

Foreign Direct Investment, Its Determinants and Impact on Economic Growth and Development: A Comparative Study

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Abstract

Foreign direct investment (FDI), its determinants and impact on economic growth and development is one of the most widely studied topics in economics. However, very few studies have examined the short and long-run relationships focusing on a comparison between West African and Central and Eastern European countries. This paper aims at filling this research gap. In particular, we intend to understand better the relationships between FDI and economic growth and development, and to formulate appropriate policy recommendations.

This paper is unique in terms of the variables mix, regions combination and robust methodologies used for the analyses. Various econometric analyses were conducted such as fixed effect regression, F-bounds test approach to cointegration and unrestricted error correction models, developed within an ARDL model, to examine the short-run and long-run equilibrium relationships between FDI and economic growth and development and its determinants.

The analysis covers the period of 19 years (2003:Q1 to 2021:Q4) and demonstrates that both for the Central and Eastern European countries and Western African countries, the short and long-run relationships between FDI and economic growth and development are insignificant under preferred ARDL models. However, for Central and Eastern European countries natural resources, business and investment freedom, remittances and gross capital formation are significant for determining FDI, while in case of Western African countries FDI is determined by gross capital formation, control of corruption, trade openness, exports and investment freedom.

Based on the findings above, we recommend that policy makers interested in stimulating economic growth and development should take into account other strategies than those relying on attracting FDI.

Keywords: Foreign Direct Investment, Economic Growth, Economic Development, ARDL