



Economic Fundamentals and Foreign Investors' Internationalization Initiatives in Sampled SSA Countries: Emphasis on FDI Inflows

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ABSTRACT

This study investigated the effect of economic fundamentals on foreign investors' internationalization initiatives with focus on foreign direct investment inflows into the Sub-Saharan African (SSA) economy from 1982 to 2021. The regressors are economic growth, private sector credit, and unemployment rate while the regressor is foreign direct investment-FDI inflows. The study population covered the 48 SSA countries, out of which 37 of the SSA countries were considered. This culminated to 77.08% of the study population. Variables considered: Economic Growth-ECG, Private Sector Credit-PSC and Unemployment Rate-UNPR were sourced from the apex banks of the sampled SSA Countries and the World Bank Data Base (2021). Meanwhile, the sourced data were analyzed using the Robust Least Square Estimation technique. Having subjected the model to series of analysis, the Robust Least Square Estimate was considered appropriate for the study. The study disclosed that, economic growth has a high beneficial effect on FDI inflows into the SSA economy but private sector credit had minimal effect on FDI inflows into the SSA Economy. However, unemployment rate reduced FDI inflows into the SSA Economy significantly. Premised on the regression output, the study concludes that, economic growth has high beneficial effects on FDI inflows but high unemployment rate reduced FDI inflows significantly. As such, the paper submits that, government of SSA economies should give utmost priority to private sector development and encourage viable linkages between the private sector and foreign sector. Again, they should give start up grants to young graduates as this will reduce high unemployment rate recorded in the zone over the years.

Keywords: Economic Fundamentals, Foreign Investors' Internationalization Initiatives, Sampled SSA Countries, FDI Inflows

1. INTRODUCTION

Globally, foreign direct investment-FDI inflows are considered as one major economic propeller considering its immense roles in economic growth-ECG and development. Justifiably, since the late 1980s and 1990s, the global economic environment has recorded huge FDI inflows. Consequently, it is in this wise that, scholars thought it wise to examine the drivers of FDI inflows over the years. According to Adebayo, Abolaji, Akinsola and Olanrewaju (2021), FDI has not only averted the accumulation of loans, but it has also permitted the transfer of technology and management skills, and hence may be directly linked to a country's productive investment. According to Adofu and Adegioriola (2020), FDI is a company's use of technology, money, management, and entrepreneurialism to run and supply goods and services in a foreign market. Furthermore, it is acceptable to assert that FDI flows can boost knowledge (information sharing) spillovers to giving economies.

It is worth noting that, in Africa, Nigeria is the third most popular destination for FDI, after only Ethiopia and Egypt. Among the countries that invest in Nigeria are the United States, the United Kingdom-YK, China, the Netherlands and France. Political upheaval, pervasive corruption, a lack of transparency, and poor infrastructure may have all led to a 21% drop in FDI flows to 3.5 billion USD in 2017 (UNCTAD, 2018). However, despite the fact that the African economy is endowed with enormous natural resources that have allowed it to compete well on a global scale, the SSA countries, and the African business climate are still not very open to trade. Again, instead of more funds to flow into the African economy, more funds out flows on

daily basis through illicit means due to poor institutional quality (Agbogun, Ehiedu, Bayem, & Onuorah, 2022). These ugly trends prompted us into looking at the effect of unemployment rate on FDI flows. Another pressing issue which extant empirical documentation failed to address is on a clear description as to which economic fundamentals (economic growth, private sector credits and unemployment rates) affect FDI inflows into the African economy more. Justifiably, critical review into extant foreign capital-growth studies revealed clearly that most studies such as the studies of (Adebayo, Abolaji, Akinsola and Olarewanju, 2021, Yaya, 2020, Mustapha & Azizzun, 2020) focused less on SSA Countries which the current study centers on. Consequent upon these issues raised, this paper targeted at investigating the effect of economic fundamentals on FDI inflows in SSA countries. Specifically, this paper examined the effect of Economic Growth-ECG, Private Sector Credit-PSC, and Unemployment Rate-UNPR on FDI inflows into the SSA economy. Hence, this research work would provide a clear cut understanding on the effect of economic fundamentals on foreign investor's internationalization strategy with focus on FDI inflows into SSA countries. For ease of identification, this paper is structured (organized) into five (5) sections. The first, second and third sections covered introduction, literature review and methodology while the fourth and last section dealt with the result estimation, discussions, conclusion, and recommendations.

2. LITERATURE REVIEW

2.1.1. Internationalization Strategies (FDI inflows)

One greatest desires of every investor is to grow beyond their geographical-borders. This is because, with foreign participations, most of the developed (large) countries have strengthened their economic landscape. According to the World Bank (2021) FDI is net inflows of investment to get a long-term managerial stake in a business operating in a country instead of foreign investors. Specifically, FDI inflows are the total amount of equity capital, profits reinvestment, other long-term capital, and short-term capital as represented in the balance of payments. The International Monetary Fund and the Organization for Economic Cooperation and Development (OECD) provide a more comprehensive definition of FDI, stating that, a direct investor may be an individual, an established or unregistered private /public enterprise, a government, a group of related individuals, or a group of related registered and/or unregistered enterprises with a direct investment firm operating in a country other than the direct investor's home country.

Akpan, and Eweke (2017) stressed that, FDI improves the state of the host country in that it increases technology sharing, managerial skills, among others (Ogu, 2019). Specifically, FDI is categorized into vertical, horizontal and export. In general, horizontal FDI is determined by market incentives. resources-based stimulus plans and export FDIs are driving the vertical FDI to improve export revenues to third world nations.

2.1.2. Economic Fundamentals

Economic fundamentals are critical factors which influence foreign investment flows across countries. One of the critical economic fundamental is the growth of the economy. Conceptually, an economic growth (ECG) accounts for the annual increase in the value of the final commodities (goods and services) produced. It is therefore believed that, one parameter that is used to judge whether a country is developed or not is the country's GDP. Justifiably, a depressed country can be stabilized if more funds flows into the economy. Evidently, emerging countries that were once depressed during the 2008/2009 global financial crises (Fernandes, & Wassel, 2017)

Again, the term "private sector credit" described the financial resources given to the corporate companies that create a claim for repayment, such as credits, acquisition of trade credits, and other accounts payable. It is therefore expected that, the more credit facilities are extended to the private sector, the more foreign investments flows to the economy. Lastly, the term unemployment rate is difficult to conceptualize. Justifiably, many academics have attempted to define it. The phrase "unemployment" broadly refers to a state of not having a job or employment (Omodero & Alpheaus, 2019).

2.2. Theoretical Underpinning

Although, there are diverse internationalization strategy theories, the following theories were used to underpin the study considering their relevance:

2.2.1. Dunning Eclectic Paradigm-OLI Framework

The Dunning Eclectic Paradigm (DEP) was proposed by Dunning, J.N. in 1979. Dunning (1979) stressed that; an investor's internationalization agenda is consequent upon three (3) advantages which are ownership-O, location-L, and Internalization-I advantages. This therefore rationalized why the DEP is also called the OLI

Framework. In terms of ownership, Dunning (1979) stressed that, foreign investment (especially FDI) inflows leads to technological advantage, expertise, patent, or specific knowledge. Again, Dunning (1979) stressed that, beyond the ownership advantages inherent in FDI inflows, location advantage is another major advantage inherent in FDI inflows. Location advantage connotes that, countries partner with foreign investors so as to take advantage of either natural /created resources (Olokoyo, Ighosewe, Agbogun, Adegboye, & Isibor, 2021). This therefore justify the reason why most foreign investors invest in countries in the SSA economy. Meanwhile, the last factor which foreign investors consider is internalization advantage. However, the challenge about the last justification is that, the foreign company may have to spend much money to get highly skilled employees that are knowledgeable about the needs of the local market (Adofu & Adegoriola, 2020). Justifiably, the relevance of this theory to this paper is that the theory stressed that, FDI inflows is growth inducing both from the receiving country's and the donor country's viewpoint. This rationalization is centered on the three core FDI advantages.

2.2.2. Pull and Push Factors Theories

Everret Lee proposed these two hypotheses in 1966. First, Everret Lee emphasized that a firm's decision to expand globally is influenced by two variables: pull forces (intrinsic factors) and push factors (extrinsic factors). These two elements, if not properly examined, may result in low FDI inflows or outflows, contingent on the circumstance. According to the pull factors theory, foreign exchange rate policy, inflation rate, private sector credit, unemployment rate, degree of trade openness, interest rate policies, and market capitalization-MCAP are intrinsic parameters that influence the flow of foreign investment into SSA economies (Joshi, Desai, & Choksi, 2018).

Justifiably, the more open the SSA economies are to trade, the more FDI inflows they get. Furthermore, effective trade policies/regimes encourage intra-firm trade while also positioning the host nation to be more attractive to foreign companies and FDI inflows. Restrictive trade regimes with high tariffs, on the other hand, provide a locational advantage for tariff-jumping import replacing FDI inflows by multinational corporations. As an enhancement on the idea of pull factors, the theory of push factors emphasizes that FDI inflows are impacted by external variables as well as internal factors, as popularized by Everret Lee in 1966. These external variables explain how the economic conditions of the nation of origin affect the direction of capital flows to developing (emerging) countries. Furthermore, according to this theory, the push factors are the micro and macro features of the home country that drive outward foreign investment into destination countries. External influences include developed-country growth rates and interest rates (Chigbu, Ubah, & Chigbu, 2018).

Changes in the ECG rate in developed (emerging) nations, as stated by Egbuwalo and Abere (2018), might alter foreign flows via an income and substitution effects. Furthermore, if enterprises' resource allocation decisions are influenced by the rate of return, an economic downturn in wealthy nations may improve the profitability and attractiveness of emerging countries. The main conclusion that is gotten from the foregoing is that interest/lending rates and the condition of the SSA countries are the two key extrinsic variables that impact FDI inflows.

2.3. Empirical Review

Hosseini, Farzad and Behzad (2017) reported that, private sector credit, trade openness-TROP, and ECG improves FDI inflows of Malaysia from 1980 to 2015. The research used the Vector Auto Regression approach. Similarly, Etumudon and Victor, (2018) reaffirmed that, private sector credit, trade openness, and ECG has a high beneficial effects on FDI inflows of Nigeria from 1982 to 2016. Again, Yaya (2020) found that, domestic credits to the PSC and ECG are critical FDI inflow drivers in the Economic Community of West African States (ECOWAS) from 1970 to 2017.

In relation to unemployment and FDI inflows, Mustapha and Azizzun (2020) reaffirmed that, unemployment rates has a bi-directional effects on FDI inflows of African six (6) countries from 1990 to 2018. Again, Johnny (2018) evidenced that, FDI reduced drastically due to high unemployment rate in Nigeria from 1980 to 2015. Lastly, Balcerzak and Żurek (2018) affirmed that, FDI inflows reduced due to high unemployment rates recorded in Poland from 1995 down to 2016.

3. METHODOLOGY

This paper adopted the longitudinal research approach since the target variables have long run connotations. Although, the study population covered 48 SSA nations, 37 SSA nations were considered. This culminated to 77.08% of the population (Table 1)

Table 1: Sampling Size Determination

SN	SSA Countries	Zone	Remark	Selection
1.	Angola	Central Africa	S	√
2.	Burundi	Central Africa	S	√
3.	Chad	Central Africa	S	√
4.	Congo	Central Africa	S	√
5.	Republic of Rwanda	Central Africa	S	√
6.	Eritrea	Eastern Africa	S	√
7.	Ethiopia	Eastern Africa	S	√
8.	Kenya	Eastern Africa	S	√
9.	Somalia	Eastern Africa	S	√
10.	Sudan	Eastern Africa	S	√
11.	Tanzania	Eastern Africa	S	√
12.	Uganda	Eastern Africa	S	√
13.	Eswatini	Southern Africa	S	√
14.	Lesotho	Southern Africa	S	√
15.	Mozambique	Southern Africa	S	√
16.	South Africa	Southern Africa	S	√
17.	Zambia	Southern Africa	S	√
18.	Zimbabwe.	Southern Africa	S	√
19.	Benin	Western Africa	S	√
20.	Burkina Faso	Western Africa	S	√
21.	Cameroon	Western Africa	S	√
22.	Cote d'Ivoire	Western Africa	S	√
23.	Equatorial Guinea	Western Africa	S	√
24.	Gabon	Western Africa	S	√
25.	Gambia	Western Africa	S	√
26.	Ghana	Western Africa	S	√
27.	Guinea	Western Africa	S	√
28.	Guinea-Bissau	Western Africa	S	√
29.	Liberia	Western Africa	S	√
30.	Mali	Western Africa	S	√
31.	Mauritania	Western Africa	S	√
32.	Niger	Western Africa	S	√
33.	Nigeria	Western Africa	S	√
34.	Sao Tome and Principe	Western Africa	S	√
35.	Senegal	Western Africa	S	√
36.	Sierra Leone	Western Africa	S	√
37.	Togo	Western Africa	S	√
Number of Selected SSA Countries			37	37

Source: Researcher's Compilation (2022).

The criteria for inclusion of SSA Countries are as follows:

- (a) The selected SSA nations (countries) must have complete data.
- (b) The data for the computation were available in the apex banks of each of the SSA Countries and in the World-bank data base.

Variables considered (Economic Growth-ECG, Private Sector Credit-PSC, and Unemployment Rate-UNPR) were sourced from the apex banks of the sampled SSA Countries and the World Bank Data Base (2021). Meanwhile, the sourced data were analyzed using the Robust Least Square Estimation-RLS technique.

Econometrically, the study expresses FDI as a function of Economic Growth-ECG, Private Sector Credit-PSC, and Unemployment Rate-UNPR. Mathematically, it is stated as:

$$FDI = f(ECG, PSC, UNPR) \dots\dots\dots 1$$

Where:

FDI = Foreign Direct Investment Inflows

ECG = Economic Growth

PSC = Private Sector Credit

UNPR = Unemployment Rate

Further, to capture the influence of the error term- U_t , equation one was further restructured. This is stated in equation two in line with the works of Okumoko, Akarara and Opuofoni (2018):

$$FDI = \beta_0 + \beta_1 ECG + \beta_2 PSC + \beta_3 UNPR + U_t \dots\dots\dots 2$$

Where:

β_0 = Regression intercept

$\beta_1 - \beta_3$ = Coefficients

U = Error term.

Table 2: Measurement of Variables

Code	Target Variable	Measurement	Apriori Expectation
UNPR	Unemployment Rate	Annual UNPR	+
ECG	Economic Growth	Consumer prices (annual %)	-
PSC	Private Sector Credits	Volumes of PSCR	+
FDI	Foreign Direct Investment inflows	Annual FDI inflows to GDP	Nil

Source: Researcher's Compilation (2023)

4. RESULTS ESTIMATES AND DISCUSSIONS

This section covered the result estimates and discussions of each finding. However, to ensure that, the classical econometric assumptions are held, various diagnostic (robustness) tests were considered. These estimates are presented and analyzed thus:

4.1.1. Descriptive Statistics

Table 4.1: Summary of Descriptive Statistics

	FDI	ECG	PSC	UNPR
Mean	4.13E+08	3.02E+10	15.70194	9.730274
Maximum	1.00E+10	5.47E+11	70.38188	37.94000
Minimum	-7.40E+09	4.407770	1.542268	0.675000
Std. Dev.	1.27E+09	7.81E+10	12.51747	8.485543
Observations	800	800	800	800

Source: Econometric Views 9.0 (2022)

The descriptive statistics in table 4.1 evidenced that, foreign direct investment denoted by FDI had an average value of 4.13E+08 but deviated by 1.27E+09. This signals that, FDI oscillate around its mean value. Further, all the countries in SSA Africa reported a maximum and minimum values of 1.00E+10 and -7.40E+09 respectively. Again, PSC reported mean value of 15.70194 but deviated by 12.51747. In lie manner, it reported highest/maximum and least/minimum values of 70.38188 and 1.542268

Furthermore, UNPR had an average value of 9.730274 but fluctuated by 8.485543. This signals that, UNPR clustered around its mean value throughout the studied periods since its mean value is greater than its standard deviation value. More so, all the countries in SSA countries reported highest/maximum and least/minimum values of 37.94000 and 0.675000 respectively.

Table 3: Correlation matrix

	FDI	ECG	PSC	UNPR
FDI	1.0000			
ECG	0.7177	1.0000		
PSC	0.6811	0.1900	1.0000	
UNPR	-0.7806	0.2242	0.1982	1.0000

Source: E-Views Version (2022)

The correlation analysis revealed that ECG, PSC, and UNPR reported coefficient values of 0.7177 and 0.6811. This signals that, ECG, PSC, and FDI flows move in linear fashion. However, UNPR has non-linear effects on FDI flows into the SSA Countries. When considered the individual regressors, none had high correlation suggesting low multicollinearity problem. To affirm this assertion, the variance inflation factors were conducted to check if the model either exhibit presence or absence of multi-collinearity or not. The result is presented thus:

Table 5: Variance Inflation Factors-VIF

Variable	Centered
	VIF
ECG	1.399657
PSC	1.438090
UNPR	1.249046

Source: E-Views Version (2022)

The VIF estimate reported VIF values below 10. This is a clear indication that, the model is devoid (free from) multicollinearity problems. This shows that, the parameter estimates are relatively stable and highly predictive.

Table 6: Other Diagnostic Test

Heteroskedasticity Test	F-statistics	16.09513	Prob.	0.1837
Ramsey Reset Test	F-statistic	1.545536	(1, 789)	0.2142

Source: E-Views Version (2022)

Table 6 evidenced that, the result is Homoskedastic and Well-articulated. This reveals that, the result is fit for prediction and such can be relied upon heavily for policy formulation.

4.2. Regression Result

Arising from the various diagnostic tests above, the study adopted the RLS to test the research hypotheses as it is a robust econometric technique than the conventional OLS estimate. The regression result is reported in table 7:

Table 7: Regression Result

Dependent Variable: FDI

Method: Robust Least Square Estimate

Sample: 1 800

Included observations: 800

Family: Normal

Link: Identity

Variable	Coefficient	Conformity to Apriori Expectation	Prob. Value	Hypotheses Testing
C	9.013076	Confirmed	0.0000	Significant
ECG	0.602889	Confirmed	0.0000	Significant
PSC	0.006205	Confirmed	0.3639	Insignificant
UNPR	-0.509102	Confirmed	0.0023	Significant
LR Statistics		8849.956	Prob(LR statistic)	0.000000

Source: E-Views Version (2022)

Table 7 reported a LR statistics value of 8849.956 with a prob. value of 0.000000. This suggests that, the regressors (economic fundamentals) jointly had a high contributive (significant) effect on FDI flows into the SSA economy. Therefore, the models are adequate for policy formulation. Specifically, the study reaffirmed that, the more the SSA economy grows, the more FDI flows into the SSA economy by 22.8%. This further reveals that ECG seems to have a somewhat maximum effect on FDI, which has been attributed to the presence of “threshold externalities”. Apparently countries in Sub- Sahara Africa need to have reached a certain level of development in education, technology, infrastructure and health before being able to have attracted foreign investment inflows. The above sumptuous result is in tandem with the positive sign Apriori expectation and also support Ugwuanyi, Efanga and Ogochukwu (2020) findings but contradicts Okumoko, Akarara and Opuofoni (2018) findings.

Again, the study reaffirmed that, private sector development will enable an economy to absorb and optimize the potential benefits from foreign investment. The above sumptuous result is in tandem with the positive

Apriori expectation of this study and also supports the findings of Hossein, Farzad and Behzad (2017), Etumudon and Victor, (2018), and Yaya (2020) but contradicts the works of Sane (2016).

Lastly, rise in unemployment rates reduced FDI flows into the SSA economy to a very large extent. The above sumptuous result is in tandem with the positive sign Apriori expectation of this study and also supports the findings of Magombeyi and Odhiambo (2018), Mustapha and Azizzun (2020); Balcerzak and Żurek (2018) but contradicts the works of Dritsakis and Stamatiou (2018) and Grahovac and SoftićIn (2017).

5. CONCLUSION AND RECOMMENDATIONS

This paper investigated the linkage between economic fundamentals and foreign investors' internationalization initiatives with focus on FDI inflow into the SSA economy from 1982 to 2021. The regressors are ECG, private sector credit, and unemployment rate while the regressors are FDI flows into the SSA economy. Having subjected the model to series analysis, the RLS Estimate was considered appropriate for the study. Consequently, the paper concludes that, ECG has high beneficial effects on FDI inflows but unemployment rate reduced FDI inflows significantly. Hence, the following submissions were made:

- i. The government of SSA economy should strive for improved and sustainable ECG in other to stay attracted to foreign investment which also leads to economic boom.
- ii. The government of SSA economy should give utmost priority to the private sector development and encourage viable linkages between the private sector and foreign sector.
- iii. The government of each SSA countries should give start up grants to young graduate as this will reduce high unemployment rate recorded in the zone over the years.

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