REPUBLIC OF TURKEY
SOCIAL SCIENCES UNIVERSITY OF ANKARA
INSTITUTE FOR AREA STUDIES

THE IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH: THE CASE OF EASTERN AFRICA

Master's Thesis

İbrahim Hakkı Tapan

Department of African Studies

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Assoc. Prof. Dr. Mürsel Bayram

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ABSTRACT

THE IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH: THE CASE OF EASTERN AFRICA

It is revealed that foreign direct investment, which is one of the main determinants of the global economy, has various benefits for the host countries. It is claimed that foreign direct investment is an important tool on knowledge and technology transfer, which plays an important role in economic development. Especially underdeveloped and developing countries implement many policies and offer incentives to attract foreign direct investments. In addition, empirical studies examining the economic benefits of host countries from foreign direct investments have reached different results. The results of the latest research claim that some domestic conditions must be created for foreign direct investments to have a positive effect. Foreign direct investments are one of the most important policy tools of African countries in order to ensure economic development. Therefore, it is important to understand the conditions under which FDI inflows occur in Eastern African countries. The general purpose of this thesis is to examine the conditions under which foreign direct investments lead to economic growth in East African countries. The data of selected countries for the period of 2000-2020 were evaluated and interpreted for this purpose. The data reveal that foreign direct investment contributes to economic growth in Eastern African countries with institutional quality, developed human capital and political stability. The effect of foreign direct investment on growth is low in Eastern African countries, which lack political and economic stability, inefficient infrastructure and low institutional quality. The high economic growth rates in Eastern African countries, where foreign direct investment inflows are high, reveal that there is a significant relationship between economic growth and foreign direct investment. These findings reveal that policies aimed at attracting foreign direct investments in Eastern African countries depend on improving domestic conditions in the host country.

Keywords: Africa, Foreign Direct Investment, Eastern Africa, Economic Growth, Covid-19, Human Capital

Aralık, 2021

ÖZET

DOĞRUDAN YABANCI YATIRIMLARIN EKONOMİK BÜYÜME ÜZERİNDEKİ ETKİSİ: DOĞU AFRİKA ÖRNEĞİ

Küresel ekonominin temel belirleyicilerinden biri olan doğrudan yabancı yatırımın ev sahibi ülkeler için çeşitli yararı olduğu ortaya koyulmaktadır. Doğrudan yabancı yatırımın ekonomik kalkınmada önemli rol oynayan bilgi ve teknoloji transferi üzerinde önemli bir araç olduğu iddia edilmektedir. Özellikle az gelişmiş ve gelişmekte olan ülkeler doğrudan yabancı yatırımları çekebilmek için bir çok politika uygulamakta ve teşvikler sunmaktadır. Bunun yanı sıra, ev sahibi ülkelerin doğrudan yabancı yatırımlardan sağladığı ekonomik faydaları inceleyen ampirik çalışmalar farklı sonuçlara ulaşmıştır. Son araştırmaların ortaya koyduğu sonuçlar doğrudan yabancı yatırımların pozitif etki edebilmesi için bazı iç koşulların yaratılması gerektiğini iddia ediyor. Ekonomik kalkınmayı sağlamak amacıyla doğrudan yabancı yatırımlar Afrika ülkelerinin en önemli politika araçlarından biridir. Bundan dolayı Doğu Afrika ülkelerinde doğrudan yabancı yatırım girişlerinin hangi koşullarda ortaya çıktığını anlamak önemlidir. Bu tezin genel amacı Doğu Afrika ülkelerinde doğrudan yabancı yatırımların hangi koşullarda ekonomik büyümeyi sağladığını incelemektedir. Bu amaç doğrultusunda 2000-2020 dönemi için seçilmiş ülkelere ait veriler değerlendirilmiş ve yorumlanmıştır. Veriler kurumsal kaliteye, gelişmiş beşeri sermayeye ve siyasi istikrara sahip olan Doğu Afrika ülkelerinde doğrudan yabancı yatırımın ekonomik büyümeye katkı sağladığını ortaya koymaktadır. Siyasi ve ekonomik istikrarın olmadığı, verimsiz altyapı ve düşük kurumsal kaliteye sahip olan Doğu Afrika ülkelerinde doğrudan yabancı yatırımın büyümeye etkisi düşüktür. Doğrudan yabancı yatırım girişlerinin yüksek olduğu Doğu Afrika ülkelerinde yüksek ekonomik büyüme oranlarının verilerle saptanması ekonomik büyüme ile doğrudan yabancı yatırım arasında anlamlı bir ilişki olduğunu ortaya koyuyor. Bu bulgular, Doğu Afrika ülkelerinde doğrudan yabancı yatırımları çekmeyi amaçlayan politikaların ev sahibi ülkede iç koşulların iyileştirilmesine bağlı olduğunu ortaya koymaktadır.

Anahtar Kelimeler: Afrika**,** Doğrudan Yabancı Yatırım, Doğu Afrika, Ekonomik Büyüme, Covid-19, Beşeri Sermaye

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ABBREVIATIONS

AFDB	: African Development Bank Group
FDI	: Foreign Direct Investment
GDP	: Gross Domestic Product
HDI	: Human Development Index
IIAG	: The Ibrahim Index of African Governance
IMF	: International Monetary Fund
ODA	: Official Development Assistance
OECD	: Organization for Economic Cooperation and Development
UN	: United Nations
UNCTAD	: United Nations Conference on Trade and Development
WB	: World Bank
WDI	: World Development Indicators
WGI	: World Government Indicators
WJP	: World Justice Project

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INTRODUCTION

According to UNCTAD (2012), commercial globalization has lagged behind financial globalization in recent years. Financial globalization has accelerated significantly. Foreign direct investment affirmatively affects growth and supports development in the receiving country. Many countries on the continent have experienced a great boom in their economic growth in recent years. However, political and economic instability in African countries leave the continent behind other regions. Africa needs foreign capital flows to bridge the gap with other regions. African governments and development organizations on the continent are implementing many politics to take more FDI inflows.

The question of whether the increasing FDI flows in the world have the expected effects on host countries has become important for underdeveloped and developing countries, policy makers and researchers. The utilities of FDI flows motivate most countries to remove entry barriers to foreign direct investment, offer financial incentives to foreign investors, and improve the investment climate. Between 1991 and 1998, 112 investment reforms were implemented between 35 and 76 countries. 94% of regulatory regime reforms were made to get foreign direct investment (UNCTAD, 1999). In 2017, 126 investment policies were implemented by 65 countries, 84% of which aimed to increment FDI inflows (UNCTAD 2018).

After the 1990s, foreign direct investment-friendly policies led to an increase in flow globally. Since then, FDI flows in the world has more than tripled. FDI constituted 50% of the capital flow of developing countries (Farkas, 2012). Foreign direct investment inflows reached $1.909 trillion in 2007 on a global scale. While it reached $1.77 trillion in 2015, it fell to $1.43 trillion in 2017. Foreign direct investment inflows in Africa rose from $3 billion in 1990 to $72 billion in 2008. In 2017, foreign direct investment inflows decreased to 42 billion dollars (UNCTAD, 2018). In their recent empirical research, Bruno and Campos (2013) inform that half of the empirical studies reveal that foreign direct investment supports economic growth. While 11% of the empirical studies revealed that foreign direct investment affected growth negatively, 39% did not discover any correlation between FDI and growth.

Although it is generally accepted that FDI has many advantages for the recipient countries, there are not enough empirical studies in the literature that aim to confirm these benefits. However, the role of local conditions in Eastern Africa's FDI-economic growth link has not been adequately explored. The overall purpose of this study is to research the effects of FDI flows on economic growth and to verify whether these effects are due to certain local factors in Eastern African countries.

The study aims to examine:

(i) The impacts of human capital, institutional quality, trade openness, corruption, efficient infrastructure, interest rates, budget deficit and political stability on FDI and economic growth of Eastern African economies.

(ii) To what extent the Covid-19 pandemic has affected FDI inflows and economic growth in Eastern African countries.

This thesis is organized in this way. Chapter 1 examines the notions of FDI and economic growth. In this section, we introduce the notions of FDI and economic growth and highlight the reasons behind them. In addition, we explain the global FDI flows and their relationship to economic growth.

Chapter 2 discusses the empirical evidence for the repercussions of foreign direct investment on income distribution and economic growth in African countries. It focalizes on the effects of FDI on economic growth in host African countries and the determinants of FDI.

Chapter 3 presents our own empirical findings on the influence of FDI inflows to Eastern Africa on economic growth. Also, this chapter focalizes on the determinants behind foreign direct investment in Eastern Africa.

Chapter 4 focuses on the concept of Covid 19. In addition, the influences of the Covid 19 in Eastern Africa are discussed in this section. It focalizes on the influences of the coronavirus pandemic on FDI flows in Eastern African economies. We conclude the study with general conclusions and policy prescriptions from our findings.

a) Theoretical Framework

There are many studies explaining the correlation between FDI flows and economic growth. However, there are not enough studies in the literature explaining this relationship in the context of Eastern Africa. Foreign direct investment flows increased dramatically in the last years of the twentieth century. Developing and underdeveloped countries have turned to FDI in order to make progress in economic development. Foreign investors and donors in developed countries followed the path by looking at the internal conditions, advantages and disadvantages of regions and countries. In the first 20 years of the twentieth century, foreign direct investment flows increased in the African continent. Policymakers and governments have introduced political and economic adjustments to take more FDI flows. Recently, Eastern Africa appears to be the most prominent region on the continent. This study deals with the impact of FDI flows on economic growth in Eastern Africa and the impact of domestic conditions on FDI flows in the region.

b) Research Question and Methodology

This study examines the influences of FDI flows on economic growth in Eastern Africa. It deals with the variables that affect the amount of FDI flows. Foreign direct investment is vitally important for many countries. Developing countries need these foreign capital flows to stabilize economic development. Eastern African economies have attracted significant foreign direct investment inflows in recent years. This thesis deals with the effect of domestic conditions in Eastern Africa on FDI flows and the impact of the Covid 19 on FDI flows. Our research question is whether foreign direct investment flows affect economic growth positively or negatively. In addition, it answers questions such as how the Covid 19 epidemic has affected foreign direct investment flows.

c) Types and Source of Data

We used data to analyze the impact and determinants of FDI in Eastern African countries. Datas were collected from the World Bank's World Development Indicator (WDI) database, the World Bank's World Governance Indicator (WGI) database, the AFDB Socio-Economic Database, The Ibrahim Index of African Governance (IIAG)

Database, Human Development Index (HDI) Database, Doing Business, Database of Our World in Data and the World Justice Project (WJP) Database. The study used 20 years data (2000-2020) for 18 Eastern African countries.

d) Population and Sample

According to the World Bank classification, Malawi, Burundi, Somalia, Eritrea, Madagascar, Ethiopia, South Sudan, Uganda, Rwanda and Mozambique are among the low-income economies. Comoros, Djibouti, Kenya, Tanzania, Zambia and Zimbabwe are among the low-middle-income economies. Mauritius and Seychelles are high-income economies. According to the UNCTAD classification, Eastern Africa consists of 18 countries: Seychelles, Burundi, Rwanda, Comoros, Uganda, Djibouti, Eritrea, Somalia, Mauritius, Tanzania, Ethiopia, Kenya, Madagascar, Zambia, Malawi, Mozambique, Zimbabwe, and South Sudan

CHAPTER 1

1. RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH

1.1. FOREIGN DIRECT INVESTMENT

This chapter deals with the concepts of FDI and growth and the flows of FDI on a global scale. FDI has been identified in several forms by many organizations. The progress of FDI by years is explained in this chapter.

FDI is identified differently by various organizations. UNCTAD defines foreign direct investment as international investment in which a presence in one country provides a permanent return in another country. Permanent interest means the desire to have an influence over the existence of a long-term correlation between FDI and the business. According to the World Bank, foreign direct investment is an investment made by a foreign investor in order to obtain a permanent management share in a business operating in another country. The OECD (2008) defines foreign direct investment as the establishment of a permanent interest by a business in a different economy. A permanent interest in a foreign organization is realized through the transfer of management skills and technical knowledge. According to Moosa (2002) FDI is a process in which a foreign investor acquires rights on assets in order to control the operations of the business in another country.

Foreign direct investment is seen by international companies as one of the most significant drivers of development. Foreign direct investment has increased rapidly lately. FDI, which was 52 billion dollars in 1982, increased to 1271 billion dollars in 2000. In 2007, it reached 2099 billion dollars. There are many determinants of FDI. These are quality infrastructure, openness to trade and human capital. Good institutions attract investors by increasing efficiency. Corruption affects investment badly. In terms of foreign direct investment, uncertainty affects investments badly (Baklouti & Boujelbene, 2014). Developing countries lack the financial resources needed to stabilize growth. These countries need external financing to make up for the shortfall. Developed countries receive more foreign direct investment than developing countries (Aluko, 2020). In the last two decades, FDI flows has gradually increased. The international foreign direct investment network expanded. Global economic integration depends on greater foreign direct investment flows. In the long run, the rising in FDI in the 1990s was crucial. Foreign direct investment are accepted as safe capital. However, developing countries have difficulties in taking advantage of FDI flows. The information infrastructure enables global integration (Mody, 2006).

FDI has been accepted as a determinant of growth in developing countries. Technology transfer affirmatively affects economic growth. Many countries rely on foreign direct investment as a fund of external financing. Foreign direct investment provide domestic firms with a competitive edge. Foreign direct investment also creates jobs, increases productivity, increases exports and has a favorable effect on development. Between 1986 and 1991, annual foreign direct investment inflows increased from 159 billion dollars to 865 billion dollars in the world. Foreign capital flows rose to 11.1% in 1998. It is obvious that economic growth depends on technology transfer. Foreign direct investment flows have historically increased unevenly. The progress of the financial system in the receiver country determines the influence of FDI on economic growth (Khan, 2007). FDI are considered important determinants of economic development (Michael, 2018).

Foreign direct investment takes place through international trade integration. Foreign direct investment is not suitable for import substitution policies (OECD, 2002). There are differences in economic development between countries. Developed countries have the opportunity to invest more. Lack of capital in developing countries creates difficulties in terms of growth. Investments are a very important determinant of growth. FDI is one of the major drivers of the global economy. Developing countries gain access to resources through FDI. FDI help economic development and contribute to the creation of human capital. Foreign direct investment is considered as an investment made by a firm or organization in one country in another country. There are five different types of FDI. The first is done to access the factors of production. The second is developed on the product cycle. In this model, the firm invests to access cheap factors of production. An example of this is low-cost labor. The third includes international firms making mutual investments. In this model, the aim is to gain access to each other's products as competitors. The fourth type is to reach customers in the host country. The fifth type of foreign direct investment is related to regional trade. This pattern occurs when foreign investors encounter an obstacle in the host country (Berhanemeskel, 2018).

Foreign direct investment is the key determinant of the world economy. It is also the driving force of employment and growth. Foreign direct investment close the foreign exchange and investment gap in developing countries. The rapid pace of globalization has increased FDI. FDI flows were $54.1 billion in 1980. In 1990, it reached $207.7 billion. In 2000, it increased even more to 1,401.5 billion dollars (Anyanwu, 2012). The diffusion of technology has a significant impact on economic development. Technology transfer can be done through many channels. Transferring foreign technologies and importing high-tech products are some of these channels. Foreign direct investment seem to have a favorable impact on growth. However, the influence of FDI is negative due to poor quality human capital. FDI can have a favorable impact on growth if it increases capital flow in the receiver country. The fact that these foreign direct investments are more efficient than domestic investments can increase growth (Borensztein, 1998).

GDP, trade openness, infrastructure, political stability, human capital and government incentives are the main factors affecting FDI inflows. Countries's market size and open trade policies act a crucial role in economic development. Political instability hinders the flow of capital. Economic growth also increases foreign direct investment. The most important measure of foreign direct investment is its share in GDP. Countries with larger market sizes receive more FDI flows. Also, natural resources in a country take more foreign direct investment. Political conflicts and instability in many regions negatively affect capital flows (Michael, 2018). Variables such as inflation rate, trade openness and macroeconomic stability are among the most important determinants of growth. FDI has a significant relationship with economic growth (Mehic & Slajdzic & Babic-Hodovic, 2013). Foreign direct investment has grown tremendously in the last two decades. This allowed the growth of production and international trade. FDI has been a great opportunity for developing countries. Foreign direct investment in these economies has increased more than 12 times since 1980. Many countries have tried to remove barriers to foreign direct investment. Governments offered incentives to foreign investors (Herzer & Klasen & Lehmann, 2008).

Domestic investments have a affirmative impact on the growth of developed and developing countries' economies. In addition, the increase in economic growth positively affects foreign direct investment. Economic growth increases the market size of the receiver country (Johnson, 2006). More efficient investments positively affect economic growth. Foreign capital investments trigger growth. Data reveal that foreign direct investment ensures stable economic growth. The establishment and improvement of industrial sectors increases productivity (Michael, 2018).

Ensuring the progress of a country is one of the most considerable concerns of the government. In recent years, foreign direct investment has been investigated as the most important element for growth. While some researchers claim that foreign direct investment is effective for growth in developed countries, other researchers claim that FDI contributes to growth in developed countries. On the contrary, there are researchers who claim that foreign direct investment have no influence on growth (Behname, 2012). Foreign direct investment increases resource use efficiency in the economy, which in turn affects growth. Foreign direct investment causes factor productivity and income growth. Developing countries need quality infrastructure, education and transportation to take advantage of a foreign source in their own markets. Weak financial intermediation affects domestic businesses more (OECD, 2002). FDI has a significant correlation with growth. However, this affirmative correlation is seen in developed economies and economies that have implemented successful privatization. According to the data, foreign firms are entering other markets because of low wages and high productivity. Higher FDI increases the growth of host countries. Some researchers argue that FDI has a unfavorable influence on growth. This is attributed to poorly developed financial markets (Apergis, 2008).

There are 3 different kinds of FDI. The first type is market-seeking foreign direct investment. Market-seeking foreign direct investment is driven by market growth. The second type is foreign direct investment seeking resources. The purpose of this type is to access resources that are not available in the country. The third foreign direct investment is foreign direct investment seeking efficiency. The purpose of this kind of FDI is to provide joint management and to save time (Kinyondo, 2012). Foreign direct investment have recently attracted more attention at the national and international level. FDI is an important element of economic development in all countries, generally in developed countries. From a broad perspective, employment, productivity and competitiveness are seen as investments. Foreign direct investment in underdeveloped countries provide an important source of finance. In addition, foreign direct investment contribute to the competitiveness of local firms. Investments reduce unemployment and provide access to foreign markets. Conversely, some researchers argue that FDI can have a unfavorable influence on economic development (Denisia, 2010).

There is a long-term correlation between FDI and growth. The increase in FDI has a favorable influence on growth. Foreign direct investment are an important source of financing for projects. Countries with good financial systems use foreign direct investments better and more efficiently. Developing countries with good growth rate and pro-investment policies can take more investment (Agrawal, 2015). FDI is one of the most significant elements of the economy. Foreign direct investment includes knowledge as well as capital. Developing countries gain access to resources through foreign direct investment. It also contributes to poverty reduction. In addition, foreign direct investment provide human capital and a competitive environment. It enables the integration of international trade. International companies invest in a country because of the opportunities offered by that country. Market-seeking foreign direct investment serves the local and regional market. It covers the market size and national income of the host countries. Resource-seeking FDI refers to access to resources not available in the receiver country. Efficiency-seeking foreign direct investment, on the other hand, refers to the time saved in the face of emerging risks (Getinet & Assefa, 2006).

Foreign direct investment affirmatively affect economic growth. Foreign direct investment flows reached $1.1 trillion in 2006. It still continues to increase. Large developing countries also make foreign direct investment (Wan, 2010). The 2008 financial crisis significantly reduced foreign direct investment flows. The consequences of the economic recession still continue. The Covid 19 pandemic has also increased this decline. Foreign direct investment flows further increased. Global FDI flows were expected to decrease further in 2020 compared to the previous year. A decrease of 5% to 10 was expected in 2021. Global trade was estimated to experience a contraction of 11.9%. The epidemic had a negative impact on global trade and foreign direct investment.

Restrictions on government funding have occurred due to Covid 19. This has resulted in a huge reduction in infrastructure projects. Infrastructure is one of the sectors most affected by foreign direct investment. Cross-border M&A activity fell more than 50%. Most countries have increased their foreign direct investment screening measures to protect their important industries. Global economic shutdowns have severely affected foreign direct investment flows. In addition, the epidemic caused many projects to be postponed. The coronavirus pandemic has affected foreign direct investment more than economic growth and trade (El Safty, 2020).

Variables and type of investment determine the effect of FDI on the growth of the host country. Many researchers reveal that there is a significant correlation between growth and FDI in both developed and developing countries (Carp, 2012). Variables such as infrastructure development, financial market, human capital, institution quality have a affirmative influence on growth. Inflation rate and inadequacy of technology accumulation negatively affect growth. The effect of FDI on growth depends on the variables in the host countries. Foreign direct investment increases economic growth (Hosein, 2015). The share of FDI in GDP in the 1970s and 1980s was quite low. This share is less than 1% of the total investment. The effect of FDI varies from sector to sector (Herzer & Klasen & Lehmann, 2008).

It is seen that FDI have a affirmative impact on growth. Reducing barriers and removing trade restrictions have a major impact on FDI flows. FDI has a crucial influence on the growth of both the receiver country and the investor country (Ghosh & Wang, 2010).

1.2. ECONOMIC GROWTH

Economic growth is of great importance for countries. Since the increase in social welfare and economic development is based on economic growth, countries prepare many policies in this regard. Variables such as technology, physical capital and human capital are variables that affect economic growth. In addition, foreign direct investments also have a significant impact on growth. Foreign direct investment affects growth in two ways. One of them is that foreign direct investment increases production, exports and employment. The other is that foreign direct investment increase national income

(Behname, 2012). Determinants such as low inflation and the rule of law act a crucial role in increasing economic growth in a country. The protection of political rights also affirmatively affects growth. High living standards and quality of education are also determinants of growth (Barro, 1996).

Economies in the world have different sizes. Some of the world's countries are poor while others are rich. Depending on the variables, some countries are growing, while others are not growing at all. Per capita income varies from country to country. There is a significant relationship between international trade volume and production. The per capita income of countries may change over time. Countries can be rich when poor and poor when rich. Economic growth rates do not remain constant. Social infrastructure and institutions are the most considerable drivers of economic growth. The advancement of technology is one of the most significant determinants of growth. Developed countries devote a large part of their income to capital and skill accumulation. Poor countries do not have such an opportunity. These countries lack capital. The development of a country's social infrastructure increases the flows of foreign capital. As a result, the economy develops. On the contrary, corruption and bribery reduce investment flows (Jones & Vollrath, 2013). High income level provides a quality standard of living. Quality of life and health are the biggest differences between poor and rich countries. Historically, there have always been profound differences in economic growth between countries (Acemoğlu, 2008). Increasing production costs and falling consumer incomes in developing countries cause economic growth to slow down. Growth rates in transition economies are higher than in developing countries (Apitsa & Milliot, 2021).

1.3. RELATION OF FDI AND ECONOMIC GROWTH IN THE WORLD

The flows of FDI as capital to Asian countries started in 1990. Recently, Asian countries have gained a large share of foreign direct investment. With the inflows of FDI, growth in many Asian countries increased in 2005. In 2005, reports showed that Asia had a capital share of $23.6 billion. The largest share in this capital share belonged to India. FDI appears to have a affirmative influence on growth in South Asia. Factors such as economic infrastructure, reduction of technology gap and human capital are also effective on economic growth (Behname, 2012). FDI has a affirmative effect on GDP. The more FDI inflows in the host country, the greater the economic growth. Foreign direct investment are extremely important for countries that are insufficient in terms of capital and technology. Foreign direct investment ensures labor competition. FDI in Central and Eastern European countries contributes to growth. Capital formation and infrastructure are important determinants for investors (Ciobanu & Şova & Popa, 2020).

Table 1.1. FDI Inflows by Region, 2016–2020 (Millions of Dollars)

Group of Economies	2016	2017	2018	2019	2020
World	2 065 238	1 647 312	1 436 732	1 530 228	998 891
Africa	46 249	40 176	45 374	47 143	39 785
Europe	813 338	539 291	371 154	409 482	88 907
America	631 410	474 105	411 790	469 728	267 832
Asia	522 031	545 251	536 960	560 153	578 126

Source: UNCTAD Database

In the last 5 years, foreign direct investment inflows on a global scale have gradually decreased. Foreign direct investment inflows to the Asian region have increased significantly in the last 5 years. Foreign direct investment inflows have decreased drastically in Europe. Africa is the region that receives the least FDI inflows compared to other regions.

Table 1.2. FDI Outflows by Region, 2016–2020 (Millions of Dollars)

Group of Economies	2016	2017	2018	2019	2020
World	1 616 138	1 604 697	870 715	1 220 432	739 872
Africa	8 083	11 779	8 013	4 930	1 592
Europe	673 655	539 243	446 706	387 082	80 515
America	365 842	440 393	-135 091	219 416	138 265
Asia	565 950	606 596	542 479	599 513	509 227

Source: UNCTAD Database

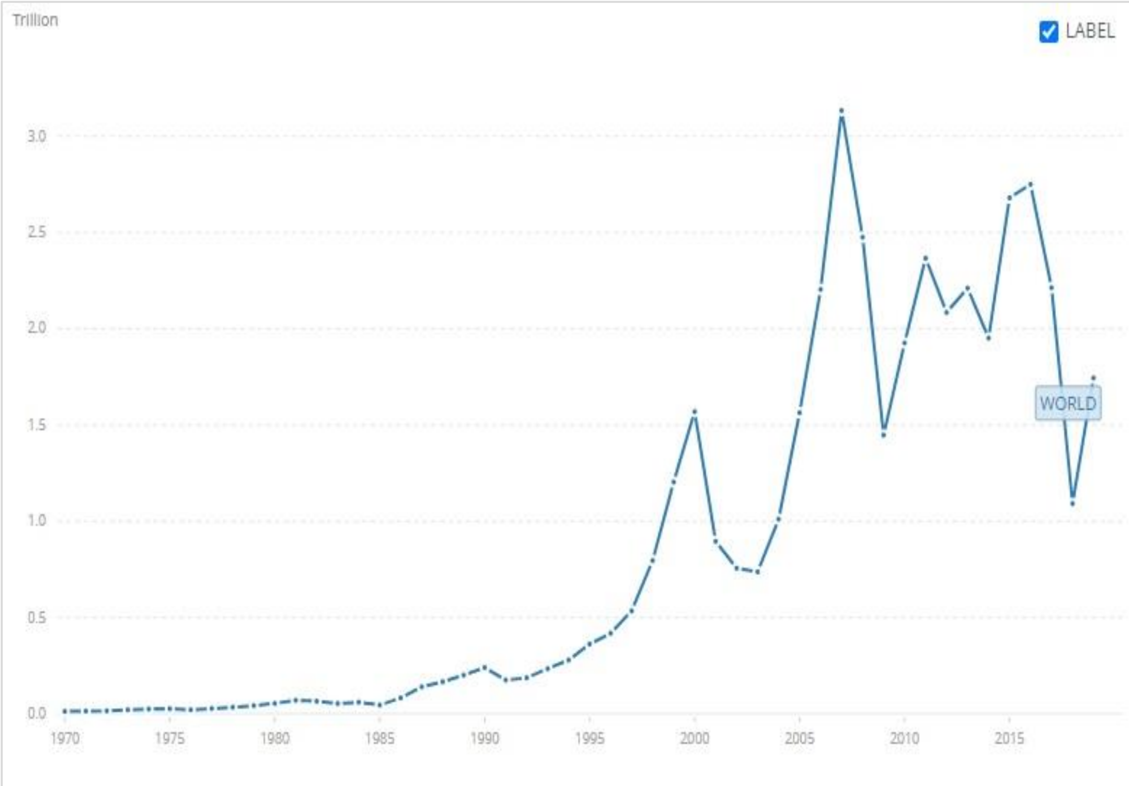
In the table that deals with the foreign direct investment flows between 2016 and 2020, we see that these flows have increased on a global scale. Inward and outward flows of FDI have gradually increased in developed economies. In developing countries, on the contrary, a decrease was experienced. In Asia, we see that FDI flows are declining. Contrary to other regions, we see that Europe has significantly increased foreign direct investment flows. On a global scale, Africa is one of the regions that take the least foreign direct investment compared to other regions. We can attribute the differences between regions to internal conditions. Institutional quality, infrastructure, political and economic stability are among the crucial elements of this difference. Among the emerging economies, Asia stands out. Under the leadership of China, Asian countries are increasing their foreign direct investment flows. In addition, transition economies are one of the economies with the lowest share in total.

India is the most famous country in the world after China. It is normal for such an economy to take investment in all areas. Globalization and development have created new monetary avenues (Saravanan & Sukumar & Raagavendaran & Shammy, 2021). Malaysia, which is a developing country, can provide economic growth both by increasing FDI inflows and by providing financial development. If financial institutions have made progress, FDI will have a affirmative influence on the country's economy (Choong & Yusop & Soo, 2005). Fixed capital positively affects foreign direct investment and human capital in Pakistan. In the long run, trade, foreign direct investment and capital positively affect economic growth. Generally, foreign direct investment inflows occur to countries with strong human capital (Siddique & Ansar & Naeem & Yaqoob, 2017). There is a big correlation between FDI and growth in Eurozone countries. In these countries, the stock of FDI is one of the most crucial determinants of growth. In order to take more FDI, it is important to ensure macroeconomic stability and strengthen the financial market (Pegkas, 2015).

There is a long-term connection between FDI and growth in Asian countries. FDI has a favorable influence on growth (Asghar & Nasreen & Rehman, 2011). There is a significant connection between FDI and growth in Romania. Foreign direct investment inflows positively affect the GDP in Romania. This contributes to economic growth (Nistor, 2014). Trade openness and FDI have a affirmative impact on growth in Nepal. Underdeveloped countries such as Nepal can boost growth by removing trade restrictions. Human capital has little impact on growth in Nepal. Capital formation creates a positive influence in the long run. Human capital has provided a stable trend in the growth rate. Trade openness affirmatively affects economic growth in Nepal (Adhikary, 2015). Pakistan implemented market-based reforms in the 1990s. Many policies have been implemented to attract foreign direct investments. Restrictions on capital inflows and outflows were abolished. Regarding privatization, Pakistan has implemented a liberal regime. Countries like Pakistan cannot benefit from foreign direct investment without macroeconomic stability, human capital development and efficient infrastructure. It is clear that FDI have a positive effect on economic growth (Khan, 2007). There is a affirmative relation between FDI and GDP in Tunisia. Foreign direct investment have a significant impact on growth in Tunisia. FDI is an important determinant for economic development. Many variables positively affect financial development and human capital (Hassen & Anis, 2012).

The most important source of foreign resource flows to developing countries is FDI. FDI is one of the crucial parts of capital formation in developing countries. Generally, FDI has been accepted as a factor that increases economic growth. Foreign direct investment increases employment, productivity and exports in the host country. These capital flows facilitate access to new technologies. In addition, foreign capital flows facilitate the use of raw materials. The share of developing countries in FDI inflows was 17.4% between 1985 and 1990. Between 1995 and 2000, this share increased to 26.1%. Foreign direct investment for Pakistan was $245 million in 1990. This amount reached $4,273 million in 2006. Foreign direct investment in Pakistan did not have a crucial influence between 1980 and 2006 (Falki, 2009).

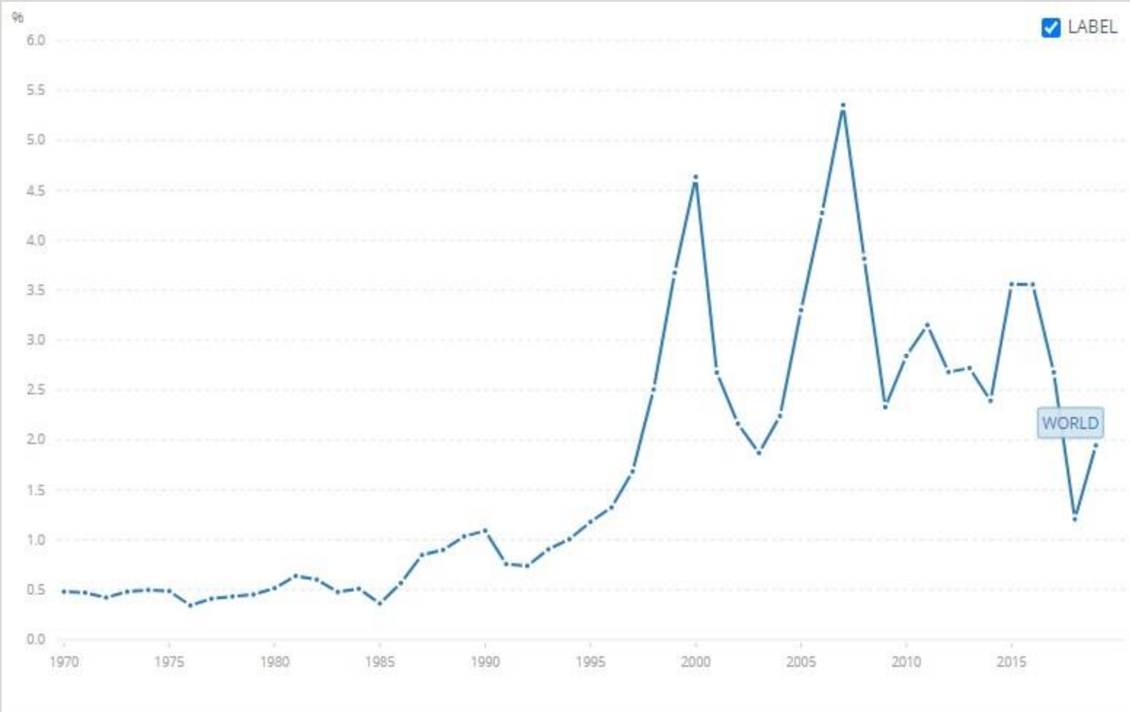
Developing countries have changed their interest in FDI due to its favorable impact on development. Foreign direct investment did not attract much attention due to the debt crisis in the 1980s and the financial difficulties in the 1990s. High efficiency and low costs act a important role in a company's investment in another country. Most countries, including developing countries, have established investment agencies. In order to take FDI, it is extremely important to reduce the regulatory environment and the cost of doing business. The underdeveloped financial markets affect foreign direct investment negatively. In addition, foreign capital flows affirmatively affect economic growth (Alfaro & Chanda & Özcan & Sayek, 2004).



Source: World Bank Database

Figure 1.1. FDI net inflows (US$ Trillion) - World

The flows of FDI has accelerated significantly on a global scale with the acceleration of globalization. While the foreign direct investment flow in the world was 239.414 billion dollars in 1990, the amount of inflow reached 1.569 trillion dollars in 2000. In the 2000-2003 period, foreign direct investment started to decline. The inflows of foreign direct investment, which reached $3,134 trillion in 2007, has reached its historical peak. After the fluctuations in foreign direct investment flows between 2007 and 2019, it decreased to 1.744 trillion dollars in 2019.



Source: World Bank Database

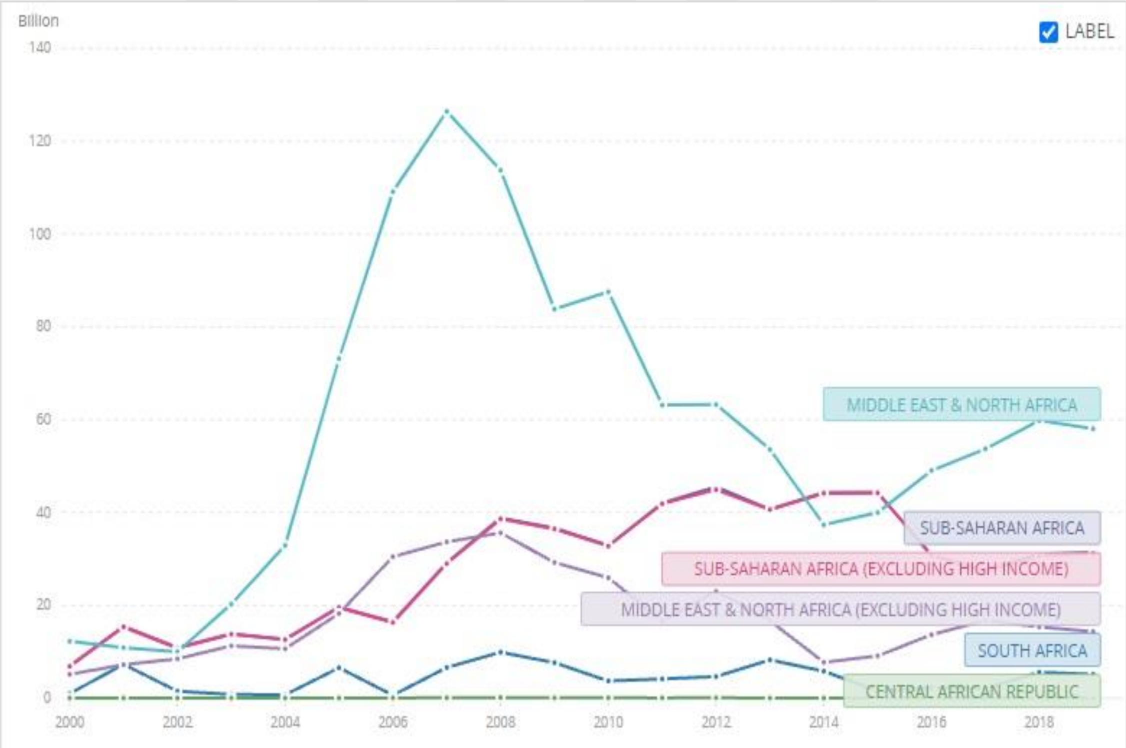
Figure 1.2. FDI net inflows (% of GDP) - World

In this graph, which shows the FDI inward flows of, the percentage of foreign direct investment to GDP peaked between 2006 and 2010. The percentage ratio of FDI inflows to GDP, which increased significantly after the 1990s, decreased significantly after 2008. The graph shows the negative influence of the 2008 financial crisis on foreign direct investment. The graph shows the negative effects of many factors, such as financial crises, on the world economy.

CHAPTER 2

2. IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN AFRICA

This section discusses the impact of FDI flows on the African continent on economic growth. Africa has started to take more FDI since the 21st century. However, its share on a global scale is significantly lower than other regions. Different domestic conditions in countries or regions affect foreign direct investment flows. Africa's external outlook paints a negative picture. However, in recent years, African countries have become one of the most important stops for foreign investors.



Source: World Bank Database

Figure 2.1. FDI Net Inflows (US$ Billion) - Africa

If we come to the consequences we can draw from the graph showing the flows of FDI in the African continent between 2000-2019, the most FDI inflow was in the North Africa and Middle East. FDI inflow in this region in 2014 was 32,912 billion dollars. In 2007, this amount doubled to $126,452 billion. It was the most serious figure on the continent. The lowest FDI inflow on the continent was to the Central African Republic. It is clear to what extent the political instability in the region deters foreign direct investments. Another region that cannot attract foreign capital is South Africa. This region has generally remained stable over the 20-year period.

Table 2.1. Foreign Direct Investment Inflows US$ Dollars in Millions, 2000-2020

	World	**Africa**
2000	1 356 645	10 382
2001	773 137	19 973
2002	590 315	14 761
2003	549 625	18 157
2004	698 438	17 647
2005	953 166	29 260
2006	1 415 967	34 594
2007	1 906 729	50 864
2008	1 489 144	58 391
2009	1 239 093	58 866
2010	1 393 729	47 243
2011	1 612 890	46 441
2012	1 491 331	57 087
2013	1 453 506	50 637
2014	1 402 117	54 498
2015	2 032 298	57 902
2016	2 065 238	46 249
2017	1 647 312	40 176
2018	1 436 732	45 374
2019	1 530 228	47 143
2020	998 891	39 785

Source: UNCTAD Database

According to the data, foreign direct investment inflows on a global scale have increased significantly in the last 20-year period. We see that foreign direct investment inflows have decreased in the last 5 years. Foreign direct investment inflows have increased in the last 20 years in the African continent. The highest foreign direct investment inflows to the continent occurred between 2007 and 2015. However, when we compare the foreign direct investment inflows in the global and African continent, we can say that Africa has benefited from this foreign direct investment in very small amounts.

Foreign direct investment flows increased from $13 billion to $2 trillion between 1970 and 2007. By virtue of the financial crisis, it decreased to 1.1 trillion dollars. Globally, the FDI flows to Africa was low. Africa, which did not benefit from these capital flows, showed a low trend. Africa's failure to attract capital flows poses greater challenges. Because foreign direct investment accelerate growth and development in the country by providing capital. Therefore, many African countries have developed policies to attract capital flows. Frameworks specific to foreign direct investment have been determined. In addition, international agreements have been signed. The flows of foreign direct investment to Africa is low compared to other regions. In 1970, the capital flow to Africa was 1.3 billion dollars. Africa's share of foreign direct investment generally showed a low trend globally. In 2009, it had a 5.3% value in capital flows. Asia, on the other hand, was 27%. Agglomeration economies are an important factor in the flows of foreign direct investment to Africa. GDP growth has a affirmative influence on foreign direct investment. In addition, the availability of natural resources in the country attracts foreign direct investment seeking resources. National and international organizations have a conscious role in promoting investments in Africa. Also, with the increase of capital flow to the region, the negative perception on Africa is changing over time (Kinyondo, 2012).

For developing countries, FDI has a significant impact. FDI has been a primary concern for African politicians. Most foreign direct investment was in the form of purchases of existing assets in the host country (Mwilima, 2003). The policies of the USA, China and other European countries in foreign direct investment flows in Africa are the same. The settlement of the Chinese by migrating to Africa changes relations compared to other countries. It is important that African governments play an entrepreneurial role in national economies. In addition, it would be advantageous for them to follow an entrepreneurial policy. African governments should not rely on aid from official development aid donors. They should invest in the technical parts. The richness of many African countries in terms of natural resources creates different options. Africa has the largest oil reserves in the world after the Middle East (Raudino, 2016).

Africa is home to 12% of the world's population. In terms of GDP, Africa produces 2% of the world scale. Conflicts and poverty on the continent negatively affect per capita income. Public investment tends to decline and the budget deficit tends to increase in Africa. In addition, fluctuations in commodity prices create trade imbalances. The trade share of African countries in the world and in the continent is low. In addition, the weak financial sector is one of the major problems. Budget deficits in the continent cause tightening monetary policies to be implemented (OECD, 2000). Foreign direct investment in African countries has a very important role in reducing poverty. Foreign direct investment have a positive effect on the welfare of these countries. Rich countries benefit more than poor countries. Because these countries are underdeveloped, African countries give importance to foreign direct investments in order to develop their economies. African countries generally have small markets. Market size is one of the major determinants of foreign direct investment. Regional and international trade integration is crucial for the continent to reduce poverty and stabilize development (Gohou & Soumare, 2010).

Equity is the sum of long and short term capitals and reinvestments of earnings. Foreign direct investment is expected to boost economic growth in Africa (Bekere & Bersisa, 2018). Foreign direct investment is extremely important in eliminating poverty and increasing productivity. Many developing countries offer a favorable environment for investments. In 2017, many investment policies were adopted by 65 countries. While foreign direct investment inflows to Africa were 3 billion dollars in 1990, it increased to 46 billion dollars in 2018. African politicians see foreign direct investment as one of the most crucial elements for growth. Political stability, quality legal system and institutional factors are important in order to gain from foreign direct investment (Yeboua, 2020).

To stem the spread of poverty, many African countries would need growth rates of 7 to 8%. Foreign direct investment plays an important role in poverty reduction. Many countries on the continent imposed trade restrictions and exchange controls. This hindered foreign direct investment and slowed economic growth (Marandu & Mburu & Amanze, 2018). Foreign direct investment (FDI) is important in Africa because of its impact on economic growth. African governments have prepared many incentive schemes to attract the flows of foreign capital. African countries failed to benefit from foreign direct investment flows in the 1980s. The flows of FDI on a world scale was 401.7 billion dollars. Africa's was 7.1 billion dollars. Other regions received more investment compared to Africa. Africa received $20 billion in foreign direct investment in 2001. Its share reached 9% this year. The fund of FDI increased steadily from 1980 to 2002. Africa received 4.6% of these investment stocks on a global scale (Ajayi, 2006).

FDI act a considerable part in the progress of Africa. However, African countries often failed to attract enough foreign direct investment due to problems such as inefficient infrastructure, political instability, and weak governance. Having a sustainable environment both increases the flows of FDI and contributes to economic growth (Dupasquier & Osakwe, 2006). In sub-Saharan Africa, trade openness, official development aid, exchange rate have a favorable influence on FDI. The effect reflected on investments also affirmatively affects growth (Yasin, 2005). Developing countries received 52% of global FDI inflows. This amount was higher than foreign direct investment inflows to developed economies for the first time. Foreign direct investment (FDI) inflows in Africa increased significantly in 2012. There was more foreign direct investment inflow in manufacturing, service and infrastructure related sectors. The United States and the England are the largest investor countries in Africa. Recently, China and India have also joined this investment network. Countries such as Brazil, Russia, India and China are increasing investment flows in Africa to accelerate their growth. The share of Greenfield investment projects in total scale increased from 7% to 23% (Chakrabarti & Ghosh, 2014).

Foreign direct investment (FDI) flows have increased significantly in recent years. Foreign direct investment (FDI) flows rose from $59 billion in 1982 to $648 billion in 2004. In 2006, FDI inflows in Africa reached $36 billion. Since 2000, the rate of return on FDI in Africa has steadily increased. Cross-border procurement and Greenfield projects act a crucial role in African country economies. France, Netherlands, England and the United States possess half of FDI in Africa. Foreign direct investment in oil and gas was higher. Most FDI flows in Africa is concentrated in the primary sector (Adams, 2009). Unemployment has often been a major problem in South Africa. Due to such problems, it has suffered from sustainable growth. Foreign direct investment is seen as an crucial element for increasing exports and stability in such countries. Foreign direct investment increases productivity, exports and employment. Foreign direct investment is needed to reduce unemployment. There is a considerable correlation between growth and

FDI flows in South Africa. FDI inflow is important in order to make progress in economic growth (Tshepo, 2014).

A 1% increment in FDI flows adds 0.12% of South Africa's GDP. This gives an increase of 0.05% in Egypt, 0.03% in Nigeria, 0.02% in Kenya. Foreign direct investment affects South Africa more than the other four countries. South Africa and other countries have great potential to drive growth (Awolusi & Adeyeye, 2016). Foreign direct investment promotes science, technology and economic growth. GDP growth also increases the inflows of foreign direct investment. GDP growth attracts more foreign direct investment to Sub-Saharan African countries. This determinant is one of the most crucial factors of foreign direct investment. Other determinants in sub-Saharan Africa are trade openness and natural resources. Countries with more natural resources increase FDI inflows. Countries with a clear trade policy increase FDI inflows. Foreign investors investing in the region tend to prefer natural resources. Countries that can control corruption take more FDI than other countries. Another determinant is debt service. High debt service negatively affects foreign direct investment (Demelew, 2014).

FDI is one of the very prominent elements for a country. Variables such as financial institutions, population, unemployment rate, inflation affect growth. Knowledge and communication knowledge provides competitiveness and enhances productive capacity. It is seen that there is a significant connection between foreign direct investment and GDP in Middle Eastern countries and North African countries. Thanks to higher growth, more foreign direct investment is coming to these countries (Mehrara & Musai, 2015). Foreign direct investment is extremely important in eliminating poverty and increasing productivity. Many developing countries offer a favorable environment for investments. In 2017, many investment policies were adopted by 65 countries. While FDI inflows to Africa were 3 billion dollars in 1990, it increased to 46 billion dollars in 2018. Foreign capital is needed to reduce poverty and ensure stable growth in Africa. African politicians see foreign direct investment as one of the most important factors for growth. Political stability, quality legal system and institutional factors are important in order to gain from foreign direct investment (Yeboua, 2020).

There is a affirmative correlation between FDI and market size in Africa. Openness of trade increases foreign direct investment inflows. High financial development has a negative impact on foreign direct investment. The rule of law in Africa increases the inflows of foreign direct investment. In addition, agglomeration has a positive influence on FDI. Africa attracts a lot of investment related to natural resource donation. Low financial development has a negative relationship with foreign direct investment. Regional trade integration increases the market size. This situation increases FDI inflows. Having an export-based economy increases foreign direct investment. In addition, institutional quality and good governance have a positive effect on FDI (Anyanwu, 2012).

Most of the FDI inflows in Africa are in natural resources. In the continent, 40% of foreign direct investments are in the primary sector. Often there have been investments in the oil and mineral extraction business. Countries such as Angola, Botswana, Namibia and Nigeria have received many investments. According to many researchers, FDI is related to efficient infrastructure. Infrastructure, economic and political conditions are important for the inflows of foreign direct investment. In addition, institutional quality and trade reforms are important. In addition, countries with a high trade openness get more investment. There is a affirmative correlation between trade openness and investment in African countries. Foreign debt, market size and workforce are also important in FDI inflows in Africa (Berhanemeskel 2018). Between 1996 and 2008, there were 5 countries as recipient countries for foreign direct investment. These were Angola, Nigeria, South Africa, Sudan and Equatorial Guinea. Except for South Africa, all of these countries have oil deposits. South Africa has diamond, gold and coal deposits. As many firms in developed countries view sub-Saharan Africa as an attractive destination, capital flows have been steady in the region. Foreign direct investment increased in all sectors except communication and banking. While foreign direct investment in sub-Saharan African countries were $6.3 billion in 2000, it increased to $35 billion in 2012. The data show that foreign direct investment has a large impact on economic growth. Development agencies and non-governmental organizations advocate economic reforms and stable management. Many sub-Saharan African countries liberalized trade. It pursued policies to improve infrastructure and human capital. In addition, a development initiative program called the New Partnership for the Development of Africa was established in 2001. The aim of the program was to eradicate poverty and increase the flow of capital. Studies show that institutional quality creates a reliable investment area. Good institutions attract domestic and foreign direct investment and reduce corruption. Some researchers argue that trade liberalization, institutional quality and political stability attract foreign direct investment (Nondo & Kahsai & Hailu, 2016).

Approximately half of the foreign direct investment in Africa have been in the oil and mining sector. Countries such as Angola, Namibia and Nigeria have received investments in the oil and mineral sectors. Some countries have attracted investment with tax and investment incentives. Countries such as Lesotho and Swaziland have also attracted investments because these countries are close to South Africa. Market size plays a large role in attracting investment. Uganda is an example of this. High per capita income is a major factor in attracting investment to the country. Another factor is the low payments gap. Political instability reduces the flow of investments (Getinet & Assefa, 2006). Institutional infrastructures, domestic policies and human capital affect foreign direct investment. Market size, economic growth and trade openness are one of the most important determinants of FDI in sub-Saharan Africa. Institutional and political risk variables positively affect FDI inflows. Countries with a democratic system take more investment. Corruption and political instability do not have a significant impact on foreign direct investment. The market size of sub-Saharan African countries is small (Cleeve, 2012).

2.1. RECENT TRENDS IN FDI INFLOWS INTO AFRICA

This section shows the inward and outward flows of foreign direct investment in the African continent. It deals with the level of foreign capital in regions and continents by year. Foreign direct investment has been the last favorite of African governments and policy makers lately. The impact of these FDI and aid on African economies is vital.

The effect of FDI on growth is a controversial issue in development. With the rapid pace of globalization, foreign direct investment have increased worldwide. It has led to unprecedented prosperity, especially in Southeast Asia. Africa missed its growth opportunity due to border conflicts and instability. After the 1990s, many African countries tried to persuade foreign investors. In the 1980s, capital flows increased considerably. Foreign direct investment in Africa was low compared to regions such as Asia and Latin America. FDI inflows to Africa were $1 billion, while capital flows to other regions were higher. While investments from African countries decreased in the 1980s, the amounts received by Asia and Latin America increased significantly. As a result, African countries lagged behind other developing countries. Also, many African leaders were against foreign direct investment. Privatization programs started after 1990. However, African countries were against privatization in sectors such as energy and banking. Foreign investors also had concerns about Africa. These concerns stemmed from famine, corruption, and war. Reforms were initiated to increase the role of the private sector. African governments began to allow foreigners to invest. While the data show a affirmative correlation between foreign direct investment and growth, economic growth has a negative relationship with inflation and population (Sukar&Hasan, 2011).

Foreign direct investment is one of the major determinants of economic growth in Africa. Most African countries suffer from insufficient technology and information shortages. Kenya offers great opportunities for foreign investors. Kenya is driven by technology and export-based businesses. The most considerable driver of stable growth is foreign direct investment (Gachunga, 2019).

Foreign direct investment has continued to increase in sectors such as energy, banking and telecommunications in African countries. African countries are experiencing a boom in economic growth. With these growth rates, countries get more foreign direct investment. This contributes to intercontinental and interregional trade integration (Apitsa & Milliot, 2021). Foreign direct investment inflows in sub-Saharan African countries increase economic growth. Increasing domestic capital accumulation is important for foreign direct investment to positively affect growth. Telecommunications infrastructure has a significant impact on FDI inflows (Ndikumana & Verick, 2008).

In 2000, Africa received approximately $8.2 billion in FDI inflows. Availability of natural resources in Africa and the size of the local economy have played an important role in attracting foreign direct investment. Macroeconomic instability and political conflicts have been instrumental in deterring foreign direct investment. Trade liberalization has played a role in increasing FDI inflows for many African countries (OECD, 2002).

Africa has benefited from the growing global stock of foreign direct investment. In 1999, the amount of foreign direct investment in Africa increased by 28% to 10%

billion dollars. In 1998, this amount was 8 billion dollars. Most of the foreign direct investment in Africa went to South Africa. Nigeria, Egypt, Uganda and Tanzania were other major investment buyers. The most invested sectors were in sectors such as telecommunications, tourism and mining. Between 1990 and 1999, foreign direct investment inflows increased 5 times. However, Africa's share of foreign direct investment inflows in the world has gradually decreased. Africa's share of investments was very small. In 1999 Angola and Egypt were the largest recipients of foreign direct investment. Determinants such as interest rate, inflation, growth rate, foreign debt and infrastructure affect FDI flows. There is a positive correlation between growth and FDI (Onyeiwu & Shrestha, 2004).

Investments in Africa are seen as high risk. A negative perception of Africa hinders investment. The ability of foreign direct investment to create employment plays an important role in reducing poverty (Ajayi, 2006). There are great differences between regions in the world because these regions do not share foreign capital equally. In 2012, Africa's share of FDI inflows was 5% worldwide. The shares of Asia and Latin America were 30% and 20%, respectively. In 2016, FDI inflows were 59 billion dollars in Africa. As of 2010, around 100 billion dollars of foreign direct investment and official development aid have been inflows to Africa. Remittances contribute greatly to foreign capital inflows in Africa (Michael, 2018).

Africa has not generally been a region that receives foreign direct investment. This caused other regions to lag behind. African countries have seen a huge boost in growth recently. Foreign direct investment flows declined from $72 billion in 2008 to $59 billion in 2009. In 1990, Africa's share of foreign direct investment flow was 1.37%. Asia's share was 10.9%. In 2009, Africa's share was 5.27%, while Asia's share was 27% (Anyanwu, 2012). In Africa, Mali, Ethiopia, Chad and the Democratic Republic of the Congo are low-income countries. Countries such as Angola, Kenya, Nigeria and Cabo Verde are in the lower middle-income class. Mauritius is a high-income country. South Africa is an upper middle-income country. Low and lower middle-income countries often depend on agriculture. Angola and Nigeria are mostly energy pioneers (UNDP, 2021). In the late 1980s, foreign direct investment in Africa was unevenly distributed. Foreign direct investment was going to the richest countries on the continent. These were countries such as South Africa, Algeria, Swaziland (Chauvet & Mesple-Somps, 2006). Foreign direct investment in Africa are at a low level compared to other regions. Between 1970 and 2018, the share of FDI in Africa accounted for 10% of global FDI flows. Political instability, poor institutional quality, inefficient infrastructure are among the main reasons (Aluko, 2020).

Table 2.2. FDI Inflows US$ Dollars in Millions, Regions by Africa, 2000-2020

	Northern Africa	**Eastern Africa**	**Middle Africa**	**Southern Africa**	**Western Africa**
2000	3 250	2 198	1 529	1 273	2 131
2001	5 358	1 584	3 718	7 238	2 075
2002	3 872	1 734	3 963	2 279	2 913
2003	5 266	2 017	6 251	1 280	3 343
2004	6 444	2 334	3 704	1 541	3 623
2005	11 613	2 539	720	7 292	7 096
2006	21 595	3 330	1 320	1 330	7 020
2007	23 097	6 014	4 298	7 879	9 576
2008	22 205	6 993	6 042	10 567	12 584
2009	18 142	7 859	7 543	8 709	14 614
2010	15 746	10 905	4 321	4 267	12 004
2011	7 548	11 926	2 406	5 523	19 038
2012	15 598	15 614	3 741	5 854	16 280
2013	12 757	16 348	-1 958	9 272	14 217
2014	11 995	15 180	8 472	6 847	12 004
2015	12 327	14 207	17 935	3 244	10 191
2016	13 849	12 881	4 881	2 914	11 725
2017	13 273	12 983	1 192	2 616	10 112
2018	15 338	13 312	2 515	6 109	8 100
2019	13 782	11 711	4 404	5 287	11 958
2020	10 109	9 483	7 170	3 255	9 768

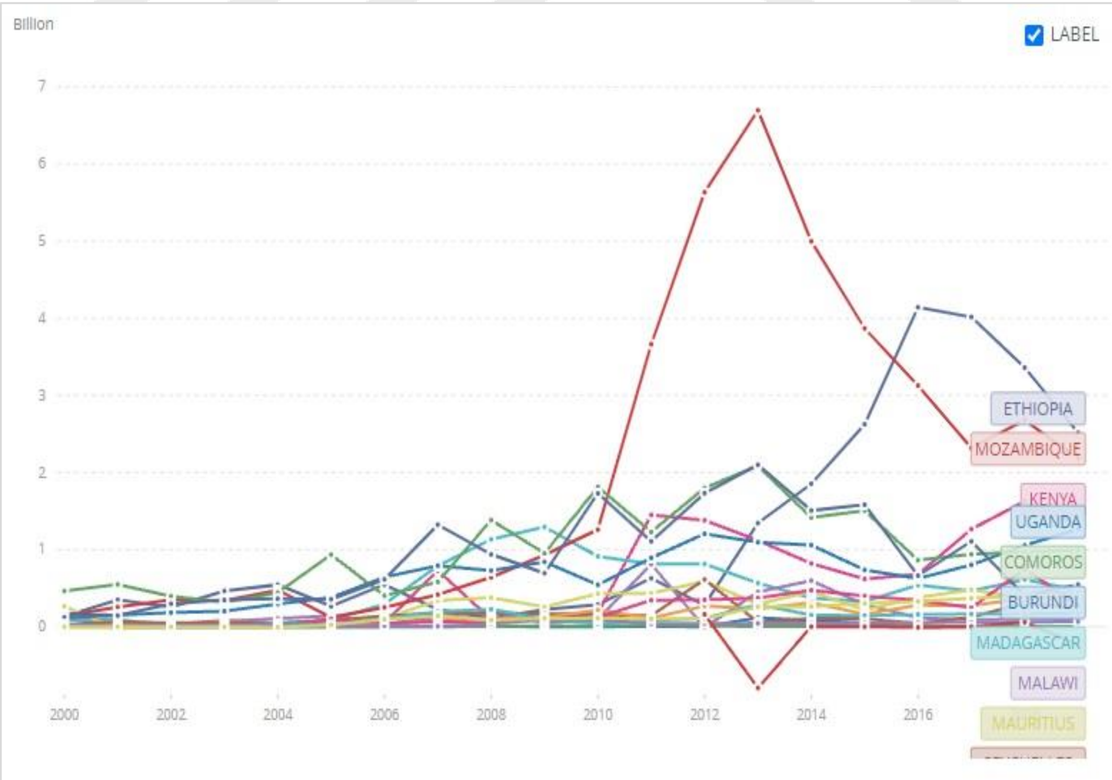
Source: UNCTAD Database

According to the data, we see that the North African region receives the most foreign direct investment inflows. The South African region is the region that receives the least foreign direct investment inflows in the continent. In the last 20-year period, we see that the East African region has significantly increased foreign direct investment inflows. Middle Africa is one of the regions that receive the least foreign direct investment inflows.

CHAPTER 3

3. IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN EASTERN AFRICA

This section discusses the impact of FDI flows on economic growth in the Eastern African region. Africa has started to take more FDI since the 21st century. However, its share on a global scale is significantly lower than other regions. Different domestic conditions in countries or regions affect foreign direct investment flows. However, African countries have become one of the most important stops for foreign investors in recent years. Especially many Eastern African countries experienced a great boom in their economic growth. This situation directly affected the economic development. Domestic conditions have been improved more with economic development.



Source: World Bank Database

Figure 3.1. FDI net inflows (US$) in Eastern Africa

According to the chart, the largest foreign direct investment inflows was in Mozambique in 2013 in the 20-year period. There was an foreign direct investment inflows of 6.697 billion dollars to Mozambique. Due to the sharp declines that followed, it decreased to 2.181 billion dollars in 2019. South Sudan is the only country in Eastern Africa that receives less than 0 foreign direct investment inflows. After Mozambique, Ethiopia is the country that receives the most foreign direct investment inflows. It has received investment inflows of over 1 billion dollars in Uganda and Kenya. Other Eastern African countries, on the other hand, receive foreign direct investment inflows of less than $1 billion.

Table 3.1. FDI Inflows US$ Millions in Eastern Africa, 2000-2020

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Burundi	12	-0	..	..	0	1	0	1	4	0	1
Comoros	0	1	0	1	1	1	1	8	5	14	8
Djibouti	3	3	3	14	39	22	108	195	229	75	37
Eritrea	28	12	23	25	24	1	15	7	39	91	91
Ethiopia	135	349	255	465	545	265	545	222	109	221	288
Kenya	111	5	28	82	46	21	51	897	643	1855	1882
Madagascar	83	93	61	95	95	86	295	741	1393	1269	765
Malawi	40	39	39	13	59	99	122	35	124	195	46
Mauritius	277	-26	32	62	11	42	105	339	383	248	430
Mozambique	139	255	347	337	476	108	113	399	592	898	2532
Rwanda	8	19	2	5	8	8	31	82	102	119	251
Seychelles	24	65	48	58	37	86	146	182	182	171	211
Somalia	0	0	0	-1	-5	24	96	141	87	108	112
South Sudan	..	..	..	..	..	..	..	..	..	..	..
Tanzania	1013	467	388	308	331	936	403	582	1383	953	1813
Uganda	181	151	185	202	295	380	644	792	729	842	544
Zambia	122	145	298	347	364	357	616	1324	939	695	1729
Zimbabwe	23	4	26	4	9	103	40	69	52	105	166

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Burundi	3	1	7	47	7	0	0	1	1	6
Comoros	23	10	4	5	5	4	4	6	4	9
Djibouti	79	110	286	153	124	160	165	170	222	240
Eritrea	39	41	44	47	49	52	55	61	67	74
Ethiopia	627	279	1344	1855	2627	4143	4017	3310	2549	2395
Kenya	2234	2175	1978	1514	1464	1139	1404	1139	1098	717
Madagascar	788	778	551	314	436	451	358	353	474	359
Malawi	93	81	89	387	510	116	90	959	822	98
Mauritius	433	589	293	456	216	379	480	461	471	246
Mozambique	3559	5629	6175	4902	3867	3093	2293	2703	2212	2337
Rwanda	119	255	258	459	380	342	356	382	354	135
Seychelles	207	261	170	230	195	155	192	120	144	122
Somalia	102	107	258	261	303	330	369	408	447	464
South Sudan	..	161	-793	44	0	-8	1	60	-232	18
Tanzania	1229	1800	2087	1416	1561	864	938	972	991	1013
Uganda	894	1205	1096	1059	738	626	803	1055	1259	823
Zambia	1109	1732	2100	1489	1305	663	1108	408	548	234
Zimbabwe	387	400	400	545	421	372	349	745	280	194

Source: UNCTAD Database

In the context of East Africa, the highest foreign direct investment inflows have been to Ethiopia, Kenya, Tanzania and Mozambique in the last 20-year period. The least foreign direct investment inflows have been to Burundi, Comoros, Eritrea, Somalia and South Sudan in the region. The highest foreign direct investment inflow in East Africa was in Mozambique in 2013 in the last two decades. We can say that Ethiopia and Mozambique has the most serious foreign direct investment buyers in the last 20-year period.

Ethiopia has achieved double-digit growth in the last 10 years. This growth has increased per capita income. In addition, living standards have increased. Foreign direct investment is one of the crucial factors for a country. These capital flows become an important resource for underdeveloped countries. Foreign direct investment are of great importance for underdeveloped countries. Ethiopia is one of these countries. In addition, foreign direct investment include developed countries in the market. While some researchers argue that foreign direct investment bring great benefits to the host country, others argue the opposite. In addition, foreign direct investments create employment opportunities and integrate the host country into the world market. Some researchers claim that FDI has a bad effect on the host country. These researchers thinks foreign direct investment affects local skills. Researchers say FDI has three general purposes. One of them is foreign direct investment seeking market. Market-seeking foreign direct investment serves the local and regional market. The reason for market-seeking foreign direct investment is market size. In foreign direct investment seeking resources, the investor gains access to resources that are not available in the host country. Efficiency-seeking foreign direct investment, on the other hand, provides joint management. Besides, there are two determinants of FDI. These are business convenience and the policy environment. Trade openness and liberalization affirmatively affect foreign direct investment. Inflation and interest rate affect negatively. Therefore, the Ethiopian government should remove the factors that hinder investments. If the domestic investor is successful, the country will attract foreign direct investments. In addition, it is important to ensure continuity in economic growth. Inflation should be brought under control by implementing sound fiscal and monetary policies. The exchange rate should be stabilized. Stability should be ensured in the political environment (Legese, 2019).

Foreign direct investment flows in Africa are of paramount importance for growth. Despite its low share of foreign direct investment flows on a world scale, Africa continues to attract investment. Foreign direct investment is not evenly distributed in Africa. Investments are made mostly in oil-exporting countries. Commodity and oil prices also affect investment flows in the world. High prices reduce the flows of foreign direct investment. In 2009, the negative effects of macroeconomic variables reduced FDI flows by 45% (Loots & Kabundi, 2012). Lack of financing in the low-income countries of sub-Saharan Africa reduces foreign direct investment. Having adequate financing in the economy increases foreign direct investment. With the development of the banking sector, foreign direct investment causes a affirmative effect on economic growth. Foreign direct investment in sub-Saharan African countries does not have a significant impact on economic growth (Olagbaju & Akinlo, 2018).

Ethiopia is one of the largest countries in the world by land size. It also has important agricultural lands. The country is suitable for growing all kinds of crops. The most important crop is coffee. Sectors such as oil crops, cotton and livestock are also of great importance. Foreign direct investment in the agricultural sector constitute 32% of the total investments in the country. Since oil and some other minerals are not enough in Ethiopia, it is difficult to attract investment. Ethiopia attracts investment from various sources from countries such as India and China. However, the current supply network is insufficient. Investments in the agro-industrial sector continue to increase. Foreign investors are usually interested in animal products and valuable crops. Foreign direct investments play a major role in the structural transformation of the economy. Ethiopia has many minerals such as gold, copper and iron. There is a significant amount of oil and gas. However, despite this potential, Ethiopia was not a mining center. The mining and oil sector has a great importance in Ethiopia's growth. For these reasons, the government should help development by establishing the mining industry. However, many African countries tried to create mining-based development without sufficient knowledge and failed. Congo was a prime example of this. The mining industry was creating an atmosphere of conflict in Congo. Accordingly, the Ethiopian government created the right strategy before using this sector. In this way, these sectors have become an important source for foreign investors. The construction industry accompanied the economic development. The great construction that took place revealed the importance of cement.

Housing construction and skyscrapers increased. Accordingly, Ethiopia's importation of cement was creating a big problem. Chinese investors solved an important problem in development by eliminating this cement problem. Gold is also an important source of foreign direct investment in the country. It ranks second in export items after coffee. As can be seen here, the most important factors in the increase of foreign direct investments in the continent are high quality manpower and high growth (Atlaw & Teklemariam & Genu 2013).

With globalization, foreign direct investment increased more after the 1980s. Foreign direct investment increased from $13.3 billion in 1970 to $1.45 trillion in 2013. Foreign direct investment rose from $1.3 billion in 1970 to $57.2 billion in Africa. However, Africa and Eastern Africa cannot attract investments due to many problems. Capital constraint is one of them. Malnutrition, political conflicts, food insecurity are some of these problems. Three key economic sectors are less productive in Eastern Africa. The agricultural sector continues traditionally. The service sector accounts for a large part of the national income. Foreign direct investment in Eastern Africa has a positive effect on growth. In addition, trade openness and domestic investment have a positive effect on growth. Foreign direct investment is the main driver of economic growth in Eastern Africa. It can get more foreign direct investment by investing in infrastructure and human capital (Zekarias, 2016).

In the long run, foreign direct investment in Eastern Africa has a affirmative effect on growth. Institutional quality and political stability did not have a significant impact on attracting foreign direct investment to Eastern Africa. Foreign direct investment is very important for the economic growth of countries in Eastern Africa. Foreign investors want to invest in economically developed countries. Therefore, Eastern African countries should regulate their investment environment and invest in human capital. In addition, these countries should increase regional trade integration. Gross fixed capital formation has a positive effect on foreign direct investment in Eastern Africa. Political instability negatively affects foreign capital. Lack of good governance, civil conflicts and corruption play an major role in preventing foreign direct investment to the region. Small economies do not affect world prices. Therefore, trade openness benefits small economies more. Small countries in Eastern Africa are the price takers of the global market (Bekere & Bersisa, 2018).

Foreign direct investment inflows to Ethiopia can be viewed on the basis of two regimes. In the pre-1991 period, economic policies were similar to the practices of the political government. After 1991, stabilization programs started to be implemented in the country. Policies that abolished private property were followed in 1974. The land reform measure was implemented. Lands and businesses were expropriated. In addition, insurance companies and banks were nationalized. In the first period, the economic performance was extremely weak. A long-term plan was implemented to eliminate structural problems. The aims of the plan were to increase the share of agriculture in GDP and increase foreign exchange earnings. There was no investment climate in this period. Political instability and insecurity were the biggest problems. Besides, the government offered many incentives. These incentives were usually tax relief and tariff protection. After 1991, the new government tried to attract foreign direct investment by introducing reforms. The foreign exchange market was liberalized, the institutional structure was strengthened, export data were removed, and maximum import duties were reduced (Berhanemeskel, 2018). After the crisis in 2008, foreign direct investment increased in Ethiopia in the last ten years. In 2011, it reached 5 times. High growth and high quality human capital played an important role in this success. The increase in economic growth led to an increase in foreign direct investments (Atlaw & Teklemariam & Genu 2013).

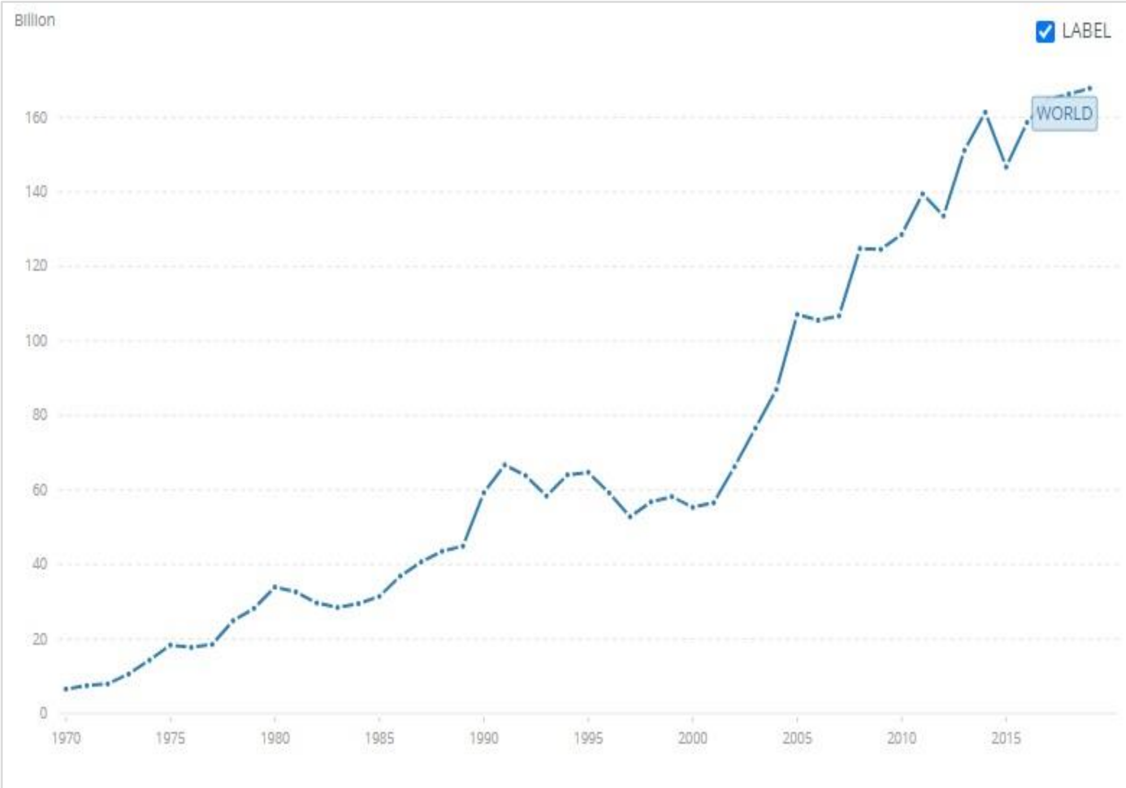
Foreign direct investment appear to have a significant impact on economic growth. After 1991, Ethiopia recorded a great economic growth. A high growth rate plays a role in attracting foreign investors to that country. Inflation and exchange rate play a major role in the flows of foreign direct investments. Low inflation and stable exchange rate attract investors. In addition, liberalization is a major factor in attracting foreign direct investment to the country. Ethiopia is heavily dependent on agriculture. More than half of the population earns their living from agriculture. Agricultural exports make up 80% of exports. Coffee accounts for 55% of foreign exchange earnings. Before 1991, the economic policies in the country were in line with the administration. After 1991, it turned to the opposite direction. Before 1974, liberal policies were applied. After 1974, it was replaced by the market economy. The land reform measure was one of the most important measures. Private ownership of lands ended. Businesses were nationalized. Economic performance between 1974 and 1978 was weak. The growth rate was 0.3%. After 1978 the economy began to recover. The growth rate was 4.6%. However, due to the droughts, the economy began to stagnate. Political instability and insecurity negatively affected the arrival of investors. After the TPLF/EPRDF came to power in the post-1991 period, new targets were set. Some of the goals were to eliminate structural deterioration and improve human capital and infrastructure. In addition, the role of the private sector in the economy was increased. Many businesses were privatized. The government also tried to implement agro-based industry. Between 1992 and 2001, the growth rate was 5%. Inflation fell 5% from 21% (Getinet & Assefa, 2006).

3.1. FDI AND ECONOMIC GROWTH: THE ROLE OF DOMESTIC FACTORS

Investors compare the advantages and disadvantages of that place when deciding where to invest. A country's natural resources, market size, institutional quality, trade openness, economic and political stability, ease of business, infrastructure and human capital have great importance in choosing this location. Generally, developing countries are the target of investors because of their lower production costs and natural resources.

3.1.1. FDI and Economic Growth: The Role of Foreign Aid

Foreign aid has become one of the most important tools of foreign policy. Many countries are making their hand strong in diplomacy with countries by providing foreign aid resources. In addition, foreign aid has an important effect on ensuring national security.



Source: World Bank Database

Figure 3.2. Net ODA and Official Aid in the World, 1970-2020, US$ Billion

Net official development aid and the amount of official aid received on a global scale have increased gradually with the increasing integration between regions and continents. In 1970, the total net official development aid and official aid received in the world was $6.574 billion. This figure has been increasing year by year. Although the amount decreased to 146,691 billion dollars in 2015, the net foreign aid amount reached 167.8 billion dollars in 2019. The amount of foreign aid in the world has increased from year to year. On a global scale, we see that foreign aid has increased significantly after the twenty-first century. One of the biggest factors is that developing and underdeveloped countries turn to foreign aid to make up for the lack of resources.

Foreign aid is also very important in providing resources that a country cannot access. Foreign aid is a resource given by an organization or country to another country or organization. Money, manpower and construction materials are included in these resources. Foreign aid is a way of helping more developed countries, organizations, and individuals help those who are less wealthy than themselves. Foreign aid can be bilateral or multilateral. Non-profit businesses donate some of their capital to charities. Some researchers claim that foreign aid can cause corruption in the receiving country. At the same time, these researchers reveal that it will make recipient countries dependent on donors. Countries such as Ethiopia, Kenya and Tanzania are among the countries that receive foreign aid of over 3 billion dollars per year. After these countries, countries such as Nigeria, Mozambique, Uganda, Ghana and Ivory Coast take place in the ranking (Burton, 2017).

30 countries, including the United States and Germany, provided $142.6 billion in foreign aid to poor countries. Britain, Japan and France provided the largest foreign aid. The United States has given approximately $34 billion in aid in recent years. China also has a significant share in the total amount of aid. Developing countries receive billions of dollars in aid each year. China is at the top of the aid list. Between 2000 and 2014, China provided approximately $350 billion in foreign aid. In 2009, China's foreign aid amount was twice that of the United States. These financial aids were aimed at trade rather than development. The most important recipients of these aids were members of the One Belt and One Road Initiative. In 2016, the amount of foreign aid from Germany ranked second. Foreign Aid was generally directed towards the influx of immigrants (Wang, 2018). Some researchers claim that foreign aid has no effect on foreign direct investment. Other researchers argue that bilateral official development assistance has a positive effect on FDI. Multilateral development aids, on the other hand, have no effect on foreign direct investment (Anyanwu, 2012).

Africa needs capital flows in order to support development. Reports indicate that the continent needs foreign aid and foreign direct investment. While official development assistance was 15.7 billion dollars in 2000, it was 26.5 billion dollars in 2004. For Africa, more resources are needed to achieve high growth rates and reduce poverty. Aid leads to good governance in Africa (Lemi, 2008). Due to the Covid 19 pandemic, many countries needed foreign aid. Restrictions reduce financial flows. People living in conflict zones and refugee camps are greatly affected (UNDP, 2021).

In many African countries, international organizations and donor countries have control over the economic and political structures. After the independence of the countries on the continent, many countries are trying to develop depending on foreign aid and development grants. Some researchers claim that foreign aid does not have a significant effect on the economic growth of African countries (Apitsa & Milliot, 2021). The connection between FDI and foreign aid depends on institutional quality and the financial market. Weak institution quality and a weak financial market delay foreign aid and foreign direct investment. Foreign aid attracts foreign direct investment in African countries with good institutional quality and strong financial markets (Aluko, 2020).

Foreign aid and foreign direct investment seem to have a positive effect on economic growth (Ibrahim & Dahie, 2016). Official development assistance has a significant impact on good governance in African countries. FDI has a affirmative effect on good governance. Sustainable foreign direct investment increases economic growth and reduces poverty. Africa is the region with the lowest foreign direct investment rate today. The majority of the population works in the agricultural sector. It is important to make investments and aids in agricultural areas (Lemi & Solomon & Asefa, 2007). The data has a positive effect on the growth of foreign aid and FDI. In addition, labor force and openness to trade positively affect growth. Inflation negatively affects economic growth (Younsi & Bechtini & Khemili, 2021).

Foreign aid and foreign direct investment have affirmative effects on economic growth. Human capital is the most important factor determining economic growth in sub-Saharan Africa. Good governance and solid infrastructure are essential for foreign direct investments to have a positive impact on the region (Ndambendia &Njoupouognigni, 2010). It is important to attract foreign direct investment to reduce poverty, increase economic growth and ensure development. Foreign aid to inputs complementary to physical capital attracts foreign direct investment (Selaya & Sunesen, 2008). In other words, the transparency of the state also leads to the effective use of foreign aid. Foreign aid to human capital has a greater impact on the development of the country.

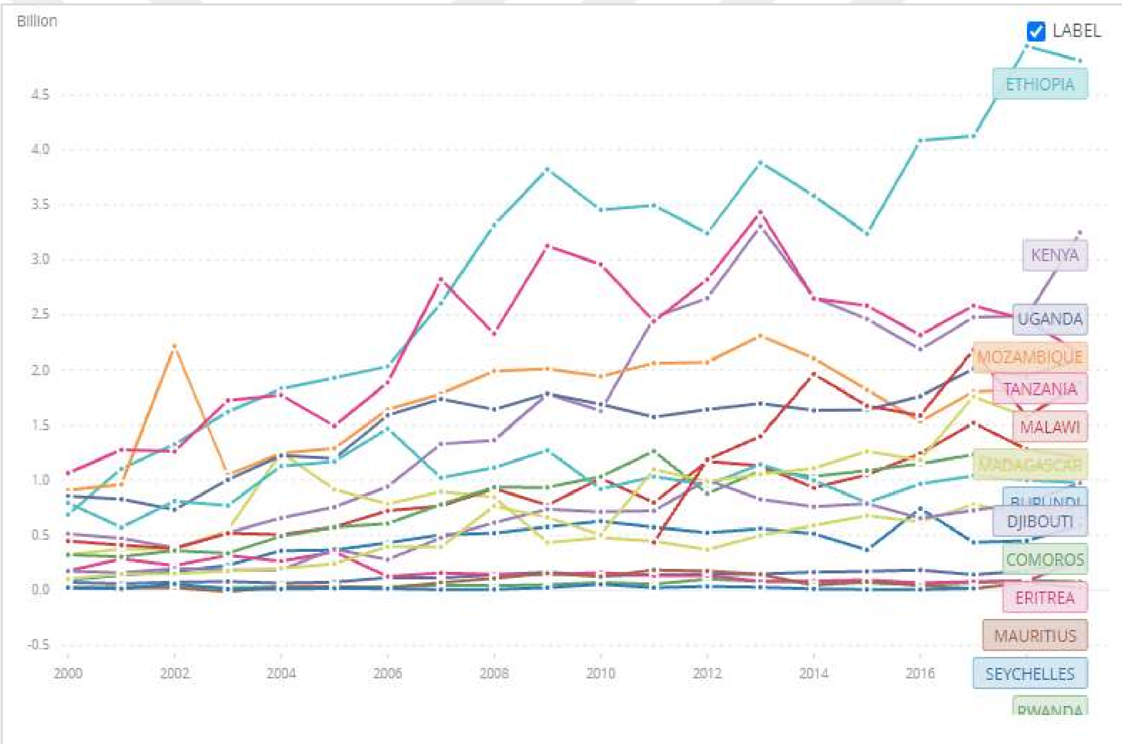
Historically, foreign aid began with the Marshall Plan. The plan was successful when it was put into the implementation phase. With the success of the plan, countries had to provide development assistance. The most important purpose of foreign aid was to reduce poverty and increase growth. Recently, African countries have received a lot of foreign aid. Ethiopia became one of the most important foreign aid recipients (Girma, 2015). International remittances have a significant impact on economic growth in low-income countries. International remittances appear to contribute more than official development aid. Trade openness and good governance are among the most important determinants of economic growth. Corruption appears to hinder foreign direct investment. Foreign aid contributes positively to economic growth (Behmamoun & Lehnert, 2013).

Official Development Assistance supports economic development. This development aid is managed by the OECD Development Assistance Committee. Military aid and export credits are not included in these official development aids. Foreign aid is made in economic, political and humanitarian issues. The main factor of growth is investments. The purpose of foreign aid also ensures that aid is effective. From a broad perspective, growth is the reason for foreign aid (Koç, 2016). Foreign aid has a significant impact in Africa. These aids contribute to the economic growth of poor and developing countries. Foreign capital inflows have a positive effect on real income (Hatemi & Irandoust 2005).

Most African countries lag behind other countries in terms of human development, life expectancy and literacy. Interest in institutional quality also increases donors (Easterly, 2015). Compared to other continents, Africa is seen in a more unstable situation. Civil conflicts and wars are the most important factors of this instability (Moyo, 2009). The development problem in Africa is the result of the continent's failure to grow. Population growth rates are higher than growth rates (Lancaster, 1999). Foreign aid improves workforce quality. It also improves the quality of democracy. The importance of foreign aid is illustrated by the development of literacy and health across the continent. Political instability has a very negative effect in Africa (Goldsmith, 2003). Foreign aid has a very significant effect on foreign direct investment (Michael, 2018). African societies cannot create resources because these societies are deprived of wealth. On the continent, the source of funding is external donors (Robinson & Friedman 2005).

Energy infrastructure subsidies attract foreign direct investment to sub-Saharan Africa. Sub-Saharan African countries attract less FDI when these countries receive productive infrastructure assistance. The type of assistance is therefore very important. The impact of foreign aid varies according to the receiving country (Amusa & Monkam & Viegi, 2016).

China attaches great importance to foreign aid in its African policy. Trade flows between China and Africa were low in the twentieth century. The basis of cooperation between the two sides was based on foreign aid. EU countries and China provide multilateral and bilateral assistance to Ethiopia and similar countries (Hackenesch 2013). Ethiopia, Tanzania and Kenya are among the countries that receive more than $3 billion in foreign aid annually. Ethiopia ranks 5th in the list of countries receiving the most foreign aid (Burton 2017). Foreign aid has a positive effect on fiscal policies (Mascagni & Timmis 2017). Income per capita is one of the prominent determinants in the world economy. The gap between countries causes the flows of foreign aid from rich to poor countries. In addition, foreign aid can also cause corruption (Tavares, 2002). The most important goals of the donors were to invest, reduce poverty and increase growth (Abegaz, 1999). Low investment levels keep poor countries poor (Tadesse, 2011).



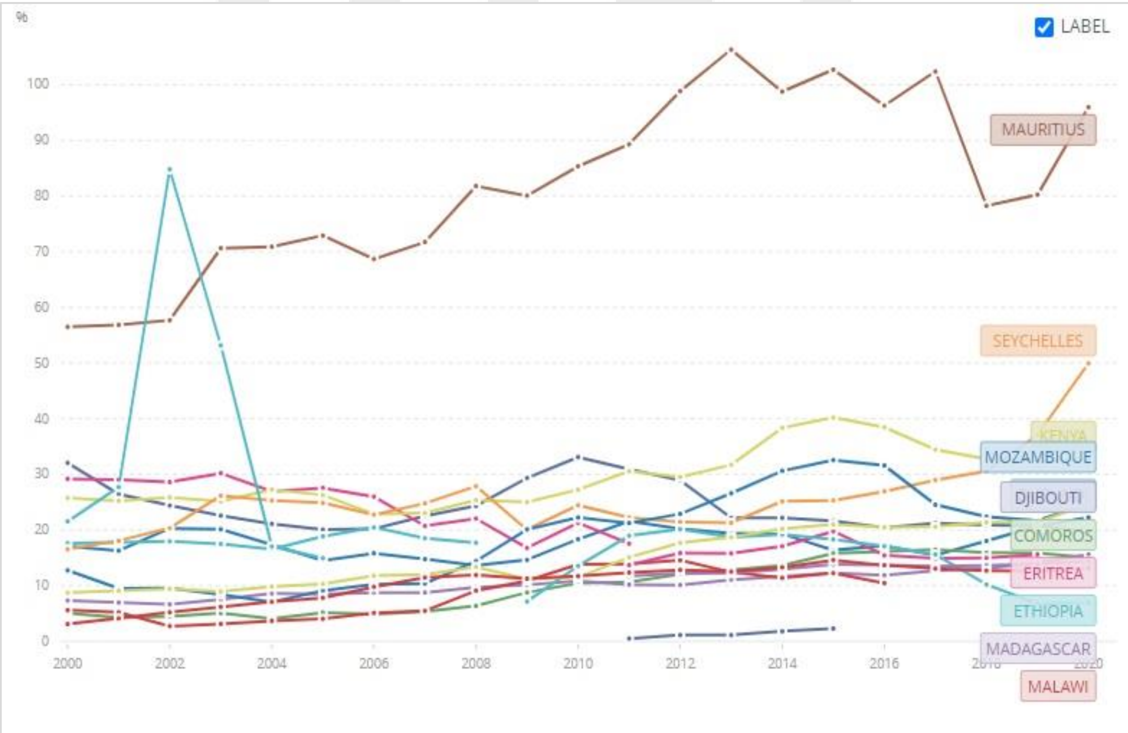
Source: World Bank Database

Figure 3.3. Net ODA and Official Aid in Eastern Africa, 2000-2020 US$ Billion

Foreign aid is seen as one of the most important instruments of foreign policy. Foreign aid plays an important role in the development and development of Africa. In recent years, Eastern African countries have been trying to stabilize their economic development with both FDI and foreign aid. Ethiopia has the largest share among the foreign aid recipient countries in Eastern Africa. While the amount of foreign aid received by Ethiopia in 2000 was 687 million dollars, this figure increased to 4.81 billion dollars in 2019. Between the period of 2015-2019, this share has increased exponentially. Countries such as Eritrea, Djibouti, Comoros and Mauritius are recipient countries that benefit from small amounts of foreign aid. Another important foreign aid recipient in Eastern Africa is Kenya. While Kenya received $513 million in foreign aid in 2000, this figure reached $3,251 billion in 2019. Uganda and Tanzania follow these two countries in terms of foreign aid.

3.1.2. FDI and Economic Growth: The Role of Privatization

Privatization plays a major role in international companies' investment in a country. Customization programs have features. These are business orientation, transparency and political commitment. These privatizations allow more foreign direct investment to come to the country (Atlaw & Teklemariam & Genu 2013). In other words, foreign investors' privatizations and acquisitions and mergers in host countries increase foreign direct investment flows.



Source: World Bank Database

Figure 3.4. Domestic Credit to Private Sector (% of GDP) in Eastern Africa, 2000-2020

The countries with the highest percentage in Eastern Africa over the last 20 years are Mauritius, Kenya, Seychelles and Mozambique. The countries with the lowest percentage in the region are Malawi, Madagascar and Ethiopia. Mauritius is the country with the highest percentage in the region.

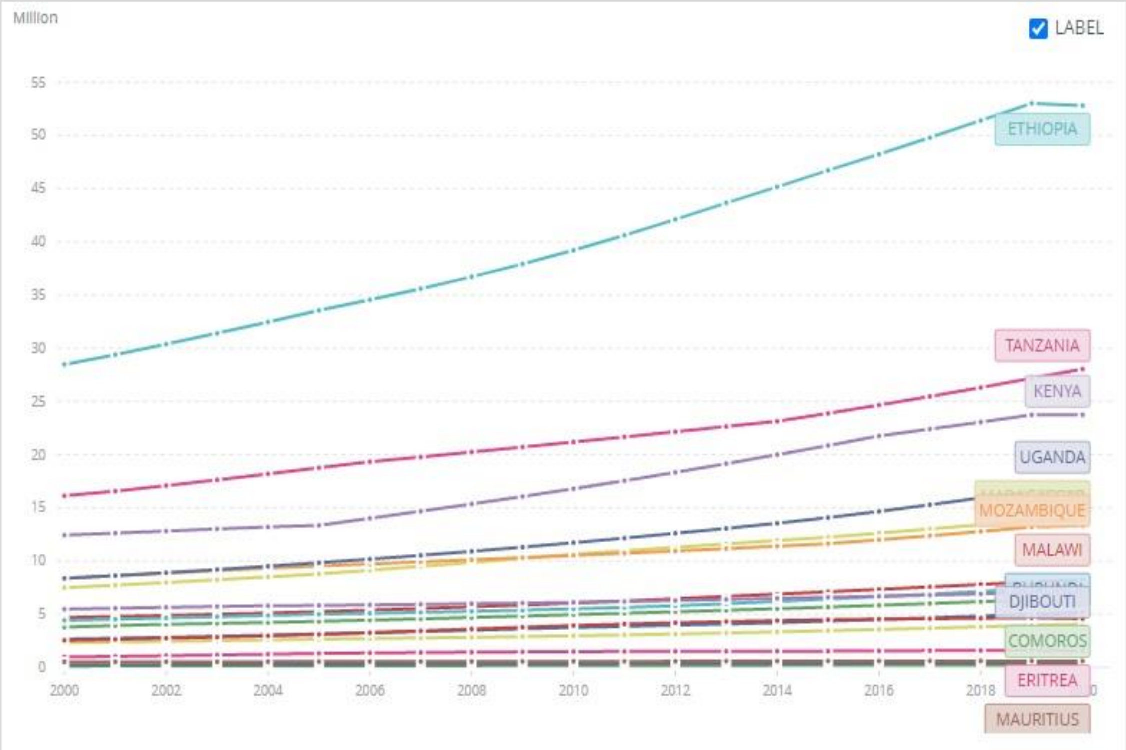
3.1.3. FDI and Economic Growth: The Role of Geography

Geographical proximity is another determinant of foreign direct investment. Studies claim that FDI shifting from developed to developing countries is dependent on geographic proximity (Atlaw & Teklemariam & Genu 2013). Another important factor affecting the flows of foreign direct investment on a global scale is geography. This gap exists both economically and politically. Undeveloped regions need external resources to bridge this gap. However, Europe and Africa or Asia and North America are not at the same level in attracting foreign direct investment flows.

3.1.4. FDI and Economic Growth: The Role of Labor Force

The workforce consists of people employed in an enterprise for a fee. Labor productivity of a country is one of the factors affecting the flows of FDI.

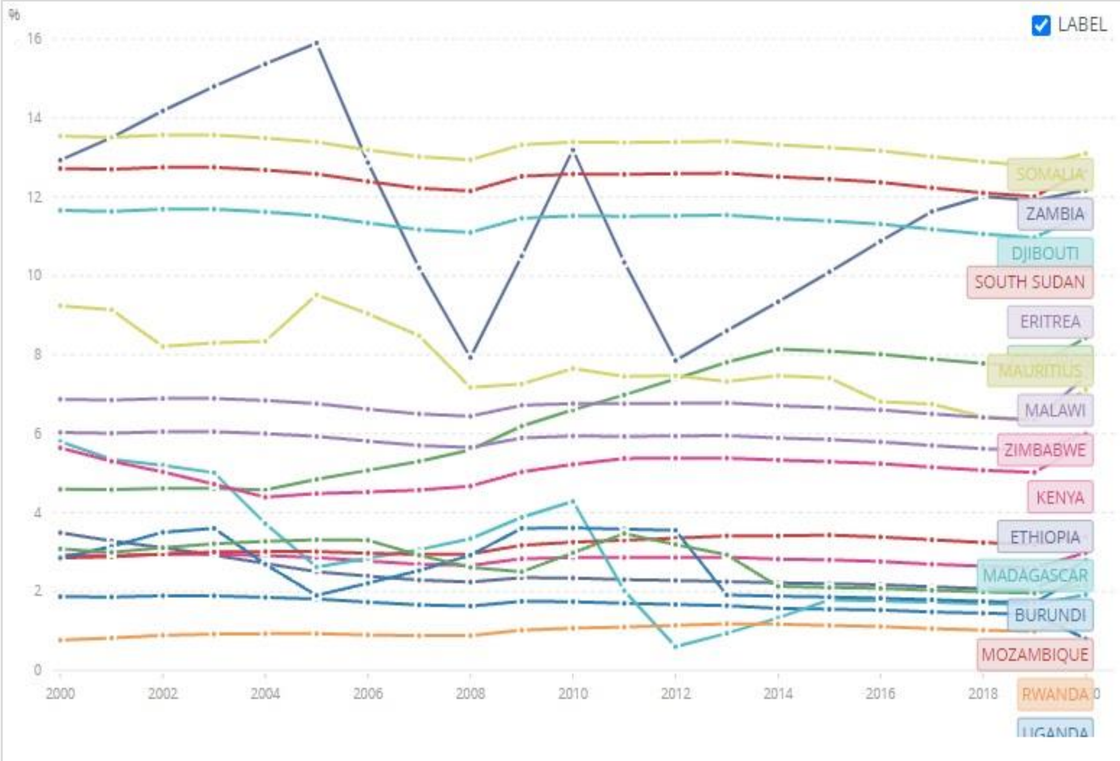
High production costs limit and decrease foreign direct investment (Kinyondo, 2012). Labor force is the proportion of active people working for the production of goods and services in the population aged 15-64 (Bekere & Bersisa, 2018). Labor costs affect the decisions of foreign investors. The level of human capital in the economy also affects foreign direct investment. Foreign direct investments have a affirmative correlation with the skilled workforce in the country (Atlaw & Teklemariam & Genu 2013). Foreign direct has recently focused on technological activities. This situation increases the demand for quality labor. The education level of workers plays an important role in technology adoption (Kouassi, 2019). In other words, high production costs in a country seriously affect the investment decision of foreign investors. In addition, foreign investors generally invest in the technology field in the host country. This also contributes to the development of human capital.



Source: World Bank Database

Figure 3.5. Labor Force of Eastern Africa

As seen in the table, Ethiopia had the highest workforce in Eastern Africa over the twenty-year period. The workforce in Ethiopia was 28 million people in 2000. This figure reached 52 million in total in 2020. Countries such as Tanzania and Kenya were also the countries with the largest workforces in the region after Ethiopia. Over the last two decades, Mauritius, Eritrea, Djibouti and the Comoros have been the countries with the lowest labor force in Eastern Africa due to their populations.



Source: World Bank Database

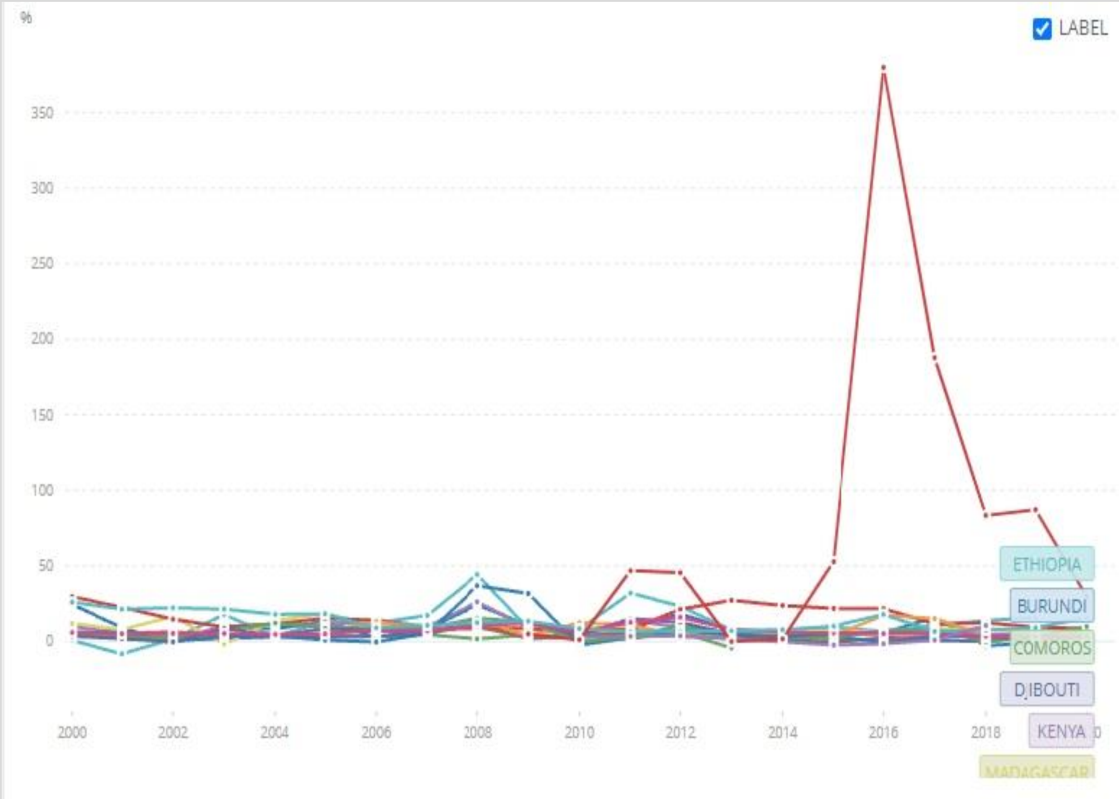
Figure 3.6. Unemployment, Total (% of Total Labor Force) in Eastern Africa

There are large fluctuations in Zambia's unemployment rates in Eastern Africa. High interest rates in Somalia, South Sudan and Djibouti have remained stable over the last two decades. Rwanda, Burundi, Uganda, Madagascar, Kenya, Mozambique and Ethiopia have low unemployment rates. Compared to other Eastern African countries, we can deduce that the internal conditions of Somalia, South Sudan and Djibouti discourage foreign direct investment flows and negatively affect unemployment rates.

3.1.5. FDI and Economic Growth: The Role of Inflation Rate

Another variable is the inflation rate. A low or high inflation rate seriously affects foreign direct investment flows. This situation creates economic growth differences between regions and countries.

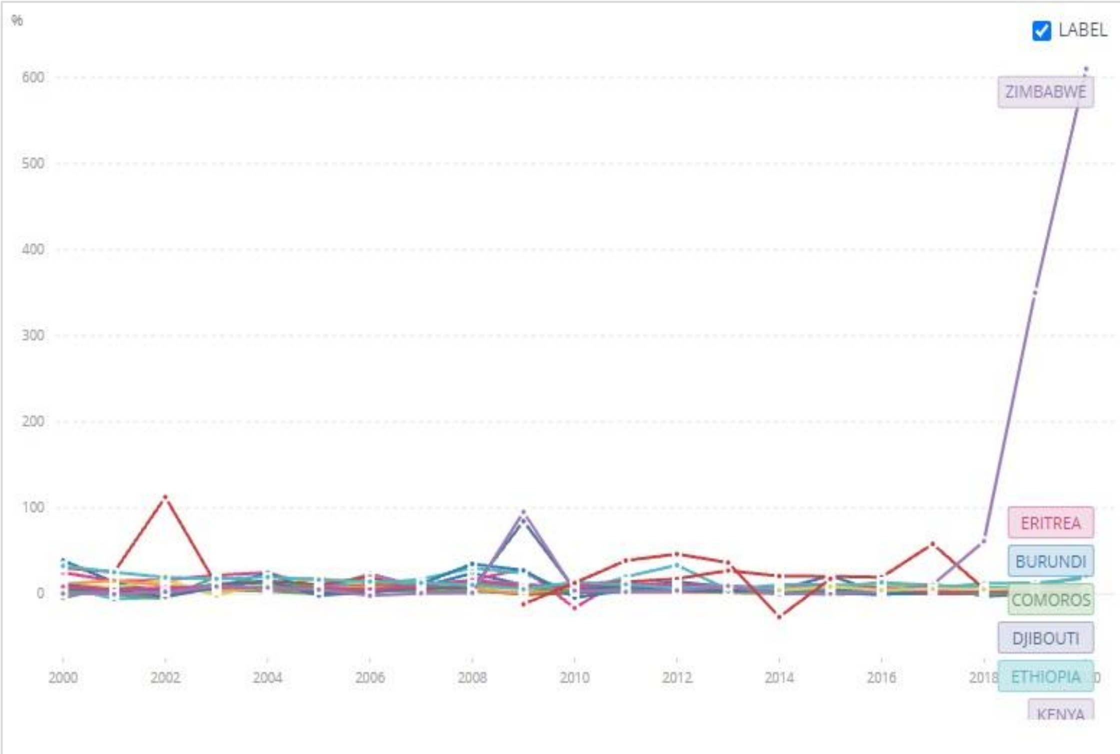
Inflation reduces the competitiveness of investors. Therefore, it is necessary to keep inflation low in order to get more foreign direct investment. In the long run, low inflation rate is very important for domestic and foreign investors. Higher inflation reduces investment flows (Atlaw & Teklemariam & Genu 2013). Low inflation rates positively affected income growth in low-income countries (Heshmati, 2018). As inflation increases the user cost of capital, it has a negative effect on foreign direct investment. High inflation rate is the result of irregular monetary and fiscal policies (Onyeiwu & Shrestha, 2004). Many countries in Africa suffer from capital shortages. Therefore, these countries are interested in FDI. Foreign direct investment can also be seen as financial investments made by international companies in another country. It provides prosperity and growth in the host country. Inflation is considered as an increase in the price level. Where there is inflation, money loses its value. Investments in innovation and human capital increase economic growth. In Tanzania, Nigeria, Kenya, Egypt and South Africa, foreign direct investment seems to have a positive effect on growth. Inflation hinders development in these African countries (Adeniyi, 2020). Inflation is measured by the consumer price index. It refers to the change in cost for the person who buys a basket of goods and services. The inflation rate affects foreign direct investment flows and growth (Bekere & Bersisa, 2018). Inflation has a negative effect on foreign direct investment. Inflation is also considered a determinant of economic instability (Berhanemeskel, 2018). In other words, foreign investors pay attention to the inflation rates of the host country when determining the investment destination. High inflation rates hinders foreign direct investment flows. Therefore, developing countries are trying to lower their inflation rates in order to receive investments.



Source: World Bank Database

Figure 3.7. Inflation, Consumer Prices (Annual %) in Eastern Africa

This chart represents consumer prices in Eastern African countries by year. As can be seen from the table, South Sudan also draws an unstable graph in inflation rates. In South Sudan, the inflation rate reached 380% in 2016. In the following years, it started a downward trend and decreased to 29.676% in 2020. Burundi's inflation rate is 7.3. Kenya's inflation rate is 5.4%, while Malawi's rate is 8.6% and Rwanda's 9.9%. Compared to other Eastern African countries, the only country that recorded an inflation rate below 0 was the Comoros. High inflation rates in countries such as Zambia, Zimbabwe and Ethiopia negatively affect economic growth. The low inflation rates of Seychelles, Tanzania and Uganda affirmatively affect foreign direct investment inflows.



Source: World Bank Database

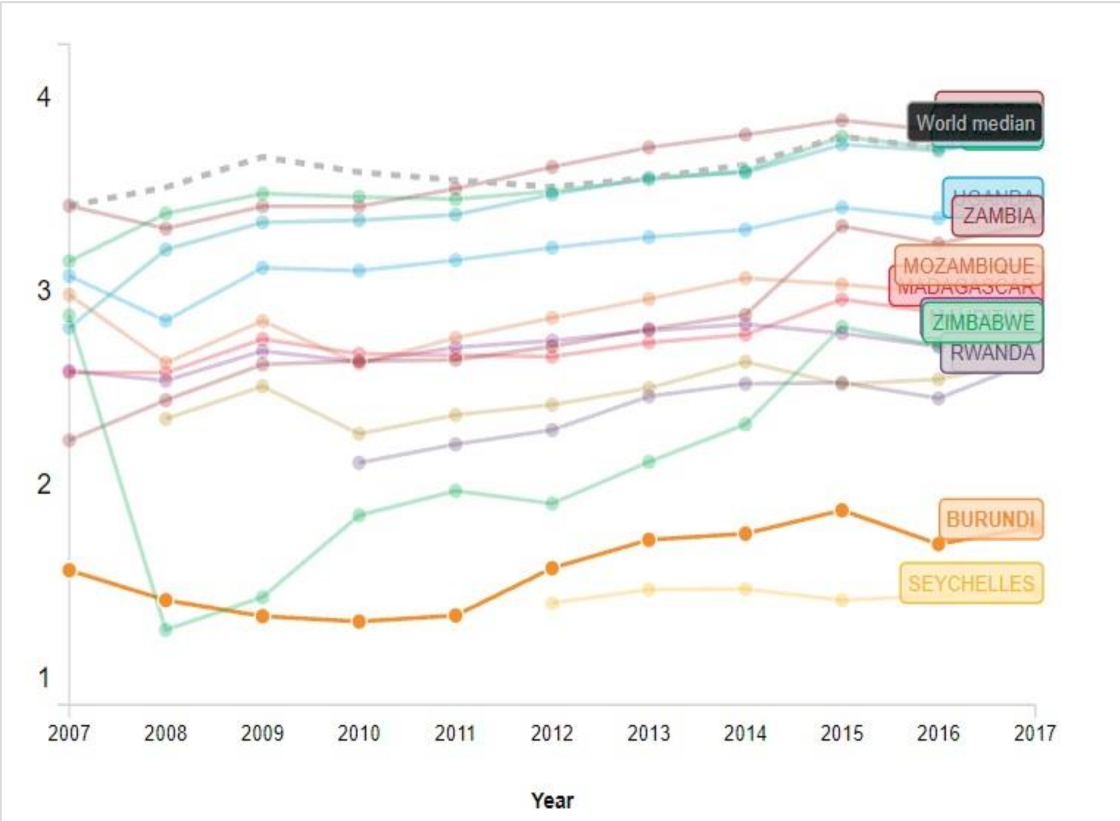
Figure 3.8. Inflation, GDP Deflator (Annual %) in Eastern Africa

The GDP deflator is the rate of the value of the goods and services produced by an economy in a given year at current prices to the price prevailing in the base year. Coming to the conclusions we can draw from the chart, Zimbabwe had an inflation rate of 61,311% in 2018, which increased to 610% in 2020. This is a very serious figure. According to the chart, Malawi and Uganda are other Eastern African countries that show an unstable picture. The Comoros has inflation rates of -2.3%. Seychelles has inflation rates of -0.1%.

3.1.6. FDI and Economic Growth: The Role of Market Size

Another variable that affects foreign direct investments is market size. A large market size is important for a country in attracting foreign direct investment flows. In general, countries with a larger market size on a global scale receive more foreign direct investment.

It is an important determinant of foreign direct investment. The wealth of the country is taken into account to measure the market size. For example, per capita income is used in this measurement. Population and growth rate determine foreign direct investment entering the country (Atlaw & Teklemariam & Genu 2013). In the long run, market growth, liberalization and export policies are the most important determinants of FDI (Heshmati, 2018). Foreign direct investment stock is higher in countries with large domestic markets (Kouassi, 2019).



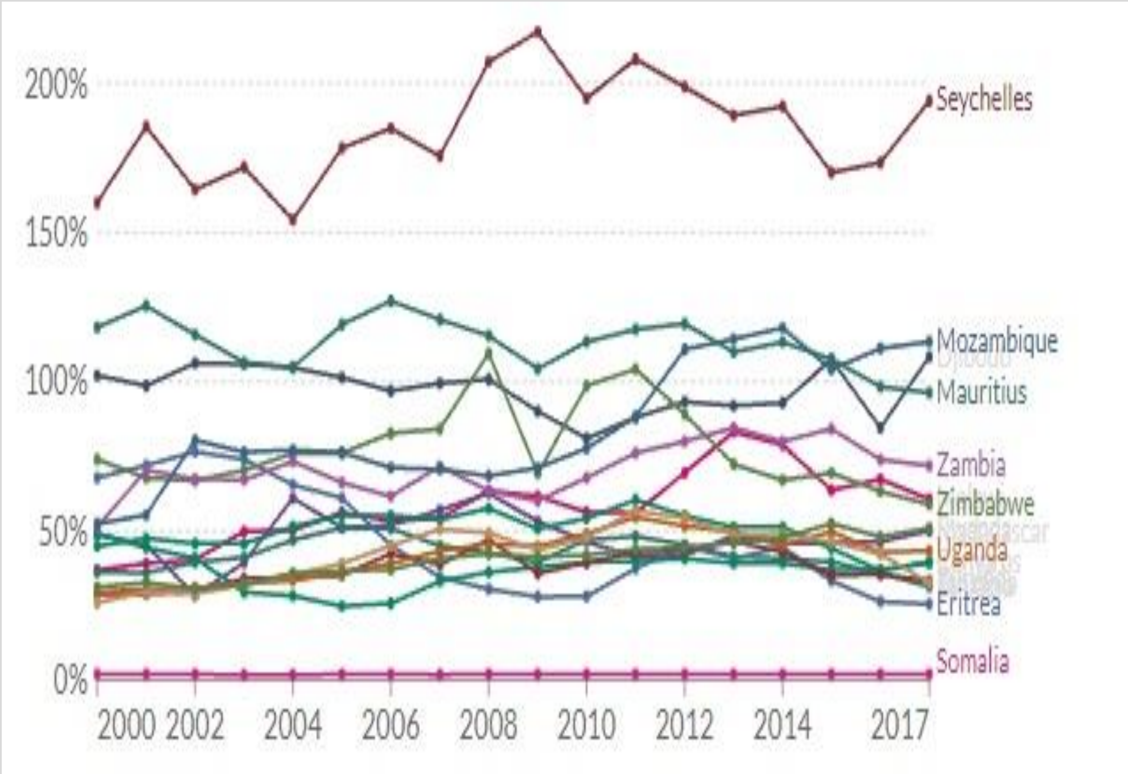
Source: World Bank Database

Figure 3.9. Market Size of Eastern Africa

As seen in the table, Burundi and Seychelles are the countries with the smallest market size in Eastern Africa. This situation reduces the foreign direct investment flows of these countries. Ethiopia recorded a rate above the world average with an index of 3.64 in 2012. By 2017, Ethiopia recorded a rate above the world average. Ethiopia recorded an index of 3.89 in 2017. Another country with a rate close to the world average was Tanzania. Tanzania's market size was 3.81 in 2017. Zimbabwe's market size was 2.87 in 2007, while the country recorded an index rate of 1.25 the following year. There has been a great decrease in the 1-year period. Except for Ethiopia and Tanzania, other Eastern African countries achieved index rates below the world average.

3.1.7. FDI and Economic Growth: The Role of Trade Openness

The trade openness of an economy plays an important role in attracting foreign direct investment flows. Countries that lift trade and political restrictions generally take more foreign direct investment.



Source: Our World in Data

Figure 3.10. Trade Openness, Imports and Exports Country's GDP (in %) in Eastern Africa

Trade openness is the share of a country's exports and imports in that country's GDP. The graph covers the period between 2000 and 2017. As we can see in the graph, Eastern African countries have drawn almost a stable graph in terms of trade openness. Seychelles is the country with the highest trade openness with 194.17%. Mozambique and Djibouti follow this country with 113.39% and 108.49%, respectively. Between 2000 and 2017, Somalia did not show much change in trade openness. High trade openness plays an important role in increasing foreign direct investment inflows. As can be seen from the table, countries such as Seychelles, Mozambique, Djibouti, Mauritius and Zambia have the potential to attract serious investments.

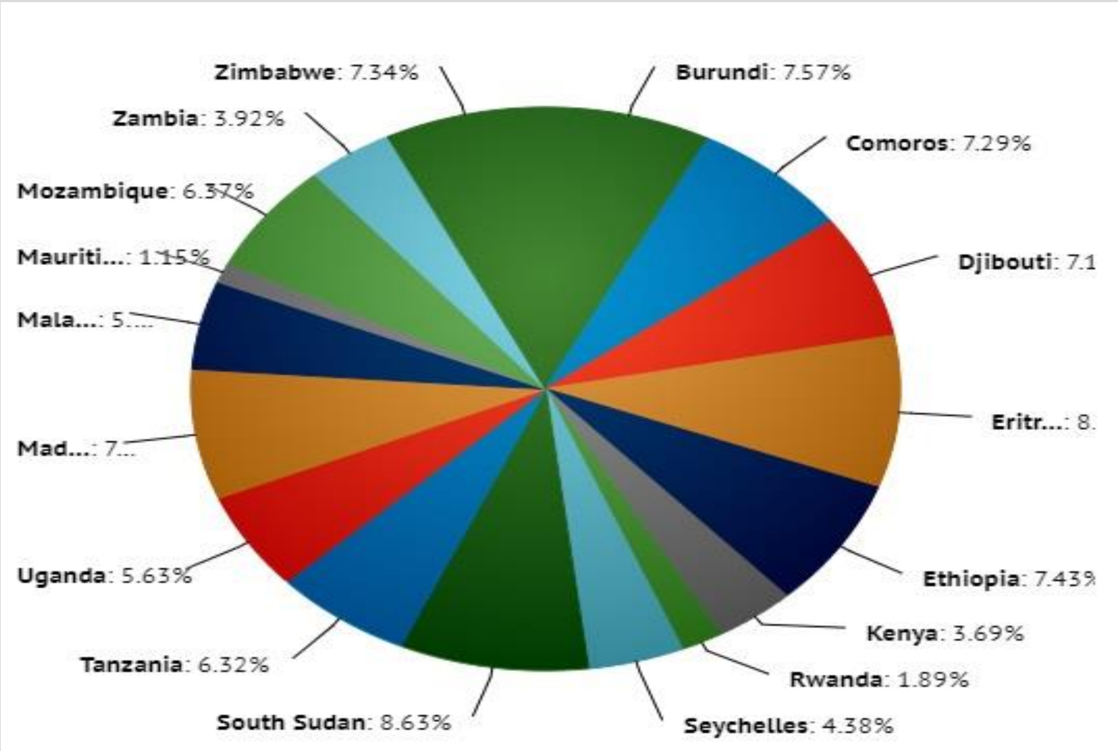
Table 3.2. Ease of Doing Business Ranks in Eastern Africa, 2006-2020

	2006	2007	2008	2009	2010	2011	2012
Burundi	160	166	174	177	181	181	169
Comoros	141	144	147	155	159	159	157
Djibouti	153	161	146	153	157	158	170
Eritrea	168	170	171	173	180	180	180
Ethiopia	96	97	102	116	103	104	111
Kenya	80	83	72	82	94	98	109
Rwanda	158	158	150	139	70	58	45
Seychelles	83	84	90	104	92	95	103
South Sudan							
Tanzania	150	142	130	127	125	128	127
Uganda	103	107	118	111	129	122	123
Madagascar	148	149	149	144	138	140	137
Malawi	106	110	127	134	132	133	145
Mauritius	32	32	27	24	20	20	23
Mozambique	137	140	134	141	130	126	139
Zambia	90	102	116	100	84	76	84
Zimbabwe	145	153	152	158	156	157	171

	2013	2014	2015	2016	2017	2018	2019	2020
Burundi	159	140	152	152	157	164	168	166
Comoros	158	158	159	154	153	158	164	160
Djibouti	171	160	155	171	171	154	99	112
Eritrea	182	184	189	189	189	189	189	189
Ethiopia	127	125	132	146	159	161	159	159
Kenya	121	129	136	108	92	80	61	56
Rwanda	52	32	46	62	56	41	29	38
Seychelles	74	80	85	95	93	95	96	100
South Sudan			186	187	186	187	185	185
Tanzania	134	145	131	139	132	137	144	141
Uganda	120	132	150	122	115	122	127	116
Madagascar	142	148	163	164	167	162	161	161
Malawi	157	171	164	141	133	110	111	109
Mauritius	19	20	28	32	49	25	20	13
Mozambique	146	139	127	133	137	138	135	138
Zambia	94	83	111	97	98	85	87	85
Zimbabwe	173	170	171	155	161	159	155	140

Source: Doing Business

The table shows the ranking of Eastern African countries in ease of doing business between 2006 and 2020. Rwanda, Seychelles, Mauritius and Zambia are the countries with the highest ease of doing business. These countries increase foreign direct investment flows by providing greater facilities to foreign investors. Countries such as Eritrea, Zimbabwe, Madagascar, Malawi, and Mozambique are at the bottom of the list of ease of doing business. Eastern Africa is seen as one of the regions with the lowest ease of doing business on a global scale. It is important for foreign investors to provide ease of doing business in a region or country. Countries that provide convenience to foreign investors take more foreign direct investment flows. Mauritius and Rwanda stand out in the table. When we look at the Eastern African scale in terms of ease of doing business, these countries are the countries that rank at the top.



Source: AFDB Socio Economic Database

Figure 3.11. Ease of Doing Business Rank in Eastern Africa, 2017.

The figure shows the ease of doing business as a percentage of Eastern African countries.

Trade openness means liberalization of the country's trade model. Trade openness has a feature that encourages foreign direct investment. Most capital flows are export related (Kinyondo, 2012). Trade openness corresponds to the sum of exports and imports. Trade openness includes exchange control laws, tariffs and restrictions. The greater a country's openness to trade, the more foreign direct investment it receives. In this way, an increase in economic growth is observed (Bekere & Bersisa, 2018).

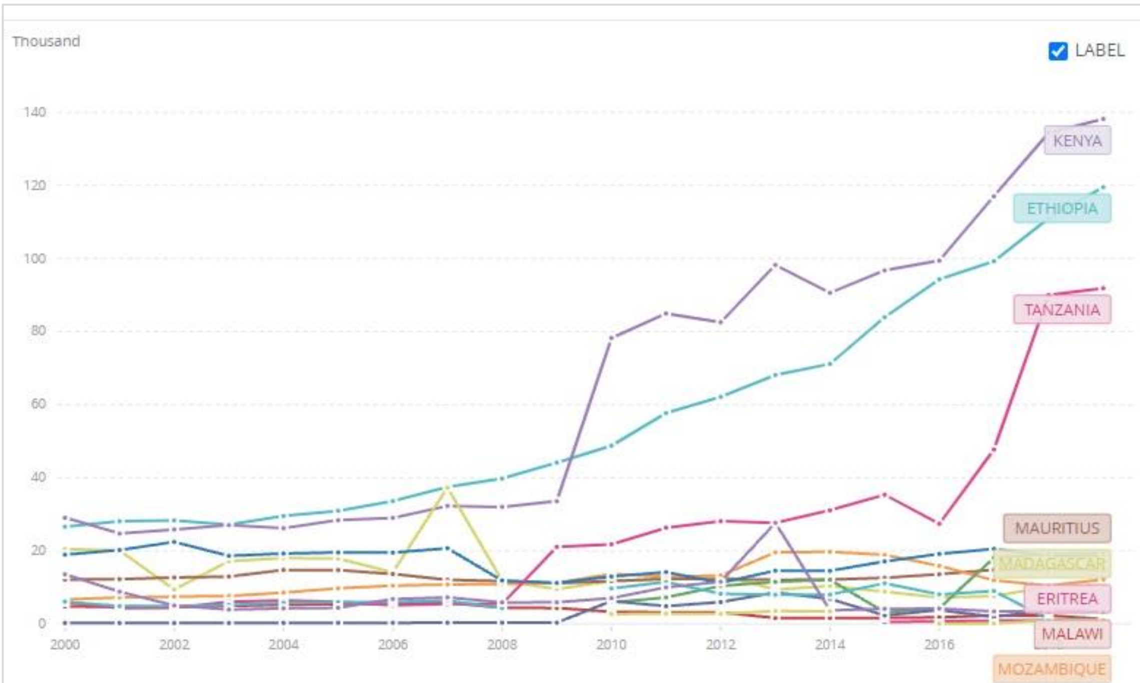
The fact that the host countries have free trade regimes, reduce capital controls and do not implement restrictive policies increases the inflows of foreign direct investment (Kouassi, 2019). GDP, trade openness and financial stability are among the most important determinants of low-income African countries. Trade liberalization has a positive effect on growth (Heshmati, 2018). Trade openness appears to have a affirmative effect on growth and investment flows (Loots & Kabundi, 2012). Openness to trade is one of the factors that determine the flows of FDI. Openness to trade positively affects foreign direct investment (Onyeiwu & Shrestha, 2004). Removing restrictions on international capital flows increases foreign capital inflows (Michael, 2018). In other words, removing trade restrictions increases the ease of doing business in the country or region. This allows foreign investors to invest in the country. The rising in FDI flows affirmatively affects economic growth.

3.1.8. FDI and Economic Growth: The Role of Infrastructure Development

One of the most important factors affecting the flows of foreign direct investment is the quality of the infrastructure. The fact that developed countries get more foreign direct investment can be explained by the quality of their infrastructure. This is why it is important for Eastern African countries to attach importance to the quality of infrastructure.

A country's infrastructure has a significant impact on attracting foreign direct investment. There is a positive relation between these two. Electricity, water, transportation and lands are considered as infrastructure (Kinyondo, 2012). Infrastructure development is one of the considerable determinants of FDI and growth. Efficient infrastructures reduce the cost of doing business. In addition, quality infrastructure subsidizes the cost of total investments (Bekere & Bersisa, 2018). Infrastructure investments in key sectors such as telecommunications play a major role in development (Mody, 2006).

Having a quality telecommunications infrastructure in a country improves the communication between the host country and the foreign investor country. Having quality roads reduces costs. The fact that countries with efficient infrastructure increase their investment profits in this way plays an important role in increasing foreign direct investment inflows (Kouassi, 2019). Infrastructure is one of the significant determinants for investment flow. Investments in infrastructure make the investment cost profitable. This situation increases foreign direct investment inflows (Michael,2018). Foreign investors prefer countries with efficient infrastructure. In countries with developed infrastructures, production costs are low compared to others (Onyeiwu & Shrestha, 2004). Researchers reveal that foreign direct investment depends on efficient infrastructure. Telecommunication infrastructures increase foreign direct investment inflows (Anyanwu, 2012). The existence of inefficient infrastructure in a country is an obstacle for foreign firms. An efficient infrastructure is required to access natural resources and the market (Atlaw & Teklemariam & Genu 2013).



Source: World Bank

Figure 3.12. Infrastructure Development in Eastern Africa

Between 2000 and 2008, air transport rates in Eastern Africa remained stable. In the period after 2009, rates increased significantly in Kenya, Ethiopia and Tanzania. In Kenya, the air transport rate in 2009 was 33,593, while it increased to 138,132 in 2019. Other Eastern African countries lagged far behind Tanzania, Kenya and Ethiopia. The increase in aviation transportation depends on infrastructure development. This, in turn, increases foreign direct investment and has a positive effect on economic growth.

Source: The Ibrahim Index of African Governance (IIAG) Database

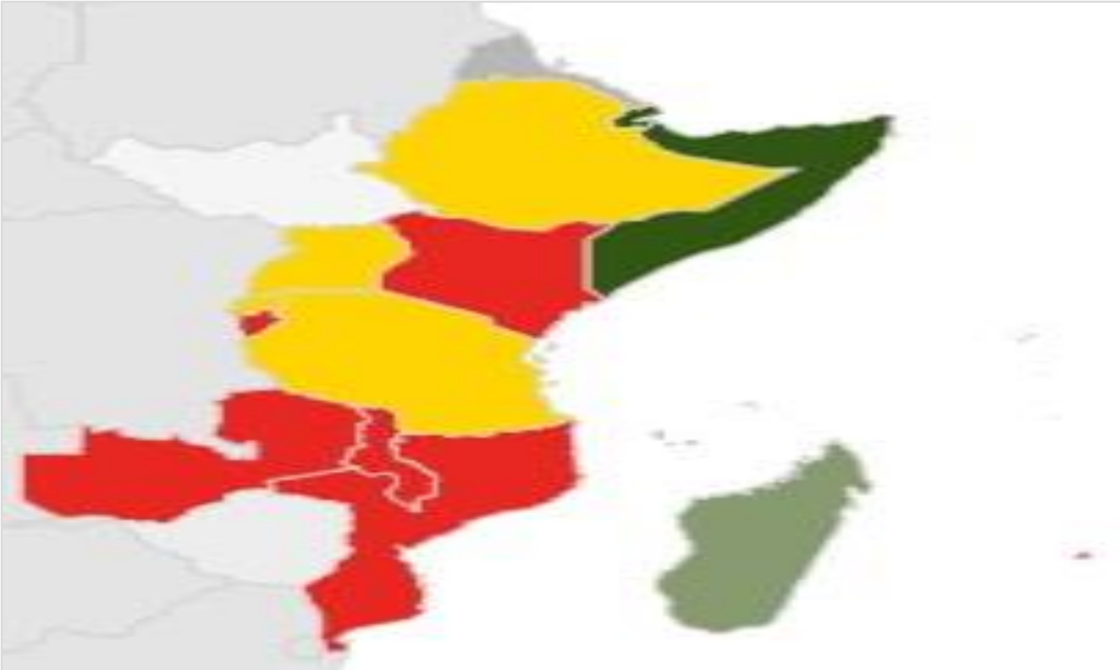
Figure 3.13. Transport Network for Eastern Africa

If we look at the development of the transportation network in Eastern Africa, there is a worsening infrastructure in Ethiopia, Eritrea, Uganda, Seychelles, Comoros and Mauritius. In Burundi, Tanzania and Kenya, the transport network is showing increasing development. There is a worsening infrastructure network in Zambia and Rwanda. According to the map, the transport network gives signals in Mozambique. Countries with quality infrastructure and transportation networks increase foreign direct entry.

3.1.9. FDI and Economic Growth: The Role of Political Stability

Another determinant of FDI is political stability. In general, countries with political stability are more fortunate in terms of foreign direct investment flows. However, the Eastern African region and the African continent seem unlucky in this regard.

Political instability is one of the major factors that undermine the confidence of foreign investors (Kinyondo, 2012). The political environment is an important determinant of foreign direct investment inflows. Foreign capital investments are adversely affected by political risk and uncertainty. Political instabilities reduce foreign direct investment inflows (Michael, 2018). In other words, political instability in a country seriously affect FDI and growth.



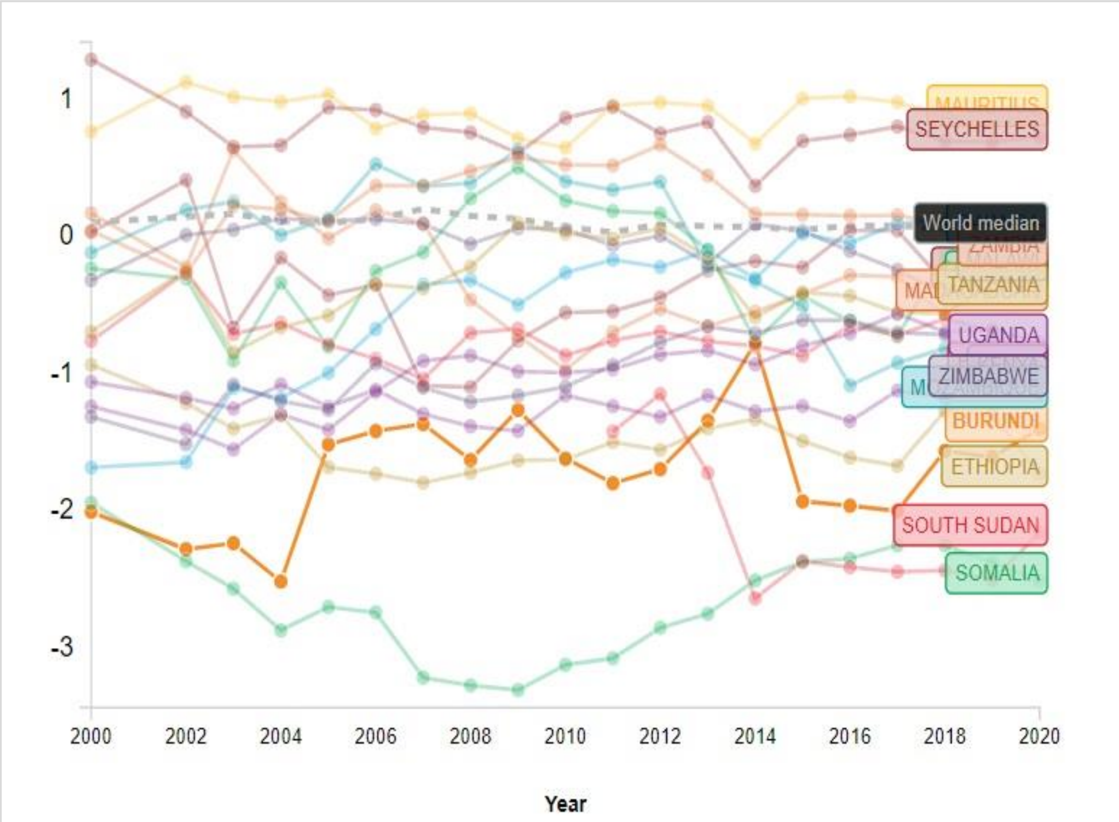
Source: The Ibrahim Index of African Governance (IIAG) Database

Figure 3.14. Democratic Elections for Eastern Africa

Democratic elections are of great importance in political stability for a country. When we look at the example of Eastern Africa, we see that other Eastern African countries could not develop with the exception of Somalia. Non-democratic elections reduce transparency and increase corruption in that country. This situation hinders the flows of FDI.

In many African countries, military coups, civil conflicts, rebellions have been hereditary. This political instability hinders the flows of FDI in Africa (Kouassi, 2019). The United Nations sees foreign direct investment as a driver of African economic development. Institutions such as the IMF reveal that economic development will occur by attracting foreign direct investment. The unfavorable environment in Africa hinders the flows of foreign direct investment. Civil conflicts, economic instability and hunger are the biggest problems (Mwilima, 2003). Political stability plays an important role in boosting economic growth by attracting more foreign direct investment (Bekere & Bersisa, 2018). In other words, political instability in the host country causes economic instability. This situation causes foreign investors to flee the host country. The unfavorable environment, civil and military conflicts in Eastern Africa seriously hinder foreign direct investment.

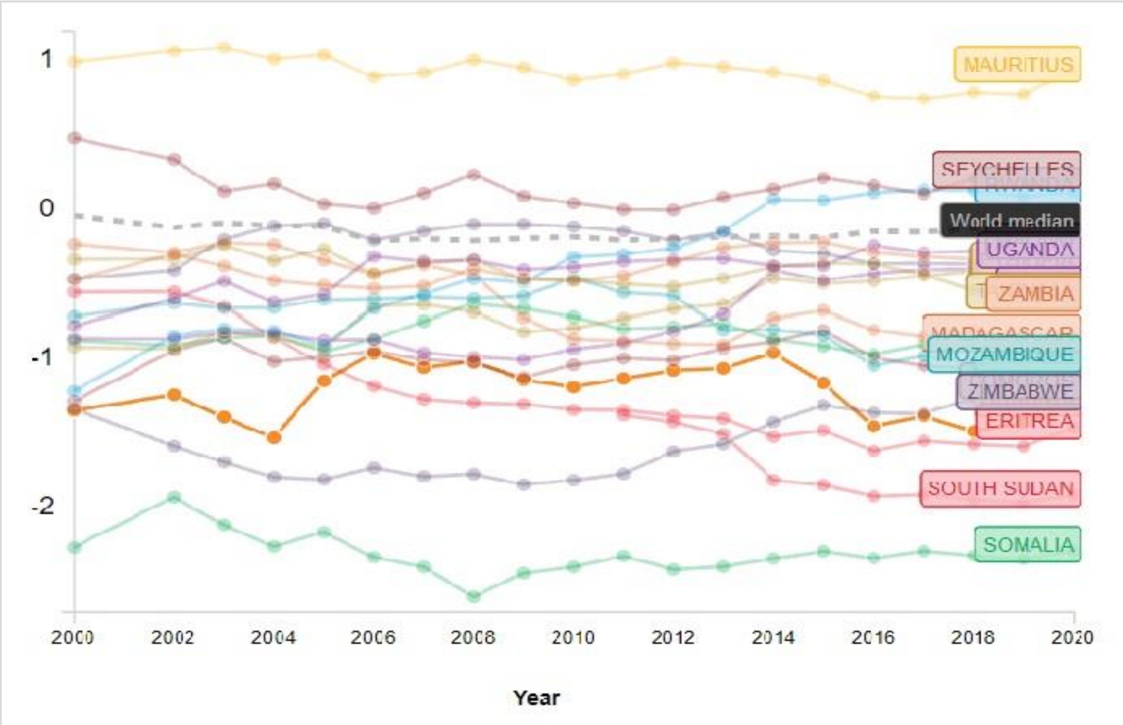
Politically stable countries get more foreign direct investment than unstable countries. The fact that democratic regimes respect property rights affirmatively affects investments. Political instability in many African countries hinders investments (Onyeiwu& Shrestha, 2004). Political conflicts and crises can hinder foreign direct investment. The instabilities experienced prevent foreign direct investment from entering the country (Atlaw & Teklemariam & Genu 2013). Political instability hinders foreign direct investment. This has a negative impact on economic growth (Yeboua, 2020).



Source: World Bank Database

Figure 3.15. Value Political Stability in Eastern Africa

While 2.5 represents the strongest ratio in the political stability index, -2.5 represents the weakest ratio. As can be seen from the table, we see that Eastern African countries have not been able to achieve political stability. Mauritius is at the top with an index of 0.89 in 2020. Seychelles' index is 0.72. The indices of other Eastern African countries after Rwanda are below 0. This shows that instability in the region has reached serious dimensions. The fact that these countries have not even reached the 1 index yet shows how bad the situation is. It is highly likely that the unstable environment will reduce FDI inflows.



Source: World Bank Database

Figure 3.16. Rule of Law Index in Eastern Africa

The rule of law index ranges from 0 to 1. An index close to 1 indicates how strong the rule of law is in that country. As we can see from the chart, Mauritius achieved the strongest index between 2000 and 2020. The country has consistently demonstrated stability. In 2020, Mauritius's rule of law index is 0.92. In the rule of law index, Seychelles has a score of 0.21 and Rwanda a score of 0.11. Other Eastern African countries are below 0 on the rule of law index. This indicates that the managers do not comply with the rules of society, do not attach importance to property rights, and the possibility of crime and violence is high.

The rule of law in a country plays an important role in reducing corruption and poverty. Accountable government and the pervasiveness of justice are the foundation of opportunity and advocacy communities. The rule of law affects all communities and individuals in daily life. The rule of law has four principles. These principles are the accountability of the government, the clear and equal laws, the openness of the government in enacting and implementing, and the impartiality of the representatives of justice. There are 8 factors under these four principles. These factors are absence of corruption, open government, fundamental rights, order and security, restrictions on government powers, civil justice and criminal justice (Rule of Law Index, 2020).

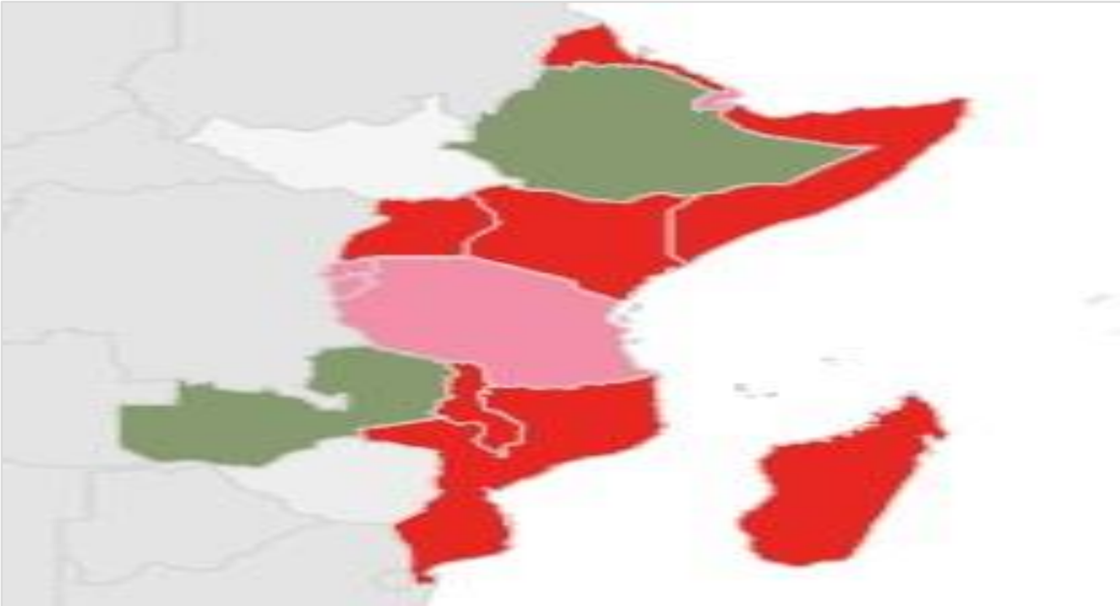
Table 3.3. Rule of Law Index in Eastern Africa, 2021

	Regional Rank	Government Powers	Absence of Corruption	Open Government	Fundamental Rights	Order and Security
Rwanda	1/33	0.62	0.65	0.59	0.50	0.82
Mauritius	3/33	0.59	0.58	0.52	0.63	0.76
Malawi	8/33	0.58	0.43	0.45	0.58	0.69
Tanzania	12/33	0.51	0.42	0.37	0.43	0.69
Kenya	15/33	0.48	0.27	0.49	0.47	0.55
Zambia	16/33	0.43	0.36	0.38	0.41	0.68
Madagascar	20/33	0.44	0.27	0.46	0.46	0.71
Ethiopia	27/33	0.38	0.46	0.33	0.33	0.61
Mozambique	28/33	0.42	0.36	0.37	0.41	0.49
Uganda	29/33	0.40	0.26	0.38	0.36	0.59
Zimbabwe	30/33	0.33	0.31	0.32	0.34	0.67

	Regional Rank	Regulatory Enforcement	Civil Justice	Criminal Justice	Overall Score
Rwanda	1/33	0.59	0.66	0.53	0.62
Mauritius	3/33	0.62	0.63	0.54	0.61
Malawi	8/33	0.47	0.56	0.44	0.52
Tanzania	12/33	0.44	0.48	0.38	0.47
Kenya	15/33	0.43	0.47	0.39	0.44
Zambia	16/33	0.43	0.46	0.40	0.44
Madagascar	20/33	0.38	0.45	0.33	0.44
Ethiopia	27/33	0.38	0.43	0.35	0.41
Mozambique	28/33	0.40	0.44	0.32	0.40
Uganda	29/33	0.42	0.41	0.32	0.39
Zimbabwe	30/33	0.35	0.46	0.37	0.39

Source: World Justice Project Database

In the table showing the rule of law index in the African context, Rwanda, Mauritius and Malawi are in the top 10 in terms of rule of law. Countries such as Uganda, Zimbabwe and Ethiopia rank at the bottom. Countries with low corruption and high transparency such as Rwanda, Mauritius and Malawi attract foreign direct investment more easily than other countries in the region. Eastern African countries, where fundamental rights are defended, security is high, and state openness is high, seem to be more fortunate in terms of foreign direct investment.



Source: The Ibrahim Index of African Governance (IIAG) Database

Figure 3.17. Security & Safety for Eastern Africa

In this map, we see how low the security of life and property is in Eastern African countries. The prevalence of civil and military conflicts and the ineffectiveness of security and state control in all countries discourage FDI inflows and hit economic growth.

3.1.10. FDI and Economic Growth: The Role of Instituional Quality

Another variable that has a significant impact on foreign direct investment is institution quality. The quality of institutions in a country is extremely important for foreign investors. If the institutions are of good quality, foreign capital will come to the country.

Institutional quality has a positive effect on economic growth. These data have a valid structure for developing and developing countries. Civil liberties also have a positive relationship with growth. The competence of the government has a affirmative effect on economic growth (Valeriani & Peluso, 2011). Economies with quality institutions take more foreign direct investment and provide better economic development. Regulatory quality allows government to implement private sector development and encourages sound policies (Bekere & Bersisa, 2018). Countries that have quality institutions and value property rights earn higher incomes. The quality of the institutions provides greater increases in the economic growth of the host countries

(Acemoğlu, 2008). There is a significant long-term correlation between institutional quality, economic growth and globalization (Heshmati, 2018).

Quality institutions are one of the most important determinants of economic growth. Many researchers attribute economic development differences to the quality of institutions. Countries with weak institutional quality cannot attract foreign direct investment. Good economic institutions have a positive impact on economic growth in ECOWAS countries (Yeboua, 2020). Foreign investors seek openness to trade and institutional quality in the country. The property rights security measure plays an important role on the foreign direct investment flows of the institutions. Property rights are the most appropriate institution for foreign direct investment. Institutional quality is important for both manufacturing and service FDI (Ali & Fiess & Macdonald, 2010). The impact of institutional variables is economically significant. Uncertainty and lack of commitment negatively affect FDI flows. Countries can have a affirmative effect on domestic investments by raising the quality of their institutions (Daude & Stein, 2007).

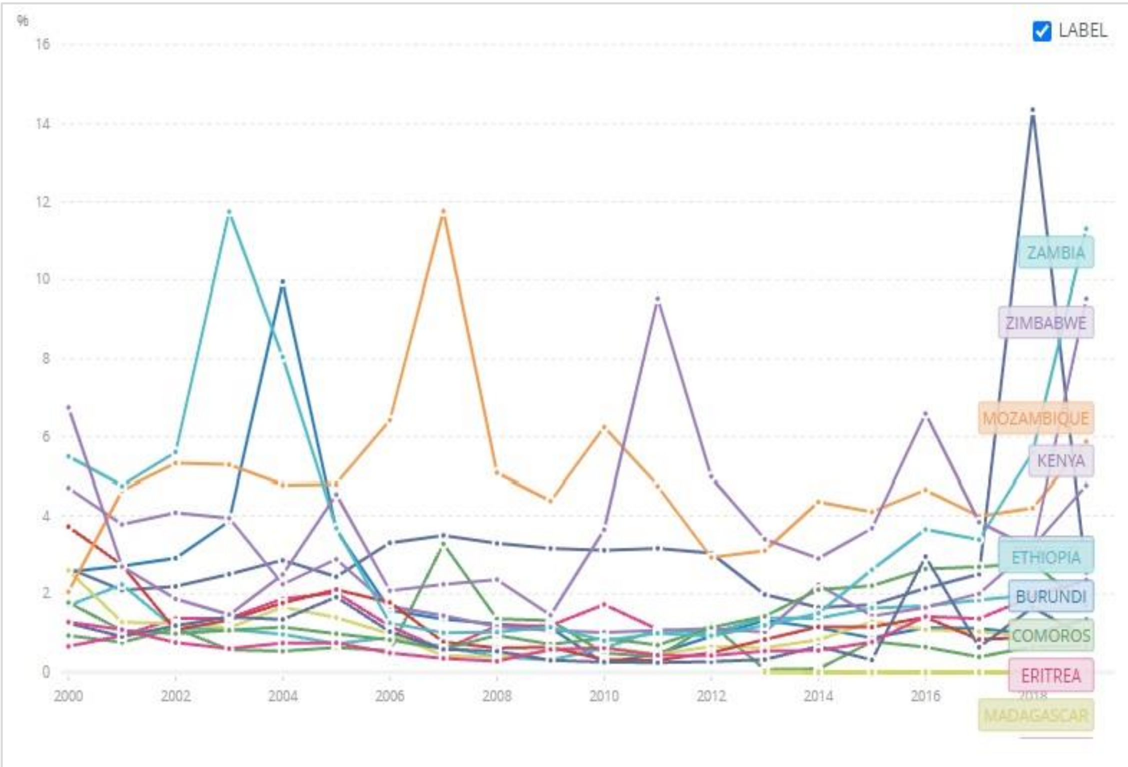
Quality institutions have a positive effect on foreign direct investment. Uncertainty and instability reduce FDI inflows. Institutions, trade openness and agglomeration are the most important determinants of FDI. Corruption appears to reduce FDI inflows. Poor governance and restrictions negatively affect foreign direct investment flows. Studies reveal that countries without political risk and with efficient infrastructure attract foreign direct investment (Anyanwu, 2012).

Countries with no corruption, no uncertainty, and civil rights are more unlucky in terms of FDI flows. Experiencing uncertainties and conflicts negatively affect foreign direct investment flows. Another issue is that states are not transparent enough. Coups and the lack of clear democratic elections undermine economic development.

3.1.11. FDI and Economic Growth: The Role of Foreign Debt

A country's high external debt undermines its economy. The higher the external debt, the lower the foreign direct investment. Because countries without economic stability are generally not chosen by foreign investors.

Foreign debt in underdeveloped countries causes instability and uncertainty. This external debt negatively affects the flows of FDI. In addition, excessive foreign debt can create a financial crisis (Atlaw & Teklemariam & Genu 2013). Another factor affecting foreign direct investments is foreign debt. In countries with high debt burden, the ability to invest decreases. An increase in the debt-to-GDP ratio reduces foreign direct investment (Onyeiwu & Shrestha, 2004). The fact that macroeconomic policy mistakes cause exchange rate mismatch reduces foreign direct investment inflow (Kouassi, 2019).



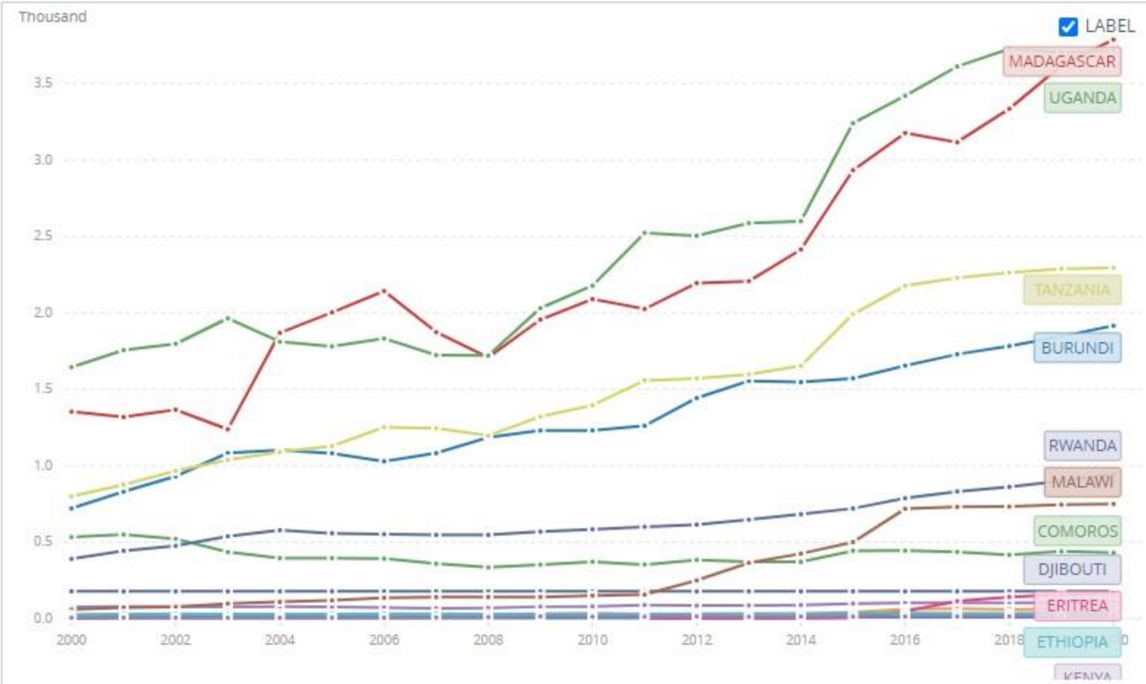
Source: World Bank Database

Figure 3.18. Total Debt Service (% of GNI) in Eastern Africa

The table shows the debt service to gross national income ratios of Eastern African countries. As can be seen from the table, the ratio of foreign debt to gross national income of other countries, except for countries such as Mozambique, Zambia and Djibouti, is stable. Djibouti reached 14,368% in 2018, the highest debt service ratio among countries in the last two decades. In the post-2017 period, the graph shows that the ratio of debt service to gross national income has gradually increased. In 2019, Zambia showed an upward trend with 11.306%, Zimbabwe 9.543% and Mozambique 5.877%. Other Eastern African countries follow the same level as in previous years. The high ratio of debt service to gross national income is one of the considerable obstacles to economic development for Eastern African countries. Eastern African countries need to reduce their debt service ratios to ensure development and growth.

3.1.12. FDI and Economic Growth: The Role of Exchange Rate

One of the most important determinants of foreign direct investment is the exchange rate of the host country. The exchange rate is one of the factors that affect the foreign investor's investment in the host country. In general, uncertainties in the exchange rate in the host country prevent foreign direct investment inflows.



Source: World Bank Database

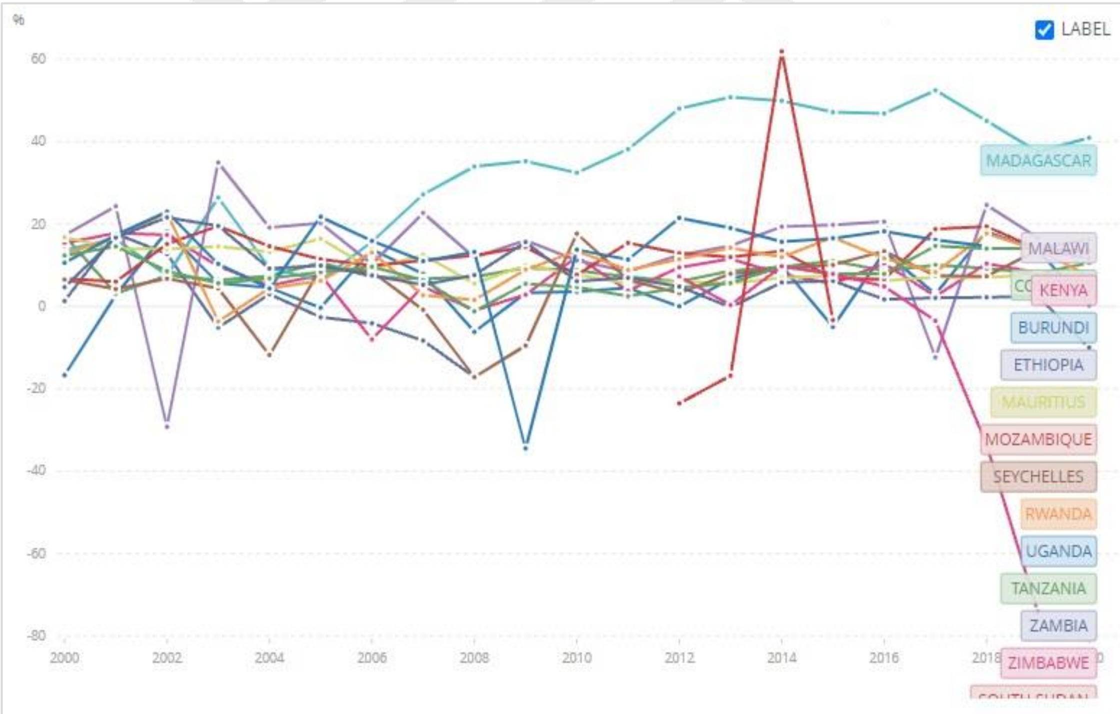
Figure 3.19. Official Exchange Rates of Eastern African Economies

Changes in the local currency reduce the inflows of foreign direct investment (Atlaw & Teklemariam & Genu 2013). One of the factors that affect foreign investors to make investments is the stability between interest rates and exchange rates. The fluctuations in the host country's interest rates cause uncertainties in the exchange rate. High interest rates increase the uncertainty in the exchange rate. This situation prevents foreign direct investment inflows to the host country. The decrease in exchange rates increases foreign direct investment inflows (Karacan, 2010).

In an other saying, the value of a country's currency against other currencies affects economic growth. The fact that the country's currency is less valuable and volatile against the currencies of other countries negatively affects foreign direct investment flows. In the context of Eastern Africa, the countries with the highest exchange rates are Madagascar, Tanzania and Uganda. These countries may cause a decrease in foreign direct investment inflows due to their high exchange rates. Ethiopia, Kenya and Eritrea are the countries with the lowest exchange rates. These countries may increase their foreign direct investment inflows due to their low exchange rates.

3.1.13. FDI and Economic Growth: The Role of Interest Rate

The value of a country's currency against other currencies affects economic growth. The fact that the country's currency is less valuable and volatile against the currencies of other countries negatively affects foreign direct investment flows.



Source: World Bank Database

Figure 3.20. Real Interest Rate in Eastern Africa

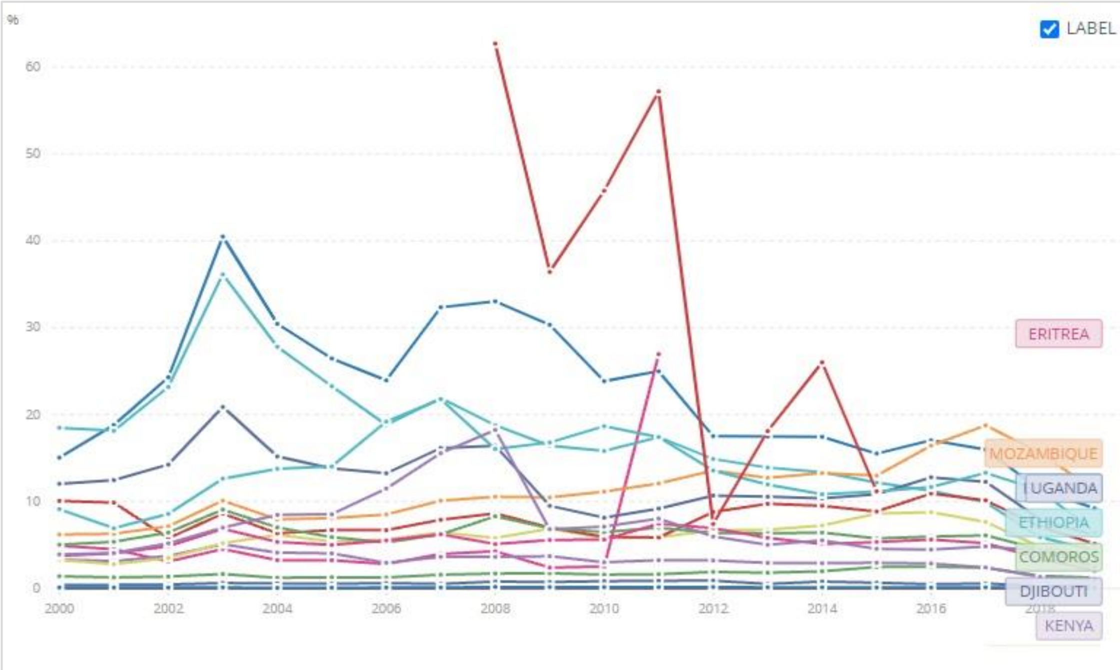
If we deduce from the interest rates of Eastern African countries, the highest real interest rate exists in Madagascar. In countries such as Uganda, Malawi and South Sudan, we see large fluctuations in real interest rates. These fluctuations are one of the main problems of instability. In Zimbabwe, on the other hand, we see that the real interest rate fell below 0 in the post-2017 period. It is highly probable that Eastern African countries with low interest rates may increase foreign direct investment inflows. Because the interest rate is one of the major determinants that affect the investor's decision. Therefore, the interest rate should be low. Low interest rates are expected to support economic growth and development.

One of the factors that determine the flows of FDI in Africa is interest rates. A low real interest rate reduces foreign direct investment (Onyeiwu & Shrestha, 2004). In other words, if the interest rate is high, foreign direct investment decreases.

3.1.14. FDI and Economic Growth: The Role of Natural Resource

Natural resources has been an important variable of foreign direct investment. By the middle of the 20th century, 60% of foreign direct investment in the world was in natural resources. Industrializing countries were turning to foreign direct investment to secure their resources (Atlaw & Teklemariam & Genu 2013). Most foreign direct investment in Africa is made in countries with abundant natural resources (Onyeiwu & Shrestha, 2004). The fact that some countries in Africa are rich in natural gas, minerals and oil provides more foreign direct investment inflows. Multinational companies are turning to Africa to access these natural resources. The African continent has large diamond, gold and copper reserves (Kouassi, 2019).

Most FDI flows in Africa are driven by natural resource donors (Heshmati, 2018). Foreign direct investment inflows have a large share in the economic growth of the host country. The effect of capital flows on growth diminishes with the expansion in the size of natural resources. Further expansion has a negative effect on growth. Countries use their natural resources to attract foreign direct investment (Hayat, 2018). The existence of natural resources is the main determinant in foreign direct investment inflows. The demand for natural resources is causing Africa's high share in the global economy. The presence of natural resources in many countries in Africa and sub-Saharan Africa creates an important source of income (Michael, 2018). The presence of natural resources in a country has a very important effect on the inflows of foreign direct investment (Anyanwu, 2012). In other words, the natural resources and minerals available in the host country increase the flows of FDI. The importance of foreign investors to natural resources in the host country has become one of Africa's greatest advantages.



Source: World Bank Database

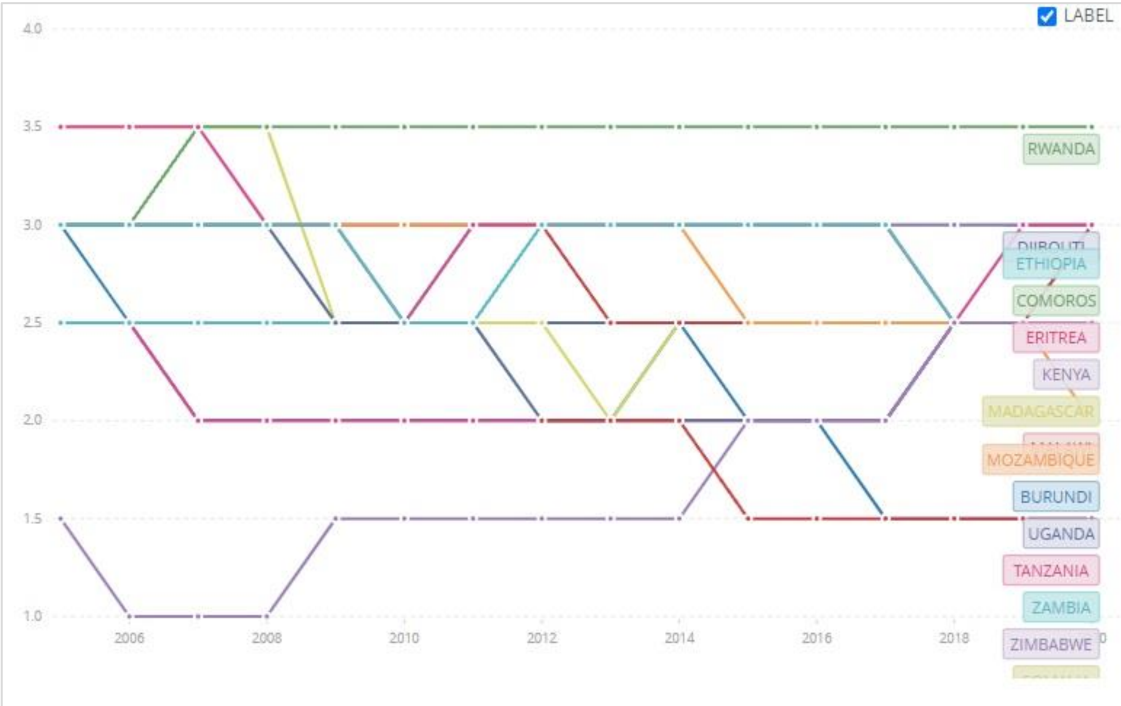
Figure 3.21. Total natural Resources Rents (% of GDP) in Eastern Africa

This index is the rate of natural resource, oil, natural gas and mine rents to gross national income. Availability of natural resources and minerals in Eastern Africa is vital for foreign direct investment. Incomes and rents from the use and operation of these resources have a affirmative effect on economic growth. In 2011, South Sudan achieved a rate of 57,196%. Except for South Sudan, other countries are generally in a downward trend. In the period between 2000 and 2010, revenues from mineral and natural resource rentals had a large impact on gross national income.

3.1.15. FDI and Economic Growth: The Role of Corruption

Corruption is seen as a threat by foreign investors as it disrupts the economic environment. Bribery demands, special protection, business licenses are among the types of corruption that foreign investors may encounter. Such corruption makes it difficult for foreign investors and firms to do business (Basemera & Mutenyo & Hisali & Bbaale, 2012). Foreign investors who think corruption is morally wrong can avoid corruption. In addition, foreign investors try to stay away from corruption due to its risks and costs.

Foreign investors should fight corruption because of their long-term interests (Habib& Zurawicki, 2002). In other words, countries with high corruption cannot attract foreign direct investment flows. As a result, economic growth is adversely affected. Foreign investors prefer countries with high transparency.



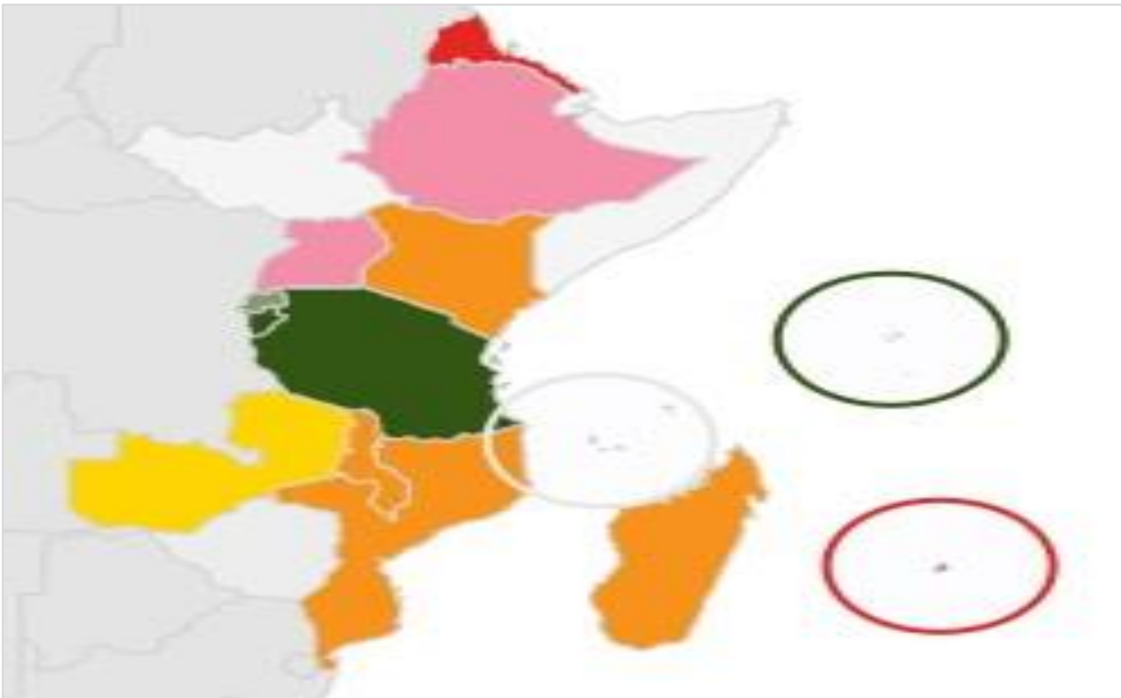
Source: World Bank Database

Figure 3.22. Transparency and Corruption in Eastern Africa

This index determines transparency, corruption and accountability in a country. The highest ratio in the index is 6, the lowest ratio is 1. This index determines transparency, corruption and accountability in a country. The highest ratio in the index is 6, the lowest ratio is 1. Rwanda is the country with the highest ratio in Eastern Africa with an index of 3.5. Between 2005 and 2020, Eastern African countries generally followed a stable rate. In 2020, Tanzania, Djibouti and Malawi achieved 3.0 indexes. Burundi, South Sudan and some other Eastern African countries have an index ratio of 1.5. We can deduce that in these countries close to the 1 index, corruption is high and transparency is low.

3.1.16. FDI and Economic Growth: The Role of Human Capital

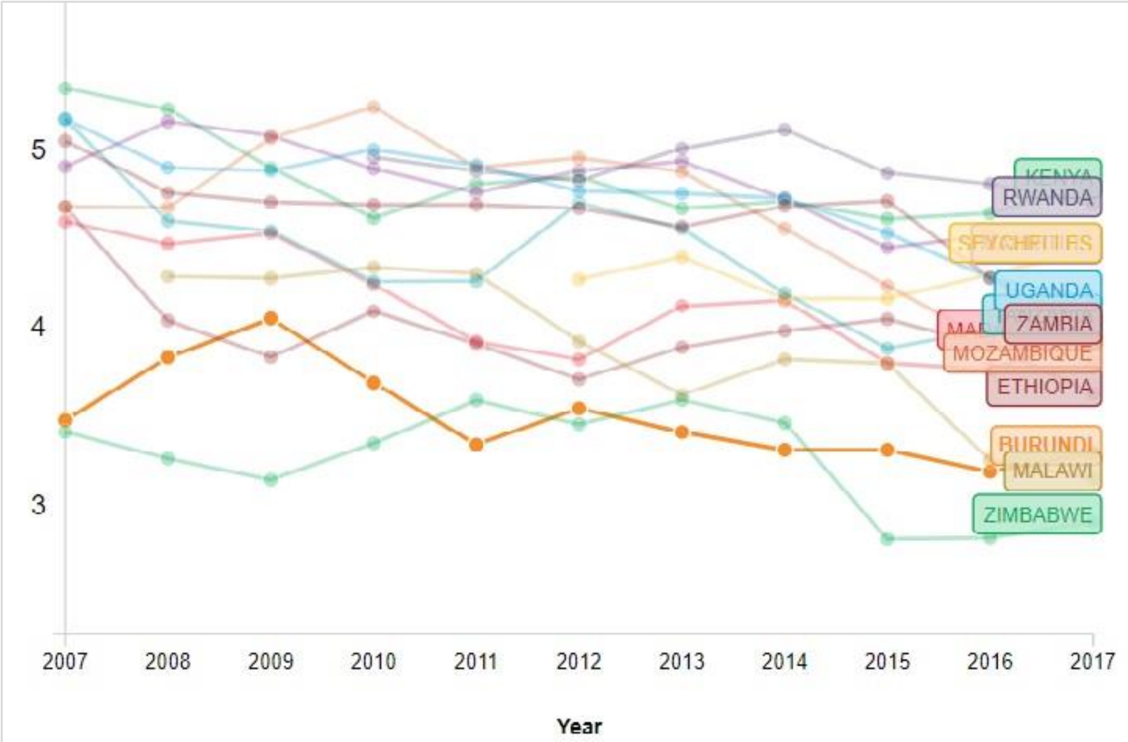
After the 1990s, interest in economic growth rates increased in the world. Education level is a measure of human capital. This concept encompasses on-the-job training and training quality. Historically, the importance of human capital in the economy has gradually declined. Physical capital has gradually increased in importance. After the 1960s, human capital began to attract attention again (Savvides & Stengos, 2009). Foreign investors are interested in a more skilled workforce in the country they invest in. Because educated workers adapt more quickly to new technology. It increases the country's regional advantage (Kinyondo, 2012).



Source: The Ibrahim Index of African Governance (IIAG) Database

Figure 3.23. Education Quality for Eastern Africa

Human capital plays a major role in the development of a country. The quality of human capital ensures the adoption of technology. Foreign investors usually invest in countries with developed human capital. As for the results we can draw on the map, Tanzania, Seychelles and Burundi are gradually increasing the quality of education. Mauritius and Eritrea, on the other hand, are deteriorating in the quality of education. Other Eastern African countries continue to give bad signals. Among these countries, we can see that the countries that can attract foreign direct investments are Tanzania, Burundi and Seychelles. Developed human capital is also critically important for other countries. Therefore, we can deduce that investment in human capital is necessary.



Source: World Bank Database

Figure 3.24. FDI and Technology Transfers Index of Eastern African Countries, 2007-2017

Kenya, Rwanda and Seychelles are the countries with the highest technology transfer index in Eastern Africa. Zimbabwe, Burundi and Malawi are the countries with the lowest technology transfer index.

Types of investments determine the outcome of investments in human capital. A good education system is important for long-term capacity development. States should therefore finance a personal health package. Investment in education and health increases the stock of human capital. At the same time, revenues also increase. Human capital is extremely important for sustainable economic growth and poverty reduction (OECD, 2000). Investments in education and health capital in low- or middle-income African countries play a key role in economic growth. Investments in human health have a positive effect on economic growth (Heshmati, 2018). Human capital is the sum of social welfare, education and health. It is one of the significant determinants of economic growth. To have a developed economy, it must have a quality education and health system. There is a affirmative correlation between foreign direct investment, human capital and growth. Human capital is expected to get more foreign direct investment (Bekere & Bersisa, 2018). There is a big connection between FDI and education. Investments in human capital attract foreign direct investment. As a result, economic growth is positively affected (Mody, 2006). Human capital represents the productivity units of labor. Differences in human capital cause differences in economic performances between countries. Human capital plays an important role in development and economic growth. Human capital plays a role in technology adoption. Human capital is also important in increasing productivity (Acemoğlu, 2008). Investment in human capital creates a favorable environment for foreign direct investment. Human capital is one of the major determinants of a country's availability. Labor market standards are one of the facilitating factors. Authorities oppose discrimination in order to develop human capital. There is a close connection between human capital and technology transfers. Technologically advanced countries have developed human capital (OECD, 2002). Improvement in human development increases foreign direct investment inflows. There is a strong connection between these two determinants. In addition, knowledge capital is important for foreign direct investments (Anyanwu, 2012).

There is a crucial correlation between human capital and economic growth. The increase in the education level of men has a positive influence on growth. The schooling level of women has a negative influence on growth. In addition, post-primary schooling for boys has a affirmative impact on growth. Human capital that adapts to innovation and technology leads to an increase in economic growth (Savvides & Stengos, (2009). Human capital is an important determinant of foreign direct investment inflows. Countries with quality human capital attract foreign direct investment more easily (Berhanemeskel, 2018). In other words, the effects of human capital development in the host country have different effects on women and men. Also, enhanced human capital in the host country allows for easier adoption of technology.

Table 3.4. Human Development Index for Eastern Africa

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Burundi	0.300	0.301	0.311	0.319	0.330	0.337	0.359	0.371	0.384	0.401
Comoros	0.465	0.470	0.475	0.481	0.483	0.489	0.495	0.501	0.508	0.514
Djibouti	0.360	0.369	0.375	0.385	0.393	0.402	0.413	0.423	0.432	0.442
Eritrea	-	-	-	-	-	0.427	0.428	0.430	0.426	0.436
Ethiopia	0.292	0.306	0.315	0.319	0.334	0.355	0.371	0.386	0.403	0.411
Kenya	0.461	0.465	0.465	0.478	0.490	0.500	0.515	0.523	0.532	0.541
Madagascar	0.462	0.468	0.464	0.473	0.480	0.486	0.490	0.498	0.560	0.510
Malawi	0.388	0.388	0.357	0.361	0.363	0.367	0.377	0.388	0.405	0.420
Mauritius	0.678	0.687	0.692	0.701	0.708	0.717	0.724	0.731	0.738	0.745
Mozambique	0.307	0.320	0.327	0.340	0.349	0.360	0.366	0.378	0.387	0.394
Rwanda	0.341	0.350	0.366	0.379	0.396	0.413	0.434	0.450	0.461	0.477
Seychelles	0.714	0.710	0.711	0.714	0.716	0.732	0.722	0.745	0.750	0.754
Somalia										
South Sudan	-	-	-	-	-	-	-	-	-	-
Tanzania	0.390	0.397	0.407	0.416	0.426	0.437	0.447	0.456	0.465	0.474
Uganda	0.404	0.412	0.427	0.436	0.436	0.444	0.456	0.466	0.479	0.487
Zambia	0.425	0.432	0.441	0.451	0.460	0.471	0.482	0.488	0.503	0.517
Zimbabwe	0.430	0.431	0.423	0.414	0.411	0.411	0.414	0.421	0.422	0.458

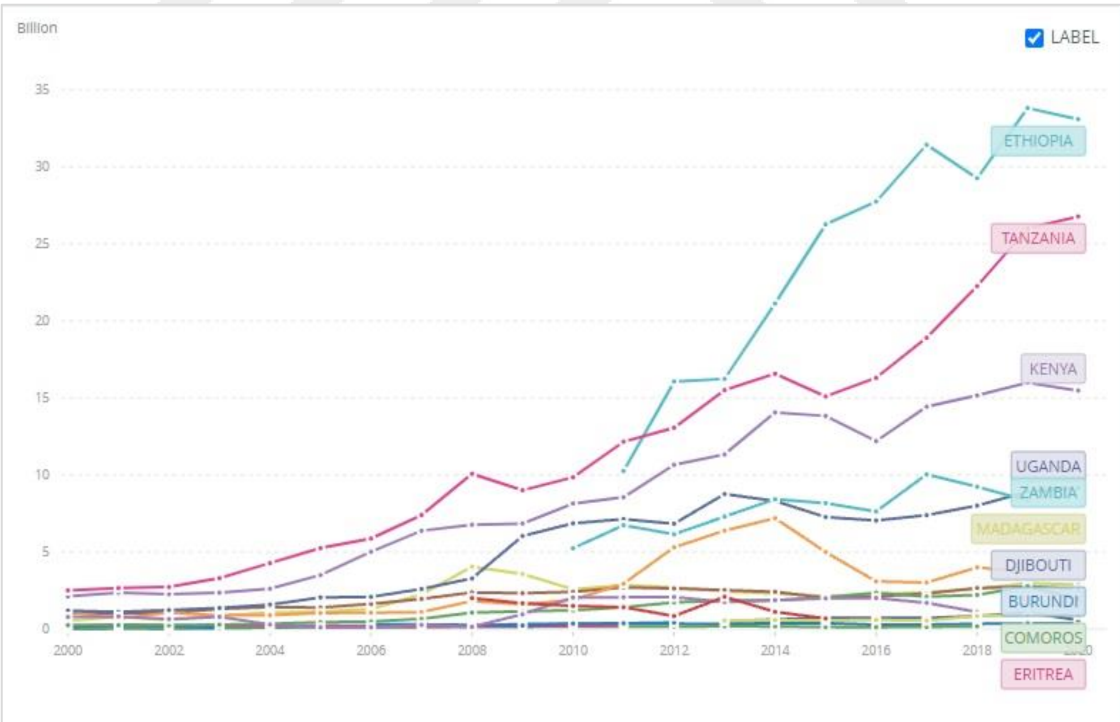
Economy	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Burundi	0.411	0.419	0.426	0.432	0.438	0.437	0.438	0.434	0.431	0.433
Comoros	0.521	0.533	0.538	0.542	0.543	0.545	0.547	0.550	0.552	0.554
Djibouti	0.454	0.463	0.474	0.484	0.492	0.499	0.505	0.510	0.518	0.524
Eritrea	0.436	0.436	0.441	0.446	0.457	0.454	0.456	0.454	0.456	0.459
Ethiopia	0.421	0.432	0.438	0.447	0.455	0.462	0.467	0.474	0.478	0.485
Kenya	0.551	0.559	0.566	0.573	0.580	0.587	0.591	0.595	0.599	0.601
Madagascar	0.511	0.512	0.514	0.517	0.520	0.522	0.523	0.526	0.527	0.528
Malawi	0.431	0.440	0.446	0.456	0.465	0.468	0.472	0.473	0.478	0.483
Mauritius	0.751	0.760	0.771	0.779	0.789	0.789	0.794	0.797	0.801	0.804
Mozambique	0.401	0.397	0.403	0.417	0.425	0.433	0.441	0.446	0.452	0.456
Rwanda	0.492	0.500	0.508	0.515	0.521	0.526	0.527	0.535	0.540	0.543
Seychelles	0.764	0.767	0.755	0.775	0.775	0.786	0.787	0.789	0.790	0.796
Somalia										
South Sudan	0.410	0.430	0.397	0.428	0.428	0.425	0.421	0.426	0.429	0.433
Tanzania	0.481	0.487	0.496	0.497	0.504	0.514	0.520	0.523	0.524	0.529
Uganda	0.498	0.504	0.507	0.513	0.519	0.525	0.529	0.532	0.538	0.544
Zambia	0.527	0.534	0.549	0.557	0.561	0.569	0.571	0.578	0.582	0.584
Zimbabwe	0.482	0.499	0.525	0.537	0.547	0.553	0.558	0.563	0.569	0.571

Source: Human Development Index

In the table showing the human development indexes of Eastern African countries between 2000 and 2019, most Eastern African countries recorded the lowest index in 2010. The table shows that South Sudan, Somalia, Djibouti, Eritrea, Madagascar, Mauritius, Mozambique did not show much change in human development. Ethiopia ranks highest among Eastern African countries in human development with an increase of 9.6 points through 2019. Between this period, Seychelles increased by 8.3 points and Tanzania by 7.2 points. In addition, when Mauritius and Eritrea were compared in the first and last years, the human development index decreased. Human capital is of great importance in the economic growth and development of a country. The fact that countries with high quality human capital attract foreign direct investment is effective in their growth. It seems difficult to attract foreign direct investment in Eastern Africa, where human development is so low. Countries that invest in human capital such as Ethiopia, Seychelles and Kenya are likely to increase the flows of FDI.

3.1.17. FDI and Economic Growth: The Role of Gross Fixed Capital Formation

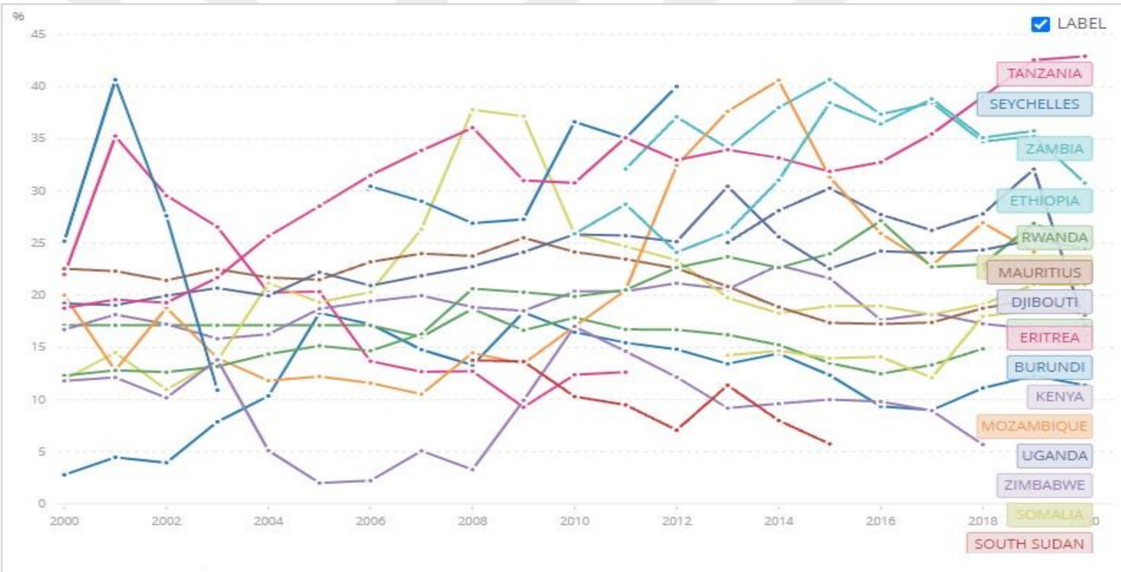
Gross fixed capital formation includes private investment, schools, hospitals, offices, private residences, plant and machinery purchases, industrial buildings. Gross fixed capital formation is measured as private sector investment. In Africa, this variable is expected to have a positive impact on growth (Bekere & Bersisa, 2018).



Source: World Bank Database

Figure 3.25. Gross Fixed Capital Formation in Eastern Africa, 2000-2020, US$ Billion.

Gross fixed capital formation includes public and private investments made in a country's economy in a year. As can be seen from the table, the gross fixed capital formation of Eastern African countries has increased significantly in the period after 2008. The largest increases were in Tanzania, Kenya and Ethiopia. While it was 10.259 billion dollars in Ethiopia in 2011, this figure reached 33.103 billion dollars in 2020. Tanzania has a gross fixed capital of $26,781 billion. Kenya, on the other hand, has an investment formation of 15.485 billion dollars. Apart from these three countries, other Eastern African countries have a gross fixed capital formation of approximately 5 billion dollars. A high level of gross fixed capital formation in a country increases economic growth and plays a major role in economic development. As can be seen from the table, Ethiopia, Kenya and Tanzania are more likely to increase their economic growth.



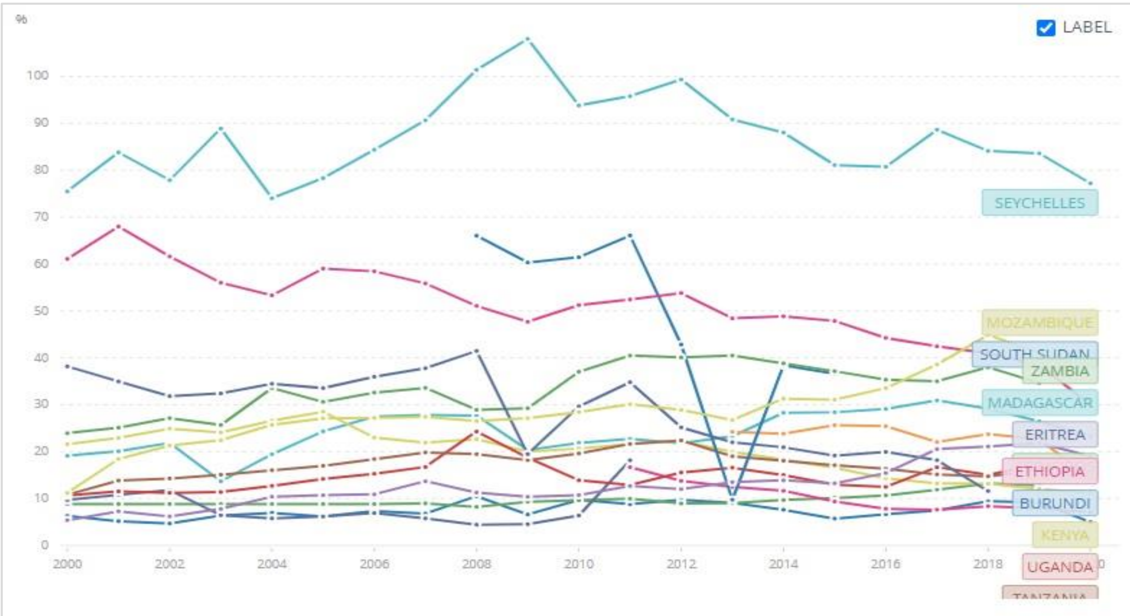
Source: World Bank Database

Figure 3.26. Gross Fixed Capital Formation (% of GDP) in Eastern Africa, 2000-2020

If we come to the conclusions that we can draw from the graph showing the gross fixed capital formation as a percentage of GDP in the context of Eastern Africa, there are large fluctuations between countries from year to year. However, Tanzania showed a great increase in the period between 2000 and 2020. On the other hand, countries such as South Sudan, Zimbabwe and Somalia have a very low percentage of gross fixed capital formation to GDP. In general, we see that the capital formation of Eastern African countries is low. This shows us that these countries are not able to attract foreign direct investments clearly.

3.1.18. FDI and Economic Growth: The Role of Economic Stability

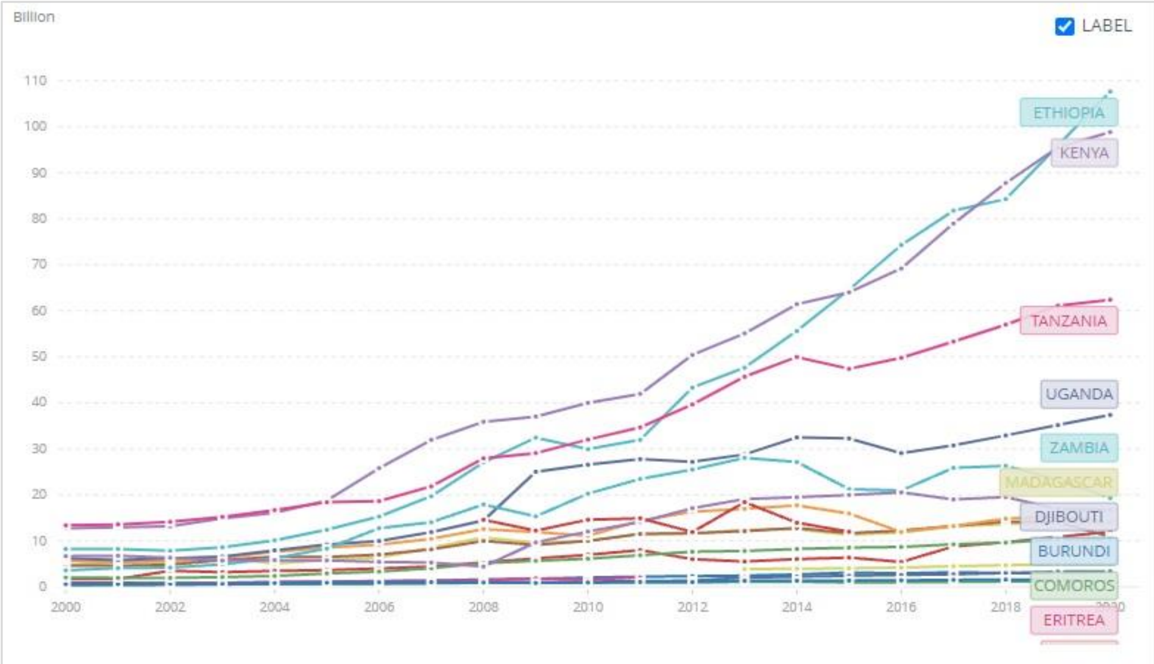
The fact that a country has a high and stable growth rate has a significant influence on the arrival of foreign direct investment to the country. Industrial production index, inflation rates, interest rates and exchange rates are the data used to measure economic stability (Kinyondo, 2012). Economic stability is another determinant of foreign direct investment. This is determined by varying inflation. Inflation provides an unsuitable environment by reducing the profits of the firms. Therefore, low inflation provides foreign direct investment inflow. High inflation, on the other hand, causes a decrease in foreign direct investment (Basemera & Mutenyo & Hisali & Bbaale, 2012).



Source: World Bank Database

Figure 3.27. Exports of Goods and Services (% of GDP) in Eastern Africa, 2000-2020

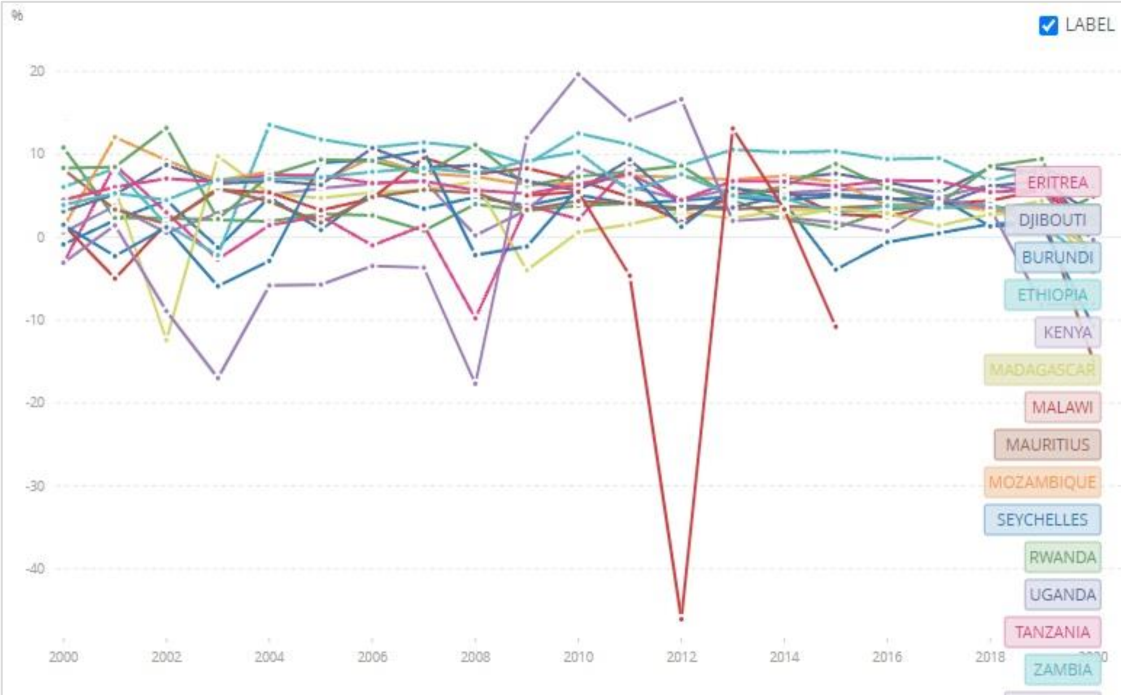
The countries with the highest ratio of exports of goods and services to GDP in East Africa are Seychelles, Mozambique and Mauritius. The countries with the lowest ratio of exports of goods and services to GDP are Burundi, Ethiopia and Somalia.



Source: World Bank Database

Figure 3.28. GDP (Current US$) in Eastern Africa

This table shows the gross national product of Eastern African countries. As can be seen from the table, Ethiopia, Kenya and Tanzania have reached the highest rates in the last year. In 2020, Ethiopia's revenue was $107.645 billion, while Kenya's revenue was $98.843 billion. Tanzania comes after these two countries. Tanzania's income is 62.41 billion dollars. One of the conclusions we can draw from the table is that although Uganda has made progress in recent years, other Eastern African countries have not recorded much increase in national income.

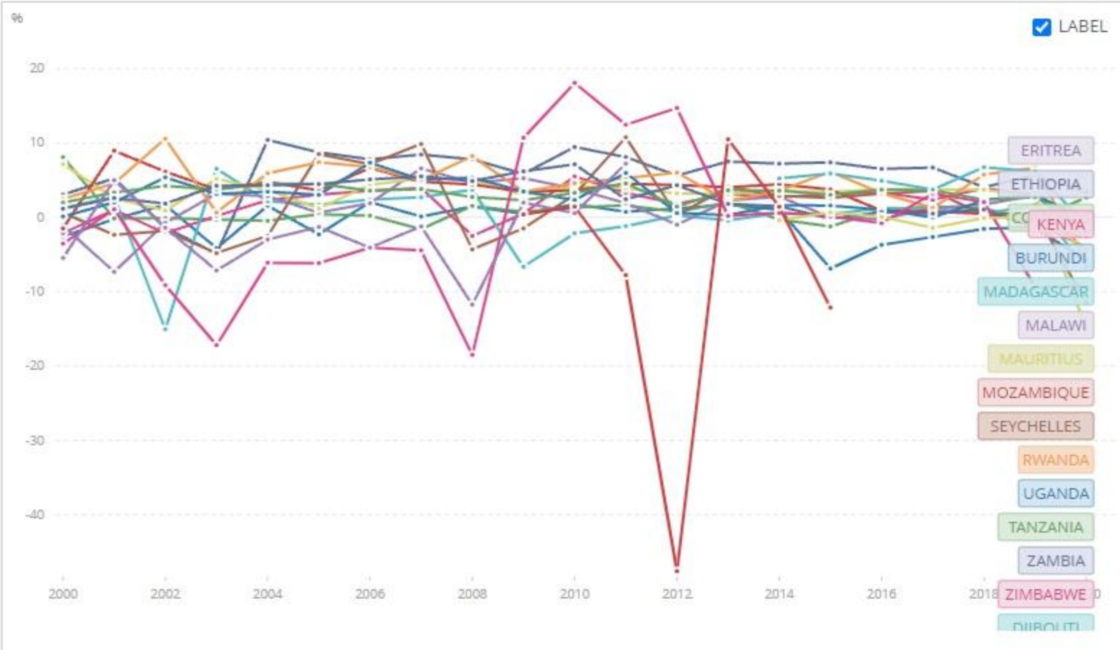


Source: World Bank Database

Figure 3.29. GDP Growth (Annual %) in Eastern Africa

This table expresses the change in the economic output of a country over the years. This ratio measures how fast the economy is growing. Coming to the conclusions we can draw from the table, the country that drew the most unstable image in the period between 2000-2020 is South Sudan. In 2012, South Sudan recorded a rate of -46,082%. This rate shows how big a deficiency there is in the country's economy. Although South Sudan recorded the next uptrend, then it went downhill again. In 2020, Ethiopia's growth rate was 6,057%, while the Comoros recorded a growth of 4,911%. Countries including Uganda, Tanzania and Malawi recorded a growth of around 2 percent. The remaining Eastern African countries showed a growth rate below 0. Such a low growth rate discourages FDI flows and presents a more unstable environment. When combined with other charts, the trio of economic development and growth Ethiopia, Kenya and Tanzania are the leading countries in Eastern Africa.

GDP per capita, GDP and GDP growth rate are the main factors affecting foreign direct investment. The results reveal a positive relationship between economic development and foreign direct investment. GDP is an important indicator for the country's market size (Michael, 2018).



Source: World Bank Database

Figure 3.30. GDP Per Capita Growth (Annual %) in Eastern Africa

In the chart showing the per capita income rates, we see large fluctuations in the per capita national income rates of South Sudan and Zimbabwe. While the per capita income of South Sudan was -47.591% in 2012, this rate increased to 10.493% in 2013. In the last two decades, the per capita income rates of other Eastern African countries have remained stable. In 2020, Ethiopia's per capita income rate was 3.395 percent and the Comoros' per capita income rate was 2.654 percent. The per capita income of other Eastern African countries is below 0% this year. This situation reveals that the region cannot attract foreign direct investments, and as a result, internal conditions have a negative effect on the development and growth of the region. It is obvious how much the Eastern African countries need foreign direct investment flows in order to increase per capita income and ensure economic growth.

Table 3.5. Real GDP Growth (Annual %) Region by Africa

	Central Africa	**Eastern Africa**	**Northern Africa**	**Southern Africa**	**Western Africa**
2000	1.6	9.0	4.2	3.8	3.6
2001	8.8	6.2	3.3	2.8	6.8
2002	5.1	4.5	3.3	3.5	15.2
2003	5.5	4.8	5.8	2.8	8.2
2004	11.9	6.8	4.3	5.0	8.4
2005	5.7	7.2	5.4	6.4	5.9
2006	3.2	7.6	5.4	6.2	5.4
2007	7.0	7.5	5.5	6.5	5.8
2008	6.8	5.5	5.1	4.5	5.8
2009	2.3	4.9	3.0	-0.03	5.9
2010	4.2	8.0	4.1	4.0	8.9
2011	4.9	6.0	-0.1	3.9	5.0
2012	6.1	3.0	11.9	3.5	5.1
2013	3.9	7.1	0.8	3.7	5.7
2014	5.7	5.8	1.4	2.7	6.0
2015	3.0	5.6	3.6	1.9	3.2
2016	0.1	5.0	3.2	0.9	0.4
2017	0.8	5.9	4.9	1.7	2.3
2018	2.5	5.9	5.0	2.0	3.5
2019	3.4	6.1	4.5	2.5	3.6

Source: AFDB Socio Economic Database

In general, Eastern Africa seems to have the highest economic growth rates on the African continent. In recent years, there has been a decrease in the economic growth rates of South Africa and Central African regions. Although the West African region achieved high economic growth rates in the early 2000s, it has declined in recent years. It is seen that West Africa achieved the highest growth rate in the last two decades in 2002. Although there was a stability in the economic growth rates of North Africa in the early 2000s, the growth rates decreased significantly in the following years.

Table 3.6. Real GDP Growth (Annual %) of Africa

Time	Africa
2000	4.4
2001	4.5
2002	6.0
2003	5.5
2004	6.0
2005	6.0
2006	5.7
2007	6.1
2008	5.2
2009	3.2
2010	5.6
2011	2.9
2012	7.2
2013	3.5
2014	3.7
2015	3.4
2016	2.2
2017	3.6
2018	4.1
2019	4.1

Source: AFDB Socio Economic Database

Africa seems to have stabilized its economic growth rates in the early 2000s. The continent's highest growth rate was in 2012. However, in the 2010s, there was a fluctuation in economic growth rates from year to year.

CHAPTER 4

4. IMPACT OF COVID 19 ON FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH

4.1. COVID-19 PANDEMIC

Throughout history, events have occurred that have shaken the world economy. Factors such as crisis and epidemics have seriously undermined world economies. The Covid 19 pandemic is one of them. This chapter examines the impact of Covid 19 on Eastern African economies. The strict measures taken by the countries have dealt a great blow to the world economy.

The coronavirus pandemic has killed millions of people around the world. Billions of dollars have been invested in vaccine types. More than 3.3 billion people worldwide have been vaccinated (Deloitte, 2021). The Covid 19 pandemic has caused many people to lose their jobs or lives in the world. States have implemented many policies to deal with the virus. If we look at the health impacts of Covid 19, the pandemic is a crisis that causes the spread of disease and death. However, Covid 19 has not had a serious negative impact in Africa compared to other regions. The highest mortality and spread in Africa occurred in South Africa. Covid 19 has created great shocks in demand and supply. It is likely to have greater effects than the 2008 financial crisis. The export restrictions of many countries affected the import-dependent countries deeply. African countries experienced shortages of many products (UNDP, 2021). It caused the biggest economic recession of recent times. With the epidemic, disruptions occurred in the supply chain, consumption was restricted and a high demand shock emerged. Investment project announcements and mergers and acquisitions fell 50% compared to last year. Foreign direct investment flows were expected to fall to $1 trillion in 2020. Many countries have introduced restrictive regulations to prevent the spread of the epidemic. In the first quarter of 2020, the income of foreign investors fell by more than 80%. Foreign investors were facing serious trade pressures before the pandemic (Saurav & Kusek & Kuo & Viney, 2020). The fact that states gave importance to the health sector by reducing their spending on other areas slowed down the flows of foreign direct investment. While the African continent was already dealing with many difficulties, it faced more negative effects with the epidemic. The host countries' restrictions due to the epidemic seriously affected the decisions of foreign investors.

The Covid 19 pandemic is increasing income inequality and lowering the global growth rate. Hours devoted to education and paid employment have decreased. Quarantine and other measures are putting a huge strain on the economy. Foreign direct investment flows decreased by 49% in 2020 due to restrictive measures (United Nations, 2021). In other words, there are huge differences between the world before the Covid 19 pandemic and the world after. The measures taken to reduce the Covid 19 infection and the closure practices have seriously affected the world economy and social life.

4.2. IMPACT OF COVID 19 ON FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN THE WORLD

There are many factors that affect the improvement or worsening of the world economy. Crises, epidemics and other factors hinder the economic development and growth of countries. The Covid 19 pandemic that emerged in China is one of them. The Covid 19 pandemic has taken many measures to prevent the spread of the infection and to reduce the burden of the health sector. Borders closed, trade integration reduced, quarantines enforced.

Foreign direct investment fell more than 50% in 2020 compared to 2019. The pandemic was pushing the world economy into its worst recession. An 8% decline in the GDP level of developed countries was predicted. This figure was 3% in developing countries. Foreign direct investment has become less of a priority due to declining profits. In addition, the pandemic is exacerbating the trade war between China and the United States. This situation creates more pain on foreign investors (Leiva & Shehadi, 2020). Capital flows contribute to trade integration. Covid 19 has drastically reduced foreign direct investment flows. The pandemic has created major shocks to supply, policy and demand. Implementation of investment projects has slowed, which has affected foreign direct investment. Due to the uncertainty experienced, many companies postponed their investments. A reduction of 25% to 40% was expected in foreign direct investment flows around the world. New investments were negatively affected by the decrease in equity flows due to the pandemic. Greenfield projects have deteriorated significantly (Balchin, 2020).

Table 4.1. FDI Inward Flows, By Region in the World US$ Million

Economy	2017	2018	2019	2020
World	1 647 312	1 436 732	1 530 228	998 891
Africa	40 176	45 374	47 143	39 785
Northern Africa	13 273	15 338	13 782	10 109
Sub Saharan Africa	26 903	30 036	33 361	29 676
Eastern Africa	12 983	13 312	11 711	9 483
Middle Africa	1 192	2 515	4 404	7 170
Southern Africa	2 616	6 109	5 287	3 255
Western Africa	10 112	8 100	11 958	9 768
America	474 105	411 790	469 728	267 832
Northern America	317 775	261 736	309 254	180 258
Latin America and Caribbean	156 330	150 053	160 474	87 574
Asia	545 251	536 960	560 153	578 126
Central Asia	8 753	6 753	7 936	6 549
Eastern Asia	280 405	275 776	256 529	302 090
South Eastern Asia	154 607	145 909	181 047	135 945
Southern Asia	51 643	52 262	59 115	70 997

Source: UNCTAD Database

The table shows the inward flows of foreign direct investment on a global scale in the last 4 years. While foreign direct investment flows in the world remained at almost the same level in the first 3 years, these regions experienced a very sharp decline in 2020. Foreign direct investment flows in the African continent are extremely low when compared to other regions. However, foreign direct investment flows in other regions also decreased significantly. In 2020, foreign direct investment inflows increased in Asia compared to other regions compared to previous years. Compared to the first 3 years, there is a great decrease in the American continent.

Table 4.2. FDI Outward Flows, By Region in the World, 2017-2020, US$ Million

Economy	2017	2018	2019	2020
World	1 604 697	870 715	1 220 432	739 872
Africa	11 779	8 013	4 930	1 592
Northern Africa	1 359	2 260	1 696	1 082
Sub Saharan Africa	10 420	5 752	3 234	510
Eastern Africa	223	285	870	471
Middle Africa	1 628	278	-2 098	352
Southern Africa	7 372	4 082	3 198	-1 921
Western Africa	1 197	1 107	1 265	1 607
America	440 393	-135 091	219 416	138 265
Northern America	403 928	-137 030	172 412	141 807
Latin America and Caribbean	36 465	1 939	47 004	-3 542
Asia	606 596	542 479	599 513	509 227
Central Asia	1 052	-1 006	-2 593	-1 954
Eastern Asia	456 066	424 791	464 469	398 151
South Eastern Asia	88 762	52 020	72 469	61 111
Southern Asia	11 493	11 632	13 275	11 736

Source: UNCTAD Database

If we look at the outward flows of foreign direct investment on a global scale, there is a serious fluctuation in the flows over the years. In 2018, there was a decrease of almost 50% compared to the previous year. On a global scale, a serious decrease is observed in the outward flows of foreign direct investment in all regions. In the African continent, foreign direct investment outflows have decreased significantly in the last 4 years. While it was 11,779 billion dollars in 2017, it decreased to 1.592 billion dollars in 2020. The flows, which have been decreasing from year to year, have decreased further with the emergence of the pandemic. The largest foreign direct investment outflow share in the African continent is seen in North Africa and West Africa. The share of foreign direct investment outflows in Eastern African countries is seriously low.

Low- and middle-income countries have implemented quarantines to curb the spread of the virus. Prolonged shutdowns have weakened economies. Industrialization and trade were significantly affected. The pandemic has also affected foreign employment. National economies could not fully open due to more infections and deaths. With the pandemic, the situation got worse. The decrease in FDI and foreign aid is driving the economies into crisis (Bhattarai & Subedi, 2021). Increasing poverty and job loss are the biggest problems brought by the pandemic. Investments from international companies and suppliers have generally been affected by the pandemic. This leads to more job creation. In addition, there are huge job losses in sectors such as accommodation and transportation. Areas such as wages and job security are also affected by the pandemic. The Covid 19 green field also negatively affected foreign direct investment. Potential job creation decreased by more than 50%. If foreign direct investment remain low in the long run, it will bring bigger problems. Industries such as automotive, textile and infrastructure in developing countries were severely affected by the crisis. The crisis caused foreign direct investments to reduce their activities in the host countries. Many businesses laid off their workers. In addition, the working hours of the employees were reduced. Companies primarily tried to prevent their workers from contracting the epidemic. However, these efforts are difficult to implement in sectors such as construction and health (OECD, 2020).

Table 4.3. FDI Inward Flows, Percentage of Total World, 2017-2020

Economy	2017	2018	2019	2020
World	100.000	100.000	100.000	100.000
Africa	2.439	3.158	3.081	3.983
Northern Africa	0.806	1.068	0.901	1.012
Sub Saharan Africa	1.633	2.091	2.180	2.971
Eastern Africa	0.788	0.927	0.965	0.949
Middle Africa	0.072	0.175	0.288	0.718
Southern Africa	0.159	0.425	0.346	0.326
Western Africa	0.614	0.564	0.781	0.978
America	28.781	28.662	30.697	26.813
Northern America	19.291	18.217	20.210	18.046
Latin America and Caribbean	9.490	10.444	10.487	8.767
Asia	33.099	37.374	36.606	57.877
Central Asia	0.531	0.470	0.519	0.656
Eastern Asia	17.022	19.195	16.764	30.243
South Eastern Asia	9.385	10.156	11.831	13.610
South Asia	3.135	3.638	3.863	7.108

Source: UNCTAD Database

We see fluctuations in foreign direct investment inflows on a global scale in the last 4 years. Asia is the region with the highest percentage increase in foreign direct investment inflows in the world. In the post-pandemic period, Asia increased significantly to 57,877. The share of the African continent in foreign direct investment inflows on a global scale is extremely low. Even though it has increased in percentage after the pandemic, flows have gradually decreased. The percentage share of Eastern Africa in foreign direct investment inflows is below 1%. This shows that the African continent and the Eastern African region cannot attract foreign direct investments. The variables we described in the previous section are the clearest indication of this. Domestic conditions on the continent discourage foreign direct investment. It is extremely important for African countries and policy makers to address and regulate these internal conditions on investment flows.

Table 4.4. FDI Outward Flows, Percentage of Total World, 2017-2020

Economy	2017	2018	2019	2020
World	100.000	100.000	100.000	100.000
Africa	0.734	0.920	0.404	0.215
Northern Africa	0.085	0.260	0.139	0.146
Sub Saharan Africa	0.649	0.661	0.265	0.069
Eastern Africa	0.014	0.033	0.071	0.064
Middle Africa	0.101	0.032	-0.172	0.048
Southern Africa	0.459	0.469	2.262	-0.260
Western Africa	0.075	0.127	0.104	0.217
America	27.444	-15.515	17.979	18.688
Northern America	25.172	-15.738	14.127	19.166
Latin America and Caribbean	2.272	0.223	3.851	-0.479
Asia	37.801	62.303	49.123	68.826
Central Asia	0.066	-0.116	-0.212	-0.264
Eastern Asia	28.421	48.786	38.058	53.813
South Eastern Asia	5.531	5.974	5.938	8.260
Southern Asia	0.716	1.336	1.088	1.586

Source: UNCTAD Database

If we come to the conclusions that we can draw from the table showing the percentage of foreign direct investment outflows on a global scale, Africa's share is extremely low compared to other regions. The most striking region in the table is the Asian continent. The American continent comes next. The table based on the last 4 years is one of the regions with the lowest foreign direct investment percentage compared to other regions. Eastern Africa, on the other hand, is the region with the lowest percentage of outward flows of foreign direct investment in the African continent. Here's what we can deduce. African countries and investors cannot sufficiently invest in another region or country. When we consider the period before and after Covid 19, the share of the Asian continent on a global scale has increased significantly in 2020 compared to the previous year. The highest share in the Asian continent is East Asia. Contrary to Asia, the share of other regions decreased in the post-Covid-19 period. The African continent has generally declined. Eastern Africa is the region with the lowest foreign direct investment outflows after South Africa and Central Africa. The region suffers from both the inability to attract investment and the inability to invest abroad.

Foreign direct investment is considered one of the most stable capital flows. Foreign investors faced a challenging business environment in their host countries. Investors did not want to invest in countries where the epidemic increased. Covid 19 quarantines have severely affected the service industry (Fu & Alleyne & Mu, 2021). Small and medium-sized businesses have been adversely affected by the quarantines. Consumption growth has slowed in most countries' economies. The high uncertainty environment causes a decrease in investments. The decline in activity badly affected the labor market. Despite remote working, many workers are unable to work from home. Due to the coronavirus pandemic, women have been the hardest hit among the lowest-income groups in many countries. The pandemic also caused a contraction in world trade. The trade volume, which decreased by 3% in the first quarter, decreased by 18.5% in the second quarter. In addition, air traffic was adversely affected. Quarantine measures delayed investment projects. M&A deals fell 50%. Uncertainty and lack of liquidity created financial difficulties (InvestChile, 2020). Prior to the Covid 19 pandemic, investments in emerging economies were insufficient. Due to the pandemic, the economies faced a major crisis. The decrease in economic activity harms domestic resource mobilization. At the start of the pandemic, there was already enough funding shortages (OECD, 2020).

The disruption of the supply chain and the demand shocks seriously affect the economies. Covid 19 is reducing capital expenditures of multinational companies. Green field investment projects are also affected by this epidemic. The epidemic is also affecting productivity and the market (UNCTAD, 2020). Foreign direct investment have a vital importance in the capital formation and technology development of developing countries. Nepal is an example of this. Nepal is a country that receives various investment offers. Foreign direct investment have a great impact on increasing economic growth. India ranks first among South Asian countries in trade. Foreign direct investment inflows have drastically decreased in Nepal due to the pandemic. The health crisis, the business environment and rising poverty were obstacles to development. However, Nepal continues to receive foreign direct investment inflows despite the pandemic. From March 2020 to August 2020, there was a contraction in foreign direct investment inflows. Nepal has experienced difficulties because it is an economically dependent country (Chaudhary & Ghimire & Ghimire, 2020).

The coronavirus pandemic restricted the flow of goods and services and disrupted production networks. Trade and businesses in the Arab regions were badly affected by this. The decrease in foreign direct investment inflows increased the losses of the economies in the region. The Arab region's exports were $1 trillion in 2019. This amount was equivalent to 5% of world exports. Imports in the region were approximately 828 billion dollars. Arab investors were adversely affected due to the Covid 19 pandemic. In addition, the fall in the oil price in March 2020 may create a sharp decrease in foreign direct investment inflows (ESCWA, 2020). The US has increased its jurisdiction and national security reforms to respond to the Covid 19 pandemic. Before Covid 19, foreign investors in France were getting permission from the government to invest. In Spain, the FDI screening mechanism was only concerned with investments related to national defense. After the pandemic, the scanning mechanism has been expanded. After the outbreak of the pandemic in Italy, the authorities of the government were expanded in many sectors (Alert, 2020). The world economy was in a global crisis. With the emergence of the coronavirus pandemic, this crisis has deepened even more. China was the first country to encounter this virus. Many measures have been taken to reduce the level of infection. The global epidemic mostly affected America and European countries. China's GDP expanded by 2.3%. However, Europe's GDP shrank by 6.4%. The US GDP contracted by 3.5%. China was expected to be the only country with positive growth in 2020. China continued to be a hotspot for foreign direct investment globally. The shrinkage of the world economy also negatively affected foreign direct investment flows (Fang & Collins & Yao, 2021).

The epidemic slowed business activities and caused a contraction in the economy. Global FDI flows fell 42%. Cross-border mergers and infrastructure project financing deals have dwindled due to the pandemic. This decline was the largest since the financial crisis in 2008. Foreign direct investment in Bangladesh fell compared to previous years. GDP growth rate slowed. Export figures dropped drastically (Islam & Hussain, 2021). Covid 19 has created serious health and economic crises in Latin America and the Caribbean. These regions received 105.48 billion dollars of foreign direct investment in 2020. This amount is 34.7% less than in 2019. Globally, FDI flows fell 35% to $1 trillion in 2020. In 2020, only 5 countries in the region increased their investment inflows. These countries were the Bahamas, Barbados, Ecuador, Paraguay, and Mexico. The sectors most affected by the pandemic were natural resources and manufacturing sectors. Renewable energy was the sector that attracted the most attention. While countries such as Argentina, Brazil and Colombia recorded a decrease in FDI flows, Chile and Mexico increased (CEPAL, 2021).

Foreign direct investment is one of the crucial drivers of the global economy. These capital flows have a very significant impact in developing and developed countries. The global economy fell 4.4%. Many countries faced recession and unemployment (Financier, 2021). The epidemic revealed how interconnected goods and services are globally. The International Monetary Fund withdrew $83 billion from developing countries in March 2020. This was the highest capital outflow. For developing countries, the decrease in foreign direct investment on a global scale can have a devastating effect (Seric & Hauge, 2020).

The pandemic has hit the labor market the most. Many countries suspended their economic activities and closed their borders due to the epidemic. This has led to an increase in unemployment. Quarantine and uncertainty had a negative impact on foreign direct investment flows. The Covid 19 quarantine has severely reduced foreign direct investment flows in Ecuador. There was a 64% decrease in foreign direct investment capital increases. There was a 63% decrease in foreign direct investment inflows (Camino-Mogro & Armijos, 2020). During the pandemic process, China's foreign direct investment increased by 6.2% and reached 144.37 billion dollars. While production has stalled in the rest of the world, China's factory restart shows that it is striving to earn the title of largest foreign direct investment centre. China's foreign direct investment increased in the growth range, in total amount and world share. The service and technology sectors received more foreign direct investment. The USA was the largest recipient of foreign direct investment with $251 billion in 2019. China followed the USA. China achieved 2.3% growth in 2020. It was the only economy to rise with this growth rate (Global Times, 2021). The sectors most affected by the coronavirus pandemic are energy, automotive and airlines (UNCTAD, 2020). China achieved the highest growth rate during the epidemic period on a global scale. Despite the epidemic, the continued investments of Asian countries played a major role in this. In addition, many sectors have been adversely affected by the epidemic. Closing the borders has reduced international flights and as a result, economic interaction has decreased. Quarantine practices have also dealt a great blow to the energy sector. As a result, the inward and outward flows of foreign direct investment have decreased drastically. This situation was reflected in the economic growth of the country's economies.

Due to Covid 19, global FDI flows decreased by 38% in 2020, falling to 846 billion dollars. This was the lowest level since 2005. Investment inflows to the OECD region decreased by 51%. Investment outflows from the OECD region decreased by 48%. China has overtaken the United States to become the most important destination for foreign direct investment. India and Luxembourg came after these two countries. FDI inflows to G20 countries decreased by 28%. Six years later, China overtook the United States to become the largest foreign direct investment destination. While China provided 212 billion dollars of FDI inflow, the USA provided 177 billion dollars of FDI inflows. Cross-border mergers and acquisitions decreased by 12% in 2020 compared to the previous year. The most deals were made in the fields of health and technology. In the last quarter of 2020, cross-border M&A activities increased. Capital investments in the mining sector fell by 85%. In sectors such as manufacturing, services and infrastructure, 43% was experienced. The biggest rise was in the fields of communication and biotechnology (OECD, 2021). Foreign direct investment flows fell to their lowest level lately. Contrary to other sectors, the large investment demand in the communication and biotechnology sectors can be explained by the epidemic. Due to quarantines, people's communication over the internet increased investments in communication sectors. Vaccine studies and other health applications to reduce the health dimensions of the epidemic have increased the value of the biotechnology sector.

4.3. IMPACT OF COVID 19 ON FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH EASTERN AFRICA

This section focalizes on the influences of the Covid 19 outbreak on Eastern African economies. The Covid 19 epidemic has seriously affected Eastern Africa, as well as other world regions. The recent boom in the growth rates of Eastern African countries has changed its course after the epidemic.

Table 4.5. FDI Inward Flows US$ Millions, Eastern Africa

Economy	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Burundi	1	3	1	7	47	7	0	0	1	1	6
Comoros	8	23	10	4	5	5	4	4	6	4	9
Djibouti	37	79	110	286	153	124	160	165	170	222	240
Eritrea	91	39	41	44	47	49	52	55	61	67	74
Ethiopia	288	627	279	1.344	1.855	2.627	4.143	4.017	3.310	2.549	2.395
Kenya	1.882	2.234	2.175	1.978	1.514	1.464	1.139	1.404	1.139	1.098	717
Madagascar	765	788	778	551	314	436	451	358	353	474	359
Malawi	46	93	81	89	387	510	116	90	959	822	98
Mauritius	430	433	589	293	456	216	379	480	461	471	246
Mozambique	2.532	3.559	5.629	6.175	4.902	3.867	3.093	2.293	2.703	2.212	2.337
Rwanda	251	119	255	258	459	380	342	356	382	354	135
Seychelles	211	207	261	170	230	195	155	192	120	144	122
Somalia	112	102	107	258	261	303	330	369	408	447	464
South Sudan	-	-	161	-793	44	0	-8	1	60	-232	18
Tanzania	1.813	1.229	1.800	2.087	1.416	1.561	864	938	972	991	1013
Uganda	544	894	1.205	1.096	1.059	738	626	803	1.055	1.259	823
Zambia	1.729	1.109	1.732	2.100	1.489	1.305	663	1.108	408	548	234
Zimbabwe	166	387	400	400	545	421	372	349	745	280	194

Source: UNCTAD Database

Coming to the conclusions we can draw from the table covering the last 10 years, we see that the inflows of foreign direct investment are extremely low in Burundi, Comoros, South Sudan and Eritrea. Ethiopia, Kenya, Mozambique and Tanzania are the countries with the highest inflows of foreign direct investment. Ethiopia is one of the countries that has increased the flows of foreign direct investment most clearly in the last decade. While the inward flows of FDI in Ethiopia was 288 million dollars in 2010, this amount reached 2.395 billion dollars in 2020. After the pandemic, the flows of foreign direct investment decreased in Ethiopia as in other countries. Contrary to other countries, Zambia is one of the countries where the inward flows of FDI has decreased in recent years. We can attribute this situation to domestic conditions that vary from country to country. On an aggregate scale, we see Mozambique receiving the highest investment inflows in Eastern Africa. Mozambique's providing the necessary internal conditions has increased investment inflows. Due to the pandemic, the country with the lowest inflows of FDI compared to the previous year is Malawi. Malawi received $98 million investment inflow in 2020. In the previous year, Malawi's investment inflow was 822 million dollars. This is a very serious decline. In general, we see that countries that improve their domestic conditions increase their foreign direct investment inflows. The figures show us that the most serious investment buyers in Eastern Africa are Ethiopia and Mozambique.

The closure of borders in Angola has slowed the supply chain. The fall in oil prices has made the country even more dependent. Foreign direct investment inflows in Angola were under \$0.5 billion in 2019. It is expected to decrease further after the epidemic. Oil accounts for about 60% of Chad's exports. Falling oil prices and the effects of the epidemic make the economy even more difficult. In Mali, the epidemic reduces the export of products such as mango. The pandemic is also affecting cotton production. Social instability and civil conflicts are among the biggest problems in Africa. In addition, the locust invasion creates an extra cost for many African countries. This puts food security at risk. Economic closures, unemployment cause government and individual debts to increase even more. Reducing spending by governments affects poverty levels and income inequality (UNDP, 2021). In other words, the negative impact of the Covid 19 epidemic on the mining industry has seriously affected mineral-rich countries in Africa. The decrease in production had a negative impact on economic growth. In addition, quarantine practices have endangered food security by causing a decrease in agricultural products.

The Covid 19 pandemic has significantly reduced foreign direct investment inflows in Africa. Foreign direct investment inflows, which were 47 billion dollars in 2019, decreased to 40 billion dollars in 2020. Due to the epidemic, economic and health problems increased. This situation also affected foreign direct investment. Foreign direct investments were affected in every way due to the challenging environment. Greenfield project announcements, a measure of investor sentiment, fell from \$77 billion to \$29 billion. Announcements about infrastructure projects fell by 74% to \$32 billion. Foreign direct investment inflows in North Africa fell by 25% in 2019. Investments fell from \$14 billion to \$10 billion. Foreign direct investment inflows in sub-Saharan Africa decreased by 12%. This situation caused investments to fall to 30 billion dollars. Foreign capital inflows to South Africa decreased to 4.3 billion dollars. In 2020, FDI in West Africa fell by % 18 to \$9.8 billion. Central Africa was the only region that saw an increase in FDI. Foreign direct investment inflows rose from \$8.9 billion to \$9.2 billion. In Eastern Africa, there was a 16% decrease in foreign direct investment. Capital flows fell to \$6.5 billion. Capital flows in Ethiopia fell to \$2.4 billion. However, this country accounted for more than a third of foreign direct investment in Eastern Africa. Foreign direct investment outflows from the continent fell from $4.9 billion to $1.6 billion. The highest foreign direct investment outflows were in Togo. The capital outflow was $931 million (UNCTAD, 2021). Borders, airports and ports were closed in Angola. 70% of the population works in the informal economy. The Cabo Verdean government has suspended flights. Productivity has dropped due to the pandemic. The tourism and service sector has been severely affected. In Chad, epidemic measures have affected livelihoods and disrupted supply chains. In the Democratic Republic of the Congo, the pandemic restrictions hit the informal economy the most. In Mali, Covid measures adversely affected the service, agriculture and industry sectors. The tourism sector in Mauritius suffered a serious loss. Due to the measures, economic activities were disrupted and unemployment increased. Declining household consumption and impacting business investment were some of the most important consequences. Sectors such as manufacturing, transportation and accommodation have experienced tough times in South Africa. The epidemic was expected to drastically reduce foreign direct investment flows in Africa. Decreasing foreign direct investment has negative consequences for Africa (UNDP, 2021). In other words, the epidemic severely affected African countries economically. The measures taken, the slow rate of vaccination and the allocation of resources, especially to the health sector, have seriously reduced foreign direct investment flows. Africa is already one of the regions with the lowest foreign direct investment inflows on a global scale. The pandemic has further reduced the flow of investment.

The Covid 19 pandemic has had a negative impact on FDI in Africa in many ways. Africa's share of global FDI inflows fell from 6.3% to 5.9%. Foreign direct investment inflows from sub-Saharan Africa decreased by 12%, although investment increased in a few countries. Investments in Eastern Africa and South Africa fell by 16%. The influences of the pandemic varied from region to region. Foreign direct investment outflows from Africa fell from $4.9 billion to $1.6 billion. However, it is predicted that in 2021, Africa will start to increase in foreign direct investment inflows and outflows (White, 2021). In Africa, the pace of vaccination was slow due to challenges such as vaccine distribution, logistics, and human resistance. This could result in the rollback of strict distancing measures and hinder economic development. The lowest economic growth rate in the last 60 years was realized in North Africa and Sub-Saharan African countries. Sub-Saharan

Africa's GDP growth rate contracted by 1.9%. In 2020, foreign direct investment flows in Africa fell by 16% compared to the previous year. Capital flow decreased from $47 billion to $40 billion. Many problems brought by the pandemic have made Africans even poorer (Deloitte, 2021). Africa could not fight the epidemic alone due to the internal conditions it lived in. The lack of adequate vaccination rates further reduced foreign direct investment.

Table 4.6. FDI Inward Flows US$ Eastern Africa (Percentage of Total World) 2010-2020

Economy	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Burundi	0.000	0.000	0.000	0.001	0.003	0.000	0.000	0.000	0.000	0.000	0.001
Comoros	0.001	0.001	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.001
Djibouti	0.003	0.005	0.007	0.020	0.011	0.006	0.008	0.010	0.012	0.015	0.024
Eritrea	0.007	0.002	0.003	0.003	0.003	0.002	0.003	0.003	0.004	0.004	0.007
Ethiopia	0.021	0.039	0.019	0.092	0.132	0.129	0.201	0.244	0.230	0.167	0.240
Kenya	0.135	0.139	0.146	0.136	0.108	0.072	0.055	0.085	0.079	0.072	0.072
Madagascar	0.055	0.049	0.052	0.038	0.022	0.021	0.022	0.022	0.025	0.031	0.036
Malawi	0.003	0.006	0.005	0.006	0.028	0.025	0.006	0.005	0.067	0.054	0.010
Mauritius	0.031	0.027	0.039	0.020	0.032	0.011	0.018	0.029	0.032	0.031	0.025
Mozambique	0.182	0.221	0.377	0.425	0.350	0.190	0.150	0.139	0.188	0.145	0.234
Rwanda	0.018	0.007	0.017	0.018	0.033	0.019	0.017	0.022	0.027	0.023	0.013
Seychelles	0.015	0.013	0.018	0.012	0.016	0.010	0.008	0.012	0.008	0.009	0.012
Somalia	0.008	0.006	0.007	0.018	0.019	0.015	0.016	0.022	0.028	0.029	0.046
South Sudan	-	-	0.011	-0.055	0.003	0.000	-0.000	0.000	0.004	-0.015	0.002
Tanzania	0.130	0.076	0.121	0.144	0.101	0.077	0.042	0.057	0.068	0.065	0.101
Uganda	0.039	0.055	0.081	0.075	0.075	0.036	0.030	0.049	0.073	0.082	0.082
Zambia	0.124	0.069	0.116	0.144	0.106	0.064	0.032	0.067	0.028	0.036	0.023
Zimbabwe	0.012	0.024	0.027	0.028	0.039	0.021	0.018	0.021	0.052	0.018	0.019

Source: UNCTAD Database

If we come to the conclusions that we can draw from the table showing the percentage share of foreign direct investment inflows of Eastern African countries on a global scale, the highest share belongs to Mozambique and Ethiopia. After the pandemic, the share of Ethiopia on a global scale increased compared to the previous year. The percentage share of other Eastern African countries such as Burundi, Comoros, Djibouti, Eritrea, and South Sudan on a global scale is extremely low. Compared to other regions in the world, we see that both Africa and Eastern Africa cannot attract foreign direct investments. It is obvious that domestic conditions such as political instability, non-transparent state structure and infrastructure quality in Africa hinder foreign direct investments. Although African countries and policy officials offer incentive schemes to attract foreign direct investment, bad factors in the region are worsening economic development. The low inflows of foreign direct investment cannot create employment and improve human capital. The resulting difficulties hinder economic growth.

Despite the declaration of a state of emergency in Ethiopia, economic activities continued. The pandemic has increased the risk of high debt. High inflation and rising unemployment were also major problems. In addition, the locust invasion in Eastern Africa was a major threat to food security. Working hours have decreased in Kenya. As a result, job and income losses occurred. The closure of borders has reduced profits for many businesses. In addition, the aviation industry in Ethiopia experienced great difficulties. This caused a huge loss of income. Disruptions in trade have disastrous consequences for Kenya (UNDP, 2021). In Kenya, the debt-to-GDP ratio rose to 68.7. Unemployment rose to 6.2%. Foreign direct investment flows decreased by 36.4, to $0.7 billion. Tourism arrivals fell by 78.4%. In addition, the construction industry was severely affected. In Ethiopia, the budget deficit rose to 5.9%. Foreign direct investment flows in the country decreased by 6%. Due to the pandemic, tourist arrivals decreased by 67.3%. The closure of retail stores has curtailed the growth of the manufacturing sector. Due to the negativities in the supply chain, production in the agricultural sector decreased. Uganda's debt-to-GDP ratio rose by an estimated 49.7%. The country's currency remained stable against the US dollar. In addition to Covid 19, the locust invasion caused serious damage to the agricultural sector. Tourism arrivals to the country decreased by 63%. In addition, it contracted by 7% in Rwanda due to quarantine practices. In addition, it was predicted that the construction sector in the country contracted by 5.9%. International arrivals to the country fell 47.2% (Deloitte, 2021). We see that the effects of the epidemic differ from country to country in Eastern Africa. It is seen that the continuation of production and investments by some countries is effective in this. In general, the epidemic in the region increased the foreign debts of the countries and put them in a difficult situation. In addition, it is seen that the locust invasions caused serious damage to the agricultural sector. The interruption of many sectors such as tourism and construction has gradually reduced economic integration. As a result of these influences, we see how much the Covid 19 epidemic has affected Eastern Africa.

Table 4.7. Real GDP Growth (Annual %), Eastern African Countries

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Burundi	-0.86	1.67	2.35	3.47	3.77	0.91	5.41	3.45	4.86	3.81	5.12
Comoros	1.42	3.33	4.15	2.47	-0.24	2.84	2.65	0.80	0.56	1.10	2.20
Djibouti	0.42	1.79	3.23	3.19	2.78	3.17	4.76	5.08	5.81	1.62	4.15
Eritrea	-12.35	-12.35	8.76	3.01	-2.66	1.45	-0.97	1.43	5.58	3.88	2.19
Ethiopia	5.93	7.42	1.63	-2.10	11.73	12.60	11.54	11.46	10.79	8.79	12.43
Kenya	0.60	4.46	0.55	2.93	5.09	5.90	6.74	6.85	0.23	3.30	8.40
Madagascar	4.46	5.98	-12.4	9.78	5.26	4.60	5.38	6.45	7.19	-3.52	0.14
Malawi	0.78	-4.15	1.70	5.53	5.52	2.60	7.70	5.50	8.60	7.60	9.50
Mauritius	7.20	3.21	1.63	5.98	4.30	1.24	3.95	5.41	5.47	3.07	4.22
Mozambique	1.53	12.25	9.23	6.49	7.88	8.39	8.68	7.28	6.83	6.35	6.69
Rwanda	6.50	8.48	13.19	2.20	7.45	9.38	9.23	7.61	11.13	6.30	7.34
Seychelles	4.25	-2.27	1.21	-5.89	-2.85	9.01	9.41	10.42	-2.14	-1.11	5.95
Somalia											
South Sudan											
Tanzania	4.93	6.00	7.16	6.89	7.83	7.37	6.74	8.46	5.57	5.38	6.36
Uganda	5.44	8.77	7.06	6.16	5.80	10.0	7.00	8.06	10.4	6.91	8.21
Zambia	3.58	4.89	3.32	5.13	5.40	5.34	7.90	8.35	7.77	9.22	10.3
Zimbabwe	0.00	1.61	-9.30	-16.8	-6.05	-2.25	-3.46	-3.65	-17.6	7.40	15.4

Economy	2011	2012	2013	2014	2015	2016	2017	2018	2019
Burundi	4.03	4.45	4.92	4.24	-0.3	1.72	2.05	2.99	4.26
Comoros	2.50	3.00	3.50	1.95	1.03	2.77	3.45	3.69	4.08
Djibouti	7.29	4.84	5.00	6.00	6.50	6.50	6.79	6.91	6.93
Eritrea	8.68	7.02	3.05	5.00	4.80	3.80	3.40	3.70	3.80
Ethiopia	11.2	8.65	10.3	10.2	6.50	8.00	10.8	8.72	8.52
Kenya	6.10	4.60	5.90	5.40	5.70	5.80	5.05	5.61	6.16
Madagascar	1.53	2.51	2.36	3.32	3.12	4.24	4.21	5.21	5.96
Malawi	3.78	1.90	5.20	5.70	2.95	2.30	4.53	4.97	5.45
Mauritius	3.90	3.20	3.20	3.60	3.10	3.90	3.98	4.20	4.27
Mozambique	7.12	7.20	7.14	7.44	6.59	3.85	4.67	5.34	5.92
Rwanda	7.82	8.79	4.71	6.96	6.91	5.93	6.19	6.77	7.25
Seychelles	5.38	3.68	5.04	6.21	4.28	5.87	4.02	3.36	3.26
Somalia		1.20	2.80	3.60	3.60	3.20	2.42	3.53	3.50
South Sudan		-52.4	29.33	2.92	-0.17	-13.8	-6.26	-3.41	0.50
Tanzania	7.90	5.14	7.26	6.97	6.95	6.95	6.45	6.69	6.93
Uganda	5.92	3.24	4.73	4.87	5.54	2.32	4.80	5.92	6.08
Zambia	5.56	7.60	5.06	4.70	2.92	3.40	4.07	4.48	4.55
Zimbabwe	16.3	13.6	5.27	2.77	1.42	0.65	2.59	1.00	1.25

Source: AFDB Socio Economic Database

GDP growth is a measure used to monitor the health of an economy. The economic performances of the countries are monitored with this macroeconomic indicator. This indicator helps countries to monitor the contraction and growth in the economy. The table shows us the GDP growth rates of Eastern African countries. In general, Eastern African countries followed a stable picture in their GDP growth rates. Zambia's economic growth rates have gradually declined since 2012. South Sudan is watching a very unstable picture. There are great fluctuations in this country from year to year. Between 2000 and 2019, countries such as Djibouti, Ethiopia, Rwanda, Tanzania and Mozambique recorded high growth rates. The most prominent country in Eastern Africa is Ethiopia. The fact that it is the most important destination for foreign direct investments in recent years has been reflected in economic growth rates.

Table 4.8. Real GDP Growth (Percent) Region by Africa

	2019	2020 (Estimated)	2021 (Projected)	2022 (Projected)
Africa	3.3	-2.1	3.4	4.6
Central Africa	2.9	-2.7	3.2	4.0
Eastern Africa	5.3	0.7	3.0	5.6
Northern Africa	4.0	-1.1	4.0	6.0
Southern Africa	0.3	-7.0	3.2	2.4
Western Africa	3.6	-1.5	2.8	3.9

Source: African Economic Outlook, (2021).

Comoros, Seychelles and Mauritius are highly dependent on tourism. South Sudan is an oil exporting country. Tanzania, Zambia and Zimbabwe are other resource-intensive countries. Countries such as Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mozambique, Rwanda, Somalia and Uganda are non-resource intensive (African Economic Outlook, 2021). Eastern Africa has been seen as the continent's fastest growing region in recent years. The region has the fastest growing economies such as Ethiopia, Kenya, Tanzania and Rwanda. Eastern Africa's growth rate averaged 5.3% in 2019. Africa's growth rate averaged 3.3% in 2019. Eastern Africa's growth rate dropped to 0.7% in 2020 due to the pandemic. In the same year, Africa's growth rate was -2.1% in 2020. The region's growth rate seems to have remained well above the overall decline. This seems to have made Eastern Africa the only region to avoid a recession in the pandemic. Countries such as the Seychelles and Comoros have experienced the most devastating effects of the pandemic as these countries are highly dependent on tourism. Countries such as Ethiopia, Kenya, and Tanzania were resilient to the pandemic as these countries had a variety of export baskets. When we look at other regions, it is seen that the economic growth rates in general fell below 0 in 2020. Eastern Africa's growth rate is expected to rise to 3% in 2021. Africa's growth rate is expected to rise to 3.4%.

Table 4.9. GDP Growth (Annual %), Eastern Africa

Countries	GDP growth (annual %) Year 2020
Burundi	0.3
Comoros	4.9
Djibouti	0.5
Ethiopia	6.1
Kenya	-0.3
Malawi	0.8
Madagascar	-4.2
Mauritius	-14.9
Mozambique	-1.3
Rwanda	-3.4
Seychelles	-10.7
Tanzania	2.0
Uganda	2.9
Zimbabwe	-8.0
Zambia	-3.0
Somalia	-1.5

Source: World Bank

In the table showing the 2020 GDP growth rates of Eastern African countries, we see that the economic growth rates of all Eastern African countries, except the Comoros, have dropped significantly. These serious declines are an indicator of the devastating impact of the pandemic. The country of the Comoros is the only country that seems unaffected by the epidemic. The GDP growth rate of most Eastern African countries fell below 0 after the pandemic. The other country that survived the epidemic with little damage is Ethiopia. The improvement of domestic conditions and the increasing flows of FDI protected Ethiopia from the effects of the epidemic. As in the rest of the world, Eastern African countries have also been severely damaged by the social, economic and health effects of the epidemic. Mauritius, Seychelles and Zimbabwe are the countries with the highest decline in economic growth rates compared to the previous year. The table clearly shows the negative effects of the Covid 19 pandemic on the Eastern African economy. The policies followed to prevent the spread of the epidemic have created a great destruction in the Eastern African countries as well as in the world economy. After the outbreak of the Covid 19 epidemic, the inability to create the internal conditions required for the flows of FDI in Eastern Africa, quarantine practices, closure of borders, damage to trade integration on a global and regional scale, and disruptions in the supply chain have led to a serious decrease in economic growth rates.

CONCLUSION

In this thesis, the effects of foreign direct investment flows in Eastern Africa on economic growth are analyzed. There are factors that affect foreign direct investment flows such as institution quality, infrastructure, human capital and transparency. It is clear that domestic conditions in Eastern Africa affect FDI flows. In this context, we tried to answer how foreign direct investment flows affect the economic growth of countries in Eastern Africa. World Bank's World Development Indicator (WDI) database, the World Bank's World Governance Indicator (WGI) database, the AFDB Socio-Economic Database, The Ibrahim Index of African Governance (IIAG) Database, Human Development Index (HDI) Database, Doing Business, Database of Our World in Data and the World Justice Project (WJP) Database from datas were used to answer this question. Such data are used in the examples of other world countries to explain the effects of FDI flows on economic growth. In addition, books, articles and reports in the literature were used to answer this question. There are not enough resources in the literature on this subject in the context of Eastern Africa. This study will respond to the impact of FDI flows on growth in the context of Eastern Africa.

In general, Africa has not been able to attract enough foreign direct investment as a continent throughout history. Domestic conditions such as economic and political instability, undeveloped infrastructure, poor quality of institutions and lack of sufficient human capital in Africa played an important role in the fact that foreign direct investment flows did not come to the continent. Therefore, in recent years African governments and policy makers have turned to foreign direct investments.

Since the 1990s, with the acceleration of globalization on a global scale and the increase in trade integration, foreign direct investment flows have increased. Africa has also been positively affected by these foreign direct investments. As a continent, Africa received foreign aid from donors to make up for the lack of foreign capital. Seeing foreign aid as an important instrument in national policy has pushed developed economies to be donors. In this way, African countries tried to close the capital deficit with both foreign aid and foreign direct investments. However, when we look at it on a global scale, when we compare it to other parts of the world, Africa still draws a bad outlook. In the first quarter of the twenty-first century, we see that Asian countries provide more foreign direct investment flows.

In this study, which deals with the data of the last two decades, it is seen that the domestic conditions in Eastern Africa have a significant impact on the foreign direct investment flow. Factors such as political instability, low quality of education, lack of transparency of the state, failure of policy makers to deal with democratic elections, corruption, and small market sizes have seriously affected foreign direct investment flows in Eastern Africa. However, this situation varies from country to country in the region. Countries such as Ethiopia, Mozambique, Mauritius, and Tanzania have changed their domestic conditions and attracted more foreign capital in recent years. As a result, these countries experienced a great boom in their economic growth. On the other hand, countries such as South Sudan, Somalia and Malawi could not attract enough foreign capital to their countries. Many macroeconomic indicators of these countries show great fluctuations from year to year. This situation reduced their economic growth and undermined their economic development. Although Eastern Africa is accepted as an important investment destination by many investing countries after the twenty-first century, it has lagged behind other parts of the world on a global scale. In the context of Eastern Africa, the data show South Sudan and Somalia in economic terms. These two countries could not attract enough foreign capital due to the large fluctuations these countries experienced in their macroeconomic indicators. This has hindered their economic development. In general, we see that Eastern African countries, which have improved their domestic conditions, take more foreign direct investment. The increase in the flow sof FDI in these countries has enabled these countries to achieve high economic growth. In Eastern Africa, the data show us that the country that stands out the most is Ethiopia. Considered as an investment destination by many investor countries compared to other countries in the region, Ethiopia's high economic growth in recent years is the biggest proof of this.

Strict measures have been taken by many states to reduce the spread of infection and reduce the number of deaths. This epidemic had a serious negative impact on the world economy. On a global scale, damage to trade integration, disruptions in the supply chain and border closures have reduced FDI flows. This situation caused the economic growth of many countries to shrink. Governments have allocated more of their expenditures to the health sector due to the epidemic. Other sectors have suffered more clearly from the effects of this pandemic. Vaccine studies and other health practices to combat the epidemic have been more prominent in this process. In this period, biotechnology and health fields gained more importance than other fields. States have invested more in these areas. Foreign direct investment flows decreased significantly in this process on a global scale. During the epidemic, we see that only the Asian region increased foreign direct investment flows compared to other regions. On the other hand, if we look at the Covid 19 epidemic process in the African context, we see that the already low foreign direct investment flows have decreased even more. Historically, Africa has struggled with many epidemics. The addition of the Covid 19 pandemic has created great difficulties for Africa. The fact that African countries, rich in natural resources, could not continue production due to the epidemic, reduced the flows of FDI and reduced employment. When we compare the macroeconomic indicators of many countries in Eastern Africa for the pre- and post-Covid-19 period, we see that Eastern African countries have reduced their foreign direct investment flows. The fact that the economic growth rates of many countries fell below 0 compared to the previous year clearly reveals the effects of the epidemic. In the context of Eastern Africa, the data shows us that Ethiopia was the luckiest country during the pandemic. Ethiopia is one of the rare countries that survived this epidemic process with the least damage. In addition, macroeconomic indicators of countries such as South Sudan and Somalia reveal that their economies are getting worse. Eastern Africa is one of the regions with the least foreign direct investment inflows and outflows on a global scale and on the African continent. The pandemic process has further reduced these investment flows, undermining their economic development.

The data we collect from databases such as the World Bank, UNCTAD, The Ibrahim Index of African Governance, AFDB Socio Economic Database show that foreign direct investment flows depend on internal conditions in a country or region. The more a country or region improves its domestic conditions, the more foreign direct investment attracts that country or region. As a result, economic growth is positively affected by the rising in FDI flows. In addition, the data show that Africa, as a continent, receives the lowest foreign direct investment inflow on a global scale. We can attribute this situation to the bad perception of Africa. It is extremely important for foreign investors to look at the domestic conditions, advantages and disadvantages in the country or region when choosing a location to invest. Therefore, we can attribute Africa's less investment inflow to this. In recent years, the fact that Eastern Africa has been seen as an investment destination for investor countries is revealed by the data. The fact that many Eastern African countries achieved high economic growth rates after the 2000s is seen as the clearest indicator of this. Internal conditions in Eastern Africa show that poor quality of institutions, lack of transparency of governments, high corruption and lack of adequate human capital reduce FDI flows. The economies of Eastern African countries, like other countries, have been seriously damaged by the Covid 19 epidemic. The epidemic has produced results that are difficult to recover from. In general, it is important for Eastern African countries to improve their internal conditions. To attract foreign direct investment flows, policy makers should pursue clearer policies. Eastern African countries should attach importance to infrastructure quality, human capital and political stability.

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ATTACHMENTS

Appendix A: List of the Selected Countries

BURUNDI	MOZAMBIQUE
COMOROS	RWANDA
DJIBOUTI	SEYCHELLES
ETHIOPIA	SOMALIA
ERITREA	SOUTH SUDAN
KENYA	TANZANIA
MADAGASCAR	UGANDA
MALAVI	ZAMBIA
MAURITIUS	ZIMBABWE

Appendix B: List of the Selected Years

2000	2011
2001	2012
2002	2013
2003	2014
2004	2015
2005	2016
2006	2017
2007	2018
2008	2019
2009	2020
2010	

Appendix C: List of the Databases

World Development Indıcator- WB	World Governance Indıcator-WB
African Development Bank Group	Ibrahım Index of African Governance
Human Development Index	Doing Business
Our World In Data	World Justice Project