

# Relocation – Challenges and Opportunities



## **A sectoral survey of relocation: a factual background**

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# Outline

- A sectoral survey of relocation: a factual background
  - Terms of reference
  - Method
  - Findings
- The use of FDI data

# Terms of reference

- To provide a factual background to the issue of company relocation at a sectoral level across the EU
  - what data are there?
  - what do data say?
- Study is to support CCMI Information Report “A sectoral study of relocation”

# Sectors covered

- 1) Iron and steel
- 2) Non-ferrous metals
- 3) Glass
- 4) Cement
- 5) Plastics
- 6) Electro-mechanical engineering
- 7) Paper and pulp
- 8) Chemicals
- 9) Pharmaceuticals
- 10) Wood
- 11) Rail transport
- 12) Automotive
- 13) Ship-building
- 14) Aerospace
- 15) Textiles
- 16) Leather, apparel and footwear
- 17) Food and beverages
- 18) Financial services
- 19) Knowledge intensive business services

# Working definition of relocation

- Relocation = delocalisation

“Delocalisation occurs when a business activity is totally or partially ceased, to be reopened abroad by means of direct investment.” **EESC Opinion, 14 July 2005**

- Internal vs external delocalisation

# Method: measuring relocation

- There are no data that measure relocation directly
- We selected a set of indicators which,
  - together may be able to give a picture of relocation
  - can be constructed on the basis of published data that are consistent and sufficiently comprehensive

# Method: choice of indicators

- Trends in activity levels (production and employment)
  - absolute terms
  - contribution to domestic economy
  - share of global market
- Trends in trade balance
- Domestic production vs imports
  - penetration of imports, both as intermediaries and as final goods
  - self sufficiency in consumption

# Method: data sources

- Sources need to provide consistent and comprehensive data
- Key sources of data
  - Eurostat (Structural Business Statistics, COMEXT, input-output tables)
  - OECD STAN database
- Complemented by data from stakeholders
- Also report data from
  - European Restructuring Monitor, Dublin
  - Eurostat (FDI data)

## Findings: on data

- There are no data that allow for a direct measurement of relocation
- Eurostat data on employment, production and external trade are generally comprehensive and broadly consistent with other data

# Findings: on data

- Some problem areas:
  - SBS:
    - shipbuilding, financial services
    - Greece, Malta, Cyprus; Germany and EU-10 pre-1990
  - COMEXT:
    - KIBS, financial service
    - Data for Slovakia and Poland only available for 2004
- Input-output tables published infrequently and ERM and FDI data have methodological limitations

# Findings: on relocation

- Evidence of relocation at EU level observable only for “textiles”, and for “leather, clothing and footwear”
- Mixed signals on electro-mechanical engineering
- Country-sector pairings:
  - Chemicals – from UK and Slovakia
  - Railway equipment – from Germany
  - Ship building – from Germany and Denmark

# The (ab)use of FDI data

- According to Eurostat, FDI is
  - “the category of international investment made by an entity resident in one economy to acquire a lasting interest in an enterprise operating in another country. The lasting interest is deemed to exist if the direct investor acquires at least 10 per cent of the equity capital of the direct investment enterprise”

# Problems with use of FDI data: coverage

- Poor coverage across sectors, across Member States and region of destination
- Problem of data not reported at disaggregated level
  - “A simultaneous breakdown is only partially available [because] the information becomes so detailed that even large countries quickly face problems of confidentiality.” Eurostat, FDI User’s Guide

## Coverage of FDI data: Food products, 2003 (Euro Million)

	Ext EU-25	USA	Asia	Latin Am.	Africa
Belgium	280				
Czech	4	0			
Denmark	114				
Germany	453	422			
Estonia	0				
Greece					
Spain					
France	80	-176			
EU-25					

## Coverage of FDI data: Ext EU-25, 2003 (Euro Million)

	Food	Electro	Financial	KIBS
Belgium	280			
Czech	4		6	2
Denmark	114			
Germany	453	119	-859	6304
Estonia	0		9	
Greece				
Spain				
France	-80	217	4394	3760
EU-25				

## Coverage of FDI data: Food, Ext EU-25 (Euro Million)

	1980-2000	2001	2002	2003	2004
Belgium			-291	280	
Czech			-1	4	11
Denmark			-152	114	
Germany	data	108	-101	453	
Estonia				0	
Greece					
Spain					
France			-875	-80	
EU-25					

# Problems with use of FDI data: relevance

- Correlation between FDI and relocation is noisy
  - FDI without domestic capacity having been ceased
  - FDI as a purely financial operation and unrelated to production decisions
  - FDI data are net of disinvestments made by domestic entity in relevant foreign sector

# **Problems with use of FDI data: relevance**

## **Council of Europe Parliamentary Assembly (2005)**

“Almost all empirical studies find that vertical FDI plays only a small role as a proportion of total FDI” (vertical FDI = relocation)

# Use of FDI data to understand relocation

- Link between FDI and investments due to relocation not clear
- Poor coverage at sector, destination country level
- Danger in using FDI data because they are there

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