Determinants of Foreign Direct Investment in Ghana (Abstract)

By: Evans Nyarko ABOSI  
Publication: 2008  
62 pages

Ghana, has since independence in 1957, adopted and implemented different investment policies by the various political regimes, both civilian and military. The aim is to create an enabling environment for local and foreign investors to operate so as to reap the benefits associated with especially the latter which include the transfer of capital, advanced technology and organizational forms; assisting human capital formation; and helping to create a more competitive business environment.

Though Ghana attracts most of its FDI in the natural resource (mining) sector, it is incomparable to that of South Africa and Angola. The mining law and the privatization programme in the late 1980s and mid-1990s though accounted for the flow of FDI to other sectors of the economy; it went mainly into the mining and services sector (banking and telecommunication). In the 2000s, FDI inflows have been growing positively, but still the country lags behind its close neighbours such as Nigeria and Cote Divoire. This cause for concern considering Ghana's immense potential.

The objective of the study is to examine the main factors that drive foreigners' decision to undertake direct investment in Ghana.

The study is significant as it will come out with the core factors that determine foreign direct investment in Ghana. The work will serve as a guide to policy makers on measures to adopt in order to attract much foreign direct investment. It will also add up to the existing literature on FDI besides it serving as reference point for future researchers.

Many theoretical and empirical works have been done in this area. The industrial organizational hypothesis, which constitute one of the early theories, postulate that when a firm establishes a subsidiary in another country, it faces several disadvantages (language, culture, legal system) in competing with local firms. Hence, for the firm to invest abroad (host country), it must have certain advantages such as larger or cheaper cost of capital than local or smaller foreign competitors, superior technology in the form of ability to translate scientific knowledge to commercial use, greater managerial and marketing skills, privileged access to raw materials, and other firm-specific factors which are a result of economies of scale.

Empirically, there has been variation both in methods and outcomes. Yang et al. (2000), using time series data, examined the determinants of FDI in Australia. They found interest rates, openness of the economy, industrial disputes, and wage rate changes as important determinants of FDI inflows to Australia. However, no significant relationship was found between the effective exchange rate of the Australian dollar and FDI flows while there was a negative relationship between inflation and FDI flows.
The results of Chakrabarti (2001), and Asiedu (2002) showed a positive effect of openness on FDI. There is however some differences in the findings of Salisu (2003) and Tsikata et al. (2000), in that whereas the former finds openness to trade to have positive and significant effect on FDI in Nigeria, the latter find export-orientation as a significant determinant of FDI inflows to Ghana.

The study employed annual data from 1975-2005 and for which FDI was regressed on by gross domestic product per capita, economic openness, telephone lines, debt, consumer price index, exchange rate and political rights. Using ordinary least squares, an error correction model was employed to estimate the model.

The major finding of this study include: gross domestic product per capita and openness of the economy had a significantly positive influence on foreign direct investment between 1975 and 2005. However, telephone lines impacted negatively on foreign direct investment in the long run.

The implications from this research are that, there should be policies towards more openness of the economy; intensify efforts at improving the income levels, and the quality of telephone lines in Ghana.

Future research can be undertaken on the impact of foreign direct investment on economic growth in Ghana.

Descripteurs : Ghana, foreign direct investment

Contact : IDEP DAKAR - SENEGAL
Rue du 18 Juin, derrière l'Assemblée Nationale
BP: 3186 CP 18524 DAKAR
Tél.: (221) 823 10 20
Fax: (221) 822 29 64
E-Mail: unidep@unidep.org ou idep@unidep.org
Infos: info@unidep.org