

"Foreign Direct Investment and Entrepreneurship: Gender Differences Across the World"
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Discussant comments:
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Introduction

Professor Goel's paper raises a possible policy conundrum. His study asks whether or not FDI is a complement or substitute for entrepreneurship and further if such substitution/complementarity effects could be more pronounced for female entrepreneurs. The questions are pertinent as they highlight a potential contradiction in global development frameworks. These frameworks point to the necessity of mobilizing additional development finance, in particular foreign direct investment, for productive capacity building, technology upgrading and bridging critical infrastructure financing gaps.

The underlying assumption of global development frameworks is that FDI has a positive synergistic impact, stimulating entrepreneurship and the entry of local firms into global value chains. Professor Goel's paper questions this orthodoxy by asking the difficult question: what if FDI is not as synergistic as assumed? What if it in fact crowds out domestic firms? What if instead of empowering domestic business risk-takers, FDI displaces them? Professor Goel gives his paper a further original twist by seeking to disaggregate impacts by gender, and asking the question what does FDI mean for female entrepreneurs.

Professor Goel's policy conundrum finds context, for example, in the UN's 2030 Sustainable Development Agenda. The Agenda sets out an ambitious universal, transformational agenda. To realize the Agenda's 17 Goals and 169 targets, investment must be ramped up globally. UNCTAD (2014) forecasts that, "at current levels of investment in sustainable development-related sectors, developing countries face an annual gap of \$2.5 trillion."¹ This estimate builds on a global infrastructure funding gap in developing countries already estimated in excess of \$1 trillion annually. How to bridge this financing gap was addressed in the UN's Third International Conference on Financing for Development and the resultant Addis Ababa Action Agenda (AAAA). The AAAA recognizes that "private international capital flows, particularly foreign direct investment, along with a stable international financial system, are vital complements to national development efforts".²

Following the causality chain of the 2030 Agenda, development finance mobilized will catalyse action to realize a series of transformational goals, of which three of the 17 are cited below:

- SDG 5: Achieve gender equality and empower all women and girls;
- SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all;
- SDG 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

Against this background, Professor Goel's research question on FDI and domestic entrepreneurship has particular pertinence. What if by mobilizing additional development finance through foreign direct investment we are crowding out domestic entrepreneurs? What does that mean for the realization of these global goals? Should other forms of development finance be preferred in this context? What actions can we take to prevent ameliorate displacement effects?

Data and model tested

In his explanation of the model, Professor Goel distinguishes between two forms of FDI:

¹ World Investment Report, "Investing in the SDGs An Action Plan" UNCTAD 2014 [Hyperlink](#)

² Addis Ababa Action Agenda of the Third International Conference on Financing for Development, United Nations 2015 [Hyperlink](#)

- Knowledge-diffusing FDI that through technology transfer may create entrepreneurial start-ups. An example here could be app developers across Asia and Africa who offer local national solutions on mobile platforms (mobile money, games etc);
- Routine FDI by foreign firms that pushes out domestic entrepreneurs. An example here could be in the supermarket sector where investments by global conglomerates push out domestic retail entrepreneurs, together with their domestic suppliers.

One would expect such theoretical distinctions to be nuanced at micro-level. Taking the example of taxi ordering electronic platforms, analysis seems to suggest that while these platforms encourage entrepreneurial start-ups both at a firm and individual level, they may also displace other established firms, particularly officially licenced firms. Both synergy and crowding out effects may be present, with the balance between the two effects framed by the reference period over which these effects are studied and the institutional context of the market concerned. This latter point highlights one constraint that Professor Goel faces in this research: i.e. the availability of time series data. The data limitations are particularly marked for female entrepreneurship where the data sample of countries is much smaller (a total of 77 data points).

With regard to the model and the indicators chosen, Professor Goel posits a positive relationship between prosperity and entrepreneurship, and similar positive relationships between entrepreneurship and unemployment, urbanization, nation size, economic freedom. Corruption is considered as a brake on entrepreneurship.

The indicators chosen by Professor Goel are taken from three sources: Heritage Foundation, Global Entrepreneurship Institute and World Bank's World Development Indicators. Alternative sources for some of these indicators could also have been included: UNCTAD's FDI statistics ([hyperlink](#)), World Bank's Ease of Doing Business Index (DBI) and specifically the time to start a business index ([hyperlink](#)), or the World Economic Forum's Global Competitiveness Index ([hyperlink](#)). Indices are of course built on certain assumptions, and the observations collected use different methods.

Testing the results yielded by Professor Goel's model against some of these alternate indices might be considered an additional robustness check – albeit a time consuming one. Interesting to note that among the World Bank's DBI data for 2015 there is new entrepreneurship data based on business density□i.e. the number of newly registered companies per 1,000 of the working population for 139 economies ([hyperlink](#))

An original dimension of Professor's Goel's paper is the inclusion of a variable for female entrepreneurship. The index chosen is from the Global Entrepreneurship and Development Institute. Data is available for 77 countries. Data on female activity rates, gender gaps in unemployment and other data reported through the World Bank's gender data portal ([hyperlink](#)) could be additionally considered in further iterations to this research topic.

One particular constraint that should be indicated here is measures of entrepreneurship focus on activity in the formal sector. For example the World Bank DBI entrepreneurship data considers private formal limited liability companies. For countries with a high percentage of economic activity in the informal sector, measures of activity using formal registered companies are only likely to capture some of the impact FDI on entrepreneurship. ILO statistics on informal employment could potentially be useful in this regard ([hyperlink](#)).

Findings

Professor Goel's top-level finding is that there is a statistically significant "crowding out" effect on FDI on general entrepreneurship. This finding is buttressed by the result that a ten per cent increase in FDI (as a percentage of GDP) lowers overall entrepreneurship by about 0.2%.

One point to consider when interpreting this finding is the significant range among different economies in terms of foreign direct investment as a % of GDP. Data from the World Bank on this measure suggests that the average across countries has grown over time: from 1.3% in 1980, 1.6% in 1990 up to 5.4% in 2010 and 4.5% in 2014). This average data however masks considerable difference between countries. Taking data for 2014, 20 countries had FDI as a % of GDP that exceeded 10%. Four countries had rates of FDI exceeding 30% of GDP. Obvious

differences between the four economies (Democratic Republic of Congo 38.8% of GDP, Mozambique 31.4%, Ireland 34.5% and Hong Kong China 39.9%) point to other insights with respect to the sectors in which the FDI is being made (with the obvious differences being between natural resource and service based economies among the four aforementioned economies). There are also significant differences in the female participation rates between the four economies.

Other findings of Professor Goel suggest positive findings vis-à-vis entrepreneurship rates and economic freedom, property rights, greater democracy, urbanization and government size. Of particular interest is the gender disaggregated findings e.g. that suggest urbanization promotes female entrepreneurship in nations with the highest entrepreneurship climates. In this context, Professor Goel's hypothesis of some minimum level of entrepreneurship climate for females to benefit from urbanization is of note. One caveat here is that what is being measured may be female entrepreneurship in the formal sector.

The finding that FDI does not have statistically significant effects on female entrepreneurship is an interesting one, but as Professor Goel notes, is perhaps suggestive of other factors holding back female entrepreneurship across different economies (access to credit, title to assets, education, etc), differences which he argues in the section on public policy conclusions that warrant special efforts to foster entrepreneurship among women.

Among the other conclusions for public policy arising from the study, he suggests that:

- negative spillovers on entrepreneurship from FDI should go into the cost-benefit calculations of efforts to encourage foreign investments.
- the importance of good institutions, including economic freedom, corruption control, and property rights protection in fostering entrepreneurship is recommended.
- a large government size is not necessarily an impediment to entrepreneurship but could rather be helpful by strengthening checks and balances.
- the existing prevalence of entrepreneurship activity should be kept in mind in framing policies.
- the differing effects of urbanization across gender have some implications for knowledge spillovers.

Some of these conclusions are already being addressed by both governments and development partners. Multilateral Development Banks are already integrating many of these recommendations into their work. Examples here include: World Bank's work on doing business indicators or the AsDB's work on Investment Climate and Productivity Studies. Such initiatives are being undertaken with a growing focus on the gender dimension to policy. One example here to cite is the International Trade Centre's "One Million Women Entrepreneurs" initiative through which they aim to connect one million women entrepreneurs to markets by 2020 ([hyperlink](#))

Conclusions

Professor Goel's paper is a concise and insightful contribution to the literature on FDI. His hypothesis is an original one, made further innovative by the attempt to disaggregate impacts by gender. His finding that gender effects were statistically insignificant should not discourage further research on this issue. Indeed, it could be argued that the finding may be influenced by the lack of comprehensive data on female entrepreneurship, both for by country and by year.

With regard to the headline conclusion as to whether or not FDI may crowd out domestic entrepreneurs, additional research would be helpful in buttressing this finding, notably as regards:

- Sectoral disaggregation of investment flows – FDI in service-based economies will have different economic spill-overs to those in natural resource based economies;
- Country disaggregation of investment flows – Investment flows as a % of GDP range widely and as such the effects may differ significantly year on year. Data looking at the cumulative stock of FDI may be better suited;

- Timeframe – one factor which could be elaborated further with respect to the findings is their time-frame i.e. the period over which the impact can be observed. Crowding out effects may be short term, with synergistic impacts taking longer to come through, particularly in economies with poor transmission of price and other market signals.

Professor Goel's paper is both timely and relevant in the context of the new global development framework agreed in the 2030 Sustainable Development Agenda. His questioning of the synergy versus crowding out effects of FDI, and their impacts on female entrepreneurship is pertinent in this context, particularly in relation to realizing of several of the Sustainable Development Goals cited in this Agenda.