

Discussion of Purice & Merlevede (2018): Border Regimes and Indirect Productivity Effects from Foreign Direct Investment

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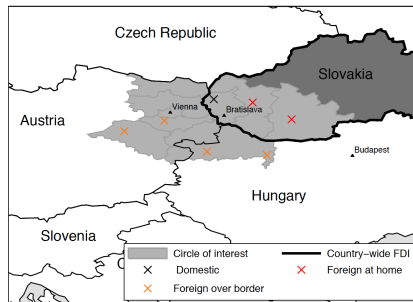
This study matters a great deal. National borders are being challenged.

Some argue we need more, others, that we need less of them.

Here the authors focus on an important economic aspect - spillovers from foreign direct investment on productivity of domestic firms.

Discussion of main finding

Initially described as spillovers within 75km (area of interest).



Somehow, rest of paper discusses "country-wide" spillovers - but it's not the same. Novelty of paper is cross-border comparison of 'areas of interest'.

Discussion of main findings

Finding 1

”National borders constitute insurmountable barriers for horizontal productivity spillover effects”

- Somewhat confusing, as study shows no horizontal spillovers in 75km area of interest (within a country). (Table 4 in paper)
- Question: What are we comparing? Area of interest appears mixed up with country-wide effects.

Finding 2

”national borders (significantly) dampen cross-border backward spillover effects”

- Backward linkages appear to be stronger in cross-border setting (next slide)

Discussion of main finding

	(1)	(2)	(3)	(4)	(5)
<i>within country</i>					
horizontal	0.017 [0.017]	0.017 [0.017]	0.016 [0.017]	0.005 [0.017]	0.005 [0.017]
backward	0.387*** [0.111]	0.387*** [0.111]	0.389*** [0.111]	0.326*** [0.112]	0.326*** [0.113]
<i>cross-border</i>					
horizontal		0.069 [0.050]	0.067 [0.049]	0.039 [0.049]	0.044 [0.050]
backward		0.637*** [0.219]	0.640*** [0.216]	0.519** [0.210]	0.549** [0.220]
N	105,968	105,968	105,968	105,968	105,968
R-squared	0.085	0.086	0.089	0.104	0.105
Year FE	Y	Y	Y	Y	Y
Industry FE			Y	Y	Y
Country FE				Y	
Region FE					Y
<i>F-tests $BK^{Aol-WC} = BK^{Aol-CB}$</i>					
		1.02 [0.314]	1.05 [0.306]	0.65 [0.420]	0.80 [0.371]

Technical question on calculation of spillover variables

Decompose foreign activity at "home" and across the "border", by area of interest (AI):

$$HR_{jt}^{AI} = HR_{jt}^{AI-H} + HR_{jt}^{AI-B} \quad (1)$$

- Rightly, "exclude home country firms with foreign activity across the border".
- Concentration of foreign firms consistently higher within a country's borders - compared to across. Why?
- Potentially, a larger effect comes from firms across the border that are counted in HR_{jt}^{AI-H} but excluded from HR_{jt}^{AI-B} .
- For example, a highly productive firm from Vienna invests across the border in Bratislava and would be counted in "home", but not "across the border".
- Are we under-counting the 'true' spillover potential "across the border"? Are 'defining away' the source of (horizontal) spillovers? Drop FDI from firms that come from neighbouring foreign regions?

Contribution

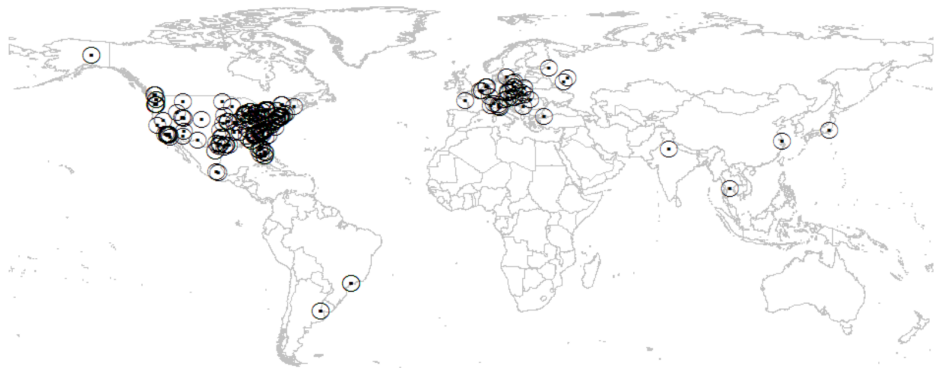
- Study framed as assessing 'European integration'. Czech Republic, Hungary, Poland, Slovakia, Slovenia joined in 2004; Bulgaria and Romania in 2007. Story of Eastern enlargement?
- Strongest points discussion of types of borders (Schengen). What about natural borders as experiment? (Prisoners of Geography?)
- Why not exploit more the variation in when countries join EU.
- If there are no horizontal, but only backward spillovers - what's the story?
- Is it more productive firms that benefit in the first place?

Other ideas

- Role of outward FDI as source of spillover? Is it captured by 'domestic' firms at the moment? Could be worth splitting out.
- Role of firm-level intensity of innovation, e.g. patents, trademarks? Applies to FDI and domestic firms.
- Can we say something about border effects in different types of sectors? E.g. high- vs low- tech ? (see next slides, spillovers from my PhD thesis)

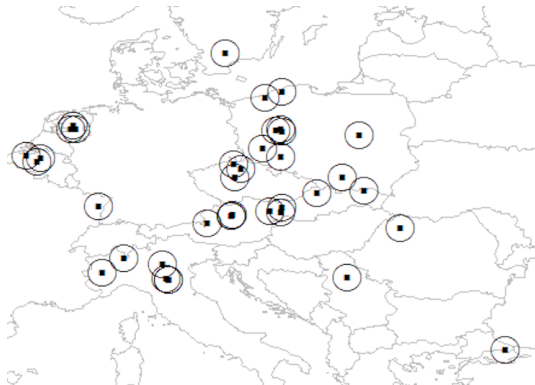
German FDI in "Manufacture of motor vehicles"

Global, 287 plants, 4-digit



German FDI in "Manufacture of motor vehicles"

CEE, 38 plants, 4-digit



Extension: The role of technology?

- Selection of CEE countries. German FDI by technology intensity.
- Clustering of low- and medium-low tech sectors in CEE countries (more than at home).
- Do high-tech firms behave differently? Internal vs. external agglomeration (Alcacer-Delgado, 2016)

Country	High-tech	Med.-high tech	Med.-low tech	Low-tech	All
CZ	39 (3.1%)	298 (7.2%)	346 (13.0%)	169 (9.7%)	852 (8.7%)
PL	32 (2.6%)	210 (5.1%)	313 (11.7%)	228 (13.1%)	783 (8.0%)
RO	33 (2.6%)	182 (4.4%)	176 (6.6%)	274 (15.7%)	665 (6.8%)
SK	8 (0.6%)	87 (2.1%)	108 (4.0%)	59 (3.4%)	262 (2.7%)
HU	6 (0.5%)	21 (0.5%)	22 (0.8%)	6 (0.3%)	55 (0.6%)
SL	3 (0.3%)	17 (0.4%)	20 (0.8%)	4 (0.2%)	44 (0.5%)
(...)	(...)	(...)	(...)	(...)	(...)
Total	1,254 (100.0%)	4,136 (100.0%)	2,670 (100.0%)	1,746 (100.0%)	9,806 (100.0%)

Data and sample

- Definition of "domestic" firms? No foreign owner at all? (Export status?)
- What industry level? 2-digit?
- Consolidated accounts: How does sectoral composition change when foreign firms with consolidated accounts are dropped? Use count of foreign firms as robustness check as that gets around issue.
- Table 1 in paper: For some countries the number of firms does not change when going from 10% to 50% ownership. E.g. for Serbia it is 21,231 in both cases.
- Correlation matrix?