

# Southern Innovation and Foreign Direct Investment\*

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## Abstract

We developed a general equilibrium model of Southern innovation and foreign direct investment (FDI). The model shows that Southern R&D investment is crowded out by FDI that has market stealing effect. Consequently, FDI-friendly policy may decrease the innovation rate and the growth rate. This effect of crowding out is empirically observed but is not considered or underestimated in existing theoretical models.

**JEL-Classification:** O31, O34, L16.

**Keywords:** Southern Innovation, FDI, North-South.

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