



UNIVERSITI PUTRA MALAYSIA

**DETERMINANTS OF FOREIGN DIRECT INVESTMENT AND ITS IMPACT
ON ECONOMIC DEVELOPMENT IN SOUTHERN AFRICA CUSTOMS
UNION COUNTRIES**

NAJAT NASSOR SULEIMAN

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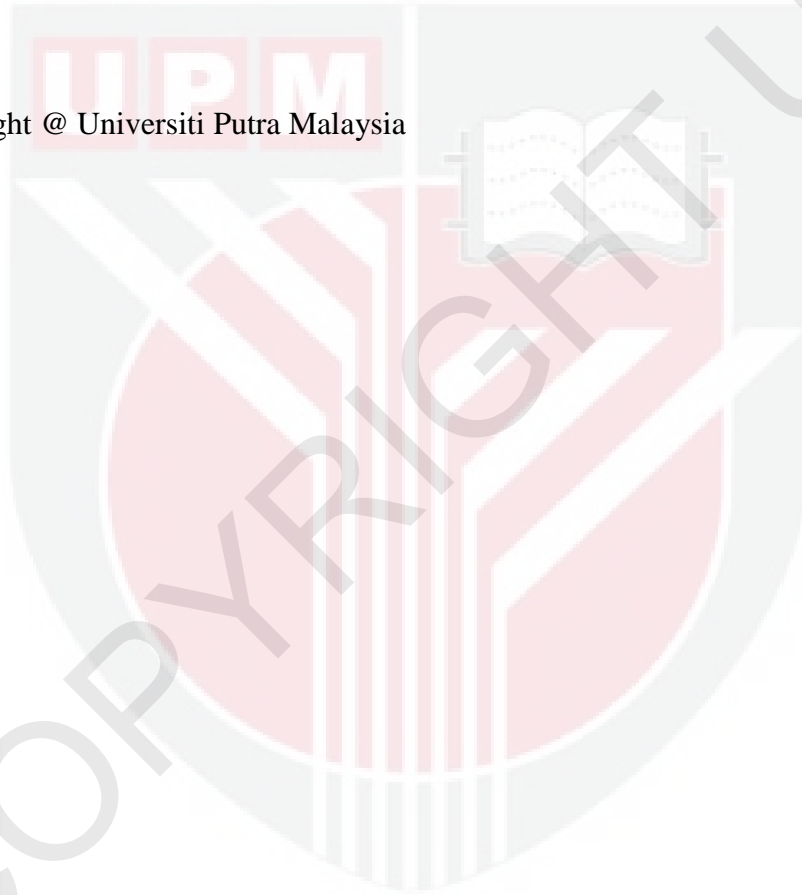
**Thesis submitted to the School of Graduate Studies, Universiti Putra Malaysia,
in the fulfillment of the requirements for the Degree of Master of Science**

May 2013

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DEDICATION

SPECIAL DEDICATION TO MY BELOVED PARENTS

NASSOR SULIEMAN HEMED AND SHEMSIA KHAMIS ABDALLAH



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of
the requirement for the degree of Master Science

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NAJAT NASSOR SULEIMAN

May 2013

Chairperson: Shivee Ranjane a/p Kaliappan, PhD

Faculty: Economics and Management

Foreign direct investment (FDI) has been widely acknowledged as a crucial factor for the economic growth and development of many countries. Scholars and policymakers believe that FDI can stimulate a country's economic development. Since most African countries face shortages in their domestic savings, such countries depend largely on FDI to fill the saving gap by allowing investments for various development projects. The spillover effects of FDI in the form of technology transfer and increase in the efficiency of domestic production lead to higher production and creation of more employment. Hence, FDI inflow and its impact on economic development has become an important issue to many developing nations. However, there are very few studies pertaining to the African countries or to the economic block to which they belong. Therefore, the study intends to fill the gap by examining the determinants of FDI inflow and its impact on

South African Customs Union (SACU) countries' economic development. SACU consists of five countries namely: Botswana, Lesotho, Swaziland, Namibia and South Africa.

To achieve the objectives of this study, Dynamic Ordinary Least Square (DOLS) estimations were used on data covering the period from 1990 to 2010 for the FDI model and 1980 to 2010 for the growth model. The findings reveals that natural resources (LNAT), trade openness (LTRD), gross capital formation (LGCF) and infrastructure (LINFR) are positive and significant determinants of FDI for the SACU countries.

The results show that a one percent increase in natural resource (LNAT), trade openness (LTRD), gross capital formation (LGCF) and infrastructure (LINFR) resulted in approximately 1.396%, 0.939%, 0.565% and 1.673% increase, respectively, in FDI inflow in SACU countries. On the other hand, economic stability is significantly but negatively related to FDI inflow into SACU countries. In addition, labor costs and market size (LMARK) are found to be an insignificant determinant of FDI inflow to SACU countries. Thus, it can be concluded that the availability of natural resources, trade openness, gross capital formation, good infrastructure and economic stability are significant factors in stimulating the FDI inflow into SACU countries.

With regard to the second model, there is a satisfactory evidence to show that there is a positive impact of FDI on the economic development of the SACU countries. A one percent increase in FDI will lead to an increase in economic growth by 0.0846 percent. This result suggests that FDI exerts significant impact on the economic development of the SACU countries. Moreover, the inflow of foreign capital into SACU countries is

largely resource-seeking FDI as some of the SACU countries are endowed with natural resources such as oil and minerals. Therefore, the government or policy makers should introduce more incentives and policy reforms to attract more FDI into SACU countries, especially those related to the management of natural resources. In addition, more trade agreements should be undertaken by developed nations to enhance FDI inflow which can eventually promote greater economic development of the recipient SACU countries.



Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai
memenuhi keperluan untuk Ijazah Master Sains

**FAKTOR-FAKTOR YANG MENPENGARUHI PELABURAN LANGSUNG ASING
DAN KESANNYA KE ATAS PERTUMBUHAN EKONOMI DI NEGARA-NEGARA
KESATUAN KASTAM AFRIKA SELATAN**

Oleh

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Pengerusi: Shivee Ranjane Kaliappan, PhD

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Pelaburan langsung asing (FDI) telah diakui umum sebagai faktor penting bagi pertumbuhan ekonomi dan pembangunan di kebanyakan negara. Cendekiawan dan pembuat dasar percaya bahawa FDI dapat merangsang pembangunan ekonomi sesebuah negara. Memandangkan kebanyakan negara Afrika menghadapi masalah kekurangan simpanan domestik, negara-negara ini banyak bergantung kepada FDI untuk mengisi jurang simpanan ini dengan membenarkan pelaburan dalam pelbagai projek pembangunan. Kesan limpahan dari FDI, iaitu dari segi pemindahan teknologi dan peningkatan kecekapan pengeluaran domestik telah membawa kepada peningkatan pengeluaran dan peluang pekerjaan. Oleh sebab itu, aliran masuk FDI dan kesannya ke atas pertumbuhan ekonomi merupakan isu penting bagi negara-negara membangun. Walau bagaimanapun, terdapat amat sedikit kajian yang telah dilakukan sama ada

terhadap negara-negara Afrika mahupun terhadap blok ekonomi mereka. Maka, kajian ini yang bertujuan untuk mengisi jurang tersebut dijalankan melalui penelitian terhadap determinan aliran masuk FDI dan kesannya ke atas pertumbuhan ekonomi negara Kesatuan Kastam Afrika Selatan (SACU). Kesatuan ini (SACU) terdiri daripada lima negara ,iaitu Botswana, Lesotho, Swaziland, Namibia dan Afrika Selatan. Bagi mencapai objektif kajian ini, kaedah Anggaran Kuasa Dua Terkecil Lazim Dinamik (DOLS) telah digunakan ke atas data bagi tempoh tahun 1990-2010 untuk model FDI dan tahun 1980-2010 untuk model pertumbuhan. Dapatan kajian menunjukkan bahawa sumber asli (LNAT), keterbukaan perdagangan (LTRD) ,pembentukan modal tetap (LGCF), dan infrastruktur (LINFR) merupakan determinan positif dan signifikan bagi FDI negara-negara SACU. Keputusan juga menunjukkan bahawa satu peratus peningkatan dalam sumber asli (LNAT), keterbukaan perdagangan(LTRD),pembentukan modal tetap (LGCF) , dan infrastruktur ,masing-masing mengakibatkan peningkatan kira-kira 1.396%, 0.939% , 0.565% ,dan 1.673% dalam aliran masuk FDI bagi negara-negara SACU.Sebaliknya, kestabilan ekonomi adalah signifikan dan tidak mempengaruhi aliran masuk FDI ke negara-negara SACU. Di samping itu,kajian ini mendapati bahawa kos buruh dan saiz pasaran (LMARK) merupakan determinan yang tidak signifikan bagi aliran masuk FDI bagi negara-negara SACU.Oleh itu , dapatlah disimpulkan bahawa kebolehsediaan sumber asli , keterbukaan perdagangan, pembentukan modal tetap , infrastruktur yang baik dan kestabilan ekonomi merupakan faktor penting bagi merangsang aliran masuk FDI ke negara-negara SACU.

Untuk model kedua, terdapat cukup bukti yang menunjukkan bahawa wujudnya kesan positif FDI ke atas pertumbuhan ekonomi di negara-negara SACU. Peningkatan satu peratus FDI menyebabkan peningkatan 0.0846 % ke atas pertumbuhan ekonomi . Keputusan ini menunjukkan bahawa aliran masuk modal FDI ke negara-negara SACU merupakan pencarian sumber FDI, disebabkan sesetengah negara SACU dianugerahkan dengan sumber asli , seperti minyak dan mineral..Oleh sebab itu, kerajaan atau pembuat dasar perlu memperkenalkan lebih banyak insentif dan reformasi dasar bagi menggalakkan lebih banyak FDI masuk ke dalam negara-negara SACU , terutama bagi negara-negara yang berkaitan dengan pengurusan sumber asli. Tambahan lagi, lebih banyak perjanjian perdagangan perlu diusahakan oleh negara-negara maju bagi merangsang aliran masuk FDI yang akhirnya akan menggalakkan peningkatan pertumbuhan ekonomi yang lebih tinggi bagi negara-negara tersebut.

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I certify that a thesis examination committee has met on 8 May 2013 to conduct the final examination of Najat Nassor Suleiman on her Master of Science thesis entitled “Determinants of Foreign Direct Investment and its Impact on Economic Development in Southern Africa Customs Union Countries” in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia (P.U. (A) 106) 15 March 1998. The committee recommends that the student be awarded the degree of Master of Science.

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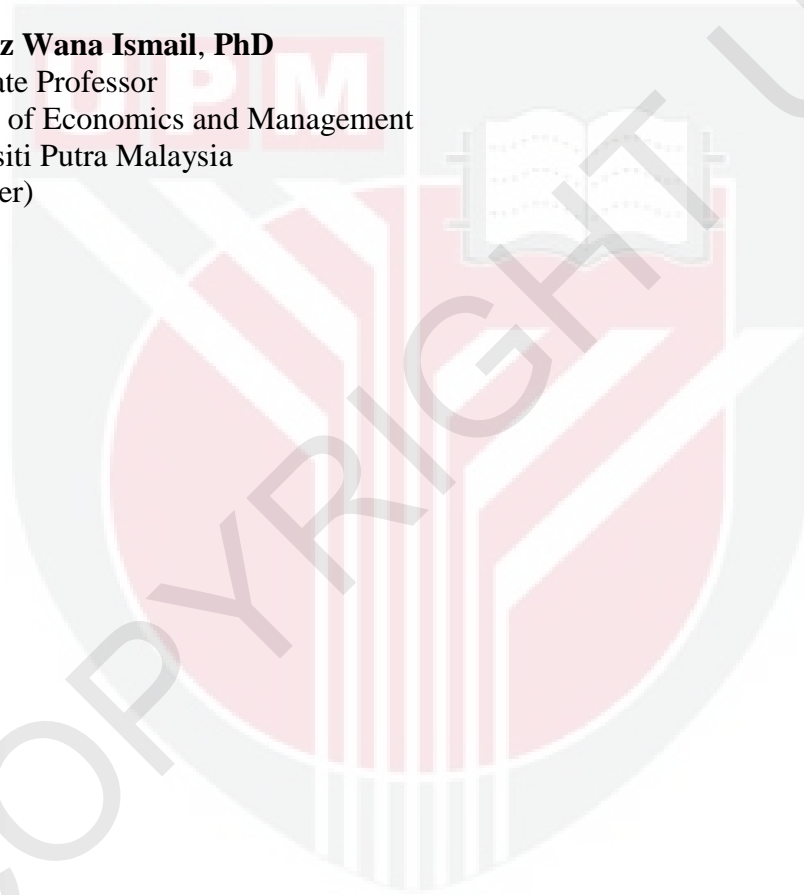
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DECLARATION

I declare that the thesis is my original work except for quotations and citations which have been duly acknowledged. I also declare that this thesis has not been previously, and is not concurrently, submitted for any other degree at Universiti Putra Malaysia or at any other institution.





NAJAT NASSOR SULEIMAN

Date: 8 May 2013

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