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Technology Transfer: What is FDI Influence on Total Factors Productivity in Latvian Economy Sectors

Artūrs Čirjevskis
Edgars Grāvis

Abstract

This paper aims at finding the impact from foreign direct investment to total factor productivity in Latvian economy sectors. The study covers a period from 1st quarter of the year 1996 until the 4th quarter of the year 2007. Econometric time-series analysis is performed in order to evaluate the causal link between TFP as a dependent variable and FDI, its origin, as well as volume of imports as explanatory variables. Relationship between foreign direct investment flows and total factor productivity in Latvia is revealed. Country of FDI origin is found to significantly influence TFP only in some sectors of the economy. Furthermore, the authors test whether imports are consistent alternative to FDI channel of ITT, but the results are ambiguous.

Keywords: Foreign Direct Investment, International Technology Transfer, Total Factor Productivity, Latvian Economy sectors, Solow residual