

FDI Flows in Europe: Endogeneity and Credibility

Aleksandar Stojkov and Thierry Warin

Discussant: Davide Romelli
Trinity College Dublin

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Overview

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- Uses gravity models to analyse bilateral FDI flows in the spirit of the trade literature
- Main contribution is to add a set of European macroeconomic convergence variables to capture the impact of similarity on FDI in the EU

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- Findings:
 - EMU has increased intra-EMU FDI flows in the range between 23% and 29%
 - However, the magnitude of this effect varies quite a bit depending on the econometric specifications employed
 - Decreased FDI premium due to EMU after 2008

- Interesting and topical work!
- Macroeconomic convergence variables: capture different things?
 - Interest rate convergence 1998-2007
 - Debt/GDP difference between the pairs Latvia-Luxembourg and Austria-Spain is the same (20%)
 - Important FDI flows from North to South were seen before 2008. Gopinath et al. (2017) show that this trend was accompanied by a large divergence in productivity

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- Timing: EMU dummy might not control properly for the fact that the adoption of the Euro is a long-term process that starts before the adoption of the single currency
- Why not check for the effects of EU membership and not just EMU?
- Why not check for the direction of FDI?

Thank you!

Davide Romelli: romellid@tcd.ie