ABSTRACT

The association between financial development, foreign direct investment, and economic growth has received substantial attention in the finance literature. While the research specifies that there are associations between these variables, majority of the research focuses either on the impact of financial development or of foreign direct investment on economic growth. This study focuses on the causal nexus between financial development, foreign direct investment, and economic growth across the G-20 countries, namely Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Korean Republic, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, and the United States over the period 1961-2015. Specifically, the study deploys dynamic panel data modelling to examine the determinants of both financial development and foreign direct investment in the selected countries. The Granger causality test is subsequently applied for studying the causal nexus between financial development, foreign direct investment, and economic growth. The empirical analysis finds that there exists disparity in financial development, foreign direct investment, and economic growth in these countries. The Granger causality test shows that both financial development and foreign direct investment have substantial impact on economic growth. It also shows that both financial development and foreign direct investment Granger cause each other. It is, therefore, necessary to have sufficient financial development and foreign direct investment and their integration in these G-20 countries for achieving higher economic growth. The insufficiency of these two brings in different policy implications for these countries.

Keywords: Financial development, Foreign Direct Investment, Economic Growth, Granger Causality, G-20