



**Sam Houston State University  
Department of Economics and International Business  
Working Paper Series**

---

**Foreign Direct Investment and Inequality in Productivity across Countries**

Gouranga G Das, Hiranya K Nath and Halis M Yildiz

SHSU Economics & Intl. Business Working Paper No. SHSU\_ECO\_WP05-01  
January 2005

**Abstract:**

Using data for 93 countries for a period from 1970 to 2000, this paper examines the effects of foreign direct investment (FDI) on cross-country differences in productivity. We construct a spatial Gini coefficient of labor productivity across countries, and weighted indices of FDI and gross domestic investment (GDI). We then examine their time series properties to explore the relations of FDI and GDI with productivity. Although we find little evidence of FDI flows – which have increased manifold in last three decades – reducing inequality in productivity for the entire sample, our analysis shows that these three variables are cointegrated for developed, high and middle income developing countries, indicating existence of a long-run equilibrium relationships between FDI, GDI and productivity. FDI seems to reduce inequality in productivity among high and middle income developing countries while it widens productivity gaps among developed countries in the long-run though these effects are statistically significant only for high income developing countries. In middle income developing countries, higher GDI seems to have significant effect in reducing productivity differences. Granger causality tests further suggest that FDI causes productivity differences among petroleum exporting countries. Furthermore, GDI granger causes FDI in high income countries and productivity differences Granger cause FDI into the middle income developing countries.