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FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH: AN EMPIRICAL EVIDENCE OF NIGERIA, GHANA AND COTE D'IVOIRE

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Abstract

This study examined effect of foreign direct investment (FDI) on economic growth in Nigeria, Ghana and Cote D'Ivoire. A thirty year period was studied covering 1983 to 2013; data were sourced from the global economy web site. Co-integration methodology was applied on the yearly data of FDI, Inflation, Population, trade openness and GDP to determine the extent to which these variables are related. The study revealed that FDI exhibits a significant negative impact on economic growth in Nigeria at 5% level of significance. In Ghana, the result shows that FDI exhibits a positive insignificant impact at 5% level of significance while a negative insignificant impact on GDP is shown for Cote D'Ivoire. The study recommended that concentration on agriculture and manufacturing sectors will be more profitable for Nigeria's economy. The Ghanaian economy must explore the opportunities in the extractive industry and Cote D'Ivoire should strengthen his service industry.

Keywords: Foreign Direct Investment, Economic Growth, Inflation, Population

INTRODUCTION

Foreign Direct Investment is an investment by a foreign expert or non-expert or a business entity in the production concerns of another country (Akriti, 2012). It is the total inflow of external capital into a country for investment purposes. The current wave of globalization sweeping through the world has deepened the struggle for foreign direct investment among developed and developing countries (Osakwe & Dupasquier, 2005). Consequently, it requires high level of determination at both local and foreign borders to attract a very significant investment flow into any economy all over the world; As a result of the desire for returns on investment, United Nations Commission for Trade and Development (UNCTAD) report show that Africa is a major destination of FDI inflows. Regular and increased FDI inflows to Africa have resulted to increase in economic activities in the region and improvements in the prospects for sustained growth and development (UNCTAD, 2014).

Growth can easily be aided with increased investments in capital projects in areas such as science and technology, infrastructures, health and specific social amenities. Consequently, for countries, like Nigeria, Ghana, Cote D'Ivoireand other West African countries with this investment gap; to achieve a desired rate of economic growth, Foreign Direct Investment has to be given due consideration. Foreign Direct Investment flow is regular to any country provided factors such as natural resource endowment and economic potentials are predominant in the country; as applicable to Nigeria, Ghana and Cote d'Ivoire (Okurut, Narayana, & Chidozie, 2012). The abundant resources in Nigeria, Ghana and Cote D'Ivoire attract foreign investment to these countries and several others within Africa and World Over (Ogundipe & Alege, 2013).

Nigeria depends mainly on petroleum in sustaining her economy, Cote D'Ivoire depends mainly on Agriculture for sustaining her economy; the Ghanaian economy is mainly dependent on Mining and other extractive activities. A one product economy has the tendency to be deficient in investment capital; thus requires foreign investments to complement its inadequate revenue. Whatever happens to the mono product in the international market affects the entire economy. This will often lead to shortages in the availability of funds for reasonable investment and development (Amadi, 2002).

As a result of fluctuations in crude oil prices, savings and foreign exchange gap have been created. Personal and domestic savings drop as a result of a drop in per capita income, foreign national reserves also dropped. Amadi (2002) concludes that this drop results in a very large gap between available local investment fund and the required investment for driving economic growth. Thereby resulting to dependence on foreign inflows for development and bridging of investment gaps.

The question of whether foreign direct investment result to economic growth is still creating divergent opinions in extant literature. Some studies reveal that FDI and economic growth have a positive relationship (Asiedu, 2001; Abdur & George, 2003, Uwubanmwen & Ajao, 2012).This poor economic growth in Africa despite increasing foreign inflows is perceived by some as evidence that FDI have no direct link with growth (Loungani &Razin, 2001; Akriti, 2012). These increasing foreign inflows into the developing economies are rarely targeted at sensitive sectors such as agriculture and the manufacturing industries; instead they are invested in service oriented industries like the banking sector and petroleum sector. In absolute terms, so much money has been pumped into the economies of ECOWAS overtime and yet there is still paucity of funds.

With increasing foreign direct investments in Nigeria, Ghana and Cote d'Ivoire and increasing demand for FDI world over; can we say clearly that such increases in foreign direct investments and increases in demand for foreign direct investments connote economic growth? This study tends to contribute to knowledge by evaluating the nature of relationship that exists between foreign direct investment and economic growth in Nigeria, Ghana and Cote d'Ivoire.

LITERATURE REVIEW

Conceptual Issues and Hypothesis Development

There are several indicators of Economic Growth; high Gross Domestic Product (GDP) per capita income is considered as a very vital indicator of economic growth but a poor GDP per capita indicates a declining growth (Akin, 2009). Economic Growth is also a function of improved infrastructure and adequacy of social amenities (UNCTAD, 2014). Funds for Infrastructural developments in West African States like Nigeria, Ghana and Cote d'Ivoire have mainly been sourced through foreign direct investments; with over $52b invested in Infrastructural developments in Africa in 2013 (UNCTAD, 2014).

Foreign Direct Investment is an investment by a non resident expert or a non-expert or a business entity in the production concerns of another country (Akriti, 2012). By inference, FDI can be considered as the transmission of capital across national borders with the investor maintaining a certain level of control over the investment. This means that FDI is an outlay in another country by a non resident of that country and it involves capital investments in foreign economies and business enterprises existing in foreign nations.

Ikiara (2003) defines foreign direct investments as financial capital investments from a foreign country or a foreign individual to another country; usually for a long term. Foreign direct investment is a very important concept in international economic collaboration because it serves as a tie between economies. Today, many countries in West Africa like Nigeria, Ghana and

Cote d'Ivoire consider foreign direct investment attraction as an essential component in their stratagem for driving economic growth. This is as a result of the huge benefits arising from it especially as this leads to technological sharing by international firms as a guarantee to access the benefits available in the host country and probably because FDI is a source of capital, technology, marketing and management skills (Okon, Augustine, & Chuku, 2012).

Inflation involves sustained widespread price increases over wide range of products (Ayers & Collinge, 2004). Whatever be the cause of inflation, it must be noted that inflation only persists when money supply is constant and it therefore means that inflation is a monetary phenomenon (Ayers & Collinge, 2004). The effects of inflation on the economic growth of a country constitute a strong theme in economic literatures. Omankhanlen (2011) concludes that inflation has no negative effect on foreign direct investment; however important to note that as the economy constantly grows, inflation level tends to rise. By inference, it means Inflation has a positive effect on investment and production since it results in higher profit for investors. Jhingan (2004) believes that productive activities are enhanced the moment prices start going up; this implies higher profits make businessmen and foreign investors to increase their level of investment, which in turn leads to increase in productive activities

The Nigerian population is one major factor endearing foreign direct investment to the Sub Saharan country. With over 170 million people as at 2014, Nigeria will always remain a major market in West Africa (UNCTAD, 2014). The author believes that the Nigerian market size could also spread benefits to neighbouring countries like Ghana. Nearness to market is essential in trade; therefore Ghana may be attracting more FDI in recent times because of a stable government and better business environment and nearness to Nigeria; however, with intent to push products to Nigeria for sales. Nigeria has a large market size in terms of population strength though income distribution has been unevenly skewed in favour of politicians and the rich.

This implies that despite a low GDP Per Capita income in Africa, our population and consumption pattern is a very good factor in favour of FDI especially Nigeria (Ndem, Okoronkwo, & Nwamuo, 2014).According to the eclectic theory of foreign direct investment as propounded by Dunning (1988), market is one major determinant of foreign direct investment. Market seeking factors such as structure of domestic market, population, market growth are vital determinants of foreign direct investment flows. By implication, FDI is attracted to countries with high population and available market.

Nigeria's huge population makes it an attractive destination for FDI within the ECOWAS region (UNCTAD, 2014). The Ghanaian population is also experiencing a steady increase with 24million as at 2009 and 34million as at 2014. The same can be said of Cote d'Ivoire with great exploits in cocoa production and coffee export; the population of Cote d'Ivoire as at 2014 stands at 23million compared to 20million people as at 2009. The author believes that Nigeria must do more to remain dominant in West Africa and Africa at large especially with the rate at which border nations like Ghana, Cote d'Ivoire are growing.

Foreign Direct Investment and Economic Growth in Nigeria

Initially, successive governments placed restrictions on foreign direct investment because to them, FDI is a vehicle for political and economic dominance. This was made clear by the local policy to regulate foreign direct investment that led to the promulgation of the decree on Nigeria enterprise promotion, (NEPD) in 1972. NEPD was promulgated to limit foreign direct investment in vibrant sectors such as commercial sectors and manufacturing to a peak of 60%. However this was further reduced to 40% in 1977 through a second indigenization policy decree.

This restriction resulted to a drop in foreign equity involvement leading to an average foreign capital flow of 0.79% of GDP for the period 1973 to 1988. Later in 1988, a committee to coordinate industrial development (IDCC) was set up primarily to facilitate, promote, and pull foreign investments. However, NEPD decree was revoked and replaced with the Nigerian investment promotion commission (NIPC) in 1995.

Okoromi (2011) found a strong affirmative relationship between foreign direct investment and growth in Nigeria; this positive correlation however exists in different dimensions and magnitude. This view is also strongly shared by Oyatoye, Arogundada, Adebisi, and Oluwakayode (2011). Akinlo (2004) specifically examined the brunt of foreign direct investment on economic growth in Nigeria, using error correction model and reveals a rather insignificant effect of foreign capital on economic growth. This findings support the dispute that FDI in extractive sector does not add any significant growth to an economy as much as investments in the manufacturing sector.

The concentration on the extractive sector by foreign investors have contributed largely to the increasing FDI generally in West Africa, this is a common shortcoming identified in most studies as they failed to control for the fact that most of the FDI inflows to West Africa has been focused on oil and natural resources. No wonder, Tumala, Ajibola, Omotosho and Baruwa (2011) report on FDI in Nigeria show that over 51% of FDI flows to Nigeria are on the extractive sector. Ayanwale (2007) concludes that too often FDI flows are mainly to petroleum sector. Adelegan (2000) explores unrelated regression model and finds that FDI is pro-consumption and pro-import and have an inverse relationship with gross domestic product.

Against this backdrop, the postulation of the hypothesis is as follows:

Ho_1: Foreign direct investment and economic growth are not significantly related in Nigeria.

Foreign Direct Investment and Economic Growth in Ghana

The Ghanaian economy is one of the most vibrant in West Africa (UNCTAD, 2014). Nigeria must do more to remain the most preferred destination of FDI and FPI in West Africa especially with the rate of growth currently witnessed in Ghana. Ghana has enormous natural resources, and a robust per capita output has twice that of the poorer nations in West Africa. The Ghanaian economy continues to spin around subsistence agriculture that accounts for 36% of GDP and employs 60% of the work force while gold; timber and cocoa production are its major sources of foreign exchange. Eyisi (2010) reviewed the Ghanaian economy and reports that it has one of the top growth trends in Africa but has a major drawback due to market size of about 23m as at 2010.

On whether foreign direct investment exerts considerable impact on Ghanaian's economy, Asafu-Adjaye (2005) reveals that foreign direct investment has a noteworthy positive impact on economic growth in Ghana. This view is supported by Agbola (2013) who believes strongly that foreign direct investment adds largely to the growth f the economy of Ghana through quality investments in sectors beneficial to the country. He further explains using the fully modified ordinary least squares technique and yearly data from 1965 to 2008 that economic growth in Ghana is highly dependent on foreign direct investment and remittances.

This implies that capacity development is a core aspect of FDI determinant. This is further explained by Agbola, (2013). His findings reiterate the need for the government to implement human capital development strategy that provides the skilled labour in very key industrial sectors as energy and mining sectors with necessary skills in the use of modern technology. This in turn provides room to attract quality FDI and remittances for Ghana. Antwi and Zhao (2013) using co-integration evidence indicate and thus confirm a negative relationship between GDP and FDI and also between GNI and FDI in Ghana in the long-run. By inference, FDI and GDP have no significant relationship in Ghana. Akriti (2012) concludes that foreign direct inflow is a major risk to local companies in the country; therefore government should give integration of foreign and local companies to priority. This will not only help in the development of the economy, it will also aid the conservation of the host nation's heritage.

Against this backdrop, the postulation of the hypothesis is as follows:

Ho_2: Foreign direct investment and economic growth are not significantly related in Ghana.

Foreign Direct Investment and Economic Growth in Cote d'Ivoire

Like Ghana, Cote d'Ivoire largely depends on agriculture and farming as a major revenue earner for economic development. The dominant export crops are cocoa and coffee contributing over 40% to the gross domestic product of the country. UNCTAD 2014 report shows that Cote d'Ivoire is the leading producer of cocoa and the 5th biggest producer of coffee. More rewarding is the development of other economically useful crops such as sugarcane, rubber, oil palm, cotton, pineapple; timber, and soya in Cote d'Ivoire.

Keho (2015) examines the nature of association between international investments and exports with annual data from 1970 to 2007; the Granger causality tests reveal a causal relationship from exports to FDI in the long-run. The researcher finds the economy of Cote D'Ivoire as highly dependent on export and FDI and concludes that the association between export and foreign direct investment in Cote d'Ivoire is strong.

Similarly, the residuals-based test of Gregory and Hansen (1996) reveals that the both export and foreign direct investment are co-integrated.

Against this backdrop, the postulation of the hypothesis is as follows:

Ho_3: Foreign direct investment and economic growth are not significantly related in Cote d'Ivoire.

Theoretical Framework

The theoretical framework on which this study is based are the slow – swan growth theory and the eclectic theory of advantage.

The Solow-Swan Growth Theory

The Solow–Swan model is an exogenous growth model and an extension to Harrod-Domar growth model. This model was introduced by Robert Solow and T.W. Swan in 1956 and it is popularly referred to as Solow's Growth-Model. It attempts to explain long-run economic growth by looking at capital accumulation, population growth, and increases in technological progress. At its core is a neoclassical aggregate production function, usually of a Cobb-Douglas type explaining output as a function of capital, labour and other auxiliary variables such as technology. The model of this work stems from the neoclassical economic theory.

Eclectic Theory of Advantage

The eclectic theory as designed and developed by Dunning in 1988 is also known as the OLI framework (Ownership, Location and Internalization). The eclectic theory posits three advantages realizable from FDI. These advantages include: ownership, location and internalization advantage. The ownership advantage emphasizes the specific advantages a company enjoys in relation to ownership and managerial variables such as resources, size of the firm, managerial effectiveness, structure, process, access to market and technological advantages. Location advantage focuses on advantages accruing to the host country. This framework is determined by a country's natural endowments, cost of transportation, macroeconomic policy, environmental factors and the government's regulatory structure. Lastly is the Internalization Advantage which is in relative to the advantages a firm enjoys by own production than arm's length transaction. This advantage arises from own production rather than partnership agreements.

METHODOLOGY

The Study

The ex-post facto research design was adopted for this study. It is a cause and effect study examining how an independent variable affects a dependent variable and the relationship that exist between them. The population for the study is Nigeria, Ghana and Coted'Ivoire .The judgmental sampling technique was used in the study. Judgmental sampling is a non-probability sampling technique where the researcher selects units to be sampled based on their knowledge and professional judgment. Secondary data was adopted for this work; data sourced from United Nations Commission for Trade and Development (UNCTAD) FDI online database and the global economy reports on West African Economies for the period under review (1983 – 2013). The choice of a 30 year period is considered sufficient to test for both short run and long run causality. Data for subsequent years were not available as at the time of the research work.

Model Specification

Following the analytical framework presented in the previous section, this study seeks to econometrically estimate the relationship between foreign direct investments and economic growth in Nigeria, Ghana and Coted'Ivoire. GDP which is the dependent variable will be measured as a function of some selected independent variables and they include foreign direct investment (FDI), population (POP), trade openness (TOP) and inflation (INFR).

Modifying Fedderke and Romm (2006); Olokoyo (2012) and Eideh-Abu (2014), we examine the relationship between FDI and Economic growth as follows:

GDP = f(FDI, POP, TOP, INFR) -- (1)

The functional relation above can be represented in OLS linear regression equation form as shown below:

$GDP = \alpha_0+\beta_1FDI+\beta_2POP+\beta_3TOP+\beta_4INFR+U_t$--- (2)

Where: GDP = Gross Domestic Product, FDI = Foreign Direct Investment, POP= Population of local Market, TOP= Trade openness, INFR = Inflation Rate, U_{t} = Stochastic Term and α_0, β_1, β_2, β_3, β_4, β_5 represent the parameters to be estimated.

Operationalization of Variables

Foreign Direct Investment

This represents foreign direct inflows only and usually for a long term. It is represented by the total annual inflows from foreign investors to the selected countries specified in this work over the study period.

Population

Population is the total number of people in each of the selected countries. This represents the size of the local market.

Trade Openness

Trade openness measures the rate of liberalization of trade in a given country. It is the ratio of export and import of the gross domestic product of a country. It is given as (export+import/GDP) * 100.

Inflation Rate

Inflation rate is a persistent rise in prices. For this study, percent change in the consumer price index (CPI) will be used to represent inflation rate.

ANALYSIS AND RESULTS

Descriptive statistics in the table below shows the level of average and risk variation.

Table 1. Descriptive Statistics

	Nigeria				
	GDP	**FDI**	**POP**	**TOP**	**INFR**
Mean	107.65	2.71	120.23	0.54	20.78
Std Dev.	140.39	2.75	28.00	0.62	18.72
Maximum	514.96	8.84	173.62	2.17	72.80
Minimum	15.79	0.19	79.73	0.05	5.40
Jarque-Bera	22.91	6.19	1.96	11.02	12.06
Probability	0.00	0.05	0.38	0.00	0.00
Observations	31	31	31	31	31
	Ghana				
Mean	13.09	0.67	18.35	0.10	25.65
Std Dev.	12.75	1.14	4.22	0.11	21.94
Maximum	48.58	3.29	25.90	0.39	122.90
Minimum	4.06	0.00	11.90	0.00	8.70
Jarque-Bera	13.41	11.59	1.88	16.99	191.97

Table 1...

Probability	0.00	0.00	0.39	0.00	0.00
Observations	31	31	31	31	31
			Cote D'Ivoire		
Mean	14.52	0.21	15.01	0.12	4.41
Std Dev.	6.66	0.17	3.23	0.07	4.99
Maximum	31.29	0.47	20.32	0.27	26.10
Minimum	6.84	-0.23	9.39	0.05	-0.80
Jarque-Bera	5.30	1.21	1.85	4.95	175.26
Probability	0.07	0.55	0.40	0.08	0.00
Observations	31	31	31	31	31

Source: Authors Compilation 2015.

To examine the relationship between foreign direct investment and economic growth in Nigeria, Ghana and Cote D'Ivoire, Pearson correlation matrix was conducted and the result was presented in Table 2 below.

Table 2: Pearson Correlation Result

			Nigeria		
	GDP	**FDI**	**POP**	**TOP**	**INFR**
GDP	1				
FDI	0.807	1			
POP	0.833	0.870	1		
TOP	0.952	0.914	0.891	1	
INFR	-0.317	-0.281	-0.357	-0.355	1
			Ghana		
GDP	1				
FDI	0.974	1			
POP	0.838	0.809	1		
TOP	0.983	0.956	0.875	1	
INFR	-0.391	-0.352	-0.520	-0.414	1
			Cote D'Ivoire		
GDP	1				
FDI	0.679	1			
POP	0.876	0.797	1		
TOP	0.987	0.720	0.881	1	
INFR	-0.268	-0.178	-0.211	-0.248	1

Source: Authors Compilation 2015.

Error Correction Results

The error correction model is a general framework used to describe the dynamic relationships amongst stationary variables. The error correction methodology is based on the fact that where a co-integrated relationship exists amongst variables, the long run behavior, short run behavior and the speed of adjustment from the short run dynamics can be modeled. The result is presented below for Nigeria, Ghana and Cote D'Ivoire respectively.

Table 3: Parsimonious Error Correction Result (Nigeria)

Variables	Coefficients	Standard Error	Probability
Long-run estimates			
C	-14.519	9.118	0.124
FDI	-24.091	4.429	0.000*
TOP	323.862	21.352	0.000*
INFR	0.501	0.280	0.086
AR(2)	-0.772	0.256	0.006
R-squared	0.951		
Adjusted R-squared	0.943		
F-statistic	116.759		
Prob. (F-statistic)	0.000		
ARCH	0.546		
Breusch-Godfrey	0.497		
Ramsey RESET	0.000		
Prob. (F-statistic)	0.000		
*Sig @5%			

Source: Authors Compilation 2015.

The result suggests that foreign direct investment exhibit a negative impact (-24.091) on gross domestic product in Nigeria and is statistically significant (0.000<0.05) at 5% level in the long run. This suggests that increases in foreign direct investment in Nigeria will impact inversely but significantly on gross domestic product. Based on the statistically significant criterion, the null hypothesis (H_1) that gross domestic product in Nigeria is not significantly impacted by foreign direct investment is rejected. Results from prior studies in Nigeria are consistent with this result (Akinlo, 2004; Oyatoye et al. 2011; Olokoya, 2012).

Table 4: Parsimonious Error Correction Result (Ghana)

Variables	Coefficients	Standard Error	Probability
Long-run estimates			
C	3.120	1.366	0.031
FDI	3.306	2.045	0.118
TOP	82.437	22.066	0.001*
INFR	-0.015	0.030	0.626
AR(1)	0.425	0.287	0.151
R-squared	0.982		
Adjusted R-squared	0.980		
F-statistic	343.857		

Table 4...

Prob. (F-statistic)	0.000
ARCH	0.153
Breusch-Godfrey	0.065
Ramsey RESET	0.025
Prob. (F-statistic)	0.000
*Sig @5%	

Source: Authors Compilation 2015.

The result suggests that FDI exhibit a positive impact (3.306) on gross domestic product in Ghana and is statistically insignificant (0.118>0.05) at 5% level in the long run. This suggests that increases in foreign direct investment in Ghana will impact positively but insignificantly on gross domestic product. Based on the statistically insignificant criterion, the null hypothesis (H_2) that foreign direct investment has no significant impact on gross domestic product in Ghana will be accepted. This finding is in line with the discovery of Gyebi et al. (2013) who revealed that foreign direct investment exhibits an insignificant impact on gross domestic product in Ghana. However, it is inconsistent with the study of Asafu-Adjaye (2005) which found that foreign direct investment has a significant positive impact on economic growth in Ghana.

Table 5: Parsimonious Error Correction Result (Cote D'Ivoire)

Variables	**Coefficients**	**Standard Error**	**Probability**
Long-run estimates			
C	4.457	3.568	0.224
FDI	-0.710	2.153	0.745
POP	-0.076	0.318	0.812
TOP	100.755	12.640	0.000*
INFR	-0.040	0.035	0.273
AR(1)	0.570	0.208	0.011*
R – squared	0.983		
Adjusted R-squared	0.980		
F-statistic	272.474		
Prob. (F-statistic)	0.000		
ARCH	0.604		
Breusch-Godfrey	0.744		
Ramsey RESET	0.168		
Prob. (F-statistic)	0.000		
*Sig @5%			

Source: Authors Compilation 2015.

The results show that FDI exhibit a negative impact (-0.710) on the gross domestic product of Cote D'Ivoire and this is statistically insignificant (0.745>0.05) in the long run at 5% level. This suggests that any increase in the foreign direct investment of Cote D'Ivoire impacts positively but insignificantly on gross domestic product. Based on the statistically insignificant criterion, the null hypothesis (H_3) that foreign direct investment has no significant impact on gross domestic product in Cote D'Ivoire will be accepted.

CONCLUSION AND RECOMMENDATIONS

A significant FDI inflow to an economy is expected to impact meaningfully on the economy of such nation by resulting in increasing gross domestic product. However, the result from this study revealed otherwise as FDI showed a significant driver of GDP in Nigeria with negative impact while Ghana exhibited an insignificant but positive impact on Ghanaian economy. FDI however showed a negative and insignificant relationship with gross domestic product in Cote D'Ivoire. Premised on the findings of this study, concentration on agriculture and manufacturing sectors will be more profitable for Nigeria's economy to achieve greater impact. The Ghanaian economy must explore the opportunities in the extractive industry and Cote D'Ivoire should strengthen his service & agriculture industry.

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