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Generalities

Governments adopt inward FDI [FDI(in)] promoting policies because it is believed that it will encourage technological spillovers from foreign to domestic firms.

MNEs (through which most FDI is made) have competitive advantages because of intangible assets that they have acquired, and own, through experience. Thus, some (if not most) of such intangible assets are not easily transferable as they also depend on experience. The most common intangible assets acquired and owned by MNEs are:

- technological know-how: ability to produce, innovate and use the most advanced technologies;
- marketing, managerial and organisational skills;
- export contacts and experience (many FDI firms may have started as successful exporters);
- coordinated relationships with suppliers and customers;
- financial resources and leverage;
- reputation, patents and brand names.

MNEs are expected to have two different types of growth impact on the economy. On one hand, their intangible assets should raise the productivity of plants that are acquired by MNEs. On the other hand, if some of these assets spillover to other firms within the industry and in other industries, MNEs contribute to raise the productivity of the economy as a whole.

MNEs spillovers into domestically owned firms

	Spillovers
Productivity Increasing	• ***human capital mobility***: skilled workers, engineers and managers that move from MNEs to domestic firms; • ***knowledge spillover***: exposure to new products, techniques, technical support and processes; training contracts; communication of experience; etc. • ***supply linkages***: source of supply of cheaper and better quality inputs and equipment to domestic firms. • ***demand linkages***: source of demand for cheap and quality equipments, inputs and services from domestic firms. • ***competition***.
Productivity Reducing	***Market stealing***: positive spillovers move domestic firms from AC0 to AC1; however, if their market is stolen and they face fixed costs, their costs increase along the AC1 curve. C_u, A, B, AC_1, AC_0, Q

Results from the study

The bottom line is whether there is any evidence that the spillover effects actually happen.

The study shows that:

- positive effects of FDI are mostly internalised by the subsidiaries and joint ventures (own plant effect);
- however:
    - the own plant effect is felt more in smaller firms;
    - in larger firms, after controlling for firm specificity (higher productivity, capital intensity and export orientation) the impact of FDI in negligible. It therefore shows that FDI chooses the most productive firms to invest in;
- net spillovers to the rest of the economy are negative because of the dominant effect of market stealing. This effect is felt mostly in smaller, domestically owned firms; as the larger, domestically owned firms are more capable to compete and adjust, and therefore to keep their markets.