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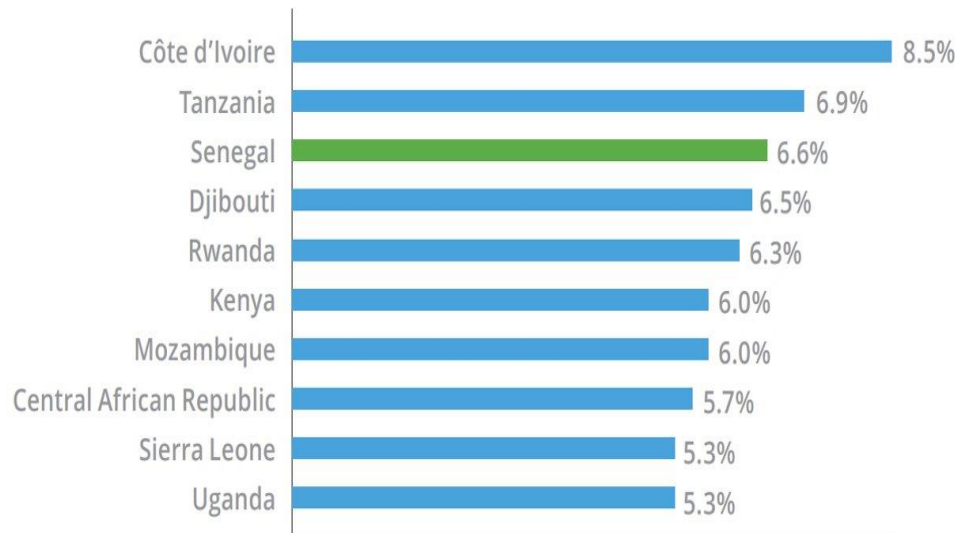
THE EFFECT OF FDI ON SENEGALESE IMPORTS AND EXPORTS

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Research Question

- Why does Senegal's trade balance not improving given the increased inflows of foreign direct Investment?

Figure 3. Africa's 10 fastest-growing economies, 2016



Source: WEF, 2016

Figure 8. Senegal's global trade balance (US\$bn), 2006-15



Source: UN Comtrade database, 2017

Economic and Political Implications

- The economic policy of Senegal revolved around FDI friendly policies
- According to the IMF report, the devaluation and structural reforms of the 1990s resulted in a GDP growth rate of 5% every year between 1995-2000
- Despite the GDO growth rate, poverty and trade deficit are still prevalent in Senegal
- The biggest source of FDI being France(a colonial power), it is crucial to understand the impact of FDI on local economies and design policies that benefits the host country

Some Key dates

- 1960: Independence
- 1980-1990: Slow economic growth, volatility, exchange rate misalignment
- 1994-1998: Currency Devaluation and Structural Reforms
- 2000- present: Sustained GDP growth

Literature Review

The majority of the literature focused on the effect of FDI on economic growth:

Study	Years Covered	Outcome Variable	Countries in Sample	Results
Ndikumana, Verrick,2008	1970-2005	Private Investment	38 Sub-Saharan Countries	Positive and significant
Decreuse, Mareek,2015	1980-2000	Labor Share	98 Developing countries	Negative and Significant
Seyoum, Wu, Lin,2015	1970-2011	Economic Growth	23 Sub Saharan Countries	Positive Granger Causal Relationship
Adams,2009	1990-2003	Economic Growth	42 African Countries	negative and not significant

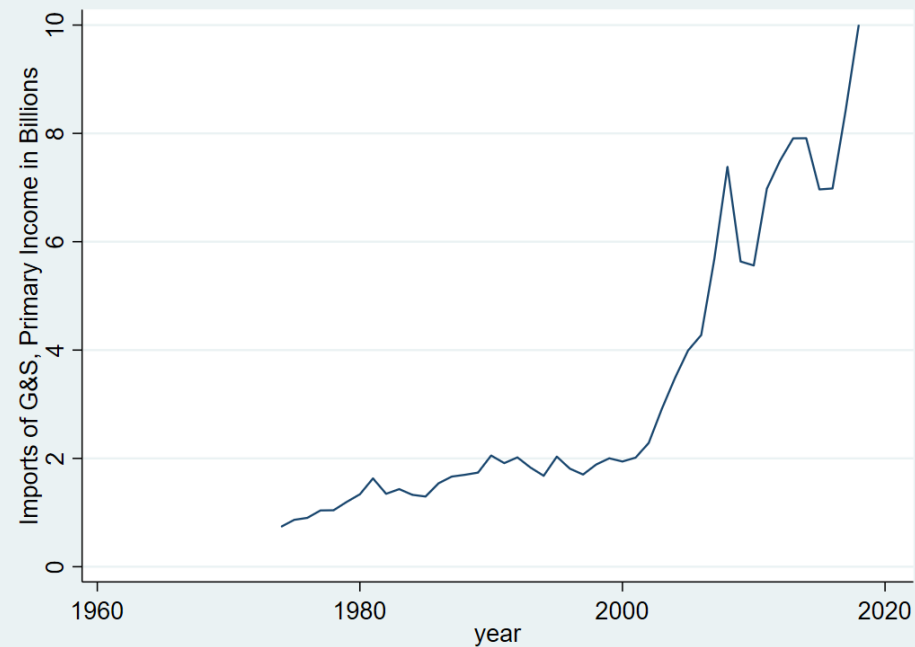
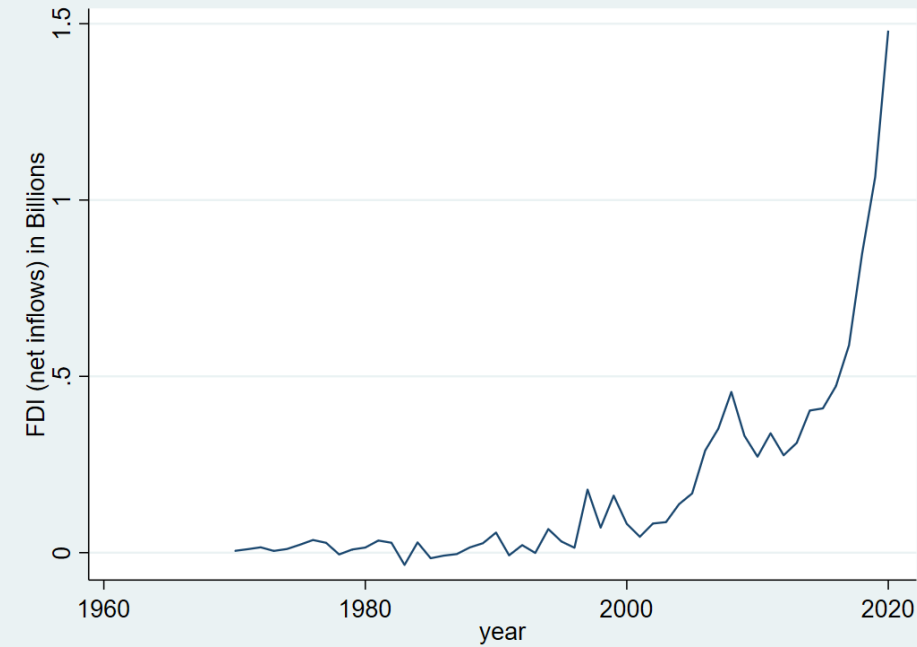
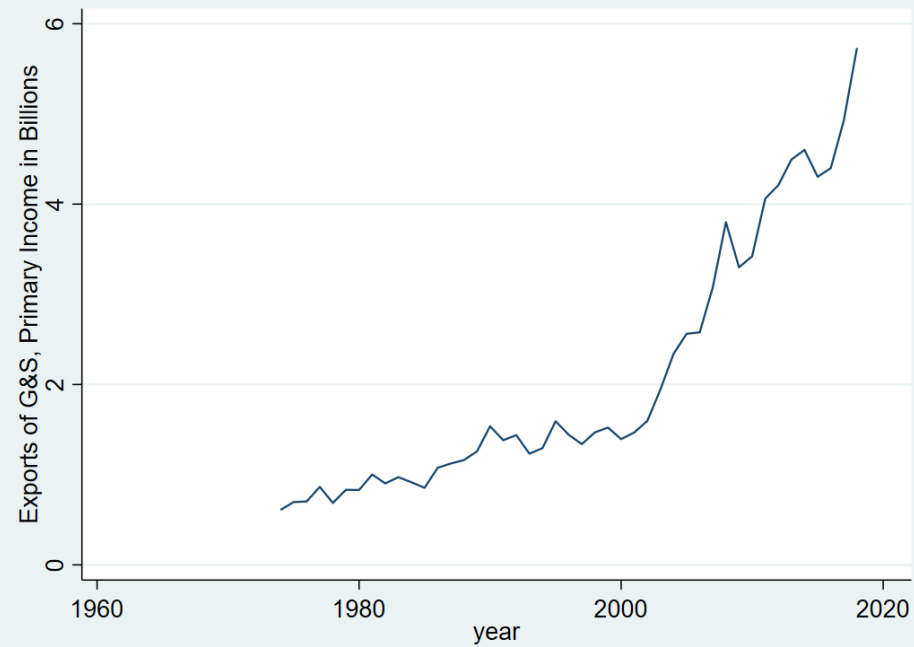
Contribution to the literature

- This paper contributes to the literature in two ways. First, focusing on Senegal allows us to control major economic disruptions caused by political instability and conflict which is a major limitation of most studies
- Second, unlike most of the literature, our paper focuses on the impact of FDI on exports and imports separately to capture a possible effect of FDI on the trade deficit

Data

	(1)	(2)	(3)	(4)	(5)
VARIABLES	N	mean	sd	min	max
exports	45	2.066e+09	1.416e+09	6.087e+08	5.731e+09
imports	45	3.279e+09	2.595e+09	7.377e+08	1.001e+10
world_gdp	61	3.013e+13	2.792e+13	1.390e+12	8.757e+13
tariff_wm	20	9.096	1.051	8.080	12.30
senegal_gdp	61	7.839e+09	6.804e+09	1.004e+09	2.464e+10
gov_exp	61	1.118e+09	9.656e+08	5.131e+07	3.753e+09
fdi_inflow	51	1.825e+08	2.927e+08	-3.469e+07	1.481e+09

All data from World Bank, except REER data, which is from UNCTADstat.



Model

- We will estimate two regressions:
- $EX = \alpha + \beta_1 \text{FDI INFLOWS} + \beta_2 \text{GDP} + \beta_3 \text{REER} + \beta_4 \text{FOREIGN GDP} + \beta_5 \text{TARIFF RATE} + \varepsilon$
- $IM = \alpha + \beta_1 \text{FDI INFLOWS} + \beta_2 \text{GOV} + \beta_3 \text{REER} + \beta_4 \text{PRIVATE GDP} + \beta_5 \text{FOREIGN GDP} + \beta_6 \text{TARIFF RATE} + \varepsilon$
- Additionally, we may look at lag changes or logs of these variables.

References

- Data from figures come from World Bank or UNCTADstat
- Ndikumana, Leonce, and Sher Verick. "The linkages between FDI and domestic investment: Unravelling the developmental impact of foreign investment in Sub-Saharan Africa." *Development Policy Review* 26.6 (2008): 713-726.
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- Adams, Samuel. "Foreign direct investment, domestic investment, and economic growth in Sub-Saharan Africa." *Journal of policy modeling* 31.6 (2009): 939-949.