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**THE FACTORS AFFECTING THE INFLOWS OF  
FOREIGN DIRECT INVESTMENT (FDI) IN SUB-  
SAHARAN AFRICA: EVIDENCE FROM SIX AMONG THE  
TOP TEN FDI RECIPIENT COUNTRIES**



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December 2016**

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EVIDENCE FROM SIX AMONG THE TOP TEN FDI RECIPIENT  
COUNTRIES**

**BY**

**USMAN SULEIMAN**



**UUM**  
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**Thesis Submitted to  
School of Economics, Finance & Banking,  
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Economics**



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## Abstract

This study examines the factors affecting the inflows of foreign direct investment in Sub-Saharan Africa: evidence from the six among the top ten FDI recipient countries, namely, Cote d'Ivoire, Democratic Republic of Congo, Ghana, Nigeria, South Africa, and Sudan for the period 1980-2011. The analysis of the study employed secondary data obtained from the World Bank African Development Indicator, United Nation Conference on Trade, and Development. The study used Dunning's (1977) eclectic paradigm, the panel cointegration approach and granger causality test for the empirical estimations. The empirical results show that trade openness, infrastructural facilities, human capital development, exchange rate and market size are the important determinants of inflows of FDI to the individual country while trade openness, infrastructural facilities and market size are the important determinants of inflows of FDI to them as a group. The findings of this study suggest that the policy makers and other stakeholders should encourage the non-market seeking FDIs and facilitate the ease of doing business in the region through addressing trade barriers and provision of incentives to the investors.

**Keywords:** FDI inflows, Granger causality, Fully Modified Ordinary Least Squares, Sub-Saharan Africa



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## Abstrak

Kajian ini mengkaji faktor-faktor yang mempengaruhi aliran masuk pelaburan pelaburan langsung asing di Sub-Sahara Afrika: bukti enam daripada sepuluh negara utama yang menerima aliran masuk pelaburan, iaitu, Cote d'Ivoire, Republik Demokratik Congo, Ghana, Nigeria, Afrika Selatan dan Sudan bagi tempoh 1980-2011. Kajian ini menggunakan kaedah analisis data sekunder yang diperoleh daripada Petunjuk Pembangunan Afrika Bank Dunia, Persidangan Bangsa-Bangsa Bersatu mengenai Perdagangan dan Pembangunan. Kajian ini menggunakan paradigma eklektik Dunning (1977) paradigma eklektik dan pendekatan panel kointegrasi dan ujian kesan Granger untuk anggaran empirikal. Hasil kajian menunjukkan bahawa keterbukaan perdagangan, kemudahan infrastruktur, pembangunan modal insan, kadar pertukaran dan saiz pasaran adalah penentu penting dalam aliran masuk *FDI* ke sesebuah negara manakala keterbukaan perdagangan, kemudahan infrastruktur dan saiz pasaran adalah penentu penting dalam aliran masuk *FDI* sebagai satu kumpulan. Hasil dapatan kajian ini mencadangkan pihak berkepentingan dan pembuat dasar perlu beri galakan kepada pasaran yang sumber utamanya bukan *FDI* dan membantu memudahkan perniagaan di kawasan ini dengan menangani halangan perdagangan dan memberi peruntukan insentif kepada pelabur.

**Kata kunci:** aliran masuk *FDI*, *Granger* sebab akibat, *Fully Modified Squares Ordinary Least*, *Sub-Sahara Afrika*



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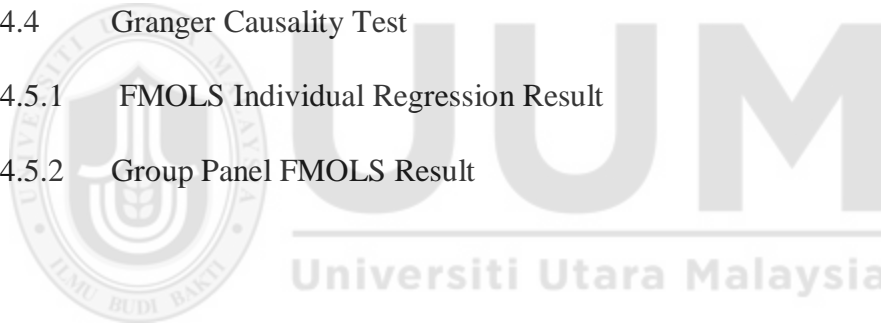
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## List of Abbreviations

ADF	Augmented Dickey-Fuller
ARDL	Autoregressive Distributed Lag
BRISC	Brazil, Russia, India, China, and South Africa
CEEC	Central and Eastern European Countries
ECM	Error Correction Model
EU	European Union
FTA	Free Trade Agreement
FDI	Foreign Direct Investment
FE	Fixed Effects
FMOLS	Fully Modified Ordinary Least Square
GARCH	Generalized Auto Regressive Conditional Heteroskedasticity
GDP	Gross Domestic Product
GLS	Generalized Least Square
GMM	Generalized Method of Moments
HC	Human Capital
IMF	International Monetary Fund
INF	Inflation Rate
IPS	Im, Pesaran and Shin Unit Root
ISI	Import Substitution Strategy
LLC	Levin, Lin and Chut
MENA	Middle East and North Africa
MINT	Mexico, Indonesia, Nigeria, and Turkey

MNEs	Multinational Enterprises
MNCs	Multinational Corporations
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary Least Squares
R&D	Research and Development
RER	Real Exchange Rate
RIR	Real Interest Rate
SAP	Structural Adjustment Program
SSA	Sub-Saharan Africa
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development.
US	United States
VAR	Vector Autoregressive Model
VECM	Vector Error Correction Model
WAC's	West African Countries
WDI	World Development Indicators
WTO	World Trade Organization



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Over the years FDI has been the integral part of the world source of investment. Evidence has shown that within the last two decades the world has experienced upward increased in FDI from \$59 billion in 1982 to \$651 in 2002. Thus, it is very vital for countries to attract FDI at all levels of their development (Ali, Chaudhri, & Tasneem, 2013).

Moreover, the rapid growth of global inflows of FDI across countries for some decades rose to \$207.7 billion in 1990 and reached to the highest level of \$1.402 trillion in 2000 which was greater than \$54.1 billion in 1980. However, the FDI inflows declined to \$565.7 billion in 2003 commencing from 2001 and drastically fall to \$2100 in 2007. The consequences of global financial crisis influenced the global fall of FDI inflows in 2010 to \$1.409 trillion. With regards to world records of FDI still showed a decline in FDI by 18 percent in 2012 after economic recovery in 2011. The global FDI in 2012 was \$1.330 trillion against \$1.700 trillion in 2011. The world experienced the returned of FDI growth after the crash in FDI in 2012 by taken several economic policies in 2013, the FDI inflows rose by 9 percent to \$1.45trillion (UNCTADS, 2014).

It has been argued that FDI in developing countries has been viewed as the main instrument used for achieving positive economic growth and it facilitates the upward increase in domestic investment. It also paved way for human capital and institutional advancement in

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## APPENDICES

### Appendix A

Null Hypothesis:	Obs	F-Statistic	Prob.
HCD does not Granger Cause FDI FDI does not Granger Cause HCD	87	0.34527 1.04689	0.7091 0.3557
INFR does not Granger Cause FDI FDI does not Granger Cause INFR	133	0.48778 0.81298	0.6151 0.4458
MKTS does not Granger Cause FDI FDI does not Granger Cause MKTS	133	0.23784 1.92805	0.7887 0.1496
OPN does not Granger Cause FDI FDI does not Granger Cause OPN	133	5.58373 5.59272	0.0047 0.0047
REER does not Granger Cause FDI FDI does not Granger Cause REER	93	5.00246 3.22956	0.0088 0.0443
INFR does not Granger Cause HCD HCD does not Granger Cause INFR	114	3.85477 9.8E-05	0.0241 0.9999
MKTS does not Granger Cause HCD HCD does not Granger Cause MKTS	115	2.43892 1.49922	0.0920 0.2278
OPN does not Granger Cause HCD HCD does not Granger Cause OPN	115	1.46947 0.85974	0.2345 0.4261
REER does not Granger Cause HCD HCD does not Granger Cause REER	67	7.54968 1.48787	0.0012 0.2338
MKTS does not Granger Cause INFR INFR does not Granger Cause MKTS	179	0.12696 9.14347	0.8808 0.0002
OPN does not Granger Cause INFR INFR does not Granger Cause OPN	179	1.91338 0.74393	0.1507 0.4767
REER does not Granger Cause INFR INFR does not Granger Cause REER	112	0.03080 25.2563	0.9697 1.E-09
OPN does not Granger Cause MKTS MKTS does not Granger Cause OPN	180	2.71107 0.51115	0.0693 0.6007
REER does not Granger Cause MKTS MKTS does not Granger Cause REER	112	6.70313 12.7409	0.0018 1.E-05
REER does not Granger Cause OPN OPN does not Granger Cause REER	112	2.21180 9.47947	0.1145 0.0002

## Appendix B

### FMOLS Group Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HCD	-0.003382	0.009402	-0.359709	0.7204
INFR	0.006459	0.002304	2.803943	0.0069
MKTS	-0.028593	0.004106	-6.963363	0.0000
OPN	0.037144	0.003483	10.66567	0.0000
REER	0.003277	0.003502	0.935786	0.3533
R-squared	0.875331	Mean dependent var		1.099192
Adjusted R-squared	0.853460	S.D. dependent var		0.028603
S.E. of regression	0.010949	Sum squared resid		0.006833
Long-run variance	2.73E-05			



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