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### Foreign direct investment and income inequality: Further evidence

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#### Abstract

This paper examines the relationship between foreign direct investment (FDI) and income inequality. Special attention has been paid to data comparability and model specification. By comparing models with and without geographical dummies, this study shows that: the statistically significant correlation between FDI and income inequality widely obtained in earlier studies might capture more of the geographical difference in inequality than the deleterious influence of FDI, and to the extent that FDI does give rise to more unequal income distribution in the host less-developed countries (LDCs), only East/Southeast Asia, LDCs appear to have been harmed by the inflow of FDI during the 1970s. It should be noted, however, that the second result refers only to the marginal impact, not the total impact. Apart from FDI, our empirical evidence suggests that the level of economic development, the direct role of government and, to a smaller degree, the significance of the agriculture sector in an LDC are crucial determinants of income inequality.



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