

Spacey parents versus spacey hosts of FDI

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Empirical trade economists have found that foreign direct investment (FDI) of some parent economy in a host country depends on the same parent country's FDI in other hosts. Independent of this, there is evidence that a parent country's FDI in some host economy depends on other parent countries' FDI there. Either mode of interdependence has been found to decline in distance, on average. In general equilibrium, also other parent countries' FDI in other hosts affects a given bilateral FDI of a given pair. No attempt has been made so far to allow for dependent bilateral FDI across all parents and hosts in empirical models. One possible reason for this is the lack of econometric tools to analyze that matter. We use a generalized moments estimation framework for spatially correlated panel data to allow for interdependence across all parents and hosts and test for their relative importance. Using data on FDI among 22 OECD countries over the period 1995-2004, we find that interdependence both across parents and hosts are more important such that none of the two modes of interdependence should be omitted from the empirical model.