

Gov 1780: International Political Economy

Section 11
8 Apr 2021

Agenda

- Housekeeping
 - Midterm debrief
 - Heads up on Essay #2
 - No section next week due to “Wellness day”
- International finance & MNCs
 - Review key terms and readings
 - Activity: solve some real world puzzles!

Housekeeping

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- Midterm debrief
 - We will aim to return grades + feedback next week
 - Remember, the final exam will have the same format, so **it is worth spending some time reviewing your feedback**
- Essay #2
 - The prompts for essay #2 will be released Monday 12th and due Monday 19th April

OK! Let's review some key terms and concepts from the topic of International Finance and Multinational Corporations...

Key terms

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 - **Foreign Direct Investment** (think: foreign company buys a domestic one)

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 - **Portfolio** investment (think: stocks/bonds)
 - **Foreign Direct Investment** (think: foreign company buys a domestic one)
- What are “**greenfield**” and “**brownfield**” investments?
 - Greenfield: parent firm creates a **new subsidiary** in another country
 - Brownfield: parent firm buys an **existing firm** in another country

Key terms

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- What is a **BIT**?
 - BIT = “Bilateral Investment Treaty”
- What is **inward / outward** FDI?
 - This terminology helps to clarify which one is the “foreign” country!
 - For the US, “inward FDI” = direct investment by non-US firms into the US
 - For the US, “outward FDI” = direct investment by US firms into other countries

Distributional effects of FDI

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We can theorize about the distributional effects of FDI by noting two important differences of multinational corporations (MNCs) versus their domestic counterparts:

1. MNCs pay higher wages than domestic firms
2. MNCs tend to use more skilled labor than domestic firms

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1. MNCs pay higher wages than domestic firms
 - **workers** support FDI; **capitalists** oppose it
2. MNCs tend to use more skilled labor than domestic firms
 - **high-skilled** workers support FDI more than **less-skilled** workers

Key empirical findings from the readings

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Caves:

Pandya:

Simmons:

Li & Resnick:

Can you summarize the core finding of each paper in just ONE sentence?

Key empirical findings from the readings

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Caves: Transaction costs explain the rise of MNCs

Pandya: Wage effects explain domestic cleavages over FDI

Simmons: Regulation of foreign investment is less-institutionalized than regulation of trade, putting poorer countries at more of a disadvantage.

Li & Resnick: Democracy *helps* inward FDI because of stronger property rights, but *hurts* inward FDI because it allows domestic firms to lobby for protection against MNCs.

Activity

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- In breakout rooms, discuss a real-world puzzle about FDI
- Use the **readings** and **the 3 i's** to try to explain these cases
- Create 1 slide of *concise* bullet points with your explanation
- Each group will have a few minutes to present their explanation

Puzzle #1: Underprovision of FDI into Africa?

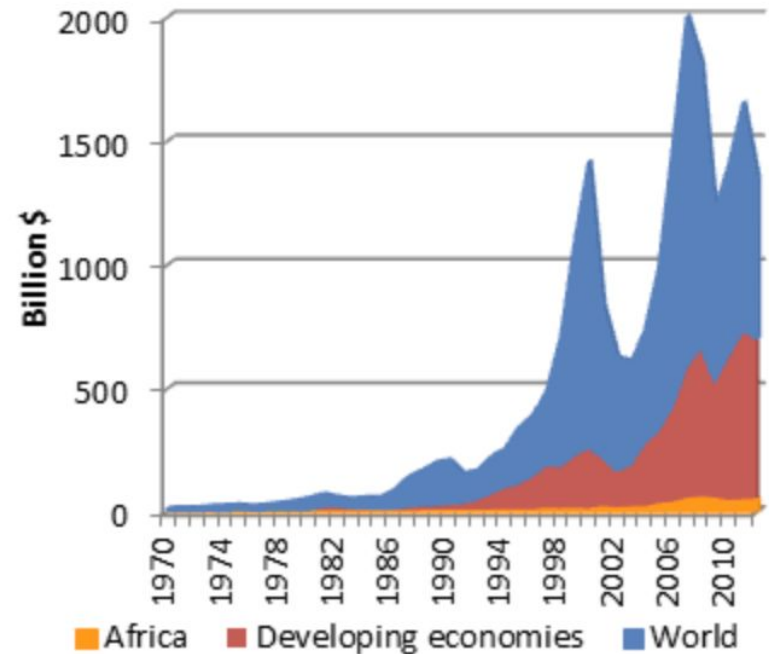
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Many of the world's fastest growing economies are located in sub-Saharan Africa.

So why does Africa still receive such a measly share of global FDI?

Total FDI inflows, 1970–2010

[Source](#)



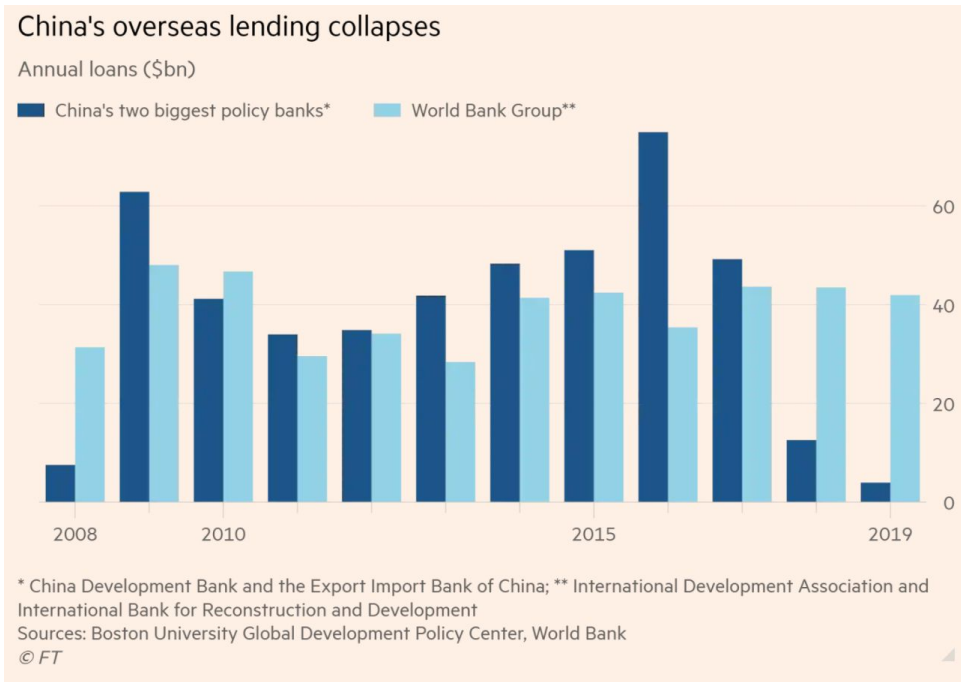
Group #1 notes

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Puzzle 2: Is China's Belt & Road Initiative an “Obsolescing Bargain”?

Why has China pulled back from its ambitious *Belt and Road Initiative*?

Does the “obsolescing bargain” help to explain this outcome?



Group #2 notes

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Puzzle #3: EU and China

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The EU and China recently announced an investment agreement, while being embroiled in diplomatic conflict over human rights abuses by the Chinese regime.

How does looking at interests, interactions, and institutions help us to understand these divergent results?



**The Comprehensive Agreement on Investment
(aka, the first ever Zoom BIT?)**

Group #3 notes

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