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Foreign direct investment, financial development and economic growth

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Abstract

This article argues that the development of the financial system of the recipient country is an important precondition for FDI to have a positive impact on economic growth. A more developed financial system positively contributes to the process of technological diffusion associated with FDI. The article empirically investigates the role the development of the financial system plays in enhancing the positive relationship between FDI and economic growth. The empirical investigation presented in the article strongly suggests that this is the case. Of the 67 countries in data set, 37 have a sufficiently developed financial system in order to let FDI contribute positively to economic growth. Most of these countries are in Latin America and Asia.

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