

A multilevel analysis of FDI: The role of big world players (China, East Asia, EU28, Japan, U.S.) in production networks and final markets

Topic: CGE Applications to Handle Complex Data Issues

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FDI accruing to China has an important impact on world trade flows. Using a computable general equilibrium model, this paper analyzes the different nature of Textiles, Chemicals, Electronics and Machinery sectors along several dimensions. It also offers a thorough analysis of the distinct role played by the biggest regions in world consumption, production, exports and imports across different levels: local industry, global industry, national economy and world economy.

GDP and welfare improve in China after simulating the FDI accruing to the sectors mentioned above, while they mildly diminish in the rest of geographical areas. Chinese exports of Electronics, Machinery and Chemicals increase intensively crowding out exports from the rest of regions. The biggest reductions are experienced by exports of Electronics and Machinery from Europe and of Chemicals from the Rest of World. However, European exports of Chemicals survive to Chinese competition and gain market access. There is an increase in Chinese imports of Textiles, Chemicals and, to a greater extent, of Electronics, following bigger FDI inflows. They satisfy Chinese rising appetite for imported intermediate inputs in order to produce more Electronics and Chemical goods, as well as, the Chinese increasing final consumption of Textiles following a higher national income. By contrast, Chinese Machinery imports decrease due to low private consumption and also low reliance on imported intermediates for Machinery production.

Even though the four sectors of analysis have different production technologies, Chinese exports and imports still follow a general pattern: East Asia and Japan are the main intermediate suppliers while the rest of regions play more the role of final markets.