

# MOVEMENT OF PRODUCTION (INTERNATIONAL) FACTORS

LESSON VIII



**SILESIA  
UNIVERSITY**

SCHOOL OF BUSINESS  
ADMINISTRATION IN KARVINA

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EVS/XXX

# Outline of the lecture

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1. The sources of movement of factors
  2. Foreign Direct Investment
  3. Technology Movement
  4. Labour Migration
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# THE SOURCES OF MOVEMENT OF FACTORS



- **Factors:**
- Capital – mostly in the form of FDI
- Technology
- Labour
  
- The sources – MULTINATIONAL ENTERPRISES



# THE SOURCES OF MOVEMENT OF FACTORS

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- **Multinational enterprise (MNE)**
  - Operating in many host countries
  - Research and development (R&D) activities, and
    - Manufacturing, mining, extraction, and business-service operations
  - Cross national borders
  - Directed from a company planning center
    - Distant from the host country
  - Multinational stock ownership
  - Multinational company management
  - High ratio of foreign sales to total sales
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# THE SOURCES OF MOVEMENT OF FACTORS

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- **Vertical diversification**
  - Parent MNE - establish foreign subsidiaries
  - To produce intermediate goods or inputs that go into the production of a finished good
  - **Horizontal diversification**
  - Parent company producing a commodity in the source country
  - Sets up a subsidiary to produce an identical product in the host country
  - **Conglomerate diversification**
  - Diversify into nonrelated markets
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# THE SOURCES OF MOVEMENT OF FACTORS



## Multinational enterprise groups in the EU

**experimental**

*This data is classified as experimental statistic, since EuroGroups Register (EGR) data are incomplete, and of a low maturity level.*

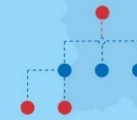
*Figures for the EU contain data for all 28 EU Member States. Data at a national level are only published upon agreement with the countries.*

Number of multinational groups

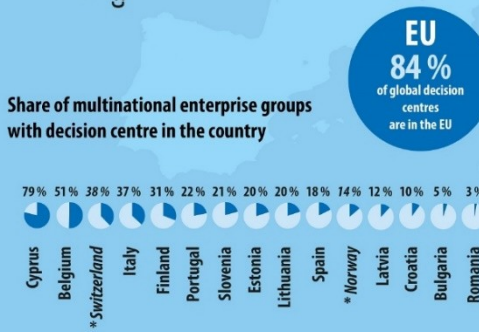


What is a multinational enterprise group?

A group of enterprises that has employees in two or more countries, at least one of them in the EU.



Share of multinational enterprise groups with decision centre in the country



The group's home country is defined by its global decision centre. The global decision centre is the unit, where the strategic decisions concerning the whole enterprise group are taken.



Data from 2016.  
Czech Republic: data on the global decision centres is not available.  
\*Non-EU countries: Switzerland, Norway.



- **Foreign direct investment**
  - Parent company obtains sufficient common stock in a foreign company to assume voting control
  - Parent company acquires or constructs new plants and equipment overseas
  - Parent company shifts funds abroad to finance an expansion of its foreign subsidiary
  - Earnings of the parent company's foreign subsidiary are reinvested in plant expansion
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## Foreign Direct Investment

### Pros



Diversifies investors  
portfolios



Promotes stable long  
term lending

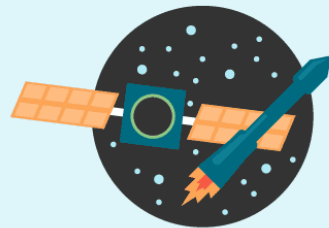


Provides financing to  
developing countries



Provides technology to  
developing countries

### Cons



Not suitable for strategically  
important industries



Investors may have less  
moral attachment



Unethical access  
to local markets



# FOREIGN DIRECT INVESTMENT



## Global FDI Flows Plunge

Direct Foreign Investment Flows in \$ Billions



Source of data: OECD

WOLFSTREET.com



- **Opening markets to foreign direct investment**
  - Higher rates of private investment
    - Economic growth and job creation
  - Generates spillovers
    - Improved management and better technology
  - Higher average labor productivity
  - Higher wages
  - Stimulates exports of machinery and other capital goods
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- **Foreign direct investment**
  - Conducted in anticipation of future profits
  - Investment flows from regions of low anticipated profit to those of high anticipated profit
  - Other factors
    - Market-demand conditions, trade restrictions,
    - Investment regulations,
    - Labor costs, and transportation costs
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# FOREIGN DIRECT INVESTMENT

- **Motives for Foreign direct investment**
- **Demand factors**
  - New markets and sources of demand
  - Tap foreign markets that cannot be maintained adequately by export products
  - Parent company - productive capacity already sufficient to meet domestic demands
  - Market competition
- **Cost factors**
  - Reductions in production costs
  - Essential raw materials
  - Labor costs
  - Transportation costs
  - Government policies





- **Country Risk Analysis**
  - **Political risk analysis**
  - To assess the political stability of a country
    - Government stability, corruption, domestic conflict, religious tensions, and ethnic tensions
  - **Financial risk analysis**
  - Investigates a country's ability to finance its debt obligations
    - Foreign debt as a percentage of GDP, loan default, and exchange rate stability
  - **Economic risk analysis**
  - Determines a country's current economic strengths and weaknesses
    - Rate of growth in GDP, per capita GDP, inflation rate
  - **Composite country risk rating**
  - Overall assessment of the risk of doing business in some country
-




## International Country Risk Guide

Political risk factors - weighting of 50%

Financial and economic risk factors – 25% each

- Low risk, 80–100 points
- Moderate risk, 50–79 points
- High risk, 0–49 points

<b>Country</b>	<b>Composite Risk Rating (100 point maximum)</b>	
Norway	91.8	Very Low Risk
Luxembourg	89.3	
Brunei	88.5	
Switzerland	88.5	
Germany	86.0	
Hong Kong	85.0	
United States	76.5	
Egypt	65.8	
Iraq	53.0	
Somalia	39.3	Very High Risk



# TECHNOLOGY TRANSFER



- **Technology transfer**
- Demonstration effect
- Competition effect
- Increase the productivity and competitiveness of recipient nations
- Donor nations may react against it because it is detrimental their economic base
- General Electric: trade-off for entry into the Chinese market
  - Short-term sales for long-term competition





- **Technology transfer**
  - First, there is **foreign direct investment (FDI)**, which makes it possible to reach new technologies and use the existing models of their implementation or application
  - Second, through **international cooperation**, companies increase their R&D expenditure, thus boosting the technological intensity and technical advancement of their production
  - Third, international links allow enterprises to broaden the scope of **application of new technologies** onto a higher number of branches or sectors. In the long term, accumulation of resources and possibilities in less technologically developed branches prompts companies to search for new, more innovative forms or scopes of activities from processing to R&D
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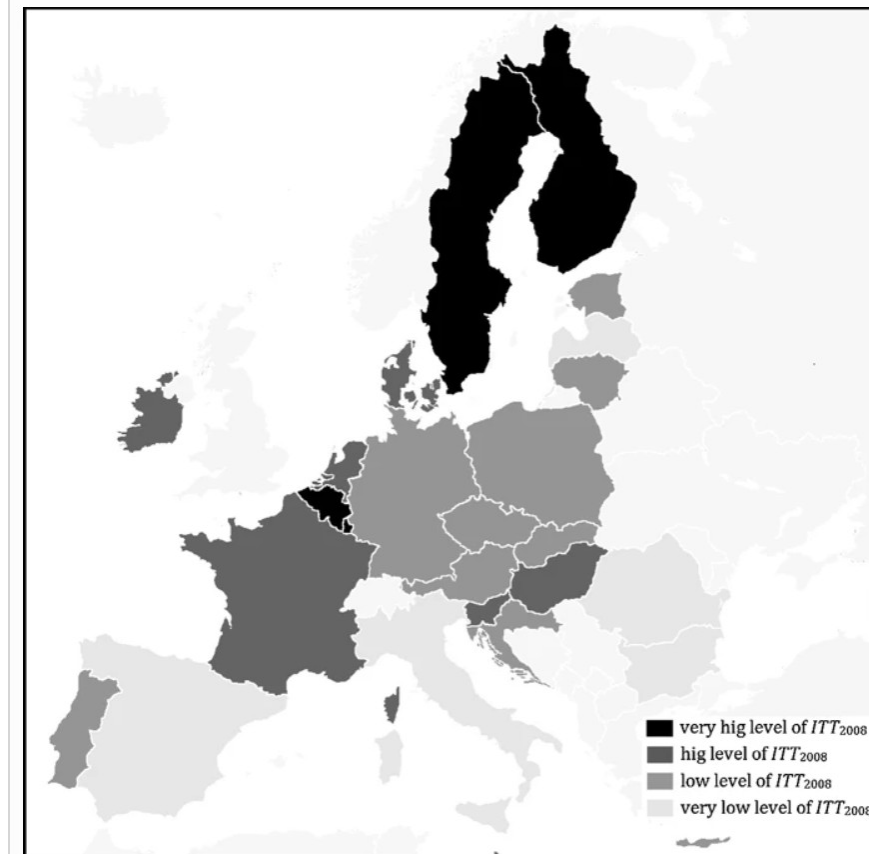


- **Technology transfer**
  - This type of processes must go closely together with the development of human resources (knowledge, experience, skills, cooperation), because of their inevitable complementarity and the tendency towards greater share of R&D in entrepreneurial activity
  - Further steps towards higher levels of technological development require better efficiency at adopting new solutions.
  - In the long term, technology transfer is the main component of technical progress as it leads to increased productivity and helps to narrow the gap between less and more developed countries.
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# LABOUR MOBILITY



- Division of EU countries into typological groups according to international technology transfer in 2008





- **International labour movements**
  - Enhance the world economy's efficiency
  - Restricted by government controls
  - **Immigration Act of 1924**
  - Restricting the overall flow of immigrants
  - Quota - limited the number of immigrants from each foreign country
  
  - **Migrants** - motivated by
  - Better economic opportunities
  - Noneconomic factors: politics, war, and religion
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- US Immigration between 1820 and 2008

<b>Period</b>	<b>Number (thousands)</b>
1820–1840	743
1841–1860	4,311
1861–1880	5,127
1881–1900	8,934
1901–1920	14,531
1921–1940	4,636
1941–1960	3,551
1961–1980	7,815
1981–2000	16,433
2001–2008	8,328

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# LABOUR MOBILITY

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- Mexican workers immigrate to the U.S.
  - Workers migrate from uses of lower productivity to higher productivity
    - World output expands
  - Mexican labor supply decreases
    - Wages increase
  - U.S. labor supply increases - Wages decrease
  - Hurts native U.S. workers x helps Mexican workers
  - Helps U.S. owners of capital x hurts Mexican owners of capital
  - Increase overall world income
  - Redistribute income from labor to capital in the United States and redistribute income from capital to labor in Mexico
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- Immigration as an issue
  - Domestic labor groups prefer restrictions on immigration
  - Domestic manufacturers favor unrestricted immigration as a source of cheap labor
  - Drain on government resources
    - Long-term calculations: immigrants make a net positive contribution to public coffers
  - Developing nations fear the brain drain
    - Emigration of highly educated and skilled people from developing nations to industrial nations
    - Limiting the growth potential of the developing nations
  - Guest workers
    - Temporary migration
  - Illegal migration
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# LABOUR MOBILITY

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- **Immigration as an issue**
- **Immigrants**
- Diversify an economy
- Contribute to economic growth
- Lower prices for consumers
- Domestically produce a wider variety of goods
- Increase the supply of labor in the economy
  - Similar skills – lower wage
  - Complementing skills – higher wage
- Human capital formation costs – native country
- Contribution to social security



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# LABOUR MOBILITY



- Labour markets change due immigration in 1980 and 2000 (%)

<b>Labor Category</b>	<b>PERCENTAGE WAGE CHANGE</b>	
	<b>Short Run</b>	<b>Long Run</b>
All workers	-3.3%	0.1%
High school dropouts	-8.2	-4.8
High school graduates	-2.2	1.1
Some college	-2.6	0.8
College graduates	-3.8	-0.5





Thank you for your Attention!

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