Policy Factors Influencing FDI Inflows to Developing Countries

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This paper empirically evaluates how institutional and policy factors influence greenfield FDI and M&As to developing countries.

- Bilateral greenfield and M&A investments in 2003-2014;
- The quality of local governance is the most important factor for both greenfield and M&A investments to developing countries;
- FDI restriction policies do not play a significant role;
- Host-country business environment has a significant effect on greenfield FDI only when the host country’s governance quality is low.
- RTAs have a significant and positive effect on greenfield FDI in developing countries while BITs do not exert any positive effect.
There is relatively little empirical analysis that systematically examines how institutional quality, FDI policies and international agreements jointly influence FDI in developing countries.

- In particular, there is a lack of analysis on FDI policies.
- And most analyses do not differentiate between the effects on greenfield FDI and the effects on M&As.

This paper conducts a detailed analysis, accounting for FDI policies and their different categories, greenfield FDI v.s. M&As, and the interactions between institutional and policy factors.

The findings, in particular, those concerning governance quality, business environment and RTAs, are intuitive and have important policy implications.
Sensitivity of the results

Some of the results are dependent on specifications. For example, the effect of a good business environment seems to change from positive to negative when host-country dummies are included (Spec 2).

The effect of FDI restriction policies sometimes appears positive and significant.

The effect of BITs is sometimes negative and significant.

More explanations on these results and how they compare to existing evidence might be useful.
Comments

- Greenfield FDI v.s. M&As
  - Do we have any theoretical intuition on how institutional and policy factors should affect greenfield FDI and M&As differently?
  - Are the empirical patterns consistent with the theoretical intuition?

- Developed v.s. developing countries
  - Similarly, do we have any theoretical explanations for how the effects of institutional and policy factors vary between developed and developing countries?
Could the effects of institutional factors vary depending on the institutional proximity between source and host countries?

Extensive and intensive margins of FDI

- The paper currently focuses on the extensive margin of FDI, in particular, the number of projects/deals;
- How should we anticipate the effects on the intensive margin of FDI? Should they be weaker?
Robustness analysis using U.S. BEA industry-level FDI Data?

- More information on the type and performance of multinational firms investing across countries which might help shed light on the mechanisms of the effects;
- Allows one to see how the effects of institutional and policy factors might vary with industry attributes such as contractual or financial intensity.
Identifying the causal effect of institutional and policy factors is difficult.

- Could there be correlations with omitted variables like financial institution development and labor market policy?
- Reverse causality?
- Industry-level analysis which interacts institutional variables with industry institutional intensities might help address some of the issues.