



Fingerut, Cole (2016) *Determinants of foreign direct investment in conflict regions: cases in Central Sub-Saharan Africa* [MSc.]

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**University  
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**Determinants of Foreign Direct Investment in Conflict  
Regions: Cases in Central Sub-Saharan Africa**

**September 2016**

**2208866**

**Word count: 16,053**

**Presented in partial fulfilment of the requirements for the**

**Degree of**

**M.Sc. in International Relations**

## Abstract

The aim of this dissertation is to analyze which determinants are most important to attract FDI to countries in Central Sub-Saharan Africa, and what conflict-riddled regions with large amounts of contested natural resources can do to attract or detract foreign direct investment. This region in Sub-Saharan Africa has generally been underserved in the attention paid to it in terms of how it attracts FDI. The study uses a mixed methods approach to apply case studies to the Democratic Republic of Congo, Republic of Congo, Angola, and Uganda. An OLS regression analysis will show if the observed trends in the cases match up with empirical evidence and are more generalizable across all of Sub-Saharan Africa. The independent variable will be net FDI inflows. The independent variables will be corruption, democratic score (for institutional and governmental strength), resource wealth, the degree of trade openness, internal conflict, and conflict intensity from the years 1990-2014. The findings suggest that increased internal conflict does not always have a negative link with FDI in the region because of other favorable circumstances: mainly the presence of natural resources, attractive trade policies and openness, infrastructure, and corruption that helps facilitate export-oriented FDI through increased short-term costs for long-term access to valuable resources.

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## Acronyms

FDI	Foreign Direct Investment
MNC	Multinational Corporation
DRC	Democratic Republic of the Congo
RoC	Republic of the Congo
SSA	Sub-Saharan Africa
CSSA	Central Sub-Saharan Africa (area referring to the four cases within this study)
LDC	Lesser-developed Country
ANAPI	National Agency for the Promotion of Investments (DRC)
OECD	Organization for Economic Cooperation and Development
AERC	African Economic Research Consortium
UNCTAD	United Nations Conference on Trade and Development
WDI	World Bank World Development Indicators
UNDP	United Nations Development Program
HDI	United Nations Human Development Index
IMF	International Monetary Fund



## Acknowledgements

There are a number of people I would like to thank and show my gratitude to, for without their guidance this dissertation would most likely not have been possible.

First of all, I would like to thank my dissertation supervisor, Dr. Patrick Bayer. Dr. Bayer has been an invaluable resource in helping me develop my analytical and theoretical skills in doing research. Not only has he been readily available to answer my many questions, but he has done so with patience and a genuine enthusiasm that helped me through many a speed bump. I feel very fortunate to have had the pleasure to work with him and gained a great deal of insight into what being a professional in this field entails.

I would also like to extend my appreciation to a few of my fellow International Relations peers who have endured my many “panic” moments during this process. I could not have gotten through this without the help of my fellow classmates Jake Hujar, Fabienne Roth, and Mark McGeoghegan. Thank you all for pushing me to do what I thought was impossible at times.

Finally, I have to acknowledge my parents, my sister, and my grandparents. My family has supported this endeavor wholeheartedly since its outset. I am deeply indebted to them for their steadfast encouragement, support, and willingness to listen to me rant and rave at all hours of the day. Thank you for all that you do.

This has been one of the most challenging and intellectually rewarding pieces of work I have ever had the pleasure undertake. It has stimulated my curiosity in a subject I would have never imagined I'd be analyzing in this kind of detail. The completion of this project has hardly been an individual effort, and I thank all of those mentioned above for their inspiration and influence.

# 1. Chapter One

## 1.1. Introduction

The age of globalization has ushered in a new focus on developing countries and how developed nations interact with them through the flow of information, trade, ideas, and values. Among these exogenous “flows” of goods to developing countries, foreign direct investment (FDI) is amongst the more understudied factors in how developed countries influence and interact with developing nations. FDI and the multinational corporations (MNCs), who engage in directing capital towards developing countries, are important in creating long-term links between developed and under developed economies. FDI is defined by the Organization for Economic Cooperation and Development as:

“A cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another country. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the enterprise. Ownership of at least 10% of the voting power, representing the influence by the investor, is the basic criterion used.” (oecd-ilibrary.org, 2013)

FDI is an important tool for developing countries to attract capital and hopefully, initiate sustained economic growth for their countries, in theory leading to more stable regimes and economies that are not plagued by the bevy of problems that a lack of development comes with. What is controversial is how much FDI impacts the growth and development of lesser-developed countries (LDCs). This relationship is important to the study of international relations, as it has clear implications for interactions between entities in differing countries and at different ends of the developed and lesser-developed spectrum. In essence, FDI has the potential to create long lasting links and relationships between countries, and in the case of Sub-Saharan Africa, developed economies and lesser developed economies. MNCs investing large amounts of capital into developing countries that feature weak institutional controls end up affecting local communities directly (Loree and Guisinger, 1995; Zielinske, 2010). One can see how this in turn could be problematic, as the dynamic of the relationship between powerful, rich MNCs and lesser developed nations could lead to an imbalance in the benefits that foreign direct investment brings (O’Higgins, 2006).

FDI is a vital source of outside capital, knowledge, and capabilities for LDCs with limited economic resources internally, as attracting foreign investment is something that governments of developing countries can directly impact through creating favorable business climates through smart policy choices and natural endowments (Loree and Guisinger, 1995). What remains unclear, however, is which determinants of FDI have the most bearing on the relationship between FDI inflows and development in LDCs and how outside capital in the form of FDI can be attracted to economies that may have not been able to previously attract it. Specifically, Sub-Saharan Africa (SSA) has been woefully underserved in the attention it has garnered in regards to in depth study (Asiedu, 2002; Salisu, 2004). While SSA has not attracted nearly the amount of FDI since the 1990s as other developing regions, it has managed to attract a bevy of large corporations aimed at rent-seeking, export oriented sectors. In 2002, SSA received around 4.9% of global FDI flows, compared to other developing regions such as East Asia, Latin America, and the Caribbean who have managed to average between 25% and 40% since 1996 (Obwona and Egesa, 2013).

To understand how resource-rich, economically underdeveloped countries can attract FDI despite some unfavorable internal conditions, this study will look at four countries in the central part of SSA: the Democratic Republic of the Congo (DRC), Republic of the Congo (RoC), Angola, and Uganda (these four countries as a group will be known as CSSA going forward). The CSSA all have varying resources from natural (such as oil and minerals) to favorable political and economic resources (open trade policies, untapped domestic markets) that are extremely sought after by large, well established MNCs. They also exhibit governments that are plagued by weak economic institutions, the absence of access to international capital markets, political instability such as intra-state conflict, government corruption, lack of financial institutions, and poor absorptive capacity (i.e. the ability to obtain the benefits of foreign direct investment and other exogenous resource flows meant to bolster the host economy) (Chakrabarti, 2001; Asiedu, 2002; Asiedu, 2004). For this reason, FDI aimed at rent-seeking, resource exporting endeavors will be the focus of this study, as it is the most prevalent in the region. Later on in the study, these countries will be compared to the greater region of SSA, where 44 countries will be examined to see if the determinants of FDI that are seen in the specific four cases match up

with the region as a whole. MNCs invest huge amounts of money into SSA because they expect higher returns on their investments as regulations on products are less stringent and are usually exported for consumption abroad. LDCs, such as the CSSA sample, tend to attract FDI in relationship to tradeable, non-renewable natural resources.

Also of significant interest is the fact that the CSSA have a history of internal conflict and political instability. Conflict has been thought to deter FDI because it destroys infrastructure, puts assets at risk, and generally does not provide for a conducive business environment (Asiedu, 2002; Jensen, 2003; Driffield et al, 2013). While this assumption may be true for some developing regions, it may be naïve in the CSSA region. This study aims to see why in many cases, there is not a clear negative link between conflict and FDI, in hopes of clarifying the intricate relationships that exist between conflict, FDI and other political and economic determinants that may be utilized to attract FDI to these LDCs. Thus, it is posited that while conflict may detract FDI in many cases, it may not be that black and white in the CSSA. Corruption, geographic and spatial considerations, trade policies, and natural resources likely form a combination of factors that tell the complete story of FDI to these countries and thus, they may defy the conventional wisdom that conflict deters FDI. Mainly, the argument hinges on the fact that this region possesses large amounts of valuable natural resources attracting FDI aimed at extracting those resources, and that this rent-seeking behavior (going after large profits, as natural resources yield higher returns the cost of extracting and exporting them) may be justified in the MNCs' eyes in light of conflict presence and internal instability. It has been widely asserted that states engulfed in civil war and internal conflict decrease levels of FDI into the country following the logic that instability is bad for business and is increasingly risky (Gartzke et al., 2001; Jensen, 2003; Li and Vaschilko, 2010; Zilinske, 2010; Driffield et al., 2013). The research question to be studied is: *What determinants are important in attracting FDI to conflict regions?* MNCs rationally do not want to put their employees and investments at unnecessary risk, but when the sectors are bound by natural resources and geography, such as oil and mineral extractions, they are more likely to attract FDI to conflict areas.

FDI is a key driver of economic integration internationally (OECD, 2008: 3), but little study has been carried out in-depth about the effects and most important determinants of FDI into specific areas in CSSA. CSSA have had different levels of FDI attracted to

them, but the traditional broad-sweeping statistical analyses don't offer enough specific detail to properly explain why. They posit that trade policies, macroeconomic stability, natural resource wealth, corruption, presence of infrastructure, among other determinants are important to attracting FDI but rarely give specifics of how they are all interrelated to each other. It will be hypothesized that while in a broad sense, conflict may in fact decrease levels of FDI that may flow into Sub-Saharan Africa as a whole, it may not have the same effects in CSSA. This would be different in this region because of relatively untapped markets and the presence of valuable natural resources. Why might the outcome in these countries be different than others?

Countries such as the DRC and Angola are rich in valuable resources that have not been harvested or fully prospected, and are controlled by governments that do not have the resources or capacity to turn these resources into economic benefits and thus must look at attracting FDI to infuse the necessary capital and knowledge into their economies. Engaging in these extractive operations requires large investments from MNCs that are typically well endowed with technological and procedural know-how. They spend large sums of money assessing the cost-benefit of doing business in a foreign country. The impact of FDI on host countries seems to depend on the type of FDI the host country attracts (Asiedu, 2013:19). The increase of extractive, resource-seeking FDI on the continent is concerning for the prospects of economic development for the host countries, i.e. those that are receiving the FDI, as it often does not employ large amounts of the local population, thus mitigating the proposed benefits of FDI to increase host country wages, employment, and poverty reduction. This seems to be evidenced by the low human development indicators that CSSA countries show, despite large increases in FDI in recent years. It is for this reason this study aims to look at the varying circumstances and forces at play that may hinder or bolster FDI into these vulnerable regions. The results may help further research guide these nations to make better decisions in order to attract more FDI. In turn, that could help move these countries further away from poverty and economic underperformance. The goal of the study is to contribute to the existing literature on FDI and its benefits or perceived problems that it has on developing countries, as well as study the change in net FDI inflows to the region during their most intense periods of conflict.

## **1.2. Literature Review**

The research analyzing FDI flows to SSA specifically is rather limited; even more so, are country specific cases. The determinants of FDI to developing countries on the whole has been examined with much more rigor. Most of the analyses are compiled on a relatively small sample of countries, with only a few being located in SSA (Asiedu, 2002: 108). The lack of research in this region is surprising as it is important to examine because most countries in SSA don't have access to international capital markets and therefore rely on FDI and what are known as official loans from the World Bank or other organizations (Asiedu, 2002:107). Since there has been a scarce amount of information and studies about FDI flows to SSA, it is helpful to look at the past literature on FDI, in terms of its effects on economic growth in developing countries, what countries can do to attract FDI, and what host country characteristics foreign investors look for when deciding to invest in certain locations. Furthermore, what determinants of FDI have been observed and studied that can be linked to increases and decreases of FDI to LDCs. The research contained in this study seeks to examine some specific determinants of FDI in conflict areas. In the case of Angola, one of the most corrupt countries in the world (Transparency International ranks it 163/168) FDI inflows have increased substantially in light of internal conflict and high levels of perceived corruption in a government system is viewed as autocratic. In the DRC, despite over 70 armed groups in the country's resource rich east, FDI has also increased. The RoC saw intense fighting in the 1990s and 2000s in some of its biggest cities, but still, FDI inflows did not diminish. Uganda, another country that saw very high levels of fighting, seemed to expand on its attraction of FDI because of its macroeconomic stability and commitment to infrastructure development and also was not as dependent on natural resources as the other three countries sampled. For this reason, exploring how corruption, regime type, natural resources, infrastructure, and trade policies may have made it possible for FDI to flow to this region in spite of the prevalence of political and economic instability, and in some cases, may have even made it easier.

The "status quo" in the FDI literature is to look at political or economic determinants of FDI, and more recently, some combination of both (Schneider and Frey, 1985; Asiedu, 2002; Jensen, 2003). The effects of these economic and political variables have not been clear, with multiple studies coming to far different conclusions. What is

consistent though, are some of the key independent variables that seem appropriate to examine the effects of FDI inflows. These variables, or determinants of FDI as they are called in the literature, include: Real GDP per capita (as a proxy to market size, which is widely agreed to be a determinant of foreign investment), infrastructure, labor/wage costs, trade openness (calculated using imports + exports/ GDP), taxes and tariffs, regime type, and political stability (Chakrabarti, 2001). These are just a few of the variables that have been used widely. The issue with their application is that there is no agreed-upon standard of how to measure and test these variables. For instance, defining how democratic or authoritarian a government is, can be a difficult task. This goes for infrastructure as well, which has been measured by anything from landline telephones per 1,000 people (Asiedu, 2002; Kim, 2010) to the number of cell phone subscriptions within the country per 100 people (Asiedu, 2006). The following section will describe in further detail what previous research has to say about both the economic and political determinants of FDI.

This analysis is more concerned with trade policies, levels of corruption, government regime types (democratic vs autocratic), violent conflict, political stability, and natural resources in regards to the way that they combine to tell a story of how the DRC, RoC, Angola, and Uganda have, with varying amounts of success, attracted FDI despite being regions of conflict. It is important to study CSSA in terms of its relationship with FDI, as FDI is thought to be an important source of capital for LDCs, with many host governments altering policies to encourage more foreign investors. It is posited that FDI boosts growth in the host countries through an increase in capital stock and greater opportunity for employment that these MNCs bring with them. With foreign investment comes foreign technology and knowledge, resources that are not readily available in developing countries (Wan, 2010:53). The theory behind this, which makes logical sense, is that the MNCs investing in these developing countries usually come from more developed countries. Hence, they have the capital to invest and develop assets abroad as they have already gone through the developmental process themselves. FDI can help these developing economies develop higher quality local enterprises, increase international trade through access to markets, and bring about the transfer of technology any know how from foreign firms, if a proper policy framework is in place (Dunning, 1993, Carcovich and Levine, 2005). Additionally, FDI can have an impact on the development of labor and

financial markets, and can benefit other areas of the economy through its spillover effects, that is, an MNC investing large amounts of capital into operations within a poorer country might benefit the poorer economy because of the presence of new technology and process may “spill over” to other parts of the domestic economy (OECD, 2008: 20).

There is also a branch of thinking in the FDI field that exhibits a certain level of pessimism towards the perceived benefits of FDI on developing countries over the negative externalities it can create (Zilinske, 2010: 332). One of the concerns is that FDI can lower employment in the host country via dismissing local workers from their operations or by crowding out domestic competition altogether. In low-income countries, like the DRC, a large MNC has a huge competitive advantage via its resources, knowledge, capabilities, and general size. The problem with this would be that the expulsion of domestic workers and companies from these operations would negate one of the perceived benefits mentioned above, technology and knowledge spillovers. That is, if the foreign company is not integrating with the local workforce and industry, these transfers will be limited or not happen at all. The term spillover, in this context, relates to knowledge and technologies that these foreign investors bring with them into the host country, and the ability of these capabilities to be spread to the locals and domestic markets, so that with time, their overall technological know-how and knowledge of processes improves via a process of osmosis, so to speak.

Nearly 40% of FDI to SSA is aimed at natural resource extraction (Salisu, 2004; AERC, 2008). Many of these countries have small populations (almost half of all SSA countries have under 6 million people) which don't make them attractive to FDI that aims to serve domestic markets, as most of the countries are also economically poor and their citizens don't have high, if any, amounts of discretionary income (Asiedu, 2013). This highlights the importance of why economic development and growth have been underwhelming in the region. Many scholars have painted the presence of valuable natural resources in LDCs leading to what is called the “resource curse”, or “paradox of plenty”, which postulates that countries with vast amounts of non-renewable resources (like gas and oil, which are plentiful in the countries sampled and attract the most FDI) exhibit less economic growth, worse development outcomes, and diminishing levels of democracy and democratic institutions (Karl, 1997, Ahmadov, 2012)



According to JH Dunning (1993) there exist three different classes of FDI: *Resource seeking FDI* is undertaken to establish access to natural resources, such is the case in Angola's oil fields, or DRC's mineral deposits. *Market seeking FDI* is more concerned with entering an existing market or creating a new market in the host country. The third type is classified as *efficiency seeking FDI* that takes place when the company can utilize the benefit from the presence of economies of scale (Dunning 1993, Demirhan and Masca, 2008). The form of FDI that is most pertinent in the case of this inquiry, is defined as resource-seeking - or non-market, export-oriented FDI. Resource-seeking FDI, conversely, is not as dependent on host country demand factors, as the outputs are not meant for host country consumption (Asiedu, 2002: 110). In the CSSA region the most substantial amount of FDI is attracted to natural resource sectors (Pigati, 2001; Asiedu, 2002; Salisu, 2004). Simply put, FDI flowing into industries such as the export of minerals, oil, and gas make up a large amount of CSSA's FDI inflows. Angola recently became the second largest oil producer, surpassing Nigeria, and is in business with many large oil companies to facilitate the extraction of their natural resources. The RoC, with nearly all of its oil resources and production offshore, has been able to attract huge increases in FDI (\$5.5 billion in 2014) despite the presence of internal conflict and political instability. The presence of natural resources and the type of FDI that they attract don't yield some of the macroeconomic benefits to the host countries' economies because the revenue collected in the region is collected by state governments with high levels of corruption and poor frameworks for managing these resources to benefit the wider economy, which may explain why these regions remain so poor despite increases in FDI.

#### 1.2.1. Natural Resources

As mentioned above, natural resources are one of the most important reasons FDI comes to CSSA and SSA. The CSSA countries exhibit vast natural resources or resource potential (that has not yet been prospected and exploited). Oil, gas, timber, and minerals are all highly sought tradable resources that MNCs compete viciously for. Governments in the CSSA know these resources are the key to their development and sources of potential revenue: resource-wise they are equipped to be among the wealthiest countries on the continent, and yet are very poor with lackluster records of human development. The

regimes in power don't have the technological know-how or resources to turn these natural resources into economic benefits so they must in turn look outward to MNCs with the capital, equipment, and knowledge to undertake extraction of these commodities.

### 1.2.2. Trade Policies

As a determinant of FDI, trade openness has also yielded mixed results. Theoretically, most investments (those in SSA especially) are targeted towards sectors that are tradable; thus, trade policies should be considered a relevant factor in investment decisions (Dunning, 1981; Salisu, 2004). A number of empirical studies affirm the theory that higher degrees of trade openness will help attract greater levels of FDI (Kravis and Lipsey, 1982; Edwards, 1990; Jensen, 2003). Wheeler and Mody (1992) found that the relationship between levels of FDI and trade openness are insignificant, although the majority of studies on this relationship suggest that there is a positive correlation. It is therefore reasonable to come to the conclusion that developing countries want to stimulate their economies and thus governments in place would be encouraged to adopt policies that lead to a favorable investment climate for MNCs. There is also evidence that trade openness promotes FDI to developing countries all around the world, but the marginal benefit from increased trade openness is less for African countries than non-African countries (Asiedu, 2002:115). A possible explanation for this inequality may be that SSA countries remain less open than their developing counterparts in other regions.

### 1.2.3. Corruption

Corruption can be defined as “the abuse of public power for private benefit” (O’Higgins, 2006: 236). Corruption has received much attention in the FDI literature as it is seen to increase costs to MNCs who wish to partake in business in a foreign country, and thus would affect their locational decision-making (O’Higgins, 2006). For this study, involving multiple LDCs, it is an important variable as the motivations and chances to engage in corruption are greater and more frequent in poorer countries with weaker institutional controls (Gray and Kaufmann, 1998). Corruption may in fact deter FDI in some cases, but for this region, it will be argued that corruption may in fact help increase FDI flows. The African continent has many countries that rank high in corruption, and this

factor has been thought to detract FDI because it increases the costs of doing business, and makes the guarantee of contracts and their enforcement less legitimate. In line with the resource-curse literature, the nature of FDI being export-oriented and targeting natural resources may, in fact, facilitate corruption, hence why there is such a high incidence of corruption across the SSA region and CSSA.

#### 1.2.4. Regime Types

There has been evidence that MNCs are more likely be attracted to countries that are more democratic and where democratic rights are respected (Jensen, 2003; Busse and Hefeker, 2007; Cleeve, 2010). The theory behind this seems to be that democratic governments usually support individual property rights, which would in turn lead to higher levels of FDI because of the increased protection of these companies' assets and a decreased risk of asset appropriation by the host government (Busse and Hefeker, 2007:2). Gastanaga et al (1998) found that lower corruption and risk of nationalization were both associated with higher FDI inflows. However, Busse and Hefeker (2007) found that there were very few factors related to political risk and regime type that were closely associated with FDI. One limitation in their study is that it only accounts for 20 countries that don't share many characteristics politically. Another study found that democratic government structures attract higher levels of FDI (Jensen, 2003: 612). This particular study concluded that democratic regimes attracted as much as 70% more FDI than their authoritarian counterparts. This has interesting implications for the study at hand, as the CSSA sample is not considered particularly democratic, yet still enact policies to attract FDI. For example, the PolityIV dataset, which focuses on government type (on a -10 to 10 scale, 10 being the most democratic) ranks the DRC at an average score of 1 from 1990-2014, while the RoC has an average rank of -3 in the same period of time, yet in 2014 the RoC attracted \$5.5 billion in FDI while the DRC attracted only \$1.83 billion (UNCTAD tables, 2016).

Another school of thought on the impact regime type has on FDI is quite the opposite of this conclusion and states that authoritarian countries may in fact attract more FDI (Kim, 2010; Zilinske, 2010). The reasoning here is that authoritarian governments have more centralized power structures and can make deals and trade negotiations more quickly and with less impedance than in a democratic system. This was highlighted in the literature

by Kim (2010) who concluded that host countries with higher levels of corruption and lower levels of democracy attracted more FDI. This study posits that high levels of corruption in combination with the export-oriented resource wealth and favorable trade incentives and policies may counteract the importance of political stability and lack of internal conflict, but also contributes to the poor economic growth conditions these countries exhibit.

#### 1.2.5. Instability, Conflict, and Political Violence

It seems plausible that violent conflict and political instability would deter investors in making large investments in locations that exhibit high levels of these tendencies, thus it is a pertinent factor to include in assessing FDI performance to the region. While many studies have used conflict and political instability as a determinant of FDI (Nigh, 1985; Schneider and Frey, 1985; Jensen, 2003; Asiedu, 2004; Busse and Hefeker, 2007; Polacheck et al, 2011; Kim, 2010), they have varied greatly in how they measure conflict and instability. This has been a common problem in the literature on conflict in general. For this dissertation, conflict is important because it is so common in the region, and is perceived as risky by investors just because of the connotation that Africa is an unstable region. (Asiedu, 2002:111) and thus is crucial in determining FDI in the region. These countries are endowed with large quantities of untapped natural resources such as copper, gold, timber, oil, gas, and food sources. These areas of natural resource wealth are often highly contested (Obi, 1999). The FDI literature and the theory that higher levels of FDI can incur growth and economic opportunity is extremely relevant, as social unrest and violent conflict in Africa are often associated with the regions poor economic performance (Collier and Hoeffler, 2002:13). If poor economic circumstances lead to conflict in Africa, then ways to increase the economic performances of these developing areas need to be looked at more extensively.

## **2. Chapter Two**

### **2.1. Theoretical Framework and Hypotheses**

As highlighted in the previous sections, developing countries often enact favorable trade policies (tax incentives, tariffs, privileged position within the market) to attract foreign investors that infuse capital into these host economies. What is concerning, on the other hand, is that the countries in CSSA and SSA as a whole do not have particularly great track records in other important areas that have been hypothesized to increase the flow of FDI into their economies. While inflows of FDI have increased, the countries have not seen the internal growth that many have posited come with FDI. For example, Angola had a 20% growth rate in the mid-90s, one of the highest in the world, all during its civil war. A corrupt government combined with poor financial management of the increased resources from foreign investment, didn't lead to the positive spillovers one would imagine. This may be because of the nature of the investments, mainly in natural resource extraction instead of secondary or tertiary sectors (manufacturing, or services that can serve the domestic market).

As FDI is considered a catalyst for development and prosperity to developing countries, one could assume that increased FDI would lead to less civil conflict because of the economic benefits that come to the local population from increased investment and opportunities. The aim is to gain a better understanding of political and economic determinants important in attracting FDI to conflict regions. Theoretically, conflict should not play as an important role in the level of FDI when the countries have resources and conditions that are too good to pass up for MNCs engaged in rent-seeking activities. These entities have vast amount of resources at their disposal and are willing to take the risk for the above average profits in regions that are dependent on foreign capital. Also, the perceived benefits of large amounts of FDI to governments, from MNCS, may not be reciprocated back into the local communities, especially since the governments of the CSSA all exhibit high instances of corruption.

This is especially important in countries like RoC and Angola, who are highly dependent on their oil revenues, which can only be extracted efficiently by the most technically advanced MNCs. Thus, it may be that while internal conflict can detract levels

of FDI, this region may act differently, as it has relatively untapped resource wealth and poor institutional controls that may give MNCs opportunities that they simply cannot forego. The autocratic nature of the governments in the region leads to power being concentrated to a smaller group of decision makers, making the process easier for MNCs because of the lack of institutional controls and bureaucratic red tape. This leads to the hypothesis:

*H1: FDI inflows are likely to be higher in more autocratic regimes.*

This hypothesis will be tested within the case of Angola, one of the most corrupt countries not just in Africa, but the world. It also is a large oil producer with a vast amount of natural resource wealth, and attracts large amounts of export-oriented FDI despite poor institutional transparency.

40% of all FDI in Africa is aimed at natural resource extraction (Salisu, 2004; AERC, 2008); that is, these goods are being taken out of the country for consumption and used abroad. The majority of this type of FDI goes to large oil exporting countries like Angola, Nigeria, the DRC, and RoC (Salisu, 2004: 176). The stakes for access to these assets are extremely high for large, profit seeking MNCs, who have the capital, technology, and support of their respective governments to engage in international business ventures (O'Higgins, 2006). The host governments control access to the contracts and allocation of which companies gain access to these resources, which are non-renewable and tradable, which creates a scramble for these limited, rent-yielding resources (Rose-Ackerman, 1999; Pigato, 2001; Asiedu, 2002). The CSSA sample includes countries that fit the classification of high resource potential, conflict-affected states that have not performed well economically.

*H2: FDI inflows are likely to be higher in natural resource rich countries.*

This will be evidenced in varying levels through the cases, as they all attract FDI to extractive sectors. MNCs who invest in these sectors are largely less risk averse because of the high profits these activities garner and their company's large sizes and multitudes of financial resources, which makes this risk palatable. Only a select number of MNCs in the world have the capacity to extract resources effectively.

Increases in conflict in resource rich, foreign capital dependent economies may not detract FDI because of the opportunities made available and the host country's dependency on MNCs for substantial amounts of their GDP. The governments that oversee and steer these economies do not often have the capacity to turn their resource wealth into actual economic benefits. Because of this, they turn outwards to attract FDI from more developed countries into their states, with the hope of capturing revenues to enrich their country (or in many instances their regimes). It seems that establishing incentives for MNCs, such as tax benefits, or tax exemptions on certain activities and industries, combined with greater degrees of trade openness, have positive effects on FDI inflows.

*H3: FDI inflows are likely to increase with an increase in trade openness.*

Problems capturing economic benefits within the CSSA's borders is a function of high instances of internal conflict including civil wars and political violence, as money spent on the military and controlling their grip on power are at the expense of domestic investment into health, education, and infrastructure. In theory, political instability and conflict should have a negative effect on FDI. In practice, internal conflict causes property damage, ruins economic conditions, reduces infrastructure, induces corruption, and increases risk for companies and their assets. MNCs care about infrastructure because suitable infrastructure lowers the transaction costs for these companies. In resource-seeking FDI, part of the process that the investments go towards is moving large amounts of natural resources. Thus, road conditions, access to clean water sources, reliable communications networks, and reliable sources of power (electricity, for example), are all aspects considered in the decision-making process of MNCs. It follows that:

*H4: FDI inflows are likely to increase with higher levels of infrastructure in the host country.*

In line with the above discussed reasoning, four hypotheses have emerged that are directed towards determining what characteristics attract FDI in lesser-developed regions that have been plagued by civil war, internal conflict, and political violence. All of these factors have contributed to the perception that SSA is a risky place to invest. The argument at hand is that these regions continue to attract higher levels of FDI despite these negative

factors because of the presence of other favorable economic and political determinants. MNCs may see internal instability as part of the cost of doing business in these natural resource-rich countries. In the CSSA sample, presence of natural resources, higher levels of corruption, favorable trade policies, and increased levels of infrastructure are all hypothesized to increase levels of FDI inflows to the countries despite political violence and internal conflict.

## **2.2. Research Design and Methodology**

The following research aims to see why certain regions attract FDI despite internal conflict and political instability. It is proposed that a mix of valuable natural resources, corrupt regimes, open trade policies and tax incentives, geographical considerations, and infrastructure all play a part in attracting FDI to CSSA. Thus, studying what developing countries in the region can do to attract FDI and capture its benefits for development is a worthy task of inquiry. To that end, four cases have been selected: the Republic of the Congo (RoC), the Democratic Republic of the Congo (DRC), Angola, and Uganda. Each case study will focus on the country's FDI story in relation to one key political or economic determinant of FDI. Following the findings of the case study, I will utilize a simple statistical analysis of 44 SSA countries (Appendix 1) in order to see if the results and trends that are evidenced in the case studies find empirical support for the entire region. Using quantitative and qualitative methods will add to the validity of the findings of the study, as the case study aspect only explains a small region. Finding trends that may have merit for the entire SSA region is warranted thus the reason for using a statistical analysis with a larger sample.

A mix of both qualitative and quantitative analysis seems appropriate, as political and economic factors are at the heart of this research question. Each method has its own sets of limitations and strengths, and used in conjunction these methods can offset some of those weaknesses and add greater clarity to the results shown (George and Bennett, 2005; Brannon, 2008; Bryman, 2008). The dependent variable will be net FDI inflows from 1990 to 2014 taken from the United Nations Conference on Trade and Development (UNCTAD) data.



### 2.2.1. Qualitative Approach

Case studies are exemplary for in-depth analysis and description of complex situations in the social sciences within their respective bounded systems (in this case, the countries examined) in a heuristic manner. In other words, case studies can be useful in discovering potential new links and explanations of phenomena that are under study (George and Bennett, 2005:81). They tend to be more contextual, which is beneficial when looking at political determinants that cannot simply be labeled by a number or scale.

When looking at economic and political indicators and determinants of FDI, one must be able to represent both sufficiently. Political factors are much more difficult to quantify than those of the economic nature, so a more contextual, qualitative case study approach makes sense to give meaning to the political aspects that inform economic policy, which in turn affects FDI. While it may be difficult to make the findings in such a small sample size generalizable, in depth case analysis is useful in finding out the “why” of why FDI has increased to these conflict riddled regions in order to better understand the specific relationships and possible causes at hand. Since the study will utilize multiple cases, the design will be centered around comparative case studies. Each case will examine an independent variable in comparison to the dependent variable, in order to control comparisons in “most similar” cases (Bennett and George, 2005: 81). For the case-study aspect of this project, secondary document analysis will be utilized to aid in gathering data, as opposed to data analysis in the quantitative section. In conjunction with the secondary sources gathered from government websites, investment reports, journals of academic research, data from numerous databanks has been compiled to supplement my secondary research. The cases will attempt to clarify the marginal effects of certain independent variables compared to the dependent variable of net FDI inflows while holding other factors in control.

### 2.2.2. Quantitative Approach

The empirical analysis portion of this study is based on a sample of cross-sectional data collected for 44 countries in Sub-Saharan Africa, in order to test whether the observations from my case studies analysis match up with the empirical data. Social science data is often imperfect, and it will be demonstrated that the data being used is not perfect;

having normality and omitted variables. OLS regression are commonly used in the social sciences, and will be employed because it is able to perform statistically sound analysis even when the dataset is violating one or many of its primary assumptions. Combined with the fact that this study makes no dependent assumptions of time, it is posited that an OLS regression is most appropriate for this study. In conjunction with a standard OLS regression a robust estimator of the residuals will be utilized

### 2.2.3. Variable Description

The following variables will be used to analyze the relationship between the economic and political factors and their relationship to inflows of FDI to these four conflict affected areas:

#### Dependent Variable:

*Net FDI Inflows*: Gathered from UNCTAD FDI tables (UNCTAD, 2016). They report the amount of net inflows of FDI into each host country on a yearly basis. This will be analyzed from 1990 to 2014.

#### Independent Variables:

- *Natural Resource Wealth*: Gathered from the World Bank's World Development Indicators (WDI) databank. This is measured as natural resource rents as a percentage of GDP.
- *Conflict Intensity*: Measured by the amount of reported battle deaths in the respective year for each country. This data comes from the UCDP/PRIO dataset (Gleditsch et al, 2015).
- *Political Violence*: Measured on a scale from 0 to 10, which represents the magnitude of ethnic and civil conflict within the country for that respective year. This information was obtained from Systemic Peace's Major Episodes of Political Violence (MEPV) dataset.
- *Trade Openness*: Measured by calculating total imports + exports/ GDP. The higher the rating, the more open the trade policies in the host country. This information was gathered from the World Bank's WDI tables.

- *Infrastructure*: Measured by the amount of people with internet access per 100 people. This indicator was taken from the World Bank's WDI tables.
- *Regime Type*: Scale from -10 to 10. -10 being the most authoritarian form of government, 10 being the most democratic. This variable focuses on executive accountability and competition within the state for power. This was gathered from the PolityIV dataset (Marshall et al, 2015).

### **3. Chapter Three**

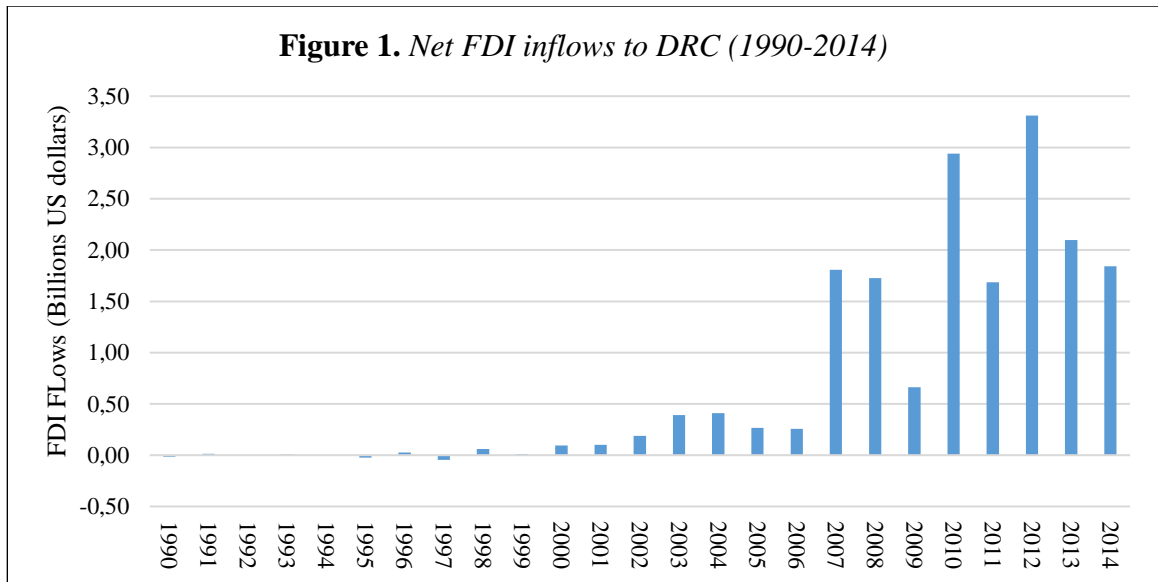
#### **3.1. Case Selection**

The region of interest is CSSA because of its high levels of conflict from 1990-2014 and the presence of high presence of natural resources. All of the countries sampled have seen civil wars in the time analyzed (1990-2014) and have had continued smaller scale internal conflicts after these wars' terminations. To ensure variation in the sample, these countries have also been chosen for their different characteristics and abundance of the determinants of FDI to be examined. The four cases will aim to highlight certain instances when the assumption that countries with consistent internal conflict and varying levels of political instability deter FDI, and seeks to contextualize the other factors at play that affect FDI inflows to these places. This will be done with Angola, examining how a highly corrupt country that has had its share of violent conflicts, which theoretically would deter foreign investment, has managed to attract the second largest amount of FDI on the continent. With this information, I will then compare the trends across cases to see if some of these trends are present in all of the countries scrutinized, and find patterns that may emerge to explain what indicators are most important for attracting FDI to this region.

#### **3.2. Case Study 1: The Democratic Republic of Congo (DRC)**

##### **3.2.1. Background on FDI in DRC**

DRC is located in the heart of the African continent, the meeting point of central, southern, and eastern Africa. It has a population of over 60 million people and is rich in natural resources, many which have not been fully explored and prospected. This case aims to examine how trade policies, especially in natural resource rich LDCs, can help attract FDI despite political instability and internal conflict. In the most recent data used for this study (2014) the DRC ranked 10<sup>th</sup> out of 48 SSA countries, attracting 1.84 billion dollars in FDI, out of the 9.1 billion that flowed into the entire region of central Africa (UNCTAD, 2016). While this is a substantial amount of foreign investment, it is a decrease from 2012 and 2013 when the DRC attracted \$3.31 and \$2.09 billion, respectively.



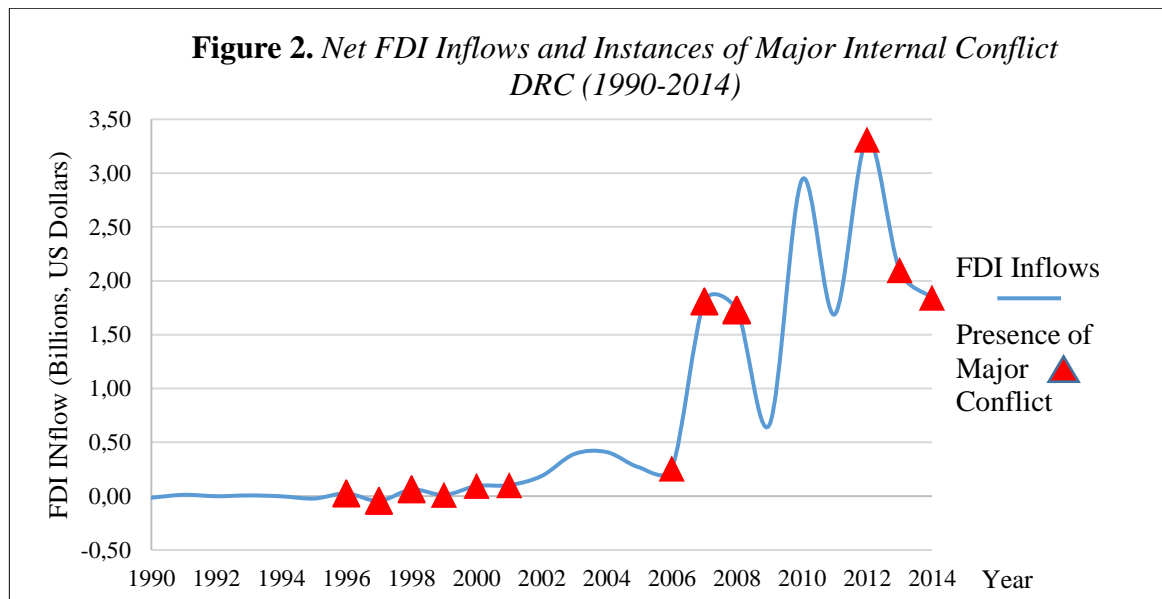
UNCTAD FDI Tables (2016)

As figure 1 shows, net FDI inflows into the DRC has increased substantially from \$12.4 million in 1990 to \$1.8 billion in 2014 (UNCTAD, 2016). The biggest upwards trends started in 2001, which coincides with the country’s attempt to shift in a more democratic direction at the end of its civil war. The DRC attracts most of its FDI in the export-oriented classification, aimed at its mineral resources and oilfields. Natural resources rents as a percent of GDP, hit their peaks in the mid-1990s and again in 2013, topping out at around 41% of GDP in that year (World Development Indicators, 2016). The DRC exports diamonds, copper, gold, and oil as its main source of revenue (cia.gov, 2016). While it does have large potential for oil extraction, it is still mainly reliant on the export of minerals from the mining sector, which is mainly concentrated in the eastern provinces of the country (OEC MIT, 2016). MNCs have been drawn to the DRC by an attractive 80 million hectares of arable land and over 1,000 precious minerals in its soils (Worldbank.org, 2016). The DRC attempted to reverse the historic decline of its mining industry by promoting FDI through trade policy reform. In 2012, the DRC was one of only five countries on the continent to receive more than 3 billion dollars in FDI inflows (Worldbank.org, 2016).

### 3.2.2. Conflict and FDI Trends

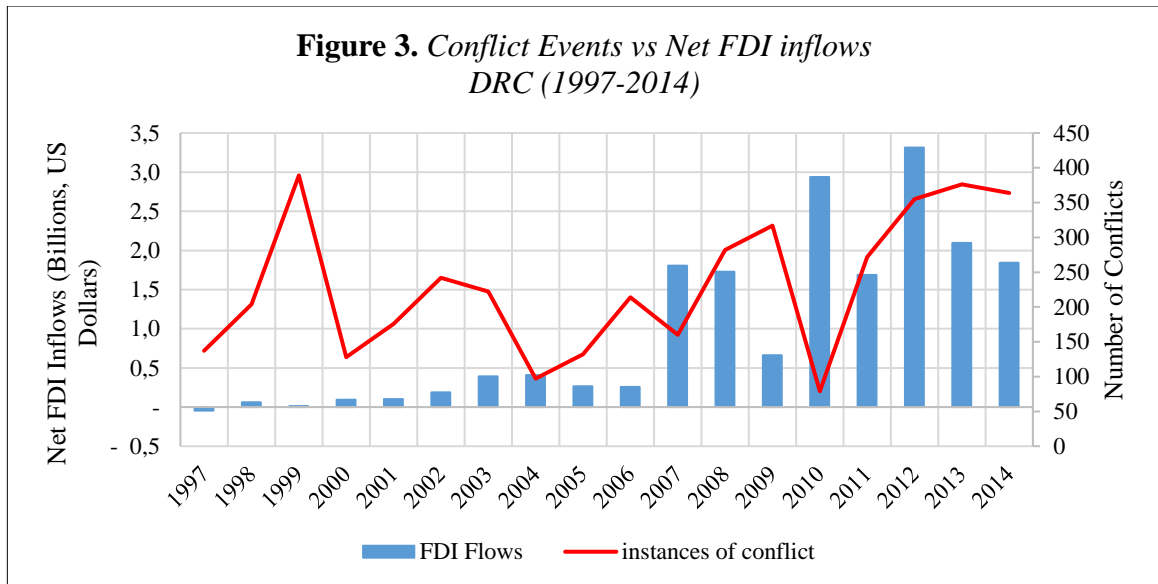
In 1996, the DRC saw the outbreak of a major civil war. As we can see in figure 2 FDI inflows stayed relatively stable even in the time of the most intense internal conflict

(1996-2002) and then spiked dramatically once the conflict formally ended, even though sporadic fighting between armed groups continued.



UNCTAD FDI Tables (2016) and UCDP/PRIO (2015)

Interestingly enough, it seems that when major conflicts break out in the DRC, levels of FDI don't always decrease as is illustrated in figure 2, with increased levels of FDI from 2006 to 2008 and 2010 to 2014, as well as increased amounts of internal conflict. There is a sharp decline in FDI inflows in 2009 but this is most likely due to the economic crisis that befell international markets in 2008 as this trend is seen across the data for almost all countries in the sample.



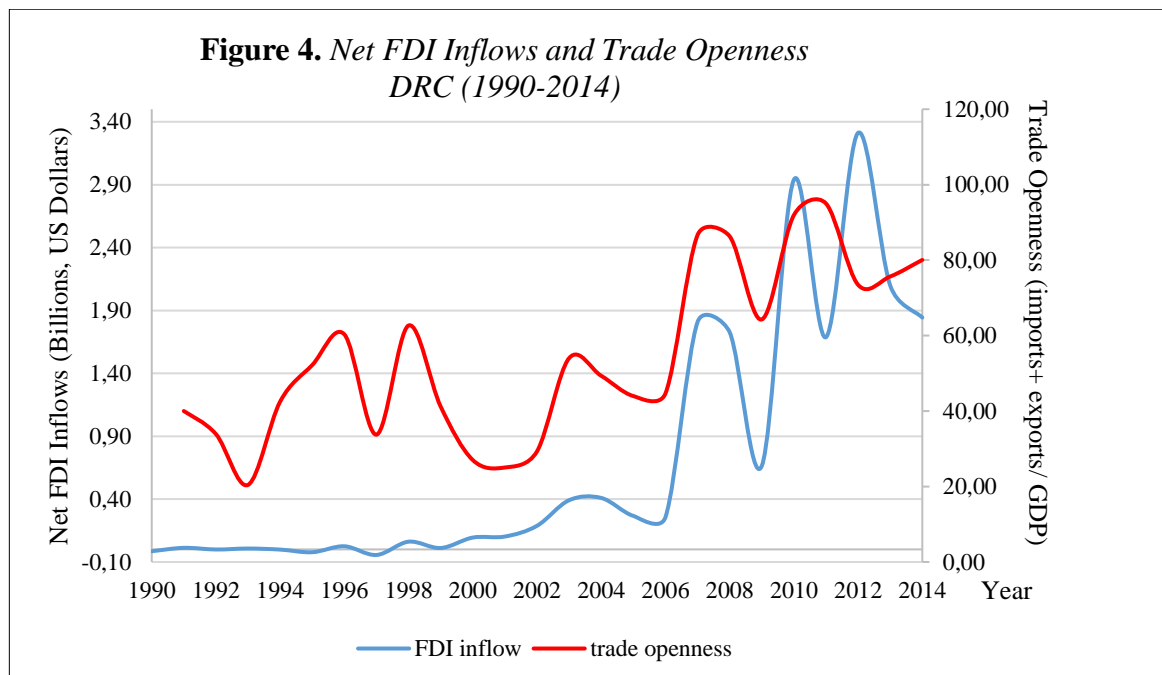
UNCTAD FDI Tables (2016) and ACLED (2010)

An explanation for why the DRC began to see a large spike in net FDI inflows is the government’s decision to attempt to liberalize their trade regime to entice foreign investment despite internal conflict. This would be important for investors as the DRC attracts most of its FDI in the natural resource sector that are extracted for use in foreign markets. Thus, if the DRC truly wanted to attract higher levels of FDI it could pursue favorable policies that incentivize MNCs who would be looking to export the country’s valuable mineral, oil, and timber resources, without having to wait on inputs from other organizations outside of the existing governmental structure (Asiedu, 2006).

### 3.2.3. Trade Policies

The formal economy in the DRC is dominated by copper and cobalt mining, as well as the mass exploitation of diamonds (World Investment Directory, 2008: 195). Since the DRC’s most valuable sources of income are materials that are popular in the tradable sector, it makes sense that the region’s openness to trade and the policies that constitute this openness would be important in attracting FDI (Demirhan and Masca, 2008:359). The DRC, like many countries in SSA, has seen increased FDI inflows from the 1990s to 2014 that coincide with an increase in measures of trade openness and the amount of foreign capital available. Figure 4 shows this relationship more clearly, as the upwards trends seem to match up with one another. This is not to say that this is the sole reason for an increase

in FDI, but a comprehensive and clearly communicated trade policy can ease investor's fears and perceptions of risk. This is important for both the DRC and MNCs, as tariffs and taxes on exports would be of primary concern for foreign investors in the resource extraction business, as they increase the costs of doing business for MNCs exporting their outputs out of the country. In conjunction with large amounts of untapped resource reserves and increasingly favorable trade policies aimed at attracting FDI, a relatively improved business environment has started to emerge (World Investment Directory, 2008).



UNCTAD FDI Tables (2016) and World Development Indicators (2016)

Trade policies are an important variable in attracting FDI, especially since policymakers can directly affect it (Lipsey and Kravis, 1982; Cullem, 1988; Edwards, 1990; Loree and Guisinger, 1995). Technology and information spillovers often constitute the economic rationale for government's offering specific incentives to attract foreign investment (Carkovic and Levine, 2005:196).

#### 3.2.4. Specific Trade Policies to Entice FDI

In 2002, the DRC set up the National Agency for Promotion of Investment (ANAPI) as a single location for private and public investment. The government aimed to attract new sources of foreign investment with its new trade-liberalization scheme. It first wanted to



implement new laws and regulations that would give tax incentives in areas that it deemed important for investment. Among these “priority” sectors of investment were: mining, agriculture, infrastructure, banking, and telecommunications (ANAPI, 2001; DRC Investment Code, 2002: article 3, page 5).

The DRC has joined a number of organizations that aim to lower trade barriers such as the World Trade Organization, the Central African Economic Community (CEEAC), the Great Lakes Economic Community, the Common Market for Eastern and Southern Africa (COMESA), and the Southern African Development Community (SADC) (comesia.org). Redundant taxes and levies that were thought to be illegal have been removed in an attempt to create a more favorable business climate within the area (African Development Bank, 2012). Looking at the level of the country’s openness to trade from 1990-2014, the highest numbers of FDI inflows correspond with the years that the country had its highest trade openness ratings (measured as imports + exports/GDP). In 2007 and 2008, the DRC saw FDI inflows reach \$1.79 and \$1.67 billion, respectively. These high levels of FDI stand out because in 2007 and 2008, the DRC also had its highest levels of trade openness at 86.66 and 86.31 (World Development Indicators, 2016). After the 2006 elections, the international community was facing a freshly installed government led by H.E. Joseph Kabila promising to uphold the principles of democracy and promoting foreign investment. The government’s newly articulated commitment to liberalizing its trade policy framework, aimed at providing new incentives for foreign investment, had a positive effect on FDI inflows to the country, as is represented in the data in the years following the implementation of ANAPI in 2001/2002. After the implementation of these new regulations and policies, net FDI inflows grew from \$80 million in 2001 to \$1.8 billion in 2007, a year after President Kabila’s election.

Starting in February 2002, the government committed to the far-reaching liberalization of its trade policies and started managing its monetary policy much more responsibly (DRC Investment Code, 2002). The specific approach outlined by the government of the DRC aimed at attracting FDI and diversifying its export-reliant economy by focusing on the following measures (ANAPI, 2001:1):

- Simplification of customs regime by introducing four band scheme.
- Elimination of quantitative restrictions on imports, licenses, and other import and export authorizations.
- Prevention and suppression of anti-competitive trade practices.
- Implementation of legislation on government procurement.

These stated goals then translated into the formulation of benefits meant to incentivize these priority investments to certain locales in the country that were in need of outside capital for development. These benefits took the form of exemption from income tax, property tax, import tax on materials and equipment, and from export duties for finished products (ANAPI, 2001). These benefits are granted once the investment is made and the duration of said benefits are contingent on what geographical region the investments are targeted towards (ANAPI, 2001; DRC Investment Code, 2002: article 2, page 3):

- Economic Region A, Kinshasa (the capital city): 3 years from operating period.
- Economic Region B, Bas-Congo, Lubumbashi, Likasi and Kolwezi: 4 years from operating period.
- Economic Region C, the remaining provinces in the country: 5 years from operating period.

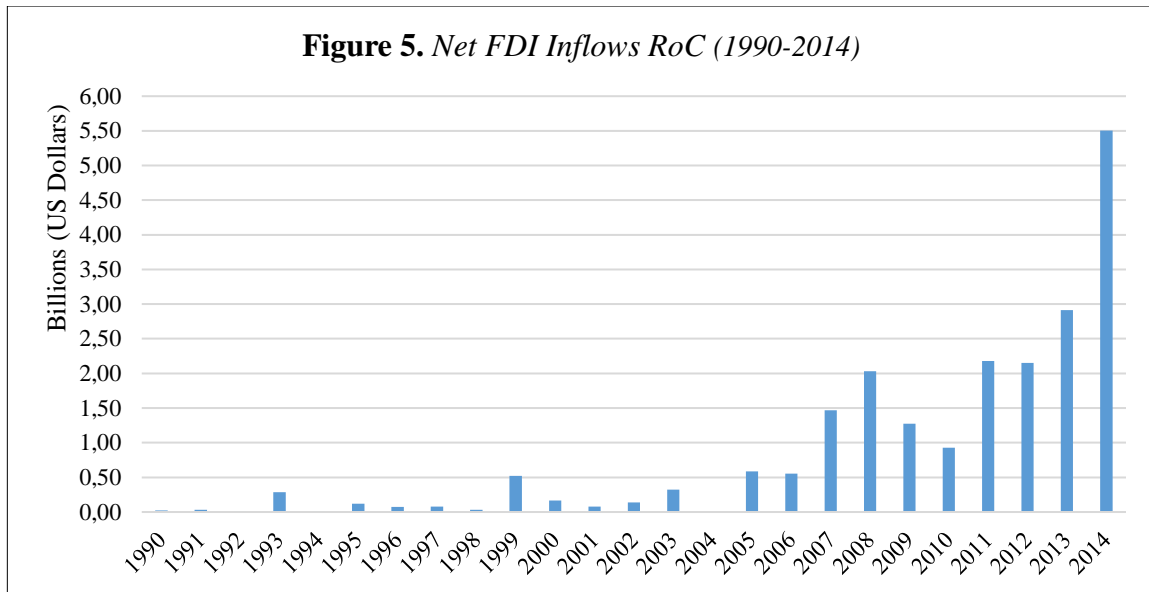
These incentives are directly aimed at attracting foreign investment to regions that have significant resource potential. After the country's 2001 completion of its macroeconomic stabilization program, the international financial community was ready to deal with the DRC once more after a long period of economic isolation (WTO, 2010: 5). These changes are reflected in the data in that after 2001 (when these policies took effect) net FDI inflows to the country steadily rose and have yet to fall to pre-2001 levels (UNCTAD, 2016). After the economic stabilization program and implementation of new incentives starting in 2001, the country saw its -2.10% GDP growth rate increase to 2.95% growth in the next year, and reaching an average of 7.71% from 2010 to 2014 (World Development Indicators, 2016).

### **3.3. Case Study 2: The Republic of the Congo (RoC)**

#### **3.3.1. Geographical Considerations and FDI**

RoC is a country in Central Africa that bolsters a population of around 5 million and has experienced high levels of political instability and attracted most of its FDI in the exploitation of its natural resources, as the country has been steadily increased its oil production from the mid-1980s until the present day (Englebert and Ron, 2004). A two-year civil war erupted in 1997 followed by less intense, sporadic fighting that came under control with peace agreements in 2003. However, the RoC's civil conflict destroyed much of the country's infrastructure and economy. After the peace agreement, the government implemented a post conflict economic program aimed at restoring economic and societal rehabilitation (US Department of State, 2016). This effort has been financed mainly by the exploitation of the country's natural resources, namely its large offshore oil reserves. The following is an analysis of how the geographical locations of its natural resources in comparison to the location of the highest levels of fighting and conflict did not deter FDI, caused by the fact that the resources could be extracted and exported for foreign consumption (Englebert and Ron, 2004; World Investment Report, 2008).

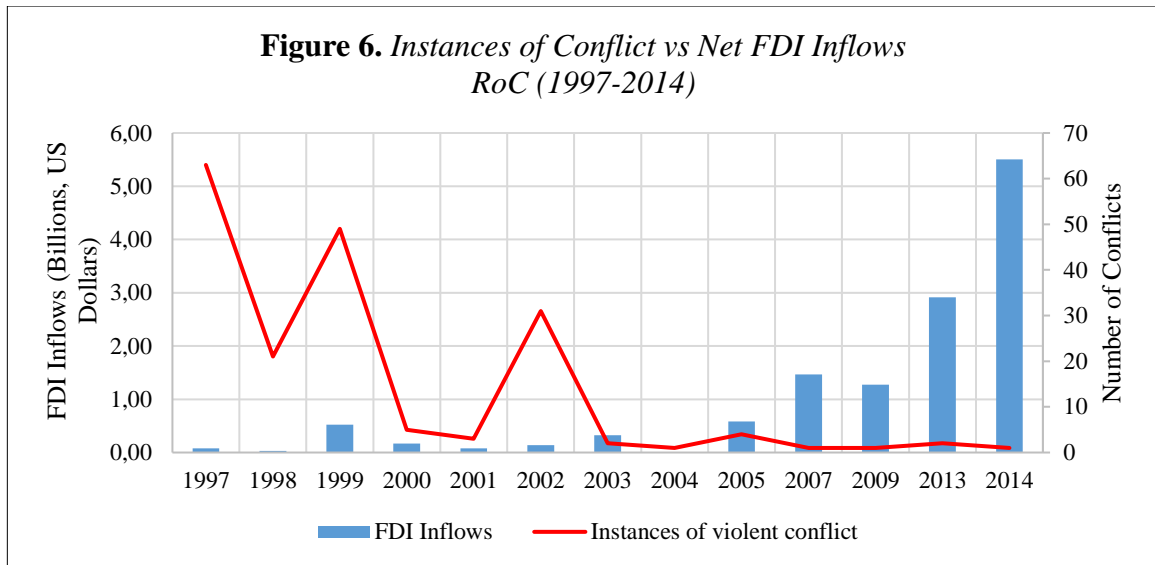
Oil exports in RoC account for 90% of foreign exchange earnings and 40% of GDP. Additionally, they are responsible for 70% of the government's total revenues. The Congolese government is thus extremely dependent on the investments of MNCs to sustain its economy, which is highly centralized with most services controlled by the state itself. The RoC became dependent on France, its former colonial ruler, for FDI in its oil resources. The Congolese government allowed Elf-Aquitaine to create its own subsidiary in Roc, named Elf-Congo, of which the government held a share of. This was problematic because the people of the region depended on the state for their welfare, and the government depended on oil revenues, the majority of which were going to a French company (Clark, 2002:34).



UNCTAD FDI Tables (2016)

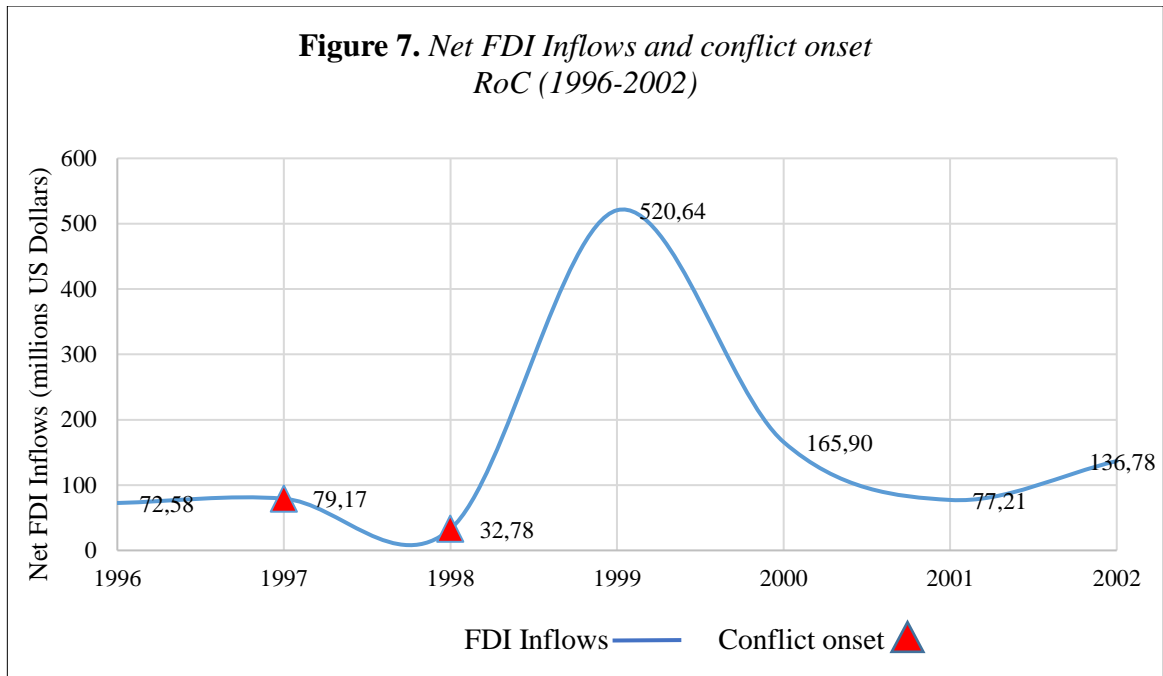
### 3.3.2. Conflict and FDI Trends

During its attempted “democratization”, the RoC saw authoritarian leadership, with relative general stability in the 1980’s but significant amounts of conflict in the 90s. The country saw the intensity of this internal violent conflict peak when it endured a 5-month civil war starting in 1997, followed by another civil war in 1998 and 1999. The period of intense conflicts from 1996 to 2001 did not seem to completely shake investor’s confidence in the region, and some have argued that the country’s petroleum revenues actually helped in fueling the conflict itself (Englebert and Ron, 2004: 75). The geographical location of RoC’s oil reserves may give confidence to MNCs in pouring FDI into this country despite internal instability. During the RoC’s civil war, FDI to the region peaked at \$520 million in 1999, as opposed to \$32.78 million in 1998, when the second civil war of the decade broke out. In this particular case, it seems that internal conflict did not deter new inflows of FDI. One explanation for this comes from where the country’s resources are located. Most of its oil is produced and extracted offshore, piped into tankers, and then taken off for distribution overseas. Even during periods of civil strife, these operations continued. During the most protracted instances of violent conflict in the mid to late 1990s, most of the fighting went on in the capital city of Brazzaville and the industrial hub of the country, Pointe- Noire (Bazenguissa-Ganga, 1999:40).



UNCTAD FDI Tables (2016) and MEPV data (2015)

When looking at Figure 6, an overall upward trend in FDI appears as conflict intensity decreases. What is interesting is that when the civil war erupted in 1997, FDI inflows stood at \$79.17 million. The following year as the conflict continued FDI fell to around \$32.78 million but the amount of violence in the area also decreased from 63 events to 21 (ACLED). In 1999, a huge increase in FDI from \$32.78 million to \$520.64 million can be observed, while instances of conflict jumped back up to 49 events. Figure 7 illustrates more clearly how FDI spiked after the onset of major instances of internal conflict. When the civil war started, FDI levels did fall, but in the midst of the civil war it spiked to the highest number seen in the 1990s before the peace agreement was reached in 2003. FDI flows didn't increase to this level again until 2005, a year that also saw increases in internal conflicts. With this information, a clear negative link between FDI and conflict has not been found.



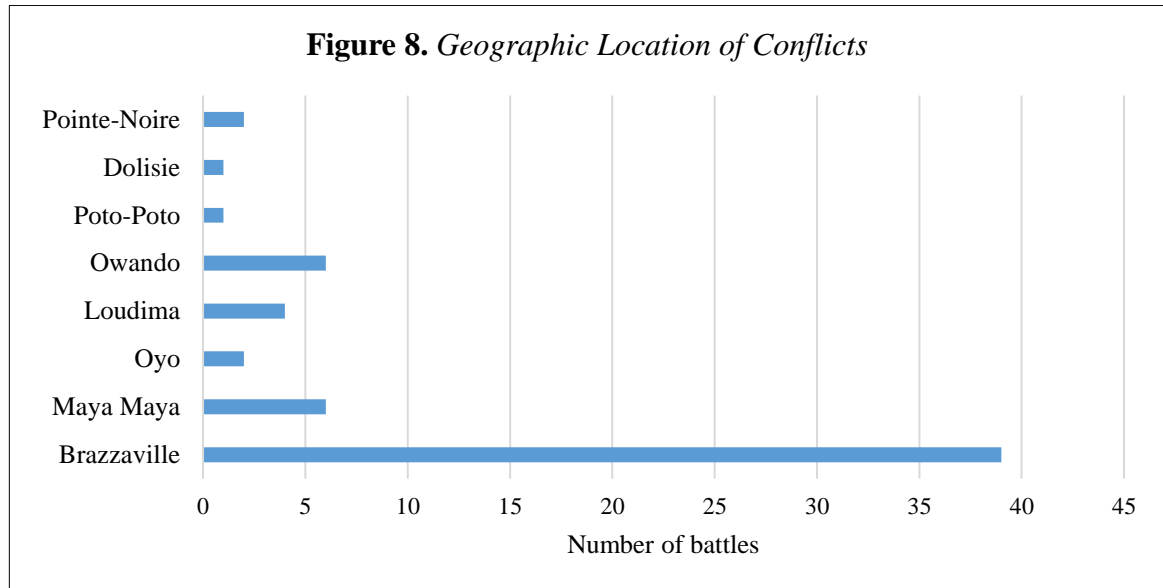
UNCTAD FDI Tables (2016) and UCDP/PRIO (2015)

The most likely reason that the largest amounts of conflict did not deter FDI, and in fact higher levels of FDI were seen, is the nature of FDI being resource-seeking and long distances away from the center of conflict in Brazzaville. These offshore oil sites were extremely difficult for rebel groups take advantage of, or to reach altogether, as the process of extracting the oil is a very complex one. MNCs likely were not afraid of disruption of their operations because of the physical distance between the fighting and the object of their profit. With 90% of its FDI coming from oil, this would explain the lack of variance in FDI to the country during conflict years. If the oil was not in danger of being seized or the areas that produced it not under immediate threat, business would and did continue uninhibited.

### 3.3.3. Geographic Location of Assets

Offshore oil drives FDI in the RoC and only the most technologically sophisticated MNCs can extract the RoC's oil resources. N'Kossa field (the largest and most productive) is located 38 miles off shore in 600 feet of water, while other fields are a further 12 miles away under 3,000 to 6,000 feet of ocean (Englebert and Ron, 2004: 70). The oil is loaded directly onto oil tankers from offshore terminals, eliminating the need for pipelines and further infrastructure investment. Therefore, non-state groups have virtually no access to the fields. In other words, Congo's oil wealth is physically inaccessible to local armed

factions, and explains why levels of FDI and oil production did not decline with the growing conflict on the mainland during the civil wars of 1996 and 1998-1999 (Englebert and Ron, 2004:70).



ACLED (2010)

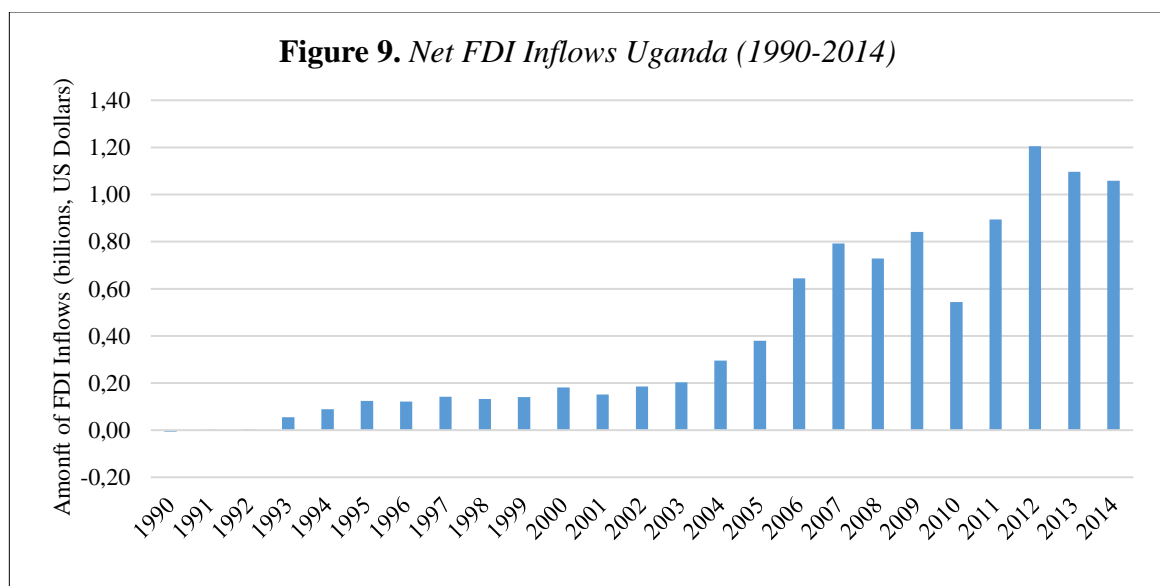
FDI flows to the RoC almost doubled from 2013 to 2014 from \$2.9 billion to \$5.5 billion, respectively (UNCTAD, 2016). This is largely due to companies’ continued investments into oil refinery, despite falling commodity prices (World Investment Report, 2015: 34). In the latest data available (2012) RoC exported about 278,400 barrels of crude oil a day (cia.gov, 2016), making it the 27<sup>th</sup> ranked oil exporter in the world. In that same year the country saw FDI inflows amount to \$2.15 billion dollars. As Figure 8 shows, the most instances of violence occurred in the capital city of Brazzaville during the civil war, which is approximately 538 miles from the nearest offshore oil platform. The closest city to the oil reserves that saw protracted conflict is the industrial hub of Pointe-Noire, which only saw two instances of major conflict during the country’s most violent periods. In essence, conflict did not put a halt to oil production, which constitutes the majority of the country’s FDI. Fitting with the hypothesis that the more oil a country is endowed with and produces, and in this case, the geography of where that oil is, makes for a situation where prolonged conflict on the mainland would not deter FDI. While the RoC itself saw high levels of destruction and economic collapse for the majority of its citizens, it did not hamper

the large MNCs and the main source of revenue for the government (Bazenguissa-Ganga, 1999:53).

### 3.4. Case Study 3: Uganda

#### 3.4.1. Uganda's FDI Background

Uganda's GDP growth in the 1990s and 2000s averaged 7% a year, which made it the 15<sup>th</sup> fastest growing economy in the world (World Bank, 2016). Uganda is not as well endowed with natural resources as the other countries in the CSSA sample, instead it has focused on tight fiscal discipline and monetary policies aimed at providing a conducive business climate. Uganda has also benefitted from the fact that they have had stable a political leadership, at least in terms of policy outlooks on macroeconomic reform, as the President has been in power since 1986 and has consistently articulated his government's stance on far-reaching economic reforms in favor of liberalizing the country's trade policies in hopes of keeping foreign capital flowing into the country (Harvey and Robinson, 2005:36). As we have seen in CSSA thus far in the previous cases, FDI inflows have steadily increased from 1990 to 2014. According to figure 9, net FDI inflows have increased from \$1 million in 1990 to \$1.05 billion in 2014 (UNCTAd, 2016). After the proposed increase of domestic spending on infrastructure by the Uganda government in 2010, net FDI inflows increased back to the levels Uganda saw before the global financial crisis of 2008.

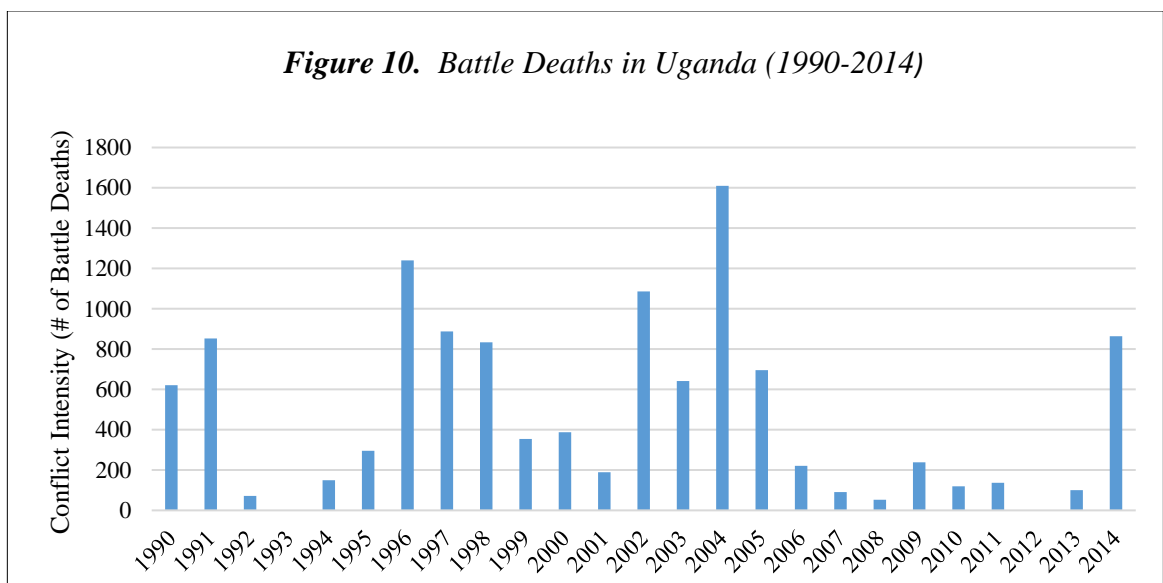


UNCTAD FDI Tables (2016)

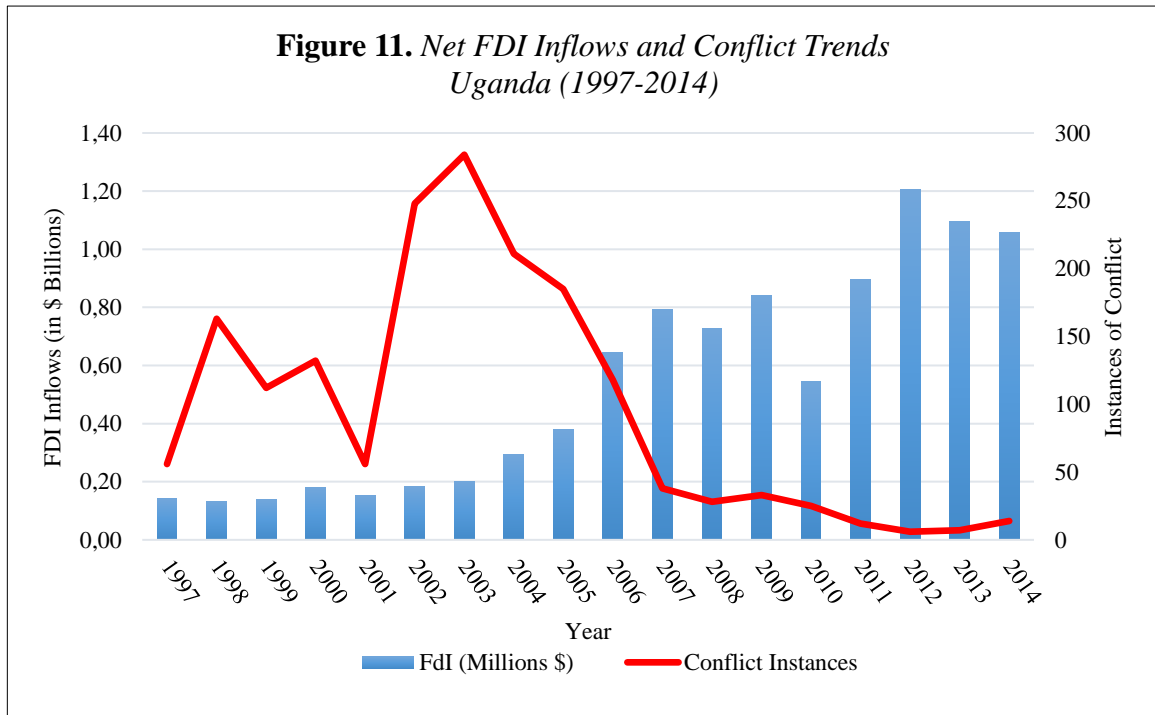


### 3.4.2. Conflict and FDI Trends

The highest instances of violence occurred between 1996 and 2006 as shown in figure 10. This period also saw increases in FDI inflows year over year (UNCTAD, 2016). There seems to be evidence in this period that FDI flows didn't decrease with increased levels of conflict. Despite its highest levels of conflict, there was still an upward trend in FDI. Uganda has not attracted the large shares of FDI as the likes of RoC and Angola have, simply because it does not produce as much oil or other extractive resources. The potential for large investments that come with extracting natural resources just hasn't been seen in Uganda: its largest amount of FDI inflows came in at \$1.05 billion, compared to \$5.5 billion in RoC, despite being much larger with a higher population. While it has not attracted the highest amounts of FDI in the sample examined, it has attracted the most stable flows of FDI (UNCTAD, 2016). I posit that this is because of the prevalence of a different set of favorable FDI determinants in the region: such as a relatively sound infrastructure and increased public spending on its development and the implementation of new infrastructure.



UCDP/PRIO Armed Conflict Dataset (2015)



UNCTAD FDI Tables (2016)

As figure 11 shows, increased levels of internal conflict in the early 2000s also saw an increase in FDI. But what can also be seen, is when the fighting decreased greatly, FDI levels seemed to increase. There are a few possible explanations for this. First, the amount of capital being invested in the region and the amount of FDI available worldwide recently has increased substantially from the 1990s. The amount of worldwide FDI in 1990 was approximately \$204.9 billion compared to around \$1.2 trillion in 2014, an 84% increase (UNCTAD, 2016). Second, the Ugandan government started massive macroeconomic reforms, increasing the budgetary allowance that was to be distributed to infrastructure development in an attempt to entice additional outside investments and increase the efficiency of doing business while reducing the high costs that are associated with lower levels of infrastructure. This coupled with the availability of new licenses for exploration of new oil and gas production sites drew the interest of investors both from Europe and the United States, but also China and Turkey (OEC MIT, 2016).

The reason physical infrastructure is important is because it reduces the costs for MNCs of doing business within a host country and increases asset efficiency (Wheeler and Mody, 1992; Lee and Guisinger, 1995). The importance of infrastructure in attracting FDI likely differs greatly between industries and how heavily they rely on robust infrastructure.

MNCs that intend to export most of their products and are likely to be less concerned with infrastructure than MNCs directing their business at the domestic markets of the host country (Lee and Guisinger, 1995: 290). Infrastructure should have a positive effect on FDI flows, as it reduces the costs of doing business through greater efficiency of transportation of people, goods, and equipment. It is difficult to measure the effectiveness of infrastructure on FDI in a fundamental way: infrastructure, while considered a “non-policy” variable (Lee and Guisinger, 1995:296), is a product of government policy in allocating resources to its development. Even so, it fits the non-policy variable because of its time horizon. Infrastructure is not only costly, but it takes significant time to develop and upgrade. Uganda, on its own, does not have the resources to implement all of its changes without help. It must depend on developmental aid, and hope that the prospect of these projects can also attract FDI itself. But it does exhibit some attractive features in comparison to the DRC, RoC, and Angola. In 2010, President Museveni pledged to increase spending on vital infrastructure to take advantage of market efficiencies, since the government incurs heavy losses from unreliable power grids (Ranganathan and Foster, 2011: 18). His increasing commitment to macroeconomic reforms such as protection of investments, enforcement of property rights, relaxation of stringent capital controls, and the privatization of many state-controlled sectors are all important factors in explaining why Uganda, despite internal conflict, has maintained solid levels of FDI inflows, avoiding years of large divestment (Basu and Srinivasan, 2002: 35).

### 3.4.3. Infrastructure Development and FDI

In comparison to RoC, DRC, and Angola; Uganda has focused on infrastructure development and macroeconomic reform. Uganda has focused on its transportation and communications infrastructure in much more effective ways than the other CSSA countries examined. This is illustrated by the fact that Uganda has substantially better roadways than most of its low-income counterparts such as the bordering DRC. In fact, 87% of Uganda’s roads are in either good or fair condition, compared to only 72% of the roads in other low-income African countries (Ranganathan and Foster, 2011: 17). It also boasts an impressive rating when looking at the amount of people per 100 in the country who have internet

access, 17%, in comparison to 3% in the DRC and 7% in the RoC (World Development Indicators, 2016).

Uganda spends around \$1 billion on infrastructure which is about 11% of its GDP (Ranganathan and Foster, 2011:1). This shows that the Ugandan government feels that developing its infrastructure will have an effect on promoting FDI to the region, as it consequently develops new sites for oil and gas extraction (Foster and Briceno-Garmendia, 2010). This is important for Uganda, as they have set goals to improve their infrastructure dramatically from 2012 onward. The problem being, that to achieve these goals they need to spend around 16% of GDP per year, or about \$1.4 billion (as opposed to \$1 billion currently). This is around the same level China spends to put things in perspective, but would be a stretch for Uganda's economy (Ranganathan and Foster, 2011: 1). Thus, attracting FDI to cover this gap remains an important goal for the Ugandan government, which seems to believe increased infrastructure will lead to more FDI than other factors considered because of the budgetary allowance they are gearing towards its development. The relatively high amount of its primary roadways in fair condition leads to attractive conditions for foreign investment going forward. This could also help Uganda, even though not as well endowed with minerals and oil resources as say, Angola, to attract both efficiency-seeking and resource-seeking FDI in the future. Uganda's government has also gone to great lengths at reassuring MNCs of the safety of their investments. Uganda became a member of the International Convention for Settlement of Investment Disputes between States and Nationals of Other States (ICSID). This, coupled with the fairly quick pace of privatization compared to other countries in the region, has helped attract more stable flows of inward FDI (Obwona and Egesa, 2013).

### **3.5. Case Study 4: Angola**

#### **3.5.1. Angola's FDI Background**

Angola attracts by far the most FDI of the sample because of its large levels of oil production. The state-run company Sonangol has joint ventures with BP, Chevron, Elf, and Total in oils and gas production. The amount of FDI Angola received in 2014 alone was \$16.5 billion. The bulk of MNCs investing in Angola are from China, Germany, Portugal, France, and the United States (World Investment Directory, 2008: 80). Since most of its

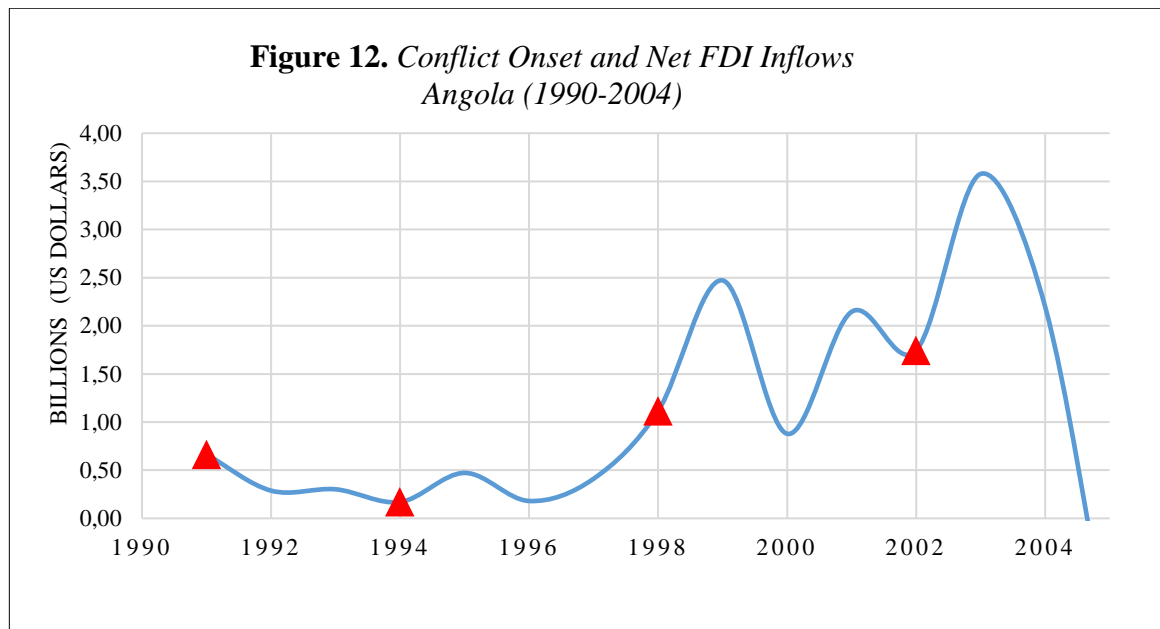
FDI is attracted in the oil and minerals sectors, it can be classified as rent-seeking and export-oriented. Crude petroleum makes up 96% of Angola's exports, totaling \$52.2 billion (OEC MIT, 2016). \$27.7 billion of its exports go to China, followed by around \$5.2 billion to India and the United States (OEC MIT, 2016).

### 3.5.2. Conflicts and FDI Trends

Angola is still in the rebuilding process following a 27-year civil war (cia.gov, 2016) after its' independence from Portuguese colonial rule. The victorious faction, named the Popular Movement for the Liberation of Angola (MPLA), led by the country's current president Jose Eduardo Dos Santos has ruled the country since 2002 after defeating the main opposition faction the National Union for the Total Independence of Angola (UNITA) (Hanson, 2008). During the conflict, it is estimated that around 1.5 million people lost their lives, with upwards of 4 million displaced people (Hanson, 2008). 1993 to 2002 was the period of the most intense fighting within the country. During this time, it also saw the most increases of net FDI flows totaling at \$9.8 billion. When the intensity of conflict calmed down significantly from 2003 to 2014, Angola saw a sharp decrease in net FDI flows and in fact a large amount of divestment. One issue is that, Angola consistently ranks as one of the most corrupt places not just in Africa, but in the world (163/168) (transparency.org, 2015). This is apparent in the industries that attract FDI to Angola, namely diamonds and oil production and export. In 2013, Angola's exports totaled \$68 billion, \$67 billion of which was oil exportation (OEC MIT, 2016).

Figure 12 shows that when conflict intensified (1991, 1993, and 1998) there was not a consistent downturn in FDI (UNCTAD, 2016). Looking at the years following the outbreak of civil war shows that FDI increased after 1998 from \$1.1 billion to \$2.47 billion. This shows that with an increase in conflict, there is no clear negative link between levels of FDI and conflict. In fact, Angola saw around 20% growth rates in the mid-1990s, right in the middle of their civil war, compared to around 3% growth annually over more recent years (World development Indicators, 2016). This points to FDI not being consistently affected by conflict, but more by the price of oil and Angola's ability to attract MNCs to produce it. In the 90s, during the most intense throws of the civil war, Angola saw billions

of dollars of FDI inflows and economic growth, while in 2014, Angola saw less intense civil conflict and lower economic growth.



UNCTAD FDI Tables (2016) and UCDP/PRIO (2015)

### 3.5.3. Corruption and FDI

It has long been suggested that corruption increases the costs of MNCs doing business in a country and therefore has a negative relationship with FDI (Schneider and Frey, 1985; Wei, 2000). Angola, like many developing countries that have experienced attractive growth rates, tend to feature corrupt regimes which are mainly a function of undeveloped institutional controls (Rose-Ackerman, 1999:27). Corruption mixed with the majority of FDI being in the natural resource exporting sector creates an environment that facilitates further engagement in corruptive activities (Gray and Kaufmann, 1998; Egger and Winner, 2006).

Corruption is common across all cases selected, but Angola consistently labeled the worst offender of corruption, while simultaneously having the highest levels of FDI inflows by far. This is because of the nature of FDI being attracted to Angola as resource-seeking. The potential for access to and high profits from the country's massive natural resource potential, along with a corrupt government willing to allow MNCs to exploit these resources for the right price in order to collect revenues to solidify their power, may have aided Angola in attracting FDI despite internal conflicts.

Angola ranked the worst out of the countries examined with a corruption ranking of 163 out of 168 (transparency.org, 2015). For example, in 2011 Dos Santos' government absorbed 86.28% of the state budget compared to the municipal administration of the capital city, Luanda, which receives just under 2.5% (de Morais, 2011: 20). Large companies making large investments would likely have an easier time bribing influential government officials to get things done quickly, than having to go through the many forms and applications that come with strong, well-regulated financial institutions. Even if laws are on the books, a regime with a history of rampant corruption may be inclined to skirt them for their own economic benefit (Al-Sadiq, 2009; Olken and Singhal, 2011).

Power in Angola is highly concentrated around the President, Jose Eduardo Dos Santos; for example, the government's new "Private Investment Law" propagates financial patronage in that investors who invest at least \$1 million receive special incentives from the government (Munslow, 1999; de Morais, 2011). This practice is not uncommon, and in itself can be a productive way to incentivize FDI into a country. What is troubling in Angola's case, is the framework from which it operates. The President alone has unlimited decision-making power on the "Law on Private Investment", where he can waive, overturn, or overrule any decisions pertaining to investments (de Morais, 2011:18). In a corrupt government, one can see how this may lead to problems of transparency and accountability. On the other hand, one can see how a MNC with the resources necessary to help Angola realize some of its "wealth in the ground" without having to deal with high levels of red-tape that come with bureaucracies would be favorable to them when making a decision to invest. What could be seen as "normalized corruption" may be taking hold because the resource extracting industry is complicit with the practice of bribing top level officials because it is common in the industry. If one company's peers are all engaging in the same activity, it makes little sense to not play by those "accepted" rules (O'Higgins, 2006:238)

The state-owned oil company Sonangol controls 51% interest in all oil production from the richest oil territory in Angola, Cabinda (Hanson, 2008). Additionally, it controls all licensing for exploration and production of the country's oil. Most concerning is that the company operates much like the finance ministry of the country: it's a sectoral regulator and also invests public funds. What is interesting, is that the reforms made by the Angolan

government to increase transparency and fight corruption that they have applied to the finance ministry, do not apply to Sonangol (Chene 2011, de Morais, 2011). Another indication of how far-reaching the corruption is within Dos Santos' government is the fact that \$32 billion in oil rents vanished from the central reserve (Mayol, 2016). Another report by *globalwitness* (Transparency International, 2014), brought attention to the fact that British Petroleum and Cobalt paid Sonangol \$350 million to fund a research center that to this day is nowhere to be seen. Instances of public money vanishing have not been a rarity in Angola, from 1997 to 2001 \$1.7 billion disappeared from the government's budget with no explanation (Hanson, 2008). Quantifying the exact extent to which funds are misallocated is difficult because the oil industry in Angola is highly mysterious because of the lack of transparency fostered by Dos Santos' government and his foreign affiliates (Chene, 2011:5).

Despite this rampant and well-known corruption, Angola jumped in FDI rankings from 20<sup>th</sup> on the African continent to 2<sup>nd</sup> place in 2014 (\$16 billion in FDI inflows), only behind Egypt (\$17.6 billion) (Mayol, 2016). From the standpoint of a MNC, the objective is to make profits where there is profit to be made. Oil constitutes most of Angola's exports (oil is 96% of total exports), and the rest is made up of other tradable resources such as minerals and gas (OEC MIT, 2016). Even with the presence of internal conflict, the combination of these factors is enough to entice MNCs to take a concerted risk. Extensive corruption in Angola could actually make the decision to take this risk easier, as the actors in political power have less stringent institutional controls that they must adhere to in facilitating the creation of new joint ventures aimed at resource extraction. This corresponds with Leff's (1964) hypothesis that corruption "greases the wheels", because it can circumvent cumbersome bureaucracies in certain situations and expedite processes. High levels of corruption and a high demand for Angolan resources by MNCs could both be causal factors in why a clear negative impact of conflict and corruption on levels of FDI inflows have not been witnessed.



## 4. Chapter Four

### 4.1. Statistical Results and Analysis

The following are the results of the OLS regression run on 44 (Appendix 1 for list) countries from SSA taken from data from 1990 to 2014. Sao Tome and Principe, Seychelles, and South Sudan are left out of the sample because of widespread lack of information. The regression used net FDI inflows as the dependent variable, with the following political and economic indicators as independent variables.

**Table 1.** *OLS Regression Results*

Net FDI Inflows	Coefficient	Standard Error
Regime Type	.50**	.24
Pol Instability	1.80***	.44
tradeop	3.55***	1.43
Infrastructure	5.27***	1.79
Conflict intensity	1.07**	.52
Resources	1.21	1.45

\*p< .10, \*\*p< .05, \*\*\*p< .01; N=44

Most of the independent variables utilized came back significant, with a few important exceptions. For example, the independent variable of resource wealth, something that was found to be the biggest determinant of FDI in the case studies, did not come back significant. There is a logical explanation for this. The case study sample focused on four countries that depend heavily on resource-seeking FDI, while many of the other countries in the much larger SSA sample attract higher levels of market-seeking FDI in other sectors other than natural resources.

Trade openness, infrastructure, and political violence all came back significant with positive relationships. This confirms hypotheses 3 and 4, and trade openness and infrastructure seem to be a key determinant of increasing FDI flows to SSA as a whole. Regime type (democratic vs autocratic) came back less significant and contradicts my case study findings that more autocratic governments attracted more FDI, when looking at the larger sample of all of SSA. This could be because the other 40 countries sampled, outside of Angola, Uganda, the DRC, and RoC have more diversified economies and have seen

lower instances of conflict in some cases. If we average the other 40 countries' regime type scores (from PolityIV) they average at about 1, while the CSSA sample averages out at a score of -2. The entire region of SSA ranks more democratic than the average of the case study sample (Marshall et al., 2015).

The political violence independent variable came back strongly significant and with a positive relationship to net FDI inflows. A weaker significance was found with the conflict intensity variable that is based on recorded battle deaths, also having a positive relationship with net FDI inflows. An explanation for this could be that FDI is a long-term investment.

Overall, hypotheses 3 and 4 find strong support throughout SSA, which has significant implications because trade openness and infrastructure are both things host governments can make policy decisions on, and infrastructure can be supplemented by foreign development aid and its attraction along with FDI. This also establishes that there is not a clearly negative relationship of conflict and political violence in relation to net FDI inflows.

## **4.2. Findings and Analysis**

The findings indicate that there is not a consistent observable negative link between conflict and net FDI inflows, in both the case studies analyzed of CSSA, and the statistical analysis of SSA more broadly. Overall, the presence of large amounts of natural resources seems to be the main determinant of FDI in the region. This study finds evidence that FDI that is attracted to conflict regions is mainly dependent on resource-seeking, export-oriented sectors such as oil, gas, minerals, and timber. Given that there is an abundance of natural resources in the CSSA sample, the fact that most FDI to the entire SSA region is resource-seeking (40%), and finds evidence that conflict doesn't deter this kind of FDI.

### **4.2.1. Natural Resources**

Sectors related to natural resource exploitation and extraction bring the highest levels of FDI to the CSSA region (AERC, 2008). Over the period 1990-2014, Angola saw the most FDI in the sample, and has recently become the second largest recipient of FDI on the entire continent. It is also the largest oil producer of the cases examined. From 1990-

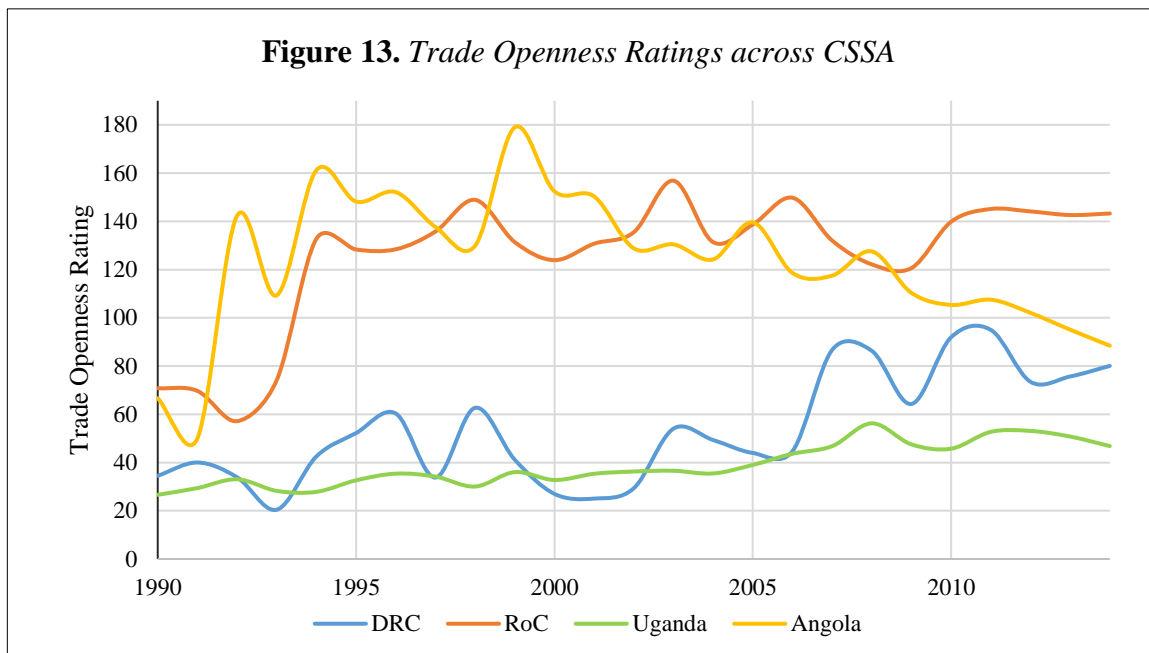
2014 Angola saw average resource rents of 46.56% (World Development Indicators). RoC saw the second most FDI over the same time period and had the largest amount of average natural resource rents at 58.90%, which happens to be the highest ratio of the group. The DRC and Uganda had natural resource rent averages of 28.25% and 15.69% respectively. This trend supports the hypothesis that the higher the levels of natural resources, the more FDI the country will attract. Mining, oil, and gas are all extremely important in attracting FDI to CSSA.

#### 4.2.2. Trade Openness/ Favorable Trade Policies

In both, the CSSA cases and the wider statistical analysis of SSA, trade openness and favorable trade policies seem to have a positive effect on net FDI inflows. Most of the FDI in Angola is directed at oil production and exportation. 96% of Angola's exports are in petroleum. Access to these assets and favorable incentives on their exportation draw large MNCs to the region, such as Shell and BP. In addition, 90% of RoC's FDI flows into the oil sector as well. These two countries receive by far the most amount of cumulative FDI in the sample, Angola at \$16 billion in 2014, and RoC at \$5.5 billion.

Across every country in SSA, there has been an increase in FDI flows with higher levels of trade openness (Asiedu, 2002; Salisu, 2004; AERC, 2008). The RoC and Angola produce the most oil, but also exhibit the highest level of trade openness (World Development Indicators, 2016). Since the 1990s, trade openness has increased steadily among all four countries. This trend seems to follow the increase in FDI flows to the region in the same time period. While trade and FDI are distinct from one another, they are invariably linked. The resources that attract the most significant amount of FDI to the region are subject to export controls and taxes, and are tradable goods.

As can be seen in figure 13, trade openness has steadily increased in the CSSA sample since 1990 to 2014. Uganda has the least amount of variance in the sample because it does not attract as much export-oriented FDI as the other three countries. It mainly attracts FDI in manufacturing and the export of coffee and agricultural products (World Investment Report, 2008; OEC MIT, 2016). This indicates that the presence of minerals, oil, and gas for exploitation encourage host country governments to enact favorable policies on exports to attract FDI and that this tactic was employed during times of war and peace.

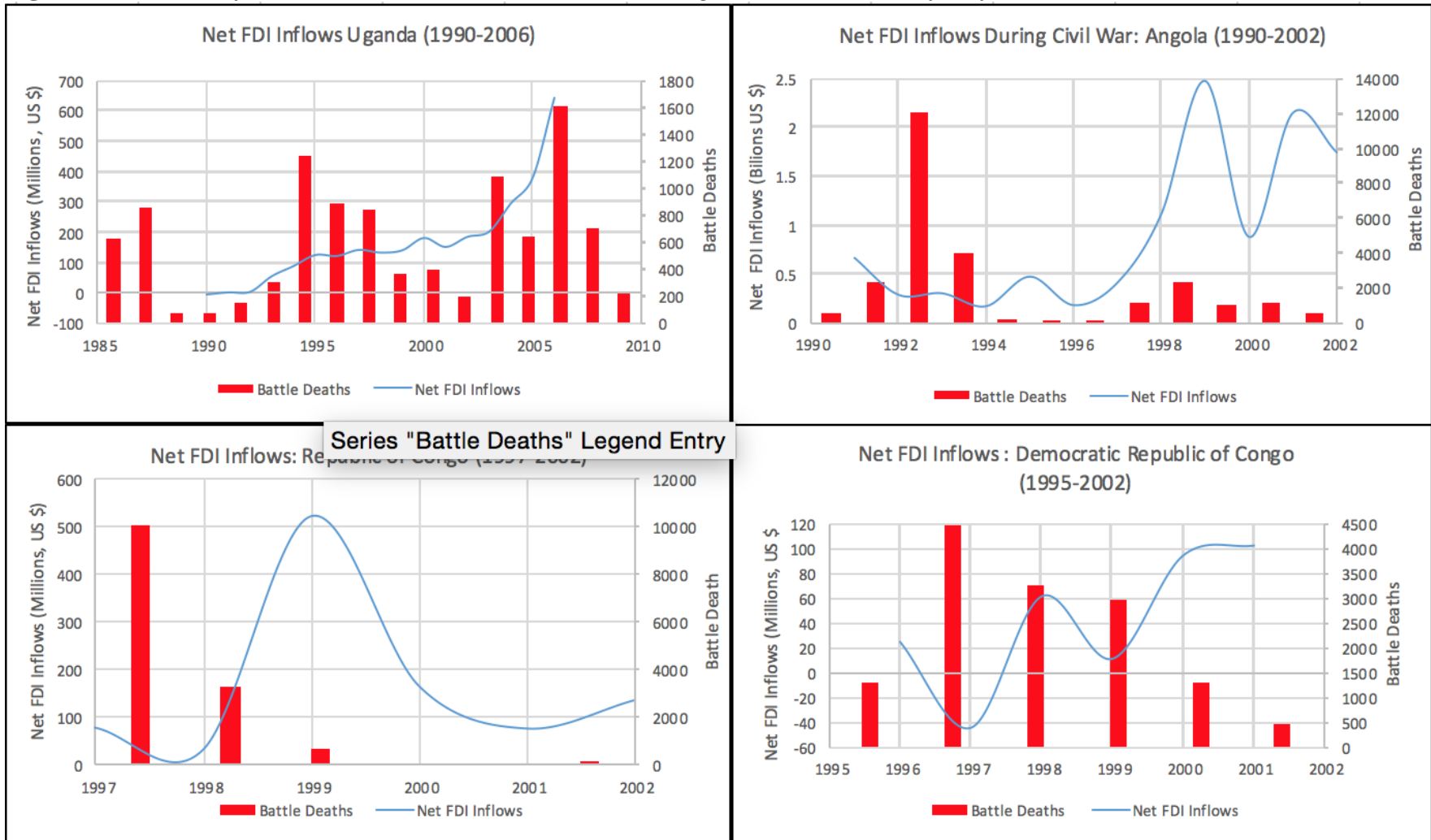


World Development Indicators (2016)

#### 4.2.3. Conflict and Political Violence

The statistical analysis for the whole region of SSA supports the claim that there is no negative link between increases in conflict and lower FDI inflows. As examined in the CSSA sample of case studies, this trend is also observed, but not in a clear manner. This contradicts the naïve assumption that conflict will deter FDI inflows. The evidence suggests that these regions can attract large sums of FDI even if the countries exhibit other mitigating factors that are attractive to MNCs, mainly resources and higher opportunities with less competition because of negative perceptions. Figure 14 shows that during the most intense periods of conflict within each country, as measured by number of battle deaths during the counties' respective civil wars, there was not a consistent trend of decreases in FDI inflows to the regions. Most of the literature shows that a lack of internal conflict and political violence are important to attracting FDI. These results do not dispute that internal stability is not an important factor in MNCs deciding to invest in LDCs, but rather the link in resource-rich countries is not clearly negative.

**Figure 14. Net FDI Inflows and Battle Deaths across CSSA (during most intense levels of conflict)**



#### 4.2.4. Infrastructure

Infrastructure development and investment also seems to have a positive effect on FDI in the region. Uganda has made a staunch commitment to increasing infrastructure spending, and while it has attracted the least amount of FDI in the sample, it has also seen the least amount of variation and sharp decreases and divestments of FDI (World Development Indicators, 2016). In the statistical analysis of 44 SSA countries, there was a strong relationship between increased levels of infrastructure and FDI inflows. The problem in the region has been slow implementation and lack of funding and domestic government spending to improve infrastructure. The CSSA region experienced massive levels of conflict during the 1990s that wreaked havoc on the existing infrastructure. Increased levels of infrastructure lower the costs of doing business and increases the productivity of investments, therefore infrastructure should increase FDI flows, which is seen in the CSSA sample and SSA more broadly (Asiedu, 2002; AERC, 2008; Obwonu and Egesa, 2013). Uganda is the perfect example of leveraging its relative infrastructure in the region to attract FDI (AERC, 2008). The country has increased its spending to around 11% of GDP aimed at improving its power grid and roadways, and has not seen the fluctuation in net FDI inflows that the other countries in the sample have, despite not exploiting its natural resources to the same level as the other 3 countries in the SSA sample. Along with physical infrastructure such as roadways and power grids, communications infrastructure, as is most present in Angola and Uganda, is an important factor for the attraction of FDI as it makes communications easier between host and home country, and the ease of communications between operations within countries (Hussein Shah, 2014). Uganda is by far the least resource dependent of the CSSA sample but attracts highly stable, consistent levels of FDI.

#### **4.3. Corruption and Regime Type**

The evidence suggests that corruption and poor institutional quality don't deter FDI in certain sectors. While the statistical analysis of the entire SSA region affirms the notion that democratic regimes tend to attract more FDI, the CSSA sample draws a much murkier conclusion. This is most likely the result that Angola, RoC, DRC, and Uganda are all considered corrupt. Corruption is almost normalized and a part of doing business in the

sample of countries. Every country in CSSA ranks poorly in terms of institutional quality and corruption.

This is not to say improving institutions and curbing corruption are not to be recommended for long term economic growth. Both of these steps should be taken to encourage the right kind of economic growth, where revenues from partnerships with MNCs for access to the bevy of natural resources are then managed appropriately to benefit not only those in privileged positions in government and industry, but for the facilitation and development of public goods such as access to clean water, better telecommunication and transportation infrastructure, health services, and economic stimulation in the creation of jobs. While a combination of favorable trade policies and tax incentives, along with infrastructure, make the business environment more attractive for the sample – it still all seems to come down to resources.

#### **4.4. Discussion**

The findings of the study show that there is not a conclusive negative link between conflict and FDI. The implications show that analysis of country specifics may be a more comprehensive way to tease out the complex relationship between the determinants of FDI and LDCs that have a history of violent conflict. As many studies before have found, the most relevant determinants of FDI to SSA are interlinked in a complex manner. It would seem that a combination of natural resource wealth, favorable trade policies, reliable infrastructure, and lack of complex bureaucracies and red tape, would attract the highest levels of FDI to the region. This is concerning in some manner, as some countries in the region are not endowed with natural resources and still have high incidences of internal conflict. The findings suggest that the way to attract MNCs to commit large amounts of FDI to these conflict-riddled countries would simply be to be endowed with natural resources. One can imagine how this is problematic for long term prospects in the region. Natural resource are finite, non-renewable assets and their presence is based off geographic luck. While host governments can alter trade policies, partner with aid and development organizations to increase infrastructure development, enact laws that fight corruption and government greed, they cannot simply wish the presence of large oil reserves or diamond deposits into existence.

For the countries in the CSSA sample, mining and petroleum account for the largest share of FDI. For MNCs investing in these locations, the results indicate presence of natural resources and their locations are the primary determinant of large amount of FDI inflows, while macroeconomic considerations seem to be secondary (Yu and Walsh, 2010:10). SSA still receives less FDI than other regions classified as “lesser-developed”. In the DRC, Angola, and RoC there was not a pattern of decreasing FDI flows following their most turbulent periods of conflict. There are interesting implications in this finding. It would suggest during high instances of internal conflict and political instability the governments are making more in taxes of off MNCs, and may be using these added sources of capital to engage in activities that are related to military operations. Continued foreign investment in natural resource extraction during civil wars could therefore be an indirect source of funding by providing the capital to the government who is engaging opposition forces, turning the tide and effecting the outcome of conflicts.

In 2012, the African Development Bank estimated that Africa’s natural resource extractive industries will add over \$30 billion annually in government revenues in the next 20 years. The focus of governments should center on maximizing the value-added to their economies while trying to mitigate the negative environmental and macroeconomic impacts that are often associated with the “resource curse” (Karl, 1997) that has befallen some of the countries in the region. Going forward, it seems pertinent to look at the countries of SSA individually and the context surrounding their current economic and political situations. As this region does not attract as much FDI as other lesser-developed regions (4% of global FDI flows compared to 25-40% in other developing regions), and continues to see high instances of internal strife and poor economic conditions for the majority of its citizens. Further research on the factors that not only attract FDI to the region but that also foster host country economic and human development needs to be undertaken. There is a sound argument to be made, however, that instability and conflict, and the perception of its regularity in SSA are one of the key reasons why the region as a whole has not seen a high share of global FDI flows in comparison to other less-developed regions. The verdict is still out on whether or not FDI does positively affect economic growth. It seems that with resource-seeking FDI, especially to conflict-riddled areas with corrupt



governments who don't reinvest the benefits of increased foreign capital in a sustainable way that the prospects of these countries realizing their wealth potential are grim.

One of the ways countries could attract different types of FDI for long-term benefits is to address critical infrastructure needs throughout all of SSA. In the medium term, the estimated cost of the finances needed to tackle infrastructure development are \$390 billion, while the figure is in the trillions in the long term (Foster and Brimencio, 2010; Ranganathan and Foster, 2011; African Development Bank, 2012). Natural resources, and attracting FDI for their extraction, could help finance a substantial part of this burden (African Development Bank, 2012). Not only could this help in attracting FDI in larger amounts in the long term, but better access to clean water, proper sanitation, better roads, and electricity could dually help reduce the high levels of poverty that are common in CSSA while increasing the favorability of the business climate for investments intended to serve the host countries' markets.

MNCs are aware of the risks of conflict in relation to FDI, but it seems to be a part of the calculus in their decision to invest abroad. This is illustrated by the willingness of large MNCs in the resource extraction business to invest the largest amounts of money in the countries that have the most resource potential, as we see in both the cases of Angola and the RoC, who produce vast amounts of oil and subsequently attract the two largest shares of FDI in the CSSA sample studied (UNCTAD, 2016). Uganda is the only country in the sample that doesn't crack the top 20 in oil production in Africa, and subsequently receives the least amount of FDI in the CSSA region. Angola (ranked 2<sup>nd</sup>), RoC (ranked 8<sup>th</sup>), and the DRC (ranked 16<sup>th</sup>) all follow this pattern of oil production and exploitation corresponding to the levels of FDI they receive. This points to the fact that if there are enough resources, MNCs will come, despite the presence of what are nominally thought to detract FDI. Every country has increased the level of FDI it has received substantially from the 90's, but every country also ranks poorly in terms of institutional quality and corruption. With this trend, the countries examined have also not seen high levels of knowledge and technology spillovers because most of the FDI has been in the resource-seeking classification.

While the countries have seen increased GDP growth in the 2000s compared to the 1990s, these have not translated into high levels of spending and commitment to both

physical and human infrastructures that has benefited their populations, as these countries remain very poor despite increases in foreign capital. The extractive, resource-seeking FDI that constitutes most foreign investment in the region does not seem to be creating the positive externalities that FDI can bring with it. The effects of these increased inflows have not had the positive spillover effects for a majority of the population and have not led to massive macroeconomic development or diversification of the host economies. Because of the way many of these business ventures are set up, being joint-ventures between MNCs and the host country government officials, MNCs become influential collaborators in financing and facilitating corruption at the very highest ranks. This is difficult to combat when the MNCs effectively have the backing of their home country national governments (de Morais, 2011:29), and the host country governments have been in power for so long. This research has shown that corruption is part of the landscape in doing business in CSSA, and while conditions may be improving for the business climate for certain types of arrangements, little is likely to change substantially unless the political will to reinvest and manage the added financial revenues from FDI to foster more robust institutions that provide more public goods is found.

#### **4.5. Conclusion**

This study has aimed to highlight what attracts FDI to regions that would otherwise be seen as unfavorable because of political violence and internal conflict, which normally deter investors from wanting to invest large sums of capital out of fear of losing their assets. The research presented within posits that the perceived negative link between conflict and FDI is not clearly presented in the cases of Angola, Uganda, RoC, and the DRC. Infrastructure, trade openness, political violence, internal conflict, natural resource wealth, corruption, regime type, and geographical considerations all play a part in why MNCs invest in conflict regions. Most importantly, regions that exhibit high tendencies of internal conflict attract larger levels of FDI when they have large amounts of natural resources that can be exported for foreign consumption by large MNCs that have the capital and technological know-how to turn these commodities into economic benefits.

FDI is an important source of capital for developing countries who strongly rely on inward investment (Dunning,1993::33). In relatively poor countries, attracting FDI is a

sound strategy for the governments of the region to encourage economic diversity and foster growth by encouraging flows of capital and knowledge into their countries. While there are a number of impediments to the utilization of this influx of foreign capital, the potential benefits seem to outweigh them. The problem with the poor economic performance of the region stems from the type of industry that seems to attract the most investment being aimed at natural resource extraction in conjunction with state-owned enterprises and host governments that exhibit high levels of corruption.

If Sub-Saharan Africa wants to attract higher levels of FDI, it should focus on fighting corruption, creating sound and consistent trade policy frameworks, and invest in infrastructure to diversify its economies so that not only large amounts of FDI focusing on natural resources are coming in, but in market-seeking capacities aimed at serving and enriching domestic markets in the long term. The problem is that these changes must start internally, and in the cases examined the governments seem entrenched in corruption and are often serving their own interests and benefits. The lack of political will to foster widespread, sustainable economic change is a huge obstacle that must be overcome in order to take these regions from lesser-developed countries to economies that better reflect their natural endowments and potential wealth.

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## **Appendix**

### List of Countries for Statistical Analysis

Angola	Lesotho
Benin	Liberia
Botswana	Madagascar
Burkina Faso	Malawi
Burundi	Mali
Cameroon	Mauritania
Cape Verde	Mauritius
Central African Republic	Mozambique
Chad	Namibia
Comoros	Niger
Congo, Republic of	Nigeria
Congo, Democratic Republic	Rwanda
Cote d'Ivoire	Senegal
Equatorial Guinea	Sierra Leone
Eritrea	South Africa
Ethiopia	Sudan
Gabon	Swaziland
The Gambia	Tanzania
Ghana	Togo
Guinea	Uganda
Guinea-Bissau	Zambia
Kenya	Zimbabwe