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# The Flow of Foreign Direct Investment in the Asian Economies – The China Effect

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#### Abstract

This paper empirically examines whether and to what extent the surge of the FDI in China in recent years has come at the expense of FDI inflows into other neighboring countries. A panel estimate using data from sixteen Asian countries over the 1995-2014 sample period is performed. The results suggest that, on average, FDI inflows into China have been complementary to FDI inflows into other neighboring countries in Asia. The results are robust for a number of different specifications. The findings have important policy implications for all countries in the region.

Keywords: Foreign Investment, Asian economies.

AMS Subject Classification: 91B60.

# **1. Introduction**

China has emerged as a major player on the global economic scene following the market oriented policy reforms initiated in the 1980s. This has raised serious concerns among policy makers about the viability of its outward-oriented development strategy for other developing countries (IMF 2002, 2004). In particular, the emergence of China as the premier recipient of foreign direct investment (FDI) in the developing world is often emphasized as a major constraint on other developing countries in achieving rapid economic growth through greater integration into the global economy. China's share of FDI in developing Asia rose from about 10 percent in the 1980s to over 50 percent in the

early 1990s and has continued to grow ever since (Mercereau 2005). With over 30 percent of the total FDI inflows to East and South Asia going to China in 2014, it is evident that this trend has raised some concerns for the other economies in the region (UNCTAD 2015). These concerns gained further impetus from China's accession to the World Trade Organization (WTO) in 2001 as it enhanced China's attractiveness to foreign investors by reducing country risk.

While the 'China fear' is now a universal theme in the development policy debate, it has received far greater emphasis in countries in developing Asia most of which have embraced outward orientation as the basic tenant of development strategy. Several of China's neighboring economies have raised concerns that the emergence of China has not only diverted FDI away from them, but has also encouraged their own domestic investors to leave their economies, resulting in a continuous loss of manufacturing industries and jobs, and further weakening their economies.<sup>1</sup>

So, does the flow of FDI to China crowd out FDI flows to its neighboring countries? From a theoretical perspective, it is difficult to assess ex-ante whether China's imports and productive complementarities counterweigh its diversion effect. On one hand, a major objective of FDI is to exploit comparative advantage in a host country. In deciding on investment destination, Multinational Enterprises (MNEs) often choose among several comparable candidates with the lowest labor costs. Under this scenario, an increase in FDI inflows to the country with the lower labor costs must come at the expense of reducing the inflows to others, thus generating a 'crowding out' effect. This line of reasoning suggests that the emergence of China as a top FDI recipient diverts FDI flows away from other countries.

While this is a major concern, an equally strong and empirically sound argument suggests that rapid growth of FDI inflows to one country, e.g., China, via production network and supply chain linkages, can stimulate similar growth in its neighboring and other economies. With further integration and cooperation across borders, an increasing portion of the production processes from MNEs now reflect specialization and fragmentation, which necessitate large investments within a set

<sup>&</sup>lt;sup>1</sup> "Everyone is feeling the pinch because the amount of FDI has shrunk and then, a lot of that is going to China" (Prime Minister of Malaysia, Mahathir, Strait Times, September 21, 2002, quoted in Eichengreen *et al* 2007.

of production networks. Neighboring countries, with their respective advantages across distinct stages of production, all benefit from large inflows of foreign investment in China. According to this line of reasoning, FDI into China will have a 'crowding in' effect on FDI in neighboring countries.

Empirical studies in the literature present a mixed picture of correlations between country-wise FDI inflows (Chantasasawat *et al* 2004, Eichengreen and Tong 2007). It remains to be seen which effect dominates. Chantasasawat *et al* (2004) estimates crowding out by China for eight Asian economies from 1985 to 2001. They find that the level of China's foreign investment is positively related to the levels of the economies' inward direct investment. Mercereau (2005), on the other hand, studies the relationship in fourteen Asian economies from 1984 to 2002. He finds that crowding out by China is concentrated in two countries only (Myanmar and Singapore), while other countries are not affected.

This paper contributes to the existing literature by empirically examining whether and to what extent the surge of the FDI in China in recent years has come at the expense of FDI inflows into other neighboring countries. It specifically addresses two issues:

- (i) Does a growing China add to other countries' FDI inflows by creating more opportunities for production networking, and by raising the demand for raw materials and resources?
- (ii) Does the low Chinese labor costs attract multinational enterprises
   (MNEs) away from other Asian economies when the MNEs consider alternative locations for low-cost export platforms?

In particular, a panel estimate using data from sixteen Asian countries over the 1995-2014 sample period would be performed. The results suggest that, on average, FDI inflows into China have been complementary to FDI inflows into other neighboring countries in Asia. The results are robust for a number of different specifications. The findings would have important policy implications for all countries in the region that are discussed in Section 6.

The remainder of this paper is organized as follows. In Section 2 the methodology and the data set are described. The empirical results are presented and discussed in Section 3. The paper ends with a discussion of the policy implication of the results in Section 4 and some concluding remarks in Section 5.

### 2. Model and Data

In this section we will formulate an empirical model to find the determinants of net inward FDI in South and East Asian economies while observing whether similar FDI inflows into China has any impact or not. An ordinary least squares (OLS) regression model is developed to investigate the relationship between inward FDI and several economic indicators<sup>2</sup>. To account for growth and development, variables such as technology, GDP growth and education are used. Trade and exchange rates are included to capture the openness of the economy. Looking at the financial depth and government control of the economy, reserves, inflation and government effectiveness variables are included. Moreover, to observe any sectoral effects, the manufacturing share of GDP is incorporated. Lastly, to address the most relevant issue for this paper, China's share of FDI is included to see if there is a crowding out effect. The data are collected from the World Development indicators (WDI), Passport Global Market Information Database (GMID) and Worldwide Governance Indicators (WGI) databases for the years 1995 to 2014. For this study, a sample of 16 countries from the region are included (See Table 1). Based on the discussion of the determinants of FDI discussed in the previous Section, the following model is estimated<sup>3</sup>:

$$\begin{split} FDIGDP_{i,t} &= \beta_0 + \beta_1 Cell_{i,t-1} + \beta_2 Reserves_{i,t-1} + \beta_3 TRADE_{i,t-1} \\ &+ \beta_4 FDIGDP_{i,t-1} + \beta_5 CFDI_{i,t-1} + \beta_6 FXRATE_{i,t-1} + \beta_7 GDPG_{i,t} \\ &+ \beta_8 GDPG_{i,t-1} + \beta_9 INFL_{i,t-1} + \beta_{10} GE_{i,t} + \beta_{11} EDUC_{i,t} \\ &+ \beta_{12} MFG_{i,t-1} \end{split}$$

Most of the regressors are lagged by one year for the fact that the implementation of investment decisions is in practice lagged (See Mercereau 2005). T<sup>4</sup>his also reflects organizational adjustment and learning time effects.

<sup>&</sup>lt;sup>2</sup> A Hausman test was performed, and the results indicated that an OLS regression method was appropriate.

<sup>&</sup>lt;sup>3</sup> Growth in Gross Fixed Capital Formation (FCF), Asian Financial Crisis (FINCR) and Money Supply M2 as a share of GDP (MGDP) are included in some specifications as seen in Table 4, but not in the final model.

<sup>&</sup>lt;sup>4</sup> The inclusion of the lag of the dependent variable reflects an autoregressive model that does pose some challenges. However, given the strong empirical evidence that FDI in the previous year is a strong factor in future FDI investment decisions, this variable was included in the regression.

#### Chowdhury and Sattar: The Flow of Foreign Direct Investment...

A detailed description of the variables in the regressions, and their sign expectations are as follows:

**FDIGDP:** The dependent variable is the net inflows of foreign direct investment (FDI) as a share of GDP in the sixteen countries in the sample. Values are reported in percent, from World Development Indicators.

**Cell:** This variable represents the mobile cellular subscriptions per 100 people. It is used to represent technological advancement. Jeon, Tang and Zhu (2005) suggested that technology that improved communication technology is likely to have a positive impact on inward FDI. We expect the sign of the variable to be positive.

**Reserves:** Reserves comprise of special drawing rights, reserves of IMF members and holdings of foreign exchange rates as a share of GDP. This variable is a proxy for an economy's liquidity and financial depth, and is expected to have a positive relationship with inward FDI.

**Trade:** Exports and imports as a share of GDP is another important factor affecting FDI. Representing an economy's trade openness and liberalization, inward FDI is expected to be positively related to this variable.

**CFDI:** This is the main variable of interest in this study. Following Chantasasawat *et al* (2004), China's FDI inflow as a share of its GDP is used as a proxy for the China Effect. A positive coefficient on this variable will indicate a crowding-in effect whereas a negative coefficient will support the crowding-out argument.

**FXRATE:** It is the foreign exchange rate of the local currency expressed in current US dollars. We expect this relationship to be positive as cheaper foreign currency means investors can buy more investment using their home currencies (Blonigen, 1997; Chakrabarti and Scholnick, 2002).

**GDPG:** This is the annual percentage growth rate of real GDP per capita. As growth in real GDP is expected to represent economic development, we expect a positive relationship with inward FDI.

**INFL:** This variable represents inflation as measured by the percent change in consumer price index (CPI). This variable is expected to have a negative relationship with inward FDI.

**GE:** This variable represents the government effectiveness rank given by World Governance Indicators. The organization defines this variable as follows: Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Countries receive a percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) ranks). The higher the value, the more effective is the governance. Therefore, we expect a positive relationship between GE and FDI.

**EDUC:** As a proxy for education, EDUC measures the literacy rate in countries. Since more education can lead to labor being more skilled, we expect EDUC and FDI to have a positive relationship.

**MFG:** This variable represents the net output from the manufacturing sector as a share of GDP. According to Alfaro (2003), the industrial sector impacts both the FDI and growth of an economy. Moreover, as we learn that some Asian countries are transitioning towards the service sectors, while others jump into manufacturing, it will be interesting to observe how this variable is related to FDI.

**MGDP:** This variable represents Money and Quasi Money (M2) as a share of GDP. It is seen as an indicator of liquidity of the economy and is expected to have a positive relationship with FDI.

**FCF:** This variable represents the annual growth in gross fixed capital formation. It represents land improvements, plant, machinery and equipment purchases, infrastructure improvements (both commercial and residential), and inventory held by firms. It expected to have a positive relationship with inward FDI.

**FINCR:** This dummy variable represents the Asian financial crisis and takes a value of 1 for years 1997 and 1998, and 0 for all other years.

A summary of statistics for all the variables can be found in Table 2. The TRADE and FXRATE variables seem to have the highest variation in the sample as their standard deviations are 101.81 and 4340.51, respectively. There are 320 observations in the dataset with data from 1995-2014 across 16 countries.

### **3. Estimation Results**

The results from the Hausman test indicated no cross-section effects, and hence an OLS model was more appropriate. However, the Fixed Effects model is still reported in Table 3 for reference. Results from the sets of OLS panel regressions are reported in Table 4. Variables that are expected to be highly correlated are not included in the same regression. Based on these results, the main variable of interest, CFDI (-1) has a positive and statistically significant coefficient in all the regressions. A 10 percent increase in net FDI inflow to China in year 1 is expected to increase net FDI inflow in our sample countries by anywhere from 5 to 8 percent across all the specifications in year 2, holding all else constant. Therefore, it can be deduced that despite the concern from many policymakers, FDI inflows into China has a positive effect on FDI inflows to other South and East Asian countries for the 1995-2014 sample period. After excluding variables that are not significant such as the Asian Financial Crisis and Fixed capital formation, the final regression is regression (6) reported in the table.<sup>5</sup>

Looking at regression (6), it can be seen that our study supports the argument by Athukorala (2009) and Chantasasawat *et al* (2010) that FDI inflows into China are not crowding out FDI into other countries. The results suggest that as China's FDI/GDP goes up by one percentage point, the FDI/GDP in other countries in our sample also increases by 0.63 percentage points holding all else constant. These results differ from the findings of Zhou and Lall (2005) who explored the same question for Asian countries from 1986-2001. This could be due to the difference in time periods since our sample is from 1995-2014 and the surge of FDI into other Asian countries really started in the mid-2000s. This finding has important economic implications for the South and East Asian region as it refutes claims from many quarters that competition from China is adversely affecting their economies in terms of FDI inflows.

Observing the other variables in the regression, it can be seen that some macroeconomic fundamentals such as trade, GDP growth and education play a major role in FDI inflows as coefficients of these variables are also significant across all specifications. Other variables such as inflation, reserves and

<sup>&</sup>lt;sup>5</sup> Looking at the p-values, standard errors and the model Root mean squared error (RMSE), there variables were excluded.

government effectiveness does not seem to have a statistically significant influence.

In our main model, point estimates of all variables except RESERVES(-1) and GE are statistically significant at least at the 5 percent level and have the expected sign. The negative coefficient estimate on GE are similar to those found by Egger and Winner (2006) suggesting that political factors may not play a significant role as an FDI determinant. This may be explained by the fact that most countries in our sample suffer from various corruption and political stability concerns, making it difficult to differentiate between these economies in terms of governance due to the lack of variability.

Moreover, even though reserves and FDI are expected to have a positive relationship, countries in our sample do not vary a lot in terms of reserves as a share of GDP. Only 3 countries in the sample (Bhutan, Hong Kong and Singapore) have Reserves to GDP ratio above 50 percent, the average for the rest of the nations is only 22 percent. Once again, due to the lack of variability in the sample could have been why the coefficient on the reserves variable was not statistically significant.

Looking at the variables in the model that had statistically significant point estimates, we can interpret the coefficients. For Cell(-1), it can be seen that as the number of cell phone per 100 people goes up by 1 in this period, net inward FDI as a share of GDP is expected to increase by .011 percentage points in the next period holding all other variables constant. This confirms the findings by Jeon *et al* (2005) who highlight the importance of communication and information technology in attracting FDI. However, it contradicts the claim that technology attracts FDI only in developed countries, and a reverse causal relationship exists in developing countries (Gholami *et al* 2006).

Our results show that openness to trade is positive and strongly correlated with FDI inflows. A one percentage point increase in exports and imports as a share of GDP lead to a 0.021 percentage point increase in FDI/GDP, *ceteris paribus*. Since the variable is known as an indicator of a liberal trade environment in the host country, its positive estimate implies that fewer regulatory restrictions and trade barriers tend to facilitate international trade and promote FDI flows. These effects are consistent with the findings of Ghosh (2007) and Lipsey (2000).

Looking at the FXRATE variable, we can say that as a foreign currency appreciates by 1 unit, the inward FDI/GDP is expected to decrease by 0.001 percentage points, holding all else constant. Although the effect is very small, is in line with the policy recommendation by Ahn *et al* (1998) who suggests that countries should avoid currency overvaluation to increase capital inflows by combating inflation. We had initially tried to include the volatility in exchange rates in the regression, but considering that most of these economies have a fixed exchange rate, using the real exchange rate is the idealistic approach.

The dummy variable for the Asian financial crisis in 1997-98 do not have significant effects on FDI inflow. This may be due to the inadequacy of the dummy variable as a measure, or the effect of other variables that pick up the effects of the crisis. Zhou and Lall (2005) also found the Asian financial crisis variable insignificant.

The results also support the vast body of literature discussing the positive impacts of GDP growth on FDI and negative impacts of inflation (Artige and Nicolini 2006; Kolstad and Villanger 2008; Ahn, Adji and Willett 1998). Moreover, the model suggests that as literacy rate increases by one percentage point, FDI/GDP also increases by 0.045 percentage points, holding all else constant. This result is also expected, given a more skilled and educated labor force is expected to receive more foreign investment as discussed by Cassidy *et al* (2006).

Supporting Laura Alfaro's (2003) theory that sector matters when FDI and growth are concerned, our results indicate that as a manufacturing share of GDP increases by 1 percentage point, inward FDI is expected to decline by 0.134 percentage points, ceteris paribus. This result is also supported by various UNCTAD World Financial Reports, suggesting that previous FDI hubs like China, Hong Kong and Singapore and transitioning from manufacturing industries into more complex service sectors. Whereas, the lesser developed countries in the region like Bangladesh, Vietnam and Bhutan are starting to take their spot in manufacturing. This result could have important policy implications for these economies as it could indicate that in order to compete for more inward FDI, countries should be able to transition from manufacturing into service sectors after a point.

### **4.** Policy Implications

The results in the previous Section suggest that the positive impact of the China effect on FDI inflows into the Asian economies could be linked to the increased resource demand by a rapidly growing Chinese economy and the production networking activities among the Asian economies. This has several important future policy implications for the region.

First, with rapid economic growth, a high rate of capital accumulation and a large foreign exchange reserve, China has gradually become an increasingly important supplier of outward FDI. The next decade will witness an accelerated industrial restructuring in China where some labor intensive manufacturing activities and industries will gradually lose competitiveness due to the combined effects of increasing labor costs and shrinking labor forces with an aging population. Consequently, these labor intensive industries will move out of China and into other countries, with other Asian developing economies being the most likely candidates. Moreover, China's rapid economic growth will continue to increase the demand for resources and raw material. To meet this demand, China will increase investment overseas to expand and secure the supply of resources and raw materials. Asian economies with rich resource endowments will be the primary destinations for China's outward investment. The complementary FDI relationship between China and the Asian economies, as found in this paper, would continue in the coming years.

Second, the complementary relationship found in this paper suggests that production-networking activities among China and other Asian economies will intensify with each of the economies specializing in the production of those goods in which it has a comparative advantage. Currently, China and other Asian economies have already developed substantial trade in electronics. With the upgrading and restructuring of the industrial structures in China and Asian economies (as discussed in the previous paragraph), it is highly likely that the existing trade between China and other Asian economies will expand into other areas, for example, automobiles and machinery and equipment. This structural change and upgrading of industries throughout Asia will provide huge opportunities for multinational enterprises to invest in China and other Asian economies based on their comparative advantages and competitiveness. Third, our results indicate that China's economic growth and strong investment expansion are energizing the region and providing the Asian economies with an expanding and diversified market. On one hand, as policy makers continue with their efforts to transform China from an investment-oriented to a consumeroriented economy, there will be a continued increase in the demand for consumer goods. On the other hand, China's rapid growth will also increase the demand for resources and raw materials to support the continuing expansion of production. Both will generate great opportunities not only for Asian economies to increase exports to the Chinese markets, but for the multinational enterprises to invest in the Asian economies in order to produce goods and extract resources to supply the Chinese markets.

# 5. Concluding Remarks

The vast inflow of foreign direct investment into China in recent years has been a source of celebration for some and of concern for others. Has China really crowded out FDI inflows into other Asian economies or has it been more of a winwin story? This paper attempts to answer this question by conducting an empirical analysis of the impact of FDI inflow in China on the flow of FDI in sixteen Asian economies during 1995-2014. We do not find any evidence that China's success in attracting FDI has been at the expense of other countries in the sample. In fact, the regression results show that FDI inflow into China have a statistically significant positive effect on FDI inflows into the sixteen Asian economies. This positive and complementary effect could be linked to the increased resource demand in a growing China and the production-networking activities among the Asian economies. The results of this paper have important policy implications for all countries in the region. Multinational enterprises can also refocus their investment strategy based on these findings.

Our research does have certain limitations, many of which are an invitation to further studies. Although our findings are robust across many countries, the relationship might be less applicable to specific destinations or industries. Future studies could investigate the effect on specific industries. Also, the analysis could be extended to estimate how FDI to China enhance regional trade, as investment in China increases demand for capital goods from other countries. Finally, our methodology could be easily generalized to investigate the impact of FDI flow to China on other regions, such as, Latin America, Africa, Central Asia, etc.

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**Table 1:** Countries in the Sample

Bangladesh
Bhutan
Cambodia
Hong Kong
India
Indonesia
Republic of Korea
Malaysia
Mongolia
Nepal
Pakistan
Philippines
Singapore
Sri Lanka
Thailand
Vietnam

**Table 2:** Summary Statistics of variables used in regression

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Observations
CFDI	3.9879	3.8815	4.9022	2.9975	0.6643	0.0805	1.4018	320
TRADE	120.5914	90.1063	455.2767	21.5515	101.8145	1.7466	5.2772	320
GDPG	5.3091	5.4880	17.9258	-13.1267	3.4149	-0.9825	8.2692	320
MGDP	79.1024	57.2054	362.0410	7.6966	61.4003	2.2163	8.8484	320
MFG	17.9722	17.2888	35.6319	1.4563	8.3482	0.0616	2.2535	320
CELL	49.1839	30.6055	239.2979	0.0021	52.4535	1.0120	3.5063	320
INFL	6.0777	5.2880	58.3871	-18.1086	6.1199	3.4566	27.2322	320
EDUC	79.6138	90.8000	99.1000	39.1000	19.2541	-0.7493	1.9266	320
FCF	11.9228	11.2500	99.8000	-37.5000	13.3667	0.9578	10.2322	320
RESERVES	29.3565	19.2755	120.8406	2.0648	26.2896	1.5328	4.6925	320
FXRATE	1933.0150	58.7962	21148.0000	1.2497	4340.5120	2.6813	9.5450	320
GE	54.2388	51.3379	100.0000	13.1707	24.0807	0.3297	2.0830	320
FDIGDP	4.9306	1.8797	45.2899	-2.7574	7.6415	2.6733	10.5434	320

# Chowdhury and Sattar: The Flow of Foreign Direct Investment...

	1				1	r
	(1)	(2)	(3)	(4)	(5)	(6)
CFDI(-1)	1.0269* **	0.8567***	0.8476***	0.7992**	0.5532*	0.6549**
	(0.3291)	(0.3218)	(0.3307)	(0.3470)	(0.3097)	(0.2998)
TRADE(-1)	0.0212*	0.0344***	0.0359***	0.0521***	0.0278***	0.0268***
	(0.0120)	(0.0121)	(0.0118)	(0.0111)	(0.0010)	(0.0099)
GDPG	0.4873***	0.4823***	0.4731***	0.3828***	0.3575***	0.4075***
	(0.0704)	(0.0685)	(0.0681)	(0.0793)	(0.0711)	(0.0636)
MGDP(-1)	0.0724***	0.0427**	0.0464***			
	(0.0151)	(0.0181)	(0.0177)			
MFG(-1)		-0.4196***	-0.3641***	-0.4913***	-0.2615***	-0.1902*
		(0.1213)	(0.1201)	(0.1180)	(0.1051)	(0.1085)
CELL(-1)		0.0133*	0.0264***			0.0184**
		(0.0072)	(0.0081)			(0.0077)
INFL(-1)			-0.0619	-0.0708	-0.0948**	-0.0841**
			(0.0414)	(0.0445)	(0.0388)	(0.0385)
EDUC			-0.1819 **	-0.1254*	-0.0160	-0.1370*
			(0.0716)	(0.0697)	(0.0644)	(0.0713)
FCF(-1)				0.0252	0.0328*	
				(0.0202)	(0.0175)	
RESERVES(-1)				0.1290***	0.0575*	0.0318
				(0.0338)	(0.0303)	(0.0329)
FXRATE(-1)			-0.0006***	0.0001	-0.0001	-0.0002
			(0.0002)	(0.0002)	(0.0002)	(0.0002)
GDPG(-1)				-0.1059	-0.1590**	-0.1421**
				(0.0748)	(0.0704)	(0.0693)
GE				-0.1500***	-0.0573	-0.0872*
				(0.0490)	(0.0437)	(0.0446)
FINCR					0.9985	
					(0.7428)	
FDI(-1)					0.5177***	0.4754***
					(0.0539)	(0.0558)
R-squared	0.5518	0.6472	0.7203	0.3726	0.7620	0.5537
Observations	304	304	304	304	304	304

Table 3: Panel Fixed Effects Regression with Net FDI Inflow as the Dependent Variable

Robust Standard errors are in parentheses \* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1% A constant is included in the model but not reported

	(1)	(2)	(3)	(4)	(5)	(6)
CFDI(-1)	0.8383**	0.7582**	0.7982***	0.7479**	0.4696*	0.6278**
	(0.3783)	(0.3284)	(0.3211)	(0.3257)	(0.2665)	(0.2851)
TRADE(-1)	0.0482***	0.0473***	0.0419***	0.0570***	0.0206***	0.0213***
	(0.0041)	(0.0038)	(0.0043)	(0.0054)	(0.0074)	(0.0084)
GDPG	0.5411***	0.4210***	0.4223***	0.3109***	0.3166***	0.3776***
	(0.1663)	(0.1479)	(0.1455)	(0.0946)	(0.0848)	(0.1102)
MGDP(-1)	0.0240**	0.0044	0.0046			
	(0.0096)	(0.0101)	(0.0099)			
MFG(-1)		-0.2455***	-0.3203***	-0.2862***	-0.1237***	-0.1343***
		(0.0339)	(0.0486)	(0.0472)	(0.0414)	(0.0398)
CELL(-1)		0.0301***	0.0231***			0.0108**
		(0.0095)	(0.0083)			(0.0054)
INFL(-1)			-0.0178	-0.0673	-0.0864***	-0.0763**
			(0.0346)	(0.0444)	(0.0330)	(0.0314)
EDUC			0.0777***	0.1108***	0.0500***	0.0452***
			(0.0244)	(0.0263)	(0.0155)	(0.0163)
FCF(-1)				0.0501	0.0445	
				(0.0478)	(0.0344)	
RESERVES(-1)				0.0149	0.0040	-0.0069
				(0.0231)	(0.0172)	(0.0174)
FXRATE(-1)			-0.0002	-0.0001**	-0.0001*	0.0001**
			(0.0000)	(0.0001)	(0.0000)	(0.0000)
GDPG(-1)				-0.0273	-0.2667***	-0.2318***
				(0.1229)	(0.0904)	(0.0824)
GE				-0.0732***	-0.0281**	-0.0312**
				(0.0173)	(0.0134)	(0.0140)
FINCR					0.7825	
					(0.5265)	
FDI(-1)					0.6551***	0.6298***
					(0.1041)	(0.1157)
R-squared	0.6196	0.7017	0.7203	0.7265	0.8361	0.8339
Root MSE	4.8272	4.2888	4.1747	4.1416	3.2170	3.2336
Observations	304	304	304	304	304	304

Table 4: Panel OLS Regression Results with Net FDI Inflow as the Dependent Variable<sup>6</sup>

Robust Standard errors are in parentheses

\* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1% A constant is included in the model but not reported

<sup>&</sup>lt;sup>6</sup> Model has been corrected for Heteroskedasticity and Autocorrelation. The S.E and point estimates are robust.