

FOREIGN DIRECT INVESTMENT AND NEIGHBOURING INFLUENCES

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This paper examines the impact of economic, socio and political factors of the home country as well as the neighbouring countries, on the flow of foreign direct investment (FDI) to the home country. The analysis is done by focusing on three different homogeneous groups of countries namely: developed countries, emerging countries and African countries. Panel econometric results, in general, indicate that decreasing risk, improved infrastructure and a higher degree of openness lead to increases in FDI. However, higher levels of human capital attract FDI to the developed countries but defer FDI to emerging and African countries (emphasising the cheap labour argument). Improvements in the civil and political rights of African countries have a large impact on the FDI flowing to the home country. African countries endowed with oil seem to explain some part of their FDI inflows.

The results of neighbouring countries on the home country's FDI show that, if the civil liberty and political rights of neighbouring countries in the developed and emerging country sample worsen, the FDI in the home country improve. The opposite is true in the Africa samples: if the civil liberty and political risk in the neighbouring countries worsen, home country's FDI decrease. Policy recommendations emphasise the responsibility of African neighbouring countries to strive towards stability and thereby improve the regional FDI attractiveness.