

New Zealand Firms in a Global World

Inward and Outward Foreign Direct Investment and New Zealand Firms

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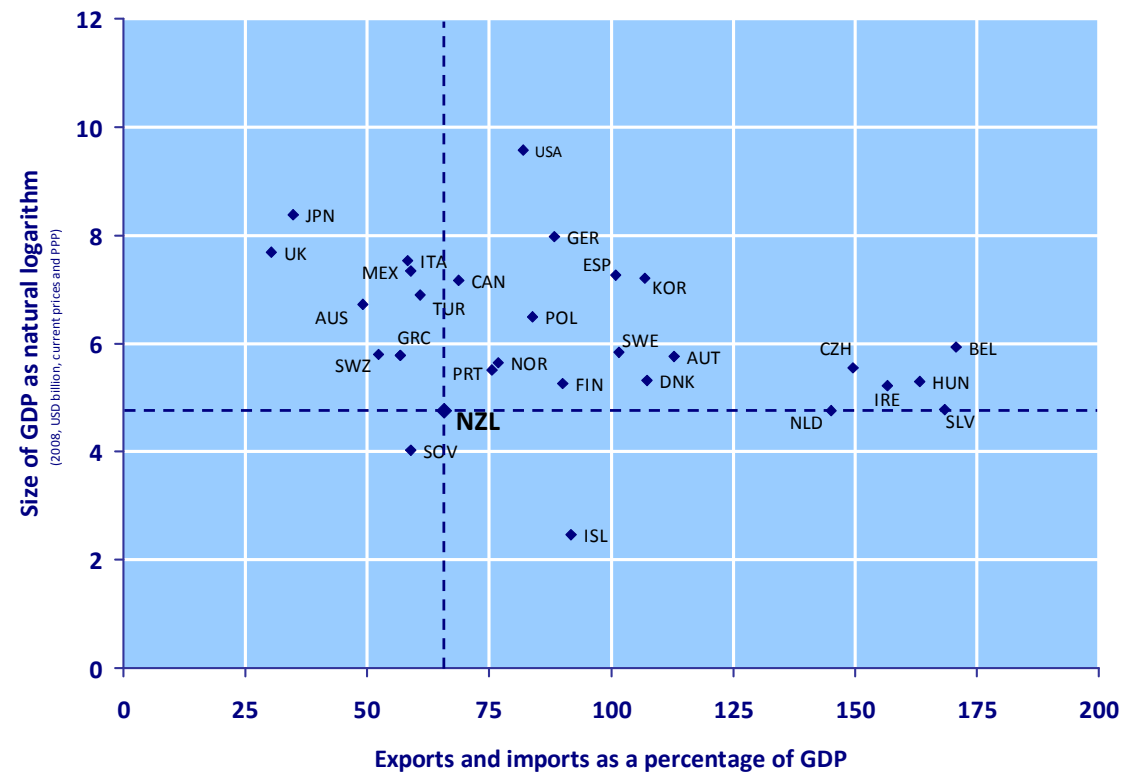
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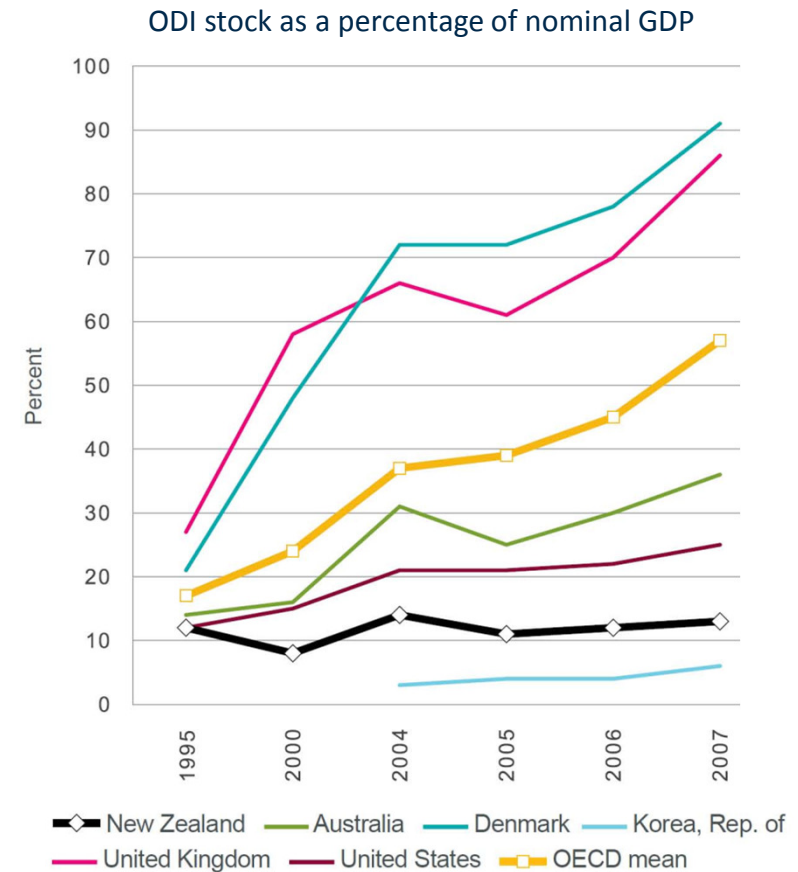
Introduction

- Globalisation
 - Exports



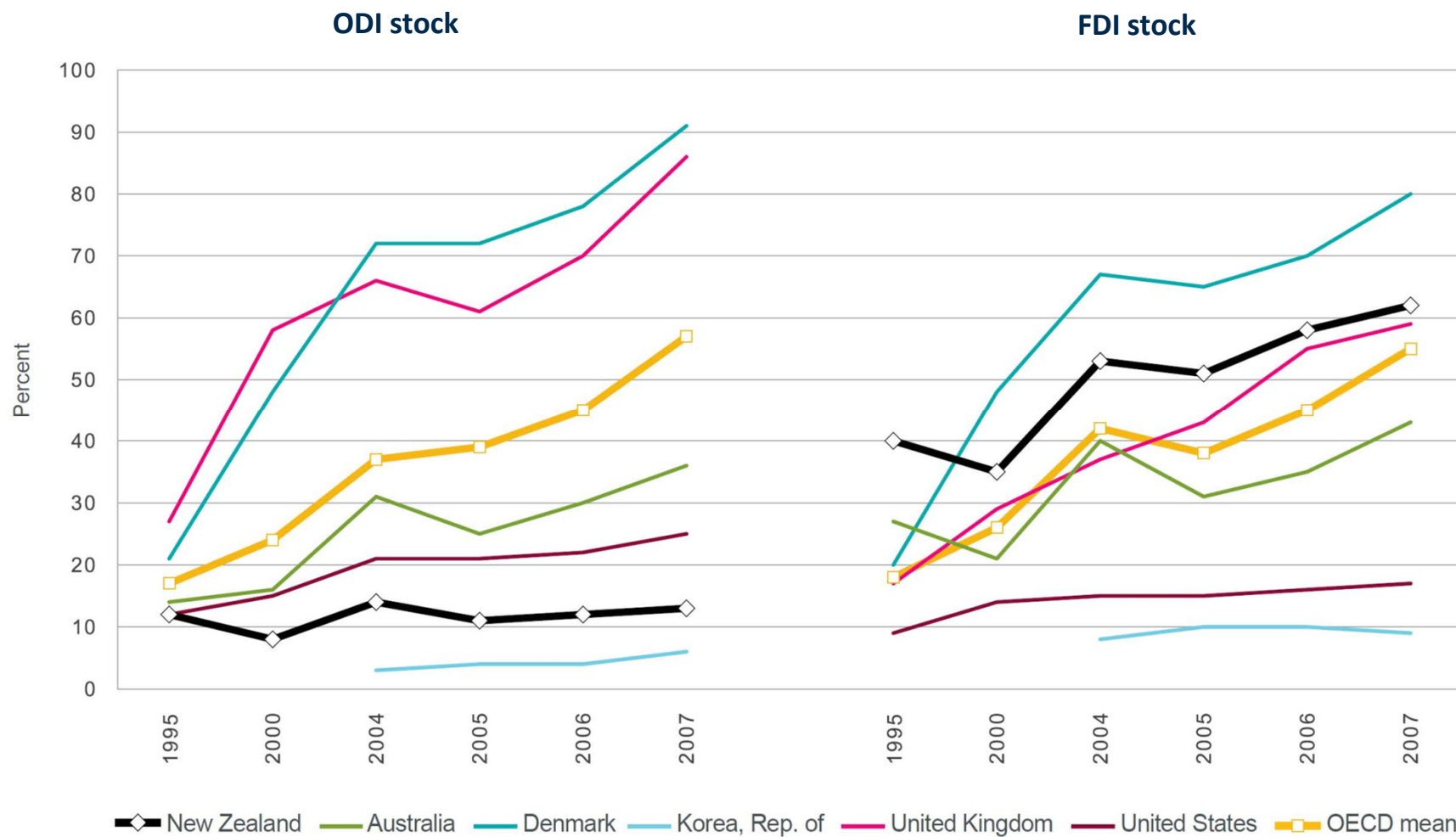
Introduction

- Globalisation
 - Exports
 - ODI



Source: MED, SZ, Treasury, EDI 2011

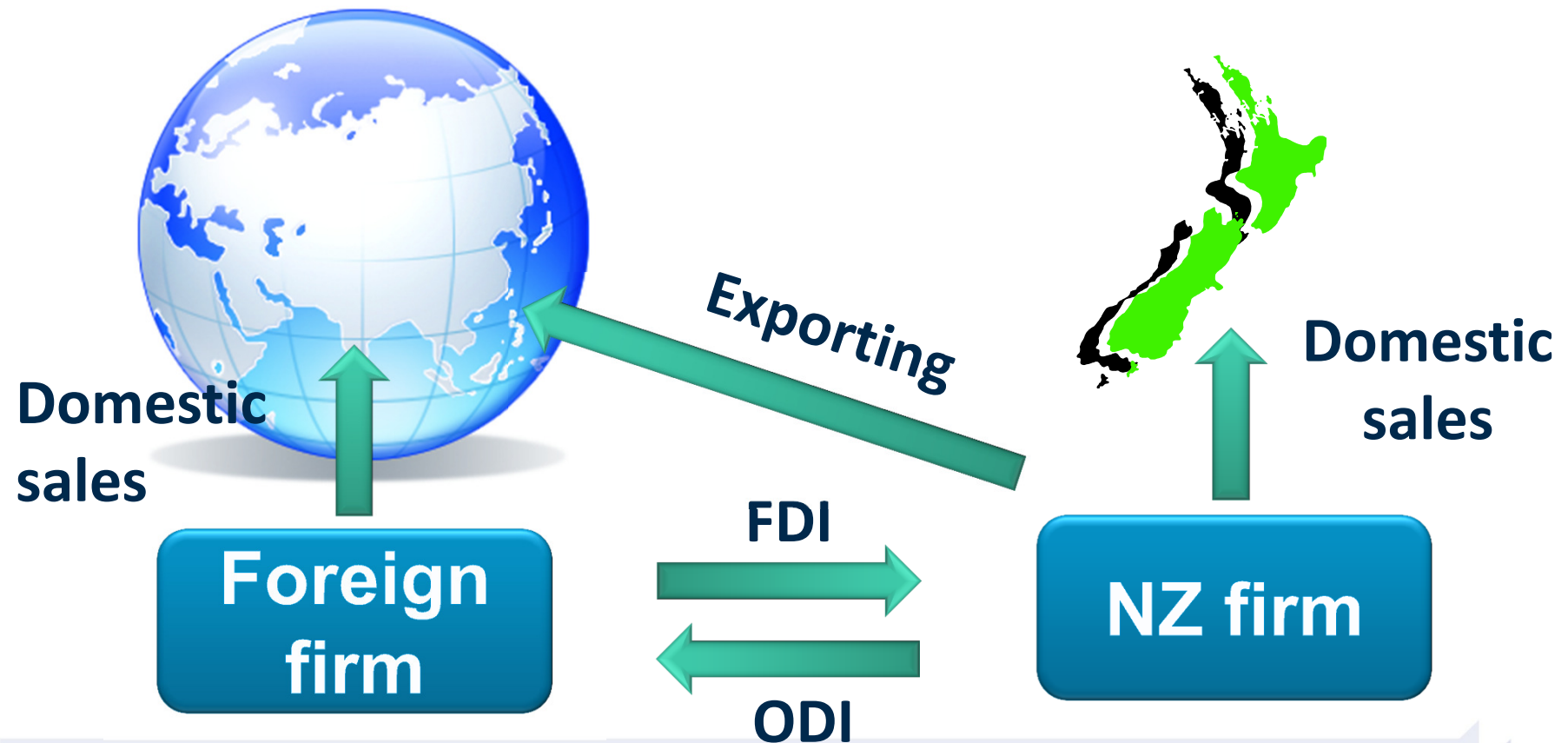
FDI and ODI stock as a percentage of nominal GDP



Sources: OECD Factbook 2010, Gross domestic product; *ibid*, Outward and inward FDI stocks

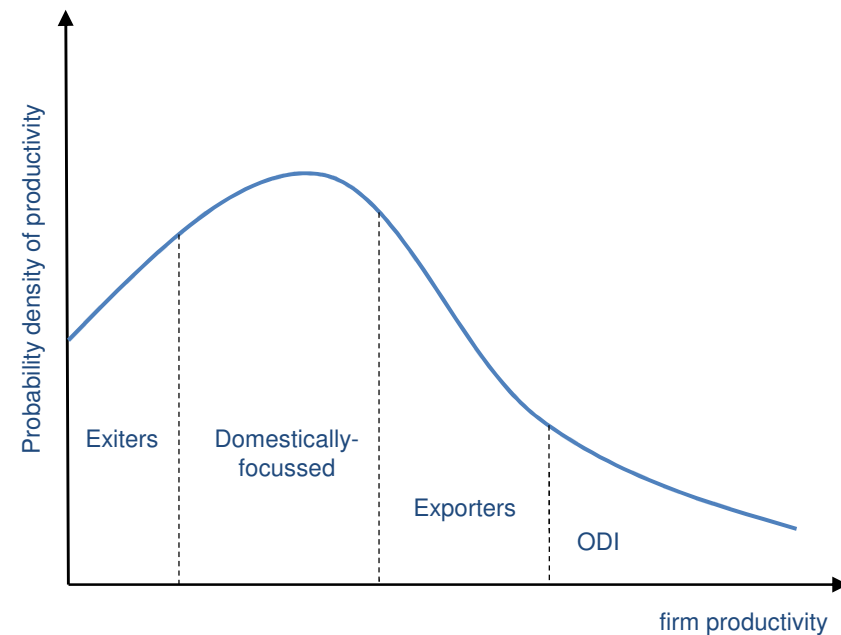
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Internationalisation



Trade theory, exporting and ODI

- New, new trade theory
 - Heterogeneous firms
- Internationalisation
 - Exporting
 - Horizontal ODI
- Vertical ODI



So, what is FDI?

- A firm with FDI is a Multinational.
 - 10% ownership threshold test – irrelevant.
- “Intent to actively manage”
 - Distinguishes FDI from FPI/OFI.
 - Firm Specific Assets.
 - Knowledge spillovers: Often, the intervention logic.

Why the world can't ignore FDI.

- 35% World GDP.
- 67% World Trade.
- 80% World R&D.

Why NZ cannot wish away FDI.

- Net Exports = -Net Cap. Inflows.
- Or...Net Imports = +Net Cap. Inflows.
- Capital Inflows= Sale of Equity Stake.
- Equity participation (or even borrowing) is not “bad” per se...as long as returns increase.

Thinking 'bout FDI in the NZ

- What does the foreign firm have?
 - Firm Specific Assets: Access to capital, markets, better technology, management.
- What do they want?
 - Typology: Resource seeking, Efficiency Seeking, Market Seeking (scale, monopoly “type” rents), Knowledge Seeking.

Why might FDI be desirable?

- Greenfield (vs. Brownfield).
- Capital.
- Competition.
- Employment: Counts and wage premium.
- Productivity Spillovers (Role for the Govt.).
- Competition (Role for the Govt.).
- Exports.
- Exports Spillovers (Role for the Govt.).
- Each factor magnified by the “Small” & “Distant” story.

Why might FDI not be desirable?

- Equity dilution: Barking up the wrong tree?
- No new employment (job losses): Counterfactual?
- Profits repatriation – what about wage premium?
- No productivity spillovers: Limited spillovers, but not entirely non-existent.
- Not exports oriented: More likely to export, but....
- No export spillovers: So far, none found.
- Imports augmenting?

Ideal FDI?

- Capital.
- Net jobs.
- Wage premium.
- R&D.
- Existence of knowledge spillovers.
- Exports and the value chain.
- Exports spillovers.
- “Not a cherry picker” without augmenting effects.

Where are the FDI firms?

- Less than 3% (4000+), wide sectoral dispersion.
- Proportion of foreign firms > 10%: Extraction, Exploration, Petroleum, Mining, Tobacco, Wine and Beverages, Dairy Products manufacturing, Pulp & Paper, Polymer, Chemicals, Metals, Telecomm...and Finance.
- Reverting to typology: Is FDI resource seeking? Market seeking? Efficiency seeking or knowledge seeking?



What do foreign firms sell? Everything.

- 38% of sales, 121 of 321 billion.
- Punch well above their weight: In 41 of 47 clusters, FDI share in sales >10%; in 30, >25%; in 15 >50%!
- Domestic firms account for greater than 90% sales in furniture, arts & recreation, growing crops & livestock.
- Domestic firms account for greater than 75% only in non-tradeables, few exceptions.



How more productive are foreign firms?

Much, much more.

- Labour productivity, foreign firms are 1.8 times as productive as domestic firms (67k vs. 120 k per worker).
- Productivity premium across sectors: Every single one.
- Foreign firms are twice as productive in sectors where they dominate sales.
- Productivity differential is a necessary but not sufficient condition for knowledge spillovers.

Foreign-owned sector more export Intensive?

- Fact: foreign firms more likely to export.
- BUT...of 27 clusters; in 17, the export intensity of the foreign and domestic groups were similar.
- Domestic vs. Export market seeking behaviour of domestic & foreign firms not very different.

Are foreign firms more R&D intensive?

- Limited data; R&D survey 2008, 3000 firms.
- Manufacturing, Wholesale and Professional & Technical services: 1,773 firms – 1,503 foreign owned.
- R&D expenditure: of close to a billion dollars (in the above sectors) – 26% by foreign firms – needs investigation.

Wage premium?

- Wage rate of foreign firms 1.54 times that of domestic firms (57 k to 37 k).
- Foreign firms pay higher wages in every cluster.
- BUT the labour productivity differential $>$ Wage premium, “suggesting” healthy rents.

Productivity Spillovers?

- Negative Horizontal Spillovers (Intra-industry).
- Negative Backward Spillovers (when domestic firm upstream and foreign firm is downstream).
- Positive Forward Spillovers (when foreign firm is upstream and domestic firm is downstream).

Absorptive Capacity (R&D /Exporting)

- Positive Horizontal Spillovers.
- No Backward Spillovers (but, negative for exporters).
- Positive Forward Spillovers (much bigger).

Synergy?

- Domestic competitors that are more productive (absorptive capacity) gain.
- Usually inter-industry is the scene of action. But foreign firms dominate downstream and spillovers are in the opposite direction.
- Weakens case for intervention based on “knowledge spillovers” argument.
- Study on reverse spillovers makes the case even worse. Zero-sum game in some ways.

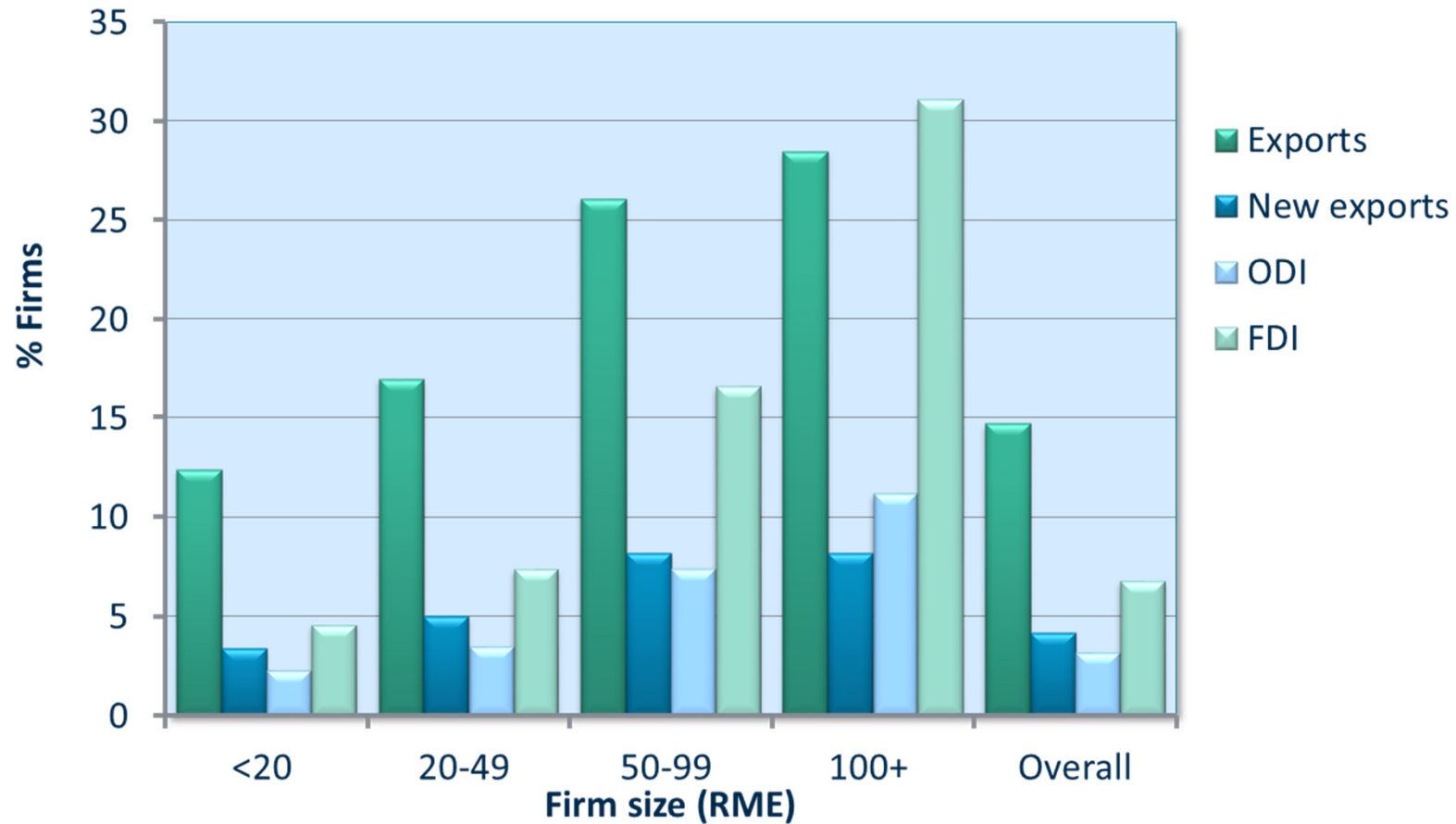


So?

- FDI is not a “wish away” – Macroeconomic reality.
- FDI offers a lot – private benefits.
- Rent capturing is a given. Else, what's in it for them?
- Knowledge spillovers, not that great sometimes negative.
- They may even just be “cherry pickers”.
- Desirable FDI is where there are potential gains or need: capital, wage premium, exporting, R&D intensive.
- Strengthen domestic environment to help domestic firms gain from FDI.

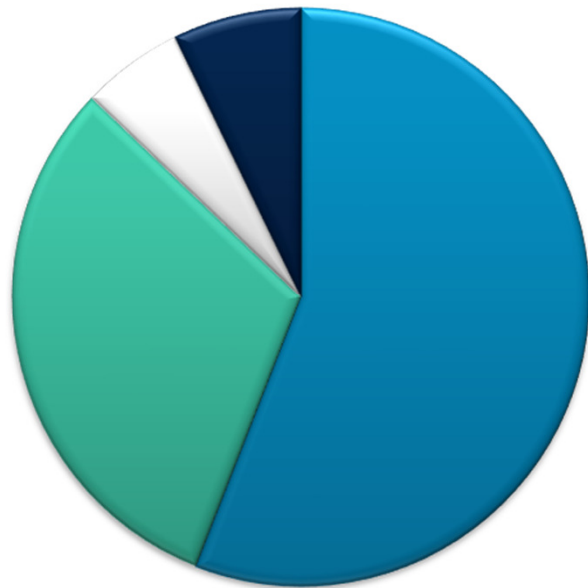
Back to outward internationalisation

ODI and exporting in NZ firms

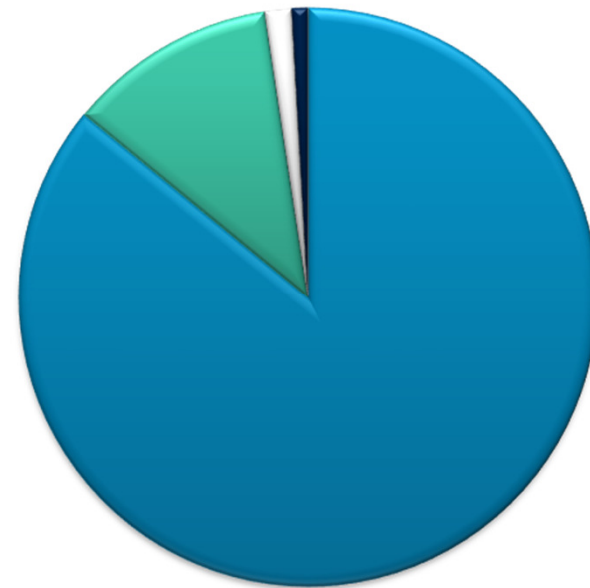


Exporting, ODI and FDI

Firms with FDI

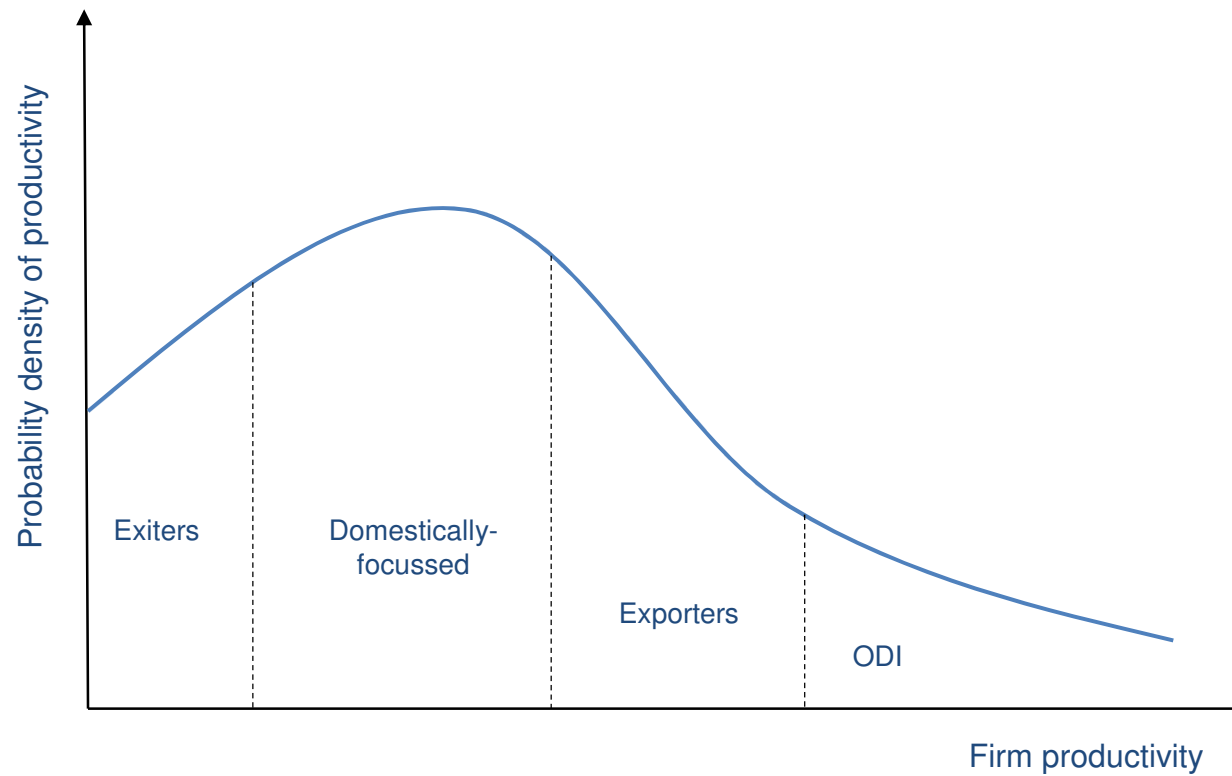


Firms without FDI



- Neither ODI nor exports
- Exporter only
- ODI & exporter
- ODI only

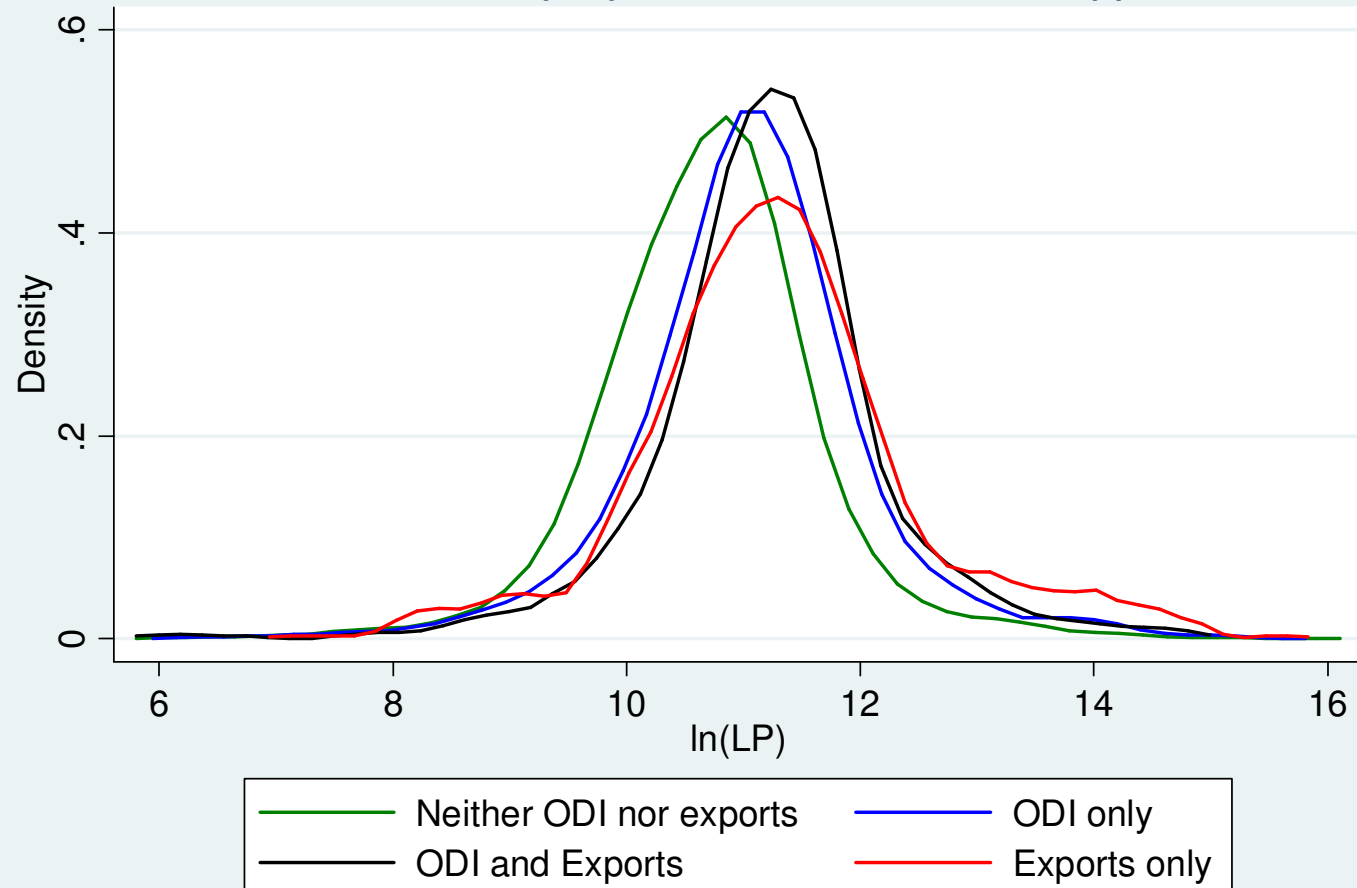
Remember the theory



Firm performance, by mode of internationalisation

	Sales	Employment	Value added	Labour productivity	Exports (% of sales)
Outward internationalisation					
Neither ODI nor exporter	6,419,395	27.6	1,578,182	53,649	.
Exporter only	14,565,725	39.6	3,961,867	77,621	34.9
ODI & exporter	41,009,579	126.6	12,134,364	184,931	46.8
ODI only	45,189,115	148.8	13,223,102	107,639	.
Inward internationalisation					
Domestic firm	6,067,829	26.6	1,517,377	53,649	4.7
Firms with overseas ownership	42,173,034	110.2	11,539,841	125,834	14.8
Up to half	50,282,876	32.0	2,259,475	58,430	5.1
Over half	6,067,829	108.5	6,875,282	61,821	20.7
Overall	9,026,640	33.2	2,330,567	58,482	5.4

Productivity by internationalisation type



Econometrically speaking

- Modes of outward internationalisation
 - Ordinal probit, multinomial logit
- Firms that internationalise are
 - Larger
 - More productive
 - Receive FDI
 - Conduct R&D
- Work in progress
 - Issues of causality, additional variables, MNP

Conclusions

- Firms that export or invest abroad
 - Have more sales, employment, & are more productive
- Firms that receive inward FDI
 - Have more sales, employment, & are more productive
- From the point of view of the world FDI and ODI are both flows of firm-specific assets and capital
- We have lot of FDI but not much ODI
- For NZ they are crucially different