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Foreign Direct Investment, Public and Private Investments, and Economic Growth: A Cointegration and Qualitative Comparative Analysis for Ethiopia

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Abstract: This paper examines the relationship between Ethiopia's economic growth (RGDPCG), private domestic investment (DIpri), public domestic investment (DIpub), and foreign direct investment (FDI). We use a combination of cointegration and qualitative comparative analysis (QCA) approach to verify the causal links between FDI, DIpri, DIpub, and RGDPCG. Data are collected from the World Bank (WDI) and the African Development Bank (ADB) and verified for nonlinearity. We estimate an autoregressive distributed lag cointegration model (ARDL) and used the Toda-Yamamoto causality test. Finally, we use qualitative comparative analysis (QCA) to check the causal combination of variables. The approach is novel, and findings reveal a long-run relationship between FDI, DIpub, DIpri, and RGDPCG in Ethiopia. The cointegration and QCA methods suggest that FDI and public domestic investment are positively associated with GDP and are necessary and sufficient conditions for attaining economic growth. This study contributes to using the cointegration method and fuzzy set qualitative comparative analysis (fsQCA). These methods provide a better understanding of the relationship between FDI, domestic investments, and economic growth. As FDI and public investments positively impact economic growth in the long run, FDI needs to be encouraged, and the country should attract selective high-quality FDI projects with financial and technological capabilities.

Keywords: FDI, DI, Economic Growth, ARDL, QCA

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