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Exports and FDI motivations: Empirical evidence from U.S. foreign subsidiaries

Chiara Franco *

Department of Economics, University of Bologna, Strada Maggiore 45, 40125 Bologna, Italy

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ABSTRACT

Foreign direct investments (FDI) are supposed to bring into the host countries indirect benefits, usually referred as productivity spillover effects. However, an emerging literature analyses the effect with regard to the export performance of local firms finding inconclusive results. This literature is affected by two main shortcomings: firstly, the role played by FDI motivations is largely disregarded and, secondly, it is difficult to generalise results valid across countries. For these reasons, the aim of the paper is that of testing the effects of U.S. FDI on export intensity at the sectoral level in 16 OECD countries over the period 1990–2001 by bringing together international economics and international business perspective on FDI motivations. Through our data, we disentangle asset seeking and asset exploiting FDI motivations distinguishing also the channels through which the effect is going to occur. The findings show that asset exploiting motivations, and in particular market seeking FDI, are those that affect export intensity to a greater extent.

1. Introduction

The growth of multinational enterprises (MNEs) activities through foreign direct investments (FDI) in developed and developing countries has been remarkable in recent years: this fact has attracted the attention of policy makers because of the expected positive impacts FDI may have on host countries. Indeed, the starting point of our study is the literature on FDI productivity spillover; despite the breadth of the analyses produced thus far, the literature is not unanimous in its conclusions (for a survey, see Smeets, 2008). The debate is far from being concluded as methodological and conceptual papers (e.g., Barrios, Görg, & Strobl, 2011) are still trying to dig deeper into this topic. The reason is that this literature is affected by some drawbacks that need to be tackled. First, empirical studies have followed quite a narrow approach, as the effects of FDI have been analysed only with respect to total factor productivity (TFP) of local firms; instead, a new stream of research referred to as the "export spillover effect" focuses attention on the analysis of FDI in influencing the decision to export and the export intensity of local firms (e.g., Greenaway, Sousa, & Wakelin, 2004). Second, mixed results also appear when the effect is investigated with respect to intra-industry channels, i.e., the effect that MNEs may have on the same sector in which they carry out their foreign investments. Indeed, largely insignificant results have been found (e.g., Barbosa & Eiriz, 2009), contrary to results for inter-industry channel, especially in developing or transition countries (e.g., Javorcik, 2004), for which positive results are usually detected. The need to disentangle the different channels through which the effect occurs is also a priority in the export spillover studies (e.g., Kneller & Pisu, 2007). Third, an analysis of the process through which the

* Tel.: +39 0512092652; fax: +39 0512092670.
E-mail address: chiara.franco2@unibo.it.

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spillover effect occurs should take into account the heterogeneity of both local firms and MNEs strategies. This topic has been considered using different theoretical approaches, such as an international economics (IE) perspective (e.g., Beugelsdijk, Smeets, & Zwinkles, 2008) or international business (IB)-oriented approaches (e.g., Driffield & Love, 2007; Marin & Sasidharan, 2010). In the export spillover studies, this aspect has been acknowledged without directly referring to a specific theoretical framework, intending only to account for the different effects coming from MNEs that are domestic market oriented and those that are export market oriented. Last, we acknowledge that the FDI spillover literature has been mainly confined to the analysis of single countries; as argued by Javorcik (2008), particular countries are going to attract only certain types of FDI with different spillover potential. For this reason, the analysis of the effects of the spillover process only in one country may result in a counterproductive exercise, as results cannot be easily generalised. With few exceptions (e.g., Bitzer, Geishecker, & Görg, 2008), no comparative analyses have been conducted with respect to the export spillover literature.

The aim of the present paper is to analyse at the sectoral level the empirical relationship between various FDI motivations and export intensity over the period 1990–2001 in three medium–high-tech sectors. Data from the Bureau of Economic Analysis (BEA) provide information about the activities of U.S. foreign affiliates in 16 OECD host countries through which we can distinguish different FDI motivations. The contributions we make to the literature are manifold. First, we put together two strands of literature, FDI export spillover effect and FDI motivations that, at present, are evolving quite independently. Second, as FDI motivation can actually be examined under different theoretical perspectives, resulting in inconsistent measurement, we try to elaborate theoretically on this issue, inferring the motivations ex-ante, not ex-post. Third, we also attempt to uncover the channels through which the effect occurs, taking into account that different subsidiaries' activities may generate different effects even with respect to the same FDI motivation. Fourth, we focus on a group of homogenous host countries because this enables us to offer some general results. We find evidence that horizontal FDI have a positive effect on the export intensity of medium–high-tech sectors in the OECD countries under consideration. However, we also find that the effect is mediated by workers' skills in foreign subsidiaries and by the higher level of embeddedness that characterises market-seeking FDI.

The paper is structured as follows. The second section reviews the literature on the impact of FDI on host countries. In this section, we take stock of the effect of productivity spillover by making some distinctions between the IE and IB approach toward FDI motivations. We also examine how this issue has been considered in the export spillover literature, to which this paper aims to contribute. In Section 3, to be better able to interpret empirical results, we propose some theoretical hypotheses. Section 4 describes the data and the empirical approach followed, Section 5 provides some comments on the results and Section 6 concludes, offering some policy implications and describing some limits of the study.

2. Literature review

The first strand of literature on which our paper is based deals with the likely impacts that MNEs may have on host countries where they decide to invest. From a macroeconomic point of view, positive as well as negative results have been found (e.g., Bende-Nabende, Ford, Santoso, & Sen, 2003; Borensztein, De Gregorio, & Lee, 1998). The same ambiguity in empirical results applies for microeconomic studies, whose aim is to investigate how TFP of local firms is affected by MNEs' activities. Several reasons have been put forward to justify inconclusive evidence: first, the different econometric methods used to test the presence of such effects (e.g., Castellani & Zanfei, 2007; Görg & Strobl, 2001) as well as the type of channel analysed may yield different results. Some studies, especially those on developing and transition countries, detect positive effects when inter-industry (that is, between MNEs and local firms belonging to two different sectors) rather than intra-industry channels (that is, between MNEs and local firms operating in the same sector) are taken into consideration. As Hamida and Gugler (2009) underline while analysing the Swiss case, to have a clearer picture of how the effect is transmitted within a sector, we need to further disentangle the specific channels through which the mechanism works, i.e., distinguish a competition effect from a demonstration/imitation effect or a worker mobility effect.

Second, although the role played by the absorptive capacities of local firms has been deeply investigated (e.g., Meyer & Sinani, 2009), not enough attention has been paid to possible MNEs heterogeneities; only a few papers have tried to include this aspect in their empirical analysis. Different theoretical approaches will be discussed at length in the following subsections. Moreover, it should be noted that these microeconomic studies usually focus on one single host country, making it difficult to generalise the results across countries. Only a few exceptions are present in the literature: Damijan, Knell, Majcen, and Rojec (2003), who search for productivity spillover effect using firm level data for ten transition countries, and Bitzer et al. (2008), who investigate the relationship between FDI and productivity spillover at the sectoral level in 17 OECD countries. Both studies find positive results occurring through inter-industry channels. Finally, Bitzer and Görg (2009) introduce the novelty of estimating the simultaneous impacts of outward and inward FDI, recognising the heterogeneity in some countries of these variables.

2.1. IE perspective and FDI motivations

Following the IE perspective, FDI motivations have been described in the early models by Markusen (1984) and Helpman (1984). In the first model, MNEs invest in a foreign country to avoid high transportation costs or trade protection mechanisms that are in place in the host country. In this case, the same stage of production can take place in more than one country. In the second model, the aim is to move part of the production chain abroad to take advantage of lower labour costs