Foreign Direct Investment, Technology Spillovers, and Host Country Spending on R&D

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Previous studies focused on host country absorptive capacity [e.g. Girma, *Oxford Bulletin of Economics and Statistics*, 2005] as a main determinant of technology spillovers from Foreign Direct Investment (FDI). However, they did not extensively examine other determinants of the magnitude of these spillovers (e.g., host country innovation and imitation activities). To overcome this limitation, this paper differs from previous studies in two important respects. First, it investigates host country innovation and imitation activities, measured by R&D spending as a percentage of GDP, as a main determinant of FDI technology spillovers. Second, it avoids the low quality of FDI data by using U.S. multinational enterprises (MNEs) data from the Bureau of Economic Analysis (BEA). By using these data, we can extract the technology diffusion effect from other productivity effects of FDI. The main result of panel data regressions shows that host country spending on R&D had a positive and significant impact on the magnitude of technology spillovers from FDI in 38 developed and developing countries during the period 1966–2000. This result may imply that government policies encouraging R&D activities may significantly increase the magnitude of technology spillovers from FDI.

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