An analysis of the relationship between FDI and economic growth in selected East African countries

M Rautenbach

orcid.org/0000-0003-0280-1701

Dissertation accepted in fulfilment of the requirements for the degree Master of Commerce in International Trade at the North-West University

Supervisor: Dr L Ferreira

Co-Supervisor: Prof DF Meyer

Graduation: June 2021

Student number: 27064395

Abstract

Over the last three decades there has been a significant increase in FDI flows across the globe. This attracted the interest to investigate the impact that such an increase in FDI has on the economic growth of a host country. Subsequently, the relationship between FDI and economic growth has become a widely controversial topic among researchers. Theoretically, researchers argue that FDI contributes to economic growth through cross-border technology and information transfer, increasing employment and increasing the skill capacity of a host country. However, this has been challenged by several researchers, arguing that too much FDI threatens domestic companies.

East Africa has been on the receiving end of this phenomenon and has become one of the biggest FDI destinations on the African continent. Some East African countries have managed to successfully utilise the increase in FDI, which made the region even more competitive. As more East African countries are changing and implementing new investment policies to attract more foreign investors, this study investigates the impact of FDI on economic growth in selected East African countries.

Using a fixed effects panel data analysis, the study first examined the data from 10 selected East African countries over the period 1998-2018. The overall findings show a positive relationship between FDI and economic growth in the selected East African countries. The results are in line with the predictions of similar empirical studies and growth theorists. The study then examined the influence of external factors on the FDI and economic growth nexus. The study found that the FDI and economic growth is vulnerable to external factors, highlighting the importance of a country's economic structure. Lastly, the study examined whether the relationship between FDI and economic growth differs according to income classification, specifically low income countries and lower-middle income countries. The results show that the growth enhancing potential of FDI is greater in lower-middle income countries. As such, the economic structure and income classification of a country are deemed important growth enhancing factors. Given the importance of FDI for economic growth in East Africa, the study concludes by recommending that investment policies not only focus on attracting FDI, but also promote economic development. FDI can be a valuable development tool for East African countries if it is correctly utilised by the host country.

Keywords: East Africa, economic growth, economic structure, foreign direct investment, income classification, panel data

Opsomming

Vir die afgelope drie dekades was daar ’n skerp toename in regstreekse buitelande beleggings (RBB) regoor die wêreld. Die skerp toename het die behoefte geskep om die impak wat hierdie skerp toename in RBB op die ekonomiese groei van die ontwikkelende lande het, te ondersoek. Gevolglik het die verhouding tussen RBB en ekonomiese groei ’n kontroversiële onderwerp onder navorsers geword. Navorsers beweer dat regstreekse buitelandse beleggings teoreties tot ekonomiese groei kan lei deur middel van die oordrag van tegnologie en inligting, die vermindering van werkloosheid, en die skep van ’n land se vaardigheidskapasiteit. Nietemin is hierdie stellings al deur verskeie navorsers uitgedaag. Hulle beweer dat te veel RBB die volhoubaarheid van plaaslike maatskappye bedreig. Oos-Afrika is reeds vir ’n geruime tyd aan die ontvangkant van hierdie verskynsel, en het een van die grootste RBB-bestemmings geword. Sommige Oos-Afrika-lande het die styging in RBB suksesvol benut, wat hierdie streek al hoe meer kompeterend begin maak het. Soos wat meer lande investeringsbeleide skep en aanpas om die belange van buitelande beleggers te lok, bestudeer hierdie studie die impak wat RBB op die ekonomiese groei van geselekteerde Oos-Afrika-lande het.

Deur gebruik te maak van die vaste-effekte-paneeldata-analise, het die studie die data van 10 geselekteerde Oos-Afrika-lande vir die tydperk van 1998 tot 2018 bestudeer. Die algehele bevindings wys dat daar ’n positiewe verhouding tussen RBB en ekonomiese groei in die geselekteerde lande is. Die resultate stem ooreen met die voorspellings van groei-teoretici en dié van soortgelyke studies. Tweedens het die studie die invloed van eksterne faktore op verhouding tussen RBB en ekonomiese groei bestudeer. Daar is bevind dat die verhouding sensitief is teenoor eksterne faktore, wat die belangrikheid van ’n land se ekonomiese struktuur uitlig. Laastens het die studie bepaal of die verhouding tussen RBB en ekonomiese groei verskil volgens lande se inkomsteklassifikasie deur te fokus op lae-inkomste-lande en lae-middel-inkomste-lande. Die resultate wys dat die groeipotensiaal van RBB groter is in lae-middel-inkomste-lande. Gevolglik word die ekonomiese struktuur en inkomsteklassifikasie van ’n land as belangrike groeiverbeterende faktore beskou. Gegewe die belangrikheid van regstreekse buitelandse beleggings vir ekonomiese groei in Oos-Afrika, sluit die studie af deur voor te stel dat investeringsbeleide nie net fokus op buitelande beleggers nie, maar ook op hoe RBB gebruik kan word om die ekonomie te bevorder. Gevolglik kan RBB as ’n waardevolle ontwikkelingsmiddel vir Oos-Afrika-lande bestem word, mits dit reg benut word.

Sleutelwoorde: Oos-Afrika, ekonomiese groei, ekonomiese struktuur, regstreekse buitelandse belegging, inkomste klassifikasie, paneel data

Acknowledgements

I would like to acknowledge and extent my gratitude to the following people for their contribution towards this dissertation and their support throughout the process:

- First and foremost, to my parents and my sister. Thank you for supporting me throughout the year and encouraging me to always do my best. Thank you for always believing in me and teaching me that through hard work and determination I can do anything.
- To my friends who always motivates me and encourages me to push forward. You have all been a pillar of strength to me throughout this entire process.
- To my supervisors, Doctor Lorainne Ferreira and Professor Danie Meyer. Thank you for all your contribution and encouragement. Thank you for all the hours and effort that went into reading this study and making suggestions. It has truly been an honour working with you.
- To Doctor Adewale Hassan who offered up his time to assist with the empirical chapter of this study. Thank you for your assistance and valuable insights.

Table of Contents

List of tables

List of figures

List of abbreviations

ADF	Augmented Dickey-Fuller
BRELA	Business Registration and Licensing Agency
EAC	East African Community
ECM	Error Component Model
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GLS	Generalised Least Square
IPS	Im, Pesaran and Shin
LLC	Levin, Lin and Chu
MNE	Multinational Enterprise
OLI	Ownership, Location and Internalisation.
OLS	Ordinary Least Square
PP	Phillips and Perron
SADC	Southern African Development Community
TRA	Tanzania Revenue Authority
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar

CHAPTER 1: INTRODUCTION

1.1. Introduction and background to the study

The relationship between foreign direct investment (FDI) and economic growth has been the focus of numerous economic studies on the African continent in recent years (Wan, 2010; Seyoum, Wu, & Lin. 2015; Olagbaju & Akinlo, 2018). These studies have led to a better understanding of the African economy and the impact of FDI as a whole. However, literature has presented conflicting results concerning the effect of FDI on economic growth. The majority of literature suggests that FDI has a positive effect on the economic growth of a country by arguing that FDI leads to capital accumulation, contributing to development, technological spillovers and economic diversification (Dhrifi, 2015; Elboiashi, 2011; UNCTAD, 2019). Furthermore, Denisia (2010) argues that FDI generates employment for least developing countries and is an important contribution in exports and reaching international markets. However, some studies suggest that FDI can have a negative impact on domestic companies by becoming monopolists and keeping domestic companies out of the global market (Mahembe & Odhiambo, 2014; Herve, 2016).

To better understand the effect of FDI on economic growth, it is important to understand what is considered as FDI and what FDI entails. According to UNCTAD (2007), FDI can be defined as a *"long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy, other than that of the foreign direct investor."* The investor can be either a government entity, individual or company. FDI enables multinational companies and corporations to invest aboard in foreign economies and to reach new markets (Pekarskiene & Susniene, 2015). FDI has also motivated globalisation by allowing goods, knowledge, capital and technology to flow between global markets and economies (Pekarskiene & Susniene, 2015).

However, an investment can only be considered as FDI when an entity from one economy has a dominant share, influence and control in an entity from another economy (International Monetary Fund, 2009). FDI has proven to be one of the most important factors for international capital transfers and a key element for developing a country's economy (Iamsiraraj, 2015; Kelly, 2016). Numerous developing countries have turned their attention to FDI, with the expectance of long-term growth. The attractiveness of FDI to developing countries can also be supported by the technological advantages, an increase in employment as well as research and development, from which the host country can benefit (Olagbaju & Akinlo, 2018).

FDI has a big influence on economic development and expansion, especially in countries with a shortage of domestic savings (Sokang, 2018; Ali & Hussain, 2017). Experts also believe FDI to be an accelerator for economic growth, likely to promote the host countries' growth factors (Ali & Hussain, 2017). Therefore, the positive effect that FDI is believed to have on the economy of developing countries has also led to the prioritisation of FDI attraction-related policies, especially in African countries (Dihn, Vo, Vo & Nguyen, 2019).

Over the last 30 years, economic growth in East Africa has been inconsistent (World Bank, 2019). While countries like Rwanda, Zimbabwe and Burundi have experienced significant fluctuation, others, including Tanzania and Uganda have experienced more stable economic growth. East Africa consists of all the countries that are geographically located east of the African continent. As classified by the United Nations, there are 19 countries, of which 4 are island countries and 15 mainland countries (United Nations, 2020).

After a long period of colonisation, countries in East Africa struggled to stabilise their economies and gain sufficient economic growth (World Bank, 2018). Countries lacked the policies to attract FDI and economies in East Africa slowly deteriorated (Ajayi, 2008). Nonetheless, by the early '90s, most countries slowly started to increase their economic growth, with countries like Uganda and Tanzania experiencing economic growth for five consecutive years (World Bank, 2018). However, economic growth was still inconsistent, and countries like Ethiopia and Zimbabwe struggled to stabilise their economic growth, while Rwanda succumbed to the consequences of war in 1994, experiencing a 50.25 percent decline in economic growth (World Bank, 2018).

By the middle of the '90s era, East African economies began to show significant economic improvement. Most countries, including Malawi, Rwanda, Uganda and Kenya, indicated strong positive economic growth for the rest of the '90s. However, Burundi found it more difficult to recover from the consequences of war, and for most of the '90s, had experienced a substantial decline in economic growth (World Bank, 2018). By the end of the '90s, East African economies were slowly starting to recover from the effect of colonisation, as most countries underwent significant political reform to improve economic circumstances (World Bank, 2018; National Research Council, 1992:31-32).

While East African countries were trying to recover their economies during the 1980s and 1990s, they failed to attract foreign investors. FDI inflow stagnated for most of the '80s and '90s (World Bank, 2018). During this time, Zambia was the country that attracted the most FDI in East Africa. According to the investment policy review of Zambia (UNCTAD, 2006), the reason for the increase in FDI inflow during this period can be attributed to Zambia opening

their economy and reviewing their economic policies in the 1990s, as well at the Zambian Investment Act that came into effect in 1993. Zambia's mining and agriculture sectors were the main attractions for these investments at the time. However, even with a significant incline in FDI in 1993, Zambia's economy still experienced negative growth the following year.

During the mid-to-late '90s, the world experienced a global increase in FDI flows and some East African countries, namely Tanzania, Ethiopia, Mozambique and Uganda, reaped the benefits of increasing global FDI. Kenya, one of the major East African economies, was left out of the global increase (United Nations, 2005) and it reflected in their economic growth as they became one of the economies with the lowest growth rate in East Africa.

According to Ernst and Young (2016), policy reform is a necessity for Africa to attract more FDI, and that regional integration plays a significant role in developing regional markets and attracting FDI. East African economies could also no longer deny the importance of FDI and policies to attract foreign investors. As such, the East African Community (EAC) was established on the 7th of July 2000, after being dissolved in 1977. Today, the EAC consists of 6 members, namely Burundi, Kenya, Rwanda, Uganda and South Sudan (East African Community, 2018).

During the first decade of 2000, East African countries showed promising economic growth and the economic environment of the region was improving. Major economies like Rwanda, Tanzania, Uganda and Kenya showed positive economic growth for ten consecutive years (World Bank Data, 2018). These countries also experienced high FDI inflow during this time, and African economies began to acknowledge the role and contribution that FDI had made towards development and growth within the region (World Bank Data, 2018).

In 2008/09, the world went into a global recession and economies all over the world struggled to increase their growth. As a result, world economic growth reached an all-time low of 1.68 percent in 2009, and global FDI decreased by almost 2 trillion US dollars. However, even during a global recession, where economies struggled and FDI was low, most East African economies managed to maintain stable economic growth, as well as FDI inflow (World Bank Data, 2018). However, after the global recession in 2008/2009, economic growth in East Africa either deteriorated or stagnated. Countries have not since achieved the economic growth that they did before the global recession (World Bank, 2018). In contrast to economic growth, FDI inflow in East Africa has increased since 2010. According to Ernest and Young (2018), East Africa is the African region that attracted the most FDI in 2017, with 34 percent of the FDI allocated to Kenya, 31 percent to Ethiopia, 6 percent to Rwanda and 7 percent to Uganda. The last decade has also seen a change in the political landscape across Africa. East African

countries like Zimbabwe and Ethiopia had a change in leadership, which has led to reform. With the global landscape of FDI becoming more and more competitive, East African countries have also been reviewing their policies and implementing policy reforms to attract more FDI (Ernst & Young, 2018).

It has become evident from numerous studies, like Dhrifi (2015) and Urgaia (2017), that there is a certain set of conditions under which private capital flows improves a country's economy. Therefore, the effect that FDI has on the economy of developing countries, might be determined by the country's ability to absorb the inflow of FDI (Agbloyor, Gyeke-Dako, Kuipo & Abor, 2016). As a result, several countries, especially the least developed and developing countries, have not only been perusing trade blocs, but also finding ways to improve economic policies in order to attract more foreign investors.

However, it is evident that the strong positive relationship between FDI and economic growth, as perceived by most studies, is not necessarily true for all economies (Ajayi, 2008). While most studies have concluded that there is indeed a positive relationship between FDI and economic growth, they did not take the economic structure and income classification of each country into consideration (Urgaia, 2017; Adams 2009).

Although most of the East African countries are classified as developing countries by the United Nations (UN), they still differ according to income level. While FDI may have a positive effect on the economy of Kenya, it may, for example, threaten domestic producers in Ethiopia and have a negative effect on their economy. As such, Ethiopia has experienced a sharp decline in FDI in 2018, while Kenya has experienced a sharp increase, mainly due to significant investment in the country's infrastructure (World investment report, 2018). Therefore, the question remains, of whether or not FDI and economic growth have a positive relationship and if the effect is influenced by a country's economic structure and income level.

1.2. Problem statement

While FDI is a popular topic of discussion in economic literature, there are limited studies that examine the relationship between FDI and economic growth in East Africa specifically, and how it differs with regards to the income level and economic structure of each country. FDI inflow has been on the rise in the East African region. However, in spite of the steady increase in FDI, economies in East Africa have been experiencing a decline in economic growth since 2010.

Therefore, it is important to determine how these economies can use resources such as FDI to stabilise and grow their economies. Through the theoretical framework of the Cobb-Douglas (1928) production function, capital accumulation, both domestic and foreign, will contribute to economic growth directly (Mahembe & Odhiambo, 2014). The theory suggests that FDI inflow will lead to an increase in the capital stock of a country, subsequently leading to economic growth. However, existing literature has shown conflicting results regarding the impact of FDI on economic growth. While countries like Kenya, Uganda and Tanzania had signs of a consistent positive relationship in recent years, countries with a lower income level, like Ethiopia, Burundi and Mozambique, have had a more inconsistent relationship (World Bank, 2018). Therefore, the question remains, of whether the economies of these countries react positively towards FDI inflow and whether it differs according to income level and economic structure of each economy.

While recent studies like Urgaia (2017) and Mugowo (2017) succeeded in determining the overall relationship between FDI and economic growth, they did not take the income level and economic structure of each economy into consideration. There is also a lack of studies that focus on a group of developing countries, as most studies focus on a specific African country, rather than a region. Therefore, this study will determine the relationship between FDI and economic growth in East Africa, taking into account the income level and economic structure of selected East African countries.

1.3. Research objectives

1.3.1. Primary objective

This study primarily aims to analyse the empirical relationship between FDI and economic growth within selected East African countries.

1.3.2. Theoretical objectives

In order to achieve the primary objective of the study, the following theoretical objectives were formulated:

- Review and discuss the definitions, concepts and theory surrounding FDI including the types of FDI, the motivation behind FDI and the risks involved.
- Review and discuss the investment policies of selected East African countries.
- Review the FDI and economic growth trends in the selected East African countries.
- Review the existing literature on the relationship between FDI and economic growth.

1.3.3. Empirical objectives

In accordance with the primary objective of the study, the following empirical objectives were formulated:

- Analyse the relationship between FDI and economic growth in the selected East African countries and evaluate the influence of external factors on the FDI and economic growth nexus.
- Determine whether the relationship between FDI and economic growth differs according to country income classification.
- Formulate policy recommendations based on the results of the study.

1.4. Research design and methodology

In order to achieve the primary objective, the study considered only the mainland countries in East Africa; thus excluding all island countries, including Mauritius, Reunion and Seychelles. The countries are classified according to income level and sorted, based on data availability. The study consists of three phases. The first phase is a literature review, where different works of existing literature and theories concerning the relationship between FDI and economic growth is examined. The second phase, the data and methods chapters, provides more insight into the method as well as data used to conduct the study. The last phase is the results chapter, where the findings of the study is discussed, analysed and evaluated.

1.4.1. Literature review

1.4.1.1. Insight into FDI

The literature review chapter looks at the underlying theories behind FDI, including the modernisation theory and dependency theory. In order to get a better understanding of what FDI is, an overview of the types of FDI, the reasons behind these investments as well as the risk involved is evaluated. An investment policy review of each selected country is done as well as a FDI and economic growth trend analysis. To give the reader a better understanding of the study, the literature overview also evaluates the relationship between FDI and East Africa, by reviewing the investment policies of selected East African countries.

1.4.1.2. Existing economic literature

In order to determine the relationship between FDI and economic growth in East Africa, previous studies done on the subject is examined in Chapter 2. By reviewing numerous studies

done on the subject, a better understanding of the relationship between FDI and economic growth is gained. It also provides insight into the shortcomings of previous studies, and on the relationship between FDI and economic growth. Economic literature that is taken into consideration includes Adams (2009) who did a study on Sub-Saharan Africa, and Mahembe and Odhiambo (2014), who did a study on 15 SADC countries.

1.4.2. Empirical study

1.4.2.1. Data sources

The empirical analysis makes use of quantitative secondary data. Quantitative data is data that is not standardised; therefore, it can be analysed and interpreted. Quantitative data mainly consists of numbers and variables (Burns, Veeck & Bush, 2017). The data used in the study is obtained from different sources, including The World Bank, and the African Development Bank and Transparency International, for government insight.

4.2.1. Econometric method and data analysis

The study is conducted by making use of a panel data analysis method, which contains data from 1998 to 2018. A panel data analysis observes how different entities behave over a certain period, where the observations are repeated; and unlike a cross-sectional and time series, panel dataset estimates more efficient and robust parameters (Ali & Hussain, 2017, Urgaia, 2017). The data set consists of 10 East African countries, which include all the mainland countries of East Africa; namely Burundi, Ethiopia, Kenya, Malawi, Mozambique, Rwanda, Uganda, Tanzania, Zambia and Zimbabwe.

The model consists of GDP growth as the dependent variable. The independent variables include:

- FDI
- population
- electricity access
- labour force
- government effectiveness
- globalisation index
- country income classification

The relationship between these variables and economic growth are tested by making use of the statistical processing software, STATA. In STATA, each of the 10 selected East African

countries' data are standardised, analysed and compared in order to determine whether there is a positive or negative relationship between FDI and economic growth. Six models are formulated to evaluate how the FDI and economic growth nexus reacts to external influences. The selected countries are then divided into low income countries and lower-middle income countries. The influence of each variable on economic growth enables us to determine whether the relationship between FDI and economic growth differs according to the income level of the countries. To achieve the primary objective of the study, a series of tests are done on the collected date.

The first step of the empirical Chapter is a descriptive statistics analysis. The descriptive statistics analysis provides an overview of the data used to conduct the study. Secondly, a unit root test is done on the data set. This allows us to test whether there is a likeliness of unpredictable systematic patterns (Herranz, 2017). The last step is a long-run analysis. The long-run analysis determines the effect that FDI has on the economic growth of the selected countries in the long-run. This is determined by making use of either the fixed effects or random effects estimation model.

1.5. Ethical considerations

The secondary data used in this study is gathered from public domain sources. Nonetheless, the study follows the North West University ethical consideration and the necessary measures were taken to prevent plagiarism. The data used in the study is conducted in a trustworthy and honest manner, and the statistical estimates are not being falsified. The use of the data obtained from international institutes does not result in any damage or distress to people or the environment. The registered ethics number of the study is NWU-00729-20-A4.

1.6. Significance of the study

FDI inflows into the East African regions have increased considerably over the last three decades. However, despite the influence that FDI is believed to have on the economic growth and development of a country's economy, East African economies have not experienced the increase in economic growth that they would have hoped for. While most studies have examined the direct relationship between FDI and economic growth, there is a lack of studies that focus on the East African region in particular.

Secondly, there are, to my knowledge, no recent studies that examine the causal relationship between FDI and economic growth in East Africa, while also taking the income level of different

economies into consideration. Accordingly, this study contributes to the literature and policy debate on the relationship between FDI and economic growth, especially in developing regions such as East Africa.

1.7. Chapter classification

Chapter 1: Introduction and background to the study

Chapter 1 discusses the background to the study, as well as the problem statement, the research objectives, the motivation for the study and the research methods used.

Chapter 2: Literature review

Chapter 2 provides an overview of previous economic literature concerning the relationship between FDI and economic growth. The chapter includes a review of FDI and economic growth theories to give the reader a better understanding of the theoretical foundation of the study. The investment policies of each selected East African country is also reviewed, as well as the FDI and economic growth trends over the period of 1998 and 2018

Chapter 3: Research design and methodology

Chapter 3 discusses the research methodology. The data, methods and variables used to conduct the study is thoroughly evaluated and discussed.

Chapter 4: Results and findings

Chapter four presents the results and findings of the empirical analysis, using STATA. The outcome of each test is explained and evaluated. The final results are then discussed.

Chapter 5: Conclusions and Recommendations

Chapter 5 concludes the study by summarising how the study achieved the set objectives. The chapter also provides a number of recommendations to policymakers based on the results, as well as recommendations for future research. The concluding remarks flowing from the results serve to confirm the relevance and value of the study.

CHAPTER 2: REVIEW OF THEORY AND EMPIRICAL LITERATURE

2.1. Introduction

Globalisation has had considerable influence on the global economy, and over the last few decades, it has contributed significantly to the increase in FDI and the effect that it has on economic growth (Sokang, 2018; Ayanwale, 2007). FDI has, therefore, become an important source of external finance, especially for developing countries (OECD, 2002a).

While the impact of FDI varies across economic sectors, FDI can make an overall important contribution to the development of a country by contributing to investment in production facilities and the manufacturing sector of the host country (OECD, 2002a). FDI does not only add to capital formation, but the spillover effect of FDI also contributes to cross-border technology and information transfers, as well as increase the skill capacity in the host country (Seyoum, Wu & Lin, 2015; Urgaia, 2017; Ali, 2017). FDI also contributes to the overall productivity, employment and income growth in developing countries. However, existing literature has presented conflicting results on the impact of FDI on economic growth in least developed and developing countries.

Nevertheless, the way in which selected East African countries have managed to successfully utilise FDI, showed the numerous opportunities that FDI can present for developing economies. Subsequently, the FDI environment has become more competitive, with more East African countries allowing and encouraging foreign investments by adapting their investment policies (Chaudhuri & Mukhopadhyay, 2014).

Therefore, this study aims to determine what the relationship is between FDI and economic growth in selected East African countries, and whether the results differ according to the income level of the host-country, as classified by the World Bank. This chapter provides an overview of the theoretical foundation from which these questions are answered. Better insight into the theoretical aspects of FDI and its relation to economic growth is, therefore, outlined and discussed. This chapter seeks to address all the theoretical objectives outlined in Chapter one. This include reviewing and discussing the definitions, concepts and theories surrounding FDI like the types of FDI, the motivations behind a company's decision to invest abroad and the risks that are involved. The investment policies as well as the FDI and economic growth trends of selected East African countries will also be reviewed and discussed, as well as recent literature and their findings regarding the FDI and economic growth nexus.

In section 2.2, the definition and concepts of FDI are discussed. This includes an explanation of the different motives behind a multinational enterprise (MNE)[1] investing abroad, followed by a discussion of the different types of FDI that a company can pursue and the different forms in which FDI can take place. The underlying risks associated with FDI are also discussed in section 2.2. Section 2.3 discusses the underlying theories on FDI and economic growth. In section 2.4, the investment policy of each selected country is evaluated, followed by an analysis of the FDI and economic growth trend of each country in section 2.5. By evaluating both the investment policy of each country as well as the FDI and economic growth trend, more insight is gained into why some countries attract more FDI than others. Section 2.6 provides a summary of recent studies' findings on the FDI economic growth nexus. The chapter is summarised and brought to a close in section 2.7.

2.2. Definitions and concepts of FDI

The IMF (2009) defines FDI as an entity from one economy who has a dominant share of control or influence in a company or entity from a different economy. For an investment to be considered as FDI, the individual or company should invest or buy more than 10 percent of a company from a different economic entity (IMF, 2009; Duce, 2003:).

As such, FDI allows companies and multinational corporations to invest abroad in foreign economies and reach new markets. Therefore, it is believed that FDI enables countries, especially LDC's, to improve their economic progress by allowing foreign direct investors to supply local companies with skills development, knowledge spillover, technology and capital (Alfaro, Chanda, Kalemli-Ozcan & Sayek, 2004). FDI consequently improves and motivates globalisation by allowing the flow of goods, knowledge, technology and capital between markets and economies. Hwy-Chang Moon (2015) states in his book, Foreign Direct Investment: A Global Perspective, that FDI is one way a firm can gain competitive advantage by expanding its resources across the borders to a global market. However, whether FDI acts as an economic booster by helping economies grow is still a controversy.

The following sub-sections defines important concepts with regards to FDI. These sections include the motives behind a company's decision to invest abroad, the different types and

[1] MNEs can be defined as companies or firms that engage in FDI where the firm owns or controls value-added activities in more than one country, it is considered an MNE (Dunning & Lundan, 2008:3).

forms of FDI that can take place, as well as the risk factors that investors should consider before investing abroad. It is important to understand the underlying foundation and reasoning behind the decision to invest abroad.

2.2.1. FDI motives

There are numerous motivations that support a firm's decision to become a multinational firm or to engage in FDI, namely: efficiency seeking, market seeking, resource seeking or strategic asset seeking (Franco, Rentocchini & Marzetti, 2008).

Efficiency seeking FDI is usually considered for two reasons. Firms either want to take advantage of lower costs, the availability of a cheaper labour force or economies of scale. Efficiency seeking FDI is very common, as firms usually enter foreign markets due to lower production costs or to reach consumers with different tastes, seeking variety (Franco *et al.,* 2008; Mabule, 2012).

Market seeking FDI is one of the more common motives behind FDI. Market seeking FDI takes place when the investor's main objective is aimed at producing and selling the final product in the host country (Mabule, 2012). Investors engage in FDI to exploit greater possibilities and dimensions offered by the market of the host country (Franco *et al.,* 2008). Market seeking FDI is usually motivated by the MNE's need to adapt their goods to the needs and the tastes of the host country's market. This also allows MNEs to have a physical presence in the host country's market, making it easier to compete against other competitors in the market.

Resource seeking FDI plays a significant role in attracting FDI to developing countries, such as those in Africa (Mabule, 2012). Resource seeking FDI takes place when MNEs invest with the aim of acquiring a specific type of natural resource that is either available at a lower cost in the host country, or a resource that is not available in their home country (Franco *et al.,* 2008).

Strategic asset seeking FDI takes place when a MNE aims to gain access to certain strategic assets in the host country, such as a higher brand value or even a more productive labour force from labour intensive countries (Franco *et al., 2008)*. Strategic asset seeking FDI comes with the possibility of long-term development for the company, by improving the capabilities and competitiveness of the firm over time (Meyer, 2015).

Understanding the motives behind a foreign entity's decision to invest abroad is important, so as to understand why some entities choose to invest in East African countries. With an

abundant of natural resources, an increasing market and the availability of cheaper labour, there are numerous reasons for foreign entities wanting to invest in East Africa.

2.2.2. Types of FDI

The type of FDI is partly determined by the goal of the firm and whether the MNE is establishing a new company in the host country, or taking their current business activities abroad. According to Müller (2000), the amount of control that the MNE pursues is an important factor for determining the type of FDI in which the firm engages, as well as the level of competition in the foreign market. There are two main types of FDI that a firm can pursue: horizontal FDI or vertical FDI (Müller, 2000). Distinguishing between horizontal FDI and vertical FDI is important, as each type of FDI has its own set of advantages and reasons for a company to pursue.

Horizontal FDI takes place when an entity from one economy decides to take the same business practice to a new economic market, reproducing its current production process in the host country (Roberts, Wallace & Moles, 2016). As a result, the firm would sell the same products and adopt the same business model across different countries. Market seeking FDI is usually the main motivation behind this type of FDI, as the goal of the firm is usually to seek new markets. Each country in which the entity invests has its own plant, providing the host country with the specific product (Kurtovic, Radevic & Jokic, 2012).

Horizontal FDI can help an entity to significantly cut down on costs, as it represents an alternative to exporting. By establishing a plant in the host country, the investor reduces trade flows, serving the local market through local production. Horizontal FDI also holds numerous benefits for the host country, such as the transfer of knowledge and technology, as well as employment creation (Kurtovic *et al.*, 2012).

Vertical FDI occurs when a firm moves part of the production process abroad, separating the production chain by taking selected stages abroad. There are two types of vertical FDI that can take place: backwards vertical FDI or forward vertical FDI. When a company engages in backward vertical FDI, the firm invests in establishing its own supplier, which supplies the parent company with inputs (Protsenko, 2003).

When a company engages in forward vertical FDI, the company invests in a foreign associate that draws the inputs for production from the parent company (Protsenko, 2003). Usually, the motivation behind vertical FDI is either resources, efficiency or strategic asset seeking (Roberts et al., 2016). Firms can, therefore, exploit the different factor costs across countries,

making production more profitable. As such, a company can benefit from lower production costs, making it more profitable to split certain stages of the production process (Protensko, 2003).

2.2.3. Forms of FDI

When a MNE decides to engage in FDI, the investment can take place in one of two forms: greenfield investment or a merger and acquisition. ***Greenfield investment*** takes place when an entity decides to establish a new facility in a foreign country. This form of FDI requires the host country to be open to foreign economic activities and make it easier for foreign entities to do business in the country (Canton & Solera, 2016). Entities that take on greenfield investment uses the opportunity to expand their capital into a new economy, and by doing so, they can contribute to improving the host economy by ultimately creating jobs and contributing to technology and knowledge spillovers (Canton & Solera, 2016).

The second form of FDI, mergers and acquisition, also known as ***brownfield investment***, takes place when an entity invests in an existing facility aboard. When a cross-border merger takes place, two or more entities from different economies combine their services to establish a new legal identity (Calderón, Loayza & Servén, 2004). When a cross-border acquisition takes place, a foreign entity takes control of the assets and operations of a local firm by gaining a controlling share in the firm (Calderón *et al.*, 2004).

2.2.4. FDI risk factors

While all forms of business transactions have a certain degree of risk involved, international transactions carry an additional set of political, economic and financial risks. Changes in country risk holds numerous implications for MNEs, such as a change in operating profits and the value of assets in the host-country. There are multiple risk factors that investors take into consideration before making a multinational investment decision (Musonera, 2008). The risk of a host-country can increase when changes take place in the country's environmental factors, such as legal changes, currency changes or changes in government. These country risk measurements are placed mainly in three categories: political, financial and social-economic risks (Musonera, 2008; Coetzee, Bezuidenhout, Claassen & Kleynhans, 2015).

Political risk can be defined as the likelihood of political forces causing a drastic change in the business environment of the country (Fitzpatrick, 1983). MNEs evaluate the political risk of a country by considering political factors such as government policies. The political environment, therefore, plays a crucial role in the way that MNEs can do business within the

host-economy, and as such, MNEs tend to be very alert when it comes to the political stability of a host country (Musonera, 2008). Because political change can affect the business operations of MNEs adversely, it is important for investors to continuously monitor the political environment and government policies of the host country in order to evaluate the investment environment and associated risks. Some restrictions that companies can face when investing in a foreign market include the percentage of ownership allowed and the type of industries that they are allowed to invest in. Other national laws, such as tax and labour laws, as well as trade restrictions can also have a significant impact on the way that MNEs can conduct business in the international environment (Musonera, 2008).

According to Moran (1998), the investment climate of the host country plays an important role in attracting new foreign investors, as well as the extent to which the host country will experience FDI. If the host country can present a favourable investment climate, investors will also be encouraged to contribute to export-orientated operations, from which the host country will benefit. Therefore, having a stable political environment, attributing to a favourable investment climate, is especially important for developing countries such as East African countries (Moran, 1998; Musonera, 2008).

Financial risk refers to a country's ability to repay its foreign liabilities. Financial risk is an important factor to take into account for companies entering the foreign market. If a country has a high financial risk factor, they are more vulnerable to a financial crisis (Hayakawa, Kimura & Lee, 2012). It is important to note that once a company invests in a foreign market, the investment can't be withdrawn as easily as with a portfolio investment, should the financial situation of the country deteriorate. This makes the financial stability of the host-country a very important risk factor for MNEs (Hayakawa *et al.*, 2012). Therefore, the financial state of a country is an important factor for economic development and for attracting FDI.

MNEs also aim to list their stocks on a stable national stock market that will maintain the value of their equity shares (Musonera*,* 2008). As such, the inflation rate of the host economy will also have an impact on a MNEs decision to invest in the respective host country. When the inflation rate of the host country is high, the value of the capital that was already invested, as well as future returns, has the risk of decreasing because of high inflation (Hayakawa *et al*.*,* 2012).

The ***economic risk*** of a country can be evaluated by considering the economic indicators of the host country, such as the gross domestic product (GDP), the unemployment rate and the stability of the host country's currency (Musonera, 2008). Other factors that contribute to the

economic risk of the host country includes the risk of a possible recession, the stability of prices within the country, and the tax policy (Coetzee *et al*., 2015).

It is important for MNEs to evaluate the economic environment of the host country when considering new investment ventures to expand existing operations through increased investment opportunities (Musonera*.,* 2008). A change in a country's macroeconomic policy goals or the country's comparative advantage can lead to a major change in the economic risk (Musonera*,* 2008).

Although it is important for MNEs to evaluate the country risk of each potential host country before investing, Goldstein (2004) states that the perceived risk that investors have of Africa, has a negative impact on the FDI inflow to these countries. Therefore, the perception that investors have of African countries can hamper investor's choice, especially those who are not yet doing business in Africa (Ernst & Young, 2012).

2.3. FDI and economic growth theories

2.3.1. FDI theories

To understand the nexus of FDI and economic growth in East Africa, it is important to evaluate the underlying theories on FDI. Hymer (1968), a Canadian economist, developed the Hymer's theory, stating that FDI is a way in which multinational corporations can exploit their assets aboard. Hymer's theory was accordingly called the theory of direct investment, which in due course prompted other theories surrounding FDI to arise, including the eclectic paradigm theory, the dependency theory, the modernisation theory and the theory of multinational enterprises (Moon,2016). While all of these theories are relevant to FDI in general, the theory of multinational enterprises and the eclectic paradigm theory focuses more on the firm and how to increase profitability, instead of FDI's contribution to economic growth.

The theory of multinational enterprises, developed by Richard Caves (1971), suggests that for a firm to increase its profitability, it needs to internalise selected transactions, thereby reducing transaction costs (Woldemeskel, 2008).

The eclectic paradigm theory, developed by John H. Dunning (1979), is based on the advantages surrounding a firm's decision to become a multinational enterprise (MNE) (Moon, 2016). It suggests that a MNE's success in becoming a MNE is based on three significant contributions, known as the OLI paradigm: Ownership, Location and Internalisation. While both these theories are relevant to FDI in general, it is necessary to further examine

underlying theories relevant to the FDI and economic growth nexus. Therefore, for the purpose of this study, the dependency theory and modernisation theory are evaluated and explained.

The modernisation theory traces back to the early 1950s when it was developed by Harvard sociologist, Talcott Parsons. It originates from the neoclassical and endogenous growth theory, arguing that the key to economic growth is capital investment (Hodrab, Maitah, Kuzmenko, 2015). The theory states that FDI can promote economic growth within a country. Therefore, for developing countries, technology spillovers occurring from FDI plays a crucial role in the growth of a country due to the lack of productivity in terms of human skill, capital and economic stability (Romaniuk, 2016).

The theory further suggests that when a developing country with high income inequality experiences an increase in foreign capital inflow during the early stages of development, income inequality is likely to increase (Kaulihowa & Adjasi, 2018). However, when a country reaches their optimal stage of development, the income gap is expected to decrease as foreign capital inflow increases as a result of the transfer of technology, which in turn results in spillover gains, such as improved human capital and knowledge (Kaulihowa & Adjasi, 2018).

The dependency theory was established in late 1957 by Raul Prebisch as a development model, set as a theory that explains the economic development of countries and why rich countries seem to become richer, while poor countries remain poor (Romaniuk, 2016; Hodrab *et al.*2015). While the dependency theory is largely considered as irrelevant today, it has contributed to how foreign capital was viewed by African leaders and their scepticism towards FDI (Kalu, 2012; Moss, Ramachandran &Shah, 2004).

The dependency theory suggests that wealthy nations were able to develop their economies at the expense of developing nations, distinguishing between the “core” and the “periphery” (Moss *et al.* 2004*)*. Dominant states (the core) were able to control the international environment and therefore, despite the increase in trade that developing countries (the periphery) experienced, dominant states were still able to maximise their benefits at the expense of developing countries (Moss *et al.* 2004*)*. Consequently, the theory argues that FDI is expected to have a negative impact on the growth of the host economy, especially in developing countries such as East African countries (Hodrab *et al.*, 2015).

As a result, many developing countries thought that a self-sufficient economy would be the best approach to level the playing field, ultimately leading to protectionist policies, especially in Africa. However, the implementation of protectionist policies seems to have led to a greater deterioration of African economies, increasing poverty in the long-run (Kalu, 2012).

Even though the dependency theory is still used today as a tool to understand why global inequality exists, dependency theorists abandoned the approach in the early 90s. Sanchez (2003) believes that the dependency theory was most likely abandoned by economists and scholars due to the fall of the socialism regime, as well as intellectual critiques and a change in international trends.

2.3.2. Economic growth theories

When trying to understand the theoretical foundation explaining the link between FDI and economic growth, there are two major theories to consider: the endogenous growth model and the neo-classical growth model. Both these economic growth theories are important to help explain the theoretical nexus between FDI and economic growth, as well as the impact that FDI can have on the growth of the host country.

The neo-classical growth theory is based on the pretext that if national markets are liberated, it would lead to an increase in domestic savings, as well as FDI (Mahembe & Odhaimbo, 2014a). The neo-classical theory suggests that an increase in FDI is equivalent to an increase in domestic savings, leading to an increase of capital accumulation. Robert Solow's model of economic growth initially sparked from the neo-classical growth theory, arguably becoming the most well-known neo-classical economic growth theory today (Mahembe & Odhaimbo, 2014a).

The Solow model argues that the productivity of the workforce is mainly determined by the amount of capital that is available (Solow, 1956). Thus, the model assumes that a country can generate economic growth through external production factors (Mahembe & Odhaimbo, 2014a). According to this theory, FDI is beneficial for the host country's economy because it increases the host country's capital. The Solow model further explains that if the capital input of each worker is increased, the total output of each worker will also increase.

Simultaneously, when the savings rate of the economy is increased, the capital will also increase, resulting in an increase in the capital-labour ratio (Mahembe & Odhaimbo, 2014a). Therefore, within the framework of Solow's neo classical model, FDI provides capital funds, which influences the capital-labour ratio of a country positively, while also having a positive effect on the host country's economic growth (Mahembe & Odhaimbo, 2014a).

Because FDI leads to the accumulation of new technology and inputs that contribute to the production of the host country, the neo-classical growth model assumes that technological progress is an external factor (Mahembe & Odhaimbo, 2014a). However, the neo-classical

theory comes with its own set of weaknesses and limitations. Because the theory focuses on capital accumulation, which does not allow long-term economic growth because of a decreasing return to capital, the theory only explains short-term economic growth (Serbu, 2008). The theory also assumes that technological change is a given, treating it as an external input factor. As a result, it provides little insight, implying that the transfer of technology does not exist between countries, ultimately limiting economic growth (Serbu, 2008).

The endogenous growth model was developed by Romer (1986) and Lucas (1988) after theorists believed that the neo-classical growth model was fundamentally flawed and did not represent long-term growth. Endogenous growth theorists suggest that a country can generate economic growth through supply-side externalities. Romer (1986) and Lucas (1988) emphasise that endogenous factors, including research and development, technology spillovers, and human and physical capital, are the driving force behind economic growth. The endogenous growth model therefore argues that the growth of an economy is driven by two main factors, human capital and technological change (Mahembe & Odhiambo, 2014a).

By assuming an increase in returns to scale with non-diminishing returns, the endogenous growth theory provides a way to ensure long-term economic growth (Mallick & Moore, 2008). Therefore, a country can increase their economic growth if it can provide better investment opportunities under a liberalised, investment-friendly, economy (Mallick & Moore, 2008). The model also assumes that FDI can be more productive than domestic investment due to the fact that FDI contributes to the incorporation of new technology, increasing production in the host economy (Herze, Klasen & Nowak-Lehmanm, 2006)

While both the exogenous and endogenous theories of economic growth state that capital accumulation is important for economic growth, the way they treat a change in technology and the technological progress is different. While the neo-classical growth model argues that technological progress is exogenous to the model, the new endogenous model reasons that technology is improved within by increasing knowledge and innovation, and sees technological progress as an FDI spillover from different sources such as human and physical capital, as well as research and development (Mahembe & Odhaimbo, 2014a).

Therefore, the human capital and technology spillovers resulting from FDI can benefit the economic growth of the host country. This can especially be beneficial for developing countries lacking important capital and infrastructure (Mahembe & Odhaimbo, 2014a). Within this context, it can be argued that MNCs can share their knowledge of global markets with domestic firms in the host country, enabling them to become more competitive on a global scale. Hence, through the transfer of capital and knowledge, FDI can play an important role in

the host country's economy by contributing to domestic firms through capital accumulation and knowledge spillovers (Herzer *et al.* 2006).

The spillover effects resulting from FDI can be an important contribution to economic growth, especially in developing countries such as East African countries. However, it is important for the domestic government to have proactive policies in place to successfully absorb the spillover effect and fully benefit from MNCs (Narula & Marin, 2005).

2.4. Investment policy review of selected East African countries

According to the United Nations (2018), one of the most important foreign investment and economic growth determinants is a country's investment policy. The United Nations (2018) states that developing countries are facing enormous pressure when it comes to having good investment policies because of companies increasingly looking for new markets offering the best investment conditions.

Numerous studies identified favourable investment policies as key to attract foreign investment and growing the economy (Asiedu, 2002; Coetzee et al, 2015; Morisset & Lumenga-Neso, 2002). Therefore, it is of great importance that East African countries develop and implement investment policies that are sustainable and promote a stronger investment environment with less risks (Coetzee et al, 2015). The investment policy overview will consider the following: recent changes to investment policy in each of the selected East African countries, the progress that has been made by each of the governments to improve the ease of doing business, which sectors are open to foreign investors. and the important restrictions that investors face.

2.4.1. Investment policy of Burundi

After years of political unrest and civil war, a peace agreement was signed in 2008 ending internal conflict. It was only after the peace agreement was signed in 2008 that the government of Burundi implemented economic reformation strategies, and a new investment code was enacted (Global Impact Investment Network, 2015). Before 2008, the investment code of Burundi focussed primarily on a free trade zone regime. The investment code allowed enterprises to have local capital obtained from either resources in Burundi, foreign capital if it was obtained abroad while carrying out a project or mixed capital which is a combination of local and foreign capital. Overall the old investment code was very open to FDI and had very limited restrictions in place (UNCTAD, 1987). The government of Burundi are very favourable

towards FDI as it can be used as a tool to establish economic stability and promote economic growth.

As a result, the Burundi government has not implemented restriction and regulations that discriminate against foreign investors or limit their market access (United Nations, 2010). Along with the enhanced investment code, the government established an investment promotion agency in 2009. The investment promotion agency was created with the primary goal of attracting foreign investors with long-term interest in the country who will increase competitiveness in the domestic market (U.S Department of State, 2019a).

As part of the government's development strategy and plan to stimulate economic growth, Burundi joined the East African Community (EAC) in 2009, which allowed better regional integration and opened more global markets (United Nations, 2010). However, Burundi still remains a big investment risk as most of the population are living in extreme poverty, and the security and political situation in the country remains very fragile (United Nations, 2010; GIIN, 2015).

Nonetheless, the new investment policy of Burundi has limited restriction on foreign investors, granting foreign companies the same right as domestic companies (U.S Department of State, 2019a). The only investment not allowed to foreign investors is investments into weaponry and ammunition. The government should also own a minimum of 10 percent shares in any foreign company that possesses an industrial mining license (U.S Department of State, 2019a).

Furthermore, the investment promotion agency was established, which facilitates foreign investors by offering assistance in acquiring licenses, certificates, permits and authorisation. The agency acts as a one-stop hub to make the investment process as easy as possible for foreign investors (U.S Department of State, 2019a). The investment code provides foreign investors with numerous grants and incentives, like three-years of tax-free operation, exemption from property charges and exemption from duties on capital goods and raw material (U.S Department of State, 2019a).

Although it is clear that the government of Burundi has committed economic reforms and strategies to stabilise the economy, the country ranked 168th on the 2019 World Bank ease of doing business report (World bank, 2019a). High political instability and poverty, as well as insufficient infrastructure makes Burundi a high risk country for investors, despite their committed investment policy.

2.4.2. Investment policy of Ethiopia

Realising the growing importance of FDI, the Ethiopian House of Peoples' Representatives adopted a new investment proclamation in 2020. Because private sector investment has become increasingly important to the economy, the Ethiopian government has acknowledged the necessity to accelerate economic growth and development (Federal Democratic Republic of Ethiopia, 2020). The goal of the new investment proclamation is to increase FDI inflow, accelerating the flow of knowledge, skills and technology.

Consequently, Ethiopia has opened all sectors to foreign investors, being subject to certain regulations. The new law allows investors to invest in any sector, except where the investment contradicts the moral, legal and public health and security norms of the country (Federal Democratic Republic of Ethiopia, 2020). Therefore, petroleum and mineral investments are still prohibited and not eligible for investment. Any business asset is also now considered as capital under the new law, irrespective of whether it is tangible or intangible (Clifford Chance, 2020).

When it comes to the regulations of foreign investment, the new investment policy emphasises that a foreign investor requires an investment permit or approval from the relevant authority before investing (Clifford Chance, 2020). An investment permit is issued for a 1-year period and renewed annually. However, the new investment policy provides a number of reasons for which a permit can be suspended. This includes the breach of law, the use of the permit for reasons other than stipulated and fraud or dishonesty committed (Federal Democratic Republic of Ethiopia, 2020).

The overall business and investment environment of Ethiopia still comes with a lot of uncertainty. Ethiopia ranked 159th in the World Bank doing business report (2019a), and while the Ethiopian government has made major changes to their investment policy in 2020, the country still holds a lot of uncertainty for investors.

2.4.3. Investment policy of Kenya

With one of the most advanced economies in East Africa, Kenya has been viewed as an economic leader within the region for decades. Nonetheless, the country experienced a decline in development and investment in the 1990s and early 2000s, which was mainly because of inconsistent economic and structural reforms, as well a poor policy (United Nations, 2005).

The investment promotion agency of Kenya, known as KenInvest, promotes foreign investments and assists investors in obtaining licenses and navigating restrictions. The Investment Promotion Act (2004) and the Foreign Investment Protection Act (1990) are two of the main regulators of FDI in Kenya, which allows foreign companies to enjoy almost the same benefits and treatment as domestic firms. Although there is no specific regulation that steers foreign investments towards a specific sector, the Kenyan government encourages foreign investors to invest in sectors that will create employment and generate foreign exchange (U.S Department of State, 2019b; Santander, 2020a).

However, both foreign investors and domestic investors are restricted to invest in sectors where state owned companies have legal monopoly, including telecommunications, energy and ports (U.S Department of State, 2019b; Santander, 2020a). Other than the restriction on monopolistic sectors, foreign investors can invest in the same sectors as domestic investors (U.S Department of State, 2019b; Santander, 2020a).

The Kenyan government continuously aims at improving the investment environment for foreign investors. In 2017, the development of Project Kenya Investment Policy was announced by the Kenyan government, which ultimately aims to strengthen the investment environment and attract more foreign investors to the country (Santander, 2020a).

Therefore, Kenya presents as a great investment opportunity for foreign investors, as it has an economy that has been performing well in recent years and a market economy that acts as the logistical hub of East Africa (United Nations, 2005; Santander, 2020a). The country also has strong infrastructure and policies in place as well as regional sectors with strong development opportunities. However, the country still has high risk factors for investors, including high poverty rates, costly skilled labour and high levels of corruption (Santander, 2020a). Nonetheless, improvement in the investment environment, infrastructure and actively enacting reforms to attract foreign investors, saw Kenya rank 56th in 2019 on the World Bank ease of doing business report (2019a), making the country one of the best ranked investment countries in East Africa, offering great opportunity for foreign investors

2.4.4. Investment policy of Malawi

Although Malawi is a landlocked country that has to rely on neighbouring countries to import and export, the Malawian government is still adamant about making Malawi an attractive investment destination (U.S Department of State, 2019c). The overall investment climate of Malawi presents good opportunities for foreign investors, in which to expand and invest. Although investors still face some problems, including corruption and restricted access to

ports, Malawi offers an unbiased legal system that is available to both domestic and foreign investors (U.S Department of State, 2019c).

As part of an attempt to attract more FDI, the Malawi Investment and Trade Centre assists foreign investors with regulatory matters and offers administrative guidance. It is considered a “one-stop centre” that helps foreign investors navigate the process and regulations (U.S Department of State, 2019c). In 2012, the Malawian government introduced an Investment and Export Promotion Act, which established certain sectors as priority investment areas, such as agriculture, fisheries and manufacturing. The new investment act also simplified the investment and registration process for foreign investors (UNCTAD, 2012).

Because the Malawian government seeks to assist foreign investors, there are no restrictions on foreign investment funds, as long as the capital comes from foreign sources (World Trade Organization, 2010). However, small-scale prospecting and mining operations are reserved for Malawians or foreigners who have been residing in Malawi for more than four years (U.S Department of State, 2019c). Industries whose operations pose a health, security or environmental risk, also have restrictions applied (World Trade Organization, 2010).

Although Malawi seems like a good investment opportunity, they still rank 109th in the World Bank doing business report (World Bank, 2019a). Some of the main challenges that investors face when investing in Malawi include obtaining business residency and temporary employment permits (World Trade Organization, 2010). All registration and applications are also done manually, which is very time consuming. All capital needs of foreign investors also have to be registered with the Central bank of Malawi through a commercial bank (World Trade Organization, 2010). Therefore, while Malawi offers intriguing investment opportunities, investors are still alarmed by the numerous processes that need to take place before investing.

2.4.5. Investment policy of Mozambique

With an abundant of natural resources and a favourable geographical location, Mozambique seems to be a perfect investment opportunity for foreign investors. However, inadequate infrastructure and transport, as well as political instability and significant debt has lowered the confidence of investors in Mozambique (Santander, 2020b).

The government of Mozambique acknowledges the importance of foreign investment for economic growth and employment, putting the investment policy of Mozambique under constant reform (U.S Department of State, 2019d). However, the investment policy still holds numerous restrictions. The “Mega-projects Law” states that public-private partnerships,

business concessions and large-scale ventures require a Mozambique citizen to participate with between 5 and 20 percent equity (U.S Department of State, 2019d).

The overall regulatory process of obtaining permits and approval is very time-consuming. Even with the Agency for Promotion of Investment and Exports (APIEX), who facilitates investors with regulations and procedures, the overall regulatory system of Mozambique is very time-consuming and allows for corruption and bribery within the system (U.S Department of State, 2019d).

The investment code of Mozambique does not require all investors to operate within compliance, however, companies that oblige to the investment code enjoy certain benefits, including the protection of their property rights, compensation of land that is expropriated and dispute settlements (World Trade Organization, 2017).

Mozambique ranked 113th out of 190 countries on the World Bank doing business rankings (World bank, 2019a). The regular change in regulations and investment policy has improved the business and investment environment of Mozambique. However, economic and political instability still causes uncertainty amongst foreign investors.

2.4.6. Investment policy of Rwanda

Rwanda is one the poorest countries in the world. With high poverty rates and an almost non-existent formal industrial and service sector, most of the population are forced to live on substance agriculture. In the past, the economic structure of Rwanda and policies that were in placed attracted little FDI (United Nations, 2006).

However, in the 2000s, the Rwandan government became more committed towards foreign investors participating in the private-sector, contributing to business development (United Nations, 2006; Santander, 2020c). Hence, becoming more committed towards economic transformation and development. Nevertheless, Rwanda's small geographical size, landlocked position, low development and economic structure made is difficult for Rwanda to leverage FDI, especially for development purposes (United Nations, 2006).

With the government committed towards building a better economy and investment environment, they have seen strong policy and economic reforms over the years, which improved Rwanda's investment climate and economy tremendously (U.S department of State, 2019e; Santander, 2020c). The government continues to implement improvements that help stimulate investments in the country. The investment policy of Rwanda, therefore, has no statutory limits on the foreign ownership that discriminates against foreign investors, giving

foreign investors the same rights as domestic companies (U.S department of State, 2019e; Santander, 2020c).

New companies can register through the Rwanda Development Board, which offers one of the fastest registration services in Africa. Foreign investors are also allowed to invest in all sectors (U.S department of State, 2019e; Santander, 2020c). However, the RDB does screen each business plan and only some are allowed to receive the tax incentives provided. In 2015, the Rwanda government published a new investment code, which aimed to provide incentives such as tax breaks to increase FDI.

The government of Rwanda also offers numerous incentives, like the exemption of taxes for products used in EPZs, exemption from taxes on capital gains and accelerating depreciation to motivate foreign investors and constantly improve the investment environment of the country (U.S department of State, 2019e; Santander, 2020c).

Rwanda has consequently become one of the most favourable business environments in Africa, ranking 38th on the World Bank ease of doing business report in 2019 (World Bank, 2019a). Low corruption levels, a steady growth rate and government incentives has attracted investors and improved the investment environment of the country (United Nations, 2006; Santander, 2020c). While FDI inflow has been increasing, the country is in need of investors that will generate sustainable job opportunities and that will contribute to the development of the economy (United Nations, 2006). As such, the Rwanda government has started to focus on long-term investors.

2.4.7. Investment policy of Tanzania

As one of the least developed countries in the world, Tanzania only started to attract FDI during the late 90s when the National Investment Promotion policy was passed in 1996, and the Tanzania Investment Act (TIA) in 1997 (OECD, 2013). In 1997, the Investment Centre was also established as another step toward building a better investment environment (OECD, 2013). Since then, the country has opened up more towards foreign investors. Although FDI was steadily increasing, most FDI inflow was focused on the mining sector, which later flowed through to the service, agriculture and small-scale manufacturing sectors (United Nations, 2002; OECD, 2013).

The increase in FDI inflow has allowed the Tanzanian government to gradually establish a transparent and consistent legal framework for foreign investors. However, to address the

challenges of a small internal market, low infrastructure and unskilled labour force, the government of Tanzania had to review the investment policy that was passed in 1996, and in 2009, Tanzania introduced the *Government Roadmap for Improving the Investment Climate* (OECD, 2013). The goal of the new investment strategy was to improve Tanzania's overall business environment and business ranking (OECD, 2013). The government also introduced the Kilimo Kwanza strategy, which aimed at attracting FDI to the agricultural sectors (OECD, 2013).

The government of Tanzania is constantly adapting their policies and strategies in order to improve the business and investment environment of Tanzania. However, new laws removed the rights to international arbitration, which gave Parliament unilateral rights to rewrite undefined contract terms. These policy changes have had the opposite effect on FDI inflow, as new policies contributed to an increasing distrust between the private sector and the government of Tanzania (U.S Department of State, 2018b). While foreign investors are allowed access to most sectors, foreign companies are not allowed to operate travel agency services, and mining projects have to be partially owned by the government of Tanzania (U.S Department of State, 2018b). Other foreign equity restrictions include the telecommunication sector, where foreign investors are only allowed 75 percent ownership and broadcasting services, where a maximum of 49 percent foreign ownership is allowed (Santander, 2019).

The business facilitation process is monitored by Tanzania's Business Registration and Licensing Agency. BRELA is responsible for issuing foreign investors with certificates, licensing and assisting in business registration (U.S Department of State, 2018b). After a foreign company has registered with BRELA, the company also needs to register with TRA, a social security scheme; it also has to obtain a business license from the Ministry of Industry and Trade (U.S Department of State, 2018b).

Tanzania has a favourable investment environment with increasing economic growth, political stability and a strategic geographical location (Santander, 2019). However, poor infrastructure, unskilled labour force, and restrictions on foreign equity and the limits on foreign rights to private establishments, have influenced the investment environment of Tanzania (U.S Department of State, 2018b; Santander, 2019). Lengthy registration processes and business procedures have seen Tanzania rank 141th on the 2019 World Bank ease of doing business report (U.D Department of State, 2018b; World Bank, 2019b). While the country has reasonable macroeconomic policies and a stable political environment, recently adopted foreign investment policies have caused some form of resilience from foreign investors (U.S Department of State, 2018b).

2.4.8. Investment policy of Uganda

With direct access to regional markets, an abundance of natural resources and the number one coffee exporter in Africa, Uganda offers numerous opportunities for foreign investors (U.S Department of State, 2018a). The government of Uganda has been working to improve the business environment of the country and attract more foreign investors by investing in infrastructure development and improving electricity access in the country, especially to rural areas (The Republic of Uganda, 2018). Although the country has been experiencing stable economic growth, Uganda is still challenged by high poverty rates. In 2018, Uganda legalised a new Investment Code Act, which aims at improving and modernising the registration process for foreign investors (The Republic of Uganda, 2018).

The Uganda Investment Authority was established in 1991, to act as a one-stop hub for foreign investors, and aims at facilitating investors with registration, and obtaining licenses and permits (U.S Department of State, 2018a; The Republic of Uganda, 2018). However, despite the fact that the Ugandan government has been actively trying to improve the investment environment of Uganda, investors are still challenged by a high poverty rate, poor infrastructure, high corruption and low transparency (U.S Department of State, 2018a).

Uganda's latest investment policy allows 100 percent foreign-owned businesses without any restrictions. Foreign investors are also allowed to partner with Ugandan citizens without any restrictions (U.S Department of State, 2018a). According to the Investment Code Act (1997) of Uganda, foreign investors are allowed to invest in any industrial sector, except for crop and animal production. However, foreign investors are allowed to lease land or register a Uganda-based firm to invest in crop or animal production (U.S Department of State, 2018a). Certain sectors are also exempt from government incentive, including retail commerce, personal services and public regulations. The government of Uganda does, however, offer incentives for investments in the industrial sector, which include a 75 percent reduction on the import duty of factory equipment and a 100 percent reduction on tax for research and training costs (U.S Department of State, 2018a).

Uganda has become one of the top recipients of FDI in East Africa (Santander, 2019). Political stability, stable economic growth and a liberalised foreign exchange regime has made Uganda an attractive location for foreign investors (Santander, 2019). Although a lack of infrastructure, high poverty rates, corruption levels and border insecurity have been problematic for investors, the government has been actively trying to improve the business environment, seeing Uganda improve their ranking in the World Bank ease of doing business reports from 127th in 2018 to 116th in 2019 (World Bank, 2019a; The Republic of Uganda, 2018). Numerous investment

opportunities, along with cooperation from the Ugandan government has seen Uganda become a FDI attraction in East Africa.

2.4.9. Investment policy of Zambia

The Zambian government has undertaken numerous reforms to diversify the economy, as it is heavily dependent on the mining sector. The Zambian law, therefore, allows investors to enter most sectors, but with a set of regulations and restrictions (U.S Department of State,2019f). Currently, Zambia allows no private land ownership and all land is state owned. Foreign investors can obtain land on a 99-year state lease (U.S Department of State,2019f).

To facilitate foreign investors, the Zambian business regulatory review agency provides foreign investors with a clearance system by simplifying the registration, providing a single licensing system and by reducing the lead-time on procedures and registration (U.S Department of State, 2019f). This provides investors a “one-stop-shop” for all the necessary paperwork and procedures. Zambia also offers their foreign investors numerous incentives, including tax exemption and concessions.

Zambia further provides foreign investors with a set of minimum requirements for employment contracts, which protects local employees against unfair employment practices (U.S Department of State, 2029f). However, doing business in Zambia is still not easy and there are a few things that prove to be challenging for investors. Investors that invest under USD10 million do not qualify for tax incentive or breaks (Santander, 2020d). The enforcement of contracts and property rights are also still weak in relation to international standards. Requiring a commercial license is also a costly and time-consuming process as the registration applications are not uniform (Santander, 2020d).

Zambia ranked 85th from 190 countries in the World Bank doing business report in 2019 (World Bank, 2019a). As one of the most open trade environments in East Africa, with some of the lowest tax rates in the region, Zambia remains an attractive investment destination for foreign investors, despite the challenges (Santander, 2020d).

2.4.10. Investment policy of Zimbabwe

In 1991 the investment policy and regulations of Zimbabwe was reviewed. The focus remained mostly on indigenisation and attracting foreign investors (Gochero & Boopen, 2020). While most sectors were reserved for domestic investors, investment in priority areas still enjoyed tax incentives and tariff exemptions. These incentives were aimed at encouraging the transfer

of technology, the development of rural areas and the utilisation of local raw material (Gochero & Boopen, 2020).

In the midst of undergoing economic and political changes, the Zimbabwean government realises the tremendous influence that foreign investors can have on the economy and the well-being of Zimbabwean citizens (Government of Zimbabwe, 2018). The Zimbabwean government stated in their 2018 Investment policy that they vow to adopt transparent policies to facilitate foreign investors and make Zimbabwe a preferred investment destination. The reforms that the investment policy of Zimbabwe underwent include providing a transparent and efficient system, simplifying the legal framework for investment and promoting good international practices and investment standards (Government of Zimbabwe, 2018).

As part of the investment policy reform, the Zimbabwean government introduced the Zimbabwe Investment and Development Agency in 2020. The agency aims at assisting new investors, acting as a “one-stop” centre that facilitates and attracts investments (Government of Zimbabwe, 2020). Zimbabwe offers investors numerous incentives, including tax breaks and making capital expenditures on improvements tax deductible. As an attempt to improve the business environment of the country, the Zimbabwean government has also tried to improve the ease of doing business by reducing regulatory costs (Government of Zimbabwe, 2020).

Public-private partnerships are also encouraged by the government to improve the investment climate of the country and encourage technological development (Government of Zimbabwe, 2020). Non-resource sectors are also open to investors and without restrictions. However, sectors such as the taxi industry, advertising and dairy processing are reserved for Zimbabweans only. Foreign investors can also invest in the diamond and platinum sectors, but ownership is limited to 49 percent (Government of Zimbabwe, 2020).

Local employment is a mandatory requirement for foreign firms, except where specialised skills are required. Foreign firms are also encouraged by the Zimbabwean government to invest in rural developments and contribute to employment creation (U.S Department of State, 2019g). The labour law, however, makes employment response difficult during an economic downturn. Numerous measures must be taken before an employer can consider retrenchments or lay-offs (U.S Department of State, 2019g).

In 2019, Zimbabwe ranked 140th out of 190 countries in the World Bank doing business report, making it their all-time lowest position (World Bank, 2019a). While the Zimbabwean government has been active in taking drastic measures to improve the investment climate of

Zimbabwe and make it a preferred investment destination for foreign investors, economic instability and strict labour laws still lower confidence of foreign investors in the country.

2.5. FDI and economic growth trend analysis of selected East African countries

Numerous studies done in recent years have concluded that the FDI economic growth nexus is positive and as a result, have found that increased FDI can lead to an increase in the GDP of a country (Soumia & Adderrezakm 2013; Seyoum *et al*, 2015; Urgaia, 2017). In this section, the dynamics of FDI and economic growth of the chosen East African countries are evaluated. This provides a descriptive evaluation on the trends of each country, and whether a relationship between FDI and economic growth can be detected in the growth trends for the period 1998 to 2018.

2.5.1. FDI and GDP trend analysis of Burundi

The World Bank (2019c) classifies Burundi as a low income country with a GDP of 3.012 billion USD in 2019. With a GDP per capita of only 208.10 USD per annum, Burundi is one of the poorest countries in the world (World Bank, 2019c). As a landlocked country, Burundi is constantly faced with high trade costs and significant difficulties in accessing global markets. As a country that faces extremely high poverty and is still in a state of post conflict, Burundi has failed to attract FDI in comparison to other East African economies (United Nations, 2010; GIIN, 2015).

Over the past 21 years, the FDI inflow of Burundi has been very low. A constant state of internal political conflict has had a big impact on the investment environment of the country (United Nations, 2010; GIIN, 2015). Even with a relatively good investment policy, the constant political instability and civil unrest presented great risks for investors. From 1998 to 2012, foreign investment inflow remained very low, not having exceeded 11 million USD in 14 years. During this time, Burundi underwent political reform. However, civil war and unrest continued until a peace agreement was signed in 2008. After 2008, the government of Burundi implemented economic measures in an attempt to stabilise and grow the economy, and joined the EAC in 2009 (GIIN, 2015; EAC, 2020). This resulted in increasing regional trade and investment in the country. Since the election of a new president in 2005, Burundi has also experienced an upswing in economic growth, with a 5.41 percent increase in GDP in 2006 (GIIN, 2015). Since then, Burundi has shown a slight upswing in both economic growth and FDI inflow.

In 2013, the FDI inflow of Burundi reached a new high, attracting 116 million USD. The economy also grew by 4.92 percent in 2013. However, increasing political unrest saw the economy fall by 3.9 percent in 2015, followed by another decrease of 0.60 percent in 2016, while FDI inflow was the lowest in a decade (GINN, 2015). However, Burundi's economy did seem to marginally recover, seeing an increase in GDP of 1.61 percent in 2018. When considering the trends in FDI and economic growth in Burundi during the period 1998 to 2018, it is evident that both FDI and economic growth are very unstable in the country. Constant political unrest, high poverty and insufficient infrastructure has had a negative impact on the economy and the investment environment of Burundi. From Figure 2.1, it is evident that there is no clear strong positive relationship between FDI and economic growth in Burundi. Therefore, an increase in the GDP of Burundi cannot necessarily be attributed to the increase of FDI inflow.

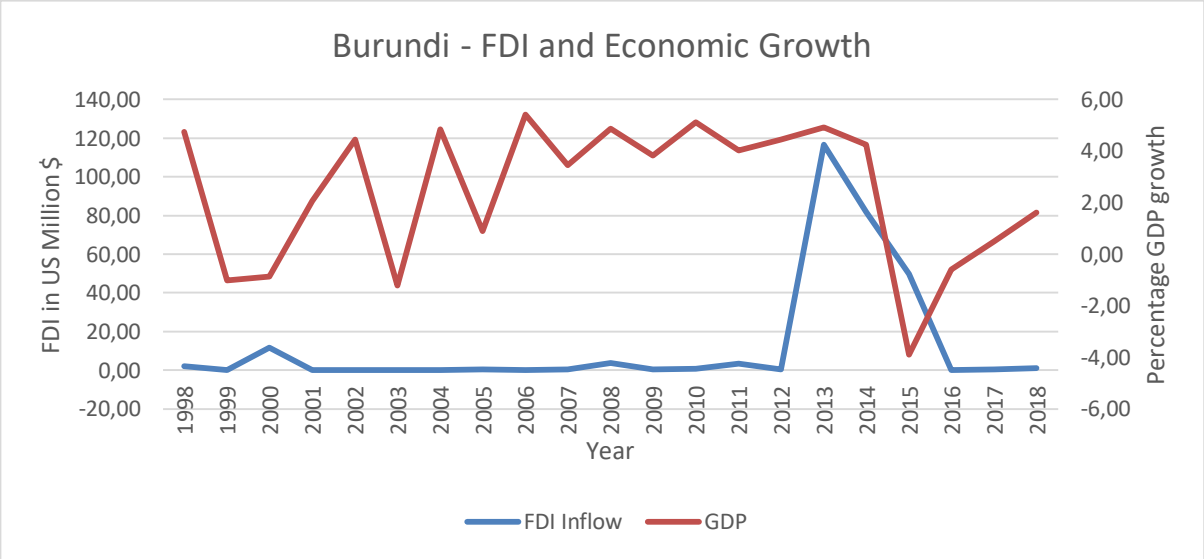

Figure 2.1: Burundi – FDI and Economic growth (1998-2018)

Source: Author's own compilation

2.5.2. FDI and GDP trend analysis of Ethiopia

With one of the fastest growing non-oil economies in Africa, Ethiopia has become the second largest economy in East Africa and 8th largest on the continent (World Bank, 2019c). The world bank classifies Ethiopia as a low income country with a GDP of 91.166 Billion USD in 2019 and GDP per capita of 602.2 USD per annum.

Over the period 2016 to 2018, Ethiopia received the highest FDI inflow in East Africa. However, the country still holds numerous implications for foreign investors. While the country is committed to the economic reformation and liberalisation programs that are in place (see section 2.4.2), the Ethiopian government still has full control over the services sector (Federal Democratic Republic of Ethiopia, 2020). Consequently, foreign investors are faced with high government influence and an insufficient level of foreign exchange reserves. During the late 90s and up to 2003, economic growth in Ethiopia fluctuated. In 2001, the Ethiopian economy showed promising growth, with an 8.30 percent increase in GDP. However, in 2002 the economy grew by only 1.51 percent, followed by a -2.16 percent decline in 2003.

In 2004, the Ethiopian economy experienced a strong upswing, which has remained stable ever since. Since then, the country has become the fastest growing economy in Southern Africa, reaching an economic growth of 13.57 percent in 2004. Since then, Ethiopia has managed to maintain strong economic growth, even throughout the 2008/2009 global economic crisis.

However, even though the Ethiopian economy thrived in the late 2000s, FDI inflow still remained relatively low up until 2012, when FDI increased rapidly and has remained stable ever since, making Ethiopia the largest receiver of FDI in East Africa for three consecutive years, with an inflow of 2.516 billion USD in 2019 (World Bank, 2019c). The sudden upswing in FDI inflow can be a delayed response to the improvement of Ethiopia's investment policy in 2009 (see section 2.4.2). However, strict regulations still cause some level of concern under investors. Ethiopia managed to become one of the largest economies on the continent. However, failure to stabilise public debt and address social unrest has cause economic growth in Ethiopia to slow down to 6.81 percent in 2018.

The FDI and economic growth trends of Ethiopia displayed in Figure 2.2 indicate no direct positive relationship between FDI and economic growth. When the economy thrived, FDI remained low until 2012, and when FDI increased to over 4 billion USD, Ethiopia's economy remained constant, showing no signs of increase because of FDI. However, it can be argued that a stable increase in the economic growth of Ethiopia has contributed to the sudden increase in FDI, along with a change in investment policy.

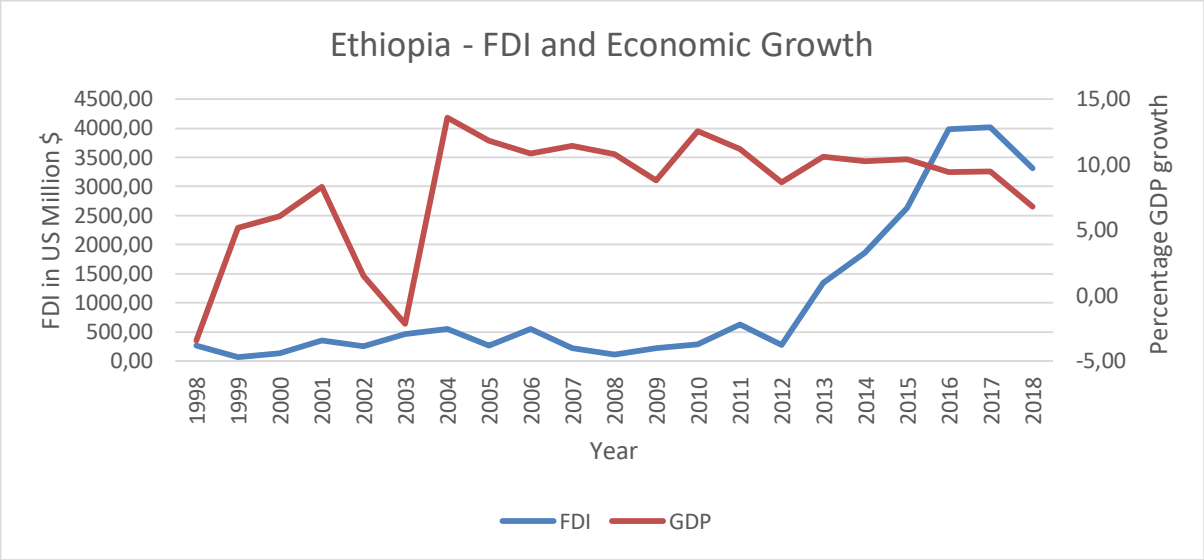

Figure 2.2: Ethiopia – FDI and Economic growth (1998-2018)

Source: Author's own compilation

2.5.3. FDI and GDP trend analysis of Kenya

With a GDP value of 99.24 billion USD in 2019, Kenya has one of the largest economies on the continent and is viewed as an economic leader in East Africa. However, with a GDP per capita of 1 816 USD per annum, the World Bank classifies Kenya as a lower middle income country. Located on the East coast of Africa with direct access to the Indian ocean, along with a growing economy and a government that has been committed to reform strategies (see section 2.4.4), Kenya has become one of the largest FDI recipients in Africa (United Nation, 2005).

During the 70's, Kenya was one of the top FDI destinations on the continent. However, investors lost interest and FDI decreased tremendously, a trend that continued until recently (Wasseja & Mwenda, 2015). For most of the 90s Kenya's economic growth fluctuated and with low FDI inflow, political instability and poor infrastructure, the government struggled to stabilise economic growth (Kimenyi, Mwega & Ndung'u, 2016). With the inauguration of a new government, it seemed that the economy of Kenya would take a turn for the better, however, rising inflation and high domestic debt contributed to poor economic growth performance in 2002, which led to the government to launch an economic recovery strategy in June 2003 (Kimenyi *et al*, 2016). As a result, the economy of Kenya had a slight upswing in 2003, which continued until 2007. The increase in economic growth also attracted the interest of some foreign investors leading to an increase in FDI in 2007.

In 2008, Kenya saw their economy decline to a record low growth rate of 0.23 percent. The dramatic decline in Kenya's growth was as a result of violence that erupted post the 2007 election, together with the drought and the global financial crisis that eroded (Kimenyi *et al*, 2016). The low economic growth and FDI inflow forced the Kenyan government to release a 2030 vision plan, in which they expressed their hopes of becoming globally competitive and making Kenya a top investment country once again (Wasseja & Mwenda, 2015). Subsequently, investors renewed their commitment to Kenya, contributing to the process of industrialisation.

The economic growth of Kenya picked up in 2009 and 2010 due to new management policies, as well as better performance in the agricultural sector (Kimenyi *et al*, 2016). In 2010, Kenya had their highest economic growth in a decade, reaching GDP growth of 8.41 percent. FDI has also increased tremendously since 2008, a trend which continued until 2011. However, in 2011 global food and oil prices surged, which resulted in a decline in the economic growth of Kenya yet again (Kimenyi *et al*, 2016).

In 2013, the Government of Kenya attempted to attract foreign investors to the infrastructure sector by passing a law on public-private partnerships, which restricted FDI to numerous sectors, including food processing, construction and equipment (Trade Portal, 2019). As a result, FDI decreased, a phenomenon that continued until 2016. The law was amended in 2015, which saw the suspension of the clause that states that a company should have at least 30 percent of its capital reserved to Kenyan citizens. It was only after the Kenyan government announced their plans for the development of Project Kenya Investment Policy in 2017, that Kenya attracted the interest of foreign investors once again (Trade Portal, 2019) (see section 2.4.3). Subsequently, FDI inflow increased significantly, reaching 1.625 million USD in 2018, the highest in a decade. During the period of 2012 to 2018, the economic growth of Kenya fluctuated and the government is still challenged by the prospect of stabilising economic growth.

When considering the visual trend and relationship between FDI and economic growth in Figure 2.3, it can be concluded that there is the possibility of a positive relationship between FDI and economic growth in Kenya. However, it is evident that both economic growth and FDI are influenced by other factors as well, including political unrest and policy amendments.

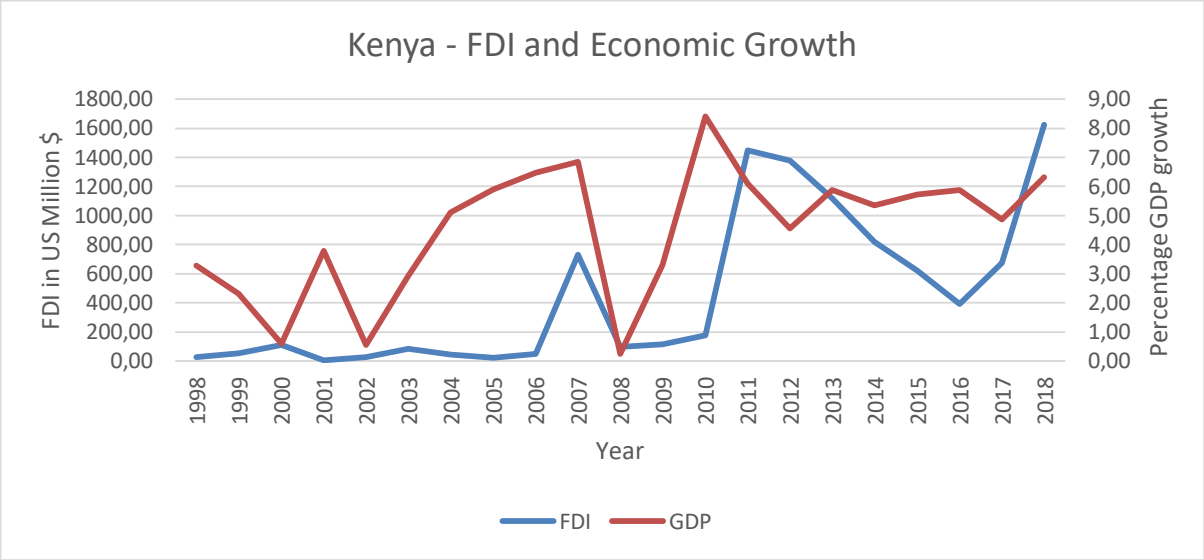

Figure 2.3: Kenya – FDI and Economic growth (1998-2018)

Source: Author's own compilation

2.5.4. FDI and GDP trend analysis of Malawi

Malawi's government has had a difficult time developing the economy since their independence. The economy is largely dependent on the agricultural sector which accounts for 90 percent of Malawi's export earnings (United Nations, 2006). The World Bank classifies Malawi as a low income country, with a GDP of 7.065 billion USD in 2018 and a GDP per capita of 389.40 USD (World Bank, 2019c). Over the past two decades, Malawi's economy has fluctuated, without success from government attempts to stabilise the economy. The stagnation of the economy is underpinned by a set of external influences such as climate-related disasters, and domestic and political unrest (IMF, 2017).

In 2001 Malawi's economy diminished by 4.97 percent due to a food crisis in which the country failed to reach food security. The 2001/2002 food crisis drew much attention to Malawi's failure to develop sound economic policies since independence (Doward & Kydd, 2004). While the economy recovered from the 2001/2002 food crisis, it still remained unstable and volatile. Malawi was able to come back from economic uncertainty due to a good response by Malawi's government and donor countries, which allowed them to continue good growth that provided a good foundation for development (OECD, 2008a). In 2007, Malawi's economic growth reached 9.6 percent. The transformation of economic policy and better macroeconomic management seemed to benefit Malawi's economy (OECD, 2008a). However, in 2008, Malawi's economic growth slowed down yet again due to insufficient policies that led to the depletion of International reserves and rising inflation (OECD, 2008a).

Malawi's government has been actively trying to attract the interest of foreign investors over the past two decades (see section 2.4.4), but despite their efforts, FDI inflow remains relatively low (U.S Department of State, 2019). Over the last two decades, FDI inflow has only improved slightly from 12.10 million USD in 1998 to 101.61 million USD in 2018. FDI has fluctuated significantly in the last two decades and Malawi has not been able to secure stable foreign investments. After Malawi's food crisis in 2002, FDI slowly started to increase, a phenomenon that only continued until 2005, when FDI decreased from 195.42 million USD in 2005 to 49.3 million USD in 2006. In 2011, Malawi had its biggest increase in FDI in a decade, reaching a FDI inflow of 812.75 Million USD. However, in 2012, Malawi barely received any FDI, with the World Bank (2019c) indicating a negative inflow of -8.89 percent. In 2013, the economy suffered yet another political shock as the corruption scandal "Crashgate" had major economic and political implications for the country (GIIN, 2016). However, Malawi still managed to attract FDI, despite the corruption scandal of the government, attracting 451.36 million USD in 2013 and 598.09 million USD in 2014. The increase in FDI can be explained by the new investment and export promotion act (see section 2.4.4), which presented new opportunities to foreign investors. However, the increasing trend in FDI did not continue for long and FDI has been declining since 2014.

When considering the relationship between FDI and economic growth in Malawi, as portrayed in Figure 2.4, no definite positive relationship between FDI and economic growth in the country is observed. When Malawi received a sudden inflow of FDI in 2011 it did not lead to an increase in economic growth and the economy shrank even further. Because Malawi's economy is reliant on its agricultural sector, external shocks like climate and a drop in commodity prices can have a big impact on the economy (Doward & Kydd, 2004).

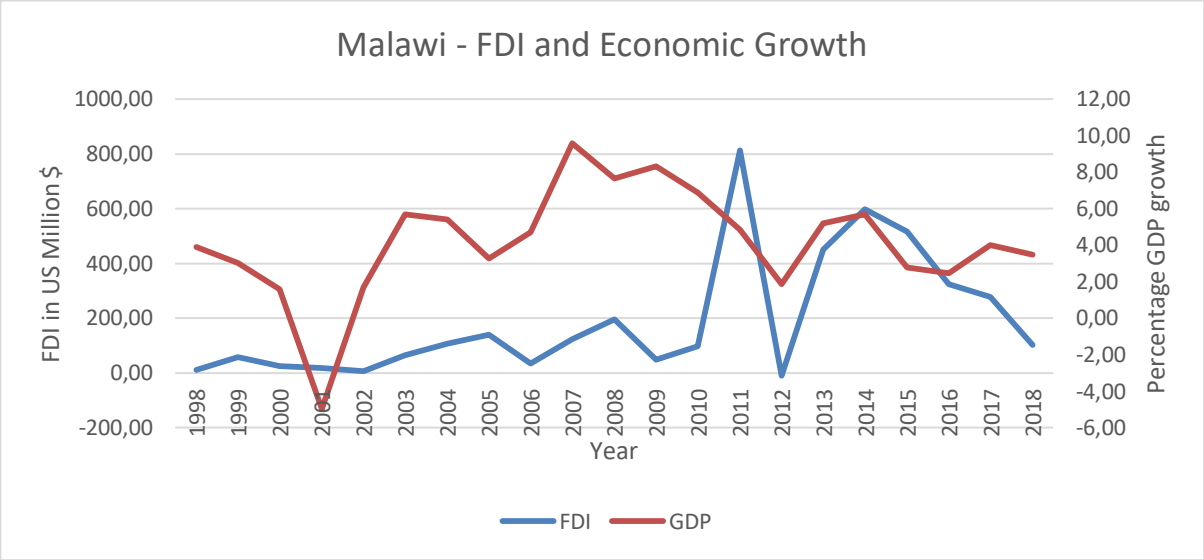

Figure 2.4: Kenya – FDI and Economic growth (1998-2018)

Source: Author's own compilation

2.5.5. FDI and GDP trend analysis of Mozambique

Since the end of Mozambique's civil war in 1992, the country has managed to make good post-conflict progress and rehabilitate the economy, achieving sustainable economic growth (OECD, 2003a). With a GDP of 14.72 billion USD in 2018, and a GDP per capita of 498.96 USD, the World Bank classifies Mozambique as a low income country. Over the past two decades, Mozambique has managed to obtain stable economic growth. A series of structural and macroeconomic reforms have resulted in significant economic growth in the country (OECD, 2003a). However, structural deficiencies and a focus on agricultural industries made the economy of Mozambique very volatile (OECD, 2003a).

For most of the 90's, Mozambique managed to sustain significant economic growth, reaching GDP growth of 11.70 percent in 1999. However, due to its highly volatile economy, the 2000/2001 floods had a major impact on economic growth, resulting in only 1.19 percent growth in 2000, from which the economy recovered in 2001. Nevertheless, Mozambique still managed to obtain an average economic growth of 8.2 percent between 1998 and 2005 (OECD, 2006a). The strong growth of Mozambique during the early 2000's was a result of the economy recovering after the civil-war, post-flood reconstruction and the aluminium smelter having its first year of full output (OECD, 2003a; OECD, 2006a).

After 2005, Mozambique managed sustainable economic growth for a decade, with an average growth of 7 percent between 2006 and 2015, which made Mozambique one of the

fastest growing non-petroleum countries in Sub-Saharan Africa (SSA) (Deloitte, 2016a). Since 2015, Mozambique's economic growth has slowed down to an average economic growth of 3.6 percent from 2016 to 2018. According to the African Development Bank (2018), the slowdown of the economy is underpinned by fiscal strains and tighter monetary policies.

Mozambique has, however, had a strong increasing FDI inflow since 1998. The country's access to international waters and an abundance of natural resources, including natural gas and coal, make it a great investment opportunity for foreign investors. The government of Mozambique has managed to maintain sound investment policies (see section 2.4.5) and privatisation programs to improve the business and investment environment of Mozambique. Since 2005, FDI inflow to Mozambique has drastically increased reaching a historical high inflow of 6697.42 million USD in 2013 due to the discovery of natural gas (Gqada, 2013). As such, most of FDI in Mozambique is directed to megaprojects in the mining and logistics industry (African Development Bank, 2018). After the discovery of natural gas, FDI inflow declined from 4998.80 million USD in 2014 to 2319.07 million USD in 2017. The decline in FDI can be attributed to a decline in investments in mining (UNCTAD, 2020). What is notable is that even though Mozambique has made some policy changes over the years (see section 2.4.5) it did not seem to have a big effect on FDI inflow.

When considering the FDI and economic growth nexus as indicated in fFgure 5, there is not a strong positive correlation between FDI and economic growth. While both economic growth and FDI remained stable over the course of two decades, when FDI significantly increased in 2013, economic growth was a little lower in comparison to growth in 2012. The spike in FDI also didn't have a delayed effect on the economic growth of Mozambique as the economic growth slowed down in 2014.

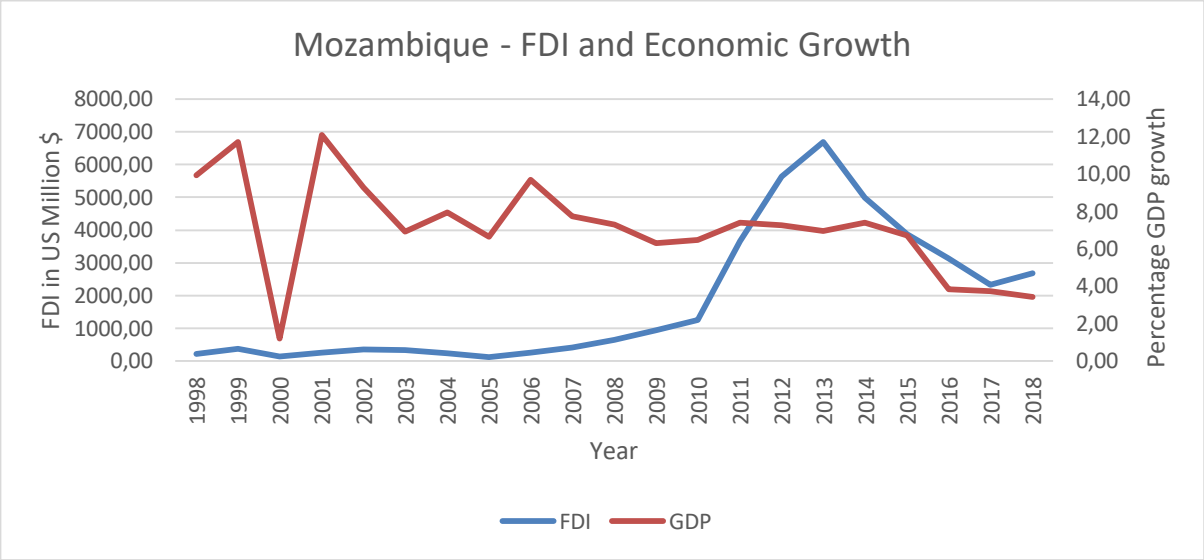

Figure 2.5: Mozambique – FDI and Economic growth (1998-2018)

Source: Author's own compilation

2.5.6. FDI and GDP trend analysis of Rwanda

While Rwanda is known as one of the poorest countries in the world, with high poverty rates and poor infrastructure, it is also a country that has managed to maintain constant high economic growth for the last two decades. Rwanda is a small landlocked country faced with numerous development challenges and high trading costs, making it hard to compete on a global scale (OECD, 2008b; World Bank, 2020a). The World Bank classifies Rwanda as a low income country with a GDP of 9.509 billion USD and a GDP per capita of 772.94 USD in 2018.

However, the country has been able to improve its economic situation with a stable political environment since 1994 and the will to improve the economy and become a high-income country by 2050 (World Bank, 2020a). The policy changes that the Rwandan government has been making, has led to a substantial increase in FDI and a stable increasing FDI inflow. The stable economic growth of Rwanda over the last two decades can be attributed to numerous factors and policy changes by the Rwandan government (see section 2.4.6) (OECD, 2008b; World Bank, 2020a). Since 1994, the government of Rwanda has been committed towards reducing poverty rates, building a sustainable business environment and reforming the financial and business sectors. In 2002, the economic growth of Rwanda slowed down when economic growth reached its lowest since 1994.

However, determined to maintain economic growth and stability, the government of Rwanda increased their efforts to reduce poverty in the country and maintain economic stability (OECD, 2008b, World Economic Forum, 2016). Subsequently, economic growth stabilised in 2004 when the GDP grew by 7.45 percent in 2004, 9.38 percent in 2005 and 10.73 percent in 2006, as seen in Figure 2.6. The government also managed to reduce the percentage of the population that live below the poverty line from 57 percent in 2005 to 45 percent in 2010 (World Economic Forum, 2016; World Bank, 2019c).

Rwanda also managed to increase their FDI inflow over the past 2 decades by undergoing a set of policy reforms that focused on attracting foreign investors (see section 2.4.6) (English, McSharry & Ggombe, 2016). Therefore, the increasing FDI rate can be attributed to a favourable investment environment, which offers numerous opportunities for foreign investors, who contribute to the improvement of Rwanda's infrastructure, reducing poverty rate, and stabilising the political and economic environment (English *et al*, 2016). In 2015, a new investment code was introduced by the government. Subsequently, FDI increased again after 2015, which could be the result of the new investment code.

When considering the relationship between FDI and economic growth in Rwanda as indicated in Figure 2.6, it can be concluded that there does not seem to be a direct positive relationship between FDI and economic growth. Rwanda's economy experienced economic growth before Rwanda became a top foreign investment attraction and even when FDI showed a significant increase after 2005, economic growth remained constant and even lower than in 2005. Much of Rwanda's economic growth can also be explained by financial aid by other countries and organisations, including the IMF and the World Bank, which makes up between 30 percent and 40 percent of government revenue (World Economic Forum, 2016).

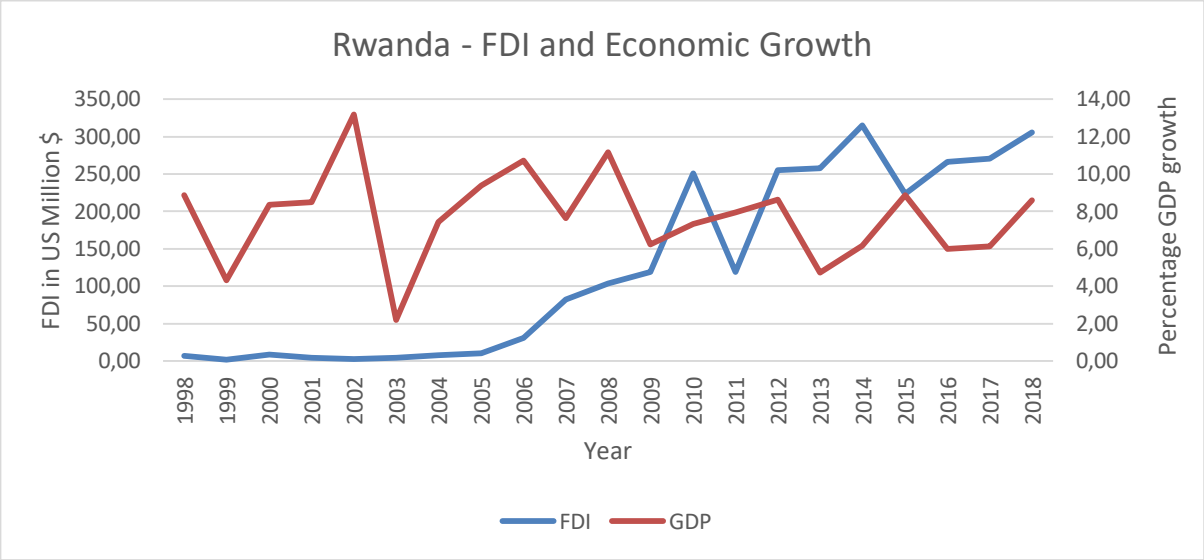

Figure 2.6: Rwanda – FDI and Economic growth (1998-2018)

Source: Author's own compilation

2.5.7. FDI and GDP trend analysis of Tanzania

Even though Tanzania is known to be one of the poorest countries in the world with high poverty rates, it is also one of the best preforming countries in Africa when it comes to economic growth and attracting foreign investors (Deloitte, 2016b; Mandalu & Hofisi, 2018). With a GDP of 58 billion USD and a GDP per capita of 1050.68 USD in 2018, the World Bank classifies Tanzania as a low income country. Tanzania has managed to sustain an average economic growth of between 6 percent and 7 percent over the past decade, with FDI reaching 2087.26 million USD in 2013 (World Bank, 2019c). The government of Tanzania is continuously implementing and adapting policies to attract foreign investors (see section 2.9.7). There are a number of factors that contribute to the constant economic growth that Tanzania has been experiencing. While the country's economic growth relies a lot on foreign assistance for budgetary support, a growing consumer market and the development of the country's infrastructure has contributed to the growing economy (Deloitte, 2017).

In 2000, the government of Tanzania turned the focus of their economic policy towards reducing poverty. This strategy was initiated by the IMF and World Bank as an attempt to reduce debts owed to international financial agencies (Mandalu & Hofisi, 2018). With assistance from the IMF and World Bank, Tanzania was able to maintain strong economic growth, however, the increasing population made it challenging for Tanzania to reduce poverty effectively (Mandalu & Hofisi, 2018).

Nonetheless, economic growth in Tanzania remained stable between 2000 and 2007, with average economic growth of 7 percent. The global recession did, however, slow down Tanzania's economic growth between 2008 and 2009, when the economy only grew by 5.27 percent (World Bank, 2019c). However, in 2010 economic growth increased and Tanzania had its highest economic growth since the start of the new millennium, with GDP growth of 7.62 percent in 2011. While the economic growth of Tanzania seems to be slowing down, the country is still having an average growth of 6 percent each year (World Bank, 2019c).

Tanzania has managed to draw the attention of foreign investors through its abundance of natural resources and continued political stability, which provides investors with the reassurance of a stable investment environment (Bank of Tanzania, 2013; OECD, 2013). The government has implemented policy reforms that aim to improve the business and investment environment to attract more foreign investment to the country (OECD, 2013) (see section 2.4.7). Electricity and gas is one of the sectors that receive the most FDI in Tanzania, while FDI in the agriculture sectors remains low (Bank of Tanzania, 2013).

Considering the relationship between FDI and economic growth in Tanzania as illustrated in Figure 7, there are signs of both a positive and negative relationship between FDI and economic growth. When Tanzania had strong economic growth in early 2000, FDI was relatively low and decreased each year in comparison to the increase ineconomic growth. However, after 2008, the economy of Tanzania grew when Tanzania attracted more FDI and the economy decreased when FDI inflow in Tanzania decreased.

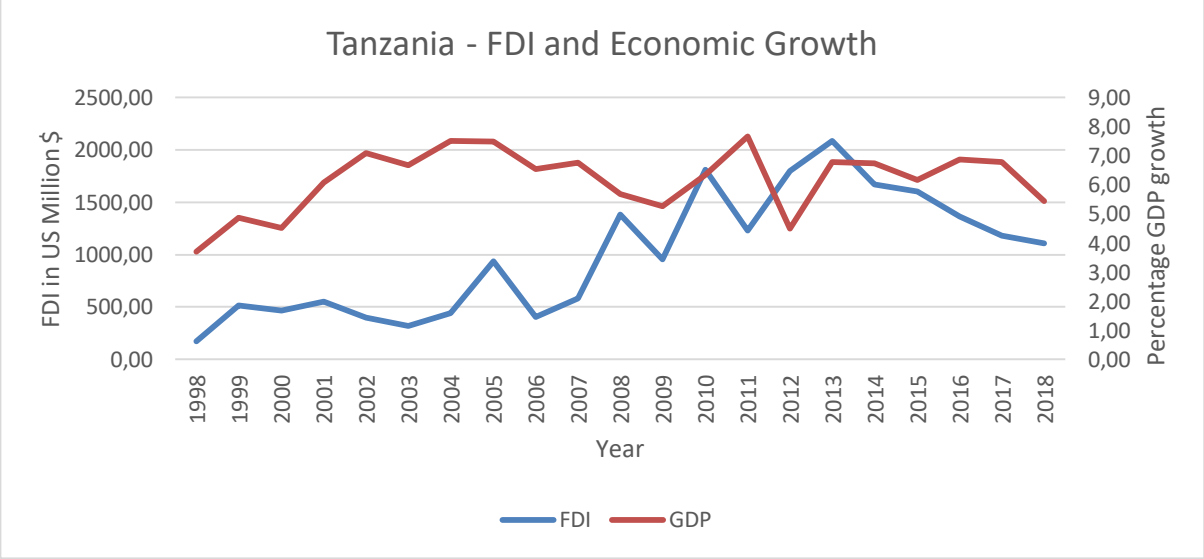

Figure 2.7: Tanzania – FDI and Economic growth (1998-2018)

Source: Author's own compilation

2.5.8. FDI and GDP trend analysis of Uganda

With direct access to regional markets, an abundance of natural resources and rich soil, Uganda is known as the “Pearl of Africa” (Sejjaaka, 2004). While the country has made great progress in rehabilitating and creating macroeconomic stability, the World Bank classifies Uganda as a low income country, with a GDP of 27.46 billion USD in 2018 and a GDP per capita of 642.78 USD per annum (World Bank, 2019c).

While the country has its own set of challenges to create stable economic growth, with support from the IMF and the World Bank, Uganda has managed to present stable economic growth over the past two decades (Guloba, Kilimani & Nabiddo, 2010). Uganda started off the new millennium with a slowdown in their economy after a long run of stable economic growth. The slowdown in 2000 could be largely attributed to external factors, including the increase in oil prices and a decline in coffee prices, which is one of Uganda’s main exporting products (OECD, 2002b). However, the government of Uganda implemented sound economic policies, which subsequently lead to strong economic growth in 2002 (OECD, 2003b).

With the judicious implementation of macroeconomic policies and management, structural reforms and large financial support from other countries, Uganda managed to keep stable economic growth throughout the early 2000’s, showing a GDP growth of 10.78 percent in 2006 (OECD, 2006b). As expected, the 2008/2009 global financial crisis did not have a big impact on Uganda’s economy due to the country’s weak financial links to the global markets, however, Uganda’s economic growth did slow down, decreasing economic growth by 1.4 percentage points in 2009/2010 (Ssewanyana, Bategeka, Twimukye & Nabiddo, 2009). While Uganda’s economy slowed down since 2011, the country still presents strong and stable economic growth, which is mostly driven by the development and expansion of the service sector, as well as investment in infrastructure (Uganda Investment Authority, 2016; World Bank, 2020b).

Uganda has also managed to secure the trust of foreign investors over the past two decades. Since 1998, FDI has gradually increased from 210 million USD in 1998 to 1337.13 USD in 2018 (World Bank, 2019c). Rich with natural resources, Uganda offers investors numerous opportunities in the mining sector as well as the manufacturing sector (United Nations, 2001). Uganda’s government is continuously working to improve the investment environment of Uganda to attract more foreign investors (see section 2.4.8). In 2014, FDI inflow to Uganda slowed down due to the upcoming elections in 2016, which caused concerns for political instability (Uganda Investment Authority, 2016). After the elections year, FDI increased rapidly, reaching 1337.17 million USD, a record high FDI inflow. The increase in FDI is

underpinned by the constant development of oil fields, construction and the manufacturing sectors (Trade Portal, 2020).

When considering the relationship between FDI and economic growth of Uganda as indicated in Figure 2.8, it can be concluded that there is some indication of a positive relationship and that FDI has potentially contributed to the economic growth that Rwanda has been experiencing for two decades. When FDI increased in 2005 and continued to increase until 2007, Rwanda had higher growth, and when FDI decreased in 2012, Rwanda's economy had much slower economic growth until FDI increased in 2016; economic growth increased as well. However, Uganda's economic growth is also heavily reliant on external sources and financial aid from other countries, including China (Guloba *et al*, 2010).

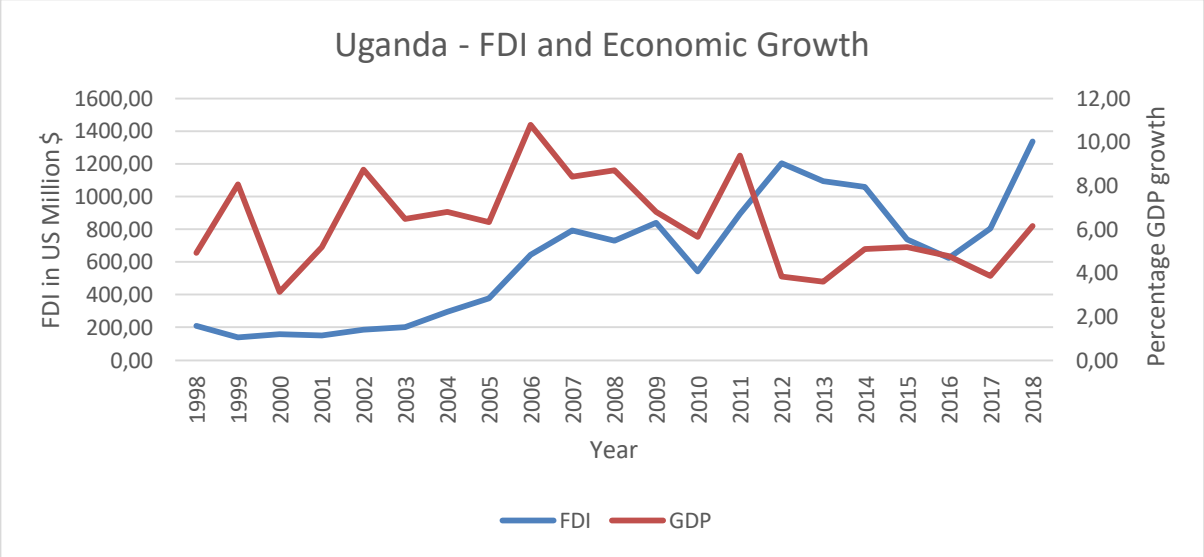

Figure 2.8: Uganda – FDI and Economic growth (1998-2018)

Source: Author's own compilation

2.5.9. FDI and GDP trend analysis of Zambia

Zambia has had one of the fastest growing economies in East Africa over the past two decades. In 1998, Zambia's economy shrunk by 0.39 percent, but managed to come back with strong economic growth for the next decade. Zambia's economy grew by an average of 7 percent from 1999 to 2010. In 2010, Zambia's economy grew by an impressive 10.30 percent (Wold Bank, 2019).

The economic growth during the 2000's is underpinned by a stable macroeconomic environment, investment in the copper sector and a boom in commodity prices (UNCTAD, 2017). Zambia relies heavily on their copper industry despite the government's efforts to diversify exports. This has pushed the country above the low income country classification threshold, classifying Zambia as a lower middle income country, with a GDP of 26.72 billion USD in 2018 and a GDP per capita of 1 539.90 USD per annum. Due to Zambia's large copper mining sectors, most investments are directed towards mining and large infrastructure projects.

However, in 2011, economic growth slowed down to 5.56 percent due to lower output in the mining sector and uncertainty caused by the outcome of the presidential election, which deferred major potential investment projects (OECD, 2012). Followed by a fall in commodity prices since 2014 (United Nations, 2015), economic growth in Zambia has slowed down to 3.79 percent in 2018.

Nevertheless, Zambia has enjoyed strong FDI inflow over the past two decades. In 2013, FDI reached a high of 2099.80 million USD. The government of Zambia is motivated towards attracting foreign investors, improving the business and investment environment continuously (see section 2.4.9) (Santander, 2020c). However, just like Zambia's economy, the commodity price has a big effect on attracting investors to the country, which explains the rapid increase in FDI that Zambia received between 1998 and 2013. However, a fall in commodity prices has caused investors to reconsider their operations, with most mining firms downscaling, leading to a huge decrease in FDI between 2014 and 2018 (United Nations, 2017).

When evaluating the relationship between FDI and economic growth in Zambia, as indicated in Figure 2.9, it is important to consider that both FDI and economic growth in Zambia is affected by commodity prices due the country's dependence on copper mining. Nonetheless, Figure 9 does indicate a positive FDI and economic growth nexus. When FDI decreased in 2006/2007 and 2011/2012, economic growth slowed down as well and when FDI increased in the early 2000's, Zambia's economic growth also increased.

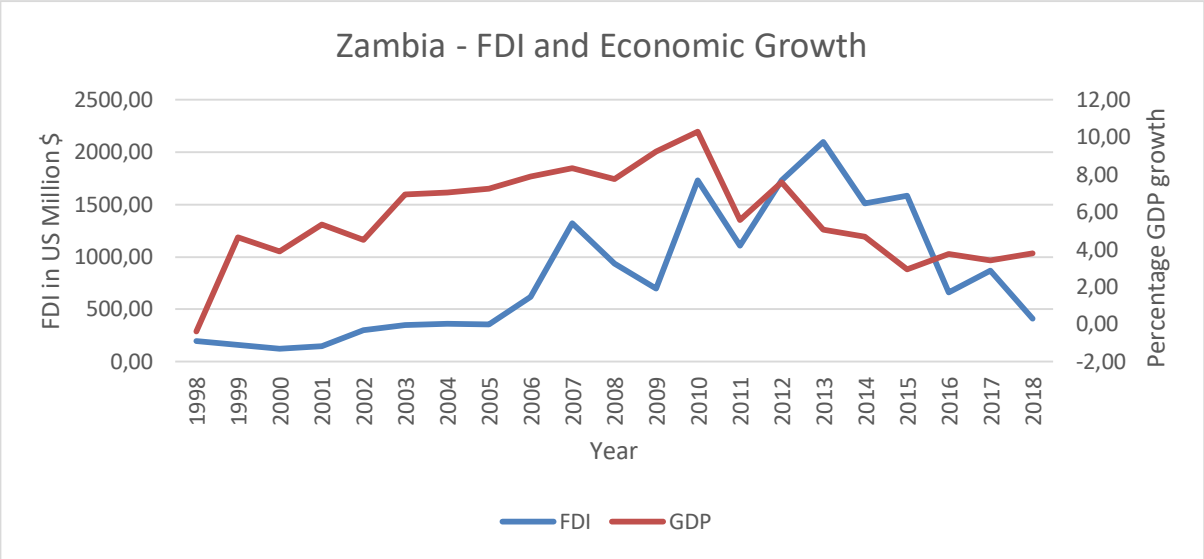

Figure 2.9: Zambia – FDI and Economic growth (1998-2018)

Source: Author's own compilation

2.5.10. FDI and GDP trend analysis of Zimbabwe

Over the past two decades, Zimbabwe has failed to create a stable growing economy. With a GDP of 31 billion USD and a GDP per capita of 2147 USD per annum in 2018, the World Bank classifies Zimbabwe as a lower middle income country. While Zimbabwe is a country with good agriculture and an abundance of natural resources, severe political conflict and an economic crisis has resulted in great uncertainty for the country (OECD, 2002c).

Since 1997, Zimbabwe's economy was at the brink of collapsing. For the first decade, from 1998 – 2008, the economy diminished annually at an average rate of -2.9 percent per year. Bad macroeconomic policies, a series of external shocks and hyperinflation led to the rapid deterioration of Zimbabwe's economy, putting the country in an ongoing political and economic crisis (OECD, 2002c; Croomer & Gstraunthaler, 2011; Asante, 2012).

In 1999, Zimbabwe lost most of their foreign financial aid due to the controversial land reform process in which white-owned commercial farms were acquired by the government without compensation (Croomer & Gstraunthaler, 2011). The land-reform process led to the suspending of financial assistance from the World Bank and the IMF, as well as other countries scaling back their financial aid to Zimbabwe (Croomer & Gstraunthaler, 2011). In 2000 economic growth declined by -3.06 percent.

While Zimbabwe's economy grew the following year by a small margin of 1.44 percent, severe drought during 2000/2001 led to a weak harvest year, the beginning of a food shortage crisis (OECD, 2002c). While the economic environment of Zimbabwe was worsening, the government kept overspending and the country's foreign reserves dropped to a dangerously low level (Croomer & Gstraunthaler, 2011).

By 2006, Zimbabwe's economy was in an undeniable crisis. With the government not able to afford paying back the country's debts, the decision was made to increase the supply of bank-notes to help pay off the increasing debts of the country (Asante, 2012). The increase in money supply led to a continuous need for cash, ultimately causing hyperinflation (Asante, 2012). In August 2006, the new Zimbabwean Dollar was introduced at a ratio of 1000:1, making the parallel exchange rate Z$650 000 per USD (Croomer & Gstraunthaler, 2011). By 2008 inflation reached 417.832 percent and in 2009 the Zimbabwean dollar was dollarised, officially making Zimbabwe's new currency the USD, which saw a 3 percent decline in Consumer Price Index (CPI) (Croomer & Gstraunthaler, 2011). The American dollar helped to improve the physical revenue performance and stabilise prices. In 2009, Zimbabwe's economy grew for the first time since 2001 by 12.02 percent. From 2009, Zimbabwe was able to slowly recover their economy and in 2010, the economy grew by 19.68 percent.

However, in 2013, economic growth slowed down in the light of the presidential election. A decline in commodity prices and the exchange rate created uncertainty for economic prospects (United Nations, 2015). The economic uncertainty and weak economic activity caused Zimbabwe's economic growth to stagnate till 2016. In 2017, economic growth slowly increased due to a stronger performance in the agricultural and mining sectors (Odero, 2018). While Zimbabwe's economy seems to be slowly recovering from the brink of collapse, the economic structure remains volatile and fragile (Mahembe &Odhiambo, 2014b).

In 1998, FDI inflow to Zimbabwe dropped significantly from 444.30 million USD in 1998 to 59 million USD in 1999. The significant drop in FDI is underpinned by unstable macroeconomic policies and growing national inequalities (Muzurura, 2016). When the government of Zimbabwe started the land reform process in 2000, FDI inflow dropped further to only 23.20 million USD in 2001 and 3.80 million USD in 2002. The land reform process caused numerous countries to suspend and downscale on investment and financial aid due the economic uncertainty in the country (Croomer & Gstraunthaler, 2011).

The phenomenon of low FDI inflow continued throughout the first decade of the 2000's. It was only in 2010, after Zimbabwe adopted the USD as its currency, that foreign investors began to invest in Zimbabwe once again (Croomer & Gstraunthaler, 2011). In 2011, FDI increased

to 344.30 million USD, followed by 472.80 million USD in 2014. FDI inflow decreased to 247.19 million USD in 2017 due to political unrest after the national elections, which required the military to assist in the transition (Chikohomero, 2019). In 2018, FDI increased significantly to 774.64 million USD in the wake of a new political and economic era for Zimbabwe.

Figure 2.10 indicates the relationship between FDI and economic growth over the last two decades. Due to Zimbabwe's unstable circumstances, which saw an ongoing economic crisis, there are many factors that contributed to slow economic growth. By considering Figure 10, it can be concluded that there is not a direct positive relationship between FDI and economic growth in Zimbabwe. While both economic growth and FDI was very low during most of the two decades, when FDI increased significantly between 2010 and 2014, economic growth of Zimbabwe slowed down.

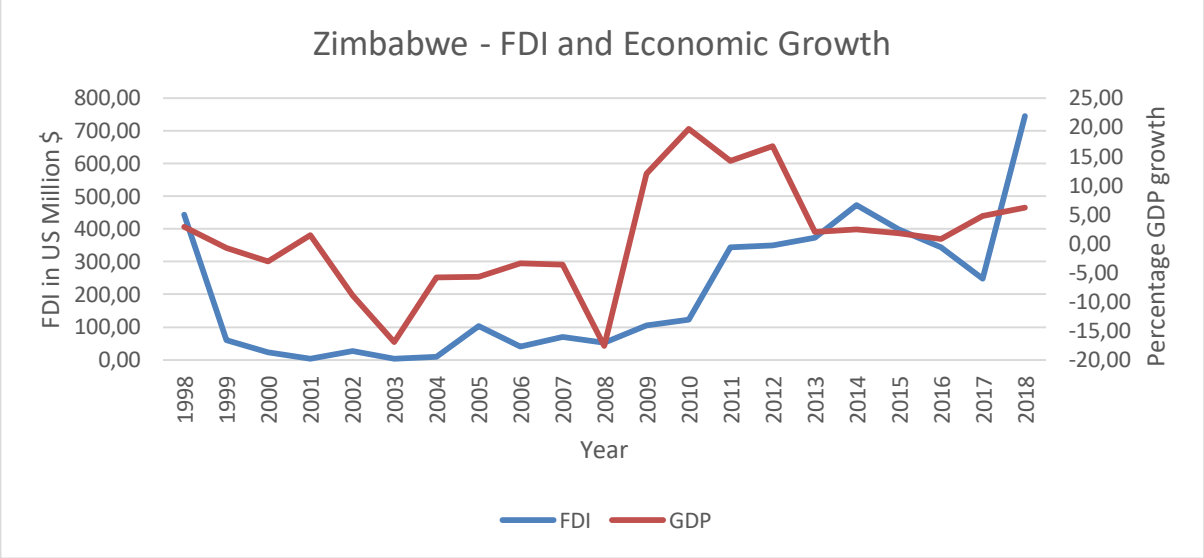

Figure 2.10: Zimbabwe – FDI and Economic growth (1998-2018)

Source: Author's own compilation

By observing the FDI and economic growth trends of the selected East African countries, it is clear that a positive relationship between FDI and economic growth is not mutual for all selected countries. It was also notable that both FDI and economic growth are influenced by external factors such as government policies, political stability and commodity prices.

2.6. Review of empirical literature

Numerous researchers and scholars have studied the FDI and economic growth nexus over the years. However, there have been contradictions in their findings over the years. While

some studies like Adams (2009) and Urgaia (2017) suggest that FDI has a strong positive relationship with the economic growth of a country, others like Durham (2000) and Herve (2016) suggest that there is in fact no positive relationship between the two. Some studies have also concluded that the relationship is positive, but only over the long term, while others suggest that the relationship can be positive, with the inclusion of other elements that affect the nexus. This section provides an overview of empirical literature on the FDI and economic growth nexus, and discusses some of their most important findings.

One of the most cited studies with regards to the impact of FDI on economic growth, is Borensztein, Gregorio and Lee (1998). Borensztein *et al* (1998) aimed at establishing the FDI and economic growth nexus. The study was conducted in a cross-country regression framework and includes the data on the FDI flow from industrialised countries to 69 developing countries. The empirical findings of the study suggested that FDI is an important factor for transferring technology, which contributes more to the economic growth of the host countries than domestic investment does. However, the study also found that the FDI and economic growth nexus is dependent on the level of human capital that is available in the host country (Borensztein *et al*., 1998).

Ayanwale (2007) also examined the relationship between FDI and economic growth, as well as the determinants of FDI in Nigeria. To conduct his research, Ayanwale estimated the augmented growth model via two methods, the ordinary least square (OLS) and 2SLS method, over the period 1970 to 2002. The results indicate that, although not to a significant extent, FDI does contribute positively to the economic growth of Nigeria. However, the results found that the effect of FDI on economic growth is not significant but the component of FDI has a positive impact. These components were identified as market size, infrastructure and macroeconomic policies.

Furthermore, Adams (2009) conducted a study to examine the relationship between FDI and economic growth in Sub-Saharan African countries and the results were similar to those of Ayanwale (2007). Also using the OLS methods, Adams (2009) examined the relationship over the time-span of 1990 to 2003 and found that the FDI-growth nexus is positive.

Ali and Hussain (2017) conducted a study focusing on the relationship between FDI and economic growth in Pakistan. The study was conducted by making use of time series data over the period of 1991 to 2015. By making use of a correlation analysis, Ali and Hussain (2017) concluded that there is indeed a positive relationship between FDI and economic growth in Pakistan. Low capital cost, the availability of raw material and adequate labour force were identified as some of the drivers behind the FDI and economic growth nexus.

Hlongwane (2011) studied several developing economies to determine whether FDI inflow can generate employment and have a positive effect on the GDP growth of the host country. Hlongwane (2011) made use of a panel data approach and determined that there is indeed a positive relationship between FDI and economic growth. However, he stresses that the extent to which FDI affects economic growth is determined by the economic climate of the host country.

Soumia and Abderrezak (2013) used north African countries to examine the FDI-growth nexus over three decades, from 1980 to 2010. The authors made use of a dynamic panel system and GMM estimator, which indicated that FDI does have a significant positive impact on the economic growth of North African countries. However, the results are subjected to certain economic and financial conditions of the Host country.

In addition, a study by Seyoum *et al.* (2015) empirically investigated the FDI-growth nexus by examining 23 African countries over the period of 1970 to 2011. The study was conducted by making use of annual balanced panel data, using panel econometric techniques and taking non-stationary and cross-section dependency into account. As a result, Seyoum *et al.* (2015) found a bidirectional causal relationship between FDI and economic growth. The authors also found that the results were not homogenous and differ among individual countries.

Meanwhile, Dinh, Vo, Vo and Nguyen (2019) investigated FDI and economic growth in the short- and long-run, making use of developing countries from a lower-middle income group. The study was conducted using data from 2000 to 2014 by means of various econometric methods, including the panel-based unit root test, VECM, Johansen test and a fully modified OLS. Dihn *et al.* (2019) found that in the long-run, FDI has a positive, stimulating impact on economic growth. However, in the short-run, FDI seems to negatively influence the economic growth of a country.

Urgaia (2017) also conducted a study examining the impact that FDI has on economic growth, focusing on East African countries. The study made use of annual panel data from 1970 to 2015, similar to the study by Seyoum *et al.* (2015). To show a panel of short-, medium-, and long-run effects, the author made use of panel autoregressive distributed lag and random effect models, combined with time scaling wavelet decomposition. As a result, Urgaia (2017) found there is indeed a bidirectional relationship between FDI and economic growth in the short, medium and long-run.

Contrary to the studies that found a positive relationship between FDI and economic growth, some studies concluded that FDI does not lead to economic growth. For example, Durham (2000) investigated 80 developed and developing countries to determine the effect of FDI on economic growth. Durham (2000) used data from 1979 to 1998 and evaluated the effect by making use of panel-based unit root, Johansen cointegration, VECM and fully modified OLS methods. His results show that FDI does not have a significant positive effect on economic growth, while some data indicated that the effects of FDI are contingent on the host countries' absorptive capacity.

Similar to Durham's study, Azman-Saini, Baharumshah and Law (2010) evaluated 85 countries to determine the effect that FDI has on economic growth. Azman-Saini *et al.* (2010) used a generalised method-of-moments system to determine the effect and concluded that FDI itself has no direct positive effect on the economic growth of a country, but are contingent to the level of economic freedom in the host country. Furthermore, Mahembe and Odhiambo (2014b) examined the relationship between FDI and economic growth within SADC. A panel data analysis was used to conduct the study and the authors concluded that FDI does not lead to economic growth in SADC countries and that it is indeed economic growth that leads to an increase in FDI.

Herve (2016) also conducted a study on the link between FDI and economic growth in African countries. Herve (2016) examined four West African countries: Cote d'Ivoire, Benin, Senegal and Togo over the period 1980 to 2014. To examine the long-run equilibrium, the researcher used the Pedroni procedure. Taking the empirical investigation further, Herve (2016) estimated a dynamic panel system GMM estimator with fixed effects. Finally, the OLS and two stages least squares method was used to test the robustness of the estimator. The author concluded that FDI is not important for the economic growth of these four West African countries.

Olagbaju and Akinlo (2018) reached similar conclusions in their study on the relationship between FDI and economic growth in Sub-Saharan Africa. The authors used panel data econometric techniques on an unbalanced data set over the period 1989 to 2013. The researchers came to the conclusion that unlike Adams (2009), FDI does not contribute directly to the economic growth of SSA countries. However, the authors acknowledge that the financial system of the host country's banking sector enhances the effect that FDI has on economic growth in the region.

Table 2.1 summarises the results of existing literature and empirical studies done on the impact of FDI on economic growth.

Table 2.1: Studies on the impact of FDI on economic growth: A summary

Study	Time period and countries studied	Econometric method	Conclusion
Borensztein *et al* (1998)	69 Developing countries (1970 – 1989)	Seemingly unrelated regression and cross-country regression	Overall, FDI has a positive effect on economic growth, depending on the host country's stock of human capital.
Ayanwale (2007)	Nigeria (1970 – 2002)	Ordinary least squares and 2SLS method	FDI contributes positively to the economic growth of Nigeria.
Adams (2009)	Sub-Saharan Africa (1990 – 2003)	Ordinary least square and fixed effects	FDI has a positive effect on economic growth when using the OLS estimation
Hlongwane (2011)	Developed and developing countries (1996 – 2009)	Panel data analysis	There is a positive relationship between FDI and economic growth of the host country.
Soumia & Adderrezak (2013)	North Africa countries (1980 – 2010)	Dynamic panel system GMM estimator	The relationship between FDI and economic growth is positive.
Seyoum *et al* (2015)	23 African countries (1970 – 2011)	Annual balanced panel data	A bidirectional causal relationship between FDI and economic growth exists.
Urgaia (2017)	East Africa (1970 – 2015)	Panel autoregressive lag and random effects model combines with time scaling wavelet decomposition.	There is a bidirectional dynamic relationship between FDI and economic growth.
Ali & Hussain (2017)	Pakistan (1991 – 2015)	Time series data, correlation analysis	The relationship between FDI and economic growth is positive.
Dinh (2019)	Developing countries of lower-middle income (200 – 2014)	Panel-based unit root, Johansen cointegration, VECM and fully modified OLS	The relationship between FDI and economic growth is positive over the long-run, but negative in the short-run.
Durham (2000)	80 countries (1979 – 1998)	Cross-sectional growth regression, OLS	FDI does not have a direct, unmitigated effect on economic growth
Azman-Saini, Baharumshah & Law (2010)	85 countries (1976-2004)	Generalised Method-of-Moment (GMM)	FDI has no direct positive effect on economic growth

Study	Time period and countries studied	Econometric method	Conclusion
Mahembe & Odhiambo (2014b)	15 SADC countries (1980-2012)	Panel data analysis	FDI does not influence economic growth positively, but vice-versa.
Herve (2016)	4 West-African countries (1980 – 2014)	Dynamic panel system, GMM estimator with fixed effects.	FDI does not lead to economic growth.
Olagbaju & Akinlo (2018)	Sub-Saharan Africa (1989 – 2013)	Panel data analysis	FDI does not lead to economic growth directly

Source: Author`s own compilation

2.7. Synopsis

Chapter 2 reviewed the underlying theories and empirical literature of the relationship between FDI and economic growth. The chapter was divided into six subsections. The first section, section 2.2, examined the theoretical aspects of FDI, discussing the different motives behind FDI, different types and forms of FDI and the risks involved. The motives behind FDI include efficiency seeking, market seeking, resource seeking and strategic asset seeking FDI. The motives explain different reasons as to why a company or individual would consider investing abroad. The two main types of FDI that were discussed include horizontal FDI and vertical FDI, while the two mains forms discussed were greenfield investments, and mergers and acquisitions. The risk factors distinguished between political, financial and economic risk factors that investors face when entering a foreign market. Understanding these theoretical aspects of foreign investment is crucial in understanding why foreign investors invest and what they are looking for when choosing a host country in which to invest.

Section 2.3 discussed the underlying theories of FDI and economic growth. The two main underlying FDI theories discussed were the modernisation theory and the dependency theory. The modernisation theory suggests that capital investment is a key determinant for economic growth. The dependency theory was initially a paradigm arguing that rich countries becomes richer, while poor countries remain poor. The dependency theory ultimately shaped the way that African leaders viewed FDI. The economic growth theories discussed, include the neo-classical growth theory and the endogenous growth theory. The neo-classical growth theory suggests that domestic savings and FDI will increase if national markets are liberalised, while the endogenous growth theory suggests that supply side externalities will generate economic growth.

Furthermore, the investment policies of the EAC and selected East African countries were evaluated in section 2.4. By examining the investment policies, a better understanding was gained of why countries like Kenya and Ethiopia might receive more FDI than countries like Burundi and Malawi. An overview of the relationship between FDI and economic growth in each country was evaluated in section 2.5. The evaluation indicated that while some countries like Kenya and Uganda have a clear positive relationship between FDI and economic growth, other countries like Malawi and Rwanda do not. This shows that the relationship between FDI and economic growth is not the same for all East African countries, which indicates the necessity of also evaluating the FDI and economic growth nexus according to income level.

A review of the empirical literature in section 2.6 presented conflicting results. While most studies, like Borensztein *et al* (1998), Adams (2009) and Seyoum *et al*. (2015) suggest that FDI has a positive effect on the economic growth of a country, some scholars, including Mahembe and Odhiambo (2014b), and Olagbaju and Akinlo (2018), found that FDI does not affect the economic growth of a country but that economic growth might lead to an increase in FDI. To contribute to the debate and existing literature, this study aims to firstly, evaluate the relationship between FDI and economic growth in selected East African countries and secondly, to determine whether the impact differs according to the income level of the country. In the next chapter, Chapter 3, an outline of the research methodology is provided. The data and the methods used to conduct the study is thoroughly evaluated and discussed.

CHAPTER 3: RESEARCH METHODOLOGY

3.1. Introduction

The empirical study is underpinned by two main objectives. The primary objective of the study is to evaluate the relationship between FDI and economic growth in the selected East African countries. Secondarily, the study aims to determine whether the impact that FDI has on the economic growth of the selected East African countries differs according to the host country's income level classification. This chapter provides a thorough outline of the research methodology followed to achieve these research objectives.

To determine the relationship between FDI and economic growth, the study makes use of panel data. The analysis is done on 10 selected East African countries over the time period 1998 to 2018. The empirical model, methods and the variables used to reach the study objectives are discussed to provide more insight into the methodology.

In section 3.2, the theoretical background that underpins the methodology of the study is discussed. Section 3.3 provides a descriptive outline of the variables used in the estimated empirical regression, followed by the estimated empirical regression in section 3.4. In section 3.5, the estimation techniques and analytic approach to the study is explained and discussed. Finally, the limitations presented by the data set are discussed in section 3.6.

3.2. Theoretical background of the model

The methodology used to conduct this study is underpinned by the estimated specification of Solow's augmented growth model by Mankiw, Romer and Weil (1992). Solow's augmented growth model argues that productivity is determined by the availability of capital, stating that population growth, the rate of savings and the technological progress of a country are primary sources for growth, employing an augmented production function (Mahembe & Odhaimbo, 2014a; Canarella, 2011). The Cobb-Douglas constant returns to scale production function is assumed as:

$$Y_t = K(t)^{\alpha} H(t)^{\beta} [A(t)L(t)]^{1-\alpha-\beta} \quad \text{.....(3.1)}$$

Where *Y* represents the output, *A* represents technology, *K* is physical capital, *H* represents human capital and *L* is labour. Parameters α and β are output elasticities of physical and human capital (Canarella, 2011). As indicated in chapter two, according to Solow's augmented growth model, FDI increases the capital income of the host country, providing capital funds that have a positive influence on the capital-labour ratio of the host country (Mahembe &

Odhaimbo, 2014a). Therefore, for the purpose of this study, FDI is expressed as a source of physical capital inflow in Solow's augmented economic growth model, as a host country's capital stock consists of both domestic-owned physical capital and foreign owned physical capital in the form of a MNE (Johnson, 2006). The physical capital stock of the host country (K_{HC}) can, therefore, be expressed as follows:

$$K_{HC} = K_{DOM} + K_{MNE} \quad \text{..... (3.2)}$$

Where:

K_{HC} = The physical capital stock of the host country

K_{DOM} = Domestic physical capital stock

K_{MNE} = Foreign physical capital stock

As long as FDI and domestic investments are not substitutes, FDI can generate an increase in foreign capital stock, which could result in an increase of the host country's physical capital stock (Johnson, 2006). As a result, FDI can drive economic growth in the same way that domestic capital drives economic growth (Johnson, 2006). However, it is important that foreign investment not replace domestic investment, like mergers and acquisitions (M&A), which result in the change of ownership of an existing firm. This could lead to a decrease in domestic physical capital stock (K_{DOM}) and an increase in foreign physical capital stock (K_{MNE}) (Johnson, 2006).

3.3. Variable descriptions

The variables used in the study were chosen based on existing literature on FDI and economic growth. To reach the research objectives, the study uses data for 10 East African countries over a 21-year period from 1998 to 2018. The country selection focused only on mainland East African countries, excluding island East African countries from the study. The 10 mainland East African countries used in the study were selected based on data availability between the period of 1998 and 2018. This section provides a detailed overview of the selected variables used to conduct the study.

3.3.1. Current GDP

GDP gives an indication of a country's GDP within a given year. It is represented by annual GDP at current price and serves as a proxy for economic growth. Because FDI inflow is presented in the form of current US$, the study also uses current GDP to improve the accuracy of the results. GDP is the dependent variable in the estimated model and constitutes the

economic growth or decline that countries experienced during the specified period. The data was obtained from the World Bank (2019).

3.3.2. FDI

FDI represents the FDI inflow of a host country. This is an indication of the cross-border direct investment equity flow into the country, measured in USD thousand. Because the size of the economy of each country is different, the net inflow in USD is used instead of FDI inflow as a percentage of GDP. The data was obtained from the World Bank (2019).

3.3.3. Population

POP represents the total population of a country and serves as a proxy of the country's market size. The population is an important factor for foreign investors as it gives an indication of a country's market size. The data was obtained from the World Bank (2019).

3.3.4. Electricity access

The *ELECT* value represents the percentage of the population that has access to electricity and is used as a proxy for infrastructure. Electricity access is an important investment factor because it serves as an indication of how technologically advanced the country is and how easy it is to get access to electricity, an important resource for the manufacturing sector. The data for electricity access was obtained from the African Development Bank (2019).

3.3.5. Labour force

The total active labour force in a country is represented by *LABFORCE.* The total active labour force of a country is an indication of all the people who fulfil the requirements of being included among the employed population. The labour force of a country can also serve as proxy of productivity within the country, which according to Robert Solow (1956), is an important factor for economic growth. The level of productivity in a country is also an important factor for foreign investors to consider before investing in a specific country. The data was obtained from the World Bank (2019).

3.3.6. Government effectiveness

The effectiveness of the government is represented by *GOV*. The government effectiveness index indicates the overall quality of the local government in terms of policy formulation and implementation, civil services, public services and the overall credibility of the local government. The index is measured on a scale of -2.5 to 2.5 and the data was obtained from

the Worldwide Governance Indicators (2019). If the index rating is closer to -2.5, the country has low political stability and lower government performance; whereas a rating closer to 2.5 indicates political stability and high government performance. A stable political environment is essential for most foreign investors as it minimises investment risk.

3.3.7. Globalisation index

The *GLOB* index indicates to what extend the country has globalised socially, politically and economically, and is measured on a scale of 0 – 100. If the rating is closer to 0, the country has a low globalised society and little global influence politically and economically. If a country has a globalisation index rating closer to 100, the country has a higher globalised society and higher global influence politically and economically. The level of globalisation gives investors an indication of how easy it will be to access the global market from the selected host country, as well as the ease of gaining access to the local market. The data was obtained from the KOF Swiss economic data site (2019).

3.3.8. Income classification

The income level of each country is represented by *INC.* The income level is important to this study as one of the objectives is to determine whether the relationship between FDI and economic growth differs according to the income level of the different countries. The income level of the country can potentially influence an investor's decision because lower-income countries have a potentially smaller domestic market size as compared to middle-income countries. This could affect the rate of return for foreign investors. Income classification is used as a dummy variable and will only be added to the equation when the difference between the FDI and economic growth nexus are tested according to income classification (see Chapter 4, section 4.4.2). The income classification data was obtained from the World Bank (2019).

Table 3.1 summarises the variables used in the study by giving the description and proxy of each variable, as well as the expected effect that each variable on current GDP and the source from which each variable's data was obtained.

Table 3.1: Variable description

Variable	Description	Proxy	Expected Effect	Data Source
GDP	Current GDP (USD)	Economic growth	Dependent variable	World Bank (2019)
FDI	FDI inflow of the East African country		+	World Bank (2019)
POP	The total population of a country	Market size	+	World Bank (2019)
ELECT	The percentage of the population with access to electricity	Infrastructure	+	African Development Bank (2019)
LABFORCE	Everyone who fulfils the requirements of being included among the employed population, measuring the total active labour force of a country	Productivity	+	World Bank (2019)
GOV	World governance indicator of the effectiveness of government. A rating closer to 2.5 = high government effectiveness		+	Worldwide Governance Indicators (2019)
GLOB	Extent to which the country has participated in globalisation economically, politically and socially		+	KOF Swiss Economics (2019)
INC	The income level classification per country according to the World bank		+	World Bank (2019)

Source: Author's own compilation

3.4. The empirical model specification

To analyse the relationship between FDI and economic growth within the selected East African countries, a panel data regression is used. Different econometric tests are done using STATA to reach the empirical research objectives. The estimated panel regression is as follows:

The empirical function:

GDP = f (FDI ; POP ; ELECT ; LABFORCE ; GOV ; GLOB ; INC)

The estimated empirical model:

$GDP_{it} = \beta 0 + \beta 1 \ln FDI_{i,t} + \beta 2 \ln POP_{i,t} + \beta 5 \ln ELECT_{i,t} + \beta 6 \ln LABFORCE_{i,t} + \beta 8 \ln GOV_{i,t} + \beta 10 \ln GLOB_{i,t} + \beta 11 \ln INC_{i,t} + \varepsilon i_{,t}$ ..... (3.3)

i – Represents the selected country

t – Represents the year

ε –Error term

3.5. Estimation techniques and analytical approach

A panel data set is a combination of both a cross-sectional and time-series data set (Eom, Lee & Hua, 2007). Therefore, because the data used to conduct the study consists of a number of observations over a certain time period, it is considered panel data. Therefore, to analyse the data effectively and deal with the repetition of observations over a certain period of time, a panel data approach is used to conduct the study. The data is evaluated by making use of three initial steps. First, a panel unit root test is conducted to determine whether the data is stationary or has unit roots. Second, the Hausman test is done to determine whether the fixed effects panel regression or the random effects panel regression should be used. Lastly, a panel data regression analysis is done to determine the FDI and economic growth nexus.

3.5.1. Panel unit root test

To test the stationarity of the estimated model, two unit-root tests, namely the Levin, Lin and Chu (2002) and the Im, Pesaran and Shin (2003) are used. Testing for panel unit root in the data is important because if the variables are non-stationary, the standard assumption for asymptotic analysis is not valid (Brooks, 2008).

3.5.1.1. Im, Pesaran and Shin (IPS)

Im, Pesaran and Shin (2003) suggest a simplified and flexible way of testing for unit-root in panel data, which allows for serial correlation and heterogeneity. IPS considers the mean of the Augmented Dicky Fuller test, estimated for each cross-section unit in the panel when the error term of the model is serially correlated, with the possibility of different correlation patterns across cross-sectional units in the panel. Without individual effects and no time trend, the specified structure of the IPS model is as follows:

$\Delta Yi,t = \alpha i + \rho i Yi,t\text{-}1 + \sum_{z=1}^{\rho i} \beta_{i,z} \Delta Yi,t\text{-}z + \mathcal{E}i,t$ ..... (3.4)

$H0 : \rho_i = \rho = 0$

$H_\alpha : \rho_i = \rho < 0$

It is assumed that the error terms ($\mathcal{E}_{i,t}$) are independent across the units of the panel sample. The IPS model essentially creates a linear trend for each cross-section dimension unit, using separate unit tests for the cross-section dimension units instead of pooling the data (Maddala & Wu, 1999; Barreira & Rodrigues, 2005).

3.5.1.2. Levin, Lin and Chu (LLC)

The LLC panel unit root test assumes homogenous first order autoregressive parameters, allowing for heterogeneity and correlation while still assuming independence across cross-sectional data (Barbieri, 2006). By making use of a pooling approach, the LLC test takes place in three steps.

First, the Augmented Dickey-Fuller regression is estimated for each cross-section within the panel, computing the residuals, which are then weighted by the standard error of expression to control heterogeneity. Second, the ratio of long-run and short-run deviation for each cross-section is estimated. This is then used to adjust the mean of the t-bar statistics. Lastly, the t-bar is used when the model considers either both fixed-effects and time effects, or just fixed effects.

Under the LLC unit root test, the null hypothesis assumes that each individual time-series is non-stationary and contains a unit root against the alternative that each individual time-series in stationary. The specified structure of the LLC unit root test is as follows:

$\Delta y_{it} = \rho y_{it\text{-}1} + \alpha_{0i} + \alpha_{1it} + \mu_{it}\ ,\ I = 1,2,\ldots,\ N\ ,\ t = 1,2\ldots,T$ ..... (3.5)

$H_0 : \rho_i = \rho = 0$

$H_\alpha : \rho_i = \rho < 0$

Where ($\alpha_{1i}t$) presents the time trend and (α_i) the individual effects. As with the general panel unit root, *(i = 1,2,…, N)* presents the individual of each individual time-series *(t = 1,2,…,T).* The stationary process is presented at μ_{it}, with *t* as the time-trend. Therefore, the outcome of the LLC unit-root test is the result of the pooling of all cross-sectional and time-series data (Barreira & Rodrigues, 2005).

3.5.2. Panel regression model

A panel data approach, also known as longitudinal, observes and analyses the behavioural changes of each unit over the given time period. The observations in panel data should have at least two dimensions, namely a cross-sectional dimension (*N*) and a time-series dimension (*T*) (Zulfikar, 2018). By combining a time-series with cross-sectional, the quality and the quantity of the data can be enhanced. The specification model pooled least square equation is as follows:

$$y_{it} = \alpha + \beta' X_{i,t} + \varepsilon_{i,t} \quad \text{.....(3.6)}$$

$i = 1, 2 \ldots, N$ and $t = 1, 2, \ldots, T$

The model is based on the ordinary least square (OLS) principle, which is used to estimate the panel data method. By incorporating a panel data regression into the study, there are two regression models from which to choose, namely the fixed effects model and the random effects model (Zulfikar, 2018).

The **fixed effects model** is based on the assumption that different intercepts can accommodate the differences between individuals. Although the fixed effect is different from the common panel regression model, it is still based on the OLS principle (Zulfikar, 2018). The estimation model used to determine the fixed effects, also known as Least Squares Dummy Variable, uses a dummy variable to capture the differences between intercepts. The fixed effects equation is as follows:

$$y_{it} = \alpha_i + \beta' X_{i,t} + \varepsilon_{i,t} \quad \text{.....(3.7)}$$

$i = 1, 2 \ldots, N$ and $t = 1, 2, \ldots, T$

The individual effects of the fixed effects model forms part of the correlation between the intercept and the regressor; therefore, the fixed effects model accounts for correlation.

The **random effects model**, also known as the error component model (ECM) or generalised least square (GLS), estimates the panel data where the interference variables may be

interconnected between individuals and time. Unlike the fixed effects model, which is based on the OLS principle, the random effects model is based on the GLS principle (Zulfikar, 2018). The equation for the random effects model is as follows:

$$y_{it} = \alpha + \beta' X_{i,t} + \mu_i + \varepsilon_{it} \quad \text{..... (3.8)}$$

$i = 1, 2 \ldots, N$ and $t = 1, 2, \ldots, T$

The number of cross sections are presented by N and the number of time periods are presented by T. The residual as a combination of cross-section and time-series is presented by ε_{it}, where the individual residual is presented by μ_{it} (Zulfikar, 2018).

To decide between the fixed effects model and the random effects model, the **Hausman specification test** is most commonly used. The Hausman test, tests for the existence of correlation within the data. The hypothesis of the Hausman tests is as follow:

H_0*: No correlation between individual effects and the growth determinant*

H_α*: Existence of correlation between individual effects and the growth determinant*

If $p < 0.05$, the null hypothesis is accepted; correlation is not present in the data, making the random effects model the most suitable panel model to analyse the regression. If $p < 0.05$, the null hypothesis is rejected and the fixed effect model is appropriate. If $p > 0.05$, the null hypothesis cannot be rejected, for which the random effects model is to be used (Tiwai & Mutascu, 2011).

3.6. Synopsis

The aim of this chapter was to provide insight into the methodology used to conduct the empirical analysis. First, the theoretical background of the model was discussed. The model used in this study is theoretically underpinned by Solow's augmented growth model, where FDI is considered as a source of capital inflow, which contributes to economic growth. The theoretical background was followed by a summary of the selected variables. Current GDP is the selected dependent variable presenting the economic growth of a country. The regression model includes 7 independent variables, namely FDI, population, electricity access, labour force, government effect, globalisation and income classification. All selected independent variables are expected to have a positive effect on the economic growth of the selected East African countries.

The data set used in this study is identified as a panel data set. Subsequently, different regression techniques were identified to ensure that the panel data regression results are reliable. In Chapter 4, the results are evaluated and discussed and the empirical research objectives are answered.

CHAPTER 4: RESULTS ANALYSIS AND INTERPRETATION

4.1. Introduction

The study aims to determine the relationship between FDI and economic growth in selected East African countries. In this chapter, the results from the empirical analysis are evaluated and discussed to reach the empirical objectives of this study. First, a brief discussion on the descriptive statistics of the variables that were used in the regression model is given in section 4.2. In section 4.3, the panel unit root result is evaluated and interpreted. Section 4.4 covers the empirical results, in which the impact of FDI on economic growth is studied and the findings evaluated. This section analyses the relationship between FDI and economic growth in the selected East African countries and also evaluates the influence of external factors on the FDI and economic growth nexus. In section 4.5, the results of the lower income countries and middle income countries are evaluated. This will determine whether the effect of FDI on economic growth differs according to the income level of the selected East African countries. The chapter is concluded in section 4.6.

4.2. Descriptive statistics analysis

Table 4.1 provides a summary of the descriptive statistics of the variables used in the analysis. The descriptive statistics provide an overview of the dataset and the individual variables used to conduct the study. To understand the results of the regression, it is essential to understand the characteristics of the data.

Table 4.1: Descriptive Statistics

Variables	***Measurement***	***Mean***	***Standard Deviation***	***Minimum***	***Maximum***
GDP	Billion USD	16.486	17.647	0.784	87.908
FDI	Million USD	635.161	987.826	0.009	6697.422
POP	Million USD	27.845	23.048	6.185	109.224
ELECT	Percentage	20.083	13.831	2.207	79.930
LABFORCE	Million USD	80.065	5.483	65.446	89.654
GOV	0 – 5 Index	1.818	1.135	0.918	2.766
GLOB	Percentage	45.707	7.7511	7.751	57.96

The average current GDP of the selected 10 East African countries during the period of 1998 to 2018 was 16.48 billion USD. The lowest recorded current GDP was 0.78 billion USD, while the highest recorded GDP for the selected 10 countries was 87.91 billion USD. The significant difference between the lowest recorded current GDP and the highest recorded GDP, as well as a standard deviation of 17.647 billion USD during this period, indicates the difference in economy size of the selected East African countries.

Current FDI inflow for the 10 selected East African countries for the same period averaged at 635.16 million USD. The standard deviation of 987.82 million USD, a minimum inflow of 0.784 million USD and a maximum inflow of 6697.422 million USD was noted. These figures make it evident that some countries receive much larger FDI inflow than other countries.

ELECT is also an outlier statistic when considering the descriptive statistics presented in Table 4.1. The average electricity access in the selected East African countries is only 20.08 percent with a standard deviation of 13.83 percent. The lowest electricity access recorded is an astonishing 2.207 percent of the population, while the highest electricity access recorded is 79.93 percent of the population. *ELECT* is used as a proxy for infrastructure. The statistics indicate a major difference in infrastructure between the selected East African countries.

4.3. Panel unit-root results

To establish the reliability of the result, the first step is to test for signs of unit-root in the variables. Literature presents a number of methods in which the stationarity of the variables can be tested. Each technique presents its own set of advantages and disadvantages. The most common tests that are frequently used to determine unit-root, include the Levin, Lin and Chu (2002) t-stat tests, the Im, Pesaran and Shin (2003) W-stat tests, the ADF-Fisher (1999) Chi Square tests and the PP-Fisher Chi Square test. However, for the purpose of this study, only the IPS (2003) W-stat test and the LLC (2002) test are used. Both tests allow for individual unit-root processes, meaning that p_i can differ across cross-sections. For both tests, the null-hypothesis is stated as follows:

H_0 = *All panels contain unit roots*

H_a = *At least one panel is stationary*

Table 4.2: Unit-root test results

Variable	*Unit-root at level*	*Unit-root at first difference*

	IPS (p-value)	LLC (p-value)	IPS (p-value)	LLC (p-value)
GDP	0.9109	0.9063	0.0157**	0.0005***
FDI	0.7852	0.1489	0.0000***	0.0000***
POP	1.0000	0.2279	0.0000***	0.0000***
ELECT	1.0000	0.9613	0.0000***	0.0000***
LABFORCE	1.0000	0.9996	0.0000***	0.0000***
GOV	0.8912	0.5665	0.0002***	0.0000***
GLOB	0.2489	1.0000	0.0000***	0.0000***

Notes: **, ** and *** signifies significance at 10 percent, 5 percent and 1 percent*

Automated lag selection

Table 4.2 provides a summary of the IPS (2003) and LLC (2002) unit-root test results. At level, the results indicate that the null-hypothesis of each variable cannot be rejected for both the IPS (2003) and LLC (2002) test. For each variable, $p > 0.05$ at level, meaning that the null-hypothesis is not rejected and that each variable contains unit-root at level.

At first difference, the panel unit-root test results for the IPS (2003) and LLC (2002) test show that for each variable, $p < 0.05$. Subsequently, the null-hypothesis is rejected and the alternative assumed. Therefore, at first difference all variables have become stationary, indicating that all variables are integrated for order one (1). Therefore, it can be assumed that the result of the panel data analysis is reliable and it is safe to continue with the estimation.

4.4. Empirical results and interpretation

The empirical results are divided into two sub-sections. Section 4.4.1 includes the results of all the selected East African countries to get an overview of the relationship between FDI and economic growth in the selected countries. In section 4.4.2, the selected East African countries are split into two categories, namely low income countries and lower-middle income countries, respectfully. The aim is to primarily evaluate the relationship between FDI and economic growth in the selected countries and to then determine whether the relationship between FDI and economic growth in the selected countries differs according to the host country's income level.

4.4.1. The relationship between FDI and economic growth

To evaluate the impact that FDI has on economic growth in East African countries, a panel data analysis was carried out on the study sample. The data sample consists of 10 selected East African countries over the period 1998 to 2018. To gain more insight into the relationship between FDI and economic growth, 6 models were constructed. For the purpose of the analysis in this section, income classification is not included in the equation when evaluating the initial FDI and economic growth nexus. Therefore, for model 6, the estimated equation is as follow:

$$GDP_{it} = \beta 0 + \beta 1 lnFDI_{i,t} + \beta 2 lnPOP_{i,t} + \beta 5 lnELECT_{i,t} + \beta 6 lnLABFORCE_{i,t} + \beta 8 lnGOV_{i,t} + \beta 10 lnGLOB_{i,t} + \varepsilon i_{,t} \quad (4.1)$$

i – Represents the selected country

t – Represents the year

ε – Error term

Table 4.3 presents the findings from the full sample regression. The results indicate the coefficients from the empirical analysis with the standard deviation shown in parenthesis.

Table 4.3: Empirical results (Dependent variable – Current GDP)

VARIABLES	MODEL 1 FE	MODEL 2 FE	MODEL 3 FE	MODEL 4 FE	MODEL 5 FE	MODEL 6 FE
FDI	0.282*** (0.022)	0.043*** (0.016)	0.038*** (0.015)	0.041 *** (0.015)	0.046*** (0.014)	0.050*** (0.015)
POP		3.197*** (0.145)	4.327*** (0.229)	3.069 *** (0.751	2.579*** (0.754)	2.720*** (0.748)
ELECT			-0.436*** (0.717)	-0.427 *** (0.071)	-0.376*** (0.071)	-0.347*** (0.073)
LABFORCE				1.170* (0.665)	1.442** (0.653)	1.469** (0.651)
GOV					0.497*** (0.146)	0.484*** (0.146)
GLOB						-0.411 (0.258)
PROB > F	0.000	0.000	0.000	0.000	0.000	0.000
R^2	0.435	0.835	0.861	0.863	0.871	0.873
HAUSMAN	0.000	0.000	0.000	0.000	0.000	0.000

Note: **, ** and *** signifies significance at 10 percent, 5 percent and 1 percent*
Standard deviation indicated in ()
RE – Random effects model
FE – Fixed effects model

The first step for the estimation of each model was to determine whether the fixed effects model or the random effects model is the most appropriate model to use for each equation. For model 1, the estimated empirical model is defined as:

$$GDP_{it} = \beta 0 + \beta 1 lnFDI_{i,t} + \mathcal{E}_{i,t} \quad \text{..... (4.2)}$$

First, the Hausman test was done to determine whether the fixed effects model or the random effects model is the most appropriate estimation model for model 1. Table 4.3 indicates the

results of the Hausman test, confirming that the fixed effects model is the most appropriate estimator for Model 1, as the p-value (0.000) is smaller than 0.05. Therefore, the null hypothesis is reject and the alternative assumed.

As expected, the result for Model 1 indicate a positive relationship between FDI and Economic growth for the selected East African countries, statistically significant at 1 percentage confidence interval. The results indicate that for every 1 percent increase in FDI, the current GDP of the selected countries increases by 0.28 percent, with a standard deviation of 0.02 percent. This is similar to the findings of Seyoum *et al.* (2015) who studied the relationship between FDI and economic growth in developing African countries, and found that without the influence of external variables, FDI has a positive impact on economic growth.

Model 1 was then extended by adding five control variables to the equation to evaluate how FDI reacts to external influences. First, the Hausman specification tests were used to choose the most appropriate estimator for each model. For all the remaining estimated models, the p-value was 0.000, significantly smaller than 0.05. Therefore, the null hypothesis was rejected and the alternative assumed, making the fixed effect estimation model the most appropriate estimator for Models 2 to 6

For Model 2, population was added to equation 4.2. The results indicate that the FDI coefficient reduced to 0.043, significant at the 1 percentage confidence interval. This indicates that the size of the host country's population has a strong influence on the impact that FDI has on economic growth. Electricity access was added to the equation in Model 3. When *ELECT* was added, the impact that FDI has on the economic growth of the host country's economy reduced. The results show that for every 1 percent increase in FDI, the current GDP of the host country increases by 0.038 percent, statistically significant at 1 percent confidence interval.

Labour force was added in Model 4, which increased the impact of FDI on economic growth. With labour force added to the equation, a 1 percent increase in FDI leads to a 0.041 percent increase in current GDP. In the remaining two models, Model 5 and Model 6, government effectiveness and the globalisation index were added to the equation. The addition of both control variables increased the impact of FDI on economic growth and improved the significance level of FDI, making FDI statistically significant at 1 percent confidence interval.

Model 6, therefore, presents the full estimated equation (see equation 4.1). For Model 6, all the control variables, except for income classification, are taken into consideration to evaluate the relationship between FDI and economic growth in the selected East African countries. The

results from Model 6 indicate that FDI has a positive impact on the current GDP of the selected countries, significant at 1 percent confidence interval. For every 1 percent increase in the FDI inflow of the selected East African countries, the current GDP of the countries increases by 0.05 percent with a standard deviation of 0.015. These findings are in line with the theoretical expectations discussed in Chapter 2. Most empirical studies discussed in Chapter 2 also found a positive relationship between FDI and economic growth (Ayanwale, 2007; Adams, 2009; Hlongwane, 2011; Soumia *et al.*, 2013; Urgaia, 2017).

Urgaia (2017) was the only study that focused specifically on East African countries. The result indicated a bidirectional relationship between FDI and economic growth. Hlongwane (2011) argues in his study on the FDI and economic growth nexus in both developed and developing countries, that the extent to which FDI has an impact on economic growth is determined by the economic conditions of the host country. As such, considering the difference in results between Model 1 and 6, it can be concluded that selected economic factors do have an impact on the extent to which FDI contributes to the economic growth of the host country.

The potential impact of FDI on the economic growth of the selected East African countries therefore depends on a number of factors, including the economic conditions of the host country (Hlongwane, 2011). Most of the selected East African countries have been revising and improving their investment policies, encouraging investors to contribute to a number of economic factors, such as employment, capital inflow and investing in infrastructure (see section 2.4). However, many East African countries still do not have the capacity to absorb the FDI spillover effects to such an extent that it contributes significantly towards economic growth (Economic Commission for Africa, 2013).

Other factors that influence the extent to which FDI has an impact on economic growth includes the direction of FDI inflow, as well as the investment policies of the host country. However, the relevant data on the FDI inflow direction in East African countries are unfortunately not available. By reviewing the investment policies of the selected East African countries in Chapter 2, section 2.4, it is clear that most selected countries are constantly changing policies to both attract foreign investors to the country and ensure that foreign investment is beneficial for the economy of the host country.

The second independent variable in Model 6 is the population of a country. *POP*, measured by country population, is used as a proxy for market size. The coefficient of *POP* is positive, as expected, statistically significant at 1 percent confidence interval. For every 1 percent increase in the host country's population, the current GDP increases by 2.720 percent, with a standard deviation of 0.748. As expected, the market size has a significant positive effect on

the economic growth of a country. During the period of 1998 and 2018, the population of the selected East African countries collectively grew by a calculated average of 71.61 percent. A strong increase in population as well as GDP ensures a positive relationship between the two variables. Larger markets tend to have a more competitive business environment due to the increase in product market competition. According to Alesina, Spolaore and Wacziarg (2005), the market size of a country represents the buying power and income of the market, as well as individual stock. Therefore, countries with a larger market size can potentially have stronger buying power and higher individual stock, which can contribute to economic growth (Alesina *et al,* 2005)

The third independent variable that was identified as an important factor for both FDI and economic growth was electricity access. The coefficient for *ELECT*, a proxy for infrastructure, is negative and statistically significant at 1 percent confidence interval. For every 1 percent increase in electricity, the current GDP of the host country declines by 0.34 percent with a standard deviation of 0.073. Electricity access is presented by the percentage of the population that has access to electricity. For the selected East African countries, electricity access only increased by an average of 27.33 percent over the period of 1998 and 2018. Because electricity access did not increase as significantly as the economic growth over the same time period, the results indicate that it does not contribute to the economic growth of the selected East African countries. This negative relationship is related to the fact that the electricity access decreased in some countries while the GDP increased. The decrease in electricity access is due to the increase in population and the insufficient development of infrastructure at the same time.

Robert Solow (1956) suggested that human capital is one of the most important factors that contributes to economic growth. Therefore, the fourth independent variable in Model 6 in labour force. *LABFORCE* has a positive coefficient, statistically significant at 5 percent confidence interval. *LABFORCE* presents the total active labour force of a country and for every 1 percent increase in the total active labour force, the current GDP of a country increases by 1.46 percent. The results are as expected and in line with Solow (1956) and Mankiw, Romer and Weil (1992), who argue that human capital is essential for economic growth.

The last two independent variables, government effectiveness and globalisation, are especially important factors for foreign investors. As discussed in Chapter 2, foreign investors critically evaluate the markets and potential risks in a country, before making the decision to invest abroad. Therefore, both government effectiveness and globalisation are important factors for both FDI and economic growth. GOV is used as a proxy for the political stability of

a country. The results in Table 4.3 indicate that for every 1 percent increase in political stability, the current GDP of a country increases by 0.484 percent, statistically significant at 1 percent confidence interval. According to Aisen and Veiga (2011), political stability is a crucial factor for economic growth and sound macroeconomic policies. Political instability can create a very volatile economy and negatively affect the economic performance of a country. These findings are in line with the findings of numerous other studies, including Cervantes and Villasenor (2015), and Younis, Lin, Sharahili and Selvarathinam (2008). Furthermore, Musonera (2008) argues that political stability is an important factor for MNEs to do business, as corporations evaluate the political risk of a country before investing aboard.

The coefficient of globalisation, represented by *GLOB*, is negative and not statistically significant at 10 percent, 5 percent or 1 percent confidence intervals. These findings are supported by existing literature. Anyanwu (2006) found that although globalisation presents both challenges and opportunities for African countries, the overall index of globalisation has no effect on the economic growth of African economies. Zahonogo (2018) also found that for Sub-Saharan African countries, the relationship between globalisation and economic growth in not linear. Both studies suggest that African countries find it hard to harness the benefits of globalisation due to poor macroeconomic policies and the lack of trade openness (Anyanwu, 2006; Zahonogo, 2018).

After reviewing the empirical results of all 6 Models that were constructed, most were as expected, except for electricity access and globalisation. As expected, FDI does have a positive effect on the current GDP of the selected East African countries. The extent to which FDI contributes towards economic growth is also in line with similar studies that focused on the FDI and economic growth nexus in East African and other African countries.

4.4.2. The impact of FDI on economic growth according to income classification

Chapter 2 provides an overview of the relationship between FDI and economic growth in the selected East African countries. From the overview provided, it is clear that for each country, FDI has a different effect on economic growth. Therefore, the secondary empirical objective of the study is to determine whether the FDI and economic growth nexus is different according to the income level of the host country.

Table 4.4 indicates the regression results for lower-middle income economies and lower income economies, respectively. The country classification was done according to the World

Bank 2018 country income classification[2] (see Appendix A). The World Bank uses the *"World Bank Atlas method"* to calculate the GNI per capita of each country and classify them accordingly. Low-income countries are, therefore, countries with a GNI per capita of $1 035 or less, while lower-middle income countries are countries with a GNI per capita between $1 036 and $4 045. From the 10 selected East African countries, seven are classified as low-income countries, while three are classified as lower-middle income countries. By estimating separate equations for each classification, a better evaluation of the impact that FDI has on the economic growth of different economies is gained.

Table 4.4: Empirical results according to income classification

Variable	Low Income Countries FE	Lower-middle Income Countries RE
FDI	0.024* (0.013)	0.182*** (0.045)
POP	1.114 (0.736)	3.011 (2.547)
ELECT	-0.190*** (0.071)	-0.249 (0.531)
LABFORCE	2.485*** (0.600)	1.722 (1.949)
GOV	0.799*** (0.150)	-0.027 (0.495)
GLOB	-0.265 (0.218)	-1.261 (2.275)
Prob > F	0.000	0.000
R^2	0.91	0.87
Hausman	0.000	0.367

Note: **, ** and *** signifies significance at 10 percent, 5 percent and 1 percent respectively.*

Standard deviation indicated in ()

RE – Random effects model

FE – Fixed effects model

[2] http://databank.worldbank.org/data/download/site-content/CLASS.xls

The Hausman test was done for each model to determine whether the fixed effects estimation model or the random effects model would be the most appropriate estimation model. For the lower income estimation model, the fixed-effects model was used as estimation model. The Hausman specification test revealed the p-value for the lower-income model as 0.000, which is significantly smaller than 0.05.

Therefore, the null-hypothesis is rejected and the fixed effects model was accepted as the appropriate estimation model for lower-income countries. For lower-middle income countries, the Hausman test indicated that the p-value is 0.367. Because the p-value is higher than 0.05, the null-hypothesis was accepted, making the random effects model the most appropriate model for lower-middle income countries.

The results indicate a slight difference between lower-income East African countries and lower-middle income East African countries. For lower-income countries, a 1 percent increase in FDI results in a 0.02 percent increase in current GDP, statistically significant at 10 percent confidence interval. While for lower-middle income countries, a 1 percent increase in FDI results in a 0.18 percent increase in current GDP, statistically significant at 1 percent confidence interval. These findings were as expected, since FDI has a greater impact on the economic growth of lower-middle income countries than the economic growth in low-income countries. Steinbach (2019) suggests that lower-income countries who became lower-middle income countries have better macroeconomic policies, governance and business environment. Lower-middle income countries also have larger investments in both infrastructure and human capital (Steinbach, 2019). Therefore, lower-middle income countries have a greater capacity to absorb the spillover effects of FDI.

The empirical analysis of this study is based on Robert Solow's augmented growth model. The theory suggests that human capital, as well as physical capital, is important for economic growth. As explained in Chapter 3, the augmented growth model also emphasises the importance of population growth. However, the results indicate that for lower-middle income countries, the population has a greater effect on economic growth than for lower income countries. For low income countries, a 1 percent increase in population results in a 1.11 percent increase in current GDP, while a 1 percent increase in the population of lower-middle income countries results in a 3.01 percent increase in current GDP. Therefore, an increase in the population of lower-middle income countries is likely to have a greater effect on economic growth than in low income countries.

Various studies have investigated the impact of an increase in population on the economic growth of a county (Ahlburg, 1996; Wesley & Peterson, 2017). Ahlburg (1996) argues that a

rapid increase in the population of a country can lead to an increase in poverty and reduce the income growth of the country, especially in highly populated, poor countries. Between the period of 1998 and 2018, the population of the selected low income East African countries increased by a calculated average of 78.21 percent, while the population of lower-middle income countries increased by a calculated average of 56.22 percent.

Wesley and Peterson (2017) also found that a high increase in the population of low income countries can slow down the development of the economy. However, the model also indicated that the population in both low income and lower-middle income countries is insignificant. Therefore, the population of low income countries and lower-middle income countries has no effect on economic growth.

Furthermore, numerous studies have emphasised the importance of infrastructure for economic growth and a country's ability to absorb the spillover effects of FDI (Stupak, 2018; Khordagui & Saleh, 2013; Narula & Marin, 2005). However, the findings of this study are not in line with those of existing literature, as the results of both the low income and lower-middle income models have shown the opposite, with electricity access in lower-middle income countries being insignificant.

For the purpose of this study, electricity access was used as a proxy for infrastructure. Over the period of 1998 to 2018, electricity access in low income countries increased by a calculated 32.88 percent and in lower-middle income countries by 14.35 percent, which is considerably lower than the average increase in the current GDP of these countries during this period. However, the slow increase in electricity access over 21 years, is an indication of the poor development in infrastructure, which leads to a negative effect on current GDP for both the selected low income East African countries and lower-middle income East African countries. The negative effect that electricity access has on the GDP of these countries can also be attributed to the fact that in some countries, electricity access worsened. The reason for this could possibly be because the relevant countries were not able to improve electricity access at the same rate that the population was growing. The insignificance of electricity access in lower-middle income countries indicates that electricity has no effect on the economic growth of these countries.

Human capital is also identified as one of the key elements of economic growth, according to Robert Solow's endogenous growth model (1956). Schoenmaeckers (2005) suggests that an increase in labour force and productivity will lead to economic growth. The result shows that labour force has a bigger influence on the current GDP of low-income countries than in lower-middle income countries, however, for lower-middle income countries labour force has no

impact on economic growth due to the insignificance of the variables. For low-income countries, a 1 percent increase in labour force leads to a 2.48 percent increase in the current GDP of a country. These results can be expected because of the higher population of the selected low income countries, leading to a greater labour force. The selected low income countries experienced a calculated average increase in labour force of 84.75 percent over the period of 1998 to 2018, while the selected lower-middle income countries had an average increase in labour force of 37.15 percent during the same period. A greater labour force contributes to the host country's ability to absorb the effects of FDI, leading to a greater contribution towards economic growth. Robert Solow (1956) also argued that human capital is one of the key contributions towards economic growth.

As for political stability, the study found a significant difference between the results of low income countries and lower-middle income countries. For low income countries, government effectiveness has a positive impact on the current GDP of a country, statistically significant at 1 percent confidence interval. However, for lower-middle income countries, the result shows that government effectiveness has a negative impact on the current GDP of a country, statistically insignificant. Therefore, the government effectiveness of lower-middle income countries has no impact on economic growth. Theoretically, government effectiveness has a positive effect on a country's economy (Emara & Chiu, 2016; Mira & Hammadache, 2017; Alam, Kitenge & Bedane, 2017). For the selected low income countries, the result is in line with the theoretical expectations.

The study also includes a globalisation index. Globalisation is an important exogenous factor for both economic growth and FDI. However, numerous studies argue that globalisation can have a negative impact on the economy of developing countries (Anyanwu, 2006; Shopina, Oliinyk & Finaheiev, 2017; Zahonago; 2018). Like Anyanwu (2006), Shopina *et al* (2017) and Zahonago (2018), the findings of this study also indicate that for both the selected low income countries and lower-middle income countries, globalisation has a negative impact on their economic growth. However, for lower-middle income countries, the result is statistically insignificant. Therefore, the globalisation of a country has no impact on the economic growth of the selected lower-middle income countries.

For low income countries, a 1 percent increase in globalisation results in a 0.26 percent decrease in current GDP. Shopina *et al* (2017) focused on the effect of globalisation on the world economy, separating developed countries and developing countries. The results indicate that globalisation can lead to the division of labour and production internationally,

resulting in an increasing competitive advantage for developed countries, increasing the development gap and having a negative impact on the economies of developing countries.

The results therefore indicate that there is a marginal difference between the FDI and economic growth nexus in low income countries and lower-middle income countries, as expected. FDI has a greater effect on the current GDP of the selected lower-middle income countries than on the current GDP of the selected low income countries. There is also a significant difference when comparing the individual effect of the selected independent variables between the selected country groups.

4.5. Synopsis

This chapter aimed to answer the primary and secondary empirical research objective of the study. The primary objective was to determine the relationship between FDI and economic growth in selected East African countries over the period 1998 to 2018. The secondary objective was to determine whether the FDI and economic growth nexus of the selected East African countries differs according to their income level.

The data for the selected East African countries over the period of 1998 to 2018 was obtained from the World Bank, African Development Bank and KOF Swiss economics. The data was used to estimate a panel data regression using STATA to determine the relationship between FDI and economic growth in the selected East African countries.

First, a descriptive statistics analysis was done in section 4.2. The analysis provided more insight into the country data that was used to conduct the study. The results also revealed a significant difference in current GDP and FDI between the selected East African countries. The descriptive statistic provided the necessary insight to understand the empirical result.

The next step was to test for the presence of unit-root among all variables. At level, both the IPS (2003) and the LLC (2002) test indicated the presence of unit root among each variable. At first-difference all variables proved to be stationary for both the IPS (2003) and LLC (2002) unit root test. All variables were, therefore, integrated for order one, proving the estimated regression model to be reliable.

The empirical regression result was divided into two sections. Section 4.4.1 focuses on the relationship between FDI and economic growth, while section 4.4.2 evaluates how the relationship between FDI and economic growth differs according to low income countries and lower-middle income countries. Six models were formulated to evaluate and observe how the FDI and economic growth nexus in the selected East African countries reacts to external

influence. The base model, Model one, examined the effect of FDI on economic growth without external influence. Subsequently, the relationship between FDI and economic growth in the selected East African countries was significantly positive and in line with the theoretical expectations discussed in Chapter 2. Thereafter, five more models were formulated, adding an additional independent variable to each model. When Labour force, government effectiveness and globalisation were added to the empirical model, FDI responded positively, increasing the effect that FDI has on economic growth in the selected East African countries.

However, FDI reacted negatively when population and electricity were added to the equation. Nevertheless, Model 6, showed a significant positive relationship between FDI and economic growth. All independent variables had a positive impact on economic growth in the selected countries, with the exception of electricity access and globalisation. The second empirical objective of the study was to determine whether the FDI and economic growth nexus differs according to the income level of the host country. Subsequently, income level was added as a dummy variable to the equation. The selected East African countries were categorised according to income level. The classification was based on the World Bank income classification.

The result indicated a clear difference between the FDI and economic growth nexus in low income countries and lower-middle income countries. The impact that FDI has on economic growth is greater in lower-middle income countries than in low income countries. Further investigation will be required to determine why FDI has a more significant impact on the economy of lower-middle income countries than in low income countries. As such, while there is indeed a positive relationship between FDI and economic growth, the extent to which FDI contributes to economic growth differs according to the income level of the host country.

The empirical results of this chapter have led to the conclusion that overall, there is a positive relationship between FDI and economic growth in the selected East African countries. Considering the influence of external factors on the relationship between FDI and economic growth, it can be concluded that the extent to which FDI influences economic growth is underpinned by the economic conditions of the host country. Empirical results also revealed that there is indeed a difference in the relationship between FDI and economic growth in low income countries and lower-middle income countries. It was also evident, by reviewing the impact of all independent variables on economic growth, that certain economic factors are more important in low income countries and others in lower-middle income countries. The following chapter concludes by summarising the key points and providing policy recommendations and recommendation for future research.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

Over the last few decades, FDI's role in developing economies has become increasingly important. Not only does FDI allow the free flow of capital across international borders, but it also contributes to the transfer of technology and knowledge, making FDI a valuable tool for economic development, especially in developing countries.

After a long period of colonisation, most East African leaders were closed off to the idea of foreign investors. However, realising the importance of FDI, some East African countries, like Kenya and Uganda, formulated investment policies in the early 90s' to attract more foreign investors. Subsequently, East Africa has become one of the main destinations for FDI on the African continent. As such, more East African leaders changed their views on FDI and more countries have turned their attention towards FDI, subsequently improving their policies to attract more foreign investors. In recent years, the FDI and economic growth nexus have become the focus of numerous economic studies. However, the results were conflicting as several studies showed that FDI has a positive effect on economic growth while others showed the opposite. This raised the question of whether FDI really has a positive effect on economic growth?

The aim of this study was to comprehensively examine the relationship between FDI and economic growth in selected East African countries, taking into consideration their economic structure and income classification. The research method used include a literature and empirical study. In the literature study the underlying theories of FDI and economic growth were discussed, in addition to an overview of existing empirical studies on the FDI and economic growth nexus. The empirical study investigated the relationship between FDI and economic growth and whether it differs according to a country's income classification. A panel data analysis was used to analyse the relationship between FDI and economic growth.

The first chapter provided an introduction to the study by stating the background, motivation, problem statement, objectives and the method used, together with an outline of the chapters. In Chapter 2 the underlying theories of FDI and economic growth were discussed as well as the investment policies and FDI and economic growth trends of the selected East African countries. Chapter 2 also provided an overview of existing economic literature on the relationship between FDI and economic growth. In Chapter 3 the variables and the methods

used to conduct the study was explained. Chapter 4 presented the results and findings of the applied methodology.

Table 5.1 provides a summary of the research objectives stated in Chapter 1, section 1.3 and how each was answered.

Table 5.1: Summary of research objectives

Research objective	How it was answered	Chapter
Review the theoretical aspects of FDI and economic growth.	In chapter 2 a complete overview of FDI and economic growth was discussed. This included a discussion on the definitions and concepts of FDI, such as the different types, motives and forms of FDI in section 2.2, as well as the different theories that underpins FDI and economic growth in section 2.3.	Chapter 2
Review and discuss the investment policies and the FDI and economic growth trends in the selected East African countries.	Based on an investment policy and FDI and economic growth trend review in Chapter 2, section 2.4 and section 2.5, the FDI and economic growth nexus are different for each country.	Chapter 2
Review the existing literature on the relationship between FDI and economic growth.	A review of existing economic literature in Chapter 2, section 2.6, shows that while some studies found that the FDI and economic growth nexus is positive, other have found the opposite. It also indicates that a country's economic structure is an important contributing factor.	Chapter 2

Analyse the relationship between FDI and economic growth in the selected East African countries and evaluate the influence of external factors on the FDI and economic growth nexus.	Using a panel data analysis approach, the relationship between FDI and economic growth was evaluated in Chapter 4. The influence of external factors is also observed in section 4.4.1, by composing 6 different model and observing how FDI reacted when a new variable was added to the equation. Based on the panel data analysis, there is a positive relationship between FDI and economic growth. The FDI and economic growth nexus is also vulnerable towards external factors.	Chapter 4
Determine whether the relationship between FDI and economic growth differs according to the country income classification.	Chapter 4, section 4.4.2, evaluated how the FDI and economic growth nexus differs according to a country's income classification. Accordingly, income classification was added as a dummy variable, separating low income countries from lower-middle income countries. Based on the result, the FDI and economic growth nexus are greater in lower-middle income countries than in low income countries.	Chapter 4

Source: Author`s own compilation

5.2. Study summary and main conclusions

Chapter 2 provides insight into the theoretical framework that underpins the study by reviewing the theoretical foundation of FDI and economic growth in the selected East African countries. First, the chapter explored the underlying theories of FDI and economic growth. For FDI, four main underlying theories were identified. These theories include the theory of multinational enterprises, the eclectic paradigm theory, the modernisation theory and the dependency theory. The modernisation theory and the dependency theory were identified as the most relevant theories to explain the relationship between FDI and economic growth in

East Africa. The two most important economic growth theories were identified as the neo-classical growth theory and the endogenous growth model.

Although the dependency theory is mostly deemed as irrelevant in today's economic literature, the theory explains that the extensive resources in poor countries were exploited by wealthy nations, which contributed to how African leaders viewed foreign capital today. Consequently, it has shaped the investment policies of poor nations like East African countries. The dependency theory, therefore, explains why most East African countries had unfavourable investment policies and a lack of FDI inflow during the 90's.

The modernisation theory states that FDI can promote economic growth through a spillover effect. According to the theory, the spillover effect from FDI is a crucial factor for economic development, especially in countries that lack human skills and economic stability, like East African countries. The modernisation theory originated from Solow's neo-classical growth theory. The neo-classical growth theory argues that FDI benefits the host country's economy by increasing its capital; the capital funds that lead to economic growth in the host country. According to the endogenous growth model, economic growth can be generated through supply-side externalities. The model also argues that endogenous factors, like spillover effects, are the driving force behind economic growth.

While both theories are important in understanding how FDI can contribute to economic growth, for the purpose of this study, the methodology is based on Solow's neo-classical growth model, where FDI is seen as a source of capital inflow. The study, therefore, examined whether the capital inflow from FDI contributes to economic growth in East African countries.

Chapter 2 went on to identify a country's investment policy as an important factor to attract foreign investors. With MNEs constantly looking for new investment opportunities, it is important for developing economies to have favourable investment policies in an increasingly competitive environment. As such, the investment policies of the 10 selected East African countries were reviewed, as the implemented policies can attract FDI by improving the investment environment.

A number of things stood out when the investment policies were reviewed in Chapter 2. First, the importance of FDI for economic growth is still relatively unknown to the selected East African countries, as most of them only developed a sound investment policy in the 2000's. This was, however, not the case in all of the selected countries. Some countries, including Zimbabwe, Ethiopia and Mozambique, are still constantly changing their investment policies to find a balance between attracting foreign investors, protecting domestic industries and

improving the economy's capacity to absorb FDI spillovers. Second, while countries like Burundi, Ethiopia and Rwanda have opened almost all their sectors to foreign investors and limited the restrictions for foreign investors, other countries like Kenya, Malawi and Zimbabwe have opened limited sectors to foreign investors and applied strict sets of restrictions.

The policy review also revealed that East African countries are still relatively new to the idea of opening up to foreign investors. While some countries have embraced the benefits that come with FDI by opening up their sectors to foreign investors and improving their policies to improve the ease of doing business, other countries are still very sceptical. Countries like Zimbabwe, Tanzania and Kenya are protective over certain sectors, therefore, closing them off to foreign investors or implementing strict restrictions.

The chapter further reviewed the relationship between FDI and economic growth in the selected East African countries. By visually comparing FDI with the economic growth for each country over the period 1998 to 2018, a sense of whether FDI has a positive impact on economic growth by considering the growth trend was obtained. For most countries, including Burundi, Ethiopia, Rwanda and Zimbabwe, there was no clear positive relationship between FDI and economic growth. However, for other countries, including Kenya, Tanzania, Uganda and Zambia, there were signs of a positive relationship between FDI and economic growth. The difference in the FDI and economic growth nexus in the selected countries further motivates the reason for determining whether the relationship between FDI and economic growth differs according to the income classification of a country.

The chapter concluded with a review of the findings of existing literature on the FDI and economic growth nexus. The focus of studies conducted was on the FDI and economic growth nexus over the period 1998 to 2019. Each study focused on different country groups, using different methods and sample sizes to analyse the FDI and economic growth nexus. Some studies found that while the results were positive, the extent to which FDI has a positive influence on economic growth, depends on certain economic conditions of the host country.

Half of the studies reviewed, specifically investigated African countries. Some of these studies found that there is indeed a positive relationship between FDI and economic growth, while others found that FDI does not have a direct positive impact on economic growth. One of the studies found that although FDI does not lead to economic growth, economic growth can lead to an increase in FDI.

Chapter 3 provides insight into the variables used to conduct the study, and also establishes an econometric model that explains the relationship between FDI and economic growth. The

estimated model for this study is based on a modified Solow augmented growth model, where FDI is viewed as a source of capital income, otherwise seen as physical capital stock.

Based on the review of the literature in Chapter 2, the selected variables for the models were as follows:

- Current GDP was identified as the dependent variable.
- The independent variables include FDI, population, electricity access, labour force, government effectiveness, globalisation and income classification.

Chapter 3 also presented the panel data analysis methods, which include panel unit root tests, a Hausman test and fixed effects and random effects regression models. The panel unit root tests and the Hausman specification tests were used to ensure meaningful results by minimising errors.

The empirical results were presented and evaluated in **Chapter 4.** The panel unit root tests showed all variables to be integrated for order one (1), indicating that the results are reliable. The main objective was to determine the FDI and economic growth nexus in selected East African countries, and also to determine whether the relationship differs according to income level. Overall, the results indicate that there is a positive relationship between FDI and economic growth in the selected East African countries. This finding is in line with the theoretical expectations and predictions from other empirical studies.

More specifically, the findings indicate that an increase in FDI leads to an increase in the economic growth of a selected East African country. By observing how FDI reacted when external variables were added to the equation, the study also found that FDI is vulnerable to external influences. Therefore, it was concluded from the results that while FDI has a positive effect on economic growth, the extent to which FDI contributes to economic growth is subjected to the economic environment of the host country. The study also examined whether the effect of FDI on economic growth differs according to the income classification of the host country. The results indicate that there is a significant difference between low income countries and lower-middle income countries. FDI has a greater impact on the economic growth of lower-middle income countries than on low income countries. Nevertheless, for both income groups, the FDI and economic growth nexus is positive.

However, it was also found that the economies of lower-income countries are not as sensitive to external influences as that of low income countries. Therefore, two conclusions were made after reviewing the results in Chapter 4. First, FDI has a greater effect on economic growth in

lower-middle income countries than in low income countries. Second, the economy of lower-middle income countries is impacted by external factors as heavily as in low income countries.

5.4. Policy Recommendations

The results showed that the economic conditions of a country are of great importance to both FDI and economic growth, and that an increase in FDI could lead to an increase in current GDP. Therefore, it is pivotal for developing countries such as the selected East African countries to have policies in place that not only attract foreign investors, but contribute to the improvement and enhancement of other economic factor as well.

After reviewing the investment policies of each selected East African country in Chapter 2 (see section 2.4), it is clear that establishing an investment policy that attracts foreign investors, protects domestic companies and contributes towards other economic factors such as infrastructure, is an ongoing process. Taking into consideration existing investment policy and the findings presented in Chapter 4, the following policy recommendations are made for the selected East African countries:

- Open more sectors to foreign investors. Currently, the investment policy of some countries has restricted foreign investors from investing in sectors such as agriculture and minerals. By opening up other sectors to foreign investors, especially sectors that are key contributors to economic growth, a greater part of the economy can benefit from FDI spillover effects, such as the transfer of technology and knowledge.
- While it is important for East African countries to improve their policies to attract FDI, it is also important to establish policies that promote other growth enhancing factors. These policies should be aimed at stimulating and enhancing growth factors, such as infrastructure, education and technology, while at the same time promoting FDI. East African countries can also consider providing foreign investors with incentives for when they contribute to these growth enhancing factors.
- It is imperative that East African countries also improve the ease of doing business for foreign investors. While most of the selected countries have established investment promotion agencies that aim at assisting foreign investors throughout the investment process, there are still many regulation, licensing and registration obstacles that investors face.
- Apart from improving the registration progress by reducing the time it takes to register as a foreign investor, East African countries should also establish more export processing zones. EPZ's makes it easier for foreign investors to do business and also

attracts more FDI to the host country, increase employment opportunities and foreign exchange reserves.

By implementing and changing their investment policies, East African countries will not only attract FDI but also increase the effects that FDI has on economic growth, and enhance other economic growth factors such as productivity, education and infrastructure. Therefore, East African countries are encouraged to review their policies and pay attention to policies that will improve the overall economic environment of the country, and not only focus on attracting FDI. While it is important for these developing countries to attract foreign investors, it is just as important to create an economic environment with the capacity to absorb the spillovers that come from FDI.

5.5. Recommendations for future research

This study contributed to the age-old debate of whether FDI benefits the economic growth of a country, especially developing countries. With East African countries experiencing an increase in FDI inflow, there are few studies that have examined whether this phenomenon contributes to the economic growth of these countries. The following recommendations have been formulated for future studies:

- To further evaluate how the economy of each East African country reacts to FDI, future studies can evaluate the results by individual country level. This will provide more insight into how FDI affects East African countries individually.
- While FDI has a positive effect on economic growth in the long-run, it may have the opposite effect on East African economies in the short-run. Therefore, it is recommended that future studies examine the short-term and long-term effect of FDI on economic growth in East Africa.
- The trend analysis in Chapter 2 (see section 2.5) showed that there is a possibility that economic growth can lead to an increase in FDI. Future studies can, therefore, examine the effect that economic growth has on FDI.

5.6. Concluding remarks

Since East African countries have gained independence, they have been on an ongoing road to economic recovery. Researchers have identified FDI as one of the key contributing factors to economic growth and building a stable economy. While some countries have expressed

their commitment towards improving the investment environment, there is still some scepticism on whether FDI truly contributes towards economic growth.

This study provided insight into the FDI and economic growth nexus in East Africa by evaluating the effect that FDI has on economic growth, determining the relationship vulnerability towards external factors and determining whether the relationship differs according to income classification. It was found that while FDI contributes towards economic growth, it is important for East African countries to develop sound investment policies that contribute not only towards attracting foreign investors but that help improve other factors that are just as important for economic growth. East African countries should open their sectors to foreign investors while simultaneously putting policies in place that not only benefit foreign investors, but that benefit development of the economy as a whole. This will allow more economic sectors to reap the benefits of FDI, while providing foreign investors with numerous opportunities.

Bibliography

Adams, S. Foreign Direct investment, domestic investment, and economic growth in Sub-Saharan Africa. *Journal of Policy Modeling* 31:939-949.

African Development Bank. 2018. *2018 African Economic Outlook: Mozambique*. Available at: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic-_Outlook_2018_-_EN.pdf

Agbloyor, E.K., Gyeke-Dako, A., Kuipo, R. & Abor, J.Y. 2016. Foreign Direct Investment and Economic Growth in SSA: The Role of Institutions. *Thunderbird International Business Review,* 58(5):480-481. doi:https://doi.org/10.1002/tie.21791.

Ahlburg D.A. 1996. Population Growth and Poverty. In: Ahlburg D.A., Kelley A.C., Mason K.O. (eds) The Impact of Population Growth on Well-being in Developing Countries. Population Economics. Springer, Berlin, Heidelberg. P.219-258

Aisen, A. & Veiga, F.J. 2010. How Does Political Instablity Affect Economic Growth?. *European Journal of Political Economy,* Elsevier, 29(C):151-167. doi:10.1016/j.ejpoleco.2012.11.001

Ajayi, S.I. 2008. Foreign Direct Investment in Sub-Saharan Africa: Origins, Targets, Impact and Potential. *Kenya: African Economic Research Consortiu.*

Alam, M.R., Kitenge, E & Bedane, B. 2017. Government Effectiveness and Economic Growth. *Economic Bulletin,* 37(1):222-227.

Alesins, A., Spolaore, E. & Wacziarg, R. 2005. Trade, Growth and the Size of Countries. *Handbook of Economic Growth*, Elsevier, 1(B):1499-1542.

Alfaro, L., Chanda, A., Kalemli-Ozcan, S. & Sayek, S. 2004 FDI and economic growth: The role of local financial markets. *Journal of International Economics,* 64, 89-112.

Ali, N. & Hussain, H. 2017. Impact of Foreign Direct Investment on the Economic Growth of Pakistan. *American Journal of Economics,* 7(4):163-170. doi:10.5923/j.economics.20170704.01.

Anyanwu, J.C. 2006. Does Globalization Affect Economic Growth in Africa?. *Global Development Studies,* 4(1):53-90, Spring.

Asante, A. 2012. National Economic Collapse and Revival, The case of Zimbabwe. *Arcada University of Applied Sciences.* Available at: https://www.theseus.fi/bitstream/handle/100-24/65537/Ashley%20Asante.pdf?sequence=1&isAllowed=y

Asiedu, E. 2002. On the Determinents of Foreign Direct Investment to Developing Countries: Is Africa Different?. *World Development,* 30(1):107-119

Ayanwale, A.B. 2007. FDI and economic growth: evidence from Nigeria. AERC research paper 165, Nairobi: AERC. Available at: https://opendocs.ids.ac.uk/opendocs/handle/-20.500.12413/2677

Azman-Saini, W.N.W., Baharumshah, A.Z. & Law, S.H. 2010. Foreign direct investment, economic freedom and economic growth: International evidence. *Economic Modelling,* 27:1079-1089

Bank of Tanzania. 2013. Tanzania Investment Report 2013: Foreign Private investment. Available at: https://www.bot.go.tz/Publications/Other/Tanzania%20Investment/sw/20200-21122482300201.pdf

Barbieri, L. 2006. Panel Unit Root Tests: A review. *Serie Rossa: Economia – Quaderno,* 43.

Barreira, A.P. & Rodrigues, P.M.M. 2005. Unit root test for panel data - a survey and an application, in *Estudos II,* Ed. Faculdade de Economia*,* Universidade do Algarve, 771-782

Borensztein, E., Gregorio, J. & Lee, J-W. 1998. How does foreign direct investment effect economic growth?. *Journal of International Economics 45:115-135.*

Brooks, C. 2008. Introductory econometrics for finance. 2nd ed. Cambridge University Press, UK. doi:10.1017/CBO9780511841644

Burns, A.C., Veeck, A. & Bush, R.F. 2017. Marketing research. 8th ed. Harlow England: Pearson Institute.

Calderón, C., Loayza, N. & Servén, L. 2004. Greenfield Foreign Direct Investment and Mergers and Acquisitions: Feedback and Macroeconomic effects. World Bank Policy Research Working Paper 3192. World Bank, Washington, DC. Available at: https://openkn-owledge.worldbank.org/handle/10986/13941

Canarella, G. 2011. The Augmented Solow Model and the OECD Sample. *International Business & Economics Journal,* 2(7):89-102. doi: https://doi.org/10.19030/iber.v2i7.3824

Canton, E. & Solera, I. 2016. Greenfield Foreign Direct Investment and Structural Reforms in Europe: What factors Determine Investments?. European Economy - Discussion Papers 2015/033, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission. Available at: https://ec.europa.eu/info/sites/info/files/dp033_en.pdf

Cervantes, R. & Villasenor, J. 2015. Political stability and economic growth: Some considerations. *Journal of Public governance,* 1(1):77-100.

Chaudhuri, S. & Mukhopadhyay, U. 2014. Foreign direct investment in developing countries. Dordrecht: Springer. edition 127, number 978-81-322-1898-2. doi:https://doi.org/10.1007/978-81-322-1898-2

Chikohomero, R. 2019. Open for business? Appraisal of FDI in Zimbabwe. Southern Africa Report 33. Available at: https://media.africaportal.org/documents/Open_for_business.pdf

Clifford Chance. 2020. Ethiopia's new investment law – What does it mean for foreign investors?. Available at: https://www.cliffordchance.com/content/dam/cliffordchance/briefings/2020/04/ethiopia's-new-investment-law%E2%80%93what-does-it-mean-for-foreign-investors.pdf

Coetzee, Z., Bezuidenhout, H., Claassen, C. & Kleynhans, E. 2015. Profiling sectoral risk of Foreign Direct Investment (FDI) in Africa for the first decade of the 21st century. *Journal of Economic and Financial Science,* 9(1):153-173.

Croomer, J. & Gstraunthaler, T. 2011. The hyperinflation in Zimbabwe. *The quarterly Journal of Austrian Economics,* 14(3):311.346.

Deloitte. 2016a. *Tanzania: A Leader among Africa's Emerging Markets*. Available at: https://www2.deloitte.com/content/dam/Deloitte/za/Documents/africa/za_Tanzania_Country_Overview.pdf

Deloitte. 2016b. *Mozambique's Economic Outlook. Governance challenges holding back economic potential.* Available at: https://www2.deloitte.com/content/dam/Deloitte/za/Documents/africa/ZA_Mozambique%20country_report_25012017.pdf

Deloitte. 2017. *Tanzania Economic Outlook 2017.* Available at: https://www2.deloitte.com/-content/dam/Deloitte/tz/Documents/tax/tz-budget-economic-outook-2017.pdf

Denisia, V. 2010. Foreign Direct Investment Theories: An Overview of the Main FDI theories. *Academy of Economic Studies, Bucharest,* 2(2):104-106.

Dhrifi, A. 2015. Foreign Direct Investment, Technological Innovation and Economic growth: Empirical Evidence Using Simultaneous Equations Model. *International Review of Economics*, 62(4):381-400. doi: 10.1007/s12232-015-0230-3.

Dinh, T.T., Vo, D.H., Vo, A.T. & Nguyen, T.C. 2019. Foreign Direct Investment and Economic Growth in the Short Run and Long Run: Empirical Evidence from Developing Countries. *Journal of Risk and Financial Management, 12(176):1-11.*

Dinh, T.T.H., Vo, D.H., Vo, A.T & Nguyen, T.C. 2019. Foreign Direct Investment and Economic Growth in the Short Run and Long Run: Empirical Evidence from Developing Countries. *Journal of Risk and Financial Management,* 12(176):1-11. doi:10.3390/jrfm12040176.

Dorward, A. & Kydd, J. 2004. The Malawi 2002 food crisis: the rural development challenge. *Jurnal of Modern African Studies,* 42(3):343-361. doi: https://doi.org/10.1017/S0022278X0-4000229

Duce, M. 2003. *Definitions of foreign direct investment (FDI): a methodological note*. Banco de Espana paper. Available at: https://www.bis.org/publ/cgfs22bde3.pdf

Dunning, J.H. & Lundan, S.M. 2008. *Multinational enterprises and the Global Economy.* 2nd ed. Cheltenham: Edward Elgar Publishing. Available at: https://dipiufabc.files.word-press.com/2015/06/dunning_multinational-enterprises-and-global-economy.pdf

Durham, J.B. 2002. Absorptive capacity and the effects of foreign direct investment and equity foreign portfolio investment on economic growth. *European Economic Review,* 48(2):285-306.

East African Community. 2015. *Report of the committee on communication, trade and investments on the workshop on investment policies and strategies in EAC the region.* East African legislative assembly, Kigali, Rwanda. Available at: https://www.eala.org/uploads/Re-port%20of%20the%20Wrkshp%20On%20Investment%20in%20KGL%20April%202015%20(2)%20-%20Tabled%20on%2018th%20Aug%202015.pdf

East African Community. 2018. Overview of EAC. https://www.eac.int/overview-of-eac. Date of access: 17 March 2020

East African Community. 2020. *Investment Framework: Key Features*. Available at: https://www.eac.int/investment/investment-framework Date of access: 12 June 2020

Economic Commission for Africa. 2013. African Economic Outlook 2013: Structural Transformation and Natural Resources, OECD Publishing, Paris. https://doi.org/10.1787/aeo-2013-en.

Elboiashi, H.A. 2011. The effect of FDI and other foreign capital inflows on growth and investment in developing economies. PhD thesis, *Department of Economics, University of Glasgow* Available at: http://theses.gla.ac.uk/3026/

Emara, N. & Chiu, I. 2016. The Impact of Governance on Economic Growth: The case of Middle Eastern and North African Countries. *Journal of Economics Library,* 3(1):24-37.

English, P., McSharry, P. & Ggombe, K. 2016. Raisong exports and attracting FDI in Rwanda. International Growth Centre Policy brief 38402. Available at: https://www.theigc.org/wp-content/uploads/2017/01/English-et-al-2016-policy-brief.pdf

Eom, T.H., Lee, S.H. & Xu, Hua. 2007. Introduction to Panel Data Analysis: Concepts and Practices. *Handbook of Research Methods in Public Administration,* p. 573 – 588. doi: 10.1201/9781420013276.ch32

Ernst & Young. 2016. EY's Africa Attractiveness Program 2016 Staying the course. Available at: https://www.africanbusinesscentral.com/wp-content/uploads/2016/08/Africa-Attractiveness-Program-2016-Staying-the-Course-EY.pdf Date of access: 24 November 2020

Ernst & Young. 2018. Turning tides EY's Attractiveness Program Africa. Available at: https://assets.ey.com/content/dam/ey-sites/ey-com/en_za/topics/attractiveness/ey-turning-tides-2018.pdf Date of access: 24 November 2020

Ernst and Young. 2012. *Building Bridges: Attractiveness survey*. Available at: http://www.apo-mail.org/EY%202012%20Africa%20Attractiveness.pdf

Federal Democratic Republic of Ethiopia. 2020. Investment proclamation No.1180/2020. *Federal Negarit Gazette,* 28:12383, 2 April.

Fitzpatrick, M. 1983. The Definition and Assessment of Political Risk in International Business: A Review of the Literature. *The Academy of Management Review,* 8(2):249-254. doi: https://doi.org/10.2307/257752

Franco, C., Rentocchini, F. & Marzetti, G.V. 2008. Why Do Firms Invest Aboard? An Analysis of the Motives Underlying Foreign Direct Investments. *IUP Journal of International Business Law,* 9(2):42-65.

GIIN. 2013. *The landscape for impact investing in East Africa: Burundi.* Available at: https://thegiin.org/assets/documents/pub/East%20Africa%20Landscape%20Study/10Burundi_GIIN_eastafrica_DIGITAL.pdf

GIIN. 2015. *The Landscape for impact investing in East Africa.* Available at: https://thegiin.org/assets/161025_GIIN_EastAfrica_FULL_REPORT%20(002).pdf

GIIN. 2016. *The Landscape for Impact Investment in Southern Africa*. Available at: https://thegiin.org/assets/documents/pub/Southern%20Africa/GIIN_SouthernAfrica.pdf

Gochero, P. & Boopen, S. 2020. The effect of mining foreign direct investment inflow on the economic growth of Zimbabwe. *Journal of Economic structures* 9(54):1-17

Goldstein, A. 2004. *Regional integration, FDI and competitiveness in Southern Africa*. OECD Development Centre Studies. Available at: https://www.academia.edu/1911427/Regional-_integration_FDI_and_competitiveness_in_Southern_Africa

Government of Zimbabwe. 2018. *Investment Guidelines and Opportunities in Zimbabwe*. Available at: http://www.zimfa.gov.zw/index.php/mediacentre/downloads?download=8:-investment-guideline-and-opportunities-in-zimbabwe

Government of Zimbabwe. 2020. Zimbabwe Investment Development Agency Act 14:37. *Government Gazette, 10,* 7 February 2020

Gqada, I. 2013. A Boom for Whom? Mozambique's natural gas and the new development opportunity. *South African Institute of International Affairs.* Available at: https://allafrica.com-/download/resource/main/main/idatcs/00070834:e407164714744eaec3f728ec493d437e.pdf

Guloba, M., Kilimani, N., & Nabiddo, W. 2010. *Impact of China-Africa Aid Relations: A case Study of Uganda*. (AERC). Available at: https://media.africaportal.org/documents/Uganda_-Aid_Relations.pdf

Hayakawa, K., Kimura, F. & Lee, H.H. 2012. How does country risk matter for Foreign Direct Investment?. ERIA Discussion Paper Series (ERIA-DP-2012-03). Available at: https://www.eria.org/ERIA-DP-2012-03.pdf

Herranz, E. 2017. Unit Root Test. *Wiley Interdisciplinary Reviews: Computational Statistics,* 9(3):1. doi:10.1002/wics.1396.

Herve, D. B. G. 2016. Financial Integration, Foreign Direct Investment and Growth: Panel Data Analysis for West African Economic Monetary Union (WAEMU). *Applied Economics and Finance,* 3(4):48-56.

Herve, D. B. G., 2016. Financial Integration, Foreign Direct Investment and Growth: Panel Data Analysis for West African Economic Monetary Union (WAEMU). *Applied Economics and Finance,* 3(4):48-56.

Herzer, D., Klasen, Stephan & Nowak-Lehmann, D.F. 2006. In Search of FDI-led Growth in Developing Countries. IAI Discussion Papers, No. 150*.* Available at: https://www.econstor.eu/handle/10419/27440

Hlongwane, X. 2011. The employment spillover of Foreign Direct Investment and host country productivity. *Gordon Institute of Business Science, University of Pretoria.* Available at: https://repository.up.ac.za/bitstream/handle/2263/25990/dissertation.pdf?sequence=1&isAllowed=y

Hodrab, R., Maitah, M. & Kuzmenko, E. 2015. The Effect of Foreign Direct Investment on Economic Growth: Case Study Palestine*. Paper delivered at the 2015 WEI International Academic Conference proceedings*, Praque, Czech Republic. The West East Institute. pp. 81 – 87.

Hodrab, R., Maitah, M. & Kuzmenko, E. 2015. The effect of foreign direct investment on economic growth: case study Palestine. *The 2015 WEI International Academic Conference Proceedings*. Pp81-87. Available at: https://www.researchgate.net/publication/303687797_THE_EFFECT_OF_FOREIGN_DIRECT_INVESTMENT_ON_ECONOMIC_GROWTH_CASE_STUDY_PALESTINE

Hymer S (1968) 'The Large Multinational 'Corporation''. In M Casson (1990) (ed), Multinational Corporations, Hants: Edward Elgar.Iamsiraroj, S. 2015. The foreign direct investment–economic growth nexus. *International Review of Economics and Finance,* 42 (1):116–133. doi:10.1016/j.iref.2015.10.044.

IMF. 2009. *Balance of Payments and International Investment Position Manual*. 6th ed. Washington: International Monetary Fund Publication Services. Available at: https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf

IMF. 2017. Malawi: Economic Development Document. IMF Country Report No. 17/184. Available at: https://www.imf.org/-/media/Files/Publications/CR/2017/cr17184.ashx

International Monetary Fund. 2009. Balance of Payments and International Investment Position Manual. *6TH ed*. Available at: https://www.imf.org/external/pubs/ft/bop/2007/-pdf/bpm6.pdf. Date of access: 4 July 2019

Johnson, A. 2006. The effects of FDI inflows on Host Country Economic Growth. CESIS Working paper 2006/ 58. Available at: https://citeseerx.ist.psu.edu/viewdoc/download?-doi=10.1.1.528.6488&rep=rep1&type=pdf

Kalu, N.E. 2012. Understanding Africa's China Policy: A Test of Dependency Theory and a Study of African Motivations in Increasing Engagement with China. Political Science Department -- Theses, Dissertations, and Student Scholarship 21. Available at: https://digitalcommons.unl.edu/cgi/viewcontent.cgi?article=1020&context=poliscitheses

Kaulihowa, T. & Adjasi, C. 2018. FDI and income inequality in Africa. *Oxford development studies,* 46(2):250-265. doi: https://doi.org/10.1080/13600818.2017.1381233

Kelly, R. 2016. Does Financial Sector Development Enhance the Relationship between FDI and Economic Growth? A Comparative Study of East African Countries. *Journal of Reviews on Global Economics*, 1 (5):145-153 ISSN: 1929-7092

Khordagui, N.H. & Saleh, G. 2013. FDI and Absorptive Capacity in Emerging Economies. *Topics in Middle Eastern and African Economies,* 15(1):141-172.

Kimenyi, M.S., Mwega, F.M. & Ndung'u, N.S. 2016. The African Lions: Kenya country case study. *African Growth Initiative.* Available at: https://www.brookings.edu/wp-content/uploads/2016/07/kenya-country-case.pdf

Kurtovic, S., Radevic, B. & Jokic, B. 2012. Horizontal Foreign Direct Investment and their Effects. *Economics and Organization,* 9(3):369-379.

Levin, A., Lin, C. & Chu, C.J. 2002. Unit root tests in panel data: asymptotic and finite-sample properties. *Journal of Econometrics,* 108:1-24.
Handle: RePEc:eee:econom:v:108:y:2002:i:1:p:1-24

Lucas, R.E. Jr. 1988. On the mechanics of economic development. *Journal of Monetary Economics,* 22(1):3-42.

Mabule, B. 2012. The Determinants of Foreign Direct Investment on the South African Economic Growth. Economic and Management Science [3209]. Available at: http://hdl.handle.net/10394/14963

Maddala, G.S. & Wu, S. 1999. A Comparative study of unit root tests with panel data and a new simple tests. *Oxford Bulletin of Economics and Statistics, Special Issue,* 0305-9049.

Mahembe, E. & Odhiambo, N.M. 2014a. Foreign Direct Investment and Economic Growth: A Theoretical Framework. *Journal of Governance and Regulation,* 3(2):63-70.

Mahembe, E. & Odhiambo, N.M. 2014b. A critical review of FDI inflow and economic growth in low-income SADC countries: prospects and challenge. *Problems and Perspectives in Management,* 12(1):7-16.

Mahembe, E.E. & Odhiambo, N.M. 2014. Does Foreign Direct Investment Cause Economic Growth? A Dynamic Panel Data Approach for SADC Countries. *International Journal of Emerging Markets,* 11(3):316-332 doi: https://doi.org/10.1108/IJOEM-06-2014-0084

Mallicks, S. & Moore, T. 2008. Foreign Capital in a Growth Model. *Review of Development Economics,* 12(1):143-159. doi: 10.1111/j.1467-9361.2008.00437.x

Mandalu, M.P. & Hofisi, C. 2018. Investigation on Tanzania's Economic history since Independence: The Search for a Development Model. *World Journal of Social Sciences and Humanities.* 4(1):61-68. doi:10.12691/wjssh-4-1-4

Meyer, K. 2015. What is "strategic asset seeking FDI"?. *Multinational Business Review,* 23(1):57-66. doi: 10.1108/MBR-02-2015-0007

Mira, R. & Hammadache, A. 2017. Good Governance and Economic Growth: A Contribution to the Institutional Debate about State Failure in Middle East and North Africa. *Asian Journal of Middle Eastern and Islamic Studies,* 11(3):107-120. doi:https://doi.org/10.1080/25765949.2017.12023313

Moon, H.C. 2016. *Foreign direct investment: A global perspective.* Singapore: World Scientific Publishing Co. Pte. Ltd.

Moran, T.H. 1998. *Foreign Direct Investment and Development: The New Policy Agenda for Developing Countries and Economic Transition*. Peterson Institute Press: All Books, Peterson Institute for International Economics, number 53.

Morisset, J.P. & Lumenga-Neso, O. 2002. Administrative Barriers to Foreign Investment in Developing Countries. World Bank Policy Research Working Paper No. 2848. Available at: http://documents1.worldbank.org/curated/en/556581468766823917/pdf/multi0page.pdf

Moss, T.J., Ramachandran, V. & Shah, M.K. 2004. Is Africa's Skepticism of Foreign Capital Justified? Evidence from East African Firm Survey Data. *Center for Global Development,* Working paper No.41. Available at: https://www.cgdev.org/sites/default/files/2748_file_cgd_wp041rev.pdf

Mugowo, O. 2017. Foreign Direct Investment and Economic Growth in SADC Countries: A Panel Data Analysis. Department of economics, University of Venda.

Müller, T. 2000. Analysing Modes of Foreign Entry. Munich Discussion Paper No. 2001-1. Available at: https://core.ac.uk/download/pdf/12161599.pdf

Musonera, E. 2008. Country Risk Factors: An Empirical Study of FDI Determinants in SSA. *Journal of International Management Studies,* 3(2):1-9

Muzurura, J. 2016. Determinants of foreign direct investment (FDI) in Zimbabwe: What factors matter? *Research in Business and Economics Journal.* 11(1):1-19

Narula, R. & Marin, A. 2005. Foreign direct investment spillovers, absorptive capacities and human capital development: Evidence from Argentina. Multinational Enterprises Programme Working Paper 2005/96. ISBN 92-2-117004-7. Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---multi/documents/publication/wcms_101045.pdf

National Research Council. 1992. *Democrization in Africa: African views, African Voices.* Washington DC: National Academy Press doi:https://doi.org/10.17226/2041.

Nkurunziza, J.D. 2018. *The origin and persistence of state fragility in Burundi.* Available at: https://www.theigc.org/wp-content/uploads/2018/04/Burundi-report-v2.pdf

Odero, W. 2018. *2018 African Economic Outlook: Zimbabwe.* Available at: https://www.afdb.org/fileadmin/uploads/afdb/Documents/GenericDocuments/country_notes/Zimbabwe_country_note.pdf

OECD. 2002a. *Foreign Direct Investment for Development: Maximising benefits, minimizing costs.* Available at: https://www.oecd.org/investment/investmentfordevelopment/1959815.pdf

OECD. 2002b. *African Economic Outlook: Uganda.* Available at: https://www.oecd.org/countries/uganda/2497647.pdf

OECD. 2002c. *African Economic Outlook: Zimbabwe.* Available at: https://www.oecd.org/countries/zimbabwe/2497679.pdf

OECD. 2003a. *African Economic Outlook: Mozambique.* Available at: https://www.oecd.org/countries/mozambique/2497536.pdf

OECD. 2003b. *African Economic Outlook: Uganda.* Available at: https://www.oecd.org/countries/uganda/2497647.pdf

OECD. 2006a. *African Economic Outlook: Mozambique.* Available at: https://www.oecd.org/countries/mozambique/36741703.pdf

OECD. 2006b. *African Economic Outlook: Uganda.* Available at: https://www.oecd.org/dev/36750519.pdf

OECD. 2008a. *African Economic Outlook: Malawi.* Available at: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/30727917-EN-MALAWI-AEO2008.PDF

OECD. 2008b. *African Economic Outlook: Rwanda.* Available at: https://www.oecd.org/dev/africa/40578344.pdf

OECD. 2012. *African Economic Outlook: Zambia.* Available at: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Zambia%20Full%20PDF%20Country%20Note.pdf

OECD. 2013. *OECD Investment Policy Reviews: Tanzania 2013.* Available at: https://www.oecd.org/daf/inv/investment-policy/IPR-Tanzania-2013-Overview-Progress-Policy-Challenges.pdf

Olagbaju, I.O. & Akinlo, A.E. 2015. FDI And Economic Growth Relationship In Sub-Saharan Africa: Is The Domestic Financial System A Significant intermediator?. *Archives of Business Research,* 6(5):90-112. doi:https://doi.org/10.14738/abr.65.4540.

Olagbaju, I.O. & Akinlo, A.E. 2018. FDI And Economic Growth Relationship In Sub-Saharan Africa: Is The Domestic Financial System A Significant intermediator?. *Archives of Business Research,* 6(5):90-112 doi:https://doi.org/10.14738/abr.65.4540.

Organisation for Economic Cooperation and Development. 2008. *OECD Benchmark Definition of Foreign Direct Investment.* 4th ed. Paris: OECD Publishing.

Pekarskiene, I. & Susniene, R. 2015. Features of foreign direct investment in the context of globalization. *Social and Behavioral Sciences 213:204-210* doi:10.1016/j.sbspro.2015.11.427.

Protsenko, A. 2003. Vertical and Horizontal Foreign Direct Investments in Transaction Countries. Available at: https://edoc.ub.uni-muenchen.de/2105/1/Protsenko_Alexander.pdf

Record, R., Kumar, P. & Kandoole, P. 2018. From Falling Behind to Catching Ep: A country economic memorandum for Malawi. *Washington, DC: World Bank*. Available at: https://openknowledge.worldbank.org/bitstream/handle/10986/28683/9781464811944.pdf?sequence=2&isAllowed=y

Roberts, P.A., Wallace, W. & Moles, P. 2016. *Mergers and Acquisitions*. Edinburgh: Edinburgh Business School. Available at: https://ebs.online.hw.ac.uk/EBS/media/EBS/PDFs/Mergers-Acquisitions-Course-Taster.pdf

Romaniuk, S.N. 2016. *The SAGE Encyclopedia of War: Social Science Perspectives, Dependency Theory.* Thousand Oaks, CA: SAGE Publications, Inc. pp 482-483.

Romer, P.M. 1986. Increasing Returns and Long-run Growth. *The Journal of Political Economy,* 94(5):1002-1037. doi: https://doi.org/10.1086/261420

Sanchez, O. 2003. The Rise and Fall of the Dependency Movement: Does It Inform Underdevelopment Today?. *Estudios Interdisciplinarios De América Latina Y El Caribe*, 14(2):31-50. ISSN 0792-7061

Santander. 2018. Foreign Investment: Uganda. Available at: https://santandertrade.com/en-/portal/establish-overseas/uganda/investing. Date of access: 24 November 2020

Santander. 2019. Tanzania: Foreign Investment. Available at: https://santandertrade.com/-en/portal/establish-overseas/tanzania/investing. Date of access: 24 November 2020

Santander. 2020a. Kenya: Foreign Investment. Available at: https://santandertrade.com/en/-portal/establish-overseas/kenya/investing Date of access: 24 November 2020

Santander. 2020b. Mozambique: Foreign Investment. Available at: https://santandertrade.com/en/portal/establish-overseas/mozambique/investing Date of access: 24 November 2020

Santander. 2020c. Rwanda: Foreign Investment. Available at: https://santandertrade.com/en/portal/establish-overseas/rwanda/investing Date of access: 24 November 2020

Santander. 2020d. Zambia: Foreign Investment. Available at: https://santandertrade.com/en/portal/establish-overseas/zambia/investing Date of access: 24 November 2020

Schoenmaeckers, R.C. 2005. How increased labour force and increased productivity may compensate for the negative socio-economic effects of an older population composition. *Genus,* 3(4):465-493.

Sejjaaka, S. 2004. A Political and Economic History of Uganda, 1962-2002. In: Bird F., Herman S.W. (eds) *International Businesses and the Challenges of Poverty in the Developing World.* Palgrave Macmillan, London. doi:https://doi.org/10.1057/9780230522503_6

Serbu, S.M. 2008. FDI role in promoting economic growth – An international review. *Management of International Business and Economic System.* 2008(9):110-126.

Seyoum, M., Wu, R. & Lin, J., 2015. Foreign Direct Investment and Economic Growth: The Case of Developing African Economies. *Social Indicators Research*, 122(1):45-48. doi:10.1007/s11205-014-0679-6.

Seyoum, M., Wu, R. & Lin, J., 2015. Foreign Direct Investment and Economic Growth: The Case of Developing African Economies. *Social Indicators Research*, 122(1):45-48. doi:10.1007/s11205-014-0679-6.

Shopina, I., Oliinyk, O & Finaheiev, V. 2017. Globalization and its negative impact on the global economy. *Baltic Journal of Economic Studies,* 3(5):457-461. doi:https://doi.org/10.1080/08853908.2017.1333933

Sokang, K. 2018. The Impact of Foreign Direct Investment on the Economic Growth in Cambodia: Empirical Evidence. *International Journal of Innovation and Economic Development,* 4(5):31-38 doi:10.18775 /ijied.1849-7551-7020.2015.45.2003.

Sokang, K. 2018. The Impact of Foreign Direct Investment on the Economic Growth in Cambodia: Empirical Evidence. *International Journal of Innovation and Economic Development.* 4(5):31-38. doi: 10.18775/ijied.1849-7551-7020.2015.45.2003

Solow, R. 1956. A Contribution to the Theory of Economic Growth. *Quarterly Journal of Economics,* 70(1):65-94

Soumia, Z. & Abderrezak, B. 2013. Foreign Direct Investment, Financial Integration, and Growth: Panel Data Analysis for North African Countries. *The 12th Annual GEP Postgraduate Conference 2013*, University of Nottingham, United Kingdom, 25th and 26th March, 2013.

Ssewanyana, S., Bategeka, L., Twimukye, E. & Nabiddo. 2009. Global Financial Crisis Discussion Series Paper 9: Uganda. *London, Overseas Development Institute.* Available at: https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/4335.pdf

Steinbach, R. 2019. Growth in Low-Income countries. Evolution, Prospects and Policies. World Bank Group Working paper 8949*.* Available at: http://documents1.worldbank.org/curated/en/578111564491745775/pdf/Growth-in-Low-Income-Countries-Evolution-Prospects-and-Policies.pdf

Stupak, J.M. 2018. Economic Impact of Infrastructure Investment. (CRS Report R44896). Washington, D.C.: Congressional Research Service. Available at: https://fas.org/sgp/crs/misc/R44896.pdf

The Republic of Uganda. 2018. *Draft National Investment Policy (NIP)*. Available at: https://www.finance.go.ug/sites/default/files/Publications/Draft%20National%20Investment%20Policy%202018.pdf

World Bank. 2018. World Bank Open Data. https://data.worldbank.org/. Date of access: 16 March 2020

Tiwari, A.K. & Mutascu, M. 2011. Economic Growth and FDI in Asia: A Panel-Data Approach. Economic analysis & policy, 41(2):173-187.

Trade Portal. 2019. Foreign direct investment (FDI) in Kenya. Available at: https://www.nordeatrade.com/dk/explore-new-market/kenya/investment Date of access: 24 November 2020

Trade Portal. 2020. Foreign direct investment (FDI) in Uganda. Available at: https://www.nordeatrade.com/dk/explore-new-market/uganda/investment Date of access: 24 November 2020

U.S Department of State. 2018. 2018a Investment Climate Statement: Uganda. Available at: https://www.state.gov/reports/2018-investment-climate-statements/uganda/ Date of access: 24 November 2020

U.S Department of State. 2018. 2018b Investment Climate Statements: Tanzania. Available at: https://www.state.gov/reports/2019-investment-climate-statements/ Date of access: 24 November 2020

U.S Department of State. 2019a. 2019 Investment Climate Statements: Burundi. Available at: https://www.state.gov/reports/2019-investment-climate-statements/burundi/ Date of access: 24 November 2020

U.S Department of State. 2019b. 2019 Investment Climate Statements: Kenya. Available at: https://www.state.gov/reports/2019-investment-climate-statements/kenya/ Date of access: 24 November 2020

U.S Department of State. 2019c. 2019 Investment Climate Statements: Malawi. Available at: https://www.state.gov/reports/2019-investment-climate-statements/malawi/ Date of access: 24 November 2020

U.S Department of State. 2019d. 2019 Investment Climate Statements: Mozambique. Available at: https://www.state.gov/reports/2019-investment-climate-statements/mozambique/ Date of access: 24 November 2020

U.S Department of State. 2019e. 2019 Investment Climate Statements: Rwanda. Available at: https://www.state.gov/reports/2019-investment-climate-statements/rwanda/ Date of access: 24 November 2020

U.S Department of State. 2019f. 2019 Investment Climate Statements: Zambia. Available at: https://www.state.gov/reports/2019-investment-climate-statements/zambia/ Date of access: 24 November 2020

U.S Department of State. 2019g. 2019 Investment Climate Statements: Zimbabwe. Available at: https://www.state.gov/reports/2019-investment-climate-statements/zambia/ Date of access: 24 November 2020

Uganda Investment Authority. 2016. Annual Investment Abstract FY 2015/2016. Available at: https://www.ugandainvest.go.ug/wp-content/uploads/2016/06/Uia-Annual-Investment-Abstract-for-FY-2015-2016-.pdf

UNCTAD. 1987. Burundi: Investment code. https://investmentpolicy.unctad.org/investment-laws/laws/41/burundi-investment-code.

UNCTAD. 2006. World Investment Report: Foreign Direct Investment in Sub-Saharan Africa: Origins, Targets, Impact and Potential. *New York and Geneva: United Nations Conference on Trade and Development,* ISBN 92-1-112703-4

UNCTAD. 2007. World Investment Report. Transnational corporations, extractive industries and development*. New York and Geneva: United Nations Conference on Trade and Development,* ISBN 978-92-1-112718-8

UNCTAD. 2012. Investment and export promotion Act, 2012. *New York Geneva: United Nations Conference on Trade and Development,* investmentpolicyhub.unctad.org

UNCTAD. 2017. The missing link between economic growth and development: The case of copper-dependent Zambia. Available at: https://unctad.org/system/files/non-official-document/suc2017d7_en.pdf

UNCTAD. 2019. World Investment Report: Special Economic Zones. *Geneva: United Nations Conference on Trade and Development,* ISBN 978-92-1-112949-6

UNCTAD. 2020. World Investment Report 2020. Available at: https://unctad.org/webflyer/world-investment-report-2020

United Nations. 2001. An investment Guide to Uganda Opportunities and Conditions. Available at: https://www.ihk-krefeld.de/de/media/pdf/international/doing-business/uganda-an-investment-guide-to-uganda-2004.pdf

United Nations. 2002. Investment Policy Review: The United Republic of Tanzania. Available at: https://unctad.org/system/files/official-document/iteipcmisc9_en.pdf

United Nations. 2005. Investment policy review: Kenya. Available at: https://unctad.org/system/files/official-document/iteipc20058_en.pdf

United Nations. 2005. United Nations Conference on Trade and Development: Investment Policy review, Kenya. *New York and Geneva: United Nations Conference on Trade and Development,* ISBN 92-1-112681-9

United Nations. 2006. Country profile – Malawi. *Food and Agriculture Orhanisation of the United Nations.* Available at: http://www.fao.org/3/i9753en/I9753EN.pdf

United Nations. 2010. Investment Policy Review: Burundi. Main Conclusions and Recommendations. Available at: https://unctad.org/system/files/official-document/diaepcb200917ch4_en.pdf

United Nations. 2015. Country Profile: Zimbabwe. *Economic commission for Africa.* Available at: https://www.uneca.org/sites/default/files/uploaded-documents/CoM/com2016/Country-Profiles/zimbabwe_cp-eng_final.pdf

United Nations. 2017. Country profile: Zambia. https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Zambia_Country_Profile.pdf

United Nations. 2018. World Investment Report 2018: Investment and New Industrial Policies. *New York and Geneva: United Nations Conference on Trade and Development,* ISBN 978-92-1-112926-7

United Nations. 2018. World Investment Report: Investment and New Industrial Policies. Available at: https://unctad.org/system/files/official-document/wir2018_en.pdf

United Nations. 2020. Methodology: Standards Country or area codes for statistical use (M49). https://unstats.un.org/unsd/methodology/m49/. Date of access: 17 April 2020

Urgaia, W.R. 2017. The Impact of Foreign Direct Investment on GDP Growth in East Africa. *China-USA Business Review,* 16(11):521-540. doi:10.17265/1537-1514/2017.11.002.

Urgaia, W.R. 2017. The Impact of Foreign Direct Investment on GDP Growth in East Africa. *China-USA Business Review,* 16(11):521-540. doi:10.17265/1537-1514/2017.11.002

Wan, X. 2010. A Literature Review on the Relationship between Foreign Direct. Investment and Economic Growth. *International Business Research,* 3(1):52. doi:10.5539/ibr.v3n1p52

Wasseja, M. & Mwenda, N. 2015. Analysis of the Determinants of foreign direct investment in Kenya. *Journal of Multidisciplinary Scientific Research,* 3(4):16-26.

Wesley, E. & Peterson, F. 2017. The Role of Population in Economic Growth. *Sage Journals,* 7(4):1-15. doi: https://doi.org/10.1177/2158244017736094

Woldemeskel, S.M. 2008. Determinants of Foreign Direct Investment in Ethiopia. Available at: http://arno.unimaas.nl/show.cgi?fid=15195

World Bank. 2019a. Doing Business 2019 - Training for reform. Available at: https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf

World Bank. 2019b. The World Bank in Tanzania. Available at: https://www.worldbank.org/en/country/tanzania/overview Date of access: 24 November 2020

World Bank. 2019c. World Bank Open Data. Available at: https://data.worldbank.org/

World Bank. 2020a. The World Bank in Rwanda. Available at: https://www.worldbank.org/en/country/rwanda/overview Date of access: 24 November 2020

World Bank. 2020b. The World Bank in Uganda. Available at: https://www.worldbank.org/en/country/uganda/overview Date of access: 24 November 2020

World Economic Forum. 2016. 5 Things to know about Rwanda's economy. *World Economic Forum on Africa.* Available at: https://www.weforum.org/agenda/2016/04/5-things-to-know-about-rwanda-s-economy/ Date of access: 24 November 2020

World Trade Organization. 2010. Trade Policy Review: Malawi. Available at: https://www.wto.org/english/tratop_e/tpr_e/tp331_e.htm

World Trade Organization. 2017. Trade Policy Review: Mozambique. Available at: https://www.wto.org/english/tratop_e/tpr_e/s354_e.pdf

Yanwale, A.B. 2007. FDI and Economic Growth: Evidence from Nigeria. African Economic Research Consortium Paper 165, Nairobi: AERC. Available at: https://opendocs.ids.ac.uk/opendocs/handle/20.500.12413/2677

Younis, M., Lin, X.X., Sharahili, Y. & Selvarathinam, S. 2008. Political Stability and Economic Growth in Asia. *American Journal of Applied Sciences,* 5(3):203-208. doi:https://doi.org/10.1177/0974910119887059

Zahonogo, P. 2018. Globalization and Economic Growth in Developing Countries: Evidence from Sub-Saharan Africa. *The International Trade Journal,* 32(2):189-208

Zulfikar, R. 2018. Estimation model and selection method of panel data regression: An overview of common effect, fixed effect and random effect model. *Fakultas Ekonomi Universitas Islam Kalimantan MAB Banjarmasin.* https://doi.org/10.31227/osf.io/9qe2b

Appendix A

The selected East African countries were classified according to the World Bank country income classification. The classification is based on the 2018 GNI per country. The table below indicates which of the 10 East African countries used in the study is classified as low income countries and which are classified as lower-middle income countries.

Low income countries	**Lower-middle income countries**
Burundi	Kenya
Ethiopia	Zambia
Malawi	Zimbabwe
Mozambique	
Rwanda	
Tanzania	
Uganda	