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## PRESS RELEASE

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### **Outward foreign direct investment and domestic performance: In search of a causal link**

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The aim of this paper is to examine causal effects of internationalization behavior by Belgian corporations through outward foreign direct investment (hereafter FDI) on a large number of domestic performance indicators.

In our sample of Belgian firms, we identify six distinct groups of firms: domestic firms, exporters only, importers only, two-way traders, Belgian multinational companies (hereafter MNCs) and Belgian affiliates of foreign MNCs. When we examine the productivity pecking order for Belgian firms, we find that domestic firms that only serve the Belgian market are the least productive in comparison to the other groups. Then come the two groups of one-way traders that are less productive than the two-way traders and the MNCs. In the right tail of TFP distributions, the group of two-way traders is less productive than the MNCs and the group of Belgian MNCs is less productive than the group of foreign MNCs.

Next we examine the relationship between outward FDI and firm performance in two steps. First, we identify the key variables that determine the odds of a firm turning into a multinational. We find that firm-level productivity (TFP), size (in terms of employment) and skill intensity (the ratio of white-collar employees to total average employment) are positively associated with the odds of becoming an MNC.

We then analyze the impact of becoming an MNC on various economic indicators (productivity, employment, output, etc.). Results of difference-in-differences analysis indicate that there is no evidence in our data to show that FDI has any statistically significant impact on productivity, employment or output. The only statistically significant result in our full sample indicates that FDI causes positive growth in export intensity. On the other hand, when we restrict our sample to Belgian manufacturing firms only, we do find that switching to outward FDI leads to positive growth in TFP. This effect is coupled with an increase in wages and exports. On the other hand, we do not find any statistically significant evidence that the internationalization of Belgian firms causes any loss of employment for the unskilled worker as in other studies.