

Foreign direct investment and the ease of doing business

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Abstract This paper examines the effect that a country's business regulatory environment has on the amount of foreign direct investment it attracts. We use the World Bank's *Ease of Doing Business* ranking to capture the costs that firms face when operating in a country. Several interesting results emerge. Firstly, the Doing Business rank is highly significant when included in a standard empirical foreign direct investment (FDI) model estimated on data averaged over the period 2004–2009. Secondly, the significance of the overall Doing Business is driven by the *Ease of Trading Across Borders* component. Thirdly, the relationship is significant for middle income countries, but not for the World's poorest region, Sub-Saharan Africa, or for the OECD. Finally, we find no evidence that the ease of doing business of nearby countries has an effect on the FDI that a country gets in general.

Keywords Foreign direct investment · Business regulation · Trade costs · Regulation · Doing business

JEL Classification F21 · F23 · O11

1 Introduction

There is a growing literature that links regulation to local entrepreneurship and investment. For example, Alesina et al. (2005) show that regulatory reform of

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