Revisiting the Nexus of FDI-Led Growth Hypothesis and Economic Development in East – central Africa: new empirical insights from Rwanda

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Abstract

One of the major goals of the United Nations' sustainable growth development (SGD) agenda is elevation of the global developing and underdeveloped countries standard of living which must be able to stand the test of time. Africa countries generally are classified within these two categories qualifying the continent to be a pilot ground for testing the success or failure of SGDs' programs. One of the SGDs' mechanisms is foreign direct investments in general either through finance or other capital formations. Out of the continent's 54 countries, the share of poverty and economic decline are apparent in the Eastern part. Axiomatically, poverty reduction and economic progress and development accentuate sustainability and growth. Literature has shown substantial studies on economic development and sustainability in the sub-Saharan and South African nations. To the best of our understanding, less studies on Eastern-central African are available particularly on Rwanda which is one of the largest economies in the Eastern part of Africa. Adopting Rwanda as a representative of the Easter-central region is reasonable given the its post genocide economic and political stabilities. This study explores a new model that specifies the FDI-led growth theory for the Rwandan economy. An annual time series data from 1970 to 2018 was obtained from the World Bank. The Johansen cointegration and ARDL approaches were used after realizing a varied order of integration from the stationarity test by adopting unit root tests. All variables were established to wield a positive impact on economic development except financial development from the financial sector which was significant in the short run but insignificant in the long run. Financial development from the private sector, exchange rate, consumer price index, gross domestic product, and population wield significant influence on FDI inflow for economic development, which implies that an improvement in these factors will equitably support economic growth. In principle, 1% improvement in the financial development from the private sector and exchange rate will produce a corresponding 397% and 78% increase advancement in FDI inflows in the long run. Averagely, financial development from the private sector, exchange rate, consumer price index, gross domestic product, and population are valuable to the economy of Rwanda. Therefore, we recommend that the relevant authority expand regional and global bilateral and partnership to enhance the economy to fully reap the benefits of engaging in globalization.

Keywords: East-central Africa, Rwanda, FDI, Growth, Economic development