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THE IMPACT OF INTERNATIONAL RELATIONS ON INFLOW OF FOREIGN DIRECT INVESTMENT: A CASE STUDY OF SUDAN

Yagoub Ali Gangi[1*], **Mohamed Hassan Ahmed**[1]

[1]Ahmed Bin Mohamed Military College, Qatar

Abstract

This paper examines the role played by international relations on attracting foreign direct investment (FDI) into Sudan using a qualitative exploratory case method. It depends on two sources of data (secondary and primary), which work in a complementary manner. First, secondary data is collected from scientific articles, journals, government and international organizations reports, while primary data is collected by interviewing diplomats, decision makers and politicians. According to empirical results, international relations is key factor in attracting FDI into Sudan. Sudan's good international relations with US during Nimairi's regime, and China, Malaysia, and India during Bashir's regime have resulted in a heavy FDI inflow into oil sector in Sudan. Contrary, the worsening of Sudan's international relations with US and other Western Europe countries has resulted in withdrawal of many multi-national companies from directly investing in Sudan.

Key words

International Relations; Economic Diplomacy; FDI; Sudan.

INTRODUCTION

Foreign Direct Investment (FDI) is very important for a developing country like Sudan where domestic saving is law and fall short of the country needs for investment to attain economic development. The importance of FDI is well established in literature and being recognized by most of the countries of the world. Nowadays, no country can deny its needs for FDI or the benefit it could bring for its economy. The FDI is believed to be an important factor that generate economic growth and enhance development. Since it helps accumulating capital and expands production capacity in the host countries. In addition, it increases the productivity by transferring advanced technology and best management practices from the FDI exporting countries to the FDI host countries through what is known by technology spillover effect. Moreover, the FDI is believed to be an important source of employment for host countries workforce. Furthermore, it is believe that FDI brings, *inter alia,* efficient management practices, a culture of competition, and access to global markets (Tembe & Xu, 2012; Zhang, 2014).

The FDI flow varies greatly from a country to another and it varies over times for the same country. Many studies have been undertaken to explain the phenomenon of FDI and to identify the main factors behind its variations. One of the most important studies undertaken by Dunning in 1993 that ended up with establishment of what is so called the eclectic paradigm theory.

According to this theory the main factors that determine the multinational enterprises' FDI are the premise of ownership, internationalization and location advantages. The first two factors related to the firm willingness to poses asset abroad by expanding its activities to foreign countries. While the third factor represents the host countries, business environment which is also known by country specific advantages. This includes economic, political, and institutional factors. Among these, the political factors are considered as of vital importance Gangi, et al 2013). In general, foreign investors prefer to invest in countries with well-established infrastructure, stable political situation, sound economic policies, well-developed financial institutions and greater economic freedom in terms of political rights and civil liberties (khan 2011). The international relations of a host country with the FDI exporting country is believed to be one of the important factors that can play a significant role in attracting FDI. International relations have usually been ignored as an important factor that affect FDI and as a result often overlooked (Mun et al., 2010).

The present paper tries to answer this question by employing a case study methodology on Sudan to investigate the role of international relations on FDI attraction. Qualitative analysis is used to explain the primary data collected through semi-structured interviews. It is found that international relations are among the most important factor that affects FDI inflow to the countries. Economic and other factors are necessary factors in attracting FDI, and international relations is the sufficient factor.

LITERATURE REVIEW

Like any other economic variable FDI varies across regions and time. In order to understand its main drivers scholars have tried to get answers for two main questions, what are the main factors that determine FDI inflow to and outflows of countries? And what are the appropriate policies that a country should adopt in order to attract the largest share of FDI? Throughout the last four decades the most influential model that has been used to get answers for these questions and undertake empirical study for FDI determinants is the Dunning's (1977, 1993) Eclectic Paradigm. This model provides a framework that groups the factors that drive multinational companies (MNCs) to invest abroad into three types of advantages. These are: Ownership (O), Location (L), and Internalization (I) advantages; hence it is called the OLI framework. The ownership-specific advantages refers to intangible assets, which are, at least for a while exclusive possesses of the company and may be transferred within transnational companies at low costs, leading either to higher incomes or reduced costs. This advantage may arise from the firm's ability to coordinate complementary activities such as manufacturing and distribution, and the ability to exploit differences between countries. The location advantages refer to the benefit that MNCs can obtain when investing in a certain country. These benefits may arise from differences in country natural endowments, government regulations, transport costs, macroeconomic stability, and cultural factors. Internalization advantages arise from exploiting imperfections in external markets, including reduction of uncertainty and transaction costs in order to generate knowledge more efficiently as well as the reduction of state-generated imperfections such as tariffs, foreign exchange controls, and subsidies (Stefanović, 2008; Anyanwu, 2011).

FDI is determined by many factors such as economic, political, cultural and social. While all of these factors have been intensively studied in different regions, little work have been undertaken on political factors as general and international relations as specific. Researchers have examined the relationship between FDI flows and most of these factors using different methodologies and regions at length. However, few studies have been undertaken to examine the effect of the political factors on FDI flow (Buthe & Milner, 2008). Even these few studies focused mostly on political instability and political institutions and much less on international relations. One of the possible explanations for this situation is that international relations were ignored as one of the significant factor that may contribute in attracting FDI. Recently some theoretical and empirical literature was developed on this issue. For example, Wang et al. (2012) have developed a conceptual framework that theorizes for the role of government in directing emerging-market enterprises to invest in specific countries, which is the good relation-country. This model based on institutional theory which claims that firms are affected by institutions – defined as regulative, normative, and cognitive structure and activities. Based on this, they found it logical to extend the FDI determinants beyond the economic factors to include other factors such as political, legal, social and the broader political context that govern the decision to invest abroad. This study emphasizes the role of government on influencing enterprises decision to invest abroad. It affects the volume and direction of outward foreign investment using its involvement in these enterprises through ownership of large share or taxes and other incentives.

At a theoretical level, some researchers start to provide strong scientific argument for the role that international relations could play in attracting FDI through what is known by economic diplomacy. They believe that economic diplomacy help to provide information on business climate and investment opportunities to foreign firms. It may also increase FDI inflow by eminent personalities and reducing barriers that may face foreign investors. Moreover, a country good relation with other countries could enhance the relations between enterprises working in these countries and build trust between the involved parties. Through the trust built up between enterprises the probable political country risk would be reduced up to the affordable level. Moreover, they argue that from the macroeconomic point of view, international relations between countries, could lead to smooth movement of capital and thus encourage transnational corporations to establish braches for their companies in good-relationship countries. Further, international relations could help to reduce adverse selection, in which it allows investors to better distinguish between good and bad investments. This can lead to higher expected revenues for the foreign investors and also increase the confidence of the investors toward the countries.

Few empirical studied have been carried out to examined the relationship between FDI inflow and International relations. Dauda and Bako (2012), examined the impact of shuttle diplomacy on foreign direct investment in Nigeria. They have established that the shuttle diplomacy conducted by the Nigerian government during the period 1999-2007 contributed positively in FDI inflow to Nigeria. Mun et al. (2010) investigated the effect of Malaysia's international relations on FDI inflow from Japan, United States, Singapore and Germany. They found that FDI inflow from these respective countries is positively related to Malaysia's total FDI. This result supports the views that international relations can play a significant role in attracting FDI. Thus, foreign policy is one of the policy options to be employed to enhance FDI inflow to any country.

Najafi and Askari (2012) examined the effect of political relations with the US on the performance of four economic indicators in 16 developing countries. Their results suggest that when a country improves its diplomatic relations with the USA this will have generally a positive effect on capital inflow to this country. This results support the belief that once a country improves its political relations with the USA, eventually, it will become an attractive country for FDI. Desbordes and Vicard (2005) investigated the effect of the impact of diplomatic relationships on the FDI flow to the developing countries using a new political events dataset and a dynamic panel data model. His result supports the findings of the previous studies in this area that establish the good diplomatic relations play essential role in attractive FDI to hosting countries. In his discussion for this result he argued that the good diplomatic relationship between countries encourage the signing of bilateral treaties that enhance the flow of FDI and facilitate firms mobility between the countries. Based on this result they recommended that countries in their attempt to design policies for attracting FDI need to take into account both intra-state and international FDI determinants. Khan (2011) investigated the role of international political relations on FDI inflow to Pakistan using regression techniques on data covering the period 1972-2009. The main focus of his study was on the political relations of Pakistan with major international powers, particularly the United States. His findings suggest that Pakistan political relations with United States influences only economic and military aid flows but not private foreign direct investment in the long-run. Zhang et al (2014) examined the impact of Chinese diplomatic activities on outward FDI. They estimated outward FDI function using panel data for 131countries. Their results indicate that the friendly bilateral diplomatic activities provide effective support to some sensitive and important investment in hosting countries where institutions are absent or poor in quality.

A study by Debordes and Vicard (2005) shed light on the importance of diplomatic relations on the location of FDI in developing countries. It indicated that good diplomatic relations have a positive impact on FDI in developing countries. In addition, it indicated that good diplomatic relations stimulate economic cooperation between the host country and its FDI partners, through the signature of binding international agreements. Ramasamy and Yeung (2016), identify the promotion of international relations with China as one of the top five policy measures that policy makers should implement to attract a portion of the Chinese FDI outflow. They argue that Chinese managers are very much concerned about the political relations between their country and the host country, because of the role the state plays in the Chinese economy, especially in promoting the outward expansion of Chinese enterprises and the engineering of selected industries at home.

RESEARCH METHODOLOGY AND DATA SOURCES

The literature on FDI contains many studies on the determinant of FDI and the factors that cause its variations across regions and times. Most of these studies used quantitative methods to estimate FDI equation using panel data from different countries. In this study, we use a case study method to provide answer for the following questions: How important are international relations to FDI inflow? Do the international relations affect FDI inflow? If yes, how it affects FDI? Had the Sudanese government used the international relations to attract more FDI? Had the Sudan's international relations with USA, China and other western countries affected the FDI inflow throughout the last four decades?

These questions are addressed in this paper via an exploratory case study method adopting qualitative analysis rather than quantitative one. The selection of this method is justified by three things: First, many studies have been undertaken to examine the determinants of FDI in Sudan using a quantitative method and none of them have used qualitative analysis. All these studies excluded the international relations as explanatory variable from their studies. One reason which was introduced to justify the omission of the international relations was the difficulty to quantify it and to get time series data for it (like: Abd Alla et al. 2015; Ebaidalla, 2013; Ibrahim & Hassan, 2013).

The second justification for the use of the case study method is the need for holistic and in-depth explanations for the role of international relations on the FDI inflows in the context of Sudan. The third justification for the uses of this method is its various advantages over the quantitative statistical results in this topic, since it includes both quantitative and qualitative data that can be analysed thoroughly to get answers for the research questions. Given that, a case study helps explaining how the international relations affect the FDI inflow, and on what capacity. This task is accomplished by analyzing the relationship between the international relations of Sudan and the inflow of the FDI to Sudan.

For the purpose of this study, the case study analysis is limited to the Sudan's international relations with the countries that are considered as potential sources for FDI. These countries include the United States, China, India, Malaysia, and Arab countries. The chosen of Sudan is justified by the fact that FDI inflow to Sudan is rapidly variedly to the extent that, give us the chance to classify Sudan among the highly volatile countries of the world. The inflow of FDI to Sudan has increased from almost a negligible amount of less than half a billion in 1980s and 1990s to an average of about 3 billion an year during the period 2000 – 2010 and again to less than one billion after South Sudan secession in 2011. This high variation in FDI can hardly be explained by the Dunning three advantages approach. Sudan's location advantages are at place at all these different periods. What cause variation is something different than the location advantages? Although it is a recently failed to attract sufficient FDI in the past it had attracted a substantial amount of FDI. The study timeframe covers the period from 1970 to 2015 during which Sudan has passed three regimes.

The present study depends on two sources of data, which work in a complementary manner. First, secondary data is collected from scientific articles, journals, government and international organizations reports and other publications to examine the role of international relations on FDI in general. In addition, the secondary data will help to frame the Sudanese FDI situation from the perspective of its international relations with FDI exporting countries. Moreover, primary data are collected through interviewing diplomats working in selected Sudanese embassies. Ten face-to-face interviews with diplomats are conducted. This took the form of semi-structured interviews where the interviewer maintains the right to intervene with diplomats while allowing their opinions to emerge as they answer the questions.

THE FDI INFLOWS TO SUDAN

The data in Figure 1 indicates that the FDI inflows to Sudan increased rapidly from less than 10 million US dollars in 1989 to more than 2.6 billion US dollars in 2011. The noticeable increase in FDI inflow into Sudan started in 1997 with the investment in petroleum products. By the year 1999, Sudan exported the first batch of crude oil and since then Sudan was turned up into an oil exporting country. This achievement could not have been realized without the technology and capital brought about by the multinational corporations with their foreign direct investment in Sudan. Then the export of oil during the early 2000s contributed significantly in stabilizing the Sudanese economy and enhancing the foreign reserve. Consequently, the it erodes the foreign investors' confidence in Sudanese economy. The highest increased in FDI inflow into Sudan had happened during the period 2004-2007. The year 2007 embarks the highest FDI inflow to Sudan that put it in the advanced position among the least developed African Countries.

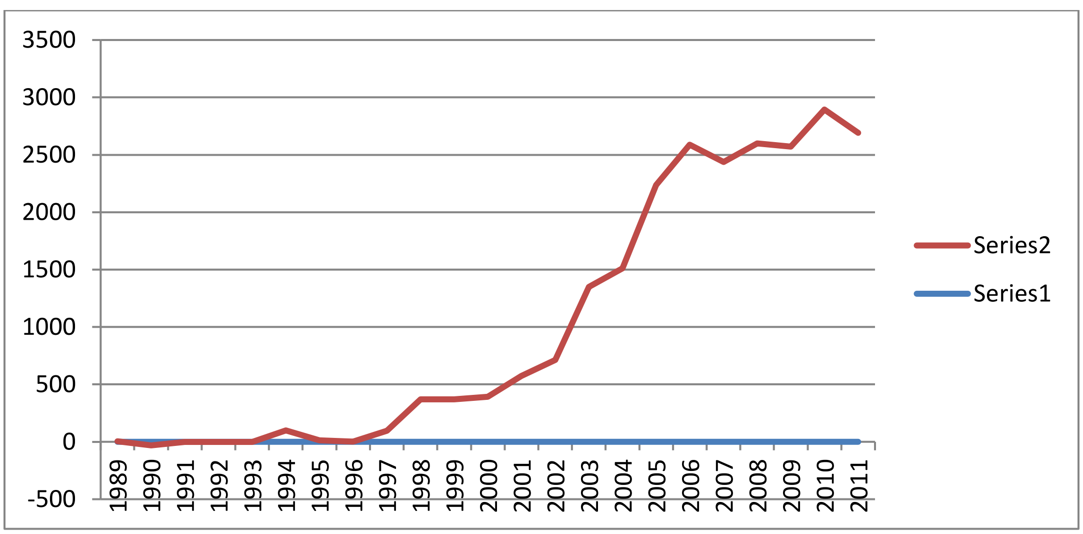

FIG. 1. SUDAN'S INWARD FDI IN MILLION US DOLLARS
Source: UNCTAD, http://stats.unctad.org/fdi/

With regard to the geographical breakdown of the inward FDI to Sudan by sources there is no enough information in the UNCTAD data base, the most reliable source of information on FDI. In Table 1, the data available from UNCTAD sources are presented, but it is very meager compared to the total FDI inflow to Sudan for the same period. This may be due to the fact that some of the inward FDI from Arab countries during this period were not included because there was a lack of information about these investments.

TABLE 1. GEOGRAPHICAL BREAKDOWN OF INWARD FDI BY SOURCE, 2003-2009 (IN MILLIONS OF US DOLLARS)

Country	2003	2004	2005	2006	2007	2008	2009	Total 2003-2009
Malaysia	157.8	65.6	140.4	114.3	38.7	88.7	-	605.6
China	-	146.7	91.1	50.8	65.4	-63.1	19.3	310.2
Germany	14.7	1.2	2.5	1.3	1.4	2.9	-	**24**
Turkey	-	-	-	2.0	4.0	4.0		10
United States	-2.0	1.0	1.0	1.0	-	-	-	1
South Korea	-	-	-	1.0	-	-		1

Source: UNCTAD. (2011).

Table 1 indicates the main sources of Sudan's inward FDI during the period 2003 - 2009. The selection of this period is justified by the availability of data. This was the only period during which the data from UNCTAD data base was available. As it can be observed from the table that Malaysia and China were the main sources of FDI inflow to Sudan. The two countries together directly invested a total amount of one billion USD during the period 2003-2009. Taking them separately, Malaysia was the main source of inward FDI to Sudan for 2003-2009. Its total FDI outflow to Sudan during this period stood at about 605 mill USD with an annual average of about 86 mill USD. The second largest source of FDI inflow to Sudan was China with total amount of 310 mill USD and annual average of 44 mill USD. The FDI inflow from the rest of the listed countries was very meager.

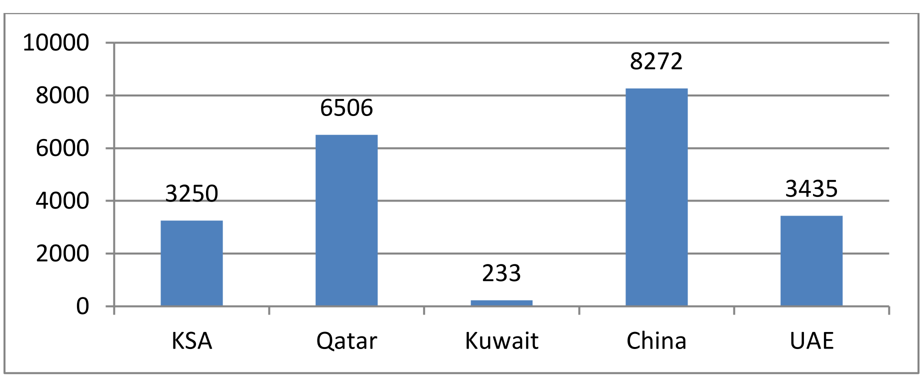

FIG 2. SUDAN'S TOTAL INWARD FDI BY SOURCE, 2000-2013 (MILL USD)
Source: Central Bank of Sudan

The data obtained from the Central Bank of Sudan and is presented in Appendix (Table 1) and Figure 2, indicates that China was the largest investor in Sudan during 2000-2013. Qatar comes in second position with total sum of about 6.5 billion USD. The two countries together two countries directly invested in Sudan total amount of 14.8 billion US dollars representing around 68 percent of the total FDI inflow to Sudan.

OVERVIEW OF SUDAN'S INTERNATIONAL RELATIONS

In this section an overview for Sudan foreign relations is provided. The paper looks into the political circumstances that evolved in Sudan in different periods of time and its implications for other powers and hence on their decision as to invest in Sudan oil sector or not. The research will namely compare the FDI coming from US to Sudan oil sector during various regimes and the Chinese FDI for the same sector and tries to reach some conclusions with regard to the relation between the foreign policy and decisions, by other powers to transfer FDI to that country.

Historically, the Sudanese foreign relations during the period following the independence had been designed to reflect Sudan position of non-aligned country. Therefore, Sudan acted in international issues in such way that reflect its position by supporting the liberation movements across the Third World countries. Along this line, it joined all African, Asian and the third world Organization established in the WWII. Its representatives were active in the African Union (AU), the Non-Alignment Movement (NAM) and the United Nations (UN).

During the four years after Sudan's independence, and until the present the evolvement of Sudanese international relations has passed through different stages of development and it has faced with different challenges. During the last four decades Sudan's had been governed by three different regimes.

Numirie's Era (1968-1985)

Numirie took power through a military coup in 1969; the coup came at a time of a cold war escalation between the two superpowers, though through détente. In July 1970, the communist party plotted against Numirie but Numirie survived the coup and soon as he regained power, he purged the leadership of the communist party and moved away from the Soviet-led Block moving thus, very close to the US-led block. As a result, many advantages were reaped by Numirie's regime; first of all, he soon found help with the first civil war through the Ethiopian-brokered peace in 1972. The deal, which was brokered by the then pro US Ethiopian Monarch, the emperor, Haile Selassie was not successful without the support of western circles. The US ambassador to the UN at the time, George Bush, disclosed to Numirie the results of the aerial mapping that indicated good oil reserves in Sudan. Chevron was soon to be invited to Sudan. In 1975 Chevron was granted a concession in the south and south-west of the country despite the fact that economic conditions of Sudan during that time was evidently started to deteriorate due to the effect of the rise in oil prices following the Saudi embargo on exports in 1973 (Metz, 1991).

The deterioration of Sudan balance of payments was to become worst by 1979 when Saudi Arabia stopped its oil subsidies to Sudan due to Sudan's support of Sadat 1979 peace agreement with Israel, however, who also supported the US-backed Camp David Accord hence the US administration did not want to leave him vulnerable at a time when north-east Africa and the Horn are divided over their loyalties to the cold war super powers.

By the 1980s, the Sudan economy was in clear shambles, even the civil service lost its intactness due to the massive outward movement by the civil servants who headed to the Gulf rich countries seeking a better life following the deterioration of economic life. The first oil discovery in Sudan was made by Chevron in the south of Sudan in 1979, west of the Muglad. Chevron continued its successful exploration and made more significant discoveries in the so called Unity and Heglig fields.

In the decade that followed, Chevron invested between eight hundreds millions to one billion two hundreds millions US dollars therefore, the few signs of energy in Sudan economy at the time were partially because of the Chevron and other western developmental projects dedicated for the assistance of a new cold war ally. Yet there were signs of fatigue on the part of the company by early 1980s and hence nothing was shipped to the market, instead the overall exploration and drilling processes came to a halt by 1984, when Nuer militias attacked the facilities of the company killing some foreign expatriates. The worsening security situation of the renewed civil war was cited as the direct reason for the halt of operations in Sudan, however, upon closer inspection there were policy shifts both nationally and internationally that doomed the fortunes of Numirie's regime with the western countries generally and the US more specifically.

First of all after the National Front's failing coup of 1976, Numirie saw fit to rapproach the opposition and as a consequence a national reconciliation was reached in 1977 through which the internal balance of power among Sudanese political forces shifted once more away from the southerners and the secularists who supported Numirie after the 1972 peace agreement, which offered the south an autonomy and self-rule for the first time since independence, but after 1977 the national politics have once more become under the influences of Arabized and Islamist elements of the Sudanese political spectrum whom their policies and political attitudes alienated the hitherto regime-supporting elements, such as the secularists in the north and the people of the South, who saw Numirie as the one who had brought the peace to the civil war-torn South Sudan.

Indeed, Numirie's new policies towards the South ultimately contributed to the renewal of the civil war in 1983, when two battalions of the south Sudanese soldiers crossed the border into Ethiopia. In fact, the renewed civil war attracted international attention, especially after Numirie declared the Islamic laws in 1983. In 1984, both Chevron and the French Champagne International suspended their operations in the south due to the worsening security conditions.

The Democratic Period (1985-1989)

This period was more of a continuation to Numirie's era in terms of Chevron procrastination since the fluidity of the local politics made nothing to convince the US circles of any change to its doubtful position towards Sudan. During this period, US reduced the number of staff at its Embassy in Khartoum because of the presence of a large contingent of Libyan terrorists. The relation with the regime was further deteriorated due to the US bombardment of Tripoli on April 1986. Soon after that and at the same month a US Embassy employee at Khartoum was shot dead. Consequently, the US government responded to this incident, by withdrawing all non-essential personnel and their dependents, so they all left Sudan for six months. At this time, Sudan was the single largest recipient of U.S. development and military assistance in sub-Saharan Africa (Metz, 1991; Bang, 2015).

Sadig AL Mahdi came to power following general elections in 1986 in a climate of doubt vis-à-vis the US he was regarded by the US as a close alie to both, Iran and Gadhafi. Moreover, the Sudan civil war was suspected by western circles as a war of Arabs and Muslims' domination over the South, all that reflected itself negatively on the western FDI transfers to Sudan. The lack of security internally and the rising military operations by SPLA against the government also contributed to the stoppage of other FDI transfers.

The National Salvation Revolution era (1989-)

From its inception in June 1989, the Islamist NSR regime was phobic from what it named as "western circles", to the extent that the true character of the coup was not revealed to the outside world up until 1990, where two developments have taken place; internally it was the adoption of the 1990 penal code, which reiterated the Islamic *hudood*, that have had stirred a lot of human rights debate, both internally and externally. The second development was the position of the new regime from the US coalition to liberate Kuwait from the invasion by the Iraqi past President Saddam Husain. In fact, the regime adopted a whole gamut of revolutionary policies in the domestic and external realms. Internally, the more evident policy was the mega Islamist social transformation program, in which the military effort against the SPLA/M took a new concept as a religious duty. Sub-regionally, Sudan was found complicit in opposing the US-led UN military intervention in Somalia in 1992, where some US soldiers were killed, later on, by the mid of 1990s the attempted assassination of the Egyptian X-president Mohamed Hosni Mubarak in Ethiopia was evidently pin pointed to Sudan, even at the end of the decade Sudan was accused of being behind the explosion of the US embassy in Kenya. Overall, the regional politics of the NSR managed to heighten the insecurity feeling among its immediate neighboring countries, and even to threaten the interest of the US in the region and abroad. The proactive Islamist foreign policy of the regime of its first years had rewarded Sudan with the position of the a rogue state, not only that the international concern was rocketing over the violations of the human rights abuses of the regime but also was accused of slavery and the prosecutions of minorities. Sudan was put on the status of the UN human rights rapporteur on human rights violations since 1993. The US was especially concerned with Sudan harboring of international terrorism and went further to design Sudan as state sponsoring terrorism, with all the implications on the bilateral and multilateral relations of Sudan. Deterioration of relations with US and western powers continued to the extent that Clinton ordered a cruise attacks on medicines facility in the heart of Sudan capital by 1998 and continued to aid the hostile neighbors of Sudan militarily to stand in the face of the threats posed by Sudan terror and extended through them support to the SPLA/M in its war against Khartoum, the US pressure continued to mount during Clinton administration to reach the blocking of Sudan economically and financially in 2007 (Metz, 1991; Bang 2015).

Throughout this period, Sudan was trying hard to revive the life to its oil exploration sector. Concorp, a small local oil company; owned by a pro-regime a Sudanese national managed to lull Chevron into a deal whereby the concession and the deserted assets in Sudan were sold to Concorp for 25 million US dollars only, this deal was made at a time when Sudan was extending request to a Canadian company to resume the oil exploration deserted by Chevron since 1984.

By 1999, Sudan was on board with the oil producing countries. That was to be a landmark not only on the economic front for the NSR regime, as its fortunes started to shifts to the better not only financially but also diplomatically, many of the western countries were seen as vying to the lucrative business of oil in Sudan; despite the hitherto antagonizing position visa-a-vise the regime. The Chinese (CNPC) dominated oil consortium, which was erected in 1996 to replace the tiny Canadian Arakis company, decided to invest hugely and as part of this policy, it subcontracted a Chinese subsidiary to finalize a pipeline to export the crude for one billion dollars. Interestingly, that huge investment program tempted even a western companies such as Rolls Royce and the Scottish Weir to come on board with eastern companies to provide the pumping engines for the pipeline, this was a reflection of a European Union's constructive engagement with Sudan, which was a departure from the US confrontational policy that resulted in both 1996 UN sanctions and 1997 US economic sanctions.

The period following the first shipment of 600,000 oil barrels in August 1999 saw a rising amount of FDI from the eastern and mid-eastern oil companies and countries alike, as a result Sudan saw overall bonanza and a big boost in the economic growth measured by GDP.

For the US there was a new approach towards Sudan which was characterized by a more positive engagement following the internal power struggle within the regime as well as the failure of the regional US-led concert against Sudan as a result of the Ethiopian – Eritrean war in 1998. In 2001, the US decided to end its opposition to the lifting of UN sanctions on Sudan. Diplomatic relations also improved, and the US has increased and upgraded representation in Sudan. Likewise, the United Kingdom has increased representation and upgraded its diplomatic envoy to ambassador. Relations with the European Union have also improved, and the EU announced in 2002 its intention to resume development with Sudan, some 11 years after it was suspended (World Bank Memo, 2003).

In the face of this western split over Sudan, the US tightened its Sudan sanctions even more, in 2007, by starting to impose penalties on third economic entity that is seen dealing with Sudan. Especially, that the rhetoric against Sudan internal policy on Darfur was rising. In 2005, Darfur genocide expression was adopted by the US, accusing Sudan of purging civilians to clear the land for oil investment.

Two development, however, reversed the upward economic blooming in Sudan, firstly, the secession of the oil-rich South Sudan has left Sudan with meager oil resource that can hardly satisfy the domestic consumption and hence the appetite of foreign companies to venture in Sudan, this was coupled with the second reason which was the biting US economic sanctions, by 2015 Sudan was fully isolated internationally

SUDAN'S FOREIGN POLICY'S IMPACT ON THE FDI INFLOW

As it can be seen from the previous section that Sudan international relations with different countries has passed through different stages, and each stage has its own characteristics and impact on FDI flows. In this section the evolvement of Sudan's international relations are linked to the FDI inflow to Sudan. For this purpose, the data collected through the interviews are thoroughly analysed and discussed. As it can be seen the analysis is of Sudan's international relations and their impact on FDI inflows are undertaken into five sub-sections: internal relations with US and other western countries, international relations with China, international relation with Malaysia, international relation with India, and finally the Arab countries.

Sudan's relations with the USA

On the other hand, relations with the US severely affected FDI from USA and other western countries, because of the listing of Sudan in States Sponsoring Terrorism List and the unilateral USA sanctions on Sudan which hampered FDI through paralyzing the performance of financial and banking transactions with Sudan and thus creating a condition of hesitation and fear in foreign investors (especially Westerns) when considering Sudan since they're not able to perform these vital tasks with the country nor to transfer their capital/revenue outside it.

The worsened US relations with Sudan has two different effects on the FDI inflow to Sudan; firstly, it negatively affected the overall volume of FDI destined to Sudan by stoppage of chevron operations in Sudan and the seizure of other international companies to their business as a result of the US divestment laws of the Sudan such as the Canadian Talisman and the subsequent state petroleum.

Secondly, the US bad diplomatic relations with Sudan made it impossible for western companies to invest in Sudan oil due to the power of the economic sanction 1997 and the renewed version of 2007. Therefore, the Sudan's international relations with US and its western countries allies has contributed significantly in reducing the inflow to Sudan during the last three decades. Had it been good, Sudan could have enjoyed an influx of FDI inflow from U.S. and other western countries. Washington maintains leverage over Khartoum because of the economic sanctions it has already imposed, vitiating Khartoum's attempt to attract FDI from Western countries and their allies. Bilaterally, the US has used its influence over multi-national corporations to ensure that no FDI should inflow into Sudan, and tried to distort the overall environment that motivates them to invest in Sudan.

Given that, the lifting of American economic sanction on Sudan is expected to have a positive impact on FDI. This mainly because, the investors who have been hesitant to directly invest in Sudan will now be encouraged. However, they might not rush to this immediately and may instead be cautious and keep monitoring the situation until the review by the current US Administration is done on this July upon which the decision should be made whether to permanently lift the sanctions or put them back in place. Investors during these upcoming months until July may opt to only explore the general investment atmosphere and prospects in Sudan rather than engaging in real agreements and commitments. Anyway, Sudan has much to do to improve its internal investment atmosphere such as enhancing its 'single-window' system, countering corruption, etc. after all, remember that there are so many countries in this world that did never suffer from sanctions or tasted them, yet they never succeeded in attracting huge foreign investments.

Sudan's relations with China

Unlike the case with US, Sudan relations with China have always been good. This condition has positively affected the FDI inflow to Sudan, especially through investment in the oil sector. The unilateral American sanctions played a great positive role in attracting the Chinese and East Asian investments to Sudan in this field, plugging, thus, the gap that was created by the American sanctions on Sudan. The overall justification for this has been the Chinese inclination to exploit in any opportunity in the international oil exploration realms in order to feed its rising industrial need for fuel, since there was not a much land to compete over apart from Africa.

Historically Chinese economic ties with Sudan dated back to the 1970s, when China provided a total of 89.3 mill USD in aid and loans to Sudan (Abdalla, 2014). As that time the bilateral relations between the two countries was not specifically geared towards economic ties of the significance that was seen later on very strong because China's leadership policy had focused on domestic development. Since the 1980s, China has adopted a 'going global' strategy that encourages Chinese companies to invest abroad. This strategy has encouraged the Government of Sudan to invest into the relationship with China, which ended up with establishment of close commercial ties. Since then, Sudan has enjoyed a very robust and productive relationship with china. This relationship manifests itself into a large influx of FDI from china into Sudan, and rapid expansion of bilateral trade, that nexus has genuinely started in 1994, when the Government of Sudan (GoS) officially requested assistance from the Chinese government in developing the oil sector in Sudan.

The Chinese government responded to this request by conducting a preliminary survey by the China National Petroleum Corporation (CNPC) and found out that the oil sector is promising. The potential returns from oil sector has been found enough to encourage Chinese investors to take the high risks involved (Gadkarim, 2012). Soon after that, deals to finance oil development were completed in late 1995 following a visit to Beijing by President Bashir. In 1996, CNPC formed a consortium, Greater Nile Petroleum Operating Company (GNPOC), with Petronas from Malaysia and started its investment in Sudan (Patey, 2007; Lee, 2015). After that, huge amounts of capital were poured into Sudan and contributed significantly in developing its oil sector. In 2003, China has become the main trade partner of Sudan and the largest foreign investor in Sudan. By this time, the

Sudanese exports to China represented about 24% of the total Sudanese exports, and imports from china estimated at about 20% and FDI from china stood at 29 % of total FDI. Table 1 depicts the main countries sources of FDI inflow to Sudan.

The good international relationship between China and Sudan has significantly contributed in promoting the FDI inflow to Sudan to the extent that put china as the major sources of FDI to Sudan. The shuttle diplomacy of Sudanese government has succeeded in establishing strong relationship with china. There has been mutual interest between Sudan and China that made it easier for them to establish strong diplomatic relations. China was eager to secure the supply of oil to its expanding industrial sector and Sudan was desperately in need for assistance in development especially for its oil sector. Against this background Beijing has encourage Chinese companies to penetrate Sudan and directly invest in many industries. Flagship enterprises in the energy, construction, engineering and manufacturing sectors receive generous government support in preferential loans and credit through the Chinese Development Bank, the China Construction Bank and Eximbank, as well as in tax deductions (Abdalla, 2014). Oil and gas has been given priority to mitigate anxiety about secure supplies of energy. Moreover, the state-owned companies were encouraged to source their own raw materials abroad, gaining strategic advantages from their investment in Sudan's resources.

Although Chinese diplomatic relations with Sudan have always been described as very good yet it has never reached a position whereby Sudan enjoyed the positive support of the Chinese veto power in the security council. China used to abstain on most Security Council resolutions concerning Darfur and it did not even for a single time blocked any anti Sudan resolution like what was later happened with Russia over Syria. In fact, the relationship between China and Sudan has been negatively affected by the Darfur conflict. China foreign policy is built upon respect for sovereignty and territorial integrity of countries. However, under strong pressure from western countries over the issues of human rights violation in Darfur, china has begun slowly but methodically to alter its position on Sudan. In 2006, President Hu Jintao advised al-Bashir to strengthen dialogue with all parties, coordinate stances, and strive to reach an appropriate solution. By late 2007, China's has reached the stage where it decided to remove Sudan from its list of countries for which it provides financial incentives to Chinese companies to invest there (Shinn, 2009).

An important change in China's Sudan relationship has happened with the initiation of bilateral relations with the Government of South Sudan in 2007, which were converted into full diplomatic relations in July 2011. Since then, South Sudan has been a new economic destination for Chinese companies. Because the major oil fields located in South Sudan and there are a lot of investment opportunities in oil extraction and developmental projects for the infant state. Thus, many Chinese firms expressed their interest to invest in different sectors such as infrastructure, agriculture, and telecommunications and some of them have already arrived in Juba and begin to set up offices and start operations in the south.

Sudan's relations with India

The Indian economic tie with Sudan dated back to the 1950s, when Indian Liaison Office was set up in Khartoum in April 1955. Sudan supports India's aspirations to become a permanent member of the UN Security Council; in turn, the Indian government agreed in 2005 to assist Sudan in its intention to gain the membership of the World Trade Organisation. Since then, India has played a more significant but, to date less visible, role than the previous countries. Its comparatively recent concerted efforts to expand economic relations with Sudan have been part of a wider scaling up of business engagement with Africa. Indian trade with Sudan has maintained a reasonable volume of around one billion in the last two decades reaching USD by 2016 (Bank of Sudan, 2016).

This cordial political atmosphere aided by the lucrative opportunities made by oil discoveries in Sudan encouraged a range of public and private Indian companies have to enter Sudan, Sudan trade fair was held in Khartoum, featuring some 78 public and private Indian companies and conducting business worth 150 mill USD with emphasis on infrastructure, agriculture, human resource development, information and communications technologies. The Export-Import Bank of India has played a key role in financing and promoting Indian exports to Sudan. A major part of the rationale behind credit lines was to 'provide initial help to kick-start our exports'. India had extended Sudan a line of credit of around 50 mill USD four times by February 2007, when it advanced a 48 mill USD package directed toward solar electrification, railways and other projects ('Indian Bank to Offer 48mill USD Credit to Sudan' 2007).

As evident from the above the positive political bilateral atmosphere between India and Sudan has contributed positively to the abovementioned flows although they hitherto not significant enough like those of Chine, yet they can be put as a prove to the impact of political relations on the FDI inflow.

Sudan relations with Malaysia

Malaysia was evidently share the same ideology with the NSR regime in Sudan and that played a critical role in its decision to invest in Sudan petroleum sector, thus, it came to shore up Sudan when the International Monetary Fund took the strange step of declaring that Sudan was non-cooperative because of its inability to pay arrears to the Fund a move, which was not without a political context where Sudan was designed as human rights violator by the UN in1993, that when Malaysia was to play major role to support Sudan against the threat from the Western world, especially the US. As part of its effort toward Sudan, Malaysia has encouraged private and public enterprises to directly invest in Sudan. Petronas is one of the companies that responded to its government encourage and undertook large investment in oil sector in Sudan. Then it followed by many other Malaysian companies. Thus Sudan's good relations with Malaysia have played driving role for FDI inflow.

CONCLUSION

The objective of the paper is to examine the state of FDI inflow to Sudan and to examine the role of international relations on shaping that status. It was found that international relations are one of the most important factors that can affect the inflow of the FDI. Sudan good relations with East Asian countries (China, India and Malaysia) have contributed positively to the flow of FDI into Sudan. Contrarily, Sudan's bad relationship with U.S. and other western countries has contributed negatively to the FDI inflow to Sudan.

Based on this, we recommend that countries use their international relations as instrument to attract more FDI. Indeed Sudan has proved this point in its relations with Arab Gulf region, at the time of Sudan adamant hostile foreign policy towards the positions of the Gulf countries meager resources were attracted as FDI from them but since it altered its ideologically oriented foreign policy and become more pragmatic and took favorable steps towards the Gulf such as its bold shift from Iran and the joining of anti-shia Arab concert, Sudan managed to attract huge attention from Arab rich states and received promising FDI to its different sectors such as agriculture irrigation project and electricity generation.

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APPENDEX

TABLE 1. FOREIGN DIRECT INVESTMENT IN MILLION US DOLLARS (2000-2013)

Year	KSA	Qatar	Kuwait	China	UAE	Total
2000	78	118	11	130	56	392.21
2001	115	173	16	185	85	574
2002	123	214	8	265	104	713.18
2003	240	390	11	480	228	1349.19
2004	302	420	15	554	220	1511.07
2005	265	430	16	621	230	1561.69
2006	318	553	18	674	279	1841.834
2007	220	451	15	597	221	1504.38
2008	263	496	17	619	258	1653.12
2009	247	522	17	690	250	1726.298
2010	260	619	21	832	332	2063.731
2011	347	707	23	870	367	2313.694
2012	254	698	23	936	401	2312.858
2013	218	715	22	819	405	2179.117
Total	3250	6506	233	8272	3435	21,696

Source: Bank of Sudan data base.