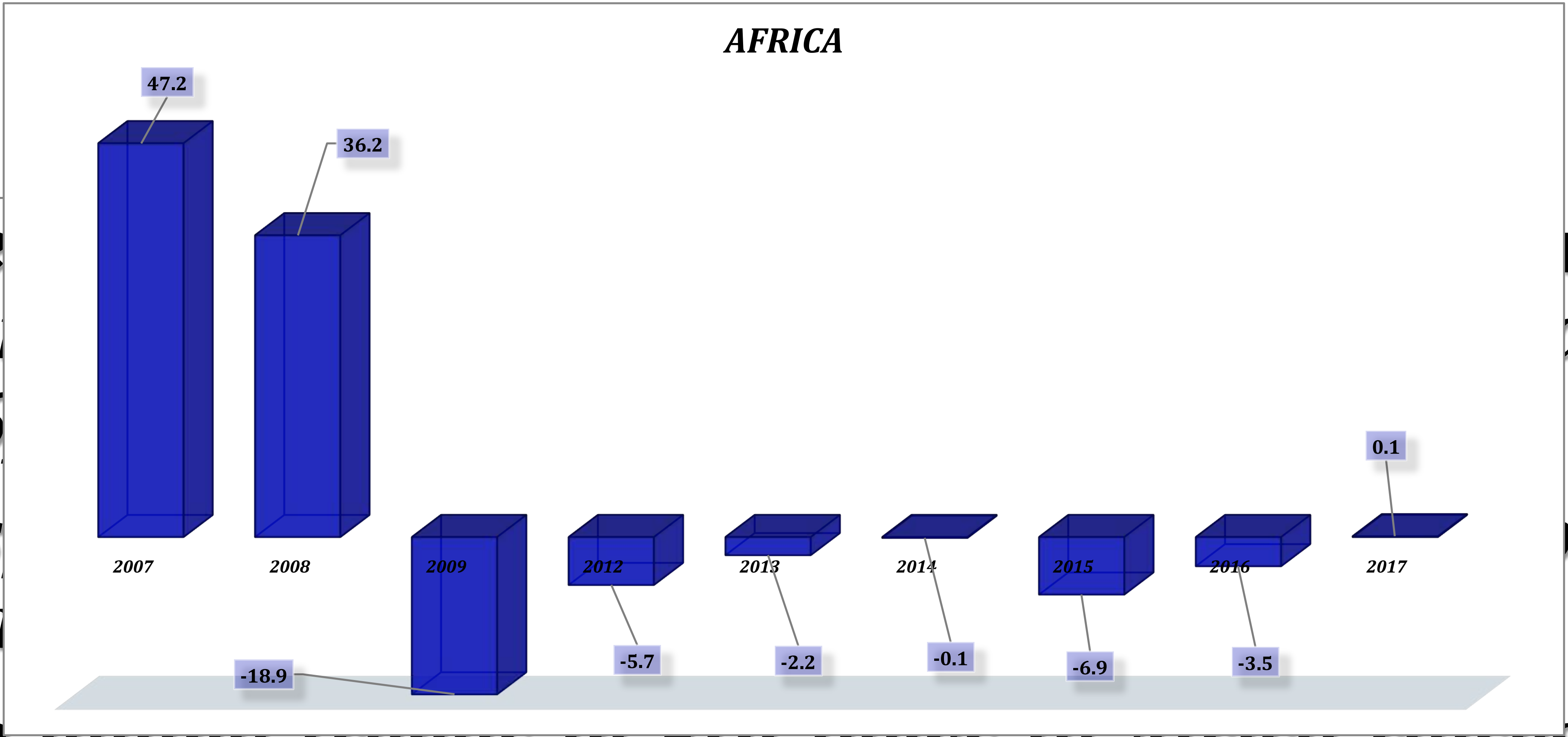
TAX OBLIGATIONS AND FOREIGN DIRECT INVESTMENT: NEW EVIDENCE FROM SUB-SAHARAN AFRICA

FRANCIS K. ANDOH (PHD)
DEPARTMENT OF APPLIED ECONOMICS
SCHOOL OF ECONOMICS

WILLIAM G. CANTAH (PHD)
DEPARTMENT OF DATA SCIENCE AND ECONOMIC POLICY
SCHOOL OF ECONOMICS

- ***The*** ***well docu*** ***and, 2006***
- ***Des*** ***been decli***



- ***The falling trends in FDI flows to Africa raises an important question of what attracts and retains FDI?***

BACKGROUND

- ***The eclectic paradigm (Dunning, 2002; 2000; 1979)***
- ***The KC model by Markusen et al. (1996) and Markusen (1997, 2002) talks about the movements of FDI.***
- ***The KC model establishes that both horizontal and vertical motivations emerge simultaneously to determine the direction of FDI.***
- ***The role of taxation in all these continue to be a subject of controversy among economists.***
- ***The role of tax in driving FDI in Africa, no doubt, remains an empirical question.***
- ***Governments often offer friendly tax regimes to attract and maintain FDI in order to reap benefits of FDI.***

BACKGROUND

- ***These same economies largely rely on tax to generate the needed revenue to finance development.***
- ***The tax regime may be too demanding, thereby discouraging FDIs.***
- ***It is not clear how specific obligations of African tax systems affect FDIs.***
- ***This study therefore seeks to examine the extent to which tax obligations affects the ability of SSA countries to keep and maintain their stock of FDI.***

BACKGROUND

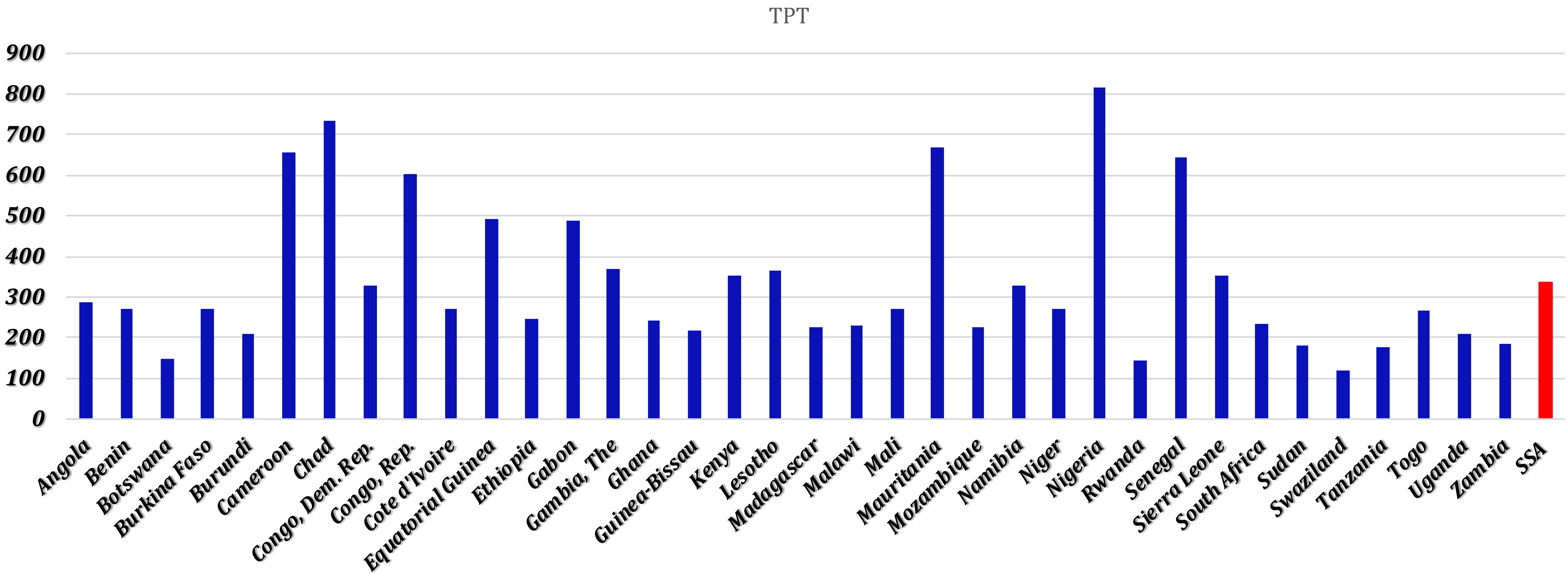
- ***The study also attempts to identify the extent to which the effects of tax obligations are moderated by key determinants of FDI in SSA.***

- ***Studies examining the relationship between of tax and FDI abound.***

- ***However, aside being bias towards developed countries, they primarily focus on establishing the relationship between FDI and one category of tax or the other.***

- ***E.g. Hunady & Orviska (2014); Wolff (2007), Mutti and Grubert 2004; Blonigen and Wang, 2005; and Azemar and Delios, 2008***

Stylised Facts about FDI and Taxes in SSA

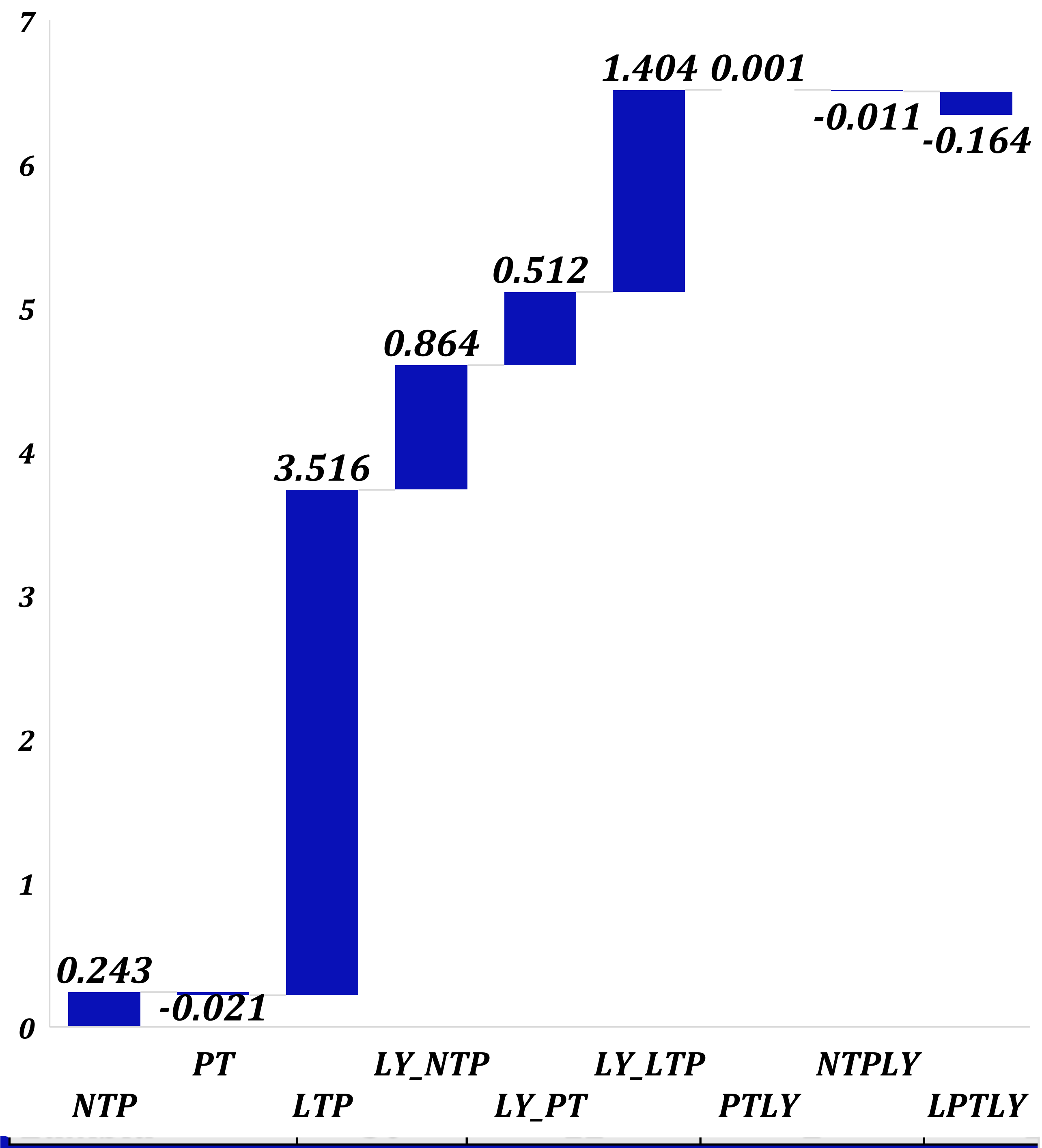


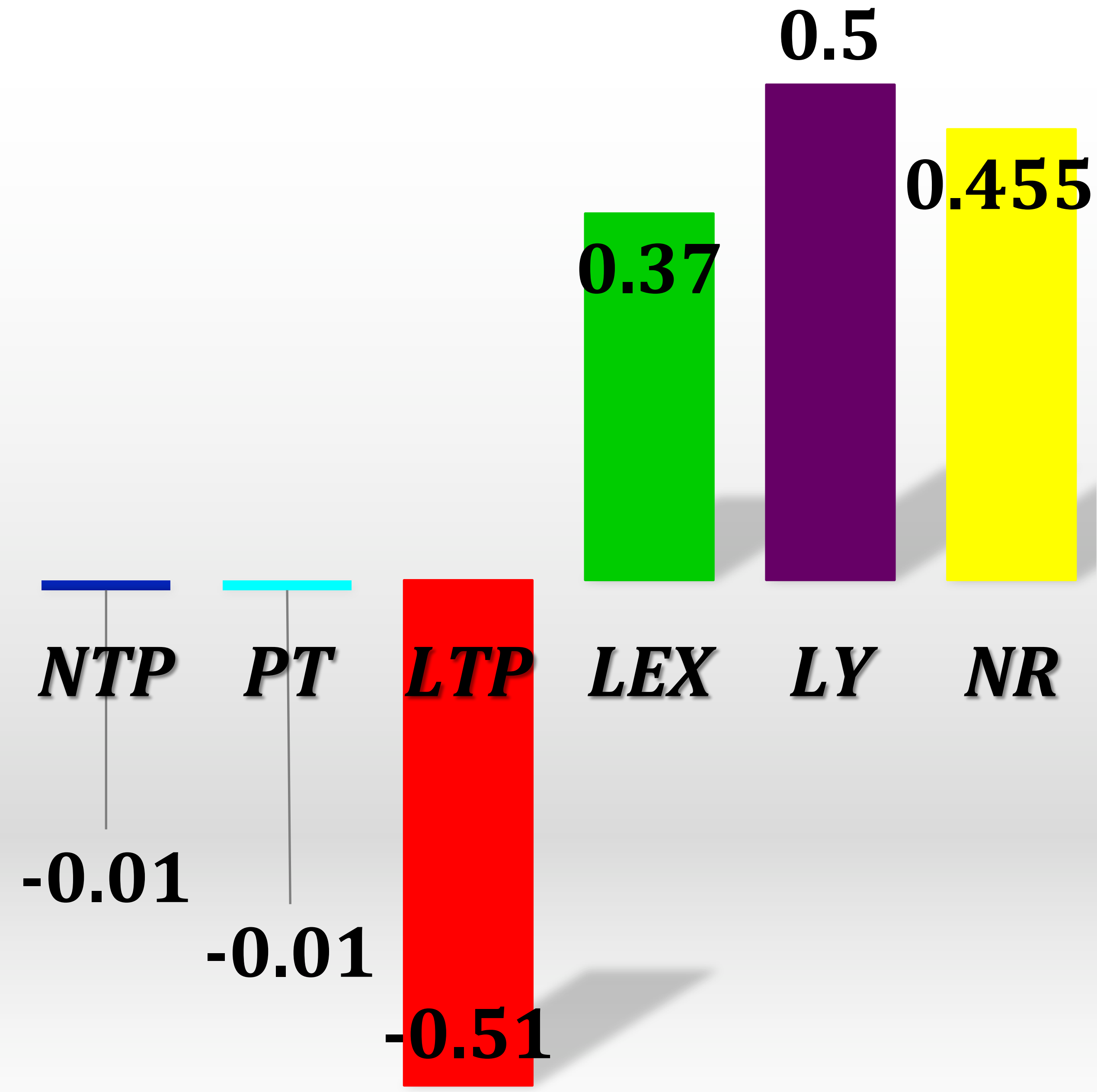
Methodology and Data

- *The study used a panel of 36 countries from SSA.*

$$Y_{it} = a_i + \sum_{K=1}^{K} \beta_{k,it} X_{k,it} + \mu_{it} \qquad (1)$$

- *Where Y is the stock of FDI, i=1,…36, t=2005,…,2016. X is a vector of explanatory variables and β is a vector of coefficients to be estimated.*
- *Variables captured by X includes LW, NTP, PT, LTP, NR, LY, LEX, LP*
- *The study also interacted the three tax variables with NR, LY and LEX*
- *Data was mainly sourced from UNCTAD, ILO, WDI, and WDBI*
- *The estimation technique used was based on the system GMM*


7
6
5
4
3
2
1
0
0.243
-0.021
3.516
0.864
0.512
1.404
0.001
-0.011
-0.164
NTP
PT
LTP
LY_NTP
LY_PT
LY_LTP
PTLY
NTPLY
LPTLY


0.5
0.455
0.37
NTP
PT
LTP
LEX
LY
NR
-0.01
-0.01
-0.51

Conclusions and Policy Implications

- ***Tax Obligations general have adverse effect on stock of FDI.***
- ***Natural resource rich economies are likely to shield themselves from the adverse effect of profit tax.***
- ***Expansion in output also reduces the adverse effect of profit tax.***
- ***Number of Taxes and the time it takes to honour tax obligations are usually inimical to maintaining the stock of FDI***