# The Effect of GVC Participation on Greenfield FDI:

# An Industry-level Analysis

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**Abstract**

This study examines GVC participation as a determinant of inward greenfield FDI at the sectoral level. Our data spans from 2005 to 2015 covering 15 manufacturing industries for 64 host countries and 88 source countries. It is the first study which examines the possible influence of GVC participation on FDI at an industry level. Overall, the results show that more trade through GVCs will increase FDI inflows. Although we find that GVC participation, both backward and forward linkages, is positively associated with FDI, the effects are heterogeneous and depend on the sector and the region. If the host country is in the later stages of production in “Basic metals”, and “Rubber and plastic”, policymakers may be well-advised to increase, improve and upgrade related infrastructure and/or introduce newer regulations which facilitate more GVC activity into these sectors. We also find that any such effects may be more pertinent to countries located in Europe and Central Asia, East Asia and Pacific, North America and less so for South Asia and Africa. In contrast, “Machinery and equipment” does not seem to be a key sector for GVC-driven FDI policy. Though the electronics industry is one of the most active industries in the global production chain, the result is positive, but not statistically significant.