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The impact of IFRS adoption on foreign direct investment

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Abstract

By analyzing a panel data set of over 1300 observations covering 124 countries, for the period from 1996 through 2009, this paper tests the basic argument that the adoption of International Foreign Reporting Standards (IFRSs) by a country results in increased foreign direct investment (FDI) inflows. Analysis of the data using an ordinary least squares (OLSs) approach provides evidence that adoption of IFRS leads to increased FDI inflows. The analysis indicates, however, that the overall increase in FDI inflows from IFRS adoption is due to the increase in FDI inflows by countries with developing, as opposed to developed, economies. A difference-in-difference test confirms these findings. A key potential driver for IFRS adoption by countries with developing economies is the desire to receive financial aid from the World Bank. This factor is explicitly taken into account using a two-stage instrumental variable (IV) model. The results using the IV model provide strong confirmation of the OLS results.

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