

Foreign Direct Investment and Growth: a Regional European Perspective

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Abstract

This paper aims at assessing empirically the link existing between FDI and the economic performance of the EU regions through a propensity score matching approach. This method has become increasingly popular in the evaluation of economic policy interventions and it seems particularly appropriate also in this context, since it allows to solve some methodological issues highly debated in the empirical literature on FDI and growth, i.e. sample selection bias and the functional form of the relationship under consideration. The adoption of a quasi-experimental design allows us to make inference on a broader variety of issues related to the interplay between FDI and growth, compared with other more traditional empirical approaches. To this respect, we demonstrate that quantitative characteristics matter less than qualitative characteristics of FDI in enhancing regions' performance. As for qualitative characteristics, we will distinguish FDI according to the country of origin (i.e. European vs. non-European countries) and the sector affiliation (i.e. low vs. high tech manufacturing sectors; business services vs. financial services, etc.). This rich approach may help policy makers in designing FDI promotion policies that are consistent with their development strategy.

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