Effect of Foreign Direct Investment on Domestic Entrepreneurship

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Positive Spillover or Crowding Out?

- Albulescu and Tamasila (2012, 2016): Positive effect for necessity-driven entrepreneurs while negative for opportunity-driven entrepreneurs in Europe

- Ayyagari and Kosova (2010): Positive for firms within the same industry, horizontal and vertical spillovers in Czech Republic

- Apostolov (2017): Positive influence in creation of new firms in Macedonia

- Backer and Sleuwagen (2003): Crowding out in Belgium manufacturing industries, but positive spillover in the long run
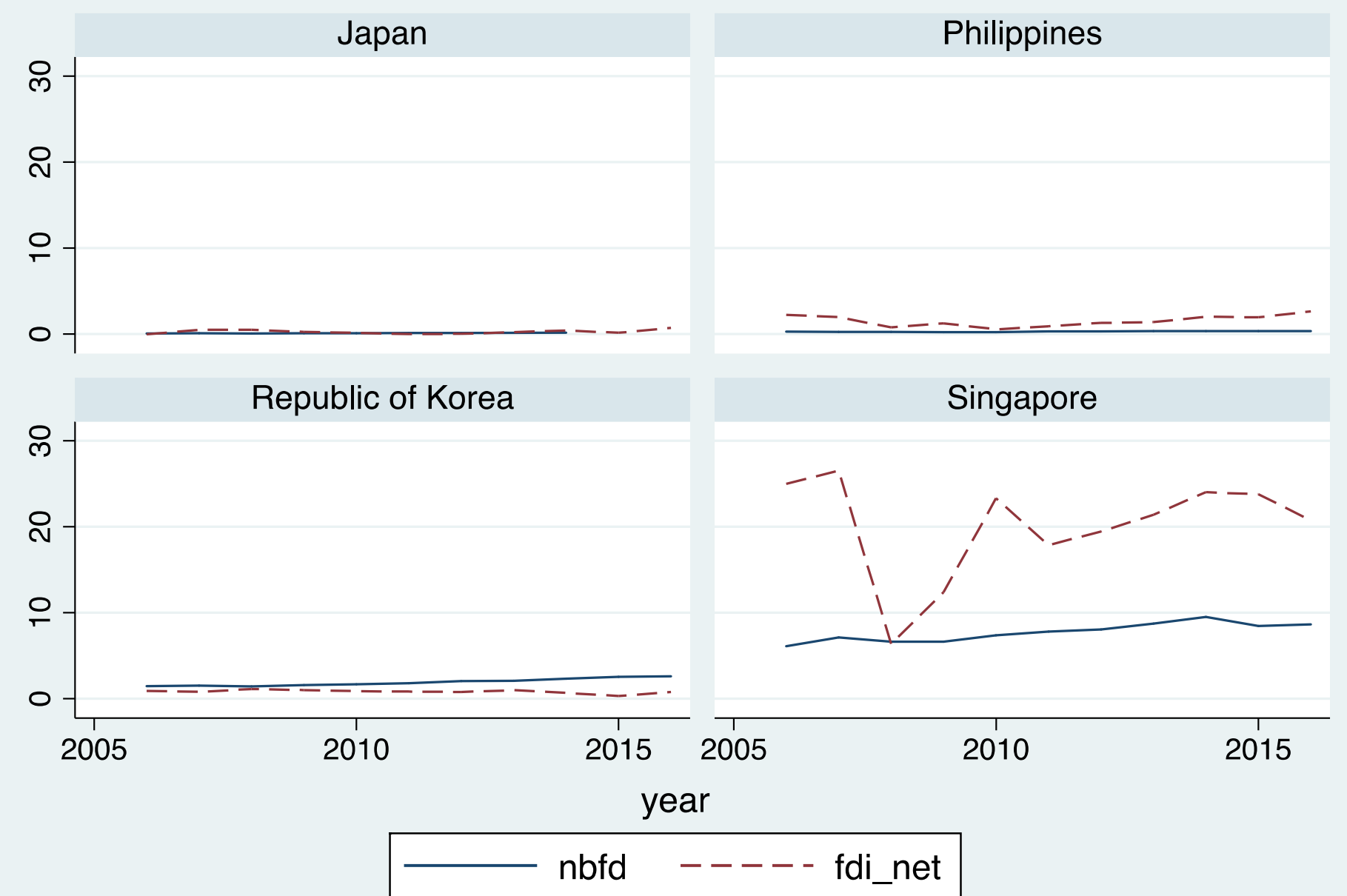
Other factors affecting entrepreneurship

Demand Side	Supply Side
Technological developments	Age of population
Globalization	Urbanization rate
Outsourcing by large (foreign) firms	Women in workforce
	Income level
	Domestic Credit Availability
	Agrarian, Manufacturing or Service Orientation
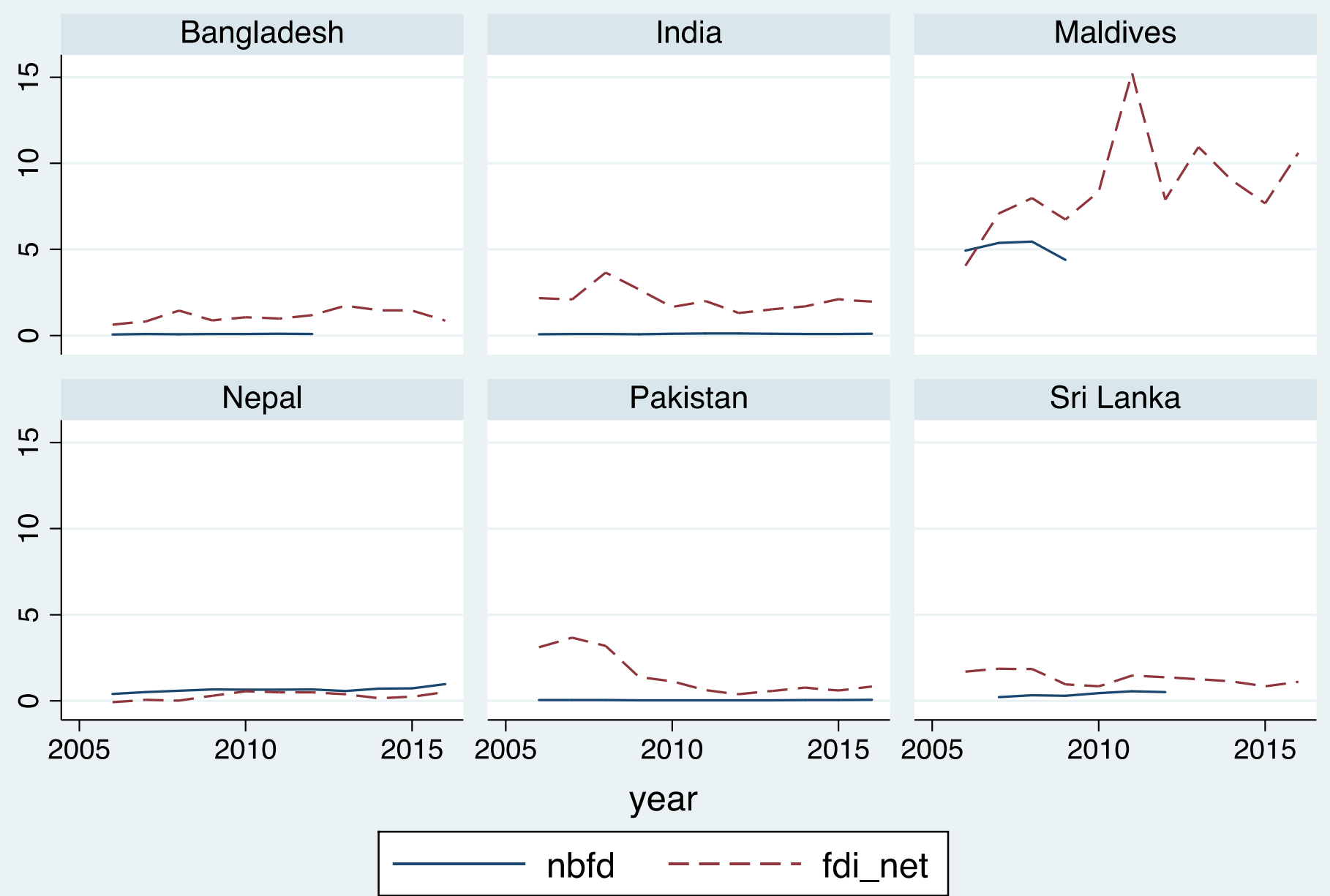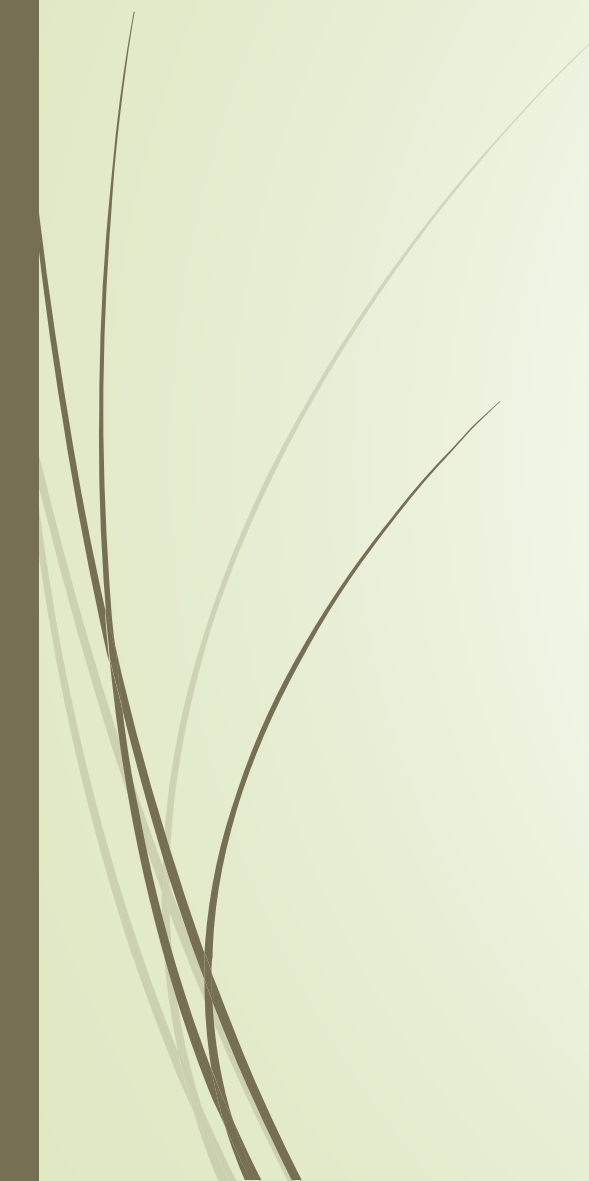
Graphs by c_id

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Model

- $nbfd_{ij} = \beta_0 + \beta_1 fdi\_net_{ij} + \beta_2 dom\_credit_{ij} + \beta_3 hc_{ij} + \beta_4 pol\_stability_{ij} + \beta_5 dependencyratio_{ij} + \beta_6 gnp\_pc_{ij} + \beta_7 sva_{ij} + \beta_8 ava_{ij} + \beta_9 urb\_rate_{ij} + \beta_{10} dummy_{ij} + \beta_{11} telephone\_sub_{ij} + \beta_{12} air\_transport_{ij} + \beta_{13} females_{ij} + \beta_{14}(fdi_{net} * hc)_{ij} + \beta_{15}(fdi_{net} * hc * domcredit)_{ij} + e_{ij}$

Summary Stats

Variable	Obs	Mean	Std. Dev.	Min	Max
nbfd	91	1.554052	2.578766	.0242211	9.509102
fdi_net	110	3.764039	6.289383	-.073509	26.5212
gnp_pc	110	3136429	7935768	25405.7	3.20e+07
dependency~o	110	53.49571	11.68488	35.7959	77.1174
urb_rate	110	2.384731	1.581599	.343564	6.37559
ava	110	12.64381	10.65678	.035409	38.2984
sva	110	61.19097	10.49157	46.2552	84.8713
pol_stabil~y	109	-.5883486	1.204218	-2.81	1.53
dom_credit	110	68.39914	47.81483	15.38608	168.1955
telephone_~b	110	17.61975	20.14182	.4701906	60.4615
air_transp~t	106	237418	287238.8	4971	984320
females	110	35.53172	9.042105	18.9747	51.8321
hc	90	2.451894	.7157658	1.47593	3.59363

VARIABLES	nbfd	VARIABLES	nbfd
dom_credit	-0.0310***	dummy	1.651***
	(0.00532)		(0.288)
ava	0.0469**	telephone_sub	0.0881***
	(0.0213)		(0.0168)
dsva	-0.00201	air_transport	-7.60e-07**
	(0.0394)		(3.36e-07)
urb_rate	0.267	dfemales	-0.0706
	(0.173)		(0.155)
fdi_net	0.837***	intearct_fdin_hc	-0.510***
	(0.200)		(0.102)
pol_stability	0.678***	hc	-1.086
	(0.168)		(0.812)
dependencyratio	-0.0668***	interact_domc_fdi_hc	0.00278***
	(0.0177)		(0.000367)
gnp_pc	-6.45e-08***	Constant	6.746**
	(2.46e-08)		(2.894)

Observations	79
Number of c_id	10

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
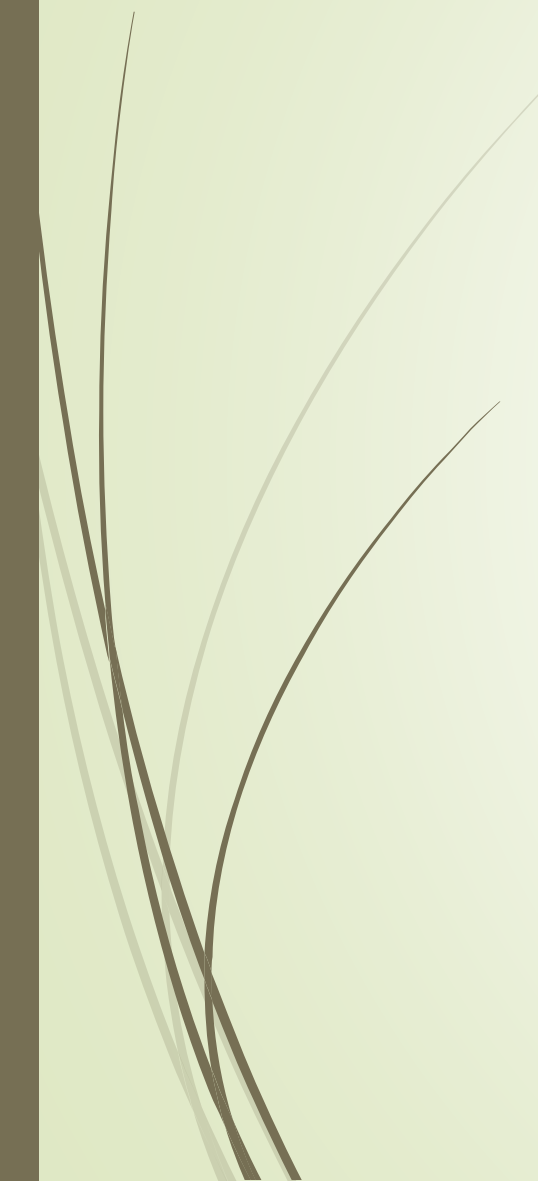
Average Marginal Effects

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Average marginal effects                         Number of obs    =         79

Expression    : Fitted values, predict()
dy/dx w.r.t.  : fdi_net
at            : dom_credit        =       68.39914
                hc                =       2.451894
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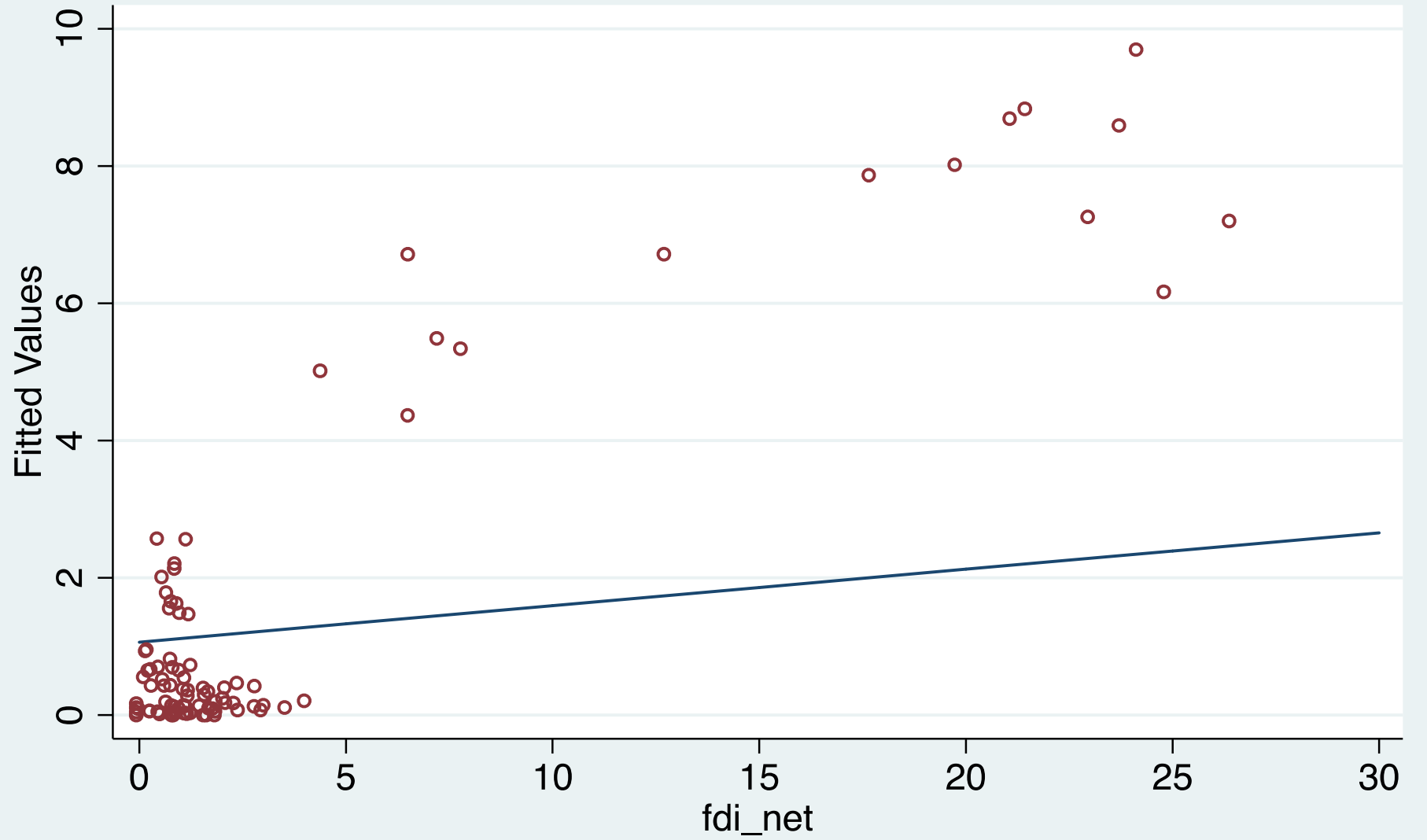
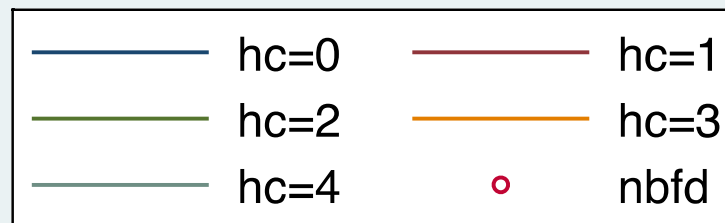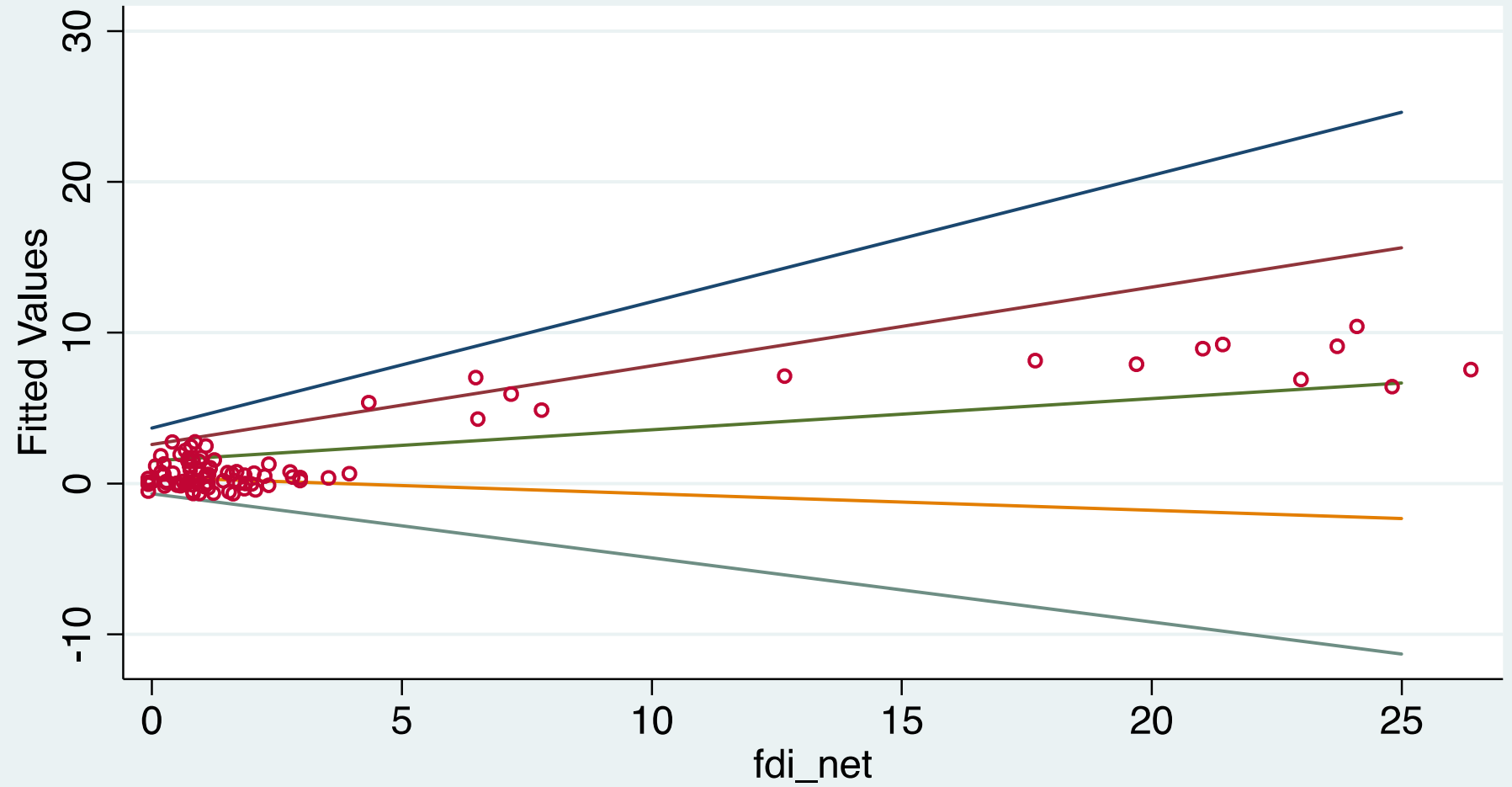		dy/dx	Delta-method Std. Err.	z	P>|z|	[95% Conf. Interval]
fdi_net	.0530773	.0278829	1.90	0.057	-.0015722	.1077268

- $1.554 = \beta_0 + 0.053 . fdi\_net_{ij} + \cdots + e_{ij}$

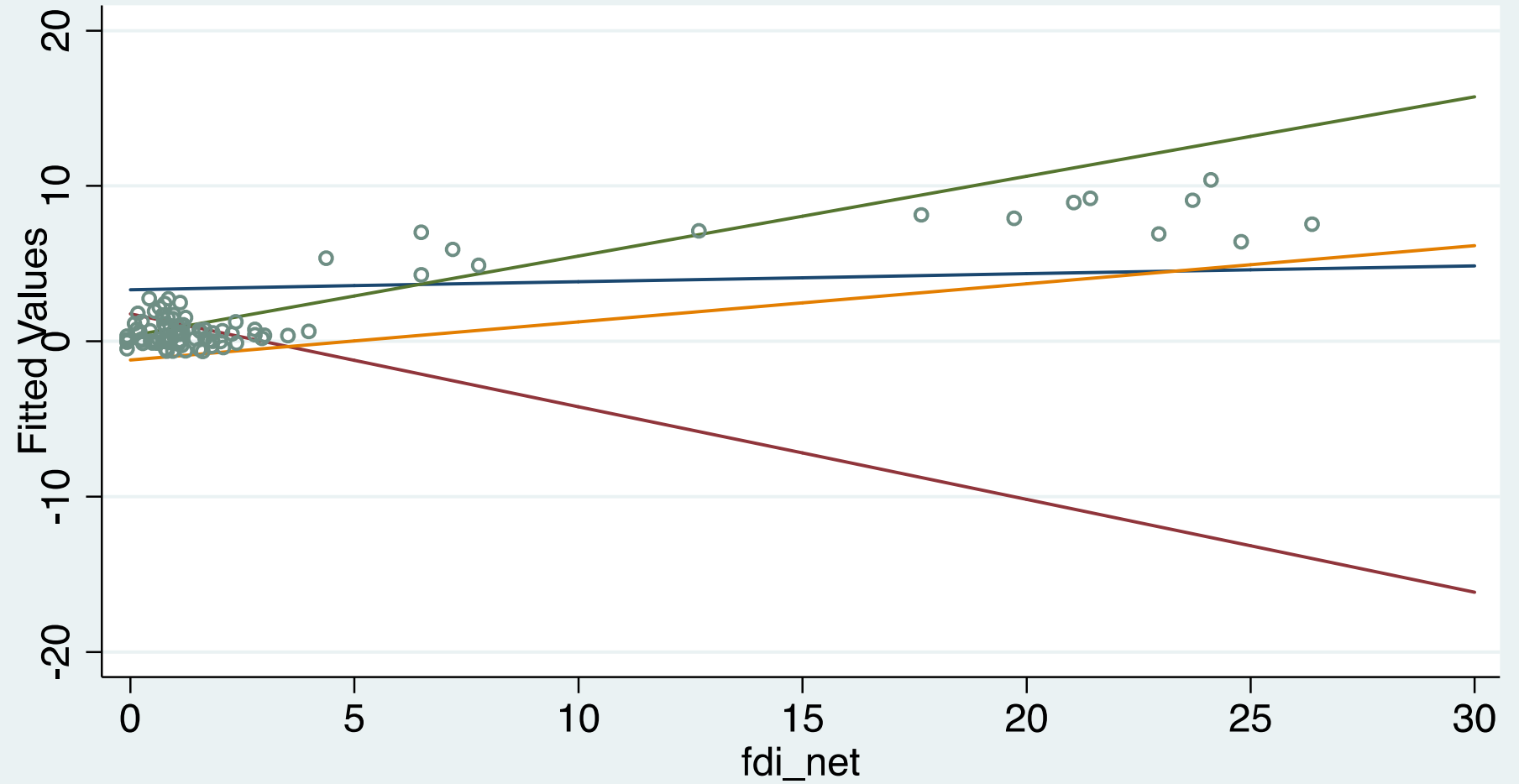- At means, the effect of FDI net inflows on new business formation is .053/1.55 = .0361

Predictive Margins

Predictive Margins

Predictive Margins

Legend:
- dom_credit=20.5843, hc=1.73613
- dom_credit=20.5843, hc=3.1676(
- dom_credit=116.214, hc=1.73613
- dom_credit=116.214, hc=3.1676(
- ○ nbfd

Conclusion

- It is not enough for countries to have skilled human capital to increase entrepreneurship. If the financial system is not strong, skilled human capital will continue to work as wage laborers