

Expectations and the Dynamic Feedback between Foreign Direct Investment and Economic Growth

Abstract: This paper sets to analyze the dynamic feedback between Foreign Direct Investment (FDI) and economic growth—larger FDI promotes higher GDP, while higher GDP can be achieved with higher levels of FDI. We use panels and a sample of 19 Latin American countries to estimate a dynamic FDI and a dynamic GDP equation that jointly characterize the evolution of both variables. We find that the dynamics of GDP and FDI are mostly driven by the expectations. Shocks of GDP or FDI were found to play no role affecting the dynamics.