

Home versus Host Country Effects of FDI: Searching for New Evidence of Productivity Spillovers

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Abstract

This paper investigates the effects of both inward and outward foreign direct investment (FDI) on productivity in manufacturing and services sectors. The main novelty is the analysis of the spillover effects of outward FDI that may occur outside the investing firms on the rest of the home country. Our results based on panel data from Estonia do not indicate much spillover effects of outward or inward FDI that are robust to different specifications of the estimated model. There is substantial heterogeneity in the findings on spillovers across different specifications of the model or sector studied. We find, however, that engaging in outward FDI or receiving inward FDI is positively related to the productivity of the parent firm in Estonia or the subsidiary in Estonia. The direct effects of receiving inward FDI or doing outward FDI on the productivity of a firm dominate over the spillover effects.

Keywords: foreign direct investment, spillovers, home country effects, productivity

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