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Productivity, Financial Constraints and Outward Foreign Direct Investment: Firm-level Evidence☆

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Abstract: This paper studies the relationship between the financial constraints and outward foreign direct investment (OFDI) of Chinese enterprises. First, we construct a theoretical model and develop a series of hypotheses to analyze how productivity and financial constraints influence firms' OFDI decisions. Then we construct a multivariate index to measure internal and external financial constraints. Using Chinese Industrial Enterprises Database as well as the Database of OFDI Firms in China, our empirical finds that both productivity and financial constraints have important impacts on firms' OFDI decisions. In addition, the marginal effect of the financial constraints increases as firms' productivity rises; an effect felt more to the private enterprises than state-owned enterprises. Empirical results also indicate that external financial constraints affect the firms' OFDI decisions more greatly than the internal financial constraints.

JEL codes：F21 F23 G32
Keyword: Outward Foreign Direct Investment; Productivity; Financial Constraints

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