

Name: Phann Vannty

Student ID: 201526016

Thesis Title: “A Study on Causal Relationship of Foreign Direct Investment and Labor Productivity in Selected Developed European Countries”

**Abstract:**

According to the figure from World Bank, the number of foreign direct investment (FDI) inflow to the selected European countries namely France, Germany and The Netherland has shown a significant increase, especially during the period of 2002 to 2007. In comparison to the foreign direct investment, the labor productivity of these countries is seen as more stable in term of growth rate in the mentioned period. This particular study aims to thoroughly understand the causal relationship between foreign direct investment, the gap of labor productivity of host countries and EU area and labor productivity of the mentioned countries. The data sets are panel data ranging from the year of 1998 to 2007, which are extracted from OECD and EU KLEMS database. Three different methodologies are adopted in this study namely fixed effects (FE), general method of moments (GMM) and Last but not least the seemingly unrelated regression (SUR). The empirical results from all three different methodologies yield similar outputs. First of all, there is no significant causal relation between foreign direct investment and labor productivity in the case of France, Germany and The Netherlands. Second, the gap between host countries LP and average area EU area does not play a role in contributing to the labor productivity growth. Last, the absorptive capacity, which is referred as the indirect effect of FDI on LP is not spotted in these selected countries in the long run study. This implies that the development of these countries has reached a level, where FDI does not play a significant role affecting the level the labor productivity.