

Crescenzi, Riccardo; Ganau, Roberto; Storper, Michael

Research Report

Outward FDI and home country employment

Columbia FDI Perspectives, No. 350

Provided in Cooperation with:

Columbia Center on Sustainable Investment (CCSI) - A joint center of Columbia Law School and the Earth Institute, Columbia University

Suggested Citation: Crescenzi, Riccardo; Ganau, Roberto; Storper, Michael (2023) : Outward FDI and home country employment, Columbia FDI Perspectives, No. 350, Columbia University, Columbia Center on Sustainable Investment (CCSI), New York, NY

This Version is available at:

<https://hdl.handle.net/10419/271129>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



Columbia FDI Perspectives

Perspectives on topical foreign direct investment issues

Editor-in-Chief: Karl P. Sauvant (Karl.Sauvant@law.columbia.edu)

Managing Editor: Matthew Conte (msc2236@columbia.edu)

The Columbia FDI Perspectives are a forum for public debate. The views expressed by the authors do not reflect the opinions of CCSI or our partners and supporters.

No. 350 February 6, 2023

Outward FDI and home country employment

by

Riccardo Crescenzi, Roberto Ganau and Michael Storper*

Policymakers often see inward FDI (IFDI) as a key to economic development and outward FDI (OFDI) as a drain on domestic employment and innovation. This reluctance to embrace active, two-sided internationalization is matched by deep ambiguity in scholarly work on the actual economic impacts of [OFDI](#). However, IFDI and OFDI are often inextricably [connected](#), with economic benefits flowing from the two-way internationalization of the local economy.

The empirical literature on OFDI has mostly explored impacts internal to investing firms, often overlooking impacts on the wider domestic economy on a local level.¹ Depending on the nature of the investment, different combinations of labor substitution and complementarity effects may shape home-economy employment differently. Vertical OFDI—involving the relocation abroad of specific parts of the value chain—can induce substitution effects between domestic and foreign labor in the short and medium run. Conversely, in the long run, cost-saving OFDI increases productivity through a scaled-up demand for domestic labor, the consequence of firm growth that stems from internationalization. Horizontal OFDI—involving the relocation abroad of entire business activities (mostly production)—might generate negative home country employment effects due to offshoring. But, if foreign production is mostly supported by inputs and intermediate components from domestic facilities or parent companies, increased sales by foreign affiliates will positively affect the home country.²

When considering the net economy-wide impacts, an [analysis](#) of OFDI in the US suggests an overall positive link between “greenfield” OFDI and domestic employment levels in local labor markets where investing companies are located. This suggests that local job creation at home and abroad are complementary effects of both horizontal and vertical OFDI, rather than substitutes.

However, the employment returns of OFDI vary greatly across industries and regions. Higher local returns to OFDI are associated with high-tech manufacturing and service industries that employ skilled domestic workers. More highly skilled domestic workers are difficult to replace with labor

outside the US when engaging in vertical OFDI and are also more likely to contribute to offshored activities in horizontal OFDI. On balance, less developed domestic regions benefit the most when local firms engage in OFDI in high-tech manufacturing and services industries. This suggests that OFDI might offer opportunities for structural transformation in less developed regions, by helping local activities to move up the global value and knowledge hierarchy by investing abroad. However, this effect might also increase intra-regional inequalities between high-skilled and low-skilled workers.

Public policies that encourage OFDI could be beneficial to local employment. However, policymakers should carefully consider some key aspects:

- First, OFDI is often coupled with increases in intra-regional and inter-personal inequalities. This might work against inclusive and sustainable growth. Governments should adopt complementary measures to spread the benefits of OFDI, such as through training and upskilling.
- Second, regional investment promotion agencies ([IPAs](#)) should support the dynamism of local ecosystems with the goal of reinforcing local linkages between domestic MNEs and local suppliers.³ For example, while Local Content Units—dedicated government bodies that connect new investors with potential local suppliers—have mostly focused on the development of input/output linkages of inward investors, they should extend their action to domestic firms with foreign operations.
- Third, regional IPAs, with their sectoral targeting,⁴ are best placed to ensure that OFDI policies are flexibly tailored to country and region socioeconomic specificities and earmarked to priority sectors where appropriate skill complementarities and absorptive capacity⁵ are in place locally.⁶

New evidence offers encouraging insights and suggests that OFDI could be beneficial for less developed regions in home countries. Although more evidence is urgently needed on what tools work in practice, countries should start considering which individual policies could help them maximize OFDI benefits.

* Riccardo Crescenzi (r.crescenzi@lse.ac.uk) is a Professor of Economic Geography at the London School of Economics; Roberto Ganau (roberto.ganau@unipd.it) is an Assistant Professor of Applied Economics at the University of Padova; Michael Storper (storper@ucla.edu) is a Distinguished Professor of Regional and International Development at UCLA. The authors wish to thank Jan Knoerich, Joserra Perea and an anonymous peer reviewer for their helpful peer reviews.

¹ S. Lael Brainard and David A. Riker, “Are US multinationals exporting US jobs?,” in David Greenaway and Douglas R. Nelson, eds., *Globalization and Labour Markets Vol. II* (Cheltenham: Edward Elgar, 2001), pp. 410–426.

² Giorgio Barba Navaretti, Davide Castellani and Anne-Celia Disdier, “How does investing in cheap labour countries affect performance at home? Firm-level evidence from France and Italy,” *Oxford Economic Papers*, vol. 62 (2010), pp. 234–260.

³ Armando Heilbron and Hania Kronfol, [Increasing the Development Impact of Investment Promotion Agencies](#) (Washington D.C.: World Bank, 2020).

⁴ Riccardo Crescenzi, Marco Di Cataldo and Mara Giua, “[FDI inflows in Europe: Does investment promotion work?.](#)” *Journal of International Economics*, vol. 132 (2021), p. 103497.

⁵ P. Criscuolo and R. Narula, “A novel approach to national technological accumulation and absorptive capacity: Aggregating Cohen and Levinthal,” *The European Journal of Development Research*, vol. 30 (2008), pp. 56–73.

⁶ Riccardo Crescenzi and Oliver Harman, [*Harnessing Global Value Chains for Regional Development*](#) (Milton Park: Taylor & Francis, 2022).

The material in this Perspective may be reprinted if accompanied by the following acknowledgment: “Riccardo Crescenzi, Roberto Ganau and Michael Storper, ‘Outward FDI and home country employment,’ Columbia FDI Perspectives No. 350, February 6, 2022. Reprinted with permission from the Columbia Center on Sustainable Investment (<http://ccsi.columbia.edu>).” A copy should kindly be sent to the Columbia Center on Sustainable Investment at ccsi@law.columbia.edu.

For further information, including information regarding submission to the *Perspectives*, please contact: Columbia Center on Sustainable Investment, Matthew Conte, at msc2236@columbia.edu.

The Columbia Center on Sustainable Investment (CCSI), a joint center of Columbia Law School and Columbia Climate School at Columbia University, is a leading applied research center and forum dedicated to the study, practice and discussion of sustainable international investment. Our mission is to develop and disseminate practical approaches and solutions, as well as to analyze topical policy-oriented issues, in order to maximize the impact of international investment for sustainable development. The Center undertakes its mission through interdisciplinary research, advisory projects, multi-stakeholder dialogue, educational programs, and the development of resources and tools. For more information, visit us at <http://ccsi.columbia.edu>.

Most recent Columbia FDI Perspectives

- No. 349, Jose Godinez and Mahmoud Khalik, “[Corruption and FDI: The role of social brokers](#),” *Columbia FDI Perspectives*, January 23, 2022
- No. 348, Gary Gereffi, “[How to make global supply chains more resilient](#),” *Columbia FDI Perspectives*, January 9, 2023
- No. 347, Bernard M. Hoekman and Petros C. Mavroidis, “[Investment facilitation in the WTO: The case for early harvesting](#),” *Columbia FDI Perspectives*, December 26, 2022
- No. 346, Yulia Levashova, “[The way forward in reforming the legitimate expectations test](#),” *Columbia FDI Perspectives*, December 12, 2022
- No. 345, Alejandro Carballo Leyda and Frauke Nitschke, “[Investment dispute management: The importance of the domestic dimension](#),” *Columbia FDI Perspectives*, November 28, 2022

All previous *FDI Perspectives* are available at <https://ccsi.columbia.edu/content/columbia-fdi-perspectives>.