

The Eclectic Paradigm and Foreign Direct Investment in Sub-Saharan Africa

Emmanuel Cleeve, Manchester Metropolitan University, UK
E.Cleeve@mmu.ac.uk

This paper uses Dunning's eclectic paradigm of international production to explain the inflow of foreign direct investment (FDI) to Sub-Saharan Africa (SSA). The eclectic paradigm is a general framework, which postulates that for FDI to take place, three factors must be present; firm-specific advantages, internalisation advantages and location-specific advantages. The absence of any one of these will prevent FDI from taking place. The firm-specific advantages (and their internalisation) are the spillovers of FDI, just what SSA countries need in their desire for growth and development. Greater emphasis is placed on the location-specific advantages, the factors SSA should effect to earn higher levels of FDI inflows. The paper also express concern that despite improvements in SSA's macroeconomic policy, the benefits in terms of improved inflow of FDI has not materialised, and calls for a more considered and better policy approach to attract FDI.

INTRODUCTION

Despite the large increase in FDI flows to Africa in recent years, these flows represent only a small proportion of the total flows to developing countries. Average annual FDI flows increased from \$2.2 Billion in 1980 to \$15 Billion during the period 2000-2004. In contrast, Africa's share of global flows fell from 2.3% in 1980 to about 1.5% during 2000-2004. As a percentage of total flows to developing countries, Africa's share fell from 10% in 1980 to 7% during 2000-2004. The same declining pattern is revealed in the continent's flow per capita (UN, 2005).

In the early 1970s, Africa attracted a higher share of world FDI than Asia and Latin America, but by 2000, it was attracting nine times and almost six times less FDI respectively. This is summarised in the United Nations Conference on Trade and Development (UNCTAD) (2001), showing that FDI inflows to Africa slumped in 2000, bringing down the continent's already low share of world FDI inflows to below 1%. In previous years, this figure has hardly exceeded 2%, and in 2001, Africa's share did rise again to 2.3%. However, the share of Africa's FDI inflows in total inflows remains very low. Between 2000 and 2004, the continent received a little over an annual average of 2% as compared to 4.4% in the 1970s.

UNCTAD (1999) attributed the poor FDI performance in SSA to the negative image the region holds among many foreign investors. For instance, the sub-continent tends to be associated with political turmoil, economic instability, diseases and natural disasters. Internal and external armed conflicts are its key characteristics. Military coup d'états are also common. Moreover, spillover effects from neighbouring countries' instability often in some way affect those countries that experience internal stability.

Within the continent, the distribution of FDI flows is also uneven. For example, in the early 2000s, the major recipients of flows in the region were South Africa, Morocco, Nigeria, Angola, and Algeria. They invariably accounted for more than half of the total inflows to the region. The main sources of FDI is also changing, shifting away from the OECD countries to emerging economies like China, South Africa and India. Emerging economies like China, India, Taiwan and Malaysia have emerged as members of the top ten sources of FDI into Africa. However, France, the Netherlands, South Africa, the UK and the US still dominate FDI into Africa, accounting for more than 50%.

The primary sector remains the most important destination for FDI flows into the region, accounting for more than 50% of inflows from major investors to Africa over the late 1990s and early 2000 period. Within the primary sector, oil and gas are the most important industries. Since 2000, there has been an increase in inflows into the tertiary (service) sector and sometimes attracted more inflows than the primary sector. There is a growing body of evidence, which indicate that, in recent years, the composition of flows is shifting away from countries with large oil and mineral reserves towards the industrial and service sectors, such as textiles, telecommunications and banking. This in itself means that the factors that determine FDI in SSA are also changing, away from resource seeking to a more efficiency seeking type.

The growth in interest in FDI in many African countries can only be matched by the high expectations of what FDI can achieve in terms of its contribution to economic and social development. The effect of FDI and its quality depend significantly on domestic policies, especially measures to develop human capital, and social, physical and institutional infrastructures.

The rest of this paper is presented as follows: Section 2 reviews the eclectic paradigm and its development over the years in search of the elusive general theory of FDI and MNEs. Section 3 discusses the competitive ownership advantages of MNEs' investment in SSA, reviewing a number of empirical studies and highlighting the firm-specific factors that they consider to be important in their impact on FDI inflows. The internalisation advantages will be implied within these discussions. The location specific advantages is analysed in section 4 and Section 5 summarises and concludes the study.

THE ECLECTIC PARADIGM

Dunning's (1976) eclectic paradigm of international production is derived from various theoretical approaches such as the theory of firm, trade theory, organisational theory and location theory. It attempts to integrate three general and interrelated concepts to identify and evaluate the significance of factors influencing both the initial act of cross-border production by firms and the growth of such production. He followed up on this in numerous publications, refining and expanding his original contribution. In a sense, the eclectic paradigm is much broader than when first presented. These three concepts describe different aspects of international production and trade. They tried to explain *why* firms undertake international production, *where* the production would take place and how and why multinational firms could earn better profits than domestic producers in the host countries could.

Within the increasing competitive pressure on firms to sustain or increase profits in a globalising world, the eclectic paradigm purports that at any given moment of time, the extent and pattern of international production can be determined by a set of three factors, which are *ownership-specific advantage*, *internalisation advantage* and *location-specific advantage*. These three needed to be present and satisfied at the same time if it should be profitable for a firm to undertake foreign direct investment (FDI) instead of exporting, licensing or joint venture. In its general form, the OLI can only provide an insight into international production and the behaviour of individual firms and remains useful and robust, given its continuous updating, for explaining and analyzing the economic rationale for international production and the organizational issues that are related to multinational enterprises' activity. In its specific form, the paradigm indicates, for example, which internalization theory will be chosen, depends on what advantages the specific firm has (Dunning, 1988).

This framework illustrates what needs to be present in order to participate in international production, and what route will be chosen for serving the international market. According to the paradigm, a firm that has ownership advantages, but has no internalization or location-specific advantages will be better-off contracting (licensing) its international production. Furthermore, a firm that has both ownership advantages and internalization advantages should not find it profitable to establish a new affiliate or subsidiary abroad if there are no advantages from being located in the particular country. It would be

better to serve the foreign market(s) by exporting. Only those firms that can show ownership, internalization and location-specific advantages should serve the foreign market through foreign direct investment.

The eclectic paradigm has undergone changes and expansions over the years because of comments, suggestions and criticisms levied against it (Dunning, 1988). The main criticism of the paradigm was directed towards its ownership advantages in terms of its superfluity and the lack of attention given to behavioural variables. An updated version of the eclectic paradigm was presented by Dunning (1993), where he incorporated asset-seeking FDI and made a clearer recognition of strategy as a dynamic and firm specific variable. Two years later, the paradigm was extended even further to embrace the main features of alliance capitalism (Dunning 1996). Finally, the paradigm was made to further analyze how technological developments and globalization are affecting the content and configuration of the OLI advantages. Each of the three requirements in the eclectic paradigm will in turn be explained and assessed in terms of how they have shaped the flow of FDI to and the activities of MNEs in sub-Saharan Africa.

COMPETITIVE OWNERSHIP ADVANTAGES

The ownership advantages are firm specific and related to the size and the market position that are specific to a particular firm (Dunning 1980). The ownership advantages are often called competitive or monopolistic advantages, and are advantages a specific firm has compared to other firms. These advantages are the main asset for most firms, because they give the firm market position or cost advantage over other firms. It is of major importance to develop and protect these advantages as competitors might try to copy them. There are three kinds of ownership-specific advantages: *The standard advantages, benefits derived from belonging to a large organization and benefits from being a multinational enterprise.*

The standard ownership advantages

The standard advantages are advantages a firm may have compared to other firms in a specific location. These advantages are mainly related to the size and established position an already established firm enjoys, and in some cases, monopoly power. Further, the advantages are often related to product diversification and exclusive access to technology, patents and markets and use of input factors like labour, finance, information and natural resources. The standard advantages may lead both to market efficiency and economies of scale. Brand name and quality are important elements in this category.

Benefits derived from belonging to a large organization

The benefits from belonging to a large organization are that the affiliate may benefit from economies of joint supply in production, purchasing, finance and marketing, and in addition get access to cheaper inputs like administration, management, R&D, marketing and human capital from the parent company. It is important to possess financial resources to be able to invest in R&D and keep track with technological development. A large organization will typically possess more financial resources than a smaller organization.

Benefits of being an MNE

Being an MNE means that a firm is in a better position to take advantage of different factor endowments, factor prices and tax regimes. The firm probably has advantages when establishing abroad as it has experience from managing production, sales and marketing in its "home" country. This means that the firm has the ability to exploit its technological and managerial expertise in several countries, and could gain access to further markets.

There are certain sectors (or industries) where the ratio of MNEs is higher than the average, and these sectors are often characterized by high production and marketing costs. This means that their attraction is

mainly based on knowledge (technology) rather than physical capital that lead to FDI. One reason for this is that it is easier and more efficient to transfer knowledge than capital goods, allowing affiliates to use the knowledge from the parent company or other affiliated companies with marginal costs approaching zero. The multinational firm also has the ability to acquire knowledge from their affiliates about local conditions in the foreign country.

Another advantage of being a multinational is the ability to undertake strategic pricing. When a firm is located in various countries with different tax policies, the firm can, to some extent, divert surpluses from high-tax countries to low-tax countries, so that the total tax paid by the MNE is reduced to a legal minimum. For a company with high costs related to R&D and marketing, for example, it is feasible to locate the main research department in a high tax country, and charge the affiliates in low-tax countries as little as legally possible, thus increasing the organisation's overall profit. Transfer pricing, as it is known, involves the price at which transactions between units of a multinational firm takes place, including inter-company transfers of goods, property, services and loans. This strategy often leads to conflict between the host government and the MNEs in terms of the distribution of gains from MNEs activities.

Dunning suggested that the future competitive ownership advantages of enterprises among other things would be the ability to motivate and upgrade the intellectual and creative qualities of the work force, including managers, in a cost-effective way. Additionally, Firms would also have the ability to seek out new and unfamiliar markets, and successfully adapting and promoting the qualities of particular products to meet the specific and localized needs of customers. They would in the future need to complement their core competencies with those of other firms. This makes it more important for managers to identify and evaluate potential partners, to make the appropriate agreements with them, and to achieve the results that are in the firms' best interest.

In view of these benefits, SSA, like many other developing countries, has offered competitive fiscal and investment incentives to attract and retain foreign investment into their economies. The most significant reason for offering far-reaching incentives to foreign investors is that FDI induces technology transfer through joint ventures and knowledge spillovers. The opportunity cost of fiscal incentives may however exceed the perceived technology transfer benefits on which those incentives are based. In this case, enormous benefits could be realized, both in terms of better targeting of incentives and public resources to improve investment and technological development in poor countries in SSA. This will depend on the availability of information regarding the pattern of technology spillovers and its determinants.

Productivity spillovers can occur at least through three main channels: through the movement of highly trained and skilled staff from foreign firms to domestic firms; through what is referred to as "demonstration effect" arising from arm's length relationships between foreign and domestic firms, which enables the latter to learn and adopt superior production technologies and managerial and organizational skills; and through "competition effects" from foreign firms, which may force rival domestic firms to upgrade production techniques in order to remain competitive and productive (see Blomstrom and Kokko, 1998; Crespo and Fontoura, 2007). Stiff competition can also reduce productivity of domestic firms if foreign firms attract away demand from their domestic counterparts (Aitken and Harrison, 1999).

The quantitative analyses of these effects are important aspects in technological innovation and development for domestic firms have not been firmly established, especially in the context of SSA. In their extensive survey of the literature, Görg and Greenaway (2004) find that the evidence on productivity and spillovers is mixed and depends largely on the study methodology and data used. A meta-analysis conducted by Gorg and Strobl (2001) suggests that, apart from the study by Haddad and Harrison (1993) on Morocco, few rigorous studies have ever been conducted on foreign investment and technology spillovers in Africa. This is despite the trend in economic and political reforms that have taken place across the entire African continent, which have been particularly pursued to attract more foreign

investment. More case studies from Africa will contribute substantially to our understanding of foreign investment and technology spillovers in developing countries as a whole.

FDI serves as an important engine of growth in developing countries through the expansion of the domestic capital stock, the creation of employment opportunities, the development of technical and managerial skills and the transfer of technology. The role of capital is crucial for countries where incomes and hence domestic savings are particularly low, such as SSA countries. These countries need external capital to finance investment and stimulate growth. Access to external capital can be difficult when countries have an image of mismanagement, corruption, poor credibility or other factors that limit their access to the international capital markets. As a consequence, SSA countries are forced to rely mainly on FDI as the source of foreign capital. However, some skepticism remains and centers on the repatriation of profits and competition effects which lead to shrinking market shares or exit of domestic firms. Indeed, some studies such as Oteng-Abayie and Frimpong (2006) find that FDI may have a negative impact on GDP growth.

Other reasons that enhance development, other than supplementing domestic (savings and) investment, is that FDI enhances domestic innovation through the transfer of technology; it leads to human capital development through the transfer of management skills and knowledge; it provides market access; it enhances productivity through the stimulation of competition in the domestic economy; and it reduces costs and improves economies of scale through the integration of the domestic economy with international economic activity.

Through these advantages, the multinational enterprise (MNE), the main vehicle of FDI, can positively shift a country's comparative advantage and, as a result, many SSA countries are now actively wooing MNE participation in their efforts to achieve economic development. Policies designed to raise the level of FDI, have attempted to market the opportunities, raise the potential returns and reduce the obstacles and risks associated with FDI.

The Doing Business 2009 reports that Africa had a record year for regulatory reforms that make it easier to do business, with 28 countries completing 58 reforms. (IFC/the World Bank, 2009). Three of the world's top 10 reformers of business regulations are in Africa: Senegal, Burkina Faso, and Botswana.

Senegal made it easier to start a business, register property, and trade across borders. Burkina Faso introduced a new labour code and reforms for registering property, dealing with construction permits, and paying taxes. Botswana cut the time to start a business, facilitated trade, and strengthened investor protections. Post-conflict countries, Liberia and Sierra Leone, along with Rwanda, were among the regions' most active reformers of business regulations.

The level of economic activity of MNEs depends on their primary motivation for undertaking foreign activity. The investment behaviour of market-seeking firms, for example, depends more on the size and growth of the local or regional economy, than those primarily established to supply the global market.

LOCATIONAL ADVANTAGES

The second element of Dunning's eclectic paradigm is concerned with the "where" of production. The locational advantages try to explain why a firm should wish to produce in a specific location. The locational advantages need to be present if a firm should want to locate in a foreign country, if not, the firm will be better off producing in the home country and only exporting to this foreign market. A multinational enterprise will typically engage in foreign production when they find it in their best interest to combine their ownership advantages and certain internalization gains with production in another country. The location choice of the multinational firm will often be influenced by spatial market failure, that is the existence of trade barriers like tax rates, tariffs, environmental legislations or political issues.

Further, the advantages might be related to lower factor prices, industrial agglomeration (clusters), barriers to entry and trade costs, strategic considerations, market size, access to skilled labour, the real wage level and lack of local competitors.

The location advantages are broadly divided into three groups:

Access to and the relative cost of production factors

Only firms in a certain geographical location can exploit these factors. This might be natural resources as well as man-made resources. The quality and productivity of labour, materials, energy and input prices vary significantly between countries. Language and cultural differences might be vital, and it is important to an investing firm to consider these as well as business practices and customs, before establishing abroad.

Taxes and trade barriers

These are policies by governments and are subject to change. Many foreign companies consider these, which include government intervention, tax rates, incentives, investment climate, political stability and control on imports, before they make the final investment decision. Many countries try to attract foreign investment by creating certain tax and tariffs policies. The main reasons why governments welcome FDI are that the resources (technical, managerial, etc) and spillovers it brings are vital to the host country. A major goal for many foreign governments is that the influence and presence of foreign firms can contribute to the upgrading of existing resources and facilities. With investments, and particularly industrial investments, the mobility of the firm differs before and after the investment is carried out. Before the investment is undertaken, the firm is sensitive to where to locate, and they will consider differences in national tax policy, but it is important to take into consideration whether the tax policy will be sustained or if the policy is just temporary. Given that the policy is reliable and stable there is a good chance that the low tax country will attract FDI.

The reactions to FDI and multinational enterprises have been two-fold. The arguments that are less favourable include fears that multinational firms often possess a strong bargaining power, which they often use to capture a high share of the value added or created by the foreign affiliate (see e.g. Hymer, 1976; Lall, 1994 and Caves, 1996). On the favourable side, emphasis is placed on the fact that foreign firms might contribute to a country's development by providing the country with intermediate products that would have been too costly to produce in the host country. Also, FDI provides access to new technology and methods of production, which can help local firms and industries to develop (Rugman and D'Cruz, 2000; Blomstrom and Kokko, 1998).

The effect of a tariff-based policy might be two-fold. High import tariffs make it expensive for a foreign firm to supply a market with export, and therefore consider establishing a foreign subsidiary. An already established firm can enjoy protection from other firms that try to supply the market through export. On the other hand, foreign producers in a high tariff country can lead to high production costs if the raw materials and inputs need to be imported at a high price. In addition, a high tariff country can easily earn a reputation for not being investment friendly.

Transportation cost and access to market

In many industries, like production of food or construction material, where the quantity and volume are high and the ratio of sales price to transportation cost is relatively low, distance and transportation cost are of importance. In industries, where the main product is either knowledge or high technology (small units at high price), transportation costs are of minor interest. The goods often have to be produced by labour with specific skills on specially designed production equipment. Firms that produce goods that have high transportation costs will typically try to locate close to their market. These goods are unlikely to be very capital intensive in terms of advanced technology and skilled labour.

The choice of location of FDI should depend on the motivation for undertaking the investment activity. These motivations serve to determine what policies the host country should pursue in order to facilitate the location of FDI in their economy. To attract FDI and multinational enterprise (MNE) activities, different types of policies (or incentives) are needed to attract the different modes of FDI. These are: natural resource seeking, market seeking, efficiency seeking and strategic asset seeking FDI (see Dunning 1998, table 1; Caves 1996).

For natural resource seeking FDI, according to Dunning (1998) and before him Caves (1996), the most important factors influencing location include the availability, costs and quality of natural resources and their development (i.e. processing and marketing); infrastructural development necessary for the exploitation of these resources and availability of joint-venture partners. Investment incentives are also important in resource seeking FDI.

Dunning (1998) and Caves (1996) also stressed that the size and growth of domestic and regional markets; the availability and cost of skilled labour; quality of infrastructure and institutional competence; agglomeration economies and service support systems; and macroeconomic policies of the host government particularly influence market-seeking FDI. In the case of efficiency-seeking FDI, these two authors, among many, believe that the most significant determining factors are mainly production cost-related, but more emphasis is placed on factors such as the skill and professional elements of labour, the competitiveness of related firms, the quality of local infrastructure and institutions; macroeconomic policies; and the relationship of all these with knowledge intensive FDI. Human resource development and the availability of specialised clusters, e.g. science and industrial parks, are also thought to be of increasing importance.

Finally, they point out that strategic asset-seeking FDI is influenced more by factors such as the availability of knowledge-related assets (e.g. process and product technology, management expertise, etc) and markets and the geographical dispersion of such assets; institutional and other variables influencing access to such assets by foreign investors; the price and availability of synergistic assets to foreign firms; and access to different cultures, institutions and systems.

The bulk of FDI in developing countries is motivated by either market access, lower real costs advantages and the availability and price of natural resources. However, the local infrastructure and macroeconomic policy could be decisive in the location choice of foreign firms. Knowledge of a country or region is crucial in the location decision of MNEs. Inadequate knowledge of a location, however, can cause investors to underestimate opportunities and overestimate risks, pushing such locations to the periphery of the location decision-making process. This could easily characterise many SSA countries.

UNCTAD in various publications have shown that market size and access to natural resources have been crucial determinants of FDI in SSA. This is not surprising, given that the SSA countries that have been able to attract any meaningful FDI have been those with large domestic markets and those that possess large amounts of natural and mineral resources (see for example UNCTAD, 2002). The relationship between market size, measured by GDP, and FDI inflows shows that in 1996-97, South Africa, followed by Nigeria and Cote d'Ivoire have the largest GDP and hence the largest inflows of FDI. On the other extreme, Niger and Burundi, with the lowest GDP, attract the lowest FDI flows (see World Bank, 1999). Further, for a sample of 29 SSA countries, the correlation coefficient between FDI flows and market size is almost perfect at 0.99. Regression analyses show that this variable remains a significant determinant of FDI for data up to 2004 (see Cleeve 2008; UN 2005; Asiedu 2004 and Tsai 2004). The level of significance of this variable is, however declining, as other variables, mainly policy variables, are becoming more significant determinants of FDI to SSA.

In the case of natural resources, FDI inflows into SSA countries by sector show that 54% of FDI went to the primary sector (natural resources) in the period 1996-2000. Traditionally, about 60% of FDI in Africa is allocated to oil and natural resources. According to Morisset (2001), SSA has large reserves of gold, diamonds and oil; half of the world's manganese and cobalt; one-third of bauxite and more than 80% of chromium and platinum. SSA countries are among the main exporters of sugar, cocoa and coffee. In 1996-97, correlation coefficient of the value of natural resources and FDI inflows stood at 0.94 for a sample of 29 SSA countries (World Bank, 1999; UNCTAD, 2002). There have not been significant changes for many SSA countries in 2007 (UNCTAD, 2007)

Apart from natural resources and market size, Morisset (2001), using FDI climate as the dependent variable, showed empirically that GDP growth rate and trade openness are significant and positively related to the investment climate in SSA. Trade openness, being significant, confirms and supports the policy of trade liberalisation, now being pursued by the majority of SSA countries. Countries that have been able to establish a stable macroeconomic and political environment for a period of time, have successfully implemented trade liberalisation and privatisation programmes and have adopted international treaties relating to FDI, tend to attract FDI in areas other than natural resources and market access. Two SSA countries that have improved their investment environment are Mali and Mozambique. These countries have attracted more FDI than Cameroon and Kenya, which have larger local markets and abundant and a wide range of natural resources (ibid).

One major problem in formulating FDI policy is the decision of which of the many studies provide the correct recommendations for policy makers. Many of the studies on FDI determinants show vast variations in the importance of the factors suggested to influence FDI flows. This, however, should not deter SSA policy makers as they should know their economies better and as such have more of the necessary information to make this choice of instruments easier. These empirical results are only predictions that will only work under the right set of conditions.

Asiedu (2004) provides an explanation for SSA's lowly position in global FDI. She argues that even though SSA has "reformed its institutions, improved its infrastructure and liberalised its FDI regulatory framework," (p.41) it remains less attractive for FDI and advocates improvement in their policy environment, absolute and relative to other LDCs. Asiedu (2002) notes this variation in the GDP *per capita* estimates for a number of studies: Tsai (1994) and Lipsey (1999) found a positive relationship with FDI; whereas Edwards (1990) and Jaspersen *et al* (2000) found a negative relationship with FDI. Loree and Guisinger (1995), Wei (2000) and Hausmann and Fernandez-Arias (2000) found this variable to be insignificant. Asiedu also finds that labour costs can have a positive impact on FDI (Wheeler and Mody, 1992); a negative impact (Schneider and Fry, 1985) and an insignificant effect (Tsai, 1994; Loree and Guisinger, 1995; Lipsey, 1999). Several reasons could be put forward to explain this variation in empirical findings, such as the different effects that these variables could capture. For example, labour costs estimates could have either positive or negative effects depending on the type of activity and the type of (skilled/unskilled) labour required by the MNEs. Methodological and country-specific differences, if not corrected, could produce results for these variables that are quite contradictory. Inaccurate, inconsistent and unreliable data could also cause variations in the findings.

For Asiedu, the factors that influence FDI in Sub Saharan Africa are; return on investment, infrastructure development, openness of the economy, political risk, size of government consumption, economic stability and the growth rate of the domestic market. Ngowi (2001) observes the difficulty of identifying the ideal mix of determinants of FDI needed to attract certain levels of FDI inflows. For Ngowi, the following factors should be considered: Favourable macroeconomic indicators (growth, stable inflation, low budget deficits), quality infrastructure, natural resources, political stability, Domestic market (size, openness, competitiveness), quality of human capital and cost, low transactions and business costs (rules of entry and exit, trade and labour laws, tax structures) and an efficient legal system. For SSA, Ngowi

concludes that its high risk profile, characterised by political and institutional instability and unpredictability, high levels of corruption, small and stagnant markets and inadequate infrastructure.

Another study, which turns out a mixed result, is Onyeiwu and Shrestha (2004). Their econometric analysis found that economic growth and price stability promote the flow of FDI to SSA. These are two policy objectives that are difficult to achieve simultaneously, and they suggest a trade-off has to be made between them, choosing growth over inflation. They also found openness of the economy, policy transparency and the availability of natural resources as important determinants of FDI inflows in SSA. For them, infrastructural development and political stability, which are very important in several other studies, are found to be insignificant.

Cleeve (2005, 2006 and 2008) confirms some of the conflicts and contradictions. For all three studies, the variables that show greater significance in attracting FDI to SSA are openness, real exchange rate, market growth and market size. Policy variables like tax holidays and concessions, investment provision and military in politics are also important. Although market size and growth are quite influential, their significance is becoming less pronounced as time passes. In contrast, however, human capital, in the form of secondary school enrolment ratio is becoming more significant over time, just like political stability and infrastructural development.

CONCLUSION

With the low levels of domestic savings and declining ODA in SSA, FDI is the most attractive source of development finance available to the region. FDI in SSA is expected to bring many benefits including fresh capital, employment, technology, and management and marketing expertise. The level of FDI flows to SSA, however, has not met with expectations, lagging behind all other regions in its global share of FDI. Some of the reasons suggested for this poor performance is what this paper has attempted to identify. It ranges from the smallness of the host market to political instability and underdeveloped infrastructure.

Most analyses of FDI inflows in SSA have included the size and growth of the host market because it has been widely found to be significant and sometimes the most significant factor that affects the level of FDI inflows. Natural resource availability is also crucial for many SSA countries as traditionally, they tend to have attracted more FDI than those without. More recently, however, some countries with very little natural resources are competing quite strongly with those that are well endowed with natural resources. The competitive edge of these countries is based on their macroeconomic and political stability, and openness to trade and investment.

The ideal mix of significant determinants is very difficult to achieve when formulating policy. Some of these factors have contradictory effects on FDI inflows and the economy as a whole. Therefore, a choice has to be made as to which factors work well under certain conditions, implying that a mix of policy instruments that may suit conditions in one SSA country may not work for others. FDI policy implemented by SSA countries with large markets and natural resource endowments should generally differ from countries with small markets and limited resources. For these small economies, policies designed around macroeconomic and political stability, openness and improved infrastructure might serve them equally well in terms of their share of FDI.

REFERENCES

- Aitken, B.J., Harrison, A.E. (1999) "Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela". *American Economic Review*. 89, 605-18.
- Asiedu, E. (2002) 'On the Determinants of Foreign Direct Investment to Developing Countries: Is Africa Different?' *World Development*, 30(1), pp. 107-119
- Asiedu E. (2004) "Policy Reform and Foreign Direct Investment in Africa: Absolute Progress but Relative Decline" *Development Policy Review*, 22(1)
- Blomstrom and Kokko, (1998) "Multinational corporations and spillovers", *Journal of Economic Surveys*, 12(2), 247-277
- Caves, Richard (1996) *Multinational Firms and Economic Analysis*, 2nd edition, Cambridge, Cambridge University Press.
- Cleeve, E. (2005) "The Role of Human Capital in the Inflow of FDI to Sub-Saharan Africa." IAABD 2005 Conference Proceeding
- Cleeve, E. (2006) "Institutional Impediments to FDI Inflows to Sub-Saharan Africa" IAABD 2006 Conference Proceeding
- Cleeve, E. (2008) "How Effective are Fiscal Incentives to Attract FDI to Sub-Saharan Africa?" *The Journal of Developing Areas*, 42(1)
- Crespo, N., Fontoura, M.P. (2007) Determinant Factors of FDI Spillovers - What Do We Really Know? *World Development*. 35, 410-25.
- Dunning, John H. (1998) "Location and the Multinational enterprise: A neglected factor", *Journal of International Business Studies*, 29(1), 46-66.
- Dunning, John H. (2001) "The eclectic (OLI) paradigm of international production: Past, present and future", *International Journal of the Economics of Business*, 8(2) 173-190.
- Görg, H. and Strobl, E. (2001) "Multinational Companies and Productivity Spillovers: A Meta-Analysis." *Economic Journal* 111, 723-39.
- Görg, H., Greenaway, D. (2004) "Much Ado About Nothing? Do Domestic Firms Really Benefit from Foreign Direct Investment?" *World Bank Research Observer*. 19, 171-86.
- Haddad, M., Harrison, A.E., 1993. "Are There Positive Spillovers From Direct Foreign Investment?" *Journal of Development Economics* (42) 51-74
- Hausmann, R. and Fernandez-Arias E. (2000), "The New Wave of Capital Inflows: Sea Change or Just Another Title?" *Inter-American Development Bank Working Paper* 417.
- Hymer, S. (1976) *The international operations of national firms: A study of direct foreign investment*. Cambridge, MA: MIT Press.
- IFC/ World Bank (2009) *Doing Business 2009*. IFC/WB
- Lall, S. (1993) *Transnational corporations and economic development*, London, Routledge.
- Lipsey, R.E. (1999), 'The Location and Characteristics of U.S. Affiliates in Asia,' NBER Working Paper 6876
- Loree, D.W. and Guisinger S. (1995), "Policy and Non-Policy Determinants of U.S. Equity Foreign Direct Investment," *Journal of Business Studies*, 26(2), 281-299
- Morisset, Jacques (2001), "Foreign direct investment in Africa: Policies also matter." *OECD Global Forum on International investment*, OECD
- Ngowi, H. P. (2001), "Can Africa Increase Its Global Share of Foreign Direct Investment (FDI)" *West Africa Review*, 2(2)
- Onyeiwu, S. and Shrestha, H. (2004), "Determinants of Foreign Direct Investment in Africa", *Journal of Developing Societies*. 20(1-2)
- Oteng-Abayie, E.F., Frimpong, J.M. (2006) "Bounds Testing Approach to Cointegration: An Examination of Foreign Direct Investment Trade and Growth Relationships." *American Journal of Applied Sciences*. 3, 2079-85.
- Rugman, A.M. and D'Cruz J.R. (2000) *Multinationals as flagship firms*, Oxford, OUP
- Tsai, P-L. (1994), "Determinants of Foreign Direct Investment and its Impact on Economic Growth," *Journal of Economic Development*, 19, 137-163

- United Nations (UN) (2005), Resource Flows to Africa: An Update to Statistical Trends. OSSA, UN
- United Nations Conference on Trade and Development (UNCTAD), (2001) World Investment Report, 2001: Promoting Linkages, United Nations, Geneva.
- United Nations Conference on Trade and Development (UNCTAD), (2002) World Investment Report, 2002: Transnational Corporation and Export Competitiveness, United Nations, Geneva.
- United Nations Conference on Trade and Development (UNCTAD), (2007) World Investment Report, 2007: Transnational Corporation Extractive Industries and Development, United Nations, Geneva.
- Wei, S-J (2000), 'How taxing is corruption on international investors?', Review of Economics and Statistics 8(2), February, pp.1-11
- Wheeler, D and A Mody (1992), "International Investment Location Decisions: The Case of U.S. Firms," Journal of International Economics, 33, 57-76
- World Bank (1999), World Development Report, World Bank, Washington, D.C.

