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)**

\[ FDI_{c,j,t}^k = f_{c,j,t}(Barg, LAC, Skill, x, FE) \]
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**

\[
\text{DomEntry}_{cj,t} = f(\text{DomEntry}_{cj,t-1}, FDI_{cj,t-1}, X_{cj,t-1}, FE)
\]
KI Greenfield has a positive impact on domestic entry rates → if sectors are dynamic and R&D intensive
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:

Other projects on R&D internationalization & FDI
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**

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<th>Patents</th>
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Internationalization of R&D and production

Multinationality, R&D and productivity

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. Damioli & 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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