KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

KUMASI

THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT INFLOWS IN GHANA

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BY

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DECLARATION

Apart from the references which has being acknowledged accordingly I pronounce that this work is the result of our own masterpiece and that the work has not been presented , wholly or in part in any institution, for the award of another academic certificate.

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DEDICATION

This work is dedicated to my dear wife Leticia Owusu and my father Isaac Owusu and mother Elizabeth Owusu who had support me in diverse ways during the period of my studies.

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ABSTRACT

The main aim of the study was to examine the major determinants of foreign direct investment in Ghana. The study employs time series annual data on FDI, GDP per capita, Economic Openness, Exchange Rate, Political rights, Government Consumption Expenditure, Macro Economic Stability, and Natural Resource Endowment and Interest Rate from Ghana over the study period 1980 to 2014. Also openness of the nation's economy and market, and natural resources, its infrastructure, the size and level of governments expenditure and consumption and also the interest rate regime in the nation were the factors that determines Ghanas FDI. In summary Foreign Direct Investment (FDI) in Ghana is much concentrated in the mining and oil and gas sector at the expense of the fundamental drivers of Ghana's economy, therefore FDI becomes less impactful on Ghana's economic growth. Ghana's attraction of foreign direct investment hinge on major factors mentioned earlier above. The study recommended that government must create the enabling socio-economic and political environment with appealing features for FDI. Also, government must showcase the investment potentials of the country to the world through the various technological mediums and Ghana Investment Promotion Center (GIPC) and the Free Zones Board (FZB) are laudable initiatives by government towards attracting FDI.

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CHAPTER ONE

INTRODUCTION

1.0 Background to the Study

The globalization of the world with its associated surge in market competition necessitates expansion by entities beyond their national geographical boundaries. Consequently, organizations make investments in other countries. Foreign Direct Investment (FDI) involves investment entities and organization located in a country and partner with another organization in a different country premised on establishing long lasting interest in the resident organization invested in (Foreign direct investment, 2012).

Through FDI, the investing organizations establishes operation, acquire tangible assets and stakes in other organizations. With this a long-term relationship is built between organizations and economies. Generally, a threshold of 10 percent voting stake or share control is agreed upon. FDI aside stake control or ownership transfer also involves management transfer, technology and skills within an organization (OECD, 2012)

Foreign Direct Investment is influenced by certain factors. Yang et al (2000), with the aid of time series for the determination of factors of Foreign Direct Investment drive in Australia conclude profitability, market liberalization, industrial disputes and exchange rates are the major drivers of Foreign Direct Investment in the county. Dunning (2009) asserted that market liberalization, the cost of production and labour as well as the socio-political environment and availability of market are the determinants of FDI.

Globally, there have been surge in Foreign Direct Investment. The OECD (2012) posits that global FDI outflows experienced a 12% increase in 2011 estimated at USD $1558 billion relative to 24% surge in FDI outflow experienced in 2010. Africa as a continent is the world's fastest growing region for FDI (Financial Times (2015). Africa recorded an estimated USD $87 billion in capital investment in 2014 representing a 65% increase over the 2013 estimates (Financial Times 2015). Most of this investments approximately USD $33 billion were channeled in Africa's oil and Gas sector. The rise in Africa's FDI is attributed to improvement in security, good governance and strong economic growth experienced by African nations.

Ghana considered a beacon of peace, security and good governance in sub-Saharan Africa is also an investment destination for foreign organizations. The World Bank (2012) estimated that Ghana's FDI net inflows amounted to 8.09% of GDP in 2012. This recent FDI attraction is attributable to various investment policies and reforms adopted and implemented by successive Ghanaian governments aimed at wooing investors to operate in Ghana. The aim of these different policies is to allow for corroborative partnership between indigenous and foreign business to harness the benefit of their investment all aimed at boosting the country's economic growth.

However, it has been established that FDI inflows in Ghana are mostly channeled in the mining sector. Nyarko (2008) asserts that the mining sector attracted most of the Foreign Direct Investment in the late 1980's and 1990's. However, the theory of individual organizational hypothesis contradicted Nyarko's finding and postulated that investing firms considers the demerits involved in the language, culture, legal regime and competition from the local firms before its investment in a country.Thusan investor ponders over the merits to be accrued in the area of larger or cheap cost of capital and competitive advantage it will have before it makes investment. Regardless, the mining sector is the sector of attraction of most FDI inflows in Ghana.

Consequently, policy makers have placed emphasis on attracting foreign direct investments in that it is able to contend shortages of financing and technology and skill and also attracting FDI to other sectors other than its concentration in the mining sector.

Also, determinants of FDI have witnessed dynamism in recent times. Various researches stipulate that the major determinant of Foreign Direct Investment Flow appears to change with time and from country to country. Hence this paper will place emphasis on FDI in Ghana since the advent of the Fourth republic and its major determinants.

1.1Statement of the Problem

Ghana like some developing country has difficulties mobilizing adequate revenue to meet the budgetary requirements and other developmental needs. For instance, in the years 2013 and 2014, the Ghana's budget reflected deficits of 10.8% (GhȻ 9.5bn) and 10.4% (GhȻ 9.1bn) of Gross Domestic Products respectively (Bank of Ghana, 2014; 2015).

Subsequently, government relies on FDI to embark on developmental projects and including job creation. Ghana due to its peace and good governance has become a viable investment climate in the West Africa and Sub-Saharan Africa. The Ghana Investment Promotion Center (GIPC) and the World Bank (2012) estimated that

Ghana's foreign direct investment inflows at 1.3 billion dollars approximately 8.09% of Ghana's GDP. Through this FDI there has been massive injection of capital, management, technology and skills transfer from external organization into the country.

However, FDI inflow in Ghana between the (1980-90's) the years of the Structural Adjustment Programme (SAP) skewed towards the mining sectors (Ayee, JRA) 2007.

The IMF and the World Bank report of 1980 adds the Oil and Gas to mining as the sector with most foreign capital investment attractions.

The globalization of the world economy, with its associate surge in market competition and the timeliness of such flow call for an exploration of other possible areas of FDI that can propel the development of Ghana.

The problem of the research seeks to solve is to identify other sectors of the economy where FDI can be viable at this material state of the economy which has competitive edge over other entities that also compete for these FDI.

It also seeks to confirm or otherwise the assertion that mining, oil and gas still influence inflow of foreign investment in Ghana.

It is in view of this that an empirical assessment of the determinants of FDI inflow in Ghana becomes imperative.

1.2 General Objectives of the Study

Generally, the objective is to examine the major determinants of foreign direct investment in Ghana.

1.2.1 Specific Objectives

Specifically the study seeks to address;

1. To analyze the trends of Foreign Direct Investment inflows in Ghana from 1980-2014.
2. To identify sectors attracting Foreign Direct Investment.
3. To measure the determinants of FDI inflows in Ghana from 1980-2014.

1.3 Research Questions

1. What are the trends in Foreign Direct Investment inflows in Ghana from 1980-2014?
2. Which sectors are attracting Foreign Direct Investment?
3. What are the determinants of FDI inflows in Ghana from 1980-2014?

1.4 Statement of Hypotheses

1 Ho: Exchange Rate depreciation does not drive FDI into host countries.

Hi: Exchange Rate depreciation drive FDI into host countries.

2 Ho: There is no significant impact of interest rate on FDI.

Hi: There is a significant impact of interest rate on FDI.

1.5 Justification

Foreign Direct Investment provides further stimulus for Ghana's economic growth and development. As a priority area of successive governments, initiatives are made to augment FDI investment in Ghana. However, the mining sector has mostly been the beneficiary of this investment at the expense of other auspicious sectors. Hence this study will acquaint policy makers with alternative ways of attracting FDI into local economy.

Again, there is dynamism in the determinants of FDI hence policy makers need to be up to date with these changes in the determinants. With this study the causes of this change in trend and also factors that woo or influence investors' decisions will be brought to the notice of policy makers so that they will devise policies that will consolidate investment attractions.

The researcher believes the academia will tap this research as a premise for embarking future researches in areas related to this study's theme and thus contributing to the stock of literature available.

1.6 Scope of the Study

The study will discuss the merits and the demerits regarding the essential determinants of FDI Inflows initiated by the various regimes in Ghana and why new policies had to be explored by subsequent regimes. The researcher considered data from 1980-2014 and for which FDI was retrogressed on by; GDP per capita, Market Liberalization, Exchange Rate, Political rights, Government Consumption Expenditure, Macro Economic Stability, and Natural Resource Endowment and Interest Rate.

1.7 Organization of the study

The study is in five sections. Chapter one gives a background of the study together with its problem statement, objectives, research questions, justification and scope of the study. The subsequent chapter two entails review of literature in tandem with the study objective. Chapter three involves the research methodology. Chapter four presents discussion of results. The final chapter presents summary of findings deduced from the findings, a conclusion and recommendation for policy initiatives and implementation.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The chapter presents a review of relevant literature in accordance with the objectives of the study. Reviewing informative works in relation to the study objectives gives a broader and succinct understanding of the general background to the study. This chapter shall be grouped under sections including; overview and anatomy of FDI, determinants of FDI, factors influencing FDI and the FDI in the Ghanaian perspective.

2.1 Overview and anatomy of FDI

The highest decision making bodies and academics in many instances maintain that foreign direct investment (FDI) can be a starting point of valuable productivity sequence of economic activities for the host countries. Aside the provision of capital, Foreign Direct Investment has the capacity to transfer technological know-how to the local setting and change the face of doing business. Foreign direct investment is a situation where a business is owned, planned and managed by a country in another country (Lexicon).

Smith, 1997; Quazi, (2007) posits that FDI has become indispensible as far as globalization of production, marketing and distribution of products are concern. This has revolutionalized and perpetuated the spread of advanced technologies, improved standards of production, and created a multiplied effect in job provision and the enhancement of economic growth. In furtherance, it has aid stabilized the economies of developing countries through the development of strong currency of the country in which they are investing. This can in turn revolutionalize and facilitate the quest for African countries to develop and improve growth in the area of job creation, domestic savings, knowledge transfer and enhancing the efficacy and efficiency of skills (Dupasquier and Osakwe, 2003; Anyanwu, 2003).

Lexicon asserted that there are variations in managing FDIs and foreign investment portfolio which refers to holding a partial asset in different nation in the form of bonds and stocks by “control”. Control simply uses a 10 percent threshold of shares. Moreover, control of know-how, organization, even essential involvements can confer de facto control” (Lexicon).

Beginning the process of investment has no bearing on the definition Foreign Direct Investment. That is to say, the country intending to invest in another country can do so by buying a business in the target destination which is known as “inorganic” way of investment or they can expand an existing business in the target country to increase production. From a broader angle, Foreign Direct Investment could be in the form of building synergy, merging with another or complete take over, it could also be in the form of establishing new companies, plowing back earned profits from existing company or using intra-company loans. In a more specific manner, FDIs goes beyond only the establishment of new organizations.

The mathematical FDI records grounded on dissimilar definitions does not have a bearing on one another. With regards to the domestic accounts of a country, and in regard to the GDP equation Y=C+I+G+(X-M)[Consumption + gross Investment + Government spending +(exports - imports)], (where I means domestic investment plus foreign investment), FDI is defined as the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor "(Foreign direct investment,2012).

Foreign direct investments sums equity capital with other short term and long term holdings as presented by its balance of payment. FDIs holdings give the opportunity to be part of management, hold joint ventures, technology transfer and skills enhancement. Stock of FDI is the net (i.e., inward FDI minus outward FDI) cumulative FDI for any given period. Direct investment excludes investment through purchase of shares (CIA, 2012). FDI is one example of international factor movements.

Stephen Hymer's developed a theory of direct holdings or investments in 1960s and his motivation was derived from the neoclassical economics on the grounds of macroeconomic principles Letto and Grazia (2012).These modalities were based on classical theory of transacting business where their main motivation was as a result of the dissimilarities in cost of producing goods and services between and among two different countries focusing on their cost advantage considering the raw materials available to them, cheap labour, cost of transportation and among other things. For example, Joe S. Bain only elaborated the internationalization challenge with three main principles, which are: Absolute cost advantages, product differentiation advantages and economies on scale. In furtherance, the neo-classical modelities and theories were created with the conjuncture that there is a free and balanced market while these assumptions inspired Hymer to use America as a study guide to develop a framework that explains FDI in a more comprehensive way.

Previous concentrated on capital investments also known as portfolio investment which uses macroeconomic stability as its foundations while ignoring internal control measures that aids in solidifying the stocks of the investor and escalate their profit levels. Contrary to this, Hymer postulated that FDI is of immense benefit than portfolio investments while considering internal control systems of the investing company or the individual. It is this difference in ideas that led to development of new theoretical framework.

Hymer then continued by objectively lampooning the theories of the neo-classical and according to him the act of transporting liquid capital to another country does not necessarily signify globalization of production or international production. Hymer hastened to add that FDI is not only restricted to extra profits that have been recuperated by a company abroad as the traditional conceptions were.

Consequently, Hymer construed that investment in a destination can even be done by accessing loan in the destination country while using equities in the shape of machinery, technological know-how, patent among others as a means of payment or collateral. Due to Hymers' formal criticisms he assessed three main key drivers with regards to FDIs while fairly taking into account the imperfection in the open market and they include; competitors, companies with competitive edge and lastly using strategic internationalization to curb market risks.

Contrary to the progressive growth in FDIs in other parts of the continent such as Asia, that of Africa is still under privileged in terms of FDIs. As at the year 1980-1989 Asia saw an increase of 14.2% investment as against that of Africa with 2.6%, between 1990 -1999, Asia leaped to 19.1% compared to 1.9% in Africa whereas between 2000-2009 Asia again had 19.1% investment as opposed to Africa with

3.2%. The mystery still remains with major players and pundits asking why Africa is bedeviled with low FDIs. Finding antidote to this mystery has been concerns to both academia and major players.

2.2 Major determinants of FDI

A Theoretical Framework employed for the study

According to Dunning (1977, 1993), developed a framework that captured the major determinants of FDI also known as “eclectic paradigm” which takes into consideration micro and macro dimensions of why, when and where multinational companies (MNCs) invest abroad.

Three benefits were attributed to the theoretical framework as factors influencing investment abroad and it is called (OLI): O – stands for Ownership, L – stands for Location while I – stands for Internalization. There are privileges that are enjoyed as far as ownership is concerned and this presents itself in the opportunity to exploit, export or import natural resources, and compete effectively with competitor irrespective of the fact that they are foreign investors. They are also backed by legislation in terms of property rights and other intangible asserts. The tendency to combine activities such as production/manufacturing, distribution and exploit variations in different countries expose the organization to the benefits mentioned earlier.

However, location also comes with some benefits such as attractive image where the environment is viable for doing business. Aside having a good image, location also comes with the availability of cheap labour, natural resources, no or less trade barriers. These variables serve as pull factor for investor. Comparing location on the grounds of variable such as the availability of natural resources endowments, the cost of transportation, the policies and regulations of government, the stability of the macro-economy, sociocultural and political factors are the determinants of location advantages. Internal positives are gained through exploiting external markets while taking into consideration uncertainties like external shocks (trade barriers, tariffs, subsidies, foreign exchange etc.) and cost of transaction.

By assessing locations thoroughly , an organization can adopt a system known as globalization of production where segments of the overall product is produced in other countries due to cheaper cost of production before assembling it at a particular place for distribution (Baniak et al, 2005; Sekkat and Veganzones-Varoudakis, 2007; Pantelidis and Nikolopoulos, 2008; and Kinda, 2010).

Drawing inspiration from these, Dunning in 1993 categorized into four, the intentions for Foreign Direct Investments and these include the quest for resources (which is access to labor, natural resources and infrastructural availability), quest for market (it's a means of strategically expanding the market size of a firm), quest for efficiency (to have access to cheap labour to reduce the overall cost of production), quest to possess assets (to discover new innovations and developments) (Cleeve, 2008).

Studies have found policy and non-policy determinants as the major drivers of FDIs in countries, (Fedderke and Romm, 2006). Regarding policy factors concerns such as market liberalization, government regulatory policies, availability of taxes and subsidies as well as infrastructures were raised. On the contrary, non-policy factors included the size of market at the host country, cost of production and transportation as well as sociopolitical and cultural factors, (Mateev, 2009).

There are certain variable that serves as a pull factor in influencing FDIs and among them are; the socioeconomic, sociocultural and political variables while also considering turbulence in the open market and the push variables recurring elements, irreversible and structural factors, (see Fernández-Arias, 1996; Fernández-Arias and Montiel, 1996; Gottschalk, 2001).

The push and pull factors were further categorized into two which was presented as external and internal determinants respectively, Fernández-Arias (1996), Fernández-Arias and Montiel (1996), Gottschalk (2001) and calvo et al. (1996)

Tsai (1991), Ning and Reed (1995) and Lall et al. (2003) also looked at it from a different perspective where they grouped the motivating factors into "supply- side and demand-side" where the supply-side deals with the investors assets such as advanced technology, creating of job opportunity, skilled labour capital and among others whereas the demand-side provide a variety of opportunities such as a free market, availability of cheap labour and other factors of production, governments' regulatory instruments including taxes, export and import duties, exchange rate and socio cultural and political environment and among others. These motivational factors were extended by Karakaplan et al., (2005) by adding "institutional factors" where he considered property rights, bureaucracy, corruption and cultural intelligence.

In a comparative study Chowdhury and Mavrotas (2006) discovered that Chiles' GDP has a significant effect on FDI investment patterns in their country whereas that of Malaysia and Thailand had the opposite to be correct. It was however found that financial soundness has positive impact on the FDI in a country Klein and Rosnegren (1994), Jeon and Rhee (2008) while it was concluded by Brahmasrene and Jiranyakul (2001) that revenues is the fundamental determinant of FDIs.

Following these, the size of market in a particular country has been ascertained to be a great determinant of attracting foreign direct investment. For instance, major companies are moving to china due to its market availability that has the capacity to consume the products that will be produced (Barrell and Pain, 1996; Nigh, 1986; Anyanwu, 1998; Fedderke and Romm, 2006; Tarzi, 2005; Khair-UZ-Zaman et al, 2006; Zhang, 2001) while Kyereboah-Coleman and Agyire-Tettey (2008) stipulated that most direct investors do not consider this when they think of investing in Ghana. Among the determinants, market liberalization or openness is confirmed to be a pivotal factor that draws foreign direct investors into a country Asiedu, 2002; Feils and Rahman, (2008) whereas Nnadozie and Osili, (2004); Khair-UZ-Zaman et al, (2006) also discovered a negative reaction between the level of inflation in a country and the bearing it has on foreign direct investment while Brahmasrene and Jiranyakul(2001) believes that as inflation increases, investors are attracted because the least money they have can give rise to something big.

Committing to a review study, it was concluded that, there are significant attribution to Mergers and Acquisition (M&A) where openness of market enhances the operation of such investment mechanisms and their operations has been much more efficient in developing countries since the 1990s while the loss of the value of a currency and exchange rates has adverse effect on investments and stocks Acquisition and Mergers (Kamaly2007).

There have been contradictory ideas as far as the rate of exchange is concerned with regards to its ability to influence Foreign Direct Investments. Kyereboah-Coleman and Agyire-Tettey (2008) revealed that poor or unstable exchange rate serves as a factor that prevent FDIs in Ghana while others posited that the movement of

American companies to Korea was as a result of their exchange rate (Jeon and Rhee, 2008) and this findings was corroborated by the findings of Ramiraz (2006) and Cushman (1985). On the other hand Brahmasrene and Jiranyakul (2001) and Dewenter (1995) discovered that exchange rate of a country has no bearing on the inflow or influx of foreign direct investments.

Government plays a major role in determining the direction of the economy by way of his investment in the economy. The greater the expenditure of government, the greater his involvement in the economy. There have been several reforms to redirect the roles of government into streamlining policies and determining the rightful wages and salaries. Hence the lesser government involves itself in the economy, the greater opportunity it gives to foster private companies to emerge and create employment opportunities and this helps government to become more effective through the use of regulatory instruments. On the contrary, massive involvement on the part of government crowed out private organizations and companies and eventually kills their operations. To this effect there will be an inverse relation between government expenditure and FDIs in a country, (Mkenda and Mkenda, 2004).

From 1978 to 2003, 15 Latin American countries were comparatively studied and the findings revealed that the volume of stock market trading has a positive bearing in attracting FDIs while the ability to access credit from the host country has that tendency to attract Foreign Direct Investments, (Nasser and Gomez 2009). This was further affirmed by the study of Kinda (2010), Deichmann et al. (2003), and Jenkins and Thomas (2002).

A survey was conducted among thirteen South African Developing Countries (SADCs) and according to the report it confirmed that resources such as human, capital, infrastructure and GDP influence the influx of FDIs. Contradictions was found in the areas of income levels and market openness where among the SADCs foreign investors do not consider those factors as against most countries in the world where these elements are not strictly used as determinants, (Lederman et al., 2010). They also attributed low inflow of FDIs to the rate of growth, phone density, the fact that their population is not a youthful population among others. Moreover, desirability of FDIs to Greece was observed from 1998-2007 and it was concluded that market availability and liberalization, access to labour, flexible export and import regulations form the basis of attracting FDIs.

Sekkat and Veganzones-Varoudakisin (2007) contributed by categorizing the factors that influence FDIs to go into another country. These categorizations are fundamental economic factors, exchanging market policies and the sociopolitical environment for investment. The fundamental economic factors simply refer to profitability after investment is done. Trade and exchange policies simply relates to free market and the ability to move currencies, (Frootand Stein, 1991) while the sociopolitical environment included the political atmosphere, availability of labour, subsidies and tax holidays.

For the last three decades, FDIs has escalated at an increasing rate due to the advent of globalization of production, marketing and distribution as well as the advancement in technologies (ADB 2004). Researchers and industry players have tried over the years to juxtapose the influx of FDIs but have seen their submissions being criticized (Agarwal 1980).

FDIs have been categorized into three parts based on their intentions and they include "market-seeking" which intends to help grow the local and national market of the host country. “Resource-seeking” this is when FDI’s main motive is to benefit from a resource which is not in their country but can be found in the host country. The resource seeking has no limits and could best be defined by the investors and lastly, “efficiency-seeking” an environment where investors can operate without any destruction either from natural factors or human induced factors (Dunning 1993).

2.2.1 Market Size

Logically, the larger the market size of host country, the greater their rate of consumption and the more consumers demand, the more producers produce and hence enjoy economies of scale which makes a unit price per product less (Charkrabarti 2001). ODI in (1997) added by confirming earlier works that not only does market size influence FDIs inflows but serves as a proxy for GDP growth. In as much as market size influences the influx of FDIs, Parletun and Ang (2008), belief that high GDP does not necessarily ginger the inflow of FDIs.

2.2.2 Openness

There is mixed evidence in respect to the significance of openness, which is measured mostly by the degree of exports plus imports to GDP, in determining FDI, as well Charkrabarti (2001). That is how liberalized a country’s market is fosters international trade trough FDI investments and determines the kind of investment (Jordaan, 2004). Subsequently, lack of openness deters investors due to the perception that there might be barriers that will limit activities such as exporting and importation of goods.

A cluster of researchers have found a positive relation between market liberalization or openness and the inflow of FDIs Kravis and Lipsey (1982), Culem (1988), Edwards (1990). Stated in ODI (1997), while access to specific markets – judged by their size and growth – is important, domestic market factors are predictably much less important in export-inclined foreign firms. A range of surveys suggests a widespread perception that “open” economies encourage more foreign investment.

2.2.3 The Cost of Labour and Productivity

Availability and access to cheap labour enhances the inflow of Foreign Direct Investment in a particular country even though consensus has not been drowned with researchers and pundits having different conceptions about the subject matter. Higher wages leads to higher cost of production likewise lower wages results in low cost of production, (Charkrabarti 2001). In the light of this Goldsbrough (1979), Saunders (1982), Flamm (1984), Schneider and Frey (1985), Culem (1988), and Shamsuddin (1994), concluded by saying stipulated that exorbitant remuneration drives away FDIs. Tsai (1994) report confirmed it by saying cheap labour is necessary for attracting foreign investors.

In the field of economics human capital is regarded as the single most important factor that combines other factors of production through its skills to deliver quality. The understanding of this concept led to several researchers such as Reiter et al (2010) the most important determinant variable in attracting foreign investors is a developed human capita with a cheaper cost of hiring. That is to say, the efficiency of the labour force is expected to have a significant impact in achieving the goals of the organization hence attracting more FDIs. They further discovered that, human capital can best be enhanced when the level of corruption is low in the country. Markusen (2001); Rodríguez and Pallas (2008) found in their studies that quality and improved human capital attracts FDI than any other determinant. Nonnemberg and Cardoso de Mendonça (2004) expanded the scope by affirming through a panel data analysis between 1975-2000 for 38 low-income economies by concluding that free market. Macroeconomic stability, level of education among other variables creates an atmosphere that attracts Foreign Direct Investment.

Health wise, life expectancy has been enumerated as a determinant factor in influencing foreign direct investment. In a trend analysis between 1980-2000 among 74 developed and developing countries it was confirmed by Alsan et al (2006) that life expectancy plays a pivotal role in attracting FDIs. The studies of other researchers like Noorbakhsh et al. (2001) and Miyamoto (2008);Tarzi (2005) and Baeka and Okawa (2001) cite workers'throughput and Khair-UZ-Zaman et al. (2006) and Jeon and Rhee (2008) supported that assertion of life expectancy influencing the flow of FDis.

2.2.4 Political Risk

The ranking of political risk Amongst the FDI determinants, there remains a rather unclear political risk. In the concerns of ODI (1997), political unrest is a devastating variable that hinders the flow of FDIs inflows even though those countries (e.g. Nigeria and Angola) could be rich in terms of natural resources. However, multinational corporations will continually invest so far as they will generate profit and would not adhere to the sociopolitical environment but will take measure to protect themselves in terms of security wise against such ill-happenings.

It has been ascertained that variables such as meager market size, poor exchange rate and among others do not particularly pose concerns for multinational corporations but variables like boycotting work, commotions, loses in work days and others are the major treats to the investors. They further postulated that the real nexus that exist between sociopolitical unrests and FDIs flows have not been emphatically discovered

(Jaspersen et al. 2000; Hausmann and Fernandez-Arias 2000). On the contrary, Loree and Guisinger (1995) found a relation between political unrest and FDI inflows while Edwards in (1990) used two variables; political instability and political violence where he found a strong relation for political instability and weak relation for political violence.

2.2.5 Infrastructure

Infrastructures incorporate a range of facilities including pliable roads, quality buildings, and availability of telecommunication networks, lights, ports among others. However, quality and efficient facilities has been a major hindrance in developing countries ODI (1997). Jordaan (2004) has the view that there is increased productivity and potential of investments in a country if there are good quality and well-developed infrastructure and hence influences the influx of FDIs.

Interestingly infrastructural development has been denoted as one of the determining factors that attract foreign direct investment Musila and Sigue (2006) and Dupasquier and Osakwe (2006) and the idea of infrastructure being able to attract FDIs was supported by researchers such as (Mengistu and Adams, 2007; Cotton and Ramachandran, 2001), (Zhang, 2001), (Kersan-Skabic and Orlic, 2007) and (Botric and Škuflic, 2006) with their studies conducted in different parts of the continents. On the contrary, findings by Nnadozie and Osili (2004) proved that the influx of FDIs from America to Africa pay no or less attention to infrastructure development.

Effective and efficient telecommunication and information technology (ICT) were otherdeterminants that draw FDIs to Africa, (Anyanwu and Erhijakpor2004). Using 23 advanced and low-income countries between (1976-1999),Gholami et al in (2006) deduced that ICT aids in transnational business activity which opens the existing company to a wider market across the globe which makes it indispensible and motivates FDIs to invest in Africa. Likewise Dauti (2008) in a survey where he took into account South East European Countries (SEECs), and concluded that ICT infrastructure is relevant in influencing FDIs inflow.

2.2.6 Growth

One subject of controversy has been the role of growth in attracting FDI. Discoveries from a survey concluded that nations that experience faster growth rate have the capacity to progress and have positive returns than the ones growing slowly or not growing at all Charkrabarti (2001). Lunn (1980), Schneider and Frey (1985) and Culem (1988) found a positive relation between growth of an economy and the influx of FDIs.

On the contrary, an uncertain relation was found among developing countries, Nigh (1985) whereas among the Africa sub-region, the non-sub-Sahara zones developed a direct relation while the sub-Sahara developed was indifferent towards the assertion (Ancharaz, 2003 and Gastanagaet al. 1998).

2.3 Factors Influencing FDI

According to UNCTAD (2003), Due to modernization and advancement in technology, barriers to markets are becoming less effective. This is because IT can be used to transfer knowledge from one part of the world to another without any difficulty. Even though these barriers are there, complex electrical gadgets and telecommunication has made them intangible and permeable (Hill 2000 & Yusuf 2003). Also the emergences of multinational chain of banks such as Barclays, Standard Chartered Bank among others make the transaction of business easy with no or fewer barriers (see the case of ABNAmro in Gelb and Black, 2004b). The movement of telecommunication companies across the globe has saturated markets of developed countries and seeks to find hope in the markets of developing countries. With regards to this Africa and its sub-region according to UNCTAD, (1999) andLuiz (2006) have confirmed to have great potential for multinational corporations.

Influx of FDIs is expected to increase as a result of liberalized markets in some African countries and will continue to attract investors when better corporate governance policies are formulated to curb bureaucracies and get rid of “red tapes”(Yusuf 2003; Bouquet et al, 2004). Aveni (1995) commented that it is the quest to have a competitive edge over competitors that has led to FDI inflows because to be a market leader, an organization needs to have a large market size.

In literature, many modalities has been outlined to juxtapose the influx of FDIs but the most popular and commonly used one was proposed by Dunning (1993)- the OLI model. The “O” basically means ownership; the “L” means location while “I” means internalization incentives. A critical look at this model made researchers came to conclusion that ownership (O) and internalization incentives (I) are related to the internal issues and policies of the company whereas location (L) deals with the host country.

These three models mostly shape the investment policies of MNCs. An inconsistency in one of the variable might sabotage their intention to invest in a country or not. In an empirical study, it was discovered that FDIs in the shape of financial institutions survive more than other business areas taking market size, inflation and exchange rate as variables (Moshirian 2001).

Analysts further added that not only does it survive but also facilitate the proliferation of local business and business setting through flexible terms of transaction which Africa, a developing sub-region needs more than any other continent (see Ofer and Keren 2001). In a survey Outreville in (2007) postulated that there are some variables that explain why banks have expanded in some regions of the earth and this is as a result of the favorable pull factors in some places. He added that factors such as market size, quality human capital, cultural intelligence among others pulls FDIs to a particular host country.

2.3.1 Sociopolitical Risks and Governance

Turbulence in the political environment of every country destabilizes every facet including the micro and macroeconomic stance of a country. it further distorts policy planning and hinders developmental programmes. However, a peaceful political environment, tolerance, quality governance and sound policies fosters the flow of FDIs into a country (Dunning and Landon 2008).

FDIs inflow into a country is mainly based on the political terrain of the host country. Studies in this field have revealed that unstable laws, policies and regulations, political unrest are major deterrents to FDIs inflow (Daude and Stein 2007). In a comparative studies among 25 countries from 1990-1998 it was concluded that the effectiveness of government institutions encourage and give investor confidence to invest in a particular country, Campos and Kinoshita (2003).

Ali et al in (2006) investigated into the influence of institutional efficacy on attracting FDIs while using a panel data from 1981-2005 found indiscriminate application of laws, proper ownership of property rights among others determine the inflow of FDIs while the opposite such as high prevalence of corruption and low rate of transparency scare investors away and the works of Voyer and Beamish, (2004); Zhao and Du, (2003); Habib and Zurawicki, (2002); Kersan-Skabic and Orlic, (2007) also in the southern part of Africa Fedderke and Romm(2006) and Kapuria-Foreman, (2007) confirmed it. An extensive panel data was used by Al-Sadig (2009) and his discovery confirms what is in the previous chapter when he stipulated that high level of corruption among others deters FDIs inflow. Nonetheless his findings further revealed that corruption is neutralized when there are low levels of democracy as against when there is high level of democracy, Kim (2010)

A situation where there are worse political environment, high level of corruption among government official and unfriendly policies have devastating effect on FDIs inflow. These present itself in the form of complications in holding equities, inability to recuperate enough profit due to poor government regulations etc. prevents investors from investing in the economy, (Cotton and Ramachandran, 2001; Tarzi, 2005; Dupasquier&Osakwe, 2006).

Cleeve in (2008) in his advanced study using 16 African countries as a case study, it concluded that using incentives like tax holidays, import incentives, flexible tax systems encourages the inflow of foreign direct investments. Dupasquier and Osakwe, (2006); and Kyereboah-Coleman and Agyire-Tettey, (2008); Li (2008) stressed that stability in the sociopolitical environment is a powerful tool in determining and retaining the influx of FDIs.

The impact policies and regulations guiding the movements (financial controls) and its' repercussion on attracting FDIs were critically looked at from three spectrums which are the presence of; multiplicity exchange rates, constraints on financial account, and constraints on repatriating export receipts, Asiedu (2004). There were differential results among continents and the search findings revealed that the three financial control systems were dormant from the early 1970s to the end of 1980s and came into full force in the 1990s but none of these had a negative effect on Sub-Sahara Africa, whereas in the 1990s it was an overwhelming determining factor in south America and Asia.

Baniak et al (2005) in his submission postulated three key issues under the legal framework of a country in attracting foreign direct investments. in his assertion he made mention of; unstable policies in the business setting possess threat to investors and attract less FDIs, poor macroeconomic and fiscal condition of a country diverts the selection option of investors and lastly inconsistencies in the basics of macroeconomics hamper FDIs inflow.

A comparative study was conducted between Greece and the EU countries and the resultants shows that Greece is bedeviled with a number of factors compared to their EU counterparts and among these is poor governance, lack of proper infrastructure, high level of taxes among others hinders FDIs inflows to Greece. Globerman (2002) in a similar studies revealed that Africa suffers the same faith as Greece due to its poor governance.

It was revealed in literature using a cross sectional data analysis from 77 industry level organizations as a case study and it revealed that the nature of the investment atmosphere can attract or deter investors. Variables such as restrictions with regards to financing, improper financing, and institutional malpractices hinders the inflow of FDIs. In furtherance, some selected south east European countries were assessed and concluded allowing the system to be dominated by private owned companies, mergers and flexible trade regimes facilitate the FDIs inflows, (Botrić and Škuflić2005).

Quanzi in (2007) posits that familiarity or being conversant with the business environment serves as a pull factor in attracting investor. Using nine Latin American countries as a case study he found a positive relation using variable such as profitability level, free market system as well as quality infrastructure positively influences the flow of FDIs whereas the lack of these coupled with the lack of free market adversely affect the inflow of FDIs.

2.3.2 Economic Environment / Macro-economic Performance:

Stable economic environment using indicators such as interest and inflation rates, solid macro and fiscal indicators among others contributes to having a formidable economy that inspires confidence in investors, (Root and Ahmed 1978). In a study Chowdhury and Mavrotas (2006), found a positive correlation between levels of GDP in Chile and the rate at which it attracts foreign direct investments whereas the opposite is right for both Malaysia and Thailand. Meanwhile Klein and Rosnegren (1994), Jeon and Rhee (2008) found a significant between GDP and FDI inflow to a country whereas Brahmasrene and Jiranyakul (2001) confirmed that physical or liquid capital fosters the inflow of foreign direct investors. Nnadozie and Osili (2004) concluded that while Gross Domestic Product has a positive impact on FDI influx, GDP per capital has a rather negative impact.

Availability of market enhances the inflow of FDIs (Barrell and Pain, 1996; Nigh, 1986; Anyanwu, 1998; Fedderke and Romm, 2006; Tarzi, 2005; Khair-UZ-Zaman et al, 2006; Zhang, 2001) on the contrary the findings ofKyereboah-Coleman and Agyire-Tettey (2008) declared that foreign investors do not consider that availability of market when planning to invest in Ghana. Meanwhile Nnadozie and Osili, (2004); Khair-UZ-Zaman et al, (2006) beliefs that inflation destabilize the macroeconomic basis of a country and hence affects it FDIs whereas Brahmasrene and Jiranyakul (2001)findings support the opposite assertion. According to Yih Yun et al., (2000); Asiedu, (2002); Feils and Rahman, (2008) free market economy attracts FDIs.

Committing to a review study, it was concluded that, there are significant attribution to Mergers and Acquisition (M&A) where openness of market enhances the operation of such investment mechanisms and their operations has been much more efficient in developing countries since the 1990s while the loss of the value of a currency and exchange rates has adverse effect on investments and stocks Acquisition and Mergers (Kamaly2007).

There have been contradictory ideas as far as the rate of exchange is concerned with regards to its ability to influence Foreign Direct Investments. Kyereboah-Coleman and Agyire-Tettey (2008) revealed that poor or unstable exchange rate serves as a factor that prevent FDIs in Ghana while others posited that the movement of American companies to Korea was as a result of their exchange rate (Jeon and Rhee, 2008) and this findings was corroborated by the findings of Ramiraz (2006) and Cushman (1985). On the other hand Brahmasrene and Jiranyakul (2001) and Dewenter (1995) discovered that exchange rate of a country has no bearing on the inflow or influx of foreign direct investments.

Government performs an integral in determining the direction of the economy by way of his investment in the economy. The greater the expenditure of government, the greater his involvement in the economy. There have been several reforms to redirect the roles of government into streamlining policies and determining the rightful wages and salaries. Hence the lesser government involves itself in the economy, the greater opportunity it gives to foster private companies to emerge and create employment opportunities and this helps government to become more effective through the use of regulatory instruments. On the contrary, massive involvement on the part of government crowed out private organizations and companies and eventually kills their operations. To this effect there will be an inverse relation between government expenditure and FDIs in a country, (Mkenda and Mkenda, 2004).

2.3.3 Natural Resources as a Determinant

The presence of enough natural resources that can be extracted and used over a number of years without going into extinction has the capacity to attract FDIs. These natural resources one important resources aside human capital which are used as raw materials in feeding the industries for its continuous operation and sustenance, Dupasquier and Osakwe (2006); Aseidu, (2002); and Deichmann et al., (2003). In a survey where 36 MENA countries were used in evaluating data panel, it was concluded that the availability of natural resources are the main drivers of foreign investors, Mohamed and Sidiropoulos (2010).

Asiedu (2006) using 22 sub-saharaafrican countries from 1984-2000 found that natural resources and available market determines the flow of FDIs. The understanding of this concept led to several researchers such as Reiter et al (2010) and Hailu (2010) saying that the most important determinant variable in attracting foreign investors is a developed human capita with a cheaper cost of hiring. They concluded that market accessibility and liberalization, free market and labour quality and most importantly less corruption increase FDIs flows to Africa.

2.3.4 Exchange Rate Considerations:

The rate at which a country's currency competes with other foreign currencies such as the US dollar can either have a damning or positive impact on a company's profit base. The ability to deal with bad debts and import needed for production inform the operative decisions of organizations. That is to say, to compete well in the international market, it depends immensely on the efficacy of the host country Campa (1993).

2.3.5 Trade Incentives, Barriers and Agreements:

Investment policies such as tax holidays, flexible import and export duties among others contribute to low cost of production. Rationally, all consumers would want to enjoy products at a lower cost and the ability to produce at a lower cost gives a company a competitive edge over their competitor and enhances their chances of survival in other markets. International policies also encourage the easy movement of technologies and others across bordersDunning and Landon (2008).

2.3.6 Infrastructure Considerations:

The availability of social amenities such as good roads, efficient telecommunication systems, and proper financial institutions among others helps to facilitate the operations and profitability of companies.

2.3.7 Labour Considerations:

Labour is the single most important factor of production that combines the other factors of production to deliver quality and hence access to cheap labour has a significant effect on the final cast of production which gives the company a competitive edge over their competitors. Hence pundits belief that highly skilled labour has the capacity to attract FDIs.

2.3.7 Market Size and Demand Conditions:

According to Hauer and Wooton (1999) the higher the size of the domestic market the higher the market base of the production company and hence all companies would like to be located in stings where there is enough available market.

2.3.8 Geographic Proximity:

Nearness of a company to the source of raw material is of great advantage to avoid transportation cost which further escalates the final cost of production.

2.3.9 Economic Agglomeration:

A region or city where there are collections of developmental activities turn to attract industries since there is the presence of infrastructures such as good roads, proper edifices for running business activities among others(Porter 1994). There is the presence of auxiliary services such as food and beverage joints, hotels etc.

2.3.10 Cultural Considerations:

Cultural intelligence is an important tool to business organization to achieve success in their operations. Understanding the sociocultural behaviours in a particular country helps to function at an advantage position. For instance in a bank where there is a lot of interaction between employees and clients, understanding the culture of the host country gives a competitive edge to that business(Hofstede 2001).

2.4 Foreign direct investment evidence from Ghana

Globally, investment is recognized as a tool that drives development of a nation. Foreign direct investments from developed states to developing countries consolidates the economy of developing countries by providing employment opportunities, opening the market and giving choices to consumers and most importantly bring in a foreign currency which is relevant to macroeconomic conditions. there have been several models on the best method on how to run the economy but the most widely accepted one is the classical model which beliefs that capital should be the main drivers of the economy while Solow and Swan thinks otherwise.

An individuals' level of income determines the amount he puts aside as savings and the accumulation of savings and investments leads to capital. Savings are generally low in developing countries due to the low level of income among the local people and this makes investment impossible hence the need to attract FDIs to open up the economy through investment to enhance the economic growth of the host country.

Nonetheless, most low income economies do not have the infrastructure and instruments to attract FDIs. Over the years a whopping number of investments opportunities refuse to use Africa as a destination due to the sociopolitical environment and the nature of the macroeconomic features (UNCTAD, 2006; Aryeetey et al, 2008).

In spite of the unstable sociopolitical environment of Africa most of them have attracted foreign direct investment in their natural resource sector such as gold, oil, diamond etc. even though the region is considered to have poor institutional frameworks and infrastructures to support the activities of multinational companies.

Quite opposite to Africa’s tremendous wealth endowment in the shape of natural resources, it lacks its equal proportion of investment. Sociopolitical unrest, poor institutional and infrastructures coupled with high level of corruption might be among the contributing factors to the low rate of investment in Africa. There has been several surveys that has discovered that countries that are endowed with rich natural resources record a slow growth rate (Lay & Mahmoud, 2004; Akanni, 2007).

The disproportionate growth rate observed in Africa in spite of the abundance of rich natural resources has led researchers in the field of philosophical psychology, political sociology, economics and other related fields has researched in this area to unravel the hindrances to Africa. Following this models and theories has been developed and prominent amongst them is the “Dutch Disease” and Resource Curse” and the underpinnings of this theory that has been widely agreed on is the fact that there are certain resources like gold, oil and the likes come with a curse such as poor economic practices and political unrest etc. it further elaborated that, due to the attractive nature of these resources, their leaders are induced to become corrupt and their ideas are misappropriated.

Since the last two decades, Ghana has resorted to structural reforms and policies that will serve as a pull agent to attract more FDIs into the economy and has so far yielded positive results. FDI investments are known to be the best form of investment compared to portfolio and loan investment. Since it does not come with interest charge for an economy but rather contribute to consolidate the economic standings of the country Brunnschweiler (2009).

In addition to it being able to consolidate the economy of developing countries and preferred than portfolio and loan investments, it also have certain benefits such as being able to transfer technological advancement and managerial skills to another country. This aids in developing the human capital which is very vital in the process of production. This enhances productivity through advanced technology and improves efficiency (Brunnschweiler, 2009). The overwhelming benefits have led to policies and reforms made to attract FDIs and in Ghana several successes has been chopped.

The structural and policy reforms led to the achievement of annual growth rate of 4.0% per annum and born out of this is the quest to attain 8.0% increase per annum even though the task is challenging. The attainment of the lower middle income economy inspired more hope in the face of numerous challenges. It has been envisioned that the country will achieve economic freedom by 2025 but the country still remain week and unattractive for multinational business investments due to the over reliance of the country on excess imports as against exports and a unit change in oil price leads to a significant effect on the economy. It was however a relief when Ghana discovered her own oil and due for commercial production in 2007.

2.5 Investment-Growth Experience in Ghana

Aryeetey and Baah-Boateng (2007) found that in 1983 the country recorded a low FDI influx after the implementation of the Economic Recovery Programme. These occurrences were as a result of the political turbulence at the time and Ghana saw an appreciable investment after the implementation of the Economic Recovery Programme by expanding the private sector. However, before the 1980s it was perceived that the private sector is too small to engineer the growth of industrialization in Ghana.

In relation to this, the then government CPP which was also a socialist driven government assumed the responsibility of undertaking major developmental projects that become the pillar of growth in the country during the 1960s and 70s and beyond. Regardless of those important investments made by the government coupled with the formulation of Capital Investment Act (Act 172), Investment Decree of 1973 (NRCD 141), Investment Policy Decree of 1975 (NRCD 329) and the Investment Code of 1981 (Act 437) in the 1963, FDI flows were still low.

Clearly, the CPP administration headed by Nkrumah perceived foreign direct investment as a way for the white to exploit and rip the black off their resources hence there were no efforts to boost FDIs. Pundits also belief that the political environment, import and export policies among others were strictly adopted to deal with the balance of payment deficits within the system. Due to the stringent policies to restrict FDI investments Ghana did not benefit from the idea of being industrialized (Aryeetey et al, 2008).

Since the 1983, there were significant efforts to create free market and eliminate all trade barriers to promote the activities of the private sector so as to restrict governments' role to policy and regulatory reforms rather than involving itself in major productive activity. As this will allow for the advancement and emergence of competitive firms, in line with this, key decisions were taken to streamline government owned properties into partnership with private entrepreneurs or completely privatize it and among those policies were diversification and privatization of state owned Enterprises, commercialization of utilities and services as well as creating an atmosphere which if friendly for private enterprises to grow, (Aryeetey and Baah-Boateng2007). Moreover, government also instituted trade liberalization to curb or completely eliminate trade barriers in the early 1980s and 1990s and this changed Ghana's economy from import led to an export led economy, (Aryeeteyet al, 2008).

In the 1970s and 1980s Ghana recorded meager returns on FDI investments in Ghana this was due to the mismanagement of the economy and the political situation at the time. These meager returns compelled the government to adapt trade friendly policy to revamp investment and business. Sooner had Ghana adopted these policies than they started to receive FDI inflows.

Sectorial policies were developed after the ERP but they were too rigid to enhance the flow of FDIs into the country. The difficulty in qualifying as a foreign direct investor was due to the segregated nature of the policies with sectors like mining, oil and gas and free trade zones were all under the GIPC under the (Act 478) of the 1994 Law. To be accredited to operate in the mining center, the FDI needs to consult to Minerals Commission while certification to operate in the oil and gas sector was under the Ghana National Petroleum Corporation (GNPC) With the Free Zone Referred under the Free Zone Board. However, with the creation of the GIPC, Ghana received an encouraging figure of US$ 662.68 million in non-mineral sectors (GIPC report 2010).

It has been projected that the oil and gas sector would experience a hyper increase in investment in the field as further oil exploitation for commercial activities have been projected. However for the past five years starts on the volume of FDI investment have not been yet quantified.

2.5.1 Evidence and impact of FDI on an economy's performance

For the last decade, FDI recorded a tremendous increase until the year 2001 when Ghana experienced a setback in the rate of FDI flows to Ghana. By the year 2000, 1.3 trillion US 1dollars of FDI inflows were recorded with the 90% of initiators and 80% of receivers both found in developed countries leaving the remaining 10% for Africa, Asia and Latin America.

Even though the developed countries received more of the FDI investment quota, the greater portions of the benefits were for the developing countries. Recently, the influx of FDIs to developing countries has overtaken that of developed nations (World Economic Outlook, 2007) with much of the FDIs flows predominantly being through acquisition and mergers (M&A). a contributing factor to this takeover is as a result of the transatlantic corporation and the privatization of the developing economies (OCED, 2012).

2.5.2 FDI and growth

Beyond the initial macroeconomic incentive from the real investment, FDI persuades growth by raising total factor productivity and, more generally, the efficiency of resource use in the recipient economy.

This works through three channels: the linkages between FDI and foreign trade flows, the spillovers and other externalities vis-à-vis the host country business sector, and the direct impact on structural factor in the host economy. Most empirical studies reveals that FDI contributes to both factor productivity and income growth in host countries, beyond what domestic investment normally would function.

FDI inflow is a critical tool for increasing productivity in the host country and this is done through three main channels which are import trades, spillovers and the element of externalities and the impact that it has on the economy. However, the effect that FDIs inflows has on the economy cannot be estimated but others belief that FDI inflows overcrowd the activities of local producers which is not healthy for a young economy but also added that their contribution is however immeasurable (OECD, 2012).Subsequently, there should be a level to which developing countries must attain in terms of infrastructural development, a working structures, better education, efficient telecommunication, developed human capital among other would help less developed countries to maximize their benefits from FDI inflows (Ozturk&Kalyoncu, 2007).

Financial institutions turn to be the backbone of every economy by growing small and medium enterprises. However, as a results of unattractive nature of most markets in developing countries, access to financial aids are difficult and could be obtained at a high interest rate which increases the woes of local business compared to FDIs who are not much affected by these policies. On an account of these, analysts belief that the inflow of FDIs into the financial sector can help solve the issue of accessing loans as well as investing to make the market an attractive one (OECD, 2012)

2.5.3 Evidence on Trade and investment

It is an undeniable fact that the investment patterns of FDIs vary from one country to another and there are sectorial differences within a host country. Pundits have asserted that host countries should look beyond just the direct benefits of FDIs in terms of imports and exports.In a nut shell, the long term benefit a host country gets from FDI investment is its ability to integrate the local economy with the global market by facilitating imports and exports (World Economic Outlook, 2007).

Nevertheless, the short and medium term repercussions of FDI influx and their contribution to foreign trade should be given critical consideration especially when the host country is in financial crises and need to put measures in place to check the repatriation of reserves from the country. As industrialization takes precedence, FDIs facilitate their merger with world market (Froot& Stein, 1991).

Subsequently, this means that developing countries should have a liberalized economy to attract Foreign Direct Investment. On the contrary, if a country curtails importation of goods, then it indirectly restricts FDIs inflows. Therefore countries can use regional trade liberalization as a strategy to attract FDI investments.

2.5.4 Evidence on Technology transfers

The importation of technology from one country to another is mostly done through multinational corporations who invest in other countries. Multinational enterprises are found in developed nations where there is abundance of advanced technologies and in their quest to be a global leader in the business world, they increase productivity by using their advanced technologies to exploit developing countries (Faras and Ghali, 2009).

The transfer of technology is imported and diffused into an economy through four interrelated paths; the horizontal linkages with competitors or complimentary companies in the same industry, vertical linkages with suppliers in the destination country, movement or migration of developed human capital and internationalization of R&D.

Diffusion of technology is best done through the vertical method where they have a sister company in the host country and in an attempt to improve efficiency and increase productivity, they give them technical training on standards on the international market, provide them with new technologies to increase efficacy of workers among others. Nonetheless, the transfer of technology between companies or through the horizontal medium in the same industry is very rare (Lean&Hooi, 2008).

Researcher over the years have tried to justify why there is no shearing or transfer of technological know-how through the horizontal channel and found varying reasons but the basic reason that could be given was the level of competition and the desire of every company to have a competitive edge over their competitors. Meanwhile, there have been traces of technological shearing between companies in different sectors. For a technology transfer to be useful in the host country, there should be the need or people should demand for such technology.

2.5.5 Competition

The emergence of FDIs in a host country creates a different dimension of competition which needs to be handled with care. The emergence of competition could either be positive or negative in the sense that competition posed by multinational corporations may lead to lower prices, increased quality of goods, the presence of varieties or substitute for consumers to choose from among others. On the contrary, competition can crowd out local and emerging companies who lack the financial backing to boost their activities (Basu, Chakraborty&Reagle, 2003).

The emergence of globalization of production, marketing, distribution and the advancement in technologies has changed the face of competition within local markets. Also, the emergence of strategic alliances has redefined international trade between countries while restricting direct completion in host country but the bases of this assertion is not affirmed. Privatization of economies in developing countries has increased FDI investments and hence a significant influence on competition.

On the account of this, (Faras&Ghali, 2009), beliefs that, there are few sector that has received overflow of FDIs which are global in nature and raising concerns for competition. Conversely, the concentration of FDIs in a particular local market may not result in reduced competition but exacerbate the level of competition among industry players. In Aryeetey et al. (2008) he postulated that in as much as international competition is needed, measures must be put in place to guide, direct and manage the level of competition.

Policy formulations geared controlling the level of competition should focus on guiding competition rather than competitors. Finally, policy descriptions should endeavor to factor the benefits of consumers so as to avoid industrial biasness.

2.6 Conclusion

Foreign Direct Investment simply means possessing and managing the affairs of a company in a host country while the owner is in another country (Lexicon). FDIs are directly involved in the transfer of technologies, training of labour, providing competition and rising standards and quality. They are also involved in management, joint ventures and contribute to the balance of payment deficit of the host country (CIA, 2012).

FDIs have been categorized into three parts based on their intentions and they include "market-seeking" which intends to help grow the local and national market of the host country. "Resource-seeking" this is when FDI's main motive is to benefit from a resource which is not in their country but can be found in the host country. The resource seeking has no limits and could best be defined by the investors and lastly, “efficiency-seeking” an environment where investors can operate without any destruction either from natural factors or human induced factors (Dunning 1993).

According to UNCTAD (2003), Due to modernization and advancement in technology, barriers to markets are becoming less effective. This is because IT can be used to transfer knowledge from one part of the world to another without any difficulty. Even though these barriers are there, complex electrical gadgets and telecommunication has made them intangible and permeable (Hill 2000 & Yusuf 2003). Also the emergences of multinational chain of banks such as Barclays, Standard Chartered Bank among others make the transaction of business easy with no or fewer barriers (see the case of ABNAmro in Gelb and Black, 2004b). The movement of telecommunication companies across the globe has saturated markets of developed countries and seeks to find hope in the markets of developing countries. With regards to this Africa and its sub-region according to UNCTAD, (1999) andLuiz (2006) have confirmed to have great potential for multinational corporations.

Aryeetey and Baah-Boateng (2007) found that in 1983 the country recorded a low FDI influx after the implementation of the Economic Recovery Programme. These occurrences were as a result of the political turbulence at the time and Ghana saw an appreciable investment after the implementation of the Economic Recovery Programme by expanding the private sector. However, before the 1980s it was perceived that the private sector is too small to engineer the growth of industrialization in Ghana. Ghana received a lower aggregate of FDIs inflows between the periods of 1970 and 1989 of US$20 million. The result of this low performance was due to the level of political unrest in the country and poor macroeconomic mismanagement. These happening in the 1970s and 80s gave Ghana a bad image which hindered FDI inflows but restored confidence through proper governance and sectorial reforms.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The chapter three of the study presents the data sources and analytical framework for the study. Among the issues discussed are the theoretical and empirical models for investigating the long term relationship and causality between FDI, GDP per capita, Economic Openness, Exchange Rate, Political rights, Government Consumption Expenditure, Macro Economic Stability, Agglomeration and Natural Resource Endowment and Interest Rate. The research design, validity and reliability issues are presented. The chapter is culminated with summary remarks.

3.1 Model Specifications

In estimating the determinants that influence FDIs investment in Ghana while using the theoretical framework and the economic structure of Ghana as a guide, the model below is suitable in determining the determinants;

$$Q_{it} = \alpha + \mathrm{X}_{it}\beta + \varepsilon_{it}$$

Where:

$Q_{it} = Foreign\ Direct\ Investment$

$\alpha = The\ intercept$

$\beta = coefficient\ of\ independent\ elements$

$\mathrm{X}_{it} = independent\ elements\ at\ time\ t$

$\varepsilon_{it} = The\ error\ term$

$t = The\ number\ of\ years\ which\ is\ 35\ years\ (1,2 \ldots 35)$

Specifically, the relationship between FDI, GDP per capita, Economic Openness, Exchange Rate, Political rights, Government Consumption Expenditure, Macro Economic Stability, Natural Resource Endowment and Interest Rate in Ghana has been modeled below and estimated using the Ordinary Least Square (OLS) regression technique.

$$\mathrm{Q_{it}} = \alpha + \beta_1(\mathrm{GDPPC}) + \beta_2\,(\mathrm{EO}) + \beta_3(\mathrm{ER}) + \beta_4(\mathrm{PR}) + \beta_5(\mathrm{GCE}) + \beta_6(\mathrm{MES}) + \beta_7(\mathrm{NRE}) + \beta_8(\mathrm{IR})$$

Where:

FDI symbolizes net influx of FDI as percentage of Gross Domestic Product,

Gross Domestic Product Per Capita (GDPPC US$),

EO -denotes Free or liberalize market index (presenting total trade as percentage of GDP),

ER- Exchange Rate is measured in US dollars (yearly average),

PR- Political Rights – means having a political freedom (1 means free, 7 means repression),

GCE- Government consumption expenditure – the expenditure of government is 9% of GDP), MES- Macro-economic stability

NRE- Natural resource endowment

IR- Interest rate as % of GDP

3.2 Research Design

The focus of the study is to critically assess the pivotal determinants of foreign direct investment in Ghana. Ex-facto is a form of design that uses non-experimental technique where already existing sets are assessed against dependable elements. The ex-facto techniques reflect and give genuine results due to the way the sets are segregated and critically analyzed to give to give a working results. However, it is bedeviled by the challenges of non-experimental research. Selection, segregation and comparing of variables are done based on past occurrences which are used as a case study.

In order to make and present reliable findings, trend analysis will be employed using the main determinants of FDIs in Ghana. To effectively examine the hypothesis of the study, a multiple regression statistical tool was used while strictly sticking to qualitative and descriptive way of analyzing the models and findings (Morisset(2000); Anyanwu&Erhijakpor2004).

Secondary data was obtained from Time series yearly report about FDIs, Gross Domestic Product per capita, market liberalization, profit margins, industrial disputes, government spending, resource endowment of the country, stability of the macro economy and exchange rates from 1980 - 2014. Also world development indicators

(2015) was used as well as panel data which aids longitudinal analysis of data in a more efficient and effective way to address the objectives of the study.

3.3 Research Techniques

The dual process of panel data in terms of cross sectional as well as time series patterns while employing multiple regression techniques takes care of econometrics modalities. Therefore, panel data is observed in groups and not in isolation or on a unit basis. Hence panel data is also referred to as longitudinal data. The panel data is suitable in measuring elements or variables that are mercurial or constantly changing its nature. It is however not across firms or organizations but heterogeneous and within a particular firm.

The pros and cons of the panel are deployed to achieve balance through constant observation of variables and are only out of balance when a variable is omitted. However, if preference is given to an imbalanced panel through observation, it must be understood that the unavailable link possess a treat to the observatives instrument of the inner population. Additionally, when the unavailable links are eliminated with their counterparts to achieve a desired balance, the outcome of the panel through observation might not be representative.

Why Panel Data is the ideal model for the study:

a) *It is educative, flexible to use and provide more reliable outcomes.*
b) *It gives the opportunity to observe the mercurial or the constantly changing nature of variable or individuals. Example segregating age and the impacts of its units.*

c) *It provides happenings of the proceedings of events.*

d) *Due to its flexibility, the unavailable links can be controlled to suit its heterogeneity.*

Subsequently undetected heterogeneity is the problem of non-experimental study, the later benefit is especially beneficial.

3.4 Variable Description

3.4.1 Dependent Variable

Foreign Direct Investment (FDI) is a foreign organization or entity's injection of resource or investment into an organization of a given country with the aim of consolidating its interest in the resident organization. FDI serves as a complementary resource to nations in their development strides.

3.4.2 Explanatory Variable

- GDP of a country is the annual overall Productivity or throughout in a country excluding net income from foreign investments of the country. It can be said that Gross Domestic Product (GDP) had an insignificant and negative relationship with FDI inflow in Ghana in that it did not necessarily or hugely determine the inflow of FDI.
- Openness of a nation's economy and its market has the capacity and the characteristics to attract foreign direct investment to a particular country and continues to open the nation and its market to the outside world. The openness is positive and significant and consistent with Foreign Direct Investment to Ghana.

- Macroeconomic Stability refers to where the macroeconomic variables are able to perform its functions efficiently and effectively to improve the development of the economy. There was an inverse relationship between macroeconomic stability and the influx of FDI. The negative relationship of macroeconomic stability with FDI inflow implies that investors, capitalize on the macroeconomic instability especially depreciation of the exchange rate to make investment in the country.
- Exchange Rate allows us to determine the effect of relative wealth and relative labour cost on FDI inflows. High exchange rate value relative to the US dollar, which implies a depreciated Currency will ceteris paribus attract higher FDI while the reverse dissuades foreign investment. Thus a depreciation of the country's exchange rate, will increase the relative wealth of foreign firms and lead to an increase in foreign purchases of domestic assets. This variable had a negative value but a significant impact on FDI.
- Government Consumption Expenditure indicates the extent of government involvement in the economy. Recent economic reforms by both developed and developing economies are meant to reduce the relative size of the government in order to make it leaner and more efficient through better remuneration packages. Hence the smaller a government is, the more efficient it is perceived to be, thus creating a conducive environment for robust private investment, domestic and foreign. In addition, relatively large government tends to" crowd out" private investment in an economy. Government consumption had a positive relationship with FDI.
- Natural Resources: Countries endowed with natural resources attract more FDI. An investor will be lured into tapping the available natural resources of a

nation to serve as their raw materials in production. There was a positive relationship between natural resources and FDI inflows in Ghana.

- Real Interest Rate

3.5 Estimation Techniques

From the unrestricted error correction model, if a co-integration relationship is established, then the long run relationship can be further obtained by using Ordinary Least Squares (OLS). Also, FDI would be regressed on by; GDP per capita, Economic Openness, Exchange Rate, Political rights, Government Consumption Expenditure, Macro Economic Stability, Natural Resource Endowment and Interest Rate.

Two different empirical techniques were performed to strengthen my empirical results.

A) Robust Pooled Ordinary Least Square

B) Robust Maximum Likelihood Optimization of the Generalized Linear Model (GLM).

These methods allow estimation in the presence of heteroskedasticity.

3.5.1Procedure and Time Frame

This study started in December, 2014 through to September, 2015. The study started with defining the Research Topic, the writing and defense of the Research Proposal and ended with the writing of the Report and the Defense of the Research Report.

3.6 Statistical Analysis:

Quantitative and descriptive statistical analytical techniques were used to analyze the data from the field. Specifically, regression methods were used to test the hypothesis.

3.7 Descriptive Analysis:

Regarding the descriptive analysis, mean, median, standard deviation and standard errors were predominantly used to determine the averages of the data being analyzed.

3.8 Test of Hypothesis:

In testing for hypothesis variable are considered and treated equally using probability values of (0.01, 0.05, and 0.1) to determine whether the variables are significant or they are not. The outcomes are termed as statistically significant and accepted when the variables are less than the probability values listed above which is used as the standards for testing whereas the opposite is true for insignificant variable and he

CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 Introduction

This section presents descriptive analysis, trend in net FDI inflows and the regression results

4.1 Descriptive Analysis of FDI Determinants from (1980-2014)

The table 4.1 below shows the descriptive analysis from 1980-2014. The measurement of central tendencies (means and median) of FDI inflows in Ghana on GDP and degree of dispersion of FDI inflow and GDP in the aforesaid years was also done in tandem with a standard deviation and range.

From the Table 4.1, FDI-GDP ratio with regards to central tendency over the period of 1980-2014 recorded a mean (0.03), Median (0.01). Concerning the degree of dispersion for the same period, a standard deviation of (0.07) and range of (0.67) with regards to FDI-GDP ratio were recorded. Also, GDP per capita regarding FDI inflow from 1980-2014 recorded a mean (1076.34) and median (424.76) as central tendencies, and standard deviation (1661.86) and range (14237.29) as extent of dispersion of FDI inflows on GDP per capita.

Again, the Openness of an economy and its relationship with FDI inflow from 1980-2014 recorded a mean (71.31) and median (60.83) as central tendencies factors over the period and standard deviation (36.630) and range (234.41) as level of dispersion of FDI inflows apropos the openness of the economy.

Inflation's relationship with FDI inflow from 1980-2014 recorded a mean (73.77) and median (584.92) as central tendencies factors over the period and standard deviation (584.92) and range (7607.18) as level of dispersion of FDI inflows in relation to inflation. Political Rights as a determinant of FDI inflow recorded a mean (5.05) and median (5.5) as central tendencies over the period of 1980-2014 and a standard deviation (1.66) and range (6.5) as extent of political rights dispersion from FDI inflow. In addition exchange rate relationship with FDI inflow from 1980-2014 recorded a mean (.78E+09) and median (77.08) as central tendencies factors over the period and standard deviation (.26E+11) and range (2.04E+12) as level of dispersion of FDI inflows in relation to exchange rate

Government Consumption Expenditure association with FDI inflow over the period of 1980-2014 established central tendency measures of mean (16.34) and median (15.1). Also, the level of dispersion was established by a standard deviation (7.35) and range (48.72). Natural resource endowment in relation to FDI inflow from 1980-2014 recorded a mean (4.030) and median (1.5) as central tendency measures. Also, the extent of dispersion of FDI in relation to FDI inflow was represented by a standard deviation (9.58) and range (83.54). Interest Rate relationship with FDI measured with regards to central tendencies from 1980-2014 recorded a mean (30) and standard deviation (25.4). Also, the extent of dispersion recorded were standard deviation (4.6) and range (18.3).

Table 4.1 FDI Inflows in Ghana from 1980-2014

	Mean	**Median**	**Std. Deviation**	**Range**
FDI-GDP Ratio	0.03	0.01	0.07	0.67
GDP per capita	1076.34	424.76	1661.86	14237.29
Openness	71.31	60.83	36.63	234.41
Inflation	73.77	8.62	584.92	7607.18
Political Rights	5.05	5.5	1.66	6.5
Exchange Rate	6.78E+09	77.08	1.26E+11	2.04E+12
Government Consumption Expenditure	16.34	15.1	7.35	48.72
Natural Resource Endowment	4.03	1.5	9.58	83.54
Interest Rate	30	25.4	4.6	18.3

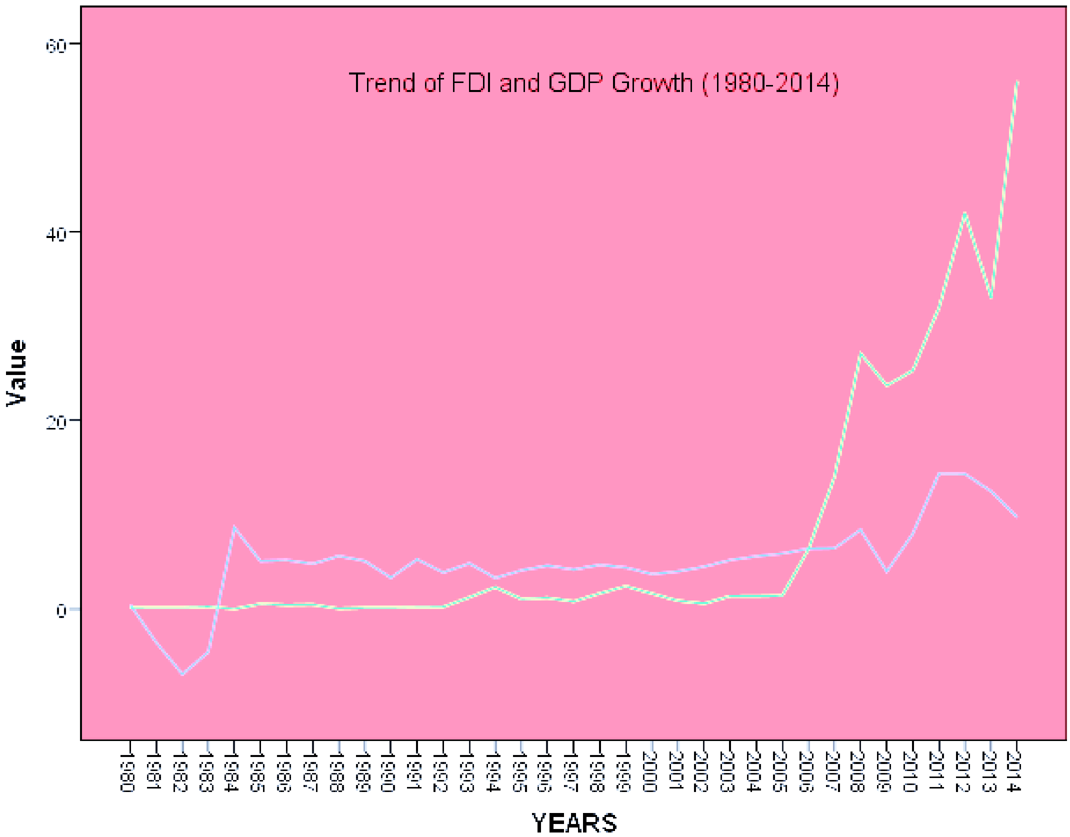
4.2 Trend of FDI Net Inflows from 1980 to 2014

In addressing the study objective one, the trend analysis was carried out to assess the FDI behaviour within the period under study. There results revealed that there is inconsistency in the trends of FDI inflow in the country from the period 1980-2014. Surge and fluctuations of FDI inflows were recorded in between the years.

4.2.1 Trend of FDI Net Inflows and GDP Growth from 1980 to 2014

Considering Ghana’s FDI inflow in 1981 that amounted to (16263752), a negative annual GDP growth (-3.5%) was recorded relative to 1985 that experienced FDI inflow amounting to (5600000) far lower than that of 1981 but however recorded a positive growth rate of (5.09%) as indicated in figure 4.1. This suggests that the level of FDI inflow does not necessarily translate to economic growth. However, it plays a complementary role to economic policies and strides made by the nation. However, the year 2008 recorded FDI inflows of GHC 27100000000 experienced a GDP annual growth of 8.4% that is less than the 14.4% recorded in 2014 in, regardless of the high inflow of FDI in 2008 relative to 2014 is shown in figure 4.1. With regards to annual economic growth the year 2011 recorded the highest annual GDP growth of 14.3, in that year, the foreign direct investment amounted to GHC 3200000000 as indicated in Figure 4.1

Figure 4.1 Trend of FDI and GDP Growth (1980-2014)



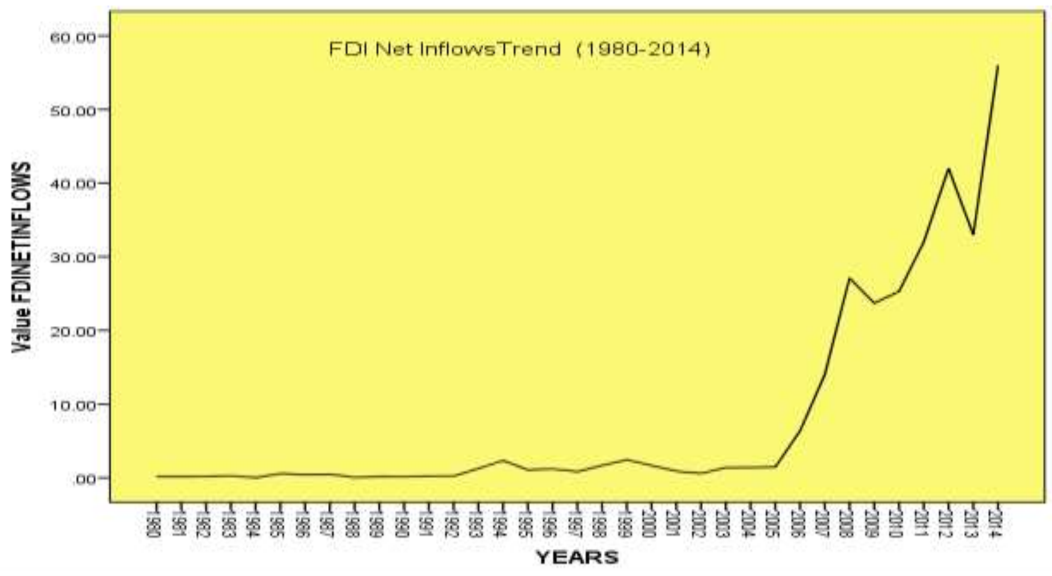
SOURCE: Authors computation from WDI, 2015.

4.2.2 Trend of FDI Net Inflows from 1980-2014

Considering the FDI inflows of Ghana from 1980, the FDI inflows in Ghana surged from 1980 figure of (15600000), to (16263752), and (16300000), for 1981, 1982 and

1983 respectively. However, there was a decline in 1984 FDI inflow as the figure was (2400000) relative to (16300000) recorded in the previous year. Also, considering the period from 1996 to 1998, the FDI inflow declined from (120000000) in 1996 to (81800000) in 1997 and also rose to (167000000) in 1998 thus confirming the inconsistency in rise or levels of FDI inflows in Ghana as demonstrated in figure 4.2 below

Figure 4.2 Trend of FDI Net Inflows from 1980-2014



SOURCE: Authors computation from WDI, 2015.

4.2.3 Trend of GDP Annual Income from The Year 1980-2014

Figure 4.3 below shows the trend of the GDP annual income from 1980 to 2014. With regards to annual economic growth the year 2011 and 2012 recorded the highest annual GDP growth of 14.3%. This was followed by 2012 which also recorded an annual GDP of 12.5%. In the year 2008 the trend of GDP in the country was 8.4% and 2010 the annual economic growth was 8%.

However from 1981 to 1983 recorded the least and worst annual economic growth of negative percentages'. In 1981, the annual GDP recorded was -3.5%, in 1982 GDP was -6.9% and in 1983 annual GDP was -4.6%. From the figure 4.3 below the year with the least annual Gross Domestic Product was 1982.

Figure 4.3 Trend of GDP Annual Income from the Year 1980-2014

SOURCE: Authors computation from WDI, 2015.

4.3 Sectors That Attracts FDI Inflows in Ghana

This section examines the Influx of FDIs in Ghana as well as the sectors that attracted most FDIs. In Ghana, the sectors that attract FDI inflows have been categorized into the Mining and Non-Mining Sectors. The Mining and Oil and Gas Sector are the sectors with most foreign capital or investment attraction. Since the advent of the Structural Adjustment (SAP) or Economic Recovery Programme between Ghana and the Bretton Wood institutions (IMF and World Bank) in the 1980's and associated reforms and restructuring of the mining sector, the sector has received a chunk of FDI inflow as the reforms and restructuring served as stimulus for foreign capital investments. Also, the improvement in price and the advent of improved mining technologies which aids investors in maximizing profit in the sector influenced investors to inject massive resources into the sector.

Consequently, an estimated average annual FDI inflow of over $200 million dollars and also overall investments amounting to $6.2 billion dollars is said to have been made in the mining sector. Again, the discovery of oil and gas in Ghana in 2007 has seen considerable FDI inflows in the sector. For instance as at July 2015, World Bank approved $700 million dollars in guarantees for Ghana to develop its Sankofa Gas project. This shows the massive capital investments in the mining and oil and gas sectors of Ghana's economy.

Regardless of the fact that the mining sector receives the largest proportion of FDI inflow, the non-mining sector also benefits from huge foreign capital investments. The non-mining sectors comprising the Agricultural, the service and tourism industry, import and export trade as well as building technology also receive some share of foreign direct investment. The non-mining sector over the years is estimated to have attracted FDI inflows of over $1.3 billion dollars.

The average annual FDI inflow in this sector is estimated at over $100 million dollars. The service sub-sector is the major attractor of FDI inflow and this is ascribed to deregulation of the communication sector and that stimulated the influx of telecommunication industry with its huge capital investments. The agricultural between 2000 and 2003 received an estimated 33% of FDI inflows in the non-mining sector. The industrial sector has also attracted an enormous proportion of FDI and this subsector accounts for a cumulative percentage of 18% of FDI inflows in the non-mining sector. Tourism, building and construction, Export and General Trade sub-sectors have also received some share of FDI inflows over the years.

Investments and its associated projects in the non-mining sector between 2000 and 2003 on regional distribution saw the Greater Accra region dominating with about 79% of total investments followed by the Ashanti region and Western region with respective (7%) and (4.4%) share of investment projects.

Juxtaposing of FDI inflows in the mining sector with that of the non-mining sector, it is clear that the mining sector's FDI inflow is on the rise relative to the non-mining sector where there is inconsistency in the rise of FDI inflows. For instance In the period 2000-2003, FDI in the mining sector rose from about $200 million in 2000 to over $250 million in 2001. In the same period FDI in the non-mining sector also witnessed a rise from about %100 million dollars to about $140 million in 2001.

Again, in the period 2002-2003, FDI inflow in the mining sector consistently rose from over $300 million to over $380 million. However, the non-mining sector experienced in 2002 FDI inflow of over $50 million dollars less than the over 100 million recorded in 2001. Refreshingly, the FDI inflow surged in the subsequent year 2003 about $100 million dollars. This statistics elucidate the inconsistency in the FDI inflows in the other sector other than the mining sector. As discussed earlier, FDI does not necessarily translate to economic growth as mining sector had consistently experienced rise in FDI inflows however, economic growth decline in some of the years compared to the previous year. For instance, Ghana's GDP growth rate in 2011 was 14.3% and foreign direct investment amounted to 3200000000. However, the year 2008 experienced FDI inflows of 271,000,000.00 much higher than that of 2011 however, its GDP annual growth of 8.4% less than the 14.4% recorded in 2011. Hence FDI inflows or attention must be channeled into other sectors like the agriculture, manufacturing, service and building and construction, tourism etc. sub-sectors for economic growth and development to be realized.

4.4 Analysis of Regression Results

Foreign Direct Investment decisions may be made based on historical data and hence all the independent variables that are supposed to have effect on FDI inflow would materialize their effect the next period onward. Therefore, all the independent variables are lagged by one period.

Results on determinants of FDI in Ghana using the Multiple Regression Results of the Ordinary Least Square Technique. The regression model specification provides a co-efficient determination (R^2) of 67.08%. This implies that the explanatory variables explained up to at least 67.1% of the constant (FDI).

From the F-test, the study further made use of probability values at error levels of (1%, 5% and 10%), the parameter estimate in assessing whether the variables are significant or not at 221 degrees of freedom. Most variables are judge statistically significant and accepted because their probability values are lower than any of the standard probability values. This is an indication that most of the independent variables are able to explain the constant (dependent variable). The details of the regression results are provided in table 4.2.

Table 4.2 Robust Ordinary Least Squares (OLS) and Robust GLM Estimates of the Factors That Determine FDI Inflows to Ghana Using Lagged Independent Variables

Variable	Coefficients		P-value	
	(1) (Robust OLS)	(2) (Robust GLM)	(1) (Robust OLS)	(2) (Robust GLM)
GDP per capita_1	-0.031	-0.011	0.537	0.151
Openness_1	0.007	0.004	0.430	0.546
Index of Political Rights _1	0.012	0.010	0.795	0.717
Macro-economic stab._1	-0.0012	-0.0002	0.072	0.041
Exchange Rate_1	-0.005	-0.002	0.034	0.012
Govt. Consumption Expenditure_1	0.024	0.015	0.030	0.071
Natural Res. Endowment _1	0.003	0.002	0.056	0.020
Interest Rate _1	0.024	0.022	0.054	0.031
R-Squared	0.6708			
F-Statistic	3.36			
Prob>0	0.0000			
Log pseudo likelihood	438.538			
N	221	221		

(Source: Author's Estimations)

Note: ***= 1% significant level; **=5% significant level; *=10%significant level.

From the study GDP per capita, macro-economic stability and exchange rate negatively impacted on the inflows of FDI in Ghana within the period under study (1980-2014) whereas openness, index of political rights, govt. consumption expenditure, natural resource endowment and interest rate positively impacted on the inflow of FDI from 1980-2014.

The results show that GDP per capita had a negative and statistically significant effect on FDI in Ghana. Table 4.2 reveals that, a 1% increase in GDP per capita leads to 0.031% decrease in Foreign Direct Investment in Ghana using the Robust OLS. Also, a 5% increase in GDP per capita leads to 0.011% decrease in Foreign Direct Investment in Ghana using the Robust GLM. The empirical works by Nnadozie and Osili(2004) are confirmed by this study. A direct import is that GDP per capita had less influence on FDI inflow.

The results also show that Macroeconomic stability has a negative and statistically significant effect on Foreign Direct Investment influx in Ghana. As seen from table 4.2, a 1% increase in Macroeconomic stability leads to 0.0012% decrease in Foreign Direct Investment in Ghana using the Robust OLS. Furthermore, a 5% increase in Macroeconomic stability leads to 0.0002% decrease in FDI in Ghana using the Robust GLM. This reaffirms the empirical work by Buckley et al,(2007) that a nations economy instills confidence in investors to invest in a country it however does not necessarily determine FDI inflow.

Furthermore, openness of the economy also shows a positive and statistically significant effect on Foreign Direct Investment Inflows in Ghana. From table 4.2, a 1% increase openness of the economy leads to 0.007% increase in FDI in Ghana using the Robust OLS. Also, a 5% increase in openness of the economy leads to 0.004% surge in FDI in Ghana using the Robust GLM.

This finding commensurate with the empirical work by Asiedu(2006) who discovered that a nation’s economy characteristically open to FDI inflows in Ghana.

The index of political rights also found to have a positive and statistically significant effect on FDI. From table 4.2, a 1% increase in political rights leads to 0.012% increase in FDI in Ghana using the Robust OLS and a 5% increase in political rights leads to 0.010% increase FDI in Ghana using the Robust GLM. This reaffirms the empirical work by Dupasquier et al (2006) that poor governance and inhospitable regulatory environment affects FDI in nations. The import is that countries with favourable and stable political environment where people's rights are protected attract investors since investors are assured of security and non-political interference in their activities.

Exchange rate also found to have a negative and statistically significant effect on FDI. The table reveals that, a 1% increase in exchange rate leads to 0.005% decrease in FDI in Ghana using the Robust OLS and a 10% increase in exchange rate leads to 0.002% decrease in FDI using the Robust GLM. The study finding is thus consistent with the empirical findings by Brahmasrene et al (2001) shows that improvement in Ghana's exchange rate deters investors and hence hinders FDI inflows.

Furthermore, the result indicates that government consumption expenditure has a positive and statistically insignificant impact on FDI in the Ghanaian economy. From table 4.2, a 1% increase in government consumption expenditure leads to 0.024% increase in FDI in Ghana using the Robust OLS and a 10% increase in government consumption expenditure leads to a 0.015% surge in FDI in Ghana. Thus, an increase in government consumption expenditure scares away investors as the will feel government has excess control or meddles much in the nation's economy.

Natural resource endowment also had a positive and statistically significant effect on FDI in Ghana. An increase in 1% in natural resource endowment leads to 0.003% increase in FDI in Ghana using the Robust OLS. An increase in 10% in natural resource endowment leads to a 0.002% increase in FDI in Ghana. This implies that most foreign investment is channeled into rich nations so that access to raw materials will be easy.

Finally, the result indicates that real interest rate has a positive and statistically significant effect on FDI on the Ghanaian economy. From the result of table 4.2, a 1% increase in real interest rate leads to 0.024% increase in FDI in Ghana using the Robust OLS. Also, a 10% increase in real interest rate leads to 0.022% increase in FDI in Ghana using the Robust GLM. This confirms the empirical study by Zhen et al (2009) in China that FDI inflow in China is significantly influenced by the nation's interest rate and borrowing cost.

Therefore, a moderate and stable interest rate in Ghana will serve as a stimulus for massive foreign investment in Ghana.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This section of the study presents general summary and findings, conclusion and recommendation on with regards to determinants of foreign direct investment in Ghana.

5.1 General Summary and Findings

The globalization of the world economy with its associate surge in market competition and the timeliness of such flow call for an exploration of possible areas of FDI that can propel the development of Ghana. Due to the advanced in modern technologies, investors consider a lot of determinants before investing in the host countries.

Ghana has become a viable investment climate but investors channel their investment in specific areas. The study sought to identify priority areas of the economy where FDI had comparative advantage over others in terms of development of the economy.

The literature review concentrate on research by economic experts, factors influencing FDI and its determinants, data from the field and the writers own analysis of policy instruments that have been initiated by successive governments between the years 1980 to 2014.

The study therefore sought to investigate the major determinants of FDI in Ghana using a panel data over the period 1980 to 2014. To accomplish this, a dynamic econometric model, multiple regression of the Ordinary Least Square technique was specified. This model was selected to suit the theoretical and empirical linkages that established the determinants of FDI inflows in Ghana.

Similarly, two economic techniques, the Robust Pooled Ordinary Least Square and the Robust Maximum Likelihood Optimization of the Generalized Linear Model (GLM) were engaged in estimating the aforementioned model to strengthen my empirical results.

The independent variables were lagged, since FDI decisions may be made based on historical data and hence all the independent variables that are supposed to have effect on FDI inflow would materialize their effect the next period onward.

Findings

From the analysis and discussions from the chapter four the following summary of major findings were made.

There were inconsistencies in the trends of FDI inflows in the country from the period 1980-2014. Surge and fluctuations of FDI inflows were recorded in between the years. Considering the FDI inflows from 1980, the FDI inflows in Ghana surged from 1980 figure of (15600000) to (16263752) and (16300000)for 1980, 1982 and 1983 respectively.

However, there was a decline in 1984 FDI inflow as the figure was (2400000) relative to (16300000) recorded in the previous years. Also, considering the period from 1996 to 1998, the FDI inflow decline from (120000000) in 1996 to (81800000) in 1997 and also rose to (167000000) in 1998 thus confirming the inconsistency of FDI inflows in Ghana.

It was found that FDI though contributed to the country's economic development, its impact is minimal if the investments are channeled into sectors of the economy that do not significantly trickle down on poverty reduction and economic development. For instance, a year comparative analysis of the years 2011 and 2008 with respective growth rates of 14.4% and 8.4% found that 2008 recorded much FDI but recorded annual GDP growth rates less than 2011 with less FDI.

The effect of GDP per capita of Ghana had on FDI inflow was negative and statistically significant, implying that GDP per capita was not a major determinant of FDI. However, investors could consider that in their investment decisions.

Openness of Ghana's economy was found by the study to be a major determinant of FDI. Openness was positive and statistically significant effect on FDI inflows in Ghana.

Index of political rights also shows a positive and statistically significant effect on FDI. It was noted to be major instigators of the influx of FDI in Ghana. This can have adverse impact on investment when the political rights are abused by the people who own it to the disadvantage of investors.

Macroeconomic stability was also noted as major instigators of the influx of FDI in Ghana but shows a negative and statistically significant effect on FDI influx in Ghana. Investors could take advantage of macroeconomic challenges such as depreciation of the exchange rate to make investment in Ghana so as to maximize profit.

Government consumption expenditure also shows a positive and statistically insignificant impact on FDI in Ghanaian economy. Government must show political will towards empowering the private sector to serve as the drivers of the economy.

The moderation of stringent policies that inconveniences or scares away investors will help attract FDI into Ghana. The study found that FDI inflow is mostly channeled in the mining and oil and gas sector. It was established that Ghana's mining sector had received FDI of about $6.2 billion dollars since the sectors restructuring in the 1980s.

Juxtaposing FDI of the mining sector to the non-mining sector, the latter attracted far less FDI over the period with estimated inflows of over $1-3 billion dollars.

Also, the average annual FDI inflow of the mining sector was consistently rising relative to the non-mining sector where there was inconsistency in FDI inflows as it increased and fluctuated in between the years. A classic case is in the period 2002-2003, FDI inflow in the mining sector consistently rose from over $300 million to over $380 million whilst the non-mining sector experienced in 2002 FDI inflow of over $50 million dollars less than the over $100 million recorded in 2011.

5.2 conclusions

The first objective of the study was to analyze the trends in Foreign Direct Investment Inflows in Ghana over the period 1980 to 2014.

The result revealed that there is inconsistency in the trends of FDI inflow in the country from the period. Surge and fluctuations of FDI inflows were recorded in between the years.

The second objective of the study was to identify the sectors attracting much Foreign Direct Investment Inflows in Ghana over the period 1980 to 2014.

The result revealed that in Ghana, the sectors that attract FDI inflows have been categorized into the Mining and Non-Mining sectors. The Mining and Oil and Gas are the sectors with most foreign capital or investment attraction.

The third objective of the study was to measure the determinants of Foreign Direct Investment Inflows in Ghana over the period 1980 to 2014.

It was discovered that the effect of GDP per capita on FDI inflow in Ghana was negative and statistically insignificant.

Openness of the economy was positive and statistically significant effect on FDI inflows in Ghana.

Index of political rights was also positive and statistically significant effect on FDI inflows in Ghana.

It was also discovered that Macroeconomic stability recorded a negative and statistically significant effect on FDI influx in Ghana.

Government consumption expenditure also recorded a positive and statistically insignificant impact on FDI in Ghanaian economy.

Natural resource endowment also recorded a positive and statistically significant effect on FDI in Ghana.

Real interest rate recorded a positive and statistically significant effect on FDI on the Ghanaian economy.

Exchange rate recorded a negative but significant impact on FDI on the Ghanaian economy.

5.3 Recommendations

Based on the above conclusions, the following policy recommendations are worth noting:

First, the surge and fluctuations of the trends in FDI may present deleterious effects to growth in Ghana. Government must create the necessary environment to attract FDI into the economy. For instance, improvement in the transportation system and industry, provision of sustainable energy and water, improvement in communication technology, building and rehabilitation of ports and harbours must be encouraged since these facilities are important in attracting FDI into Ghana.

Foreign Direct Investment in Ghana is much focused on mining, oil and gas sector at the expense of the fundamental drivers of Ghana's economy viz a viz the agricultural, manufacturing and service sectors that create large employments and also have effective trickle down effects on people. Therefore FDI becomes less impactful on Ghana's economic growth.

The government must create an enabling environment of the non-mining sector with appealing features to attract FDI in Ghana

Finally, the major determinants of Foreign Direct Investment inflow in Ghana such as, GDP per capita, openness of the economy, index of political rights, Macroeconomic stability, exchange rate, government consumption expenditure, natural resource endowment and real interest rate are the major factors that investors consider when investing in another country. Good policy instruments are to be implemented so that the macroeconomic variables will improve the growth of the economy.

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APPENDIX

YEARS	GDP PER CAPITA	N.RES	MACRO ECONOMIC STABILITY	GDP GROWTH (ANNUAL %)	EXCH. RATE	FDI,NET INFLOWS(% OF GDP)	GOV'T EXP. as % OF GDP	INT.RATE
1980	-1.86	9.35	50.07014	0.471696	773.90	15600000	95.06	7.5
1981	-6.24	7.32	116.5036	-3.50307	1691.67	16263752	95.99	7.5
1982	-9.92	8.93	22.29557	-6.92365	2129.13	16300000	96.26	7.5
1983	-7.82	7.29	122.8745	-4.56374	561.74	2400000	96.68	7.5
1984	4.97	5.86	39.66531	8.647569	405.87	2000000	95.48	7.5
1985	1.74	4.37	10.30544	5.091618	257.56	5600000	93.36	7.5
1986	2.08	4.79	24.56542	5.19916	192.78	4300000	94.19	7.5
1987	1.86	5.67	39.81507	4.794899	173.82	4700000	96.08	6.16
1988	2.78	5.89	31.35927	5.62817	162.466	5000000	94.58	5.41
1989	2.28	5.45	25.22369	5.085873	161.29	15000000	94.39	3
1990	0.53	6.72	37.25907	3.328818	164.62	14800000	94.52	7.91
1991	2.38	5.36	18.03144	5.281826	145.20	20000000	92.68	9.08
1992	1.00	6.50	10.05612	3.879419	126.89	22500000	98.74	-
1993	1.97	7.62	24.95984	4.85	102.77	125000000	93.95	-
1994	0.56	11.51	24.87026	3.3	118.70	233000000	87.54	-
1995	1.49	12.60	59.46155	4.112419	128.98	107000000	88.40	-
1996	2.11	12.33	46.56102	4.602461	136.47	120000000	86.78	-
1997	1.82	10.91	27.88521	4.196358	145.65	81800000	95.77	-
1998	2.36	10.39	14.62417	4.700391	143.85	167000000	86.74	-
1999	2.04	6.64	12.40867	4.399997	94.125	244000000	96.56	--
2000	1.27	10.99	25.19322	3.7	95.16	166000000	94.44	-

2001	1.47	10.38	32.90541	4	94.76	89320000	92.98	-
2002	1.88	11.47	14.81624	4.5	94.99	58930000	92.55	-
2003	2.52	16.41	26.67495	5.2	93.69	137000000	92.99	-
2004	2.88	13.67	12.62457	5.6	102.35	139000000	92.68	-
2005	3.18	12.44	15.11819	5.900004	107.75	145000000	96.27	-
2006	3.67	8.52	10.91517	6.4	107.02	636000000	93.90	-
2007	3.73	9.94	10.73273	6.459736	101.88	1380000000	96.19	-
2008	5.67	11.22	16.52214	8.430504	93.76	27100000000	98.00	-
2009	0.84	14.02	19.25071	3.991473	100.0	23700000000	91.38	-
2010	5.21	12.60	10.70757	8.008593	95.03	25300000000	90.72	-
2011	11.25	19.08	8.726837	14.38915	88.98	3200000000	82.77	-
2012	6.65	20.76	12.71101	7.9	89.57	4200000000	79.58	-
2013	4.78	17.61	11.225431	7.3	69.49	3300000000	89.16	-
2014	1.70	-	9.15432	4.2	-	5600000000	-	-

Source: WDI, 2015