



**Determinants of Foreign Direct Investment Inflows into Ethiopia's Manufacturing Sector: An ARDL Approach to Macroeconomic, Institutional, and Political Factors (1980-2021)**

Woretaw Motbaynor Workneh<sup>1</sup> Rakesh Kumar<sup>2</sup>

<sup>1</sup> Department of Economics, Bahir Dar University, Ethiopia. Email: [woret2003@gmail.com](mailto:woret2003@gmail.com)

<sup>2</sup>Department of Economics, Centre for Research in Economic Change Punjabi University, India Email: [rkdudhan@yahoo.co.in](mailto:rkdudhan@yahoo.co.in)

**ABSTRACT**

This study investigates the determinants of Foreign Direct Investment (FDI) inflows into Ethiopia's manufacturing sector from 1980 to 2021, considering macroeconomic, institutional, and political factors. The study uses the Autoregressive Distributed Lag (ARDL) bounds testing approach to explore short-run and long-run relationships. The results indicate that market size, natural resources, exchange rate depreciation, political stability, and government effectiveness positively influence FDI in both the short and long run. Specifically, a 1% increase in market size leads to a 0.98% rise in FDI, while a 1% increase in natural resources and overall economic performance also correlates with a significant rise in FDI inflows. Infrastructure development has a positive impact on FDI in both periods. However, trade openness demonstrates a negative effect on FDI in both the short and long runs, suggesting potential constraints in Ethiopia's external economic relations. Inflation consistently has a negative impact on FDI, while regulatory quality shows a positive and significant effect in both time frames. The long-run influence of government effectiveness and regulatory quality is more pronounced than in the short run. The error correction mechanism (ECM) indicates a quick adjustment to long-run equilibrium, with 79% of any deviation corrected in the subsequent period. These findings highlight the complex, multifaceted nature of FDI determinants in Ethiopia, underscoring the importance of policies that promote macroeconomic stability, infrastructure development, political stability, and institutional quality to enhance FDI inflows.

**Keywords: FDI, Ethiopia, Political Stability, Institutional Quality, Macroeconomic Factors, ARDL.**