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## **Research Seminars in Macroeconomic and Structural Issues**

Organized by the Joint Vienna Institute

Wednesday, February 15, 2006  
JVI Residence, Schmalzhofgasse 12

12:30 p.m.

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Vienna Institute for International Economics

### **Attract FDI! – A Universal Golden Rule? Empirical Evidence for Europe and Asia**

#### **Abstract**

In this paper we address the question whether FDI is an important channel for productivity catching-up or whether FDI itself is attracted by productivity growth. This has important implications for industrial policy measures as well as for specialization structures and the development of comparative advantages over time. Our data set comprises detailed information on output, employment, wages, gross fixed capital formation, FDI inward stocks, exports and imports for OECD and non-OECD Eastern European and Asian countries over the time period 1981-2000 (varying for individual countries) for individual manufacturing industries. Using Granger causality tests we find evidence for the presence of endogeneity between FDI and output and productivity growth. Therefore, we estimate our empirical model in a system with the following endogenous variables: output, FDI, productivity gap, exports, imports, gross fixed capital formation and wages. Thus, we take account of indirect or second-round effects through trade flows, wages, and investment in a panel model. The results suggest a mutually reinforcing, positive relationship between FDI and output as well as productivity and export growth, while there is also evidence for a downward pressure on wage growth by FDI.

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