FROM TRADE
TO
TRADE-AND-INVESTMENT

Multinational corporations

account for 80 percent of all cross-border flows of goods and services, either within inter-affiliate transactions

or as part of supply-chains.

The flow of manufacturing FDI to medium-skilled activities such as transportation equipment, industrial machinery, electronics and electrical products, scientific instruments, medical devices, chemicals, rubber, and plastic products is nearly *fourteen times larger* each year than the flow to low-skilled, labor-intensive operations, and has been speeding up over time.

The run-away plant debate:
does outward investment by US firms
substitute for
or complement domestic activity
by those same US firms?

An increase in FDI by a US firm is associated with an *increase* in US domestic activities by that same firm.

When a US firm increases the employment at its foreign affiliates by 10 percent, employment by that same firm in the United States goes up by an average of 4 percent. Capital expenditures and exports from the United States by that firm also increase by about 4 percent.

When a US MNC increases its R&D abroad,
it also increases

its R&D, capital expenditures,
exports, sales, and employment

in the United States.

What is notable is the discovery that US firms that do not increase their R&D abroad

do not tend
to increase it at home, either.

US policymakers can expect that measures taken to impede or retard US MNC expansion abroad

will *weaken* job creation,
investment, R&D, and exports at home, rather than strengthen
or enhance domestic economic activity.

So MNC supply chains are not threatening
to the US home economy.
What can be done to foster
supply chains in developing countries?

Old view:

Impose performance requirements on MNCs

Domestic content requirements

Joint venture requirements

Technology transfer requirements

New evidence:

Improve doing-business indicators.

Access to imported goods (intermediates) and services.

Certification for efficiency and quality control.

.

1. Competent Investment Promotion Agencies.
2. Public-private partnerships for vocational skill-building.
3. Infrastructure clusters with industrial parks or agro-processing facilities

“Just let markets work” is not enough.

“Just improve

doing-business indicators”

is not enough.

Supply chain development in developing countries requires light-handed support by developed countries,

multilateral financial institutions,

and developing country agencies.