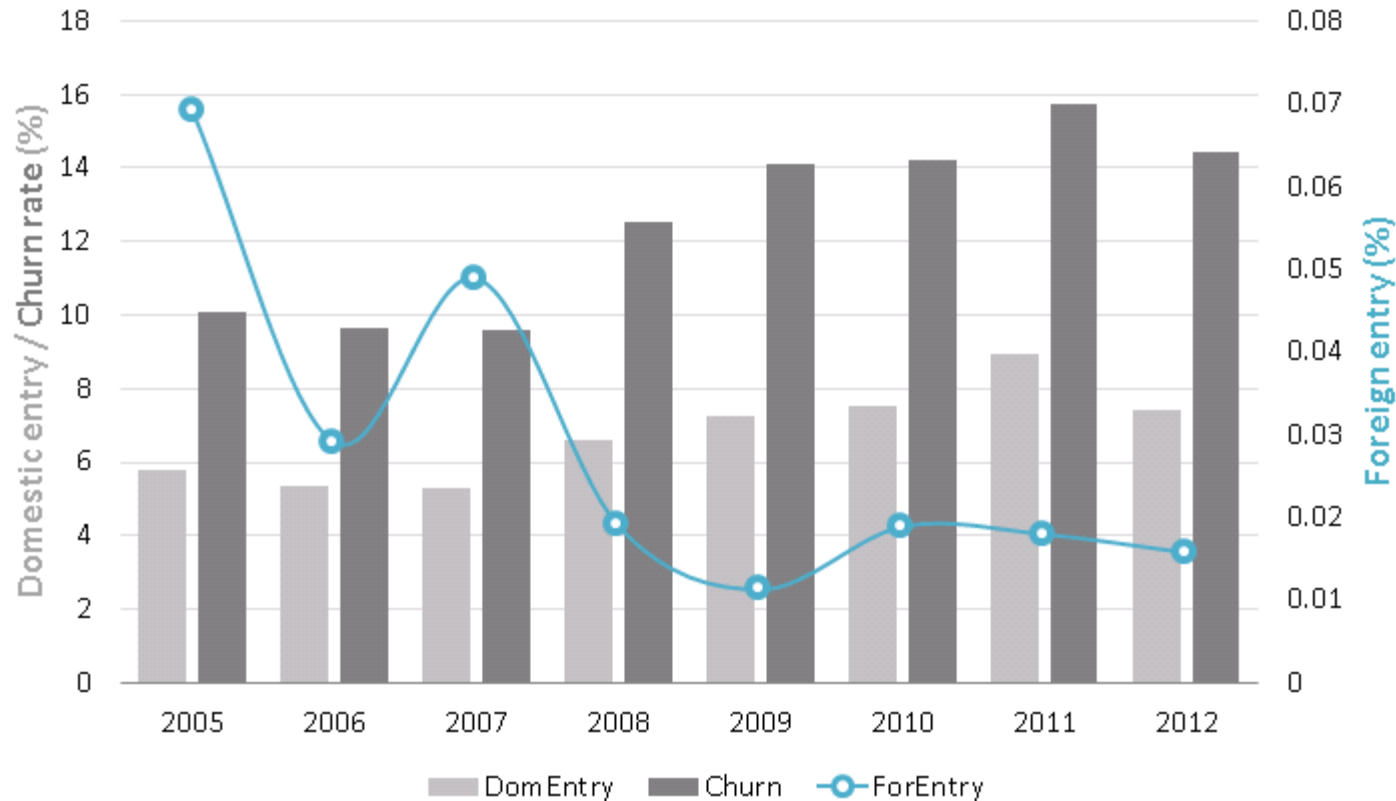
**SBS Eurostat:** firm entry/exit rates at sector/country level

**OECD:** value added, production value, R&D expenditure

**GLS model**

$$DomEntry_{cj,t} = f(DomEntry_{cj,t-1}, FDI_{cj,t-1}, X_{cj,t-1}, FE)$$

# Results (in the short-run)



KI Greenfield has a **positive impact** on domestic entry rates

→ **if** sectors are dynamic and R&D intensive



# Policy-relevant implications

Implementing strategies to attract FDI:

- racing to bottom of labour standards attracts only manufacturing FDI
  - High quality infrastructure and human capital to attract KI FDI
- positive spillovers to entrepreneurial activities in high-tech and dynamic sectors

# Implications for policy

- Coordination between innovation policy and inward investment promotion (aftercare programmes)
- Coordination between new industrial policy and firm-level innovation policy (strengthen innovation framework, access to finance and human capital)

## References:

Amoroso, S., Dosso, M., & Moncada-Paternò-Castello, P. (2015). The impact of skill endowments and collective bargaining on knowledge-intensive greenfield FDI.

Amoroso, S., & Müller, B. (2017). The short-run effects of Knowledge intensive greenfield FDI on new domestic entry. *The Journal of Technology Transfer*, 1-22.

# Other projects on R&D internationalization & FDI



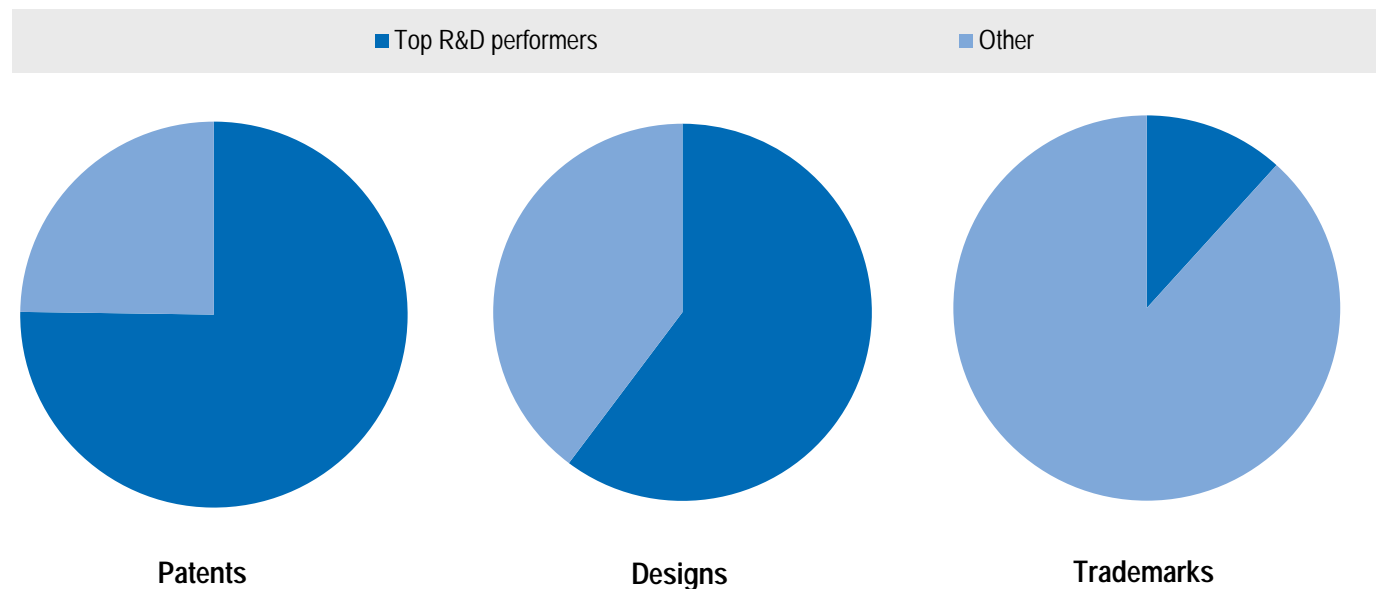
2015

2017

## World Corporate Top R&D Investors: Industrial Property Strategies in the Digital Economy.

Daiko T., Dernis H., Dosso M., Gkotsis P., Squicciarini M., Vezzani A. (2017)

## ICT-related IP rights owned by the world top R&D performers, 2012-14



Share of ICT-related Patents, Designs, and TMs (%)

# Internationalization of R&D and production

## Multinationality, R&D and productivity

- Castellani, D., Montresor, S., Schubert, T., & Vezzani, A. (2017). Multinationality, R&D and productivity: Evidence from the top R&D investors worldwide. *International Business Review*, 26(3), 405-416.

## Global Value and Innovation Chains

- R&D and Innovation across Global Value Chains: Insights for EU Territorial Innovation Policy (Dosso, Potters, Tübke 2017)

# Cross-border M&A and FDI

Modes of knowledge acquisition

(with G. Damoli & D. Vertesy)

From China with love: the role of FDI from third countries on EU competition and R&D activities

(with R. Davies)



# Thanks

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