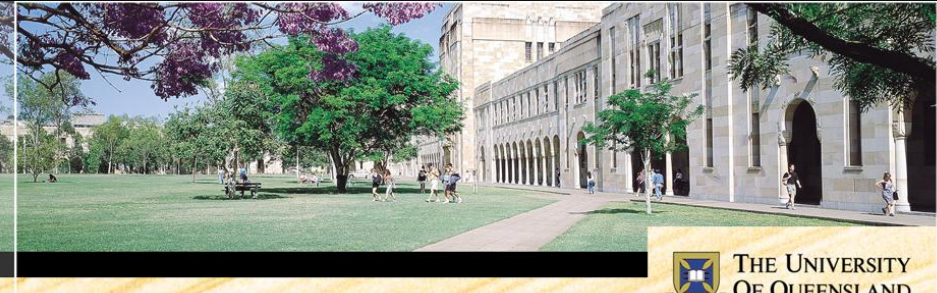

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China's FDI-Income growth nexus

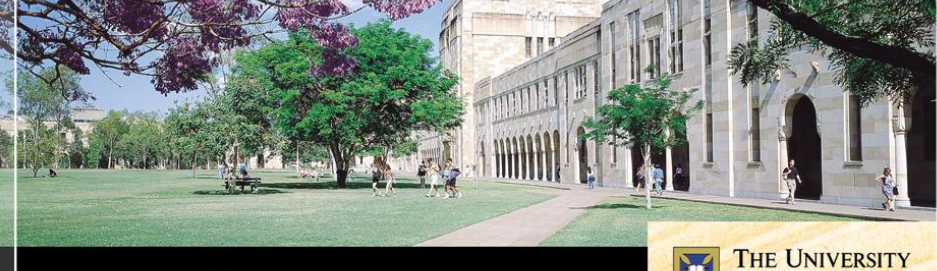
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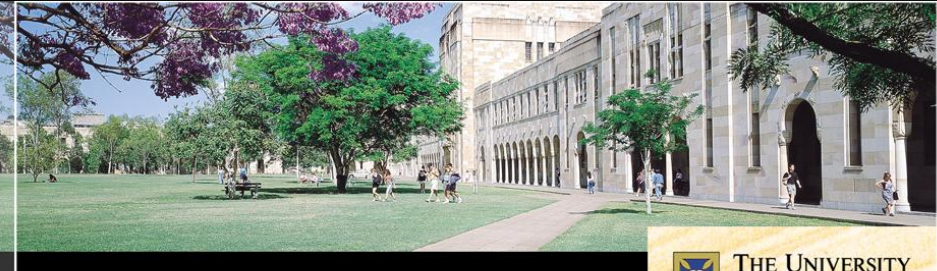
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- Research question
 - Has FDI really been driving income growth in China?
- Motivation
 - Divergent views – casual observation, stylised facts and econometric findings (i.e., statistical significance) versus insights from growth models and growth accounting studies.
- Policy importance



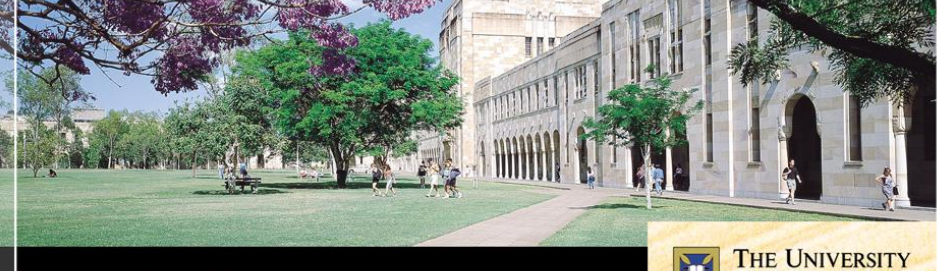
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- The importance of FDI for capital accumulation
 - Krugman (1993) $\hat{Y} = \alpha\hat{K} + (1 - \alpha)\hat{L} + R$
 - China has been a net capital *exporter* during the reform period.
 - Over 1980-2004, FDI has averaged 2.6% of GDP, according to *official* data. Gross capital formation has averaged 36.2% of GDP. The small share of FDI is robust over time and across provinces.



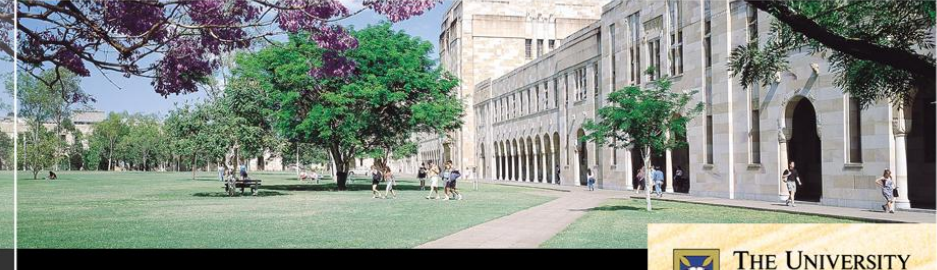
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- The importance of FDI for technological progress
 - Growth accounting studies show there is no correlation between the provincial distribution of FDI and growth in TFP.
 - Studies of the “spillover effects” associated with FDI are supportive of their existence but also show them to be small relative to domestic sources of technological progress.



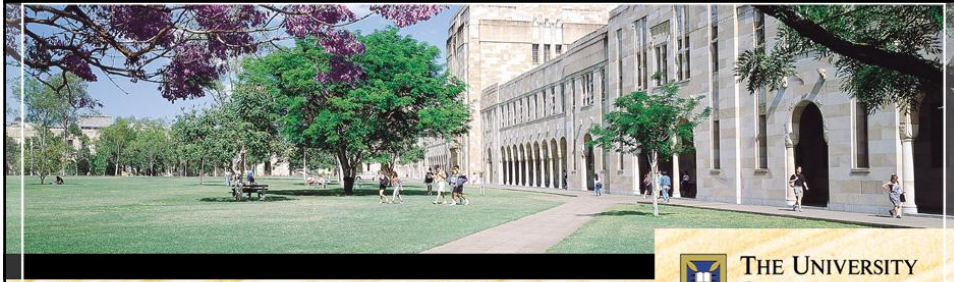
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- Accounting for the FDI-income growth paradox
 1. Stylised facts are a deficient basis for evaluating the impact of FDI on income growth.
 2. Some econometric studies fail to account for the expected endogeneity between FDI and income growth.
 3. Some studies dubiously interpret the meaning of a statistically significant relationship between FDI and income growth.



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- Accounting for the FDI-income growth paradox
 4. The strength of the FDI-income growth nexus is to some extent dependent upon the administrative level being considered.
 5. The role played by FDI and its impact on growth is likely to have changed over time.



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- Policy implications
 - The importance of FDI for income growth in China is expected to fall...but there is hope the impact can be reinvigorated.
 - Luring FDI inland would be a grossly insufficient policy response to widening regional income disparities.
 - The lessons for other countries must be qualified due to the unique nature of China's initial conditions.