

Discussion of Alfaro and Chen (2012) “Selection, Reallocation, and Knowledge Spillover: Identifying the Sources of Productivity Gains from Multinational Activity”

Wenjie Chen
George Washington University
School of Business
April 6, 2012
WAITS 2012

Introduction

Focus: Where do productivity gains from multinational activity come from? Typically, we think about knowledge spillover effects.

Less emphasized (key point of paper):

Firm selection effects: 1) self-selection of multinational firms; 2) selection of domestic firms

Contribution: provide detailed accounting of productivity gains from above three sources.

Key Ingredients

Model: based on Melitz (2003) and Helpman et al. (2004)

Three channels:

1. More productive foreign firms self-select into being multinationals in host country (due to higher fixed cost based on Helpman et al., 2004)
2. Existing domestic firms face stiffer competition after multinational entry, therefore, have to overcome higher fixed cost than originally (due to labor and capital market reallocation based on Melitz, 2003)
3. Knowledge spillover effect of foreign multinationals.

Highlights

- Predictions of the model are confirmed in the data Breakdown (Table 7):

TFP Gains (in percentage)	Estimates		
	All	Developed	Developing
Aggregate	1.40	1.22	2.11
Multinational Firms	4.90	7.29	1.31
Domestic Firms	0.87	0.55	2.25
– Spillover	0.60	0.20	2.20
– Reallocation	0.27	0.35	0.05

Comment: Are these effects small?

Comparison: Arnold and Javorcik (2009) find 13.5% TFP increase in Indonesian firms due to FDI; Chen (2011) finds 13% labor productivity increase in US firms due to

Other Comments

- Differentiation between vertical and horizontal FDI; extend to developing countries
- Differentiation between greenfield and brownfield FDI; maybe have different impact on labor and capital reallocation and knowledge transfer
- Measures of multinational activity (MNC sales) and entry; need to incorporate share of investment

Suggestions on future work

- Exploit wide country variation, especially developed and developing
- Country of origin of FDI might play a role
- Results on FDI Promotion Policy are somewhat puzzling; money not well spent?