Export Spillovers from Foreign Direct Investment: Kenya and Malaysia compared

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Outline of the presentation

* Motivation

* Research Objectives

* Results

* Data

* Empirical Approach

Motivation

* Both countries share a similar history

* Elites in Kenya keen to replicate the Malaysian experience (Penang, KNESC, Vision 2030).

* Reliance on FDI and benefits- partly Malaysia's key to success: export led growth mainly in non resource rich sectors (Lall, 1995)

* Kenya's slow growth: partly due to inability to tap from FDI and stagnant manufacturing sector

Motivation cont'd

❖ Export spillovers: Blomstrom and Kokko (1998) as benefits, which accrue to domestic-owned firms in host countries through foreign-owned firms' export operations, which may pave the way for local firms to enter the same export market, either because they create transport infrastructure, or because they disseminate information about foreign markets that can be useful to local firms.

❖ Most studies use random effects (probit). Incidental parameter problem. We use linear probability model.

∗ Limited studies in both countries that examine this issue.

Research questions

* Do foreign firms influence the learning to export by domestic firms in Kenya and Malaysia?

* What are the transmission channels ?

Results

* Firms decision to export depends on profitability and age in Malaysia, but wages, labour productivity are important in Kenya

* Limited evidence of export spillovers from FDI in Kenya

* The is evidence of export spillovers from Malaysia . Positive spillovers through backward linkages and negative spillovers from competition and information channels.

* These spillovers are concentrated in firms with low productivity.

* There is no evidence of export spillovers from domestic firms to foreign owned firms.

* Why this is the case: Labour content requirement in Malaysia

Data

	2000		2001		2002		2003		2004		2005	
	K	M	K	M	K	M	K	M	K	M	K	M
Foreign	317	1646	345	1426	327	1435	339	1414	365	1360	352	1539
Local	605	18759	668	12471	647	12002	572	12212	584	11048	649	26655
Total	**922**	**20405**	**1013**	**13897**	**974**	**13437**	**911**	**13626**	**949**	**12408**	**1001**	**28194**
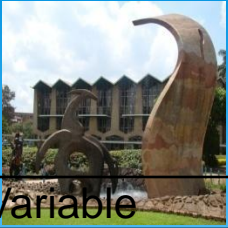
Data and Variables

Variable	Description
EX	Dichotomous variable taking the value of 1 if the domestic-owned firm exports and 0 otherwise
W	Average wage per employee
PT	Firm's profit before tax
TURN	Firm's turnover
LP	Ratio of value added per employee
FUNDS	Ratio of shareholders' funds to turnover
R&D	Firm's research and development expenditure
RDF	R&D expenditure by foreign-owned firms in sector j/ total expenditure in R&D in sector j
FEM	Ratio of foreign-owned firms share in employment in sector j to total employment in sector j
FEX	Ratio of foreign-owned firms exports in sector j/ total exports in sector j
DF	Share of the cost of direct raw materials sourced from domestic firms by foreign ownership in a sector to the total cost of direct raw materials in a sector (backward linkages)
Age	Current year minus year of establishment
Age2	Square of Age

Empirical strategy

* Determinants of firms decision to exports in both countries

* Influence of foreign owned firms in domestic decision to export and through which channels.

* Robustness: Influence of domestic firms in the export decision of foreign owned firms.