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Foreign Direct Investment and Total Factor Productivity.

Empirical verification of the theoretical model of condidional interdependiencies.

The case of V4 countries.

Abstract

In this paper we seek to verify if the effects of FDI on economic growth vary from one sector to another and over time as well as that the impact of FDI is depended on the absorptive capacity of an economy. Generalized True Random Effects models (GTREs) and Bayesian models averaging (BMA) are used to verify these hypotheses.

Based on sectoral data coming from Visegrad countries in 2004-2013, we find that FDI influences the V4 economies in three aspects: (i) positively on production and labour productivity (as a factor of production), (ii) negatively in respect to inefficiency component of TFP, and (iii) positively in respect to efficient utilization of main production factors (i.e., capital and labour). Results also confirm that high level of technological gap hampers the absorption of FDI benefits and is associated with high inefficiency of resource utilization.