

# DOES OUTWARD FOREIGN DIRECT INVESTMENT IMPROVE THE PERFORMANCE OF DOMESTIC FIRMS? CASE OF KOREA

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## Abstract

In this paper, we use firm-level data in Korea from 2010 to 2019 to analyze whether outward foreign direct investment (OFDI) affects the productivity of domestic firms, known as reverse knowledge spillovers. Using propensity score matching and difference-in-difference regressions, we verify that OFDI improves the productivity of parent companies. Considering the characteristics of OFDI and the parent company, these positive effects become greater when (1) parent company's absorptive capacity (technology level) is high, (2) OFDI is in the M&A form, and (3) OFDI is towards developed countries. In addition to these direct effects, we investigate whether OFDI improves the productivity of other domestic firms within and across industries, known as horizontal and vertical spillovers. The results demonstrate strong evidence of positive vertical spillovers but not horizontal spillovers. These evidences provide important policy implications about the specifics of outward direct investment that are beneficial to capital-exporting countries.

**Keyword :** OFDI, productivity, reverse knowledge spillovers, absorptive capacity, propensity score matching.

**JEL Classification :** F21, F23, D22

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