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THE SPILLOVER EFFECT OF FDI ON REGIONAL INNOVATION: AN EMPIRICAL EVIDENCE BASED ON CHINA

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Abstract

This paper analysis the spillover effect of foreign direct investment on local innovation. Distinguish from previous studies, we employ all provinces as out sample, by employ two-way fixed effect model, we find that FDI increases local innovation by a great amount, every unit increase in FDI is associated with 0.33% increase in patent approval, and the result is robust with the consideration of many other control variables in the model. We additionally present the robustness of our results by unify our key variables with population. Further analysis show that this effect is significant for all types of patents, including invention patent, utility patent, and design patent, which means the spillover effect is comprehensive for local industries. We believe our results have several interpretations and policy implications, FDI have provided local industries with opportunities to learn new technologies which induces more local innovation, meanwhile, potential competitor that are introduced to local regions also stimulates local industries to promote more innovation so as to remain competitive. Thus, a better operation environment to attract FDI can be useful to promote local innovation.

Keywords: FDI, Regional Innovation & Spill Over Effect.
