

# The FDI-Income Growth Nexus: a review of the Chinese experience

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## **Abstract**

*Amongst many economists, China serves as the foremost example of the benefits that developing countries can derive from being open to foreign direct investment (FDI). Since the early 1990s, China has, by a large margin, received more FDI than any other developing country. It has also experienced the world's fastest rates of income growth. Moreover, those provinces within China that have hosted the bulk of FDI have grown at relatively faster rates. However, a literature has now emerged that makes it possible to better assess the relationship between FDI and income growth beyond these stylised facts. A review of this literature leads to the conclusion that China's FDI-income growth nexus is in need of considerable qualification. The paper then attempts to reconcile the perception that FDI has been an important driver of income growth on the one hand with the limited evidence to that effect on the other. By way of conclusion, policy implications consequent to the review of literature are drawn.*

**JEL classifications** – F21, P52

**Keyword:** China, foreign direct investment, income growth, productivity, growth accounting.

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