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MASTER THESIS

THE IMPACT OF FOREIGN DIRECT INVESTMENT ON GHANA'S ECONOMIC GROWTH.

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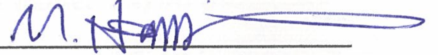

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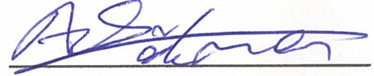

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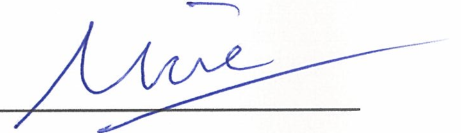
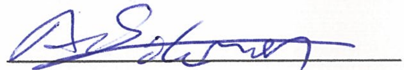
Doç. Dr. Mine Ömürgönülşen (Hacettepe University) 

Doç. Dr. Aytaç Gökmen (Çankaya University) 

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AKNOWLDGEMENT OF PLAGIARISM

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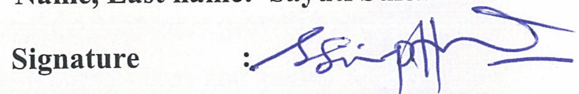

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ABSTRACT

THE IMPACT OF FOREIGN DIRECT INVESTMENT ON GHANA'S ECONOMIC GROWTH

Sayuti SULEMANA

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The Impact of Foreign Direct Investment on economic growth has appeared to be a topic for discussion among researchers, academicians and policy makers. The Significance of this trend has gained much recognition as a result of the growing process of globalization and indispensable role of Multinational Corporation towards its attainment. Ghana, in the post-independence era experienced a decline and upward growth of economic growth as a result of inflows of FDI in the country. This study empirically investigated the impact and pattern of FDI on the economy of Ghana. Using time series data spanning from 1987 to 2017, Autoregressive Distributed Lagged model (ARDL) is employed for the study also Cointegration test, Error (ECM) Correction Model, the classical Granger Causality and Stability test were carried out through use of variables such as Economic Growth, Foreign Direct Investment, Government Expenditure, Inflation and Gross Domestic Savings.

The study found that there is a significant positive impact of Foreign Direct Investment (FDI) and Government consumption expenditure on economic growth in both short and long run. The study further shows that, Gross Domestic savings significantly impacts negatively on economic growth in the long run while it significantly impacts pensively in the short run. Inflation was found to significantly impacts negatively on economic growth in the long run while it has insignificant impact in the short run. The results finally show that there is unidirectional causality between FDI and economic growth. That is FDI granger causes economic growth in

Ghana. Given that the study revealed significant and positive impact of FDI on economic growth of Ghana, policies that seek to attract FDI inflow into the country should be looked at to further boost economic growth of Ghana.

Key words: Economic Growth, FDI, Globalization, MNCs, Cointegration, Classical Granger Causality, Inflation, Gross Domestic Savings, and Government Expenditure

ÖZ

DOĞRUDAN YABANCI YATIRIMIN (FDI) GANA'NIN EKONOMİK BÜYÜMESİNE ETKİSİ

Sayuti SULEMANA

Uluslararası Ticaret ve Finans Yüksek Lisans Mezunu

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Doğrudan Yabancı Yatırımın ekonomik büyümeye etkisi, araştırmacı, akademisyen ve karar vericiler arasında tartışma konusu olmuştur. Gelişen küreselleşme sürecinin ve Çokuluslu Kuruluşların bu amaca dönük vazgeçilmez rolü, bu trendi daha fazla ön plana çıkarmaktadır. Bağımsızlık sonrası dönemde ülkeye DYY girişleri sonucunda Gana ekonomik büyümede inişler ve çıkışlar yaşamıştır. Bu çalışmada, DYY'nin Gana ekonomisine etkisi ve modeli deneysel olarak araştırılmıştır. Çalışmada, 1987 ila 2007 dönemine ait zaman serisi verileri esas alınarak, Gecikmesi Dağıtılmış Otoregresif Model (ARDL) kullanılmış, ayrıca Ekonomik Büyüme, Doğrudan Yabancı Yatırım, Kamu Harcamaları, Enflasyon ve Gayrisafi Yurtiçi Tasarruflar gibi değişkenler kullanılarak Eş Bütünleşme Testi, Hata (ECM) Düzeltme Modeli, klasik Granger Nedensellik ve Kararlılık testi yapılmıştır.

Çalışmada, Doğrudan Yabancı Yatırımın (DYY) ve Kamu harcamalarının gerek kısa gerekse uzun vadede ekonomik büyümeye anlamlı pozitif etkisi olduğu belirlenmiştir. Çalışma ayrıca, Gayrisafi Yurtiçi Tasarrufun uzun vadede ekonomik büyümeye anlamlı negatif etkisi olduğunu, aynı zamanda kısa vadede de derin etkilerinin olabileceğini göstermektedir. Enflasyonun ekonomik büyüme üzerinde uzun vadede anlamlı negatif etkiye sahip olduğu, kısa vadede ise belirsiz bir etkisinin olduğu bulunmuştur. Sonuçlar DYY ve ekonomik büyüme arasında tek yönlü

nedensellik ilişkisi bulunduğunu göstermektedir. Gana'da ekonomik gelişmeyi DYY granger sağlamaktadır. Çalışmanın DYY'nin Gana'nın ekonomik büyümesi üzerinde anlamlı ve pozitif etkisi olduğunu göstermesi göz önüne alındığında, Gana'nın ekonomik büyümesini daha da güçlendirmek için ülkeye DYY girişi sağlamaya yönelik politikalara ihtiyaç bulunmaktadır.

Anahtar Kelimeler: Ekonomik Büyüme, DYY, Küreselleşme, MNC'Ler, ex Bütünleşme, Klasik Granger Nedensellik, Enflasyon, Gayrisafi Yurtiçi Tasarruf ve Kamu Harcamaları

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LIST OF ABBREVIATIONS

AFTA : Asean Free Trade Area

AGAMal : AngloGold Ashanti Malaria programme

APEC : Asia-Pacific Economic Cooperation

AU : African Union

COMESA : Common Market for Eastern and Southern Africa

CwA : Compact with Africa

EC : European Commission

ECHO : European Community Humanitarian Office

ECOWAS : Economic Community of West African States

EU : European Union

FDI : Foreign Direct Investment

GATT : General Agreement on Tariffs and Trade

GDP : Gross Domestic Product

GIPC : Ghana Investment Promotion Centre

ICRC : International Committee of the Red Cross

ICT : Information and Communication Technology

ILO : International Labour Organization

IMF : International Monetary Fund

INC : International Corporation

INT : International Corporations

ITO : International Trade Organization

MNC : Multinational Corporation

MNE	: Multinational Enterprise
MoFA	: Ministry of Food and Agriculture
NAFTA	: North American Free Trade Agreement
NATO	: North Atlantic Treaty Organization
NGO	: Non Governmental Organization
PAN	: Peugot Automobile of Nigeria
SME	: Small and Medium Enterprise
TNC	: Transnational Corporation
UMA	: Arab Maghreb Union
UN	: United Nations
UNCTAD	: United Nations Conference on Trade and Development
UNDP	: United Nations Development Programme
UNESCAP	: United Nations Economic and Social Commission for Asia and the Pacific
UNESCO	: United Nations Education Scientific and Cultural Organization
UNHCR	: United Nations High Commissioner for Refugees
USTR	: United States Trade Representative
WFP	: World Food Programme
WTO	: World Trade Organization

CHAPTE R ONE

THE CONCEPT OF GLOBALIZATION

In this chapter, the concept of globalization comprises a discussion on an overview of Globalization, the importance of Globalization within the framework of international Business, Globalization and Multinational Enterprises, Dimensions of Globalization: Economic Globalization, Political issues in Globalization, Financial aspects of Globalization, Cultural aspects of Globalization, and Globalization in Africa, prospects and Risks.

1.1. An Overview of Globalization

Early days of civilization unconsciously experienced globalization as nations or empires embarked on wars of expansion, and politically and economically integrate them. They sometimes try as much as they could to culturally assimilate and socially integrate the conquered states. Thus, in certain respects, globalization may be regarded as a process of connecting the past, the present and the future as a sort of bridge between the past and the future (Sheffield, et al, 2013). Throughout human sciences ”globalization” has become the explanatory concept of social, economic and political change in the last decade (USAK, 2013). According to USAK (2013), “various combinations of a myriad interconnected characteristics are defined as constituents of overwhelming global dynamics such as the ascendance of stateless corporations; the flourishing of the global financial markets; the sharpening of the race to acquire international competitiveness; the proliferation of foreign direct investment; and the emergence of global information society”.

In today’s world, diplomacy navigates the factors of Globalization. It is a bloodless approach and evolves around diplomacy that are sometimes blinded by agreements and treaties. Today’s globalization involves exchange of ideas and other

forms of interactions such as cultural exchanges and trade. In international trade, “policy makers and scholars see positive links between economic globalization and peace, some analysts believe that as globalization creates more personal interaction, cultural interchange and amalgamation among people, it makes others seem less threatening, and thus resulting familiarity enhances peace (Rourke, 2008). Greater segment of the world nations agrees that globalization stands for peace. The United States and other major powers can best discourage conflict by promoting greater global ties (Gartzke & Li, 2003).

The sudden rapid economic and political globalization is the response of mutual interconnectedness of nations worldwide. Globalism is not limited to political interconnectedness, but it cut across Cultural, Social, Technological, financial, Security and Environmental. Combating Global warming and Climate change must be in the pursuance of globalization). Broadly speaking, the common denominator among the mainstream analyses of globalization concerns the idea that the fundamental factors leading to this overarching phenomenon is located beyond the sphere of politics (Bal, 2013).

Economically, pursuance of globalization means integrating world economies and removal of trade barriers, opening markets to multinational companies, promoting trade liberalization, integration of capital markets, and developing initiatives that works towards economic expansion and liberalization, and give way to Foreign Direct Investments (FDI). Economic globalization is much more at the frontline of discussion and pursuance than other areas such political, social and cultural globalization. It reflects the continuing expansion and mutual integration of market frontiers and is an irreversible trend for the economic development in the whole world at the turn of the millennium (Shangquan, 2000).

Politically, multilateralism that seeks to integrate nations to address common political problems such as ending instabilities, combating terrorism, disbarment, enforcing treaties and addressing the violation of human rights. Political globalization is aided through the world international bodies such as the United Nations Organization, North Atlantic Treaty Organization (NATO) European Union (EU) and African Union (AU). International Organizations are vital actors in the crisis of international politics with power in mediation, conflict resolution, imposing sanctions,

and applying other legal means that provides solutions in times of crisis. However, outgrowth of political multilateralism sometimes fail in their bid to replace dictators with democratic leaders. This is seen in the case of Libya: the once oil rich country with the greatest economic prospects, a country: a country that is raised above all countries in Africa and some countries in Europe and Asia, by the late Mummar Ghaddafi. In an attempt for NATO to replace him with Democratic leader replaces him with continuous instability. Justifiably, to discourage military leadership in the world, the United Nations introduced a requirement of accepting membership from countries under democratic rule. In time past, it is a fact that the United Nations is decrying the level of poverty of development and instabilities in the third world countries in particular, as occasioned by long years of military misrule in its 32nd general assembly that was opined that from 1995 upward to the present that no military rule will be allowed into the general assembly or tolerated unless such state embraced Neo-democracy (Okechukwu, 2009)

Political multilateralism is also weakening in recent times as a result of the emergence of far-right leaders who preaches hatred and unprecedented hyper nationalistic sentiments. In addition to this, political globalization in recent times has been embraced by far-right leaders. Cultural globalization has almost “Americanized” societies within and across nations. It is germane to adumbrate that there is greater spread and dominance of American values in areas such as music, film, consumption of food, art, dressing and speaking.

Socially, globalization created a new social order of network through technological change. This created a platform for cultural integration and assimilation. Free trade and social communications paved way for the exportation of cultural values that intrinsically and extrinsically formed part of the beliefs of the societies. For instance, the trends of values that have been amended or abolished through social networks of communication, after those values have been conceived as a result of what is term as Social revolution.

1.2. The Importance of Globalization within the Framework of International Business

As the world saw the gradual erosion of barriers to the free flow of goods, services and capital among countries, globalization increasingly provided access to markets, advanced technologies and financial resources, which enable the developing economies to grow and prosper (UNESCAP, 2018). During the past decades, globalization has : raised productivity and employment;: helped lift millions out of poverty: revolutionized communications; fostered competition; boosted global economic growth and interdependencies through trade and FDI flows; and facilitate scientific discoveries which will help us lead longer and healthier lives(OECD,2007).

International business encompasses a full range of cross-border exchanges of goods, services or resources between two or more nations (Mason & Sanjot, 2012). The importance of globalization within the framework of international business is deeply streamlined from the above briefed view and can further be discussed below:

Globalization has created new business opportunities and allow free labor movements to enhance business through the labor market. Domestic firms do not make their products for domestic consumption alone but sold to foreign firms or established subsidiaries for distribution. The desire to create labor mobility, market expansion and resource seeking created more business opportunities beyond border lines. For instance, "the European commission announced 2006 as the European year of worker mobility and has continued to consolidate new knowledge and practices as a means to facilitate geographic and job-to-job mobility for the European labor force" (Paas,Kaska,2014). This is seen as an effective instrument in opening European border system to allow cheap and skilled labor recruitment within the European Union. The creation of more genuine European labor markets-removing barriers, reducing adjustments cost and skills mismatches-will increase the efficiency of labor markets overall (European Commission,2001).

The process of globalization has helped in enhancing trade liberalization by creating an easy cross-border movement of goods and services. This has led to the "emergence of worldwide production markets and broader access to a range of foreign products for consumers and companies (Igwe, 2013). Trade liberalization cannot be

achieved without the establishment of functionable regional and international blocs. To achieve this, nations across the globe formed regional blocs such as the Common Market for Eastern and Southern Africa (COMESA), Economic Community of West African States (ECOWAS), Arab Maghreb Union (UMA), European Commission (EC), The European Union (EU), The North American Free Trade Agreement (NAFTA), The ASEAN free Trade Area (AFTA), and other trade institutions. These regional economic blocs function to integrate member countries and to remove all forms of trade barriers across Border States. They generally agreed on a common term and also applied the principle of comparative advantage to boost economic growth and trade volume. Process of implementing trade liberalization has opened avenues for greater participation of foreign investors and foreign markets. Trade restrictions such as embargo on goods and services due to political reasons, imposition of tariffs and other barriers to trade are lifted or eased due to efforts of pushed by these trading blocs, especially when they realized such imposition may affect other members. Further liberalization-by both industrial and developing countries-will be needed to realize trade's potential as a driving force for economic growth and development (IMF, 2001).

Engaging in international business through the principles of globalization benefits developing countries. Enhanced market access for the poorest developing countries would provide them with the means to harness trade for development and poverty reduction (IMF, 2001). Expanding sales of products by local firms or MNCs to foreign firms in other countries is seen as a significant approach to economic prosperity. In recent times, multinationals or global companies try to manufacture and sell their products to people in other parts of the world reflecting little or no difference to the home product, in some cases, they established new plants in the foreign country for economic reasons as sending finished products would make it very expensive and unaffordable to other country (Herbert, 2015). From this analysis, Herbert (2015) outlined the major problems that developing countries faces through economic liberalization. For instance, the French established Peugeot Automobile of Nigeria (PAN) to take care of the demand of Peugeot products in Nigeria.

Globalization increases access to natural resources. Natural resources, whether renewable or non-renewable are the major boastful revenue generating commodities of every nation. They represent the natural capital out of which other forms of capital are made. Natural resources contribute significantly toward fiscal revenue, income and

poverty reduction. In addition to this, it serves as a job creation potential in most countries especially in Africa. Natural resource is a key to national development. The wealth embodied in natural resources makes up a significant proportion of the wealth of most nation; often more than the wealth embodied in produced capital, therefore making natural resources management a key aspect of economic development (World Bank, 2006). Countries such as Switzerland, Singapore, Japan, Taiwan, Belgium, and Hong Kong have virtually, no natural resources but largely depend on imported materials from rich natural resource countries. In this, globalization paved way for such countries to gain access to cheap natural resources from other parts of the world to sufficiently feed the local industries. The main result is that countries that are endowed with natural resources or have large markets will attract more FDI (Elizabeth, 2005).

Also, in international business, globalization helps firms to economies of large scale. Due to the high demand of goods and services by foreign firms, local or domestic firms usually embark on large scale production of goods and services to meet the demands of their buyers abroad. Economies of scale accrue when the cost of producing a unit of output decreases as the output rate increases prior to diminishing returns setting in (Constantine, 2006).

More so, increased access to technology and innovation is another important aspect of globalization within the framework of international business. Globalization can bring technology transfer, access to information and innovation through foreign direct investments. Technology transfer through FDI relies on the investor having access to globally competitive technologies that it can make available to a developing country partner (UNESCAPED, 2018). Interactive global trading system enables exchange of knowledge and skills between local firms and their foreign counterparts resulting to Technological spill over. Vera-cruz and Dutrenit (2005) explained Technological Spill overs as the “transfer of knowledge and skills (technical and organizational) from MNCs that result in an improvement in the performance of MNCs partners, suppliers or competitor firms, as well as of the agents that interact with them”. The availability of new foreign knowledge through MNCs may benefit domestic firms as they can technology from them, which allow them to upgrade their own production process, and as a result, improve their productivity (Isaac and Mathew, 2014).

Increased access to technology interconnects firms by various forms business communications.

Furthermore, globalization help to minimize transport costs. Transportation is one of the least visible, but critical components of the global economy by supporting a wide array of movements of passengers and freight between nations (Jean-Paul, 2007). Before companies comes out with the idea of establishing subsidiaries, transportation services and costs becomes the core point to consider, and hence indispensable part of their intended activities.

Last but not the least, within international business, globalization has improved the quality of management in firms, governments, departments and the working conditions for people. As globalization headed towards placing an extraordinary amount of power in the hands of large corporations, international management became a major concern not only to business firms and their managers, but also to governments and other institutions (Boddewyn. et al, 2004). In today's world, globalization becomes indispensable for effective management of firms, businesses and government departments in charge of running institutional businesses. When there is effective management of government departments in charge of businesses, it has positive reflection in the lives of the people.

1.3. Globalization and Multinational Enterprises

Globalization is a multifaceted phenomenon which encompasses economic, social, political, technological and cultural dimension (Mir. R.U et al 2014). Snarr (2012) viewed globalization as "the evolution of single worldwide network for producing and exchanging money, goods and services". Globalization creates room for free market access. Political consultations between nations, transport of culture and social values and above all developing bilateral and multilateral cooperation by signing treaties or agreements. Globalization in practice can be political, social, economic and cultural.

Palmer (2002) explained globalization as "the diminution or elimination of state-enforced restrictions on exchanges across borders and increasingly integrated and

complex global system of production and exchange that has emerged as a result". Without cross-border activities, globalization will not be functionable. One cannot give a general acceptable definition and understanding of globalization without the inclusion of the terms: processes and flows, space and increasing integration and interconnectivity. Ritzer (2007) identified these terms in his writing as "an accelerating set of processes involving flows that encompass ever-greater numbers of the world's spaces and that lead to increasing integration and interconnectivity among those spaces"

In this context, it may be understandable that globalization does not involve a single player, but involves parties or nations that compromise decisions or positions on issues for the benefit of all. Multinational Enterprises are also known as for the below names:

- Multinational Corporation (MNC)
- Transnational Corporation (TNC)
- International Corporation (INT)

They are used interchangeable. MNEs or MNCs or TNCs or INCs are key players in global activities as they carry out investment opportunities and packages across borders. For the purpose of this work, it is important to critically examine the concept of Corporations. According to Dunning & Lundan (2008) Multinational Enterprises are businesses that "engages in foreign direct investment (FDI) and which owns or, to a certain extent, controls value-added activities in several countries" These corporations have business operations in several markets across the globe where they are located. Globally, MNCs exercises economic power rather than political power. Multinational companies (MNCs) are engines of global economic development, technological transfer and deepening globalization (Hunya, 2012).

Present day MNCs primarily focus on expansion of businesses worldwide rather than just focusing on exhausting of natural resources that are contract-based and will last for a short period. Dicken (2005) explained that "MNCs of the post WW2 period are different from those of earlier periods in being more focused on manufacturing and services than on extraction of raw materials and commodities". The

corporate social responsibilities of MNEs highlights their role in global activities both domestic and international. Much of public policy, economic, political and social policies of globalization centered on the participation and role of MNEs. MNEs or MNCs are players of globalization. Every activity of globalization centered on them. Their operations span across multiple countries, cultural styles and economic power from one country to another, acting as facilitators of economic globalization (Cook, 2006).

MNCs or MNEs operates in more than one country, and by so doing integrate companies or business across-borders. These activities promote global economic power through the investment made in other countries. It is also said that Foreign Direct Investment (FDI) which is an empirical feature of multinationals is growing faster than global trade (Brinkman & Brinkman, 2002). MNEs are agents of globalization and hence key facilitators in the process of integrating the world boundaries. Kleinert(2001) justified that "the expanding MNEs network, connected through intense trade relations between parent companies and affiliates and among the affiliates, could be the explanation for growing and growing production abroad" By these networks, they integrate companies internationally. Major role of MNCs is the promotion of economic globalization. Without the role of MNEs, the function of economic globalization will be in shadows because "MNEs holds an important position in international trade"(Kleinert, 2001). All the same, globalization implies an extension of the company's businesses to other markets where the request level is higher than the offer level (Ionescu & Dumitru, 2011)

Globalization cannot succeed without MNCs. The role of of MNCs under globalization remained indispensable. It is appropriate to state that the overall composition and function of economic globalization will not move an inch of success or smoothly without involving MNCs. They are the major players of economic globalization. Haller (2016) identified that "Multinational corporations are part of the current economic scene, a presence that one cannot ignore, and which cannot be avoided in the world circuit of goods, services, capital, technology and human resources".

In a nutshell, by the definition of globalization, as the integration and interconnection of markets within the world economies. MNEs are the major function

of this interconnectedness. The activities of Multinational enterprises drive the economic globalization process to a very large degree (Kleinert, 2001). Therefore, the success of globalization relies heavily on the activities of MNEs.

1.4. Dimensions of Globalization

Globalization is broadly tackled by world leaders, nations, and those who believed in market unification and expansion. Market unification in this sense means integrating various firms both national and international. Market expansion in this sense means strategies employ to improve transaction volumes such as carrying out cross-border transaction and creation of subsidiary companies. However, globalization market expansion and unification. It also includes integrating the world politically, culturally and ecological. According to one author "Globalization refer to the political, economic, social and technological links in different countries (Hamilton and Webster 2009). Prasad & Prasad (2006) refer to it as a "multidimensional phenomenon that encompasses not only economic components but also cultural, ideological, political and similar other facets".

The dimensions of globalization are discussed below:

1.4.1. Economic Globalization

According to Shangquan (2000) economic globalization refers to "the increasing interdependence of World economies as a result of the growing scale of cross-border trade of commodities and services, flow of international capital and wide and rapid spread of technologies". It resulted from a combination of dynamic merchants seeking new markets outside their own borders, improved transportation and communication techniques, and political desire to foster trade-all of which occurred to different degrees at different points in time over the centuries (OECD, 2018).

In the post-war era, "multinationals were very important in helping to shape the face of globalization (OECD, 2018). Economic globalization is the growing

integration of economies across-nations. It is also viewed as steps taken by world economies towards achieving trade liberalization. Economic globalization refers to the increasing interdependence of world economies as a result of the growing scale of cross-border trade of commodities and services, flow of international capital and wide and rapid spread of Technologies (Dordevic, et al, 2016).

Economic globalization becomes necessary as nations are adopting measures to liberalize trade: so it is seen as the reduction or removal of commercial barriers between nations to increase their trade volumes. Bernauer &Koubi (2013) noted that "reduction in trade barriers and relaxation or elimination of capital controls have led to increases in trade and capital flows that have outpaced the rate of economic growth"

The growth in global markets has helped to promote efficiency through competition and the division of lobar-the specialization that allow people and economies on what they do best (IMF, 2008). This specialization allows nations to trade on the principles of comparative advantages. One of the cost benefit of economic globalization, according to Tisdell (2008) is that "it results in greater efficiency in production by enabling greater specialization in production according to comparative advantages" and "it enables commodities to be exchanged more widely so that wants can be fully satisfied". Economic globalization reflects on production efficiency, growth of national economies and product distribution across borders. Globalization has been associated with a wide-ranging reduction in barriers to the movement of goods, services and factors of production (Ghai, 1997).

In addition to the above, economic globalization "enables buyers in every country to have available to them a greater variety of commodities than otherwise (Broda & Weinstein, 2004, 2006). This led to the extension of markets in global trading networks and standardization of products across these marketing networks. Apart from this, economic globalization enables companies to move their factors of production from one country to another. This ensures increased mobility of factors of production. Economic benefits from increased factor mobility can include a rise in global output relative to the factors of production employed (Tisdell, 2008). Economic globalization is the result of composition of global trade integration. When these global trading partners are integrated, it gives them a power sharing of technology and

innovation of products and services. Technology has revolutionized the global economy and has become critical competitive strategy (Malhotra, 2009).

Malhotra (2009) also asserts that "the innovation in host country undertaken by MNC based in one country and due to technological advancement MNC(s) have expanded to other countries by some kinds of FDI also facilitating the movement of research and development"

Notwithstanding the core benefits of economic globalization, embracing it poses some challenges globally. Globalization, particularly its economic aspect is to reduce poverty, inequality and unemployment. However, anti-globalists argue that globalization adversely affects the poor and particularly poor countries while pro-globalizers claim that it has led to poverty reduction (Round and Whalley, 2002). The Key challenges of economic globalization is the exploitation of developing economies by the developed economies. Consequently, states and people are more subordinated to new global and regional powers (Shevehenko.O.M etal, 2016).

Another challenge area of economic globalization is the growth of inequality and poverty. Woot de p. (2002) identified that "the mechanisms for redistribution of wealth designed by states at a global level are practically non-existent and inequality continues to grow". Unequal distribution of the benefits retrieved from economic globalization is not equally shared by international state actors and national governments. These distribution discrepancies breads inequality, and its co-resultant feature is poverty. This makes poverty appears as another challenging feature of economic globalization, even though, there is a general believe that, a well comprehensive development mechanism that utilize the country's human resources and ensure fairness in distribution of such resources at the local level serves as a powerful for reducing poverty. However, "economic growth alone cannot be counted on to generate significant improvements in employment and poverty reduction (Osmani, 2004, 2003). If inequality expands sufficiently, faster growth will have a muted impact on poverty and may be associated with high levels of poverty, measured across a variety of dimensions: income, consumption and human development (UN 2005; UNDP, 2005).

Another challenging area of economic globalization is the imposition of Tariff and Non-tariff measures on import and export of goods on developing nations. Economic globalization favored the western economies to the disadvantage of third world countries. One of the core determinants of economic globalization is the free movement of goods, services, labor and free entry into new cross-border markets. But Griffin (2003) pointed out that, "protectionist restrictions ensure that the benefits of globalization are distributed inequitably, that favour's the rich whiles placing the poor at a considerable disadvantage". The recent emergence of far-right leaders in Europe and the United has put much emphasis on protectionist ideals and has currently threatened the openness of free trade system and cross-border market system. For example, the American Donald Trump is a protectionist and therefore do not believe in free trade and cross-border system. The Trump administration fancies the use of protectionist measures — be it in the shape of import duties or tax discrimination — to boost production and employment in the US, to the detriment of other countries if need be (Polleit,2017).

1.4.2. Political Issues in Globalization

Politics of globalization draws and brings our attention to issues confronting global politics that needs collective actions of nations either bilateral or multilateral resolution. Issues such as ending conflicts, crimes, terrorism, disbarment, enforcing treaties and addressing the violation of human rights and other global issues that taints and creates tension within and across nations. Political globalization is seen as "the shifting reach of political power, authority and forms of rule" (Held and McGrew, 1998). It must be noted that "political globalization index is constructed from the number of foreign embassies in a country and its membership to various international organizations and participation of U.N peace missions and treaties" (De Kumar and Pal, 2014). Countries build their bilateral and multilateral relations with other nations through the presence of diplomatic representatives in the host countries, and their membership with international bodies that is established for such a purpose (purpose of friendly or diplomatic relations. This process may be referred to as" Politics of globalization". Polleit (2017) asserts that "the core argument of political globalization

is that coping with ever more complex problems of this world-ranging from economic crisis to the protection of the environment-requires a central decision-making process".

Politics of globalization is a union of various national governments through their representations with the main aim of pursuing international common interest such as crimes, resolving conflict and any other common interest that benefits members within the union. Civil society organizations act globally by forming alliances with organizations in other countries, using global communication systems, and lobbying international organizations and other actors directly, instead of working through their national governments[1]. The annual G7 (8) meeting by the powerful strong economies in the world have greater influence in global politics. Matters affecting global politics and the way-forward are dealt with, in times of their meetings. Higgott (2002) observed that "Global governance issues are dominated by the powerful states and alliance constructions and interest representations that feature in the structures of international organizations and groupings such as the G7 (8)".Politics of globalization are championed by nation-states considering their roles in global politics, but they do not act alone: they work with non-state actors. The changes in world politics are also due to the decline of nation states in a globalized world, advances in communications and information technology, the burgeoning of globally networked communities, and the activism of these communities to help shape issues on national and global political agendas (Bell,2010).

Today's global politics is built around policies made by international governmental bodies, and most of these policies are influenced by powerful nations, private sectors or actors such as MNCs, TNCs and non-governmental organizations. International organizations participate as independent and neutral actors on the global stage and can transform the relationships between states, increasing the efficiency and legitimacy of their individual or collective decisions (Gabriela, 2013). The role of these bodies is eminent as they mediate in conflict resolution process and their role in times natural disasters and crisis. When NGOs work with independence and impartiality on both sides of civil conflicts, it can sometimes give them credibility to contribute to peace processes (Bell, 2010). These global political bodies also provide humanitarian aid to poor countries and provide safer environment for the vulnerable

[1] For further reading, visit: www.globalpolicy.org

in poor communities. The striking increase in the work performed by humanitarian bodies in relation to armed conflicts has been reflected in the increases in the budgets and field activities of the Office of the UN High Commissioner for Refugees (UNHCR), the World Food Programme (WFP), the European Community Humanitarian Office (ECHO), the International Committee of the Red Cross (ICRC), and countless NGOs; and in the increased involvement of UN and other peace-keeping forces in humanitarian action (Roberts,1999).

Political globalization presents a myriad of challenges especially in the present global era where far right ideologies are dominating. Some of these challenges may also be seen as political intentions developed in line with economic interest. For instance, the current political relationship between United States and Saudi Arabia is built in line with economic interest. Hamilton (2017) asserts that "the relationship between the U.S and Saudi Arabia is often described as a partnership. The partnership has been based on a deal: we would get access to affordable oil, and Saudis would get our help in preserving the security of the kingdom". In addition, regional unrest and Saudi reactions to this unrest pose a threat to global politics. Political change in Egypt, protests in Bahrain, continuing instability in Yemen, the collapse of the pro-Saudi Lebanese government of Saad al Hariri, and the outbreak of conflict in Libya have created a series of regional diplomatic setbacks for the Saudi government (Blanchard, 2011). The world did see the U.S - Saudi relations as a genuine diplomatic tie but a relationship that is built on deal and interest.

Another area of challenge of politics of globalization is the current trade war between nations, especially the Donald Trump administration against China and other nations. This has made these nations to shift focus from global political trends to economic trends. Trade war affects regional stability and creates tensions between countries involved. It is now seen that; trade is now used as a global tool for global political diplomacy. The first move towards the trade war between US and China was enacted when the President of the United States, Donald Trump, instructed the U.S. Trade Representative in August 2017 to initiate an investigation of China to determine, whether certain policies of the Government of China (i.e. misusing of the intellectual property and unfair trade practices) are harming the US economy (USTR 2017). After the investigation was carried out, the United States did not consider the diplomatic

relations they have with China but went ahead and impose tariffs on some selected Chinese made goods imported to the United States.

1.4.3. Financial Aspect of Globalization

Prasad. et al (2003) defined financial globalization as "an aggregate concept that refers to rising global lineages through cross-border financial flows" Financial globalization is understood as the integration of a country's local financial system with international markets and institutions (Schmukler, 2003). Financial integration is also seen as cross-border capital flows by multinational corporations and other global financial institution. Cross-border capital flows-including lending, foreign direct investment, and purchases of equity and bonds-reflect the degree of integration in the global financial system (Lund. S. et al, 2013). The IMF (2017) financial globalization report on the impact on trade, policy labor and capital flows pointed out that "the recent wave of financial globalization began in the mid-1980s, spurred by the liberalization of capital controls in many countries in anticipation of better growth outcomes and increased stability of consumption that cross-border flows would bring". There was an assumption that financial integration would stabilize the growth of financial sector in developing nation. There was also an assumption that, countries with financial problems will take advantage to ensure financial sector development, institutional quality and formulate macroeconomics policies.

Financial globalization has induced several countries to adjust their corporate governance structures in response to foreign competition and demands from international investors (IMF, 2007). Investors from developed countries have taking advantage of financial integration and liberalization to carry out capital cash investment in other countries especially in developing economies. Financial globalization has accelerated since the early 1990s with advanced countries investing financial assets in international markets amounting to several their GDP(ILO, 2008). Financial integration is a source of strength to the developing economies and a way forward to reposition their economies through sourcing financial assistance in a form of borrowing or loan with mutual agreements.

1.4.3.1. Cost and Benefits of Financial Globalization

Embracing financial integration as a global panacea to global financial challenges comes with advantages and disadvantages. Feldstein (2000) outlined the benefits of unrestricted flows of capital: "first, international flows of capital reduce the risk faced by owners of capital by allowing them to diversify their lending and investment; second, the global integration of capital markets can contribute to the spread of best practices in cooperate governance, accounting rules and legal traditions; and third, the global mobility of capital limits the ability of governments to pursue bad policies."

The potential benefits of financial globalization will likely lead to a more financially interconnected world and a deeper degree of financial integration of developing countries with international financial markets (Schmukler, 2004). One of the key purported benefits of international financial integration relates to greater risk sharing: by making it possible for a country's residents to hold financial assets whose returns are linked to output performance abroad, financial openness provides opportunities to enjoy relatively stable consumption streams despite fluctuations in domestic output (IMF, 2007).

In addition to the above "Foreign financial institutions bring to domestic financial markets best practices, that is, expertise that has been learned from their past experience, and are likely to promote technology transfer to domestic financial institutions" (Goldberg, 2004). Even though financial globalization is associated with benefits by countries that successfully embraced as panacea in resolving their financial difficulties, there are some major challenges as well: Late 90s and early 2000s showed up with little optimism by some countries as Russia, Brazil, Argentina, Uruguay, Mexico and Turkey regarding the success of financial integration. These countries initially showed high level of optimism in those times of financial integration but encountered some challenges as their financial crisis deepened, because the required financial structures and mechanisms were not in placed, and " If the right financial infrastructure is not in place or is not put in place while integrating, liberalization followed by capital inflows can debilitate the health of the local financial system. If market fundamentals deteriorate, speculative attacks will occur with capital outflows

from both domestic and foreign investors"(Schmukler, 2001). Any country with weakened economic fundamentals poses crisis to the economy.

Financial globalization also faces neo-liberal economic policies particularly on the developing economies. According to Harvey (2005), "neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade" For developing countries, particularly, Africa, in this era of financial globalization, financial packages and trade benefits are usually controlled or regulated by the attached colonial masters. This greatly affect the usage of such financial packages and integration.

1.4.3.2. Agents of Financial Globalization

a. Local and international financial institutions: The linkage between local and financial institutions serves as a driving force of financial globalization. Changes at the global level and changes in both developed and developing countries explain the role of financial institutions as a force of globalization (IMF, 2000). The global level is furnished with well-established technological facilities to enable these institutions performed multiple financial functions within geographical areas. At the local or domestic, liberalizing the financial sector enables international financial corporation to enter local financial services. Free flow of capitals enables local or domestic financial institutions seek for partnership with their foreign counterparts. Gracia E.D.T (2012) pointed out that if financial liberalization is embraced by countries "domestic savings will be able to seek foreign financial markets, looking for better returns, and the domestic financial market will have to improve methods to pool savings, as a result of international competition".

b. Government: Governments plays major role in financial integration, hence major player in financial globalization. The government does this by liberalizing the restrictions within the financial sector to cope with international financial regulations. Government comes out with financial institutional regulations to enable institutions and organizations involve in financial businesses live up expectation and stabilization.

c. Borrowers and investors: A borrower is a person, company or institution, organization that has received money from another party (individual, company or institution) with the agreement that the money will be repaid with certain amount of interest. An investor on the other hand is any individual or entity who commits capital into a project or business, with the expectation of receiving financial returns. Investor may borrow capital for investment in local or foreign projects. Foreign investor makes cross-border payments to other integrated financial institutions. This capital is then saved as investment fund. Investment funds tend to play a favourable role in quantity-based financial integration, because many of them are quite diversified and therefore can also help other investors to spread their asset holdings across countries (EURO SYSTEM, 2018)

1.4.4. Cultural Aspect of Globalization

Culture has been called “the way of life for an entire society that are passed down from generation to another[2]. It is a way of life of people that include their food, dress, language, customs, dance, festival, behaviour and among others. Culture is generally defined as a set of shared values, norms, attitudes, goals, practices, knowledge, and conventions (Hosseini, 2010). Much of the early development of different languages, customs, and other diverse aspects of world cultures resulted from the isolation of groups of people from one another (Rourke, 2008). The isolated nature of the way of people then calls for a common system or process of cultural amalgamation of these differences as a result of improved transportation and communication networks. This is known as “Cultural Globalization”. It is natural that in the contemporary world many local settings are increasingly characterized by cultural diversity, and one may in the end ask whether it is now even possible to become a cosmopolitan without going away at all (Sotshangane, 2002).

Cultural globalization is beyond homogeneity. Respectfully, it cut across different cultural backgrounds. A trivial example almost every town of any size in the world now offers residents the choice of food such as French, Italian, Thai, Indian, Mexican, Chinese Arabic; We have multiculturalism not only in cuisine, but in areas

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[2] www.fao.org (Accessed on 12.05.2019)

of media, education, finance, computer manufacturing, corporate management-and in religion (Sotshangane,2002). Cultural composition of a diversify society requires a multicultural approach to deal with the differences. A multicultural society is such a complex environment to adjust, and to unify these differences, a process known as Cultural globalization should be accepted in this contemporary world. From the perspective of globalization, culture should be seen as the process of the cultivation of an intricate inner life that takes on form and meaning in social action on a global scale: Inner life in this context would refer to the knowledge of mankind as a single and inseparable species common to earth (Jyvaskyla, 2002).

The following are major composition of a defined cultural globalization:

a. Language: Every section of a homogeneous cultural group of people have a native language in which they communicate without necessarily learning in a school environment. Despite these native languages, there are other international recognised languages such as English, French, Arabic, Spanish, and Swahili and among others. One of the most important aspects of converging culture is English, which is becoming the common language of business, diplomacy, communications, and even culture (Rourke,2008). Among other languages, English has occupied a singular position for the past decades. There may be other dominant languages but English serving as a lingua franca. Interestingly, English is even the only official language of a couple of major regional political associations outside of Europe or North America: namely OPEC and the South Asian Association for Regional Cooperation (Melitz 2018).

b. Consumer products: Another way of narrowing the cultural gap within a multicultural society is the consumption of popular products. Globalization has significantly changed the trends, patterns in the global film industry and it has become one of the most important industries within the creative industries (UNCTAD, 2008). For instance, the most popular film industries are American movies. Food such as McDonalds, KFC, and Burgar King and among others dominates within the food sector.

However, the context of Cultural globalization is divided into three models:

The first model is cultural homogenization. Homogenization of culture refers to the practice of different cultures into one blended, uniform cultural practice that do not allow easy identification of the features of many cultures. It may also be explained as the dominant of one culture among others that is embraced by everyone. According to Kinberg (2009) “Culural homogenization models holds that cultural globalization is the progressive spreading of one dominant culture outward to other cultures”. Everyone comes to accept and embraced it even though there may be existence of other cultures, hence makes is homogeneous.

The second model is cultural heterogenization which is in contrast to cultural homogenization. As far as heterogenization is concerned, the differentiation appears as much in the different reception of standardized cultural products as in the assertion of one’s own cultural identity through diverse mechanisms (Marti, 2006). Heterogenization is also known as multicultural dimensional culture.

The third model of cultural globalization is hybridization of culture. Hybridization implies fusion, racial mixing, creolization, synthesis or symbiosis of diverse cultural plans which are not only affected by the global/local opposition, but that also by pairs such as traditional/modern, real/virtual or urban/rural(Marti,2006)

1.5. Globalization in Africa, Prospects and Risks

Ahmadu (2013) in his writing viewed “Globalization as the process of intensification of economic, political, social and cultural relations across international boundaries and at transcendental homogenization of political and socio-economic theory across the globe, impacts significantly on Africa states through systematic restructuring of interactive phases among its nations, by breaking down barriers in the areas of culture, commerce, communication and several other fields of endeavour”. Globalization in practice is new but old in existence especially the way in which the market (economic) structure of African countries function. The trend toward more integrated world market has opened a wide potential for greater growth and presents

an unparalleled opportunity for developing countries to raise their living standard (Alassane, 1997).

Focusing on achieving the positive results of Globalization, the World Economic Forum (2019) launched the fourth era of globalization “Fourth Industrial Revolution Era” This Fourth Industrial Revolution Era comes with opportunities such

- Lower barriers between investors and markets
- More active roles for artificial intelligence
- Integration of different technics and domains
- Improved quality of our lives (robotics)
- The connected life (internet)

The question boggling the mind of policy makers, Africans and the world at large is: what mechanisms can African countries adopt in order to position themselves to take advantage of fourth industrial revolution? The OECD (2018) report on Africa’s Development Dynamics, Growth, Jobs and Inequalities outlined five megatrends for Africa’s future development in this era globalization that provide answers to the stated question as below:

1. The rising share of emerging countries in the global economy – referred to as “shifting wealth” − will offer African countries the opportunity to diversify, upgrade in global value chains (GVCs) and find new sources of finance for development.

2. Technological change and digitalisation will bring about challenges and prospects for a new production revolution in Africa.

3. Africa’s rapid demographic growth can create “demographic dividends” by expanding the labour force and increasing savings and investments.

4. Africa’s rapid transition towards urbanisation will continue to increase the domestic market and the necessary scale economies to provide public goods, boost competitiveness and meet SDG targets.

5. Though climate change presents many risks for vulnerable African countries, in responding to it they can become greener by capitalising on the continent's immense natural assets.

In megatrend one; shifting wealth from the emerging markets to Africa may turn the fortunes of the continent in the next decade. The opening up of the People's Republic of China and India to channel cash funding infrastructural projects and ICT respectively will bring much needed economic growth in Africa. The OECD Perspectives on Global Development for 2019, outlined the advantages of shifting wealth to developing countries as "First, it re-drew the map of economic relations in terms of trade, financial flows and international migration. Second, it boosted global growth, lifting millions out of poverty. Third, it changed global governance, giving developing countries new roles, but also requiring them to craft new strategies".

It is no different to comparing the advantages of the developed economies shifting their wealth to Africa. According the OECD (2018) report on Africa's Development Dynamics, Growth, Jobs and Inequalities that "shifting wealth can allow Africa to upgrade in GVCs following China's rebalancing". The report also indicates that "shifting wealth brings new development finance and innovation to Africa." For example, China committed USD 118 billion, or 34% of its total development finance, to Africa during the 2000-14 period (Dreher et al., 2017). Most African countries are beneficiaries of number of Chinese FDI projects. Among them are Ghana, Kenya, Zimbabwe, Angola, Sudan and Tanzania. In the area of innovation- be it in case of renewable energy, recycling of waste materials, products innovations, modern methods of farming technologies, or on medical research are of much importance towards the reformation of the African continent. Shifting of wealth to Africa will enable the continent to diversify exports to the emerging markets. Export diversification reflects the degree to which a country's exports are spread across a large number of products and/or trading partners. (UNCTAD, 2018). The continent will therefore have to use it aid its positive agendas.

In megatrend two, that is technological change and digitalisation, briefly "describes a world where individuals move between digital domains and offline reality

with the use of connected technology and manage their lives"[3]. Africa can boost its production output in the next decade by embracing new ways of production using modern technologies. This is also known as "Production evolution". This production revolution presents opportunities for African countries to find new development paths (OECD, 2018). This will aid the manufacturing sector of Africa's economic growth considering the under-industrialized nature of the continent. For the continent to embrace to the 21st Century globalization, it should adopt new ways of doing things in a technological way.

In theory, individuals can directly participate in globalisation, using digital platforms to learn, find jobs, showcase their talent and build networks (Jakkie, 2018). In practice, this opportunity is limited to those connected to the internet and with the orientation, knowledge and interest to pursue them (Jakkie, 2018). Jakkie's observation is very common in present day Africa, and Industrial evolution era is much needed to address it in the continent. Albert Zeufack, the World Bank's Chief Economist for Africa at a news conference held on 9th April,2019 in Washington observed that "digital transformation has the potential of unlocking new pathways for inclusive growth, innovation and create jobs, as well as enhance service delivery and reduce poverty in Africa". He further observed that "for African nations to experience economic dividends, it is critical to create much-needed digital infrastructure, put the right regulatory framework and invest in skills that would allow workers, entrepreneurs and government officials to explore opportunities in the digital world". This digital transformation results from what economists who study scientific progress and technical change call a general-purpose technology—that is, one that has the power to continually transform itself, progressively branching out and boosting productivity across all sectors and industries (Martin, 2018).

Megatrend three has to do with demographic transition with its resulting dividends in Africa. As countries move through the demographic transition from a high fertility and high mortality to a low fertility and low mortality equilibrium, the size of the working age population mechanically increases (Bloom D.E, D. Canning et al, 2007) According to IMF Working paper projections on "Africa Rising: Harnessing the Demographic Dividend (2014) that "Africa will account for 80 percent of the projected

[3] Ghana web report, 2019 (Accessed on 20.04.2019)

4 billion increase in the global population by 2100”. It also indicates that “the accompanying increase in its working age population creates a window of opportunity, which if properly harnessed, can translate into higher growth and yield a demographic dividend”. The rise of the working population and the appropriate policies will translate into the faster economic growth and will move the continent to attracting phase of development that may be cherished by all.

Besides demographic transition and the resulting dividends, urban transition is yet another laid down opportunity that can sparked the continent into prosperous level of development. Urban transition is defined as the shift from rural to urban and from agricultural employment to industrial commercial, or services employment (Alam, 2018). The process of urbanization historically has been associated with other important economic and social transformations, which have brought greater geographic mobility, lower fertility, longer life expectancy and population ageing (WUP, 2014). The 2014 WUP further indicates that " Africa and Asia are urbanizing faster than the other regions and are projected to become 56 and 64 per cent urban, respectively, by 2050".

Enabling conditions in the urban centres such internet services (in e-business), access to banking services, good medical facilities, education and its accessible facilities, and general infrastructure help domestic markets grow, and may expand across borders to attract foreign investors. The position of globalization in urban transition will offer African markets expand to international border level. The process of urbanization has traditionally been understood as a by-product of economic development (Fox, 2011). In connection to this, urban transition will promote economic development in Africa.

The continent can use this transition of rapid growth to come out with efficient decisions in terms of investment, overall development and city form. The most important policy tool would be forward looking urban participatory planning, which could guide urban expansion and the associated infrastructure needs (Freire et al, 2014).

CHAPTER TWO

THE SIGNIFICANCE OF MULTINATIONAL CORPORATIONS (MNCS)

This chapter comprises the Rise and the extent of the impact of MNC, historical development of MNC, the growth of the world trade and global economic expansion, convergence of market, global competition and emerging countries, motive for the expansion of the MNC, and technology and innovation.

Without a doubt, MNCs are gradually becoming part and parcel of the world's biggest economic institutions. A rough estimate suggests that the 300 largest TNCs own or control at least one-quarter of the entire world's productive assets, worth about 5 trillion USD and TNCs total annual sales are comparable to or greater than the yearly gross domestic product (GDP) of most countries((Greer, Singh, 2000). As a result, it would become difficult if not impossible to properly give an account of the world's economic situation without referring to the MNC. An attempt is therefore made in this chapter top dissect the MNC by way of looking at how the term is variously defined by scholars, its rise and impact on the development of developing countries. A conscious attempt is also made to look at the historical development of the MNC, the motive for its expansion, and the growth of world trade, and the global economic extension.

2.1. The Rise and the Extent of the Impact of the MNC

The term Multinational Corporation (MNC) is known by various names. Some of the names are Transnational Corporation (TNC), global enterprise, and world enterprise among others. The establishment of MNCs in other countries other than the countries of their origin helps to strengthen international relations between the countries of origin of its operation (also known as host countries). It is in this regard that multinational corporations serve as a bi-lateral bondage between countries. The

term MNC have been defined in different ways by scholars and researchers. The adoption of different definitions as argued by Ferdausty & Rahman (2009) is clearly a manifestation that there are differences in the objectives or functions of scholars and researchers. Before delving into some of the scholarly definitions of the term MNC, it would be prudent to acknowledge that Lilienthal was the first to coin or use the term 'Multinational Corporation' in the 1960 at a symposium at the Carnegie Institute of Technology. Lilienthal drew a clear-cut distinction between direct investment and portfolio investment and proceeded to define the MNC as an entity that have their home in one country but operating and living under the laws of other countries as well (Lilienthal,1960). Other researchers, scholars, international institutions and commentators that mostly falls within the discipline of international business have offered different explanations to the term MNC. The International Journal of Applied Research (2015) explained MNC as "those large firms which are incorporated in one country, but which own, control or manage production and distribution facilities in several countries".

Hill (2005) defines multinational corporation as "any business that has productive activities in two or more countries" Multinational corporations established subsidiary firms in other countries that benefits the host countries in many ways such as provision of employment opportunities, contributing to economic, social and political development of host countries. "Multinational Corporations are usually very large corporate entities that while having their base of operations in one nation—the "home nation"—carries out and conducts business in at least one other, but usually many nations, referred to as "host nations" (Eluka et al, 2016). According to Spero & Hart (2010) "Multinational Corporation are business enterprises that maintain overseas direct investments in order to control or possess value-added assets in more than one country". That means an enterprise "is not truly multinational if it only operates in overseas or as a contractor to foreign firms. A multinational firm sends abroad a package of capital, technology, managerial talent, and marketing skills to carry out production in foreign countries" (Eluka et al, 2016).

The rise of multinational corporations depends on successful evolution and development of its operations. The evolution explains how MNCs build up and maintain its structures through capital inflows. This allows most investors to have a

complete control of foreign assets and portfolio investments. The rise of MNCs, and the extent of its impact (discussed below) could be attributed to the following reasons:

Every stage of MNCs was once a domestic firm or started operating domestically. As it expands, the need arises to on to Global scene or operations. One of the reasons to go global was the need to seek for raw materials to feed the domestic industries. Search for raw materials were the earliest aim of MNCs. The target was to exploit the raw materials that could not be found within their geographical settings but in overseas. British Petroleum, Exxon mobile and International Nickel are such MNCs that are always in need of raw materials in high demand.

The second reason to go global was the need to seek new markets is another major aim of MNCs. The prime aim of Multinational firms is to seek for overseas markets where inter-connection of partnership transaction can be created. This will enable such firms to produce and sell in foreign markets. Examples of such Multinational firms include IBM, Toyota, Unilever, Coca-cola etc. When the search of market expansion is successful, firms moved to the next stage of exporting their products to foreign markets.

The advantages are not farfetched: improvement and constant capital inflows, maximization of profits, start-up costs are minimal and above all risk is low.

The third reason to go global is to minimize cost of production. Multinationals especially those originated from developed nations always take advantage of opening subsidiaries in third World countries with the reason of getting Access to raw materials and other factors of production. This enables them to seek lower cost of production abroad. Another reason for such a move is to remain cost competitive both home and abroad.

Other reasons why firms go global besides the above major reasons, there are other reasons why companies go global;

- increase sales; companies with unique products and technological advantage looks beyond the shores of its domestic market and expand their distribution channels. Such companies will first prioritise going beyond its internal marketing distribution channels to international.

➢ improve profits; as companies expand their distribution channels beyond domestic market, its revenue or returns doubles.

➢ increase innovation; firms that plan to go internationally always wants to add value to their products to meet international standard. When firms have value added products, it motivates them to look for markets beyond domestic sales.

➢ for Education and market evaluation reasons ; the Journal of International Management 2010, identified that ‘’the learning trajectories on the dimension of exploitative and explorative learning as well as unilateral and bilateral learning jointly constitute an overall framework of MNE evolution with cross-border learning as its central theme, especially in the process of an accelerated internationalization”. The very best stage of the learning process is to carry out feasibility studies of market penetration and to test the popularity of the products. For example, the customer products division of koc, the Turkish conglomerate, entered Germany, regarded as the world’s leading market dish washers, refrigerators, freezers and washing machines in terms of consumer sophistication and product specification. In doing so, it recognized that its unknown brand would struggle to gain much market share in this fiercely competitive market. However, Koc took the view, as an aspiring global company, it would undoubtedly benefit from participating in the World toughest market and that its own product design and marketing would improve and enable it to perform better around the world.

In consonance with the definition of the MNC as provided by the International Journal of Applied Research (2015), Hill (2015) and other scholars, and the considering the factors that led to the rise of the MNC, it can be deduced that, MNCs are giant business entities and could have impact beyond their parent borders. However, there is no scholarly consensus regarding the extent of the impact of the MNC. That therefore suggests that though the MNC has become “omnipresent in the developing world, there has always been an uncertainty about them, in both positive and negative ways” (Ferdausty & Rahman, 2009). However, someof the views as shared by the opponents and proponents of the MNC are briefly discussed below. The concentration is however on developing or host states.

According to the proponents, MNCs becomes significant in the following areas:

Transfer of technology/ R&D: (I) Technology development and work processes improvement differ greatly in developing countries, and even in some cases between regions. Bangkok or the South of Thailand for example is more developed than some Northern areas and MNCs are said to be the vehicles that created the opportunities for the transfer of the well needed sophisticated technology for this development. (Ferdausty& Rahman, 2009). The transfer of knowledge in a form of technology between parent company and its subsidiaries is considered as an important source of competitive advantages by most MNCs. Foss and Pederson (2004) analyse articles related with transfer of knowledge in MNC's, pointing out that this process can be executed between subsidiaries through international alliances or from parent company to the subsidiaries. The impact of this technology is the transformation of productive ventures into modern products, improvement of human lives, fast and easy end of approach of various applications that affects society. The setting up up of new subsidiary production units means the transfer of new equipment, machineries, skills and technical know-how to operate them. Knowledge in a form of technological transfer affects people and their environment where these MNCs are established. Venard (1976) described this as the process by which a need can be satisfied through the application of technology in response to the identification of that need". According to Vernard, transfer of technology must be felt by the host authorities and people.

According the Harvard Journal of Law and Technology (1992), methods of transferring Technology can be through:

- Direct Foreign Investment
- Turn-Key packages
- Technology License agreements
- Management contracts
- International contracts
- International organizations
- Government aid.

- **Foreign Direct Investment**: A flow of investment made by individuals or companies from an established country of origin into another country either by establishing business operations or acquiring business assets in the other country. This "method of transferring technology has been through investment in wholly owned and controlled subsidiaries".

- **Turn-key packages**: This is where the completed technological devices and machines are sent to the recipient to start the operations without difficulties. Here "the supplier provided machinery, building, management expertise and production plans".

- **Technology License Agreements*:*** According to R.K Thomas (1971) "Licensing covers the broad spectrum of permissions that are granted for the use of patents, technology and trademarks". Obtaining permission to operate or use a technology offers the Licensor the legal holder to openly profit from such technology without risk in a foreign market. International agreements include:

➢ Patent Licenses: that is license used for a specific purpose.

➢ Know-How Agreements: Information regarding the use of a technology that is difficult to obtain from other sources.

➢ Technical Assistance Agreements: Agreements to offer scientific training.

➢ **Joint Venture*:*** W.Helgard & S.John (1986) explained Joint ventures as "long-term relationships involving the pooling of assets, joint management, profit and risk sharing, joint marketing, servicing and production". Primarily, business partnership is usually accompanied by continue operational assistance and training, and in such cases, there is an exchange of technological activities.

➢ **Purchase of equipment*:*** purchase of equipment is one of the common methods of transferring technology. In addition to purchasing the equipment, buyers sometimes pay for the maintenance and periodic servicing of purchased technology.

➢ **Management contracts *:*** Developing countries usually awards contract to foreign firms to carry out operational activities. By so doing, these foreign experts demonstrate the machines operations and other technical operations.

➢ **International Organization*:*** International organizations such as the United Nations Conference on Trade and Development (UNCTAD), Advisory Service on Transfer and Development of Technology (ASST) are actively playing the role in promoting the transfer of technology from developed to developing countries.

➢ **Government Aid*:*** "Technical Assistance is also provided by governments of developed countries". This is usually in the form of "technical cooperation, grants and fellowship for students".

(i) **Promotion of Foreign Direct Investments**: MNCs played the role of promoting Direct Foreign Investments in countries. The establishment of the MNCs resulted in the direct flows of investment that increases the GDP of the countries where it is located. The 2015 International Journal of Applied Research revealed that "foreign investment policies pursued since 1991, have allowed MNCs to make investment in India subject to different ceilings fixed for different industries or projects". Most countries especially developing nations survived recession as a result of constant flow of foreign investments.

(ii) **Investment in infrastructure**: Due to the financial resources available by MNCs, infrastructure investments are the core areas for retaining their establishments. According to the International Journal of Applied Research 2015, apart from the MNCs "ability to raise resources both globally and inside India, it is seen that multinational corporations also invest in infrastructure such as power projects, modernization of expensive fridges, 29" plasma TVs are being produced/sold by multinational companies". Gesso (1999) maintained that "by investing in areas and utilizing the factors of production where the LDCs have an absolute and comparative advantage MNCs will lead to a more efficient allocation of the world's resources".

(iii) **Employment creation:** Another area to look at when spelling out the significance of MNCs is its impact on employment creation especially in developing countries. Kaburu (2005) observed that "it is the responsibility of MNCs to consider developing countries for their labor supply, because if executed properly, it will create stockholder value". Multinational corporations contribute to 65% of the non-governmental employment opportunities available at any given country host" (Reid 2001). Most citizens of third world countries have attained low level of formal

education, hence low level of technology. MNCs in these countries play greater role of absorbing such class of citizens at various levels in the firms. Before absorbing such class of citizens to occupy the various fields work, MNCs takes the generous desire to equip them with various training skills and then offer those securing jobs. Schermerhorn (2002) presents that, for the case where many LDCs are often endowed with potentially large low wage labor forces and high levels of unemployment, this might be considered inappropriate technology and MNCs come in to equip the countries with intrinsic knowledge aimed at acquiring a skilled work force in the industry. Although, wages seem to be very low for us, people in developing countries often see this job as preferable to working as a subsistence farmer with even lower income (Kitche 2001). The recent proposal of President Macron of the French Republic towards employment reforms to improve the working conditions of the French citizens and to reduce the current unemployment rate from 10% to 7% by the year 2022, has proposed to ease restrictions of Multinational Corporations.

(iv) Another significant role of Multinational Corporation is the promotion of exports of a country in which they carry out investment activities. For example, the current rapid expansion of China exports is due to large investment made by multinationals in various fields of Chinese industry. D. Greenway, N. Sonsa & Wakelin (2001) put it that “exporting involves fixed costs, such as the establishment of distribution networks, the creation of transport infrastructures, investment in advertising to gain public exposure, research about the foreign market to gain intelligence on consumers tastes, market structure, competitors, regulations and so on”. Trade performance of countries are affected by exporting activities of MNCs such as changes of overall GDP and other areas that measures trade performance. Barry and Bradley (1997) recognized that “MNEs can directly affect the trade performance of the host economy through their own exporting activity”. It should be noted that MNCs can either positively or negatively affect trade performance of the host countries indirectly through their impact on domestic firms.

(v) Furthermore, multinational corporations appear as **entities that binds nations and serve as a platform of inter-state building**. MNCs exercise major control over political, economic and social developments throughout the world. Cross-border transactions was traditionally meant for profit making. In contemporary world, apart from profit-making, MNCs exerts greater political influence on host countries.

This influence in contemporary cross-border transaction serve as the new tool for trade and interdependence between states and multinational corporations. MNCs are political state actors. Formulation and implementation of policies are usually in line with their economic interest. Gautam Sen (1999) paper presented to the Conference on "The Political Economy of Globalization has identified that "Interdependence is not valid only between states anymore, states and private actors have to cooperate in order to protect their interest". When multinational corporations widened their horizon of businesses and gets well established and recognized, they become great political and economic tool for their home governments to intervene in domestic affairs of their neighbours. "Many developed countries, like the United States, had always tried to use the big U.S multinationals, especially in 3rd world countries, to interfere in the domestic or in bilateral relations with that particular country on economic or political sense"(David N. Gibbs, 1991). MNCs helps in advancing bilateral relations of nations. They pose the potential of penetrating through Socio-eco-political policies of host countries.

(vi) Lastly, MNCs through FDI creates constant inflows of Non-debt capital. Countries encourages foreign investment are likely not to depend heavily on borrowing from financial institutions. MNCs represents non-debt creating capital inflows in countries that do not seek to borrow from financial bodies.

As raised earlier, opponents of the MNCs are having divergent reviews regarding its impact on host states or developing countries development. According to some of the scholars who are mostly inclined to the Marxist tradition, MNCs

(i) **Exploitation of workers**, Despite good empirical studies as conducted in Bangladesh, Mexico, Shanghai, Indonesia, Vietnam and suggesting that MNCs pay what economist call "wage premium", that is an average wage that exceeds the going rate in the area where are located, and affiliates of some U.S MNCs paying a premium over local wages that ranges from 40 to 100 percent, (Bhagwati, 2004), most writers are of the view that MNCs exploit the workers of developing countries. Companies such as Reebok, Nike, and Levi Strauss have exploited the human labor in Indonesia. Workers live in deteriorating, leaky, mosquito – infested apartments and only earn a mere$39 a month for producing thousands of products worth well over $100 each. (Ferdausty & Rahman, 2009). A 2006 report by UNCTAD supports this by suggesting

that whilst the economy of Indonesia is booming due to FDI, cheap labor is suffering from inhumane conditions and low wages.

(ii) **Pollution and depletion of the environment,** MNCs are the avenues through which the environment of host nations or the developing world is polluted, especially those in the mining sector. We also have situations where resources of developing countries are exploited as in the case of Nigeria (Pearce, 2015). Also, In China, liver and stomach cancer deaths have doubled since the 1970s and are now the leading causes of cancer mortality in rural China (Pearce, 2015). This is attributed to the activities of MNCs. (Pearce, 2015)

(iii) **Transfer Pricing,** Arguably, though the fundamentalism of every business entity is to maximize profit, MNCs usually do try to make abnormal profits. One unique way MNCs can increase their profit margin is by transfer pricing. The goal of this practice is to reduce their tax liability in those countries that may have a higher tax rate for their products and increase their liability in countries with a lower tax rate. They do this by shipping partly finished goods and components between different factories in different countries. Transferring expensive goods from countries with a high tax rate make their bottom line look healthier while transferring goods at a lower price to markets with a lower tax rate will decrease their final tax bill. The result is two or more different countries losing valuable tax revenue because of financial loopholes in the tax laws (Bailey, 2018).

(iv) **Social and cultural impact,** some opponents of the MNC are strongly of the view that MNCs do negatively affect the social and cultural life of host states. After looking at the social impact of international trade and MNCs activities on the people of the Niger Delta of Nigeria, with concentration on the comparative analysis by gender, generation and socio-cultural differences, Ihedioha & Olawoye (2002) observed that "the social cohesion and harmony has deteriorated and potential for conflict has increased, there has also been a decline in social values as the quest for money has encouraged prostitution and other social vices in general the activities of the oil companies have had a negative impact upon local livelihoods, seriously threatening their sustainability" (Hassan, Ihedioha & Olawoye, 2002, 1).

(v) **Economic uncertainty**, most of the opponents of the MNC are also convinced that the presence of MNCs in developing countries creates some kind of economic uncertainty. Bailey (2018) strongly argues that because MNCs are not tied to any one country, they (MNCs) may not have "a reason to feel loyal to one country over another, which creates economic uncertainty, both for the workers and for the community in which they base their production. If laws change and a multinational find that it can produce the same goods elsewhere for a fraction of the cost, they have no good reason to maintain their original factory. These corporations can ship jobs overseas to wherever they can build their products cheaper, which can leave some communities financially devastated" (Bailey, 2018, 2).

Despite the absence of unanimity regarding the impact of the MNC, most scholars do not take any entrenched position, regarding the positive or negative impacts. In their research on the impact of the MNC on developing countries, Ferdausty & Rahman, (2009) reached the conclusion that "instead of adhering to either, a positive or negative overview this perspective recognizes that the costs and benefits of FDI by MNCs will vary from country to country and also that what constitutes costs and benefits will vary depending on the values of the observer" (Ferdausty & Rahman, 2009, 123). For MNCs to impact positively on host countries, Ferdausty & Rahman, (2009) suggested that host or developing countries should focus on the reduction of bureaucratic complexity, development of infrastructure, reduction of corruption, improvement of law and order situation, development of skilled labor, stability of macro-economic situation, maintenance of political stability, and the continuation of policies.

From the discussion therefore, it may be prudent to suggest that the debate on the impact of the MNC on the development of host states continues unabated. Despite that, it may be good to consider the historical development of the MNC.

2.2. Historical Development of the MNC

MNCs have a long history and have had influence in as far as the development of the economies in which they operate is concerned (Wilkins, 1998). Perhaps, as a result of the long history, scholars of history and international business seems to offer

different narratives in as far as the historical development of the MNC is concerned. In the discussion below, an attempt is made to briefly consider this narrative.

Though most scholars are of the view that the historical development of the MNC is closely linked to the early stages of the industrial revolution, Uzinidis & Boutillier (2010) concur that the first MNCs in the modern sense of the word dates back to the age of the Renaissance in which entrepreneurs at that time were looking for the resources Europe lacked. Wilkins (1998) also suggested that MNCs predates the rise of industrial capitalism and Banks constituted the first MNCs. According to the narrative of Greer & Singh (2000), “the earliest historical origins of transnational corporations can be traced to the major colonizing and imperialist ventures from Western Europe, notably England and Holland, which began in the 16th century and proceeded for the next several hundred years. During this period, firms such as the British East India Trading Company were formed to promote the trading activities or territorial acquisitions of their home countries in the Far East, Africa, and the Americas. The transnational corporation as it is known today, however, did not really appear until the 19th century, with the advent of industrial capitalism and its consequences: the development of the factory system; larger, more capital intensive manufacturing processes; better storage techniques; and faster means of transportation”. The narrative of Greer & Singh (2000) creates the impression that imperialism and colonialism are factors that facilitated the rise of the MNC. Their narrative seems to get some backing from Eluka, Uzoamaka, & Ifeoma (2016) who are of the view that the history of multinational corporations in developing countries is marked by its origins in the policies of imperialism and Colonialism.

Arguably, the progression and the evolution of Multinational Corporation played an integral role in the overall development of the world economy, culture, and politics. The 16th century of territorial acquisitions of countries such as England, Holland and Germany were a period of search for network of trading partners and the search for raw materials to feed the home industries. The impact of globalization directly felt on the complete realization of MNCs. The ideals of such impact were the advent of industrial capitalism; an economic and social system in which trade, industry and capital are privately controlled and operated for a profit. This practice is widely embraced by the United States and other developed nations. The cause consequences of industrial capitalism such as the development of factory manufacturing and

processing systems, improved storage, techniques and a well-connected transportation system drove MNCs from the United States and Western Europe to Latin America, Asia, Africa and Middle East.

Techniques adopted by firms when going global.

For firms to go global, certain techniques are adopted. These are channels through which firms carry out international activities. Such activities are;

- **Exporting and importing**; exporting for companies or firms to go global, they must prioritise exporting to importing though both are equally important. Exporting is explained as the process of selling goods or services produced in one country to other countries. In the United States, the government provides incentives in a form loans to firms that takes the initiatives to export the goods or services produced. This explains why exporting is prioritised to importing. Importing is the process of bringing in goods or services from other countries. Importing is most common in developing as low level of sophisticated technology and skilled personnel.

- **Direct investment either in a form of direct acquisition in the host market or development of its own facilities from the ground up** is another method of going global firms. This technique takes much time as a result of the establishment of new operations, and distribution network. Direct investment offers opportunity for companies to run cross-border business. Firms carry out this in two attempts: Acquisition and Greenfield investment. Greater number of countries or MNCs used acquisition as their only way of entering into foreign markets. According to UNCTAD (2014), nearly half (49.6 percent) of the Chinese FDI was made through acquisition. It is easy to adopt acquisition to enter into global market than Greenfield investment. Greenfield investment is the establishment of new wholly owned subsidiary. It is cost-expensive and complex than acquisition. Acquisition has lower risk than Greenfield investment. Despite the above cost-risk advantage and disadvantage analysis. Acquisition and Greenfield are both seen as an important technique used by firms to go global and expand their operational activities.

- **Licensing:** This is another technique of firms to go global with a minimal degree of risk. Licensing is a business arrangement in which one company given

another company permission to manufacture its product for a specified payment[4]. In this, the international licensing firm gives the licensee patent rights, trademark rights, copyrights or know- how on product on products and processes. This will permit the licensee to produce the licensor's products, market these products in his or her assigned territory and pay the licensor fees and royalties usually related to the sales volume of the products.

- **Franchising:** This is like licensing. Franchising is an "arrangement where one party (franchiser) grants another party (franchisee) the right to use its trademark or trade-name as well as certain business systems and processes, to produce and market a good or service according to certain specifications[5]. Whilst a specified period is to licensing, franchising agreements tend to be longer and franchiser offers a broader package of rights and resources which usually includes; equipment, managerial systems, operation, manual, initial trainings, site approval and all the support necessary for the franchise to run its business in the way it is done by the franchisor. Firms give permission to other foreign firms to use its trademarks and operating know-how of the business, in return to one-time loyalty fees and other payable fees packages based on the agreement reached. Firms that adopt franchising as a technique to go global usually have the advantage of benefiting from local cost of production or manufacturing, low political risk, and allows simultaneous expansion into different regions of the world. The common disadvantage of this technique is that wrong franchisee may ruin the company's name and reputation in the market.

- **Strategic Alliance:** A variety of cooperative agreements between different firms such as shared research, formal joint ventures or minority equity participation (Campbell & Reur 2001). Strategic Alliance brings two or more international firms together to carry out innovative research, addresses concerns over equity participation and going into formal ventures. Strategic alliances are links between two or more companies to mutually carry out a specific project coordinating necessary resources while still preserving their autonomy (Dussauge & Garette 1999). For MNCs pursuing a global strategy, the partners in the alliance tend to be higly integrated to the network and operation of the MNCs.

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[4] www.entrepreneur.com (Accessed on 03.01.2019)
[5] www.businessdictionary.com(Accessed on 03.01.2019)

These partners are meant to conduct the chosen global strategy of the MNCs (Vapola et al 2010). Exchange of technology is a major objective for many strategic alliances. It is difficult for a single firm to carry out technological innovations that are based on interdisciplinary advances. This is because, single firm may not have sufficient resources to carry out a particular research alone, and hence the need to form alliance with firm with the same research technological motive.

- **Cross –border joint ventures;** this involves two or more firms or businesses that engages in forming a partnership in a form joint business. They should originate from different countries. Most firms are looking beyond their borders to compete in the international marketplace, hence the need to engage joint venture partnership with a foreign company.

2.3. The Growth of the World Trade and Global Economic Expansion

Historically, the era of the "Great Depression" that occurred during and after the period of World War II, coupled with the lingering distortion in trade, greatly affected economic growth. The "Great Depression" was seen as a worldwide catastrophe whose causes and consequences alike were global in character. After the elapsed of this period, globalization has yielded economic prosperity due to effective worldwide network of trade routes and the need for MNCs to establish subsidiaries.

However, the 2008 global financial crisis further exposed the weakness of developed economies and "has cast its long shadows on the economic fortunes of many countries, resulting in what has been called the "Great Recession" (Rampell 2009). The sudden unexpected occurrence of this "Great Recession" shows that global economy is by no means stable in terms of growth and retrogression.

Global economy experienced successful transition after the signing of the GATT in 1947which eventually took effect in 1948. The signing of this agreement was the beginning of the implementation of trade liberalization. GATT was a treaty signed by 23 founding member nations and "provided the rules for much of the world trade and presided over periods that saw some of the highest growth rates in international commerce" (WTO, 2015). Two "Bretton Woods" institutions: The World Bank and

the International Monetary Fund (IMF) were formed to aid GATT and to handle trade side of international economic cooperation. Both institutions render financial assistance to middle-income and low-income countries. The funds are used by respective home governments to support small groups of traders, SMEs and other poverty alleviation programs.

In March 24, 1948, the Havana Charter, provided for the establishment of the International Trade Organization that set out basic rules for international trade and international economic matters. It was signed by 56 countries. It extended beyond world trade disciplines, to include rules on employment, commodity agreements, restrictive business practices, international investment and services (WTO, 2015).

The International Trade Organization work as an economic regulatory body towards the promotion of free and fair trade between nations. However, in January 1st, 1995, the World Trade Organization was formed to promote the principles set out by GATT and ITO towards trade liberalization. The World Trade Organization was formed to replace GATT as an international organization, but the General Agreement still exist as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations.

From the above, it can be deduced that, the present-day boost in trade network is the result of provisions made by global leaders and nations to ensure complete trade liberalization. World trade growth is facilitated by negotiations and agreements by nations. The WTO is mainly cantered on agreements that covers goods, services and intellectual property. Reduction and removal of tariffs and other barriers to trade, settlement of trade disputes is some of the major principles outlined by the WTO.

A good number of countries including China (143rd Member of WTO) have taken advantage of the principles set out by the WTO and adopted an open door trade policies. For instance, after China's accession to the WTO, the communist country devoted much time and efforts to reducing trade barriers. On January 1st, 2004, China lowered its average tariff rate by 0.6% to 10.4%, and in 2008, the average tariff rate was below 10%. In the meantime, China agreed to eliminate import quotas, Licenses, designated trading practices and other non-tariff barriers. In addition, automobiles, chemicals and electronics industries which were subject to strong government

protection before are likely to experience restructuring due to dismantling of trade barriers (Greven, 2004).

The understanding of the above, enshrines possible paths of economic prosperity. Nations that embraced the principles of free trade enshrined in the WTO free trade agreement set out the path of economic integration. It is worth noting that fast growth in trade is a necessary factor of opening doors for employment and growth of economic output.

Growth in Trade is concomitant to growth in economy. Free trade with incentives and removal of trade barriers attracts direct investment by foreign firms. The free flow of foreign direct investments promotes wider economic growth, growth in world GDP, upliftment of low- and middle-income nations to higher industrialized nations. The obvious advantage of free trade is that members obtain a better access to the market (APEC, 2001). The results of trade openness can tangibly be measured in terms of economic growth, productivity, a higher standard of living, further innovations, stronger institutions and infrastructure and even promotion of peace (OECD, 2010). Trade alone explains a quarter of the productivity gains witnessed across Europe (EC, 2006). Open economies grow three times faster than closed economies (OECD, 2010). The wider growth and expansion of world trade largely depends on the free movement of goods and services. The implementation of free trade by countries increased the output of industries. Countries can take advantage of efficiencies generated from scale. Akerman & Forslid (2009) observed that, "international trade increases the size of firm's market, resulting in lower average costs and increased productivity, ultimately leading to increased production" Trade is seen as a panacea of economic growth. It is an engine of economic growth. Countries with less involvement in international trade experienced less economic growth. This affects the overall GDP growth of such countries. Whilst free trade propels nation's economic growth, protectionism is encouraged by few countries. Trade protectionism are various restrictions adopted by countries to prevent free movement of goods and services. These measures are usually in a form of tariffs on imported or export goods, restrictive quotas, restrictive regulations on imports, anti-dumping laws meant to protect domestic industries and among others. Preachers of anti-globalization are usually embracers of trade protectionism. The reasons assigned to the introduction of trade protectionism are for national security, and protection of infant industries. The security

reasons assigned in favour of trade protectionism is essential. Even Adam Smith, the renowned father of free trade, wrote in 1776 that "defence is much more important than opulence" (Adam Smith 1937). The national security is mainly justified based on complete self-sufficiency or protection of infant industries. Protection of infant industry "which has a potential comparative advantage may not get started in a country unless it is given temporary protection against foreign competition" (Jing & Yuduo 2010). The general perspective of factors that contributes to the world economic growth is supported by free trade and to some extent trade protectionism practice by countries that could take the advantage to grow economically.

The recent research carried out by the United Nations on "World Economic Situation and Prospects 2017" had its reports on developed economies that led them to prosperous giant economies in the world. The report also analyses the factors that could underpin the growth of such economies. "Economic activity in the United States accelerated in the second half of 2016, reflecting a strong rise in spending on consumer durables and residential investment, coupled with a turn in the inventory cycle as firms restocked depleted inventories". The report further anticipated that additional "0.1 percent points to growth, allowing GDP to expand by 2.1 percent in 2017 and 2018". This growth would be supported by government spending of 18 billion dollars. In Canada, the report has an explicit view about the delay of recovery investment due to the "uncertainty regarding United States trade policy". It also indicated that "investment this year will also be held back by the completion of the Hebron oil field platform, which has supported construction activity in the region for the last decade". It further indicates that "expansionary fiscal policy, on the other hand, will support economic activity in Canada, allowing GDP growth to accelerate to 2.2 per cent in 2018." Japan, China, South Korea and Hon Kong experienced a sparked of economic growth. The economy of Japan is projected to experience GDP growth rate of 1.1 per cent in 2017 after 3.0 trillion yen (0.5 per cent of GDP) infrastructure investment programme. This decision is to facilitate the hosting of 2020 Olympic Games. China remains the second largest economy after United States. According to OECD economic outlook (2017) China's economic growth is "projected to hold up in 2017 and 2018". The OECD relates to this anticipated growth as the cause of initiatives on infrastructural investment. Also, "integration into global value chains was instrumental in China's spectacular economic growth in recent decades." Growth in China's

economy is projected to remain strong but with likely risk in the economy. Infrastructure investment is expected to keep GDP growth around 6⅛ percent in 2017 and in 2018 (OECD Economic outlook). South Korea, in their present political uncertainty experienced a decline in GDP growth in the latter part of 2016. Consumer confidence increase in exports, high engagements in businesses created a pace for future growth in the Korean economy. A supplementary budget is needed to support growth in 2018 and 2019. Korea has joined 16 free trade agreements since 2003, promoting its integration in global value chains (OECD economic outlook 2017).

Russia, after the collapse of the Soviet Union and the recent international sanctions drove the economy into deep recession, which subsequently posed a clear sign of collapse. The recovery of the Russian economy still remains fragile, and much is expected to revamp the slippery economy. The proposed economic recovery plan is effective monetary policy, funding of large public investments in education, innovations and infrastructure, institutional reforms, reforming the tax system, investing the gains from higher oil prices in education and infrastructure. The implementation of the above recovery plan would help to diversify the economy, create more jobs and increase the overall GDP. The Russian occupation in the Crimea region followed by international sanctions on the region has deteriorated the economy and caused a decline in most of the sectors of the nation's output and growth rate. When there is ease of sanctions in the Russian economy, much economic growth would be yielded in the years ahead.

In the Middle East and North Africa, the Global Economic Prospects (June 2017) has it that growth in the region was "projected to fall from 3.2 per cent in 2016 and 2.1 per cent in 2017." The fall in the growth is as a result of the impact of low oil prices on the region's key oil exporters and fiscal consolidation. Another reason for the fall in the economic growth is the current geopolitical conflicts in most part of Middle East and terrorist attacks in Egypt, Jordan and Saudi Arabia. This has created fear among investors and even citizens from any of the mentioned countries move to safer zone areas to invest their accumulated wealth.

2.4. Convergence Of Market

The word convergence can be defined in different ways depending on the field it is referred to. The idea that markets converge goes back to Rosenberg (1976) and his study of the emergence and evolution of the United States machine tool industry (Stieglitz, 2002). However, the word convergence is more prevalent in the IT field where it is used basically to refer to the combination of two or more technologies in one device (Bhasin, 2017). Next mark (2019) sees market convergence as the orchestration of information technology, marketing and design required to ensure that companies present an integrative, clear and interactive message across all the media they use.

According to Broring (2010), market convergence is of different types and can occur at different levels. On the type, Broring (2010) identified convergence induced by inter-industry networks or technology platforms. To Broring, market convergence can also emerge from customer demand regulations and industry standards. Regarding the levels, the author (Broring) argues that market convergence can be seen at the product-market level, at the firm or at the industry level. Despite these diverse levels, the later is considered the most profound level. Convergence of market could come with some benefits and setbacks.

2.5. Global Competition and Emerging Countries

Competitiveness is said to be a complex multidimensional concept which basically reflects the favorable position of the national economy, mainly in the field of international trade and, at the same time, its ability to strengthen this position. The national competitiveness is an ability of a state to not only attain high rates of economic growth, but to also ensure a steady increase in real wages, and the promotion of domestic firms on the world market represented by high-performance clusters that can ensure an improvement in the quality of products and services that enable the creation of new jobs in the future (Kharlamova & Vertelieva, 2013). Pillania (2009) posits that the 21st century has increasingly been categorized as a century for hyper-competitiveness and emerging markets, particularly Brazil, Russia, India, China, and

South Africa (simple known as BRICS in short) are increasingly becoming the drivers of the world economy.

Straders (2018) have identified some few characteristics of emerging countries. These are:

- A lower-to-middle per capita income.
- Regulatory bodies as well as a market exchange for investment and a common currency.
- Higher socio-political instability and volatility.
- Higher rate of growth compared to developed countries.
- Emerging markets are often vulnerable to swings in commodities.
- Emerging markets generally have lower industrial production compared to advanced economies.
- Mature capital markets that pose some risk to investors (Sraders, 2018).

Without a doubt, emerging countries are becoming home to most MNCs. According to the World Economic Forum (2016), emerging economies have gained some kind of ground in wealth or resources and influence over the past few decades, bringing about some kind of radical changes in the global economic landscape. The rise of their multinationals, the so-called emerging market multinationals (eMNCs), is an illustration of this phenomenon. “Today, about 30% of the firms in the Fortune Global 500 list (based on revenues) are enterprises from emerging markets; less than 10% of their value, ten years ago. True, China leads the trend: with 98 companies, it ranked in 2015 second in term of number of Fortune 500 firms - not that far from the US (128), and much more than the number 3, Japan (54). However, a wide array of emerging economies is represented: 14 countries of the above are mentioned in the E20 grouping, although sometimes with only one entry in the list. The new players come mainly from China, Korea, India, Brazil, Russia, Mexico and Indonesia” (World Economic Report, 2016). The Morgan Stanley Capital International Emerging Market Index as reported by Straders (2018) observed that 24 developing countries qualify as

emerging markets - including Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates**.** The index follows the market caps of the companies on the countries' stock markets. As a result, the GDP growth rates of the emerging markets countries have dramatically outpaced those of more developed economies, lifting millions out of poverty and creating new middle classes—and vast new markets for consumer products and services ((Epure & Bondrea, 2016).

There is an ongoing debate on whether emerging coutnries/ markets would continue to serve as the engine of the world economy. In the view point of the Swiss Re institute (2019), "emerging markets will remain the growth engine of the global economy over the next decade and as part of that, we expect the shift of economic power from west to east to continue. Our projections indicate that together, the emerging economies will account for 60% of global growth in 10 years' time. The seven largest emerging markets will contribute up to 42% of global growth, and China alone 27%. Emerging market growth has moderated in recent years as economies have matured and become more exposed to external cyclical factors. In this context, we expect quality rather than speed of growth to be a differentiating factor among the emerging markets themselves".

2.6. Motive For the Expansion of the MNC

Twarowska & Kąkol (2013) opined that "economic globalization is the process during which businesses rapidly expand their markets to include global clients. Such expansion is possible in part because technological breakthroughs throughout the 20th century rendered global communication easier. Air travel and email networks mean it is possible to manage a business from a remote location. Now businesses often have the option of going global, they assess a range of considerations before beginning such expansion". Without a doubt, MNCs go global or engage in the expansionist derive for varied reasons. When a firm invests abroad it is pursuing a set of different aims and, for this reason, motivations are certainly not unique. Franco, Marzetti,& Rentocchini, 2008). Zekiri (2016) identified two broad motives that do compel MNCs to go global.

The motives are **proactive motive** which constitutes profit and growth goals, managerial motives, foreign market opportunities, economies of scale and tax benefits. The other motive is **reactive motive** which also constitute competitive pressures, domestic market: small and saturated, overproduction/excess capacity, unsolicited foreign orders, extend sales of seasonal products, and Proximity to international customers/psychological distance (Zekir, 2016, 11). Dunning (2000) who provided the most cited taxonomy of FDI motivations (Franco, Marzetti,& Rentocchini, 2008) also advanced four broad motives for the expansion of the MNC. These motives are market seeking, resource seeking, efficiency seeking and strategic resource seeking. For the purpose of this thesis, only **market seeking, assets seeking and resource seeking motives** of the MNC is discussed, and the literature on this discussion is drawn largely from Dunning's 1993 publication on 'Multinational Enterprises and the Global Economy' as it constitutes the starting point for all following elaborations on this issue (Franco, Marzetti,& Rentocchini, 2008).

Market seeking motive, under this kind of motive, MNCs are motivated to invest in other counties with the aim of supplying the host country or other neighbouring countries with goods and services (Sonmez, 2013). Dunning (1993) advanced some reasons to explain why firms usually embrace this motive. In the view of Dunning (19993), owing to the sheer size of a foreign market, or projection into the future growth of that market, international firms may enter into the market with the aim of generating profit. That is to claim that fundamentally, international firms would enter into foreign market purposely to exploit the new market. According to Dunning (1993), new products and services that are introduced into foreign markets would ideally need to suit the needs, trends and possibly the taste of that mew market thus warranting the direct presence of the firm in the local market. Dunning also put into perspective the possibility of following the main clients abroad so as to retain business. The main clients could have established themselves in the foreign countries, and the possibility of following them is necessary for the focal firm. In short, under this motive, MNCs invest in a foreign country to exploit the possibilities granted by markets of greater dimensions. Various reasons (besides that of searching and exploiting new markets) lead to this choice by the MNEs: to follow suppliers or customers that have built foreign production facilities, to adapt goods to local needs or

tastes and to save the cost of serving a market from distance ((Franco, Marzetti,& Rentocchini, 2008).

Resource seeking motive, another motive for the expansion of the MNC. Under this motive, the expansion of the MNC is explained by the motive of the MNC to seek resources and production factors at lower costs. (Dunning, 1993, Sonmez, 2013). These resources such as sugar cane, tobacco, oil, bauxite, timber, rubber, etc could be fundamental to the survival of the MNC. In this category the main aim of the MNEs is that of acquiring particular types of resources that they are not available at home (like natural resources or raw materials) or that are available at a lower cost (such as unskilled labor that is offered at a cheaper price with respect to the home country) (Franco, Marzetti,& Rentocchini, 2008). Quite apart from the listed resources, MNCs may expand with the reason of making maximum use of cheap labor, skills and capabilities which is usually abundant in developing countries. This according to Dunning (1993) corresponds to the resource seeking motive of the MNC.

Asset seeking motive, besides the motive of resource and market seeking, MNCs expand with the motive of seeking assets. As opined by Meyer (2015), the concept 'asset seeking' was first proposed by Dunning (1993) and Narula (1995). In consonance with this motive, the purpose of the MNC expanding is that of acquiring and complementing a new technological base rather than exploiting the existing assets. The motivations of the firm investing abroad are that of gaining access to knowledge or competences that are not inside the firm (Sonmez, 2013, Franco, Marzetti,& Rentocchini, 2008). As argued by Zanfei (2000), this kind of motive is built on the foundation that MNCs expand purposely to establish internal and external networks for innovation.

Efficiency seeking motive is another reason that explains the reason for the expansion of the MNC. According to this motive, MNCs go abroad to increase efficiency by using different production factors, market structures, experienced and skilled domestic workers in host country, policies, customer preferences, etc. (Sonmez, 2013). Efficiency seeking is seen as gaining from the differences of factor endowments, cultures, institutional arrangements, and economic systems etc. Often this implies concentration of production in a limited number of places. Companies that are seeking efficiency are often experienced, large and diversified multinational

enterprises (Hedin, 2018). As also argued by Dunning (1993) and cited by Franco, Marzetti,& Rentocchini, (2008), efficiency motives are considered to occur especially in two occasions: in the first case firms "take advantage of differences in the availability and costs of traditional factor endowments in different countries", while in the second one they "take advantage of the economies of scale and scope and of differences in consumer tastes and supply capabilities.

It can be deduced from the brief discussion on the analysis of the motive for the expansion of the MNC that usually, MNCs as suggested by Narula & Dunning (2000) and cited by Sonmez (2013) move with these four motives to make an investment decision in a country: using natural resources in host country, using cheap labor stock, entering new markets and expanding their market, improving production technologies, developing new technologies and obtaining new strategic assets (Sonmez, 2013). Thus, developing countries could be attractive to MNCs based on these motives. It is instructive to also note that in line with the discussion above, technology and innovation is fundamentally part of these motives, hence, a discussion on this is considered in the next sub-section.

2.7. Technology and Innovation

As observed by UNCTAD (2018), we live at a time of technological change that is unprecedented in its pace, scope and depth of impact. Before considering in detail the concepts technology and innovation, it would be ideal to provide some basic definitions of the terms.

Technology. The term 'technology' as perceived by some scholars is inherently an abstract concept which is difficult to interpret, observe and evaluate (Blomstrom and Kokko, 1998). As a result, the term has been variously defined by scholars. According to, Bigelow (1829) who is often credited with coining technology in its present-day usage, technology (at that point in time) was understood to consist of principles, processes, and nomenclature of the more conspicuous arts, particularly those which involve applications of science, and which may be considered useful, by promoting the benefit of society, together with the emolument of those who pursue them (Caroll,2017).

In the view of Kumar et al (1999), technology consists of two core components. These components are the physical and the informational components. The physical component constitutes items such as equipment, products, blueprints, tooling, techniques, and processes. The informational component on the other hand consists of know-how in marketing, management, skilled labor,, production, quality control, reliability, and functional areas. (Kumar, Kumar, & Persaud, 1999).

Innovation. The definition of innovation has been an area of interest both for researchers and for different industries as it is considered that the way the innovation has been defined within an organization will determine what activities will take place within the company and those that will be outsourced (Popa, Broda & Boldea 2010). To define innovation as argued by the University of Pretoria, “one might return to the Latin Origin of the word. Innovation or 'innovare', which means 'to make something new', leads to several conclusions of its deeper meaning. The Latin concept is quite cryptic and can be better understood when divided into three parts. To make something new one has to: • Generate or realise a new idea (invention and creativity),

• Develop this idea into a reality or product (realisation),

• Implement and market this new idea (implementation)”.

But for the purpose of this thesis, the following definitions are considered. Damanpour (1996), sees innovation as a process that includes the generation, development, and implementation of new ideas or behaviors. Further, innovation is conceived as a means of changing an organization, either as a response to changes in the external environment or as a pre-emptive action to influence the environment. Hence innovation is here broadly defined to encompass a range of types, including new products or services, new process technologies, new organizational structures or administrative systems, or new plans or programs pertaining to organizational members (Damanpour, 1996). According to Baregheh et al, innovation is the multi-stage process whereby organizations transform ideas into new/improved products, service or processes, in order to advance, compete and differentiate themselves successfully in their marketplace (Baregheh et al, 2009).

From the brief definitions of innovation and technology, it may be argued that both terms have played some critical roles in as far as the development and growth of

the MNC is concerned. Technology and innovation as opined by Lamba and Malhotra (2009) is the vital force in the modern form of business, and through technology, the world economy has not only revolutionized but globalized. According to Malhotra (2009), technology in particular is seen as a vital force in the modern form of business globalization and technological advancement has aided a lot in the creation and the growth of the MNC. Mahotra (2009) further posits that technology has eliminated the barriers to free trade and this has enabled businesses to grow.

It is also acknowledged by a large body of literature in Economics and Business that (MNCs) are essential channels for the international diffusion of new technologies, and despite the growing importance of arm's-length transfers of technology, i.e. those that involve two unaffiliated parties, the process of international diffusion of technology is predominantly conducted within the framework of MNCs (Mustapha & Mendi, 2015). That suggests that MNCs "are increasingly considered to be the main conduit of new technologies between countries. It is generally assumed to possess the advanced technology (production technology, marketing and management technique, etc) they tend to exploit in many host countries and, consequently, other firms, particularly the host country's, expect to learn from this technology so as to get the necessary strength to face the foreign competition" (Hamida &Piscitello). The transfer of this technology and innovation can be in both tangible and intangible forms. Royalties and licenses fees are examples of the intangible forms and exported goods for further processing from the MNC represents clear examples of the tangible transfer of technology (Hovhannisya, 2012).

Fazal & Wahab (2014) advanced that since the world has evolved as a global village, new technological innovation has become crucially important for sustaining market competition and gaining competitive edge without recourse to size or sector and the MNC have served as the vehicles through which technology is transferred globally. Tihanhi & Roath, (2002) as reported by Fazal & Wahab (2014), and Dunning (1993) also argued that the core objective of the MNC has always been the transfer of technology from the advance to the less developed economies, and the MNC do not only try to own or manufacture but as well manage most of the world technologies. In his research work on "The Impact of MNCs' R&D Centers Aggregation Level on Regional Innovation Capability", which was based on the panel data of seven economically developed regions in China from 2006 to 2015, Xiong (2019), concluded

that “from its direct impact, active establishment of multinational companies R&D centers and their agglomeration would positively influence regional technological innovation ability. From the indirect effect, the aggregation of R&D center of MNCs improves regional innovation ability through the flow and agglomeration of talents, research and development funds (Xiong, 2019, 1).

Without a doubt, there are other researchers and academics that are of the opinion that even though MNCs are the parents of technology and innovation, MNCs do usually keep it to themselves or even introduce inappropriate technologies. After conducting research into the activities of the MNC and the Nigerian economy, Eluka et al (2016) made the following observation:

“The MNCs by way of purporting to help industrialize Nigeria create a branch-plant economy of small inefficient firm’s incapable of propelling overall development. The local subsidiaries exist only as enclaves in the host economy rather than as engines of self-reliant growth. These corporations intentionally and deceitfully introduce inappropriate types of technologies that hinder indigenous technological developments. These MNCs employ capital intensive productive techniques that cause unemployment. All these prevent the emergence of domestic technologies. Before the advent of the MNCs, in Nigeria, there were so many assorted types of technologies all over the country, though they were of low scale type. The MNCs rather than help them grow knocks them off systematically through the introduction of more advanced technologies. The MNC both retain the control of the most advanced technology and do not transfer it to Nigeria or the rest of the developing economies at reasonable price” (Eluka, Uzoamaka, & Ifeoma, 2016).

In a sharp contrast, Zhao & Zhang (2014), after using a sample of 178 industries in china in the 1990’s concluded that the transfer of technology perhaps are the most essential benefit that could be brought by the MNC to host economies. However, those benefits are not guaranteed, automatic, or free. In the view point of Zhao & Zhang (2014), “technology may be transferred to host developing economies through (a) MNCs’ backward and forward linkages with indigenous firms and customers; (b) imitation of domestic firms by “learning by watching” in the presence of MNCs; (c) induction of trained workers and managers by MNCs; and (d) relocation of MNCs’ R&D activities to host economies” (Zhao & Zhang (2014).

CHAPTER THREE

INVESTMENT CHANNELS OF MNCs

In this chapter, an attempt has been made with the support of the academic literature to look at the significance of the MNC. From the literature, it is palpable that even though the MNC is now part and parcel of the global economic system, the attainment of consensus by academics on the role of the MNC in contributing to the development of host states remains a mirage. The literature also indicates that the global economy is changing with most countries in Asia emerging as economies that can compete favorably with the advanced states.

Though the debate on the impact or the essence of cross-border investment among policy makers, academics and international organizations have been shaped by ideological dogmas, it is a cliché to say that international investment is one of the visible consequences of globalization. It may also be one of the surest ways through which the world is propelled through closer economic integration, a situation which has led to the incorporation of the third world countries into the global system of production, finance and trade thus making these third world countries both market participants and partners for trade, growth and development rather than colonial dependencies. As globalization is fully in force consequently increasing the interconnectedness of the economies of nations thus curtailing the destabilization of the world by means of economic entanglements, Multinational Corporations (MNCs), usually referred to as the parents of FDI are predominantly becoming the vehicles of this interconnectedness. Arguably, MNCs are one of the key actors in the global economy and thus considered to be the engine of growth, prosperity and development. Traditionally, the operations of these MNCs will require some kind of cross-border investments which is usually through diverse channels. Prominent among the investment channels of MNCs are: Portfolio investment, Foreign Direct Investment (FDI), Turnkey Operations and Management Contracting. These various channels are briefly discussed below:

3.1. Portfolio Investments

Without a doubt, globalization has created the opportunity for financial capital to seek opportunities abroad with less difficulty and portfolio investment provides a clear example. Having said that however, it is worth noting that portfolio investment is a terminology that does not usually have a single definition. For instance, according to the central bank of Cyprus, "portfolio investment includes transactions in shares, bonds and money market instruments (e.g. treasury bills) between residents and non-residents, which are usually traded in organized financial markets or stock exchanges, provided they do not fall under the foreign direct investment category"(Cyprus, 2019). In a statement made by the World Bank (2018), Portfolio investment covers transactions in equity securities and debt securities. To UNCTAD, portfolio investment "includes investments by a resident entity in one country in the equity and debt securities of an enterprise resident in another country which seek primarily capital gains and do not necessarily reflect a significant and lasting interest in the enterprise. The category includes investments in bonds, notes, money market instruments and financial derivatives other than those included under direct investment, or in other words, investments which are both below the ten per cent rule and do not involve affiliated enterprises. In addition to securities issued by enterprises, foreigners can also purchase sovereign bonds issued by governments" (UNCTAD, 1999, p. 4).

It can be argued from the various definitions that primarily, portfolio investment covers a wide range of assets such as government bonds, corporate bonds, treasury bills, stocks, and mutual funds among others. Traditionally, this kind of investment is usually shown on the balance of payments (BOP) of states. This may be attributed to the fact that portfolio investment forms part and parcel of the capital account of states.

Portfolio investment allows investors from one country to buy financial assets in another foreign land. This can be attributed to the fact that the investor is not usually required to directly manage the investment. In business, the mitigation of risk is the ultimate aim of every investor and portfolio investment helps a lot in the mitigation of risk. This is because in portfolio investment, investors usually diversify the risk by investing in multiple countries. Also, to be able to benefit from sound economic conditions, portfolio investors normally go for short term investments and then

turnaround to withdraw their investments during periods of unfavorable economic conditions.

According to some scholars, Portfolio investment comes with benefits. Arguably, it ensures higher risk-adjusted return. Through this kind of investment, investors are presented with the opportunity to diversify their portfolio assets. It is worth noting that in the global stock market, countries have diverse prevailing factors that drive their stock exchange. Therefore, if the factors in one country is unfavourable, possible, the conditions in other countries may be better. Therefore, this kind of investment could create an opportunity for investors to reduce risk by way of investing in different countries. Portfolio investment also creates an opportunity for the preservation of capital.

Despite the good side of portfolio investment, it may have some drawbacks. Though this kind of investment is said to be capable of reducing risk, it is not always the case. For instance, during the 2008-2009 financial crisis, almost every stock fell substantially and assets that had previously performed differently as backed by history from each other almost performed the same. That, therefore, suggests that the popular held view that portfolio investment is the surest way of reducing risk in business is not always the truth.

3.2. Turnkey Operations

In the light of globalization processes, turnkey operations are another investment channels or entry modes of the MNC. It is usually ideal in countries where FDI is less prevalent. Turnkey operations "are a type of collaborative arrangement in which a firm handles all operation and details for the host country client, mainly building complete, ready to operate facilities" (Vassileva&Nicolov, 2016, P. 299). Basically, the term refers to a contract under which one company, usually a foreign company agrees to be fully engaged in the designing, constructing and equipping of a business, manufacturing, or service facility and then handover the project to another company or the purchaser in a host country when it is ready for operation. Primarily, this is done for remuneration. In other words, in turnkey operations, a firm pays a contractor and then tasks the contractor to design and construct new facilities and as

well train personnel to export its process and technology to a host country. Usually turnkey operations or projects as business arrangements or agreements are carried out between business entities in the developed world and their counterparts in the developing countries. This is to create an opportunity for business entities in the developing countries to thrive and prosper as it stands to benefit from the technology, know-how and advanced production strategies from their counterparts in the advanced world. Traditionally, industrial companies are well noted for utilizing this strategy. The most notable type of turnkey operations is a franchise.

As an investment channel of the MNC, Turnkey operations has the potential of reducing risk and uncertainty. This can be attributed to the fact that the business model has already been proven to be efficient. This therefore suggests that this kind of business may be difficult to collapse or fail. Despite that, turnkey operations could be very restrictive and may also be costly to acquire. Also, through the turnkey project, a firm may end up giving its vital information to other firms.

3.3. Management Contracting

Management Contracting as asserted by Teo (1999) "originated in the United States (USA) in the 1940s.In the UK, the concept of fee contracting was used in 1928. However, ‘pure’ MC gain recognition only in the 1960s when it was utilised in the "Horizon Project" in Nottingham, a large and complex cigarette manufacturing factory." In its simplest sense, management contracting refers to the process in which one company supplies another company with some kind of managerial expertise for a specific period of time. In management Contracting, "the management contractor is appointed by the client at an early stage in the project, to join the professional team to contribute his expertise in construction, market intelligence, planning and cost" (Teo, 1999, p. 2). Management contracting can be likened to outsourcing an agreement where the services of a third party is hired to manage a project.

This kind of business arrangement ensures the maximization of both time and resources, provides expertise and ensures the continuity of business. However, on the flip side, it may lead to the damage of a company's reputation. Also, surrendering ones

business entity to an alien or outside company may lead to the loss of control of the business.

3.4. Foreign Direct Investment (FDI)

Foreign Direct Investment is one of subsets of international factor movements. Without a doubt, it is "a key driver of international economic integration" (OECD, 2008, p. 3). FDI just like any other term in the social sciences is difficult to define or measure with precision. This difficulty is well summed up by Desai (2009) when he asserted that FDI "used to be the case that "production or distribution might move abroad, [while] the loci of critical managerial decision-making and the associated headquarters functions were thought to remain bundled and fixed. Now firms are unbundling headquarters functions and reallocating them worldwide. The defining characteristics of what made a firm belong to a country—where it was incorporated, where it was listed, the nationality of its investor base, the location of its headquarters, are no longer unified nor are they bound to one country" (Alfaro, 2014, p.6). Despite the difficulty, some scholars, national agencies and international organizations have made conscious attempts to define FDI. According to Cohen, FDI "is a financial process associated with companies operating and controlling income-generating facilities in at least one country outside their country of origin"(Cohen, 2007, p. 36). To Klaus Meyer "Foreign direct investment (FDI) is defined as investment in equity to influence management operations in the partner company" (Mayer, 1998, p. 125). In his view, Ragazzi (1973) considered FDI to be "the amount invested by residents of a country in a foreign enterprise over which they have effective control" (Ragazzi, 1973, p. 471). According to Moosa (2002), FDI is defined as the "the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country)" (Moosa, 2002, p. 1). Alfaro (2014) acknowledged the difficulties in defining or measuring FDI. Despite the acknowledgement, he became convinced that "Foreign direct investment is characterized by the ownership of assets in one country by residents of another one with the purpose of controlling those assets" (Alfaro, 2014, p. 5). As observed earlier, FDI has also been defined by international organizations. Comprehensively, the International Monetary Fund (IMF)

“fifth edition of the Balance of Payments Manual (BPM5) defines FDI as a category of international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise, and a significant degree of influence by the investor on the management of the enterprise. A direct investment relationship is established when the direct investor has acquired 10 percent or more of the ordinary shares or voting power of an enterprise abroad. 6. Direct investment comprises not only the initial transaction establishing the FDI relationship between the direct investor and the direct investment enterprise but all subsequent capital transactions between them and among affiliated enterprises resident in different economies” (IMF, 2003, pp. 6-7).From the definition provided by the IMF, it can be said on authority that FDI is said to take place when a foreign investor owes about 10% of a company or the company’s capital. “But the IMF recommends using this percentage as the basic dividing line between direct investment and portfolio investment in the form of shareholdings. Thus, when a non-resident who previously had no equity in a resident enterprise purchases 10% or more of the shares of that enterprise from a resident, the price of equity holdings acquired should be recorded as direct investment. From this moment, any further capital transactions between these two companies should be recorded as a direct investment” (Duce, 2003, p. 3)

The United Nations Conference on Trade and Development (UNCTAD), a body of the United Nations (UN) secretariat that was formed in 1964 and tasked with the core mandate to deal with trade and investment related issues has also provided an encyclopaedic definition of FDI. In its 2012 world investment report, UNCTAD defined FDI “as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities” (UNCTAD, 2012, p. 3). The

definitions provided by the IMF and UNCTAD is re-echoed by the Organization for Economic Co-operation and Development (OECD) in its glossary of statistical terms. According to the OECD, "Foreign direct investment (FDI) is the category of international investment that reflects the objective of a resident entity in one economy to obtain a lasting interest in an enterprise resident in another economy" (OECD, 2001). It can be deduced from the various definitions of FDI as provided above there is no unanimity regarding the exact meaning of FDI. Despite that however, there are some generally accepted features that can be said to run across the definitions. First, it is palpable from the definitions provided that FDI is primarily a cross-border investment. Secondly, the various definitions emphatically emphasize that FDI fundamentally involves the situation in which a resident entity domiciled in one economy or country obtains a lasting interest in a company, enterprise or an entity domiciled in another country. Thirdly, the definitions all seem to also lay emphasis on ownership or control. As highlighted in most of the definitions, the investor wields a reasonable amount of influence in the management of the entity or enterprise. As noted by the IMF, the direct investor usually acquires 10% or more of the equities or the voting rights of the enterprise. That clearly suggests that FDI can take place without all the production factors belonging to foreigners. From the definitions provided, it is worth stating in categorical terms that there is a clear-cut dichotomy between FDI and portfolio investment (portfolio investment discussed earlier). Whilst investors undertaking portfolio investments primarily purchases securities and other financial assets in foreign lands, and do not actively manage the investment or wield control over the business, FDI in sharp contrast primarily allows investors to purchase a direct business entity in a foreign land. It as well allows the investor to wield some form of control over the business entity.

The integration of international capital markets as observed by UNCTAD and the IMF has created a platform for the global growth in FDI flows above world trade and economic growth. The IMF for instance observed that FDI "global inflows grew by an average of 13 percent a year during 1990-1997" (IMF, 2004). Also, figures provided by UNCTAD (2018) indicates that world FDI inflows in the year 1990 stood at 204, 905, 0 million USD. By the year 2000, the figure increased to 13,358,613.3 billion USD. However, the inflows suffered some sharp decline between 2000 and 2004 and then reached 18, 938, 15.2 billion in 2007. After years of some inconsistent

inflows between 2008 and 2014, the world inflows reached a record high of 19, 213, 05.5 billion in 2015. It is worth stating that during the same period, both developed and developing economies experienced some high inflows but the inflows to the developed economies was quite sıgnificant. This is illustrated in **figure**

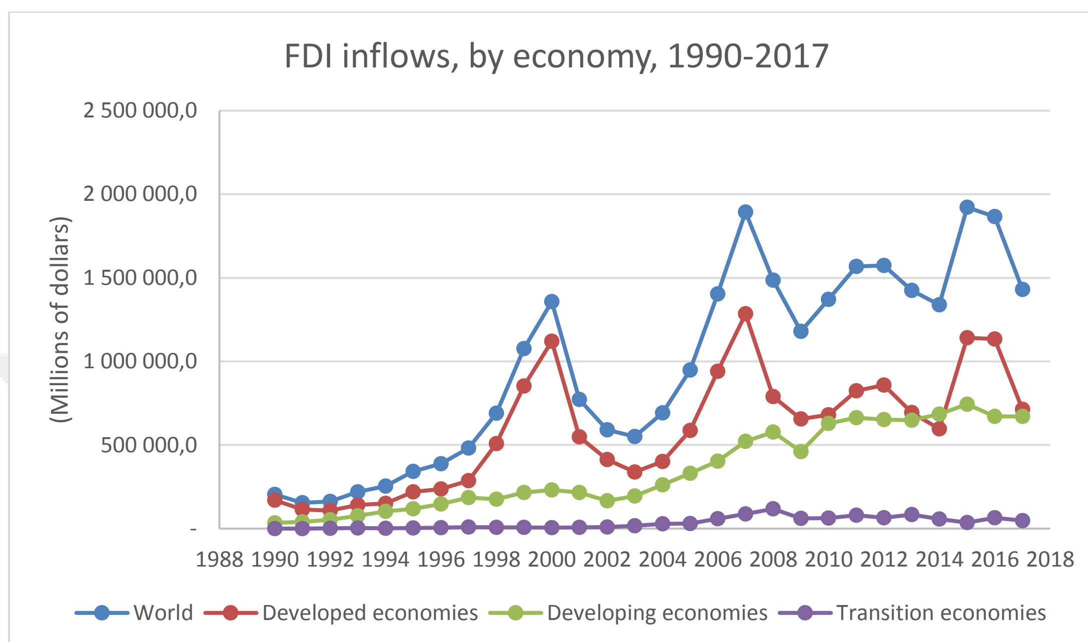

Figure 1. FDI Inflows by Economy Between 1990 and 2017

Source, UNCTAD, 2018.

Figure 1 also suggests that the global inflows of FDI is not only limited to the developed or developing economies but extends to transition economies though the amount or quantity of inflows is not that significant. The high inflows of FDI to developed countries and the less inflows to both the developing and transition economies can largely be attributed to the variation in the conditions in those countries. For instance, in estimating the effects of the determinants of foreign direct investment (FDI) in 29Chinese regions from 1985 to 1995, Cheng and Kwan (2000) noted that large regional market, good infrastructure, and preferential policy are the catalyst in attracting FDI. (Cheng & um K. Kwan, 2000, p. 379). Also, Sun (2002) noted that FDI does not come "without pre-conditions, nor can host countries reap all the benefits of FDI automatically. Just like any other businesspeople, foreign investors are driven by profits. They go to places where the net profitability is highest, not inevitably where costs are lowest; and they transmit best practice when it is advantageous for them to do so, not necessarily when host countries need it. Hence, national governments have

an important task to create the pre-conditions for beneficial FDI to enter and play its catalyst role in the host countries' economic development"(Sun, 2002, p. 1). He therefore suggested that political and macroeconomic stability, sound policies and regulatory framework, and adequate social and good infrastructure are necessary for a country to attract FDI. To a large extent, most of the conditions suggested as the magnets that can attract FDI are to a large extent lacking in most developing economies, especially Africa. Fundamentally, a Multinational company seeking to invest in other countries would have to undertake decisions. Paramount among the decisions that is expected to be taken is the mode of entry. Harzing (2001) identified some industry, firm or home specific factors that may influence the mode of entry. To him, "first, a company has to choose between non-equity entry modes such as exporting through agents and licensing, and equity-based entry modes, in which the local enterprise is either partially or wholly owned,… second, if an equity mode of entry into a foreign market is chosen, the issue of whether to acquire an existing local firm (acquisition) or to set up a completely new plant (greenfield investment) has to be decided" (Harzing, 2001). The various modes as in the case of Greenfield, mergers and acquisitions are highlighted below.

3.4.1. Mergers

FDI can also be in the form of mergers. FDI is in the form of mergers when "the assets and operation of firms from different countries are combined to establish a new legal identity" (Calderón, Loayza, &Servén, 2004, p. 6). To Sudarsanam (1995), "a merger takes place when two or more corporations come together to contribute and share their resources to achieve common objectives. The shareholders of the combining forms often remain as joint owners of the combined entity". According to Gaughan (2002), a merger is a process in which two corporations combine and only one survives and the merged corporation ceases to exist. Sometimes there is a combination of two companies where both the companies cease to exist, and an entirely new company is created". The definitions provided attest to the fact that when two companies merge, the acquired company under normal circumstances ceases to exist thus becoming part and parcel of the acquiring company. In today's global business environment which has highly become so competitive, this kind of

investment is a friendly one and has become the predominant form of FDI in the last couple of years. It is used as an international growth strategy. Mergers can come in varied forms. The prominent ones are;

Horizontal mergers; it is a kind of business consolidation which occurs when firms operating in the same or similar industry combine together primarily to create value. Fundamentally, this kind of merger occurs when firms are intending to exploit cost-based synergies, gain competitive advantage, increase both market power and diversification and as well make efficient use of economies of scale. A notable example of horizontal merger is the stock for stock merger between Compaq and Hewlett-Packard (HP) in 2011 creating an opportunity for HP to become one of the global leaders in Information Technology (IT).

Vertical mergers; this kind of mergers takes place when firms previously buying from or selling to each other come together under one ownership. In other words, this type of mergers involves buyers and sellers coming together. This type of measures takes place to ensure that efficiency along the supply chain is increased. An example of this kind of mergers often held is the buying of PayPal by E-Bay in2002.

Concentric mergers; Concentric merger is another type of merger. It is like horizontal merger as they both target larger market share. It is the merger of firms that do not have any mutual relationship. In this type of merger, there are two firms that are in a similar or related market but do not however offer the same products. That suggests that in this kind of merger, even though companies sell to the same customers, they usually sell different products. Companies engaged in this kind of merger engage in complementary activities.

Conglomerate mergers; The merger between the American Broadcasting Company and the Walt Disney Company in 1995 is one famous example of this kind of merger. This kind of merger primarily refers to the combination of firms or companies that are involved in unrelated business activities or geographical locations. Conglomerate mergers can take two forms; pure and mixed. With the pure form of mergers, the firms involved in this kind of mergers have nothing in common. But with the mixed form, the companies involved in this primarily looks for market extension.

As noted above, mergers come in varied forms and each could be with its core benefits, both the companies and the host states. However, generally, among the benefits that may be associated with this kind of investment include, mergers help firms to grow and expand their business activities. This growth and expansion can be achieved by the firm through its strong presence in the domestic and foreign markets. As firms grow, they directly and indirectly contribute to the development of states through employment generation and the payment of tax. Through mergers, a firm can enjoy economies of scale. This especially applies to industries with high fixed costs.

3.4.2. Acquisition

Mergers and acquisition are usually used interchangeable. Despite that, the two concepts have some differences. Acquisition is said to be the process where in which a firm takes control of majority stake in the acquiring firm and the acquiring firm continues to exist. Usually, in acquisition, it is usually a large firm that absorbs a smaller firm. Acquisition is one of the mechanisms used in situations when it is difficult to enter a foreign market. Few but prominent examples of acquisitions include yahoo's acquisition of Tumbler for around 1.1 billion USD in 2012 which gave yahoo a greater web content presence. Another classical example is the acquisition of Google by Android in August 2005 for 50 million USD. Acquisition can also be in forms including;

Hostile acquisition; in this type of acquisition, the acquisition is usually carried out against the wishes of the management or the board of directors of the target company. The bidder therefore goes directly to the shareholders. Due to their unwillingness to make way for the firm to be acquired, the management of the target company usually do not give out much information of the company thus creating some kind of challenges to the acquiring firm. Examples of this kind of acquisition is the acquisition of a German firm, Mannesmann AG, for $202.8 billion in 1999by Vodafone and the acquisition of Time Warner by AOL in the year 2000.

Friendly acquisition; As the name suggests, in friendly acquisition, both the management and the board of directors of the target company are in support of the acquisition of the firm by another firm. Also, in this type of acquisition, the owners

both companies support the terms and conditions of the transaction. From the literature, one can say on authority that mergers and acquisitions have been part and parcel of global investments.

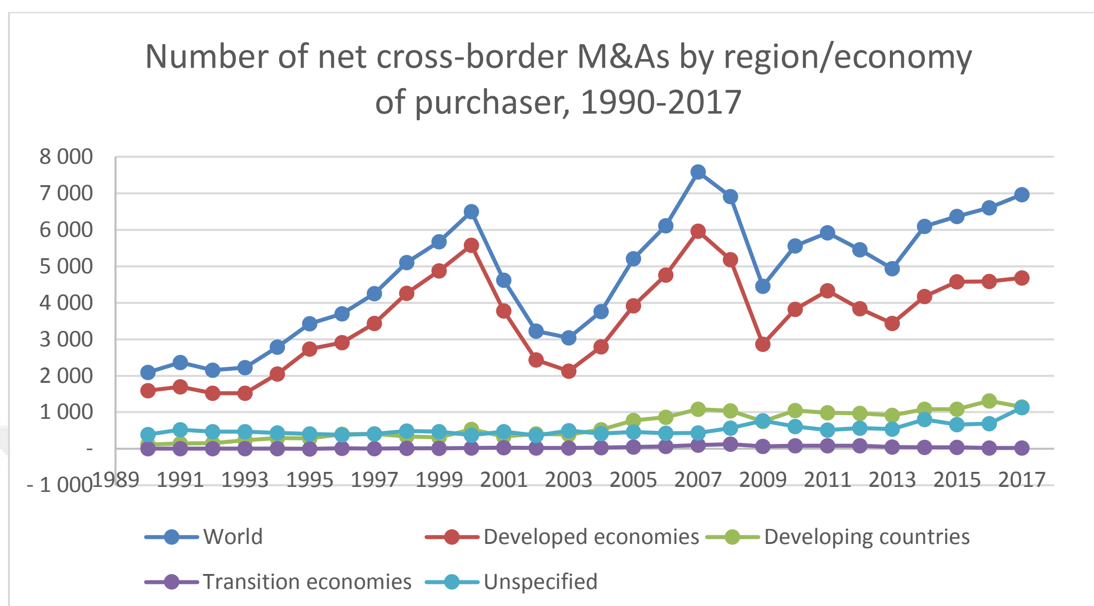

Figure 2. Number of Net-Cross Border MERGERS and Acquisition by Economy Between 1990 and 2017

Source UNCTAD, 2018

For instance, according to the record of UNCTAD (2018) as can be seen in **figure 2**, globally, from the period of 1990 to the year 2000, there was some consistent rise in cross-border Mergers and acquisitions. There came however a sharp decline after 2000. But from 2004, there was a gradual increase up to the year 2007 in which cross-border mergers attained a record figure of 7582. After 2007, cross border mergers and acquisitions began to decline and have since been fluctuating. It is interesting to note that just like in the case of the greenfield investment, during this period, (1990-2017) the developed economies accounted for a chunk of this mergers and acquisitions, whilst both developing and countries in transition accounted for less.

FDI in general “has grown dramatically as a major form of international capital transfer over the past decade. Between 1980 and 1990, world flows of FDI-defined as cross-border expenditures to acquire or expand corporate control of productive assets-have approximately tripled” (Froot, 1993, p. 1). Also, from the period of 1990 up to the year 2017, as shown in **figure 1**, FDI inflows has also grown tremendously despite the absence of consistency. Based on the dramatic growth and world flows of FDI, one

can say on authority that FDI at large can have some effects on the host states, be it positive or negative. According to some scholars, FDI leads to an increase in employment in host countries. FDI is argued to be one of the fundamental means through which both formal and informal employment opportunities in host countries are increased. An empirical research for example conducted by Craigwell (2006) on the Caribbean region suggests that an increase in the flow of FDI in the region has led to a corresponding increase in employment generation Ajayi (2006) also opined that FDI is capable of creating employment opportunities through three different ways: "direct employment for operations in the domestic economy, the second is through backward and forward linkages. Employment is created in enterprises that are suppliers, subcontractors or service providers, the third way in which employment is created is through the growth in the economy that leads to further employment generation in the economy" (Ajayi,2006, p. 15).In the view of development economist, the creation and the increase in "employment has a feedback on economic growth, such that an increase in labor incomes would expand domestic demand, which in turn would lead to sustainable GDP growth and reducing risks of excessive reliance on uncertain foreign markets"(Adeyemi, 2018, p. 42). The example of a service MNC in Ghana, MTN Ghana Limited would provide a clearer picture. The company began operation in Ghana with a staff capacity of twenty. As contained in the company's annual report of 2017, the firm as at 2013 had a staff capacity of 1, 628 and 1, 185 in 2017. According to the report, the firm has provided 500,000 direct and indirect job opportunities in the country. This the company achieved through a robust ecosystem of partners and suppliers. The firm had 270,000 airtime retailers who trade with MTN Ghana products and 89, 748 mobile money agents. It is therefore clear that the presence of FDI in host countries as in the case of the Ghana example has contributed to the provision of both direct and indirect employment opportunities.

In the opinion of some other scholars, FDI contributes to the development of human capital. In most countries, especially in third world countries, the requisite human capital needed to bring about growth and development is lacking. However, through FDI, this gap can be filled by way of FDI creating educational opportunities in host countries. This can serves as one of the surest means through which people can build or increase their personal skills and thus contribute to the effective development of their societies and states at large. It is also argued that FDI contributes to income

increment. Generally, it is a known fact that the presence of FDI in a host country has the potential of not only creating a platform for more jobs, but in comparison with indigenous firms, it also crowns the creation of jobs with the provision of higher wages (Ramstetter, 2014). The provision of such jobs and its accompanying higher wages also has the potential of leading to an upsurge in national incomes thus contributing to economic growth. Notwithstanding, FDI is also argued to have contributed to an Increase in exports. FDI is said to be the major engine of exports as it has helped to increase the export base of most developed, developing and transition countries' economies. This is usually achieved through the provision or the creation of economic zones. Using the Granger causality test to examine FDI and export growth with the Macedonian economy as the case study, Sekulosca (2017) observed that there is a positive correlation between FDI and the export performance of the Macedonian economy. He further opined that FDI inflows could be the surest catalyst in the promotion of export through two fundamental ways, directly and indirectly. In the direct way, it is achieved through the export of MNCs subsidiaries and indirectly, which is through a mechanism in which the host countries own firms are engaged in the supply of linkage and improved access to world markets.

More so, FDI facilitates investment in key areas. FDI is also noted to be in a position to promote investment in certain key areas of the host state's economy. Most of the FDIs especially those in the manufacturing and extractive sectors are noted for this development. FDI in such sectors usually invest in areas such as health, education, power generation and the provision of portable drinking water. A classic example is the case of Guinness Ghana Breweries Limited, a manufacturing MNC in Ghana. The company has a flagship programme dubbed “Water of Life”. This project has benefited almost all the ten regions of Ghana. According to the company, this ‘water of life’ project has provided portable drinking water to about 600, 000 Ghanaians. This is a sharp increase from 60,000 as captured in the company’s 2007 report. In a similar way, AngloGold Ashanti, an extractive MNC in Ghana has a flagship programme dubbed AngloGold Ashanti Malaria programme (AGAMal). AGAMal, a malaria prevention initiative. According to AGAMal’s official website, (2018), this initiative was launched in 2005 after the company realized that on average 6,800 cases of malaria was reported at the Obuasi Mine Hospital. Of the said number, 2,500 were mine employees. This led to work and school absenteeism. The Ghanaian president in 2006

opened the Obuasi Malaria Control Centre. Within 13 months after into its operation, malaria was reduced by 50%. Since its inception, the programme has been extended to the Northern, Upper West and Upper East regions of Ghana with an office in WA. By the close of 2013, the AGAMal had benefited over two million Ghanaians. Without any fear of contradiction, the provision of health and water are critical areas that needs the attention of every state.

Therefore, having MNCs contributing to the enhancement of those areas is a step in the right direction. In this modern era, technology has become vital and no developing country can catch the train the train of development without prioritizing technology. However, FDI is considered largely to be the vehicle that transports technology to developing countries. In other words, FDI is the major source of technology transfer. However, it would be appropriate to state that there is no scholarly agreement regarding the impact of FDI towards the development of host states. There are others, especially proponents and sympathizers of the dependency school of thought who argue that the presence of FDI in host countries, especially in developing countries largely contributes to underdevelopment. Prominent dependency gurus such as Amin (1972) argue that for developing countries to develop, they would have to cut their ties with the developed ones. Amin (1972) like other dependency theorist see FDI as a dependency syndrome with the internationalization of capitalism as the core cause. Primarily, FDI is regarded as the means through which the resources of the dependent countries are usually exploited by the advanced ones.

In the view of some scholars inclined to the structuralist school of thought, FDI leads to the loss of tax and revenue. As countries compete to attract FDI, the use of tax incentives is one of the means through which host countries, especially developing countries adopt to incentivize foreign investors. However, most host states lose so much in revenue as a result of this tax incentives. For example, according to a 2014 research study by Action Aid Ghana, the country lost about 90 million USD between 2011 and 2012 in the mining sector due to the stability agreement. In a recent development, Ghana's parliament in May 2018, ratified a deal to give a tax concession of 259 million USD to AngloGold Ashanti. "Per the agreement AngloGold will enjoy a $40 million tax waiver on royalties. Also, AngloGold Ashanti is no longer required to pay $56 million in capital allowances due in 2020 and 2021, while a custom import duty to the tune of $161 million has also been waived". (Akwa, 2018). Depending

heavily on donor support on one hand and giving tax concession on the other hand to giant MNCs is not only unfortunate but suicidal. It is also argued by some neo-Marxist that the presence of MNCs in host countries creates an opportunity for the exploitation of labor. MNCs in host countries are usually accused of exploiting the labor in those countries. Contrary to the generally held notion as held by Ramstetter (2014) that MNCs do pay higher wages to their employees in developing countries, Akorsu& Cooke (2011 noted that even though the wages paid workers of MNCs in host countries are not usually below the minimum wage of such states, such wages are usually low. They also maintained that, MNCs are usually engaged in gender-based discrimination and poor application of labor standards. Some scholars have equally noted that even though MNCs are said to be paying their workers very well in developing countries, such employees share less in the profits of the MNCs.In the view of some scholars, FDI Kills local manufacturing companies. MNCs do enter into foreign markets with some kind of advantages, especially in technology. Some MNCs also enter the local market with new or advanced products creating some kind of unhealthy rivalry or competition between them and the local firms. Since most of these local firms are infant industries, it becomes difficult for them to withstand the competition thereby forcing them out of business.

From the foregoing discussion, it is palpable that one of the visible effects of globalization is the interconnectedness among global markets. As a result of globalization, international investment has increased exponentially with the MNCs serving primarily as the catalyst. Without a doubt, firms are persistently in search of new growth opportunities. In tandem with this motive, firms domiciled in the developed or emerging economies have shown enthusiasm of investing beyond the borders of their home countries. As a result, international investment has created convergence between different economies of varied strength. Though the academic literature is divided regarding the impact of such investments especially in the host or developing countries, the facts presented in this chapter points to the fact that generally, international investment could always be on the rise. Also, in tandem with the literature reviewed in this chapter, it is also palpable that MNCs have diverse investment channels with FDI and portfolio investment as the notable ones. Without a doubt, investors or firms are not charity organizations, and as a result, the aim of every investor or the firm is to maximize profits and minimize loses. But clearly, each of

these investment channels could have its own pros and cons. It therefore behoves on the investor or the investing firm to critically examine the various investment channels and then adopt the one that would be suitable at any given time or situation. Deducing from the facts presented in this chapter, it can be argued that in recent decades, FDI specifically has being on the rise and countries round the world, notably developing countries of which Ghana is part have adopted diverse ways to attract FDI. The persistent perception among the leadership of these countries is that the presence of FDI could help them achieve their economic aspirations. In the chapter that follows, a conscious attempt is made to look at a brief overview of the economy of Ghana. An attempt is also made look at FDIs and the case of Ghana.

3.4.3. Greenfield Investment

Greenfield investment is one the categories of FDI. This category of FDI is completely at variance with brown field investment. Greenfield investments "include constructing a new non-existent facility in a country" (Bayar, 2017, p. 19). To the UNCTAD training manual on statistics for FDI and the operations of TNCs 2009, "greenfield FDI relates to investment projects that entail the establishment of new entities and the setting up of offices, buildings, plants and factories from scratch. It is a kind of working capital. The direct investment enterprise established through Greenfield can be a branch, an unincorporated enterprise or an incorporated enterprise" (UNCTAD, 2009, p. 97). The European Commission also considers Greenfield investment to be the investment that "captures the creation of a firm from scratch, or the extension of existing production capacity by non-resident investors" (EU, 2017). Current example of Greenfield investment as provided by the E.U, 2017 is when Jaguar Land Rover, the UK-based subsidiary of India-based Tata Group, announced that it would invest 1.3 billion euro to build a new manufacturing plant in Slovakia. Other notable examples are the establishment of a new manufacturing plant by Hyundai Motor Company in Czech Republic in 2006 and the announcement of Toyota Motor Corporation in 2015 to set up a new manufacturing facility in Mexico slated to open in 2019. Arguably, Greenfield FDI is the preferred form of FDI. Figures provided by UNCTAD as shown in **figure two** is suggestive of the fact that FDI projects in the form of greenfield has been increasing. At the global level for instance,

the number of FDI projects in the world in the year 2003 was around 9,496. By the year 2007, the figure had reached 12,977 and then rose to 17,211 in the year 2008. However, between 2009 and 2015, the number of global Greenfield projects have not been consistent and mostly reducing. But from the year 2016 up until 2017, there appeared to be some relative consistency. The figures as illustrated in the same table two suggests that developed economies are the preferred destinations for Greenfield FDI. From the year 2003 up to the year 2017, the increase in the number of this kind of FDI to the developed economies has been consistent, only declining a bit in the year 2009. However, the scenario in the developing and transition economies is highly at variance. For instance, it can be deduced from **figure 3** that whilst the FDI greenfield projects to developed economies had seen some increase and relative stability between 2016 and 2017, greenfield projects to the developing economies during the same period has seen some sharp decline, moving from 7610 in 2013 to 6005 in the year 2017. Even though the number of projects of Greenfield FDI to transition economies has not been very much significant ranging between 1184 (it's highest) and 548 (it's lowest), the figures equally suggests that transition economies just like developing economies are very little recipients of Greenfield FDI. As noted earlier, this could be partly attributed to the kind of prevailing conditions in both transition and developing economies.

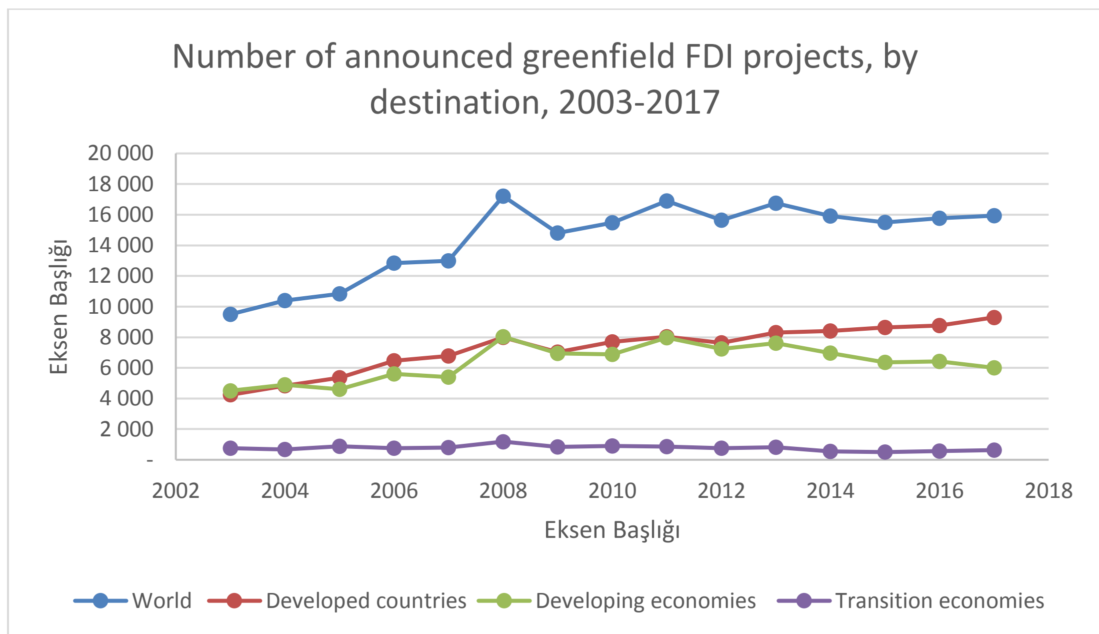

Figure 3. Number of Announced Greenfield Projects by Destination Between 2003 and 2017

Source UNCTAD, 2018.

From the brief definitions provided the fundamental feature that can be associated with Greenfield investment is that such as investment requires the setting up of a new structure which could be in the form of plants, factories or other tangible structures. Without a doubt, such a move comes with cost but could be beneficial to both the investing firm and the host state. Basically, to the investing firm, "Greenfield is an attractive mode of FDI for a firm in the foreign market because it can choose the site that meets its needs best, start afresh, and acclimate itself to the new business culture at its own pace" (Cheng, 2006, p. 203). More so, "human resources are hired and trained directly according to the organizational culture of the company and subsequent aspects related to work practices are easier to manage. The implementation of new products and technology works faster and the TNC has total control of decisions"(Marinescu, 2016, p. 298).There are other reasonable numbers of benefits, especially to the host state that are said to be associated with this kind of investment.

These benefits as the European Union observed includes "an expansion of the existing capital stock in an economy, it directly generates additional economic activity. As such, it holds particular potential for supporting the European Commission's goal of generating jobs and growth in the short run. It may also lead to international technology transfers – depending on the sector in which the FDI takes place –thereby potentially increasing productivity growth" (E.U, 2017, P. 1). The assertion of the EU is corroborated by the empirical research findings of Harms and Meon, 2017 who conducted research into the growth effects of Greenfield investment, and mergers and acquisitions. Despite the perceived positive effects of Greenfield investment on economic growth, this kind of investment could also have some bad sides, especially to the foreign investor. This kind of investment could for example be an extremely high-risk investment especially in countries that are in perpetual political and economic shambles.

Also, in some countries, governmental regulations or laws may put MNCs at a disadvantage particularly in the short term. This would therefore make it impossible or highly difficult to make profits on their investment. More so, from a critical financial perspective, this kind of investment would require some human amount of capital for a start. That therefore suggests that firms without the necessary financial capacity may find it difficult to undertake this kind of investment. Again, there is also the "potential difficulties with the adaptation of products to customer needs, as the knowledge of the

market has yet to be gained as well as uncertainties about demand trend” (Marinescu, 2016, p. 298).

CHAPTER FOUR

GENERAL BACKGROUND TO THE STUDY IMPACT OF FOREIGN DIRECT INVESTMENT ON GHANA'S ECONOMY

4.1. Ghana at a Glance: Historical, Political and Economic Perspective

Ghana is a country located in the West of Africa, and share boundaries with Togo in the East, Ivory Coast in the West, Burkina Faso in the North, and in the South is the sea known as the Gulf of Aden. Ghana lies in the middle of the West African coastline between three degrees west longitude and one-degree east longitude (Gocking, 2005). Before Independence, Ghana was formerly known as Gold Coast. The Portuguese who came to Ghana in the 15th Century found so much gold between the rivers Ankobra and the Volta that they named the place Mina - meaning mine[6]. The Portuguese were the first people to arrive in Ghana. Later, the British also came around the 19th Century and remained in the country until March 1957. Due to the abundance of Gold in the country, the British changed the name as "Gold Coast" to Ghana. Ghana attained independence on 6thMarch 1957 from the British. With a population of about twenty-five (25) million people, Ghana has sixteen (16) administrative regions in Ghana. Ghana has forty 46) languages, and English is serving as the only official language of communication.

Politically, "Ghana's post-independence history has been characterized by long periods of military rule, marked by gross human rights abuses (Boadi, 2004a). Ghana's post-independence political environment was marked by long period of military coups and military rule except for the following periods of republics and leaderships:

[6] www. Ghanaweb.com (Accessed on 12.07.2019)

Table 1. Constitutionally Elected Leadership From 1957 to 2000

PERIOD	LEADERSHIP	REPUBLIC
1957 - 1966	H.E Dr. Kwame Nkrumah	1st Republic
1969 - 1972	H.E Dr. Kofi AbrefaBusia	2nd Republic
1979 - 1981	H.E Dr. HillaLimann	3rd Republic
1993 - 2000	H.E FLt. Jerry John Rawlings	4th Republic

From **table 1** above, it can be deduced that, except for the first Republic under the leadership of His Excellency, Dr. Kwame Nkrumah (1960 – 1966) and fourth Republic under the leadership of His Excellency, Flt. Lt. Jerry John Rawlings (1993-2000) were unable to survive for up to three years without being toppled in a military coup.It must be noted that, Jerry John Rawlings succeeded in a military coup in 1979 and handed over the power to a civilian leader, Dr. HillaLimann. He then came back in a successfully plotted coup in 1981. Rawlings returned back to the political scene through the Provisional National Defence Council (PNDC) after overthrowing the democratically elected government of the third republic in 1981(Brenya et al, 2015). Ghana is currently under the fourth Republican leadership with six (6) successful democratic elected governments from 1992 to 2016 without intervention of military coup de tats. This practice and the stability nature of the country positioned Ghana as the most peaceful country in Africa.

Economically, since the period of pre-colonial and post-colonial era, Ghana's economy is supported by cash crops production and the availability of abundant natural resources. The major economic natural resources in Ghana are gold, industrial diamonds, manganese, bauxite, timber, rubber, hydropower, petroleum (discovered since 2008), silver, salt and limestone. Historically as one of Ghana's main exports, alongside gold and forestry products, cocoa has been central to the country's debates on development, economic reforms, and poverty alleviation strategies since independence in 1957(FAO,2018). Various administrations in the country – including the colonial one – extracted cocoa revenues as taxes to secure a significant share of government revenues (Rimmer, 1992). Killick (2008) cited that "Kwame Nkrumah, the first president in power from 1957 to 1966, used cocoa reserves and revenues to promote an import substitution industrialization strategy". It is also significant to note that "subsequent governments in the late 1960s and in the 1970s continued in the footsteps of Nkrumah's development policy, and retained a large role of the state in

managing the sector for the benefits of the entire economy instead of switching to market–oriented policies to access new sources of taxation (Killick, 2008). After Ivory Coast, Ghana is the second largest producer of cocoa in the world. Natural resource dominates the Ghana's economy are gold, petroleum and cocoa exports. Cocoa accounted for 70% of total Ghana's exports (There are other cash crops besides cocoa. These include cotton (grown in the three northern regions of Ghana), vegetables (such as orange, lemon, lime, grape, ginger, avocado, mangoes, banana, guava and pineapples are cultivated on a large scale), cashew (mainly in smallholding), and coconut (mainly in smallholding). Ghana's post-colonial economy was flourishing as a result of the growing production in the cocoa sector. After independence, the first president of Ghana Kwame Nkrumah took external funds to set up agricultural industries to process primary commodities for export, using the revenues from cocoa as security (Darko, 2015). This economic policy could not work out as a result of the decline of cocoa prices in the Mid 1960s. This woefully affected the economy and brought between the period of 1960-66 until the president of the first republic was overthrown. Since then, the economy has experienced high volatility in the 1970s and early 1980s due to political instability (Darko, 2015). In addition, the economy of Ghana nearly collapsed in 1983 when inflation hit 123% because of the devastating drought which reduced the production of main agricultural commodities and other export crops such as cocoa (Anyemedu, 1993). The economy was managed by military leadership under Jerry John Rawlings until 1992, when the nation returned to democratic rule contested by a quite number political party. Despite the ups and downs of the post-colonial economy, presently, Ghana's economy is performing better than other countries in the sub-Saharan Africa.

Agricultural sector is the mainstay of Ghana's economic development. Agriculture is the main driving force behind Ghana's economy, accounting for approximately 42% of the country's GDP and employing 54% of its work force[7]. The agricultural sector is noted as a smallholder activity. About 90% of farm holdings are less than 2 hectares in size, although there are some relatively large farms and plantations, particularly for rubber, oil palm, banana, pineapple and coconut and to a lesser extent, rice, maize and cocoa (MoFA,2018). What is more advantageous in this sector is the fertile nature of the country's land which is suitable for agricultural

[7] https://www.gipcghana.com/invest-in-ghana/sectors/70-agriculture-agro-processing.html

production. The total land area of about 23.9 million hectares includes about 14 million hectares of agricultural land area, out of which 6.3 million is under cultivation, (MoFA,SRID 2016).Over the years, the Government of Ghana has been implementing policies and programmes to promote growth and development of the agriculture sector, these include the Ghana Shared Growth and Development Agenda (GSGDA I and II), Food and Agricultural Sector Development Policy (FASDEP I and II) and Medium Term Agricultural Sector Investment Plan (MoFA,2018). The agricultural sector is composed is five sectors. These include: Crops, Cocoa, and Forestry, logging and, livestock and fisheries.

In the Mining sector of Ghana's economy, mining in Ghana traced its existence long before the arrival of colonialism. Ghana is endowed with abundant natural resources. The most notable areas in the mining sector are gold, diamonds, bauxite and manganese But gold dominates the others and contributes over 95 per cent of Ghana's total mineral revenue. This sector is viewed as an important segment of the Ghanaian economy and has a significant role in the development of the country's economy. The mining sector plays an important role in the Ghanaian economy as it attracts more than half of all foreign direct investment (FDI), generates more than one-third of all export revenues, is the largest tax-paying sector in the country and makes a significant contribution to gross domestic product (GDP) and employment creation[8]**.** In the early 1980s, the country's mining production was State Owned, but as a result of the economic policy known as the Economic Recovery Program, Ghana used this opportunity to attract foreign investments and then pushed towards the idea of privatization and state divestiture. Ghana launched an economic recovery program (ERP) in 1983 aimed at reversing a protracted period of serious economic decline characterized by lax financial management, inflation rates well over 100 percent, and extensive government involvement in the economy(IMF,1998). As this program was effectively implemented, "the sector is now largely foreign owned, but the Government of Ghana still holds a minority (10 per cent) free carried interest in most of the main active large-scale mines[9]. These reforms have also contributed to increased investments in the sector by local and foreign firms and provides prospects in other areas of the economy. The sector, therefore, presents strong potential to generate

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8 http://ghanachamberofmines.org/
9 www.ghanachamberofmines.org

substantial revenue and employment enough to provide more visible economic benefits to the country and improved livelihood for the population (Akabzaa 2007). In addition to this, “since the revival of the industry, its structure has remained the same with the sector credited with bringing in significant amount of foreign exchange earnings, employment generation, mineral royalties, employee income taxes payments etc (Akabzaa & Darimani, 2001).

Ghana is currently the top gold producer in Africa. This means that, Ghana is the first gold producer in Africa. In the oil sector, the discovery of oil in Ghana in 2007 was perceived by Ghanaians and other parts of the world as a potential advantage towards economic prosperity. Oil was first discovered in Ghana in 1970 by the US firm AgriPetco off the coast of Saltpond (Asafu-Adjaye, 2010). Further steps to its drilling was discouraged since, it was not enough for commercial purposes and was therefore abandoned.

In year 2007, Ghana discovered another crude oil off the shores of its Western Atlantic Coast. The first area discovered within this location in 2007 is known as the Jubilee field. In 2009, there was another discovery of large quantity of oil in another field known as the Tweneboa field. Like many other developing countries, "the discovery of treasures such as petroleum in developing countries has often not only triggered jubilation but also ignited optimism of economic emancipation"(Acquah-Andoh, et al, 2018). This has always not met with optimism expected. Citizens bow down their hopes in the oil discovery, especially when drilling starts and much expected is less than what could have achieved. Countries such as Nigeria, who have maintained invariably the same Gross National Product (GNP) for 40 years despite its massive petroleum resource endowments and others such as Iran and Venezuela with minus one per cent growth rate for over 33 years have been cited as examples in scholarly writing (Gylfason, 2001).

Ghana is on the same path of “resource curse”. The country has the best quality oil in Africa, drilling is ongoing in large quantities but the country as at 2014 at the verge of economic collapse and was ultimately rescued by IMF. The oil discovery prompted politicians to use the intended oil revenue as campaign messages and promises in areas of education and infrastructural developments. "In anticipation of these revenues, fiscal discipline was given low priority", and "consequently public

finances deteriorated, public investment decreased, debt returned to unsustainable levels, current account deficits ballooned, foreign exchange reserves dwindled, the exchange rate depreciated rapidly, interest rates rose, inflation rose, and real GDP growth declined"(www.wider.unu.edu). Oil production was temporarily halted when Ghana had a maritime border dispute with Cote d'Ivoire in the offshore oil production site, until it was settled by the International Tribunal for the Law of the Sea (ITLOS) in September 2017 where the ruling was in favor of Ghana. Current oil production is expected to increase by more than 200 percent by 2019, which will contribute to Ghana's economic growth and its foreign exchange reserves[10].

4.2. The Nexus Between FDI and Economic Growth in Ghana

Until recently, FDI was not fully embraced by African leaders as an essential feature of economic development, reflecting largely fears that it could lead to the loss of political sovereignty, push domestic firms into bankruptcy due to increased competition and, if entry is predominantly in the natural resource sector, accelerate the pace of environmental degradation (Dupasquier&Osakwe, 2005).Every nation be it developed or developing nation measured its economic growth in line with inflows and outflows of foreign direct investments. Therefore, such nations uphold the potential areas of FDI as important instruments of its economic growth. These potential areas of FDI that supports the economic growth varies from one country to another.Economic growth viewed as increase in real Gross Domestic Product (GDP). Ideally, economic growth is measured by the amount of inflows of a country's FDI that contributes to its GDP growth. Economic growth in every country is measured by the country's GDP in one year. Foreign direct investment (FDI) has been identified to contribute significantly to the economic growth of many countries (Joshua et al, 2008). Foreign direct investment plays an important role in driving economic growth through increase in productivity levels (Antwi, et al, 2013). There is also a widely shared view that FDI's determinants affects economic growth both positive and negative depending on its current inflows and outflows. The boom of FDI flows to developing countries since the early 1990s indicates that multinational enterprises have increasingly considered these host countries to be profitable investment locations (Nuunenkamp,

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[10] www.export.gov/article(Accessed on 04.08.2019)

2002). Most researchers and policy makers have viewed the importance of FDI in developing countries in the same manner of approach and perception. The importance of FDI can be seen through the channels of technological transfer, new skill, knowledge and techniques in firms' production process, increase rivalry among the production for local and foreign producers, export and import as well as economic growth (Levine, 1997; Borensztein et al., 1998).According to Coy and Comican (2014): FDI serves as a critical factor that helps to propel the economic growth of every nation. The past decade has witnessed a dramatic increase in FDI to developing countries; with FDI increasing from $24 bn (24 percent of the total foreign investment) in 1990 to $178 bn (61 percent of the total foreign investment) in 2000(World Bank, 2001).Foreign direct investment (FDI) is a vital ingredient in achieving sustained growth of any nation, including Ghana (Asiamah M. et al,2019).

In Ghana and many other developing nations, FDI serves as an important engine of economic growth and development. FDI in Ghana contributes in the area of technological transfer, acquisition of new skills, acquisition of knowledge and techniques in the production process by firms and opening competition between the local firms and foreign firms. Local manufacturers or workers are not well trained to produce or manufacture using modern technology. Through training of workers and learning by doing, FDI raises the skills of local manpower thereby increasing their productivity level (Dupasquier & Osakwe, 2005). Constant flow of FDI's in developing countries are steps taking in resolving their economic crisis, turned deficit accounts into surplus accounts. Revenue accruing from inflows and outflows of FDI's is pushed into other developmental areas, infrastructural projects and policy initiatives in the areas of education, health and agricultural initiatives as in the case of Ghana. Ghana's economy is largely depends on FDI's inflows. Tracing back to 1976 and 1979, Ghana recorded negative FDI inflow of 18,260.970USD and 2,800,000USD respectively. These figures, practically, deteriorated the economy within the period from 1979 to 1983 where Ghana recorded the over 123 per cent inflation rate; the highest ever in the history of Ghana. When FDI inflows is recorded at a lowest point of economic management in a country, it affects the general performance of the economy. Economic performance and economic growth of country is influenced by the inflows of the potential sectors of the economy that contributes the overall GDP of the host country. Ghana's economy has been divided into eight (8) main groups

according to the Ghana Investment Promotion Centre in the aspects of allocating foreign direct investment inflows from the sources of both direct and indirect injecting of money by the various foreign investing nations into these sectors (Yaboah et al, 2018). The contribution of each sector's FDI had a greater impact on the overall GDP and the growth of the economy. In addition, the impact of FDI on economic growth is more contentious in empirical than theoretical studies, hence the need to examine the relationship between FDI and growth in different economic dispensations (Ayanwale A.B, 2007).

The rationale behind this research is to make comparative analysis between FDI and Ghana's economic, and how FDI affects the economic growth of Ghana. Ghana belongs to sixteen UN organizations and twenty-four other international organizations, including the Commonwealth, and a signatory to World Trade Organization (WTO). Ghana is also a member of the Economic Community of West African States (ECOWAS).

Ghana ranked 78th in the world by GDP. In the long-term, the Ghana GDP is projected to trend around 60.00 USD Billion in2020, according to econometric models. It is one of best performing economy in Africa. Ghana's economy accelerated to 8%1 in 2017, driven by the mining and oil sectors, making it the second-fastest growing African economy, trailing only Ethiopia[11].

Ghana's growth target for 2019 is 7.4% mainly to be driven by the industry sector, especially oil, gas and mining[12]**.** The position of Ghana in West Africa makes it the center to do business in Africa because of the boundaries it shares with Togo in the East, Ivory Coast in the East, and Burkina Faso in the north. With stable political atmosphere; first most peaceful country in West Africa and 5th in Africa. According to the Ghana Investment Promotion Center (GIPC) report for 2019 "The country has developed into an established business destination for investors seeking a conducive business environment, committed and progressive government-private sector participation, political stability, transparent regulations and a dynamic private sector ready for partnerships".

[11] www.worldbank.org/en/country/ghana/overview (Accessed on 19.08.2019)
[12] www.imf.org/en/News/Articles/2015/09/14/01/49/pr15159(Accessed on 19.08.2019)

Ghana is currently rated as the best destination of doing business in Africa and the reasons for such rating is previously discussed (above). Following its current position such as the discovery of the best quality oil in Africa, largest gold producing country in Africa, second largest producers of cocoa in Africa and the most peaceful and stable political environment in West Africa. In 2014, Ghana sought for IMF bailout in 2014 as "growth decelerated markedly in 2014, to an estimated 4.2 percent, driven by a sharp contraction in the industrial and service sectors"**.** There were large fiscal and external imbalances ignited by severe electricity outages, and this has put the country's prospects at risk. The year2014 also saw a significant depreciation of the Ghana's currency (Cedi) against the major foreign currencies. The currency depreciation and the economic slowdown led to a substantial contraction of imports and a narrowing in the current account deficit, which nonetheless ended at 9.2 percent of GDP[13].

The rationale of behind this research is to find out if there is actual a strong bond of relationship between FDI and economic growth .Area to look at is the cause of economic crush of Ghana's economy in 2014; whether FDI has impact in the growth of GDP figures.

4.3. Objectives of the Study

Comprehensively, the study of this research will assist in evaluating the impact of foreign direct investments on Ghana's economic growth, especially, at the time Ghana is at its peak of economic prosperity. Carrying out this research the following specific objectives shall be considered;

1. To ascertain the and analyse FDI pattern in Ghana
2. Determine short and long run effects of FDI inflows on economic growth.
3. To demonstrate whether FDI correlates with economic growth in Ghana

[13] www.imf.org/en/News/Articles/2015/09/14/01/49/pr15159(Accessed on 19.08.2019)

4.4. Research Questions

The discrepancies regarding the inflow of foreign direct investments into countries have raised questions on various researches and studies on this phenomenon by policy makers. It is therefore imperative that this study focuses on examining the impact and relationship between FDI and economic growth on a particular case of Ghana: the country described as the best destination of doing business in West Africa and Africa as a whole. For this research to be successful, the following research questions are posed to be answered in the study:

1. What is the pattern of FDI inflows in Ghana?

2. Is there a short and long run effect of FDI on economic growth in Ghana?

3. Is there an equilibrium relationship between economic growth and FDI in Ghana?

4.4.1. Research Hypothesis

Based on the main research objective elaborated above, this study will test empirically the

Following hypothesis

1. H_0 = There is no causal link between FDI and economic growth in Ghana.

   H_1 = There is a causal link between FDI and economic growth in Ghana.

2. H_0 = FDI Inflows exert no significant impact on economic growth in Ghana.

H_1 = FDI Inflows exert significant impact on Economic growth in Ghana.

4.5. Statement of the problem and the Significant of the Study

The shared core features of FDI and economic growth, for the past years had been a subject of debate but not a controversy, because researchers and policy makers

brought out clear pros to support the relationship between the two(FDI and Economic growth) and their impact on economic growth and development of a country. Generally, FDI is a propelling instrument of measuring the success of a country's position on growth and the general performance of the economy. The overall benefits linked to FDI for developing economies are well documented ranging from its impact on macroeconomic growth and general welfare enhancing processes. In all developing countries, the most common benefits of FDI includes creating a competing environment between local and international firms, hence a process of ensuring international trade integration; this process will help trigger technology spill overs, help human capital formation, provide employment opportunities. FDI is generally viewed as a major stimulus to economic growth and development in developing countries. Besides, externalities, technology spill over, human capital formation, efficiency and productivity are the factors which indirectly increase GDP in economic growth. Chakrabarti (2001) and Borensztein, De Gregorio, and Lee (1998). Many academicians and researchers propounded theories and explanations that explained the relationship between FDI and economic growth as well as conditions that supports FDI inflows to developing countries and how it is link to the contribution of their economic growth. Since the period of 1960s, Ghana has been pursuing policies of trying to boost the performance of local firms by creating avenues for them to integrate with other foreign companies, initiating policies of attracting FDI's to add up to existing low capital and technology level. Therefore, the specific problem this study seek to address is what policy initiatives and incentives can Ghana do increase the FDI inflows into Ghana so that the impact of economic growth and development will be generally felt. This study also seeks to establish the relationship between FDI and economic growth through comparative analyses. That is to ascertain whether there is a strong connection between FDI and economic growth in Ghana.

Researchers through empirical findings revealed, Ghana with its endowed natural resources such as gold, diamond, bauxite, manganese and the discovery of large quantity of oil in 2007, should have been dominating with her rate of economic growth. Researchers also used the position of the country and the political stable atmosphere and concluded that, under no circumstance should Ghana decline in receiving FDI's in the country. Other researchers found no causality or equilibrium relationship between FDI and economic growth in Ghana. When there is growth in the

economy, the government receive praises for it and the vice-versa. It is therefore imperative for the government to initiate sound economic policies to promote the growth of FDI and economy. One of the main aims of the Government of Ghana in recent years has been to instil confidence among investors and create an attractive environment for foreign direct investment (UNCTAD, 2003). With the intervention of the government, Ghana recorded growth of FDI inflows in the past two decades. The inflow of FDI into the Ghanaian economy has been expanding rapidly over the 25 years as much effort has been done by the government to create a business-friendly environment to entice substantial investors (Evans, 2018).

The significance of this study is to determine how the inflows of foreign direct investment can support the economic growth of Ghana. This research will also give an in-depth knowledge using a thirty (30) year period data of Ghana's FDI and how it contributed to the GDP within the same period.

4.6. The Trends of FDI inflows into Ghana

The FDI inflows into Ghana has been subjected to the variations of performance in all sectors of the economy. Ghana has long, through modest, history of FDI[14].The setting up of G20 Compact with Africa (CwA) by the German G20 Presidency as intended to promote sector investment in Africa through reconstruction of the macro, business and financing frameworks of investments in Africa. Ghana is a member of the CWA group. CwA countries represent 32 percent of the total FDI stock in African countries, with Egypt, Morocco, Ghana, Tunisia and Ethiopia ranking as top five in CwA group[15].The trend of FDI inflows into Ghana highlights the contributions of the major sectors of the economy in other countries these investments comes from, its impact on the economy and the various policy mechanisms adopted in recent years to attract investors into the country.

The period of 1957 to 1960 under the leadership of the first president of the Ghana, Dr. Kwame Nkrumah, embarked on an industrialization drive economic

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[14] www.unctad.org/en/Docs/iteipcmisc14rev1_en.pdf (Assessed on 26.08.2019)

[15] www.compactwithafrica.org/content/dam/Compact%20with%20Africa/reports/monitoring%20report.pdf (Assessed on 19.08.2019)

ideology. This ideology was to promote industrialization at the expense of agriculture. This policy was also to encourage the use of primary products within the country. It was to promote industrialization at the expense of agriculture. It was also viewed as a way creating employment for the youth. In the 1970s, Ghana's FDI was mainly based on import-substitution manufacturing. Import-substitution manufacturing in an economy is trade and economic policy which pushes towards a system of replacing imports with domestic production. This policy failed because it was a one-sided policy centred on the cocoa production sector. With the fall in cocoa production, accompanied by the fall in world market price for cocoa, the government was faced with chronic foreign exchange problems and huge external debts as are result of financing this highly ambitious strategy (Aheto, 2014).

As a result, the only alternative for the then government to adopt was funding of economic programmes including FDI initiatives. Attempts to sustain this trend of aid and funding failed. Until 1983 when Ghana introduced what was known as Economic Recovery Programme (ERP). Ghana launched an economic recovery program (ERP) in 1983 aimed at reversing a protracted period of serious economic decline characterized by lax financial management, inflation rates well over 100 percent, and extensive government involvement in the economy[16].The ERP is credited with the enormous FDI flows to Ghana, particularly into the mining sector (Nikoi, 2015). Economic growth has been slower with slower upward and downward growth, and sometimes negative growth due to political instability and military system of driving the economy. Until 1992, when the FDI rose from $22.5 million to $125 million in 1993 after Ghana returned to constitutional rule. Ghana attracted $3.3 billion in FDI flows (down 7 per cent) on the back of fiscal consolidation and self-imposed reductions in government investment spending" and "until this past year, Ghana's diversified economy had facilitated a continuous increase in its FDI inflows since the 2000s (UNCTAD, 2017). A diversified economy implies that a shift from the reliance on export related revenue on one single commodity to multiple sources across all sectors of an economy and a growing market. In comparison, the diversification of Ghana's economy is also just as important because it implies the shift from the reliance on export revenue from a few primary export products like cocoa, gold and oil to a mix of value added products produced and sold domestically or abroad (Armah, 2016).

[16] www.imf.org/external/np/pfp/ghana/ghana0.htm. (Assessed on 19.08.2019)

FDI in Ghana has experienced a high level of growth with an estimated figure of 3.2 billion in 2011 and has attained the highest level of economic growth in 2012.

In terms of growth, Ghana's economy has "accelerated to about 5.3 per cent in 2000-03, rose further to 5.8 percent in 2004 and to an estimated 5.9 per cent in 2005[17]. Also, as reported by African Development Bank on Ghana's economic outlook that "the economy is projected to grow by 7.3% in 2019 and a slower of 5.4% in 2020 as the effects of increased oil production from new wells fade"

[17] www.oecd.org/dev/36740417.pdf (Assessed on 21.08.2019)

CHAPTER FIVE

EMPIRICAL ANALYSIS

5.1. Empirical Review: FDI and Growth

Several studies have analysed the relationship between FDI inflows and economic growth, but the issue is far from settled in view of the mixed findings reached. Though most studies find some positive correlation between FDI and growth, these results are not always significant. This chapter will therefore seeks to empirically examine the relationship between FDI and economic growth.

5.1.1. Studies That Find a Positive Impact of FDI on Economic Growth

Feldstein (1983) Investigated the relationship between domestic savings and capital movements of 17 countries between 1960-1979 using the variable Net FDI, GDP and domestic saving under OLS regression, concluded that Increase in domestic savings causes increase in domestic investment rates.

Oseghale and Amonkhienan (1987) also investigated between oil export, FDI in Nigeria and foreign borrowing in Nigerian using OLS regression with a variable span of 1970-2000, found that FDI has a positive effect on economic growth.

Smits (1988) investigated the relationship between export and import and FDI using 2 SLS (two stage least squares) of 30 countries and concluded that a Strong correlation among exports, GDP, FDI for low population areas.

Balasubramanyam et al (1996) introduce the idea that FDI might have different effects on growth in countries pursuing export-promoting versus import-substituting policies and find that FDI has a higher effect on growth in export-promoting countries. Balasubramanyam used cross-country data averaged over the period 1970-1985 for a sample of 46 developing countries and found that trade openness is crucial for acquiring the potential growth impact of FDI. Moreover, their estimates indicated that FDI has stronger effects on growth than domestic investment.

Borensztein et al (1998) who tested the effect of FDI on economic growth in a framework of cross-country regressions for 69 developing countries. Their results suggested that FDI was in fact an important vehicle 24 for the transfer of technology, contributing to growth in larger measure than domestic investment. Wang (2002) used data from 12 Asian economies over the period of 1987-1997 and found that total FDI inflows significantly affect economic growth.

Kohpaiboon (2003) using Thailand annual macroeconomic data for the 1970-1999 periods and adding export openness, showed that FDI is positively correlated with GDP growth in Thailand. Equally Marwah and Tavakoli (2004) examined Indonesia, Malaysia ,Philippines, and Thailand separately. Their results showed that FDI has a positive impact on GDP growth for all four countries. Mutenyo (2008), analysing whether FDI stimulate economic growth in Sub-Saharan Africa, found that FDI has a positive impact on economic growth but its significance reduced when he controlled for private investment.

Djurovic (2012) undertook a study to investigate the impact of FDI on economic growth in developing economies. Ordinary least square and deductive logic techniques were employed for the analysis for the period of 2000-2010. She reported an independent positive relationship between FDI and economic growth. She added that,FDI impacts positively on economic growth when combined with higher government spending.

Antwi et al. (2013) used annual time series data from Ghana for the period 1980 to 2010. They employed simple ordinary least square regressions and confirmed a positive and statistically significant relationship between FDI and growth

5.1.2. Negative or mixed result of FDI and GDP

Kentor (1996) using old regression among 79 LCDS countries to test the effect of FDI on economic growth concluded that there was a negative effect between the two. Equally, Aitken and Harrison (1999) argue that there is no significant positive relation between FDI and economic growth. Carkovic and Levine (2002; 2005) did an inspiring work on importance of FDI in accelerating economic growth. Using panel data from 72 countries including Ghana as well as the Generalized Moment Method (GMM) panel estimator they observe that, FDI inflows exert a dependent effect on growth which is contrary to theory. These results were based on a cross country data from 1960-1995. Chakraborty and Basu (2002) found that GDP growth in India is not influenced by FDI. Instead, the causality they found was from GDP growth to FDI, with trade liberalization weakly increasing the flows of inward FDI.

Alfaro (2003) also observes a result that goes contrary to theoretical prediction of positive relationship between FDI and economic growth. System of GMM equations on across sectional data from 47 countries was used and covering the period from 1981-1999, he observes that, there is an ambiguous effect of FDI on growth. Further on sectoral level, it was revealed that FDI impact negatively on growth in the primary sector, while there was a positive and ambiguous impact on manufacturing and service sectors growth respectively. Durham (2004) also found a negative relationship between FDI and economic growth, but instead suggests that the effects of FDI are contingent on the absorptive capability of host countries.

Fosu and Magnus (2006) examined the long-run impact of foreign direct investment and trade on economic growth in Ghana from 1970-2012using ARDL co-integration and found a negative relationship between FDI and economic growth for Ghana. Herzer, Klasen and Lehmann (2008) also indicate that the relationship between FDI and economic growth in the selected sample countries is indistinct. Importantly, Apergis et al. (2008) also found that FDI exerts a negative impact on economic growth in the countries that have lower income level and ineffective liberalization policies.

Fatehi and Satizade (1994) investigated impact of social and political change on FDI of 15 LDC from 1950-1982 using multiple regression analysis and found no stable pattern of FDI because of unstable polity.

Lund (2010) also did an investigation on the relationship between FDI and growth using panel data from selected countries in Latin America and East Asia for the period 1980- 2003. An ambiguous link was found between economic growth and FDI in both developing and developed countries. Focusing on the causal relationship between economic growth and FDI and using Pedroni Tests which is a Test of Panel Co-integration and also conducting a unit root test, he find out that, there is much proof of a GDP to FDI causal relationship in the long run in most countries whiles evidence of a short run FDI to GDP relationship exist especially in higher income countries.

Lastly, Yousaf et al. (2011) also observed a negative relationship between FDI and economic growth in the case of Pakistan.

Table 2. Summary of the Literature on the FDI-Growth Nexus

Year/Author	Method	Data Span	objective	FDI effect on EG
Feldstein (1983)	OLS regression	17 countries 1960–1979	Investigate the relationship between domestic savings and capital movements	Postive
Oseghale and Amonkhienan (1987)	OLS regressions	Nigeria 1970‐2000	Investigate between oil export, FDI in Nigeria and foreign borrowing	Positive
Smits (1988)	2 SLS (two stage least squares)	30 countries 1978	Investigate the relationship between export and import and FDI	Positive
Balasubramanyam et al (1996)	Cross Panel Data	46 developing countries 1970-1985	Investigate trade openness and on growth	Positve
Borensztein et al (1998)	Cross country regression	69 developing countries	effect of FDI on growth	Positive
Wang (2002)	Panel Data	12 Asia countries 1987-1997	Effect of FDI on growth	Positive
Kohpaiboon (2003)	Times series	Thailand 1970-1999	Effect of FDI on growth	Positive
Marwah and Tavakoli (2004)	Panel data	Indonesia, Thailand and Philippines	Effect of FDI on growth	Positive
Djurovic (2012)	Ordinary least square and deductive logic techniques	2000-2010	Effect of FDI on growth	Positive
Antwi et al. (2013)	Time series	Ghana, 1980-2000	Effect of FDI on growth	Positive
Kentor (1996)	OLS regressions	79 countries DC and LDCs	Interactions between FDI and GDP	Negative
Carkovic and Levine (2002; 2005)	Panel Data	72 countries	FDI effect on growth	Negative
Chakraborty and Basu (2002)	Timese series	India	FDI effect on growth	Negative
Fosu and Magnus (2006)	ARDL	Ghana 1970-2012	FDI effect on growth	Negative
Fatehi and Satizade (1994)	Multiple regression analysis	15 LDCs 1950–1982	To investigate impact of social and political change on FDI	Ambiguous
Lund (2010)	Panel Data	Latin America and East Asia 1980-2013	relationship between FDI and growth	Ambiguous

5.2. Methodology

This chapter consists of the econometric methods that are employed to achieve the objectives. Specifically, it consists of the model specification, the data source and type and the techniques for estimation that relate to the objective.

5.2.1. Data Sources and Variable Explanations

In achieving the objective of this work, the most current Annual time-series data spanning from a period of 1987 to 2017 will be employed. All data for the variables were obtained from World Bank Development Indicators (WDI). The data span is the most current and no research has been conducted using this data span.

5.2.2. Economic Growth

The GDP of any economy is simply the total volume of all goods and services produced over specified period. GDP is used as a measure of economic growth in this thesis and it is measured in per capita terms and is also the dependent variable.

5.2.3. Foreign Direct Investment (FDI)

According to the international monetary fund, foreign direct investment (FDI), is defined as "investment made to acquire a lasting interest in or effective control over an enterprise operating outside of the economy of the investor" (International Monetary Fund 1993). In other words, it refers to the situation whereby individual of a particular country, (source country) obtained ownership of investment in another country (host country) for production control and distribution purposes and other related activities of a firm(s) found in the host country. In this study, FDI is calculated as the net FDI inflows as a percentage of GDP. FDI has been contributing to Ghana's GDP over the years, in 2017 alone, FDI contributed about 3.2 billion dollars to the economy representing over 5% of GDP. Since FDI is considered as investment into the country, the impact on economic growth is expected to be positive.

5.2.4. Government Expenditure

Government expenditure refers to the purchase of goods and services, which include public consumption and public investment, and transfer payments consisting of income transfers (pensions, social benefits) and capital transfer. Government total expenditure as a percentage of GDP in 2017 was 8.8% in Ghana, this affects the Ghanaian economic through multiplier effect. In this study, government expenditure is measured as a percentage of per capita GDP, based on the Keynesian closed economy theory, where Y is total output (economic growth), C, I and G denote consumption expenditure, investment government expenditure. It is deduced that government expenditure has a direct relationship with economic growth, meaning the sign is expected to be positive.

5.2.5. Inflation

This is the persistent and continuous rise in general price level of goods and services over specified period. For this study consumer price index (CPI) is considered for inflation. Inflation have been increasing steadily in Ghana, as 2017, inflation was 12.3%. Inflation slows the economy as the general increase in prices lowers consumer purchases. Studies conducted by Andinuur, 2013, Alfaro, 2003 and Carkovic and Levine, 2002 have measured inflation in terms of CPI. In theory, when there is a rise in price levels, it causes the purchasing power of consumers to decline hence causing domestic production to reduce resulting in negative effect on GDP. Therefore, the sign of is expected to be negative.

5.2.6. Gross Domestic Savings

Gross domestic savings is the savings made domestically. For the purpose of the study, gross domestic savings is measured as a percentage of GDP. Gross domestic savings shows the general level of income saved in the economy. As the 2017, gross domestic saving as a Percentage to GDP in Ghana was 20.9%. The study carried out by Djurovic, 2011, Alfaro, 2003 and Carkovic and Levine, 2002 measured gross domestic savings as percentage of GDP. Following, the Harrod-Domar growth model,

savings has a direct relationship with economic growth, hence the sign of is expected to be positive.

5.3. Model specification

According to the Keynesian (1936) S = I, meaning saving is equal to investment. This condition only while under the assumption that all part of savings is invested rather consumed. To archive the purposes of this study and in the context of the Ghanaian economy, since FDI is a type of investment, the model can be re-specified as follows:

$$GDP = f(FDI) \quad (1)$$

Again, following empirical and theoretical review, and also Carkovic and Levine (2002) the study includes some control variables which are, government expenditure, Inflation and Growth domestic savings to generate a baseline line model as shown below;

$$GDP = f\ (FDI, GCEXP, INF, GDS). \quad (2)$$

Where GDP represents growth, FDI represents foreign direct investment, INF represents inflation, GE represents government expenditure and GDS represents gross domestic savings.

The model is further transformed in an econometric form as shown below:

$$\Delta GDP = C + \beta_1 \Delta FDI + \beta_2 \Delta GCEXP + \beta_3 \Delta INF + \beta_4 \Delta GDS + + \varepsilon_1 \quad (3)$$

The equation 4 has been transformed for the first difference because the model fit to the first difference form for analysing process.

5.4. Estimation Strategy

This section presents the various estimation techniques employed for the study to achieve the set objectives. Basically, it consists of i) Stationarity (Unit Root) test of

the individual variables to check the order of integration, serial correlation, heteskodacity stability ii) Cointegration testing to check for an equilibrium long-run relationship and iii) estimation of the parameters in the model and causal relations between the variable.

5.4.1. Stationarity Test (Unit Root test)

This study conducts a stationarity test of the series in each variable to avoid spurious estimates considering that, the study follows recent econometric literature of time series analysis. It is however imperative to conduct stationarity test to determine the integration order to enable the selection of an appropriate estimator. For the purposes of this study, Augmented-Dickey Fuller (ADF) test and Phillip-Perron (PP) test are employed. The use of these two tests is to ensure consistency in the variables.

Dickey and Fuller (1979) proposed the ADF to determine the time-series properties of variables that are included in models. ADF test helped to establish the integration order among the variables used in the model to prevent any spurious results. The ADF test is represented in the form:

$$\Delta Y_t = \delta_t + \delta_1 Y_{t-1} + \sum_{r=1}^{j} \Theta_r \Delta Y_{t-1} + \varepsilon_t \qquad (4)$$

Where, Y_t denotes the variable whose series are investigated and t, Δ, j, and ε_t denotes time trend, difference operator, optimal lag-length and error term. The r represents the optimum number of differentiations i.e. first order, second order etc.

The null hypothesis of non-stationary is tested against the alternative hypothesis that the variable being tested is either stationary or non-stationary. The rejection of null hypothesis implies that the series is stationary. Contrary, accepting the null hypothesis implies that the series of that particular variable are non-stationary.

5.4.2. Phillip-Perron (PP) test

A generalized form of the ADF test is the PP test. This test was developed to cater for the problems associated with the use of ADF test. While in the ADF test, one

has to be sure the residuals are not correlated and they have a constant variance, the PP test allows for fairly mild assumptions in the distribution of the residuals. The PP-test also aids to check and correct the presence of econometric problems of Heteroskedasticity and serial correlation in the residuals. Hence, PP test is a modification of the ADF test to avoid spurious results. The specification of the PP test model is shown below:

$$Y_t = \lambda_1 Y_{t-1} + \delta_0 + \varepsilon_t \quad (5)$$

In the PP test, one needs not specify the length of lag as it already taken care of. Just like the ADF test, the null hypothesis of non-stationarity is tested as against an alternative hypothesis in the PP test. The non-acceptance of the null hypothesis implies stationarity amongst a particular series been tested. An acceptance of the null hypothesis also means there is nonstationarity in the series.

5.4.3. Test for Hetroskedasticity

Heteroskedasticity is said to occur when the variance of the unobservable error u, conditional on independent variables, is not constant. For all the models it is necessary to assume that the observations are uncorrelated over time (no autocorrelation) and across individuals (homoscedastic). Violation of one of the assumptions will affect the power of the estimator. Normally with just cross-section data there may be a problem with the assumption of a constant error variance, homoscedasticity. Tests like the White's test for heteroscedasticity and the Durbin Watson test are easy tools for detecting non constant error variance and serial autocorrelation. In this test, the homoscedasticity assumption states that the variance of the unobservable error, *u*, conditional on the explanatory variables, is not constant. In this study the likelihood ratio test is used to test heteroskedasticity.

5.4.4. Testing for Serial Correlation AR

In a model where the regressors are not strictly exogenous, at least one of the regressors is correlated with one period lagged error term. Since the presence of this

serial correlation biases the standard errors and causes the results to be less efficient, we should be concerned about testing for it.

5.4.5. Cointegration Test

Co-integration test is used to confirm the existence of common trend stable long-run link between the variables. Hence if there is no co-integration among a group of series, it will result in wrong estimates of the results thereby resulting in spurious estimate. On the other hand, if long-run equilibrium relationship exists between the variables, then there is a high tendency of producing good estimates from the analysis. Again, even though the series may rise as a result of the trends amongst them, because they are cointegrated, a common trend links them together. Auto-Regressive Distributed Lag (ARDL) Bounds test approach was employed for the study.

This econometric technique was selected due to several reasons including; i) this technique provides unbiased estimate of the long-run as well as valid t-statistics though some independent variables used may be endogenous; ii) despite the integration order of zero, one or mixture of zero and one that the variables may exhibit, ARDL model provides estimated coefficients for the long-run relationship and iii) it is very efficient in small sample cases. A formulation of the ARDL framework is shown below:

$$\Delta Y = \alpha_0 + \alpha_1 + \alpha_2 q_{t-1} + \alpha_3 X_{t-1} + \sum_{i=1}^{j} \alpha_i \Delta P_{t-i} + \sum_{i=1}^{j} \alpha_5 \Delta q_{t-i} + \varepsilon_{1t} \qquad (6)$$

Where Y represents the dependent variable, P represents the vector of regressors, and t represents the time trend for the sample period.

5.4.6. Error (ECM) Correction Model

After testing for the long-run equilibrium relationship existence among the variables, the test for the short-run dynamic parameters using ECM is the next. ECM aids reconcile the short-run and long-run behaviour of the economic variables incorporated in the model. Again, ECM includes the error-correction term in the independent variables in the estimation procedure in order to recover all the long-run

information missing in the original estimation process. An error correction model in its generalized form is formulated.

$$\Delta Y_t = \alpha_0 + \sum_{i=1}^{j} \alpha_i \Delta Y_{t-i} + \sum_{i=1}^{j} \alpha_i \Delta P_{t-i} + \sum_{i=1}^{j} \alpha_5 \Delta q_{t-i} + \gamma ECM_{t-1} + \varepsilon_{1t} \qquad (7)$$

Where γ represents speed of adjustment and ECM represent the residual that is estimated from the estimated co-integration model of equation.

5.4.7. The Classical Granger Causality

In order to determine the causal relationship between economic growth (GDP) and foreign direct investment (FDI), the study employed pairwise granger causality text by Granger (1969) which is relatively simple and widely used vector autoregressive (VAR) model application method that defines causality. Engle and Granger (1987) make a significant contribution to the co-integration technique towards testing the causal relationship between the variables. The technic of Engle and Granger (1987) always applied for the determination of co-integration process among the variables. The presence of co-integration process leads to the long run relationship between the variables. Therefore there is a need for error correction for adjusting of disequilibrium of that variable through time. The existence of error correction implies the change in the dependent variable as the function of the level of disequilibrium in the co-integration relationship between the error-correction term and the change in the other explanatory variable(s). The mechanism of co-integration which found to be co-integrated at either ΔGDP_tor ΔFDI_talternatively, both must be caused by the lagged error-correction term which is itself a function of GDP_{1-t}, and FDI_{1-t}The general equation of the sum of error correction and the sum of the lag of the variables can be presented as follows:-

$$\Delta Y_t = \sum_{I=1}^{k} \theta_{1i} \Delta Y_{t-i} + \sum_{I=1}^{n} \beta_{1i} \Delta X_{t-i} + \sum_{I=1}^{r} \delta_{1i} ECT_{r,t-1} + U_{1t} \qquad (8)$$

$$\Delta X_t = \sum_{i=1}^{k} \theta_{2i} \Delta Y_{t-i} + \sum_{i=1}^{n} \beta_{2i} \Delta X_{t-i} + \sum_{i=1}^{r} \delta_{2i} ECT_{r,t-1} + U_{2t} \qquad (9)$$

Whereβ and δ represent the coefficients of explanatory variables of ΔY, ΔX, and ECT respectively, letter k, n represents the maximum numbers of the explanatory variables and 'r' represents the number of co-integration equation. For determining the

causal relationship between the dependent variables of ΔY and ΔX, the parameters $\beta_{1i} \neq 0$ for ΔY_t and $\theta_{2i} \neq 0$, because those coefficients are zero, meaning that the related explanatory variables are becoming zero, we cannot find the causal relationship between the dependant and independent variables respectively. This is the reason why these coefficients are not equal to zero. The ΔX_t and ΔY_t Implies that changes in the dependent variable function of the level of disequilibrium in the co-integration relationship (captured by the error-correction term) and it changes in other explanatory variables(s) (Kar, M., and Pentecost, E. J. 2000).

The equation model above, contain VECM which can be the source of causation which expresses the statistical significance of three different tests. First is a joint test which used to sum of the lags of each explanatory variable, in turn, using a Wald γ^2, second by a t-test test on the lagged ECT term which is in fact, the weak erogeneity and the third is a joint test applied to the sum of each explanatory variable and the lagged ECT terms using the Wald γ^2 test, which is a strong propensity test (Charemza and Deadman, 1997).

For instance, the null hypothesis which states that energy consumption (FDI) does not Granger cause economic growth is being rejected if the β_{1i} are jointly significantly different from zero. Also, the same null hypothesis is rejected if δ_{1i} is significant or if β_{1i} and δ_{1i} are jointly significant from zero (Kar, M., and Pentecost, E. J. 2000)**.**However, if there is no long-run relationship between the GDP and FDI, then the traditional causality test can be applied. Although the use of standard causality test it leads to the causality test to be suffered from the methodological deficiencies such as:

First, the standard tests causality did not observe the time series properties of the variables if are co-integrated owing to this effect the tests are in cooperating and the variables will not be specified unless the lagged error-correction term is included (Granger, 1988). Second, the tests convert the stationary series automatically by differencing the variables and consequently eliminate the long-run information embodied in the original level form of the variables (Kar, M., and Pentecost, E. J. 2000) The error correction model derived from the co-integrating equations, by including the lagged error correction term reintroduces, in a statistically acceptable

way, the long-run information lost through differencing. This term also opens an additional channel of Granger causality so far ignored by the standard causality tests.

5.4.8. Stability Test

In order to check if the estimation regression equations are stable within the specified sample period (1987 to 2017), a stability test is performed. The study test for autocorrelation and heteroscekdasticity using the Breusch-Godfrey Serial correlation LM test and the Breusch-Pagan-Godfrey test respectively. In both tests the null hypothesis of non-existence of autocorrelation (heteroscekdasticity) is tested against the alternative hypothesis of existence of autocorrelation (heteroscekdasticity). If the probability value shows statistical insignificance with reference to the computed F-statistics then the null hypothesis is accepted and a conclusion can be drawn that there is no autocorrelation (heteroscekdasticity) in the model. Alternatively, if the probability value shows statistical significance with respect to the computed F-statistics the null hypothesis is rejected, and a conclusion is drawn that there exists autocorrelation (heteroscekdasticity) in the model. The study further conducts a Jarcque-Bera test to ascertain the distribution properties of the variables included in the model. That is, to check whether the variables are normally distributed or not.

5.5. Data Presentation and Data Analysis

This chapter presents the results obtained from data analysis and their respective interpretations. Specifically, it consists of the trend analysis of FDI inflows, the results of the unit root test, cointegration results, short and long run results as well as results on the Granger-causality test.

Table 3. Pattern of FDI inflow to Ghana 1987-2017

Year	FDI inflow (Current $b)	FDI % of GDP
1987	0.005	0.09
1988	0.005	0.10
1989	0.015	0.29
1990	0.015	0.25
1991	0.020	0.30
1992	0.023	0.35
1993	0.125	2.10
1994	0.233	4.28
1995	0.107	1.65
1996	0.120	1.73
1997	0.082	1.19
1998	0.167	2.24
1999	0.244	3.16
2000	0.166	3.33
2001	0.089	1.68
2002	0.059	0.96
2003	0.137	1.79
2004	0.139	1.57
2005	0.145	1.35
2006	0.636	3.12
2007	1.383	5.59
2008	2.715	9.52
2009	2.373	9.13
2010	2.527	7.86
2011	3.248	8.21
2012	3.295	7.86
2013	3.227	5.10
2014	3.363	6.27
2015	3.192	6.49
2016	3.485	6.34
2017	3.255	5.52

Source: Computations based on data from World Bank, 2019

From **Table 2** above, the total foreign direct investment to Ghana from 1987 to 2017 was $ 34.594 billion dollars. Since 2007 the country has experience tremendous increase in the FDI inflow into the country. Between 2007 and 2017, FDI in Ghana rose from 1.383 billion to 3.255 billion representing over 96 percent increment. The increment in the investment flow could largely be due to discovery of crude oil in Ghana. The discovery and subsequent extraction of oil in the country attracted foreign investment especially in the oil and gas sector.

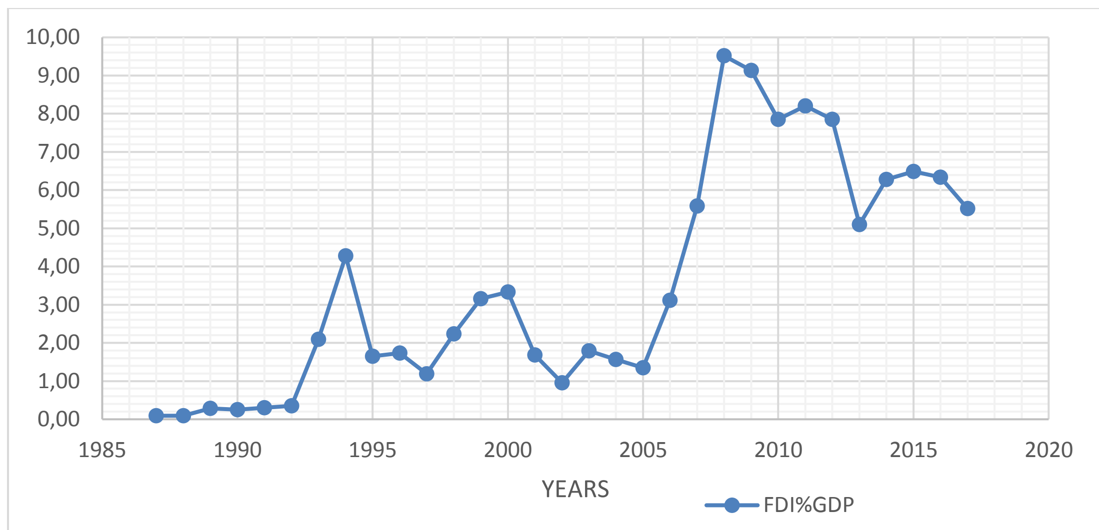

Figure 4. Pattern of FDI inflows as a percentage of GDP in Ghana

Source: Computations based on data from World Bank, 2019

Figure 4 shows the graph depicting the FDI flow as a percentage of GDP. The linear line show in the plot confirms the increasing trends in FDI inflows during the period under consideration.

In the 1980's the Ghanaian economy faced major challenges and by 1983, the economy was almost on the brink of a collapse, that explains the low investment flow in the 1980's as no investor was willing to investment in an unstable economy. However Economic reforms (ERP/SAP) supported by the IMF and the World Bank were instituted to stabilise the economy and correct a number of structural imbalances in order to spur growth. The economy responded positively to the ERP/SAP and the favourable trend has continued since that time, with growth settling around 5 percent for most parts of the almost three decades following the reform ((Senadza& Laryea 2012). The rate of FDI inflows in the country marginally rose after the implementation of ERP/SAP. A significant rise in FDI flows from 1992 to 1994 as shown in Figure 4 and table 2 above, FDI inflows increased from 0.35% of the GDP in 1992 to 4.28% of the GDP in 1994.

However, between 1996 and 1997, there was a slight decline in FDI inflows as it reduced from 4.2% in 1994 to 1.73% in 1996 and further to 1.18% in 1997. In 2006, it was clear that there was a sharp improvement in FDI inflows from 1.35% in 2005 to 3.12% in 2006. From 2007 to 2009 FDI inflows have been increasing significantly from 5.59% in 2007 to 9.13% in 2009. Though from 2010 to 2012 there were slight

fluctuations, from 7.85% in 2010 to 8.14% in 2011 and reduced to 7.86% in 2012. Again, we saw a decline to 5.10% in 2013 and then fluctuation between 6.27% and 6.40% from 2014 to 2016 and then a decline again in 2017 to 5.52%. it can be concluded that FDI inflows has been rising in recent years compared to early years in the 1980's largely due to good economic policies and discovery of oil in the country.

5.5.1. Stationarity Test (Unit Root Test Results)

To ascertain the properties of the series of the variables specified for the study, Augmented Dickey-Fuller (ADF) test as proposed by Dickey and Fuller (1979) and Phillips-Perron (PP) test were employed. The adoption of the two tests is to check for consistency in the unit root results obtained. In both tests, the null hypothesis of nonstationarity which implies the presence of unit root is tested against the alternative hypothesis of stationarity (absence of unit root).

Table 4. Unit Root Test Augmented Dickey-Fulley Test

Variables	ADF : Trend & constant I(0)			Variables	ADF : Trend & constant I(1)	
	AIC lag	t-stati	Probability values 5%		t-stati	Probability values 5%
GDP	1	-3.476586	0.0603	D(GDP)	-6.055690	0.0001
FDI	1	-2.036084	0.5588	D(FDI)	-4.420684	0.0077
GEXP	1	-3.366214	0.0752	D(GEXP)	-6.226622	0.0001
GDS	1	-1.738186	0.7088	D(GDP)	-6.442906	0.0001
DNIF	1	-3.702296	0.0378	D(GDP)	-6.048132	0.0001

From the **table 3** shows the results of the unit root obtained from the ADF-test. The test consists of models with only constant and constant and trend at levels and at first difference. At the levels, in both cases, only constant and constant and trend, except foreign direct investment (FDI) and Gross Domestic Savings (GDS) all other variables are stationary on both I(0) and I(1) implying unit root does not existence in the series. And also FDI and GDS stationary condition occurs at I(1), meaning at first differential. This clarifies the advantage of using ARDL which takes both conditions I(0) and I(1) except I(2).

Table 5. Unit Root Test (PP)

Variables	PP Trend & intersect at I(0)				PP Trend & intersect at I(1)		
	AIC lag	level	t-stati	Probability values 5%	AIC lag	t-stati	Probability values 5%
GDP	3	I(0)	-3.293671	0.0866	3	-6.055690	0.0001
FDI	3	I(0)	-2.249728	0.4468	3	-4.420684	0.0077
GEXP	3	I(0)	-3.206005	0.1024	3	-6.226622	0.0001
GDS	3	I(0)	-1.761644	0.6979	3	-6.442906	0.0001
DINF	3	I(0)	-3.533157	0.0538	3	-14.32135	0.0000

The PP-test results are quite the different from that of the ADF-test results as shown in Table 4 because all the variable are integrated at I(1) except GDP and INF that exist at I(1) and I(0) which is acceptable according ARDL criteria.

5.5.2. Co-intgration Test Result Based on ARDL

Having ascertained the presence of both $I(0)$ and $I(1)$ integration order among the series of the specified variables, the Bounds test approach within the ARDL framework is used to test for cointegration existence among the specific variables included in the model. In other words, the bounds test checks for the existence of a stable long-run equilibrium between the variables used in the model and this is depicted in Table 8 below

Table 6. ARDL Bound Test Showing Co-Integration Conditions

Dependent variable	AIC lags	F-statistc	Boundary at 5%		Co-integration	What is next
			I(0)	I(1)		
GDP_t	1	5.058252	2.45	3.52	Yes	Estimate ECM(Error Correction Model)
FDI_t	1	1.494681	2.45	3.52	No	Estimate short run
$GCEXP_t$	1	3.097076	3.03	4.06	No	Estimate short run
GDS_t	1	1.545745	2.45	3.52	No	Estimate short run
INF_t	1	1.494681	2.45	3.52	No	Estimate Short run

Table 5 shows that there is one co integration which is GDP, meaning that whenever there is co-integration, then there is long run effect. The rest of the equation show that there is no co-integration meaning they only have short run effect. Below are the equation which shows that long rung effect and short run effect.

The co-integration equations are as follows

$$\Delta GDP_t = C_0 + \sum_{i=1}^{n}\beta_{1k}\Delta GDP_{t-i} + \sum_{i=1}^{r}\beta_{2k}\Delta FDI_{,t-i} + \sum_{i=1}^{n}\beta_{3k}\Delta GCEXP_{t-i} + \sum_{k=1}^{n}\beta_{4k}\Delta GDS_{t-i} + +\sum_{i=1}^{r}\beta_{5k}\Delta DINF_{,t-i} + \lambda ECT_{t-1} + \varepsilon_{GDPt} \quad \ldots\ldots\ldots\ldots\ldots\ldots(10)$$

Equations with no co-integrations

$$\Delta FDI_t = C_0 + \sum_{i=1}^{r}\beta_{1k}\Delta FDI_{,t-i}\sum_{i=1}^{n}\beta_{2k}\Delta GDP_{t-i} + \sum_{i=1}^{r}\beta_{3k}\Delta GCEXP_{,t-i} + \sum_{i=1}^{n}\beta_{4k}\Delta GDS_{t-i} + \sum_{k=1}^{n}\beta_{5k}\Delta INF_{t-i} + \varepsilon_{FDIt} \quad \ldots\ldots\ldots\ldots\ldots\ldots(11)$$

$$\Delta GCEXP_t = C_0 + \sum_{k=1}^{n}\beta_{1k}\Delta GCEXP_{t-i} + \sum_{i=1}^{n}\beta_{2k}\Delta GDP_{t-i} + \sum_{i=1}^{n}\beta_{3k}\Delta FDI_{t-i} + \sum_{i=1}^{r}\beta_{4k}\Delta GDS_{,t-i} + \sum_{i=1}^{r}\beta_{5k}\Delta INF_{,t-i} + \varepsilon_{GCEXPt} \quad \ldots\ldots\ldots\ldots\ldots\ldots(12)$$

$$\Delta GDS_t = C_0 + \sum_{i=1}^{n}\beta_{1k}\Delta GDS_{t-i} + \sum_{k=1}^{n}\beta_{2k}\Delta GDP_{t-i} + \sum_{i=1}^{n}\beta_{3k}\Delta FDI_{t-i} + \sum_{i=1}^{r}\beta_{4k}\Delta GCEXP_{,t-i} + \sum_{i=1}^{r}\beta_{5k}\Delta INF_{,t-i} + \varepsilon_{GDSt} \quad \ldots\ldots\ldots\ldots\ldots\ldots(13)$$

$$\Delta INF_t = C_0 + \sum_{i=1}^{r}\beta_{1k}\Delta INF_{,t-i} + \sum_{i=1}^{n}\beta_{2k}\Delta GDP_{t-i} + \sum_{k=1}^{n}\beta_{3k}\Delta FDI_{t-i} + \sum_{i=1}^{n}\beta_{4k}\Delta GCEXP_{t-i} + \sum_{i=1}^{r}\beta_{5k}\Delta INF_{,t-i} + \varepsilon_{INFt} \quad \ldots\ldots\ldots\ldots\ldots\ldots(14)$$

Table 7. The Estimated Long Run Equation GDP as Dependent Variable

Variable	Coefficient	S.E	t_statistic	Status
ΔFDI_t	0.428200	(0.11755)	[-3.64267]	significant
$\Delta GCEXP_t$	0.320578	(0.17807)	[-1.80033]	significant
ΔGDS_t	- 0.130386	(0.04914)	[2.65340]	significant
ΔINF_t	- 0.104458	(0.03135)	[3.33213]	significant
C	0.835833			

The table 6 above represents the co-integration equation in which the dependent variable is economic growth (GDP) and FDI, GCEXP, GDS and INF are independent variables. The analysis shows that the other variables have significant impact on economic growth. The estimation results show that FDI has a positive and significant effect on economic growth in the long run. FDI coefficient is 0.428 and is statistically significant at 5% level. Meaning that, 1 percent increase in FDI inflows is accompanied by 0.429 percentage increase in economic growth and 1 percent decline in FDI inflows results in 0.429 percent decline in economic growth ceteris paribus. This however confirms empirical literature reviewed under the study which postulate direct and positive link between economic growth and FDI.

The positive effect of FDI on economic growth revealed confirms studies conducted by Antwi et al (2013), Andinuur (2013), Adjaye (2005), and Chowdhury and Mavrotas (2003). However, the positive impact contradict the ambiguous and negative result obtained in the study conducted by Frimpong et al (2006), and Lund (2010) .

The estimation also shows a significant and negative effect of Gross domestic savings on economic growth based on the period under consideration. GDS coefficient of 0.1303 meaning that 1 percent increase in GDS causes economic growth to decline by 0.1303 percent and 1 percent decrease in GDS will result in 0.1303 percent fall in economic growth all things being equal, and this is statistically significant at 5% level. Hence, GDS may contribute less to economic growth in the long run especially in time of high inflation.

The estimation results show that GCEXP has a positive and significant effect on economic growth in the long run. GCEXP coefficient is 0.3205 and is significant statistically at 5% level. Meaning that, 1 percent increase in GCEXP is accompanied by 0.3205 percentage increase in economic growth and 1 percent decline in GCEXP results in 0.3205 percent decline in economic growth. The positive link between GCEXP and economic growth implies that when government consumption expenditure rises, economic growth rises and a decline in government consumption expenditure will lead to a fall in economic growth all things being equal.

Inflation shows significant but negative effect on economic growth. This indicates that when inflation rises economic growth declines and a decline in inflation improves economic growth all things being equal.

Table 8. The Long Run Co-Integration For the Equations (Speed of Adjustment)

The speed of adjustment	Coefficient	S.E	t_statistic	Status
ECT	**-0.861262**	**(0.30901)**	**[-2.78720]**	**significant**

From Table 7 the existence of negative sign in this estimation indicate that there is long run effect between the ΔGDP_t and the other variables. The negative sign represents the speed of the adjustment of the GDP at the year. Meaning that the adjustment of the long run affects is 86.12% which is average good in performance.

The negative statistically has significant meaning, it shows that the co-integration has long run effect.

Table 9. Estimated Short-Run Effect of the Variables

Variable	Coefficient	S.E	t_statistic	Status
ΔFDI_t	0.833347	(0.33957)	[-2.45415]	significant
$\Delta GCEXP_t$	0.360907	(0.10633)	[-3.39421]	significant
ΔGDS_t	0.169766	(0.09314)	[-1.82264]	significant
ΔINF_t	-0.013308	(0.03373)	[0.39457]	Not significant

Although there is long run effect, the analysis also shows there is short run effect which can be indicated from the estimations above. All the variables except inflation shows there is a significant impact in the short run on economic growth. Therefore, there is need to also consider short term policies not only long run by the Ghanaian Government.

It is also revealed that short run coefficient sign is not different from the analysis of the long run except for gross domestic savings and inflation. The short run results show a positive effect of FDI on economic growth and this is statistically significant at 5% level. FDI Coefficient of 0.833 meaning that FDI has a positive effect on economic growth.

The result further reveals significant and positive effect of GCEXP on economic growth at 5% significance level. The coefficient of 0.360, this means the responsiveness of economic growth in short run is higher compared to response rate in the long run.

The results also show that GDS in the short run has positive and significant impact on economic growth as compared to the negative effect in the long run which could be attributed to insignificant of inflation on economic growth in the short run

The short run result for inflation shows that inflation has no effect on economic growth in the short run, thus insignificant impact on economic growth. The long run indicates significant but negative impact on economic growth.

5.5.3. The Causal Relationship Between the Variables

In this part the analysis examines the causal relationship between one variable to another. According to the co-integration equation we need to examine the causal relationship between one variable to another. The Granger causality test employed to test the causality test.

Table 10. The Causal Relationship Between GDP and Other Variable

Dep Var	Wald Test		t-test	Joint Wald Test
	$\sum\Delta GDP$	$\sum\Delta FDI$	ECM_{-1}	$(\sum\Delta FDI, ECM_{-1})$
ΔGDP		$X^2(1) =$ 7.1990 (0.0073**)	-3.598736 (0.0016**)	$X^2(2)$=14.29823 (0.0008**)
		$\sum\Delta INF$	ECM_{-1}	$(\sum\Delta lnMB, ECM_{-1})$
ΔGDP		$X^2(1) =$ 0.369475(0.0333)	-3.598736 (0.0016**)	$X^2(2) =$ 12.96908 (0.0015**)
		$\sum\Delta GCEXP$	ECM_{-1}	$(\sum\Delta GCEXP, ECM_{-1})$
ΔGDP		$X^2(1) =$ 2.075418(0.0497)	-3.598736 (0.0016**)	$X^2(2) =$ 14.79982 (0.0006**)
		$\sum\Delta GDS$	ECM_{-1}	$(\sum\Delta lnDCPS, ECM_{-1})$
ΔGDP		$X^2(1) =$ 1.992157(0.0181)	-3.598736 (0.0016**)	$X^2(2)$ =22.15608 (0.0000**)

1. $\sum$ denotes the sum of the coefficients of the lagged relevant variables.
2.*, ** and *** indicate the significance of the test at the 10, 5 and 1 percent levels.
3. The p-values are in parentheses

5.5.4. Results obtained from Classical Granger-Causality Test

In achieving causality objective between FDI and economic growth, a Granger-causality test was conducted. This was done to ascertain whether there is causal relationship between the variables as well as the direction. However, this does not literally mean finding whether FDI necessarily leads to economic growth and vice versa as the basic intuition behind Granger-causality test is more of prediction rather than causation. The table above indicate that there is causal relationship of those variables towards the GDP as independent variable. Meaning that the direction moves from FDI to GDP. In the analysis there is unidirectional causal between FDI and GDP, GDP depends on FDI to increase economic growth.

Table 11. Summary of Causal Relationship Between GDP and Other Variables

ΔFDI toΔGDP	Foreign direct investment causes economic growth	
ΔINF toΔGDP		Inflation causes negative effect to Economic Growth causes
ΔGCEXP toΔGDP	Government consumption expenditure causes economic growth	
ΔGDS toΔGDP		Government domestic savings expenditure causes economic growth

5.5.5. Diagnostic and Stability Test results

This phase deals with the accurate of the system model with relevant to its applicable data. The section started with the system analysis part.

Table 12. System Analysis

System analysis	Coefficient	S.E	t_statistic	Probability	Status
C(1)	**-0.861262**	**0.309006**	**-2.787201**	**0.0107**	**Significant**

From Table 11 above, the system analysis tend to measure the significant of both the system of the model as well as the significant values .In this analysis the system analysis since is lesser than 5% it means that the values of the long run and short run all of them are clear correct.

5.5.6. The Serial Correlation Effects

Table 13. Breusch-Godfrey Serial Correlation LM Test

F-statistic	1.09254	Prob. F(2,20)	0.3546
Obs*R-squared	2.856311	Prob. Chi-Square(2)	0.2398

From table 12 since the Prob. Chi-Square (2) is 23.98% which is greater than 5% then we can reject the null hypothesis which says that the system analysis has serial correlation, meaning that the system has no serial correlation. Therefore, the system does not suffer from the serial correlation effects.

5.5.7. Heteroscedasticity Effect

Table 14. Heteroscedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.90286	Prob. F(10,18)	0.5499
Obs*R-squared	9.687135	Prob. Chi-Square(10)	0.4684
Scaled explained SS	4.100171	Prob. Chi-Square(10)	0.9427

From table 13 since the Prob. Chi-Square (10) is 46.84% which is greater than 5% then we can reject the null hypothesis which says that the system analysis has Heteroscedasticity effect, this implies that there is non-existence of heteroskedasticity in the model. This means that the variances of the residuals are constant (homoscedastic).

5.5.8. The Stem Stability

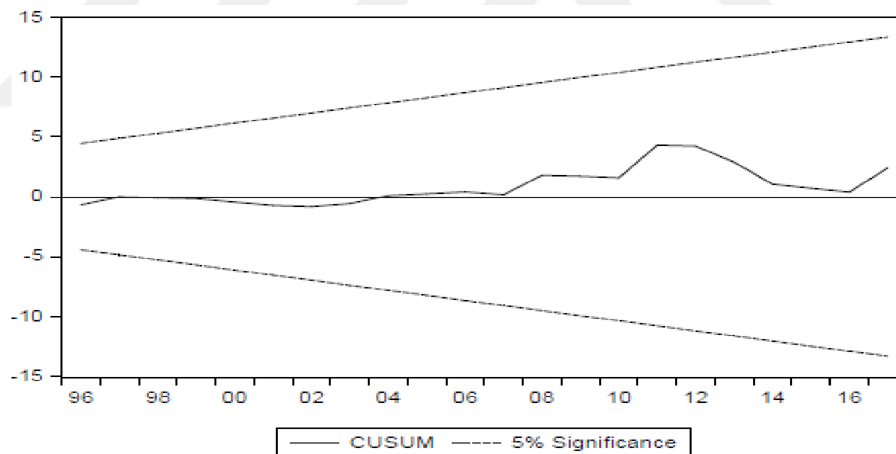

Figure 5. Stem Stability

From figure 5 since the curved line does not cross the boundaries lines meaning that the estimation of the analysis is efficient. Therefore, the estimated values are correct. Meaning there is no structure break of the estimated data.

5.5.9. The Normal Distribution Effects

The study also conducts a normality test to ascertain whether the series of the variables exhibit a normal distribution.

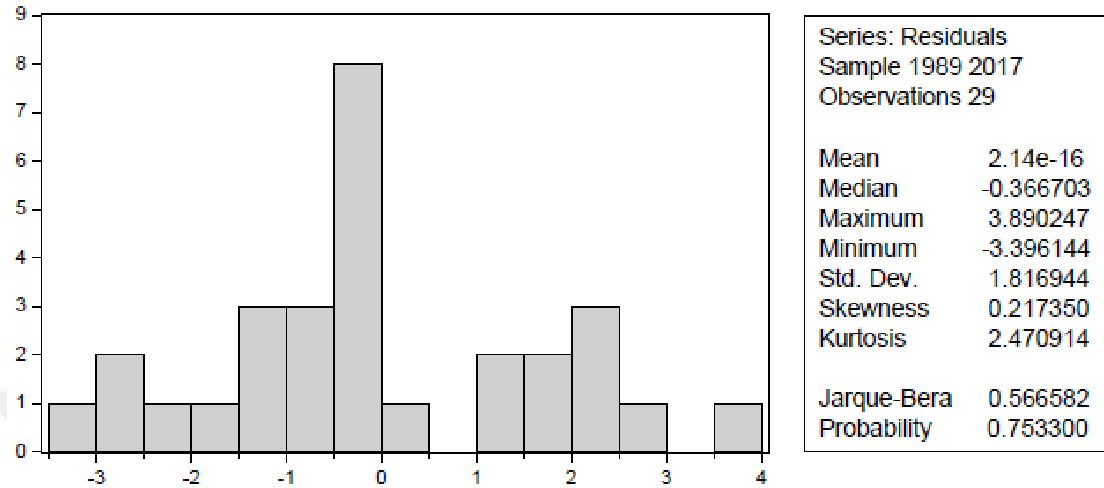

Figure 6. Distribution Effect

From figure 6 since the Probability Histogram graph is 56.66% which is greater than 5% then we can reject the null hypothesis which says that the system analysis has no normal distribution effect, meaning that the system has normal distribution effect

5.6. Summary of Major Finding

The main objective of the thesis is to empirically investigate the impact of foreign direct investment on economic growth using evidence from Ghana. The study uses annual time series data from the period 1987 to 2017. Autoregressive Distributed Lagged (ARDL) is employed for the analysis.

One of the specific objectives was to analyze the pattern of FDI inflows in Ghana over the specified period. The results show that foreign direct investment inflow into Ghana from 1987 to 2017 has been increasing due to some programmes that were introduced in the 1980s including Economic Recovery Programme, Financial Sector Adjustment Programme and Structural Adjustment Programme and recent program outlined by the Ghana investment promotion centre.

The study also seeks to establish the short and long run impact of FDI on economic growth. The results show that, foreign direct investment (FDI) significantly impact positively on economic growth in the long run. Gross domestic savings (GDS) was also revealed to have significant and negative effect on economic growth in the long run.

Also, In the long run, government consumption expenditure and inflation were found to have significant positive and negative impact on economic growth respectively.

Analysis of the short run results reveals significant impact of FDI, GDS, INF and GCEXP on economic growth. FDI, GDS and GCEXP impact positively while inflation impacts negatively on economic growth. FDI, GDS and INF impact on economic growth are at 5% significance level. GCEXP effect on economic growth was also at 5% significance level at current period.

Error correction term shown in Table 10 shows that, the economy will automatically adjust back to equilibrium in the long run when there are shocks. This means that any disequilibrium in the variables used in the study will be corrected in a year per the obtained result.

On the third objective of determining the causality between FDI and Economic growth, the result shows uni-directional causality link from economic growth to foreign direct investment. The study found that FDI granger causes economic growth. This results best predict FDI in Ghana.

5.7. Conclusion

The main objective of the study was to investigate the impact of FDI on economic growth. The study however had the following specific objectives:

1. Analyze the FDI inflows pattern in Ghana over the study period
2. Determine short and long run impact of FDI inflows on economic growth
3. Determine the causality between Economic growth and FDI.

Due to some limitations such as data availability and other materials for the study, 1987 to 2017 period was considered using annual time series data from World Bank's World Development Indicators (WDI).

In achieving the main and specific objectives Autoregressive Distributed Lagged (ARDL) model was used since the variables are integrated of order zero and one. Trend of FDI inflow into the country was a rising one from 1987 to 2017. The long run impact of foreign direct investment (FDI) on economic growth was positive at 5% significance level, this is confirmed by the literature reviewed on works conducted by Antwi et al (2013), Andinuur (2013), Adjaye (2005), and Chowdhury and Mavrotas (2003). However, the positive impact contradicts the ambiguous and negative result obtained in the study conducted by Frimpong et al (2006), and Lund (2010). Government consumption expenditure on economic growth is positive at 5% significance level. Gross domestic savings (GDS) and Inflation (INF) have significant but negative impact on economic growth in the Long Run. Although gross domestic saving (GDS) had negative effect on economic growth in the long run, there was positive effect on economic in the short run. The long run effect indicates that increase in uncertainty of price or higher inflation induces people to save smaller portion of their money and direct larger portion of their money to consumption.

5.8. Recommendation

The research is important for the motive that, it seeks to provide theoretical and practical insight into how FDI foster economic growth. Based on the results the following recommendation are made:

First, policies to attract foreign direct investors should be embarked upon to attract foreign direct investors into the country by the Ghana investment promotion center. Ghana should not only encourage and attract FDI from overseas but also create a conducive environment and adopt more liberal policy frameworks to attract new FDI and maximize net benefits which will subsequently lead to long run economic growth.

Secondly, it is recommended that policies to increase gross domestic savings such as increases in savings rate should be embarked upon to raise capital stock

accumulation, which will eventually increase investment and finally economic growth of Ghana. Also they is the need to fight inflation as that equally impacted the GDS in the long run.

Finally, exchange rate stability is important as it affects foreign direct investment (FDI). Exchange rates should be managed to avoid fluctuation in the domestic currency as one major problem affecting Ghana today is the depreciation of Ghana currency against major trading currency such the US dollar.

Limitations and further research studies

First, the data used in the study was secondary data meant for other purposes hence its determination may not have been accurate. This may have influenced the effects of independent variable on dependent variable. Equally, the data was in the past and may not directly apply for the future because of the ever-changing operating environment. Also, one of the main methodological problems is the choice of indicator used to measure both economic growth (dependent variable) and the determinants (explanatory variables), since past studies have used varied measures, which many believed could influence the outcome of their studies.

Further studies need to be done using larger sample size in the future, the findings would be important in knowing whether indeed the long run effect would be confirmed. The long run behaviour of the changes in trend of FDI due to changes in the economic variables would be easily detected, this way visible patterns both seasonal and cyclical would be assessed. This study concentrated on the effects of three economic growth control variables namely (inflation, Government expenditure and Gross domestic savings). Additional assessment needs to be done so as to address the effects of the other economic growth variables on economic growth. Future researchers can even address the effects of issues such as political stability, institutions and foreign direct investment on economic growth

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