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Foreign Direct investment, domestic investment, and economic growth in Sub-Saharan Africa

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Abstract

The study analyzes the impact of foreign direct investment (FDI) and domestic investment (DI) on economic growth in Sub-Saharan Africa for the period 1990–2003. The results show that DI is positive and significantly correlated with economic growth in both the OLS and fixed effects estimation, but FDI is positive and significant only in the OLS estimation. The study also found that FDI has an initial negative effect on DI and subsequent positive effect in later periods for the panel of countries studied. The sign and magnitude of the current and lagged FDI coefficients suggest a net crowding out effect. The review of the literature and findings of the study indicate that the continent needs a targeted approach to FDI, increase absorption capacity of local firms, and cooperation between government and MNE to promote their mutual benefit.



JEL classification

E22; O16; N77

Keywords

Foreign direct investment; Domestic investment; Institutional infrastructure and economic growth

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