

FDI

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The help of FDI in transferring Technology into the host countries

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Overview

A

OUTLINE

Technology transfer

B

Vertical linkages

Horizontal linkages

Labor migration

Internationalization of R&D

OVERVIEW :

- Intra-firm trade may account for 1/3 of total world trade and sales of subsidiaries of multinational firms now exceed world wide exports of goods and services.

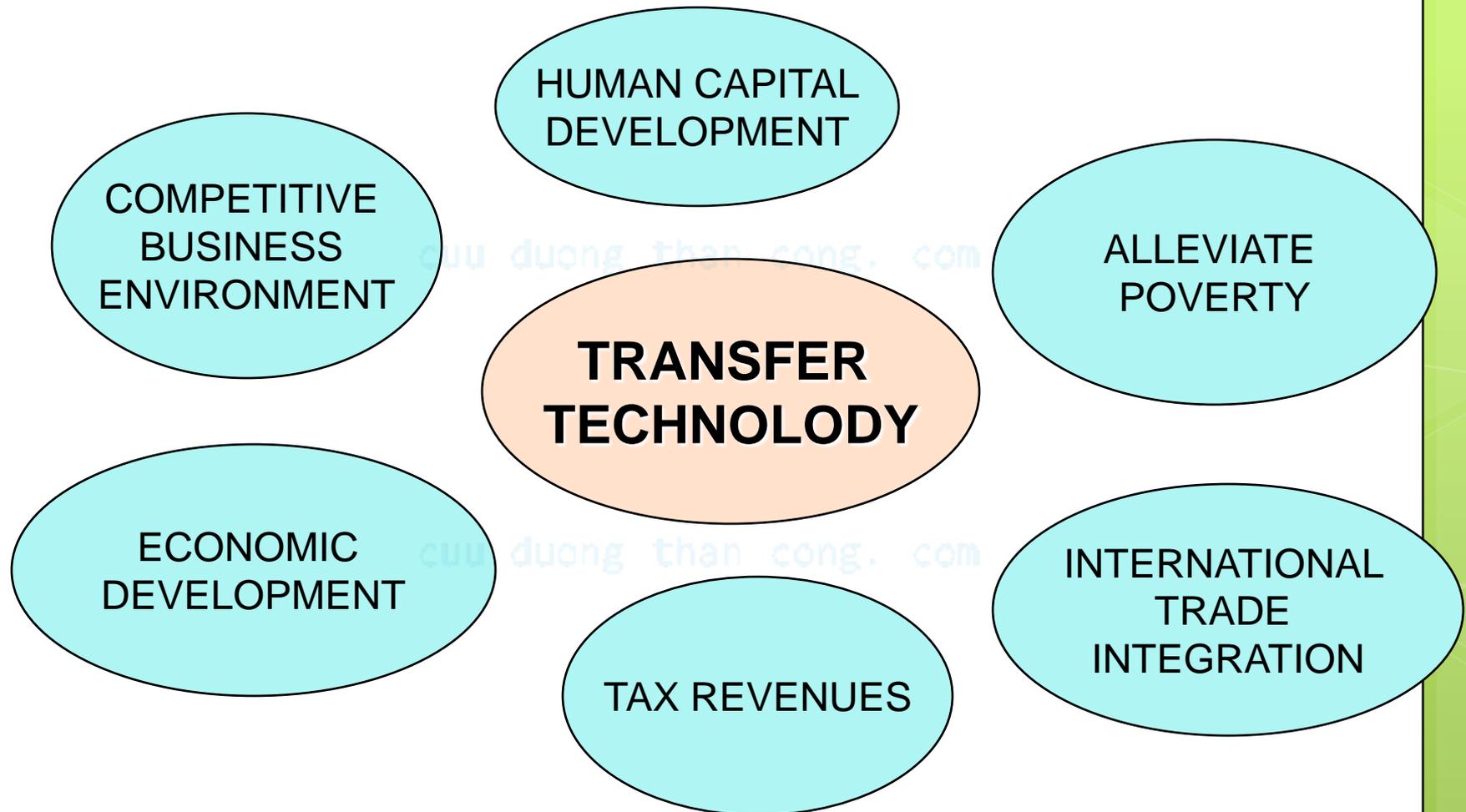
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- While most FDI occurs between industrial countries, developing countries are becoming increasingly important host countries for FDI:

**27% of the global stock of FDI today
is in developing countries.**

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DEVELOPING COUNTRIES BENEFITS FROM FDI



DEVELOPING COUNTRIES

**HOW
IMPORTANT
IS TECHNOLOGY
TRANSFER
FROM FDI?**

MNCS: MORE ADVANCED TECHNOLOGY
PROCESS MUCH-NEEDED
AND ADVANCED TECHNOLOGY
=> LOWER PRODUCTION COST

SUBSIDIARIES OF MNC & DOMESTIC FIRMS
ACQUIRE TECHNOLOGY MORE DIRECTLY
AND EFFECTIVELY.

DEVELOPING COUNTRIES

**HOW
IMPORTANT
IS TECHNOLOGY
TRANSFER
FROM FDI?**

**REDUCE TECHNOLOGY GAP
AMONG COUNTRIES**

**DECREASE SPENDING FOR
IMPORTING TECHNOLOGY.**

DEVELOPED COUNTRIES

- **MNCS** take advantage of comparative advantage in developing countries: labor resource, material resources.....
 - Technology develops so quickly in developed countries. [cuu duong than cong. com](http://cuuduongthancong.com)
- => Lengthen the longevity of technology.**

VIET NAM

- The technology of Vietnam is as 50-100% underdeveloped as developed countries.
=> FDI is very necessary.
- Until 2005, more than 70% of projects involve technology transfer.
- Fields: industry (50.7%), agricultural (5.3%), services (2.3%), others: 41.75%. 90% of technology transfer is through FDI.

- Develop important fields: exploiting petrol, producing cement, steel, automobile, sheep, international communication, modern hotels.
- Import modern technology and production line.

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Technology transfer

1

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3

4

Vertical linkages

Horizontal linkages

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Internationalization of R& D

1

Vertical Linkage

- Aka Backward linkages
- The strongest proof for positive spillover of tech transfer
- With local suppliers in developing country
- Buying and selling relationships, exchange knowledge, information and technical, financial and business services -> raise the suppliers' products

MNEs -> Local suppliers

- Provide technical assistance, training, info
- Help purchasing raw materials, intermediate goods
- Modernize and upgrade production facilities

MNE: reduce production costs

Local firms: higher tech transfer, higher demand

Case: Toyota Vietnam Auto Corp



Parts	Manufacturer 15	Year
Electric wires	SUMI - HANEL Sài Đồng B - Thạch Bàn - Gia Lâm - Hà Nội	1997
Electric wires	YAZAKI - Việt Nam An Bình - Thuận An - Bình Dương	1998
Safety glass	NSG Đáp Cầu - Bắc Ninh	1998
Supporting tools	(EMTC) 299 Tây Sơn str - Đống Đa - Hà Nội	1998
Side cover	TAKANICHI - Hà Nội Phúc Thắng - Mê Linh - Vĩnh Phúc	1998
Antenna	HARADA - Việt Nam Biên Hoà - Đồng Nai	1999
Radio	Ánh sao Co. 90 Láng Avenue - Hà Nội	1999
DMC Brake	DAMECO 129 Tôn Đức Thắng - Đà Nẵng	2000

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graph TD; A[Horizontal linkages] --> B[Demonstration effects]; A --> C[Competition effects]
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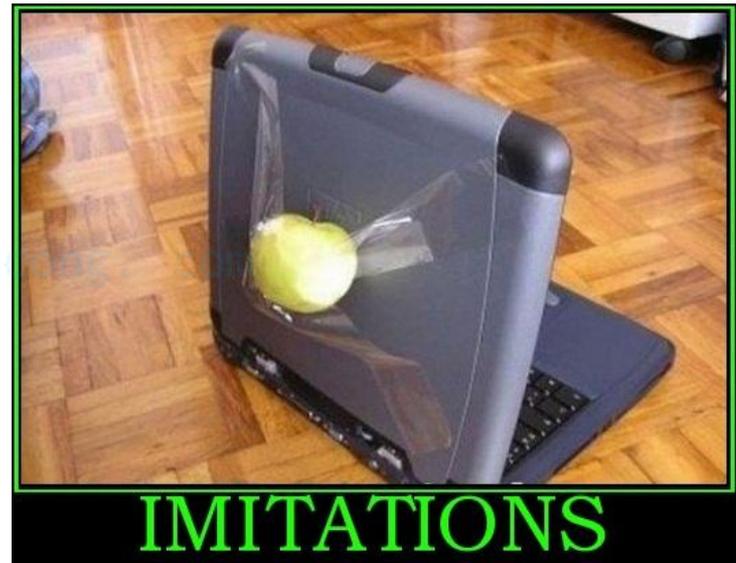
Horizontal linkages

Demonstration effects

Competition effects

What is DEMONSTRATION EFFECTS?

=> The “**imitation**” channel of spillover or “**learning-by-watching**” effect (Jutta Gunther, 2002).



DEMONSTRATION EFFECTS

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What is COMPETITION EFFECTS?

=> FDI's indirect impact
on host country
efficiency and
innovation through
intensified competition.



- MNCs' entry into the host country market
- => increase host country competition.

- To **stay competitive**, domestic firms are forced to operate more efficiently and introduce new technologies.

=> develop R&D
 (research and
 development).

COMPETITION EFFECTS



The case of LEVI'S and GENOVA



- Levi Strauss & Co. from U.S.
- In Viet nam: Khanh Phu Industrial Zone, Ninh Binh
- Tuan Kiet Limited Company from Vietnam.

Through migration of skilled labour

- knowledge or technology transfers are a primary way for developing countries to benefit from high skilled emigrants
- a reduction in the number of educated workers who are critical to productivity and a developing country is economic growth and an increase economic growth

Three major feedback effects of skilled emigration

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1. Return migrants

- ❖ bring back skills and work experience from abroad.
- ❖ retain connections and networks back to their home country. When these networks are fostered they can yield a flow back of knowledge and new technologies that can boost source country growth.

=> *Boost productivity*

2. EXPATRIATES:

+ STIMULATE RETURN FLOWS OF KNOWLEDGE

=> LEAD TO COLLABORATIVE VENTURES WITH HOME-COUNTRY RESEARCHERS.

3. OBSERVERS

+ INCREASE PRODUCTIVITY AND ECONOMIC DEVELOPMENT

Globalization of R & D

Reasons for more spending on R&D:

- access the skills of new locations, adapt products to local markets
- have the deep understanding of modern technology.
- create new business area, business on R & D, offer more opportunities for the skilled, educated and talented people to remain in their countries.

Reasons for more spending on R&D

- allocate tasks on a global scale through intra-firm information networks
- low – down the cost of transferring modern technology from other countries.
- move up the development ladder and, catch up with developed countries.
- have technological changes and a more liberal trade and investment environment.

Share of Total
Global R&D Spending

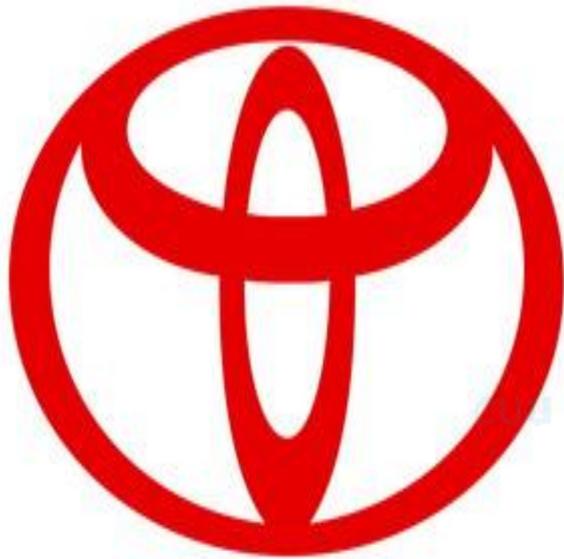
	2010	2011	2012
Americas	37.8%	36.9%	36.0%
U.S.	32.8%	32.0%	31.1%
Asia	34.3%	35.5%	36.7%
Japan	11.8%	11.4%	11.2%
China	12.0%	13.1%	14.2%
India	2.6%	2.8%	2.9%
Rest of World	3.0%	3.1%	3.2%

Source: Battelle, R&D Magazine

Types of activities in R & D

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TOYOTA

- Honda Motor Co. (Japan) set up a new R&D unit in Viet Nam to enhance local motorcycle development and sales.

Common types of activities in R & D **IN VIETNAM**

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Policies to attract FDI-technology

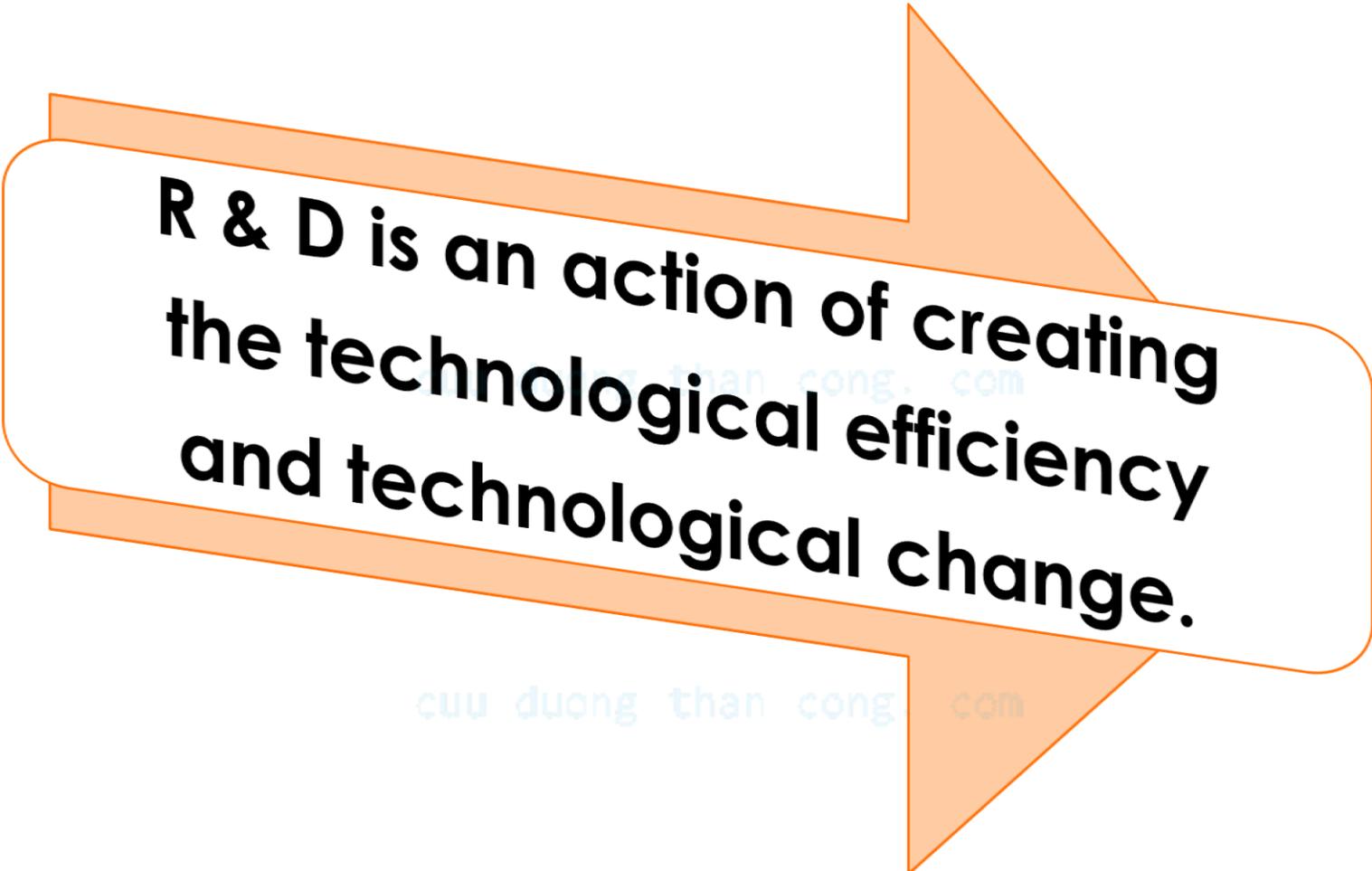
- A stable and good general policy environment:
 - macro-economic and political stability
 - consistent and transparent investment, trade and industrial policies

Policies to attract FDI-technology

- **A skilled and enthusiastic working labour.**
 - educated workers
 - working in high pressure environment
 - flexible to the change of the working places.
 - easy to work in individual or in groups.
 - willing to accept new challenging as well as new tasks.
 - etc .

Policies to attract FDI-technology

- A fast and convenience net work
- Investment promotion
- Safe guarding public sector transparency, including an impartial system of courts and law enforcement.
- Removing obstacles to international trade.
- Etc.



**R & D is an action of creating
the technological efficiency
and technological change.**

Technology transfer

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Vertical linkages

Horizontal linkages

Labor migration

Internationalization of R& D

References

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