

I. Introduction:

The relationship between foreign direct investment (FDI) and human development has not been investigated widely in the development economics literature, both theoretically and empirically. Recently, renewed interest in human development determinants and the considerable research on externality-led growth, with the advent of endogenous growth theories (Barro, 1991; Barro and Sala-i-Martin, 1995), made it more plausible to include FDI as one of the determinants of long run economic growth, and more specifically human development growth.

Existing empirical evidence, in contrast with more settled theoretical evidence, shows mixed results about the relationship between FDI and economic growth of the host countries. Several reasons may be advanced to explain such disparity of empirical results.

To mention a few, first, tests are traditionally conducted using data sets usually belonging to heterogeneous groups of countries while empirical studies use a variety of theoretical models. Second, empirical studies have usually implemented a number of different econometric techniques in testing theoretical models.

However, this disparity in results does not preclude the need for further investigation of the subject as long as it is clearly indicated that the analysis and the obtained results are not necessarily generalized to other cases.

In this paper the aim is to test for the causal relationship between FDI flows and human development (HD) for Egypt. Inspired by previous results about the impact of FDI on human development, this paper seeks to identify systematic patterns in the size of the long run impact of FDI on HD and/or the opposite. Initially, it is investigated the existence of Cointegration between HD growth and FDI flows using the time series cointegration test developed by Johansen & Juselius (1988). Next, an Error Correction Model is applied in order to detect the causality between the two variables.

The structure of the paper is as follows: Section **II** provides a literature review on the relationship between FDI and human development (HD). Section **III** presents an overview of the human development level in Egypt followed by section **VI** presenting the empirical analysis. We further analyzed the empirical results of the relationship between HD and FDI in Egypt, and section **V** presents concluding remarks and policy recommendations.