Foreign Direct Investment-Growth Nexus in Emerging Markets: does Human Capital Development Matter?

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Abstract: The study explored the impact of foreign direct investment (FDI) on economic growth and examined if human capital development is a channel through which FDI influence economic growth. Literature shows that the impact of FDI on economic growth is no longer a disputed matter. What is still unresolved is an agreeable list of channels through which FDI affects economic growth. This prompted the author to investigate if human capital development is a channel through which FDI influence economic growth in emerging markets using a dynamic panel generalised methods of moments (GMM) technique. Moreover, majority of previous studies on FDI-growth nexus overlooked the endogeneity issues and the dynamic nature of economic growth data. According to the author's best knowledge, this is the first study which investigated if human capital development is a channel through which economic growth triggered by FDI takes place in emerging markets. FDI positively but non-significantly influenced economic growth in emerging markets. When FDI was interacted with human capital development, the size of the positive impact on economic growth improved but was still non-significant. Emerging markets are therefore urged to implement policies aimed at increasing human capital development in order to enhance FDI's ability to influence economic growth.

Keywords: FDI; Growth; Human Capital Development; Emerging Markets

JEL Classification: F21; J24; F43

1. Introduction

1.1. Background of the Study

A general increase in foreign direct investment (FDI) flow between countries the world over has significantly been happening in recent years. According to UNCTAD (2017), total FDI inflow across the whole world went up from US$0.96 trillion in 2005 to US$1.52 trillion in 2016. The flow of FDI is very important as substantiated by UNCTAD (2012) report which disclosed that FDI flow over the years has proven to be a major source of economic growth and development,

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especially for emerging markets. What the UNCTAD (2012) report assumed was that FDI has got a direct impact on economic growth in the host countries. The assumption has been challenged by empirical researchers (Adams, 2009; Vita & Kyaw, 2009; Omri & Kahouli, 2014; Almfraji & Almsafir, 2014; Asong, 2014) who argued that certain absorption capacities must be existing in the host countries if FDI is to be able to have an impact on economic growth. Relevant to the current study, other studies noted that for FDI to influence economic growth, human capital development as an absorption capacity must be available in the host countries (Shahbaz & Rahman. 2010; Bailliu, 2000). The current study complements a forthcoming article by Tsaurai (XXXX) which focused on human capital development threshold levels needed to trigger significant FDI in that it explored if human capital development is a channel through which FDI influences economic growth in emerging markets.

1.2. Problem Statement and Research Gap

Despite emerging markets being major recipients of FDI in the last decade, empirical studies that investigated the impact of FDI on economic growth in emerging markets as a bloc are quite scant. Fu et al. (2011) found out that modern governance, institutional structures and structured local innovation programs must be prevailing in the emerging markets to enable them to benefit from international technological diffusion. A study by Gorodnichenko et al. (2007) observed that the type of a firm and not high technological advancement of MNEs determined the FDI's impact on economic growth in 17 emerging markets studied. Other empirical studies which investigated the FDI-growth nexus in emerging markets were done by Bailliu (2000), Adeoye (2007), Shahbaz and Rahman (2010) and Peter et al. (2012). All the FDI-growth nexus which were done on emerging markets are characterised by the following shortcomings. (1) They ignored the dynamic nature of the economic growth data, (2) they did not address the endogeneity problem which emanates from the feedback effect between FDI and economic growth, (3) the data they used is now outdated and their findings can no longer be used for current policy making purposes, (4) did not examine if human capital development is a channel through which FDI influences economic growth, which is the focus of the current study.

1.3. Contribution of the Paper

Apart from using the most up to date data, the current study addressed the issues that were ignored by most of the previous studies on FDI-growth nexus. These include the dynamic nature of FDI data and the endogeneity problem. To the best of the author's best knowledge, this is the first study to examine if human capital

development is a channel through FDI influences economic growth in emerging markets using an estimation technique which captures the dynamic nature of FDI data and endogeneity problem (dynamic GMM estimation technique).

1.4. Organization of the Paper

Theoretical and empirical literature is discussed in section 2. Methodology of the study is explained in section 3. The same section describes the variables used in the study, performs pre-estimation diagnostics, panel stationarity tests, panel co-integration tests and dynamic GMM estimation tests. Section 4 concludes the study whilst section 5 provides a reference list.

2. Literature Review

The present theory on the impact of FDI on economic growth focus on what FDI brings along which then influences economic growth in the host country. In other words, it is silent on the conditions that must be present in the host country to enhance FDI triggered economic growth benefits. For example, the modernisation theory says that FDI brings the capital and technology to the host country which is a necessity for economic growth (Calvo & Sanchez-Robles, 2002). The endogenous growth theory argue that FDI brings along to the host country necessary economic growth ingredients such as technology, training of labour, capital, managerial and organizational skills (Romer, 1986; Lucas, 1988; Kumar & Pradhan, 2002). The neoclassical growth theory is of the view that FDI is foreign savings or additional physical capital stock injected into the host country which only brings short term economic growth benefits (Solow, 1956; Swan, 1956). Empirical studies done so far on FDI-growth nexus have produced results that can be classified into four broad categories and these are (1) FDI-led growth, (2) feedback, (3) no or insignificant hypothesis and (4) existence of certain absorption capacities perspective. Table 1 below shows a summary of empirical studies on FDI-growth nexus.

Table 1. A summary of empirical studies on FDI-growth nexus

Author	Focal unit of analysis	Methodology	Research findings
Adams (2009)	Sub-Saharan African countries	cross-section regression model	FDI had an influence on economic growth through transfer of new technology, augmenting domestic capital, marketing and managerial skills. The extent to which the economy benefits from FDI inflows depends on the host country's specific conditions such as the favourable policy environment, good infrastructure and opportunities for linkages between FDI and domestic investment.
Fedderke & Romm (2006)	Developing countries	Panel data analysis	FDI had a positive impact on productivity of domestic labour and capital through superior technology that it brings along.
Ekanayake & Ledgerwood (2010)	Developing countries	Panel data analysis	The findings were in line with the FDI-led growth hypothesis.
Temiz & Gokmen (2014)	Turkey (quarterly data from 1992 to 2007)	Ordinary least squares (OLS)	In the long and short run, FDI positively but non-significantly influenced economic growth in Turkey.
Lyroudi & Apergis (2008)	Emerging economies (annual data from 1991-2004).	Panel data analysis	Using aggregate data, FDI positively and significantly influenced economic growth whereas the use of disaggregated data showed that income size and implementation of the privatisation programme influenced FDI's impact on economic growth.
Chakraborty & Nunnenkamp (2008)	India	Vector Error Correction Model (VECM)	FDI and output influenced each other in India in the short and long run. The study noted that the output-led FDI results were stronger than the FDI-led growth in India.
Naguib (2012)	Argentina	Autoregressive Distributive Lag (ARDL)	FDI had no impact on economic growth in the short run whereas in the long run, economic growth was non-significantly affected by FDI in Argentina.
Tanggapantnam et al (2011)	Malaysia (Quarterly time series data from 2000 to 2010)	VECM	Economic growth was positively influenced by FDI in a non-significant manner in Malaysia. Human capital and financial development were found to be necessary preconditions that must exist in the host country in order for FDI to influence economic growth in Malaysia.

Vita & Kyaw (2009)	Developing countries	GMM technique	Only the developing countries whose absorption capacities have surpassed a certain minimum level economically benefited from FDI inflow.
Azam & Ahmed (2014)	Commonwealth of independent States	Fixed effects model	FDI played a facilitation role in influencing economic growth and that favourable economic policies and business environment ensured that FDI was able to facilitate economic growth in the Commonwealth of independent States
Pegkas (2015)	Eurozone countries	Panel data analysis	Favourable business environment must be present in the Eurozone countries in order for FDI to have a positive and significant impact on the economy.
Eller et al. (2006)	Central and Eastern European Countries (CEECs)	Fixed effects	The positive impact of financial sector foreign direct investment (FSFDI) on economic growth heavily relied on what stage of economic development the host nation is at, with later-stage FSFDI economically benefiting CEESs more than during the earlier stages of FSFDI in CEECs.
Alguacil et al. (2011)	Lower, middle and upper income countries	System GMM and OLS model	Neither FDI nor the implementation of policies meant to attract FDI automatically translated into economic growth and development in the host countries. The availability of a clear investment framework, favourable macroeconomic and institutional environment in the host country were found to be necessary for enhancing economic growth emanating from FDI inflow
Lean (2008)	Malaysia	VECM	FDI in the manufacturing sector of Malaysia and economic growth were independent of each other. Specifically, no short and long-run relationship running from FDI to GDP, or vice-versa was found in the manufacturing sector of Malaysia.
Fu et al. (2011)	Emerging economies	Panel data analysis	Certain conditions must be prevailing in the emerging markets to enable them to benefit from international technological diffusion. These conditions include modern governance and institutional structures and structured local innovation programs.
Zhang et al. (2010)	China	panel data analysis	They found out that (1) presence of large domestic firms in China, (2) intermediate technological differences between domestic firms and MNEs and (3) diversity of FDI's country of origin were the three conditions that ensured FDI positively and significantly improved the productivity levels of domestic firms in China.
Gorodnichenko et al. (2007)	Emerging economies	panel data analysis	High technological advancement of MNEs failed to trigger FDI spill-overs in emerging markets. Instead, the ability of emerging markets to enjoy FDI spill-overs varied from type of the firm and sector in which the firms were operating.

Buckley et al. (2007)	China	panel data analysis	FDI spill overs were positive and significant in industries which were technology intensive as compared to labour intensive industries in China
Baharumshah & Almasaied (2009)	Malaysia	OLS model	Developed financial sector, high levels of educational systems were the absorption capacities that needed to be present in Malaysia to enable FDI triggered growth benefits to be enjoyed in Malaysia.
Shahbaz & Rahman (2010)	Pakistan	ARDL and ECM models	A developed financial sector coupled with strong human capital development index were preconditions necessary for Pakistan to benefit from technological diffusion associated with foreign capital inflows.
Peter et al. (2012)	Emerging markets	Panel data analysis	Acquisitions of domestic firms by foreign investors were to a large extent responsible for improving the efficiency and productivity levels of domestic firms in emerging markets (Czech Republic and Russia).
Adeoye (2007)	Emerging markets	Panel data analysis	Emerging markets should ensure that high macro-economic corporate governance systems are in place in order to allow FDI spill-overs to be enjoyed in their economies.

Source: Author compilation

3. Research Methodology

3.1. Data, Variables and a Priori Expectation

Twenty-one emerging markets' secondary data ranging from 1994 to 2014 was used for the purposes of the current study. The data was obtained from databases of reputable international institutions such as World Bank, International Monetary Fund (IMF), Global Financial Indicators, United Nations Development Programme and United Nations Conference on Trade and Development. The data was already converted into a common currency (United States Dollars), which according to (Nnadi & Soobaroyen, 2015, p. 233) made it easier to compare and analyse the results. The current study only included countries contained in the IMF (2015) list of emerging markets whose data for all the variables studied could be obtained. The 21 countries include Argentina, Brazil, China, Colombia, Czech Republic, Greece, Hong Kong, India, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Portugal, Republic of Korea, Russia, Singapore, South Africa, Thailand and Turkey.

The dependent variable in the current study is economic growth, FDI is the independent variable whereas control variables include savings, financial development, inflation, infrastructural development and trade openness in line with prior empirical studies (Sghaier & Abida, 2013; Nor et al., 2015).

Savings increases investment thus providing a platform which guarantees sustainable levels of growth (Romer, 1986; Lucas, 1988; Singh, 2010). On the other hand, prominent economists such as Schumpeter (1911), McKinnon (1973) and Shaw (1973), among others supported a view that financial sector development has a positive influence on economic growth through mobilising savings and

allocating them towards productive sectors of the economy, facilitating risk management and easing the trading of goods and services.

Schreft and Smith (1997) argued that higher inflation increases interest rates and non-efficient allocation of scarce resources, both of which lead to subdued rate of economic growth. High inflation discourage households from saving and this consequently stifle economic growth (Haslag & Koo, 1999). The level of infrastructural development enhances economic growth by acting as a conduit through which FDI is harnessed, in line with Denisia (2010). The view that infrastructural development is critical for economic growth was supported by Fedderke and Garlick (2008) who argued that infrastructure is a necessary ingredient in the economic growth and development process.

Trade openness can either have a positive or negative impact on the economy in line with prior empirical studies. For example, domestic firms are enabled to import key inputs for their production processes (Coe & Helpman, 1995) or export their products to the international markets hence boosting foreign exchange inflow into the economy (Chenery & Strout, 1966; Balassa, 1978; Hart, 1983; Ben-David & Loewy, 1998). On the other hand, the economy can suffer because local companies prefer to buy from other countries even commodities which are manufactured and available locally, consistent with Baltagi et al. (2009).

3.2. Empirical Model Specification

Equation 1 summarises the literature discussed in sub-section 3.1 in as far as the relationship between FDI and economic growth is concerned.

GDP =f(FDI, INFL, FIN, SAV, OPEN, INFR) (1)

Where GDP, FDI, INFL, FIN, SAV, OPEN and INFR respectively stands for economic growth, foreign direct investment, inflation, financial development, savings, trade openness and infrastructural development.

Following other similar studies on FDI-growth nexus, net FDI as a ratio of GDP, stock market capitalisation ratio, gross domestic savings as a ratio of GDP, GDP per capita, inflation consumer prices (annual %), electric power consumption (kWh per capita) and total imports and exports (% of GDP) were used in the current study as measures for FDI, financial development, savings, economic growth, inflation, infrastructural development and trade openness respectively.

As a starting point, the current study investigates the direct impact of FDI on economic growth in emerging markets and estimate the equation below using dynamic GMM approach, consistent with Sghaier and Abida (2013:6).

$$GDP_{i,t} = \beta_0 + \beta_1 GDP_{i,t-1} + \beta_2 FDI_{i,t} + \beta_3 X_{i,t} + \mu_i + \varepsilon_{it} \quad (2)$$

GDP_{it-1} is the lag of GDP, subscripts t and i stands for country and time respectively and εit is the error term. $X_{i,t}$ is a matrix of control variables mentioned earlier on in this sub-section whilst μ_i is the time invariant and unobserved country specific effect. β_0 is the intercept term whereas β_1, β_2 and β_3 are co-efficients of GDP, FDI and matrix of control variables (INFL,FIN,SAV,OPEN,INFR) respectively.

The second objective of the current study is to find out if human capital development is a channel through which FDI influences economic growth in emerging markets. In line with literature, the hypotheses meant to address this objective appears as follows:

H0: Human capital development is a channel through which FDI influences economic growth in emerging markets.

HA: Human capital development is not a channel through which FDI influences economic growth in emerging markets.

Consistent with Nor et al.'s (2015) approach, the current study interacted the FDI and human capital development variables and then tested the significance and sign of the interacted co-efficient in order to approve or disapprove the null hypothesis –see equation 3.

$$GDP_{i,t} = \beta_0 + \beta_1 GDP_{i,t-1} + \beta_2 FDI_{i,t} + \beta_3 HCD_{i,t} + \beta_4 (FDI_{i,t}. HCD_{i,t}) + \beta_5 INFL_{i,t} + \beta_6 FIN_{i,t} + \beta_7 SAV_{i,t} + \beta_8 OPEN_{i,t} + \beta_9 INFR_{i,t} + \mu_i + \varepsilon it \quad (3)$$

Equation 3 was then estimated using the dynamic panel GMM approach by Arellano and Bond (1991). If β_4 is positive or positive and significant, the results would have shown that the influence of FDI on economic growth is enhanced if human capital development in emerging markets improves. Human capital development was proxied by human capital development index for the purposes of the current study, in line with Shahbaz and Rahman (2010).

3.3. Correlation Analysis

Table 2. Correlation analysis

	GDPPC	FDI	HCD	INFL	FIN	SAV	OPEN	INFR
GDP	1.0000							
FDI	0.6283***	1.0000						
HCD	0.6586***	0.3479***	1.0000					
INFL	-0.0663	-0.0567	-0.0154	1.0000				
FIN	0.5017***	0.7859***	0.2208***	-0.0387	1.0000			
SAV	0.2427***	0.3544***	0.0912*	-0.0299	0.2046***	1.0000		
OPEN	0.6700***	0.8070***	0.4296***	-0.0649	0.7145***	0.5474***	1.0000	
INFR	0.7664***	0.3831***	0.6572***	-0.0473	0.3312***	0.3355***	0.5327***	1.0000

Source: Author's compilation from E-Views

Note: ***, ** and * denote 1%, 5% and 10% levels of significance, respectively.

Consistent with theoretical predictions, FDI, human capital development, financial development, savings, trade openness and infrastructural development were individually and separately found to be positively and significantly correlated with economic growth (see Table 2). Inflation and economic growth were negatively correlated in line with literature (Schreft & Smith, 1997; Haslag & Koo, 1999). The maximum correlation co-efficient among the variables studied is 0.8070 (between trade openness and FDI), a result that shows that the problem of multicollinearity among the variables used in the current study was absent, in line with Stead (1996).

3.4. Descriptive Statistics

Table 3. Descriptive statistics

	GDPPC	FDI	HCD	INFL	FIN	SAV	OPEN	INFR
Mean	9604	4.04	0.78	13.58	87.04	26.39	93.45	3224
Median	5980	2.51	0.78	4.45	38.91	23.27	57.17	2607
Maximum	56284	39.87	0.94	2076	1254	54.29	455.28	10 428
Minimum	353	0.03	0.45	0.01	0.04	8.33	15.64	240.02
Std. Dev.	9830	5.76	0.09	101	157.8	10.45	95.27	2343
Skewness	1.84	3.60	-0.48	19.65	4.99	0.79	2.28	0.70
Kurtosis	7.01	17.47	2.95	402	31.51	2.92	7.39	2.70
Jarque-Bera	544	4800	16.80	2 948 116	16 769	46.09	737.14	37.49
Probability	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Author's compilation from E-Views

Standard deviation from the mean for GDP per capita and infrastructural development is above one thousand, which is evidence of the existence of extreme values in the two variables. The probabilities of the Jarque-Bera criteria are zero

for all the variables under study which is proof that the data used is not normally distributed. Furthermore, the Kurtosis values in Table 3 shows that the data for all the variables are positively skewed which is further evidence of the absence of normal distribution. All the data was then transformed into natural logarithms before being used further in order to deal away with the problem of extreme values and absence of normal distribution, consistent with (Hair et al., 2014, p. 80).

3.5. Panel Unit Root Tests

Table 4. Panel root tests –Individual intercept

Level				
	LLC	IPS	ADF	PP
L(GDPPC)	1.4876	5.0440	9.5479	8.6597
L(FDI)	-5.8469***	-5.5820***	104.31***	159.98***
L(HCD)	-9.7730***	-7.5698***	133.89***	205.79***
L(INFL)	-4.0943***	-3.9300***	83.0525***	150.43***
L(FIN)	-3.8028***	-2.4949***	66.0206**	109.84***
L(SAV)	-1.5476*	-1.6283*	61.8386**	72.2632***
L(OPEN)	-1.2281	0.9237	29.3499	59.9943**
L(INFR)	-4.5126***	-1.0782	52.4567	65.3866**
First difference				
L(GDPPC)	-6.2515***	-6.2457***	113.46***	179.62***
L(FDI)	-11.4310***	-13.6157***	241.38***	1574***
L(HCD)	-17.5728***	-16.4661***	292.36***	3156***
L(INFL)	-12.7088***	-14.2952***	254.21***	951.92***
L(FIN)	-12.4061***	-13.3440***	237.79***	718.75***
L(SAV)	-8.0563***	-9.5960***	171.92***	724.57***
L(OPEN)	-8.7965***	-9.2367***	163.98***	355.55***
L(INFR)	-1.2471**	-2.8819***	75.5062***	138.87***

Source: Author's compilation from E-Views

Note: LLC, IPS, ADF and PP stands for Levin, Lin and Chu; Im, Pesaran and Shin; ADF Fisher Chi Square and PP Fisher Chi Square tests respectively. *, ** and *** denote 10%, 5% and 1% levels of significance, respectively.

Table 4 shows that not all variables under study were stationary at level. When unit root testing was performed at first difference, all the variables under study became stationary. In other words, the variables studied were integrated of order 1, a condition that must be met before further empirical tests are done, following Jiang and Liu (2014).

3.6. Panel co-Integration Tests

Table 5. Johansen Fisher Panel Co-integration test

Hypothesised No. of CE(s)	Fisher Statistic (from trace test)	Probability	Fisher Statistic (from max-eigen test)	Probability
None	29.11	0.9342	29.11	0.9342
At most 1	29.11	0.9342	29.11	0.9342
At most 2	20.79	0.9975	131.3	0.0000
At most 3	9.70	1.0000	267.6	0.0000
At most 4	2.77	1.0000	352.8	0.0000
At most 5	386.8	0.0000	386.8	0.0000
At most 6	328.6	0.0000	273.1	0.0000
At most 7	162.4	0.0000	162.4	0.0000

Source: Author's compilation from E-Views

Johansen Fisher panel co-integration framework was used to investigate if there is a long run relationship between economic growth, FDI, human capital development, inflation, financial development, savings, infrastructural development and trade openness in emerging markets. Table 5 shows that the null hypothesis that say there is at most seven co-integrating vectors among the variables studied is accepted. This finding was confirmed by both Fisher's trace and max-eigen tests (see Table 5).

The next stage involved the use of the dynamic panel GMM estimation technique to determine (1) the impact of FDI on economic growth and (2) if human capital development is a channel through which FDI affected economic growth in emerging markets.

3.7. Dynamic Panel GMM Estimation Technique Results and Discussion

Table 6. Dynamic GMM Results

	Without interaction variable (Model 1)			With interaction variable (Model 2)		
	Co-efficient	Std. Error	t-statistic	Co-efficient	Std. Error	t-statistic
$GDP_{i,t-1}$	0.9403***	0.0134	70.0840	0.9403***	0.0134	69.9926
FDI	0.0101	0.0074	1.3639	0.0108	0.0138	0.7804
HCD	0.2900***	0.0875	3.3127	0.2889***	0.0898	3.2184
FDI.HCD	-	-	-	0.031	0.0212	1.4623
INFL	-0.0041	0.0063	-0.6557	-0.0041	0.0063	-0.6577
FIN	0.0263***	0.0083	3.1683	0.0263***	0.0084	3.1374
SAV	0.0482**	0.0220	2.1899	0.0483**	0.0221	2.1851

OPEN	-0.0509***	0.0144	-3.5250	-0.0511***	0.0150	-3.4037
INFR	0.0309**	0.0143	2.1596	0.0309**	0.0143	2.1569
Adjusted R-squared 0.9849 J-statistic 432 Probability(J-statistic) 0.0000				Adjusted R-squared 0.9848 J-statistic 431 Probability(J-statistic) 0.0000		

Source: Author's compilation from E-Views

Notes: GDP per capita is the dependent variable. ***, ** and * denote 1%, 5% and 10% levels of significance, respectively.

In both models 1 and 2, FDI positively but non-significantly influenced on economic growth in line with Temiz and Gokmen (2014) whose study observed that the influence of FDI on economic growth in Turkey was positive but non-significant both in the long and short run. Resonating with theoretical predictions, both models show that lag of GDP per capita, human capital development, financial development (stock market capitalisation), savings and infrastructural development had a positive and significant impact on economic growth in the emerging markets. Inflation negatively but non-significantly affected economic growth in both models, consistent with Haslag and Koo (1999). On the other hand, trade openness had a negative and significant influence on economic growth in the emerging markets in both models in line with Baltagi et al (2009) whose study argued that an economy can suffer if local companies prefer to buy from other countries even commodities which are manufactured and available locally.

The co-efficient of the interaction term between FDI and human capital development was found to be positive but non-significant in the emerging economies studied. Although not significant, the study found out that human capital development provided a channel through which FDI influenced economic growth in emerging markets. This finding resonates with Shahbaz and Rahman (2010) whose study argued that a developed human capital development index was a necessary precondition for Pakistan to benefit from technological diffusion associated with foreign capital inflows.

4. Conclusion

The paper explored the impact of FDI on economic growth and also investigated if human capital development is a channel through FDI influence economic growth in emerging markets. Although the relationship between FDI and economic growth is no longer a contestable matter in literature, channels through which FDI influences economic growth have not received adequate attention and it's still an unresolved issue in the literature. It is for this reason that the current study focused on finding out if human capital development is a channel through which FDI influence economic growth in emerging markets using a dynamic panel GMM estimation

technique. In both models (with and without an interaction term), FDI was found to have had a positive but non-significant influence on economic growth in emerging markets. When FDI was interacted with human capital development, the size of the positive impact on economic growth was found to have improved but still non-significant. The impact of the lag of GDP, trade openness, financial development, savings, infrastructural development and inflation on economic growth in emerging markets was in line with theoretical predictions. The implications of the study are that emerging markets should implement policies aimed at improving human capital development in order to directly boost economic growth or to enhance FDI's ability to influence economic growth. Other measures meant to accelerate economic growth which emerging markets should implement include: (1) promoting infrastructural development, savings and financial development, (2) inflation reduction policies and (3) moderating trade openness. Future studies must expand the current study by investigating other channels through which FDI influences economic growth.

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