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*Intra-African Foreign Direct Investments Inflows and
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Intra-African Foreign Direct Investments Inflows and Economic Growth of East African Countries: A Comparative Analysis

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Abstract

Foreign direct investment has become a crucial driver of economic growth by facilitating capital accumulation, technology transfer, employment creation and regional economic integration. In East Africa, intra-African FDI has gained increasing prominence as member countries strengthen trade and investment partnerships through regional integration initiatives. Despite these efforts, disparities in economic growth across the region persist, raising questions about the contribution of intra-African investment to economic development. This study investigates the influence of intra-African FDI inflows on growth of East African economies. The investigation used a descriptive research design and purposive sampling method. The target population were DRC, Burundi, Kenya, Uganda, Tanzania, Rwanda. The period of study was from 2010 to 2024. The investigation concluded that FDI has a positive and significant relationship with growth of economy. The study recommended that governments should strengthen policies that attract and retain FDI.

Keywords: *Intra-African Foreign Direct Investments Inflows, Economic Growth, East African Countries.*

1. INTRODUCTION

Foreign Direct Investments entail a rise in book value of the net worth of investments in one state held by investors in another state where investments are managed by investors (Desai et al., 2005). FDI is defined by Edwin (2014) as a category of cross-border investments whereby a lasting interest is established by an investor in the resident economy that has sizeable impact over an enterprise in another economy. FDI entails capital flows across borders of different countries that contribute to growth of economies as well as capital formation (Morgan et al., 2022).

Economic growth can be defined as an improvement in the size of the economy of a country over a period of time operationalized by the total production of services and goods in the economy that the country's gross domestic product (GDP) (Kanu & Ozurumba, 2014). Economic growth entails improvement in inflation, adjusted market value of services and goods produced by an economy in a financial year. It can be measured using the percentage rate of increase in the real and nominal

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GDP (Khan & Naushad, 2020). Economic growth can also be defined as the process of improving the size of national economies, the microeconomic indicators more so GDP per capita with positive influence on the economic and social sectors (Haller, 2012).

Economic growth is determined significantly by FDI, a relationship that is supported by neoclassical and endogenous growth models. In the host economies, FDI enhances technological progress through contagion effect and technology diffusion from the introduction of more technology and management practices (Ravikumar, 2025). Through FDI, the host state's capital accumulation is enhanced through the introduction of technology and new inputs leading to potential productivity gains to domestic firms through spillover effect. FDI catalyzes economic growth of a country because of capital and technology, know-how skills as well as creating job opportunities and markets for the products of a country (Suliman et al., 2018).

In 2020, Kenya was ranked the fifth largest FDI recipient in Africa and is East Africa's largest economy contributing approximately 50% of the GDP of the East African Community. Kenya has been a favorite choice for many of the foreign investors who would establish investments in East Africa because of the reforms made to attract FDI inflows. Most East African countries have seen an improvement in FDI inflows recording a rise by 35% between 2019 and 2021 on average to a total of \$8.2bn in the East African community. FDI is affected by a number of factors including competitiveness, political stability and corruption. Although a number of investigations have been done on FDI inflows and growth of economy, limited research has focused on the East African context.

In the period 2017 to 2022, FDI flows to Kenya declined to over 68% while in other East African countries such Uganda, FDI flows saw an increase and largely remained stable in Tanzania. In 2021, East Africa is the region with the lowest inflows of FDI. In Kenya, 9.5% of GDP is accounted for by FDI stock whereas in its neighboring countries like in Tanzania FDI stock accounts for 24% and in Uganda, it accounts for 39%. This can be partly because of the size of the Kenyan economy compared to these countries (Maurer, 2023). In East Africa, FDI flows to Ethiopia decreased by 14% to \$3.7bn during the period 2021-2022. However, the country remained the largest recipient

of FDI in the continent. FDI to Tanzania increased by 8% to \$1.1bn while to Uganda, it increased by 39% to \$1.5bn (UNCTAD, 2023).

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2. METHODOLOGY

The study used descriptive research design. The design aims to describe a phenomenon and its characteristics. It is suitable for the quantitative data whose results can be presented in the form of means, standard deviations, modes median among other statistical analysis to determine relationships (Nassaji, 2015). The target population of the study involved the 6 East African countries including DRC, Burundi, Kenya, Uganda, Tanzania, Rwanda (EAC, 2025). The period of study was from 2010 to 2024. Data for the FDI and GDP growth were collected covering 2010 to 2024. The study adopted purposive sampling method is selecting the East African countries to participate in the study. The panel regression model for the study was;

$$Y = \alpha + \beta_1 X_1 + \varepsilon$$

Where,

Y represents the economic growth of the EA states measured using real GDP

β_1 , is coefficients of the independent variable

X_1 represents Foreign Direct Investments

3. RESULTS

3.1 Descriptive Statistics

The descriptive statistic in the investigation includes measures such as the means, SD, minimum and maximum values. Secondary data was used in the study and was collected from World Bank Data Bank for the period 2010 to 2024. The descriptive outcomes are presented in Table 3.

Table 1: Descriptive Results

Variable	Obs	Mean	Std. Dev.	Min	Max
Economic Growth	90	5.305351	2.772095	-2.777105	17.51591
FDI	90	2.630888	1.957666	-0.0053685	11.34981

Economic growth recorded a mean of 5.305351 and an SD of 2.772095. Its minimum and maximum values were -2.777105 and 17.51591 in that order. FDI recorded a mean of 2.630888 and an SD of 1.957666. Its minimum and maximum values were -0.0053685 and 11.34981 in that order.

3.2 Correlation Results

The correlation results are presented in Table 2.

Table 2: Correlation Results

	Economic Growth	FDI
Economic Growth	1	
FDI	0.2615 0.0128	1

FDI recorded a positive (0.2615) and statistically significant ($0.0128 < 0.05$) correlation with economic growth of the states under investigation.

3.3 Regression Analysis

A simple regression analysis was conducted to determine the linear link between FDI and growth of economy.

Table 3: Regression Results

Economic Growth	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]
FDI	0.370235	0.1456974	2.54	0.013	0.0806921 0.659778
_cons	4.331304	0.4768434	9.08	0.000	3.383678 5.27893
F(1, 88)	6.46				
Prob > F	0.0128				
R-squared	0.0684				
Adj R-squared	0.0578				

From the results, the R-Squared for the estimated model was 0.0684. This means that FDI explains 6.84% of the total changes in growth of economies of the states under study. The coefficient of FDI was positive (0.370235) and significant statistically ($0.013 < 0.05$). Therefore, a unit increase in FDI by the countries under study results in 0.370235 units increase in the growth of economies of the nation's being reviewed. Thus, FDI significantly influences economic growth. Other researchers have postulated that FDI and domestic investment have a positive and significant impact on growth of economy. Thus, a combination of FDI and domestic investments are likely to bring greater and significant influence on the growth of the economy. The composition of FDI was also found to be essential (Chaudhury et al., 2020). Miao et al. (2021) indicated that the influence of Chinese FDI on growth of economy is conditional to enhancing aggregate of African states and each component of individual indicators of governance representing institutional qualities of the countries. Chinese FDI had a positive influence on the domestic investments of the African states. Fazaaloh (2024) postulated that FDI in real estate, hotels and restaurant, gas and electricity, water, manufacturing and mining industries have a positive impact on growth of economy. However, FDI in the agricultural sector has had negative influence. FDI contributes considerably and significantly in the manufacturing sector. In a report on FDI in Latin America and Caribbean in 2023 by CEPAL (2023), the report argued that FDI plays a important role in acceleration of energy transition as well as the facilitation of technology transfer end emerging technologies. Investment policies, however, need to be configured in the context of energy transition policies considering international technology development, market forces and drivers of investment to steer investments towards priority technology sectors and chains. Thus, proper institutional mechanisms

ought to be in place to facilitate the different parts of the public sector as well as between public and private sectors. Hoa et al. (2024) postulated that there was a bidirectional association between renewable energy, growth of economy, FDI and innovation. Renewable energy significantly moderates the nexus between economic growth and innovation. Odhiambo (2022) pointed out that when estimation is done using DOLS estimator, FDI positively influenced growth of economies. Compared to middle income SSA states, FDI flows play a greater role in enhancing growth of economy in low-income SSA states. Asongu and Odhiambo (2020) indicated that both internet and phone penetration positively affected the growth dynamics. Kwaw-Nimeson and Tian (2023) pointed out that the most significant FDI determinant as well as the strongest regional integration indicator in CENSAD was macroeconomic integration. Flows of FDI into low-income nations were slightly lower than in lower-middle income states. Irrespective of integration levels in the community, FDI location advantages are augmented by institutional reforms which improve FDI inflows. Mose and Kipchirchir (2024) indicated that growth of economy is catalyzed by FDI inflow increases. Climate change and trade openness also determine growth. Therefore, short- to long-run FDI spurs growth of Kenyan economy.

4. DISCUSSION

The investigation concludes that FDI has a positive and significant association with economic growth. FDI facilitates capital formation, promoting technology transfer, enhancing productivity, creating employment opportunities, and stimulating international trade. Increased FDI inflows enable economies to expand productive capacity, improve infrastructure, and strengthen the competitiveness of domestic industries, thereby contributing to sustained growth in gross domestic product. Consequently, attracting and retaining FDI through stable macroeconomic policies, favourable investment climates, and supportive regulatory frameworks is essential for achieving long-term growth of economy and sustainable development.

The study recommends that governments should strengthen policies that attract and retain foreign direct investment by maintaining macroeconomic stability, improving the ease of doing business, enhancing infrastructure, and ensuring transparent and predictable regulatory frameworks. Policymakers should also provide targeted investment incentives, strengthen investor protection, and promote sectors with high growth potential to maximize the developmental advantages of FDI.

Additionally, efforts should be made to foster linkages between foreign investors and domestic entities to facilitate technology transfer, skills development, innovation, and increased productivity, thereby enhancing the contribution of FDI to sustainable growth of economies.

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