Re-examining Foreign Direct Investment, Exports, and Economic Growth in Asian Economies Using a Bootstrap ARDL Test for Cointegration

Soo Khoon Goh\(^a\), Chung Yan Sam\(^b\), Robert McNown\(^b\)
\(^a\)Centre for Policy Research & International Studies, Universiti Sains Malaysia, 11800 Penang, Malaysia
\(^b\)University of Colorado, Boulder, CO, 256 UCB, 80309, United States

Abstract

This paper examines whether there is a long-run relationship among foreign direct investment (FDI), exports, and gross domestic product (GDP) in selected Asian economies. We use a newly developed cointegration test, the bootstrap autoregressive distributed lag (ARDL), to examine this long-run relationship. The motivation for using the bootstrap methodology is to generate and apply critical values for the ARDL test that are valid and appropriate for the specific data sets used. Further, the bootstrap tests allow for endogeneity and feedback that may exist. Pesaran et al. (2001) highlighted the possibility of degenerate cases, but empirical studies in general ignore these and may conclude that cointegration exists when it does not. Our tests fail to find evidence of cointegration when GDP is the dependent variable. The absence of a long-run forcing relation from FDI and exports to GDP implies that FDI and exports were not the sole sources of economic growth in our selected Asian economies.

Keywords: FDI, Exports, Economic Growth, Asia, bootstrap ARDL

JEL Classification: O11, C15

1.0: Introduction

The issue of how developing countries can accelerate their economic growth rates has been the subject of considerable research and policy discussion. One prominent explanation is that foreign direct investment (FDI) and export promoting activities are important contributors to economic growth. FDI serves as a vehicle for technology transfer, stimulates domestic investment, and facilitates improvements in human capital and reform of institutions in host countries. On the other hand, export activity facilitates more efficient production by exploiting differences in comparative advantages across countries, achieves economies of scale, and lowers costs by subjecting exporting firms to foreign competition. Despite a significant body of theoretical and empirical research exploring how FDI and exports contribute to growth in gross domestic product (GDP), the existing literature does not offer a clear picture as to whether FDI and

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\(^1\) Email address: skgoh@usm.my (S.K. Goh), cysam1010@gmail.com (C.Y. Sam), robert.mcnown@colorado.edu (R. McNown).

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