

## INVESTIGATING THE DETERMINANTS OF FOREIGN DIRECT INVESTMENTS IN NAMIBIA

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### ABSTRACT

Foreign direct investments are a challenge to attract, good to host and worse to see leaving. It is in line with this view that an investigation of the determinants of foreign direct investment (FDI) in Namibia was launched through this study. Data points used are for 1984 to 2014. The unit root, cointegration test and the bounds testing approach based on the Autoregressive Distributed Lag framework were all employed. As a consequence to the outcome, the Error Correction Model became necessary and was used. The short run and long run scenarios were captured and yielded that in the short run, a depreciation of the Namibian dollar was found to positively impact on the receipts of FDI. Inflation and GDP growth were found to impact positively on FDI in the short and long run scenarios. Though statistically insignificant, population growth was found to be a positive driver while exchange rate was negatively related to FDI in a short-run. An existence of a long run relationship among the variables was also confirmed. As for the long run, population growth was negatively impacting on the attraction of FDI. With the Namibian dollar pegged to the South African Rand at 1:1, inflation was seen to have a positive impact on FDI in both periods. A positive sign for inflation is not necessarily a doubtful finding in the short-run period, considering that the opposite of it can be serious on the economy. Therefore, the government should use inflation targeting policies and other macroeconomic measures that are suitable to the needs of the country. Appropriate fiscal and monetary measures are needed for stimulating economic growth at a rate that surpasses the rate of population growth, because due to the resultant effect of a high population on FDI in the long run and subsequently on economic growth.

**Key words:** FDI, bounds testing approach, stationarity.