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Do Domestic Firms Benefit from Geographic Proximity with Foreign Investors?
Evidence from the Privatization of the Czech Glass Industry

[Galeotti, Elisa](#)

Year: 2009 Volume: 3 Issue: 1 Pages: 26-47

Abstract: This paper analyzes the effects of geographical proximity and agglomeration of foreign direct investors on domestic firms in the privatized glass sector in the Czech Republic. The motivation for this research is based on the scant evidence in Central and Eastern Europe of the effects of geographical proximity and agglomeration on the productivity of domestic firms. This study aims to explain how spillovers are transferred from foreign direct investors to domestic firms in an industrial sector. The econometrical analysis, using original panel data from 1990 to 2006, provides evidence that the geographical proximity to foreign direct investors has a negative and significant effect on the productivity of domestic firms in the glass sector. The effect of agglomeration of foreign direct investors is significant, too. The results support the importance of geographic proximity and the agglomeration of foreign direct investors as a channel of spillovers and it conforms with the evidence that shows that foreign direct investors have produced negative spillovers on domestic firms in transition countries. The analysis shows, however, that spillovers do not play a dominant role for the performance of privatized domestic firms in the glass sector and the importance of taking into account the industrial sector in the study of spillovers.

JEL classification: C23, F21, F23, L61, O18, R12

Keywords: FDI, agglomeration economies, panel data, regional location, glass industry

RePEc: http://ideas.repec.org/a/fau/auccocz/au2009_026.html

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