



ST MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**TRENDS OF FOREIGN DIRECT INVESTMENT (FDI) INFLOWS
AND ITS CONTRIBUTION TOWARDS THE DEVELOPMENT OF
GROSS DOMESTIC PRODUCT (GDP) IN ETHIOPIA.**

BY
DANIEL TSEGAYE

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ADDIS ABABA, ETHIOPIA

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SCHOOL OF GRADUATE STUDIES
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LIST OF ACRONYMS AND ABBREVIATIONS

CSA	Central Statistics Authority
FDI	Foreign Direct Investment
EIA	Ethiopian Investment Agency
FAO	FOOD and Agriculture Organization
GDP	Gross Domestic Product
KI	Key Informant Interview
LDC	Least Developed Countries
MNE	Multi National Enterprise
MOFED	Ministry of Finance and Economic Development
TNC	Transnational Corporations
UNCTAD	United Nations Conference on Trade and Development

ABSTRACT

This study focuses on foreign direct investment (“FDI”) and its importance to the economy of Ethiopia. Recognizing that FDI, notwithstanding the type, can contribute to economic growth and development, most countries including Ethiopia are constantly working to attract it, and hence its demand has become highly competitive. However, FDI does not go without some negative effects, such as conflicts between host and investor country, and the creation of damaging competition to local firms. These negative effects could be minimized if policies and strategies for the promotion and attraction of FDI is part of, and integrated into, general economic development and economic reform policies, and not seen in isolation. Although Ethiopia has implemented strategies to attract more FDI, a refinement of some of these policies is needed if the country is to be successful in this regard. The general objective of this research project is to assess the trends of FDI inflows in Ethiopia and its contribution to economic growth from 1992 to 2013 G.C and so as to forward some achievable recommendations. Secondary data from the Federal Investment Bureau of Ethiopia, Ministry of Finance and Economic Development (MoFED) , World Bank and from other responsible institutions were collected and analyzed to get data and information on trends of FDI inflows and its contribution toward the economy of the country and Key Informant(KI) interviews from the federal investment agency of Ethiopia, from the Ministry of Finance and Economic Development, and from various beneficiaries were employed to assess the real contribution of FDI to the economic development. Explanatory and descriptive research methods where longitudinal data and information in the past twenty-one consecutive years from 1992 to 2013 was collected and analyzed, qualitative, quantitative and document reviews were used in the course of the study. The findings from this research showed that trends of FDI are increasing averagely at a rate of 0.8 from year to year which in turn increase capital inflows and employment. Manufacturing, Agricultural, and Real Estate sectors have showed the highest share of capital inflows via FDI. The majority of foreign direct investment share is taken by Oromia followed by Addis Ababa and Amhara, respectively. According to the findings from this study FDI inflows created a wider ranges of employment opportunities and has a significant positive contribution for the development of the country

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Foreign Direct Investment (FDI) has been counted as one of the source of higher economic growth of developing countries. FDI has fastened the technological growth, enhanced human capital, and promoted the international trade in the developing countries (Ecofair trade dialogue No/12 October 2009). Under appropriate government policies, FDI can be important stimuli to economic and social development of the host country. These traditional advantages of FDI are often subjected to sharp criticism by opponents through counter arguments as aggravates inequality; in the long run reduce foreign exchange earnings; and their negative impact on the environment (Todaro and Smith, 2009)

Global Foreign Direct Investment (FDI) inflows rose in 2007, by 30% to reach \$1,833 billion, well above the previous all-time high set in 2000 (UNCTAD, 2008). Especially in developing countries FDI inflows reached their highest level ever (\$500 billion) – a 21% increase over 2006. The least developed countries (LDCs) attracted \$13 billion worth of FDI in 2007 which is a high record (UNCTAD, 2008).

In order to attract FDI, developing countries have created investment-friendly macroeconomic policies to be benefited most from FDI. Ethiopia, like many other developing countries, lacks capital formation; there is huge gap between saving and investment in the country. It has initiated several reforms from time to time in various sectors of the economy to boost up the real growth, to sustain macroeconomic stability and attract FDI inflows in the country.

The Government of the Federal Democratic Republic of Ethiopia (FDRE) has been working diligently to realize a developed and prosperous Ethiopia through its Agricultural Development Led Industrialization Economic policy. Apart from formulating the policy, the Government has also designed various strategies meant to implement the policy.

This research analyses the trends of Foreign Direct Investment (FDI) inflows in Ethiopia and its contribution toward the development of GDP in Ethiopia by employing secondary, primary data sources and document reviews.

1.2 Statement of the problem

In recent years the growth of private foreign direct investment (FDI) in the developing world has been rapid. According to Todaro and Smith (2009) FDI rose from an annual rate of \$2.4 billion in 1962; \$35 billion in 1990; \$147 billion in 2002; \$334 billion in 2005. Similarly global Foreign Direct Investment (FDI) inflows rose in 2007, after four consecutive years of growth, by 30% to reach \$1,833 billion, well above the previous all-time high set in 2000 (UNCTAD, 2008). Especially in developing countries FDI inflows reached their highest level ever (\$500 billion) – a 21% increase over 2006. The least developed countries (LDCs) attracted \$13 billion worth of FDI in 2007 – also a record high (UNCTAD, 2008).

The rapid growth of FDI attracts the attention of researchers, international organizations and the civil society due to their interest to unlock questions like: what drives high increases in FDI inflows, and whether this is a lasting trend and what the consequences of FDI might be. Parallel to other developing countries, the government of Ethiopia claims FDI inflows in Ethiopia has been continuously rising since 1992GC as a result of appropriate policies emplaced. The government claims to pursue a targeted FDI focusing on gearing forward the country's agricultural and rural development. Even though the international community shares the view that higher investments especially in the agricultural sector are necessary to foster rural development and to overcome food insecurity and poverty, recently several critical voices have been raised about the potential negative impact of FDIs in the agricultural sector in developing countries.

The impact of FDI in developing countries is generally uneven depending degree of their development, the type of policies they are putting in place (Todaro and Smith, 2009). In this connection the consequences of FDI to Ethiopia's social and economic development has not been critically assessed and understood.

This study focuses on trends foreign direct investment ("FDI") and its importance to the economy of Ethiopia. Recognizing that FDI, notwithstanding the type, can contribute to economic growth and development, most countries including Ethiopia are constantly working to attract it, and hence its demand has become highly competitive. However, FDI does not go without some negative effects, such as conflicts between host and investor country, and the creation of damaging competition to local firms. These negative effects could be minimized if

policies and strategies for the promotion and attraction of FDI is part of, and integrated into, general economic development and economic reform policies, and not seen in isolation. Although Ethiopia has implemented strategies to attract more FDI, a refinement of some of these policies is needed if the country is to be successful in this regard.

This research, therefore, aims to explore the trends and consequences of FDI inflows in the social and economic growth of the country. The study will shed light on which of the above arguments are working for Ethiopia through the use of country specific databases and complementary expert interview

1.3 Research Questions

The following are the research questions to be addressed in the study;

1. What does the trend of FDI inflows look like from 1992 to 2013 G.C?
2. What are the major contributions FDI's brought on GDP, Employment, and Export etc?
3. What are the unintended negative effects of FDI inflows?
4. What are the favorable conditions that attract foreign investors to invest in Ethiopia?
5. What alternative measures can be instituted to attract more FDI to Ethiopia and to enhance the country's comparative advantage?

1.4 Objectives of the study

1.4.1 General Objective

The general objective of this research project is to assess the trends of FDI inflows in Ethiopia and its contribution to social and economic growth from 1992 to 2013 G.C and so as to forward some achievable recommendations.

1.4.2 Specific objectives:

The specific objectives of this study are to:

- analyze the trends of FDI in Ethiopia and explore major FDI routes to Ethiopia and to
- to investigate the major contributions of FDI on employment, filling capital gap, enhancing exports, technological transformation, etc;
- to assess the possible negative Effects of FDI inflows to Ethiopia;

- to Identify the favorable conditions that attract foreign Investor to invest in Ethiopia
- to examine what alternative measures the Ethiopian government is taking to fully utilize the FDI inflows.

1.5 Definition of Key terms

- Three different forms of FDI investment in Ethiopia (Federal Investment Bureau of Ethiopia, 2009)
 - **Implementation:** the production plant is being built
 - **Operation:** the production plant is already in use
 - **Pre-implementation:** land, machineries and building materials are still being bought
- **Double Taxation:** Taxes levied twice on the same income, profit, capital gain, inheritance or other item (Federal Investment Bureau of Ethiopia, 2009)
- **Domestic investor:** An Ethiopian or a foreign national permanently residing in Ethiopia or a foreign national but Ethiopian by birth and desiring to be considered as a foreign as a domestic investor (Federal Investment Bureau of Ethiopia, 2009)
- **Gross National Product (GNP):** is defined as the total value of income earned by residents of the country regardless of where the income came from (Wikipedia)
- **Gross Domestic Product (GDP):** is the value of production realized by residents' producers in an economic territory. GDP is designed to measure the market value of production that flows through the economy (Wikipedia)

1.6 Significance of the study:

In this era of globalization a country's development is interdependent with a complex of multifaceted factors including international trade, investments in human capital, enhancing total production, democratization and availability of convenient policies and institutions.

Like many other developing countries, Ethiopia lacks capital formation; there is huge gap between saving and investment in the country. It has initiated several reforms from time to time in various sectors of the economy to boost up real growth, to sustain macroeconomic stability and attract FDI inflows in the country. This study aims to investigate the trend and consequences of FDI on the economy of the country during the period of 1992-2013GC.

The research finding will therefore narrow the knowledge gap in this area; will further serve as a source of information and literature review for researchers interested to conduct their study on similar areas. The findings will also clearly indicate the practical consequences of FDI to GDP growth and try to show the trend in the past 21 years (1992-2013 G.C) years which will help policy makers and government officials to make an informed decision.

1.7 Scope /Delimitations of the study:

The qualitative data which was collected as key informants from beneficiaries were taken only from Ziway and sendafa towns it would have been good if it was taken from other areas also but due to time constraint the researcher could not manage to that.

The Quantitative data from the Ministry of Finance and Economic Development was only from 1992 through 2010, but that of from Federal Investment Agency was from 1992 to 2013, the study did not use primary data collection tool for quantitative analysis instead it entirely used secondary data.

1.8 Organization of Study

This study is organized into five main chapters. The first chapter highlights the general overview of the study including the background of the study, statement of the problem, research questions, objectives of the study, and significance of the study, along with definition of major terms and concepts. The second chapter is dedicated to in-depth review of the theoretical perspective in relation to FDI inflows (literature review), its contribution in the development of a country and determinants of FDI, etc, are covered. Chapter three presents research design, research approach, method of data collection and method of data analysis. Chapter four deals with discussion of results which refer to the presentation, analysis and interpretation of data and Chapter five deals with summary of findings, conclusion and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Historical background of Foreign Direct Investment (FDI)

The term “foreign direct investment” usually brings to mind the significant contribution of foreign investment to domestic investment. FDI has been defined by different writers and authorities as follows: FDI is an investment made to acquire a long-term interest in a foreign enterprise with the purpose of having an effective voice in its management (Bjorvatn, 2000:16). As noted by Albuquerque (2000), FDI requires neither capital flows nor investment in capacity. Conceptually, it is an extension of corporate control over international boundaries other than that of a source/home country. According to Pugel (1999:23), FDI is the process whereby residents of one country (the home country) acquire ownership of foreign assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country).

Eatwell, Milgate and Newman (1987:403) define FDI as the act of acquiring assets outside one’s home country. These assets may be financial, such as bonds, bank deposits, real estate and equity shares, or they may involve the ownership of a means of production, such as factories and land. FDI is defined by Hines (1999) as occurring when a firm invests directly in production facilities in a country and maintains control over that investment. Selby (1999:3) defines FDI as the purchase or construction of productive capacity in a country by an individual or company based outside the country. The investment comprises a bundle of assets, some proprietary to the investor (technology, brand names, specialized skills, the ability to establish marketing networks, etc.), and some non-proprietary (finance, many capital goods, intermediate inputs, etc.).

FDIs are mostly made by multinational enterprises (MNEs), also referred to as transnational corporations (TNCs) or simply as multinationals. FDI takes place as part of the parent corporation’s effort to defend or extend its ability to extract profits from quasi-oligopolistic control over intangible assets, in the face of ongoing competitive challenges at home and abroad. FDI is motivated by the ability to earn higher profits on activities in the foreign country. The financial returns from FDI are normally paid out in the form of profits (dividends, retained earnings, royalty payments and management fees).

FDI can be either vertical or horizontal. Vertical FDI refers to those multinationals that fragment production processes geographically. It is called 'vertical' because multinational enterprises separate the production process by outsourcing some stages abroad. The basic idea involved in vertical FDI is that if input prices of a certain stage of production are lower in a country other than investor's country, it then becomes more profitable to split the production chain. Horizontal FDI implies the production of roughly the same goods or services in the host country that multinational corporations (MNEs) produce in their home country. Such FDI is called 'horizontal' because it involves the duplication of similar activities across national boundaries. Horizontal FDI arises when it is less costly to serve the foreign market by investments instead of exports due to high tariffs or transportation costs.

FDI is measured either as a flow (the amount of investment made in one year) or stock (the total investment accumulated at the end of a year). Whilst FDI and foreign production is not one and the same thing, FDI has historically been closely bound up with the development of international business and still remains the backbone of MNE, and is the most frequently used proxy for the extent of MNE (Banga, 2003).

2.2 Types of FDI

2.2.1 Export-oriented investment:

Export-oriented investment is described by Reuber (1973) as the type of investment that reflects a wide range of considerations such as the desire to develop secondary and more diversified sources of supply by way of obtaining lower-cost products to be used either as inputs or for sale elsewhere.

Firms serving established markets at home or internationally frequently seek new sources of inputs, including raw materials, components and parts, as well as finished products. This reflects a wide range of considerations, such as the desire to develop secondary and more diversified sources of supply and the possibility of obtaining lower-cost products. Examples of this type of investment are found in the raw materials sector. Generally, such foreign investors are mainly interested in extracting products from the host country and selling them abroad through established market channels. In making such investments, firms sometimes also create a supporting infrastructure such as housing, hospitals and schools. This investment focuses on the

needs of a particular market which is largely or entirely outside the host country (Reuber, 1973:73).

The World Investment Report (1999) advocates that this type of investment is made with the intention of the investor to improve its competitive position at home or internationally by taking advantage of the lower cost of production that host countries offer, where lower cost is indicated by some of the following, amongst others: incentives from the host country, abundance of skilled and semi-skilled labour with concurrent relatively lower wages, and political and monetary stability. With this type of investment, investors attach little significance to host countries' markets. The major factors with regard to the determination of the location of the investments are cost, as explained above, and the reliability of production.

2.2.2 Market-development investment:

Unlike the export-oriented type of FDI, the objective of making a market-initiated type of FDI is to sell the final output in the host country's market. However, a common feature of both types is that they thrive on feasibility of reduction in production cost. Another key consideration by the investor is the potential growth in the size of the host country's market in the long term. Although in the short to medium term the investment may not yield the expected return, if the long-term view is that the host country's market will grow in size and hence become profitable, the investment may then be undertaken. The growth in the host country's market is, however, dependant on the general economic outlook of the host country and hence the macroeconomic variables and the effectiveness of the economic reform policies, other policy directives like tariffs, trade controls, taxes, subsidies and so forth, as well as various regulations imposed on foreign investors by the host country, become fundamental to the decision to invest (Reuber, 1973; Bosworth, 1999; Collins, 1999; Aschauer, 1999).

2.2.3 Government-initiated investment:

In comparison with the export-oriented and market-development types of FDI, government-initiated type of FDI occurs through the provision of substantial incentive structures to investors by a host country's government. These are accepted by investors whereas market as well as cost conditions may have precluded them from investing in the host country under normal or "no-incentive" circumstances.

To protect the host country and also to make the option of providing incentives to foreign investors efficient, such incentives are directed at specific projects or industries. Additionally, incentives are given by host country governments in order to attract foreign investors to either less-developed regions or regions which require improvement in certain sectors. For example in South Africa, it is understood that the Industrial Development Corporation of South Africa has allocated investment opportunities to each of the nine provinces (Department of Trade and Industry, 2006)

2.3 Policies to attract FDI in to an economy:

Attracting FDI is at the top of the agenda for most countries as many studies show that it has become the most important source of development and economic growth. By and large, governments are recognizing that FDI can contribute to economic growth and development and, as a result, most have given the attraction of FDI high priority, especially on the African continent. The high level of demand for this type of investment has made the world market for it highly competitive.

The growth of FDI in the world has been significant in recent years. Between 1990 and 2000, the world's FDI inflow increased more than five times, and after reaching a peak in that year it has experienced a decline. One fascinating feature of this growth phase was that most FDI transactions were between developed countries. This stands to confirm that although FDI is important to developing countries; its distribution has been biased in favor of developed countries. The problem of biased distribution of FDI into developing countries has been exacerbated by the decline in world FDI transactions and as a result of the scarcity, both developed and less-developed countries are now competing for it, especially due to the positive multiplier effects this type of investment has on an economy. It is for this reason that policies to attract this type of investment have become of critical importance (Addison & Heshmati, 2003).

FDI flows are basically the result of investment decisions taken by transnational corporations (TNCs) in response to certain pull factors. Whether a TNC will undertake FDI in a foreign country or not depends on the existence of a number of factors that influence such a decision.

In view of the above, this chapter will discuss the policies that a country can consider to attract FDI. These can be broadly categorized into three types: first, general economic policies that

increase locational advantages; second, national FDI policies that reduce the transaction costs of investors; and third, international FDI policies that deal with agreements (whether bilateral, regional or multilateral) on foreign investments. Other general policies in addition to the above will also be discussed. The overall economic policies work at the macro level and aim to improve the fundamentals of the economy such as the market size, availability of skilled labor, infrastructure, etc., which in turn aid in attracting FDI flows into an economy. The national FDI policies work at the domestic level, and regulate entry and exit of FDI along with the creation of incentives and restrictions on operations of foreign firms in different sectors of the economy. The international FDI policies work at the international level and deal with agreement issues relating to the treatment of FDI from a particular region. These investment agreements may ensure that FDI from a particular region is either treated or not treated under most-favored-national standards and national treatment standards.

2.3.1 General economic policies:

The general economic policies should help to strengthen the economic fundamentals. Though not limited to the following, the economic fundamentals that the policies should address include the market size, cost factors (these include cost of labour, cost of capital and infrastructure costs), the exchange rate, the rate of inflation and macroeconomic stability factors (e.g. political, economic and financial stability).

2.3.2 Market size:

Economic policies aimed at developing the market of a country should ensure that FDI is attracted into that country. Market size may be measured not only by the population of the host country – other factors might also prove significant. Specifically, these are policies directed at assessing and improving the purchasing power of the local population, policies regarding the proximity and connections with other relevant countries, or policies to effect healthy competition already present in the host country.

2.3.3 Cost factors:

Policies to attract FDI should be directed at addressing factors that cause investment cost differentials across countries and are thus categorized as cost factors. These include labour, capital and infrastructure costs. Cost factors may significantly influence the attraction of FDI into

an economy. To assess the cost of labour and the availability of skilled labour, according to Dunning (2003), real wage rates are used – lower real wages in a host country are expected to attract FDI. According to neoclassical theories, labour cost differential is considered an important determinant of FDI. The new international division of labour theories also focus on the cost minimization strategies of firms. It can be argued that locational advantage induced by the low wages, increases the prospects of low production costs and could stimulate a firm to establish itself in a new market (London & Ross, 1995; Banga, 2003:13).

2.3.4 Exchange rates:

The volatility of exchange rates is also important. Profits from foreign investment in an economy are often used to supplement the profits of firms in host countries and also, in home countries of foreign investors. As a result less volatile exchange rates are necessary for an investor to repatriate its profits to the home country. The volatility of a host country's real exchange rate may attract or deter FDI. Instability of a currency has often been identified as a significant impediment for the inflow of FDI. The instability of a host country's currency tends to reduce FDI inflow by discouraging the repatriation of investment returns (Chakrabarti, 2001; Banga, 2003:14).

2.3.5 Rate of inflation:

When policies are geared towards the control of inflation in an economy, investors perceive this as a sign of internal economic stability in the host country. High inflation, on the other hand, indicates the inability of a government to balance its budget and failure of a country's central bank to conduct appropriate monetary policy and hence may reflect instability of the macroeconomic policy of the host country. This type of instability creates uncertainty in the investment environment, which discourages FDI, and the reduction of FDI is worsened by the fact that the relative costs of production in host countries rise, unless this is compensated by a proportionate depreciation of the currency (Schneider & Frey, 1985; Banga, 2003:15).

Foreign capital fled countries such as Russia, Brazil, Yugoslavia and Thailand during periods of high inflation. According to Schneider and Frey (1985), the rate of inflation in host countries negatively affects FDI attraction. Hyun and Whitemore (1989) find that high inflation rates in Latin America, Asia and Africa deter investments by Japanese firms.

It can therefore be argued that, if foreign investors are risk averse or even risk neutral, uncertainty about the potential for high inflation rates may lead to a reduction in FDI, because investors do not want to risk their expected profits. As long as there is uncertainty about the future level of inflation, foreign investors will demand a higher price to cover their exposure to inflation risks and this in turn will decrease the volume of investment. Hence economic policies must address the stability of inflation over time, which is vital to the attraction of FDI.

Political, economic and financial stability: Generally, a country with sound economic policies that promote macroeconomic stability, have an established and practiced rule of law, enforce contracts and encourage private-sector development can be expected to attract FDI. Investors will have more confidence that a nation that has done well in the past will also be likely to do well in the future (Tallman, 2002).

The lack of policies to promote these economic fundamentals has diverted FDI from many of the former Soviet Republics and several Balkan countries. Schneider and Frey (1985) re-examined the issues and concluded that moderate changes to policies are crucial for FDI flows to developing countries. Casson (2003:67) argues similarly to the above by explaining that a basic level of overall economic, political and financial stability is a prerequisite for FDI in a country. He further argues that the basic institutions of an economy must allow the inflow and repatriation of foreign private capital

2.3.6 International FDI Policies:

International FDI policies are those that deal with agreements on the treatment of FDI from a particular region.

2.3.7 Bilateral investment treaties:

There has been a substantial increase in the number of bilateral investment treaties (BITs) that have been signed and brought to force in the last two decades, and particularly in the 1990s. BITs deal exclusively with investments and lay down specific standards of investment protection and transfer of funds (Eaton & Tamura, 1994; Banga, 2003:21).

Root and Ahmed (1979) show that these treaties contain provisions for settlement of disputes between the treaty partner, investors and the host state. BITs also cover a number of other areas in particular: non-discrimination in treatment and, in some cases, the entry of foreign-controlled

enterprises and other related fields. Bilateral agreements shape FDI frameworks. Over 2 100 BITs were in effect by end of 2002. These generally contain binding commitments on expropriation, fund transfers and compensation due to armed conflict or political instability on a national treatment (UNCTAD, 2003). Bilateral investment treaties are one of the rare ways in which rich countries can try to increase FDI flow to developing countries by reducing ex ante the risks associated with opportunistic behaviour by host governments and providing some rights to investors once they are settled in a country.

An important characteristic of BITs is a considerable uniformity in broad principles underlying the agreements, coupled with numerous variations in the specific formulations employed. BITs generally recognize the effect of national law on FDI and accept the right of governments to regulate its entry. BITs were initially addressed exclusively between developed and developing countries. A major reason for this is that developed countries were the major source of investment; however, the 1990s witnessed an increasing number of BITs between developing countries. BITs are popular because they provide host economies with the flexibility to screen and channel foreign investment to desired sectors or locations while extending protection to foreign investors. By providing protection, BITs are expected to promote and attract FDI (UNCTAD, 1999:1; Banga, 2003:24).

Regional investment agreements: With regard to regional investment agreements, following negotiations during the Uruguay round of multilateral trade that reached an agreement on prohibiting trade-related investment measures (TRIMS), some of the regional trade bodies in various countries have taken the initiative to improve the investment environment to make it more conducive to the free flow of FDI. An example of such an agreement among the Association of Southeast Asian Nations (ASEAN) is the non-binding investment principles reached in 1999. The ASEAN investment agreement, which was signed by all the member countries, commits them to opening up industries and granting national treatment to all ASEAN investors (Banga, 2003:24).

2.3.8 Other Policies :

Resource structure: FDI policies should address the resource structure of a country and the rights of foreign investors with regard to these resources. A country may possess a significant comparative advantage or an absolute advantage in primary commodities. Such a country is likely to spawn domestic firms that possess advantages in the exploitation of such assets. However, especially if such an advantage is a near absolute one, it is likely to be the recipient of considerable investment. These advantages associated with the host country include the availability of skilled labour and other infrastructural facilities, and may lead to sequential investment by both domestic and international firms. As a result, a comparative advantage in a natural resource-based industry may be sustained.

The lack of a natural resource base (which is a comparative disadvantage in primary commodities) would, all things being equal, result in the opposite effect. Such a country is also more likely to begin strategic asset-seeking investment at an earlier stage (e.g. Japan and more recently China). Over all, these countries would become net outward investors at a considerably earlier stage of development than those well endowed with natural resources that will attract FDI (Dunning & Narula, 1998).

Cultural distance: Economic policies geared towards strengthening ties with other countries that share similar cultures to that of a host country is ideal for FDI attraction. Culture can be described as an accepted way of doing things by social groups that differentiates one group from another. Investment decisions are partially influenced by cultural factors. In investigating FDI flows to Central and Eastern Europe, Mikalak (1992:1575) suggests that inherent variations in language and culture dissuade potential investors, except in countries that have traditional ties.

Grosse and Trevino (1996:155) conclude that those countries culturally dissimilar to the US or further away tend to have less investment in the US. Davidson (1980) finds that US firms have usually made their first foreign investments in countries like Canada and the UK due to similarity in culture. Root (1990) argues that uncertainty due to cultural distance may also cause executives to undervalue foreign investments. Furthermore, the cultural familiarity of the host country offers a whole range of efficiency-enhancing measures including the procurement of inputs, marketing and distribution of output, thereby making the economy more habitable for FDI.

The economic system: The economic policies of a host/potential host country should define the orientation of an economy, which will substantially affect both economic development and the extent and pattern of FDI flow into it. The economic orientation of a country may either be outward looking, export oriented or inward looking. An export-oriented regime is likely to achieve faster growth and structural upgrading.

Lizonda (1990:15) argues that an export-oriented regime is a necessary condition for attracting FDI and FDI-facilitated developments. Where a country's policies are more export oriented, the faster the process of structural adjustment and economic growth becomes, and the faster the country will attract FDI.

According to Porter (1990), although the kind of economic system associated with a country broadly determines the path it takes, the nature of government policy associated with a particular system can vary. The differences between the macro-organizational strategies of countries at the same stage of development influence both the structure of markets and the extent to which economic activity is efficiently conducted, thereby affecting the specialization and economic structure of the country as well as the extent of FDI activity associated with it.

Present economic indicators play a role in attracting FDI. Current economic performance represents the current governmental regime's ability to handle the state's economy as well as other social factors. Investors will seek out countries that have had recent economic success in the hope that the trend will continue in the long run.

A country's international experience: The economic policies of a host or potential host country should consider the international experience of the country as a basis, which can be considered an important factor in attracting FDI. Buckley and Casson (1985) aver that experience reduces the cost and uncertainty of serving and hosting a market. Similarly, Agarwal and Ramaswani (1992) show that countries without foreign market experience are likely to have more problems in managing foreign operations, as a country's knowledge base will increase with repeated experience and be embodied in personal and organizational memory.

The human capital of a country, A country with sound educational and training policies should, all things being equal, attract FDI. The human capital of an economy should be an important factor when considering investing for a long term in another country, as the investor

will use the labour in the host country. It would seem that the more educated a population is, the more likely it is to attract FDI. However, Root and Ahmed (1979) found that although the theoretical literature on FDI presumes human capital to be among the key ingredients of FDI flow into an economy, among the 58 developing countries they studied, none of their proxies for human capital literacy, school enrolment and the availability of professional and technical workers were found to attract FDI.

Schneider and Frey (1985:22), using data for 54 developing countries, found that the share of an age group with secondary education to be a less significant determinant of FDI as compared with other economic and political influences. Hanson (1996), using a sample of 105 developing countries, showed that the adult literacy rate was not an important determinant of FDI as compared with other social-political variables. Finally, Narula (1996:12) demonstrated that the level of tertiary education in a population was not a statistically significant explanatory variable for FDI inflows among 22 developing countries.

All the above cross-country studies show that human capital is not necessarily an important input for FDI. This conclusion is, however, consistent with the fact that the period of the 1970s to 1990s was when FDI in developing countries was concentrated on market and resource seeking, and/or lower-end manufacturing types, and cheap labour and/or abundant natural resources were more important. This still holds true for recent times.

2.3.9 Summary of Policies of FDI:

The impact of FDI on the world economy has risen dramatically over the past decades. Between 1973 and 2000 worldwide annual FDI flow increased fifty-fold from \$25 billion to \$1.271 billion. The contribution of FDI to world welfare (the cumulative GDP of all countries) rose to 17% compared with a mere 6% in 1980. Developing countries, emerging economies and countries in transition increasingly see FDI as a source (and not a panacea) of economic development. Countries have liberalized their FDI regimes and pursued other policies to attract this type of investment. They have addressed the issue of how best to pursue domestic policies to maximize the benefits of foreign presence in the domestic economy (World Bank Report, 2001). In this regard, the resources gathered under this chapter looked at the many different policies that can be used to attract FDI as well as the effectiveness of the policies. FDI is no longer only a strategic option of corporations – it also plays key role in the national economic development strategies.

FDI can also transform a country's economic scenario within the shortest possible time as it is not merely access to funds but also provides transfer of technical know-how and management expertise, and is also a stabilizing factor in an economy.

Attracting FDI involves policy measures that are not without economic or social costs. Tax breaks, subsidies and infrastructure improvements are examples of policy measures intended to raise the volume of FDI received that have direct and measurable costs, especially in poor countries. It is therefore a legitimate question to ask whether those costs are worth the prize, i.e. whether FDI received yields substantive net economic benefits and justifies this type of spending. Nevertheless, the policy environment in the host country still matters for FDI. We find that high unit costs, a high corporate tax burden and, to a lesser extent, a high level of import tariffs discourage FDI while a liberal foreign exchange and trade regimes and advanced reforms in the infrastructure sector encourage it. Foreign firms will undertake FDI if they have an oligopolistic advantage over host countries' firms through supportive national policy directives. However, as in the past, a welcoming FDI regime remains fundamental to attracting FDI, but today's globalizing investor has a wide choice of developing-country locations and desires those that are capable of enforcing competition, providing stable and transparent rules for private business and, over time, improving the quality of their local productive factors.

While there have been significant improvements in the policy regime for FDI in most African countries, these have not been significant enough to attract globalizing FDI. Disappointingly, the region continues to suffer from a poor image as an investment location despite efforts to promote and market it. Most crucially, the economic disparities between Africa and other developing regions (with the exception of the natural resource sector) remain considerable. There is little or no policy governing infrastructure, human capital, supplier networks, technological capabilities and support institutions.

It is important that less-developed countries work hard to address policies that are crucial to attracting FDI. It is evident that some countries can improve their international image if they can address negative factors such as conflicts, crime and government apathy that discourages the rule of law. Policies and strategies that are aimed at improving the image of the region need to be coordinated among member countries if the region is to increase its share of global FDI.

2.4 Drawbacks of FDI:

In spite of the various advantages/benefits of FDI listed above, FDI is not without drawbacks and disadvantages to a host nation. The following drawbacks, amongst others, are discussed in detail below: FDI may lead to recapitalization; damaging competition; creation of monopolistic power and social disorder; generation of undue influence on the shaping of policy; environmental degradation; exploitation of natural resources; strain in international relations; dissipation of potential gains; information bias between host and investor countries; and excessive borrowing in domestic credit market. Furthermore it may be instable, exacerbate or create misallocation of resources and indicate economic weakness.

2.4.1 Recapitalization:

If foreign ownership becomes too extensive, recapitalization can occur. As foreign-owned firms become established and profitable, they begin to repatriate earnings to their home country. In doing so, the local currency is converted to their home-country currency and capital leaves the country. If the base of foreign-owned companies is large enough, this can lead to a serious capital drain. This is especially a concern if in times of crisis all foreign-owned companies repatriate retained earnings simultaneously. The effect of this can be similar to the effect of foreign lenders refusing to roll over short-term loans. The country can be starved of capital, and a bad economic situation can be made dramatically worse. This is sometimes cited as one of the primary risks of a country becoming too reliant on FDI (Rasmini, 2000; Mallampally & Sauvant, 1999:13).

2.4.2 Damaging competition:

Singh and Jun (1996), and Mallampally and Sauvant (1999:15) indicate that, because MNEs often have skills, technology and capital that local firms cannot match, FDI may create damaging competition to local firms, and that this is often cited as a primary negative spill-over from FDI. This is a significant and complex risk to evaluate. Lehman and Mody (2002) note that it is certainly true that local firms can be damaged or even put out of business and that unemployment can result. But it is also true that in many instances competition from more efficient foreign-owned producers can be seen as a benefit to the economy as a whole, improving overall productivity and forcing local firms to modernize and improve efficiency. The question to ask

here may be whether local firms will be able to improve to compete or just be decimated by competition from MNEs. If it is the latter, then FDI deserves additional scrutiny.

2.4.3 Monopolistic power:

Lankes and Venables (1996) clarify the fact that by their access to finance and advanced technical and management expertise, MNEs can possibly force all local competitors out of business, which can lead to market dominance by MNEs. Once such monopolistic power is obtained, MNEs can then raise prices and extract excessive profits, potentially eliminating any overall benefit of FDI. Lankes and Venables (1996) further warn that monopolistic power gained by MNEs is a risk associated with FDI that should be closely monitored by host countries.

2.4.4 Social disorder:

When MNEs are seen as exerting too much power, especially monopolistic power over something considered a public good, e.g. water, electricity and telephone services, then public resentment and protest can occur. This can lead to a hostile business environment, social disorder and, in the worst case, political instability. This happened dramatically in Cochabamba, Bolivia in 2000, when the local water service was taken over by a multinational conglomerate led by Bechtel, which immediately doubled prices, precipitating a general strike and transportation shutdown. In this case the Bolivian government reversed the privatization and Bechtel was forced to exit the country (World Bank Report, 2003). A counter example is the telephone service in several countries around the world including, Mexico, Brazil and India where foreign entry into the industry previously controlled by the government dramatically reduced costs and improved service. However, in each of these cases it is probably the introduction of competition rather than the introduction of foreign capital that led to such dramatic service improvements (World Bank Report, 2003; Mallampally & Sauvant, 1999:15).

2.4.5 Undue influence on the shaping of policy:

In a similar way to the above, Mills (1995) explains that large-scale flows of FDI will tend to create reliance on them, so that policy is constrained by the need to avoid any moves that discourage continued FDI. Foreign investors in general and multinationals in particular may come to have undue influence on the shaping of policy. The danger of abuse of market power will be particularly strong when the entry of large MNEs raises concentration levels within an

economy. Then, if the bargaining and regulatory capabilities of the host country are also weak, democracy, indigenous development and the welfare of population may all be undermined.

2.4.6 Environmental degradation:

New production facilities may lead to environmental degradation. A frequent argument is that MNEs attempt to locate polluting facilities where environmental controls are the weakest. It is true that most developing countries have fewer environmental regulations and less ability to enforce regulations, which may result in terrible accidents and great environmental harm being caused by MNEs (e.g. the Bhopal chemical disaster oil pollution in India in 1984). However, there is no good evidence of MNEs being more likely to pollute than domestic firms. Evidence may actually point the other way because MNEs, due to their higher profile, are seen to be more sensitive to environmental issues than local firms are (Mallampally & Sauvant, 1999:16).

2.4.7 Exploitation of natural resources:

Graham (1995:95) adds that environmental and natural resources costs may also be involved, requiring careful consideration of the short-term advantages to be gained from FDI and the longer-term implications for the country's resource base and general state of the environment. The large-scale exploration and exploitation of natural resources is often associated with large-scale environmental damage. Graham (1995) further argues that sometimes, and even more importantly, politico-strategic interests could also be at stake when FDI comprises a large component of the total investment and involves a loss of control over strategic sectors of the economy, vital infrastructure and natural resources. Moreover, in some circumstances, the country's sovereignty may be at stake.

2.4.8 Dissipation of potential gains:

Special treatment for some projects or sectors may also reduce the net benefits from FDI. In attempting to foster particular sectors or specific investment projects, authorities may negotiate special conditions for foreign investors on a case-by-case basis. This is risky. In a competitive world, if many countries bid against each other to attract the same foreign investment, they may end up dissipating all the potential gains from such investment (World Investment Report, 1999).

2.4.9 Information bias between host and investor countries:

FDI may not necessarily benefit the host country, as demonstrated by Lahiri and Ono (2005). Through FDI, foreign investors gain crucial inside information about the productivity of the firms under their control. This gives them an information advantage over uninformed domestic investors whose buying of shares in domestic firms does not entail control. Taking advantage of this superior information, foreign direct investors will tend to retain high-productivity firms under their ownership and control, and sell low-productivity firms to the uninformed investors. As with other adverse selection problems of this kind, this process may lead to over-investment by foreign direct investors.

2.5 The effect of FDI on an Economy

2.5.1 The effect of FDI on the balance of payment, Interest rates and Exchange rates:

The balance of payments is a statistical statement that systematically summarizes, for a specific period, the economic transactions of an economy with the rest of the world. The balance of payments is also regarded as the difference between international receipts and payments (Duce, 2003:2).

The balance of payments is an account that measures the sum of all receipts from outside an economy against the payments to sources outside the same economy (Cooper, 1992). Table 5.1 represents a generic balance of payments account.

Initially, FDI increases the influx of capital flows relative to outflows. By providing foreign exchange, FDI may fill the foreign exchange gap in the short run. Also, by producing goods that were previously imported it saves foreign exchange, and by producing exportable goods it also earns foreign exchange. As a result of this, the receipts column of the balance of payments account tends to exceed the payments column, all things being equal, and this has advantages and disadvantages for host countries, especially under a managed flexible exchange rate regime. On the other hand, the foreign exchange reserve built-up through FDI inflow may be eradicated by way of repatriation of capital, interest and profits, and transfer pricing may also be resorted to. Moreover, an increase in FDI results in increases in demand for the host country's currency (and a corresponding increase in foreign exchange in the foreign exchange market). The effect of the

increase in demand for the host country's currency is as follows: under a fixed exchange rate regime, there will not be much effect on the host country's currency (an increase in reserves is the only effect). In the case of managed exchanged rate regime, the effect on the exchange rate is dependent on the policy decisions of the host country. However, it is noted that under a flexible exchange rate regime, an increase in demand for the host country's currency through FDI strengthens the currency of the host country through the market forces. Assuming a constant supply of the host country's currency, the following ensues: a strong currency may lead to cheap imports and uncompetitive exports, where the host country supplies elastic commodities

(i.e. commodities that easily respond to prices changes), this will result in a negative influence on the foreign exchange reserves of the country, FDI, production and ultimately unemployment. By the same token, an increase in FDI leads to future outflows in the form of royalties, dividends and interest. These outflows create the reverse of the above. A high-value currency resulting from an increase in FDI, all things being equal, allows the government of a host country to reduce interest rates in line with its policy objectives, while remittances in the form of payments to foreign investors, all things being equal, allow the government of a host country to increase rates in line with its policy objectives. In other words, the mere occurrence of currency appreciation or depreciation does not necessarily require the increase/decrease in rates, but supports the decision of the government to alter rates. However, temporary strength in the local currency would, all things being equal, erode over time as various outflows associated with the initial inflow occur (Kahn, 1999).

2.5.2 FDI and employment

Cooper (1992:188) explains employment as follows: an act where a service is rendered by a person (including legal persons) to another person in return for compensation (monetary or non-monetary).

FDI may contribute to economic growth directly by creating employment opportunities and indirectly through the creation of employment opportunities in other organizations.

Indirect employment created by foreign affiliates in host countries, according to Nanak (2000), can be large, probably larger than that created directly. With the growth of international production, the share of employment creation by foreign affiliates is growing. Employment

creation in host countries has been partly attributed to the labor-intensive nature of the economic activities established by foreign companies (World Bank, 2000).

There is a wide divergence of views concerning the effect of FDI on host countries' employment levels. The initial assumption in most host countries is that there is an increase in the level of employment when foreign investors enter a country. This view is shared by US multinationals, who contend that they are only able to maintain domestic employment in high-skill activities by transferring their labor-intensive activities abroad. This suggests that although employment levels increase, this is only at a semi-skilled level. However, this is still an advantage to host countries, who are better off with this increase in employment levels than if there were no FDI at all (Glickman & Woodward, 1989). Another side to this divergent view is that due to the sophisticated technology and the level of knowledge of foreign investors, host countries are not able to compete with regard to this knowledge, which eventually leads to downsizing of the labor force (Reuber, 1973).

Reuber (1973) further elaborates that most resident firms bear most of the cost of training employees, and the degree to which investing firms finance training is extremely difficult to determine. In most cases, employees are hired at going rates for the category in question rather than at some lower rates which increase in line with their training. In addition to FDI's effect on the level and composition of employment there is also the question of its effect on labor income. This is because more work is created, increasing the demand for labor and thus leading to increases in salaries generally. At a broad macro level it follows from general theoretical principles that an increase in capital stock enhances labor income.

Focusing on wages and salaries, one would expect that as foreign investment creates more jobs it would also tend to raise wage and salary levels. This effect, according Michael and Gugerty (1997), seems most likely to show up in the market for skilled and semi-skilled workers as well as for highly trained professional categories where the elasticity of local labor supply is likely to be the lowest. It remains to consider what, if any, effect FDI may have on the stability of employment. One possibility is that FDI, by increasing the integration of the local economy into the international economy, leaves the local economy more vulnerable to fluctuations in the international economy. While this may be so, cyclical savings in the economies of developed

countries in recent years have probably been more moderate than in the LDCs. In this situation increased integration serves as a stabilizing factor to employment in the LDCs

2.5.3 General effect of FDI on an economy

Recently, it has been claimed, based on empirical evidence, that the presence of multinational corporations (MNCs) in developing countries does not bring the expected positive spill-over effects to domestic firms in the same industry. In fact, their effects are often negative because domestic firm productivity decreases as MNEs (multinational enterprises) move into the market – the fall in domestic productivity is attributed to domestic firms having to compete with more efficient MNEs. Going by such evidence it might seem that FDI is unimportant and even an obstacle for economic growth. Further studies have argued that while there might not be evidence for positive intra-industry spill-over – i.e. spill-over for domestic firms operating in the same industry as MNCs – there is evidence for positive inter-industry spill-over, i.e. that which accrues to domestic firms in different industries. Such inter-industry spill-over is often attributed to the cross-fertilization of ideas through knowledge sharing. Empirical evidence in manufacturing in Colombia can be used to illustrate this point. Producers in other sectors may experience positive spill-over, especially when MNCs outsource from local upstream suppliers. Therefore, some studies suggest that FDI has the potential to boost the economies of host countries through knowledge sharing and technology transfer between industries (Kugler, 2001)

2.5.4 Summary of Effects of FDI in an economy

The importance of exchange rate policy is usually emphasized in trade-balance or balance-of-payments debates, since it mostly determines the state of the BOP account. Initial receipt of FDI leads to a positive financial account and consequently a balance of payments surplus. Subsequent to the initial investment, income transfers in the form of interest, dividends and royalties which are remitted to investor countries result. These remittances affect the current account and ultimately the BOP account negatively. However, the effect of FDI on the value of the host country's currency depends on the exchange rate policy in place at the host country. Under a fixed or managed exchange rate policy, the influx of FDI has no effect on the exchange rate of the host country, but causes an increase in reserves. However, an increase in reserves leaves host countries' government with a decision as to whether to carry on buying the surplus foreign exchange indefinitely or whether to sterilize such intervention by offsetting sales of securities in

the domestic money market. On the other hand, the effect under a flexible/managed flexible exchange policy may be that the value of the currency increases. A high-value currency resulting from an increase in FDI, all things being equal, may encourage the government of a host country to reduce interest rates in line with its policy objectives, while remittances in the form of payments to foreign investors, all things being equal, may encourage a host countries' government to increase interest rates in line with its policy objectives. In other words, the mere occurrence of currency appreciation or depreciation does not necessarily require the increase/decrease in rates, but may support the decision of the government to alter rates accordingly. In the case of employment, it is argued that greenfield FDI creates employment in that newly formed businesses employs in order to carry on with its objects. Wage and salary levels may be increased due to increase in demand for labour. Productive training may also be given in that foreign investors go to host countries with innovative and more efficient ways of production. However, a concern is that foreign investors, in order to implement their innovative strategies, tend to employ skilled workers from their country of origin. This leads to unemployment and also leaves the host country's skilled workers redundant – this applies to both greenfield as well acquisition-type FDI.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Study Setting

Ethiopia is Africa's oldest and independent country; it is the tenth largest country in Africa. Its population size is estimated to be around 80 million. The country is among the least urbanized countries in the world with 83.6% living in rural areas whilst only 16.4% of the total population living in urban areas. The largest city in the country is Addis Ababa, the capital with 3 million people accounting for nearly 4% of the total population.

Ethiopia is endowed with a lot of fertile land and in most regions with a sufficient amount of rainfall. Still, almost 40% of the total population lives below the poverty line and this has not changed significantly since 1995. 4-6 million people depend on international food assistance even in years with good harvest. Due to increased food aid, the proportion of undernourished population has decreased from 69% in 1995 down to 46% in 2004 (World Bank 2007). A major reason for this high dependency on food aid is that even though the average annual rainfall is sufficient with 848mm, most of the rain falls intensively, extremely spatial and with very high temporal variability. This leads to high risks of annual droughts and intra-seasonal dry spells as nearly all food crops in Ethiopia come from rain fed agriculture (FAOSTAT, 2005).

Ethiopia as poverty-stricken economy is based on agriculture, accounting for almost half of GDP, 60% of exports and 80% of total employment.

3.2 Research Design

International trade, inward and outward flow of capital across countries is dynamic issue influenced by complex set of interactions among various social, economic, institutional and political arrangements. Understanding the trends of FDI inflows in line with major determinants including efficiency seeking, market seeking, financial matters and other political interests' of international investors will need some in-depth analysis and time series data. In light of this, descriptive and explanatory research method where longitudinal data and information in the past twenty-one consecutive years from 1992 to 2013 was collected and analyzed.

3.3 Population and Sampling Techniques

Since the quantitative part of this study is based entirely on secondary data, longitudinal data from the Ethiopian investment agency and from Ministry of Finance and Economic Development (MOFED) is used for analysis, while the qualitative part of this study is basically dependent up on key informants who are selected purposively ,the KI are those individual from MOFED ,Ethiopian Investment Agency and from beneficiaries who are assumed to have detailed information and who can provide reliable information on the subject matter.

3.4 Types of Data and Tools/Instruments for data collection

Both qualitative and quantitative data was used to take advantage of complimentary of the two types of data and thorough understanding of the issue. Therefore, qualitative, quantitative approaches and documents review were used in the course of the study, since the quantitative part of this data is dependent on secondary data no tool/instrument were used ,while for the qualitative part key informants discussion guide was used to collect reliable qualitative data.

3.5 Procedures of Data Collection

Secondary data from the federal investment bureau of Ethiopia, Ministry of finance and economic development (MoFED) , World Bank and from other responsible institutions were collected and analyzed to get data and information on trends of FDI inflows and its contribution towards the economy of a country while key informant interviews from the federal investment agency of Ethiopia, from ministry of finance and economic development, and from various beneficiaries were collected to assess the real contribution of FDI to the economic development.

3.6 Method of Data Analysis

Qualitative data generated using KI, was analyzed based on their thematic content, by describing, ,narrating and interpreting the situation deeply so that the real picture of FDI inflows , ,contribution FDI inflows, what alternative measures should be taken to attract more FDI in to Ethiopia and negative effect of FD understood vividly. Whereas descriptive statistics such as frequencies mean, percentages, as well as inferential statistics like correlations, regression and time series analysis are used were used in reporting the results.

3.7 Validity and reliability of data

Maximum effort was exerted to minimize biases and to maintain the quality of the data collected. The quantitative data was cleaned and entered to SPSS and analysis made using this software. All possible errors on the data (outliers, inconsistent values, etc.) were checked and corrected in SPSS before making any data analysis. The findings are presented as they are without being distorted so that it can show the real picture of FDI and GDP

3.8 Ethical Considerations

The study was primarily focused to gather secondary quantitative and primary qualitative data to analyze the trend and consequences of FDI .The study neither involves any experiment on human subjects nor conducted without the consent of the study participants. Above all, the issue is not sensitive and secret, and we didn't ask the study participants to engaged into risks as a result of participating in this study. Besides, informed verbal consent was obtained from the key informants during data collection. The respondents were given the right to refuse to take part in the study as well as to withdraw any time during the interview.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Description of the study area

Ethiopia officially known as the Federal Democratic Republic of Ethiopia is a country located in the Horn of Africa. It is bordered by Eritrea to the north and northeast, Djibouti and Somalia to the east, Sudan and South Sudan to the west, and Kenya to the south. With about 96,633,458 inhabitants, Ethiopia is the most populous landlocked country in the world, as well as the second-most populated nation on the African continent. It occupies a total area of 1,104,300 sq km and its capital and largest city is Addis Ababa.

Since 1995, Ethiopia is divided into nine regional states (Afar, Amhara, Benishangul-Gumuz, Gambella, Harar, Oromiya, Somali, Southern Peoples, Nations & Nationalities and Tigray) and two chartered cities (Addis Ababa and Direedawa) . According to the national census conducted in 2007, over 32 million people or 43.5% were reported to be Ethiopian Orthodox Christians, over 25 million or 33.9% were reported to be Muslim, just under 14 million, or 18.6%, were Protestant, and just under two million or 2.6% adhered to traditional beliefs.

A summary of key figures describing its social-economic environment can be found in the following table that includes figures from BBC and World Fact book as a reference.

Table 4.1 Basic Statistics Ethiopia

Indicators	Source-CIA World fact book
Population	96,633,458
Area	1,104,300 sq km Land: 1 million sq km Water: 104,300 sq km
Border Countries	Djibouti 342 km, Eritrea 1,033 km, Kenya 867 km, Somalia 1,640km, South Sudan 1299 kmSudan 744 km.
Coastline	0 km(landlocked)
Major Religion	Orthodox =43.5%, Muslim=33.9%, Protestant=18.6% ,Traditional=2.6% and other 1.4%
Life expectancy	Total: 60.75, male:58.43,female 63.15 (total)
Main Export commodities	Coffee, Chat, gold, Leather, products, live animals, oil seed
Currency	Birr (ETB)
Exchange Rates	Birr(ETB) per US dollar -19.92 (2013 est.), 17.75(2012 est), 14.41 (2010 est) 11.78(2009), 9.57(2008)
GDP	\$ 118.2bn (2013 est.)
Gross national Saving	\$ 18.8% of GDP bn (2013 est.)
GDP per Capita(PPP)	\$1,300(20138est.)

Ethiopia is endowed with a lot of fertile land and in most regions with a sufficient amount of rainfall. Still, almost 40% of the total population lives below the poverty line and this has not changed significantly since 1995. Thus, 4-6 million people depend on international food assistance even in years with good harvest. Due to increased food aid, the proportion of undernourished population has decreased from 69% in 1995 down to 46% in 2004 (World Bank 2007). A major reason for this high dependency on food aid is that even though the average annual rainfall is sufficient with 848mm, most of the rain falls intensively, extremely spatial and with very high temporal variability. This leads to high risks of annual droughts and intra-

seasonal dry spells as nearly all food crops in Ethiopia come from rainfed agriculture (FAOSTAT, 2005).

Ethiopia as poverty-stricken economy is based on agriculture, accounting for almost half of GDP, 60% of exports and 80% of total employment. Under Ethiopia's constitution, the state owns all land and provides long-term leases to the tenants. On average, 83% of the rural households cultivate less than 2 ha per household and 52% less than 1 ha (FAOSTAT, 2005). In 2007 the main important products especially regarding small scale productions are cattle meat, roots and tubers, cow milk, maize, chilies and peppers, cereals, wheat, coffee, sorghum and sheep meat (FAO statistics, 2009). Coffee is the major agricultural product with respect to export flows. It accounts for 3% of the GDP and a quarter of the total population make a living from this sector. Further main export products in 2006 after coffee are oilseeds, chat, leather, gold, pulses, live animals, flowers, meat and fruit/vegetables (IMF, 2007).

The flower sector has only recently become an important agricultural sector for Ethiopia when regarding the export potential. It is a relatively new but at the same time very dynamic sector. Since 2001 up to 2007 the export value of flowers has increased from US\$ 0.3 Mn up to US\$ 113 Mn (Joosten, 2007) which accounts for 7.8% of the total export value in 2007.

For attracting potential foreign investors many regions have invested in infrastructure so that their agricultural land is accessible (Getnet, 2009).

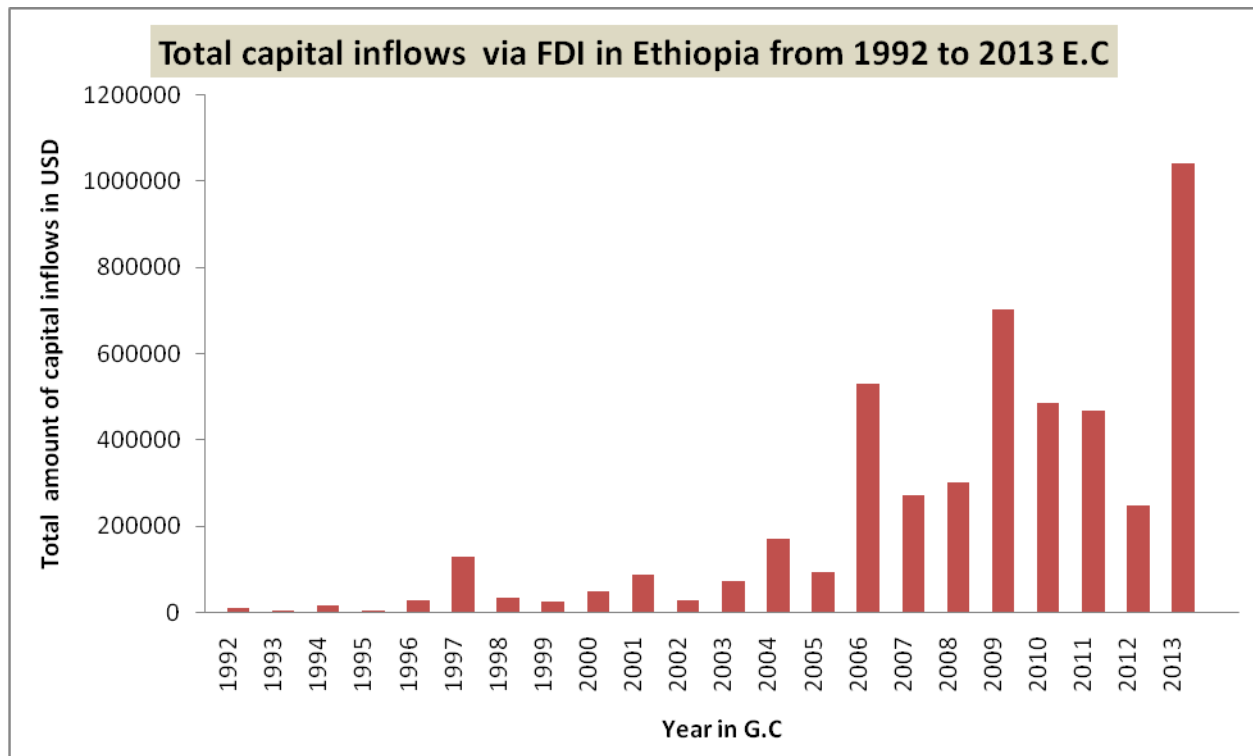
Soil erosion is intensified in Ethiopia through different channels. Due to water erosion, which is severe in the Ethiopian highlands, about 30,000 hectares of productive land are lost every year, while two million hectares are irreversibly damaged. The rate of deforestation in Ethiopia is estimated at 80,000 to 200,000 hectares of land per year. Through the increased deforestation, wind erosion is becoming increasingly severe in the semi-arid and Rift Valley areas of the country (Taddese and Peden, 2006).

The database used in this study is generated by the Federal Investment Bureau of Ethiopia, where all investments need to be registered before they get licensed to operate in Ethiopia. Based on these registrations, the bureau prepares data spreadsheets including information on the name of the company investing, the Ethiopian region in which it invests, the investment sector, the investment year (1992 -2008) and what form the investment is of (implementation, operation, pre-implementation). Thereby, Ethiopia is divided into the 11 regions mentioned already before.

To receive an overview on the development of FDI inflows into Ethiopia the FDI inflows aggregated at country level.

4.2 Trends of FDI inflows to Ethiopia

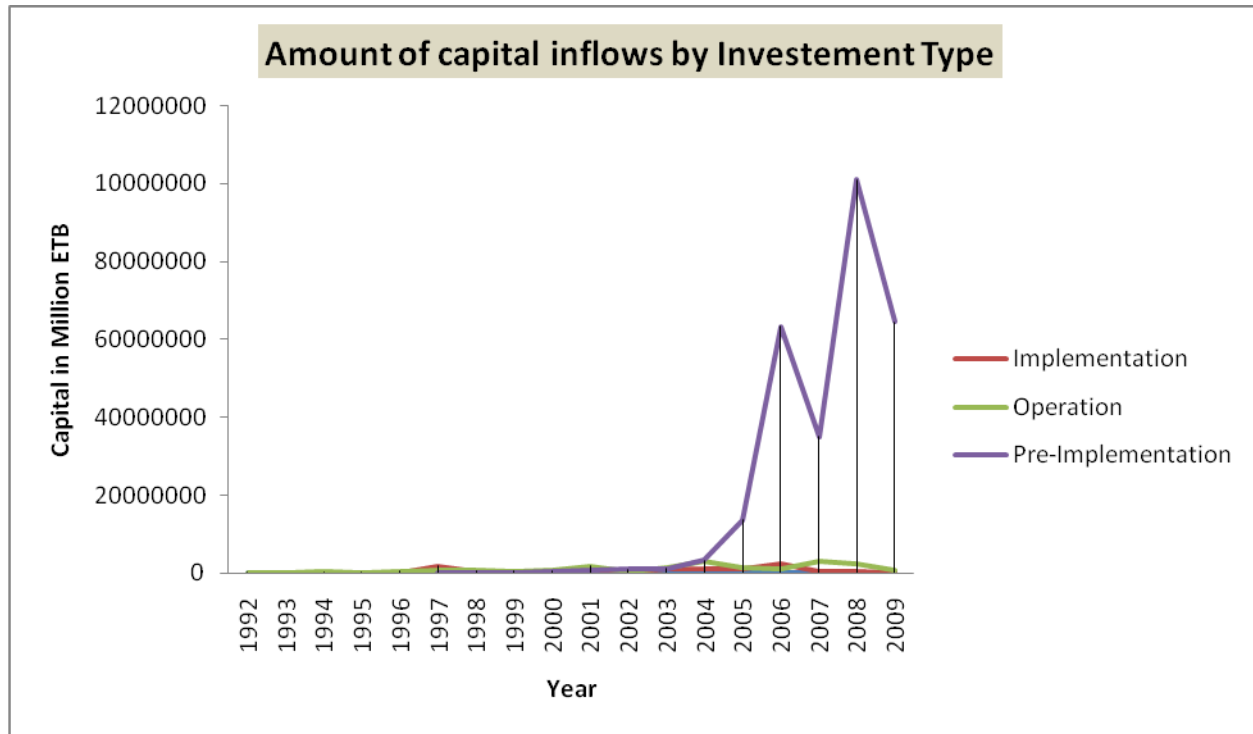
Figure 4.1: Total capital inflows via FDI Ethiopia



As per the data from Federal Investment Agency of Ethiopia, the total amount of capital inflows to the country from 1992-2013 is depicted by figure 4.1. Although there is gradual increment of Capital inflows; the flow was almost stagnant during the period 1992 to 2005 GC. There is a rapid development of FDI inflows since 2006 GC. The drastic change from 2006 to 2013GC, reached FDI about 10 Billion USD by the year 2006GC, 14 Billion USD by 2009, 9 Billion USD by 2010 and 2011 and the maximum 20.8 Billion in 2013.

4.3 FDI inflows by investment Type

Figure 4.2: Amount of capital inflows by Investment type



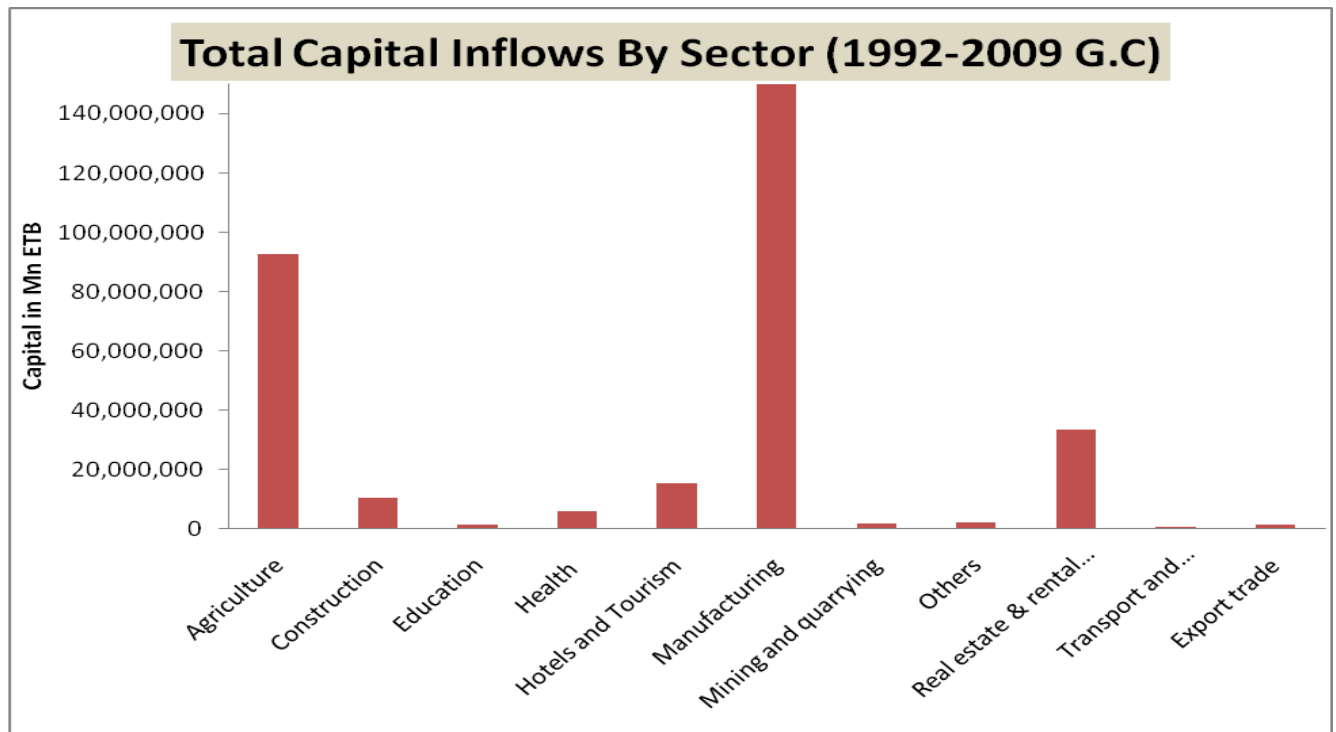
FDI inflows in to Ethiopia started to grow since the liberalization of control of the economy in 1992, just after the institution of democracy. The new regime sought to eliminate the constraints on FDI and to establish an enabling environment for foreign investors. The authorities began to promote Ethiopia more vigorously as a location for FDI in early 1998.

According to figure 4.2, up to 2004 the level of FDI inflows ranged under 10,000 million ETB each year. When regarding the spreading between the three different possible forms of investment it is quite equal. After 2004 the investment flows increase heavily. Total FDI inflows reached about 60,000 million ETB in 2006GC.

As already mentioned, Pre-Implementation investment means that the company has already acquired all the necessary requisites to start operation but has not started yet. This also includes land which can only be leased in Ethiopia. As investments have increased highly between 2006 and 2008 it can be assumed that also the securing of land through long-time. According to the Ethiopian Investment policy land can only be leased from a time period between 20 and 45 years. Leasing contracts for food production has been increased since 2004; that supports the assumption of the intentions of investors towards land grabbing.

4.4 Distribution of FDI Projects by Sector

Figure 4.3: Total capital inflows by sector

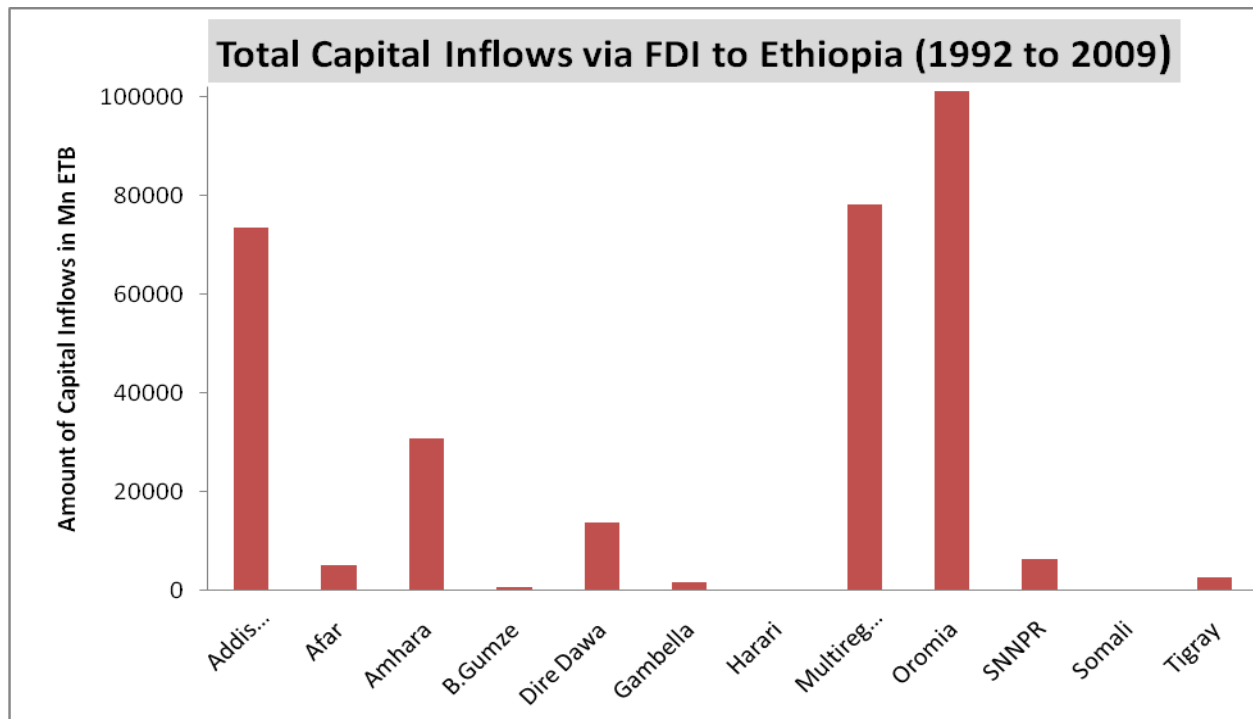


As depicted in Figure 4.3, the agricultural, Manufacturing and Real Estate sectors share the majority of the total capital inflows via FDI. FDI inflows into the different agricultural sectors are of interest. Cereals, coffee, oilseeds, chat, meat and recently increasing cut flowers are the main agricultural sub-sectors of the Ethiopian economy when regarding the export value. But are these the main sectors where foreign investors invest in or do they chose other sectors more important for the foreign economy?

Since 2006 new agricultural sub-sectors for the foreign investors can be identified. Investments in food and meat production as well as in Biofuel production increase highly. The chosen agricultural sub-sectors are very export orientated leading to the assumption that investors in Ethiopia invest for other reasons market-seeking. Through analyzing the development of the export flows of these sectors between 2000 and 2007 it may be possible to identify specific reasons why FDI flows into these sectors have increased (increase of number of investing firms and their average investment sum).

4.5 Regional Distribution of FDI Projects

Figure 4.4: Total capital inflows via FDI to Ethiopia by Region



While we see the regional distribution of FDI inflows in Ethiopia, the majority share is taken by Oromia, Addis Ababa and Amhara. Depending on the transportability and especially on the dependency of the climate the regions of production (destination of FDI) are chosen independent from the foreign investor. Obviously floriculture can be found mainly in Oromia. From its climatic conditions, Oromia appears to be excellent for floriculture production. The climatic conditions in Oromia are warm-temperate with an average temperature of 16 °C. Oromia lies at a height between 1600 m and 2400 m. All investors engaged in floriculture have placed production plants in Oromia. The same appears for vegetable production which is also mainly seated in Oromia.

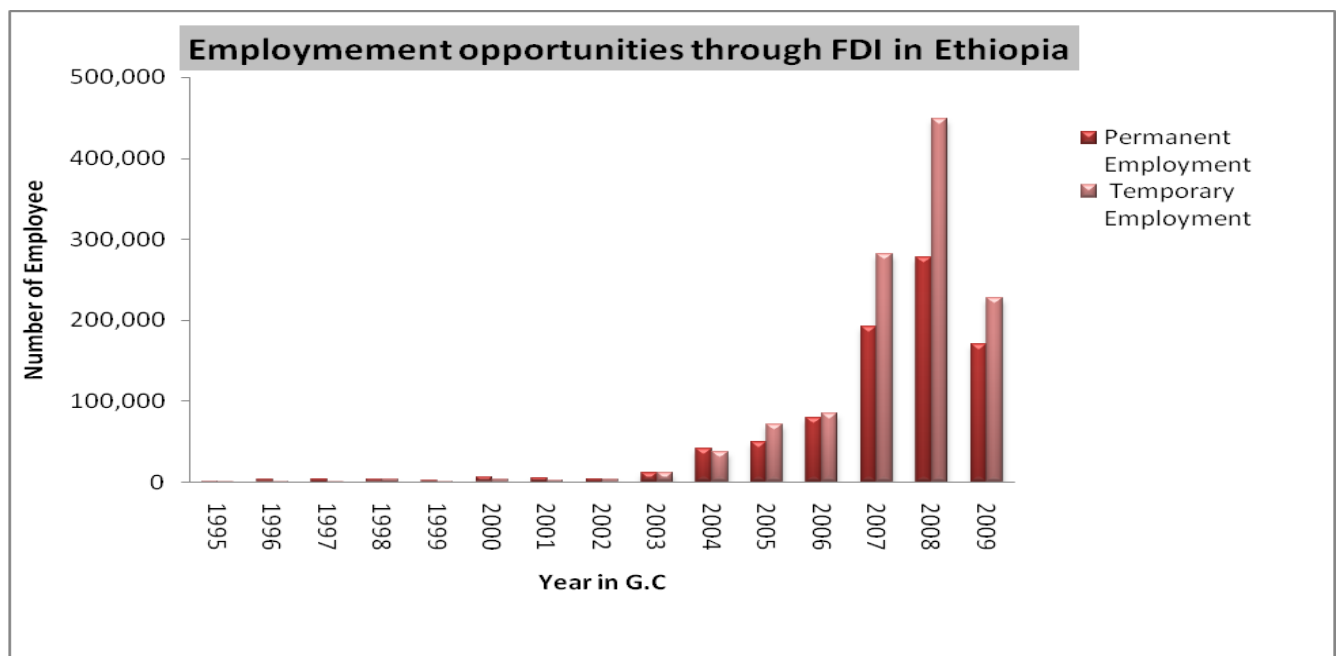
Meat and food production as well as Biofuel production is not that dependent on the climatic conditions. Therefore, the investors are not that much restricted to a certain region. The result is that production of these sectors appears in more different regions. As the focus on specific sectors has slightly changed from 2000 to 2008, more regions receive investment flows now. Up to 2005 it was mainly Oromia. But after 2005 also Amhara, SNNPR, Tigray and on a multiregional base other regions receive also FDI flows.

Summarizing, this section one can say that through the analysis of the database generated by the Federal Investment Bureau of Ethiopia it becomes apparent that trends in FDI inflows have changed after 2005. Different sectors then before 2005 have become more important for the foreign investors with all of the chosen sectors being very export-orientated. Also the regional distribution of FDI inflows as changed slightly derived from the shift in sub-sectors. Depending on the regarded sub-sector different reasons seem to appear for the increase in FDI inflows. Investors in the floriculture sector seek for more efficiency. In contrast, investors in the meat sector seem to try to secure their own domestic food supply such as Saudi Arabia.

These identified changes need further investigation especially against the background of the impact of FDI on rural development, poverty and food security in Ethiopia. The present study cannot answer these questions as further surveys would be necessary for these continuative questions.

4.6 Employment Opportunities through FDI Inflows in Ethiopia

Figure 4.5 Employment opportunity through FDI in Ethiopia



As shown in figure 4.5, parallel with increments in FDI inflows, the number of people employed in FDI projects reached 2,026,580 of which 852,323 are permanent employees while the remaining 1,174,589 are temporary employees. As Ethiopia is the poorest country with worst unemployment rate such a wider job opportunity has a positive effect in the growth of the

economy as well as human capital development. Employees learn the knowhow; acquire knowledge and skills in the field they are employed for.

FDI may contribute to economic growth directly by creating employment opportunities and indirectly through the creation of employment opportunities in other organizations. In the Ethiopian context FDI creates wider employment opportunities; for the majority of the recent FDI inflows are in the areas of Agriculture and the nature of the sector is capital intensive over 2,000,000 people have got employment opportunity in 2009.

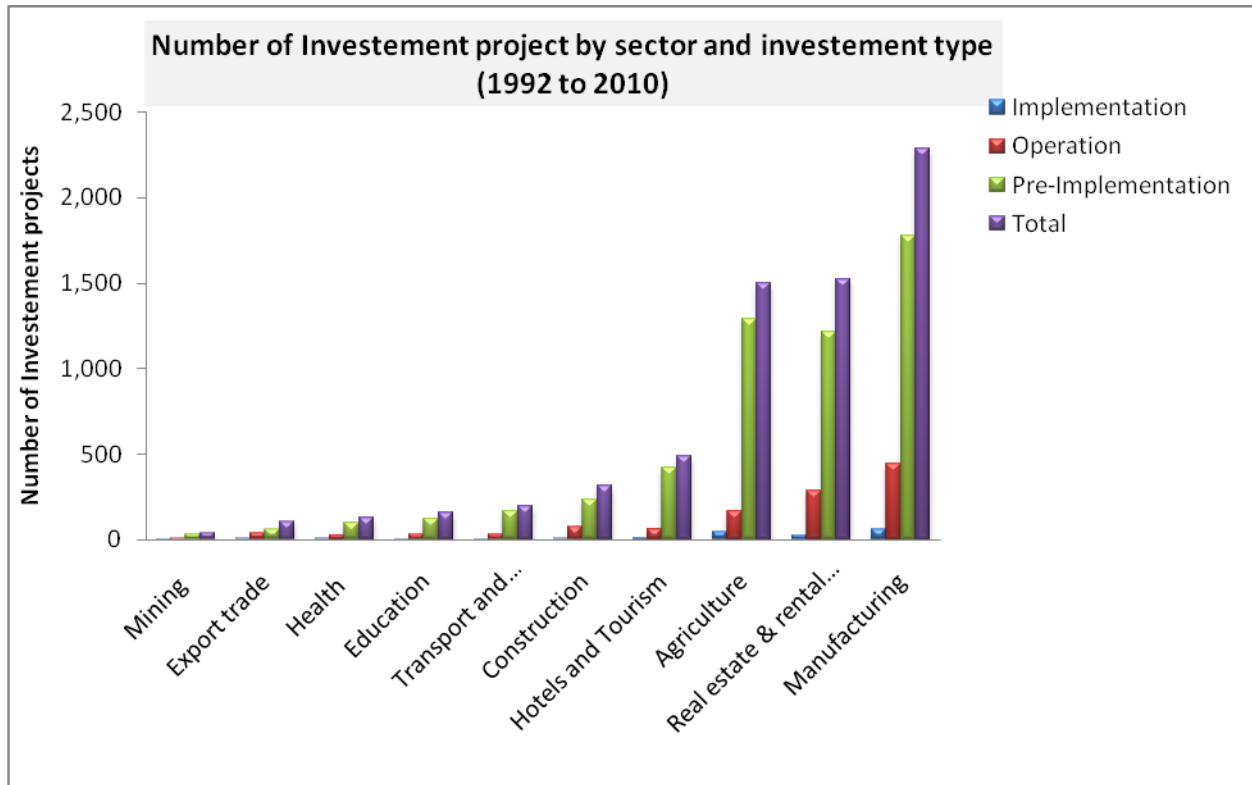
As per the interview conducted among 12 employees working in the FDI projects ” around Ziway Floriculture industry”, the majority of them(95%) replied that they are benefiting much; they were unemployed and idle for a long time on average for three years. Only 5% of the interviewees said the benefit and salary package of the company is not satisfactory. It is not considerable with the current inflation and cost of living, they said.

Only two respondents have raised the negative effects of FDI on the environment and the displacements associated with it. They said, there were deforestations of forests and displacements of more people due to the floriculture plantation in Sebeta. While they compared the comparative advantages of FDI, they all agreed that FDI is more advantageous than it's associated negative effects.

In summary, FDI inflows created a wider ranges of employment opportunities, has a significant positive contribution in the development of the country. On the other hand, it has negative repercussions on the ecology; and the drastic increment in the pre-implementation sector provokes the issue of “land grabbing”. Thus the government of Ethiopia shall review its policy towards addressing these issues and in creating more FDI-friendly environment.

4.7 Number of Licensed FDI Projects by sector and status

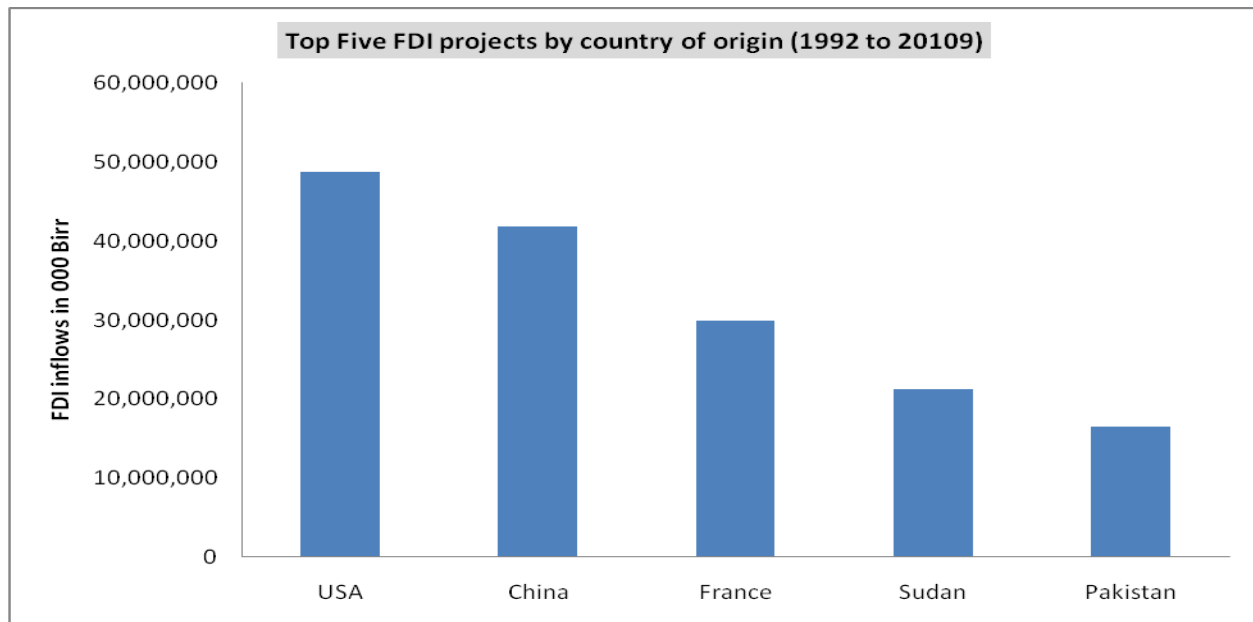
Figure 4.6 Number licensed FDI projects by sector and status



As can be seen from Figure 4.6, the majority of Foreign Direct investment (FDI) projects coming to Ethiopia are manufacturing followed by real estate, agriculture, Hotel and Tourism, Construction and Transport and communication. From the above figure it can also be stated the least number of foreign direct investment projects are Mining, Export and Trade, Health and Education sectors respectively.

4.8 Top Five FDI by country of Origin

Figure 4.7 Top five FDI by Country of origin



As depicted in Figure 4.7 United States of America (USA) has shown the highest amount of FDI investment in Ethiopia amounted around 48 billion ETB followed by, China (41 Bn ETB), France (29 Bn ETB) ,Sudan (21 Bn ETB) and Pakistan (16 Bn ETB) respectively.

4.9 FDI capital inflows VS GDP

Figure 4.8 FDI Capital inflows VS GDP

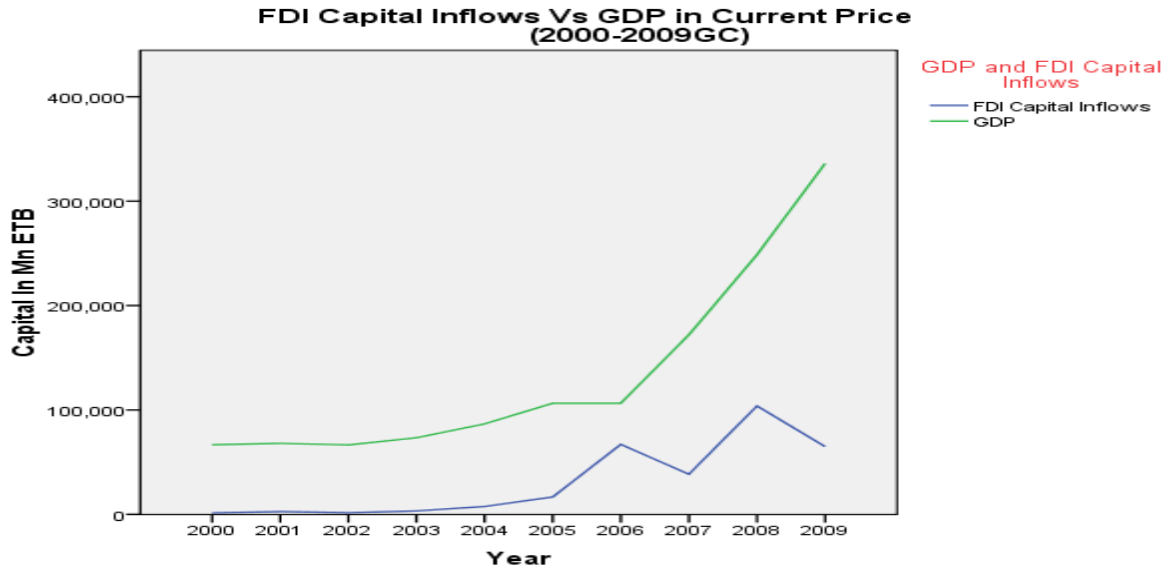


Figure 4.8 shows that, the positive correlations between GDP growths with that of FDI capital inflows. The Pearson's correlation test signifies 0.781(with pvalue of 0.008) assures the existence of positive association between these two variables. In addition with narrowing the persistent capital shortage of the country, FDI also improves the export status. Ethiopia can diversify its export to floriculture industry.

4.10 What are the major contributions of FDI

According to the data from the Ethiopian Investment Agency and KI from Ministry of finance and Economic development, Ethiopian investment agency and various beneficiaries the following are the major contributions that FDI brought to the country';

- Parallel to FDI inflows the employment generated by FDI inflows is raising ,the interviewed beneficiaries form various towns confirmed that they have got job opportunity ,and is supporting themselves and their families as a result of job created through FDI
- There is also a positive correlation between total capital inflows through FDI and GDP in the country (study revealed that the trend of FDI is increasing at a rate of 0.8 annually which is reflects the capital inflows is increasing from year to year.)

- FDI also brought technology and skill transfer in to country

4.11 What are the negative effect of FDI

According to Key Informants from MOFED, EIA and the beneficiaries the raised some negative consequences that FDI brought in Ethiopia;

- The study confirmed that FDI can brought a negative effect on the environment to the country, the KI around Sebeta confirmed that previously their surrounding was so conducive for living but after floriculture farm started work in their area the environment is so hot and is very difficult to live
 - There is much deforestation FDI brought about in the climate
 - The chemicals using in the floriculture industry has negative effect in the community (Skin problems) as well as in the surrounding
- The study also revealed that FDI affected the community by displacing them from their living area (many farmers have been displaced from their surrounding as a result of the flower farm started operation in the area).

4.12 What alternative measures should the Ethiopian Government take to attract more

According to response from the Key informants from MOFED and EIA, in order to benefit much from FDI Ethiopia should design various alternative measure to attract more FDI in to the country so as to properly benefit from FDI inflows some of which are;

- Although efforts have been embarked on through the government's Federal and Regional Investment Offices, more effort is needed by the government, bilateral aid agencies, multilateral agencies, development banks and, more importantly, the media to identify investment opportunities in the country and use it as a platform to create a positive image for Ethiopia and Africa at large as a good investment destination.
- Ethiopia can attract more FDI through learning from the experiences of other countries which are successful on FDI promotion and implementation, only for selected aspects that would fit its particular needs and requirements.
- Ethiopia should revise its policy framework so that those described negative effects should be minimized

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Summary of Findings

- The study revealed there is a significant development of FDI inflows since 2006 GC up until 2013 G.C.
- In all years pre implementation project are much higher in value followed by operation and finally implementation projects.
- Agricultural, Manufacturing and Real Estate sectors has showed the highest share of capital inflows via FDI. FDI inflows into the different agricultural sectors are of interest. Cereals, coffee, oilseeds, chat, meat and recently increasing cut flowers are the main agricultural sub-sectors of the Ethiopian economy when regarding the export value.
- The majority Foreign direct investment share is taken by Oromia , Addis Ababa and Amhara. Depending on the transportability and especially on the dependency of the climate the regions of production (destination of FDI) are chosen independent from the foreign investor. Obviously flori/horticulture can be found mainly in Oromia. From its climatic conditions, Oromia appears to be excellent for flori/horticulture production. The climatic conditions in Oromia are warm-temperate with an average temperature of 16 °C. Oromia lies at a height between 1600 m and 2400 m. All investors engaged in flori/horticulture have placed production plants in Oromia. The same appears for vegetable production which is also mainly seated in Oromia
- Parallel with increments in FDI inflows, the number of people employed in FDI projects is increasing from time to time.
- The findings showed that there is a positive correlation between GDP growths with that of FDI capital inflows.

5.2 Conclusions

- The study revealed that the trend of FDI is increasing at a rate of 0.8 annually which reflects the capital inflows is increasing from year to year.
- The FDI inflows have to be divided into two stages. The first one is between 2000 and 2005 and the second one is from 2006 onwards. Up to 2005 mainly investments were undertaken of the type “implementation” and “operation”, meaning that the production plants were rapidly in use. The main sector was the flori/horticulture sector seated mainly in Oromia. Even though investment in the sector creates several job opportunities in rural areas leading to a positive social development it might confront the local infrastructure with serious challenges - without sustainable water, waste and pesticide management the flori/horticulture sector the production leads to long time negative ecological effects.
- After 2005 “pre-implementation” investments are mainly undertaken with an increase of the total agricultural FDI inflows further a change in the main sectors of investment can be seen. From 2006 on, the main sectors next to the flori/horticultural sector are the meat and biofuel sector. Because of this, the regions of investment have also changed slightly as they are not so dependent on the climatic conditions anymore and these investments require much more land than the horticultural sector does. These land intensive investments might cause extreme negative effects on food security and poverty. How FDI inflows will in the short and long-term influence the development of Ethiopia’s economy as well as the ecological and social rural development and how sustainable this development will be, depends on the international policy framework, on the Ethiopian government and on the single investors. At the moment the regulations are very investor-friendly. Measures that would encourage sustainable development seem to have to arised from the investor himself. Without doubt, great investments in the agricultural sector are necessary for a sustainable development of the agricultural sector and to fight rural poverty and hunger. But a comprehensive policy framework is needed to harness foreign direct investment for a sustainable development especially for a positive social and ecological development.
- The study also revealed that there is a positive correlation between FDI inflows and that of GDP growth which directly signifies that the country should work hard to attract more FDI inflows.

5.3 Limitation of the study

Due to time and money constraints, it was found difficult to collect primary quantitative data so that real picture of the FDI is visualized, instead this study mainly used secondary quantitative data collected from Federal Investment agency of Ethiopia and Ministry of Finance and Economic Development of Ethiopia and only 12 key informants (one from Ethiopian Investment Agency, one from Ministry of Finance and Economic Development and the remaining 10 from various beneficiaries around Ziway area).

The other limitation of this study is it is really difficult to measure the impact of FDI because it requires many years to analyze the impact and it also requires detail examining the economic status of individuals.

5.4 Recommendations

Based on the findings of this study, the following recommendations are made;

Generating investment is central to the development, expansion and profitability of an economy. In particular, FDI is a major driver of private-sector growth Jauch (2002:4)

Ethiopia is keen on attracting FDI in order to overcome scarcities of resources such as capital, entrepreneurship, access to foreign markets, efficient managerial techniques, technology transfers, innovation, employment creation and ultimately economic growth. However, as a result of the level of demand for it in Africa, higher prices in the form of innovative strategies have to be paid in order to attract such investment in Ethiopia. Some strategies to attract FDI and to be benefited more from it, include:

- Policies for the promotion of FDI are unlikely to succeed if they are not included as part of the broader economic development and policy reform framework. As FDI can only thrive in a market economic context, market economic reforms need to be accelerated and sustained in the country, and these principles should, as much as possible, be aligned with the world's best practice. Their success depends on strong political will and commitment. The country has as much as possible maintained macroeconomic stability, in particular in interest rates, inflation and consequentially exchange rates, while generally accepted market economic

principles of accounting and auditing has been established and to a larger extent been made legally binding for all profit-oriented enterprises.

- Ethiopia has undertaken wider-range reforms over the past few years. After 1992, there has been a significant yet steady reformation of the economic and political systems. There is no question that Africa suffers from lack of visibility in industrialized countries, to be at the forefront of FDI attraction, these are issues that need the swift attention of the government of Ethiopia without compromising the independence of the media. Much has been sacrificed to achieve macroeconomic stability and a positive growth rate, and these sacrifices must not go unnoticed. Although efforts have been embarked on through the government's Federal and Regional Investment Offices, more effort is needed by the government, bilateral aid agencies, multilateral agencies, development banks and, more importantly, the media to identify investment opportunities in the country and use it as a platform to create a positive image for Ethiopia and Africa at large as a good investment destination.
- The objective of investment attraction must be seen as a national objective and not only the objective of the Ethiopian government on its own. Where government comes together with organized business, labour and community groupings on a national level to discuss and aim to reach consensus on issues of social and economic policy towards FDI, that enables to set key objectives and to develop a working social accord between business, labour and government outside the institutional framework, i.e. one that establishes both a socially acceptable and investor-friendly
- Other mediums through which Ethiopia can attract more FDI is through learning from the experiences of other countries on FDI promotion and implementation as well as consistent success of investment projects. This does not mean that Ethiopia should strive for full replication of the policies of successful countries, but only for selected aspects that would fit its particular needs and requirements. For instance, the costs and benefits of the selected aspects should be carefully evaluated. The issues of Land grabbing and ecological problems should be treated in a more systematic manner by learning from the experiences of other countries.

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APPENDICES

Appendix: 1 Key Informant Interview Guide

1. Introductions

Thanks for meeting with me today...

The reason I am conducting these interviews is to understand the positive and negative consequences of Foreign Direct investment in Ethiopia and the trends in Ethiopia.

Before we begin, I want to make sure that you understand what this study involves.

- The interview will last about an hour and it will not be audio recorded. You don't need to answer any question and you can stop the interview at any time.
- I will be using the information from the interview to help me better understand the impact and consequences of FDI in Ethiopia.
- Information from this interview will remain confidential.

2. Warm-up

Tell me a little about yourself and about what you are doing.

I know there are a lot of different experiences, beliefs, and attitudes among the community about Foreign direct investment can you tell me some?

3. Favorable conditions for FDI

What are the favorable conditions that attract foreign investors to invest in Ethiopia?

4. Contribution of FDI

What are the major contributions of FDI's brought on GDP, Employment, and Export etc?

5. Negative effects of FDI

What are the untended negative effects of FDI inflows?

- #### **6. What alternative measures can be instituted to attract more FDI to Ethiopia and to enhance the countries comparative advantage?**

7. Attitudes towards FDI

What are the attitudes of the peoples toward the FDI

Appendix 2: Summery FDI Investment Projects by Year of Investment & Status Since 1992 - December 31,2009 G.C

Year	Implementation			Operation			Pre-Implementation			Total		
	Capita in '000' Birr	Perm Empl	Temp Empl	Capita in '000' Birr	Perm Empl	Temp Empl	Capita in '000' Birr	Perm Empl	Temp Empl	Capita in '000' Birr	Perm Empl	Temp Empl
1992				153,876	693	0				153,876	693	0
1993				87,658	1,099	0				87,658	1,099	0
1994				315,379	2,356	0				315,379	2,356	0
1995	93,749	217	0	73,412	128	300	300	20	0	167,461	365	300
1996	46,017	551	0	508,647	2,321	34				554,664	2,872	34
1997	1,970,184	883	30	656,725	2,544	270	19,295	112	0	2,646,204	3,539	300
1998	221,302	733	0	635,245	2,118	3,516	174,069	569	0	1,030,615	3,420	3,516
1999	89,725	440	7	551,147	1,367	162	42,924	151	6	683,795	1,958	175
2000	541,869	714	0	744,992	4,497	2,278	225,698	842	500	1,512,558	6,053	2,778
2001	133,250	580	125	1,844,889	4,065	1,849	701,304	330	106	2,679,443	4,975	2,080
2002	252,061	444	0	421,436	2,040	2,807	959,342	1,077	5	1,632,839	3,561	2,812
2003	1,009,557	2,597	2,626	1,286,300	6,474	3,477	1,058,476	2,628	5,408	3,354,334	11,699	11,511
2004	1,211,893	3,796	4,181	3,149,273	10,115	19,907	3,175,789	27,021	13,225	7,536,956	40,932	37,313
2005	1,177,465	3,318	2,582	1,498,217	7,135	11,693	13,591,708	38,569	57,033	16,267,390	49,022	71,308
2006	2,528,444	1,560	4,029	1,245,158	12,545	7,368	63,270,194	65,020	73,719	67,043,796	79,125	85,116
2007	323,820	448	382	3,109,768	11,504	25,819	35,007,728	180,410	254,774	38,441,315	192,362	280,975
2008	473,350	585	55	2,418,461	13,079	16,347	100,940,287	264,357	432,530	103,832,098	278,021	448,932
2009	19,389	75	15	660,630	3,087	4,368	64,383,045	167,138	222,697	65,063,064	170,300	227,080
Grand Total	10,092,074	16,941	14,032	19,361,213	87,167	100,195	283,550,158	748,244	1,060,003	313,003,445	852,352	1,174,230

Appendix 3: Summery of FDI Projects by Sector & Status Since 1992 - January 5,2013 G.C

Sector	Implementation				Operation				Pre-Implementation				Total			
	No of Projects	Capital in '000' Birr	Perm Empl.	Temp Empl.	No of Projects	Capital in '000' Birr	Perm Empl.	Temp Empl.	No of Projects	Capital in '000' Birr	Perm Empl.	Temp Empl.	No of Projects	Capital in '000' Birr	Perm Empl.	Temp Empl.
Agriculture	45	1,979,979	5,695	7,320	166	4,856,057	22,928	51,699	1,291	85,700,568	407,450	747,400	1,502	92,536,604	436,073	806,419
Construction	6	111,400	425	377	73	2,626,742	12,015	16,705	236	7,687,230	19,474	34,872	315	10,425,373	31,914	51,954
Education	3	105,950	286	35	33	354,175	2,058	668	124	996,041	4,311	3,992	160	1,456,166	6,655	4,695
Health	6	1,056,608	2,788	160	27	148,778	1,190	156	99	4,688,361	8,102	3,235	132	5,893,747	12,080	3,551
Hotels and Tourism	10	89,182	463	390	62	382,370	1,980	684	419	14,977,860	16,719	15,574	491	15,449,412	19,162	16,648
Manufacturing	61	4,031,504	4,991	5,025	442	8,449,593	37,881	18,196	1,780	137,400,964	219,995	173,048	2,283	149,882,061	262,867	196,269
Mining and quarrying	1	15,754	300	0	7	136,953	362	90	32	1,454,564	1,229	2,468	40	1,607,271	1,891	2,558
Others	1	15,754	300	0	11	206,168	546	242	53	2,017,733	1,909	5,136	65	2,239,655	2,755	5,378
Real estate & rental activities	24	2,457,206	1,421	450	284	1,908,437	7,161	6,760	1,212	29,188,150	67,342	76,344	1,520	33,553,793	75,924	83,554
Transport and communication	1	900	5	0	29	50,513	521	254	170	643,874	2,377	1,772	200	695,287	2,903	2,026
Export trade	6	222,850	477	255	36	389,932	1,061	4,833	61	699,934	1,805	566	103	1,312,716	3,343	5,654
Grand Total	163	10,071,335	16,851	14,012	1,163	19,372,763	87,341	100,197	5,445	284,000,715	749,484	1,061,939	6,771	313,444,813	853,676	1,176,148

Annex 4: Percentage Distribution of GDP by Economic Activity at Current Prices (%)

Industry/Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Agriculture, Hunting and Forestry	49.8	47.6	43.5	41.9	44.1	46.6	47.9	47.4	50.5	50.7	46.7	46.3
Crop	28.4	25.9	21.3	21.9	24.9	27.9	29.0	30.3	34.5	35.3	30.8	30.3
Animal Farming and Hunting	16.0	15.8	15.8	14.1	13.5	13.8	14.3	13.0	11.9	11.8	12.4	13
Forestry	5.4	6.0	6.4	5.9	5.7	5.0	4.5	4.1	4.0	3.6	3.5	3.1
Fishing	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.1	0.0
Mining and Quarrying	0.5	0.6	0.6	0.7	0.6	0.6	0.6	0.4	0.4	0.4	0.7	1.7
Manufacturing	5.5	5.7	5.7	5.7	5.3	4.8	4.5	4.5	4.0	3.7	3.9	3.6
Large and Medium Scale Manufacturing	3.7	3.8	3.6	3.8	3.6	3.1	3.0	3.1	2.8	2.5	2.6	2.3
Small Scale and Cottage Industries	1.9	2.0	2.1	1.9	1.7	1.7	1.5	1.4	1.2	1.3	1.3	1.3
Electricity and Water	2.1	2.2	2.4	2.3	2.3	2.0	1.9	2.0	1.5	1.2	1.3	1.1
Construction	4.2	4.5	5.2	5.4	5.8	5.6	5.7	5.8	5.2	5.1	4.5	4.2
Whole Sale and Retail Trade	11.9	11.8	11.5	12.4	12.2	11.9	12.6	13.2	13.1	14.7	14.7	13.8
Hotels and Restaurants	2.1	2.2	2.4	2.4	2.3	2.1	2.3	2.7	2.8	3.2	4.1	4.5
Transport and Communications	4.7	5.6	6.0	6.1	6.3	7.0	5.6	5.0	4.0	4.0	4.5	5.2
Financial Intermediation	1.8	1.9	1.4	1.7	1.7	1.7	1.8	1.7	1.6	1.8	1.7	1.8
Real Estate, Renting and Business Activities	6.3	7.1	9.3	9.4	8.5	7.6	7.5	8.4	8.6	7.7	10.2	10.7
Public Administration and Defense	6.6	6.1	6.3	6.0	5.2	4.8	4.5	4.0	3.6	3.3	3.4	3.3
Education	2.3	2.6	3.1	3.6	3.3	3.0	3.1	3.0	2.8	2.3	2.5	2.1
Health and Social Work	0.9	1.0	1.1	1.0	1.0	1.0	0.9	0.8	0.7	0.7	0.7	0.7
Other Community , Social & Personal Services	1.8	1.8	1.8	1.9	1.9	1.7	1.7	1.7	1.6	1.7	1.7	1.6
Private Households with Employed Persons	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Total	101.0	100.9	100.6	100.7	100.8	100.7	100.8	100.8	100.7	100.8	100.8	100.8
Less : FISIM	1.0	0.9	0.6	0.7	0.8	0.7	0.8	0.8	0.7	0.8	0.8	0.8
Gross Value Added at Current Basic Prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Taxes on Products	7.0	7.9	7.7	7.7	9.4	8.6	8.0	7.6	7.2	6.1	8	7.7
GDP at Current Market Prices	107.0	107.9	107.7	107.7	109.4	108.6	108.0	107.6	107.2	106.1	108.0	107.7