

Impact of Foreign Direct Investment on Total Factor Productivity in Selected African Countries: A Panel Threshold Regression Approach

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Abstract: Despite the recent increase in foreign direct investment (FDI), empirical literature examining the economic impact of such capital flows remains relatively limited. This study investigates the effect of FDI inflows on total factor productivity (TFP) using a panel of 30 selected African countries for the period 1996-2019, aiming to provide novel evidence based on threshold analysis. The results indicate that FDI benefits to host countries in Africa are conditional on host countries meeting the minimum human capital, infrastructure, and good governance levels, as below-threshold levels negatively affect the impact of FDI on TFP; however, the above-threshold levels have a positive impact. Based on the empirical findings of this study, it is recommended that African countries prioritize reaching certain minimum levels of human capital, infrastructure, and good governance before implementing pro-FDI policies. Attracting large volumes of FDI before reaching the required threshold level yields negative TFP outcomes.

Keywords: Total Factor Productivity, Foreign Direct Investment, Human Capital, Infrastructure, Governance and Threshold Analysis