“Trends, Patterns, and Drivers of FDI, including BIT in Asia and the Pacific” by Fahad Khan

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Summary

- Over the last 30 years, the global fragmentation of production grew dramatically, and Multinational corporations (MNC) are at the center of this phenomenon, as they account for the vast majority of trade across countries FDI => GVC

- Bilateral production sharing is increased between FTA partner countries since FTAs took effect (Leung, 2016) RTA => GVC

- GVC participation brings technology transfer from advanced countries to developing countries, and this leads to increase of productivity for developing countries (Coe et al. ,1997; Keller, 2004) GVC => Growth

Globalization (RTA) => Trade cost ↓ => FDI => GVC

=> Growth for developing countries

Summary

FDI

- FDI is known to help host countries'economic growth offering chances to access to higher technologies and market know-how
- Thus, countries are adopting measures to attract FDI
- Such measures include unilateral policy (Incentives) and Bilateral commitment through BITs

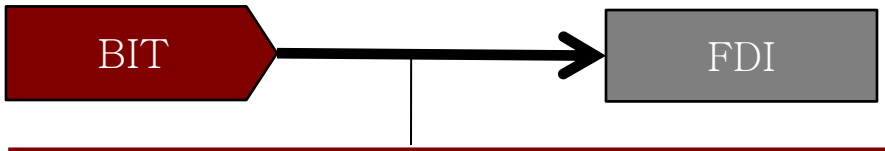
Deter-minants of FDI

Investors consider such factors		
Economic Determinants	Market-Seeking	Market size, growth
	Resource-Seeking	Wage, raw materials
	Efficiency-Seeking	Infrastructure, adjustment Cost
Institutional Determinants	Political stability, Investment Environment, Trade policy, tax policy, Investment Policy (Incentives, restrictions, BITs)	

Summary

- Using various dataset
- What is the main factor to attract FDI
  - country-specific and bilateral policy : comparative advantage, institutions, integration, etc.
  - In terms of different motivation : GVC-FDI vs. Market-seeking
  - In terms of different types of FDI : Greenfield vs. M&A

Summary



How Can the Bilateral Commitment Promote FDI?

- Commitment Effect : A binding International commitment to satisfactory protection and treatment of foreign investors will reduce risks and increase FDI.
- Signaling Effect : BITs signal seriousness about improved property rights in the host country applying to all investors from all countries.
- improved institutional quality Effect: BITs are considered by foreign investors as a substitute to improved institutional quality and thus stimulate FDI.

Question

BITs have been proved to affect FDI empirically?

- Result of previous studies, which treated BIT /RTA homogeneously, are ambiguous

Purpose of the paper

This paper examines which provisions in BITs /RTA are most important in boosting FDI

The main results

- In terms of different motivation
  - GVC-FDI is the more common in greenfield investments
- Determinants of FDI
  - Governance is the most important factor for both greenfield and M&A FDI
- Determinants of GVC-FDI
  - Labor abundance, low trade barriers, and access to credit are main factors for GVC-FDI (in particular, labor abundance)
- Heterogeneous of BIT or RTA
  - ISD mechanism in BIT is the most important factor to attract FDI
  - National Treatment and Most Favored Nation(MFN) in RTA is the most important factor to attract FDI

Comments 1

- Indicator of GVC-FDI?
  - Foreign-owned affiliates that both export and imports
  - In regression model, the paper used dummy variable (exp > 0 and imp > 0)
- If multinationals that fragment their production process across the globe were only interested in sourcing from low-wage countries, we should mainly see flows from the affiliate to the parent
- Markusen and Maskus(1999) : ratio of affiliates export to total sales
- Import (or export) intensity is good variable rather than dummy variable

Comments 1

Table 4: Variables of the regression

	Mean	St.dev	Obs
1. Parent level			
ln(imp/parent sales)	0.059	0.117	676
ln(exp/parent sales)	0.057	0.102	676
ln(exp/affiliates sales)	0.172	0.217	676
2. Affiliate level			
ln(imp/affiliate sales)	0.154	0.251	1408
ln(exp/affiliates sales)	0.183	0.232	1408
3. Other variables			
ln(productivity)	0.082	0.363	661
ln(K/L)	-2.372	1.205	661
ln(R&D/Y)	-5.476	2.521	658
ln(affiliate age)	1.773	0.81	1408
ln(num. other SK affiliates)	3.565	2.197	1408

Data is from Export-Import Bank of Korea and KIS.

Comments 2

- In terms of determinants of GVC-FDI
  - The paper found that labor abundance is main factor
- Labor : skilled-labor? unskilled-labor?
- Factor cost differences (Hanson, Mataloni, and Slaughter 2005) is the most important in vertical specialization rather than just labor
  - Wage level difference between parent firm's and affiliates' country

Comments 3

- The dataset is industry-level
- As independent variables, the paper used only country characteristics
- The incentive of vertical integration is completely different by industry
- I'd like to see the industry characteristics as independent variable in regression

Comments 3

	vantage point parent			vantage point affiliate		
	imp/parent sales	exp/parent sales	obs	imp/affiliate sales	exp/affiliate sales	obs
1. Average	0.069	0.065	676	0.208	0.236	1408
2. By regions						
N. America	0.011	0.067	91	0.06	0.23	177
China	0.084	0.062	414	0.281	0.222	707
Asia excl. China	0.07	0.076	136	0.202	0.25	319
Europe	0.024	0.059	16	0.052	0.347	122
S.America	0.039	0.059	12	0.132	0.136	42
ROW	0.015	0.004	7	0.169	0.165	41
3. By sectors						
food products	0.005	0.009	30	0.087	0.046	70
textile	0.103	0.042	42	0.375	0.173	75
apparel	0.111	0.051	28	0.496	0.261	72
leather, bags, footware	0.19	0.131	20	0.424	0.161	32
wood products	0.129	0.003	6	0.254	0.009	8
pulp and paper	0.01	0.026	5	0.009	0.092	10
printing	0.001	0.003	8	0.002	0.009	14
petroleum	0.312	0.126	2	0.129	0.139	13
chemical	0.026	0.057	68	0.116	0.222	149
rubber and plastic	0.056	0.099	43	0.208	0.252	64
nonmetallic mineral	0.015	0.008	17	0.089	0.033	37
primary metal	0.015	0.026	33	0.101	0.219	88
fabricated metal	0.134	0.039	25	0.27	0.165	49
machinery	0.027	0.018	58	0.213	0.17	76
computer, office products	0.102	0.073	10	0.318	0.224	15
electrical machinery	0.071	0.055	38	0.31	0.265	51
electronics	0.108	0.128	120	0.218	0.304	309
medical, scientific	0.159	0.108	15	0.331	0.392	25
vehicle	0.019	0.052	74	0.117	0.33	180
other vehicle	0.056	0.056	10	0.191	0.254	34
other manufacturing	0.116	0.084	24	0.256	0.258	37

Data is from Export-Import Bank of Korea and KIS.

Comments 4

- A quantitative analysis based on micro estimates shows that both market size and geography (trade cost) are central determinants of foreign direct investment (Irrazabal, Moxnes, and Opramolla (2010), Ramondo and Rodriguez-Clare (2010), and Arkolakis, Ramondo, Rodriguez-Clare, and Yeaple (2011) (Keller, 2015)
  - Especially by industry

- In the paper, trade restrictiveness index?
- I do not think this variable represents a trade cost

Comments 4

Figure 1: Production process of firm

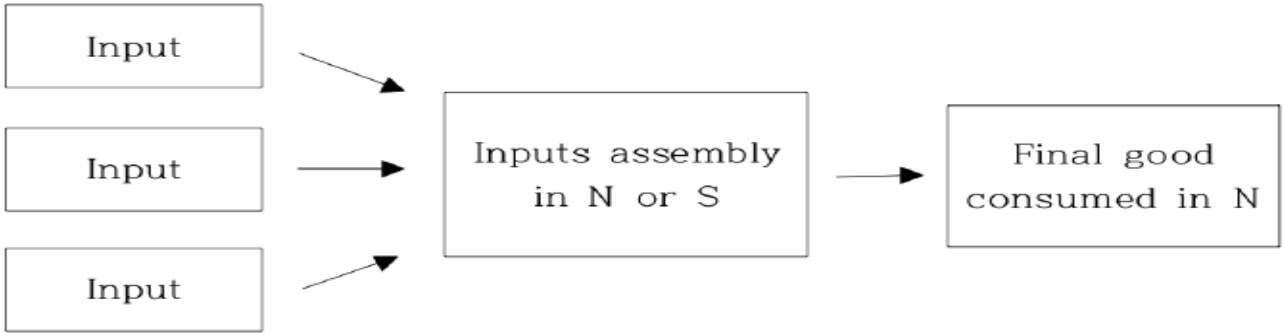


Table 1: Total cost comparison

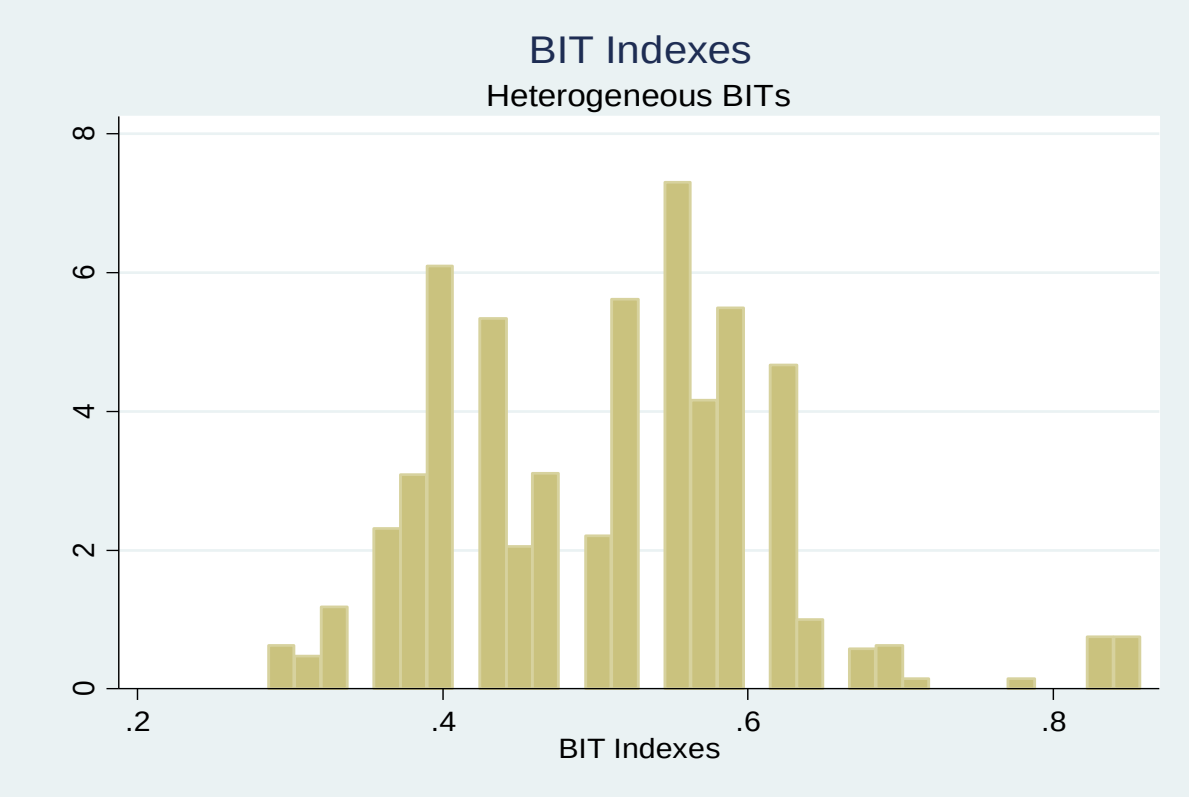
Case	Input produce	Assemble	Total cost
a	S S	N S	$a_n + t\alpha$ $a_s + t\alpha$
b	N N	N S	a_n $a_s + 2t\alpha$

Comments 5

- BITs are heterogeneous in their coverage and degree of protection
- Foreign investors would not respond heterogeneous BITs in the same way
- This paper examines which provisions (ISD / NT, MFN) in BIT/RTAs are most important in boosting FDI
- Suggest that this paper constructs a BIT index that is designed to reflect the heterogeneity of BITs and test whether higher degree of BITs attracts more bilateral FDI from a contracting party

Category	Provisions	Points
Investment Liberalization	Right of establishment: MFN [no, yes]	0,1
	Right of establishment: NT [no, yes]	0,1
	Pre-establishment limitations (n/a, Positive/Negative List, None]	0,0.5,1
	Specific reference to fair and equitable treatment	0,1
	entry and sojourn of senior personnel [no, consideration, yes]	0,0.5,1
	Prohibiting Performance requirements (No, Yes, Yes + TRIMS)	0,0.5,1
	Prohibiting Ownership requirements (No, Yes, Yes + TRIMS)	0,0.5,1
Non-discrimination	Most-Favored-Nations [No, Yes]	0,1
	National Treatment (No, Yes)	0,1
	Exception for MFN or NT [n/a, Positive or Negative List, None]	0,0.5,1
Investment Protection	Expropriation , specific reference to indirect expropriation [No, Yes]	0,1
	Expropriation, specific standard for compensation [No, Yes]	0,1
	Compensation for Losses [No, Yes]	0,1
	Free Transfer of funds [No, yes with limitations Yes]	0,0.5,1
	Dispute settlement between the contracting States (No, political only, ad hoc arbi.]	0,0.5,1
	Dispute settlement between investor and state [No, ad hoc or ICSID, ad hoc and ICSID]	0,0.5,1
Investment Promotion &Cooperation	Investment Cooperation mechanism [No, Yes]	0,1
	Any type of asymmetries [No, Yes]	0,1
	Transparency [No, Yes]	0,1
	Agreement on further liberalization [No, Yes]	0,1

Comments 5



Comments 6

- The variable of interest in the regression is the endogenous policy variable BIT (RTA)
  - Since the policy variable BIT (RTA) is assumed to be endogenous, the error term is correlated in the reduced form equation
- Suggest that Egger, Larch, Staub, and Winkelmann (2011) approach