FDI Spillovers in an Emerging Market: The Role of the Diversity of FDI Country Origins

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All interested are welcome
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ABSTRACT

Prior literature on foreign direct investment (FDI) spillovers has mainly focused on how the presence of FDI affects the productivity of domestic firms. In this study, we advance the literature by examining the effect of the diversity of FDI country origins on the productivity of domestic firms. We propose that the diversity of FDI country origins can facilitate FDI spillovers to domestic firms by increasing the variety of technologies and management practices brought in by foreign firms, to which domestic firms are exposed and that they can potentially utilize. Further, the extent to which domestic firms can utilize these technologies and practices depends upon their capacity to learn. Using panel data on Chinese manufacturing firms during the period 1998-2003, our results support these propositions. We find that the diversity of FDI country origins in an industry has a positive relationship with the productivity of domestic firms in the industry. This positive relationship is stronger when domestic firms are larger, and when the technology gap between FDI and the domestic firms is intermediate.