FOREIGN DIRECT INVESTMENT, EXPORTS, AND ECONOMIC GROWTH IN THE DEVELOPING COUNTRIES: A PANEL DATA APPROACH

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Abstract

This paper uses recently developed econometric techniques such as panel unit roots tests, panel cointegration, and panel generalized method of moment (GMM) to investigate the existence and the nature of the dynamic causal relationships among GDP, exports, and Foreign Direct Investment (FDI) inflows for 57 developing countries from 1981 to 2006. The findings reveal that in the long-run equilibrium, exports and FDI inflows Granger cause GDP, and also exports and GDP do it for FDI inflows. The results also provide evidence of short-run causality running from exports and FDI inflows to GDP. On the other hand, GDP and FDI inflows do not cause exports in either the short run or the long run. Finally, the results of the strong causality are parallel to those of the long run causality.

Keywords: FDI, Exports, Economic Growth, Causality