

Factors affecting foreign direct investment in Africa

A Research Report

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**A research report submitted to the Faculty of Economics, Management
Science and Information Systems University of the Witwatersrand, in partial
fulfilment of the requirements for the degree of Master of Business
Administration**

Johannesburg, April 2016

ABSTRACT

As companies look for new growth opportunities, they are turning to emerging markets as the source of this potential growth. Emerging markets are the fastest growing destination for goods and services over the period 1995 to 2016. (Khanna, 2005; Forum, 2016). Foreign Direct Investment (FDI) has been discussed widely and analysed by many potential investors in Africa (Dupasquier and Osakwe, 2006; Adams, 2009; Hailu, 2010). There have been many studies on determinants of FDI (Asiedu, 2002; Asiedu, 2006; Hailu, 2010). FDI has brought economic success, so it is very important for African countries to improve their economic and social conditions (Claassen & Loots et al., 2011). Developing countries are the fastest growing markets - globally outperforming other emerging market indexes and the S&P 500 over a 10-year period from 2000 to 2010.

While South Africa's GDP growth is modest, most of the African regions had a high forecasted growth of a minimum of 4.6 per cent for Southern Africa and a maximum of 7.4 per cent for West Africa for 2014. This is one of the reasons investors are attracted to Africa.

While the literature correctly highlights the need for improved investment conditions in Africa and motivates that Multi-National Corporations (MNCs) need not use intermediaries, the literature fails to consider what factors actively contribute to FDI in African countries and what African countries can do to increase foreign direct investment.

The data collected investigated Sub-Saharan African countries, specifically as emerging economies, as it relates to financial and socioeconomic realities with regard to Foreign Direct Investment. All countries are competing against each other for FDI, therefore it is important to analyse competitive pillars that rank each of these countries.

A quantitative methodology was applied in conducting the research which comprised studying and interpreting literature from empirical reports, analyses of regression data, interpretation of this data and examining relationships between dependent and independent variables. Amidst the increase of new product and service advancements, the only source of lasting competitive advantage is arguably the generation of new economic value. This includes the development of new technologies to support the development of innovative services and products within African economies. This research proposed that a so-called Foreign Direct Investment Collaboration Model be adopted and implemented to address and improve each country's competitiveness.

DECLARATION

I declare that this research is my own, unaided work, except where specific acknowledgement has been made. It is being submitted for the degree of Master of Business Administration at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination at any other university.

Vijen Singh

_____ day of _____, 2016.

DEDICATION

I dedicate this work to my wife Kavitha, daughter Kiasha as well as my father Vishnuduth and late mother Sheila. Also to my late father-in-law Prakash Ramkaran who passed away during my studies.

ACKNOWLEDGEMENTS

- I would like to thank Kavitha, my loving wife, for supporting me in the last two years and motivating me to complete this work.
- My supervisor Professor Eric Schaling, for his support and guidance.
- To all my family for understanding my absence at family events and love, encouragement and guidance.
- To Wits University, for a rich, valuable, knowledge enhancing experience.
- To my company Alere, for supporting me and encouraging my development

DEFINITION OF TERMS

AsgiSA	Accelerated and Shared Growth Initiative for South Africa
AA	Affirmative Action
ADEP	Aquaculture Development and Enhancement Plan
AIS	Automotive Investment Scheme
BRICS	Brazil, Russia, India, China, South Africa
BEE	Black Economic Empowerment
DTI	Department of Trade and Industry
EMEA	Export Marketing and Investment Assistance Scheme
FSAs	Firm Specific Advantages
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade in Services
IDZ	Industrial Development Zones
IPAP	Industrial Policy Action Plans
IPR	Intellectual property rights
IP	Industrial Procurement
IMF	International Monetary Fund
MNCs	Multi-national corporations
MCEP	Manufacturing Competitiveness Enhancement Programme
NIPF	National Industrial Policy Framework
NEDLAC	National Economic Development and Labour Council
NIC	Newly Industrialised Countries
OECD	Organisation for Economic Co-operation and Development
RTA	Regional Trade Agreements
SCM	Agreement on Subsidies and Countervailing Measures (SCM)
SOE	State Owned Enterprises
TRIPS	Trade Related-Aspects of Intellectual Property Rights
TRIM	Trade Related Investment Measures
TPSF	Trade Policy and Strategy Framework
UNCTAD	United Nations Conference on Trade and Development

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1 CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this study was to evaluate the factors that would make Multi-National Corporations (MNCs) invest in Africa. The study sought to highlight the advantages of investing in Africa through a review of existing literature. The researcher tested whether existing literature on FDI in Africa as previously examined by Asiedu (2002), Asiedu (2006) and Hailu (2010) holds true. In addition, the study highlighted the factors supporting foreign direct investment as outlined in The Africa Competitiveness Report 2013 (World Economic Forum, 2013) and other literature. Empirical data for the study was gathered using a quantitative approach. This involved multiple regression analysis of global reports for selected African countries.

1.2 Context of the study

The Africa Competitiveness Report (World Bank, 2013), found that Africa is viewed as the continent with one of the fastest growing economies globally, with an average growth rate of 5 per cent over the past 10 years. The Africa Competitiveness Report (World Bank 2013) further highlights that, while developed economies battle to overcome the 2008 financial crisis, the African continent needs to take advantage of its growth rate to alleviate poverty and build prosperity.

According to Hartzenberg (2011), Africa consists of a range of regionally integrated groups, South Africa being connected to many of these, with the Southern African Development Community (SADC), East Africa Community (EAC), Common Market for Eastern and Southern Africa (COMESA) (see Figure 1.1) working as a combined group. Growth in Africa for an investment of US\$1000 over a ten-year period has outperformed the MSCI Emerging Market Index and S&P 500, as seen in Figure 1.2 (Zuma, 2011). Africa's potential is further illustrated in Figure 1.3 which shows that during the period 2004 to 2008, it outperforms three of the other five countries making up BRICS (Brazil, Russia, India, China, South Africa) (Zuma, 2011).

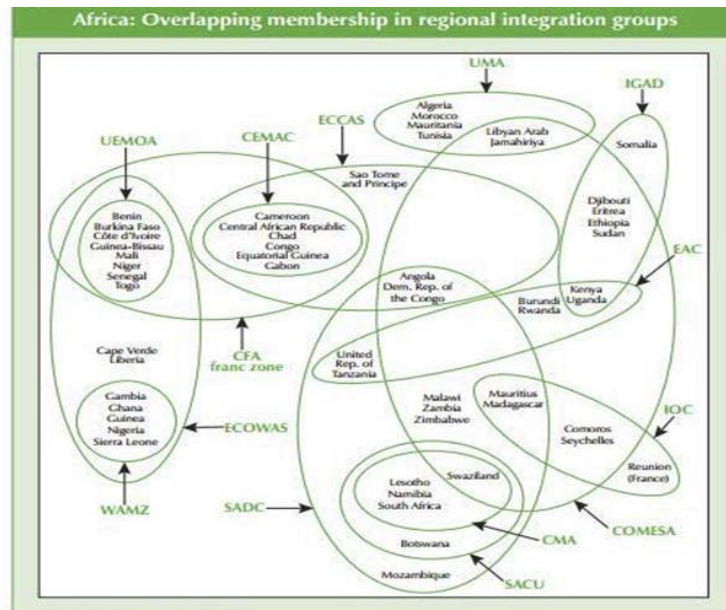


Figure 1.1: Africa - Overlapping membership in regional integration

Source: UNCTD: The Handbook of Statistics, 2013

Growth of \$1,000 Invested in Leading Benchmarks Including African Markets

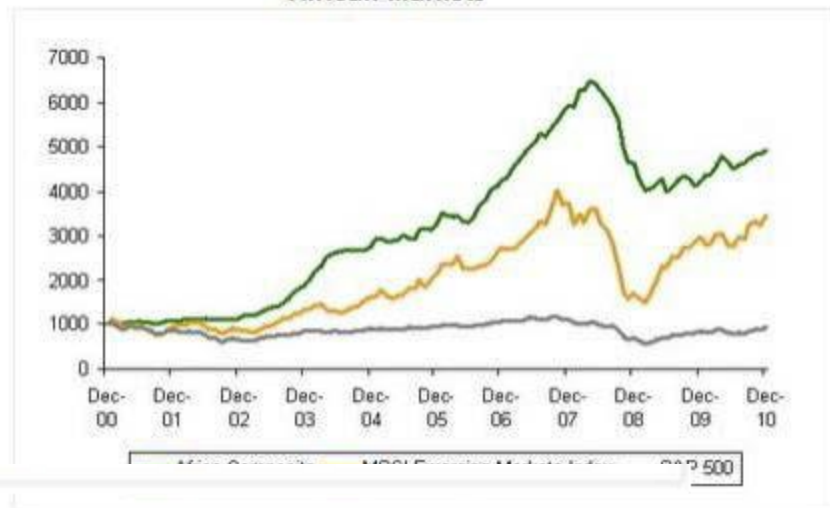


Figure 1.2: Africa versus Emerging Markets Index versus S&P 500

Source: UNCTD: The Handbook of Statistics, 2013

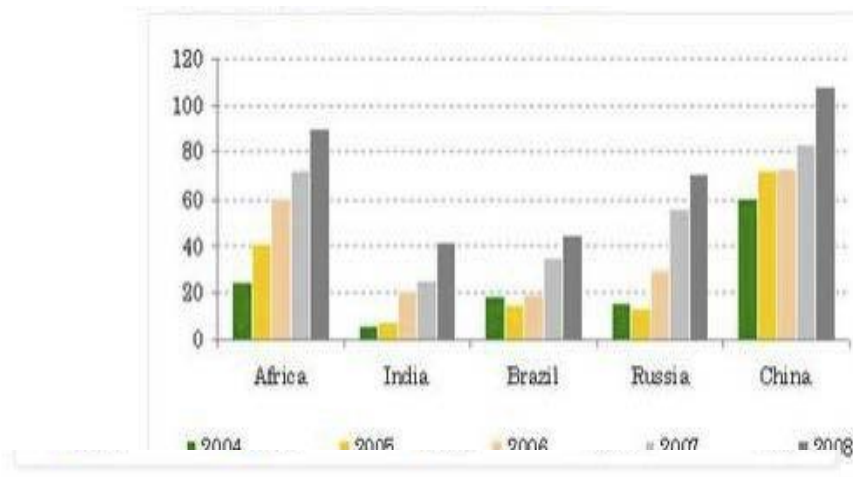


Figure 1.3: BRICS Growth Comparison

Source: UNCTD: The Handbook of Statistics, 2013

1.3 South Africa's initiative to attract FDI

South Africa, for example, has many initiatives to attract FDI. South Africa was the largest economy by GDP in Africa in 2012 (Figure 1.4, Table 1.1) and has the infrastructure capabilities in terms of transportation, communication, and financial and human resources and should take advantage of investment opportunities, especially in Sub-Saharan Africa. South Africa has had a stable government for the last 20+ years and an excellent judicial system. Section 165 of the South African Constitution declares that “judicial authority vests in the courts, which are independent and subject only to the Constitution and the law” and a solid monetary policy to maintain growth and stability (South African Reserve Bank makes it ideally placed to take advantage of the favourable investment climate.

However, there is a problem in attracting more Foreign Direct Investment as can be seen from the South African mining industry where uncertainty on policies, regulations and labour instability (platinum belt) poses a risk to investors (Africa, 2015). The South African government has a lot of export incentive schemes that can be used to attract Foreign Direct Investment as outlined by Letsoalo (2013). The incentive schemes are discussed below.

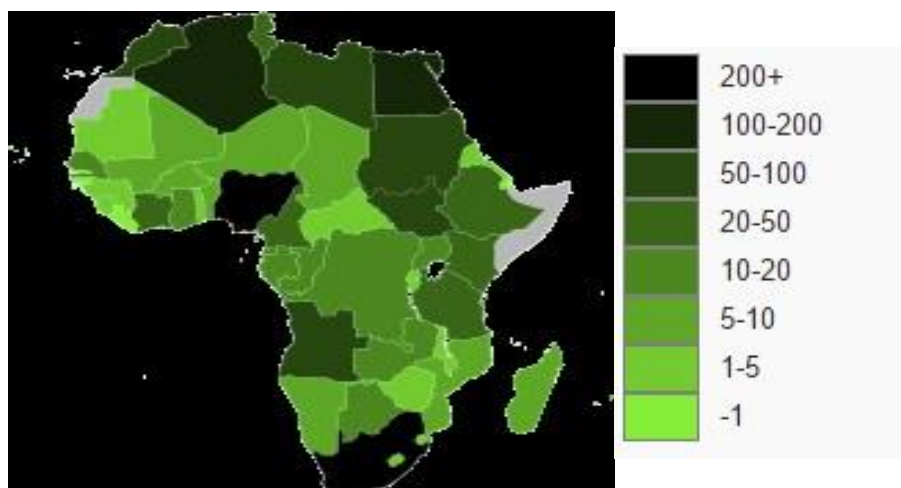


Figure 1.4: Map of Africa by 2008 nominal GDP (billions USD)

Source: UNCTD: The Handbook of Statistics

Table 1.1: List of Top 5 African countries sorted by their nominal GDP

Source: UNCTD: The Handbook of Statistics, 2013

Rank	Country	2009 (Billion USD)	2010 (Billion USD)	2011 (Billion USD)	2012 (Billion USD)
	World	57,920.270	62,909.274	69,659.630	71,707,302
	Africa	1,476.179	1,730.072	1,880.380	2,016.292
1	<u>South Africa</u>	283.977	357.259	408.074	384.315
2	<u>Nigeria</u>	168.846	216.803	238.920	268.708
3	<u>Egypt</u>	188.608	218.466	235.719	256.729
4	<u>Algeria</u>	139.763	160.270	190.709	207.794
5	<u>Angola</u>	75.508	85.312	100.948	118.719

1.3.1 Industrial Development Zones (SARS)

Industrial Development Zones (IDZ) were implemented by the South

African Revenue Service (SARS) to promote exports, provide businesses with relief from duties and allow manufacturers to claim tax credits. South Africa has four IDZ's in East London, Coega, Richards Bay and Oliver Tambo.

1.3.2 Aquaculture Development and Enhancement Programme (AEDEP)

The Aquaculture Development and Enhancement Programme (ADEP) is aimed at providing cost sharing agreements on capital costs incurred on assets used to create employment over different regions and which promotes Broad Based Black Employment. Grants can reach as much as R40 million.

1.3.3 Automotive Investment Scheme (AIS)

The Automotive Investment Scheme (AIS) is aimed at the motor manufacturing industry and seeks to promote the local supply chain. Companies can qualify for between 20 to 40 per cent on productive asset investments, which are determined by the Department of Trade and Industry (DTI).

1.3.4 Manufacturing Competitiveness Enhancement Programme (MCEP)

The Manufacturing Competitiveness Enhancement Programme (MCEP) is one of the key programmes of IPAP and aims to encourage manufacturers to provide sustainable investments by increasing production capacity and creating employment. Companies can receive up to 25 per cent funding on their investments. The programmes are funded via two sub-programmes, namely the Production Incentive (PI), run by the DTI, and the Industrial Financing Loan Facilities, run by the Industrial Development Corporation (IDC).

1.3.5 Export Marketing and Investment Assistance Scheme (EMIA)

The Export Marketing and Investment Assistance Scheme (EMIA) aims

to develop foreign markets for South African products and services and to encourage foreign direct investment into the country. The objective of the EMIA is to: provide marketing assistance to develop new export markets and to grow existing export markets; assist with the identification of new export markets through market research; assist companies to increase their competitiveness by supporting patent registrations, quality marks and product markets; assist with facilitation to grow FDI through missions and FDI research; and increase the contribution of black-owned businesses and small and medium sized enterprises to South Africa's economy.

Letsoalo (2013) states that although these incentive schemes are in place to assist exporters, government may insist on local content when procuring for government institutions, and this process impacts on Foreign Direct Investment (FDI) where government is the main customer and MNCs are importing their products to sell to the government. MNCs would have invested in assembly or manufacturing facilities to supply government in the long term.

Rangasamy (2008) states that the South African government has recognised the importance of export promoting initiatives and is in multilateral discussions with Brazil, India, China and the Commonwealth of Independent States (BRICS), European Union, World Trade Organisation (WTO) and the United States of America (USA) for the beneficial treatment of South African products. The importance of this recognition is that companies within South Africa will be able to gain easier entry to the specified export markets. Rangasamy (2008) found that governments are investing in infrastructure networks (including rail and port networks) and skills development, geared towards export expansion, thus promoting investor confidence.

1.4 Problem Statement

The purpose of this study is to investigate factors affecting Foreign Direct Investment in Africa with an emphasis on Sub-Saharan Africa.

1.4.1 Main Objective

The main objective of this study is to identify which factors influence Foreign Direct Investment in Sub-Saharan Africa.

1.5 Significance of the study

The Africa Competitiveness report highlights various impediments for Africa to achieve its true potential (World Bank, 2013). This study investigated how business and government could collaborate to overcome these impediments. The study aimed to examine the factors hindering existing MNCs from investing in Africa and what could be preventing existing MNCs from increasing their investments. It has also brought forth common ground that government and MNCs can look at for building rewarding and sustainable partnerships.

Research on the determinants of and factors influencing foreign direct investment into Sub-Saharan Africa is not well researched and this is confirmed by Asiedu (2006). The study aimed to provide guidance to investors in Africa that are seeking entry into one of the fastest growing economies in the world. The study intended providing insight into the reasons for the success of existing MNCs and what potential MNCs wishing to invest should consider. Existing journals and reports on investment in Africa mainly focus on the problems encountered by investors. This study sought to explore the benefits, if any, of investing in Africa.

1.6 Delimitations of the study

The study explored the benefits of Foreign Direct Investment in Africa with a focus on only seven countries using empirical global reports to make findings. The study looked at data over a period of six years from 2009 to 2014 and is entirely reliant on empirical studies.

1.7 Assumptions

Africa here means Sub-Saharan Africa and excludes countries in North Africa. FDI is assumed to be good for the economy of the country.

2 CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review on foreign direct investment (FDI) and related topics. The chapter is organised as follows. Section 2.2 discusses the definition of FDI and the participants in FDI. Section 2.3 examines the benefits of FDI. Section 2.4 provides an overview of FDI in Africa. Section 2.5 discusses the impact of FDI on trade. Section 2.6 discusses the factors that influence FDI. Section 2.7 analyses countries that offer an attractive investment destination for FDI in Africa. A chapter summary concludes the chapter.

2.2 Definition of FDI and the participants of FDI

UNCTAD (1999a) states that a direct investment is established when a resident in one economy owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise, or the equivalent for an unincorporated enterprise. Direct investment includes equity capital, reinvested earnings, and other forms of capital including intercompany debt transactions. Hill (2002) posits that FDI occurs when a firm invests directly in facilities to produce and/or market a product in a foreign country. Many other authors have similar definitions. For example, Caves (1996) states that FDI is the investment made by a company outside its home country. It is the flow of long-term capital based on long-term profit consideration involved in international production. Washington (2004) explains that it is a category of international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise). Jones and Wren (2006) state that “FDI is the name given to the process where a firm from a country provides capital to an existing or newly created firm in another country.” Purlys and Treigienė (2006) note that Foreign Direct Investment is the investment in the country by foreigners (foreign governments, international organisations, foreign natural and legal

persons). Overall, the literature shows that FDI is the investment of resources in a foreign country.

FDI involves a large amount of capital flow involving many different role players and decision-making units. Some of the role players, as confirmed by UNCTAD (1999a), are: subsidiaries in which the a non-resident investor own 50% or more in capital and associates, in which non-resident investors own 50% or less in capital and branches, which are jointly or wholly owned by unincorporated enterprises.

Hill (2002) states that “FDI can occur in two different forms; One, in a form of horizontal direct investment where an enterprise invests in a similar industry in a foreign industry as its main operation; Two, in a form of vertical foreign direct investment where an enterprise invests in industry that provides inputs for its domestic operations or in an industry that uses outputs from its domestic operations.”

2.3 Benefits of foreign direct investment

The overarching benefit for firms seeking to make FDI is to improve their competitiveness and, for countries seeking FDI, it is to boost the economic growth and sustainability of their economies. UNCTAD (1999b) states that “Openness to trade, FDI and technology flows, combined with deregulation and privatisation have improved firms’ access to markets for goods and services and immobile factors of production and have increased competitive pressures in previously protected home markets, forcing firms to seek new markets and resources overseas.” At the same time, technological advances have enhanced the ability of firms to coordinate their expanded international production networks in their quest for increased competitiveness. More firms are therefore developing a portfolio of local assets to complement their own competitive strengths when they engage in FDI, as witness by the growing number of firms that are becoming transnational (multi-national).

As developed markets become saturated, companies are looking to expand into new markets (Hill, 2002). The main reason for firms to pursue FDI is for market expansion and production efficiencies. Dunning (1993) and UNCTAD

(1999b) state that “firms engage in three main activities in the FDI process.” Firstly, they are market seeking meaning that they are taking advantage of new markets for the introduction of products and services. Secondly, they are efficiency seeking meaning they are looking at a variety of factors such as labour, technology, administration and infrastructure costs that contribute to efficiency and thirdly, they are resource or asset seeking meaning they are trying to be close to the natural resources that are core to the firms’ needs and companies are sourcing strategic assets to grow in that particular market. Oman (2000) and Heese (2001) state that “developing countries encourage and promote FDI by MNC’s as a main driver for economic growth and development.” Numerous economic studies confirm a positive correlation between GDP and FDI (Pigato, 2004).

Metwally (2004) identifies four reasons why FDI significantly contributes to economic growth in developing countries. First, that FDI inflows reduce the need for borrowing. Countries will be able to see more tangible benefits from exports. Countries will reduce their dependence on foreign funders and foreign direct investment will enable their economies to grow at a faster rate. Second, direct foreign investment leads to technology and managerial skills advancement that developing countries require to boost economic growth. Third, direct foreign investment allows developing countries to expand into new markets which create economic growth by creating an ability to export and lastly, by expanding the export revenue and capital inflow, developing countries are obliged to conform to global rules and regulations which assists them with reforming their policies and procedures. This enables them to continue their economic growth at sustainable rates.

2.4 FDI in Africa

As companies look for new growth opportunities, they are turning to emerging markets as the source of this potential growth. Emerging markets are the fastest growing for goods and services (Khanna 2005). This is confirmed as per Table 1 which shows emerging markets and developing economies as having the highest growth rates. FDI in Africa has been discussed widely and analysed by many potential investors (Hailu 2010). FDI is very important for African

countries to improve their economic and social conditions (Claassen, Loots et al. 2011). This is more so because Africa is one of the fastest growing markets. Table 2.1, shows that in 2014, the Sub-Saharan region outperformed most market indices and the S&P 500 over a 10-year period. Table 2.2 further illustrates that the African regions have a high current and forecasted growth rates with South Africa having lowest growth rate of 1.5 per cent in 2014 and Nigeria and Kenya showing high growth rates of between 5.0 to 7.0 per cent, thus positioning Africa as a viable option for Foreign Direct Investment.

Table 2.1: Global GDP Growth Rates 1997 – 2014

	Average 1997–2006	2007	2008	2009	2010	2011	2012	2013	2014	Projections		
World	4.0	5.7	3.1	0.0	5.4	4.2	3.4	3.3	3.4	3.1	3.6	4.0
Advanced Economies	2.8	2.8	0.2	-3.4	3.1	1.7	1.2	1.1	1.8	2.0	2.2	1.9
United States	3.3	1.8	-0.3	-2.8	2.5	1.6	2.2	1.5	2.4	2.6	2.8	2.0
Euro Area ²	2.3	3.0	0.5	-4.6	2.0	1.6	-0.8	-0.3	0.9	1.5	1.6	1.6
Japan	0.9	2.2	-1.0	-5.5	4.7	-0.5	1.7	1.6	-0.1	0.6	1.0	0.7
Other Advanced Economies ³	3.6	4.1	1.2	-2.0	4.6	2.8	1.7	2.1	2.8	2.2	2.4	2.6
Emerging Market and Developing Economies	5.4	8.7	5.8	3.1	7.5	6.3	5.2	5.0	4.6	4.0	4.5	5.3
Regional Groups												
Commonwealth of Independent States ⁴	5.5	9.0	5.3	-6.3	4.6	4.8	3.4	2.2	1.0	-2.7	0.5	2.5
Emerging and Developing Asia	7.1	11.2	7.3	7.5	9.6	7.9	6.8	7.0	6.8	6.5	6.4	6.5
Emerging and Developing Europe	4.1	5.5	3.1	-3.0	4.8	5.4	1.3	2.9	2.8	3.0	3.0	3.4
Latin America and the Caribbean	3.1	5.7	3.9	-1.3	6.1	4.9	3.1	2.9	1.3	-0.3	0.8	2.8
Middle East, North Africa, Afghanistan, and												
Pakistan	4.8	6.3	5.2	2.2	4.9	4.5	5.0	2.3	2.7	2.5	3.9	4.5
Middle East and North Africa	4.9	6.4	5.2	2.2	5.2	4.6	5.0	2.1	2.6	2.3	3.8	4.3
Sub-Saharan Africa	5.0	7.6	6.0	4.1	6.6	5.0	4.3	5.2	5.0	3.8	4.3	5.1
Memorandum												
European Union	2.6	3.3	0.7	-4.3	2.1	1.8	-0.4	0.2	1.5	1.9	1.9	1.9
Low-Income Developing Countries	6.0	7.4	5.9	5.9	7.1	5.3	5.2	6.1	6.0	4.8	5.8	6.0

Source: IMF, World Economic Outlook, October 2015.

Table 2.2: Sub-Saharan Africa Growth Rates 1997 – 2014

	Average 1997–2006	2007	2008	2009	2010	2011	2012	2013	2014	Projections		
										2015	2016	2020
Sub-Saharan Africa	5.0	7.6	6.0	4.1	6.6	5.0	4.3	5.2	5.0	3.8	4.3	5.1
Angola	8.8	22.6	13.8	2.4	3.4	3.9	5.2	6.8	4.8	3.5	3.5	5.2
Benin	4.4	4.6	5.0	2.7	2.6	3.3	5.4	5.6	5.4	5.5	5.3	6.0
Botswana	4.7	8.3	6.2	-7.7	8.6	6.0	4.8	9.3	4.4	2.6	3.2	4.4
Burkina Faso	6.1	4.1	5.8	3.0	8.4	6.6	6.5	6.6	4.0	5.0	6.0	6.6
Burundi	2.8	3.4	4.9	3.8	5.1	4.2	4.0	4.5	4.7	-7.2	5.2	5.2
Cabo Verde	7.4	9.2	6.7	-1.3	1.5	4.0	1.1	1.0	1.8	3.5	3.7	4.2
Cameroon	4.0	3.3	2.9	1.9	3.3	4.1	4.6	5.6	5.7	5.3	5.4	5.5
Central African Republic	1.6	4.6	2.1	1.7	3.0	3.3	4.1	-36.0	1.0	5.5	5.7	4.0
Chad	8.4	3.3	3.1	4.2	13.5	0.1	8.9	5.7	6.9	6.9	4.2	2.8
Comoros	2.4	0.5	1.0	1.8	2.1	2.2	3.0	3.5	2.0	1.0	2.2	4.0
Democratic Republic of the Congo	-0.1	6.3	6.2	2.9	7.1	6.9	7.1	8.5	9.2	8.4	7.3	5.2
Republic of Congo	3.4	-1.6	5.6	7.5	8.7	3.4	3.8	3.3	6.8	1.0	6.5	0.4
Côte d'Ivoire	1.1	1.8	2.5	3.3	2.0	-4.4	10.7	8.7	7.9	8.2	7.6	6.8
Equatorial Guinea	37.8	12.3	9.9	-4.5	-3.8	1.9	5.8	-6.5	-0.3	-10.2	-0.8	-1.8
Eritrea	1.5	1.4	-9.8	3.9	2.2	8.7	7.0	1.3	1.7	0.2	2.2	3.8
Ethiopia	5.6	11.8	11.2	10.0	10.6	11.4	8.7	9.8	10.3	8.7	8.1	7.5
Gabon	0.2	6.3	1.7	-2.3	6.3	7.1	5.3	5.6	4.3	3.5	4.9	5.5
The Gambia	3.6	3.6	5.7	6.4	6.5	-4.3	5.6	4.8	-0.2	4.7	5.5	5.9
Ghana	5.1	4.5	9.3	5.8	7.9	14.0	8.0	7.3	4.0	3.5	5.7	3.6
Guinea	3.3	1.8	4.9	-0.3	1.9	3.9	3.8	2.3	1.1	0.0	4.9	7.5
Guinea-Bissau	0.9	3.2	3.2	3.3	4.4	9.4	-1.8	0.8	2.5	4.7	4.8	5.0
Kenya	2.9	6.9	0.2	3.3	8.4	6.1	4.6	5.7	5.3	6.5	6.8	6.9
Lesotho	3.0	5.0	5.1	4.5	6.9	4.5	5.3	3.6	3.4	2.6	2.9	3.6
Liberia	...	12.7	6.0	5.1	6.1	7.4	8.2	8.7	0.7	0.9	5.6	7.6
Madagascar	3.4	6.4	7.2	-4.7	0.3	1.5	3.0	2.3	3.3	3.4	4.6	5.0
Malawi	2.8	9.6	7.6	8.3	6.9	4.9	1.9	5.2	5.7	4.0	5.0	6.0
Mali	4.9	4.3	5.0	4.5	5.8	2.7	0.0	1.7	7.2	5.0	5.0	4.5
Mauritius	4.3	5.9	5.5	3.0	4.1	3.9	3.2	3.2	3.6	3.2	3.8	3.6
Mozambique	8.5	7.4	5.8	6.5	7.1	7.4	7.1	7.4	7.4	7.0	8.2	17.6
Namibia	4.2	3.6	2.6	0.3	6.0	5.1	5.1	5.1	4.5	4.8	5.0	4.4
Niger	4.4	3.2	9.6	-0.7	8.4	2.2	11.8	4.6	6.9	4.3	5.4	9.0
Nigeria	7.2	9.1	8.0	9.0	10.0	4.9	4.3	5.4	6.3	4.0	4.3	5.1
Rwanda	8.4	7.6	11.2	6.2	6.3	7.5	8.8	4.7	6.9	6.5	7.0	7.5
São Tomé and Príncipe	3.8	0.6	8.1	4.0	4.5	4.8	4.5	4.0	4.5	5.0	5.2	6.0
Senegal	4.4	4.9	3.7	2.4	4.2	1.8	4.4	3.6	4.7	5.1	5.9	7.3
Seychelles	2.8	10.4	-2.1	-1.1	5.9	7.9	6.6	6.0	3.3	3.5	3.7	3.4
Sierra Leone	9.4	8.1	5.4	3.2	5.3	6.0	15.2	20.1	7.1	-23.9	-0.7	6.9
South Africa	3.4	5.4	3.2	-1.5	3.0	3.2	2.2	2.2	1.5	1.4	1.3	2.6
South Sudan	...	...	...	...	...	...	-52.4	29.3	2.9	-5.3	0.7	7.4
Swaziland	3.4	4.0	4.3	1.9	1.4	1.2	3.0	2.9	2.5	1.9	0.7	1.4
Tanzania	5.5	8.5	5.6	5.4	6.4	7.9	5.1	7.3	7.0	6.9	7.0	6.9
Togo	1.3	2.1	2.4	3.5	4.1	4.8	5.9	5.4	5.0	5.4	5.6	5.5
Uganda	6.8	8.1	10.4	8.1	7.7	6.8	2.6	3.9	4.8	5.2	5.5	6.4
Zambia	5.1	8.4	7.8	9.2	10.3	6.4	6.8	6.7	5.6	4.3	4.0	6.8
Zimbabwe ⁹	...	-3.4	-16.6	7.5	11.4	11.9	10.6	4.5	3.3	1.4	2.4	3.4

Source: IMF, World Economic Outlook, October 2015

Watchira et al. (2012) state that there is increasing competition from other African countries to attract FDI, and with their higher GDP growth rates than South Africa, MNCs may look to do FDI in those countries instead of using intermediaries. The authors also go on to state that MNCs are looking to use cities as hubs such as is seen with Dubai's servicing of the Middle East, Singapore in Southeast Asia, Hong Kong for Greater China, and Shanghai as a new emerging hub for central and northern China.

2.5 Impact of foreign direct investment on trade

There have been numerous studies conducted on the impact of FDI on trade

with some indicating it is complementary while others finding it substitutional. Complementary relationships exist where trade and FDI combine to benefit an investment while a substitutional relationship occurs where either FDI or trade is used as a vehicle for an investment. Wei, et al. (1999) note that international trade and FDI are complementary as enterprises take advantage of factor differences, such as price, through vertical integration where either the host or domestic country can be used to leverage any benefits on pricing. Other studies, such as Goldberg and Klein's (1997), indicate that high transactional costs caused through trade barriers lead to organisations seeking horizontal integration where international trade and FDI act as substitutes for investment.

Ruggiero (1996) finds exports and trade to be complementary and supportive of each other and notes that they drive the process of economic globalisation. FDI may stimulate exports through industrial linkages in the domestic backward linkages. Enterprises use locally made products or services as inputs to produce exports (Haddad & Harrison, 1993) which stimulates domestic enterprises and promotes exports.

FDI improves exports which improves productivity and attracts foreign investors to undertake FDI. Economic growth is boosted by exports which enhance labour productivity and the accumulation of capital. Exports also reduce per unit costs caused by an increase in production. For the host country, exports also assist in bringing in foreign exchange which helps a country with importing capital and input goods. Exports also help companies with being more competitive with global rivals.

2.6 Factors that could impact foreign direct investment in Africa

The FDI a country can attract is dependent on a variety of factors. These factors have been widely researched and include crime, theft and corruption, customs regulations, procedures and bureaucracy, exchange rate fluctuations, lack of market information, inadequate enforcement of contractual and property rights, inadequate transport infrastructure uncertainty linked to economic policy and a lack of transparency of rules and regulations (Hailu, 2010; Manyadu, 2011; World Bank, 2013). Almost all of these factors apply to South Africa.

When investors are looking to invest in emerging markets, they should examine a country's institutional context (Khanna 2005) which encompasses many of the factors listed above. The institutional factors are comprised of political and social systems, openness, and product, labour and capital markets which are discussed below.

2.6.1 Political and social systems

Some of the organisational considerations for investing in a country relate to the political system of that country and the degree of influence this has on businesses. For example, South Africa has had a stable government but faces challenges in attracting FDI because of its policies relating to State Owned Enterprises (SOEs), Black Economic Empowerment (BEE), Affirmative Action (AA) and the protection of local businesses through incentives and subsidies for others (Vom Hau & Scott et al., 2012). While BEE and AA may be good social initiatives to right the wrongs of the Apartheid regime (Wilson, 2001), this is not good for investors who may feel they are being told how to run their businesses and, also to give away equity.

A country's judiciary role and power should also be considered as this has an impact on the risk to the company's assets. According to Vom Hau and Scott et al., (2012), an example of how MNCs can be protected is if they have invested in a joint venture with a local subsidiary who cannot pay its debts, they could possibly recover some of the funds in a court of law.

Media independence is also a key requirement for MNCs in many countries for FDI. FDI strengthens media freedom (Dutta & Roy, 2009). FDI and media independence complement each other. They serve as a watchdog and report on any misdemeanours detrimental to the general public and it is important for investors if they maintain a neutral stance. South Africa, post-apartheid has ensured the media's independence (Wasserman, 2010).

Religious, linguistic, regional, and ethnic groups (problematic in SA) must be analysed to see how they interact with each other as this could determine the stability

of a region/country.

2.6.2 Openness

Openness refers to a country's receptiveness to foreign direct investment and the restrictions, if any, they place on companies (Khanna, 2005). MNC's prefer investing in countries that are open compared to those that are not. Openness is decided upon by the governing policies of each country. Asiedu (2006) and Marawu (2012) both confirm the importance of openness as a determinant of FDI. A company's competitiveness in the global market can be affected by its level of openness. An example of this is that a country is very receptive, when its economic policies favour FDI, which results in capital inflows into its markets, which makes their capital markets more sophisticated (Baltagi & Demetriades et al., 2009) and these will be able to serve both local and MNC's needs more effectively.

Trade agreements, the freedom to travel, foreign currency and tax policies are also determinants of whether MNCs will want to invest. South Africa, for example, has trade agreements with different countries in Africa and across the globe and this makes it easier for companies in South Africa to trade globally (Teweldemedhin & Van Schalkwyk, 2010).

MNCs also study the currency risk of a country before making any potential investments (Makar & Huffman, 2011). South Africa, for example, has excellent financial institutions (World Bank, 2013) and this may assist in hedging the risk by allowing companies to purchase foreign exchange derivatives. MNCs could also use a natural edge to mitigate risk by purchasing in foreign currency and selling in foreign currency (Makar & Huffman, 2011). MNC's are present in different countries globally and foreign currency loss in one country may be alleviated by a foreign currency gain in another country which provides a natural edge.

Rates of tax and whether profits can be repatriated without any impediments will also contribute to the investment decision (Khanna, 2005). Many

MNCs previously looked at setting up companies in locations where they could benefit from lower taxes (Demir & Sayek 2008). This is changing currently as countries from emerging markets are putting pressure on MNCs to leave higher profit margins in low-tax locations for future development. Companies that reinvest the profits gained in those countries are looked upon favourably by the population of that country and will be able to benefit much more than those companies that are only interested in extracting the highest profit in the short term (Khanna, 2005).

Regulation of product markets also determines competition and whether, for example, inferior products can enter the market without proper quality assessments, regulated pollution control measures, regulated prices and anti-competitive behaviour by companies (World Bank, 2005). Patent protection is also vital as this protects a company's brand/products/services from being copied by cheaper distributors and manufacturers. These assurances protect the investment by MNCs and strategic industries of the host country.

2.6.3 Product markets

This factor deals with the market for products, the information on what the market wants and the channels through which they access their products (Khanna, 2005). If MNCs are setting up a manufacturing facility or distribution hub, various factors need to be taken into consideration. For example, what resources can be procured through local suppliers or what needs to be imported?

South Africa was the preferred hub for MNCs in the past because of its superior infrastructure, logistics and services industries (Games, 2012) but has seen increased competition from countries in West and East Africa. As such, with MNCs wanting to be closer to their target markets, new, multiple gateways may be an option.

The OECD (2013) states that, "product market regulation is relatively restrictive when attracting investors." This is related to the volume of administration, and government ownership of network industries such as transport, energy and

communications. For other sectors not directly involving government and banks, MNCs can access quality information on consumers to make an investment decision.

2.6.4 Labour markets

This factor deals with the local work force of the country that is being invested in (Khanna, 2005). Khanna (2005) further states that MNCs prefer to use expatriots in senior roles in most of their investment markets. In South Africa, this may be problematic because of the empowerment quotas, skills shortages and rising labour costs as described by Games (2012). Skills shortages are not a resource constraint for South Africa alone.

Labour laws and legislated hiring requirements must be followed by MNCs. For example, in South Africa, it is beneficial for companies to hire previously disadvantaged individuals which improves their Black Economic Empowerment rating and places the company in a better position for new business. South Africa ranks 113th in the labour market efficiency out of 144 countries and the most problematic factors to doing business is a poorly educated workforce and restrictive labour regulations (World Bank, 2013).

Productivity and business interruption are other aspects which MNCs consider as important. The employers and employees need to be protected but too much regulation in favour of employers could affect innovation and the motivation of the work force and could also affect the product costs and promote strikes, which could make it economically unviable to do business in that country. According to the OECD Economic Survey, South Africa's labour legislation is quite liberal compared to all other OECD countries and that poor labour market efficiency is related to business interruptions caused by unions (OECD, 2013).

2.6.5 Capital markets

A country's financial institutions need to be assessed to see how they channel funds from savings, pension or provident funds back to infrastructure projects (Khanna, 2005). Hailu (2010) states that, "FDI has a positive influence on

savings.” Hailu (2010) further argues that stock market availability has a positive impact on FDI since it provides an easy exit strategy for a company. Most emerging markets do not have access to local equity funding from stock markets which makes them reliant on their own capital from their taxpayers or FDI for financing.

Governance laws, the accountability of the board of directors and legal obligations should also be assessed (Khanna, 2005). In many African countries, there are no clear governance laws and a lot of decisions are based on trust which may not be acceptable to many MNCs. In South Africa, legislation and governance are provided by the King Codes 3 (Institute of Directors of South Africa, 2009) and the Companies Act 2008 (Republic of South Africa, 2008). This governance and legislation holds boards of directors accountable for triple bottom line reporting.

Legal and auditing standards need to be assessed to determine the risk of debtors defaulting and the reliability of presented financial reports. This gives certainty and assurances to investors that their business is in good hands and they have the necessary tools to mitigate risk and build on their investments.

2.7 Factors influencing competitiveness.

The Africa Competitiveness Report (World Bank, 2013) is widely used as “benchmarks for national policy makers and interested parties to judge the relative success of their country in achieving the competitiveness criteria represented by the corresponding competitiveness index” (Bowen & Moesen, 2011).

The Global Competitiveness Index uses three sub-indices to group 12 pillars on which a country’s competitiveness is ranked, as described in Figure 2.1.

Figure 2.1: Global Competitiveness Index Framework

Source: (World Economic Forum, 2013)

2.7.1 Basic requirements sub-index - factor-driven economies

2.7.1.1 *Institutions*

The institutional environment in countries plays a key role in providing a framework in which governments, individuals and firms interact to generate wealth. If investors' interests are not protected by institutions, this could impact investor confidence (Kerlin, 2012).

2.7.1.2 *Infrastructure*

Infrastructure is important for fast tracking economic development and strengthening the ease of doing business. It also assists rural communities with accessing central infrastructure and with getting basic service delivery from governments. The efficient and secure flow of goods and services to markets enables entrepreneurs to carry out their business in an efficient and secure manner. For example, stable electricity supply, which is also not present in SA, ensures minimal disruptions to business. Good communication networks enable information flow across multiple communication platforms and geographies (Hvidt,

2011).

2.7.1.3 Macroeconomic Environment

Macroeconomic stability is important for businesses. Government needs to manage its debt levels as since 2009 public debt in SA has doubled from 26 to 50%, to avoid paying huge interest payments and to take advantage in changes of business cycles. Individual debt also needs to be managed together with inflation to ensure a stable macroeconomic environment which promotes business (Sala-i-Martin & Bilbao-Osorio et al. 2011).

2.7.1.4 Health and Primary Education

A healthy workforce is important for the efficient and profitable running of a business so it is important that adequate healthcare facilities are available to the workforce to ensure that production is not impeded and costs are alleviated due to absenteeism. Similarly, basic education is important for an economy to ensure efficiencies are increased in business. Lack of formal education impedes workers from learning more advanced production processes and techniques. This also stops a firm from competing in different value chains (Sala-i-Martin & Bilbao-Osorio et al., 2011).

2.7.2 Efficiency enhancers sub-index - efficiency-driven economies

2.7.2.1 Higher Education and Training

As businesses become more sophisticated, they need workers with the necessary skill sets to evolve within a rapidly changing environment. As production techniques become more complex, a pool of talented resources is required to fulfil evolving production requirements. Tertiary enrolments and quality education is important for managers to assess in order to determine future human resource needs (Lane, 2012).

2.7.2.2 Goods Market Efficiency

Goods market efficiency occurs when there is healthy competition in both the local and foreign markets. This ensures that companies produce the right mix of products and services and the most efficient companies achieve success. This drives market efficiency and productivity. Goods market efficiency is best when there is little government interference in the form of taxes and rules that could hinder FDI. Countries with demanding customers strengthen goods market efficiency by ensuring companies are more innovative and sophisticated to meet customer needs (Dijkstra & Annoni et al., 2011).

2.7.2.3 Labour Market Efficiency

Flexibility in the labour market will drive efficiency. If there are fewer rigid labour restrictions that allow workers to easily enter and exit jobs, this will ensure workers are allocated their most effective use in the market. There also need to be rewards to promote high performance which will attract talented individuals. Equity between male and female workers in companies also has a positive impact. FDI investors look to markets that have talented individuals to work for them (Dijkstra & Annoni et al., 2011).

2.7.2.4 Financial Market Development

A functioning financial market is important for economic development. It ensures resources are allocated from the savings of the nation and business investments to business projects with the highest rate of return. A strong banking and financial sector will give investors confidence that resources are allocated appropriately through different financial instruments. Financial regulation also improves companies' productivity and access to capital (Barucci, 2012).

2.7.2.6 Technological Readiness

Technology plays a key role in a country's competitiveness. It generates efficiency and improves productivity. Information and communication technologies (ICTs) are important in a country's development and for attracting FDI which needs good ICT infrastructure. FDI also brings technology advancement to a country (Luther Osabutey and Debrah 2012).

2.7.2.7 Market Size

Productivity is affected by the market size. A large market size allows companies to exploit economies of scale. Market size is not necessarily confined to the borders of a country and a country's trade openness fosters growth. FDI investors look externally to grow their business and market size is an important determinant of this (Dijkstra & Annoni et al., 2011).

2.7.3 Innovation and sophistication factors sub-index innovation-driven economies

2.7.3.1 Business Sophistication

Business sophistication is important to improve productivity. It encompasses two elements, the quality of the country's business networks and the quality of an individual firm's operations and strategies. The quality and quantity of local suppliers and how they interact is used as a quality measure of a country's business networks and supporting industries. Barriers to the entry of FDI are reduced if a cluster of companies in a close geographic proximity interact with each other and branding, marketing, distribution, business operation strategies, and productivity are improved to be more efficient which leads to increased business sophistication in the country (Hartzenberg, 2011).

2.7.3.2 Innovation

This factor mainly involves technological innovations. As companies yield diminishing returns in other competitive factors, innovation provides the final frontier to improve competitiveness. A country's contribution from the private and public sector in making an environment conducive to innovation is important. Research and development (R&D) investment promotes innovation and, also helps a country with achieving sustainable growth. Collaboration between universities and industry also improves productivity (Hartzenberg, 2011).

2.8 Conclusion of Literature Review

The literature review confirms that there are a wide variety of benefits for foreign enterprises and for the host countries in Africa from FDI. There are also a variety of factors which affects MNCs' willingness to invest in Africa. They look for certain assurances that would safeguard their investments. Unfortunately, from Africa's perspective there are few countries that meet the criteria for investing. This leaves the risk upon the MNCs whether to invest in Africa to take advantage of high growth markets. They need to look at ways of mitigating this risk by possibly setting up hubs close to growing markets with South Africa and Mauritius being the best options based on competitiveness ranking and Tanzania and Nigeria are considered the best options based on GDP growth.

2.8.1 Research Question 1:

What are the competitive factors that have a significant impact on Foreign Direct Investment in Africa?

2.8.2 Research Question 2:

What effect does GDP have on Foreign Direct Investment in Africa?

In the following chapter, the research design and methodology are presented.

3 CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was followed to address the research questions presented in Chapter Two. The first subject discussed is the literature around quantitative research. This is then followed by a description of the research design, research procedure and the methods used for data collection. A discussion on reliability and validity follow and finally, this chapter concludes with a discussion of the limitations of the research.

The focus of this chapter is on the description of the research process followed and of the data collection techniques employed to fulfil the aims of this study. It refers to the units of analysis and the drawing of a sample from which the data analysis is derived. Due consideration is given to the validity and reliability of the study.

3.2 Research design and methodology

The research design and methodology appropriate for this study was considered by weighing up qualitative research methodologies, which focus on the different experiences and perspectives of an individual, and quantitative research methodologies, which are more objective (Neill, 2007).

The research used a quantitative approach to gather data and answer the research questions. A quantitative methodology was chosen because data needs to be analysed from different reports that will yield statistical data. Multiple linear regression models were used to analyse the data. A linear model was used to identify the relationship of the independent variables to the dependant variables.

Aliaga and Gunderson (2000) define quantitative research as “Explaining phenomena by collecting numerical data that are analysed using mathematically based methods”. According to De Vos et al. (2002), this

paradigm is one in which the investigator primarily uses post-positivist claims or the development of knowledge (i.e. cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, and the test of the theories).

Following various empirical work done on determinants of FDI, particularly Asiedu (2002), Asiedu (2006), and Hailu (2010), data from the World Bank Competitiveness Report, OECD Economic Surveys and World Development Indicators were analysed using factors affecting FDI as independent variables and FDI as the dependent variable to analyse different cause and effects. The research also analysed FDI as the dependent variable and GDP as the independent variable.

3.3 Size and Nature of the Sample

With the assistance of the Global Competitiveness Report 2015-2016 (World Economic Forum 2015-2016) and the World Investment Report 2015 (UNCTAD, 2015), this research report tried to establish which factors are most the significant for the presence of FDI. Some of the criteria that were evaluated are the pillars 1 to 12 described in Figure 2.2. The research considered the top six African countries by GDP, i.e. Nigeria, South Africa, Kenya, Tanzania, Ethiopia and Ghana, as well as Mauritius due to its high competitiveness rating. Angola is excluded from the sample as there is insufficient data.

If we only consider competitiveness rankings over the period being analysed, it is evident that South Africa and Mauritius are the best destinations in which to invest. However, Tanzania and Nigeria, according to Table 2.3, have the highest GDP growth rates with Nigeria having the highest GDP on the continent.

3.4 Data Collection

The data set used was collected from GCI reports (World Economic Forum 2015-2016) for the period 2009 to 2014 for each of the seven countries being analysed and represent the annual data. This encompasses the 12 pillars as well as

the GDP per country (UNCTAD, 2015) for the same period of time.

3.5 Data Preparation

Country and year was categorised as nominal data while FDI and GDP was categorised as scale data. For the 12 pillars of competitiveness, this was categorised as nominal as it contained ranking amongst 150 to 200 countries per year (Annexure B - Table 2.3). To fulfil the condition of linearity, data were log linked as per Table 3.1.

Table 3.1: Log Data Set

Country	Period	log (Institutions)	log (Infrastructure)	log (Macroeconomic environment)	log (Health and primary education)	log (Higher education and training)
Ghana	2014	1.83885	2.03342	2.12385	2.08279	2.02531
Kenya	2014	1.89209	1.98227	2.10037	2.07918	1.97772
Mauritius	2014	1.54407	1.62325	1.86923	1.62325	1.73239
Nigeria	2014	2.11059	2.12710	1.88081	2.15534	2.09342
South Africa	2014	1.55630	1.77815	1.94939	2.12057	1.93450
Tanzania	2014	1.96848	2.11394	2.03743	2.03342	2.12710
Ethiopia	2014	1.98227	2.09691	1.97772	2.04139	2.11727
Ghana	2013	1.84510	2.03743	2.15836	2.08636	2.03342
Kenya	2013	1.94448	2.00860	2.12057	2.07555	2.01284
Mauritius	2013	1.59106	1.69897	1.82607	1.63347	1.78533
Nigeria	2013	2.11059	2.13033	1.66276	2.16435	2.07918
South Africa	2013	1.61278	1.81954	1.97772	2.13033	1.94939
Tanzania	2013	1.98677	2.12710	2.11727	2.05690	2.13988
Ethiopia	2013	1.97772	2.09342	2.08991	2.05308	2.13672
Ghana	2012	1.87506	2.04139	2.03342	2.04922	2.02938
Kenya	2012	2.02531	2.01284	2.12385	2.06070	2.00000
Mauritius	2012	1.59106	1.73239	1.93952	1.73239	1.81291
Nigeria	2012	2.06819	2.11394	1.59106	2.15229	2.05308
South Africa	2012	1.63347	1.79934	1.83885	2.12057	1.92428
Tanzania	2012	1.93450	2.12057	2.02938	2.05308	2.12057
Ethiopia	2012	1.86923	2.07555	2.05690	2.06446	2.12710
Ghana	2011	1.78533	2.04139	2.14301	2.09342	2.03743
Kenya	2011	2.05690	2.01284	2.06819	2.07188	1.97313
Mauritius	2011	1.60206	1.73239	1.89763	1.74036	1.83251
Nigeria	2011	2.04532	2.13033	2.08279	2.14613	2.05690
South Africa	2011	1.66276	1.79239	1.74036	2.11727	1.86332

Tanzania	2011	1.92942	2.11394	2.11059	2.05308	2.11727
Ethiopia	2011	1.76343	2.07918	1.67210	2.06819	2.12057
Ghana	2010	1.82607	2.02531	2.13354	2.08636	2.03342
Kenya	2010	2.08991	2.00860	2.10721	2.08279	1.98227
Mauritius	2010	1.63347	1.76343	1.79239	1.77085	1.84510
Nigeria	2010	2.08279	2.13033	1.98677	2.13672	2.07188
South Africa	2010	1.67210	1.79934	1.63347	2.11059	1.87506
Tanzania	2010	1.91908	2.10721	2.06070	2.05308	2.12385
Ethiopia	2010	1.77085	2.06070	2.10380	2.07555	2.11059
Ghana	2009	1.83251	1.93952	2.11059	2.06070	2.03342
Kenya	2009	2.02938	1.96379	2.08279	2.04139	1.92942
Mauritius	2009	1.61278	1.72428	1.99123	1.74819	1.89763
Nigeria	2009	2.00860	2.10380	1.30103	2.12057	2.05308
South Africa	2009	1.65321	1.65321	1.83251	2.09691	1.81291
Tanzania	2009	1.86923	2.08991	1.88649	2.04922	2.10721
Ethiopia	2009	1.87506	1.98227	2.06446	2.07918	2.09691
Country	Period	log (Goods market efficiency)	log (Labour market efficiency)	log (Financial market development)	log (Technological readiness)	log (Market size)
Ghana	2014	1.82607	1.99123	1.79239	2.00000	1.83885
Kenya	2014	1.79239	1.39794	1.38021	1.93952	1.86923
Mauritius	2014	1.39794	1.71600	1.41497	1.79934	2.05308
Nigeria	2014	1.93952	1.60206	1.82607	2.01703	1.51851
South Africa	2014	1.50515	2.05308	0.84510	1.81954	1.39794
Tanzania	2014	2.08636	1.67210	1.98227	2.11727	1.87506
Ethiopia	2014	2.09342	1.89209	2.07918	2.12385	1.81954
Ghana	2013	1.84510	1.95904	1.71600	1.99564	1.84510
Kenya	2013	1.90309	1.54407	1.49136	1.94939	1.88649
Mauritius	2013	1.39794	1.74036	1.41497	1.79934	2.04922
Nigeria	2013	1.96848	1.71600	1.81954	2.03342	1.50515
South Africa	2013	1.44716	2.06446	0.47712	1.79239	1.39794
Tanzania	2013	2.07188	1.69020	1.99564	2.10037	1.87506
Ethiopia	2013	2.13354	2.03342	2.10037	2.14301	1.82607
Ghana	2012	1.88081	1.98677	1.77085	2.03342	1.84510
Kenya	2012	1.96848	1.59106	1.38021	2.00432	1.87506
Mauritius	2012	1.43136	1.84510	1.54407	1.79934	2.03743
Nigeria	2012	1.94448	1.74036	1.83251	2.04922	1.51851
South Africa	2012	1.50515	2.05308	0.47712	1.79239	1.39794
Tanzania	2012	2.04139	1.67210	1.92942	2.08636	1.88649
Ethiopia	2012	2.07918	1.93952	2.11059	2.14613	1.81954
Ghana	2011	1.85733	1.89763	1.78533	2.05308	1.90849
Kenya	2011	1.90309	1.56820	1.41497	1.99123	1.88649

Mauritius	2011	1.44716	1.82607	1.62325	1.78533	2.04139
Nigeria	2011	1.86332	1.84510	1.93450	2.02531	1.53148
South Africa	2011	1.50515	1.97772	0.60206	1.88081	1.39794
Tanzania	2011	2.04922	1.86332	1.92942	2.10037	1.91381
Ethiopia	2011	2.00000	1.83885	2.09691	2.13988	1.86923
Ghana	2010	1.87506	1.96848	1.77815	2.06819	1.91908
Kenya	2010	1.94448	1.66276	1.43136	2.00432	1.86923
Mauritius	2010	1.49136	1.77085	1.46240	1.78533	2.04922
Nigeria	2010	1.93952	1.86923	1.92428	2.01703	1.47712
South Africa	2010	1.60206	1.98677	0.95424	1.88081	1.39794
Tanzania	2010	2.03342	1.88649	1.95424	2.11727	1.90849
Ethiopia	2010	1.96379	1.85733	2.08279	2.12385	1.89763
Ghana	2009	1.95904	2.00000	1.77085	2.04922	1.93450
Kenya	2009	1.86332	1.60206	1.56820	1.98227	1.86923
Mauritius	2009	1.56820	1.86923	1.41497	1.75587	2.04139
Nigeria	2009	1.79239	1.78533	1.75587	2.00432	1.62325
South Africa	2009	1.54407	1.95424	0.69897	1.81291	1.38021
Tanzania	2009	2.01703	1.91381	1.86923	2.07918	1.89763
Ethiopia	2009	2.02531	1.83885	2.10380	2.11727	1.88081
Country	Period	log (Business sophistication)	log (Innovation)	log (GDP (US\$ billions))	log (FDI)	
Ghana	2014	1.84510	1.79934	1.68124	3.55108	
Kenya	2014	1.64345	1.57978	1.74036	2.99520	
Mauritius	2014	1.51851	1.88081	1.07918	2.62118	
Nigeria	2014	1.93952	2.05690	2.71767	3.67154	
South Africa	2014	1.49136	1.63347	2.54407	3.75679	
Tanzania	2014	2.04922	1.99123	1.68124	3.33082	
Ethiopia	2014	2.10380	2.03743	1.71600	3.07918	
Ghana	2013	1.90849	1.80618	1.59038	3.50866	
Kenya	2013	1.78533	1.66276	1.61402	2.71096	
Mauritius	2013	1.61278	1.90849	1.05941	2.41330	
Nigeria	2013	1.87506	2.00000	2.42928	3.74889	
South Africa	2013	1.54407	1.59106	2.58469	3.91318	
Tanzania	2013	2.06446	1.94939	1.45097	3.32858	
Ethiopia	2013	2.12385	2.08279	1.90309	2.97909	
Ghana	2012	2.00432	1.97772	1.57005	3.51759	
Kenya	2012	1.82607	1.69897	1.54153	2.41330	
Mauritius	2012	1.61278	1.99123	1.05358	2.77012	
Nigeria	2012	1.81954	1.89209	2.37825	3.85291	
South Africa	2012	1.57978	1.62325	2.61074	3.65887	
Tanzania	2012	2.02531	1.87506	1.36797	3.25527	
Ethiopia	2012	2.11059	2.05690	1.91381	2.44560	

Ghana	2011	1.99564	1.99123	1.49254	3.50813	
Kenya	2011	1.77085	1.71600	1.50736	2.52504	
Mauritius	2011	1.64345	1.94939	0.98807	2.63649	
Nigeria	2011	1.80618	1.91381	2.33607	3.95012	
South Africa	2011	1.57978	1.61278	2.55298	3.62767	
Tanzania	2011	2.01703	1.86332	1.35547	3.08955	
Ethiopia	2011	2.11059	2.04532	1.92428	2.79727	
Ghana	2010	1.98677	1.99564	1.19070	3.40261	
Kenya	2010	1.79239	1.74819	1.51487	2.25042	
Mauritius	2010	1.67210	1.91381	0.94255	2.63347	
Nigeria	2010	1.88081	1.99123	2.23912	3.78526	
South Africa	2010	1.57978	1.64345	2.45821	3.56062	
Tanzania	2010	1.99123	1.93450	1.34866	3.25840	
Ethiopia	2010	2.08991	2.02119	1.90849	2.45939	
Ghana	2009	1.99123	2.06070	1.20747	3.46195	
Kenya	2009	1.77085	1.68124	1.48052	2.06070	
Mauritius	2009	1.74036	1.92942	0.94141	2.39445	
Nigeria	2009	1.83885	1.86332	2.33123	3.93702	
South Africa	2009	1.55630	1.61278	2.44277	3.87518	
Tanzania	2009	1.98677	1.96848	1.31641	2.97909	
Ethiopia	2009	2.07188	2.04922	1.90849	2.34439	

3.6 Data Preparation

Data in Table 2.3 were analysed for the period 2009 to 2014 for seven countries.

There were two sets of analysis; the first was the factors affecting FDI (independent variable) using the 12 pillars from the World Competitive Index and FDI being the dependent variable reflected in below estimated equation:

$$FDI = 0 + (Inf) + (Ins) + (Mac) + (Hpe) + (Het) + (Gme) + (Lme) + (Fmd) + (Tec) + (Mar) + (Bus) + (Inn)$$

FDI	-	FDI inflow to country	Fmd	-	Financial market development
Inf	-	Infrastructure	Tec	-	Technological readiness
Ins	-	Institution	Mar	-	Market size
Mac	-	Macroeconomic development	Bus	-	Business Sophistication
Hpe	-	Health and primary education	Inn	-	Innovation
Het	-	Higher education and training			

Gme	-	Goods market efficiency
Lme	-	Labour market efficiency

Data set 2, based on GDP values of each country (independent variables)'s effect on FDI was analysed using the following estimated equation.

$$FDI = 0 + (GDP)$$

FDI	-	FDI inflow to country
GDP	-	GDP per country

3.7 Procedure for data collection

Data from the Global Competitiveness Report (World Economic Forum, 2015-2016) and the World Investment Report (UNCTAD, 2015) and other resources were collected for the years 2009 to 2014 and analysed to determine cause and effect, if any, of the variables.

3.8 Data analysis and interpretation

The stepwise (cross-section) regression analysis technique was used (Hailu, 2010), since over fitting is a concern, and only the variables in the model that explain additional variance are necessary.

3.9 Limitations of the study

Data availability for each variable over the six-year period were problematic, and dummy variables needed to be used. Each of the independent variables needed to be broken into smaller components. The six-year time-period skewed data for some countries.

3.10 Validity and reliability

3.10.1 External validity

Validity can be defined as whether the means to measurement is accurate and whether they are actually measuring what they intended to measure (Winter, 2000). MNCs and countries in Africa will derive value from this study because of the limited literature on factors affecting FDI.

3.10.2 Internal validity

All data were collected from the same sources and world recognised reports, so internal validity should be accurate (Winter, 2000).

3.10.3 Reliability

Reliability refers to the ability to replicate a study. From the information being used and the data being collected, this study should be replicable and should produce the same results.

3.10.4 Assumptions

Eight assumptions need to be passed if one is doing regression analysis.

1. Assumption 1: One's dependent variable should be measured on a continuous scale (i.e., it is either an interval or ratio variable).
2. Assumption 2: You have two or more independent variables, which can be either continuous (i.e., an interval or ratio variable) or categorical (i.e., an ordinal or nominal variable).
3. Assumption 3: You should have independence of observations (i.e., independence of residuals), which you can easily check using the Durbin-Watson statistic.
4. Assumption 4: There needs to be a linear relationship between (a) the dependent variable and each of your independent variables, and (b) the dependent variable and the independent variables collectively.
5. Assumption 5: Your data needs to show homoscedasticity, which is where the variances along the line of best fit remain similar as you move along the line.

6. Assumption 6: Your data must not show multicollinearity, which occurs when you have two or more independent variables that are highly correlated with each other.
7. Assumption 7: There should be no significant outliers, high leverage points or highly influential points.
8. Assumption 8: We need to check that the residuals (errors) are approximately normally distributed.

3.11 Conclusion

A quantitative research approach was used to explore the research questions pertaining to Foreign Direct Investment in Africa and the phenomenon, concepts and theories pertaining to the environment (Warren, 2002). This chapter was structured to complement the literature review undertaken in Chapters 1 and 2. Data were collected by means of a quantitative cross sectional regression analysis which was organised into themes for presentation and discussion (Leedy & Ellis, 2001).

Chapter 4 presents the quantitative data, which includes data generated from the multiple regression analysis extracted from empirical global reports. It provides findings and interpretations to support each hypothesis (Simon, 2006).

4 CHAPTER 4: RESEARCH RESULTS AND DISCUSSION

4.1 Introduction

The presentation and discussion of the quantitative data in this chapter describes the findings gathered through multiple regression analysis of the relationship between the dependent variable and independent variables. Sections 4.2 and 4.3 provide the results of the regression tests done for each of the important indicators showing which variables were entered and the results for R^2 , F-test Anova, coefficients and collinearity assessment. Section 4.4 discusses factors having a significant impact on FDI and possible reasons for this. Section 4.5 discusses the regression equation and 4.6 discusses the research objectives being answered.

4.2 Factors affecting FDI (independent variable) using 12 pillars from the World Competitive Index

Table 4.1 shows which variables entered in the analysis were useful to predict FDI. The independent variable only includes market size which was found to have significant effect on FDI.

Table 4.1: Variables entered/removed

Variables Entered/Removed ^a				
Model	Variables Entered	Variables Removed	Method	
1	Market Size		Stepwise (Criteria: Probability of F to enter)	<=0.50
			Stepwise (Criteria: Probability of F to remove)	>=0.100
a. Dependent Variable FDI				

Table 4.2 shows the multiple linear regression model summary and overall fit statistics. The adjusted R^2 of our model is 0.533 with the $R^2 = 0.522$ which means that the linear regression explains 52.2% of the variance in the data.

4.2.1 Equation 1

$$FDI = 0 + (M) + \text{Residual}$$

$$FDI = 6.487 - 1.874(\log x) + \text{Residual}.$$

Table 4.2: Multiple linear regression model summary (Method: Stepwise)

Model Summary ^b							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Sig. F Change	Durbin-Watson
1	.730 ^a	0.533	0.522	0.38614	0.533	0	2.914
a. Predictors: (Constant), Market_size							
b. Dependent Variable: FDI							

Table 4.3 is the result If all variables (Method: Enter) were forced into the linear regression model – there is a little higher R^2 and adjusted R^2 (viz. 0.723 and 0.609) with a Durbin-Watson $d = 2.711$. The Durbin-Watson $d = 2.711$ is just outside the two critical values of $1.5 < d < 2.5$ and therefore we can assume that there is a probability of first order linear auto-correlation in our multiple linear regression data so the null hypothesis cannot be rejected.

Table 4.3: Multiple linear regression model (Method: Enter)

Model Summary ^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Sig. F Change	Durbin-Watson
1	0.851 ^a	0.723	0.609	0.34905	0.723	0	2.711
a. Predictors: (Constant), Innovation, Macroeconomic_environment, Labour_market_efficiency, Health_and_primary_education, Market_size, Institutions, Higher_education_and_training, Technological_readiness, Financial_market_development, Business_sophistication, Infrastructure, Goods_market_efficiency							
b. Dependent Variable: FDI							

Table 4.4 is the F-test, the linear regression's F-test has the null hypothesis that there is no linear relationship between the variables (in other words $R^2=0$). The F-test is highly significant for all variables, thus it can be assumed that there is a linear relationship between the variables in our model.

Table 4.4: Anova Test

ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.243	12	0.77	6.322	.000 ^b
	Residual	3.533	29	0.122		
	Total	12.776	41			
a. Dependent Variable: FDI						
b. Predictors: (Constant), Innovation, Macroeconomic_environment, Labour_market_efficiency, Health_and_primary_education, Market_size, Institutions, Higher_education_and_training, Technological_readiness, Financial_market_development, Business_sophistication, Infrastructure, Goods_market_efficiency						

Table 4.5: Co-efficients

Coefficients^a								
Model		Unstandardised Coefficients		Standardised Coefficients			95% Confidence Interval for β	
		β	Std. Error	β	t	Sig.	Lower Boundary	Upper Boundary
1	(Constant)				13.024	0		
	Market_size	6.487	0.498				5.48	7.494
	Correlations	-1.874	0.277	-0.73	-6.759	0	-2.435	-1.314
a. Dependent Variable: FDI								

As the Goldfeld-Quandt test is not supported in SPSS, the homoscedasticity and normality of residuals can be checked with the Q-Q-Plot of z^*_{pred} and z^*_{presid} . The plot indicates that in the multiple linear regression analysis there is no tendency in the error terms.

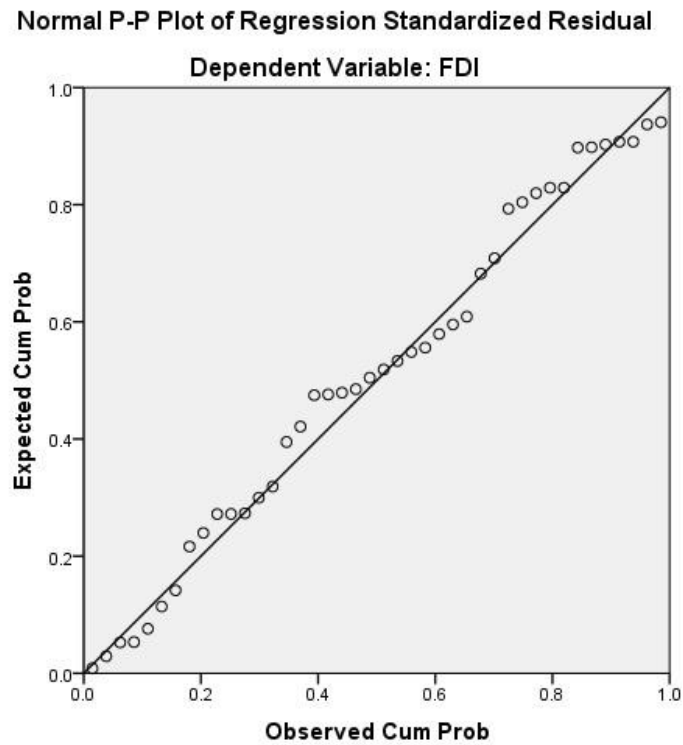


Figure 4.1: Regression Graph 1

4.3 What effect does GDP per country (independent variable) have on FDI (dependent variable).

Table 4.6: Variables Entered/Removed

Variables Entered/Removed ^a				
Model	Variables Entered	Variables Removed	Method	
1	GDP		Stepwise (Criteria: Probability of F to enter)	≤ 0.50
			Stepwise (Criteria: Probability of F to remove)	≥ 0.100
a. Dependent Variable FDI				

4.3.2 Equation 2

$$\text{FDI} = 0 + (\square) + \text{Residual}$$

$$\text{FDI} = 1.974 + 0.668(\log x) + \text{Residual}.$$

Table 4.7 shows the multiple linear regression model summary and overall fit statistics. The adjusted R^2 of our model is 0.403 with the $R^2 = .389$, this means that the linear regression explains 38.9% of the variance in the data.

Table 4.7: Multiple linear regression model summary (Method: Stepwise)

Model Summary^b							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Sig. F Change	Durbin-Watson
1	.635 ^a	0.403	0.389	0.43651	0.403	0	2.878
a. Predictors: (Constant), GDP							
b. Dependent Variable: FDI							

Table 4.8 is the F-test, the linear regression's F-test has the null hypothesis that there is no linear relationship between the variables (in other words $R^2=0$). The F-test is highly significant for GDP variable, thus it can be assumed that there is a linear relationship between the variables in our model.

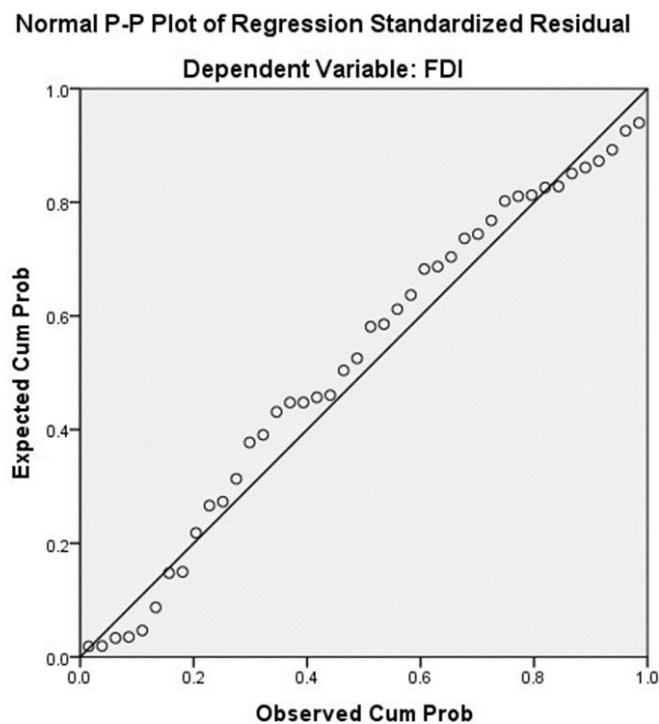
Table 4.8: ANOVA

ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.154	1	5.154	27.052	.000 ^b
	Residual	7.622	40	0.191		
	Total	12.776	41			
a. Dependent Variable: FDI						
b. Predictors: (Constant), GDP						

Table 4.9: Coefficients

Coefficients ^a							
Model		Unstandardised Coefficients		Standardised Coefficients		95% Confidence Sig. Interval for β	
		β	Std. Error	β	t	Lower Boundary	Upper Boundary
1	(Constant)	1.974	0.235		8.405	0	1.5
	Correlations	0.668	0.128	0.635	5.201	0	0.408
a. Dependent Variable: FDI							

As the Goldfeld-Quandt test is not supported in SPSS the homoscedasticity and normality of residuals can be checked with the Q-Q-Plot of z^*_{pred} and z^*_{presid} . The plot in figure 4.2 indicates that in the multiple linear regression analysis there is no tendency in the error terms.

**Figure 4.2: Regression Graph FDI VS GDP**

4.4 Discussion of data findings

The regression model was run to include all variables and it returned only one variable with significant values in relation to FDI which was market size.

4.4.1 Infrastructure

Infrastructure is important for fast tracking economic development and strengthening the ease of doing business. It also assists rural communities with accessing central infrastructure and getting basic service delivery from governments. The efficient and secure flow of goods and services to markets enables entrepreneurs to carry on their business in an efficient and secure manner. A stable electricity supply ensures minimal disruptions to business. Good communication networks enable information flow across multiple communication platforms and geographies (Hvidt, 2011). MNC's may look at this factor as a basic requirement to doing business in Africa. Infrastructure has a correlation of 0.255 with FDI and is insignificant at $p > 0.05$

4.4.2 Goods market efficiency

Goods market efficiency ensures that companies produce the right mix of products and services and those that are the most efficient thrive. This drives market efficiency and productivity. Goods market efficiency is best when there is little government interference in the form of taxes and rules that can hinder FDI. Countries with demanding customers strengthen goods market efficiency by ensuring companies are more innovative and sophisticated to meet customer needs (Dijkstra & Annoni et al. 2011). Goods market efficiency has a correlation of 0.091 with FDI is insignificant at $p > 0.05$.

4.4.3 Market size

Productivity is affected by the market size. Large markets allow MNCs to exploit economies of scale. It has a high correlation to FDI of 0.730 and is significant at $p < 0.01$. Market size is not necessarily confined to the borders of a country and a country's trade openness fosters growth. FDI investors look externally to grow their business and market size is an important determinant of this (Dijkstra & Annoni et al. 2011). This supports the data as South Africa and Nigeria have the largest markets constantly attracted the highest FDI from the period 2009 to 2014.

4.4.4 Innovation

This factor involves technological innovations. As companies yield diminishing returns in other competitive factor, innovation provides the final frontier to improve competitiveness. A country's contribution from the private and public sector in making an environment conducive for innovation is important. Research and development (R&D) investment promotes innovation and, also assists a country achieve sustainable growth. Collaboration between universities and industry also improves productivity (Hartzenburg, 2011). Innovation has a correlation to FDI at 0.303 and is insignificant at $p > 0.05$

4.4.5 Labour market efficiencies

This factor involves human capital which is a key resource for a company's success globally. As MNC's invest in Africa, they would require key human capital to improve their return on investment (Dijkstra & Annoni et al. 2011). Labour market efficiencies has a correlation 0.282 and is insignificant at $p > 0.05$.

4.4.6 GDP

A country's GDP is key factor for an MNC to invest in that country. Large GDP's in the host country contribute to economies of scale. GDP has a high correlation to FDI at 0.720 and is significant at $p < 0.01$.

4.5 Research Objective One: Which competitive factors have a significant impact on FDI in Africa?

All competitor factors influence FDI but if MNCs want to investigate which has a significant impact then this research has highlighted that market size has more significance than other factors.

4.6 Research Objective Two: What effect does GDP have on FDI in Africa?

The conclusion obtained from this research establishes that GDP has a positive and significant impact on FDI if isolated from other factors. If combined with other factors, it has an insignificant impact. MNC's should look to invest in countries with strong GDP

but should also consider other factors.

The quantitative research data indicate that a culture which promotes the development of political and social systems, openness and product, labour and capital markets is increasingly important as a platform for gaining a strategic competitive advantage in a developing economy (May, 1995). The researcher suggests that creative leadership should encourage efficient communication and dialogue among stakeholders as the basis for the co-creation of economic value.

4.7 Conclusion

The research findings suggest that Foreign Direct Investment can be enhanced through improved government and organisational effectiveness, innovative awareness and openness to creativity.

The importance of a new leadership paradigm for future multinational organisations operating within the country has become a critical economic issue in the economic development arena (Houghton & Neck, 2002). According to Bennet and Bennet (2004), an organisation's strategic economic value is vested in the manipulation of its tangible but, more specifically, its intangible assets to create future wealth. Innovative leadership is the essentially important aspect to unlock the potential of a developing economy and is viewed as an important driving force to promote Foreign Direct Investment.

An economic climate is required where leadership encourages creativity and innovation through the provision of instrumental spaces to practice creative initiatives to increase economic productivity. The five key drivers for future Investment are political and organisational systems and processes, innovative awareness and managerial effectiveness, followed by creative ability and knowledge productivity.

An environment should be created which is conducive for collaborative conversations amongst all critical stakeholders. This could provide efficient channels with which the ease of access of information could be established. The research corroborates previous research findings on some of the determinants of FDI (Asiedu, 2002; Asiedu, 2006; Hailu, 2010). In the next chapter, provisions for future

economic development and the facilitation thereof is discussed.

5 CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, we conclude with recommendations made to organisations that are deciding to make Foreign Direct Investment in Africa as well as to governments which wish to attract Foreign Direct Investment. Areas of future research are also discussed. This is only related to Sub-Saharan Africa.

The economic landscape of the future should perpetually challenge leadership to realise the value of creative and innovative ideas in transforming developing economies into developed economies. Amidst the increase of new product and service advancements, the only source of lasting competitive advantage is, arguably, the generation of new economic value. This includes the development of new technologies to support the development of innovative services and products within developing economies and ideally deploys the dynamic corporate thought where the intention is continuous economic development. The researcher proposes that in addition to market size, MNC's consider other factors that have strong correlation to FDI but have not significantly impacted FDI in the past due to investment decisions.

5.2 Recommendations

According to Stacey (2003) the interaction within and among organisations is understood, in systems terms, as an amalgamation of strategic direction and economic theory, which analyses a system or sub-system based on self-regulating dynamics. It furthermore takes account of intensified economic development through creative and innovative exchanges. The researcher proposes the following recommendations to address the research questions under review.

5.2.1 Recommendation One: Improved Political and Social Systems

The political and social systems must support Foreign Direct Investment efficiently and inspire investor confidence in the country. The risks associated with investing in the country should be addressed to positively influence the political stability, thereby improving the impact on the economic viability of an investment. The laws of the country in which it operates should not bind organisations through stringent legislation.

5.2.2 Recommendation Two: Openness

Openness refers to countries' receptiveness to foreign direct investment. The researcher promotes the idea of an open approach to Foreign Direct investment as Multinationals are more receptive to governments that promote capital inflows into markets, because this makes their capital markets more sophisticated which will be able to serve both local and Multinationals' needs more effectively. Positive trade agreements, the freedom to travel, foreign currency and tax policies are also determinants of whether Multinationals will want to invest. Regulation of the markets also determines competition and whether inferior products can enter the market without proper quality assessments, regulating pollution control measures and regulating prices and anti-competitive behaviour by companies.

5.2.3 Recommendation Three: Product Markets

This recommendation deals with the market for products and information on what the market wants and the channels through to which companies access their products. The researcher opines that government and banks should align with industry in its understanding of the requirements for Multinationals to invest from a product market point. Multinationals tend to favour countries with the most tax efficient structures when doing business in Africa.

5.2.4 Recommendation Four: Labour Markets

There should be a balance between protecting employers and employees in the countries' labour legislation as too much in favour of employers could affect innovation and motivation of the work force. Conversely, too much in favour of the employee could affect product and service costs thereby promoting strikes, which could make it economically unviable to do business. Government should improve its retention strategy in terms of skilled labour as well as review restrictive labour laws.

5.2.5 Recommendation Five: Capital Markets

Legal and Auditing standards need to be assessed to determine the risk of default of debtors and the reliability of financial reports presented. This gives certainty and assurances to investors that their business is in good hands and that they have the necessary tools to mitigate risk and build on their investments. A mature political arena is needed in which politicians review their opinion on nationalising, as the current status quo in South Africa is damaging to Foreign Direct Investment opportunities. Legislation and corporate governance have evolved to cater for Foreign Direct Investment and has a proven track record despite the challenges faced with organised labour.

5.3 Areas of possible future research

- Further research should be conducted about whether market size or significant competitive pillars is the most important component for MNCs to invest in Africa.
- Possible research could also entail researching existing MNCs situated in Africa and identifying what contributes to their success.
- For countries in Africa, research could be conducted on what is impeding them from accessing more FDI and whether this contributes to economic success.

Africa offers great opportunities to MNCs to enter high growth markets but the

choice of which country to enter is key to success and all relevant factors highlighted in this report need to be considered. Governments in Africa also should look at the factors discussed in this research report and see what they can change to bring in FDI for economic success.

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Annexure A: Business Ranking Index (sub-Saharan Africa)

	Ease of doing business Rank	Filtered Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Register Property	Getting Credit	Protecting Investors	Paying Taxes	Trading across Borders	Enforcing Contracts	Resolving Insolvency
Mauritius	19	1	2	8	1	4	9	2	1	1	8	3
South Africa	39	2	6	1	31	10	1	1	4	10	13	9
Rwanda	52	3	1	15	2	5	4	3	3	32	3	37
Botswana	59	4	11	27	10	3	9	5	5	24	11	1
Ghana	64	5	14	40	3	2	4	5	11	7	5	18
Seychelles	74	6	16	6	28	7	39	9	2	2	14	4
Namibia	87	7	25	5	7	40	7	13	18	20	4	2
Zambia	94	8	7	36	32	14	2	13	7	30	15	13
Uganda	120	9	28	22	22	21	7	24	12	33	19	5
Kenya	121	10	23	3	36	37	2	16	33	25	30	14
Cape Verde	122	11	24	23	15	8	13	24	15	3	2	40
Swaziland	123	12	37	2	34	23	9	20	8	21	41	6
Ethiopia	127	13	35	4	12	18	13	20	16	34	6	19
Nigeria	131	14	18	11	42	46	4	9	30	29	16	15
Tanzania	134	15	15	44	13	27	22	16	21	12	1	21
Lesotho	136	16	9	31	23	33	35	16	13	22	24	7
Sierra Leone	140	17	8	43	41	39	12	3	20	14	28	32
Madagascar	142	18	3	34	46	29	44	9	10	9	33	30
Sudan	143	19	20	38	16	1	39	35	14	28	31	10
Mozambique	146	20	10	29	40	31	22	5	17	16	22	28
Gambia, The	147	21	21	12	20	20	38	45	42	5	10	16
Liberia	149	22	5	25	29	43	13	29	6	19	37	33
Mali	151	23	17	16	18	13	22	29	34	27	23	20

Burkina Faso	153	24	19	9	25	19	22	29	31	41	17	17
Togo	156	25	36	30	9	36	22	29	35	8	34	12
Malawi	157	26	26	45	43	15	22	13	8	39	27	24
Comoros	158	27	39	7	14	9	35	24	19	23	35	40
Burundi	159	28	4	32	37	22	39	5	23	43	42	34
São Tomé and Príncipe	160	29	12	13	5	37	44	35	24	6	45	36
Cameroon	161	30	22	14	3	34	13	20	39	31	39	29
Equatorial Guinea	162	31	45	17	6	16	13	29	37	18	9	40
Senegal	166	32	13	28	44	42	22	44	41	4	29	11
Mauritania	167	33	34	20	21	6	39	29	40	26	12	31
Gabon	170	34	32	18	24	41	13	35	25	17	32	27
Angola	172	35	41	24	17	24	22	9	29	36	46	35
Zimbabwe	172	36	27	42	35	11	22	20	22	38	18	39
Benin	175	37	31	19	27	26	22	35	37	13	44	23
Niger	176	38	38	39	19	12	22	35	28	42	25	22
Côte d'Ivoire	177	39	42	41	33	35	22	35	32	35	20	8
Guinea	178	40	33	37	8	30	35	45	45	15	21	26
Guinea-Bissau	179	41	29	21	45	44	22	24	25	11	26	40
Congo, Dem. Rep.	181	42	30	10	26	17	43	35	36	40	40	38
Eritrea	182	43	46	46	11	45	44	19	25	37	7	40
Congo, Rep.	183	44	43	35	38	32	13	35	44	45	36	25
Chad	184	45	44	26	30	28	13	35	46	44	38	40
Central Africa Republic	185	46	40	33	39	25	13	24	43	46	43	40

Source: UNCTAD (2010), UNCTADstat 2010

Annexure B: Data Set

Country	Period	Institutions	Infrastructure	Macroeconomic environment	Health and primary education	Higher education and training
Ghana	2014	69	108	133	121	106
Kenya	2014	78	96	126	120	95
Mauritius	2014	35	42	74	42	54
Nigeria	2014	129	134	76	143	124
South Africa	2014	36	60	89	132	86
Tanzania	2014	93	130	109	108	134
Ethiopia	2014	96	125	95	110	131
Ghana	2013	70	109	144	122	108
Kenya	2013	88	102	132	119	103
Mauritius	2013	39	50	67	43	61
Nigeria	2013	129	135	46	146	120
South Africa	2013	41	66	95	135	89
Tanzania	2013	97	134	131	114	138
Ethiopia	2013	95	124	123	113	137
Ghana	2012	75	110	108	112	107
Kenya	2012	106	103	133	115	100
Mauritius	2012	39	54	87	54	65
Nigeria	2012	117	130	39	142	113
South Africa	2012	43	63	69	132	84
Tanzania	2012	86	132	107	113	132
Ethiopia	2012	74	119	114	116	134
Ghana	2011	61	110	139	124	109
Kenya	2011	114	103	117	118	94
Mauritius	2011	40	54	79	55	68
Nigeria	2011	111	135	121	140	114
South Africa	2011	46	62	55	131	73
Tanzania	2011	85	130	129	113	131
Ethiopia	2011	58	120	47	117	132
Ghana	2010	67	106	136	122	108
Kenya	2010	123	102	128	121	96
Mauritius	2010	43	58	62	59	70
Nigeria	2010	121	135	97	137	118
South Africa	2010	47	63	43	129	75
Tanzania	2010	83	128	115	113	133
Ethiopia	2010	59	115	127	119	129
Ghana	2009	68	87	129	115	108

Kenya	2009	107	92	121	110	85
Mauritius	2009	41	53	98	56	79
Nigeria	2009	102	127	20	132	113
South Africa	2009	45	45	68	125	65
Tanzania	2009	74	123	77	112	128
Ethiopia	2009	75	96	116	120	125

Country	Period	Goods market efficiency	Labour market efficiency	Financial market development	Technological readiness	Market size
Ghana	2014	67	98	62	100	69
Kenya	2014	62	25	24	87	74
Mauritius	2014	25	52	26	63	113
Nigeria	2014	87	40	67	104	33
South Africa	2014	32	113	7	66	25
Tanzania	2014	122	47	96	131	75
Ethiopia	2014	124	78	120	133	66
Ghana	2013	70	91	52	99	70
Kenya	2013	80	35	31	89	77
Mauritius	2013	25	55	26	63	112
Nigeria	2013	93	52	66	108	32
South Africa	2013	28	116	3	62	25
Tanzania	2013	118	49	99	126	75
Ethiopia	2013	136	108	126	139	67
Ghana	2012	76	97	59	108	70
Kenya	2012	93	39	24	101	75
Mauritius	2012	27	70	35	63	109
Nigeria	2012	88	55	68	112	33
South Africa	2012	32	113	3	62	25
Tanzania	2012	110	47	85	122	77
Ethiopia	2012	120	87	129	140	66
Ghana	2011	72	79	61	113	81
Kenya	2011	80	37	26	98	77
Mauritius	2011	28	67	42	61	110
Nigeria	2011	73	70	86	106	34
South Africa	2011	32	95	4	76	25
Tanzania	2011	112	73	85	126	82
Ethiopia	2011	100	69	125	138	74
Ghana	2010	75	93	60	117	83
Kenya	2010	88	46	27	101	74
Mauritius	2010	31	59	29	61	112
Nigeria	2010	87	74	84	104	30
South Africa	2010	40	97	9	76	25
Tanzania	2010	108	77	90	131	81
Ethiopia	2010	92	72	121	133	79
Ghana	2009	91	100	59	112	86
Kenya	2009	73	40	37	96	74
Mauritius	2009	37	74	26	57	110
Nigeria	2009	62	61	57	101	42
South Africa	2009	35	90	5	65	24
Tanzania	2009	104	82	74	120	79
Ethiopia	2009	106	69	127	131	76

Country	Period	Business sophistication	Innovation	GDP (US\$ billions)	FDI
Ghana	2014	70	63	48	3557
Kenya	2014	44	38	55	989
Mauritius	2014	33	76	12	418
Nigeria	2014	87	114	522	4694
South Africa	2014	31	43	350	5712
Tanzania	2014	112	98	48	2142
Ethiopia	2014	127	109	52	1200
Ghana	2013	81	64	39	3226
Kenya	2013	61	46	41	514
Mauritius	2013	41	81	11	259
Nigeria	2013	75	100	269	5609
South Africa	2013	35	39	384	8188
Tanzania	2013	116	89	28	2131
Ethiopia	2013	133	121	80	953
Ghana	2012	101	95	37	3293
Kenya	2012	67	50	35	259
Mauritius	2012	41	98	11	589
Nigeria	2012	66	78	239	7127
South Africa	2012	38	42	408	4559
Tanzania	2012	106	75	23	1800
Ethiopia	2012	129	114	82	279
Ghana	2011	99	98	31	3222
Kenya	2011	59	52	32	335
Mauritius	2011	44	89	10	433
Nigeria	2011	64	82	217	8915
South Africa	2011	38	41	357	4243
Tanzania	2011	104	73	23	1229
Ethiopia	2011	129	111	84	627
Ghana	2010	97	99	16	2527

Annexure C - Regression Analysis - FDI vs 12 Competitive Variables

Regression

Descriptive Statistics			
	Mean	Std. Deviation	N
FDI	3.1448	0.55822	42
Institutions	1.8495	0.17585	42
Infrastructure	1.9719	0.15725	42
Macroeconomic environment	1.9597	0.1861	42
Health and primary education	2.0326	0.13998	42
Higher education and training	2.0044	0.11195	42
Goods market efficiency	1.8217	0.22997	42
Labour market efficiency	1.826	0.16003	42
Financial market development	1.6074	0.45168	42
Technological readiness	1.9838	0.12406	42
Market size	1.7831	0.21745	42
Business sophistication	1.8419	0.19534	42
Innovation	1.8712	0.15872	42

Correlations						
	Institutions	Infrastructure	Macroeconomic environment	Health and primary education	Higher and education and training	Goods
Pearson Correlation						
FDI	1	0.074	0.179	-0.318	0.542	0.163
Institutions	0.074	1	0.86	0.156	0.574	0.703
Infrastructure	0.179	0.86	1	0.207	0.638	0.936
Macroeconomic environment	-0.318	0.156	0.207	1	0.042	0.256
Health and primary education	0.542	0.574	0.638	0.042	1	0.632
Higher education and training	0.163	0.703	0.936	0.256	0.632	1
Goods market efficiency	-0.046	0.812	0.916	0.345	0.549	0.927
Labour market efficiency	0.414	-0.465	-0.206	-0.066	0.113	-0.021
Financial market development	-0.207	0.56	0.723	0.235	0.036	0.709
Technological readiness	0	0.711	0.9	0.281	0.527	0.918
Market size	-0.73	-0.07	-0.007	0.42	-0.644	-0.004
Business sophistication	-0.096	0.577	0.812	0.324	0.333	0.887
Innovation	-0.127	0.229	0.416	0.069	-0.179	0.484
Sig. (1-tailed)						
		0.322	0.128	0.02	0	0.151
Institutions	0.322		0	0.162	0	0

Infrastructure	0.128	0		0.094	0	0
Macroeconomic environment	0.02	0.162	0.094		0.395	0.051
Health and primary education	0	0	0	0.395		0
Higher education and training	0.151	0	0	0.051	0	
Goods market efficiency	0.387	0	0	0.013	0	0
Labour market efficiency	0.003	0.001	0.095	0.339	0.238	0.447
Financial market development	0.094	0	0	0.067	0.41	0
Technological readiness	0.499	0	0	0.036	0	0
Market size	0	0.331	0.484	0.003	0	0.489
Business sophistication	0.273	0	0	0.018	0.016	0
Innovation	0.211	0.073	0.003	0.332	0.128	0.001
N						
	42	42	42	42	42	42
Institutions	42	42	42	42	42	42
Infrastructure	42	42	42	42	42	42
Macroeconomic environment	42	42	42	42	42	42
Health and primary education	42	42	42	42	42	42
Higher education and training	42	42	42	42	42	42
Goods market efficiency	42	42	42	42	42	42
Labour market	42	42	42	42	42	42

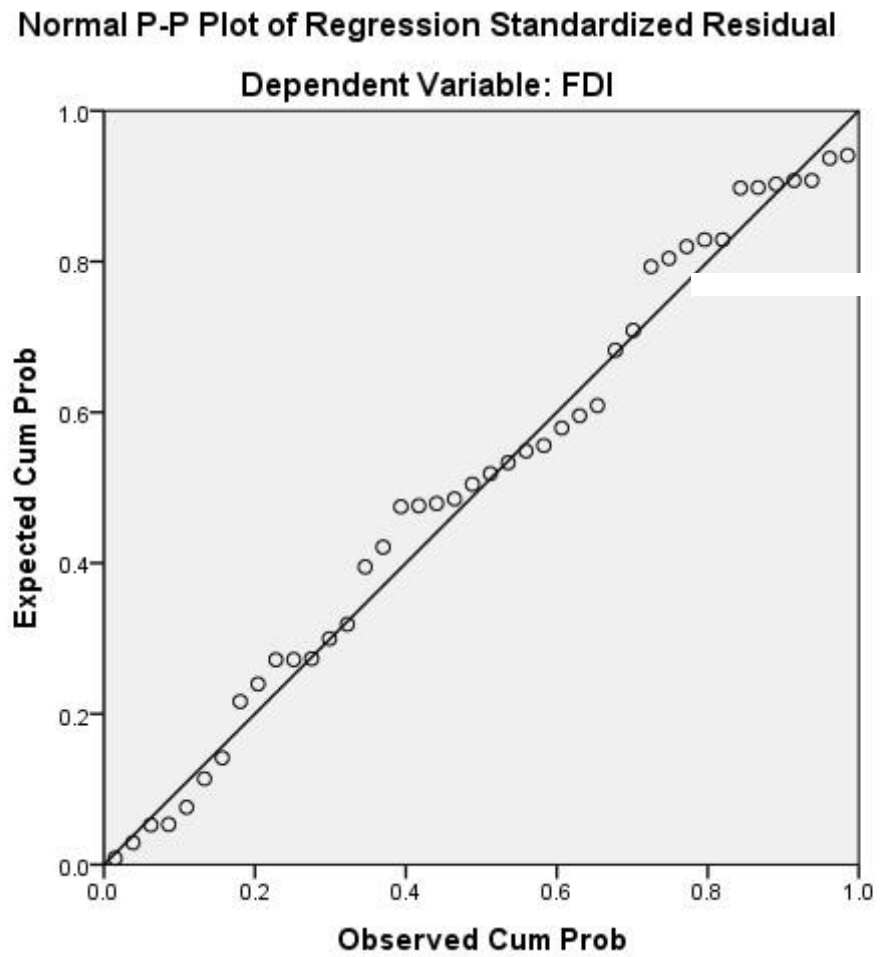
efficiency						
Financial market development	42	42	42	42	42	42
Technological readiness	42	42	42	42	42	42
Market size	42	42	42	42	42	42
Business sophistication	42	42	42	42	42	42
Innovation	42	42	42	42	42	42

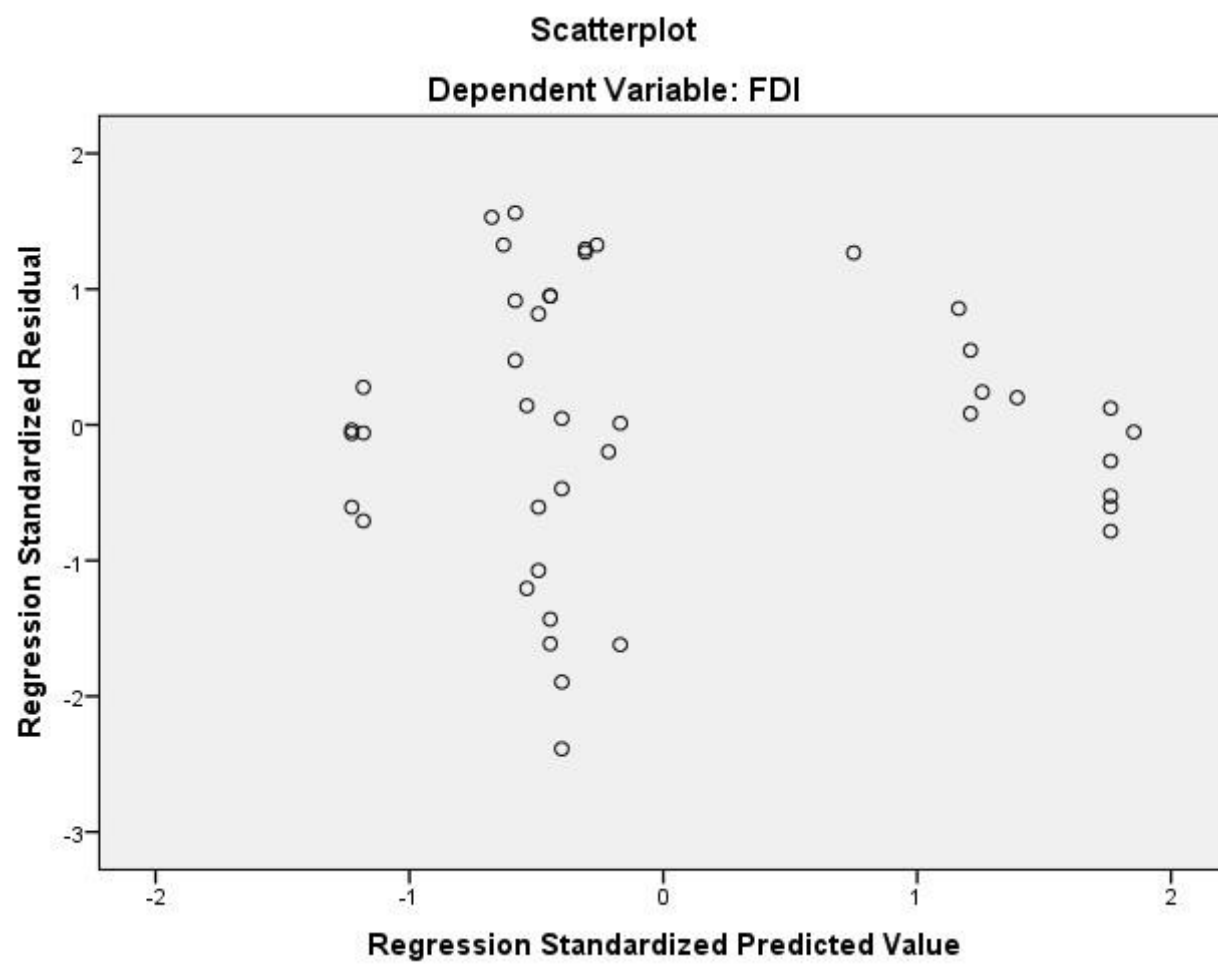
Excluded Variables ^a							
Collinearity Statistics							
Model	Beta In	t	Sig.	Partial Correlation	Tolerance	VIF	Minimum Tolerance
Institutions	.023 ^b	0.209	0.836	0.033	0.995	1.005	0.995
1.005	0.995						
Infrastructure	.174 ^b	1.647	0.108	0.255	1	1	1
Macroeconomic environment	-.015 ^b	-0.12	0.905	-0.019	0.824	1.214	0.824
Health and primary education	.122 ^b	0.863	0.394	0.137	0.585	1.71	0.585
Higher education and training	.160 ^b	1.501	0.141	0.234	1	1	1
Goods market efficiency	.063 ^b	0.568	0.573	0.091	0.978	1.022	0.978
Labour market efficiency	.203 ^b	1.833	0.074	0.282	0.9	1.111	0.9
Financial market development	.208 ^b	1.707	0.096	0.264	0.752	1.33	0.752
Technological readiness	.110 ^b	1.011	0.318	0.16	0.978	1.022	0.978
Business sophistication	.156 ^b	1.385	0.174	0.217	0.896	1.116	0.896
Innovation	.229 ^b	1.984	0.054	0.303	0.815	1.227	0.815
a. Dependent Variable: FDI							
b. Predictors in the Model: (Constant), Market_size							

Collinearity Diagnostics ^a					
Variance Proportions					
Model	Dimension	Eigenvalue	Condition Index	(Constant)	Market_size
1	1	1.993	1	0	0
2	0.007	16.659	1	1	
a. Dependent Variable: FDI					

Residual statistics					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	2.6445	3.9003	3.1448	0.40761	42
Std. Predicted Value	-1.227	1.854	0	1	42
Standard Error of Predicted Value	0.06	0.127	0.082	0.021	42
Adjusted Predicted Value	2.6454	3.9028	3.1458	0.40955	42
Residual	-0.92186	0.60312	0	0.3814	42
Std. Residual	-2.387	1.562	0	0.988	42
Stud. Residual	-2.421	1.588	-0.001	1.005	42
Deleted Residual	-0.94813	0.62313	-0.00099	0.39461	42
Stud. Deleted Residual	-2.588	1.619	-0.006	1.025	42
Mahal. Distance	0.029	3.436	0.976	1.067	42
Cook's Distance	0	0.084	0.017	0.018	42
Centered Leverage Value	0.001	0.084	0.024	0.026	42
a. Dependent Variable: FDI					

Charts





Annexure D - Regression Analysis - FDI vs GDP

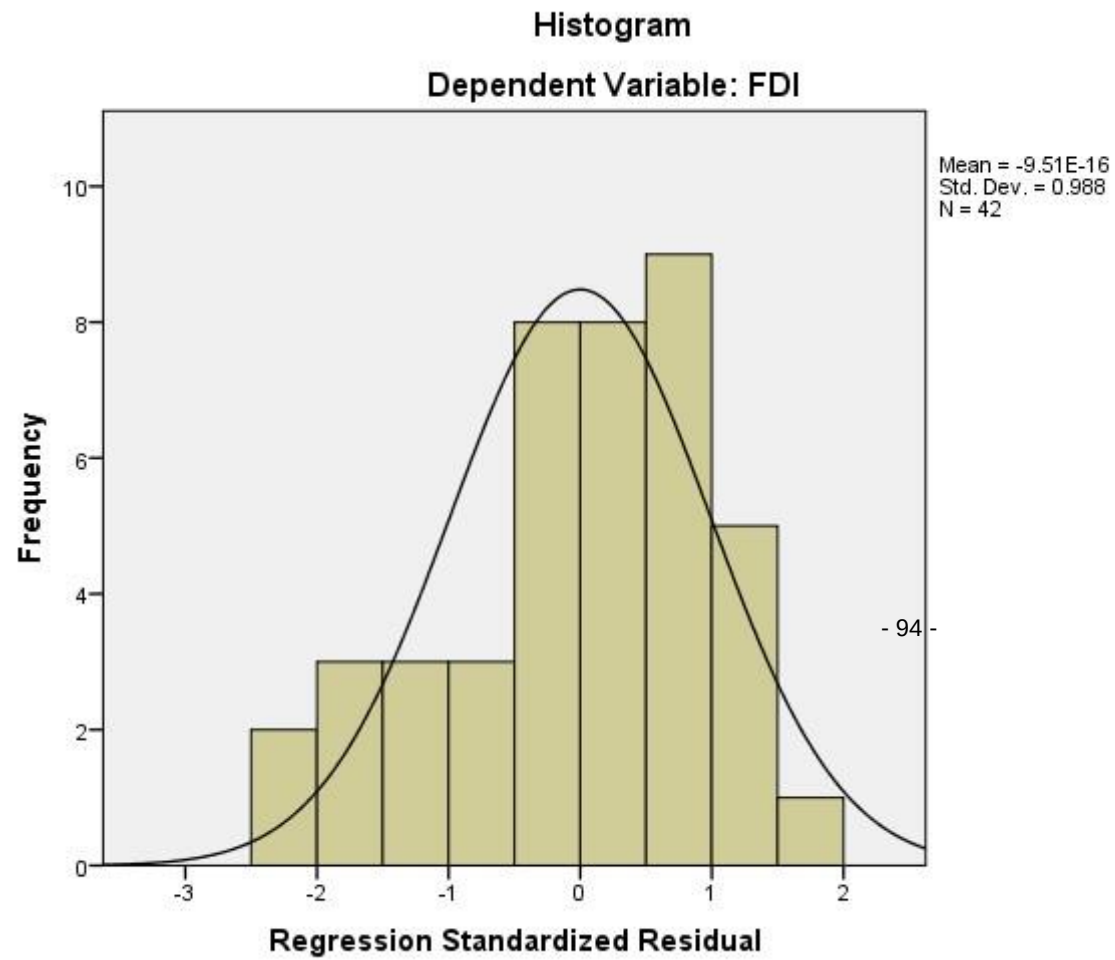
Descriptive Statistics			
	Mean	Std. Deviation	N
FDI	3.14	0.558	42
GDP	1.75	0.531	42

Correlations			
		FDI	GDP
Pearson Correlation	FDI	1	0.635
	GDP	0.635	1
Sig. (1-tailed)	FDI		0
	GDP	0	
N	FDI	42	42
	GDP	42	42

Collinearity Diagnostics ^a					
Variance Proportions					
Model	Dimension	Eigenvalue	Condition Index	(Constant)	GDP
1	1	1.958	1	0.02	0.02
2	0.042	6.828	0.98	0.98	
a. Dependent Variable: FDI					

Residuals Statistics ^a					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	2.6	3.79	3.14	0.355	42
Residual	-0.91	0.677	0	0.431	42
Std. Predicted Value	-1.53	1.823	0	1	42
Std. Residual	-2.085	1.552	0	0.988	42
a. Dependent Variable: FDI					

Charts



Normal P-P Plot of Regression Standardized Residual

Dependent Variable: FDI

