Jorge Cerdeira
Assistant Professor, University of Porto, Portugal

FDI Determinants in Developing Countries: A Firm-Level Analysis

Foreign direct investment (FDI) has been an important driver of economic growth in developing countries. Between 2005 and 2017, FDI grew significantly in developing countries as the corresponding global growth rate of FDI inflows is around 32 percentage points higher than the world growth rate. The purpose of this paper is to analyze FDI determinants at the firm level in developing countries.

Using a sample of 96,826 firms from 125 countries between 2005 and 2017, we adopt a fractional probit regression with endogenous covariates, a more suitable estimation method for addressing the FDI variable. The micro-level results show that exports, investment, and human capital have a statistically positive impact on FDI inflows, while credit barriers and taxes have a negative effect. Also, market size and resources foster FDI, whereas inflation and environmental emissions lower foreign investment levels.

This study demonstrates that governments wishing to attract FDI should adopt a variety of policies, including the promotion of international trade and measures that boost investment and human capital in firms and ease the access to credit.