

The relationship between Foreign Direct Investment and Economic growth in South Africa from 1970-2019: An Econometric Approach

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Abstract

This study investigates the relationship between foreign direct investment and economic growth in South Africa from 1970 to 2019. The significance of this study is to investigate if there is both short run and long run relationship between foreign direct investment and economic growth in South Africa. The data used in this study was collected from secondary sources online that is the South African Reserve Bank (SARB) and World Bank covering a range from 1970 to 2019. The study further employs the Augmented Dickey-Fuller (ADF) test, Phillips-Perron (PP) test and Kwiatkowski-Phillips-Schmidt-Shin (KPSS) test to test for stationarity of the dataset. The Johansen cointegration test and ARDL bounding test is used to analyse the existence of cointegration. The diagnostic tests are performed to check for stability (CUSUM and RAMSEY), serial correlation, heteroskedasticity and histogram normality (Jarque-Bera). In this study we discovered a negative statistically significant relationship and long run negatively statistically insignificant relationship between foreign direct investment and economic growth in South Africa. The policy implication from this study based on empirical results is that policy makers and the South African government need to revise policies related to foreign direct investment inflow so that they can boost economic growth and help resolve current macroeconomic challenges of high unemployment and low economic growth.

Keywords: Foreign Direct Investment (FDI), Economic Growth, Autoregressive Distributed Lag (ARDL) Model, Error Correction Model, South Africa.

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