Subway Systems and Attractiveness of Cities for FDI

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Abstract

In this paper, we look at the effect that a metro system has on the attractiveness of cities for Foreign Direct Investments (FDI). By 2003, 137 cities were equipped with a metro system. Over the last 15 years, 50 cities build a new metro system while 35 other cities were actually building a system (in 2015). Over the same period (15 years), the total length of subway systems has grown by about 100%. This is to say that metro systems are more and more popular. At the same time, very few papers look at their economic impact on cities. Do cities with a metro system perform better in terms of economic or population growth? Do they attract more investments? To the best of our knowledge, there is one single paper, due to Gonzalez-Navarro and Turner (not published yet) trying to address the question of the impact of metro system on the urban population growth of cities.

In order the study the impact of a metro system on FDI, we build a new and original database at the level of the observed urban areas. For every urban area, we have the number of greenfield FDI (over the period 2003-2014), the information regarding the presence and the length of a metro system (since the creation of the infrastructure) and many additional control variables.

Preliminary results suggest a positive and causal link at both, the intensive and the extensive margin. Differences according to the location (at continental level) and nature of FDI appear.

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