Southern Innovation and Foreign Direct Investment*

Keishun Suzuki†

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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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†Graduate School of Economics and Management, Tohoku University, 27-1 Kawauchi Aoba-ku, Sendai, Japan. Research Fellow (PD), JSPS. Email: keishun.suzuki@gmail.com. Tel: +81-22-795-6265. Fax: +81-22-795-6270.