

Empirical Results

PRELIMINARY EMPIRICAL RESULTS

- We estimate how foreign ownership affects the equilibrium RER (ERER) in RRDCs.
- We use two popular approaches to estimate the ERER:
 - Purchasing power parity (PPP) adjusted for the Balassa-Samuelson effect (Rodrik, 2008)
 - IB-EB single-equation approach (Edwards, 1989 and others)
- Preliminary results suggest that foreign ownership share depreciates the ERER in RRDC as predicted by the model.

APPROACH 1

- To estimate equilibrium E_{ERER}, we adjust PPP for the Balassa-Samuelson effect (Rodrik, 2008):

$$\ln(RER)_{it} = \alpha + \beta \ln(RGDPPC)_{it} + f_t + u_{it},$$

- i : country
- t : 5-year time period (simple averages)
- $RER = (XR/PPP)$, $RER < 1$: Appreciated above PPP
- $RGDPPC$: Real GDP per capita (PPP)
- f_t : time fixed effect
- Source: PWT 9.0, N=155 countries, T= 9 (1970-2014)

$$\ln(\widehat{ERER})_{it} = \hat{\alpha} + \hat{\beta} \log(RGDPPC)_{it} + \hat{f}_t$$

- $\hat{\beta} = -0.19$, t-stat>6

- EREs are comparable across countries
- How does foreign ownership (FO) affect the ERE across countries?

$$\ln(ERER)_{it} = \alpha + \beta FO_{it} + f_t + u_{it},$$

- RRDC defined as average $EX_R/EX > 20$ and non-OECD.
- Sample: 46 countries.
- No data on FO. We use the proxy:
- $FO = \text{Investment Income Payments} / EX_R$
- All else equal, above ratio should be higher for countries with higher FO.
- Result: $\hat{\beta} = 0.46$, t-stat > 4
- Result robust to various definitions of RRDC.

APPROACH 2

- Incorporate IB-EB concepts into estimation approach.
- Need to include FO and other fundamentals in first-stage RER regression:

$$\ln(RER)_{it} = \alpha + \beta' X_{it} + \gamma FO_{it} + f_t + u_{it},$$

- X includes $\log(\text{RGDPPC})$, NFA, TOT, Gov't consumption, Trade Openness
- As before, observations are 5-year averages.
- Sample: 46 RRDC
- Results: Only RGDPPC and FO significant at 5% level.
- $\hat{\gamma} = 0.54$, t-stat=2.3.

FOREIGN OWNERSHIP AND FISCAL

- Preliminary results also suggest a negative relationship between FO and gov't consumption/absorption for the sample of RRDCs.
- Result robust to whether OLS, FE or BE is used.
- In the future we plan to investigate in how RRDCs adjust fiscal spending during resource booms.
- It may well be that RRDCs with high FO overly expand their fiscal spending during boom years when they shouldn't as suggested by the model.