

Determinants of FDI inflows: An industry-level approach

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CONTENT

1. Introduction
2. Methodology
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

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

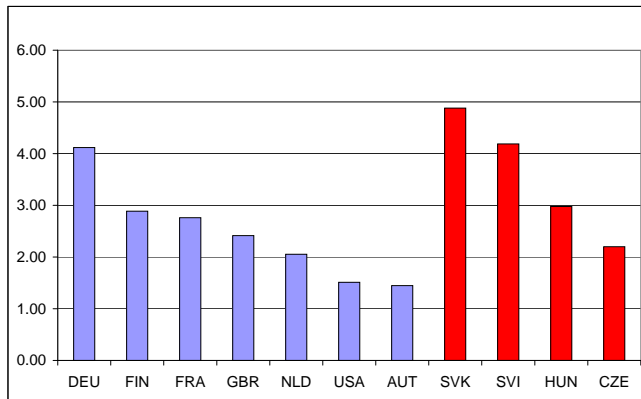
1. Sample means
2. Sample minima/maxima

Scope for FDI

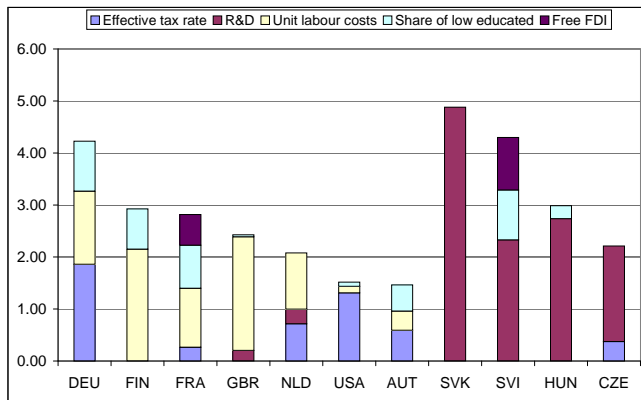
1. Calculate 'predicted FDI inward stock'
2. Calculate 'hypothetical FDI inward stock' (i.e. when applying 'Best' practice policy)
 - 2.1 for individual policy variables
 - 2.2 for all policy variables
 - 2.3 ceteris paribus
3. Calculate gap: $\frac{H-E}{H}$ in %

RESULTS: MEAN POLICY

Scope for FDI

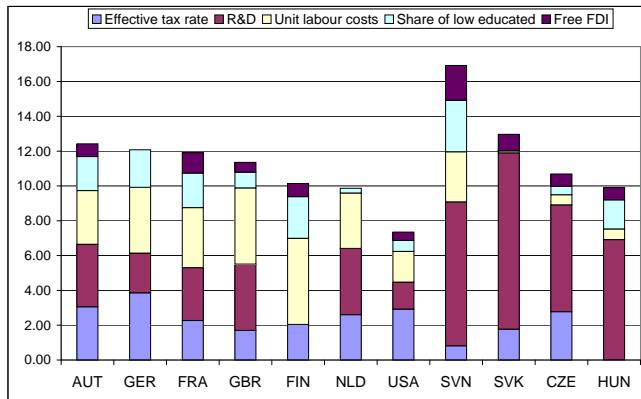


Scope for FDI by policy variable



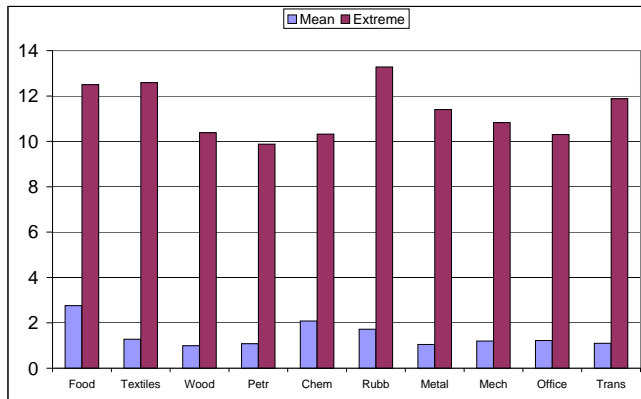
RESULTS II: Extremum policy

Scope for FDI by policy variable

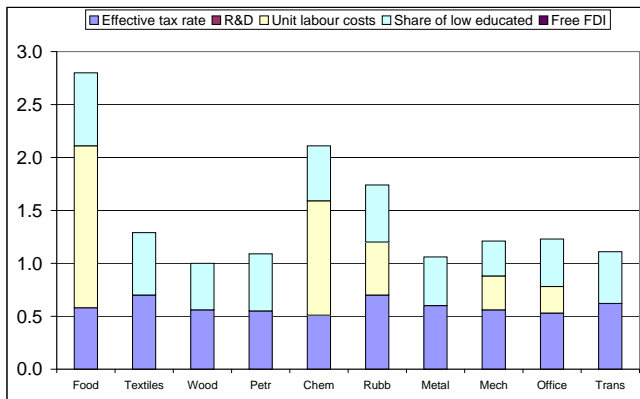


RESULTS: Austria

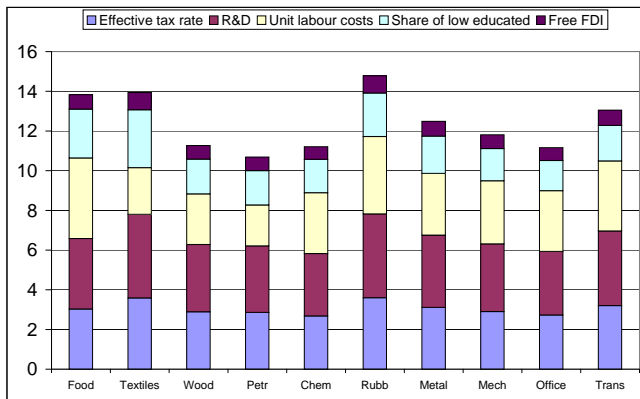
Scope for FDI



Scope for FDI by policy variable (Mean policy)



Scope for FDI by policy variable (Extremum policy)



(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