DETERMINANTS OF FOREIGN DIRECT INVESTMENT STOCK TO COUNTRIES OF THE EAST AFRICAN COMMUNITY

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ABSTRACT

Foreign Direct Investment (FDI) stock to Africa and its sub-region has increased steadily since 1980 but East African Community (EAC) has recorded the least increment. These insights therefore prompted this empirical study to investigate the determinants of FDI in East African Community’s five countries i.e. Kenya Uganda, Tanzania, Rwanda and Burundi, to find out why is the region recording very low increase of FDI. The study employed panel data analysis methods. The study used trade openness, Gross Domestic Product growth, Gross Domestic Product per Capita, telephone line (per 100 people); a proxy for infrastructural facilities, inflation, return on investment and natural resource endowment as explanatory variables and the stock of FDI as dependent variable. The analyzed data covered the period 1991-2012. The study finding showed that trade openness, inflation, and infrastructure facilities were the most significant determinants of foreign direct investment to EAC countries. Therefore, the study recommended that EAC countries should put in place policies that aim at controlling inflation, liberalization of economies to make entry of foreign investors easy and rehabilitation and development of new infrastructure facilities. Having such policies in place, FDI to the region will improve and these countries will reap the benefits associated with increased FDI.