

The Effect of Financial Development and FDI Spill-over on Regional Economic Growth in China: Analysis based on Provincial Panel Data

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Through an FDI technology spill over absorptive capability function which contains a variable of financial development and a variable of technology gap between local and foreign enterprises, we study the relationship between financial development, technology gap between local enterprises and MNEs, and regional economic growth. Then we use China's provincial panel data from 1998 to 2007 to carry out the econometric tests. Both theoretical analysis and econometric test show that the level of financial development and the technology gap between introduced foreign advanced technology and local technology play an important role in one region's absorptive capability of FDI technology spill over effect, as well as in regional economic growth. At present, the low efficiency of financial market and the introduced foreign technology that is beyond local enterprises' absorptive ability are not beneficial for the positive effect of FDI spill-over. Therefore, regions need to improve the efficiency of financial market in the allocation of capital. Meanwhile, when introducing FDI, regions should estimate the level of existing technology and then introduce the most favourable foreign investment which could bring the positive effect of FDI technology spill-over and promote regional economic growth.

Key Words: financial development, technology gap, absorptive capability, regional economic growth