

Foreign Direct Investment on Economic Growth by Industries in Central and Eastern European Countries

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Abstract : The Present empirical paper investigates the relationship between FDI and economic growth by 10 selected industries in 10 Central and Eastern European countries from the period 1995 to 2012. Different estimation approaches were used to explore the connection between FDI and economic growth, for example OLS, RE, FE with and without time dummies. Obtained empirical results leads to some main consequences: First, the Central and East European countries (CEEC) attracted foreign direct investment, which raised the productivity of industries they entered in. It should be concluded that the linkage between FDI and output growth by industries is positive and significant enough to suggest that foreign firm's participation enhanced the productivity of the industries they occupied. There had been an endogeneity problem in the regression and fixed effects estimation approach was used which partially corrected the regression analysis in order to make the results less biased. Second, it should be stressed that the results show that time has an important role in making FDI operational for enhancing output growth by industries via total factor productivity. Third, R&D positively affected economic growth and at the same time, it should take some time for research and development to influence economic growth. Fourth, the general trends masked crucial differences at the country level: over the last 20 years, the analysis of the tables and figures at the country level show that the main recipients of FDI of the 11 Central and Eastern European countries were Hungary, Poland and the Czech Republic. The main reason was that these countries had more open door policies for attracting the FDI. Fifth, according to the graphical analysis, while Hungary had the highest FDI inflow in this region, it was not reflected in the GDP growth as much as in other Central and Eastern European countries.

Keywords : central and East European countries (CEEC), economic growth, FDI, panel data

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