The Causal Links between FDI and Economic Growth in Developing Countries: A Case Study of the Republic of Rwanda

Opio, S.

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The Causal links between FDI and Economic growth in developing countries:

A case study of the Republic of Rwanda

By

Mr Sam Opio

BA Economics –Uganda, MBA – UK, MSc Finance and Accounting – UK**,** MSc International Economic Policy and Analysis – UK**,**

MPhil/PhD in Economics (in progress)

University of Westminster

Department of Economic and Quantitative Method

NW1 5LS – London (UK)

Contact:

Email: w1513576@my.westminster.ac.uk

Or

Email: smopio@hotmail.com

Abstract

The study examines the short-run and long-run causality running from real economic growth to real FDI inflows. Other variables such as Education (involving combination of primary, secondary and tertiary enrolment as a proxy to education), real development finance, unskilled labour, to real RFDI inflows are included in the study. The time series data covering the period of 1980 -2013 were examined. First, I applied Augmented Dicky-Fuller (ADF) technique to test for unit root in variables. Findings shows all variables integrated of order one [I(1)]. Thereafter, Johansen co-integration test were conducted to establish the relationship among variables. Both trace and maximum Eigen value at 5% level of significance indicate 3 co-integrated equations. Vector error correction method (VECM) was applied to captured short and long run causality running from education, economic growth, real development finance, government expenditure and unskilled labour to real foreign direct investment inflows in the Republic of Rwanda. Findings shows no short-run causality running from education, real development finance, real GDP and unskilled labour to real FDI inflows, however there were existence of long-run causality. This can be interpreted that, in short-run; education, development finance, government finance and economic growth does not influence inflows of foreign direct investment in Rwanda it does in long-run

Key words: Real Economic growth (RGDP), Real Foreign Direct Investment inflow, Time series data (RFDI), Johansen Co-integration test, Vector Error Correction Model (VECM)