Workshop on Foreign Direct Investment and Multinational Corporations

Monday, November 16, 2015; University of Mainz

Keynote speaker: Prof. Ronald B. Davies (University College Dublin)

Multinational firms and their foreign direct investment (FDI) have become an integral part of the world economy. Accordingly, research on FDI and multinationals has become a vibrant field of economics and related disciplines while public discussions about the effects of FDI and multinationals have increased as well.

This workshop will bring together researchers working on FDI and multinationals from different angles to present and discuss their recent work and to explore the scope for future research collaboration. We will therefore look at the effects and determinants of FDI as well as at public perceptions towards multinationals and openness.

Students interested in the area and scholars from related disciplines are highly welcome to attend. Please send a short registration e-mail to kwacker@uni-mainz.de by November, 11.

Program:

9.30: *Welcome*

9:40: Jakob Schwab (JGU Mainz): The Mixed Blessing of FDI: Two-Way Capital Flows and Growth

10:30 Sylwia Bialek (Goethe University Frankfurt): "Do Stringent Environmental Policies Deter FDI? M&A versus Greenfield" (joint paper with Alfons J. Weichenrieder)

11:20 *coffee break*

11:50 Konstantin Wacker (JGU Mainz): The Impact of Foreign Investment on Developing Countries' Labor Share (joint paper with Katharina van Treeck)

12:40 *Lunch*

14:00 Philipp Harms (JGU Mainz): Like it or not? How the Economic and Institutional Environment Shapes Individual Attitudes towards Multinational Enterprises (joint paper with Jakob Schwab)

14:50 Andreas Fuchs (University of Heidelberg): "Towards a Harmonious World? China's Economic Cooperation and its Public Perception in Latin America" (joint paper with Lutz Brückner and Vera Z. Eichenauer)

15:40 *coffee break*

16:00 Nils Steiner (JGU Mainz): Public Support for TTIP in EU Countries: Leveraging a Salient Case to Re-examine the Determinants of Individual Preferences over International Economic Integration

16:50 Discussion: Where is the FDI research agenda heading?

17:40 *coffee break*

18:00 Ronald B. Davies (UC Dublin): Greenfield versus Merger & Acquisition FDI: Same Wine, Different Bottles? (joint paper with Rodolphe Desbordes and Anna Ray; faculty seminar, note change in location!)

Location:

ReWi I 03-150 (“Dekanatssaal”). The keynote lecture will be held in HS VII (ReWi container).

Organizers:

JProf. Konstantin Wacker, Prof. Philipp Harms (Chair for International Economics) and Dr. Nils Steiner (Chair for Comparative Politics). Financial support by the JGU Research Unit “Interdisciplinary Public Policy” is acknowledged.

Interdisciplinary Public Policy Mainz

IPP

Abstracts of presented papers:

Jakob Schwab:
The Mixed Blessing of FDI: Two-Way Capital Flows and Growth

The elusive growth effects of FDI in developing countries are still subject to hot debates. This paper theoretically links inflows of FDI to concurrent financial outflows via a credit market channel. This theory can explain both, the nuanced growth effects of FDI, which the empirical literature stresses, and the actual pattern of two-way capital flows between the global North and South that can be observed in the data. In a model of neoclassical growth with imperfect capital markets, inflowing FDI exacerbates credit constraints for domestic entrepreneurs by increasing competition. This leads to reduced domestic demand for credit and consequently to reverse flows of financial capital. It shows that FDI initially increases income – as in static models –, but by inhibiting the emergence of an entrepreneurial class reduces national income in the long run. In a dynamic perspective, developing countries could hence develop more slowly, but more sustainably without inflows of FDI.

Sylwia Bialek and Alfons J. Weichenrieder:
Do Stringent Environmental Policies Deter FDI? M&A versus Greenfield

This study examines how environmental stringency affects the location decision of foreign direct investments. We analyze a firm-level data set on German outbound FDI and innovate on previous studies by controlling for the mode of entry and applying the mixed-logit analysis. The results show that Greenfield projects react to environmental regulation in a strongly different way than M&As. We find robust support for pollution haven hypothesis for polluting Greenfields. M&A investments in low polluting industries, on the other hand, seem to be attracted by stricter environmental regulation. We introduce a new instrumental variable for environmental stringency and apply it to verify the results.

Katharina van Treeck and Konstantin Wacker:
Types of Foreign Investment and Their Varying Impact on Developing Countries' Labor Shares

In this paper, we investigate how de facto financial globalization has influenced the labor share in developing countries. Our main argument is the need to distinguish between different types of capital in this context, as different forms of foreign investment have different fixed costs and impacts on the host countries' production process and vary concerning their bargaining power vis-a-vis labor. Assuming an aggregate elasticity of substitution between capital and labor would thus be misleading.

Using a newly constructed data set for labor shares in developing countries, we thus analyze the impact of foreign direct vs. portfolio investment in a sample of about 40 developing countries after 1992. We use different panel data techniques to address potential endogeneity problems. Generally, we find that de facto foreign investment cannot explain the decline of the labor share in developing countries over the investigated period. More precisely, we find that the impact of FDI in this context is, if anything, positive and significantly higher than the impact of portfolio investment, in line with our economic reasoning.

Philipp Harms and Jakob Schwab:
Like it or not? How the Economic and Institutional Environment Shapes Individual Attitudes towards Multinational Enterprises

This paper analyzes the determinants of people's attitudes towards FDI using a survey-based data set that covers a wide range of rich and poor countries. We find that both individual socioeconomic characteristics and macroeconomic and institutional factors shape agents' attitudes towards multinational firms. Moreover, we find that the influence of an individual's characteristics – such as education and the status as an entrepreneur – depends on the respective country's per-capita income.

Andreas Fuchs, Lutz Brückner and Vera Z. Eichenauer:
Towards a Harmonious World? China’s Economic Cooperation and its Public Perception in Latin America

China’s growing economic engagement in developing countries is highly controversial and has provoked much criticism particularly in the West. However, to data no thorough quantitative analysis exists that studies China’s public perception by individuals from its partner countries. Using repeated cross-sectional survey data from the Latinobarómetro Database, we analyze the extent to which growing amounts of imports, foreign direct investments and government loans from China affect individuals’ opinions on China across 18 Latin American countries. Specifically, we analyze favorable opinions on China both directly and in comparisons with opinions on the United States over the 2002-2011 period. Our results from logit regressions show that China’s growing economic presence in the respective countries is related to—if anything—more favorable rather than worse opinions on China, suggesting that Latin Americans seem to benefit on average.

Nils Steiner:
Public Support for TTIP in EU Countries: Leveraging a Salient Case to Re-examine the Determinants of Individual Preferences over International Economic Integration

Research on the determinants of individual-level preferences over international economic integration has by now rather thoroughly studied to what extent such preferences are shaped by economic factors related to material self-interest, on the one hand, and socio-cultural attitudes like nationalism and cosmopolitanism, on the other. Yet attitudes towards international economic integration are usually measured through survey questions on abstract preferences in contexts where policies on international economic integration are arguably of rather low salience in the public mind. The ongoing controversy accompanying the negotiations over the Transatlantic Trade and Investment Partnership (TTIP) represents an opportunity to re-examine the determinants of individual-level preferences over international economic integration on a real-world case of relatively high salience. In this paper, I draw on recent Eurobarometer surveys (EB 82.3 and 83.3) conducted in the 28 EU member states in November 2014 and May 2015 to explore the determinants of individual preferences towards a free trade and investment agreement between the EU and the USA. Using hierarchical multilevel models, the contribution considers both country-level and individual-level covariates of support for TTIP that are related to the economic self-interest argument and the socio-cultural line of thought.

Ronald B. Davies, Rodolphe Desbordes and Anna Ray:
Greenfield versus Merger & Acquisition FDI: Same Wine, Different Bottles?

Relying on a large foreign direct investment (FDI) transaction level dataset, unique both in terms of disaggregation and time and country coverage, this paper examines patterns in greenfield (GF) versus merger & acquisition (MA) investment. Although both are found to seek out large markets with low international barriers, important differences emerge. MA is more affected by geographic and cultural barriers and exhibits opportunistic behaviours as it is more sensitive to short-run changes, such as a currency crisis. On the other hand, GF is relatively driven by long-run factors, such as origin-country technological and institutional development or comparative advantage. These empirical facts are consistent with the conceptual distinction made between these two modes, i.e. MA involves transfer of ownership for integration or arbitrage reasons while GF relies on firms own capacities, which are linked to the origin countries attributes. They also suggest that GF and MA are likely to respond differently to policies intended to attract FDI.