The role of FDI in global value chains and the circular economy

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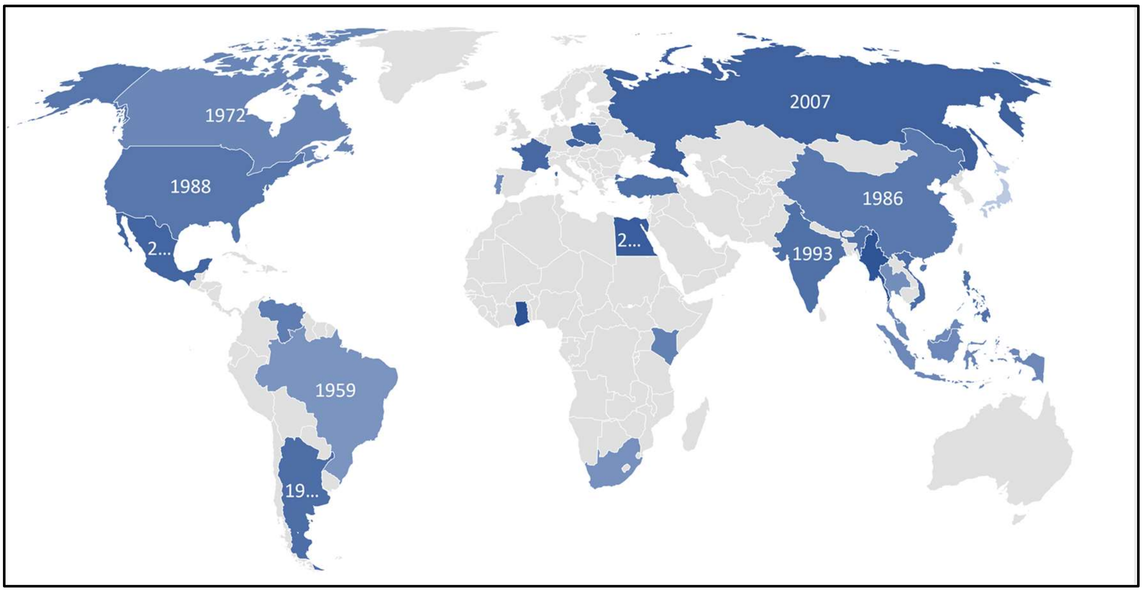
FDI, as one of the most defining phenomena of today's world economy, has been researched from many aspects in recent decades. Many have examined it from the perspectives of host and sending countries, investing transnational corporations and the local communities involved. But these studies described the role and significance of FDI in the context of an economic system operating on a linear principle. But today, the situation has changed. With the spread of the circular economy practice and the emergence of relevant regulations, TNCs are also forced to rethink the material flows associated with their products. Many questions arise here as well. For example, is a car factory obliged to recycle the passenger cars it produces? At the end of their lifespan? Or only if all their parts are original factory parts? Is it possible to narrow the range and quantity of products that can be recycled after use? Or is the goal really to return as much of the material from consumer durables and cars that have become unusable and obsolete at the end of their lifespan to the material flow of the circular economy as possible?

The situation is not simple even if the entire value chain is within one country.

But what about when the main components of a passenger car are manufactured in 4-5 countries, and all its components in 30-40 countries, as a result of the work of hundreds of suppliers? For example, who should be responsible for taking back used cars, dismantling them, and reusing their components and materials? Can a reverse value chain be created within TNCs? What role can a country, where FDI spends 85-90% of its sales revenue on imported parts, raw materials, and energy sources, and 99% of its sales revenue comes from exports, have in a global circular economy? Will the plants in the parent company's country or in the FDI destination countries be responsible for the buyback?

1. Figure Toyota World: Toyota plants in countries around the world by year of first plant opening



Source: Own compilation based on data from www.toyota.jp

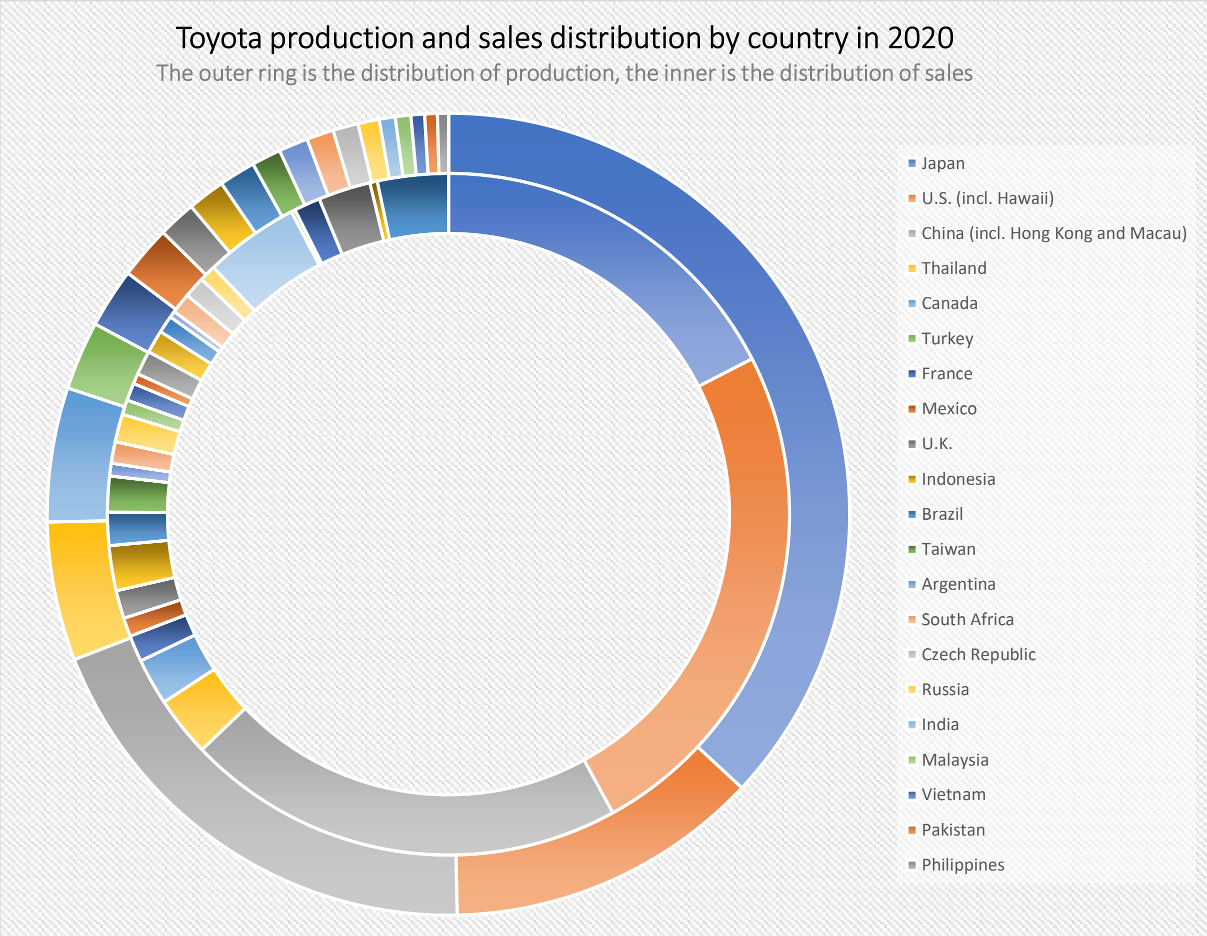
The two Japanese car manufacturers TNCs selected are Toyota and Honda. Their example is instructive in many ways. As a result of different business strategies over the past decades, their geographical configuration has become very dispersed. Due to their various market-capturing and cost-cutting foreign investments, most of their production and sales have now been separated from the mother country, Japan.

Toyota's largest production base is still Japan, but its largest market is the USA. In the second figure, the outer ring shows the geographical distribution of production, and the inner ring shows the geographical distribution of sales.

Honda followed an even more radical strategy. In the third figure, the outer ring shows sales, and the inner ring shows the geographical distribution of production.

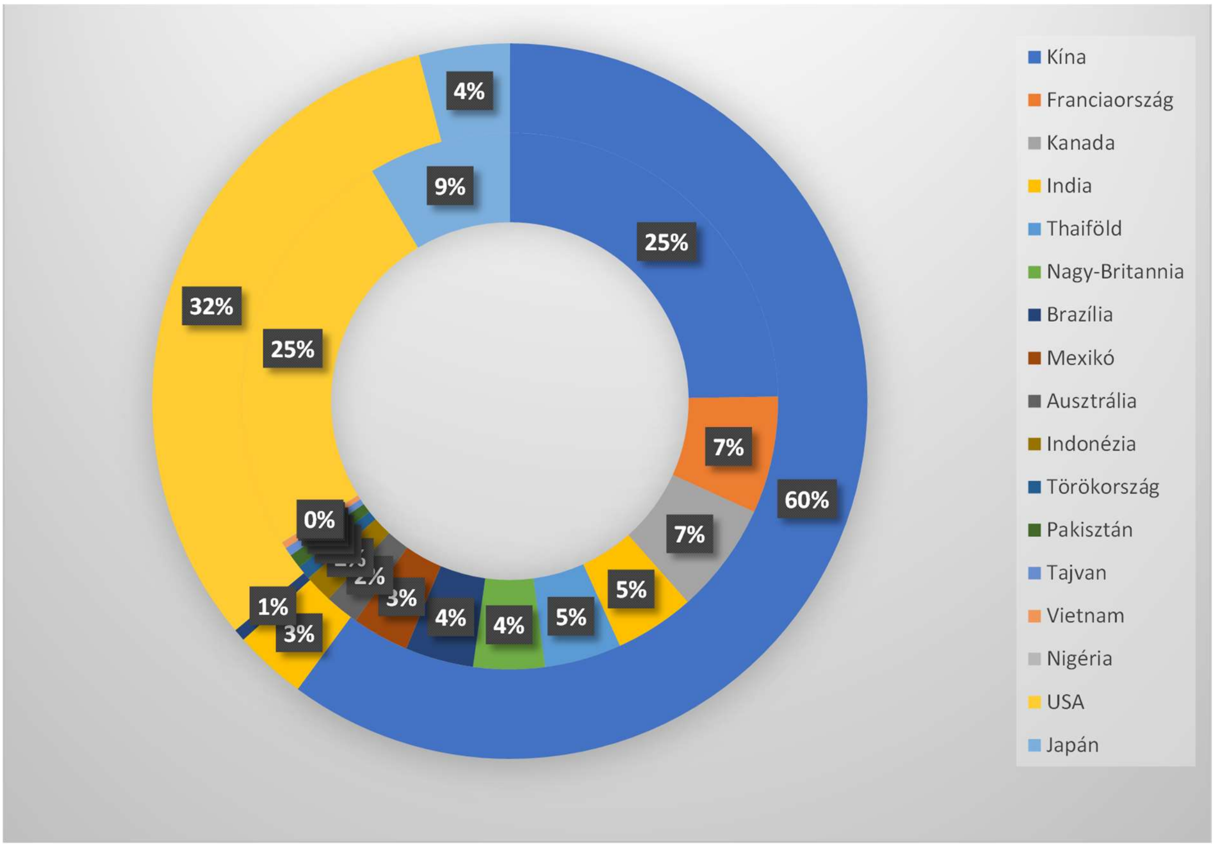
The question is how and in what way will such companies apply the elements of the circular economy?

2. Figure Toyota's production and sales of passenger cars in different countries



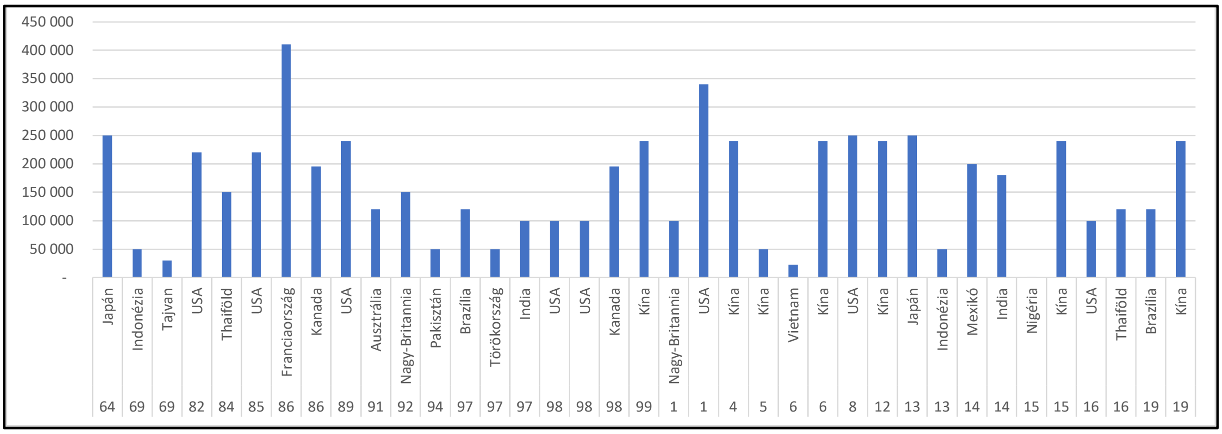
Source: Own compilation based on data from www.toyota.jp

3. Figure Geographical distribution of capacity of Honda's automobile and motorcycle manufacturing plants



Source: Own compilation based on data from www.honda.jp

4. Figure Location, year of opening and capacity of Honda's car manufacturing plants



Source: Own compilation based on data from www.honda.jp