

Impact of Foreign Direct Investment on the Growth and Development of ECOWAS Countries

Zulaihat Zubair, Ph.D

*Department of Economics, Faculty of Social Sciences,
Federal University, Dutsin-Ma, Katsina State, Nigeria
Aluamz10@yahoo.com, zulaihatdkoli@yahoo.com, +2348166710655*

ABSTRACT

Foreign Direct Investment (FDI) flows are greatly needed in West African countries, and their attraction to the countries is determined by different factors. These factors include GDP per capital, trade openness, inflation, political terror scale, infrastructure, corruption, and real effective exchange rate. This paper reviews impact of foreign direct investment on the growth and developmental levels of Economic Community of West Africa States (ECOWAS) nations for the period of twenty-five years (1990-2015), thus capturing different periods of the economic cycle of the countries. This study employs the OLS regression analysis to determine the significance of FDI inflow to ECOWAS countries. Results of the study reveals that ECOWAS countries have been lagging behind in making good use of FDI, thereby missing a lot of the benefits that could have accelerated growth and development of the nations. Some of the reasons hindering the effective use of the FDI in those countries are poor trade openness, political terror scale, wide infrastructural deficit, and high-level corruption. These are the reasons that amount to insignificant impact of FDI inflow to the ECOWAS countries, using five countries as samples. It is hereby recommended that governments and people of the ECOWAS countries have to be up to their responsibilities of playing their appropriate roles of ensuring that enabling investment environment is put in place so as to attract FDI into the countries for fast growth and development. The people hold the voting cards to change government for the better and those in government should respect the people who might disgrace them by voting them out of political relevance.

Keywords: *Foreign Direct Investment, ECOWAS, Economic growth, Economic development, Infrastructure deficit, Corruption*

Introduction

Resources gap and globalization has enhanced the world flows of FDI since 1980s (UNCTAD, 2014). The neoclassical concept emphasizes on the significant importance of capital accumulation on economic growth and endogenous growth concept reignites the debate between capital accumulations as well as its role on economic growth and equally on endogenous growth concept (Stiglitz & Hirofumi 1969; Solow, 1956). Similarly, Foreign Direct Investment (FDI) recovery was

much in 2015, increased by 38percent to about \$1.76 trillion, which signifies the highest increase since the era of financial crises and global economic meltdown (WIR, 2016). FDI inflows of the developed countries into the developing countries stood at \$962 billion in 2014 (UNCTAD, 2014).

Moving further, developing nations FDI inward almost increased to \$765 billion, which indicates a 9 percent increase higher than in 2014. Asian continent's FDI inflows stood at

half a trillion dollars, which implies that Asia region constituted the biggest recipient of the global flow of FDI across the world (UNCTAD, 2014). This was at a time when FDI flows to Africa, Latin America and the Caribbean dropped. Looking at the medium term, world FDI flows is assumed to increase growth in 2017 and more by \$1.8 trillion in 2018, which will indicate an increase in world growth (UNECA, 2015). Also looking at African FDI flows, it stood at \$54 billion in 2015, indicating a reduction by 7percent over the previous year. An increase in FDI to the Northern African nations were noticed while sub-Saharan Africa, including the Economic Community of West African States (ECOWAS), continues to reduce also central and west Africa. West Africa FDI flows reduced further by 18percent (which translates to \$9.9 billion), largely due to continuous reduction in Nigeria's FDI inflows (UNECA, 2015).

A major challenge that might affect investor confidence and might impede economic growth through FDI inflows within selected ECOWAS nations is political instability, which can be viewed from two dimensions (Alesina, *et al.*, 1996; Alesina & Perotti 1996). The political stability ranking in the region placed Ghana on the top list with 40points, while Nigeria was at the bottom of the ranking with 6.67points. The government effectiveness ranking is top by Ghana with 46points while Nigeria and Togo are at the bottom of the least with 12.50points and 12.98points, respectively.

According to Political Terror Scale (2016) computed by the white house and the amnesty international, it shows that virtually all the selected ECOWAS countries were ranked fourth on a scale of five. This indicated that, civil right is curtailed, and political violations are common occurrences, especially concerning the growing disenchantments of

the civil population. Equally still disappearances, murder and inexplicable torture are on the increase on daily basis (UNCTAD, 2015). Despite the fact that, these violations indicate some measure of generality, these regrettable terror levels physically and emotionally affect those with interest on lofty ideas and politics (McGowon, 2016). Thus, there is inevitable need to turn the spotlight on the likely problems affecting FDI nexus growth, which includes institutional quality, infrastructure, and human capital.

The existence of ECOWAS came into being in 1975 with a membership of 15 countries: Benin Republic, Burkina Faso, Cote Ivoire, Cape Verde, Ghana, Gambia, Guinea-Bissau, Niger, Nigeria, Mali, Senegal, Sierra-leone, Guinea, Liberia, Togo (ECOWAS, 1993). However, the region is experimenting a growth rate of population that is very high in the world. In 1950, the population was 70 million people increasing in 2010 to 300 million. Representing sub-Saharan Africa with 40 percent by 2014 (ECOWAS, 2003).

Despite the huge flows of FDI to Africa in the contemporary, FDI inflows symbolize exclusively a meagre inflow to ECOWAS (Economic Community of West African States) region (UNCTAD, 2015). On average Africa's FDI inflows improved from \$2.2 billion in 1980 to \$15 billion in 2004 while it stood at \$54 billion in 2015 (Anyanwu, 2015). The per capita flows of ECOWAS region have decreased of recent (Anyanwu & Yameogo, 2015). According to UNECA (2015), economic growth rate of ECOWAS countries continues to decline from 6.1percent in 2014 to 4.2percent in 2015. Inability of ECOWAS to attract large FDI is largely linked with the hostile investment environment, which in turn is inextricably connected also with economic risks and political risks.

This paper reviews the impact of Foreign Direct Investment on Economic Growth and Development of the ECOWAS countries, with a view to appreciate the factors that determine the level of the FDI inflows into countries in the Ecowas.

Literature Review

Conceptual and Theoretical Review

Cleeve (2008) indicated that in an attempt to establish friendly investment atmosphere, ECOWAS have tried to use some motivating tools to attract inflows of FDI, although some realized that a proficient entity (institutional credibility and political stability) is a significant factor in decision making process for FDI location strategy for multinational enterprise. Generally, there is the notion that the inflow of FDI should surge ahead, though the inflow that reaches these ECOWAS countries focused on small number of nations, mostly the enrich and resource base region (Anyanwu, 2012).

Variably, when distinguishing between other developing countries, ECOWAS quota in world record of FDI is meagre and not encouraging (ECOWAS, 2015). Moreover, the agitating issue facing FDI performance in ECOWAS is the incapability of human capital, lack of institutional quality, poverty level and lesser contribution from manufacturing sector (Zubair, *et al.*, 2017) This is because the forces that strategically drives the growth of the economy is the development of institutions, financial liberalization, infrastructural quality and a friendly environment for business therefore corruption and institutions that are not functioning well impedes trade openness (Ndomo, 2009).

Nonetheless, Human Development Report (2013) categorized ECOWAS region among the worst in the world adding that 48 years is the limit mostly for expectancy rate and 60 per cent of the population lives below the \$1

poverty line. According to ECOWAS (2015) there is need for ECOWAS to strategize their technical and vocational education to improve their competency for employability in the region and also to enhance good certification of degrees and curricula in their schools. Reiter and Steensma (2010) elaborated further that from 1980 to 2005 there is poor FDI inflow and the lack of priorities towards most of the stated objectives. ECOWAS in actual fact had a 56 percent illiteracy rate and a 19 percent secondary school enrolment rate as compared to the 36 percent and 45 percent in Asia (Anyanwu, 2004). Such low literacy rates inevitably have an impact on human capital development which contributes to the less attractiveness of the region for FDI inflows (Zubair, *et al.*, 2017).

Another important issue facing ECOWAS is bad governance and corruption (Blackburn & Forgues-Puccio 2007). According to Transparency International (2012), corruption index for all ECOWAS nations in contrast to other regions is very high, it is ranked as the corrupt region in the world. Invariably, Quartey (2012) made mention that in every 100 kilometers; there are seventeen control points from which, on average, \$54 were collected as a bribe. He further identified this bribery problem as a major barrier to the movement of goods, people, and services across the area. In addition, an average delay of 55 minutes per control point exists across the borders of each country within the region. The quality of governance speaks a lot about economic development and growth (Gani, 2007).

Another point to show that ECOWAS trade performance remain very low can be attributed to the fact that Industrial Growth Performance of African Countries for 1990–2010 shows that all ECOWAS countries fall within the catching up and infant stage group, which signifies that the performance and contribution of ECOWAS

countries to the world trade is not very impressive (UNIDO, 2011). Quartey (2012) discovered that about 80 per cent of ECOWAS trade goes to the EU and US, which is mainly primary products then in return, most of the primary products will be transformed to finished goods and re-exported back to the ECOWAS countries for consumption. Import and Exports proportion for ECOWAS trade keep declining over the years regarding its quota to international trade for the past 33years (UNCTAD, 2014). The inability of African countries to fully embrace trade openness in their economic and developmental process is making them to participate somewhat marginally in the world economy (Osabuohien, 2007).

There is a need to turn the searchlight into the problems facing ECOWAS because they are still lagging far behind the other continents when it comes to competition in the world market in terms of economic growth and development, particularly Asia, Latin America, North America and Europe, whose economies are growing between 5 percent and 11percent per annum (Mohamed, *et al.*, 2014). The quality of the infrastructure, play an important role in the region, but there is saddled and weaken infrastructure which in many cases have deteriorated and significantly affect FDI inflows (Ranganathan & Foster, 2011).

Corruption creates macroeconomic distortions and barriers to development by bringing down investment, economic development and also by increasing transaction cost which creates bottlenecks and risky inconveniences in the public sector and judiciary system (Abdoulai, 2007). Huge real exchange rate expenses proportionate to the US dollar, entails undervalue currency (Buckley, *et al.*, 2007). A reduction of a country's exchange rate will spur the comparative wealth of foreign firms and allow more foreign acquisition of domestic

assets (Busse, *et al.*, 2016). Supplementarily, a reduction of a country's rate of foreign exchange will allow capital inflows as foreign economies Endeavor to accept advantage of domestic labor (Pantelidis & Nikopoulos, 2008).

Weak infrastructures exert a huge burden on foreign and local businesses (Wang, 2002). Difficulties accessing markets via crumbling roads or clogged up ports, and vast expenditure on generators required to avoid blackouts, are regularly cited as being among the biggest challenges to investors in the country (Kirkpatrick, *et al.*, 2006). The shortage of infrastructure means that great deals of businesses have to self-generate electricity at vast cost, which puts them at a competitive disadvantage (Foster, 2008). However, the country judicial system and the promotion of justice is restrained by the following challenging elements: the neglect of independence of the judiciary, inadequate training mechanisms of lawyers, defiance to the constitution and court orders, inefficient justice system, and poor implementation of laws (ECOWAS, 2015).

Côte d'Ivoire has experienced more than a decade of detrimental political, social, and economic crisis, culminating in 2010 with a violent post-electoral conflict (Yaoxing, 2010). Throughout the lengthy crisis period, the lack of investment in roads and transportation infrastructure as well as in energy and water generation and distribution networks, resulted in severe economic bottlenecks and took a toll on the wellbeing of the population (ECOWAS, 2013). In addition, a poor education system, the politicization of higher education, and high unemployment have negatively impacted the youth population (World Bank, 2015). Land dispossession remained a key driver of inter-communal tensions and local-level violence in western Côte d'Ivoire. The 1998 land law, designed to

increase certainty over land ownership by converting customary claims to legal title, is largely unimplemented (World Bank, 2012). Corruption in Côte d'Ivoire is endemic and permeates all levels of society, which is reflected in the country's poor performance in most areas assessed by governance indicators (World Bank, 2015).

In terms of physical infrastructure, Senegal has 19 airports, a total railway line length of 906 km and a road connectivity of 0.07 kilometers per square kilometers of land. While these statistics are far better than a couple decades ago, Senegal still falls behind the rest of the world. Senegal's road connectivity of 0.07 is far below that of the world average of 0.46. Additionally, only 61 percent of the population has access to electricity. In order for Senegal to catch up to the rest of the world, they will need major increases in funding (World Bank, 2011). According to the World Bank's Global Competitiveness Index (GCI), which assesses the "competitiveness landscape" of a country's economy, Senegal came in with a score of 3.7 for the 2015-2016 year. The score is also an indicator of the level of transport, electricity, and telephone infrastructure. Senegal compares poorly to other countries, but it must be noted that the highest scoring countries are developed nations with access to greater funding.

There is high need to turn the searchlight on the problems affecting FDI inflows into ECOWAS nations. Much research has been carried out on FDI impact on economic growth and development; hence this paper looks at whether institutions, human capital and infrastructure require complimentary factors to influence FDI inflows into ECOWAS countries to boost economic growth and development.

Empirical Review on the Determinants of FDI Inflows

Borensztein, *et al.* (1998) explores the outcome of FDI on economic growth from industrial regions to 69 less developed regions for the duration of 20 years. The result from cross-country regression revealed that FDI is important for the transmission of technology. Thus, FDI contribute to economic advancement particularly if advanced technologies are available. The most vigorous conclusion is that the effect of FDI on economic growth is dependent on the level of human capital available in the host economy. Therefore, there is a strong positive interaction between FDI and the level of educational attainment (the researcher's proxy for human capital). Particularly, the same interaction is not significant in the case of domestic investment, possibly a reflection of differences of technological attribute between FDI and domestic investment.

Azman-Saini *et al.* (2010) elaborate the role of financial development and distinguish the outcome of FDI on growth from 1975 to 2005 for 91 countries, with variables such as growth, financial markets and FDI. The findings after regression certify the procedure of threshold derivations and reveal that the positive significance of FDI on growth put on exclusively afterwards, financial development outshines a threshold even. Lee (2013) emphasized the contributions of FDI to energy use, emissions, and economic growth of 19 nations of the G20 from 1971 to 2009. The result revealed that after using co-integration test and fixed effects model, FDI has played an important role in economic growth for the G20 whereas it limits its impact on an increase in CO2 emissions in the economy also found no compelling evidence of FDI link with clean energy use.

Owusu-Antwi, *et al.*, (2013) argued the elements that propel FDI in Ghana from 1988

to 2011 are variables, such as inflation, exchange rate, infrastructure, natural resources, liberalization policy and GDP. The findings after consistent econometric approach and regression showed that the rate of exchange, natural resources, infrastructural quality, and trade openness as the operating force behind FDI. Sghaier and Abida (2013) contended the causal interrelation between, financial liberalization, economic growth and FDI inflow in Morocco, Algeria, Egypt, and Tunisia from 1980 to 2011. Their findings after GMM analysis revealed positive interrelation among FDI, financial development as well as economic growth.

One of such contradiction was given by Mahutga, *et al.* (2011) that FDI direct resource and profit from the host country (Africa) to the foreign country and concluded that FDI has been able to hinder domestic investment, due to the outflow of resources and profit from the host country. FDI has been found to affect exchange rate to the detriment of the host country to the benefit of the foreign country (Anyanwu, 2012). This prompted Bartels, *et al.*, (2014) to point out the need for Africa countries to redesign suitable growth-oriented policies that will eliminate challenges and issues currently faced on FDI implementation in the continent. Bardhan (1997) argued that foreign investors would have to pay extra costs in the form of bribe to get licenses or government permits to conduct business and such additional costs would decrease the expected profitability of investment. Nevertheless, Africa can only attract about \$36 billion in FDI in 2011, notwithstanding a portion of total global FDI inflows. It is demoralizing that despite the huge potential in Africa both human and natural resources the continent can only attract lower FDI compared with Asia and Latin America.

Prior Empirical Studies on FDI in Africa

Several empirical studies were conducted to examine FDI in Africa though these studies are scanty. In this subsection, the researcher present evaluation regarding outlining few extant research on FDI in Africa. Asiedu (2003) asserted if elements that influence FDI in less developed countries also influences regions in sub-Saharan Africa correspondingly for 32 African regions from 1970 to 1999. In addition, reveal the elements that stimulate FDI to less developed regions impact divergently on FDI in SSA. Also, that infrastructural quality as well as return on invested capital boosted FDI to regions that are not sub-Saharan Africa. Trade openness/liberalization drives FDI to less developed regions as well as sub-Sahara African regions.

Frimpong and Abayie (2006) contended the interrelation among trade liberalization, the per capita GDP and FDI in Ghana from 1970 to 2002. The result after testing with bounds test as well as augmented production function model shows no significance. Ayanwale (2007) utilized an augmented growth model along with OLS and the 2SLS method to identify the interrelation among FDI, its attributes and economic growth. The study revealed that the determinants of FDI in Nigeria are infrastructural development/quality, stable macroeconomic strategies, and market size. It further revealed that trade openness/liberalization and accessible human capital are not significant.

Antwi and Poku (2013) contended the elements that predominate Ghana's FDI from 1988 to 2011 with the following variables: rate of inflation, rate of exchange, infrastructural quality, the availability of natural resources, the per capita GDP and trade liberalization strategy. The findings revealed that after regression liberalization of trade, availability of natural resources, infrastructural quality and rate of exchange are the operators of Ghana's

FDI, and that trade liberalization was positively significant.

Methodology

Models Specification

To investigate the impact of FDI inflows to economic growth and development of ECOWAS countries as well as the determinants of FDI inflows into ECOWAS, an empirical model was hereby proposed. This model was employed by bringing in FDI which rely on Solow (1956) and which is in line with Borensztein, *et al.*, (1998) ;De Mello (1999); Masron and Abdullah (2010); and Masron (2017); and was adequately modified in order to achieve the set objective of the study.

$$FDI_{it} = \alpha_0 + \alpha_1 GDPCAP_{it} + \alpha_2 TOP_{it} + \alpha_3 INF_{it} + \alpha_4 PTS_{it} + \alpha_5 FRAST_{it} + \alpha_6 CORR_{it} + \alpha_7 REER_{it} + U_{it} \dots (1)$$

Where i denote countries, t denotes time, and the variables are defined as:

FDI denotes the net FDI inflows as % of GDP.

GDPCAP is gross domestic product per capita (USD) for economic growth

TOP is openness index - total trade (% of GDP).

INF is the annual inflation rate.

PTS political terror scale is political unrest in a particular year based on 5-level terror

CORR denotes corruption and is used as a proxy for institution quality

FRAST is infrastructure, fixed and mobile subscribers (per 1000 people).

REER is the real effective exchange rate

α is a vector of coefficients.

U represents error term

Estimation Methods

Since the data involves twenty-five years (t=25), the researcher will subject the models to the following steps: Panel unit root, panel cointegration and fully modified ordinary least square (FMOLS). Also, if the unit root result

indicates a mixed result i.e. I (0) and 1(1) then the researcher might use pool mean group (PMG) or mean group (MG) or dynamic fixed effect (DFE).

Levin and Lin (LL) Panel unit root test

This test was among the first unit root test developed and designed by Levin and Lin (2002). In addition, Levin and Lin first presented this test in a working paper in 1992. The work became published in 2002 co-authored with Chu (Levin, Lin and Chu 2002). Levin and Lin designed a test, which was derived from the DF test, the model can be written as:

$$\Delta Y_{i,t} = a_i + \rho Y_{i,t-1} + \sum_{k=1}^n \theta_k \Delta Y_{i,t-k} + \delta_i t + \theta_t + U_{it} \dots (2)$$

The model above allows two ways fixed effects, i.e. one coming from a_i while the second one comes from θ_t . There are two effects namely: unit specific time trends and unit specific fixed effects.

The unit specific effects are very essential because they allow for heterogeneity because the coefficient of the lagged Y_i is restricted to be homogenous across all the panel units.

The null hypothesis for test is:

$$H_0: \rho = 0$$

$$H_0: \rho < 0$$

This is in line with unit root test literatures, LL test assumes that individual processes are cross-sectional independent, using LL test the assumption is derived from pooled OLS estimator of ρ which allowed a standard normal distribution under the null hypothesis. Therefore, LL test can be regarded to as pooled ADF test or DF test but with a potential of lag length which can be different across the panel. In conclusion, the researcher will subject all variables to LL and Chu panel unit root testing to determine whether the series is 1(1) or 1(0).

Data Presentation, Analysis and Interpretation

Table 4.1: Descriptive Analysis

Variables	Mean	Median	Maximum	Minimum	Std. Dev.
FDI	0.072831	0.070893	0.131358	0.012487	0.026558
GDPCAP	6.748541	6.802395	7.658150	6.130560	0.364233
TOP	0.739146	0.703336	1.160484	0.424883	0.155190
INF	3.934930	4.241301	4.867535	0.000000	0.979633
PTS	0.794436	1.098612	1.386294	0.000000	0.548820
FRAST	3.827353	4.127005	4.828314	1.386294	0.913448
CORR	2.078026	2.079442	2.944439	0.000000	0.727259
REER	3.790797	4.135134	4.820282	0.000000	1.110123

Note: FDI= Foreign Direct Investment, GDPCAP= GDP Per Capita, TOP= Trade Openness, INF= Inflation, PTS= Political Terror scale, FRAST= Infrastructure, CORR= Corruption, REER= Real Effective Exchange Rate.

The Table 4.1 summarizes the entire variables that were used for the models showing the mean, median, maximum, minimum, and standard deviation of the series. From the table perception corruption index mean value of corruption within ECOWAS is 2.078026, median value of 2.079442, maximum value of 2.94439, minimum value of zero, and a standard deviation of 0.727259 which indicate that ECOWAS nations are extremely corrupt. FDI has a mean of 0.072831, a median of 0.070893, a maximum value of 0.131358, a minimum value of 0.01287, a standard deviation of 0.026558.

FDI and human capital interaction has a mean value of 3.693250, a median value of 3.979289, a maximum value of 4.624973, a zero minimum value, and a standard deviation of 0.925386. The interaction effect of FDI and political unrest (PTS) has a mean of -0.824153, a median value of 0.262379, a maximum value of 94.1906, and a standard deviation of 31.13091. Furthermore, infrastructural quality recorded a mean value 3.827353, a median of 4.127005, a maximum value of 4.828314, indicating a maximum subscriber per 1000 people, a minimum value of 1.386294, and a standard deviation of 0.913448.

Gross capital formation has a mean value of 15.65800, a median value of 15.11175, a maximum value of 41.32539, a minimum value of -2.424358, and a standard deviation of 7.561662. GDP per capita has a mean value of 6.748541, a median of 6.802359, a maximum value of 7.658150, a minimum value of 6.130560, and a standard deviation of 0.364233. Human capital has a mean of 3.064250, a median of 3.401059, a maximum value of 4.077537, a minimum value of 0.693147, and a standard deviation of 0.833866. The variable inflation has a mean value of 3.934930, a median value of 4.241301, a maximum value of 4.867335, a minimum value of zero, and a standard deviation of 0.979633 signifying fluctuation of inflation within this ECOWAS nations from 1990-2015. Political unrest (PTS) has a mean value of 0.794436, median value of 1.098612, a maximum value of 1.386294, minimum value zero, and a standard deviation of 0.548820.

Real effective exchange rate has a mean value of 3.790797, a median of 4.135134, a maximum value of 4.820282, a minimum value of zero, and a standard deviation of 1.110123 denoting that ECOWAS nations exchange is not stable(fluctuating). The

variable trade openness has a mean value of 0.739146, a median value of 0.703336, a maximum value of 1.160484, a minimum value of 0.424883. The interaction effect between trade openness and corruption

variable has a mean value of 6.128245, median value of 6.440059, a maximum value of 7.249179, a minimum value 2.746927, and a standard deviation of 0.895544.

Table 4.2: Correlation Analysis

Correlation	FDI	GDPCAP	TOP	INF	PTS	FRAST	CORR	REER
FDI	1.000							
GDPCAP	-0.441	1.000						
TOP	0.236	0.332	1.000					
INF	-0.101	0.115	0.235	1.000				
PTS	0.235	0.137	0.138	0.325	1.000			
FRAST	0.476	0.340	0.447	0.043	0.045	1.000		
CORR	-0.121	-0.346	-0.207	-0.099	-0.037	0.314	1.000	
REER	-0.040	-0.117	-0.142	0.146	0.042	0.110	0.238	1.000

Note: FDI= Foreign Direct Investment, GDPCAP= GDP Per Capita, TOP= Trade Openness, INF= Inflation, PTS= Political Terror scale, FRAST= Infrastructure, CORR= Corruption, REER= Real Effective Exchange Rate.

The correlation matrix Table 4.2 shows a negative relationship between FDI and corruption with a correlation coefficient of -0.44, while FDI and political terror scale has a coefficient of -0.121 indicating a low correlation. This method was adopted to test the existing association between dependent variables and independent variables. Correlation matrix test was computed for all the variables.

Greenfield FDI increases in response to depreciation. There is indication to expect negative coefficient on exchange rate in FDI (an increase in the real exchange rate denotes a real appreciation of the local currency) (Iamsiraroj, 2016). According to Froot and Stein (1991) they indicate that exchange rates also have impact on FDI via imperfect markets channel. A real depreciation of the domestic currency increases the wealth of foreign investors relative to those domestic investors and thus increases FDI inflows. A real depreciation increases FDI. The imperfect capital markets line for real exchange rate

impact may be significant in merger and acquisition bids than in the Greenfield investments, which exist in developing nations including ECOWAS (Pantelidis & Nikopoulus, 2008). The plausibility of the potential impact of exchange rate on FDI is backed by the considerable facts that exist that are linking the counter cyclical nature of trade barriers (Froot & Stein, 1999).

However, Fully Modified OLS and Dynamic Fixed Effect shows that corruption, real effective exchange rate and the interaction term between trade openness and corruption negatively influence FDI. An increase in corruption index by one unit will decrease FDI by 79percent. Increase in real effective exchange rate will reduce the inflow of FDI by 26.2percent; the plausibility of the potential impact of exchange rate on FDI is backed by the considerable facts that exist of linking the counter cyclical nature of trade barriers. The interaction term between trade openness and corruption negatively influences FDI by 7.1 percent. Similarly, transfer of technology via

trade largely depends on the magnitude of economic liberalization.

Conclusions and Recommendations

The study focused on impact of FDI inflows on economic growth and development of ECOWAS countries and the determinants of Foreign Direct Investment (FDI) inflows into ECOWAS countries. A review of relevant literature related to the subject matter was presented, as well as empirical evidence of this nexus in the ECOWAS countries. Foreign Direct Investment (FDI) determinants include GDP per capital, trade openness, inflation, political terror scale, infrastructure, corruption, and real effective exchange rate which are mostly oriented towards the assessment of level of Foreign Direct Investment (FDI). The results show that trade openness, political terror scale, infrastructure, corruption, and real effective exchange rate were the major determinants of Foreign Direct Investment (FDI) inflows into ECOWAS countries.

This is an indication that ECOWAS countries' poor performance (aggregate technical efficiency and slow growth) can be seen as set back from Foreign Direct Investment (FDI) inflows in the ECOWAS countries. ECOWAS nations, therefore, tend to benefit more than those nations in the other regions of Africa in reap from the efficiency gain that is driven from trade openness, foreign capital increase via foreign direct investment and quality of education.

Based on the conclusion of the study, the following recommendations are hereby made:

- i. Government of ECOWAS should set up agencies to fight corruption with a sole aim of freeing their economies from the shackles of hopelessness, poverty, illiteracy, and diseases. This would improve efficiency and boost foreign investors' confidence.
- ii. Government of the ECOWAS countries should device policies that will improve the quality of infrastructure in those countries in order to attract foreign investors.
- iii. The ECOWAS countries should address the issue of political unrest in the region hence relevant policies should be designed to address the problem of economic and political instability in the ECOWAS region for foreign investors' confidence and safety to be guaranteed.
- iv. For the ECOWAS countries to reap the benefit and full gain from FDI, it is very important for the host governments to work together and find ways of opening their market enforce and ensure an attractive business environment for domestic foreign firms and boost their tourism destinations.
- v. Policy makers should design and implement appropriate policies that will encourage the development of infrastructural facilities, especially train and road network, which could link all ECOWAS countries together in order to attract more FDI.

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