Economic development and Foreign Direct Investment: Evidence from OECD and selected African Countries

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ABSTRACT

This study analyses the impact of foreign direct investments on economic performance of African and OECD countries, to elicit explanations for the economic development disparities between home economies of foreign direct investors and their host counterparts. Design/methodology/approach – Employing annual observations spanning from 1980 to 2018 of 43 African countries and 28 OECD countries, this study estimates a panel cointegration model based on dynamic OLS technique. Findings – The analysis found that foreign direct investment exerts strong predictive influence on the direction of economic growth, while controlling for the impact of financial development, human capital development, economic institutions, and physical capital stock. It was found that economic institutions and physical capital stock drive stimulative effect on economic growth across economies in Africa and OECD countries, while financial development and human capital exert influences on one or more of the sampled countries. Originality/value – The originality of this study lies in the application of the panel cointegration model based on dynamic OLS technique to analyse the cross-regional dynamics in the interaction between foreign direct investment and economic growth. Practical implications – Policy makers should ensure the sustenance of a conducive economic and political environment to the attract more foreign investors as increase in foreign investments drive positive trends in national productivity and enhances capital mobilization, job creation and social improvement.

Keywords: African countries, OECD, FDI, Economic performance, Economic growth, Economic institutions, Physical capital stock, financial development, Economic freedom index, Human capital index, Real GDP, DOLS model.