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The effect of foreign direct investment on economic growth in Afghanistan: an empirical insight

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Abstract

Purpose: This paper examines the impact of foreign direct investment (FDI) on the economic growth of Afghanistan over the period 1990 to 2019. **Design/methodology/approach:** This study uses an autoregressive distributed lag (ARDL) to measure FDI's impact on economic growth and determine the short- vs long-run relationship. **Findings:** The results show that the F-bound cointegration test confirms the long-run relationship among the variables. The long-run and short-run results reveal that foreign direct investment has a significant negative impact on economic growth in the long run. However, domestic investment and labour force have a significant and positive impact on economic growth in the long run. Moreover, the impact of trade openness on economic growth is insignificant in the long run, while it has a significant negative impact in the short run. **Originality/value:** In this study, we contribute to this research area by analysing the function of FDI in economic growth from Afghanistan's

experience and perspectives. This is the first study empirically examining this relationship in Afghanistan while considering other selected macroeconomic indicators. This paper could greatly benefit policymakers in Afghanistan by guiding the formulation of FDI policies that would spur its economic growth and development. © 2024, Emerald Publishing Limited.

Author keywords

Afghanistan; ARDL; Economic growth; Foreign direct investment; Trade openness

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