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Analysing Relationship Between FDI and Economic Progress: Contemplating the Variations of Fiji's Political Disequilibrium (1983–2013)

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Abstract

Over the years, the relationship between foreign direct investment (FDI) inflows and economic growth has been scrutinised and investigated by many researchers. Such a relationship aims to determine if foreign investment benefits the receiving nation. We have often witnessed that the receiving country does not accomplish the desired infrastructure for which they have received foreign aid. Political instability and corruption have caused dire stress within the nation. This study mainly investigates the direction of FDI flows within the economy of Fiji and how it helps boost Economic Growth from 1983 to 2013. The study also focuses on the early stages of the industrialisation of Fiji. Furthermore, Fiji has faced numerous structural breaks, such as the three coups encountered by the country. Our results show that, even though FDI has a positive long-run relationship with Economic Growth in Fiji, it is also a volatile component when the nation faces numerous political situations stability, and it remains significantly questionable.

Keywords: FDI, economic growth, political instability, Fiji, economic gain

Abbreviations

FDI—Foreign Direct Investment

HDI—Human Development Index

GDP—Gross Domestic Product

WBD—World Bank Data Indicators

IMF—International Monetary Fund

GFCF—Gross Fixed Capital Formation

GDPPC—GDP Per Capita

WB—World Bank

1. Introduction

At the end of the cold war in the 1980s, Fiji had been relying heftily on Foreign Investment since Fiji is the principal recipient in the Pacific Region. The annual investment inflows in Fiji are induced to reduce government expenditure and spending. Jayaraman (1998) emphasised that Fiji is taking positive changes through foreign investors. Business climate such as Primary Industries, Manufacturing and Service industries has supported the host nation's development and attraction towards foreign investors. Foreign direct investment impacts labour-intensive and capital-intensive depending on the notable sector. Sectors that require heavy labour input target foreign investment based on skills and managerial level. It significantly impacts the industries that require hefty capital-intensive that target technological transfers, capital and innovation (Jayaraman & Choong, 2006).

Acceleration and Globalization propensity, capital transfers, and labour gains have attracted rising attention recently. In recent years, Foreign Direct Investment has been the main rudiment of liberalisation of the world economy (Jayaraman et al., 2014). Policymakers and academics contend positive impact of foreign investment towards host nation's development and growth (Jayaraman & Singh, 2007). Extraneous Investment, more commonly known as external aid, is a valuable source of investment in technology, bridging the gap between producers and consumers. FDI bridges the gap for local infant, micro, semi, and developed firms, enabling them to jumpstart to give robust output to the economy. Developing and industrialised countries receive incentives to encourage foreign direct investment (Mukun, 2016).

Foreign investment has a broader meaning, as it appears, targeted by the host nation, building up its service and manufacturing industry in developing and promising economies (DeMello, 1997). Empirical readings on foreign-invested in emerging markets and developing economic nations in Asia-Pacific have a positive impact. Distributional income, growth in sector development, and robust economic activity rotation have a relatively high impact on foreign direct investment (Jayaraman & Choong, 2006). Sector development raises noticeable results to increase in employment. FDI is considered a direct link to access foreign markets through the dispersal of technologies, superior production technique and connection with domestic firms. This helps to moderate domestic investment and savings. Domestic investment is the primary recipient creating a quality and quantity labour market that can provide enough efficient labour supply.

The world has been moving towards globalisation, industrialisation, and liberty. Where labour is known as perishable and free to move, whereby capital brings in more advancement. Every new advancement or innovation comes with spillovers and externalities such as depreciation (Gounder, 2001).

Foreign Direct Investment reveals foreign ownership and direct investment to the recipient company, yet those countries who receive grants benefit greatly. The significant foreign direct investment focuses on industries that bring greater economic returns and the investing country itself. Through the research, it has been found that FDI has been increasing relatively and significantly impacts economic growth (Makun, 2016). The primary reason for the

economic growth to have increased is a boost in industries like manufacturing, service industry, agriculture and many more. According to the GDP release by the Fiji Bureau of Statistics (2010–2020), Fiji has been attracting FDI and industries have been vastly increasing and expanding. Regardless of the inverse impact of political coups, the economy has regained its strength and prospers via FDI inflows. Forth, the FDI has continued to flow into the nation, benefitting the trade market, education and health sector (Makun, 2018).

Foreign Direct investment deals with both ends, such as positive and negative effects. In terms of employment, the effects are either positive or negative. Employments are created only if there is an expansion in firms. Thus, a firm will have the marginal product of labour in alignment with the marginal product of capital. Whenever employment volume increases through inward foreign investment into sector development, a positive (in)direct effect occurs. The multiplier effect creates positive returns. Positive direct impact rises when the net capital of the host nation increases—using the circular flow model, production increases due to high capital mobility (Prasad et al., 2008; Makun, 2016, 2018).

Besides positive impacts, foreign direct investment also creates negative externalities. Every time a nation gets involved in technological acquisition, there is the possibility of having a validated result of job losses, a direct impact. Facing severe competition against international monopolies ceases firms to halt operations (Maiti, 2019). Short run, or at shutdown point, the infant business closes due to a lack of investment to meet its operating cost caused by negative indirect effect. Therefore, job losses become imminent (Mucuk & Demirsel, 2013). Overall, the positive effect outweighs the negative effect of creating jobs. It benefits the nation with a high unemployment rate. Hence the unemployed are absorbed in sectors via FDI (Maiti, 2019). There are many incriminating factors of FDI inflows, yet it does not stop the flows into the host nation. Development in the host nation contributes to higher managerial skills, utility labour force, higher budget constraints, planned savings and consumer satisfaction based on product differentiation.

Moreover, foreign direct investment is crucial to demonstrate the host nation's ability to generate income, skills, and capital discoveries. Much research has pointed out that the host nation's ability to develop, capability to generate its investment and planned savings, advancing research and development led the developed and developing nations to require less foreign investment (Jenkins, 2006). Mainly it has continuously indicated that foreign direct investment has greatly influenced developing countries in promoting better technological advancements. The impact of foreign direct investment on the Pacific Islands also brings trade openness, and bilateral dealing brings good relations between countries (Gounder, 2001).

Foreign Direct Investment brings in market competition, creating more job opportunities and leading to great technological advancement exposure. The FDI further builds a better environment and facilities. Moreover, Maiti and Mukherjee (2010) explained that good governance is also the best way to attract foreign direct investment. The empirical papers test the hypothesis that it positively influences Fiji's economic growth. There is a widespread belief among policymakers that foreign direct investment (FDI) generates positive

productivity effects for host countries. The main mechanisms for these externalities are the adoption of foreign technology.

The Fijian economy heavily relies on economic performance, and this is based on growth and development. Gross Domestic Product is an essential phenomenon that calculates any nation's ability to achieve its potential target. In Fiji, GDP by production approach is commonly used to measure its activities across, while GDP—the income approach captures the residuals of national income. GDP—The expenditure approach captures the economy's government and private spending. The new constitution, 2013, provides a platform for various investment opportunities for foreign nations. This allows other nations to be more sceptical when making a quality investment. However, numerous political instabilities in Fiji have made foreign investors volatile.

The figure below outlines the flows of FDI from one nation to the other. The mainstream of the graph is to channel the information ad grant received by the recipient nation and where it is used for the development of the sectors in Fiji.

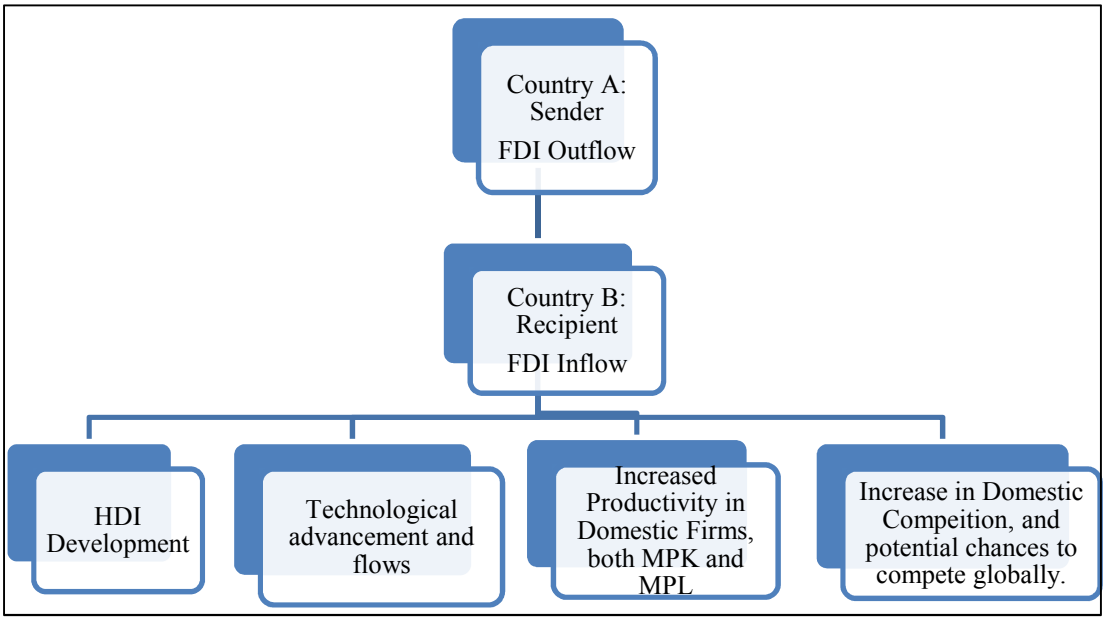

Figure 1. Flow of FDI

Source: Figure is authors tabulation using MS Word Tool.

The above flow chart explains the flow of FDI from the Investor to the recipient and briefly gives an overview of how or where FDI is capitalised to boost Economic Growth. From one country to another, it details how the FDI inflow impacts different categories within the nation.

Human & Capital Development—this brings in better human resource skills and interprets them accordingly to enhance managerial skills. This also creates Research & Development

(R&D). R&D is a tool that enables the company to invest wisely and know the product's potential. R&D also enables the wise and efficient use of resources. Technology advancement—Improves technology and boosts the market, creating more employment opportunities.

Increase in productivity within the labour market—foreign investment and technological advancement give robust form to our education level in alliance with building a better and healthy labour market. Benefits to the labour market are categorised as when better and more advanced equipment is provided, and all resources are utilised. Better managerial skills and human resource management are provided, leading to a highly productive labour market. The marginal product of labour increases as a more skilled and vibrant labour market is enforced. This also leads to—Market Competition—as new technology and managerial skills are brought in; the market competition starts to rise. Domestic competition increases, resulting in more demand and supply, creating bulk space for exports.

The increase in foreign direct investment will inject additional capital and bring innovations. More Research and Development take place and promotes domestic market competition. FDI mainly targets industries with a vast range of exports, such as manufacturing. Alfaro (2003) stated that bringing in FDI to improve domestic industries and strengthen their economy's export will boost their product quality and quantity.

This paper mainly focuses on Fiji's FDI and its impact on its economic growth. In addition, tests and empirical findings will determine the direction of the relationship and how significant the relationship is. The models will test if the FDI had a positive or a negative impact on the Fijian economy during and after political coups in Fiji. It is common sense that after any political coup, the nation's economic growth drops significantly, causing a loss in trade, the financial sector, and the bilateral trade partners' interests. The paper adopts similar methods Engle and Granger (1987) used to determine the impacts of dependent variables on the independent variables.

2. Literature Review

Many empirical papers study determinants and provide the best indicator for eclectic extension and research of FDI. Foreign investment is a necessary assistance provider towards a nation's development. Jayaraman (1998) and Prasad et al. (2008) showed a host nation's techniques to capture foreign investment. Techniques such as targeting dominating industries contribute primarily toward economic growth. The highest contributing industry had more potential and capacity to attract foreign investment than a small growth contributing industry. Industries, mainly manufacturing, retail and wholesale, the garment and financial sectors, possess many employees.

Foreign direct investment is critical to any nation that invests in saved privately and publicly (Gounder, 2001). Hence this becomes part of the investment for the host nation to distribute abroad, allowing a nation to become part of other nations' development (Jayaraman & Singh, 2007). FDI is attractive to those nations who lack savings domestically. However, for a nation to gain an advantage having foreign investment needs to show potential capabilities to obtain

FDI. Fiji has been known to have cheap labour and lack capital intensive when it comes to technological advancements. However, Fiji has been top-notch regarding receiving considerable foreign aid. In the Pacific, Fiji has the most remarkable ability to capture investment, and it comes through domestic savings and international market supply (Prasad et al., 2008).

Employment creation and economic benefits are positive spillovers for the nations. Pacific Island Nations has placed ideas and emphasis on building small business enterprises. Compared to other PICs, Fiji, one of the developing nations, is a primary source of domestic investment created through remittances (Makun, 2018). SMEs bring consumer competition, price rigidity, price discrimination and product differentiation. Most importantly, FDI brings homogenous goods to the production market (Bayer & Sasmaz, 2017). Every foreign investment is not meant to boost national capacity. However, it is also injected to boost and produce robust national research. Innovation is an asymmetric tool. Either it can fail, or it can surpass. A high level of research is dedicated to finding surpassing innovation. Fiji has been targeting foreign aid for decades to cushion its fiscal damage, hence the nation's deficit. Exports are most critical to any nation in building up its capacity growth. Fiji's creativity came through the suspension of bilateral support (Jayaraman & Singh, 2007; Jayaraman et al., 2006; Jayaraman et al., 2014).

Theories do not change over time, yet ideas to develop the exact theory change (Carkovic & Levine, 2004). Micro and macroeconomics study reveals that every aggregate matters in building economic space and capacity. Every model is intra-related in building externalities and spillovers. Therefore, the host nation must be prepared to encounter any obstacles. Foreign investment comes with true reflection so does the burden of fulfilling its requirements (Maiti & Mukherjee, 2010).

Alfaro (2003) found out that an actual burden outweighs a positive return when conducting cross-country analysis. External transfers and the net worth of a nation's creation leave the nation vulnerable towards technological transfers (Alfaro, 2003; Gounder, 2001). FDI benefits when it comes at the expense of others (Maiti, 2014). A country obtains absolute and comparative advantage through trade openness in Pacific Island Nations. However, opportunity cost thrives above. Academic policies and institutions build the host nation's ability towards policy circles (Jayaraman, 1998).

Domestic and good governance makes up a nation's gratitude. A nation that is absorbed mainly by more excellent institutions, norms, culture, behavioural consumption and incentives creates welfare among the society that generates income within the system (Maiti & Arijit, 2010). Institutions are integral relationships towards foreign investors to invest in the host nation's domestic system. Fiji is a favourable nation regarding climate development and climatically gains superior over other Pacific Nations. A significant change and investment in Microenterprises splurge country welfare (Gounder & Sharma, 2013; Hassan & Gowda, 2017).

FDI has been one of the best indicators when discussing FDI and employment in PIC. They have a direct and indirect relationship with the country's economy. This paper ascertains it.

Prakash and Assaf (2001) showed how employment is created as more employment opportunities arise in Fiji through the impact of FDI. FDI has been considered an essential factor in boosting economic growth. FDI inflow into the economy is assumed to give future economic benefits and growth. A single market economy or a small and medium entity is likely to attract more excellent investors and more likely to attract more FDI inflows for the investment. The primary purpose of attracting FDI into the economy is to increase investment in consumer goods industries for exporting to regional markets (Jayaraman & Singh, 2007; Yayli & Degeer, 2012).

Many Pacific Islands posse strong and analytical economic growth and have the potential to pull FDI investors. Fiji, Solomon Islands and Vanuatu have been attractive countries over the decades (Gounder, 2004). FDI flows supplement domestic savings and foster domestic managerial skills and technology transfer. However, the growth of the industrial revolution in developing countries has contributed towards the broader level of FDI, and this has also brought in more advances in R&D. Available research and studies have shown that FDI has merely contributed to economic growth. It has added domestic savings to reduce the resource gap and cushioned them against the current account deficit (Gosai & Kumar, 2022). FDI has also enabled many developing nations to focus on their national debt levels. After successfully receiving foreign aid, the nation progresses through infrastructure, creating new opportunities for the nation (Gosai, 2022). It also helped Fiji to step up and boost its export-related activity and focus on resource development. After the suspension of bilateral support, when Fiji started to get FDI from East Asia, Fiji started to explore an export-oriented industry and create work opportunities. This has been a key achievement over the decade in Fiji, increasing employment opportunities, economic growth and development, and assisting the economy in reducing poverty (Jayaraman & Singh, 2007; Gani, 1999, 2007).

Theories predict that FDI affects the economy's economic growth depending on openness. It also stated that there would be externalities and spillovers in the form of technology, and the idea gaps will be an argument between rich and developing countries (Makun, 2018; Dornan & Pryke, 2017). FDI boosts the productivity of all firms, giving greater output to the economy and accelerating economic growth. The microeconomic evidence and macroeconomics studies show that aggregate FDI for a broad cross-section of countries generally suggests a positive role for FDI in generating economic growth (Hassan & Gowda, 2017). In particular, it will affect when the country has a highly educated workforce that allows it to exploit FDI spillovers (Carkovic & Levine, 2004; Bayar & Sasmaz, 2017).

However, Alfaro's (2003) results showed a cross-country analysis, finding that FDI inflows into the primary sector tend to impact growth negatively. Regardless of FDI being marginally ineffective in some economies giving negative growth, many others have benefited from this investment (Maiti, 2014).

Pacific Island Countries have been most attractive to FDI. The inflows have been helping them to foster their managerial skills and new technology transfer. Gounder (2001) explained that a country might implement openness, transfer ideas and technology from developed countries, or access foreign savings. However, these potential benefits will only further a

country's development if the right domestic institutions and policies are in place. A nation with good governance will attract more investors and FDI. Therefore, to have a better relationship with other nations, good governance is key to taking advantage of foreign investment (Dixit, 2012).

Maiti and Mukherjee (2010) came up stating that good governance and domestic welfare played a crucial role in determining FDI in the economy. For any developing country to attract better FDI, it is essential to pay significant attention to academic and policy circles. A good investment climate provides opportunities and incentives for firms from microenterprises and multinationals to invest productively and create jobs and expand the nation's economic progress (Maiti & Mukherjee, 2010; Dixit, 2012).

The implications of economic governance are getting more attention in the economics literature (Dixit, 2009). However, the literature on international trade and foreign direct investment (FDI) did not pay much attention to this aspect. Due to the favourable effects of governance on the investment climate, the natural question is to ask about the effects of better governance on inward FDI and the host country's welfare, which concern many developing countries (Dixit, 2012).

The empirical paper states that Fiji and other PICs should get involved in FDI. Based on this research paper, it is recommended that Fiji should continue to capture FDI and continue to thrive, having good governance and concise institutions (Jayaraman & Singh, 2007).

3. Overview of Fiji's FDI

According to the World Bank, Fiji's 2013 foreign direct investment net inflows (% of GDP) were measured at 5.8 percent. The growth declined compared to 2012, which stood at 6.84 percent. This was an improvement compared to 2011, 5.8 percent, and 2010, 5.7 percent. The balance of payments has been showing a significant increase inflow of Foreign Direct Investment regardless of inconsistency and fluctuations. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital, as shown in the balance of payments.

As our research grows in developing countries, FDI brings additional sources of capital investment and foreign savings. FDI's role in domestic capital formation also brings productive benefits, including employment creation, technology transfers and associated spillovers effects, skill development, trade and competitiveness, and access to foreign markets. It increases the profitability of domestic investment, transforms the host country's ownership structure of total investment, and supplements domestic investment funding.

Below is the graph showing the inflow of Foreign Direct Investment throughout the past 30 years. The second line graph shows the relationship between Foreign Direct Investment inflows and Gross Domestic Product. The graph depicts; that Foreign Direct Investment has been increasing in recent decades compared to previous decades, regardless of fluctuations. It shows that Foreign Direct Investment has been increasing and has a direct and indirect impact on the Gross Domestic Product of Fiji. As the study says, Foreign Direct Investment has been associated with developing and bringing in competitiveness, and it employs resources' full

potential and gives robust economic growth.

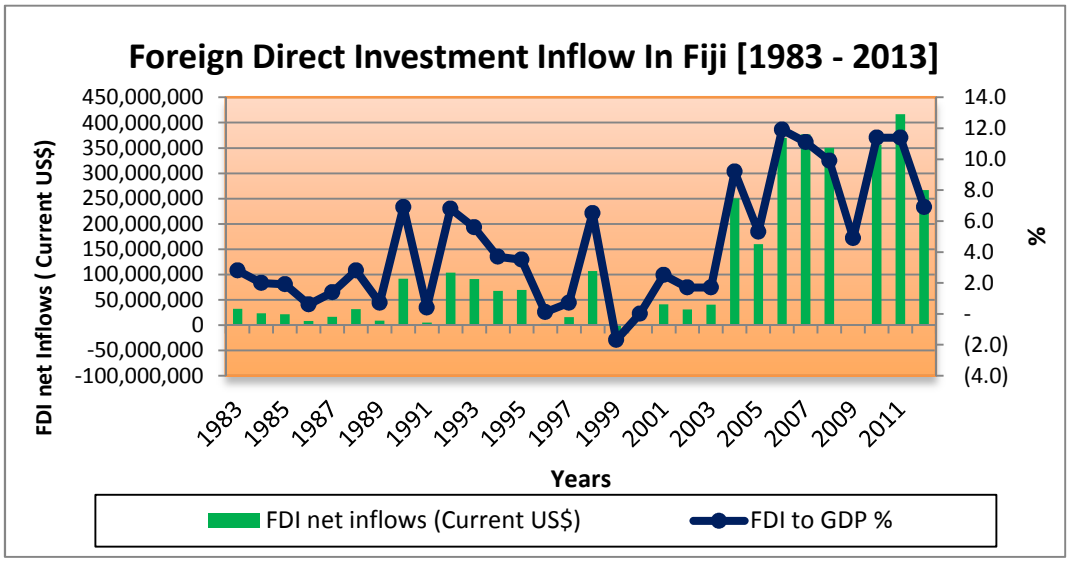

Figure 2. FDI Inflow in Fiji

Source: Figure is authors tabulation using Data from World Bank, 1983–2013.

The economy significantly declined after the first political coup in Fiji. Before the coup, Fiji enjoyed 7.7 percent in 1986, as per World Bank Data. After the coup, the growth rates declined dramatically, reaching -6.6 percent. After that, Fiji lost most of their bilateral trade partners and foreign investment. The exports became expensive, leading the nation's export to decline. In the same year, FDI to GDP stood at 1.4 percent. As the economy progressed, the FDI inflow increased substantially, and so did the FDI to GDP growth. After 12 years of progress, in 1999, GDP growth increased substantially to 8.8 percent. This was not long until Fiji faced another tragic coup in 2000, which led to the growth falling again. This time the growth dropped to -1.7 percent, not as bad as the 1987 growth, yet it significantly damaged the economy.

Eventually, it took time for the nation to get back on its feet and continue its daily operations. Then Fiji faced another tragic military takeover. Six years later, the military commander overtook the elected government in 2006, removing the prime minister and the president of Fiji from their respective office.

Fiji faced many disturbances after that. The growth dropped to -0.9, and Fiji was also banned from Commonwealth membership. However, the FDI played a crucial role towards economic stabilisation. Regardless of Fiji been unstable to have good governance, they managed to capture adequate foreign investment. The inflow of FDI fell proportionally after the 2006 coup. After restoring democracy in 2014, Fiji re-joined Commonwealth, and with their proactive policies, Fiji continued to capture more significant FDI inflows.

4. Model and Methodology

The primary purpose of this study is to analyse the impact of FDI on Fiji's economic growth. The study evolves around the years Fiji faced political instability. The study conducts an empirical analysis that covers 30 years of data, from 1983 to 2013 (inclusive of all years Fiji faced political instability) constrained by data inadequacy (in the case of GFCF). The data, sourced from the World Bank Database, shows Fiji's GDP per capita, Foreign Direct Investment to Gross Domestic Product (FDI to GDP ratio) and Gross Fixed Capital Formation to Gross Domestic Product (GFCF to GDP ratio). In addition, we have 'Polity' as a dummy variable which shows the effects of structural breaks, political instability and government policies.

There are several sources for the data on FDI, such as the Reserve Bank of Fiji, the Fiji Bureau of Statistics, the International Monetary Fund, and the World Bank Database. All the resources are used to capture and cross the data in this case.

The hypotheses to be tested are: (i) fdir and (ii) gfcfr are directly associated with lgdppc: hence the sign on the estimated coefficients of fdir and gfcfr should be positive. The dummy variable - polity has an indirect relationship: hence the sign is expected to be negative.

It is essential to test if the variables are stationary or non-stationary, which means random walk. Unit root tests will be conducted to test hypotheses and find our results.

Hypothesis: To see whether the foreign direct investment has a positive long-run impact on economic growth considering the impact of political instability.

The thumb rule: Reject H_o – if the p-values are greater than the significance level (0.05) using the two-tail test and fail to reject if the H_o – p-value is less than the significance level.

The estimation regression model is as follows:

$$lgdppc = \beta_0 + \beta 1 fdir_t + \beta 2 gfcfr_t + \beta 3 polity_t + e_t \quad (1)$$

Where:

The Endogenous/independent variable:

lgdppc: log of gross domestic product (GDP) per capita

Exogenous/dependent variables:

fdir: Foreign direct investment inflow ratio relative to GDP

gfcfr: Gross fixed capital formation ratio relative to GDP

polity: Effects of political (in)stability/govt policies/structural breaks

e: The error term

Explanation of the variables

lgdppc= is the log of real GDP Per Capita. It is a dependent or explained variable in the

model and is representative of Economic Growth.

fdir = is the ratio of net FDI inflow to GDP. It is an explanatory variable in the model and is expected to have a positive relationship with the dependent variable, GDP Per Capita.

gfcfr = is the ratio of net FDI inflow to GDP. It is an explanatory variable in the model and is expected to have a positive relationship with the dependent variable, GDP per Capita.

polity = shows the effects of structural breaks, political (in) stability, and government policies. It is an explanatory variable in the model and is expected to have a negative relationship with the dependent variable, GDP per Capita.

After using the Unit Root Test, a different set of tests will be conducted.

i) The further test will conduct heteroskedasticity using the Breusch Pagan test to find that the results obtained are subject to any econometric problems.

ii) After that autocorrelation test using the Breusch-Godfrey LM test will be conducted to find if the results are subject to any autocorrelation.

iii) Model Misspecification will be conducted using the Ramsay Reset test for the regression specification error and to check if there have been any omitted variables.

iv) The multicollinearity test will be conducted to check if the results contain multicollinearity. The thumb rule indicates that if the mean VIF index is greater than 5, the results contain multicollinearity, and if the mean VIF index is less than 5, there is no multicollinearity. If the results contain multicollinearity, a pairwise matrix correlation will be conducted depending on the high correlation variable.

5. Empirical Results and Discussion

5.1 Integration & Cointegration Tests

Since our regression uses time series data, it can produce spurious results. To avoid this, we tested all quantitative variables for integration and cointegration so that non-stationary (random walk) variables were not evident. The results of the unit root test are shown below.

Table 1. Results of Unit Root test

Variable	Level I(0)	First Diff I(1)
lgdppc	0.5089	0.0001
fdir	0.7527	0.0000
gfcfr	0.2425	0.0000

Source: Data Calculated using STATA.

Note. The Augmented Dickey-Fuller [ADF] unit root test is used, and the p-value is presented.

After the first integration, the p-values are greater than the significance level. Therefore, the ADF unit root test at first order is not integrated and fails to reject. This means further integration is conducted at the order of the first difference level. After the first difference, I(1), the p-values are significant and are accepted. Therefore, statistical evidence shows that the variables are integrated with the order one, i.e., I(1). The Engle-Granger cointegration test proved that our regression's quantitative I(1) time series is cointegrated, suggesting a long-run relationship between our dependent and independent variables.

The estimation output of our model after running the regression is shown below:

$$lgdppc = 7.08 + 0.046fdir_t + 0.028gfcfr_t - 0.002polity_t + e_t \quad (2)$$

Before the long-run equation can be interpreted, subsequent tests are conducted to find whether the regression has been subject to any econometric problems.

After running the regression, several diagnostic tests had to be made to ensure that our model was free from some econometric problems. Diagnostic tests were carried out for heteroskedasticity, autocorrelation, model misspecification, and multicollinearity.

Table 2 outlines the results obtained from different regression analyses to find if the regression had been subject to any econometric problems.

Table 2. Summary of findings

Tests	**Test Statistic**	**P-value**
Test Heteroskedasticity using the Breusch Pagan test *H_0: Constant variance*	Chi2(1) = 1.46	0.2265
Test for Autocorrelation using the Breusch-Godfrey LM test *H_0: No serial correlation*	Chi2(1) = 1.189	0.2754
Test Misspecification using the Ramsey Reset test *H_0: model is correctly specified*	F (3,19) = 0.23	0.8760
Test for Multicollinearity If mean vif > 5, multicollinearity exists	Mean vif = 1.04	

Source: Regression estimates estimated using STATA.

From the above table, we concluded that our regression model does not suffer from any econometric problems such as heteroskedasticity, autocorrelation, model misspecification, and multicollinearity. The results we obtained after conducting tests and running the regression were what we had expected.

5.2 Explanation of Each Diagnostic Test

Heteroskedasticity—the p-value is greater than the significance coefficient (0.05). This

means the equation (1) does not suffer from heteroskedasticity problems.

Autocorrelation—The p-value is greater than the significance coefficient (0.05). Therefore, the equation (1) does not suffer from autocorrelation problems.

Model Misspecification—Similarly, in this case, the p-value is greater than the significance coefficient (0.05), which means that the equation (1) is free from any subject of model misspecification.

Multicollinearity test—according to the thumb role, the VIF index needs to be less than 5 to indicate no multicollinearity in the econometric equation (1). As per the result, the VIF index is less than 5, which means multicollinearity does not exist.

Our results show that FDI to GDP ratio and GFCF to GDP ratio showed a positive long-run relationship to Economic Growth. In contrast, polity had a negative impact on Economic Growth.

5.3 Explanations of Results

fdir—The model depicts that a one percentage point increase in Foreign Direct Investment to gross domestic product Ratio leads to a 0.046 percent increase in Gross Domestic Product Per Capita, keeping all other variables constant. The FDI has a direct influence on economic growth in the long run. It is eminent that the FDI will have an insignificant impact on economic growth in the short run (Ayenew, 2022).

gfcf—Similarly, a one percentage point increase in Gross Fixed Capital Formation to Gross Domestic Product Ratio leads to a 0.028 percent increase in Gross Domestic Product Per Capita. At the same time, all other variables held ceteris paribus. The GFCF to GDP ratio has a positive impact on economic growth. This indicates a positive relationship between FDI and investment that leads economic progress to prosper. As the GFCF increases, the investment capacity rises to cause more infrastructure within the nation (Encinas-Ferrer & Villegas-Zermeno, 2015).

polity—While having all other variables constant, an additional unit increase in polity will cause a 0.002 percent fall in Gross Domestic Product Per Capita. It is known that political instability will cause a drastic decline in economic growth. Political instability is profound malaise towards Fiji's economic growth and its performance. It causes the economy to drop backwards, causing them to lose many supporting relationships with the developed countries. Every time there is any political instability, there will be frequent policy changes, thus negatively impacting the country's macroeconomic performance (Aisen & Veiga, 2013).

6. Conclusion & Recommendation

Several research papers are available on the relationship between FDI and economic growth. Many of the authors of these papers have argued that FDI is positively related to Economic growth. At the same time, some have stated that FDI directly affects the sectoral level.

FDI brings new kinds of activities into the host country, adding more supply of capital, production technology and management expertise worldwide. There are many areas where

further research on FDI's impact on the recipient country is sorely needed. The importance of expanding and involving more is expanding the country's economic growth and helping the poorest country develop the human resource levels or trigger mechanisms at work. Any form of FDI to a developing nation is sought to bring a positive impact.

The empirical evidence has been highlighting so far that Fiji has been well managed in terms of receiving FDI; hence, it domestically boosts economic growth. The relationship between FDI and economic growth has been positive. FDI has increased dramatically since the 1983s. Our 30 years of data research shows that FDI has a positive long-run relationship and a significant effect on Fiji's economic growth. It also supports the nation in boosting economic growth in the long run. However, it also shows that political instability causes severe damage towards economic progress. Since the impact of FDI is significant, it is recommended that Fiji continue attracting foreign investors by providing a viable environment for investment, including political stability, to encourage and maintain the FDI inflows. In addition, increased FDI enables businesses in the economy to be more competitive, which will attract higher levels of FDI in future. This will further enable Fiji to be competitive in the international market and thus improve its trade deficit.

Furthermore, Fiji should try to collect and publish data based on FDI by sectors or industries for future research purposes. This will also help the government identify thriving sectors contributing to economic growth due to FDIs poured into that particular sector. This gives a better indicator of the returns from FDI.

The policy recommendations are straightforward, and it is in the hands of decision-makers and policy implementers to undertake the correct actions in order to increase Foreign Direct Investment (FDI) and maintain it in order to increase Economic Growth in Fiji, which will eventually lead to a dynamic change creating vast space for innovation and industrial evolution.

7. Future Research

The paper had a future extension to determine the new growth of FDI on economic growth. The data and analysis were conducted from 1983 till 2013 to see how FDI performed before, during and after political disequilibrium. The likely future study will discuss the impact from 2014 forward. New structural breaks will be determined, and more variables will be added to test growth using different regression analyses. Furthermore, the research extension will use the existing literature and remodel the long-run regression analysis based on the new dataset. This is to determine if there have been any changes based on the recent data. However, it is assumed that the results are expected to remain cointegrated and significant regardless of the data variations.

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