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ABSTRACT
This paper examines the relationship between Foreign Direct Investment (FDI) and international trade. Specifically, the relationship between the stock of outward FDI, and inward FDI and Imports and Exports in the Portuguese economy. This paper also studies some technical problems associated with panel data that have frequently been ignored in previous studies. And the problems of serial and contemporaneous correlation in particular can have a sizeable impact on estimates and statistical inferences. Our results show that there exist country-specific and time effects on the corrected panel data of heteroscedasticity and correlation and a substitutability relationship between imports and outward stock of FDI over the period 2000-2013.

Keywords: FDI; trade; gravity analysis; panel data.

JEL Classification: F1; F4.

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