DETERMINANTS OF FDOREIGN DIRECT INVESTMENT IN FIVE WEST AFRICAN COUNTRIES

BY

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ABSTRAK

Kajian ini menguji penentu-penentu aliran pelaburan langsung asing (FDI) di negara-negara Afrika Barat (WACs) bagi tempo 1998 - 2013. Analisisi kajian menggunakan data sekunder yang diperolehi daripada Bank Pembangunan Dunia, Petunjuk Gabenor Bank Dunia, Persidangan Bangsa-Bangsa Bersatu Menganai Perdagangan dan Pembangunan, Transparency International, dan Heritage Foundation. Dalam kajian ini, Dunings's (1980) electic paradigm telah digunakan dengan ubahsuai beberapa pemboleh ubah tambahan. Secara emperik, Model Kesan Tetap (FEM) telah dicadankan oleh keputusan ujian spesifikasi Hausman sebangai model pilihan dalam penganggaran. Dapatan kajian menunjukkan rasuah tidak menpengaruhi aliran FDI ke dalam WACs. Secara khusus, rasuah dan kelemahan institusi pembuat dasar tidak mengalakkan pelabur-pelabur asing. Faktor-faktor lain seperti saiz pasaran, inflasi dan keterbukaan perdagangan juga didapati mempengaruhi aliran FDI secara positif dan signifikan. Dapatan kajian juga mencadangkan bahawa WACs perlu melaksanakan pengubahsuaian institusi bagi menarik lebih banyak alian FDI dan faedah kasan limpahan positif yang oleh aliran FDI kedalam sesebuah Negara dan sebuah kelestarian pembangunan ekonomi yang umum. Berkaitan dengan penentu-penentu FDI, keputusan empirik menunjukkan bahawa potensi permintaan pasaran domestik sesebuah negara dan keterbukaan perdagangan adalah penentu utama aliran FDI di WACs.

ABSTRACT

This study examines the determinants of foreign direct investment inflows (FDI) in West African Countries (WACs) for the period 1998 - 2013.Analysis of the study used secondary data which obtained from World Bank Development indicators, World Bank Governors Indicators, United Nations Conference on Trade and Development, Transparency International, and Heritage Foundation. In this study, Dunning's (1980) eclectic paradigm was used but with modification to include some additional variables. Empirically, Fixed Effects Model (FEM) was suggested by the results of Hausman's specification test as a preferable model in the estimation. The finding shows that corruption does not influenced the level of FDI inflows into WACs. Specifically, foreign investors were rather discouraged by both corruption and poor regulatory institutions. Other factors like market size, inflation and trade openness of the economy were also found to be positively significant. The findings suggests that governments in WAC need to reform their institutions in order to attract more FDI and benefited from the positive spill overs that accompany FDI inflow into a country. With regards to FDI determinants, the empirical result indicates that the domestic country potential market demand and trade openness are the main determinants of FDI inflows in WACs.

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LIST OF ABBREVIATIONS

COC:	Control of Corruption
CPI:	Corruption Perception Index
ECOWAS:	Economic Community of West African States
FDI:	Foreign Direct Investment
FEM:	Fixed Effects Model
FFC:	Freedom from Corruption
GDP:	Gross Domestic Product
GMM:	Generalized Moment of Method
LM:	Lagrange Multiplier
IMF:	International Monetary Funds
MNC:	Multinational Companies
OLI:	Ownership Location Internalization
OLS:	Ordinary Least Square
REM:	Random Effects Model
TI:	Transparency International
UN:	United Nations
UNCTAD:	United Nations Conference on Trade and Development
US:	United States
SSA:	Sub-Sahara Africa
VAR:	Vector Autoregressive
vif:	Variance Inflation Factor
VECM:	Vector Error Correction Model
WACs:	West African Countries
WDI:	World Development Indicators
WGI:	World Governance Indicators

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This chapter consists introduction, background of the study, problem statement which followed by research questions. The discussion of this chapter also comprises objectives of the study, and then scope of the study.

1.2 BACKGROUND OF THE STUDY

Foreign direct investment (FDI) is a forum through which transfers of new technology, global markets, increase in competition, human resources formation, employment, economic growth and development could be achieved (Anyanwu, 2006). This is especially for the developing economies. During the 1990s, FDI became the major external source of financing for the most economies (Alemu 2013). Ultimately, FDI is viewed as an essential fuelling channel for raising required capital at a critical time as an assets or a means of financing during deficit. FDI is defined as an investment made to get an ownership interest of 10 per cent in the voting stock in a business undertaking operating in a country other than that of investor (World Bank, 2014).

FDI is perceived to have valuable impacts on local firms and economy as a whole by encouraging technological and managerial skills, international export and import by developing economies and creating opportunities for jobs (Javorcik 2004; Liu, 2008 & Kinda 2014). It has been noted that FDI has helped several countries when they faced economic hardship. For instance, during the Asian financial crisis in

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