

# Determinants of FDI inflows into South America

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## Abstract:

This study provides a panel data analysis of the key determinants of FDI as determined by the market such as market size, economic stability, trade liberalization, population, growth prospects, and exchange rates. Additionally, other variables such as physical infrastructure, quality of institutions and central bank exchange rate regimes. This paper seeks to show the major policy implications of variables that can be influenced through government intervention. The empirical research is conducted with focus on South American FDI inflows over the last three decades, due to the great presence of natural resources and cheap labor in the region which have contributed to all-time high FDI inflows into the region.

JEL Classification: F21, F14, F23

Keywords: Foreign Direct Investment

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## 1.0 INTRODUCTION

The systematic globalization of economies around the world has led to greater emphasis on Foreign Direct Investment. The potential spill over of human capital and technology as a result of Multinational Corporations (MNC) is seen as a necessary step towards growth. The question that this study seeks to answer is to identify the primary determinants or country characteristics that would induce Foreign Direct Investment. Nations are able to benefit from potential spill over effects, and from added production, and employment. Fundamentally, this study seeks to answer such question with emphasis on the host country, and the policy implications of FDI either through infrastructure, institutions, and exchange rate regimes. This study places particular interest in the South American region due to their high levels of Foreign Direct Investment within the past decade.

This study is based around the most dominant framework, the OLI paradigm. This hypothesis argues that geographical and industrial composition of international production is determined by three sets of independent variables. There is the ownership advantage. Which states that the most competitive firms will be the only ones able to conduct business, and to achieve efficiency through production would allow firms to stay in business; this would include any unskilled labour cost advantage. This follows up with the second, which are locational advantages. Any locational advantages emerging from the locale for the multinational firm would benefit the firm only if the locale provides a particular comparative advantage than other alternatives. And lastly, the greater the net benefit of internalizing cross-border intermediate product markets, the more likely the firm will prefer foreign production. There are several reasons as to why firms would seek to invest in a particular country. These include: Natural resource seeking, which includes unskilled labour and other minerals and raw materials used for production. Market seeking places emphasis on a particular country whose market size provides an incentive for firms to seek profits by targeting such market. And the others are efficiency seeking, and strategic asset seeking. But even so, there are ways in which government can play a part, and this study highlights the importance of policy implications. (UNCTAD)

With regards to possible policy implications, there are several ways in which government can influence FDI inflows. One way is favourable infrastructure that would make it easier for MNCs to invest in the host nation. Infrastructure could be in the form of

telecommunication, availability of transportation, roads and highways, internet, electricity, gas, and other utilities. Investing in public infrastructure would be favourable for business by lowering costs of production. Another way in which government could play a role is through institutions and tax incentives for Foreign Direct Investment. Legislation that would give incentives in the form of tax breaks to business, and the quality of institutions in place. In theory, the presence of corruption could be seen as a risk for potential investment thus negatively affecting the inflow of FDI.

Lastly, the importance of an exchange rate regime is essential to Foreign Direct Investment inflow. The exchange rate determines the relative price of domestic goods and services outside of a country, with that being said, an devaluing currency could boost exports through lower priced domestic goods, and more expensive imports. In theory, this would lead to export growth and is capable of boosting levels of GDP per capita. An exchange rate regime is largely determined by a nation's central bank, if not allowed to fluctuate by market forces. It could either be a free floating regime, meaning that market forces determine the exchange rate. Or, it could also be allowed to fluctuate within a certain range before Central Bank intervention. Lastly and heavily frowned upon, it could be pegged to a stable currency or a basket of currencies. Central Bank interventions take form in holdings of foreign currencies, and limiting the amount of foreign currency exchanges.

This study aims to provide an empirical analysis of determinants of FDI as determined by the market such as market size, economic stability, trade liberalization, labour force, growth prospects, and exchange rates. This paper was guided by research objectives that differ from other studies: First it investigates it incorporates political structure, infrastructure, and exchange rates which is not typically found in most studies; Lastly, it analyzes the region of South America which has very little emphasis despite the fact that there are several developing nations in the region, and it has had all time high levels of FDI inflow.

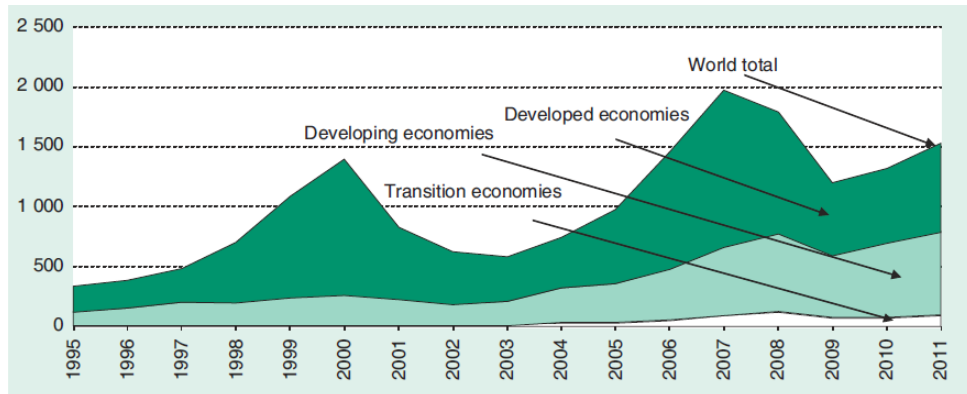
The rest of the paper is organized as follows: Section 2 gives a brief literature review. Section 3 outlines the empirical model. Data and estimation methodology are discussed in section 4. Finally, section 5 presents and discusses the empirical results. This is followed by a conclusion in section 6.

## **2.0 TREND OF GLOBAL FDI AND SOUTH AMERICAN FDI**

Global foreign direct investment inflows rose 16 per cent in 2011. This increase finally surpassed the pre-crisis levels for the first time since 2007. Despite the sovereign debt crises, transnational corporations have seen record high profits and relatively high economic growth in developing nations during the year. Despite the positives, FDI is losing momentum in 2012, perhaps finally succumbing to sluggish global demand. United Nations Conference on Trade and Development predicts that the growth rate of FDI will slow in 2012, and will be leveling off at approximately \$1.6 trillion. As seen in Figure 1, FDI flows to developed countries grew 21 per cent from 2010. Developing and transition economies accounted for more than half of global FDI, and reached a new record high rising 12 per cent in 2010 to \$777 billion. Figure 1 also shows that developing nations have been steadily taking a larger share of global FDI. As these economies globalize, they offer unskilled labor, and other resources that are deemed valuable by MNCs. Most importantly, as seen in Figure 2, is that Transnational Corporations have had record high profits, possibly opening the doors for more future FDI that would only benefit developing nations, and achieve the sustained growth. In addition, TNCs have had record excess cash holdings which they have been reluctant to spend. This signifies that despite the growth prospects of global FDI, there could be more if the economic stability is perceived and TNCs or MNCs find a favorable place to invest their excess cash.

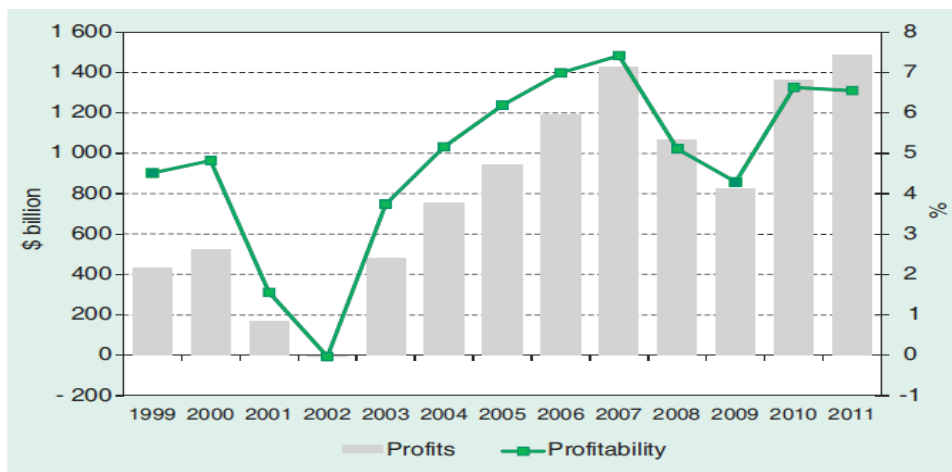
With focus on South America, it has been seen that “FDI inflows to Latin America and the Caribbean (excluding financial centers) rose an estimated 27 per cent in 2011, to \$150 billion. Foreign investors continued to find appeal in South America’s natural resources and were increasingly attracted by the region’s expanding consumer markets.” (UNCTAD)

**Figure 1: Global FDI from 1995-2011**



Source: UNCTAD, based on annex table I.1 and the FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

**Figure 2: TNC Profits**



Source: UNCTAD, based on data from Thomson One Banker. Profits measured as ratio of net income to total sales. TNCs covered 2,498

The most recent trends in FDI flows in the South American region show that Brazil, Chile, and Colombia command the most FDI inflows in the year of 2011, which figures above \$10 billion. Whereas the others lag behind, with Peru, Argentina, and Venezuela in the \$5.0 billion to \$9.9 billion range. Uruguay amassed a total in the range of \$1.0 billion to \$4.9 billion, and the lowest ranked Ecuador and Paraguay at less than \$1 billion. FDI inflows have been steadily rising in South America over the past years, despite taking a serious hit following the global financial crisis. These totals can be seen in Table A

**Table A: South American FDI**

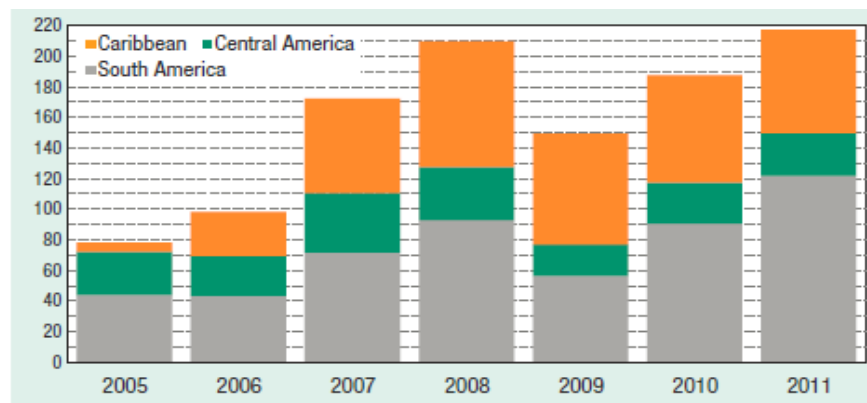
Range	Inflows	Outflows
Above \$10 billion	Brazil, British Virgin Islands, Mexico, Chile, Colombia	British Virgin Islands, Chile
\$5.0 to \$9.9 billion	Peru, Cayman Islands, Argentina, Bolivarian Republic of Venezuela	Mexico, Colombia
\$1.0 to \$4.9 billion	Panama, Dominican Republic, Uruguay, Costa Rica, Bahamas, Honduras, Guatemala, Nicaragua	Cayman Islands, Panama, Argentina
\$0.1 to \$0.9 billion	Plurinational State of Bolivia, Trinidad, Tobago, Ecuador, Aruba, El Salvador, Barbados, Paraguay, Jamaica, Haiti, Guyana, Saint Kitts, Nevis, Saint Vincent and the Grenadines, Cuba	Bahamas, Bolivarian Republic of Venezuela, Peru
Less than \$0.1 billion	Turks and Caicos Islands, Belize, Saint Lucia, Curaçao, Antigua and Barbuda, Grenada, Dominica, Anguilla, Montserrat, Sint Maarten, Suriname	Jamaica, Costa Rica, Ecuador, Guatemala, Nicaragua, Curaçao, Turks and Caicos Islands, Aruba, Belize, Sint Maarten, Honduras, Suriname, Uruguay, Dominican Republic, Barbados, Brazil

<sup>a</sup> Economies are listed according to the magnitude of their FDI flows.

Source: UNCTAD

This period of high growth of FDI in South America has been sparked due to its expanding consumer markets, high growth rates, and possession of natural resources. Brazil has been the top target for FDI inflow, which increased by 37 per cent in 2011, and accounts for 55 per cent of the total FDI in South America. The importance of Brazil to the South American region cannot be overlooked, and its relative size of their domestic market explains why it would be beneficial for a MNC to invest in this country. It is also strategically located around other emerging markets such as Argentina, Chile, Colombia, and Peru.

**Figure 3: FDI Inflows from 2005-2011**



Source: UNCTAD

Another critical aspect of high FDI into the region has been the return on investments. Extractive industries have seen profits increase significantly. For example, extractive industry in Argentina and Chile were 30 per cent and 20 per cent, respectively, in 2010, while those on total inward FDI were 11 per cent and 14 per cent. The South American region is exhibiting high growth of FDI as a result of wealth of natural resources, and relatively high growth prospects. As seen in Table B, which details the distribution of FDI and growth of FDI across different sectors shows that the primary reason for global FDI has been natural resource seeking through extracting as previously mentioned. South America offers great diversity of natural resources that is very appealing to TNCs with excess cash holdings. Secondly, it also appears that manufacturing is also a strong component of FDI, and that is fairly intuitive. Unskilled labor manufacturing outsourcing has been a topic of great debate in American politics. South America also has seen its share of manufacturing outsourcing. The cost advantage that cheaper labor cost provides these firms also benefits the community by providing employment and therefore added income to the region.

**Table B: Distribution Shares and Growth Rates of FDI Project Values, by sector/industry, 2011**

Sector/industry	Distribution shares	Growth rates	
		2011 compared with 2010	2011 compared with pre-crisis average (2005–2007)
<b>Total</b>	<b>100</b>	<b>15</b>	<b>-12</b>
<b>Primary</b>	<b>14</b>	<b>46</b>	<b>50</b>
Mining, quarrying and petroleum	14	51	53
<b>Manufacturing</b>	<b>46</b>	<b>7</b>	<b>-1</b>
Food, beverages and tobacco	6	18	40
Coke, petroleum and nuclear fuel	4	-37	-30
Chemicals and chemical products	10	65	25
Electrical and electronic equipment	5	-8	-26
Motor vehicles and other transport equipment	6	-15	10
<b>Services</b>	<b>40</b>	<b>15</b>	<b>-31</b>
Electricity, gas and water	8	43	6
Transport, storage and communications	8	38	-31
Finance	6	13	-52
Business services	8	8	-33

Source: UNCTAD

### 3.0 LITERATURE REVIEW

The majority of empirical studies that focus on Foreign Direct Investment have fixated on the location and internalization (OLI) paradigm. Empirical studies place particular emphasis on market size, openness, capital accumulation, labor cost, and macroeconomic stability as the main determinants of FDI. As most studies suggest, FDI is a method by which developing nations can seek to promote development by inducing investment from foreign enterprises. These firms exploit the competitive advantages offered by these locales, and in return they provide the region with added employment. These firms are taking risks to establish in these locales with a hope of a return on investment. There are several theories on the incentive for firms to settle in a particular country, these are the production life-cycle theory, ownership advantage theory, and the location and internationalization (OLI) paradigm (Liu et al, 2012). Waldkirch (2011) looks into a detailed industry level-data set on FDI in a relatively skilled labor and capital scarce country to control certain values. Waldkirch finds that there is a comparative advantage motive for FDI inflows into a country. Waldkirch looked at Mexico's comparative advantage in the labor intensive production process, and determined that it is important as a determinant of FDI, but that skill, capital intensity of production, and differences in skill endowments relative to some other countries as well as market size are statistically and economically significant. In a different study, Liu et al (2012) finds that market size, labor cost, labor quality, physical infrastructure development, telecommunication, openness, and government incentives as the key determinants of FDI inflow. They concentrate on the OLI paradigm with particular regard to public policy, economic variables, and the cost of production to the transnational firm. The findings are that market size, human capital, labor cost, and physical infrastructure are significant in determining FDI inflows into a regional distribution of FDI inflows across China's four regions.

Ranjan (2011) uses a random effect panel data model to determine that market size, openness, labor cost, and infrastructure are statistically important to determining FDI inflows, but also finds that macroeconomic stability and growth prospects are insignificant at the 5% level of significance. This study also takes into account a fiscal deficit variable, which was uncommon in most empirical studies. And it also agrees with



(Kose et al, 2009), which states that there are no effects or at least, very limited effects through traditional channels such as capital accumulation for developing nations with hopes to induce FDI. Ranjan (2011) measures the level of infrastructure, by utilizing the Infrastructure Index which pools variables such as Electric Power Consumption (kWh per capita), Energy use, and Telephone lines; which is then found to be statistically significant.

In a similarly interesting study, Ozkan-Guhay (2011) analyses determinants of FDI inflows and policy implications across the EU, and other candidate countries. This study takes into account the same variables as other studies such as market size, macroeconomic stability, but it also looks at R & D as a measure of innovation, and infrastructure. This study, as the previous one, also found that macroeconomic stability was not as important in determining FDI. Similarly, other studies have also alternate econometric frameworks to estimate the determinants in ways such as to not violate the Gauss-Markov assumptions of biased estimators. Studies such as Naudee and Krugell, (2007) use the GMM estimator as a means of conducting empirical research. Bhavan et al, (2008), also utilizes the Arellano-Bond dynamic panel system to estimate cyclical factors, growth rates, distance, and human development as determinants of FDI in a panel data analysis. They find that population estimated as the labor force, and country characteristics such as distance, growth rates, and rule of law play a key role in determining FDI. Kimino et al (2007) also agrees that country characteristics play a significant role, but concludes that market size, exchange rates, and labor costs are statistically insignificant. This study is extremely important because it disagrees with a vast majority of the literature on FDI determinants. They argues that most studies fail to specify the model thus violating the Gauss-Markov assumptions of biased OLS estimators. They utilize a LR test and LM test to identify the correct specification.

Other studies take a slightly different approach. (Rodriguez and Pallas, 2008) analyses differentials between labor productivity and the cost of labor. This study concludes that both labor productivity and the cost advantage of labor is important to induce FDI inflow, and that the evolution of human capital, and exports play a crucial role. (Choong and Lam, 2010) also incorporate literacy rates into the study as a measure of human development and finds that literacy rates also play a role.

The most relevant study as it relates to South America was conducted by Amal et al (2010), which looked at a period of 1996-2008 due to data unavailability. This study utilized the OLI paradigm as the main framework and placed greater emphasis on institutional variables and the role of economic variables on the investment decisions of MNCs in the region. More specifically, it looks into trade liberalization variables, and the economic environment. This study also found what most studies found, which is that economic variables are important to determining FDI.

This paper seeks to enhance to the current literature by including variables such as the polity2 as a measure of political structure, and infrastructure. It also includes typical variables such as market size, openness, growth rates and prospects, and macroeconomic stability. As iterated before, this study seeks to analyze the influence that government can have on FDI, whether positive or negative.

#### **4.0 DATA AND EMPIRICAL METHODOLOGY**

##### **4.1 Data**

This study utilizes annual data ranging from 1980 to 2010. Data has been obtained from various sources such as the World Bank, International Monetary Fund, and the Penn World Table. Summary statistics are provided in the following table.

**Table C Summary Statistics**

<i>Variable</i>	<i>Obs.</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>
InFDI	1829	20.65799	2.425	10.59	26.55
GDP	1941	507965.3	1320904	3336.49	1.44e+07
Exchange Rate	1953	344.34	1682	0	19065
Growth	1941	8.95	1.204	5.192	11.822
Openness	1941	63.653	46.196	10.33	433.05
Infrastructure	1953	3836.507	4792.78	18.38	25590.69
Price Level	1941	71.76	36.69	9.8	662.2
Political Structure	1922	4.96	6.38	-9	10
InPOP	1953	9.86	1.45	5.46	14.10
Natural Resources	1930	5.94	9.34	0	79.21

## 4.2 Empirical Model

The model could be written as follows:

$$\ln FDI_{it} = \beta_0 + \beta_1 GDP_{it} + \beta_2 XRATE_{it} + \beta_3 GROWTH_{it} + \beta_4 OPEN_{it} + \beta_5 INFRA_{it} + \beta_6 STABI_{it} + \beta_7 INSTIT_{jt} + \beta_8 NATRE + \beta_9 \ln POP + \alpha SAMERI_{it-1} + \varepsilon_{it} \quad \ln$$

$FDI_{it}$  is the natural logarithm of the annual inflow of FDI into country  $i$  at  $t$  year in U.S dollars. FDI is utilized as the dependent variable in this study. Natural logarithm is used based on theory, in order to find the semi-elastic effect of independent variables on the dependent. The purpose of this study is to seek the determinants of FDI across countries with particular interest in South America.

Independent variables consist of nine variables obtained from various sources.

First,  $GDP_{it}$   $i$  at year  $t$

$XRATE_{it}$  is the ratio of host country's nominal exchange rate with respect to U.S exchange rate  $i$  at year  $t$ . Data for the exchange rate was obtained from the Penn World Table. Third,  $GROWTH_{it}$  captures the growth prospects of country  $i$  at year  $t$ . As a proxy for growth prospects, the natural logarithm of real GDP per capita for the host country was calculated and used as a variable. Real GDP data was obtained from the Penn World Table which utilized 2005 prices as a benchmark to calculate real GDP. Fourth,  $OPEN_{it}$  is the degree of openness in a host country in order to measure trade liberalization and attitudes toward foreign investment. This variable was also obtained from the Penn World Table. Fifth,  $INFRA_{it}$  is a variable used to measure the level of infrastructure development in country  $i$  in  $t$  year. As a proxy for this variable, the electricity usage per capita (kWh) was used and obtained from the World Bank's data resources. Sixth,  $STABI_{it}$  is the variable used to measure macroeconomic stability within the host nation. The price level of GDP or the GDP deflator was used to capture price stability and therefore economic stability that would add uncertainty to economic decisions. Price

level data was obtained from the Penn World Table. Seventh,  $INSTIT_{it}$  reflects the Quality of Institutions, more specifically the political stability presents in country  $i$  in  $t$  year. As a result, Polity2 was used from the PolityIV project. The data values range from -10 to +10 as an index representing strongly autocratic and strongly democratic, respectively. The index is compiled by subtracting the Autocratic score for a country from its democratic score. Scores for each variable are quantified by adding points if a country possesses particular characteristics such as competitiveness of political executive recruitment, regulation of political participation, competitiveness of political participation, etc. In summary, Polity2 is able to capture the competitiveness of the political system and political freedom. It also captures transition stages and other political processes making easy to identify whether there is favorable political structure that would favor foreign direct investment. The idea is to measure for political instability which would add uncertainty and possibly hinder foreign direct investment inflows. Eight,  $NATRE_{it}$  is used to measure the availability of natural resources in a country  $i$  in  $t$  year. As a proxy, Natural Resources rents as a % of GDP was utilized to measure the returns to natural resources, and the presence of these resources in a country as a means to capture potential natural resource-seeking FDI. This data was obtained from the World Bank. Finally, the last variable SAMERI was utilized as a dummy variable to break up the sample between South American countries and the “rest of the world”. The data was obtained for 62 countries which included all countries found in South America. This paper considers Argentina, Brazil, Bolivia, Chile, Colombia, Ecuador, Peru, Paraguay, Uruguay, and Venezuela as South America and does not take into account the Caribbean and Central America like many other studies do. The reason being that the landlocked region of South America is independent of Central America and the Caribbean in terms of competition for resources, as well as, share similar characteristics not only geographically, but also culturally.

<i>Variable</i>	<i>Description</i>	<i>Expected Sign</i>	<i>Source</i>
<b>GDP</b>	Total GDP in current prices	( + )	PWT
<b>XRATE</b>	Ratio of Exchange Rates between Host and US	( + )	PWT
<b>GROWTH</b>	Growth in real GDP	( + )	PWT
<b>OPEN</b>	Degree of Openness	( + )	PWT
<b>INFRA</b>	Electricity usage per capita	( + )	WDI
<b>STABI</b>	Price Level of GDP	( - )	PWT
<b>INSTIT</b>	Polity2 Variable	( + )	PolityIV
<b>NATRE</b>	Natural Resource Rents	( + )	WDI

## 5.0 EMPIRICAL RESULTS

In order to correctly specify the model used in this paper, a Hausman specification test was performed to determine whether to use a Fixed effects model or a Random-effects model. The difference in the estimators from both models ended up not being significant enough. As a result, I utilized a Random-effects model.

The model yielded seven statistically significant variables as determinants of FDI inflows. As seen in Table 2, market size, exchange rate, growth prospects, degree of openness, infrastructure, political stability, and growth of population were statistically significant. All results which were in line with several studies such as Bhavan et al (2011), Kimino et al (2007), Amal et al (2010), Ranjan(2011). The implication of this result suggests that as the host country becomes more favorable in terms of having a large market size, and lower nominal value of the currency would help induce Foreign Direct Investment. This result is expected because the purchasing power of foreign enterprises increases as the host country currency is devalued relative to the US dollar. As a result of increased purchasing power, ceteris paribus, TNCs are most likely to invest in that particular country. Market size is also significant at the 1% level, and this also has implications because as host countries have bigger markets there are more profit

opportunities for TNCs. Growth prospects also are a determinant of FDI. Degree of openness, which is also statistically significant, also makes intuitive sense because host countries that are open are more likely to have favorable legislature and respond positively to foreign enterprises. As expected, infrastructure was positive and significant effect at the 1% level. As countries are more developed infrastructure, it's more likely that they have transportation, electricity, and access to utilities that make operations more efficient, and result in decreased operating costs. Based on the fact that cost minimization is the principal theory for profit maximization, it would make sense for firms to choose host nations that would result in cost advantages. The last positive and significant variable was political stability or lack thereof. A positive relationship suggests that as countries become more democratic they are more likely to receive foreign direct investment. This conclusion is especially important because it means that democratic states benefit more than autocratic states in their quest for growth. A democratic state has more political freedom and more competition within politics. This is a favorable characteristic for foreign investors. Possible transition in political structures and highly autocratic states may inhibit the incentives for firms. Favoritism could come into play from particular dictators that may have friends or family in other businesses, resulting in a misallocation of resources.

With regards to macroeconomic stability, this study finds that it is not statistically significant which is consistent with most findings. It turns out that stability as measured in the price level of GDP does not determine whether there is inflow of FDI in a country. Another important finding is that natural resources do not determine inflows of FDI because it is not statistically significant. This finding is interesting because as suggested in the literature review one of the primary types of foreign direct investment is natural resource seeking investment.

Finally, with regards to the dummy variable, South American countries on average, holding everything else constant, have 1.29% more FDI inflows than the rest of world. In billions, the difference is significant. The results were mostly expected and were consistent with the models that utilized the same type of regression analysis. It does not go along with models that used a GMM estimator. This model explains sixty-seven percent of the variance in % of FDI inflows.

A limitation of this model includes issues of endogeneity between the independent variables and the dependent variable. Also, in order to gather data for the thirty year time range from 1980-2010, it was impossible to use certain variables that would have certainly meant a lot for purposes of determining FDI inflows. Variables such as labor costs which would measure the potential cost advantage of a country, was unavailable for the majority of the time. Other factors such as capital accumulation were also not available which would be an interesting factor to consider.

**Table D: Regression results**

<i>Variable</i>	<i>(1)</i>	<i>(2)</i>
	<i>RE(Robust)</i>	<i>FE(Robust)</i>
CONSTANT	-7.236 (1.166)	-32.58*** (2.53)
Total GDP (millions)	.1302*** (.039)	0.00336** (0.00167)
Exchange Rate relative to US	.0000896*** (.0000484)	.0000931 (.000076)
Growth of rGDP	1.302*** (.123)	1.657*** (.1779)
Degree of Openness	.0226*** (.00208)	0.0098*** (.0023)
Electricity Usage (kWh per capita)	0.0000841*** (.0000257)	0.000111 (.0000703)
Price Level (Index)	.000135 (.000939)	0.00178 (.00131)
Polity (-10 to 10)	0.0698*** (.0096545)	0.0363*** (.0123)
Nat. Resources Rents (% of GDP)	.03 (.0105)	.00186 (.00871)
lnPOP	1.386*** (.075)	3.674*** (.242)
SAMERI (binary)	1.291*** (.304)	1.356*** (.245)
R <sup>2</sup>	0.672	0.4917
Wald chi-squared	1711.56***	225.53(F-Stat)
Number of obs.	1777	1777

Note: \*\*\*, \*\*, and \* denotes significance at the 1%, 5%, and 10% respectively. Standard errors in parentheses

## 5.0 CONCLUSION

In summary, this study finds that certain country characteristics are important to induce foreign direct investment. Some of those characteristics are market size, growth prospects, exchange rates, infrastructure, political stability, population growth, and degree of openness. These variables were found to be statistically significant and had a positive relationship with FDI inflows. In conclusion, FDI is an important and popular method to spark growth in a country, evidence by China's recent emergence in international trade. This study confirms what the majority of empirical studies have found, but in this case, natural resources were found to be not significant along with macroeconomic stability. It's a very peculiar finding. Future research should be centered on productivity measures across industries possibly, as well as factor accumulation. The proxies for measurement could also be improved. The policy implications are very important. First of all, government could spend resources toward improving infrastructure as long as it's economically viable. This means that government officials could focus on infrastructure when creating policies. In addition, political stability is extremely important and is influenced by decision making and behavior from individuals in a particular country. Fundamentally, rule of law has an immense effect on a variety of factors in a country. Central banks can also impose exchange rate regimes that seek to undervalue the currency relative to the US. Although, undervaluing currency may not be sustainable in the long run due to the real income loss to citizens of the country who find imports to be more expensive and could vary by country depending on comparative advantages.



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