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Long-Run and Short-Run Dynamics Relationships between Exchange Rate Fluctuations and Foreign Direct Investment Flows in China

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Abstract

This research explores the short-run and long-run dynamic relationships between exchange rate fluctuations and foreign direct investment (FDI) inflows in China. Monthly time series data from the National Bureau of statistics of the People's Republic of China are analyzed by employing co-integration tests, vector error correlation models, wald tests and impulse responses. The empirical result indicate that a change in exchange rates negatively affects FDI inflows in the long run while there exists no evidence of short-run dynamics and reciprocal feedback between exchange rate fluctuations and FDI inflows. Futhermore, a structural break occurs during the 2007-2009 Asian financial crisis shock to FDI inflows in China.

Keywords

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