

Comments on “Capital or Knowhow: The Role of Foreign Multinationals in Sino-Foreign Joint Ventures”

Susan Chun Zhu
Michigan State University

Contributions of the Paper

- This paper addresses an interesting and important question: what determines the equity participation of foreign multinationals in international joint ventures (JVs)?
 - The newly developed trade theories focus on the decision about outsourcing vs. vertical integration (e.g, Grossman and Helpman, 2002; Antras, 2003; Antras and Helpman, 2004). In these theories, integration is a 0-1 decision. However, JVs are an important form of foreign direct investment (FDI).
- This paper finds strong evidence for FDI as a transfer of knowhow, but weak evidence for FDI as a transfer of capital.

FDI As a Transfer of Knowhow

- Industry/regional-level explanatory variables: R&D intensity, advertising intensity, revealed comparative advantage, bureaucracy, share of SOE by region/industry.
 - Results for R&D intensity are robust.
 - Revealed comparative advantage may reflect technology advancement of home countries. However, it may also be related to other sources of comparative advantage – endowments, etc.
 - Replace revealed comparative advantage with some measure of innovation/technology levels (say, R&D expenditures, patents).
 - Advertising intensity is less relevant for JVs that export most/all output. Need information about firm-level export intensity.

FDI As a Transfer of Capital

- ❑ Explanatory variables: size of project investment, industry profit margin, industry capital-labor ratio, home country capital-labor endowment, industry capital-labor ratio*home country capital-labor endowment.
- ❑ Measuring the need for capital
 - The size of project investment may underestimate the need for capital if there is credit rationing. In addition, the size of project investment and equity participation of foreign multinationals may be jointly determined.
 - As a robustness check, use the Rajan-Zingales measure of external finance dependence to capture the industry-level variation in the need for external funds.
- ❑ The effect of industry profit margin is ambiguous.
 - Foreign multinationals have lower bargaining powers in industries with higher profit margins.
 - However, foreign multinationals might have more incentives to invest in industries with higher profit margins.

Link to Firm-level Data?

- The regressions rely on industry/region-level variables to explain the equity shares of foreign multinationals. The within-industry variation is not captured.
- If the JV dataset could be linked to firm-level data (e.g., 1995 Census of Manufacturing), the authors might be able to observe exports/gross output, and other information about firms.
 - JVs that export most of their output can be quite different from those that sell most of their products to the domestic market.

Robustness

□ Other Determinants

- distance
- country size of home country
- Income level of home country

□ Add year fixed effects to control for the influence of macroeconomic conditions.

Minor Points

- ❑ Add summary statistics about equity shares of foreign multinationals to Table 1.
- ❑ The maximum industry capital-labor ratio is 515,000 Yuan per worker, which is nearly 10 times the industry average of 62,000 Yuan per worker.