

Autoregressive Modeling of CFA Franc Zone's Exchange Rate and Foreign Direct Investment

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Abstract

Previous evidences in the literature indicate that there is a unidirectional connection from Exchange rate to Foreign Direct Investment (FDI). This paper examines the causality between exchange rates and FDI in CFA Franc Zone in Africa, covering a period of nearly 25 years since 1980 using both Granger causality and Hsiao Causality Tests. The basic issue in this research is the ways the causality runs. In most of the cases, our results confirm the previous evidences that causality runs from exchange rate to FDI. However, our results also indicate that the causality runs from FDI to exchange rate. This may signal the role of natural- resources-FDI in these economies, where the change in price of natural resources will affect the flow of FDI, which in turn will affect the real exchange rate. The results have important policy implications for countries in CFA Franc Zone.