



CENTRO STUDI LUCA D'AGLIANO

WWW.DAGLIANO.UNI-BOCCONI.IT

2002

REPORT ON SCIENTIFIC ACTIVITIES

ORGANISATION

AND SUMMARY OF SCIENTIFIC

ACTIVITIES

President: Luigi Galleani d'Agliano

Scientific committee: Riccardo Faini (Chairman), Giorgio Basevi, François Bourignon, Lord Dahrendorf, Luigi Donato, Enzo Grilli, Frank Hahn, Judith Heyer, Fabrizio Onida, Amartya Sen, Nicholas Stern, Frances Stewart, Vittorio Valli, Anthony Venables and the Chairman of the Scientific Committee of the Fondazione Luigi Einaudi of Turin, Terenzio Cozzi

Scientific Director: Giorgio Barba Navaretti

Coordination Committee: Giorgio Barba Navaretti, Riccardo Faini, Eliana La Ferrara, Giovanna Prennushi

Fellows: Tito Boeri, Henrik Braconier, Daniele Checchi, Francesco Daveri, Dorte Domeland, Paolo Epifani, Anna Maria Falzoni, Massimo Florio, Marzio Galeotti, Rodolfo Helg, Paolo Manasse, Alessandro Missale, Gianmarco Ottaviano, Luca Papi, Carlo Pietrobelli, Roberta Rabellotti, Fabio Ranchetti, Enrico Santarelli, Alessandro Sembenelli, George Siotis, Alessandro Turrini, Dieter Urban, Marco Vivarelli

Research Assistant: Mariapia Mendola, Angelica Salvi del Pero, Alessandra Tucci

Secretariat: Simona Orlando (Torino), Eleonora Guerreschi (Milano)

Research areas

Areas	Research Partners	Funding Institutions
Foreign Direct Investments and Multinationals	CEPR, London School of Economics, Stockholm School of Economics, Norwegian School of Economics and Business, University of Turin, Bocconi University, University of Milan, Politecnico of Milan	The European Commission, Compagnia di San Paolo
International Trade, Development, Labour Markets and Industrialisation	CEPR, London School of Economics, Université Libre de Bruxelles, DELTA, Trinity College, Dublin, Bocconi University, University of Milan, the World Bank	The European Commission, The World Bank
Micro-Institution and Poverty in Developing Countries	University of Oxford IGIER Bocconi and other European universities	Institutional Funding

International Conferences 2002

Title	Date & Location	Organising Partners	Funding Institutions
Final Workshop on Labour Market Effects of European Foreign Direct Investments	May 10-11 2002, Turin, Italy	CEPR, Coripe Piemonte	The European Commission, Compagnia di San Paolo
Invited Session on Multinationals and the Labour Market at the Annual Conference of the European Economic Association	August 22-24 2002, Venice, Italy	CEPR, European Economic Association	The European Commission
FDI and the Multinational Corporation	September 20-21 2002, Hydra, Greece	CEPR, IMOP	The European Commission

RESEARCH OUTPUT

Foreign Direct Investments and Multinationals

LdA has been the Coordinator of two large research initiatives on Foreign Direct Investments and Multinationals that were completed during 2002. The first one is the "Training and Mobility of Researchers" (TMR) research network on "Foreign Direct Investments and Mutlinationals. Theory and Empirical Evidence" that organises annual workshops and training of post-doctoral fellows. The second one is a research project on "Labour Market Effects of European Foreign Direct Investments", which examines the effects on employment, wages and skills of outward and inward FDIs. Both programmes are funded by the European Commission.

During 2002 work on these projects has taken various directions. Thanks to the firm level database that was constructed in collaboration with the Politecnico of Milan, LdA researchers have expanded their analysis of the impact of FDI on the Italian Economy. This database is extremely rich as it combines an almost comprehensive survey of Italian investors and their subsidiaries, of foreign owned Italian firms and a counterfactual of fully national firms. Researchers have been exploring issues like the impact of outward and inward FDI on productivity, employment and the North-South divide. In particular, *Giorgio Barba Navaretti* and *Davide Castellani* completed the paper "Does investing abroad affect performance at home? Comparing Italian multinational and national enterprises" that measures the effect of foreign investment on home markets for a sample of Italian firms that invested abroad. The authors found that firms investing abroad outperform national firms with similar characteristics, thus supporting a positive causal effect of investment abroad on performance at home. *Luigi Benfratello* and *Alessandro Sembenelli* investigate whether foreign owned firms in Italy exhibit higher productivity than domestic ones; they find that foreign ownership has no effect on productivity but nationality seems to matter since US owned firms tend to be more productive than firms under national ownership. *Giovanni Peri* e *Dieter Urban* analyse the effects of

foreign multinational enterprises on local economies, in the Italian Mezzogiorno and in the Eastern Landers in Germany. They use firm level data of German and Italian companies during the 90es and they find evidence of significant and robust spillovers.

Other papers have focussed on the labour market effects of FDI in Europe. *Rodolfo Helg and Lucia Tajoli* analyse the effects on labour markets of the patterns of international fragmentation of production observed in Europe. Both theoretical and applied research have been devoting much attention to the fact that large and growing shares of international trade flows among industrialised countries consist of intermediate goods. The purpose of this paper is to analyse the labour market effects of international fragmentation of production in Europe, looking how it affects labour demand. *Giovanni Bruno, Anna Falzoni and Rodolfo Helg* work on a paper on "Measuring the effect of globalisation on labour demand elasticity: An empirical application to some OECD countries" .They estimate a theoretically consistent labour demand using a industry-year panel from a number of industrialised countries, including major European countries, Japan and the US over the period 1970-96. Globalisation is measured in terms of foreign direct investments and trade openness. *Barba Navaretti, Checchi and Turrini*, in "Adjusting Labour Demand: Multinational vs. National Firms: A Cross-European Analysis", provide an analysis of the relation between foreign ownership and labour demand in eleven European countries. In their results, faster employment adjustments and smaller wage elasticity of labour demand within MNEs indicate that MNEs tend to have a more rigid demand for total labour than NEs but this difference tends to vanish when labour is more regulated.

Sembenelli and Siotis carry out a study of productivity spillovers in Spain, "Foreign Direct Investment, Competitive Pressure, and Spillovers. An Empirical Analysis on Spanish Firm Level Data" use a large firm level data set covering all sectors of Spanish manufacturing during the period 1983-1996. They find that FDI has a long run positive effect on the profitability of target firms if such firms belong to R&D intensive sectors, and that positive spillovers generally more than compensate the reduction of margins due to foreign presence.

Finally, *Gian Marco Ottaviano and Alessandro Turrini* analyse the effects of MNEs incomplete outsourcing proving that they can account

for emergence of FDI in large markets and modify the choice of supply mode made when contracts are complete. *Braconier, Norbäck and Urban*, in “Vertical FDI Revisited”, explore how relative skilled wage premia affect FDI and find that more FDI is conducted in countries where unskilled labour is cheap, changes in relative wages may thus cause significant international reallocation of production within MNEs.

Most of these papers were circulated in LdA’s working paper series and were submitted or are about to be published in major academic journals. Moreover, a new book on FDI and Multinationals edited by *Giorgio Barba Navaretti and Anthony Venables* is forthcoming with Princeton University Press. The book provides a comprehensive analysis of the determinants and effects of MNEs, combining a survey of the recent theoretical and empirical literature with original contributions. The work is divided in four parts. The first one is introductory. The second section summarises the theoretical background and describes MNEs’ activities, the reasons why they arise, as well as their location and organisational choices. The third section deals with the determinants of MNEs activities, their impact on home and host economies; this part also includes a case study of Ireland. The fourth section addresses the main policy issues raised by the activities of MNEs.

Two workshops were organised within the LABFDI project during 2002. The first was the workshop on Labour Market Effects of European Foreign Direct Investments "The Turin Meeting", held in Turin on May 10-11, 2002, during which the final results of project were discussed. Presentations covered the following areas: Inward investments and productivity, Inward investments and employment: sectoral effects, Inward investments and employment: firm level effects, Outward investments and employment, Policy. Among others, Giorgio Barba Navaretti, Giovanni Bruno, Davide Castellani and Anna Falzoni presented the paper “Does Investing Abroad Create or Destroy Jobs at Home? The case of Italian Multinationals”. The study, based on a sample of Italian MNEs, shows that domestic employment grows faster in firms that invested abroad and there is a small but significant complementary effect between foreign and domestic employment.

The second workshop was “FDI and the Multinational Corporation”, held in Hydra, Greece, on September 20-21, 2002. This joint

CEPR/IMOP conference was the last meeting for the TMR project “Foreign Direct Investment and the Multinational Corporation: New Theories and Evidence”. Presentations extended the analysis of multinational corporations (MNCs), examined the economic impact of MNCs and FDI on the home and the host countries, and explored both national and international policy implications.

Researchers working in this subject area: Giorgio Barba Navaretti, Giorgio Basevi, Luigi Benfratello, Henrik Braconnier, Giovanni Bruno, Davide Castellani, Daniele Checchi, Anna M. Falzoni, Rodolfo Helg, Daniela Marotta, Marco Mutinelli, Gianmarco Ottaviano, Giovanni Peri, Enrico Santarelli, Alessandro Sembenelli, George Siotis, Lucia Tajoli, Alessandra Tucci, Alessandro Turrini, Dieter Urban, Marco Vivarelli.

International Trade, Development, Labour Markets and Industrialisation

During 2002, the new research network “Trade, Industrialisation and Development” was launched. Its objective is to understand the institutional and micro-economic constraints that affect the ability of developing countries to participate effectively in the world economy and to identify conditions that secure industrial development and modernisation, by investigating the interactions between trade, industry, institutions and economic development.

This network, funded with a grant by the European Commission, will include some of the major European research institutes in the field. Job market seminars for a post-doctoral fellowship position at LdA’s premises at Bocconi University were also held; as a result, *Dorte Domeland* (Ph.D., Universitat Pompeu Fabra) was selected among other candidates to work at LdA for two years starting in September 2003.

Research institutes participating in the network are CEPR, Centro Studi Luca d’Agliano, Département et Laboratoire d’Economie Théorique et Appliquée (DELTA), Paris, European Center for Advanced Research in Economics and Statistics (ECARES), ULB, Brussels, Centre for Economic Performance, London School of

Economics (LSE), Norwegian School of Economics and Business Administration, Tinbergen Institute, Rotterdam, Trinity College, Dublin, Pennsylvania State University.

Within this research area, LdA's researchers have completed the joint Luca d'Agliano-World Bank project "Trade, technology diffusion and performance in Indian manufacturing", co-ordinated by *Paolo Manasse*. The study examines different aspects of the relationship between firms' exposure to international trade and performance, based on a first hand survey of about 1,000 manufacturing and software enterprises in India. Three Ld'A working papers were produced within this project; the results were presented by *Giorgio Barba Navaretti* in a seminar held in Washington, D.C. in January 2003.

The first working paper is "The Twin Effects of Globalization", by *Francesco Daveri, Paolo Manasse and Danila Serra*. In this work the authors examine the impact of globalisation on employment and training policies of Indian firms and find that the bad and the good labour market effects of globalisation are twin to each other. Earnings variability and job insecurity are higher in foreign-owned and import-competing firms but, at the same time, such enterprises offer training and promotions more frequently.

The second paper "Do Not Get Trapped into Crossing: Indian Firms and Foreign Markets", by *Giorgio Barba Navaretti, Marzio Galeotti and Alessandra Tucci* examines the relationship between the exposure to foreign trade and productivity growth for a sample of Indian manufacturing firms. The authors find that there is a U-shape relationship between firms' export share and productivity gains, and that the threshold at which the two variables rise again is higher in traditional sectors than in technology intensive ones. One likely explanation of this finding is that being successful in the export market for traditional products requires investments in technological upgrading, which are less likely to be viable for marginal exporters. In contrast human capital appears not to be significantly different for various categories of firms.

Lastly, *Paolo Epifani*, in the paper "Trade Liberalization, Firm Performance and Labour Market Outcomes in the Developing World:

What Can We Learn from Micro-Level Data?”, reviews the micro-level evidence on the effects of trade and investment liberalisation in developing countries, focussing on the 1991 trade reform in India. The main findings can be summarised as follows. There is evidence in favour of trade-induced productivity gains, pro-competitive effect of trade liberalisation, skill upgrading induced by technology imports or reallocation of market shares. On the other hand, there is no evidence of significant scale efficiency gains, learning-by-exporting effects, trade-induced increases in labour demand elasticities, substantial employment contraction in import competing sectors.

Within this broad research area, along with Cespri-Università Bocconi research team, LdA’s researchers started working for a project on the ‘Impact of East-West Migration on Growth and Employment’ (FLOWENLA), funded by the EU Commission. The central objective of the project is to analyse the impact of migration on growth and employment in the context of EU enlargement. An integrated approach is pursued by analysing all three dimensions along which integration of productive structures between the Central and Eastern European economies and the EU countries proceeds: labour, capital and goods flows

Researchers working in this subject area: Giorgio Barba Navaretti, Tito Boeri, Francesco Daveri, Paolo Epifani Riccardo Faini, Anna M. Falzoni, Marzio Galeotti, Bernard Gauthier, Rodolfo Helg, Paolo Manasse, Danila Serra, Alessandra Tucci, Alessandro Turrini, Alessandra Venturini

Micro-Institution and Poverty in Developing Countries

Eliana La Ferrara has completed and published her work on informal settlements in Nairobi with the aim of understanding the functioning and the scope of self-help groups urban areas as a means of generating income for poor households. The paper uses a unique dataset, collected by the author in 1999, surveying all individual group members from several informal settlements of Nairobi. It studies the individual determinants of earnings within groups and relates group composition to various indicators of group functioning. *Mariapia Mendola* has been working on the effects of technological innovation in

agriculture on poverty, working on a data set of rural households in Bangladesh.

Within this area of research, LdA organised a course on “Poverty and Development”, jointly with ISPI in Milan. The course, organised in a series of ten lectures, was multidisciplinary, addressed to the general public and aimed at analysing the relationship between development and poverty. After defining the concept and possible measures of poverty, lecturers explained how poverty is linked to demography as well as to micro-enterprises, described actors and instruments involved in poverty reduction and analysed the problems of public debt in developing countries.

Researchers working in this subject area: Giovanna Prennushi, Eliana La Ferrara, Maripia Mendola and Angelica Salvi del Pero

PUBLICATIONS

"Centro Studi d'Agliano Development Studies Working Papers"

The Centro Studi Luca d'Agliano publishes a series of working papers in Development Economics. Their publication is funded by the Banca d'Italia and by the Fondazione Cassa di Risparmio di Torino. The Centro Studi Development Studies Working Papers can be downloaded from the Ld'A website, *www.dagliano.uni-bocconi.it*

The list of working papers published in 2002 is set out below.

161. Henrik Braconier (IUI, Stockholm); Karolina Ekholm (Stockholm School of Economics; CEPR): "Foreign Direct Investment in Central and Eastern Europe: Employment Effects in the EU", May 2002

162. Paolo Manasse (Dept. of Economics, University of Bologna); Luca Stanca (University of Milan; London School of Economics); Alessandro Turrini (University of Bergamo; UNCTAD; CEPR): "Wage Premia and Skill Upgrading in Italy: Why Didn't the Hound Bark?" May 2002

163. Eliana La Ferrara (Bocconi University; IGIER): " Self-Help Groups and Income Generation in the Informal Settlements of Nairobi", May 2002

164. Giovanni Peri (University of California, Davis); Dieter Urban (LSE and Political Science, CEP): "The Veblen-Gerschenkron Effect of FDI in Mezzogiorno and East Germany", November 2002

165. Gianmarco I.P. Ottaviano (Università Bocconi; GIIS, Geneva; CEPR); Alessandro Turrini (University of Bergamo; UNCTAD;

CEPR): "Distance and FDI when Contracts are Incomplete", November 2002

166. Luigi Benfratello (Ceris-Cnr); Alessandro Sembenelli (University of Torino): "Foreign Ownership and Productivity: is the Direction of Causality so Obvious?", November 2002

167. Henrik Braconier (National Institute of Economic Research, Stockholm); Pehr-Johan Norback (Research Institute of Industrial Economics, Stockholm); Dieter Urban (LSE and Political Science): "Vertical FDI Revisited", November 2002

168. Giorgio Barba Navaretti, (University of Milan; Centro Studi Luca d'Agliano), Daniele Checchi (University of Milan), Alessandro Turrini (University of Bergamo; UNCTAD; CEPR, Centro Studi Luca d'Agliano): "Adjusting Labour Demand: Multinationals vs. National Firms: A Cross-European Analysis", November 2002

169. Alessandro Sembenelli (University of Torino); Georges Siotis (Carlos III University, Madrid): "Foreign Direct Investment, Competitive Pressure and Spillovers. An Empirical Analysis on Spanish Firm Level Data", November 2002

170. Giorgio Barba Navaretti, (University of Milan; Centro Studi Luca d'Agliano), Marzio Galeotti (University of Milan; Fondazione Eni Enrico Mattei; Centro Studi Luca d'Agliano), Alessandra Tucci (University of Milan; Centro Studi Luca d'Agliano): "Do Not Get Trapped into Crossing: Indian Firms and Foreign Markets", November 2002

171. Francesco Daveri, (University of Parma; IGIER), Paolo Manasse (University of Bologna; IGIER), Danila Serra (LSE): "The Twin Effects of Globalization", November 2002

172. Paolo Epifani, (University of Parma; CESPRI-Bocconi University): "Trade Liberalization, Firm Performance and Labour Market Outcomes in the Developing World: What Can We Learn from Micro-Level Data?", November 2002.

SCHOLARSHIPS

Ld'A devotes particular attention to training young students to acquire the background necessary for a professional career in development research, by providing them with financial assistance in the form of scholarships or by including them in their research projects.

A yearly grant of 9.300 Euros is awarded, through the Fondazione Luigi Einaudi in Turin, to young Italian graduates, who wish to advance their studies in development economics at the Universities of Cambridge, Oxford or at the London School of Economics.

During 2002, the scholarship was not granted for lack of suitable candidates. In the past, these scholarships were awarded to: Giorgio Barba Navaretti (Oxford, 1985), Chiara Tuffarelli (Cambridge, 1986), Roberta Rabellotti (Oxford, 1987), Francesco Daveri (Oxford, 1988), Marina Moretti (Oxford, 1990), Paolo Craviolatti (Oxford, 1992), Gabriella Giacometti (Warwick, 1993), Sabina Di Addario (Oxford, 1994), Renato Grelle (Oxford, 1995), Andrea Finicelli (Oxford, 1997), Ilaria Caetani (LSE, 1998), Diego Angemi (Oxford, 1999), Mattia Nicola Romani (Oxford, 2000), Francesco Rampa (Oxford, 2001).