Discussion of Javorcik and Poelhekke, *Former Foreign Affiliates: Cast out and Outperformed?*

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Does FDI boost a nation's productivity?

- There's a strong correlation between productivity and foreign involvement
  - foreign owned plants are more productive than domestic counterparts
  - the average productivity in an industry is increasing with foreign presence
  - domestic multinationals are more productive than purely domestic firms
- A key issue is ascertaining the direction of causality
  - are the most productive firms selected into global networks?
  - or does being in a global network lead to an increase in productivity?

Evidence is mixed

- Multinationals are more productive
  - Doms and Jensen (1998) find that productivity advantages in US based on observable characteristics
  - Criscuolo and Martin (2009) find that the advantage of US multinationals driven by selection of productive plants
  - globally engaged firms use more knowledge inputs, generate more innovative outputs, and draw knowledge from a wider range of sources (Criscuolo, Haskel and Slaughter (2010))
- and may produce spillovers
  - a range of studies find no evidence of spillovers
  - some find negative effects on domestic firms (Aitken and Harrison (1999))
  - Haskel et al. (2002) and Keller and Yeaple (2003) find positive FDI spillovers in the UK and US respectively
  - Javorcik (2004) finds evidence of vertical downstream spillovers

Contribution of Javorcik and Poelhekke (2014)

- Consider the persistence of the positive effects of foreign ownership
- Present evidence that an ownership change (from foreign to domestic) leads to a fall in TFP
  - productivity still higher than other domestic firms
- Assess causation by selecting a counterfactual group of firms based on observable characteristics
  - key assumption: unobservable factors are unrelated to productivity
- Interpretation: superior performance of foreign affiliates driven by a continuous knowledge injection from the parent company

Questions to take forward

- What are the specific channels through which productivity of foreign affiliates is increased?
  - foreign parent provides a distribution network
  - or provides access to valuable intellectual property
- Do the results hold in developed countries?
  - is FDI more important when domestic capital is more limited, or domestic firms further away from the technology frontier?

What are the implications for policy?

- Governments commonly express an interest in attracting and retaining multinational activities
- Various policies to attract FDI (import duty exemptions, subsidies for start up costs, preferential tax treatment)
- Also interest in retaining the activities of domestic multinationals
  - there can be benefits to operating in global networks, especially if at the technological frontier (Griffith et al, 2006)
- Policy priorities?
  - a high skilled workforce and infrastructure that allows a country to engage in global networks
  - a tax system that doesn't distort the ownership of assets

Tax policy

- Aim of the recent UK corporate tax policy changes has been to remain a competitive location for mobile activities
  - lower tax rates, move to exemption, Patent Box
- Preferential tax regimes have been used to attract FDI
  - previously discouraged by OECD and EU because of concerns of harmful tax competition

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