Change in the ruling political party in the United States of America and its effect on the flow of foreign direct investment into the East African Federation recipient countries from 1981-2017

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Abstract:

This paper investigates the effect of change in ruling political party in the United States of America on the bilateral flow of Foreign Direct Investment to five emerging East African countries namely Burundi, Kenya, Rwanda, Tanzania and Uganda between 1981-2017. I control for the political regime, GDP, population, trade openness, government expenditure, natural resources, economic growth and inflation proceeds using the ordinary least square method or linear regression to exploit the relationship between the change in ruling political party in the USA and the flow of foreign direct investment in the recipient countries. The results suggest that the five East African Federation countries tend to be less dependent on US FDI when the US is under the control of a Republican. More also, the findings indicate that when a Republican President is in power autocratic states attract less FDI as compared to when a Democrat is in power in the US. The paper also provides some future research questions and policies recommendations about the study.

KEYWORDS: Foreign Direct Investment (FDI), East African Federation (EAF), Change in Ruling Political Party

CHAPTER-1-INTRODUCTION

Background: Change in the Ruling Political Party and FDI

Hofmeister and Grabow (2011), and Weissenbach, (2010), define a ruling party or alliance as a group of organized people with common views who come together and attain power within a given government with common goals. The alliance or party is always responsible for governing, fostering, proposing, administering and agreeing on proposed programs and policies in order to achieve collective objectives of their supporters and interests in areas or affairs of a given state in sectors such as human development, infrastructure, strengthening both local and international relationships within their boundaries and in other states.

Hofmeister and Grabow (2011), and Weissenbach (2010), state that many countries, such as, Kenya, South Africa, Nigeria, Tanzania, Uganda, Hungary, Austria, Germany, and India, have different kinds of ruling political parties; some nations are considered to have a one-party and whereas others have a multiparty system. However, the United States of America is in practice considered to be a two-party system although with numerous smaller alliances which also participate and have a high degree of autonomy for individual candidates. According to Hofmeister and Grabow (2011), and Weissenbach (2010), in many countries the ruling party is considered to be the party with the elected president who is in charge of the executive branch of the government though, in the American style a presidential system, the ruling political party president does not always necessarily have the legislative majority. However, it is very important to note that change in a country's ruling party can bring about changes which may be perceived to be both beneficial and detrimental within the boundaries of a given country.

For many developing countries which heavily rely on foreign direct investment for economic development, Hofmeister and Grabow (2011), Kristina Weissenbach (2010), notes that such economies' have many researchers, scholars, and laypeople from disciplines such as political science, economics and development have gained interest in the study of change in ruling political party or succession. Change in ruling political parties has been perceived to have huge repercussions on investments basically because it brings in different ruling political parties which enact different policies which act as guidelines for their domestic economic players and for the international community, such policies are normally based on their economic ideologies on FDI and in the long run such policies can lead to economic slowdown. Policies can highly deter the flow of FDI to developing countries since the reaction of all economic actors in a given country can be highly affected by how the governments decide on how to control its economic conditions with regards to policies. For example, in a struggling economy, the government may tend to limit the outflow of FDI to developing countries, it can change investment policies for multinational companies, and in cases when the FDI was coming from the governments, it can divert the funds that it was using in FDI to either create jobs, invest in infrastructure in their countries and this will, in turn, affect the flow of FDI to the recipient countries, as a result, the receiving economies will slow down in terms of development, standards of living, rule of law, etc. This makes it essential for recipient countries of foreign direct investment to be aware of the trends that come with the changes in ruling political party on the flow of FDI because it helps the recipient countries to acquire devise strategies on how to plan better for their countries in case change occurs.

It is important to point out the significance of political aspects and institutions in determining the flow of FDI it has been over the years emphasized in political science, economics and liabilities that are transferred among investors or non-residents firms or individuals and resident firms, enterprises or individuals as argued by Michal and Kouba (2015).

In this paper, foreign direct investment inflow (FDI) will be defined according to UNCTAD (2007) OECD (1996), which suggest that it is as an *"investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)"* FDI involves both capital and initial transactions between two among all the affiliated companies.

Foreign direct investment has been proved to be very essential and instrumental in leading to sustainable economic development and democracy since the beginning of the 1900s. With the growth of globalization and trade openness in the 20th century, FDI flows have been substantial and accounted for a great fraction of development in emerging countries, according to UNCTAD (2005). Held et al (1999), and his co-author have also investigated how the world is transforming and noted that foreign direct investment inflows within the globe is growing on a faster-pence has accounted for 70% of the world trade which makes it an essential contributor to economic growth in developing countries especially in Africa. According to Ozawa (2011), argued that FDI can be instrumental to developing countries because it helps such countries to acquire an industrial manufacturing base which, in turn, helps these countries to achieve export competitiveness.

In addition, the literature is becoming increasingly concerned with questions such as, to what extent does advancement in institutions and policies contribute to the attraction FDI in developing countries? With hypothesis such as when a country becomes more democratic, it increases the country's ability to attract more FDI, which in turn helps the country to achieve economic benefits according to Li and Resnick (2003). Seyedashkan et al (2014), examined political regimes in 31 upper middle states and the flow of FDI to these countries between 1990-2011 and their findings concluded that the level of democracy in the recipient countries improves or attracts the flow of FDI. They conclude that transition states are becoming intensively interested in reforming institutions and policies in order to attract the flow of FDI in their countries. Policy analyst have always claimed that states which have good institutions will always tend to entice more FDI, though recent investigations conclude that the relationship is mixed. In contrast, is Blonigen (2005), argues in favor of institutions though he also provides some evidence against government institutions and policies. However, though the above scholars and researchers have tried to examine FDI to developing economies, none of the studies have taken into account how political parties from FDI originating countries affect the flow of FDI.
Over the past years, more emerging countries are becoming FDI importers through implementing policies that offer incentives for states and companies that tend to decide to invest in their countries. Intriguingly, within the advanced countries that are offering FDI to developing countries, they are democratic, autocratic and some transition economies, with countries such as the United States of America in the first place, China, German, England and so on. In contrast, the emerging countries that are attracting FDI are either autocratic, democratic or hybrid regimes with countries such as Burundi, Kenya, Rwanda, Tanzania, and Uganda.

Theory on country selection

United States of America

According to OECD (2018), Turning tides (2018), World Report on Investment (2018), Statista (2017), the USA is still the leading investor and exporter in FDI worldwide ahead of its counterparts from Europe and Asia. Over recent years, the US Foreign FDI flows have been sharply increasing around the world.

According to Turning Tide (2018), the US was responsible for more than 43% growth in the flow of FDI to Africa in 2017. The United States of America has been very instrumental in the development of Africa and has come up with several trade agreements with countries on the African continent. In the year 2000, the US signed an act with African countries commonly known as the African Growth and Opportunity Act of 2000 (AGOA) it is aimed at increasing the amount of trade, FDI, democracy and development on the continent according to AGOA (2000). However, its functionality highly depends on the ruling political party within the US, because different parties tend to have different objectives regarding trade, investment, economic growth, and democracy. As can be witnessed in many countries, changes the in ruling political party in every nation create achievements and burdens not only within a given country's domestic borders but also on the international scene at large. That is why this paper will argue that change in the ruling political parties can have both positive and negative repercussions on the flow of foreign direct investment to a given country depending on which political party is in control in the US. Such changes bring about new policies in sectors like investments, trade, politics, military reforms in both the local and international aspects.

For example, Nau (1984-1985), argues that from 1981 to 1989, President Ronald Reagan of the USA introduced foreign policies that were aimed at regulating the flow of capital and trade from the US. According to BBC (2019), in the USA presidential campaigns, President Trump embarked on unfair trade practices between the US and China. When he was sworn in as President and the world witnessed two giants fighting for their share of the world in regard to trade and investment benefits, BBC (2019), little did the world know that such uncertainties can have high repercussions on the flow of trade and investment worldwide.

Zondi (2018), states that in the long run, the trade war escalated, and it has caused a lot of reforms within the USA in almost all sectors of the country. According to Zondi (2018), Rwanda is one of the countries in the EAF states that have suffered in the trade war, it was suspended from the free trade area in regards to the AGOA growth opportunity act, and this made African leaders believe that the continent was in perils and it had begun to feel the burden of the trade war reforms.

Turning tides (2018) and Freedom House (2018) state that the US is the global leader of exporting FDI, the country is also well known for its good institutions, policies, the level of democracy and is considered one of the developed economies hence this is the reason why this paper will take the US into account as a sample in the model.

According to Kuwonu (2015), he states that Africa, as a continent is perceived to be lagging behind from the field of democracy, development, trade, policies, investment and is characterized by poverty. However, for Africa to overcome its problems, the continent requires a lot of investments in all sectors that constitute a smooth running of the continent from physical infrastructure such as roads, hospitals, schools to manufacturing sectors. For many African states, one of the ways to achieve this is through what most researcher and scholars' term as attracting foreign direct investment (FDI).

East African Federation countries Burundi, Kenya, Rwanda, Tanzania and Uganda.

Ministry of East African community affairs (2017), stated that a meeting was held in Tanzania where six East African countries adopted a political confederation to act as a model for transitional. Havyarimana (2018), Ministry of East African community affairs (2017), and the World Bank (2017) stated that in 2018 a committee of domestic constitution experts was selected and started to draft a constitution to form the East African federation; the objective of this is to create a federation with a uniformed common market, political federation, customs union, monetary union, and a shared cultural identity. A confederation can be termed as a relationship between sovereign states that come together and unite to achieve similar objectives, it is projected that the East African Federation will become the biggest country in Africa, 10^{th} biggest in the world and second most populated country in Africa after Nigeria according to the World Bank (2017).

In respect to the above developments, it is important to note that according to UNCTAD (2017) and Turning tides (2018), they stated that East Africa is the fastest growing region on the African continent classification with regards to the flow of FDI, in 2017, the region received more than $7.6 billion in FDI, with Kenya seeing an increase of $ 672 million which came as a result of strong national demand for communication and information technology.

Turning tides (2018), points out that regional integration within the EAF countries is one of the reasons why the region is performing better and attracting much more FDI, this paper will seek to understand the role parties in FDI originating countries play in the flow of FDI to such countries. By focusing on the change in ruling political party in the US and how it affects the flow of FDI in the five countries in order to analyze the correlation between FDI and the parties in concern and which political party offers significant results for better economic growth within the observed region, this may help policymakers in the region adjust their policy formation or even the five EAF states may consider other means of attracting more FDI inflows from other states such as China and the European Union in order to achieve sustainable development within the federation, moreover it will also help us understand whether which kind of political system in these countries attracts more US foreign direct investment within the EAF region in respect to democratic or autocracy.

The years in observation in this paper 36 years from the period of United States President Ronald Reagan, the main theory behind these years is that this was the period when the US had just come from the cold war and President Reagan introduced his foreign policy which was argued by Nau (1984, 1985), that the policies were so domestic centered and restricted international trade. Nau (1984, 1985) states that trade and capital flows were so sensitive during this time that national policies could not cope with the new realities that were prevailing. It is also important to note that President Ronald Reagan was a Republican during that particular time according to the Telegraph (2017), and in 2017, the United States of America elected another Republican President Donald Trump who has also come up with policies ranging from trade, investment, international relations and rewriting old trade policies that existed before. Due to data limitation, this paper will not cover the period of President Donald Trump and it will also leave out South Sudan which is also a newly integrated member of the East African Federation in the observation.

Research question?

Since the aim of this paper is not to develop a new theory but rather test existing theories in a different way, the paper will take up from where the studies of political regimes and change have left off, with a guiding concern, which is not the change in the ruling party, leadership or democracy of the recipient country but rather the change in the ruling party of the country where the foreign direct investment funds are originating from as the subject matter for this research in order to try and fill the missing gap in the literature. Based on a large set of data and more than seven control variables and estimation techniques, this paper will address the following emerging questions. (1) What is the relationship between a change in the ruling political party in the US on the flow of FDI to the five East African federation countries: Burundi, Kenya, Rwanda, Tanzania, and Uganda? (2) How significant are political parties from FDI originating countries in determining the flow of FDI? The paper will assess whether there is a significant correlation between change in the ruling political party in the US and the flow of FDI to the five East African Federation countries over a period of 36 years.

In order to answer this question, the paper develops the following hypotheses. First, the research will take on a deductive design in since the core objective of the development is not to create a new concept as in most inductive research papers but rather to test the already existing theories and my research hypothesis. Regarding the method, the paper will employ a quantitative methodological tool ordinary least square method, in order to test if my research hypotheses (H1) stands, that is, whether the change in the ruling political party in the US has any significant correlation with the flow of FDI.

As a matter of fact, the fundamental objective of my paper is to test the following two hypotheses:

Hypotheses

Null Hypothesis (H0): All other things being equal, changes in the ruling political party within the USA has no significant repercussions on the flow of foreign direct investment in the five East African federation countries.

Research Hypothesis (H1): With all other factors being equal, changes in the ruling political party in the USA are likely to have significant effects on the flow of foreign direct investment in the five East African federation states.

The remainder of this paper will be organized as follows: Chapter two will discuss some of the important theoretical literature and arguments connecting institutions to the flow of FDI and critically reviews the recent empirical literature, chapter three presents the data and methodology applied in the study, chapter four the empirical results and chapter five will offer you with the conclusion, policy recommendations, and future research questions to be explored.

CHAPTER-2-SELECTED LITERATURE REVIEW

The development in research on the FDI and its determinants has attracted extensive literature as a result of increased economic growth prospects in different countries over the past decades. Alfaro et al. (2008) highlights that these developments have been linked to the nature of institutional frameworks and with increased developments in foreign capital inflow. The relationship between foreign capital inflow and economic growth has also been linked with the quality of institutions and the standards existing in developed and developing countries Moran (1998) and Thiam (2006) and Alam et al., (2013). The availability of strong laws in domestic institutions encourages bilateral investment treaties in developing countries which increases the amount of foreign capital inflows Neumayer and Spess (2005). Therefore, the process of encouraging bilateral treaties in most developing countries to attract higher FDI also shapes the nature of governance in some countries which is a key factor for international business corporations in terms FDI inflows Elkins et al., (2006).

Developing countries have explicitly increased their abilities to attract FDI since the twenty-first century due to their development in institutional frameworks, availability of resources, increased infrastructure development, the changing nature of labor force skills among others. According to several studies done in several countries such as Greene and Villanueva (1991) studied seven developing countries Singhania and Gupta (2011) studied India Azam and Gupta and Singhania, M. on India, Indonesia and Pakistan in 2010; Miskinis and Juozenaite (2015) on Greece, Ireland, and the Netherlands; Rangkakulnuwat and Paweenawat, 2015 on ASEAN countries, show that factors such as per capita income, commercial interest rates, external indebtedness, trade openness, the exchange rate are key significant in shaping FDI flows in different countries. Other literatures also postulate that the political, legal, and macroeconomic factors are key significant as well in determining the FDI inflow to developing countries Onyeiwu and Shrestha (2004) Jadhav (2012) and De Castro et al., (2013) and Bokpin et al., (2015) and Masron (2017).

Political institutions and the degree upon which economic performances of various countries has attracted attention from different researchers and policymakers in this modern era. North and Thomas (1973) highlights that the developments in capital accumulation, innovation, per capita income among other factors have encouraged a country's economic and development. Similarly, the institutional abilities have been so instrumental in promoting growth and developments in different countries like for the case of North and South Korea having almost the same economic model but differences in their economic outcomes. The presence of different institutional capacities has attributed to higher GDP in South Korea than the North Acemoglu et al. (2006). Foreign investments directly focusing on the boosting economic growth are highly common in countries with high and secure protected property rights where people are motivated to make domestic and foreign investments. Poor institutions can hinder the foreign direct investments by increasing the costs of FDI in situations when they are acting as tax operators Buchanan et al. (2012), hence impede the cost of doing business by the nature of institutional weaknesses created Mengistu and Adhikary (2011).

The nature of political institutions influences FDI and other foreign investors to invest in different ways. Harms and Ursprung (2002) explains that the strong democratic institutions enhance the flow of FDI in such countries whereas countries with least or less strong institutions often experience less developments in terms and attract less FDI. Several researchers find that the quality of institutions is highly and positively related to FDI for instance in Asia and Latin America Gani (2007) and Ullah and Khan (2017). FDI in developing countries is highly determined institutional and cultural determinants in the way that investors like to do business in countries which politically stable and less diverse societies Lucke and Eichler (2016). The institutional quality has a positive and significant impact on FDI flow in both developed and developing countries. Peres et al. (2018) measures institutional quality in developing and developed countries through looking at the nature of corruption and rule of law situations. The institutional impact of FDI inflow is therefore linked to nature and quality of political institutions in both developed and developing countries. However, this paper will use the above literature review as a ground to explore the change in political parties in the US and how it affects the flow of FDI to the EAF states, it is important to note that most of the literature that has explored institutions as has been observed recipient countries, there is limitation in literature that basically researches about institutions or political parties of the FDI originating economies for the case of the paper the US.

CHAPTER-3-DATA AND METHODOLOGY

In this paper, the empirical analysis covers the amount of money in form of FDI from the United States of America as the originating country to Burundi, Kenya, Rwanda, Tanzania and Uganda as the recipient countries from 1981 to 2017. These countries demonstrate differences in the amount of FDI inflows, levels of democracy and economic growth features over time, in turn, this makes them suitable for carrying out a statistical analysis. The dependent variable is computed by the net FDI outflows from the US to the five EAF countries.

Utilizing this representation, the dependent variable explains the perception of each of the EAF countries in the sample on its FDI inflow as is measured in regard to the others. Because most of the literature on FDI is in quantitative studies, the paper will employ the quantitative methodological tool, which will be computed by the application of econometrical models such as the ordinary least square method (OLS) or linear regression, run a historical time series regression, then add more than 6 variables and use statistical analytical software (STATA) in order to test and interpret that relationship and to test my research hypotheses (H1) is significant. This method is appropriate in investigating the correlation that persists within a given time period.

Independent variable

This paper will compute change in the ruling political party in the US in years as a measure of the types of ruling political parties within the country over the period of 1981-2017 in the sample. Presidents with their party affiliation years in the US have been published frequently over the years in reports such as Miler Center of Public Affairs (2019) the Telegraph reporters (2017). The change in ruling political party will cover presidents from Ronald Wilson Reagan 1981-1989, George H.W. Bush 1989-1993, Bill Clinton 1993-2001, George W. Bush 2001-2009 and Barack Obama 2009-2017 according to the Telegraph reporters (2017). Unfortunately, the paper will leave out President Donald Trump 2017-present because of limitations in data within the years of his presidency

In this case, the paper will encompass 36 years the in survey, during this period, the US has only had two parties, Republican and Democrats, the paper will assign categorical variable weights to the given parties with 1 for Republican and zero for Democrats in the regressions, to examine if there is a correlation with Republican-affiliated party in the flow of FDI to the EAF countries, following Torres-Reyna (2007), Grotenhuis (2015) in assigning weights to categorical variables. It is important for the EAF countries to understand the flow of FDI in regard to party type in the US because it is particularly FDI that is regarded as an important contributor to sustainable economic growth. Within the data set, the paper generates a variable renamed repub with a value of 1 which is a dummy variable for the political party republican. This variable takes on the value 1 when a Republican is in power and 0 when a Democrat is in power.

Dependent Variable

The flow of FDI in the EAF countries is the dependent variable, it is measured in billions of US dollars since the paper only accounts for the FDI that comes from the US each year. FDI in this paper is defined according to UNCTAD (2007). This computation corresponds with the principal research question of this study. Does a change in the ruling political party support or threaten the inflow of foreign direct investment inflows to the five EAF countries? The data of the US flow of FDI to the five EAF countries were retrieved from the World Bank (2019). After running a couple of regression in the data set, the paper creates a variable FDI_perc to represent the dependent variable which is measured by FDI divided by GDP then multiplied by 100.

Control Variables

The paper employs more than 7 most significant variables of FDI in the model to improve the estimation technique and account for the possibility of omitted variables. According to the available literature, most of the studies which have investigated the phenomena account for political regime of the recipient country, economic growth and trade openness, however, on top of these, this paper will add gross domestic product (GDP), government spending, natural resources rents, population, inflation levels of the host country.

Political Regime

In order to measure the effect of political regime type and the flow of FDI from the US to the EAF countries, this paper applies data from the Polity level IV database (2018), which has data of over 167 countries that have a population of more than 500,000; it codes the political regime by using a Polity score which computes a regime type on point scale with -10 to +10 and these scores can be converted to suite a regime type within three categories in “autocracies (-10 to -6), anocracies (-5 to +5) and three special values: -66, -77 and -88, and democracies (+6 to +10)” according to Center of Systematic Peace (2018). Polity IV Score measures are trusted and well known by many researchers for their computation of the type of regimes that exist in a given country, the data set applies five computations to measure autocracy and democracy such as, the level of competition that exists within the participating political parties, the nature of regulation that is existent in the participating political parties, the level of competition available in recruiting executives in a given country, the nature of openness in the recruiting of the executives mentioned above, and the nature of limitations the chief executive faces. Taking all the above in account, controlling for political regime type will help us to answer two questions, whether generally political parties affect the flow of FDI in the EAF countries or the developing question whether democracies or autocracies within the EAF receive the highest amount of FDI inflows from the US when a republican or democrat is in office. In the dataset when running the regression, the study creates a dummy variable named demo1, this variable takes on the number 1 for any positive level of democracy in a given country within the EAF countries and 0 to any country with a negative level of democracy say autocratic. Biglaiser et al (2010), investigated if democracy matters in the flow of FDI from the US to Latin American states, their findings suggest that democracy does not actually matter in the flow of FDI from the US when they consider the objectives of the investors to the Latin American states, however, other institutions in these economies may matter. In the case of the EAF states, we our finding hope to get different results as compared to these of Biglaiser et al (2010).

Natural resource rents

Asiedu (2013), has investigated the relationship between FDI and natural resource on a panel of 99 developing countries in Sub-Sahara Africa using six computations of institutional worth-ness. She applied two distinct sources and two proportions measurement of natural resources in her study. Though her findings suggested that resources have a negative effect on the flow of FDI, she found that institutions had adverse impact on natural resources. Total natural resource rents in this paper are estimates from the World Bank (2011), which mainly computes natural resources and its contribution to GDP of a given country in order to investigate the effect of a change in political party in the US this paper applies natural resources as a percent of GDP from the World Development Indicators (2011). The total of natural resource rents are all the sums of oil, natural gas, coal, mineral and forest rents in the five EAF countries.

Gross domestic product per capita constant (USD)

Gross Domestic Product as a computation, in this paper portrays in this study is any value added by any residents who take part in the production sector of a given country added to product tax then subtract subsidies that are not included on the product value. Increasingly fundamental is GDP per capita of a country, not only does it reveal the normal standard of living of a given country, but it also reflects the real market size of the MNCs. It is important to note that the size of the domestic market in a given country before investors decide to invest in that state plays a fundamental role in attracting the flow FDI to developing countries, particularly FDI which is constrained by investors seeking for market for the finished products, basically firms may prefer to invest in a given country in order to acquire a given share of the countries market, GDP, by showing the consumption perspective of the FDI recipient country helps the investors to understand the market structures, as contended by caves (2007), Lucas (1993) that most investors may prefer investing in countries where they can obtain a significant market share. kurgell (2005), concludes that GDP may has significant impacts on the flow on FDI. Data for GDP is retrieved from the world bank (2011), it is computed in US dollars because GDP is converted from the exchange rates of the countries the in study.

Population

World Bank (2017), defines population as a de facto distinctness which computes a given country’s residents irrespective of the legal status. Population in this paper is used because of its influence on the labor force and market size as some investors may tend to invest in countries with high population because of the abundant labor supply and market to consume their products. Some of the papers such as Zurawicki et al (2002), who included population in their studies conclude that large markets provide a reasonable scope for investment. This paper assumes that FDI inflows from the US will be positively correlated to the population of a given country.

Government spending as a percent of GDP

Norashida et al (2018), argues that keeping other things constant, government expenditure will always have a positive effect on the flow of FDI. In their study, they examined the flow of FDI using 7 countries for a period of 34 years by applying the pooled mean group on countries such as India, Thailand, Indonesia, China, Philippines and Singapore. Their findings suggest that governments should spend on economic activities which lead to economic growth and this will in the long run increase the flow of FDI. This paper takes data for government spending as a percent of GDP form The Global Economy dataset (2019), which takes into account general final consumption and spending's of all recent government expenses for purchasing of services and goods and which also accounts for reimbursement of employees, expenses for the domestic security and defense although it leaves out some of the government capital establishments such as military expenses. This paper assumes that government expenditure will have significant effects on the flow of FDI to the five East African Federation countries.

Inflation

Seddeke and Rahman (2016), have analyzed the relationship between inflation and FDI using multiple regression, correlation matrix and stationary tests, on Bangladesh for a five-year period and their findings indicated that FDI and inflation are negatively correlated. This paper will define inflation as the percentage increase in the price level in a given country under the investigation. It is perceived that as funds from FDI flow into a given economy, a state which is characterized by poor policies dealing in regulating the flow and the level of circulation of money and commodities will see their total demand of products growing faster than the total supply and this will in turn lead to inflation. Data of inflation used in this paper was precisely collected from the Global Economy, (2019).

Economic growth

The Global Economy (2019), computes economic growth of GDP as the yearly progression of a given country's GDP with sums which are normally reported in constant US dollars. Gross domestic products are the sums of the overall value added in regard to all resident manufacturers in a given country. And since economic growth is always perceived to attract more FDI inflows within a given country. Many foreign investors who are associated with maximizing profits are assumed to always be drawn to fast-growing countries in order to benefit from the forthcoming market opportunities. Kotrajaras et al (2011), have examined the effects of FDI on economic growth in more than 24 East Asian recipient countries, the results indicate that economic growth has a positive relationship with the flow of FDI. Their study finds that some of the other factors that favor the flow of FDI to the East Asian recipient countries where institutions, good governance and better policies, however the countries they studied needed to improve their infrastructure, investment climate, human capital development in order to attract more FDI in the region. Data for economic growth for the five EAF countries was taken from the Global Economy in (2019). This paper predicts that economic growth will have positive effects on the flow of FDI in the five EAF countries in survey.

Trade Openness

Fakher (2011), explores institutions quality and the flow of FDI and trade in Egypt, for a period of 15 years, his findings suggest that there is a positive relationship between FDI, trade and institutions; better institutions attract trade and FDI within a given country. Yusoff and Nuh (2015), examine trade openness and FDI in Thailand, the authors concluded that trade openness has a link with the flow of FDI; the more the country is open to trade, the more flow of FDI. In this paper, trade openness is defined as the level at which the five EAF recipient countries are exposed to the rest of the world in terms of trade, data of openness is derived from The Global Economy (2019). This paper expects trade openness to have positive the results in the analysis after running the regressions.

Method

To analyze the impact of the change in political party in the US on the flow of FDI, this paper has applied the econometric ordinary least square method also known as the linear regression method, it helps to uncover complex relationships on different variances over time.

Regardless that the OLS has been proved to be superior, the model is assumed to contain some error terms within the correlation such as heteroskedasticity autocorrelations. Robustness checks will be applied to check for such errors as pointed out by Torres-Reyna (2007).

To run this model, the study constructed values for the variable political party affiliation by applying the categorical variable indicators model following: Torres-Reyna (2007) and Grotenhuis (2015), which is considered to be the independent variable which depends on year in office and political party, the dependent variable FDI was applied as a percentage of GDP for the countries over the stated period of time. These variables will be key in analyzing the relation in the statistical model. It should be noted that, the relationship between the variables will be checked to analyze the gravity of the link, then after the simple linear regression will be run which will help us to forecast, explain the results and variances that exist between the two variables and the control variables as argued by Torres-Reyna (2007).

Model

This model focuses on the change in ruling political party has on the flow of the US FDI of the selected East African Federation countries. It is normally assumed that such funds always have a lot of implications on the recipient economies. The impact of these funds could have either negative or positive implications depending on how they are invested into a given country.

US Political part as the independent (repub), US FDI, Inflation, Population, GDP Per capita constant, Political regime (Demo1), Trade openness, Natural Resources Rent, Economic growth change in real GDP, government spending,

US Political party = $\beta_0 + \beta_1 fdi\_perc_{it} + \beta_2 repub_{it} + \beta_3 ln\_GDP_{it} + \beta_4 tradeopeness_{it} + \beta_5 governmentspending_{it} + \beta_6 naturalresources_{it} + \beta_7 Economicgrowth_{it} + \beta_8 ln\_population_{it} + \beta_9 inflation + \beta_{10} Demo1_{it} + U_{it}$

CHAPTER-4-EMPRICAL FINDINGS

Empirical Results

This model examines the impact a change in the ruling political party in the US can bring about on foreign direct investment from a selected panel of EAF countries. Furthermore, it tests the hypothesis which states that a change in the ruling political party in the US has significant repercussions on the flow of foreign direct investment on countries that heavily rely on FDI for development.

Table 1 presents the summary of all the variables in the study, the total number of for each variable should be 185 observations, however, some variables have missing observations within the data set, more also it is important to note that the variables Repub is a dummy variable for the US when the president in power is a Republican, it is coded with the number 1 in the maximum column, in the minimum column we have 0 which stand for the Democrats in the dataset, another variable with a dummy is the political regime in the EAF recipient countries which is denoted with Demo1, this dummy stands for countries which are democratic in a given time, it carries the weight of 1 and 0 when a country is anything else which is not democratic.

Table 1 shows the summarized data of the variables in study

Variable	Observations	Mean	Std. Dev.	Min	Max
fdi_perc	167	1.273783	1.536708	-.1121708	5.663728
repub (Political party)	185	.5675676	.496758	0	1
ln_gdp	177	22.76951	1.167107	20.92979	24.7856
Trade openness	175	41.702	12.25868	.5	72.86
Government expenditure	173	14.79439	4.392356	6.97	31.57
Natural resources	178	10.80022	7.566685	2.48	40.55
Economic growth	175	4.339086	6.091447	-50.25	35.22
ln_population	185	16.61906	.7524141	15.2561	17.86399
Inflation	170	10.96588	8.776482	-2.4	46
Demo1 (Political regime)	185	.2540541	.4365095	0	1

In this section of the paper will offer you with the results firstly, from the bivariate observation, then move on to the multivariate analysis, then the regressions and lastly check the robustness of the analysis on all the variables and countries in study.

The bivariate analysis will be applied to test the relationships at a 95% interval between the sample of the variables in the study, it will basically look at two paired variables per regression, to test the interaction between the independent and dependent variables then also test the control variables in respect to the dependent variable in examination.

It is important to note that in the data set, FDI is a percentage of GDP and it was renamed fdi_perc and the variable US political party was renamed Repub to represent Republican party which carries a weight of 1 and 0 otherwise. Firstly, the regressions were run on the independent and dependent variables, then the dependent variable was run on all the control variable to observe the link. Fdi_perc and Repub the prob f is 0.0000 at a 95% confidence interval, the two variables have a negative relationship which is at -0.1%, this means that if Republicans are in power, FDI will decrease by 1 unit.

Table 2 shows the regression of the Repub independent variables and fdi_perc dependent variables

Source	SS	df	MS	Number of obs	=	167
				F (1, 165)	=	19.43
Model	41.291775	1	41.291775	Prob > F	=	0.0000
Residual	350.712324	165	2.12552924	R-squared	=	0.1053
				Adj R-squared	=	0.0999
Total	392.004099	166	2.36147048	Root MSE	=	1.4579
fdi_perc	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
Repub (political party)	-.9953719	.2258329	-4.41	0.000	-1.441267	-.5494772
_cons	1.79233	.1630004	11.00	0.000	1.470495	2.114165

Since fdi_perc is representing FDI in our analysis, we moved on to test the bivariate analysis on the control variables in the study, firstly, we tested GDP, the results indicate a positive relationship,1unit of FDI will lead to an increase in the GDP of all countries by 0.05%.

More also was economic growth, in the model when carrying out the bivariate observation was positive by .05% which means that a 1 unit increase in the flow of FDI will increase growth at a 95% interval.

Government spending as a percentage of GDP, the examination showed a negative relationship a 1unit increase in the flow of FDI will decrease the government expenditure by -.08%in the EAF countries.

Inflation, at a 95% interval inflation had a negative correlation with the with FDI, a 1 unit increase in FDI will increase inflation by -.04%%.

Furthermore, we took into account natural resources, the findings are not significant and suggest that a 1unit increase in the flow of FDI will decrease the gains of natural resources by -.02%.

The population was found to be positive, implying that a 1unit increase in FDI will increase the population by .9% in the model.

Political regime denoted by demo1 in the analysis when a country is democratic and 0 when otherwise was negative, a 1 unit increase in FDI will decrease the flow of FDI to autocratic states by -.22%.

Lastly, there was a trade openness, there was a positive relationship with trade openness in the model a 1 unit increase in FDI will increase trade openness by 0.02%.

Table 3 showing the simple linear multivariable regressions

Source	SS	df	MS	Number of obs	=	153
				F (9, 143)	=	11.26
Model	153.57146	9	17.0634955	Prob > F	=	0.0000

Residual	216.708419	143	1.51544349	R-squared	=	0.4147
				Adj R-squared	=	0.3779
Total	370.279878	152	2.43605183	Root MSE	=	1.231
fdi_perc	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
Repub (political party)	-.4628023	.2165092	-2.14	0.034	-.8907743	-.0348303
ln_gdp	-.0538691	.6014691	-0.09	0.929	-1.242788	1.13505
Trade openness	.0038621	.0150022	0.26	0.797	-.0257926	.0335168
Government spending	-.0740084	.0295061	-2.51	0.013	-.1323329	-.015684
Natural resources	.0497291	.0272557	1.82	0.070	-.004147	.1036052
Economic growth	.0616228	.0295181	2.09	0.039	.0032747	.1199709
ln_population	.9901804	.7613084	1.30	0.195	-.514692	2.495053
inflation	-.0410877	.0157244	-2.61	0.010	-.07217	-.0100055
Demo1 (Political regime)	-.390785	.2670847	-1.46	0.146	-.9187293	.1371592
_cons	-12.96434	3.199375	-4.05	0.000	-19.28852	-6.640159

In table 3, with over 153 variables in observation the R square explains 41% of the model at a 95% confidence interval, the P value is statistically significant at a (P>0.05), 5% confidence level, the model can be trusted that a relationship exists on the investigation.

The simple linear regression in table 3 mainly measures the impact of a Change in the ruling party in the US has on the flow of FDI to the five selected East African countries. The other variables in the model help to control for other effects and differentiates the impact of the change in the political party on FDI. In table 3, the regression results explain more than 153 variables in the observation, the independent variables explain 41% of the changes in Political party denoted by Repub for Republicans on the flow of FDI to the EAF countries with a P-value of 0.0000 at a 5% confidence level.

In the test, US political parties Repub is negative and has a statistically significant effect on FDI at a 5% confidence, P-value is statistically significant at 0.0000, implying that the model under analysis can be trusted. This implies that each year when Republicans is in office, we expect a -4% unit decrease in the flow of FDI to the five EAF countries holding other factors constant. The findings support our research hypothesis in the paper that when a Republican is in power, the five East African countries under investigation become less dependent on foreign direct investment from FDI.

The first control variable in this model is GDP, and it has a negative and not statistically significant in relations with FDI. This means that as the GDP per capita of the selected EAF countries increase by 1 unit, FDI flow will decrease by -.0538691 points. The indication implies that for every increase in GDP per capita, there will be less flow of FDI at a 5% confidence interval is predicated by the model.

Trade openness is positive with a coefficient of .0038621 though it is not statistically significant at a 5a5 confidence level, this implies that for every 1 unit increase in openness, a .0038621 unit increase in the flow of FDI is expected in these five EAF countries. Openness does really matter in the flow of FDI, most investor would prefer investing in countries that are open to the flow of imports and exports from other countries this will create a wider market for their finished products.

Government expenditure coefficient is negative -.740084 and statistically significant at a 5% confidence level, this indicates that for every 1 unit increase in government spending, we expect a -.740084 decrease in the flow of FDI is likely to occur in the EAF countries under survey. As assumed in the paper, government expenditure on non-profitable ventures will always affect the flow of FDI in the five EAF countries.

Natural resources coefficient is positive at .0497291 though not statistically significant at a 5% confidence interval, a 1 unit increase in natural resources rents, will increase the flow of FDI by .0497291 in the countries. Victor et al., (2010), states that countries with abundant natural resources will attract a lot of FDI which in turn becomes the natural resource curse. The variable is however statistically significant in the model and does explain the high flow of FDI from the US within the region.

The relationship economic growth is positive with a coefficient of .0616228 and significant, this estimate means that a 1 unit increase in economic growth will increase the flow of FDI by 0616228 in the countries at a 5% confidence interval. Meaning that an increase in the growth of a country will lead to an increase in FDI, a country that is characterized with a high economic growth rate can guarantee multinationals that their investments will be successful in the country they are willing to invest.

The relationship between FDI and population is positive the coefficient of .9901804. An increase in the population of the five EAF countries may lead to an increase in the flow of FDI at a 5% confidence interval. This relationship is not significant, and it does not explain the changes in the flow of FDI in this model. Zurawicki et al (2002), stated that economies with high populations will always attract more FDI, this correlates with the assumption of the paper.

A negative and significant relationship between the control variable inflation and the dependent variable FDI exists with a coefficient of -0.410877, indicating that a unit increase in inflation will decrease the flow of FDI by -0.419877 at a 5% confidence interval in the selected countries. Generally, when the currency of a country losses value, it is expected that investors would be displeased in investing in such an economy and this might lead to a decrease in the flow of FDI. Seddeke and Rahman, (2016), inflation has a negative link with the flow of FDI, a high inflation rate sends a message to investors about high levels of economic volatility in the recipient country and this might be harmful to an investment in the long-run.

Finally, political regime denoted by Demo1 has a negative and not significant coefficient of -.390785 with the flow of FDI, this implies that a 1 unit increase in FDI will increase democracy and reduce autocracy by -.390785 in the EAF at a 5% confidence interval.

Table 4 shows the simple linear regression with the year effect

Source	SS	df	MS	Number of obs	=	153
				F (44, 108)	=	8.42
Model	286.679749	44	6.51544885	Prob > F	=	0
Residual	83.6001288	108	0.77407527	R-squared	=	0.7742
				Adj R-squared	=	0.6822
Total	370.279878	152	2.43605183	Root MSE	=	0.87982
fdi_perc	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
Repub (Political party)	-1.516031	.8819172	-1.72	0.088	-3.264143	0.2320824
ln_gdp	-.5075555	.4799994	-1.06	0.293	-1.458998	0.4438865
Trade openness	-.0163138	.0122602	-1.33	0.186	- 0.0406156	0.007988
Government spending	-.0805414	.0232953	-3.46	0.001	- 0.1267168	-0.034366
Natural resources	.0189318	.0220475	0.86	0.392	- 0.0247701	0.0626337
Economic growth	.0063464	.0252676	0.25	0.802	- 0.0437383	0.0564312
ln_population	1.38334	.614068	2.25	0.026	0.166151	2.60053
inflation	-.0205657	.0141807	-1.45	0.15	- 0.0486744	0.0075429
Demo1 (political regime)	-1.257537	.2336236	-5.38	0	-1.72062	- 0.7944548
year						
1982	-.1965057	.8945941	-0.22	0.827	-1.969746	1.576735
1983	-.6501507	.885366	-0.73	0.464	-2.4051	1.104798
1984	-.7011663	.9039054	-0.78	0.44	-2.492864	1.090531
1985	-.9849678	.8240133	-1.2	0.235	-2.618305	0.6483696
1986	-.9637146	.8207652	-1.17	0.243	-2.590614	0.6631844
1987	-.8944609	.8165146	-1.1	0.276	-2.512935	0.7240127
1988	-.9354837	.8148893	-1.15	0.254	-2.550736	0.6797682
1989	-.9535441	.8207826	-1.16	0.248	-2.580478	0.6733894
1990	-1.098676	.7871393	-1.4	0.166	-2.658923	0.4615706
1991	-1.085973	.7955939	-1.36	0.175	-2.662978	0.491032
1992	-.9847862	.7792373	-1.26	0.209	-2.52937	0.5597974
1993	-.1514074	.8161507	-0.19	0.853	-1.76916	1.466345

1994	-2.085306	.756359	-2.76	0.007	-3.584541	-0.5860716
1995	-2.133586	.7418729	-2.88	0.005	-3.604107	-0.6630655
1996	-2.604971	.707065	-3.68	0	-4.006496	-1.203445
1997	-2.613516	.7096399	-3.68	0	-4.020145	-1.206886
1998	-2.671266	.6966183	-3.83	0	-4.052085	-1.290448
1999	-2.354953	0.7198837	-3.27	0.001	-3.781887	-0.9280183
2000	-2.107994	0.7220512	-2.92	0.004	-3.539224	-0.6767628
2001	-2.153102	0.7025704	-3.06	0.003	-3.545718	-0.7604852
2002	-0.5848061	0.8061646	-0.73	0.47	-2.182764	1.013152
2003	-0.5294819	0.7964513	-0.66	0.508	-2.108187	1.049223
2004	-0.2231273	0.7764934	-0.29	0.774	-1.762272	1.316017
2005	0.3357078	0.7733151	0.43	0.665	-1.197137	1.868553
2006	0.2409025	0.7753638	0.31	0.757	-1.296003	1.777808
2007	1.11087	0.7739097	1.44	0.154	-0.4231533	2.644893
2008	1.41803	0.7798369	1.82	0.072	-0.1277422	2.963802
2009	0.9466224	0.7716323	1.23	0.223	-0.5828866	2.476131
2010	-0.0758356	0.6847869	-0.11	0.912	-1.433202	1.281531
2011	0.056761	0.6839912	0.08	0.934	-1.299028	1.41255
2012	0.8144359	0.6826833	1.19	0.235	-0.5387608	2.167633
2013	1.393598	0.6753314	2.06	0.041	0.0549743	2.732222
2014	0.5835822	0.6735807	0.87	0.388	-0.7515717	1.918736
2015	-0.436074	0.6711757	-0.65	0.517	-1.766461	0.8943127
2016	-0.4775552	0.6484776	-0.74	0.463	-1.76295	0.8078399
2017	0	(omitted)				
_cons	-6.426059	2.827333	-2.27	0.025	-12.03032	-0.8217935

In table 4 above, the year effect was added to analyze the variances in the study, the P-values stayed significant at a 10 % (P<0.1*) confidence interval, the R-square was explaining the model at 77%. The variables government spending and population stayed significant, however, Repub, inflation, stayed negative and not significant, GDP stayed negative and not significant, trade openness moved from positive to negative and not significant, natural resources and economic growth were positive and not significant. Demo1 which is denoted for political regime turned out to be negative and strongly statistically significant. Furthermore, since the year effect was added it could be noticed that the years from 1994 to 2002, the results where negative and with P-values that are statistically significant. After running all the above regressions, the final regression was taken into account to observe how FDI is affected by the change in ruling political parties in the US, the following were the findings.

Robustness Tests

In order to understand the variance within the data, we develop a robustness check to analyze the results obtained in the investigation to make the results less likely to produce a type one standard error. Robustness of the results was checked in the models that the paper developed, the coefficients of the variable, R-square in all the regressions stayed the same as in the simple linear regressions, however, some changes were noticed in the t-values, P-values and the standard errors in the observation.

Table 5 shows a regression of the robustness of the results in the simple linear regression

Linear regression	Number of obs	=	153
	F (9, 143)	=	15.50
	Prob > F	=	0.0000

		R-squared		=		0.4147
		Root MSE		=		1.231
		Robust				
fdi_perc	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
Repub (Political party)	-.4628023	.236409	-1.96	0.052	-.9301102	.0045056
ln_gdp	-.0538691	.6251422	-0.09	0.931	-1.289583	1.181845
Trade openness	.0038621	.0145081	0.27	0.790	-.0248159	.0325401
Government spending	-.0740084	.0260784	-2.84	0.005	-.1255575	-.0224594
Natural resources	.0497291	.0241543	2.06	0.041	.0019834	.0974748
Economic growth	.0616228	.0279648	2.20	0.029	.0063449	.1169007
ln_population	.9901804	.8104498	1.22	0.224	-.6118294	2.59219
inflation	-.0410877	.0135939	-3.02	0.003	-.0679587	-.0142167
Demo1 (Political regime)	-.390785	.2886652	-1.35	0.178	-.9613872	.1798171
_cons	-12.96434	3.2678	-3.97	0.000	-19.42377	-6.504903

In table 5, the robustness test was added to observe how the variables relate to each other, in this test, the coefficients did not change, repub remined negative and significant and supporting our research hypothesis, ln_gdp negative and not significant, government spending negative and strongly significant, inflation was negative and strongly, Demo1 negative and not significant, trade openness positive and not significant, natural resources positive and significant, economic growth positive and significant and lastly ln_population stayed with a positive coefficient but not significant. In contrast, some changes where observed in the P-values, with repub though also not very significant. The overall P-value of the regression stayed statistically significant and the R-square stayed at 0.4147 at a 5% confidence interval.

Table 6 shows a regression of the robustness of the results in the simple linear regression with the I year effect

Linear	regression	Number of obs		=		153
		F (44, 108)		=		12.93
		Prob > F		=		0.0000
		R-squared		=		0.7742
		Root MSE		=		.87982
		Robust				
fdi_perc	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
Repub (Political party)	-1.516031	1.180114	-1.28	0.202	-3.855221	.8231604
ln_gdp	-.5075555	.5434995	-0.93	0.352	-1.584866	.5697547
Trade openness	-.0163138	.0114661	-1.42	0.158	-.0390417	.006414
Government spending	-.0805414	.0208769	-3.86	0.000	-.1219231	-.0391597
Natural resources	.0189318	.0207421	0.91	0.363	-.0221826	.0600462
Economic growth	.0063464	.0215553	0.29	0.769	-.0363799	.0490728
ln_population	1.38334	.7192824	1.92	0.057	-.0424021	2.809083
inflation	-.0205657	.0099184	-2.07	0.041	-.0402257	-.0009058
Demo1 (Political regime)	-1.257537	.2824153	-4.45	0.000	-1.817333	-.6977412
year						
1982	-.1965057	.4044271	-0.49	0.628	-.9981505	.605139
1983	-.6501507	.3529875	-1.84	0.068	-1.349833	.0495318
1984	-.7011663	.3873548	-1.81	0.073	-1.468971	.0666382
1985	-.9849678	.4413076	-2.23	0.028	-1.859716	-.1102195
1986	-.9637146	.4005476	-2.41	0.018	-1.757669	-.1697598
1987	-.8944609	.4033967	-2.22	0.029	-1.694063	-.0948587
1988	-.9354837	.3942182	-2.37	0.019	-1.716893	-.1540748
1989	-.9535441	.4134372	-2.31	0.023	-1.773048	-.1340398
1990	-1.098676	.4472724	-2.46	0.016	-1.985248	-.2121044
1991	-1.085973	.4055705	-2.68	0.009	-1.889884	-.2820619
1992	-.9847862	.386585	-2.55	0.012	-1.751065	-.2185076
1993	-.1514074	.5893688	-0.26	0.798	-1.319639	1.016824

1994	-2.085306	1.155465	-1.80	0.074	-4.375638	.2050253
1995	-2.133586	1.155253	-1.85	0.068	-4.423499	.1563261
1996	-2.604971	1.047007	-2.49	0.014	-4.680321	-.5296204
1997	-2.613516	1.064719	-2.45	0.016	-4.723973	-.5030586
1998	-2.671266	1.053958	-2.53	0.013	-4.760394	-.5821384
1999	-2.354953	1.127034	-2.09	0.039	-4.588929	-.1209767
2000	-2.107994	1.073053	-1.96	0.052	-4.23497	.0189831
2001	-2.153102	1.09371	-1.97	0.052	-4.321024	.0148214
2002	-.5848061	.4990206	-1.17	0.244	-1.573951	.4043393
2003	-.5294819	.5011742	-1.06	0.293	-1.522896	.4639324
2004	-.2231273	.4705082	-0.47	0.636	-1.155756	.7095016
2005	.3357078	.6219591	0.54	0.590	-.897123	1.568539
2006	.2409025	.6278953	0.38	0.702	-1.003695	1.4855
2007	1.11087	.5870868	1.89	0.061	-.0528378	2.274578
2008	1.41803	.642483	2.21	0.029	.144517	2.691543
2009	.9466224	.5455457	1.74	0.086	-.1347437	2.027989
2010	-.0758356	1.31973	-0.06	0.954	-2.691769	2.540098
2011	.056761	1.15578	0.05	0.961	-2.234196	2.347718
2012	.8144359	1.104549	0.74	0.463	-1.374971	3.003843
2013	1.393598	1.216774	1.15	0.255	-1.018259	3.805456
2014	.5835822	1.131985	0.52	0.607	-1.660208	2.827373
2015	-.436074	1.129987	-0.39	0.700	-2.675904	1.803756
2016	-.4775552	1.212817	-0.39	0.695	-2.881568	1.926457
2017	0	(omitted)				
_cons	-6.426059	3.316132	-1.94	0.055	-12.99921	.1470902

In table 6, the robustness test was added with the year effect, the coefficients did not change much from those of table 4 however the P-value changed and shifted the variance, repub remined negative and not statistically significant, ln_gdp, trade openness, natural resources, and economic growth all remained negative and not significant, government spending negative and strongly significant, inflation was negative and significant, Demo1 negative and strongly statistically significant. In contrast, some changes where observed in the P-values, with repub though also not very significant. The overall P-value of the regression stayed statistically significant and the R-square stayed at 0.4147 at a 5% confidence interval.

Table 7 will present you with the overall results of the model on the effects of change in political party on the flow of foreign direct investment in four exemplary descriptions.

	(1) fdi_perc	(2) fdi_perc	(3) fdi_perc	(4) fdi_perc
Repub (Political party)				
	(0.226)	(0.208)	(0.217)	(0.882)
ln_gdp		0.531***	-0.0539	-0.508
		(0.0905)	(0.601)	(0.480)
Trade openness			0.00386	-0.0163
			(0.0150)	(0.0123)
Government spending			-0.0740**	-0.0805***
			(0.0295)	(0.0233)
Natural resources			0.0497*	0.0189
			(0.0273)	(0.0220)
Economic growth			0.0616**	0.00635
			(0.0295)	(0.0253)
ln_population			0.990	1.383**
			(0.761)	(0.614)
inflation			-0.0411***	-0.0206
			(0.0157)	(0.0142)
Demo1 (Political regime)			-0.391	-1.258***

	(0.267)	(0.234)
1982.year		-0.197
		(0.895)
1983.year		-0.650
		(0.885)
1984.year		-0.701
		(0.904)
1985.year		-0.985
		(0.824)
1986.year		-0.964
		(0.821)
1987.year		-0.894
		(0.817)
1988.year		-0.935
		(0.815)
1989.year		-0.954
		(0.821)
1990.year		-1.099
		(0.787)
1991.year		-1.086
		(0.796)
1992.year		-0.985
		(0.779)
1993.year		-0.151
		(0.816)
1994.year		-2.085***
		(0.756)
1995.year		-2.134***
		(0.742)
1996.year		-2.605***
		(0.707)
1997.year		-2.614***
		(0.710)
1998.year		-2.671***
		(0.697)
1999.year		-2.355***
		(0.720)
2000.year		-2.108***
		(0.722)
2001.year		-2.153***
		(0.703)
2002.year		-0.585
		(0.806)
2003.year		-0.529
		(0.796)
2004.year		-0.223
		(0.776)
2005.year		0.336
		(0.773)
2006.year		0.241
		(0.775)
2007.year		1.111
		(0.774)
2008.year		1.418*
		(0.780)
2009.year		0.947
		(0.772)
2010.year		-0.0758

				(0.685)
2011.year				0.0568
				(0.684)
2012.year				0.814
				(0.683)
2013.year				1.394**
				(0.675)
2014.year				0.584
				(0.674)
2015.year				-0.436
				(0.671)
2016.year				-0.478
				(0.648)
_cons	1.792***	-10.42***	-12.96***	-6.426**
	(0.163)	(2.088)	(3.199)	(2.827)
N	167	167	153	153
R-sq	0.105	0.260	0.415	0.774
adj. R-sq	0.100	0.251	0.378	0.682

Standard errors in parentheses.
* p<0.10, ** p<0.05, *** p<0.01
"Year dummies are not included in model 4"

In column 1, the independent and dependent variables where examined that is fdi_perc and Republican denoted by a dummy Repub, the results are negative and statistically strong, they support the research hypothesis in the paper that the flow of FDI reduces in amount when a Republican is in power in the five East African countries.

In the second Colum, fdi_perc the dependent variable and the independent Repub where examined but in this case a control variable l_n GDP was added, it is important in this paper to examine the relationship of ln_gdp with the two variable because it is the percentage of FDI, the overall results when fdi_perc was regressed on Repub, it was negative and the P-values was highly statistically significant and in support with our research hypothesis, for ln_gdp the results where positive, and significant.

In Colum three of the table, all the control variables in study where added to observe the direction of the link, we find that though Repub remained negative and significant in the model, ln_gdp in the third model changed from being positive to negative at -0.0539, the control variable trade openness is positive with a significance level of 0.00386 though, when we moved on to government expenditure, we noticed that it is negative and statistically significant at -0.0740** to support the research hypothesis, natural resources proved to be positive at 0.0497* in the third Colum, furthermore was economic growth which also indicated that it is positive and significant in the model at 0.0616**, ln_population also turned out to be positive at 0.990 in the model, when inflation was added, it was observed to be strongly negative and statistically significant in line with the research hypothesis in the study, lastly but not least was political regime which is coded by the dummy Demo1 was observed to be negative at -0.391.

In the fourth Colum of the study, the year effect was added, in the study, Repub stayed negative and significant at -1.516, ln_gdp also is negative, however, for trade openness it turned from positive to negative at -0.0163, in the model, this result was unexpected, it is, in contrast, the theory in the paper. Though not strongly statistically significant, its contribution on the inflow of FDI to the five EAF countries was negative, the explanation for getting a negative effect on trade openness can be argued by the change in policies that are concerned with trade in the countries when a Republican takes over office as it was the case with Rwanda as stated by Zondi (2018). Government expenditure in the column of the year forecast became strongly negative with a significance level of -0.0805***, natural resources, and economic growth remained positive, ln_population was positive at 1.383***, inflation remained negative when the year effect was added, however, Demo1 moved from negative to strongly negative in the sample, this partly answers our question that democratic states within the EAF receive more FDI as compared to others types of regimes, for the EAF to achevie its development objectives, it should command more democracy than other types of regimes . Some of the years in the sample also turned out to be strongly negative like form 1994 till 2002 the years were strongly negative although it should be noted that these years it was the Democrats in power.

Limitations

Every research always has some amount of limitation and it is advised to point them out in the study, this section in this paper will offer you with the key limitation in this study over the investigated period of time. Since this paper is carrying out a new study on political party and how the effect the flow of FDI from the FDI originating countries to the recipient countries for a period of 36 years, one of the essential limitations encountered was the availability of data basically for the control variables.

Secondly, the data for the flow of FDI and the control variable has missing observations for some years in the dataset from the World Bank and The Global Economy. Furthermore, most of the literature had controlled for market size, corruption and so on however, most of the datasets on these variables where only created in the late 1990s and early 2000s and so the study dropped all variables with missing observation, and those that were generated in the 1990s and early 2000s. As a matter of fact, the study had to include South Sudan but because of the limitation in data it was dropped. The data applied utilized in this examination is generated from the World Bank, World Bank Development Indicators, The Global Economy, the independent variable data is generated from the Telegraph which shows the years of rule, political party affiliation of the last 44 US Presidents.

The other limitation that the study has was sample size, which may arise from maybe the number of countries the paper took into consideration being only five in the study, as it is highlighted by many researcher that if the sample size in observation is too small, may be difficult to get a significant correlation in the results, because statistical sets always demand a higher sample to guarantee a representative in order to be considered statistically significant.

Lack of reliable data especially on the independent variable is also another limitation that may impact my results, because the variable am using political party affiliation is a binary variable which gives a weight of 1 if the US is under Republican rule and 0 if under democrat rule.

More importantly is that there is a gap in the available literature, most of the research available has examined the political parties and institutions in the recipient countries but not where FDI is originating from and this case the country is US. In respect from above, the study employs numerous collective datasets to reduce the amount of omitted observations as stated in the database. In the coming years, the availability of Data from the different data bases on the US and the EAF, the model this paper has developed could be applied to observe the impact the independent variables (political party affiliation) has on the dependent variable (FDI). Important this paper is interested in observing the relationship between a change in political party affiliation and how it affects the flow of FDI into the EAF countries. Taking into this model to conduct the similar research on different countries might offer different findings. All of the above-mentioned limitations played a significant role in limiting the scope of the study before running the regressions.

CHAPTER-5-CONCLUSION

This paper attempts to analyze available empirical theories to examine the link that exists between a change in the ruling political party and the effects it may have on the flow of FDI to the five EAF countries. Over the years, the concept of foreign direct investment in Africa has evolved and been aligned to the role of political institutions by many researchers. However, foreign direct investment still remains one of the most important agendas in most of the developing worldwide. This paper investigates whether a change in the ruling party could behave statistically significant or insignificant results on the flow of FDI. Additionally, the paper takes on five countries with Burundi, Kenya, Rwanda, Tanzania and Uganda as the East African Federation countries (EAF).

A preliminary analysis of OLS also known as the simple linear regression fitted the lines in the investigations, leaving the other factors that affect the flow of FDI inflows constant, the results show that the shows that the relationship between FDI inflows and a change in the political party in the US are mixed. Political parties may be one of the determinants that affect the inflow FDI in emerging countries, but it should be noted that it is also helpful for attracting the inflow of FDI into developed economies.

Evidently, although there are other factors that need to be taken into account that influence the relationship, the benchmark that was applied in this model, estimated using the generalized ordinary simple least squares theory, captured the effect of political parties on the flow of FDI, on GDP per capita, government expenditure, trade openness, inflation and political regimes.

The paper overall develops four different models to analyze the effect of political parties on the flow of FDI to the EAF economies. The OLS model accounts for variables that include GDP, trade openness, government expenditures as a percentage of GDP, natural resource rents, population, inflation and political regime of the recipient countries. The first model takes on FDI and US political party coded Repub as a dummy variable for the Republican party, the results are negative and exhibit a strongly statically significant relationship between the variables. The second model takes on FDI as the dependent variable and we control for Republican and GDP, the results indicate that Republican remain strongly negative and significant while GDP is strongly positive. In contrast, when the third model was included with all the other variables, such as GDP, openness, government expenditure, natural resources, economic growth, population, inflation, and political regime, the significance of the Republican party decreased though it was still negative, GDP became negative, openness was positive, government spending was significant and negative, natural resources was recorded positive and significant, economic growth is positive and significant, population is also positive, inflation in the third model was recorded negative and strongly significant and lastly political regime for the EAF countries was recorded negative. In the fourth model, the year effect was added however, the variable Republican was always showcasing negative and significant results in all the subsequent models, GDP and openness stayed negative, government spending became strongly negative and significant while natural resources and economic growth stayed positive and significant, the positive level of significance of inflation increased, political regime became strongly negative and lastly some of the years 1994-2002 showed a strong negative correlation.

The findings in the overall model for the EAF economies confirm our research hypothesis and follow our previous expectations. Most of the explanatory variables all seem to be statistically significant although some such as natural resources, economic growth and population are positive. The coefficient of political party denoted by Repub for the party Republican is indeed strongly negative and significant. Republicans really may act as a tax on the flow of foreign direct investment to the EAF countries.

The paper finds that political parties where the FDI is originating from really have a very important role in the flow and distribution of FDI to developing countries as it has been observed throughout the paper. The countries can decide on adopting policies that limit the outflow of FDI to the developing countries as it was the case during the regime of President Ronald Regan and as the new trade wars brought by the current president of the US Donald trump.

Recommendations

The empirical results of the paper and the present written literature of the flow of FDI showcase that the phenomenon of FDI is multidimensional. Although it has been argued that East Africa is an attractive economic partner to the US, events such as Reaganomics, Brexit and the recent election of President Donald Trump will always pose challenges to the East Africa Federation in terms of economic, social and political development, and this may push the countries to search for other partners such as China in order to fix the gap in the flow of FDI during hard times. Since each region portrays unique national structures and with the existing models, it is challenging to come out with a unique policy that fit all developing countries that seek to attract more FDI for development.

Governments of these countries should apply policies that are aimed at reducing and overseeing government spending by evaluating what ventures where the countries enjoy a cooperative advantage and do away with projects that are no profitable. More also governmental individuals who are concerned with unnecessary spending on FDI funds on non-profitable ventures should be held accountable for their deeds.

Transfer of skills - instead of only extending FDI to the EAF countries, the FDI originating countries should embark on exporting technology and skills to the recipient countries in order to help in building institutions that are capable in sustaining development projects that are going to be implemented. This would help in the creation of better-skilled workers and reduce the unemployment burden which is always proven to have a negative effect on economic development.
Empower of local producers - US FDI has been proven to be significant in the achievement of social, economic and political development when local manufacturers are empowered by money received from FDI, this will increase the levels of GDP per capita and rise the levels freedom followed by decreasing unemployment in the EAF countries. Channeling FDI to local manufactures will lead to the establishment of a vibrant production society which will see the countries produce high technological products hence, in the long run, the countries will gain sustainable development.

Natural Resources rent - The East African Federation countries should develop measures that are sustainable in the use of resources that these economies are blessed with in order to benefit their people. The should take the example of Norway which uses its natural resources for economic and social development and apply the same policies in their economies.

Data availability - East African Federation countries should embark and invest more incompetent methods that make data available especially data that shows the flow of FDI, investments made from FDI and development indicators. This could help them to analyze the impact FDI has on each of the development indicators, the impact on the investments made which will in-turn help policymakers to come up with effective regulations that will tackle the development needs of these countries.

Future research suggestions

The investigation in this paper has to be given caution when being interpreted because the model does not control for all the variables considered to be related or account for the flow of FDI and all factors that can be deemed essential in explaining the effects of change in ruling political party on FDI. Data availability, lack of literature on change in political parties and the time period chosen as it has been written in the limitation section where some of the factors that restricted the study.
With the increased cooperation between the US and the EAF countries, further research could utilize other models and take in to account other and more control variables the in order to further analyze the relationship better especially models which allow the flexibility in measuring the change in political parties.

Testing for connection between the change in political party where the FDI flows are coming from would be a worthwhile exercise to countries which heavily rely on FDI for development and could provide further such countries with better planning strategies in investment. More also a deeper analysis of individual country analysis could provide us with a better understanding of the phenomena. The effect of change in the ruling political party on FDI on multi-national companies' levels is also worth examining being that multi-nationals have diverse degrees of sensitivity.

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