

FDI AND GROWTH: A ROBUSTNESS ANALYSIS

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Abstract

Many studies have tried to find out the determinants of foreign direct investment during the past decades. They always use regressions with cross-country data to find out how the variables concerned affect the FDI. However, the empirical results showed that not every explanatory variable is regarded widely as a true determinant. In this paper, I use the extreme bound analysis (EBA) methodology to study the determinants of FDI and the relationship between FDI and economy growth in developing and developed economies respectively. I find that the FDI is attracted to the developing countries, which pay more attention to education and have a low country risk. To developed countries, the robust determinant of FDI is only country risk. FDI is robust and has significant effect on the developing countries' economic growth, but it is fragile and it has insignificant effect on the economic growth of developed countries.