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Discussion

Do FDI in Business Services Follow FDI in Manufacturing ?

Evidence from Italian Firm Level Data by Massimo
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What does this paper do

- It explores the determinants of the locational choices of Italian FDI in business services
- It examines if these choices are driven by the location of Italian FDI in manufacturing
- It uses Head and Mayer (2004) as a broad analytical framework
- It carries out an empirical analysis based on a conditional logit model of the probability that firm i invests in country j .

General Concern

- Fdi in Services: a very different story than manufacturing **DISCUSS AND CLARIFY**
 - We cannot apply the standard proximity-concentration trade off, as most services are *not tradable!!!*
 - FDI only way to tap foreign markets (from retail banking to business advisors), often with large rents (see TLC)
 - Driven by factor availability/costs (as standard vertical model), only when tradable
- Non tradability is a good reason why business services follow manufacturing FDI abroad, but they are driven by the latter, this is why they respond to the same sets of determinants

Theory

- Head and Mayer 2004.
 - Are we sure it is equally relevant for services?
 - Trade costs are non relevant in driving FDI in services ($\tau = \infty$)
 - The idea of regional market potential (supply platform) is it relevant here?
 - Unsuitable to isolate the Italy specific effect
 - In the original model it is irrelevant where demand comes from
 - The argument made in Nefussi and Schwellnus, 2007 is that, if there is a strong country bias, standard measures underestimate market potential and the right specification is:
$$mp_{ij} = mp_{ij}^{-i} + (1 + \lambda)mp_{ij}^{-i} \quad \text{when } \lambda \text{ is large}$$
 - The problem is what causes such bias: contractual issues, networking
 - In light of this, which type of services are more likely to be affected by this bias?

Empirics

- As they are non tradable, business services go where business (manufacturing) goes. Essentially the explanatory model is the same, as location of services is derived from location of manufacturing
 - => This is how distance enters into the picture (anyway EU effect)
- Why using different measures of market potential for italian investments and the rest of economic activities. Could you use input output table to better characterise also overall demand of business services in the host country?
- Italian effect not significant because of lack of critical mass? The telecom story is unconvincing
- Enter firm specific (or at least industry specific) characteristics (e.g. tradability of services) to be interacted with country characteristics