



# FDI, indigenous innovation and economic development

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**IDEA** CERGE  
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# Specialization, technology and global production systems

Why does it matter  
whether  
foreign affiliates  
innovate?

# (Re)distribution of FDI-generated income



Higher productivity of foreign affiliates but generating income for non-residents: Mind the difference between GDP and GNI!

Foreign-owned capital, imported know-how, tax holidays (or even subsidies) using cheap labour: What is in for the host country?

What are the effects of FDI in the absence of spillovers?

# German direct investors

- Dissatisfaction with the measurement of vertical versus horizontal FDI
- Business activities performed by German mother companies as compared to their Czech affiliates
- Microdata on affiliates, their mothers and control groups of domestic firms (2,441 establishments) from the ReLoc survey (2010)
- Evidence on R&D activity, education, task complexity, technology, value chain position as well as size, age and sector
- Cluster analysis (4 groups) and probit estimates to control for confounding factors
- Münich, D., Srholec, M., Moritz, M. and Schäffler, J. (2014) Mothers and daughters: Heterogeneity of German direct investments in the Czech Republic. Prague Economic Papers, 25. 42-62.

# Do mothers and daughters differ?

- Significant technological gap between the mothers and their cross border daughters - hence vertical division of labour - in (predominantly manufacturing) industry
- But a little difference between them – hence predominantly horizontal investment - in the service sector
- Consequences for technological upgrading on both sides of the border (but broader welfare effects not investigated)
- Only cross-sectional evidence with plans for building panel data

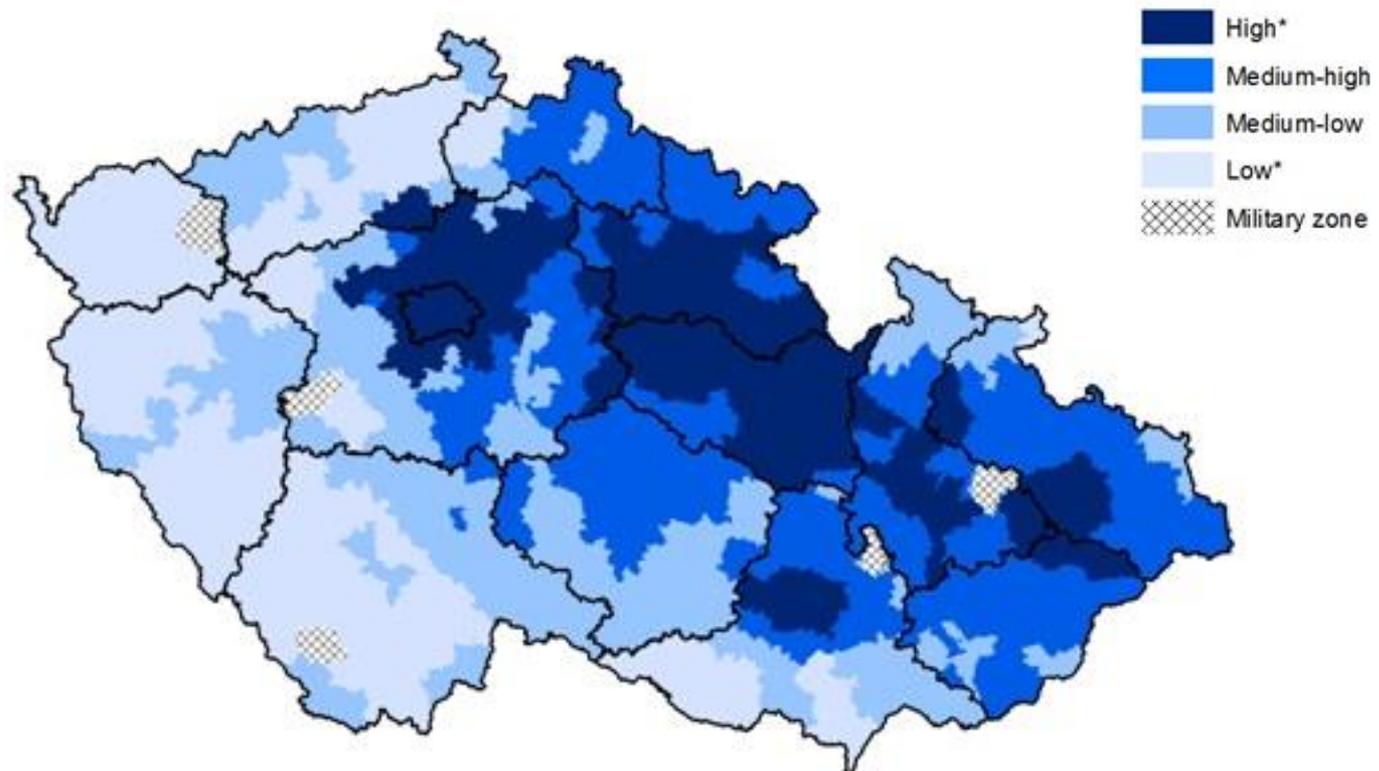
Source: Münich, D., Srholec, M., Moritz, M. and Schäffler, J. (2014) Mothers and daughters: Heterogeneity of German direct investments in the Czech Republic. Prague Economic Papers, 25. 42-62.

# Geography of business R&D

- Regionalization of innovation policy along functional or administrative borders
- Mapping of spatial distribution of business R&D in the Czech Republic
- Microdata (3,965 workplaces) from R&D surveys of the CZSO (2005-2009) by 389 regions (POU)
- Using exploratory spatial data analysis ( $G^*$  statistics) to identify local clusters of high/low contraction (per capita, per km<sup>2</sup>)
- Srholec, M. and Žížalová, P. (2014) Mapping the geography of R&D: What can we learn for regional innovation policy in the Czech Republic and beyond? *European Planning Studies*, 22, 1862-1878.

# G\* cluster map

Business R&D employment (FTE) per capita over 2005-2009



Source: Srholec, M. and Žížalová, P. (2014) Mapping the geography of R&D: What can we learn for regional innovation policy in the Czech Republic and beyond? *European Planning Studies*, 22, 1862-1878.

# What if?

- What if FDI turns out to be an agent of technological and institutional lock-in (at least in some regions)?
- What if (there is no mana from heaven) knowledge spillovers through FDI at large do not materialize?
- What if foreign affiliates (over long term) create less than they crowd-out from domestic owned firms?
- What if the main growth opportunities (for raising domestic standards of living) are represented by home-grown entrepreneurs?

# Policy implications

- Heterogeneity of what foreign direct investors do in the host country: support for strategic (innovation) activities only
- Strong regional differences: regionalize innovation (and other) policies
- Country of origin matters: different policies depending on where the investor comes from
- Spillovers are decisive for the development impact: lure foreign direct investors into spilling more (by integrating them locally)

# Thank you!

