Foreign direct investment and economic growth: ADRL and causality analysis for South Africa

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Abstract
The article empirically investigated economic growth as a function of foreign direct investment and exports in South Africa. The article applied the autoregressive distributed lag model, known as the ARDL bounds testing approach to cointegration for the long run relationship between economic growth, foreign direct investment and exports. The error correction model was used to examine the short run dynamics; and the VECM Granger causality approach was used to investigate the direction of causality. The article confirmed cointegration between economic growth, foreign direct investment and exports. The article indicates that both foreign direct investment and exports spur economic growth contrary to some studies, which found that FDI does not cause economic growth. The VECM Granger causality analysis found unidirectional causality between economic growth and foreign direct investment running from foreign direct investment to economic growth, unidirectional causality between foreign direct investment and exports running from foreign direct investment to exports and bidirectional causality between economic growth and exports. The article confirms the FDI-led growth hypothesis for South Africa. On the policy front, the government should stimulate foreign direct investment through incentives to investors, creation of a good macroeconomic environment and a careful utilisation of loose monetary policy to grow the economy.

Keywords: foreign direct investment; economic growth; exports; bounds testing; ARDL; VECM; Namibia

Biographical notes
Tafirenyika Sunde is a Senior Lecturer at the Namibia University of Science and Technology (NUST) formerly called the Polytechnic of Namibia. He previously worked at the University of Zimbabwe (UZ) and Midlands State University (MSU) as a Teaching Assistant and Lecturer, respectively, before joining the then Polytechnic of Namibia in 2008. He has published several research articles in refereed international journals. His research interests include Macroeconomics, Econometrics and Public policy.
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