

THE IMPACT OF FDI ON GROWTH

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Abstract

The various theoretical models on growth literature consider as important the role of foreign direct investment on economic growth not only because it increases the capital accumulation but mainly because foreign direct investment can increase the technological level through spillovers. The empirical evidence is that under some specific conditions, foreign direct investment can promote economic growth in host countries. This paper is trying to investigate the role of foreign direct investment on economic growth by using the neoclassical Solow model and also is investigating the existence of non-linear effects of foreign direct investment on growth. In order to look for more permanent effects of foreign direct investment on growth in the neoclassical model, except the capital accumulation, I incorporate two interactions terms: one interaction between foreign direct investment and human capital and another one between foreign direct investment and domestic investment.