

FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH: EMPIRICAL EVIDENCE FROM THE WEST BALKAN COUNTRIES

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Abstract

Foreign direct investments have attracted the attention of academics and policy-makers for their role and importance in macroeconomic variables in their countries of origin. The purpose of the paper is to explore the effects of foreign direct investment and other variables such as remittances, exports, capital formation, and labour force on economic growth in the six former Western Balkan communist countries (Albania, Kosovo, Macedonia, Montenegro, Bosnia and Herzegovina and Serbia). This study utilizes a strongly balanced panel data over the 2005-2015 period for the six Western Balkan countries using the ordinary least squares method (OLS), i.e. Pooled regression model to evaluate the parameters. The relationship between economic growth and foreign direct investment has turned out to be statistically insignificant and negatively related for the countries under the study. Also we find the statistically significant positive relationship between economic growth and other variables included in the model such is remittances, exports, capital formation, and labour force. Thus, the main findings of this research confirm a no significant negative relationship between foreign direct investment and economic growth in countries under this study.

Keywords: Foreign direct investment, Balkan transition, Economic growth

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