Political Turbulence and its Impact on Foreign Direct Investment Inflows in some selected African countries

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ABSTRACT: This work examined the political turbulence and its impact on Foreign Direct Investment inflow on some selected African countries; Nigeria, Ghana, Kenya and South Africa. The aim is to determine how the political climate in Nigeria, Ghana, Kenya and South Africa affects the inflow of foreign direct investment. The modified Cobb Douglass model was the theoretical underpinning of the study since growth in FDI is likened to output and the factors that lead to growth are the investment climate variables. Using the panel ARDL model analysis, the following findings were made: Political investment climate variable (PSI) had significant positive effect on the inflow of foreign direct investment in Nigeria, Ghana, Kenya and South Africa. The result showed that Political investment climate variables (political stability and corruption index) exerted significant negative effects on the inflow of foreign direct investment into Nigeria, Ghana, Kenya and South Africa. It was recommended that; Efforts should be made by the governments of Nigeria, Ghana, Kenya and South Africa to enhance their economic fortunes by strengthening their economy through prioritizing political stability and addressing underlying causes of political unrest, corruption, weak institution and political social inequality. As well as engaging in massive production for exports which will boost economic growth and attract more foreign direct investment.

KEY WORDS: Political Turbulence, Investment Climate, Foreign Direct Investment, Nigeria, Ghana, Kenya and South Africa, Cobb Douglass.

1. INTRODUCTION

Political turbulence refers to instability in a country's political environment, often characterized by unforeseen changes in the country's governance, policies and leadership styles. These can emanate from corrupt politicians, terrorism, civil unrest, segregation and many others. Political turbulence is one of the major factors that decides economic performance and has much to say about how Foreign Direct Investment will be attracted to these countries. According to Qokweni (2021), nations with greater FDI have more developed infrastructure, better business environments, and fewer levels of corruption. Nigeria has made several economic reforms over the years to increase its attractiveness as a location for investment and enterprise. Among the initiatives taken to liberalize the economy and draw in foreign investment are the National Economic Empowerment and Development Strategy (NEEDS), the Vision 20-2020, the 7-point Agenda, and the Millennium Development Goals (MDG). To increase its appeal as an investment location, Nigeria has established a variety of committees and organizations. The Nigerian Investment Promotion Commission (NIPC) has been in the forefront of the country's attempts to attract foreign investment. According to the World Bank's 2022 risk assessment, Ghana is the thirteenth-safest investment location in the area overall. Foreign direct investment (FDI) into Southern and West Africa Region with extraordinary mineral or oil and gas resources continued in 2020 and 2021, but at a slower rate than investment in services and manufacturing.

According to Paul (2021), foreign direct investment (FDI) into Nigeria, Ghana, Kenya, and South Africa has been significantly impacted by the current downturn in the resources cycle. African nations that have successfully diversified their economies into other industries, such manufacturing and services, are expected to see faster growth in GDP and foreign direct investment (FDI) while the short- to medium-term recession continues. Countries that improve their business climate are expected to be at the forefront of these possibly developing industries as Africa competes with the rest of the globe in the industrial and service sectors. Nigeria,

Ghana, Kenya, and South Africa all saw considerable improvements in the Ease of Doing Business Survey between 2020 and 2021, despite their continued poverty by global standards.

Over the past ten years, there have been booms and busts in the investment climates of South Africa, Ghana, Nigeria, and Kenya. Many people think that these areas have some of the finest political, economic, and environmental investment opportunities in the world. Based on past performance, investing in Nigeria, Ghana, Kenya, and South Africa could not be profitable. Nigeria placed 170th out of 190 economies in the World Bank's measure of business ease of operation in 2015, 169th in 2016, and 131st in 2021.In terms of commercial power, Nigeria was ranked 37th out of 48 African nations by the World Bank in 2021. Nigeria ranked 136th out of 167 countries in Transparency International's Corruption Perception Index (CPI) for 2021, with a score of 26%.

However, understanding the relationship between political turbulence and FDI is paramount for evaluating how these countries can create more favorable environment to attract sustained foreign investment in Nigeria, Ghana, Kenya and South Africa. Many studies have focused on the investment climate and economic growth of individual countries, such as those by Yeboah and Anning (2020), Owusu-Antwi et al. (2018), Ogu et al. (2021), Offiong and Atsu (2019), Maduku and Zerihun (2021), and Ocharo et al. (2018). These studies either focus on a single nation or make only limited use of time series analysis, so they did not make use of the results of a cross-sectional econometric survey like the one used here. Therefore, thorough empirical research into the usage and acceptance of cross-sectional data in studying the political turbulence and its impact on FDI inflows to Nigeria, Ghana, Kenya and South Africa is indispensably paramount.

A great deal of theoretical and empirical research has focused on the political investment climate, which is crucial for understanding the pace of physical capital accumulation, the growth of productive capital, and the economic growth of countries like South Africa, Ghana, Kenya, and Nigeria. Therefore, it is evident that Nigeria, Ghana, Kenya, and South Africa have a long way to go before they achieve their developmental objectives, which include informing prospective domestic and foreign investors about the region's investment climate. The necessity to address the lack of a thorough road plan, which depends on research of this magnitude, is what motivates this project.

The analysis will be guided by the research inquiries below: What are the effects of the Political Climate on Inflow of Foreign Direct Investment in Nigeria, Ghana, Kenya and South Africa. The focus of this study is on how the political environment in Nigeria, Ghana, Kenya and South Africa influences foreign direct investment. The specific goal is as follows: To evaluate critically the Impact of Political Climate on Inflow of Foreign Direct Investment in Nigeria, Ghana, Kenya and South Africa. We hypothesize that the following will help us accomplish the outlined objective and answer the research questions: $H0_1$: Political Climate has no significant effect on the inflow of foreign direct investment into Nigeria, Ghana, Kenya and South Africa.

2. REVIEW OF RELATED LITERATURE

Conceptual Literature

The World Bank (2016) defines Foreign Direct Investment (FDI) as any investment made to purchase a controlling interest (10% of voting shares) in a company that has its headquarters in a different country than the investor. This includes both greenfield (often referred to as "brick and mortar") and merger and acquisition (M&A) deals, which involve buying out an existing company.

"Foreign direct investment" (FDI) is the term used to describe capital that is transferred from a parent firm to a subsidiary, whether via merger, acquisition, fresh investment, or loan reinvestment of earnings. In FDI projects, countries might take on the role of either the host or the guest. Projects owned by foreign investors comprise a country's inbound FDI position, whereas projects hosted by foreign investors comprise its outward FDI position (World Bank, 2016). In the present globalization movement, foreign direct investment (FDI) has been strongly promoted, especially by transnational corporations (TNCs).

The objective of foreign direct investment is for an organization based in one nation (the direct investor) to purchase a majority stake in a business based in another economy (the direct investment enterprise), according to the International Monetary Fund (2018) and the Organization for Economic Cooperation and Development (2018). A long-term partnership and strong influence over the operation of the direct investment firm are suggested by the direct investor's significant financial interest in the enterprise's success. FDI is defined by Rao and Dhar (2017) as "investment from a foreign country into another country, typically by a company rather than a government." FDI can take the form of establishing a business, purchasing real estate, or acquiring a part in an existing firm. Control of a company or organization is gained when its assets are situated in another nation. The control component distinguishes FDI from Foreign Portfolio Investment (FPI), which is the purchase of assets issued by one nation by inhabitants of another.

Although the 10% threshold of voting shares is commonly acknowledged, control in publicly listed firms can often be exerted with a far smaller block of shares. Furthermore, control over crucial inputs, management, and technology can all result in de facto dominance. In addition to the transfer of ownership, foreign direct investment (FDI) generally implies the transmission of complementing components to capital, such as management, technology, and organizational skills. From a strategic standpoint, there are three basic forms of FDI, according to Achugamonu, Okoye, and Agwu (2017):

(i) Horizontal: when a company's operations abroad are similar to those at home (like Toyota's automobile assembly plants in Japan and the UK).

(ii) Vertical: when additional phases of an activity take place in a different country. When a company like Toyota invests in a car distributorship in the United States, they are engaging in what is called forward vertical FDI. When Toyota invests in a tyre manufacturer or a rubber plantation, they are engaging in what is called backward vertical FDI, which brings international integration closer to raw materials.

Political Climate in Nigeria, Ghana, South Africa and Kenya

"Economic, financial, and socio-political conditions that affect the willingness of individuals, banks, and institutions to lend to and acquire a stake in the businesses operating there" Economists use Hayes (2022) to define an investment climate in a country or area. The European Bank for Reconstruction and Development (EBRD, 2021) defines the investment environment as a confluence of factors that impact the probability of both domestic and foreign investment in a particular region. The economic, environmental, financial, and sociopolitical factors that influence an individual's or corporate entity's decision to conduct business in a particular nation or region are collectively referred to as the "investment climate" (Wulandari, 2020)

South Africa:

In the World Bank's 2021 Rankings & Ease of Doing Business Score, South Africa is placed #82 out of 190 countries, despite having a strong economy. It does badly when it comes to getting a construction permit (96), getting electricity (109), and forming a business (134). The World Economic Forum's Global Competitiveness 2019 Report states that South Africa has "regained momentum after the recent political landscape shift and climbs seven places to rank 60 out of 141 countries." Due to its high prevalence of murder (rank 135), poor rate of ICT adoption (89), and skill scarcity (101), South Africa received a low score. As to the annual report of the World Economic Forum, South Africa is among the nations with the highest levels of inequality. "The rich-poor divide is widening." Partisan labor markets are the root source of pay disparities.

Nigeria:

Government policy has a big impact on Nigeria's investment environment. With the adoption of "the Nigerian Enterprises Promotion Decree" (NEPD) in 1972, the indigenization effort got underway. The directive limited foreign direct investment in a number of ways. As a result, only residents had access to about 22 distinct economic sectors. These industries included media, retail, personal services, transportation (including taxi and bus services), gaming, electronics manufacture, basic manufacturing, advertising, and retail. Three further restrictions on foreign direct investment (FDI) were put in place by the Nigerian Enterprises Promotion Decree of 1977. Enterprises like as bus services, travel agency, home goods wholesaling, newspaper distribution, radio and television, movie distribution, and hairdressing are exclusive to Nigerian investors. Two updates have resulted in this list growing: (a) lowering the percentage of foreign ownership in FDI-restricted activities from 60% to 40% and including clauses that exclude foreign investors.

Investors often take into cognizance certain circumstances to ascertain the level of shield afforded and factors that are deterring in the host countries before embarking on businesses in such places. The developing countries which Nigeria is included, have faced so many developmental challenges which include dualistic economy, low productivity, low savings and low investment. Studies have shown that FDI have the capacity of bridging the gap between savings and investment due to its multiplicity impacts on the nation's employment, technological progress, productivity and economic growth in general. Political turbulence is a serious concern facing FDI inflows in Nigeria. This was classified as strikes, terrorism, religious tensions, and ethnic tensions, military in politics, corruption and civil war. Notwithstanding Nigeria's attractive economy and market size, it lags in attracting enough FDI needed for economic growth due to political risk prevalent in the country.

After Nigeria's return to democracy in May 1999, its poverty-reduction strategy revived investment. NEEDS, introduced in 2003, was designed to guide public policy (Anyanwu, 2019). State and local poverty reduction initiatives, SEEDS and LEEDS, were

created in conjunction with NEEDS. As a result of these policies, Nigeria has lagged behind other emerging nations in terms of structural transformation during the past 40 years (Central Bank of Nigeria, 2020). 4% of GDP comes from the manufacturing sector, whereas 14% comes from Sub-Saharan Africa. Nigeria's lagging industrial and service sectors are demonstrated by the rapid growth of Indonesia, a major oil producer, and Malaysia, a neighbor that was also a major oil palm grower at the time of its independence in 1954. Thus, 40 years of improper use of public funds have seriously harmed fundamental infrastructure. Water, sewage, sanitation, drainage, roads, and electricity infrastructure have all degraded as a result of poor maintenance spending (Central Bank of Nigeria, 2020).

Ghana:
As of the end of the second quarter of 2017, the service sector accounted for 62% of Ghana's GDP. The industrial sector accounted for 26.5% of the GDP at the end of the second quarter of 2017, with agriculture contributing 11.5% of the GDP (Central Bank of Ghana, 2020). Ghana is now the second-largest cocoa producer in the world, behind Côte d'Ivoire, with approximately 778, 044 metric tons produced in the 2015–2016 crop year. Ghana imports a net amount of petroleum products at the moment. 2018 is expected to see an increase in the production of Tweneboa, Enyenera, and Ntomme (TEN) and Sankofa oilfield production, which will fortify the trade surplus.

Kenya:
The favorable investment climate in Kenya has drawn the attention of foreign companies. For example, in July 2020, the United States and Kenya began discussions for the first free trade agreement in Sub-Saharan Africa. Notwithstanding the agreement, American companies doing business in Kenya face significant challenges related to tax collection, challenging bureaucratic procedures, and needless delays in obtaining business licenses.

Kenya was placed 128th out of 180 countries in Transparency International's 2021 Global Corruption Perception Index survey. Making some progress over the past ten years, but it is still far behind the world average.

 Kenya has created a logistic hub with significant aircraft connections across Africa, Europe, and Asia. Its telecommunications, infrastructure, and banking sector are all strong. Kenya has privileged commercial access due to its participation in the Africa Continental Free commercial Area (AFCFTA), the East Africa Community (EAC), and other regional trade blocs.

Kenya is a pioneer in the development of sustainable energy in the area, obtaining over 90% of its on-grid electricity from renewable sources.

 Political Climate and FDI flows by Country
Foreign Direct Investment in Kenya
Foreign direct investment (FDI) in Kenya has been delayed by a variety of problems, including (1) bottlenecks in energy and transportation infrastructure; (2) a recent drop in Kenya's labor productivity; and (3) an anti-FDI regulatory climate. In 2019, wholesale and retail trade accounted for 19% of total foreign direct investment in Kenya, followed by manufacturing (14%), banking and insurance (12%), energy (10%), and logistics (2%). According to the World Bank (2021), this is the case. To increase the amount of foreign direct investment (FDI) flowing into Kenya, the government offered tax breaks to foreign investors. In 2017, Kenya attracted $671 million in foreign direct investment (FDI), an increase of 71% from 2016. UNCTAD reports that South African ICT investors have increased their market share in Kenya. In contrast, the World Bank reports that foreign direct investment (FDI) in the manufacturing sector has led to the creation of low-skilled jobs (in 2013-2014, food and beverages accounted for 29% of FDI, motor vehicles and others accounted for 21%, non-metallic mineral products accounted for 17%, consumer products accounted for 14%, electrical and electronic equipment accounted for 8%, and others accounted for 10%). That's according to the World Bank (2021).

FDI flows to Nigeria
Foreign direct investment (FDI) growth in Nigeria has been erratic, fluctuating between decline and expansion for some time. Foreign private investment inflow in Nigeria totaled 55999.3 million naira in 1994, up from 6825.5 million naira the previous year. This represented an increase of nearly 700 percent. Positive subsequent years' results include 1989, 1997, and 2000, as well as the years 2003–2010, which show some volatility but overall are optimistic. Meanwhile, the years 1980, 1990, 2001, and 2002 all saw significant drops. Positive FDI inflows in the non-oil sector were directly impacted by various private sector policies introduced beginning in the early 1970s, as reported by UNCTAD (UNCTAD, 2009). This resulted in a rise in FDI from $205m to $470m

between 1970 and 1975.According to reports, Nigeria has been the recipient of 30% of all foreign direct investment (FDI) inflow into Africa over the past decade, with a total of $11 billion flowing into the country. This is up from $1.14 billion in 2001 and $2.1 billion in 2004.Guide to International Business, Trade, and Investment 2010-2011.

Inflow to SA

Foreign investment in South Africa comes primarily from European Union (EU) companies. The percentage of EU investment has increased dramatically since 2000, from 47% in 2000-2010 to 66% in 2011-2020. Anglo American, BHP Billiton, Old Mutual, and SABMiller, all once South African companies now headquartered in the UK, have all been active investors in South Africa in recent years, contributing to the EU's growing dominance in the country's investment landscape. Since making the move, these firms have become some of South Africa's most significant international investors. Even after excluding the investments of these re-domiciled enterprises, the European Union (EU) remains South Africa's primary geographic source of investment over the past decade (Qokweni, 2021).

FDI flows to Ghana:

Over U.S. $2 billion in FDI has been invested in Ghana's mining sector over the past decade, thanks to the country's attractive mining sector regulations. The mining industry is the primary source of export revenue, accounting for 41% of all foreign currency received by the country. Gold, the most important mineral, has surpassed cocoa as the top foreign exchange earner, bringing in over U$600 million and accounting for approximately 90% of mineral output. World Bank data for 2021 indicate that Ghana has surpassed all but South Africa as Africa's second-largest gold producer.

Despite the fact that SSA nations have drawn huge FDI inflows over the past two decades, much of the money has gone to the countries that are rich in natural resources. Furthermore, it appears that investment in SSA has been decreasing as a result of low oil prices and the continuing consequences of the commodity slump. As a result, being overly reliant on finance from outside the country increases exposure to risk. Therefore, resource-rich nations should take advantage of foreign direct investment and promote links to diversify their economies. Capital flight can be stymied, local capital can be mobilized, and resources can be directed toward growth industries like manufacturing with a well-developed finance sector.

Empirical Literature Review

Empirical research on Nigeria's political climate and FDI inflows.

Foreign direct investment (FDI) and policy inconsistencies in Nigeria were studied by Kabara and Amirthalingam (2019) over the years 1970-2016. They came to the conclusion that since the 1980s, FDI has been the dominant and most consistent source of deficit financing for governments, particularly in the developing and third nations, which are often characterized by low investible money. So, they reasoned, high rates of saving generate investable funds, which are crucial for economic growth. Foreign direct investment (FDI) is most reliably predicted by stable economic policy, especially in the developing economies of the third world and in countries like Nigeria. They looked to data showing average yearly and long-term rates of GDP expansion. The CAGR, which measures the cumulative change in economic growth over time, was computed by summing the AGRs. Their analysis revealed that policy inconsistency had a major effect on FDI during the studied time frame. They suggested that Nigeria's various tiers of government adopt long-term economic and FDI-related policies that are backed by ironclad guarantees of continuity in the event of a change in political leadership.

Danjuma (2021) examined the impact of terrorism, political violence, corruption, and religious tension on FDI in Nigeria's banking, construction, manufacturing, oil and gas, and telecommunications sectors. Empirical models were estimated using the fully modified ordinary least squares (FMOLS) technique. This study looks at data from the beginning of 2008 to the end of 2017. Statistics on FDI, trade openness, market size (RGDP), and infrastructure quality (proxied by power usage in kilowatt hours) are brought together with indices for political stability, insurgency, corruption, and religious conflict. According to their findings, terrorism discourages FDI in the telecommunications sector, but corruption encourages it in the oil and gas sector. They argued for a stronger dedication to countering terrorism and setting up efficient anti-corruption agencies in Nigeria in order to attract more FDI.

Njuguna and Nnadozie (2022) examined the relationship between the ease of doing business and other investment climate parameters in their study of FDI inflows into Africa. Using instrumental variable estimates and the control function approach, they accounted for any endogeneity in the association between FDI and the ease of doing business and economic growth. Resources, inflation, GDP, population density, trade openness, mobile phone penetration, and the Ease of Doing Business Index (EDBI) were also taken into account along with foreign direct investment (FDI) and the EDBI. The study found that a country's business

friendliness played a significant effect in luring foreign direct investment. The research results backed African nations' efforts to attract favorable FDI by investing in a better business climate.

Empirical studies on political climate and FDI inflows in Ghana

Awudi (2012) examined how FDI in Ghana's mining industry affects the ecosystem. This discussion paper examined Ghana's gold exploration FDI, economic policies that affect the mining sector, and regulatory environment. Mining concessions have eaten farmed area and land with potential for farming, they concluded. Thus, food production has plummeted, raising already high costs. Since large-scale mines have taken up almost all of the potential gold territory, indigenous miners, including women, who have been operating on specific parts of these concessions on a modest scale have been left without a means of subsistence. Due to the new foreign investor friendly mineral regulations and the massive FDI entry into the industry over the previous decade, Ghana's investment climate is threatened by mining activity. They stated that without governmental initiatives to assure the sector's successful contribution to the national economy with low environmental impacts, the economic gains promised from this mining boom would stay a phantom and primarily be a shadow to the regular populace.

Foreign direct investment (FDI) into Ghana was analyzed by Nyarko, Nketiah-Amponsah, and Barnor (2021). Foreign direct investment (FDI) inflows and exchange rate regimes were modeled during a 39-year period (1970-2008). The Cointegration and Ordinary Least Squares methods were used in their investigation. A lightweight Error-Correction model was computed once we made sure all of the variables were stable. Their findings indicated no connection between Ghana's exchange rate policy and foreign direct investment. The connection was marginal at best, since it was statistically significant only at the 10% level. Foreign direct investment (FDI) in Ghana was found to be significantly, and predictably, positively correlated with the country's level of democracy. They were hinting that Ghana's efforts to spread democracy and attract FDI ought to go hand in hand.

Empirical Reviews of political climate and FDI inflows in South Africa

Without mentioning South Africa, the literature on Sub-Saharan Africa's investment climate and economy would be incomplete. The country has made significant progress in improving its investment climate, making it more competitive within the area. The investment climate and growth nexus in South Africa has been the subject of multiple recent studies. South African foreign direct investment (FDI) has been the subject of research by Draper, Kiratu, and Samuel (2010). They paid special attention to rules controlling financial transactions and commercial exchanges. South African FDI to Africa is private sector dominated, concentrated in Southern Africa but evincing a perceptible move to West Africa in recent years, and its impact is generally positive, according to a content analysis of the region's FDI inflows. When it comes to backing South African businesses in the region, however, the country's policies are all over the place. This is especially true of the role that bilateral investment treaties (BITs) have played, with the South African government seemingly favoring an approach that gives its companies significant advantages at the expense of the policy space of the host nation. They recommended that the South African government fix this ambiguity by continually reviewing its model approach to BITs.

Asongu, Akpan, and Isihak (2018) used a panel analysis to examine what factors affect FDI (foreign direct investment) in the rapidly growing economies of the BRICS (Brazil, Russia, India, China, and South Africa) and MINT (Mexico, Indonesia, Nigeria, and Turkey). First, they used data from a pooled time-series cross-sectional analysis between 2001 and 2011 to estimate and model the factors that attract foreign direct investment (FDI) for three samples: BRICS just, MINT only, and BRICS and MINT together. Then, a fixed effects approach was used to create a model for BRICS and MINT combined. The results demonstrated that market size, infrastructure availability, and trade openness were significantly more important than the availability of natural resources and the quality of institutions in attracting FDI to BRICS and MINT. They suggested that the governments of the BRICS and MINT nations keep and boost FDI flows by guaranteeing investors a safe political climate and a level playing field.

Empirical Reviews on political climate and FDI inflows in Kenya

Wangari (2010) looked at the challenges that foreign direct investment (FDI) faces in Kenya from the legal, social, economic, and political vantage points. The study aimed to answer questions including how profitable it is to invest in Kenya, why the country has a poor record of investment, and what can be done to improve it. The research incorporated both quantitative and qualitative methods. The majority of the data was acquired through in-depth, semi-structured interviews in which the researcher asked both predetermined questions and more free-form inquiries. The data was gathered from a wide range of domestic and international academic and public libraries. The study found that bolstering the political stability index, macroeconomic stability, and protection

of property rights at the regional and international levels, as well as at the national level, would improve investment conditions and make the region more appealing to foreign investors.

3. METHODOLOGY

Theoretical Framework

This study adopted the Cobb Douglass model for its theoretical framework. The Cobb Douglass production function is very widely applied in research. The Cobb Douglass production function establishes the relationship between the input of the production factors and the outputs or income. The Cobb Douglass model emphasizes the significance of investment (i.e. capital) and labour effectiveness in promoting production. The functional form of the Cobb Douglass production function is given as:

$$Q = AK^{\beta_1}L^{\beta_2} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad (3.1)$$

where Q is the output, K represents capital resources employed and L is labour. A is a constant term while β_1 and β_2 are the coefficients of capital and labour respectively. For the purpose of this study, the capital component of the model is proxied with the value of fixed assets while labour will be proxied by number of workers or employees. The theoretical framework is therefore specified mathematically when linearized as;

$$\log Q = A + \beta_1 \log K + \beta_2 \log L \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad (3.2)$$

Equation (3.2) could further be specified econometrically as;

$$\log Q = A + \beta_1 \log K + \beta_2 \log L + \mu \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad (3.3)$$

where μ is the error term.

The Cobb Douglass production function as used by many studies to examine the behavior of firms, is suitable for this study as it relates the most important inputs to outputs in the production process of a firm and is a fundamental theory of the firm. This theoretical relationship is therefore the framework upon which this study is been built.

Model Specification

In order to estimate the factors that draw in FDI, numerous mdels have been defined in the economics literature. However, this research follows the model proposed by Nnadozie and Njuguna (2022), who found that the factors influencing FDI were the following investment climate variables:

$$FDI = f(X_j, Y_k, W_p, Z_q) \quad (3.4)$$

Where:

X_j = refers to the economic variables, 1 … J, such as exchange rate, inflation and other macroeconomic factors.

Y_k = refers to policy variables, 1 … K, such as trade openness, and business rules and regulations.

W_p = refers to governance or political risk variables, 1 … P, such as wars, conflict, corruption, etc.

Z_q = refers to other variables, 1 … Q, such as labour cost, human capital, market size and natural resource endowment.

We examined the above model and found that environmental factors which promote a conducive investment climate is missing. The World Bank (2021) outlined several significant environmental concerns that are taken into account during the investment appraisal process, including pollution, energy efficiency, reduced emissions, and compliance with environmental safety and regulatory standards. Therefore, we adjust the model as follows:

$$FDI = f(X_j, Q_k, K_q) \quad (3.5)$$

Where:

X_j = refers to the economic investment climate variables, 1 … J, such as inflation rate, market size (GDP) and ease of doing business index.

Q_k = refers to political investment variables, 1 … K, such as political stability index, corruption perception index and quality of institutions.

K_q = refers to environmental investment climate variables, 1 … q, such as nitrous oxide emissions, population density and land/air pollution rate.

By way of modification of the model of Nnadozie and Njuguna (2022), we merge policy variables (Y_k) and governance variables (W_p) to form a new variable – political investment climate variables (Q_k) and also introduce environmental investment climate variables (K_q) into the modified model.

The above functional equation 3.5 may be expressed in an econometric relationship as:

$$FDI_t = \mu + \alpha'x_t + \beta'q_t + \lambda'k_t + \varepsilon_t \qquad (3.6)1$$

Where:

μ is a constant;

α', β' and λ' are vectors of parameters to be estimated;

FDI_t is the value of foreign direct investment at time t; which depends on explanatory variables $(x_{it}, x_{2t},...,x_{3t}) = x'_t$, $(q_{it}, q_{2t},...,q_{3t}) = q'_t)$, $(k_{it}, k_{2t},...,k_{3t}) = q'_t) = k'_t$ as defined above; and

ε_t is the stochastic error term.

The a-priori expectation can be represented mathematically as:

$\alpha'_1 > 0$, $\beta' > 0$ and $\lambda' > 0$

The parameters of economic investment climate, political investment climate and environmental investment climate should be greater than zero i.e. positively related to FDI inflows into Nigeria, Ghana, Kenya and South Africa.

Methods of Data Analyses

The method used in estimating the parameters of the model formulated was the Panel Regression Model. This is justified since the data are time series and cross-sectional data in nature i.e. the data cuts across four countries with different characteristics which are Nigeria, Ghana, Kenya and South Africa. Therefore, we used the t-test from the multiple panel ARDL regression analysis. In addition, the pre-test of unit root was confirmed in the data in order to avoid a spurious regression. These tests make room for a robust modeling and forecasting. The panel ARDL model is further discussed below for clarity:

Panel Least Square Analysis (Panel ARDL)

Egbulonu (2019) explains that panel ARDL analysis is a statistical modeling technique for estimating the association between a dependent variable and a group of independent variables in two dimensions with cross-sectional data that have stationarity properties as mixed. Data is collected over time and across multiple dimensions (or companies) before being put though a regression analysis. The corresponding equation is as follows:

$$Y = \alpha + b_1X_1^n + b_2X_2^n +.... b_nX_n + e \qquad [iv]$$

Where Y is the response (dependent variable), X_1 is the first predictor (first independent variable), X_2 is the second predictor (second independent variable), α is the estimated slope, b_1 is the estimated intercept of the first predictor, b_2 is the estimated intercept of the second predictor etc. and n is the dimension of the data. The symbol e is the error term i.e. a set of other variables that can affect the model but are not included in the current model.

Panel least square regression is used when there is a combination of cross section data and time series, where the same unit cross section is measured at different times. So in other words, panel least square involves analysis of similar data from several dimensions observed in a certain period of time. If we have T time periods (t = 1, 2, ..., T) and N the number of individuals (i = 1,2, ..., N), then with panel data we will have total observation units of N x T. One of the method in estimating the regression model using panel data is the general linear method which is the foundation of linear panel model estimation.

However, the result of the stationarity test on the panel data directed the analysis towards adoption of the panel auto regressive distributed lag (Panel ARDL) (Egbulonu, 2019). The Panel ARDL model is adopted because it has some advantages which include best linear, un-biasness, minim service, efficiency, least mean square-error (MSE), recognition of lagged effects of regressors (Pesaran, et al (2001) and sufficiency (Gujarati, 2003). In the Random Effect model, the difference between intercepts is accommodated by the error terms of each cross-section.

Panel ARDL Model Estimation

Estimating the multiple panel lag model comprises of the model coefficients, the standard error, the t-statistics, probability values of the t-statistics, the R-squared and the Durbin Watson statistic. Computation of the panel regression model will be done through the use of Eviews statistical and econometric software in order to ensure ease and accuracy.

The coefficients tell us whether an independent variable has positive or negative effect on the dependent variable (Egbulonu, 2019). Dividing the coefficient by the standard error gives us the t-statistics which will be used to test the hypotheses of the study. These are discussed in details below:

The coefficient of determination R^2 or its adjusted form $\bar{R}^2$ indicates how well the data fits the model. This is given by

$$R^2 = \frac{\hat{B}^T X^T Y - (\sum Y)^2 / n}{Y^T Y - \left(\frac{\sum Y}{n}\right)^2}$$

Or its adjusted form:

$$\overline{R}^2 = (1 - R^2)\frac{(n-1)}{n-k}$$

If R^2 or its adjusted form $\overline{R^2}$ is high (i.e. above 50%), it shows a good fit for the model. The higher the R^2 or $\overline{R^2}$ the better the model fitness.

Test of hypotheses:

The t-statistics are used to determine the individual significance of the variables. The t-statistic is computed as follows:

$$t_{cal} = \frac{b_i}{S.E(\hat{b}_i)}$$

Where $SE(b_1)$ is the standard error of b_i. The null and alternate hypothesis are stated thus:

H_0: No significant relationship exists between X and Y

H_1: There is a significant relationship between X and Y

The t-calculated or the t-statistic has a probability value which corresponds to the risk indicated by the t-test table for the calculated t-value. The decision rule is as follows:

Decision Rule: If the probability value of the t-statistic is less than 0.05 critical value, we reject the null hypothesis. However, if the probability value of the t-statistic is greater than 0.05 critical value, we accept the null hypothesis. Alternatively, the t-calculated is compared with the t-tabulated where $t_{table} = t_{\alpha/2,n-k}$; If the t-statistic value is greater than the t-table value at 5% level of significance, we reject the null hypothesis; if otherwise, we accept the null.

The joint test or F-test:

This tests for the joint significance of the explanatory variables. The joint test is necessary because we tried to gauge the significance of the combination of the explanatory variables. The computation of the F-statistic is shown below

Source of variation	Degree of freedom	Sum of squares	Mean square	F- ratio
Regression	k-1	$RSS = \hat{B}^T X^T Y - \frac{1}{n}\left(\sum y\right)^2$	$RSS/(K-1)$	$\dfrac{RSS/(K-1)}{ESS/(n-k)}$
Residual (Error)	n-k	$ESS = Y^T Y - \hat{B}^T X^T Y$	$ESS/(n-k)$	
Total	n-k	$TSS = Y^T Y - \frac{1}{n}\left(\sum y\right)^2$		

F-statistic = RMS/EMS

And the F-table is = $F_{\alpha;n-k}$ where α = 5%, n = number of years studied, k = number of variables in the model.

If the F-statistic is greater than the F-table at 5% level (i.e. $F_{cal} > F_{tab}$), it means all the variables are jointly significant.

Test for Autocorrelation: The Durbin Watson (DW) statistic will be used to test for serial correlation of the error terms of the model. The DW statistic is given as:

$$d = \frac{\sum_{t=2}^{n}\left(e_t - e_{t-1}\right)^2}{\sum_{t-1}^{n} e_t^2}$$

According to the rule of thumb as expatiated in Egbulonu (2019), if the Durbin Watson value (d) is close to 2, it means there is no significant presence of autocorrelation in the data. If d tends to 4, there is a negative autocorrelation in the error term, and if it is close to 0, then positive autocorrelation is present in the error term.

Panel Unit Root Test (Stationarity Test)

Unless it is established that the variables in question are stationary, the ordinary least square (OLS) approach cannot be applied to the data in this study because it is a time series cross-section. The panel unit root test method developed by Levin, Lin, and Chu (2002) will be used in this investigation. Since the Levin, Lin, and Chu (2002) panel unit root is the standard for establishing stationarity in panel data, it is appropriate to adopt it. To prevent spurious regression, we will use the panel unit root test developed by Levin, Lin, and Chu. Since the unit root problem is ubiquitous in time series data, we will apply this test to all of the variables to establish the orders of integration. Before attempting modeling or estimate, it is customary to first transform a non-stationary data set into a stationary one (Ekanem & Iyoha, 2002).

4. PRESENTATION AND ANALYSIS OF RESULTS

Unit Root Test for Panel Data

In order to derive meaningful results in a panel regression, it is essential that variables are stationary. Absence of stationarity in a time series data means that the persistence of shocks would be infinite and can lead to spurious regressions the unit root test is summarized in the Table 4.1 below.

Table 4.1: Summary of the panel unit root test [*p-value in parenthesis*]

Variables	LLC test statistic		Order of Stationarity	Decision
	@Level	@First Difference		
FDI	-1.7847 [*0.3372*]	-2.7023 [*0.0034*]*	I(1)	Stationary at 1st difference
GDP	-3.4965 [*0.0002*]*	-3.0832 [*0.0010*]*	I(0)	Stationary at Level
INF	-4.1482 [*0.0000*]*	-5.7674 [*0.0000*]*	I(0)	Stationary at Level
PSI	0.3900 [*0.6517*]	-2.7901 [*0.0026*]*	I(1)	Stationary at 1st difference
CPI	0.1716 [*0.5681*]	-3.3029 [*0.0005*]*	I(1)	Stationary at 1st difference
POP	-4.0183 [*0.0000*]*	6.1452 [*0.0000*]*	I(0)	Stationary at Level
NO2	-1.1611 [*0.1228*]	-6.3250 [*0.0000*]*	I(1)	Stationary at 1st difference

Note: *Probabilities of the tests statistics are presented in parenthesis.*

* Indicates that the test statistic is significant at the 5% level

The panel unit root test presented in Table 4.1 above are relatively consistent and imply that more than half of the variables are stationary at order one, I(1). Specifically, foreign direct investment (FDI), political stability index (PSI, corruption perception index (CPI), and nitrous oxide emission (NO2)) are all stationary after first differencing which means that their order of stationary are

represented as I(1). However, only the data on gross domestic product (GDP), inflation rate (INF) and population density (POP) were stationary at their level form which meant that their order of stationarity is represented as I(0).

The implication of the stationarity test above is that the data used in the model have been ascertained to have no unit root and their statistical properties do not vary with time. This means that we assume no structural break in the series.

Cross-Sectional Dependency Test

Again, there is also possibility that the test may have little power if the estimated data suffers from cross-sectional dependency (Sadorsky, 2014). This prompts the test for cross-sectional dependency (CD) using the Pesaran's (2004) CD test.

H0: *There is cross-section independence*

H1: *There is cross-section dependence.*

The result is summarized in the Table 4.2 below.

Table 4.2: Cross-Sectional Dependency Test

Test	Statistic	d.f.	p-value
FDI	4.0542	6	0.0001
GDP	10.8232	6	0.0000
INF	-4.4437	6	0.0488
PSI	9.1209	6	0.0023
CPI	2.4437	6	0.0145
POP	11.7099	6	0.0000
NO2	3.9944	6	0.0461

Source: Extracted from EViews Output (See Appendix)

Table 4.2 above gives significant evidence to reject the null hypothesis of cross-section independence for the residuals of the panel data. This implies that the cross-sectional data used in the panel model are dependent on each other meaning that the FDI inflow for example into country A, will affect that of country B and so on. In other words, there is cross-section dependence (correlation) in the data (Sadorsky, 2014). This also justifies the choice of the countries from different regions of sub-Sahara Africa as they have similar economic outlook. Consequently, since the variables are of mixed order of stationarity i.e. I(0) and I(1) series, we proceed with the test for long run relationship in the model.

Panel Cointegration Test

Cointegration exists in a set of variables when the combination of their linear properties gives rise residuals that are non-trending (Egbulonu, 2019). The Johansen Fisher panel cointegration test requires that there must be at least one cointegrating equation for long run relationship to be assumed in a set of data. The Johansen Fisher panel cointegration test is based on the Trace statistic and the Max-eigen statistic. The test is shown in Table 4.3 below:

Table 4.3: Summary of the Johansen Fisher Panel Cointegration Test

Hypothesized No. of CE(s)	Fisher Stat.* (from trace test)	Prob.	Fisher Stat.* (from max-eigen test)	Prob.
None	39.61	0.0000	39.61	0.0000
At most 1	172.7	0.0000	77.20	0.0000
At most 2	101.6	0.0000	51.36	0.0000
At most 3	60.03	0.0000	23.71	0.0026
At most 4	42.70	0.0000	16.03	0.0420
At most 5	37.04	0.0000	21.25	0.0065
At most 6	36.66	0.0000	36.66	0.0000

Source: Extracted from EViews's Output (See Appendix)

There is significant p-values for all the hypothesized number of cointegrating equations. This implies that with every combination of the variables, there is long run relationship. At most 6 cointegrating vectors can arise from the model and this output strongly suggests that cointegration exists in the model at 5% level of significance.

The long run relationship affirms that investment climate variables have long run effect on foreign direct investment inflow in Nigeria, Ghana, Kenya and South Africa. This further implies that the effect of investment climate on foreign direct investment inflow in Nigeria, Ghana, Kenya and South Africa varies and is not static.

Panel ARDL long run estimates

The long run estimates show the long run effects of the investment climate variables on FDI inflow in Nigeria, Ghana, Kenya and South Africa as summarized below:

Table 4.4: Summary of the Panel ARDL long run estimates

Variables	Coefficient	Std. Error	t-Stat.	*p-value*
GDP	2.013834	0.425887	4.728562	0.0000
INF	0.426898	0.223089	1.913578	0.0641
PSI	-0.095517	0.018024	-5.299434	0.0041
CPI	-0.136758	0.041052	-3.331336	0.0414
POP	-10.71465	3.698794	-2.896796	0.0065
NO2	6.801914	1.459327	4.660995	0.0000

Source: Extracted from Eviews Output (See Appendix),

Note: *Fixed and Random effects (FE and RE) were not considered since the model assumes CD dependence

The estimates above reveals that the long run effect of economic growth trends on FDI inflows in Nigeria, Ghana, Kenya and South Africa is positive and significant as well. This is evident in the coefficient of 2.014 per cent which shows that there is increase in FDI inflows by 2.014 occasioned by changes in economic growth trends (GDP). Also, inflation rate increases FDI inflows to the region by 0.427 per cent but the probability value of 0.064 implies that the positive effect is not significant. Therefore, we can infer that the economic investment climates exert positive effect on FDI inflows to Nigeria, Ghana, Kenya and South Africa but inflation effect was not significant.

Panel ARDL short run estimates

The short run estimates of the panel model also shows the coefficients of investment climate variables in the pen their effects on FDI are assumed to be static. This is summarized below:

Table 4.5: Summary of the short run estimates

Variables	Coefficient	Std. Error	t-Stat.	*p-value*
COINTEQ01	-0.675870	0.266549	-2.535630	0.0160
D(GDP)	-2.326154	2.633808	-0.883191	0.3833
D(GDP(-1))	-0.236237	0.841599	-0.280700	0.7806
D(INF)	-0.074654	0.385579	-0.193616	0.8476
D(PSI)	0.647437	0.334904	1.933203	0.0616
D(PSI(-1))	0.299241	0.685016	0.436838	0.6650
D(CPI)	-1.723937	1.256941	-1.371534	0.1792
D(CPI(-1))	-0.398749	1.290587	-0.308968	0.7592
D(POP)	-42.51690	45.17984	-0.941059	0.3533
D(POP(-1))	-20.80223	14.61900	-1.422958	0.1639
D(NO2)	-1.862271	3.109794	-0.598841	0.5532
D(NO2(-1))	-1.499360	3.815828	-0.392932	0.6968
C	-35.83262	15.41612	-2.324361	0.0262

Source: Extracted from Eviews Output

Note: *Fixed and Random effects (FE and RE) were not considered since the model assumes CD independence

There is long run convergence in the panel model as shown in the error correction coefficient (CointEq01). Also, the error correction coefficient represented by (CointEq01 = -0.6759) is rightly signed (i.e. negative and significant). The long run convergence shows a speed of adjustment mechanism of 67.59 per cent estimated annually. This implies that holding the investment climate variables at a steady state, FDI inflows into Nigeria, Ghana, Kenya and South Africa will increase by 67.59 per cent.

The coefficients of the short run estimates showed only two lagged effects of the regressors on FDI because the lag selection criterion (AIC) favored only 2 lagged effects. The results shows that the panel ARDL model adjusts the lagged effects to only one lag i.e. previous year. As a result, we see that the current and previous year's effect of political stability index increases FDI inflows to Nigeria, Ghana, Kenya and South Africa by 0.6474 and 0.2992 per cent respectively. Even though their effects were not significant, political stability index has short run positive effect on FDI to the region.

Interestingly, the economic investment and environmental investment climate variables were all negative in the short run. This implies that gross domestic product, inflation rate, population density and nitrous oxide emission all decreased FDI inflows to Nigeria, Ghana, Kenya and South Africa in the short run but not significantly since their p-values were all greater than 0.05 critical value.

Test of Hypotheses

The hypotheses test is based on the t-statistic values of the long run results of the panel model. The test is summarized as follows: Political investment climate has no significant effect on FDI inflow into Nigeria, Ghana, Kenya and South Africa. The first hypothesis tested above revealed that individually, gross domestic product (GDP) has significant *p-value* which 0.0041 implies that it has significant effect on FDI inflow into Nigeria, Ghana, Kenya and South Africa. We concluded that Political investment climate significantly affect FDI inflows into Nigeria, Ghana, Kenya and South Africa.

5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Summary of Findings

The study analyzed the effect of political climate on foreign direct investment inflow in Nigeria, Ghana, Kenya and South Africa. The modified Cobb Douglass model was the theoretical underpinning of the study since growth in FDI is likened to output and the factors that lead to growth are the investment climate variables. Using the panel ARDL model analysis, the following findings were made: Political investment climate variable (PSI) had significant positive effect on the inflow of foreign direct investment in Nigeria, Ghana, Kenya and South Africa.

Conclusion

The analysis of political investment climate and FDI inflows in Nigeria, Ghana, Kenya and South Africa led to the conclusion that good investment climate is a key determinant of the inflow of FDI into selected countries. Particularly, the political climate in Southern and West Africa Region retards foreign investment both in the short and long run periods. Again, factors such as increasing population density have negative effect on growth because the increasing density is not being channeled towards productive capacity. The economic climate has been favorable to FDI inflows to the region but this may be short-lived as there is encroaching effect of political instability and environmental crisis which dissuades foreign investments

Recommendations

The study recommends as follows*;* Efforts should be made by the governments of Nigeria, Ghana, Kenya and South Africa to enhance their economic fortunes by strengthening their economy through prioritizing political stability and addressing underlying causes of political unrest, corruption, weak institution and political social inequality. As well as engaging in massive production for exports which will boost economic growth and attract more foreign direct investment. The political environment in Nigeria, Ghana, Kenya and South Africa is on a gradual nose-dive and this has chased away many potential FDI inflows. Ensuring a stable political environment is what this study advocates to attract more FDI to the region. The Increasing population density especially in Nigeria, Ghana, Kenya and South Africa should be channeled towards productive capacity through the engagement of skills programs and agricultural production. Emissions such as nitrous oxide emissions and other similar emissions should be properly disclosed and mitigated. The prominent driver of environmental degradation which is mining activities should be appropriately checked and standards maintained to avoid discouraging foreign investors from coming into the economy as a result of health issues cited. All forms of emissions should be checked and appropriately reduced.

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