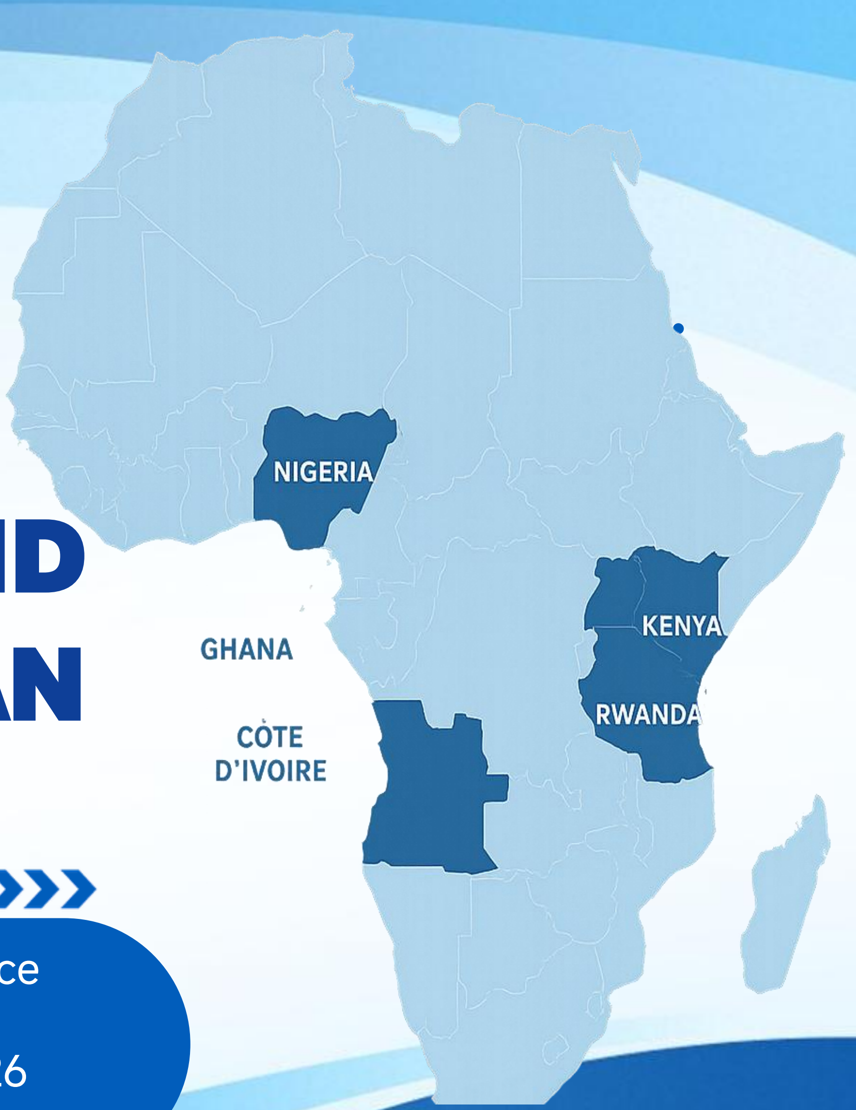
GEOPOLITICAL UNCERTAINTY, FOREIGN DIRECT INVESTMENT AND ECONOMIC VOLATILITY IN AFRICAN FRONTIER MARKETS



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Opening

Why This Study Matters Now

01

High Growth Potential

Africa's frontier markets offer unparalleled growth potential and abundant resources, attracting global investors seeking new opportunities. However, this potential is often overshadowed by significant geopolitical risks.

02

Geopolitical Instability

Frequent coups, terrorism, and regime changes in some African countries severely undermine investor confidence, making it crucial to understand how these risks impact foreign direct investment (FDI) and economic stability.

03

FDI Sensitivity

FDI is a vital driver of development but is highly sensitive to risk. This study aims to quantify the impact of geopolitical uncertainty on FDI inflows and its subsequent effect on economic volatility in African frontier markets.

Research Objectives Defined

Impact of Geopolitical Uncertainty

Our primary objective is to assess how geopolitical uncertainty affects FDI inflows into African frontier markets. We aim to provide a quantitative analysis of this relationship over a 30-year period.

FDI and Economic Volatility

We also analyze the relationship between FDI and economic volatility, exploring whether FDI can stabilize or destabilize economies depending on its sectoral focus and the quality of institutions in place.

02

Scope & Framewo

Countries & Data Scope

Selected Countries

We focus on Nigeria, Ghana, Côte d'Ivoire, Kenya, and Rwanda—key frontier markets in West and East Africa. These countries offer a diverse range of economic and political contexts for our analysis.

Time Period

Our study covers the period from 1995 to 2024, capturing three decades of economic reforms, geopolitical shocks, and varying levels of investment flows.

Data Sources

We draw on data from the IMF, World Bank, World Governance Indicators (WGI), ACLED, and the Heritage Foundation to comprehensively capture geopolitical risk, FDI, and economic volatility.

Policy Relevance

The selected countries and period ensure that our findings are relevant for policymakers and investors looking to understand and navigate the complexities of African frontier markets.

Conceptual Foundations

Theoretical Integration

Our analysis integrates the OLI eclectic paradigm, real-options theory, and institutional economics to map how political risk alters location advantage, raises option value of waiting, and reshapes formal constraints, ultimately driving investors' entry, sector choice, and host-country volatility outcomes.

Methodology Roadmap

Quantitative Longitudinal Design

We employ a quantitative longitudinal design, applying unit-root tests, Johansen cointegration, VECM, and Granger causality to disentangle long-run equilibria and short-run dynamics among geopolitical risk, FDI, GDP volatility, inflation, and economic freedom.

Robust Inference

Our methodology ensures robust inference across turbulent episodes, providing a comprehensive understanding of how geopolitical uncertainty and FDI interact to shape economic outcomes in African frontier markets.

Data Analysis

By using advanced econometric tools, we analyze the complex relationships between geopolitical risk, FDI inflows, and economic volatility, offering actionable insights for policymakers and investors.

03

Evidence

Descriptive Patterns

FDI Variability

Mean FDI levels differ significantly across the selected countries, with those heavily reliant on extractive industries showing higher economic volatility. This highlights the need for diversified investment strategies.

Inflation Variability

Inflation displays the greatest variability among the variables studied, while governance scores cluster in the lower-middle range, suggesting that institutional quality is a critical factor in determining investment outcomes.

Econometric Findings

Geopolitical Risk Impact

Geopolitical risk significantly depresses FDI inflows in the long run. Countries experiencing higher levels of political instability attract less foreign investment, highlighting the importance of stability.

Model Fit

Our VECM model yields an R^2 of 0.72, indicating a strong explanatory power. This suggests that our chosen variables effectively capture the dynamics between geopolitical risk, FDI, and economic volatility.

Macroeconomic Volatility

Macro-volatility and inflation also significantly impact FDI. High levels of economic instability deter investors, underscoring the need for policies that promote economic stability.

Institutional Variables

Institutional variables jointly exhibit significance, confirming that governance quality is a crucial determinant of FDI. Strong institutions can mitigate the negative effects of geopolitical risk.

Sectoral FDI Anatomy

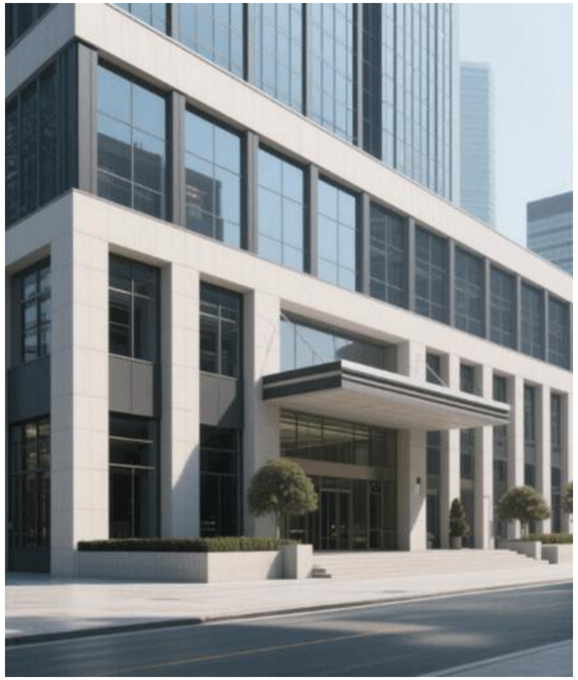
Sectoral Distribution

Extractives dominate FDI inflows, followed by manufacturing, infrastructure, ICT, and agriculture. Diversifying FDI across sectors can reduce economic volatility and enhance resilience to geopolitical shocks.

04

Interpretation

Discussion of Results



Political Instability

Political instability acts as a significant barrier to FDI, reducing investment inflows and increasing economic volatility. This underscores the need for stable political environments to attract sustainable investment.

Sectoral Impact

The sectoral composition of FDI determines its impact on economic stability. Diversified FDI portfolios can mitigate volatility, while over-reliance on extractive industries amplifies fragility.

Country Comparisons

Comparing countries like Rwanda and Nigeria, we find that governance reforms can offset geopolitical headwinds, while extractive-focused economies remain highly vulnerable to shocks.

05
Action

Policy Prescriptions

Strengthen Institutions

Strengthening political institutions and governance is essential for reducing geopolitical risk and attracting stable FDI. This includes enhancing transparency, accountability, and regulatory clarity.

Diversify FDI

Diversifying FDI beyond extractive industries into manufacturing, infrastructure, ICT, and agriculture can reduce economic volatility and enhance resilience to geopolitical shocks.

Breaking the Cycle

Vicious Cycle

Geopolitical shocks and macro-volatility reinforce each other, trapping frontier markets in low-investment equilibria. This cycle must be disrupted to achieve sustainable growth.

Regional Integration

Leveraging regional agreements such as AfCFTA, ECOWAS, and EAC can pool risk and enlarge markets, enhancing the attractiveness of African frontier markets to investors.

Reform Architecture

Coordinated reforms that improve governance, diversify capital inflows, and deepen regional integration can disrupt this feedback loop, converting risk into sustainable growth momentum.

Capacity Building

Embedding monitoring systems and building domestic capacity are crucial for sustaining reforms and ensuring long-term economic stability and growth.

06

Wrap-Up

Conclusions & Next Steps

Key Takeaways

Stability and institutional quality are prerequisites for attracting FDI. Diversifying FDI across sectors can reduce volatility, while coordinated reforms can transform geopolitical challenges into opportunities for inclusive and sustainable growth in African frontier markets.

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THANK YOU

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