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Thesis Title: The Effect of Foreign Direct Investment on the Performance of Domestic Firms
- A Study Using the Enterprise Survey of Mongolia

Abstract:

Developing economies often try to attract an inflow of foreign direct investment (FDI) to bring capital, new technologies, products, organizational know-hows, management skills from foreign firms to domestic firms. Using balanced panel data of National Statistics Office of Mongolia – Enterprise Survey, we find no evidence of foreign ownership effect on the domestic firm's sales, sales - salary and productivity in overall. With regards to within industry effect, negative coefficients are captured but the effect is not robust. Furthermore, on average, backward and forward linkage effects are not observed in our results. Since mining industry is considered as a core industry of the economy the effect within the mining industry has been tested in this study and negative spillover effect from FDI to domestic firms is found. We agree that fixed effect estimation is not sufficient to control the endogeneity problem and must admit that what we are lacking in this study is an instrumental variable to control the endogeneity problem. Disappointingly, due to limitations of our dataset constructing an instrumental variable was not possible in this study. Other potential contributing factors that could be influenced to estimate the effect of FDI accurately are the undiversified economy and too short time period. Finally, a more systematic approach is required to determine the effect more accurately by controlling the endogeneity problem in the future.