

Steven Globerman and Daniel M. Shapiro. 1999. The impact of government policies on foreign direct investment: the Canadian experience. *Journal of International Business Studies*, 30(3) (third quarter), pp. 513-32.

Generalities

Barriers to FDI:

- limits to foreign ownership
- approval requirements linked to performance targets
- limits to capital movements
- discriminatory treatment vis-à-vis domestic investment

Implicit incentives/policies: fast growth in the home and host country and stable exchange rate.

Explicit policies: taxation, regulation, limits and investment codes

Determinants of FDI

- differences in profitability between the host country and elsewhere
- level of GDP (usually associated with infrastructure, communications, business opportunities, etc.)
- growth rate of GDP (associated with demand for skills, technology, capital; with the presence of business opportunities and rents)
- relative factor costs, as they affect costs and profitability
- productivity, as it relates growth rates and factor costs
- share of investment in GDP [associated with business confidence and opportunities and inversely related to FDI(out)]
- exchange rate: ambiguous relationship with FDI as:
 - under imperfect financial markets, depreciation may make domestic assets cheaper and so more attractive to FDI
 - but it also may generate an expectation of further depreciation thus discouraging investment
- trade regimes: ambiguous relationship with FDI, as:
 - trade and fdi may be substitutes, if trade is restricted
 - or they may be complements if trade is not restricted given the tendency of MNEs to vertically and horizontally integrate and specialise.

Government policy

Neither governments nor MNEs are completely powerless or completely powerful. Within an environment with restrictions, firms more adept to negotiate and operate with the government are more likely to succeed; whereas in an unrestricted environment firms that are more capable to adjust and compete are more likely to succeed.

On the whole, government policy has some impact on fdi decisions, but not very significantly. It might be because there are many other factors affecting fdi, but also because most of the analysis looks at fdi in general, whereas probably the most effective policies are firm and industry specific. Hence, most studies cannot capture the actual effects of specific policies.