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FOREIGN DIRECT INVESTMENT AND PROCESSED FOOD TRADE

Edited By

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**Papers Presented at the
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PREFACE

International trade in processed foods has been increasing rapidly throughout the world. However, the growth in foreign direct investment (FDI) in food and kindred products has been much faster than for processed food exports. Currently, sales by foreign affiliates of US multinational food firms are a multiple of processed food exports. The relationship between foreign direct investment and trade in processed foods is uncertain. Most previous research has concentrated on one or the other, but not on the relationship between the two.

This book is drawn from papers presented in Arlington, VA, at a March 1995 symposium sponsored by the Regional Committee on The Organization and Performance of World Food Systems (NCR-182). The overall purpose of NCR-182 was to inform the public and private decision-making process regarding international commerce in processed foods, beverages, and related agricultural products. More specifically, the objectives were to evaluate the impact of imperfect competition on the structure of food trade and to analyze the strategic response of firms in the food and beverages sector to market interventions such as price and income supports, non-tariff trade barriers, and the formation of trading blocks. The NCR-182 project duration was from October 1, 1993 through September 30, 1996.

The objectives of this symposium were to examine issues underlying trends in foreign direct investment (FDI) and their relationship with international trade of processed foods. With increased focus on globalization in food production and marketing systems, trade and related effects of foreign direct investment by multinational companies have become important topics for policy makers and food companies in the US and across the world. The purpose of this book is to lay a foundation for future research on the relationship between investment flows and exports in the food industry and to discuss information and data needs, examine technical analytic methods and approaches, and present results from various research studies.

This proceedings presents a wide range of studies, including theoretical, empirical, descriptive, and institutional. The diverse methodologies employed offer various tools for researchers to use. The papers included in this book reflect several fundamental concepts. Several of the papers analyze the factors that have impacted the firms'

choice of the mode of entering a foreign market -- FDI or trade. The results are derived from various surveys. Some have analyzed the US trade and FDI relationships with Europe and others have used a descriptive analysis to examine the impact of various institutional factors such as food quality and safety requirements on trade and FDI.

Several authors examine the evolution of the roles of food multinational enterprises' (MNEs) subsidiaries in a global context, why the subsidiaries have developed, the reasons they have survived, and the ways they have evolved. The first two papers examine the relationship between FDI and exports. While the first paper authored by Malanoski, Handy, and Henderson addresses the temporal relationship between FDI and exports, in other words, whether trade comes first or FDI; the second paper by Overend, Connor, and Salin attempts to examine whether FDI and exports are complements or substitutes. The paper by Ravara and Connor describes and tests a model of the entry-mode decisions of multinational food firms using data gathered on 2,465 international ventures located in 66 countries. They analyze the strategic internationalization process of multinational enterprises under alternative market environments, in terms of an option pricing model.

Other authors discuss trade and investment decisions in Europe. The paper by da Silva discusses determinants of intra-European trade and investment, using a gravity equation type model of international trade. This study examines the changes in trade and investment strategies of food processing industries in response to changes in the structure of economic integration in the EC. The paper by Anastassopoulos, et al., examines the technological performance of MNEs in the food industries and compares them with those in industries that are accepted as more technologically dynamic and ambitious. Anastassopoulos, et al., empirically analyze the food industry MNEs' subsidiaries operating in Greece and report the findings from a survey of 145 manufacturing subsidiaries located in the UK, Greece, Belgium, and Portugal. In their paper, Rosillo and Abbott develop a framework to understand the US and European multinational food firms' choice of international entry mode in terms of the location of production and the level of control that is exercised over marketing and support activities. They used the Kellogg company as a case study to represent the internationalization process of a successful US firm.

The study by Moeller examines thirty two German firms that had economic activities in the Central Eastern European Countries (CEEC) to identify the factors that influenced the inflow of FDI in CEEC. Factors such as cultural nearness, experience in exporting to CEEC, management strategies towards foreign involvement, and domestic market growth had an impact.

The paper by Goodwin, Skully, and Kapur takes a different research angle in studying the choice of strategies to enter foreign markets. Their study examines the substitution between bulk and processed agricultural products by analyzing US rice exports as a case study. The objective was to identify the kinds of transaction costs determining the optimum location for different stages of processing. This study is based on a series of interviews with rice millers, processors, and exporters as well as industry officials and agricultural attaches.

The last set of papers provide a comprehensive review of the institutional background and implications of food quality and safety regulations and product standards. In a descriptive and conceptual study, Hooker and Caswell examine the impacts of domestic and international food quality and safety regulations on the choice of FDI or trade. They study the potential role of food quality and safety regulations as non-tariff barriers to trade and the impacts of recent trade agreements on quality and safety regulations. In another descriptive study, Neff and Malanoski discuss the impacts of technical regulations and standards on the behavior of food market participants. The international institutions involved in governing the rules of product and process standards as well as the system for dispute settlement are discussed in their paper.

Concluding remarks from Ian Sheldon, include a comprehensive examination and critique of the included papers, as well as recommendations on future research.

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