

## Investment and Economic Growth

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### Abstract

The current study intended to investigate the effect of foreign direct investment (FDI) on economic growth in Africa and provide an estimate of panel data on 50 African countries during 1980-2009 based on a dynamic panel data estimator (SYS-GMM)<sup>1</sup> developed by Blundell and Bond (1998). The results of the present study indicated that foreign direct investment flow had a significant effect on economic growth in Africa during the research period. Furthermore, it found that low human resources did not restrict the effect of foreign direct investment and, subsequently, foreign direct investment had a significant negative effect on economic growth during 1980-1994 while it had a positive effect during 1995-2009.

**Keywords:** Foreign Direct Investment; Economic Growth; Investment Attraction Capacity; Panel Data.

### 1. Introduction:

Several research has been done to investigate the effect of foreign direct investment (FDI) flow on the economic growth rate in various countries over time. On the one hand, it is assumed that FDI flow has a series of side effects including increased employment, capital accumulation and knowledge transfer in the host country.

In this regard, Crespo and Fontoura (2007) summarized five main channels of technological advancement associated with foreign direct investment (FDI) flow as follows:

Demonstration/Imitation, Labor Mobility, Exports, Competition, and Backward and Forward Linkage with Domestic Firms.

According to Crespo and Fontoura (2007), these five main spillover channels act under the following conditions:

- i. Efforts of domestic firms to introduce new technologies in domestic markets which have been already used by multinational enterprises.
- ii. Hiring workers of multinational enterprises (MNEs) in domestic firms who have already had the ability and experience of using various technologies in MNEs.
- iii. Accessibility to greater distribution networks (markets) to sell the products due to knowledge of customers' tastes and preferences in foreign markets.
- iv. Efficient utilization of existing technologies and resources, or adopting new technology in domestic firms in the process of production in competition with multinational enterprises (MNEs) in the world.

<sup>1</sup> Systematic Generalized Method of Moments (SYS-GMM)