Determinants of FDI inflows: An industry-level approach

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CONTENT

1. Introduction
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3. Results
4. Policy conclusions
INTRODUCTION

1. Analyze policies to attract inward FDI
   1.1 11 countries (6 West, 4 East, US)
   1.2 Industry level data (10 industries; only manufacturing)
   1.3 1995-2003

2. Estimation of baseline model

3. Isolate most important determinants of inward FDI

4. Calculate gap between estimated and potential FDI
   4.1 Reveal 'Scope for FDI'
   4.2 Reveal relevance of policy variables (by country and industry)
DATA

... a tricky story ...
METHODOLOGY

\[
\log FDI_{ijt} = b_1 \log FDI_{ij,t-1} + b_2 X_{it} + b_3 Z_{ijt} + \gamma_t + \alpha_{ij} + \varepsilon_{ijt}
\]

estimated by GMM (Blundell and Bond; 1998)

Policy variables:

1. Effective tax rate (−)
2. R&D expenditures (+)
3. Unit labor costs (−)
4. Share of low skilled workers (−)
5. Barriers to FDI (−)
## Econometric results

<table>
<thead>
<tr>
<th></th>
<th>Coef.</th>
<th>Std. Err.</th>
<th>z-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\ln FDI_{ij,t-1}$</td>
<td>0.866</td>
<td>0.039</td>
<td>22.222</td>
</tr>
<tr>
<td>Effective tax rate$_{it}$</td>
<td>-0.019</td>
<td>0.005</td>
<td>-3.77</td>
</tr>
<tr>
<td>R&amp;D$_{it}$</td>
<td>0.198</td>
<td>0.086</td>
<td>2.30</td>
</tr>
<tr>
<td>Unit labor costs$_{ijt}$</td>
<td>-0.006</td>
<td>0.003</td>
<td>-2.53</td>
</tr>
<tr>
<td>Share of low skilled$_{ijt}$</td>
<td>-0.009</td>
<td>0.005</td>
<td>-1.88</td>
</tr>
<tr>
<td>Barriers to FDI$_{it}$</td>
<td>-0.045</td>
<td>0.033</td>
<td>-1.37</td>
</tr>
<tr>
<td>$\ln GDPcap_{it}$</td>
<td>-0.428</td>
<td>0.273</td>
<td>-1.56</td>
</tr>
<tr>
<td>$\ln POT_{it}$</td>
<td>0.238</td>
<td>0.075</td>
<td>3.18</td>
</tr>
<tr>
<td>Inflation$_{it}$</td>
<td>-0.010</td>
<td>0.008</td>
<td>-1.22</td>
</tr>
<tr>
<td>Risk$_{it}$</td>
<td>0.011</td>
<td>0.019</td>
<td>0.57</td>
</tr>
</tbody>
</table>

Test statistics: ok

Note: Risk is scaled from 0 (high) to 25 (low)
"Best” practice policy

1. Sample means

2. Sample minima/maxima
"Best" practice policy

1. Sample means
2. Sample minima/maxima

Scope for FDI

1. Calculate 'predicted FDI inward stock'
2. Calculate 'hypothetical FDI inward stock' (i.e. when applying 'Best' practice policy)
   2.1 for individual policy variables
   2.2 for all policy variables
   2.3 ceteris paribus
3. Calculate gap: $\frac{H-E}{H}$ in %
RESULTS: MEAN POLICY
Scope for FDI
Scope for FDI by policy variable
RESULTS II: Extremum policy
Scope for FDI by policy variable
RESULTS: Austria
Scope for FDI
Scope for FDI by policy variable (Mean policy)
Scope for FDI by policy variable (Extremum policy)

![Graph showing the scope for FDI by policy variable. The graph includes categories such as Food, Textiles, Wood, Petro, Chem, Rubb, Metal, Mech, Office, and Trans. Each category is represented by different colored bars indicating the effective tax rate, R&D, unit labour costs, share of low educated, and free FDI.]
(POLICY) CONCLUSIONS

1. For whom and for what? - Austrian perspective and attracting FDI

2. Candidates:
   2.1 Effective tax rate
   2.2 R&D expenditures (Government expenditures on R&D)
   2.3 Unit labour costs: Increase productivity (ICT investment, training, ...)
   2.4 Education