

**THE MOJO, DODGY, AND DINGY DOMINANCE OF DOMESTIC DEEDS ON  
FOREIGN DIRECT INVESTMENT IN EMERGING AND TRANSITION  
ECONOMIES**

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**ABSTRACT:** *Insufficiencies of empirical research were found regarding the flow of Foreign Direct Investment (FDI) to Emerging and Transition Economics (ETEs) as compared to other economies. This study was designed to analyst domestic deeds that positively, negatively, and horridly affected the flow of FDI to ETEs and determine if they were the same for all ETEs. The results paralleled existing FDI literature including extensive and established theories. First, bivariate and multiple regressions analysis were conducted to determine whether ETEs domestic deeds (political stability, domestic credit, level of GDP-ETEs, level of corruption, and availability of mineral resources) significantly impact on the inflow of FDI to their countries. The correlation amongst GDP and FDI was significant ( $r = .91, p < .01$ ), political stability was significant ( $r = -.23, p < .05$ ), and availability of domestic credit was significant ( $r = .27, p < .05$ ). Additionally, analysis on regional deeds variables (telephone lines and RI) revealed that telephone lines was a robust predictor of FDI ( $\beta = .38, p < .05$ ) and RI ( $\beta = .57, p < .05$ ).*

**KEYWORDS:** Foreign Direct Investments, Domestic Deeds on Foreign Investment, Transition Economies, Emerging Economies, Sam Agbi, and African Emerging Economies.

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## **INTRODUCTION**

The inflow of foreign investment is generally thought to be an imperative channel for the distribution of new concepts, technologies, and business skills across national borders. Additionally, foreign investment can expand the prospects for growth by increasing the total level of capital investment in the local economy and by introducing more productive technology and techniques (Bissoon, 2012). Most emerging and transition economies (ETEs) have been building their economies largely on the infrastructure from the legacy of Colonial and Communist in many of those economies. Therefore, it is widely recognized that much of the infrastructure in the ETEs both the private and public sectors must be replaced if these economies are to achieve satisfactory rates of growth and participate effectively within the broader international economic (Darley, 2012). Improvement of infrastructure includes importation of technology and management capability, as well as momentous financial obligations. In this regard, inward foreign direct investment (FDI) characterizes a predominantly significant and credible foundational source of capital for ETEs, as FDI usually involves the importation of financial and human capital by the recipient country with quantifiable and positive spillover influences on recipient countries' efficiency levels (Holland and Nigel, 1998; Udoidem, 2012). The capability of ETEs to attract and benefit from FDI should therefore, be seen as an imperative issue within the wider policy framework of how

those countries can improve and expand their capital infrastructure, given relatively undeveloped of ETEs capital markets and scarce human capital.

Domestic policy deeds mean actions taken by officials in the recipient's country that comprise image building and domestic regulatory economic, financial, and political reform to attract investors (Dupasquier & Osakwe, 2006). These strategies of actions at the domestic level include policies related to corruption, financial development, market size, natural resources, and political stability (Wang, 2012). Nations' policy deeds include actions taken by administrators in the recipient's country to attract FDI at the national level (Dupasquier & Osakwe, 2006; Udoidem, 2012), including infrastructure development and national integration (Dupasquier & Osakwe, 2006; Ulasan, 2013). Transnational policy actions include market access to foreign investors (Dupasquier & Osakwe, 2006), which aids openness of trade. It is generally believe that trade openness increases the flow of FDI into the host country (Pradhan, 2010; Udoidem, 2012).

Foreign direct investment (FDI) has been defined as the acquisition of at least 10% of shares or voting power in a public or private firm by foreign investors (International Monetary Fund (IMF), 1993; Udoidem, 2012)). Researchers witnessed the importance of FDI from 1991 to 2012 as a source of employment, economic growth, financing, and technological transfer for developing countries (Manrique & Vlad, 2011; Ulasan, 2013). Leaders of emerging and transition economies have been in competition to attract more FDI to their countries. The data on FDI flows to developing countries has shown uneven distribution (Darley, 2012). African emerging economies received only 3% to 5% of the global FDI flows, whereas Asian emerging and transition countries receive 25% of the total global FDI flows (Darley, 2012). Therefore, this low flow of FDI was a public policy challenge for the African emerging economies (Solomon, 2014). Policymaking in various countries or regions varied. These variances were based on the characteristics of specific country objectives and government leaders' perceptions on how to attract FDI and what kind was best (Queiroz & Zanatta, 2007; Rugraff, 2008).

The distribution of FDI in Emerging and Transition Countries (ETCs) is unequal. Politicians in ETCs compete to attract FDI to their countries. In 1990's, ETCs received 73% of the world FDI, and a few ETCs like China and India absorbed the remaining 27% (Manrique & Vlad, 2011). The performance of FDI in ETCs in 1985 and early 1990 had declined due to oil and debt crises (Irala, Tamazian, & Vadlamannati, 2009). Further researchers reported that the distribution of FDI in ETCs fell from 15% between 1978 and 1980 to 7% in 2000 to 2005 (Bissoon, 2012). In a similar study, in 2000, undeveloped emerging economies received less than 1% of the total world FDI inflows (Manrique & Vlad, 2011). Most of the undeveloped emerging economies are in Africa, showing that Africa received an insignificant portion of the total FDI (Manrique & Vlad, 2011). The share of FDI to other regions like South, East, and South-East Asia increased from 3.1% in 2010 to 4.2% in 2011 (Bissoon, 2012). Kalirajan and Mottaleb (2010) studied the factors of FDI in ETEs in Asia, Africa, and Latin America and found that lower-middle income countries in Asia were more successful in attracting FDI than countries in Africa and Latin America.

Fewer studies have been accompanied on the dynamics of FDI flow to Africa emerging economies (AEEs) related to other regions. Darley (2012) studied AEEs share of FDI using Porter's 1990 business framework based on competitive advantage strategies. The stratagems encompassed expanding Africa regional trade, establishing mechanisms for controlling

corruption, creating good export processing zone, and changing foreign investors' negative perceptions of the region (Darley, 2012; Udoidem, 2012). An analysis of literature on the factors of FDI in AEEs showed many existing studies; however, studies on the factors of FDI in Africa compared with other emerging and transition countries were limited. The results of this study may be a contribution to a better understanding of the relationship of domestic, regional, and international policy actions to FDI in AEE compared to countries in Asia and the Pacific, Europe, and Latin America between 2000 and 2012. Additionally, findings from this study might be used by policymakers in AEEs and other emerging and transitions countries to pinpoint actions to curtail risks and promote the growth of FDI to their country (Naude, 2013; Ulasan, 2013).

## LITERATURE REVIEW

The traditional economy theory (TET) explained the existence of foreign entrepreneurs (FEs) through FDI. The existence of FE is the ability to get things done within domestic economy and achieve economic development. That ability involves creativity, vision, willingness to accept risk, and a talent for translating vision into reality. FDI promote entrepreneurship, which in turn; create small, medium, and large firms; produce new products; and transform the landscape of the economy. FDI is a crucial ingredient in a nation economic growth and development. It is generally believe that FDI's donor's countries would use the factors of production for expansion and growth in the recipient's country. The goods that would be produced would be distributed throughout the economy and sold at marginal cost to enhance the recipient's country economic welfare (Naude, 2013). Consequently, FDI is the transfer of entrepreneurship, managerial skills, financial capital, and human capital to the recipient's economies. FDI involves transfer of sophisticated skills in production technology, technical knowledge, general know-how, and managerial capacities. Additionally, FDI involves transfer of creativity, vision, readiness to take risk and a talent for translating idea into reality in recipient's country.

In addition to FDIs, the international portfolio investment (IPI) or portfolio equity (PE) impacts on entrepreneurial development (ED) in the recipient country. This refers to the flow across national boundaries of funds (NBF) for financing investments in which the lender does not gain operating control over the borrower (Naude, 2013; Udoidem, 2012).

### Emerging Economies and Flow of FDI

There are pragmatic literatures concerning the sway of FDI on emerging countries' economic development (Basdas & Çelik, 2010; Lankauskienė & Tvaronavicienė, 2011; Solomon, 2014). First, an increase or decrease in FDI affects emerging countries' GDP, employment level, trade, poverty, and funds mobility (Lankauskienė & Tvaronavicienė, 2011). Second, FDI brings new capital and creates employment opportunities for unskilled labor-intensive economies, which can be helpful for emerging countries facing financial difficulties (Basdas & Çelik, 2010; Irala et al., 2009). Furthermore, opinions in empirical literatures remain varied regarding the question of whether FDI has a positive effect on the economy of low, lower-middle, and upper-middle-income Emerging and Transition Countries (ETCs) (de Vita & Kyaw, 2009; Naude, 2013). For example, Lankauskienė and Tvaronavicienė's (2011) study of countries' developmental level and FDI attainment in developed, emerging, and transition countries showed that the greater the flows of FDI the higher the country's developmental level. An

increase in FDI inflow closes the gap of income inequality in developed, emerging, and transition countries due to the different level of economic development (Basdas & Çelik, 2010). In another study, FDI together with economic development had a negative effect on the recipient country's balances of payment and political stability adding to the inflation rate (Lankauskienė & Tvaronavicienė, 2011).

The distribution of FDI in ETE differed greatly across countries because of domestic political actions, international trade agreements, and property rights (Büthe & Milner, 2008; Naude, 2013). The main problem of most ETE has been that domestic-generating investment was not enough to assure the growing needs of investment in education, infrastructure development, and the utilization of natural resources Irala et al. (2009).

The flow of FDI to the AEE has been relatively low compared to other emerging and transition economies, such as Asia, the Pacific, Europe, and Latin America (Mohamed & Sidiropoulos, 2010). According to the World Bank's World Development Indicators (WBWDI), 2010 report, 144 developing countries in the world were identified. Low-income and middle-income economies are sometimes referred to as emerging economies (EE) (WBWDI, 2010). The flows of FDI in the AEE's were shown to be very low in absolute terms. According to the (United Nations Conference on Trade and Development (UNCTAD), 2009), literature, the combined share of all AEE's in global inward FDI was .07% between 2004 and 2012 (Naude, 2013; Solomon, 2014).

**Least Developed Emerging and Transition Economies (LDETE).** The United Nations leaders classified LDETE or Low developed emerging and transition economies (LDETE) as the world's poorest economies dependent on three criteria: (a) low income, (b) weak human resource, and (c) economic susceptibility (UNCTAD, 2009). According to the United Nations Population Fund (UNPF), 2011, the current list of LDETE includes 33 low developed economies (LDE) and EE in Africa, 14 emerging and transition economies in Asia and the Pacific, one each in the Latin America, and Caribbean. The socioeconomic development of a LDETE is characterized by (a) a weak human assets index, (b) low income distribution, (c) governance crisis, (d) political insecurity, (e) scarcity of domestic financial resources, and (f) low investment (UNPF, 2011). The role of FDI remained critical for financing investment in LDE (UNCTAD, 2010). FDI inflows to LDCs were estimated at \$26 billion in 2011, which accounted for a small portion of the worldwide FDI inflow to the ETE (Naude, 2013; Ulasan, 2013; UNCTAD, 2011).

Additionally, most of the Africa EEs are dependent on foreign aids. One of such is Official Development Assistance (ODA). The purpose of ODA is to ease poverty and to improve living standard and quality of life for people in poor countries (Moe, 2008; Naude, 2013). The Organization for Economic Cooperation and Development (OECD) leaders indicated that the share of ODA to Africa increased from \$16.2 billion in 2001 to \$46 billion in 2010 (Gunay, 2011; Ulasan, 2013).

**Other Emerging Economies and Flow of FDI.** The flow of FDI to South, East, and Southeast Asia increased during 2009 and 2011, overtaking other EE (UNCTAD, 2011). From 14 ETEs in the Asia-Pacific region that were identified. The flow of FDI in South, East, and Southeast Asia increased in 2008 far ahead of any other ETE in other regions. In 2008, FDI inflows rose to another record level of \$249 billion (UNCTAD, 2010). This region were the FDI's most preferred destinations by multinational corporations worldwide (UNCTAD, 2009). In

addition, UNCTAD's 2009 survey of 226 companies in 2009 indicated this was the region where leaders of a multinational enterprise expected to increase their FDI investments.

The inflows of FDI to Central Europe approached a record level of \$2.187 trillion in 2009 (Gunay, 2011). The European Union as a whole was the largest recipient region, attracting over \$7.8 trillion, or 45% of the entire FDI inflows since 2000 (Gunay, 2011). Factors prompting the flow of FDI into Southern European countries were good economic conditions, development of infrastructure, political will, low levels of corruption, and economic freedom (Jiménez, 2011). Foreign investors (FI) were searching for a market forte where they could take advantage of the political stability of the recipient country (Jiménez, 2011). Comparison of the Central and Eastern Europe inward FDI performance index against the World Performance Index between 1988 and 2005 indicated that the inward FDI performance index of the Central and Eastern European countries was above the world average performance index (Kornecki & Raghavan, 2011). The performance index is measured by a country's share of the global FDI inflows to its share in the global GDP (Kornecki & Raghavan, 2011; Solomon, 2014).

The flows of FDI to East Asia's ETE during the last two decades have increased because of the recent attractive investment environment in the region (Kotrajaras, Tubtimtong, & Wiboonchutikula, 2011). The volume of FDI in East Asia had increased from \$628 billion USD during the years 1997 to 2001 as compared to \$1.014 trillion USD during the years 2007 to 2010. Accordingly, a large amount of FDI in Asia was attracted by East Asia and Southeast Asia, led by China and other economies, such as Thailand, Malaysia, Indonesia, South Korea, Vietnam, & the Philippines (Solomon, 2014; Irala et al., 2011).

**Major Domestic Deeds on FDI in ETEs.** ETEs countries' policymakers have tried to draw FDI through policy measures such as fiscal motivations and the establishment of investment of promotion agencies (Cass, 2007). Some leaders used incentives more than others. As countries adopted more-open investment regimes, competition for FDI was likely stronger (Tuomi, 2011). Many scholars have attempted to explain why organization's leaders preferred particular countries (Cass, 2007), but few considered enticements to be significant (Cass, 2007; Cleeve, 2008; Ginevicius & Simelyté, 2011). Most researchers stressed domestic actions, such as market size, infrastructure development, openness of trade rate, and political stability as stimulating the flow of FDI (Capannelli, Lee, & Petri, 2010; Dupasquier & Osakwe, 2006; Hailu, 2010; Huchet-Bourdon, Lipchitz, & Rousson, 2009). Many actions were decisive factors in the flow of FDI. Economic, political, geographic, and social issues (Dabla-Norris, Honda, Lahreche, & Verdier, 2010) influenced investors. Not all factor actions were likewise significant. Some factor actions were more important than others Dabla-Norris et al. (2010).

Researchers identified that ineptitude in using FDI originates at the country level (Choong & Lam, 2011). ETEs lack the requirements to ensure the complete use of FDI (Choong & Lam, 2011). Based on experiential and academic foundations in the recent study, vital domestic policy actions identified and included were (a) corruption, (b) financial development, (c) market size, (d) natural resources, and (e) political stability. The key problem for ETEs was that domestic investment was not sufficient to satisfy the growing need of investment in infrastructure development, growth of market size, and financial development Irala et al. (2009). Scholars using experimental studies endeavored to elucidate which factors of FDI reached an innovative rate of economic growth (Irala et al., 2009; Gupta & Yang, 2007). In Irala et al. (2009) studied of 17 South East Asian economies using country-specific advantages such as low cost of labor and political stability.

**Key Internal Endeavors threatening Flow of FDI.** Inferring to UNCTAD, 2009 report of 219 organizations' key threats to global FDI flows, a large proportion (44%) of the respondents stated that war and political instability were the main actions that discouraged their investment choices. Centered on (UNCTAD, 2009) experts, respondents reported that financial instability following a global economic depression was a foremost added risk to their continuing investment strategies, as presented (see, Table 1).

**Table 1: Key Domestic risks actions against FDI inflows to ETEs for 2000 - 2012**

Key Domestic risks actions against FDI inflows to ETEs	Not Significant	Less Significant	Neutral	Significant	Very Significant
Threats and business safety	12	14	20	23	32
War, political stability	10	13	21	12	43
Volatility of price	12	27	22	19	21
Inflation	8	26	41	22	3
Changes in investment regime	5	18	33	33	15
Financial instability	6	17	28	31	18
Exchange rate fluctuation	6	24	25	26	12

**Corruption.** The effect of corruption on political and economic growth has created two views (Mbaku, 2008). The first was that corruption expands economic and political development. The advocates of this view contended that corruption can lubricate the wheels of establishment and make it tenderer for the private sector to connect in wealth-creating deeds (Mbaku, 2008). The second view was that corruption was a leading constraint to wealth creation and economic expansion (Asiedu & Freeman, 2009; Daude & Stein, 2007; Daly & Mishra, 2007). Asiedu and Freeman (2009) noted that about 75% of organizations participating in the World Business Milieu Survey stated that corruption was an impediment to their business operations. Internal policy actions on corruption swayed the economic setting within a business. Political insecurity such as corruption affected the choices of foreign investors on investing in a foreign economy (Solomon, 2014). Additionally, openness of trade capability and wobbly nature of the political situation of the recipient market amplified the seeming risk and doubt experienced by multinational enterprises (Solomon, 2014). Several ETEs experienced inexplicable levels of corruption, and government bureaucrats often hijacked the investments (Asiedu & Freeman, 2009). Many of these economies ranked poorer than the world average in several measures of institutional quality (Asiedu & Freeman, 2009). Nations in Africa are ranked below the world average in willpower to control corruption (Asiedu & Freeman, 2009).

**Economic advancement.** Economic and financial situations in advanced economies can affect the movement of FDI to low-income economies (Dabla-Norris et al., 2010). Different influential activities cause disparity in the flow of FDI to recipient economies (Anwar & Sun, 2011; Campos & Kinoshita, 2008; Dupasquier & Osakwe, 2006; Kinda, 2010). Variances in economic fundamentals, forte of economic reforms, and macroeconomic strength in the recipient economies influence the development and assistances of FDI (Dabla-Norris et al., 2010). Number of researchers have established the economic development of economies in

Africa empirically (Adelegan, 2008; Anwar & Sun, 2011; Fowowe, 2008). The economic literature revealed that the level of economy's financial market was the key factor of FDI (Alfaro & Charlton, 2007; Anwar & Sun, 2011; Deléchat, Ramirez, Wagh, & Wakeman-Linn, 2009). In the current study, economic system means financial development. One of the utmost challenging problems in all the ETEs is mobilizing financial resources to substitute economic development (UNCTAD, 2011). ETEs face the dare of designing economic policies that generate financial development imperative to have the benefits from FDI (Choong & Lam, 2011; Dauda, 2008).

**ETE financial weakness.** One of the measures of economic expansion was guarantee credit given to the business sector. Guarantee credit was maximum in developed economies and lower in low-income economies (Choong & Lam, 2011). From UNCTAD's 2011 report, inadequate access to credit is the greatest binding factor restraining multinationals from investing in the LDETE. Internal credit was lower in low-income countries between 2002 and 2011 (Choong & Lam, 2011; Solomon, 2014). Amongst the greatest developed economies, AE were financially underdeveloped, had small-sized financial institutions, and lacked access to credit (Allen et al., 2012). Developed economies (DE) with well-developed financial markets benefited from FDI and, contrariwise, insufficient access to credit markets restricted business investor's development (Alfaro & Charlton, 2007; Dauda, 2008). The average level of financial market growth was low in Africa, with only 10 economies, or 21% of the 44 countries, having complete capital markets (Deléchat et al., 2009; Ulasan, 2013).

**Domestic Mojo enticing FDI to ETEs.** Some economic scholars have studied the correlation between market magnitude and FDI, (Capannelli et al., 2010). For market-seeking investors, the sizes of recipient economy markets and growth rates were significant. Market-seeking investors were driven to invest in recipient economies with huge domestic markets and in countries that were growing at a fast rate (Isemberg, 2010; Kalirajan & Mottaleb, 2010). Market size can be measured using economic development as a percentage of GDP. Theories and current literature had contradictory results regarding this connection (Wan, 2010). FDI boosts growth for economies through different straits; FDI increases capital stock and employment, and stimulates technology (Dauda, 2008; Wan, 2010).

Opponents of FDI trust FDI might crowd domestic investment and create external susceptibility and dependence (Wan, 2010); nevertheless, the real influence of FDI on ETEs economic gain has been widely debated in the literature (Isemberg, 2010; Mohamed & Sidiropoulos, 2010; Ndambendia & Njoupouognigni, 2010). A positive correlation among market size and internal actions (savings and labor) and external actions (foreign aid and FDI) were told to have had a positive influence on ETE economic growth (Ndambendia & Njoupouognigni, 2010). According to these researchers, the attraction of FDI was based on good policy and the economic and political stability of the recipient economy (Ndambendia & Njoupouognigni, 2010). Accordingly, good policy and economic, and political stability were recognized as being essential conditions but not adequate to motivate the condition among FDI and economic growth (Isemberg, 2010; Ndambendia & Njoupouognigni, 2010). Ndambendia and Njoupouognigni (2010) measured output growth to the share of inland savings and GDP. Market size is measured by the value of GDP of each economy in U.S. dollars. The larger the recipient country's economy and the larger the market of the economy, the more FDI is expected (Mohamed & Sidiropoulos, 2010). A UNCTAD 2009-2011 survey of 219 corporations, reported that the most important influencing actions that determine the location

of corporations in foreign countries were access to international/regional markets and access to natural resources (Anyanwu, 2012; Solomon, 2014).

**Sway of Natural resources.** Natural resource is known as one of the factors that affect the flow of FDI in ETEs (Dupasquier & Osakwe, 2006; Wang, 2012). Researchers revealed natural resources have a positive effect on the flow of FDI (Anyanwu, 2012; Asiedu & Lien, 2013). Anyanwu (2012), using AEs over the period of 2000 to 2012, found that natural resource exploitation attracted more FDI to the region. Additionally, Asiedu and Lien (2013) studied the relationship between democracy, FDI, and natural resources using the data of 116 ETEs and found the effects of FDI depend on the amount of natural resources. In a study on African countries, Hailu (2010) considered natural resources as an important factor for resource seeking investors. In terms of availability of natural resources and minerals, Africa is the richest region in the world; however, in terms of entrepreneurial activities, the region is behind other regions (Kshetri, 2011). In terms of oil production, Africa holds 80% to 90% of known crude oil reserve (Kshetri, 2011). In spite of having all these resources, leaders of African countries failed to bring expansion and growth their people. Some scholars recognized that in some countries, such as Nigeria, Ghana, and Sierra Leone, abundance natural resources are the main cause of corruption and political instability (Kshetri, 2011; Wang, 2012).

**Impact of Political Stability on FDI.** Researchers have begun to draw on institutional theory to show the effects of quality of institutions on FDI (Böckem & Tuschke, 2010; Daude & Stein, 2007). Many actions could clarify the low flow of FDI to AEEs, one reason being that foreign investors were reluctant to invest due to political instability and corruption (Dupasquier & Osakwe, 2006). Dupasquier and Osakwe's findings shown that corruption discouraged investment by increasing the cost of doing business; political risk includes political instability, domestic violence, and terrorism (World Bank's Worldwide Governance Indicators (WBWGI), 2010). While political risk is extensively debated in the theoretical and empirical study, there is no largely putative explanation of it, because different methods and strategies were used to measure it (Ekpenyong & Umoren, 2010). The perception of political risk in recipient countries is significant, as an investor's willingness to invest depends on the political conditions of the recipient country. Foreign investors rely on two broad approaches to predicate political risks. The risk and political stability of economies in Africa matter more than trade policy in swaying the flow of FDI (Cacho & Wilson, 2007). In supportive of this argument, Dutta and Roy (2011) proposed that political stability and financial capability were crucial in enticing foreign investors. Some researchers have studied the relationship between institutional quality and FDI (Daude & Stein, 2007) and found that institutional quality had positive economic effects on FDI.

**Regional Integration and FDI.** Regional integrated (RI) is identified to entice FDI to ETEs for many reasons. Access to large market and the gain of economic efficiency is chief amongst them. Economic integration (EI) is defined as the free movement of goods, services, labor, and capital between countries. The degree of EI can be analyzed at bilateral, regional, and global levels. Researchers investigated the effects of RI on the flow of FDI. They discovered that RI significantly promoted the inflow of FDI to ETEs (Chen & Woo, 2010; Feils & Rahman, 2011; Velde, 2011). In the past 25 years (1998-2014) a number of RI covenants were formed in Europe, Latin America, Africa, and Asia (see, table 2). African governments and policymakers (UNCTAD, 2009) have recognized the advantage of economic cooperation and integration (ECI) as a means of consolidating economic and social development (Gibb, 2009; UNCTAD, 2009; Solomon, 2014). During the past four decades, the global trading arrangement has

experienced a substantial change (Galarza, Guerrero, & Lucenti, 2009). Therefore, the number of trade agreements submitted by African countries from 1957 to 2010 had increased considerably but less than other regions of the world. Therefore, different forms of RI existed among ETEs to stimulate the inflow of FDI (see, table 2 for ETEs regions).

**Table 2: ETEs Countries Regional Grouping**

East Asia & Pacific	Latin America & Caribbean	Europe & Central Asia	Middle East & North Africa	Sub-Sahara Africa	South Asia
Cambodia	Antigua	Albania	Syria	Angola	Bangladesh
China	Bolivia	Armenia	Algeria	Benin	Bhutan
Fiji	Brazil	Azerbaijan	Egypt	Botswana	India
Lao PDR	Chile	Belarus	Iran	Burkina Faso	Maldives
Malaysia	Colombia	Bosnia and Herzegovina	Jordan	Burundi	Nepal
Philippines	Costa Rica	Bulgaria	Lebanon	Cameroon	Sri Lanka
Thailand	Dominica	Georgia	Libya	Cape Verde	Pakistan
Vanuatu	Dominica Rep	Kazakhstan	Morocco	Central Africa	
Vietnam	Ecuador	Kyrgyz Rep	Tunisia	Chad, Togo	
	El Salvador	Lithuania	Djibouti	Comoros	
	Granddad	Moldova		Congo Dem	
	Haiti	Romania		Congo Rep	
	Honduras	Russia		Cote d'Ivoire	
	Mexico	Tajikistan		Eretria	
	Nicaragua	Turkey		Ethiopia	
	Panama	Ukraine		Equatorial	
	Papa New Guinea	Uzbekistan		Guinea	
	Paraguay			Gabon	
	Peru			Gambia	
	Solomon Island			Ghana	
	St. Lucia			Guinea	
	St. Vincent			Kenya	
	Uruguay			Lesotho	
	Venezuela			Madagascar	
				Malawi, Mali	
				Mauritius	
				Mozambique	
				Namibia	
				Nigeria	
				Rwanda	
				Senegal	
				Seychelles	
				Sierra Leone	
				South Africa	
				Sudan	
				Swaziland	
				Tanzania	
				Uganda	
				Zambia	
				Zimbabwe	

Note. Adapted from “World Development Indicators,” by World Bank’s World Development Indicators, 2012

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**The Role of Infrastructure development in enticing FDI to ETEs.** Infrastructure alone cannot produce any goods or services, but it is essential for all economies (Pradhan, 2008). Infrastructure development (ID) has a close link with the flow of FDI into ETEs (Pradhan, 2008). Robust ID in an economy helps in reducing costs and making a timely inflow of FDI into the recipient country (Pradhan, 2008). According to Pradhan (2008) weak ID is one of the responsible factors behind the gap between the actual and realized rate of FDI inflows in ETEs. ID also affects FDI inflows as well as openness of trade (Pradhan, 2008). Inadequate ID increases export costs for the recipient country as compared to global competitors, who have lower infrastructure costs (Pradhan, 2008). In assessing the flow of FDI, to see the development of the recipient country’s infrastructure is important (Sinkovics & Yamin, 2009). ID is the interaction between foreign investors’ strategies and recipient country characteristics in terms of existing infrastructure (Sinkovics & Yamin, 2009). In many African economies, trade liberalization was ineffective because of poor ID (Economic Commission for Africa, 2011). Therefore, efficient ID will promote inflow of FDI to ETEs. One way of evaluating ID is availability of efficient electricity, good road, and telephone services (fixed lines or mobile signals) per 100 people (Solomon, 2014; Ulasan, 2013).

**Openness to trade and FDI.** Trade openness leads to an increase in FDI inflows into the ETEs (Pradhan, 2010; World Bank, 2011). Empirical evidence indicated that stressing the significance of domestic growth through private sector development with partnership through the international community was associated with increases in FDI (Hammouda et al., 2007). There are different views of trade openness. Openness exposes economies to changes occurring elsewhere in the world, such as changes that take place from price shocks or political conditions. Additionally, openness to trade stimulates greater exposure of democracy (Mourão, 2011; World Bank, 2011). True democracy allows global organizations such as, IMF or the World Bank, to monitor efficiently and influence political institutions of ETEs through control of corruption and transparency (Mourão, 2011). From political economy literature, openness has been used to study the effects of integration (Kinne, 2012). In related studies, where scholars were interested in how exposure to trade affects domestic outcomes, openness to trade holds importance in attracting FDI to ETEs (Kinne, 2012). Evidence revealed that quicker development and poverty reduction were strongest in ETEs that have incorporated with the global economy (Shin, 2009). Economies with outward orientation in terms of trade openness tended to be better off than those without an outward orientation (Shin, 2009; Squalli & Wilson, 2009; World Bank, 2011).

## METHODOLOGY

This section was structured to describe, first, an explanation of the research approaches and design, and to explain the justification for the methodology. Additionally, the study participants and instrumentation are explained. The flows of FDI to ETEs have remained small; FDI donors’ organizations perceived political risks and macroeconomic uncertainty deters FDI inflows to recipients’ countries (Solomon, 2014). The purpose of this quantitative correlational study was to investigate the virtuous, the immoral, and the dreadful domestic actions impact

on the flow of FDI in ETEs. Existing FDI theories were utilized to form the theoretical ideal for the study.

The model included the following independent variables actions to determine the flow of FDI: (a) corruption, (b) economic advancement, (c) Financial weakness, (d) natural resources, (e) political stability, (f) regional integration, (g) infrastructure development, and (h) openness of trade. To corroborate the ideal, the quantitative data were applied to research questions. Quantifiable correlational research is appropriate for determining the scope of the relationship between one or more variables for an agreed model (Cook & Cook, 2008). A quantitative correlational study was chosen for this task, as the focus was to determine the influence of the variables on flow of FDI to ETEs. The quantitative, non-experimental correlational design was easy to use for the calculation of the correlation coefficients that indicated both extent and direction of impact of the variables (Cook & Cook, 2008; Tong & Wei, 2009).

In most FDI works, scholars use archival records or secondary data to measure variables (Engel & Schutt, 2010). The secondary data might take the form of statistical records, government documents, and journals. Expending secondary data requires that the researcher have a good understanding of the primary sources, why the data were collected, how they were obtained, and the purpose of the task (Engel & Schutt, 2010; Tong & Wei, 2009). The use of secondary data helps the investigator answer the research questions. Different researchers (Alfaro & Charlton, 2007; Cipollina, Giovannetti, Pietrovito, & Pozzolo, 2009) have used this kind of approach. In this study, the FDI (dependent) variable data were obtained from the UNCTAD database. FDI in present U.S. dollars was often used to measure the flow of FDI in FDI works (Naude, 2013; Kalirajan & Mottaleb, 2010). Twelve years (2000-2012) of dependent and independent variables were calculated for the 107 ETEs in the model. (See, table 3)

**Table 3: ETEs Regional Classification**

Regional Grouping	No of Countries	Sample Population
Europe & Central Asia	23	13
East Asia & Pacific	24	14
Middle East & North Africa	13	11
Latin America & Caribbean	29	23
Sub Saharan Africa (SSA)	47	40
South Asia	8	6
Total	144	107

*Note.* Adapted from “World Development Indicators,”

by World Bank's World Development Indicators, 2011.

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## FINDINGS

The ambition of this quantitative study was to examine the impact of ETEs domestic deeds on the inflow of FDI into the countries. Data were obtained for 107 ETEs from 2000 to 2012 and analyzed for significant correlation. Two research questions, drawn as null and alternate

hypotheses, were addressed exactly. The domestic deeds examined herein were considered independent variables and presented in Table 4 along with their indicators. FDI was considered a dependent variable and was measured as the inflow of FDI in United States Dollars.

**Table 4: Variable along with their Measurements**

Policy	Variables	Measurement
Key Internal Impact Actions	Corruption	Control of corruption in percentile Rank 0-100
	Political stability	Political stability & Absence of Violence in Percentile Rank Percentile Rank 0-100
	Economic Advancement	Domestic credit provided by banking sector (% of GDP)
	Financial Weakness	
Key Regional Impact Actions	Natural Resources	Gross Domestic Product(GDP), measure in U.S\$
	Openness to trade	Value of the nation mineral resource in U.S\$
	Infrastructure Development	Trade as % nation's GDP
		Availability of efficient electricity, good road, telephone services, and value and shares of products

Data for dependent and independent variables were gotten from publicly accessible sources by generating a user account. FDI and regional integration data were obtained from the United Nations Conference on Trade (UNCT) database. While data on Corruption and political stability were developed from the World Governance Indicators (WGI) database and data for the remaining variables were obtained from the World Development Indicator (WDI) database. Each data point denoted the total for that measurement over a 12-year period from 2000 to 2012 for each country.

To investigate the question about the impact of domestic deeds on the inflow of FDI to ETEs, the following research questions and related null and alternative hypotheses were presented.

**Q1.** To what extent, if any, do ETEs domestic deeds impact on the inflow of FDI to their countries during the period 2000-2012?

**H1<sub>0</sub>.** ETEs domestic deeds do not impact on the inflow of FDI to their countries during the period 2000-2012?

**H1<sub>a</sub>.** ETEs domestic deeds do impact on the inflow of FDI to their countries during the period 2000-2012?

A bivariate correlation analysis was conducted to determine whether ETEs domestic deeds (political stability, domestic credit, Level of GDP-ETEs, Level of corruption, and availability of mineral resources) significantly impact on the inflow of FDI to their countries. The

correlation between FDI and GDP was significant ( $r = .91, p < .01$ ), political stability was significant as well ( $r = -.23, p < .05$ ) and availability of domestic credit was significant ( $r = .27, p < .05$ ). None of the other domestic policy actions were associated significantly with FDI as revealed in table 5.

**Table 5: Bivariate Correlation for FDI and Domestic Deeds Variables**

Variable	FDI-ETE	Control of corruption square	Political stability Square	GDP-ETE	Domestic Credit - ETE	Mineral resources
FDI-ETEs	1	.06	-.23*	.91**	.27*	.17
Level of Corruption Square	.06	1	.67**	-.08	.51**	-.05
Political stability square	-.23*	.67**	1	-.37**	.33**	.10
GDP-ETEs	.91	-.08	-.37**	1	.19	.21*
Domestic Credit-ETEs	.27*	.51**	.33**	.19	1	-.07
Mineral resources	.17	-.05	-.10	.21*	-.07	1

Note: \*\* Correlations significant at the 0.01 level (2-tailed). \*Correlation is significant at the 0.005 level (2-tailed)

Additionally, multiple regressions were conducted to test null hypothesis (**H10**). Table 6 displays the results of the multiple linear regression analysis for FDI versus the five ETEs domestic deeds. The regression coefficients indicated a relationship between FDI and all five domestic action variables with  $R^2 = .84, F(5, 93) = 99.87, p < .05$  indicating that the ETEs domestic deeds account for 84 % of the variance in FDI, and GDP was positively associated with FDI.

To get rid of multi-collinearity among variables, the variance inflation factor (VIF) was determined for each variable as shown in Table 6. The VIF of the variables ranged from

1.03 to 2.24 satisfying the assumption of no multi-collinearity between variables. Based on these outcomes, the first null hypothesis was rejected. There was a significant and correlation between FDI and GDP ( $\beta = .90, p < .05$ ). No other domestic deeds variables were correlated significantly to FDI.

Findings from this study indicated that a statistically significant relationship existed between domestic deeds and FDI in ETEs, therefore, the null hypothesis was rejected. Amongst domestic deeds, GDP had the most significant and positive correlation with FDI. This finding was consistent with earlier experiential studies supporting GDP as an important factor of FDI in ETEs (Almubarak, 2009; Breslin & Samanta, 2008; Feils & Rahman, 2011; Owusu-Antwi, 2012; Reddy & Wadhwa, 2011). All domestic deeds variables had no equivalent effect on the flow of FDI to the ETEs. In this study, level of corruption had no significant effect on the flow of FDI to ETEs. In their study, Breslin and Samanta (2008) established that the effect of corruption on FDI was not as significant as that of GDP. In a comparable study, corruption

was a constraining to FDI inflow and increased the cost of doing business (Manrique & Vlad, 2011; Tong & Wei, 2009).

**Table 6: Regression Results of Domestic Deeds Variables and FDI**

Variable	B	Standard error	Beta	t	Sig.	VIF
FDI-ETEs	-15.14	1.22	-	-12.35	.00	-
Level of Corruption Square	0.02	.01	.09	1.50	.14	2.24
Political Stability square	0.01	.01	.05	0.70	.49	2.23
GDP-ETEs	0.88	.05	.90	19.15	.01	1.42
Domestic Credit-ETEs	0.06	.10	.02	0.5	.60	1.47
Mineral Resources	06.5	.01	.01	0.23	.80	1.03

*Note: Dependent Variable: FDI-ETE.*

Additionally, political stability variable in this study showed a significant effect on the flow of FDI in ETES but had a negative indication. This shows that when political stability increases, the flow of FDI decreases. In another study, even though political stability was less robust, it still had an adverse effect on the flow of FDI (Hailu, 2010; Tong & Wei, 2009). Examination of domestic credit to private sector revealed statistically significant at a .05 confidence level. Different scholars studied the significance of FDI for domestic credit on the private sector (Choong, Lam & Yusop, 2010; Hericour & Poncet, 2009). In Hericour and Poncet (2009) investigation of FDI and credit constraints, they found that firm-level evidence from China's TE and FDI inflows seemed to reduce the imperfections faced by private domestic firms when dealing with financial markets. In a different study, Choong, Lam, and Yusop (2010) found that private capital flows had a positive impact on growth in ETES with well-developed financial sectors but a negative effect in the presence of poor financial sector development. In the current study, Availability of mineral resources had no significant effect on the flow of FDI in ETES. This discovery was consistent with the study of Gebrewold (2012) wherein natural resources were found to have an adverse effect on the flow of FDI and was insignificant.

To investigate the question about the impact of RI deeds on the inflow of FDI to ETES, the following research questions and related null and alternative hypotheses were presented.

**Q2.** To what extent, if any, do ETES RI deeds impact on the inflow of FDI to their countries during the period 2000-2012?

**H2<sub>0</sub>.** ETES RI deeds do not impact on the inflow of FDI to their countries during the period 2000-2012?

**H2<sub>a</sub>.** ETES RI deeds do impact on the inflow of FDI to their countries during the period 2000-2012?

An independent multiple linear regression analysis was conducted to test null hypothesis (**H2<sub>0</sub>**).

Table 7 shown the results of correlation analysis for FDI and the two regional deeds (two-tailed;  $\alpha = 0.05$ ). The regression coefficients shown a relationship between FDI and telephone ( $r = .79, p < .05$ ) and a correlation between FDI and RI ( $r = .85, p < .05$ ). There was a significant relationship between FDI and regional deeds variables.

**Table 7: Pearson Correlation between FDI and Regional Deeds Variables**

	FDI-ETEs	ETEs Telephone lines	ETEs RI Deeds
FDI-ETEs	1	.79**	.85**
ETEs Telephone lines	.79**	1	.74**
ETEs RI Deeds	.85**	.74**	1

Note. \*\*. Correlation is significant at the 0.01 level (2-tailed). \* Correlation is significant at the 0.05 level (2-tailed).

Additionally, results presented in Table 8 showed the multiple linear regression analysis for FDI versus the two regional deeds (telephone and RI). The regression model with two analysts produced  $R^2 = .78$ ,  $F(2,100) = 163.86$ ,  $p < .05$  demonstrating that the regional deeds account for 78.0% of the variance in FDI. Telephone was significant at  $\beta = .38$ ,  $p < .05$ , and RI was significant at  $\beta = .57$ ,  $p < .05$ ; therefore, the null hypothesis was rejected.

**Table 8: Results of Regression Analysis of FDI and Regional Policy Action Variables**

Variable	B	Standard error	Beta	t	Sig	VIF
Constant	-.78	.59	-	-1.29	.20	-
ETEs Telephone	.32	.06	.36	5.51	.01	2.20
Line	.43	.06	.57	7.88	.01	2.20
ETEs RI Deeds						

Note: Dependent Variable: FDI\_ETEs

Findings found a statistically significant correlation between regional deeds and the flow of FDI in ETEs and the null hypothesis was rejected. Infrastructure (the number of telephone lines) and RI were the most significant variables for FDI. Findings were consistent with other studies in which the numbers of telephone lines were statistically significant and positively correlated with FDI (Al Nasser, 2010; Hailu, 2010). In further studies by Bissoon (2012), physical infrastructure was revealed to facilitate doing business and increasing the rate of return for investors. Different scholars studied regional integration in developing countries (Kreinin & Plummer, 2008; Medvedev, 2012). Additionally, in Medvedev (2012) studied, the impact of preferential trade agreements on FDI inflows and found deep integration was associated with significant increases in the net FDI inflows of ETE countries. RI had a positive and significant effect on FDI by bringing investment creation and diversification and acts as a substitute for trade but complements it in some cases (Kreinin & Plummer, 2008).

## RECOMMENDATION AND CONCLUSION

By and large, the determinants of FDI for this study of ETEs are similar to those for other economies and, indeed, for developed economies (DE) as well. In short, domestic deeds, indeed, governance is relatively more important for ETEs than for DEs.

The importance of formal political integration into a regional trade group is the finding perhaps most worthy of being highlighted. The experience of ETEs suggest that important benefits to TE countries from formally joining a regional group of EE countries may be associated with enhanced confidence on the part of foreign investors that recipient government commitments to good governance will prove durable.

The findings from this study can be used as a starting point to extend the investigation of FDI versus domestic deed and regional policy action in EEs and TEs countries. Established on the research findings, the subsequent recommendations were made in three areas: domestic policy deeds recommendations, functional recommendations, and future research recommendations. Domestic deeds policy action recommendations are imperative for understanding the correlation between FDI and domestic deeds variables to understand better what can be done to increase this correlation. Additionally, future research recommendations are important, because they may advance an understanding of the correlation of FDI with the domestic deeds variables.

**Domestic policy deeds recommendations.** In the first part of this study, the results of the regression analyses discovered six variables that contributed to forecasting FDI in ETE countries. The six important forecasters comprised: (a) GDP, (b) domestic credit, (c) political stability, (d) telephone line, (e) RI, and (f) corruption. From these domestic deeds variables, political stability has revealed a negative and significant correlation with FDI in EE countries. Political instability and violence makes an economy less attractive for FDI. By considering these results, EE countries policy makers should pay attention to strengthening those wobbly conditions in order to get higher FDI flows. Additionally, policy makers must evaluate the benefits they get by attracting specific foreign investor by using their political efficiency and compare them with the potential flows they could get by reducing the political risk level. Additionally, policymakers in TE countries must exploit the benefits of FDI by improving domestic conditions to enhance the flow of FDI. Openness to trade appears to be significant for support linkages between foreign investors and domestic corporations. The promotion of local conditions such as skilled labor, adequate infrastructure, and telephone lines, would support the distribution of the benefits associated to FDI.

**Functional recommendations.** Practical recommendations are necessary to promote flow of FDI to EEs and TEs countries, including the following:

- a. In ETEs, political stability was connected negatively with FDI and domestic credit was important. Consequently, an effective economic development will accomplish little in terms of drawing foreign investment, if the country suffers from political instability.
- b. In ETEs, trade was correlated negatively with FDI. Therefore, ETE countries policy makers should develop human capital, improved financial sectors, or control of corruption strategies to draw further FDI to their economies.
- c. In EE countries, reinforcement of domestic credit given to the private sector can motivate investors to marshal FDI resources to their countries. Constricted monetary policies that regulate credit to the private sector placed pressure on potential private investors. Additionally, domestic credit means more reassurance for FDI donors' return-on-investment and signals foreign investors to invest in the recipient countries.

- d. ETE countries should inaugurate machinery for controlling corruption through reducing government interference in business.
- e. Leaders of EE and TE countries should develop policies concerning natural resource usage by foreign investors. Reducing the cost of doing business, opening the private sector to foreign investors, improving rural development, and applying new technology to rural industrialization is recommended. Additionally, policies on FDI have divergent effects on multinational enterprise decision-making in ETE countries. ETE countries that are open to global markets have more benefits than constraints on foreign investors. Leaders from ETE countries should implement the suggested domestic policy actions to accelerate the attraction of desired FDI to their nations.

**Recommendations for future research.** ETEs policymakers, scholars, and innovative economies practitioners should review and use the results of this study. Future researchers should use current data for conducting the same type of analysis and include qualitative components such as surveys and questionnaires. The current study was focused on seven policy action variables because of data availability; yet, only six policy action variables had a significant relationship. Future researchers might consider limiting or expanding the findings of this study using different analysis and theoretical frameworks.

The findings of this quantitative correlational study indicated that a connection occurred amongst FDI and domestic deeds variables in EE and TE countries. Africa EE is different from other regions that support the low flow of FDI because of insufficient domestic and regional policies.

This study was focused on the research questions and hypotheses using a quantitative method to investigate the correlation of FDI versus domestic and regional deeds associated with the flow of FDI in ETE countries for the period of 2000 to 2012 and whether these actions were the same for all ETEs. The research problem was answered and the purpose of the study was attained.

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