Policy Factors Influencing FDI Inflows to Developing Countries

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Summary

- 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.

Comments

- 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.

Comments

- 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?

Comments

- 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?

Comments

- 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.

Comments

- 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.