

THE EFFECTS OF OFDI ON HOME COUNTRY EMPLOYMENT AND SKILL UPGRADING.

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ABSTRACT

This research examines empirically the relationship between outward foreign direct investment (OFDI) and home employment. It is marked out from existing studies in the following three respects. First, instead of advanced economies, it focuses on the home country employment effect in a newly industrialized economy. Second, it not only addresses the general issue of whether employment or production abroad complements or substitutes for employment in parent companies but also examines how OFDI contributes to skill upgrading in the home country, in addition to the quantitative effect. Third, this paper allows the results to vary between labour-intensive industries and technology-intensive industries in order to find the extent to which the home employment effect is moderated by industrial technology intensity. The results demonstrate that the location of investment and industry characteristics matter for explaining the effect of OFDI on home employment. Specifically, we find that while OFDI by Taiwanese multinationals in China depresses employment in Taiwan in both labour- and technology-intensive industries, OFDI in other countries only produces a negative employment effect in technology-intensive sectors. An interesting finding of this study is the evidence of positive effects of OFDI

on skill upgrading in Taiwan. This paper supports the argument that relocation of productivity abroad axes low skilled workers at home. Moreover, OFDI in China has a particular positive impact on skill upgrading in the home industry, lending support to the view that MNEs outsource labour-intensive goods from their affiliates in low-income countries.

Keywords: Outward foreign direct investment; domestic employment; home country effect