Abstract

This thesis presents the spilling over effect resulting from the foreign direct investment with a focus on the manufacturing firms. It covers extensive econometric analysis based the Central Statistics Agency's (CSA) survey on the manufacturing firms and an Input-Output matrix done by the Ethiopian Development Research Institute (EDRI). A pooled, Fixed and Random Effect estimation techniques are employed for estimating the log transferred production function augmented for the spillover proxies: Backward, Forward and Horizontal. Yet, as is stated in a lot of literatures like that of Javorcik (2004), the Cobb–Douglas production function suffers from the endogeneity problem and there is a need for a better estimation technique that can capture and solve this problem. As a result, I also used the Levinsohn-Petrin estimation technique, which used intermediate inputs as a proxy for unobservable shocks and the residuals from this estimate used as a measure of total factor productivity (TFP) of the firm. The TFP analysis from the LP estimation suggests that a one percentage point increase in the foreign presence in the downstream sectors is associated with the 1.1 percent rise in the total output of each supplying industries. Likewise, a one percentage point increase in the weighted share of output in the upstream (or supplying) sectors produced by firms with foreign capital participation is associated with the 1.2 percent decline in the total output. Yet, I have not found any significant Horizontal spillover effect.

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Author's e-mail	abebanig11@gmail.com
Supervisor's e-mail	vacek@fsv.cuni.cz