

FOREIGN DIRECT INVESTMENT AND NEIGHBOURING INFLUENCES

by

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Abstract

Countries that do not participate in the process of globalisation, or those having inferior or inadequate policies compared to developed or other developing countries, run the risk of becoming comparatively less competitive in the global economy.

With the goals set out in the United Nations Millennium Declaration and NEPAD initiatives, and given the advantages of foreign direct investment (FDI) to developing countries, the aim of this study is to evaluate the influences of a number of economic and socio-political determinants of a host country in attracting FDI. It also includes an assessment of the influences of neighbouring countries on the host country's FDI attractiveness. Panel data econometric tools are used in the estimation and evaluation of empirical results. Three groups, consisting of developed, emerging and African countries are evaluated, with the main emphasis on African countries. Results, in general, indicate that an improvement in civil liberties and political rights, improved infrastructure, higher growth rates and a higher degree of openness of the host country, lead to increases in FDI; higher levels of human capital attract FDI to the developed countries but deter FDI in emerging and African countries – indicating cheap labour as a determinant of FDI. Oil-endowed countries in Africa's attract more FDI than non-oil endowed countries – emphasising the importance of natural resources in Africa.

Empirical results of the influences of neighbouring countries on the host country's FDI show that, if civil liberties and political rights of neighbouring countries in the developed and emerging country sample worsen, the FDI in the host country improves. However, the opposite is true in the African sample – if civil liberties and political risk in the neighbouring countries worsen, host country's FDI decreases.

In reaching higher levels of sustainable growth, poverty reduction, improved living standards and sustainable investment, policy recommendations need to emphasise the responsibility of African countries in boosting long-term confidence in their economies. This can be done through a number of policies aimed at stabilisation and privatisation. Neighbouring countries also need to strive towards stability in their own countries and thereby improving regional FDI attractiveness.

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LIST OF ABBREVIATIONS

BOP	Balance of Payment
CPI	Consumer Price Index
DF	Dickey-Fuller
ECI	Entry Concentration Index
EU	European Union
FDI	Foreign Direct Investment
FH	Freedom House
FP	Factors of production
GFS	Government Financial Statistics
GDP	Gross Domestic Product
GLS	Generalised Least Squares
GNP	Gross National Product
ICRG	International Country Risk Guide
IFS	International Financial Statistics
IICRI	Institutional Investors Credit Rating Index
IMF	International Monetary Fund
IPS	Im, Pasaran and Shin
LOS	Level of significance
LSDV	Least Square Dummy Variable
M&As	Mergers and acquisitions
MNEs	Multinational Enterprises
MW	Maddala-Wu
OLS	Ordinary least squares
OIC	Ownership, internalisation and locational advantages
PIT	Personal income tax
PP	Phillips-Perron
PSSI	Political System Stability Index
R	Rand
R&D	Research and development
SSA	Sub-Saharan Africa
SUR	Seemingly Unrelated Regression
TR	Total revenue
TC	Total cost
TNCs	Transnational corporations
UNCTAD	United Nations Conference on Trade and Development
US\$	United States Dollar
WDI	World Development Index
WIR	World Investment Report
WOS	Wholly owned subsidiary
WPRF	World Political Risk Forecast