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Determinants of foreign direct investments in Namibia

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Abstract

The main purpose of the study was to investigate the main determinants of foreign direct investment (FDI) in Namibia. Foreign direct investment enterprise is an institutional unit in the financial or non-financial corporate sectors of the economy in which a non-resident investor owns 10 per cent or more of the voting power of an incorporated enterprise or has the equivalent ownership in an enterprise operating under another legal structure. The study focused on the performance of Namibia as a whole relative to the global flows. In this study, evidence has been presented showing the inequitable share of the FDI flows that the SADC region in general and specifically Namibia attracts. The challenge is to find the best policies that will enhance the country's attractiveness to investors as it has deteriorated in the past years. To address this research gap and add on to the limited literature in this research area, an assessment is going to be carried out in order main determinants of foreign direct investment in Namibia. In this research, time series data for the period from 1995 to 2015 was utilized. To avoid inconsistency in prices, constant prices were used to adjust for price changes. FDI data was obtained from the International Monetary Fund through the GlobeEconomy.com website. Econometrics time series data was then logged so that it was made stationery and spurious regression made uncertain. This study results showed that taxation, investment freedom, exchange rates regime and the rule of law influences foreign direct investments. From the model used, it can be said that taxation is of importance when making policies that encourage investments from abroad. High taxation rates discourage foreign investments. The negative rule of law obtained, indicates that the laws in Namibia are not favourable or conducive to attract investments. Whilst the government's move to fix exchange rates is commendable, the rule of law should be improved and maintained. Investors although they want more profits, they also want their investments to be secured to make sure that they don't lose their property. Only laws can be protect foreign investors. It is highly commendable that the government of Namibia revise their laws and enforce them without favour.

Keywords: Foreign direct investment (FDI), international monetary fund, time series, investors

1. Introduction

The main purpose of this paper is to investigate the main determinants of foreign direct investment in Namibia. This chapter will mainly concentrate on the research problem statement, the objective, research questions, definition of terms, delimitations, and the significance of the research. As it can be noted in the Organisation for Economic Co-operation and Development Directorate (OECD, 2000) ^[34], Foreign direct investment enterprise is an enterprise (institutional unit) in the financial or non-financial corporate sectors of the economy in which a non-resident investor owns 10 per cent or more of the voting power of an incorporated enterprise or has the equivalent ownership in an enterprise operating under another legal structure (Jordaan, 2004) ^[22]. Ancharaz (2003) ^[1], noted that capital investment is an important ingredient in the growth process of each and every country. Many Least developing countries particularly in the Southern African hemisphere rely on private investment to solve their economic problems (Hanson, 2006). Countries lacking capital accumulation and technological progress usually grow much slower than countries with high investment rate and huge research and development (R & D) expenditures (Kalemlı-Ozcan & Sayek, 2009) ^[23].

Substantial resources such as uranium, diamonds, zinc, copper and oil, have attracted the majority of FDI's in Namibia (Doing Business, 2015) ^[9]. The main countries investing in the mining sector remain, in 2015, South Africa, the United States, the United Kingdom and Germany. The country should remain politically stable due to the hegemony of the South West Africa People's Organisation (SWAPO), the only political party that has been in power

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since its independence (Doing Business, 2015) ^[9]. According to the Doing Business (2015) ^[9], Namibia has been ranked the number 101 country with the ease of doing business economy.

The Government, which encourages a liberal economy, has had the tendency for several years to favor partnerships between local and foreign companies, such as the state-owned company Epangelo Mining, which holds exclusive rights in the future contracts of mining exploitation. The assumption that foreign direct investment (FDI) positively affects the private sector has forced many Southern African countries to adopt policies that attract foreign firms (Shin, 2013) ^[38]. For example in Namibia, incentives such as tax holiday, low corporate tax rates, absence of import duties on intermediate inputs and increased public investments in infrastructure (such as roads, power projects and telecommunications) have been provided to attract FDI. The rationale for the special treatment (given to foreign firms) is the expectation to achieve the positive externalities (crowding in effects) from FDI, but this has not been in the picture for Namibia.

The Namibia Investment Centre (NIC) which was established in 1990 under the Foreign Investment Act No. 27 of 1990 (which is currently under review) with the major responsibility of promoting FDI (Foreign Direct Investment), has been aware of such and have been working hand in hand with local and foreign companies to establish the crowding in effect. The NIC is the first port of call for investors, local and foreign. However, most African countries exhibit features which make them unattractive to private investors, especially foreign direct investment as Olatunji & Shahid, (2015) ^[36] will have analysed it. First, given the high dependence of these countries on exports of a few primary commodities, they are susceptible to external shocks especially terms of trade shocks. This can be viewed also in Namibia, according to Doing Business (2015) ^[9], where only a few of primary commodity, of which if any negative external forces on those few commodities may affect the export of that product.

Secondly, their reliance on agriculture exposes them to such natural shocks, as droughts and floods, with severe adverse effect on the economy of which Namibia has little to invest in agriculture as it is not our primary product. Unquestionably, these features sum up to make the region a high-risk zone. Thirdly, most of these countries have underdeveloped financial sector and low credit ratings. The absence of information and the prevalence of ignorance make Namibia vulnerable to sudden shifts in market perceptions and they are well exposed to contagion effects (Morrissey, 2003) ^[28]. Lastly, the persistent budget deficits emanating from a weak tax system signify severe constraints on government resources and impede government's ability to address shocks and instability.

Thus, Namibia, as it is one of the African countries; seem trapped in a vicious cycle of instability and low private capital flows. Today, as mentioned in Bouoiyour (2003) ^[2], many countries have been actively trying to attract foreign investment by offering income tax holidays, import duty exemptions and subsidies to foreign firms, as well as measures like market preferences, infrastructures and sometimes even monopoly rights.

Rather FDI tends to be attracted by high per capita income, economic growth, better infrastructure and political stability. Economic growth, on the other, seems to increase with

greater trade openness rather than foreign direct investment inflows. This paper is organized in four sections. The following section reviews the theoretical and empirical literature. A key challenge facing LDCs particularly Namibia is to come up with policies that would help raise domestic private investment. With a view of drawing some appropriate policy conclusions and implications for Namibia, the study investigates the determinants of domestic private investment with more emphasis on FDI.

Namibia's recent economic expansion, which has averaged more than 5 percent annually over the past five years, has been propelled by a relatively high level of political stability, prudent macroeconomic management, and foreign direct investment in the mining sector, (The Heritage Foundation, 2016) ^[41]. Fiscal policy has been expansionary, but overall public spending has been

Though the absence of an independent and fair judiciary weakens the rule of law and undermines prospects for long-term sustainable economic development. Corruption is pervasive, and the efficiency of government services is poor. A lack of deeper commitment to enhanced regulatory efficiency holds back the emergence of a more vibrant private sector and impedes diversification of the economy (The Heritage Foundation, 2016) ^[41].

Namibia's long-term economic growth is a real challenge to the government. The country's growth performance needs to improve significantly if the country is to effectively address poverty reduction and raise the standard of living of the country's peoples to an acceptable level. The challenge revolves around ways to encourage economic growth in view of the continuing savings-investment gap in the country. These challenges present themselves against the backdrop of a globalizing economic environment that can result either in the integration of the region into the global economy or marginalization. Foreign direct investment has become the most sought-after source of development finance for developing countries. Africa and its regions attract very limited amounts of FDI. The main challenge facing government in Namibia is, therefore, to identify those factors that inhibit private investment, especially FDI and those that enhance FDI inflows. Appropriate policies can then be formulated and implemented to reduce those negative factors and strengthen the positive ones.

2. Literature Review

There are several theories attempting to explain why firms engage in transnational production, which is an effect of FDI. However, there is no clear-cut theory of determinant of FDI flows, especially in developing countries. Equally, the traditional theories of development, which lay important emphasis on international trade and exchange of capital, have come under severe criticism over the years. There are many theoretical papers that examine foreign direct investments (FDI)'s issues, and main research on the motivations underlying FDI were developed by Dunning, Hymer and Vernon. Economists believe that FDI is an important element of economic development in all countries, especially in the developing ones. These are the following FDI theories explained.

2.1 Production Cycle Theory of Vernon

Early explanations of multinational production were based on neoclassical theories of capital movement and trade within the Heckscher-Ohlin framework. However, these

theories were founded on the assumption of existence of perfect factor and goods markets and were therefore unable to provide satisfactory explanation of the nature and pattern of FDI. In the absence of market imperfections, these theories presumed that FDI would not take place. Nevertheless, the presence of risks in investing abroad implies that there must be distinct advantages to locating in a particular host country.

To fill this gap in international trade theory, Vernon (1966)^[42] has developed a product-cycle model to describe how a firm tends to become multinational at a certain stage in its growth. Vernon believes that there are four stages of production cycle: innovation, growth, maturity and decline. He argues that in the early stage of the development of a new product, production will take place in the home country for whose market the product is intended. This is because producers require continuous feedback from consumers and need good communications with their numerous suppliers. Because countries are at different stages of economic development, new markets are available to receive new products through the demonstration effect of richer countries.

At this stage, expansion into overseas markets is by means of exports. Later, when the product becomes standardized, other countries may offer comparative cost advantages so that gradually production shifts to these countries. It is possible to then export back to the country that originally invented the product. There are many examples of products that have followed this cycle. Presently, Japan and other Asian countries are major exporters of radio sets and other electronic appliances originally invented in the United States and Europe. The product cycle hypothesis is useful on several counts. It explains the concentration of innovations in developed countries, and offers an integrated theory of international trade and FDI. Furthermore, it provides an explanation for the rapid growth in exports of manufactured goods by the newly industrialized countries. It therefore presents a useful point of departure for the study of the causes of international investment

2.2 The Theory of Exchange Rates

This is another theory which tried to explain FDI. Initially the foreign exchange risk has been analyzed from the perspective of international trade. Itagaki (1981)^[21] analyzed the influence of uncertainty as a factor of FDI. In the only empirical analysis made so far, Cushman shows that real exchange rate increase stimulated FDI made by USD, while a foreign currency appreciation has reduced American FDI. Cushman concludes that the dollar appreciation has led to a reduction in U.S. FDI by 25%. However, currency risk rate theory cannot explain simultaneous foreign direct investment between countries with different currencies. The sustainers argue that such investments are made in different times, but there are enough cases that contradict these claims.

2.3 The Internalization Theory

This theory tries to explain the growth of transnational companies and their motivations for achieving foreign direct investment. The theory was developed by Buckley and Casson (1976)^[5] and then by Hennart (1982)^[17]. Initially, the theory was launched by Coase (1937)^[6] in a national context and Hymer (1976)^[19] in an international context. In his Doctoral Dissertation, Hymer identified two major

determinants of FDI. One was the removal of competition and the other was the advantages which some firms possess in a particular activity (Hymer, 1976)^[19]. Buckley and Casson (1976)^[5], who founded the theory demonstrates that transnational companies are organizing their internal activities so as to develop specific advantages, which then to be exploited.

Denisia (2010)^[7] explains that transnational companies organize their internal activities so as to develop specific advantages, which they then can exploit. The main issue of this theory is the fact that contracting out is risky, i.e. transferring specific capital outside the firm and revealing the proprietary information might result in a problem for the firm, especially in cases where the contracted agent decides to interrupt the contract and use the technology to compete with the mother company or in the case where the agent through its operations damages the brand reputation of the firm. Internalization theory is considered very important also by Dunning (1977)^[10], who uses it in the eclectic theory, but also argues that this explains only part of FDI flows.

According to Hymer (1976)^[19] the MNE appears due to the market imperfections that led to a divergence from perfect competition in the final product market. Hymer (1976)^[19] has discussed the problem of information costs for foreign firms respected to local firms, different treatment of governments, currency risk (Eden and Miller, 2004)^[11]. The result meant the same conclusion: transnational companies face some adjustment costs when the investments are made abroad. Hymer (1976)^[19] recognized that FDI is a firm-level strategy decision rather than a capital-market financial decision.

2.4 The Eclectic Paradigm of Dunning

The eclectic theory developed by professor Dunning (1977)^[10] is a mix of three different theories for a firm to undertake FDI. His eclectic theory of FDI, often referred to as the OLI framework, attempts to integrate other explanations of FDI mentioned earlier. OLI stands for ownership advantages, location advantages and Internalization advantages, which are conditions that determine whether a firm, industry or country will be a source or a host of FDI (or perhaps, neither). First, a firm must have an ownership advantage. The ownership advantage is anything that gives the firm enough valuable market power to outweigh the disadvantages of doing business abroad. It could be a product or production process that other firms do not have access to, such as a patent, trade secret or blueprint.

The advantage could also be intangible like a trademark or reputation for quality. Second, the foreign market must offer location advantage that makes it more profitable to produce in the foreign country than to produce at home and then export to the foreign market. Such location-specific advantages offered by a host country include access to local and regional markets, availability of comparatively cheap factors of production, competitive transportation and communications costs, the opportunity to circumvent import restrictions, and attractive investment incentives (Buckley, 2002)^[4]. Third, the MNC must have an internalization advantage.

Precisely, internalization involves the question of why an MNC would want to exploit its assets abroad by opening or acquiring a subsidiary versus simply selling or licensing the rights to exploit those assets to a foreign firm. Though this

theory has been criticized for only listing the conditions necessary for 6 FDI without explaining its phenomenon, it has widely contributed to international production theory.

2.5 Empirical Literature Review

A large body of literature examining determinants of FDI begins with a partial equilibrium firm-level framework based in industrial organization and finance to motivate empirical analysis. These studies then typically examine how exogenous macroeconomic factors affect the firms FDI decision, with the primary focus on exchange rate movements, taxes, and to a more limited extent, tariffs. Earlier studies often then use industry-level (or even country-level) data to explore these hypotheses, while more recent work has had firm- and plant-level data available to more appropriately match the firm-level theory.

The effect of exchange rates on FDI has been examined both with respect to changes in the bilateral level of the exchange rate between countries and in the volatility of exchange rates. In rough terms, while an appreciation of a firm’s home country’s currency would lower the cost of assets abroad, the (expected) nominal return goes down as well in the home currency, leaving the rate of return identical. Namibia belongs to the Common Monetary Area (CMA) which is characterised as fixed exchange rate regime. This arrangement was formalized by the accession of Namibia, Lesotho, Swaziland, Botswana and South Africa to a multilateral trade agreement in 1990. Two dominant features of this arrangement are:

- A commitment by the central banks of Lesotho, Swaziland and Namibia to exchange their domestic currency for a specified amount of the reserve currency, the Rand “without restriction subject to a normal handling charge” at a fixed exchange rate.
- An explicit requirement that at least a major proportion of their monetary liabilities be backed by the reserve currency (the Rand) or other foreign assets.

The agreement has provisions for the contracting parties to issue their own national currencies as well as to introduce measures for their domestic resources mobilisation in the interest of the development of their respective countries. South Africa has been the dominant factor in the CMA; hence, its exchange rate regime is flexible and it is exposed to volatility in the international markets, which is finally transmitted into the other member countries including Namibia. Due to the fact that South Africa has a well diversified economy, the effect of the volatility of exchange rates on its economy is bound to be more restricted than would Namibia and other CMA members.

Fiscal incentives have been the most popular instrument for attracting FDI, and countries have thus been competing using that instrument. The topic of FDI and tax incentives has been widely researched and documented, and below is a review of some of the documented views and findings.

Interest in the effects of taxes on FDI has been considerable from both international and public economists. An obvious hypothesis is that higher taxes discourage FDI with the more important question one of magnitude.

Several studies have been carried out on the effectiveness and efficiency of tax incentives in attracting FDI. Up until the mid-1980s, research was primarily focused on understanding whether tax incentives were one of the key factors in attracting FDI (Zuo and Lai, 2009) [44]. Zuo’s and

Lai (2009) [44] research work found that by using either selective surveys or time-series econometric analysis, early studies concluded that tax policy was one of the key factors in the decision-making process of Multinational Enterprises, but not a decisive one. Other later studies including the results of field research by Morisset & Pirnia, 1999) [26] considered fiscal incentives, income tax exemption in particular, to be a weak stimulant.

The Government of the Republic of Namibia (GRN) is committed to stimulating economic growth and employment through attracting foreign investment. The Foreign Investment Act of 1990 is the primary legislation that governs foreign direct investment in Namibia. The Ministry of Trade and Industry (MTI) is the governmental authority which is primarily responsible for carrying out the provisions of the Foreign Investment Act.

Under the Foreign Investment Act, the Ministry established the Namibia Investment Center (NIC). The NIC serves as Namibia’s official investment promotion and facilitation office. It is often the first point of contact for potential investors. The NIC is designed to offer comprehensive services that range from the initial inquiry stage through to operational stages. The NIC also provides general information packages and advice on investment opportunities, incentives, and procedures. The NIC is also tasked with assisting investors minimize bureaucratic “red tape” by coordinating work with government ministries as well as regulatory bodies.

The hypothesized link between FDI and trade protection is seen as fairly clear by most trade economists-higher trade protection should make firms more likely to substitute affiliate production for exports to avoid the costs of trade production. This is commonly termed tariff-jumping FDI. Perhaps because the theory is fairly simple and general, there have been few studies to specifically test this hypothesis. Another possible reason is data-driven. It is difficult to quantify non-tariff forms of protection in a consistent fashion across industries. Many firm-level studies have controlled for various trade protection programs using industry-level measures, but often with mixed results, including Grubert and Mutti (2011) [14].

3. Research Methodology

The previous sections dealt with the existing theories on foreign direct investment and reviewed other scholars’ research paper on investment to gain more knowledge on investment. While this section assesses the methodologies applied to collect data, it covers topics such as, data sources and estimation procedure and model specification.

3.1 Data sources and estimation procedure

Time series data for the period from 1995 to 2015 was used. To avoid inconsistency in prices, constant prices were used to adjust for price changes. FDI data was obtained from the International Monetary Fund through the Globaleconomy.com website.

3.2 Model specification [General]

The general model for Foreign Direct Investment was specified to be:

$$F_t = f(T_t, L_t, E_t, I_t) \dots\dots\dots(1)$$

Where:

- F_t - Foreign Direct Investment
- L_t - Rule of Law
- T_t - Taxes
- E_t - Exchange rates
- I_t - Investment freedom

FDI is a dependant variable and independent variables are rule of law, taxes, exchange rates regime and investment freedom. Holding all other things constant if taxes increases, investors are expected to hold on to their wealth or invest in other countries that have lower tax rates. A direct relationship also exists with investment freedom.

The exchange rate is also of utmost importance when luring investment from abroad. An exchange rate system that is flexible lead to uncertainty on exchange rate risk due to volatility of exchange rates. Since Namibia is a developing country, a fixed exchange rate system will positively impact on foreign direct investments whilst a flexible exchange rate will increase uncertainty on investments. There are so many more factors that affect foreign direct investments but due to limited time, resources and non-existence of data in Namibia, not all variables that affects foreign direct investments was incorporated in the model to be estimated in this chapter. The estimation covered long-run function for investments. To further remove frequent fluctuations in the data, logarithms were used to smoothen it.

3.3 Specific model

Econometrics time series data was then logged so that it was made stationery and spurious regression made uncertain. Given the review of the investment theories, the general model for investment was further transformed into the following:

$$F_t = T_t \beta_1 + L_t \beta_2 + E_t \beta_3 + I_t \beta_4 + \mu \dots\dots\dots (2)$$

Taking the log transformation of the model gave the following model;

$$\ln F = \beta_0 + \beta_1 \ln T + \beta_2 \ln L + \beta_3 \ln E + \beta_4 \ln I + \mu \dots\dots\dots (3)$$

Where: $\mu_2 \sim \text{NID}(0; \sigma^2)$

The dependant variable of *lnF* is log of foreign direct investment

The independent variable *lnT* is the log of tax rates

The independent variable *lnL* is the log of rule of law

The independent variable *lnE* is the log of exchange rates

The independent variable *lnI* is the log of investment freedom

3.4 Unit root testing

Gujarati (2003) ^[15] states that if a time series data set is stationery, its mean, variance and covariance remain the same no matter at what point they are measured. The above statement depicts that stationery is done to try avoid spurious results of the ordinary least squares (OLS) estimated for example it is less clear whether or not taxes have a stationery distribution and that cannot easily be determined by inspection of a time series plot. If the level of

the series is non- stationary but the difference of the series is stationary then the series is said to contain a unit root.

The data used in this research seemed to suggest the possibility of non-stationary in the time series data. Therefore this study employed the ADF test to verify these indications, the full results of the ADF tests are shown on the appendices.

Table 1: Unit root testing

Null Hypothesis: F has a unit root			
Exogenous: Constant			
Lag Length: 0 (Automatic - based on SIC, maxlag=4)			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-5.027503	0.0007
Test critical values:	1% level	-3.808546	
	5% level	-3.020686	
	10% level	-2.650413	

Null Hypothesis: L has a unit root			
Exogenous: Constant			
Lag Length: 0 (Automatic - based on SIC, maxlag=4)			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-3.006040	0.0514
Test critical values:	1% level	-3.808546	
	5% level	-3.020686	
	10% level	-2.650413	

Null Hypothesis: I has a unit root			
Exogenous: Constant			
Lag Length: 0 (Automatic - based on SIC, maxlag=4)			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-1.392275	0.5651
Test critical values:	1% level	-3.808546	
	5% level	-3.020686	
	10% level	-2.650413	

ADF tests for the null hypothesis of a unit root if it is present in a time series sample. The alternative hypothesis in our test is that the variables are stationery. Foreign direct investment and rule of law showed that there are not stationery whilst exchange, tax rates and the investment freedom showed they are stationery.

3.5 Testing for Cointegration

The approach used in the study is that before estimating the equations, relationships between the dependant variables (real foreign direct investment) and explanatory variables were explored using the ordinary least squares technique. The test for cointegration was applied to try to identify the long-run relationships between variables. The concept of cointegration was suggested by Engle *et al.* (1987) ^[12] and they developed tests for cointegration. The concept of cointegration captures the notion that two or more series move together in same fashion. Each series if looked at individually, need not have long run equilibrium but their relative values might. The series has a common stochastic trends.

Table 2: Regression analysis

Dependent Variable: F				
Method: Least Squares				
Date: 11/10/16 Time: 12:37				
Sample: 1995 2015				
Included observations: 21				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.78E+09	2.51E+09	1.107339	0.2845
T	-1.18E+08	86110277	-1.370817	0.1894
L	-2.27E+09	2.64E+09	-0.861485	0.4017
I	107327.5	21419314	0.005011	0.9961
X	2.82E+08	1.52E+08	1.859101	0.0815
R-squared	0.244691	Mean dependent var	5.21E+08	
Adjusted R-squared	0.055863	S.D. dependent var	1.07E+09	
S.E. of regression	1.04E+09	Akaike info criterion	44.57432	
Sum squared resid	1.74E+19	Schwarz criterion	44.82302	
Log likelihood	-463.0304	Hannan-Quinn criter.	44.62829	
F-statistic	1.295843	Durbin-Watson stat	2.871425	
Prob(F-statistic)	0.313276			

4. Discussion and Analysis of Results

This section presents pragmatic analysis of data and regression results. The estimation techniques used, types of data and the detailed results of the estimation are presented in the succeeding sections. Furthermore, this chapter presents results from the analysis of data and regression.

4.1 Estimation of the model

$$\ln F = \beta_0 + \beta_1 \ln T + \beta_2 \ln L + \beta_3 \ln E + \beta_4 \ln I + \mu \dots\dots(4)$$

$$\ln F = -2.78 - 1.18 \ln T - 2.27 \ln L + 2.82 \ln E + 107327.5 \ln I \dots(5)$$

4.2 Analysis of results

Table 3: Eviews

Exogenous: Constant			
Lag Length: 0 (Automatic - based on SIC, maxlag=4)			
	t-Statistic	Prob.*	
Augmented Dickey-Fuller test statistic	-1.392275	0.5651	
Test critical values:	1% level	-3.808546	
	5% level	-3.020686	
	10% level	-2.650413	

Null Hypothesis: T has a unit root			
Exogenous: Constant			
Lag Length: 0 (Automatic - based on SIC, maxlag=4)			
	t-Statistic	Prob.*	
Augmented Dickey-Fuller test statistic	-3.070562	0.0454	
Test critical values:	1% level	-3.808546	
	5% level	-3.020686	
	10% level	-2.650413	
Null Hypothesis: X has a unit root			
Exogenous: Constant			
Lag Length: 1 (Automatic - based on SIC, maxlag=4)			
	t-Statistic	Prob.*	
Augmented Dickey-Fuller test statistic	-1.883020	0.3324	
Test critical values:	1% level	-3.831511	
	5% level	-3.029970	
	10% level	-2.655194	

As expected, taxes have a negative relationship with foreign direct investments. High taxes discourage investments. Rule of law is of the utmost importance in investments. As expected the rule of law had a negative sign implying that investors seek protection of their investments. Where the rule of law is not that strict, foreign investments tend to be very low or vice versa.

Investment freedom was positive as expected also where there are no or limited barriers to invest, investors take it as an opportunity to increase their gains. Exchange rates regime in Namibia is managed which in-turn helps to remove the exchange rate risk. As a result the managed exchange rate proved to be directly related to foreign direct investments.

When taxes increase by a unit, it is expected that FDI falls by 1.18 units. The similar can be said about rule of law. A fall in rule of law led to the decline in FDI 2.27. However an

increase in freedom of investment and an increase in the strictness of pegging or fixing the exchange rate reduces exchange rate risk and increases investment by 2.82. R² OF 24.47% was too little. It means that the variables taxation, investments freedom, rule of law and the exchange rate influence only 24.47% of changes in FDI. Therefore the other 75.53% of changes in FDI is influenced by other variables not included in the model.

The probabilities are very low in most variables except investment freedom. These could be caused by scarcity of data on economic magnitudes in Namibia and the observations were very few.

5. Conclusions and Recommendations

From the model given and derived from the regression it can be said that taxation is of importance when making policies that encourage investments from abroad. High taxation rates

discourage foreign investments. Exchange rates are not to be ignored. In the model a strict fixed exchange rate erodes exchange rate risk thereby promoting foreign direct investment. Moving away from the managed peg to say flexible exchange rate give rise to the exchange rate risk which erodes business profits and growth prospects.

Not forgetting the investment freedom, it's an important variable that attracts surplus units from abroad. When a country allows well-wishers to take risks and engage in projects it attract foreign investors who are willing to enter in a certain industry to invest. Rule of law was negative meaning that the laws in Namibia are not favorable or conducive to attract investments.

5.1 Recommendations to future researchers and policy makers

Taxes, the exchange rate, investment freedom and the rule of law are issues to be addressed carefully if Namibia is to experience an increase in foreign direct investment. Whilst the government's move to fix exchange rates is commendable, the rule of law should be improved and maintained.

Investors although they want more profits, they also want their investments to be secured to make sure that they don't lose their property. Only laws can protect foreign investors. It is highly commendable that the government of Namibia revise their laws and enforce them without favour.

The government should review and reduce their taxes to promote investment in Namibia. Although it is one of the major sources of income, great care should be taken when deciding profit and income taxes. Lastly the regression analysis showed a small percentage of 24.47% meaning that the variables in question can only affect foreign investment to that extent. 75.53% is explained by other qualitative variables outside the model like bilateral agreements and trade agreements.

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