

**UNIVERSITY OF GHANA**

**DETERMINANTS OF CHINESE FDI IN SUB-SAHARAN AFRICA  
(EVIDENCE FROM GHANA)**

**B Y**

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**A LONG ESSAY SUBMITTED TO THE DEPARTMENT OF FINANCE, UNIVERSITY  
OF GHANA, LEGON IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR  
THE AWARD OF MASTERS OF BUSINESS ADMINISTRATION IN FINANCE**

**MAY 2019**

**DECLARATION**

I, MOHAMMED SHAMUDEEN, do hereby declare that this work is the result of my own research and has not been presented by anyone for any academic award in this or any other University. All references used in the work have been fully acknowledged.

I bear sole responsibility for any shortcomings.

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**DATE**

**CERTIFICATION**

I hereby certify that this research was supervised in accordance with procedures laid down by the University.

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**(SUPERVISOR)**

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**DATE**

**DEDICATION**

To my son Majaad Saha! You are a bundle of joy!

To my wife, Elham May God bless our union.

To my mum, Rahinatu Seidu for the unconstitutional love. You've been a lifelong pillar.

## **ACKNOWLEDGEMENT**

A special thanks to my awesome wife, Elham. For the love, support and encouragement to get this project completed. Without your input, this project would have taken longer than planned.

A ton of thanks to my friend, Firdaws for your key insights on this project.

To my project supervisor, Dr. Lord Mensah, I say a big thank you for the time and guidance offered me.

I want to thank EVERYONE out there trying to make this world a better place.

Finally, to all my siblings and entire family for support and prayers. God bless you all!

**TABLE OF CONTENT**

DECLARATION -----	ii
CERTIFICATION-----	iii
DEDICATION-----	iv
ACKNOWLEDGEMENT-----	v
TABLE OF CONTENT -----	vi
LIST OF TABLES -----	ix
LIST OF FIGURES -----	x
LIST OF ACRONYMS & ABBREVIATIONS -----	xi
ABSTRACT-----	xii
CHAPTER ONE-----	1
INTRODUCTION-----	1
1.1 Background of the study-----	1
1.2 Research Problem -----	2
1.3 Research Purpose-----	5
1.4 Objectives of the Study -----	6
1.5 Research Questions -----	6
1.6 Research Methodology -----	6
1.7 Significance of the Study -----	7
1.8 Chapter Outline-----	7
CHAPTER TWO -----	9
LITERATURE REVIEW-----	9
2.1 Introduction -----	9
2.2 Concept of Foreign Direct Investment -----	9

2.3 Importance of Foreign Direct Investment to Receiving Countries-----	11
2.4 Foreign Direct Investment in Ghana -----	14
2.5 Determinants of Foreign Direct Investment in Sub-Saharan Africa-----	15
2.6 Chapter Summary -----	21
CHAPTER THREE -----	22
METHODOLOGY -----	22
3.1 Introduction -----	22
3.2 Research Design -----	22
3.3 Research Population-----	23
3.4 Samples & Sampling Procedures -----	23
3.5 Research Instruments & Model Specification-----	25
3.6 Data Analysis Procedure-----	26
3.7 Chapter Summary -----	26
CHAPTER FOUR -----	27
RESULTS, ANALYSIS & DISCUSSIONS -----	27
4.1 Introduction -----	27
4.2 Data Presentation -----	27
4.3 Descriptive Statistics -----	30
4.4 Correlation Analysis -----	30
4.5 Empirical Regression Results -----	32
4.6 Chapter Summary -----	38
CHAPTER FIVE -----	39
SUMMARY, CONCLUSION AND RECOMMENDATIONS -----	39
5.1 Introduction -----	39
5.2 Summary -----	39

5.3 Conclusion .....	44
5.4 Recommendations .....	45
REFERENCES .....	47

**LIST OF TABLES**

Table 2.1: Determinants of Foreign Direct Investment in sub-Saharan Africa.....	18
Table 4.2: Description Statistics of Variables (N = 25) .....	30
Table 4.3: Correlation Analysis (N = 25).....	31
Table 4.4: Summary Output of Regression Analysis (N = 25) .....	33
Table 4.5: Summary Output of ANOVA Analysis .....	33
Table 4.6: Summary Output of Coefficient of Variables .....	34

**LIST OF FIGURES**

Figure 4.1: Trend of Chinese Foreign Direct Investment Inflows to Ghana ('billion US\$) .....27

Figure 4.2: Distribution of Year-on-Year GDP Growth .....28

Figure 4.3: Distribution of Year-on-Year Exchange Rate .....29

Figure 4.4: Distribution of Year on Year Trade Openness .....29

**LIST OF ACRONYMS & ABBREVIATIONS**

FDI	-	Foreign Direct Investment
FMPRC	-	Ministry of Foreign Affairs of the People's Republic of China
GCM	-	Ghana Chamber of Mines
GDP	-	Gross Domestic Product
GFZA	-	Ghana Free Zones Authority
GIPC	-	Ghana Investment Promotion Center
IMF	-	International Monetary Fund
MNE	-	Multinational Enterprises
OECD	-	Organization of Economic Cooperation and Development
SPSS	-	Statistical Package for the Social Sciences
UNCTAD	-	United Nations Conference on Trade and Development

## ABSTRACT

**Motivation** – Globally, emerging economies are liberalizing their foreign direct investment regimes and adapting to best practices to attract investment.

**Purpose** – The purpose of this study was to identify the motives behind increased Chinese decision to make foreign direct investment in Ghana.

**Methodology** – The data used in this study was mainly from secondary sources consisting of yearly observations from 1993 to 2017 for the independent variables, and from 1994 to 2018 for the dependent variable. The data was sourced from databases of World Bank on worldwide governance indicators and world development indicators, and Ghana Investment Promotion Center quarterly reports. A linear regression technique was applied using the yearly data to determine the effect of political stability, natural resources, gross domestic product, inflation, market size, exchange rate, and trade openness on Chinese foreign direct investment inflows to Ghana.

**Findings** – The study established that trade openness, and market size influenced significantly the motives of Chinese to invest in Ghana, making China market-seeking investor. In the presence of political stability, natural resources, gross domestic product, inflation, and exchange rate, all seven control variables explained 98% of variability in Chinese foreign direct investment inflows to Ghana.

**Recommendations** – It was recommended that government of Ghana should develop policies to increase openness of foreign trade for domestic enterprises to take part in the global economy fully. For future research, there is need to employ larger data size to carry out the same study to find whether political stability, natural resources, and inflation would be statistically significant.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the study

Globally, emerging economies are liberalizing their foreign direct investment regimes and adapting to best practices to attract investment. As a fundamental part for successful opened international economic system, foreign direct investment (FDI) has the intention of capturing an interest of a direct investor in a firm in another economy which is known as the direct investor firm (Habanabakize & Meyer, 2018). This financial investment provides overwhelming benefits for the host country. These benefits include integration of international trade and advancement of local firm development, technology advancement and spillover, human capital development, and improvement of local business environment (Kurtishi-Kastrati, 2013). It is important to consider how to create an environment for attracting foreign direct investment to ensure that foreign direct investments are beneficial on local economies. Thus, while foreign direct investment has been considered beneficial, it is needful to describe the determinants of foreign direct investment in emerging economies.

Foreign direct investment (FDI) in emerging economies has gained rapid growth following political and financial transformation (Osei, 2014). Even though this increase has been sustained over three decades, the relative share of FDI to African countries has experienced shortfall of about 7 percent as a result of economic marginalization of the continent (Owusu-Antwi, Antwi & Poku, 2013). In order to increase the share of FDI inflows, most African countries have taken steps to ease restriction regarding FDI, institute domestic financial reforms, grant tax incentives and subsidies, strengthen macro stability, privatize state-owned enterprises, and introduce capital

account liberalization. In Ghana, legislative instruments such as Ghana Investment Promotion Act, 1994, and Free Zone Act, 1995 were enacted to grant certain tax relief and investor protection in order to catch the attention of foreign investors (Tee, Larbi & Johnson, 2017). These steps have brought increases in FDI in Ghana and have subsequently stimulated economic growth (Owusu-Antwi *et al.*, 2013).

There is cost of FDI to the economy of the host country (Tee *et al.*, 2017; Kurtishi-Kasstrati, 2013). The overall benefits from foreign direct investment accrue out of persistent efforts of the host country; therefore, the importance of these investments differs from one host country to the other depending on the prevailing conditions. It is necessary to recognize that the economic freedom gained from freedom of capital movement has the potential of clashing with loss of national sovereignty as well as adverse consequences. Habanabakize and Meyer (2018) indicate that foreign direct investment has given rise to conflicting views because it involves the control of multinational enterprises over domestic governments which possess little power. Thus, countries which receive increased foreign direct investment inflows often experience unease because of widespread concerns of excessive foreign control and other effects on national security and the economy; specifically, deficits in balance of payments, reduction in domestic research and development, reduction in competitiveness, crowding-out of domestic firms, and higher unemployment.

## **1.2 Research Problem**

Review of extant literature on foreign direct investment has revealed that extensive work has been done in the area, especially, concerning determinants of foreign direct investment (Dellis, Sondermann & Vansteenkiste, 2017; Gul, Sajid, Afzal, Khan & Mughal, 2012; Demirhan &

Masca, 2008). For instance, Dellis *et al.* (2017) investigate the role of economic structures as determinants of foreign direct investment inflows. The authors use data from advanced economies and the results of the study suggest that well-functioning economic structures are relevant for determining foreign direct investment inflows in advanced economies. In addition to economic structure, labour costs, the size of the target market, the trade openness of the recipient country, and tendency to tax economic actors are also considered as important determinants. Demirhan and Masca (2008) explore the determining factors of foreign direct investment inflows in developing countries. The empirical analysis is based on sample of cross-sectional data on 38 developing countries including Senegal and South Africa for the period 2000-2004. The result reveals that growth rate per capita, telephone main lines, degree of openness, inflation rate, and tax rate are significant for determining foreign direct investment inflows in developing countries. Gul *et al.* (2012) analyze the role of foreign direct investment and trade on growth of Pakistan economy. Secondary data was gathered from State Bank of Pakistan, Board of Investment, and Pakistan Economic Survey covering the period 1990-2008. The results show that both growth of economy and foreign direct investment have strong association, and that there is a relationship between foreign direct investment and inflation rate.

Issues relating to impact of foreign direct investment have also been discussed (Habanabakize & Meyer, 2018; Antwi, Atta Mills, Atta Mills & Zhao, 2013; Kurtishi-Kasstrati, 2013). For instance, Habanabakize and Meyer (2018) investigate the dynamic effect of foreign direct investment and interest rates on gross domestic product in South Africa. Quantitative approach was adopted to analyze the association among foreign direct investment, gross domestic product, and interest rate based on data retrieved from the South African Reserve Bank database. Findings from the study indicate that there is existence of a long-term relationship between these three variables. Thus, a

unit increase in foreign direct investment increases gross domestic product. Kurtishi-Kasstrati (2013) examines the benefits of foreign direct investment to sustainable economic growth in developing countries. The results show that maximum benefits from foreign direct investment provide incentives for innovations, improve host country skills level, and overall contribute towards competitive business environment. However, the author adds that there is need to improve on the levels of education, health and technology, ensure sufficient openness of trade, strengthen competition, and provide regulatory frameworks to accrue these benefits from foreign direct investment.

Traditionally, ventures into foreign markets are being led by developed economies and industrialized powers including the United Kingdom, the United States, France, and Germany. The United Nations Conference on Trade and Development (UNCTAD) report indicates that now, other economies like Russia, Brazil, India, and China have increasingly recognized that foreign direct investment has the potential of increasing the operational efficiency, and positive financial returns (UNCTAD, 2017). And due to this, the global foreign direct investment growth rate has exceeded that of other key macroeconomic indicators like gross domestic product, export volume, and domestic investments. In sub-Saharan Africa, China has stepped up investment efforts and takes significant position in the region (Frimpong, 2011; Foster, Butterfield, Chen & Pushak, 2009). Significantly, this may be as a result of a 2006 partnership agreement between some Asian countries and sub-Saharan Africa (Frimpong & Nubuor, 2013; Campbell, 2007).

Since then, Chinese foreign direct investment has been rising in the sub-region, while the increasing interests of China in sub-Saharan African manifest beyond rising foreign direct investment figures. Relationships such as Forum on China-Africa Cooperation bring improved relationships. And at a recent forum, the Johannesburg Action Plan 2016-2018, the Ministry of

Foreign Affairs of the People's Republic of China (FMPRC) reports the outlines of issues discussed including corporation agendas in domains of politics, security, culture, and social development (FMPRC, 2015). Economically, issues pertaining to food security, infrastructure development, and natural resource trades, and that China pledged to increase its foreign direct investment from about USD33 million in 2014 to USD100 million by 2020 (Wolf, Wang, Warner, 2013). Of major interests is the uniqueness of China. Chinese outward FDI is relatively new but has fast-growing feature of the global economy. The FDI outflows are creating concerns and uncertainties in many countries which received such FDI inflows because they are state-owned and managed, hence Chinese government has influence over policy directions of major Chinese corporations (Robins, 2013). And in Ghana, the first China-Ghana official diplomatic relations dated back to 1960 (Frimpong & Nubuor, 2013), where the Nkrumah government together with the Communist Party formed an ally to decolonize Africa. In 1989, Jerry John Rawlings sent a high-level official to China to support China to overcome international criticism and isolation. In 1990, China disbursed its first interest free loan of US\$7,114,897 to Ghana and allowed Chinese construction companies to gain footing in Ghana. In recent time, there seems to be an increase interest of China in Ghana specifically, and sub-Saharan Africa as a whole. Meanwhile, it is unclear what makes China develop such interests in foreign direct investment (Habanabakize & Meyer, 2018) in Ghana.

### **1.3 Research Purpose**

The purpose of this study is to identify the motives behind increased Chinese decision to make FDI in Ghana. Recently, China has signed US\$15 billion loan to fund transformation agenda of Akufo-Addo led government, and US\$2 billion Ghana-Sinohydro infrastructure agreement among several FDI (Ghana Investment Promotion Center, 2018). Therefore, it is needful to assess and

relate the determinants of FDI in emerging economies like Ghana because what makes China to develop interests in FDI in Ghana is not known (Habanabakize & Meyer, 2018).

#### **1.4 Objectives of the Study**

The following are the objectives of the research:

1. To determine the factors influencing the motives of Chinese to invest in Ghana.
2. To describe the relationships between the factors and the FDI in Ghana.

#### **1.5 Research Questions**

The study questions include:

1. Which factors influence the motives of Chinese to invest in Ghana?
2. What is the extent of relationships that exist between the factors and the FDI in Ghana?

#### **1.6 Research Methodology**

The study uses a quantitative approach to identify the motives behind increased Chinese decision to make foreign direct investment in Ghana. Qualitative research approach is based on objective facts, numerical data, and its use helps researchers to generate statistics which can be generalized, and to look at relationships between variables to determine cause and effect (Boateng, 2016). This approach has been adopted by several researchers who studied similar topic on foreign direct investment (Habanabakize & Meyer, 2018; Dellis *et al.*, 2017; Gul *et al.*, 2012; Demirhan & Masca, 2008). Notwithstanding this, it is difficult to use this approach for explaining social phenomena, and cannot account for human emotions (Yin, 2015). Data has been collected through secondary sources including database of World Bank on worldwide governance indicators (WGI)

and world development indicators (WDI). Specific data on Chinese FDI inflows into Ghana would also be obtained from the Ghana Investment Promotion Center (GIPC). Some earlier researchers adopted the use of panel data for the purpose of determining how worldwide governance indicators and world development indicators relate to foreign direct investment (Claasen, Loots, & Bezuidenhout, 2013; Frimpong & Nubuor, 2013). This study used data from a timespan of twenty five years, from 1993 to 2017. Both descriptive statistics and inferential statistics were computed. The mean and standard deviation formed the basis for the descriptive statistics, and linear regression formed the basis for regression

### **1.7 Significance of the Study**

The results of this study would be significant for both practitioners and researchers. For practitioners, the study would outline the main factors that motivate Chinese to make decision for foreign direct investment in Ghana. Developed countries as well as other nations which act FDI donors on the international stage are better placed to consider the findings and draw lessons from China's approach. To the Ghana, the findings help to explain the amount of foreign direct investment received and the reasons why these amounts are received compared to other countries. For researchers, the study would contribute updated and new insights to academia.

### **1.8 Chapter Outline**

Chapter One provides background information to the topic, and gives a succinct review of literature to position the research problem. The research purpose, research objectives, and research questions are also presented. In addition, the chapter provides an outlook of how data would be collected, analyzed and presented in the methodology section, as well as the significance of the study. Chapter Two provides detailed literature review on major topics including the concept of

foreign direct investment, advantages and disadvantages of foreign direct investment to the receiving country, and the determinants of foreign direct investment in sub-Saharan Africa. The chapter also presents a proposed research framework. Chapter Three provides the research methodology. The chapter explains the research design, the data source, variables, data collection method, data processing and mode of analysis. Chapter Four provides the findings, analysis and discussion of results obtained from the data gathered from the panel data. Chapter Five provides a summary of information presented preceding chapters, chapter one, chapter two, chapter three and chapter four. The chapter provides a conclusion and recommendations towards practice and future researches.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter provides detailed analysis of extant literature concerning the topic, determinants of Chinese FDI in Africa with emphasis on major topics including FDI as a concept, importance of FDI to the receiving country, and the determinants of FDI in sub-Saharan Africa. Critical and synthesized literature review is needed (Boateng, 2016) as a means of indicating the findings of other researchers, as well as presenting a framework for comparing findings from the study with existing findings.

#### 2.2 Concept of Foreign Direct Investment

A unique forum of democratic governments, the Organization of Economic Cooperation and Development (OECD) indicates that foreign direct investment serves as a monumental driver of integrating international economies, and consequently requires the right policy framework to give financial stability, encourage economic development, and improve societal wellbeing (OECD, 2008). The concept of foreign direct investment has been assigned different meaning, but the most common definitions are based on International Monetary Fund (IMF) fifth edition of Balance of Payments Manual, and OECD Benchmark Definition. For instance, the IMF (1993) explains foreign direct investment as a direct investment relationship existing between a resident enterprise in one economy (direct investor) and an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor, when the direct investor has control (possesses over 50% of the voting power) or influence (from 10% to 50%) over the direct investment

enterprise. This means that the direct investment reflects the objective of creating a lasting interest between the direct investment enterprise and the direct investor. OECD (2008) argues for the need to provide a world standard for FDI statistics to serve as single reference point for statisticians and users. Consequently, FDI is considered to reflect the objectives of establishing a lasting interest in an enterprise (the direct investment enterprise) by a resident enterprise in one economy (direct investor) such that the investment occurs in another economy other than that of the direct investor. For such relationship to exist, the direct investor must have ownership of at least 10% of the voting power of the enterprise resident in one economy. Both definitions agree on level of relationship and level of control. Thus, the lasting interest involves the existence of long-term relationship, and significant level of control on management of the enterprise (Habanabakize & Meyer, 2018).

Literature on DFI started emerging in the last three decades (Owusu-Antwi *et al.*, 2013). Buckley (1990) indicates that the role of multinational enterprises was considerably underestimated prior to the World War I. Multinational enterprises (MNEs) are those businesses that undertake foreign direct investments by creating a new foreign enterprise, acquisition of a foreign firm. However, towards the beginning of the twentieth century, over US\$14 billion was invested as a channel to transfer resources between countries to undertake capital-intensive operations in technology-intensive manufacturing industry, and FDI was established as a vehicle for international economic involvement. The increasing significant role of multinational enterprises is outstandingly recorded between 1946 and 1967 when investments of US companies in their foreign subsidiaries increased at two times the rate of the domestic assets of US corporations.

There are different aspects of foreign direct investment that constitute the investment capital. OECD (2008) indicates the need for FDI to have included the initial equity transaction of 10%

threshold and all subsequent financial transactions. This is to say that the capital of FDI is divided into (i) equity and then (ii) debt-based items. Equity encompasses firms' shares in transactions, firms' subscription of share in rights issues, and other transactions in equity. The debt capital of FDI encompasses loans, leasing, individual deposits in consolidated accounts, bonds, subordinate loans, trades, accrued and deferred charges, and money market instruments.

### **2.3 Importance of Foreign Direct Investment to Receiving Countries**

The role of foreign direct investment is considered as one of the most important contributors of economic growth and development. In the past three decades, there has been remarkable growth in foreign direct investments flow all over the world. The reason for this heavy flow is because many developing countries have realized this as an important element in their overall strategy for economic development (Tee, Larbi & Johnson, 2017). There are several reasons cited to support foreign direct investment. For instance, Dutse (2008) indicates that in Nigeria, foreign direct investment facilitates economic growth by generating efficiency and technological spillovers to local enterprises, and promoting innovation and human capital development. Habanabakize and Meyer (2018) found in South Africa that increased in foreign direct investment slightly increases gross domestic product (GDP) in the long run. Krishnakumar, Sethi and Chidambaran (2014) explain that in India, foreign direct investment encourages the development of strategic partnerships with Africa in terms of regulations, mergers and acquisitions to create more value. Kurtishi-Kasstrati (2013) stresses the exceptional impact of foreign direct investment on the economic development of Macedonia that large-scale privatizations have brought revenues to government and alleviated the burden of losses through guidance and restructuring. Noor, Ali, Alam and Islam (2016) indicate that in Bangladesh, foreign direct investment allows transfer of technology, contributes to human resource development, increases positive competition in the

domestic input market, and contributes to revenues from corporate tax in the host country. OECD (2002) shows that foreign direct investment assists human resource formation, triggers technology spillovers, promotes more competitive environment for businesses, contributes to integration of international trade, and enhances enterprise development. Owolabi-Merus (2015) found that in Nigeria, foreign direct investment makes little contribution to gross domestic product (GDP) and entire economic growth. Susic, Stojanovic-travanovic and Susic (2017) shows that in Bosnia and Herzegovina, inflow of foreign capital is fundamental to economic growth as it impacts on macroeconomic variables. In Ghana, Tee *et al.* (2017) notes that increasing trend of foreign direct investment inflows increases GDP, boosts capital formation, and enhances quality of stock.

From an analysis of these findings, it is inferred that there are two main ways that foreign direct investment contributes to the economic growth of a host country. These ways are augmentation of domestic capital (Habanabakize & Meyer, 2018; Tee *et al.*, 2017; Susic *et al.*, 2017; Owolabi-Merus, 2015; Kurtishi-Kasstrati, 2013), and improvement of efficiency (Noor *et al.*, 2016; Krishnakumar *et al.*, 2014; Dutse, 2008; OECD, 2002). In terms of augmentation of domestic capital for instance, foreign direct investment offers a source of external capital and increases revenue (Tee *et al.*, 2017). Thus, when large factories are constructed in developing countries and developing economies, at least, these countries use some materials, local labour and equipment in the construction. In doing this, foreign money is pumped into the economy and new jobs are created. Additionally, when the construction work is done, local employees have to be hired, and probably local materials and services have to be used. Further jobs and new businesses are created as a result, and these new jobs mean that locals have more money to spend, thereby creating even more jobs. Thus, augmentation of domestic capital through foreign direct investment leads to lead to economic development (Habanabakize & Meyer, 2018). In addition to job creation, tax revenue

is generated as a result of activities and products of the factory. This tax revenue comes from taxes imposed on the factory workers income and purchases, and taxes on the income and purchases from added economic activity created by the factory (Susic *et al.*, 2017). Governments from developing countries use the capital infusion, as well as revenue emanating from economic growth improve infrastructure like communication systems, roads, and educational institutions. Also, there is the advantage to subsidize creation and development of new domestic industries, as local firms develop strategic alliance with foreign direct investors (Tee *et al.*, 2017). As such, the host economy establishes new markets, and the multinational enterprise gets access to the new market through these partnerships. In terms of improvement of efficiency, foreign direct investment creates opportunity for learning by exposing local enterprises and citizens to new business practices, marketing and managerial skills, innovation, economic concepts, technology and best practices to help develop local industries (OECD, 2002).

A foreign direct investment provides advantages to the multinational enterprise. Foreign direct investment becomes an effective means of entering into a foreign market. Some economies have strict limits on foreign enterprise access to their domestic markets; as such, acquiring a business in the market forms the basis for gaining access to the market. However, the multinational enterprise access to the market has the likelihood of derailing local businesses. Thus, the entry of multinational enterprises supermarket and hypermarket chains creates severe displacement of small and unorganized shopkeepers and traders (Noor *et al.*, 2016). Another advantage for multinational enterprises is access to resources. FDI is a valuable means of acquiring very essential natural resources such as like fossil fuels as well as precious metals. The influence of this on local economy is that prices paid to producers of raw materials are pushed down and producers who are unable to accept such concessions are put out of business (Dutse, 2008).

## 2.4 Foreign Direct Investment in Ghana

Foreign direct investment (FDI) plays major role in achieving rapid economic development in developing countries (Mottaleb & Kalirajan, 2010). Among the developing countries, some few countries, like Ghana, Nigeria, and Sudan are main FDI recipient countries because alluring certain factors. Ghana has a long history of cocoa, gold and other mineral resources. According to the Ghana Chamber of Mines (GCM), from 1493 to 2017, an estimated gold produced amount to 4,000 metric tons. Apart from South Africa, Ghana is the second largest producer of gold in Africa. As such, the country has been making efforts to attract foreign direct investment (FDI) through these resources (Osei, 2014). The efforts include implementing Economic Recovery Programme, Structural Adjustment Programme, and instituting Ghana Investment Promotion Center (GIPC). In this, the government of Ghana provides useful protection and guarantees to foreign investors through the GIPC Act by permitting free transferability of net profits and dividends that are attributable to investments in Ghana. GIPC (2017) reports that foreign direct investment component of the estimated value of registered projects amount to US\$2,954.61 million in first quarter of 2017 with Netherlands being first, followed by India and UK, and China being fourth. According to the Ghana Free Zones Authority (GFZA), as at 2017, Ghana placed the 7<sup>th</sup> position in the league of countries that attract FDI in Africa obtaining 43 projects out of 716 FDI projects that flowed to Africa (GFZA, 2018).

Various recommendations are provided to support existing efforts for attracting foreign direct investment in Ghana. For instance, Wafure and Abu (2010) recommend policies for expanding Ghana's GDP, and reducing government interference in economic activities. Owusu (2017) makes a call for an enabling socio-economic environment through Ghana Free Zones Authority, and Ghana Investment Promotion Centre. Notwithstanding, Majavu and Kapingura (2017) point out

that there is the need for mobilizing domestic savings, given that events outside a host country have critical effects on the flow of foreign direct investment.

## **2.5 Determinants of Foreign Direct Investment in Sub-Saharan Africa**

There are major determinants antecedent to FDI in host countries. For instance, Owusu (2017) examines major determinants of FDI in Ghana by employing time series annual data over the period between 1980 and 2014. The results indicate that natural resources, openness of nation's economy and market, interest rate regime, size of government expenditure, and infrastructure are determinants of Ghana FDI. Majavu and Kapingura (2017) carry out a study to identify determinants of FDI inflows into South Africa by employing quarterly data between 1980 and 2012. The results reveal that openness, corporate tax, GDP, inflation, and exchange rate are major determinants of South Africa FDI. Kishor and Singh (2015) examine factors determining foreign direct investment of BRICS countries employing panel dataset between 1994 and 2014. The results indicate that foreign exchange rate (FOREX), gross domestic product (GDP), infrastructure index, stock market capitalization, and stock market turnover ratio influence FDI inflows. Adi, Wobilor and Adimani (2015) determine factors affecting FDI in Nigeria using data covering the period from 1980 to 2013. The result shows that per capita, education, economic growth, and openness, and currency depreciation have effect on FDI. Ali, Faki and Suleiman (2018) examine determinants of foreign direct investment inflows in SADC member countries employing data from 1995 to 2016. Results show that trade openness, inflation, market size, and infrastructure are significant determinants of FDI inflow in SADC countries.

Also, Arawomo and Apanisile (2018) investigate key determinants of FDI in telecommunication sector in Nigeria using annual data from 1986 to 2014. The findings show that market size and

trade openness positively influence FDI inflow and inflation and interest rate negatively influence FDI inflow. Djokoto and Dzeha (2012) review published papers on foreign direct investment on Ghana. The authors identify exchange rate, inflation, trade openness, and size of economy as factors that determine inflow of FDI into Ghana. Dondashe and Phiri (2018) examine macroeconomic determinants of FDI for the economy of South Africa using data between 1994 and 2016. The results show that per capita GDP, government size, and trade openness are significant macroeconomic determinants of FDI in South Africa. Ebiringa and Emeh (2013) examine the determinants of foreign direct investment inflows in Nigeria using data from the period 1980 to 2010. Findings indicate that GDP, exchange rate, interest rate, and inflation exerted long term effects on FDI inflows.

Additionally, Mottaleb and Kalirajan (2010) examine factors that determine FDI inflow to developing countries. Finding indicates that countries with higher GDP growth rate and business friendly environment are more likely to attract FDI. Owusu-Antwi, Antwi, Ashong, and Owusu-Peprah (2016) empirically determine factors influencing FDI flows in Ghana from 1983 to 2012. The results register exchange rate, openness of trade, inflation, and natural resources have significant influence on FDI inflows. Senkuku and Gharlegh (2015) explore various variables that affect foreign direct investment inflow in Tanzania. The results point to government terms and regulations, natural resources, new technology and infrastructure as variables affecting foreign direct investment in Tanzania. Wafure and Abu (2010) investigate the determinants of FDI in Nigeria. The results reveal that the main determinants of FDI in Nigeria are political instability, market size, deregulation, and exchange rate.

Moreover, Wasseja and Mwenda (2015) seek to conduct an investigation on the determinants of FDI in Kenya using data covering the period 1980-2013. The results indicate that economic growth rate, open economies, exchange rate, and inflation are the determinants of FDI inflow in Kenya. Ndem, Onyebuchi and Udo (2014) examine the determinants of FDI in Nigeria from 1975 to 2010. Findings from the study indicate that market size, market openness, exchange rate and political risk are the determinants of FDI in Nigeria. Nyarko, Nketiah-Amponsah and Barnor (2011) investigate how exchange rate regime affects FDI inflows in Ghana using dataset from 1970 to 2008. Finding indicates that exchange rate has weak discernable effect on FDI inflow in Ghana. Djokoto (2012) investigates the factors attracting FDI into the Agricultural sector of Ghana between 1970 and 2009. Exchange rate, GDP per capita, trade openness, and land resources are the factors which attract FDI inflows in Ghana.

Careful analysis of these studies shows dominant of certain antecedents of foreign direct investment in sub-Saharan Africa. Table 1 indicates a summary of seventeen scholarly articles reviewed on determinants of foreign direct investment in sub-Saharan Africa. There is indication that political stability was the least factor found to influence FDI inflows in sub-Saharan Africa (n=3). The issue has been found insignificant for the past half decade. Natural resources as a factor was also least identified to influence FDI inflows (n=4). GDP, inflation, and market size were moderately identified as factors influencing FDI inflows in sub-Saharan Africa (n=8). Among these, market size has become a main factor influencing FDI in the last few years. Exchange rate was found to be a great determinant of FDI inflows (n=10), with trade openness being the most significant factor (n=12) among all the factors influencing FDI inflows in sub-Saharan Africa.

## 1. Political stability

Political stability creates a climate of high confidence for investment (Adi et al., 2015). It is perceived as a serious deterrent to foreign direct investment because it carries uncertainties, increases risks, and increases costs of doing business. Ndem et al. (2014) indicate that high political risk is unfavourable to FDI inflow. Wafure and Abu (2010) reveal a significant positive effect of political stability on FDI inflows. Senkuku and Gharlegh (2015) explain that political stability helps government to put up the right regulations for competitive packages and tax regimes.

**Table 2.1: Determinants of Foreign Direct Investment in sub-Saharan Africa**

#	Study	Trade openness	Political stability	Natural resources	GDP	Exchange rate	Inflation	Market size
1.	Mottaleb & Kalirajan (2010)	x			x			
2.	Wafure & Abu (2010)		x			x		x
3.	Nyarko et al. (2011)					x		
4.	Djokoto (2012)	x		x	x	x		
5.	Djokoto & Dzaha (2012)	x				x	x	x
6.	Ebiringa & Emeh (2013)				x	x	x	
7.	Ndem et al. (2014)	x	x			x		x
8.	Adi et al. (2015)	x			x		x	
9.	Kishor & Singh (2015)				x	x		x
10.	Senkuku & Gharlegh (2015)		x	x				
11.	Wasseja & Mwendu (2015)	x			x	x	x	
12.	Owusu-Antwi et al. (2016)	x		x		x	x	
13.	Majavu & Kapingura (2017)	x			x	x	x	
14.	Owusu (2017)	x		x				x
15.	Ali et al. (2018)	x					x	x
16.	Arawomo & Apanisile (2018)	x					x	x
17.	Dondasha & Phiri (2018)	x			x			x
		n=12	n=3	n=4	n=8	n=10	n=8	n=8

*Source: Author (2019)*

## **2. Natural resources**

Natural resources provide a wide range of FDI opportunities including arable lands, unexploited mineral reserves, and tourist attractions (Senkuku & Gharlegh, 2015). Djokoto (2012) indicates that natural resources, such as land, provide very little influence on FDI. According to Senkuku and Gharlegh (2015), there is a positive and significant relationship between FDI and natural resources, as abundant natural resources serve as an alluring factor for investors. Owusu (2017) proposes a long-term negative relationship between FDI and endowment of natural resource.

## **3. Gross Domestic Product, GDP**

High economic growth serves as an indicator for development potential, and provides opportunities for profit making (Adi *et al.*, 2015). Dondashe and Phiri (2018) indicate that there is a positively and significantly relationship between GDP and foreign direct investment. Also, Ebiringa and Emeh (2013) suggest that GDP put a long-term positive effect on foreign direct investment flows. Moreover, Wasseja and Mwenda (2015) identify GDP as a significant determinant of foreign direct investment inflows.

## **4. Inflation**

Ebiringa and Emeh (2013) argue that macroeconomic uncertainties, like inflation, imply higher cost for firms, as such lead to incurring additional expenditure towards ensuring protection against risks. Ali *et al.* (2018) propose a negatively significant relationship between inflation and FDI inflow. Djokoto and Dzeha (2012) support Ali *et al.*'s (2018) stand, and conclude that high inflation leads to low foreign direct investment inflows. Adi *et al.* (2015) also allude to the fact that inflation has significant negative effect on FDI attraction to an economy.

## **5. Market size**

Large market is fundamentally necessary for efficient deployment of resources and exploitation of economies of scale (Adi *et al.*, 2015). This is a measure of population per capita, and is a major factor that influences FDI flow. There is a positive significant relationship between FDI and market size (Arawomo & Apanisate, 2018). Ali *et al.*'s (2018) findings indicate that countries that have large market size draw the investment as compared with countries with small market size. Also, Djokoto and Dzaha (2012) allude that the size of an economy is a notably determinant of foreign direct investment inflow.

## **6. Exchange rate**

The value of one currency for the conversion of another attracts foreign investors. Adi *et al.* (2015) expect a negative relationship between foreign direct investment and exchange rate. There is a positive but insignificant relationship between exchange rate and FDI inflow (Nyarko *et al.*, 2011). Ndem *et al.* (2014) explains that the depreciation of currency has negative impact on foreign direct investment inflow, as less amount of foreign exchange from parent country to invest in host country is a major boost for FDI inflow. Wasseja and Mwenda (2015) identify that an increase in exchange rate leads to appreciation of domestic currency, as a result, exchange rate has positive significant correlation with foreign direct investment.

## **7. Trade openness**

A country's degree of openness to internal trade is relevant for attracting foreign direct investment (Adi *et al.*, 2018). Trade openness is determined as the ratio of imports plus exports to gross domestic product. The higher degree of openness of an economy shows more open and liberalized

economic and trade regime. As a result, trade openness has negative effect on FDI inflows. Dondashe and Phiri (2018) note that trade openness to contribute to attracting foreign direct investment into a country. Owusu (2017) suggests that trade liberalization is an insignificant determinant of foreign direct investment inflows. Mottaleb and Kaliranjan (2010) found that a more friendly environment for enterprises is more successful in obtaining FDI.

## **2.6 Chapter Summary**

The chapter provided detailed analysis of extant literature concerning the topic, determinants of Chinese FDI in Africa with emphasis on major topics including FDI as a concept, importance of FDI to the receiving country, and the determinants of FDI in sub-Saharan Africa.

## CHAPTER THREE

### METHODOLOGY

#### 3.1 Introduction

This chapter gives an explanation for the steps taken to achieve the research objectives. As stated in the Chapter One, the objectives of this study are, first, to determine the factors influencing the motives of Chinese to invest in Ghana, and second, to describe the relationships between the factors and the foreign direct investment in Ghana. Major topics which are included in this chapter are research design, research population, samples and sampling procedures, research instruments and model specification, and data analysis procedure.

#### 3.2 Research Design

The study used a quantitative approach to identify the motives behind increased Chinese decision to make FDI in Ghana. Quantitative research approach is based on objective facts, numerical data, and its use helps researchers to generate statistics which can be generalized, and to look at relationships between variables to determine cause and effect (Boateng, 2016). This approach has been adopted by several researchers who studied similar topic on foreign direct investment (Habanabakize & Meyer, 2018; Dellis *et al.*, 2017; Bokpin, Mensah & Asamoah, 2015; Gul *et al.*, 2012; Djokoto, 2012). For instance, Dellis *et al.* (2017) investigate the role of economic structures as determinants of foreign direct investment inflows by adopting quantitative and statistical artifacts like financial round tripping. Bokpin *et al.* (2015) quantitatively demonstrate that natural resources influence foreign direct investment inflow to Africa. Djokoto (2012) investigates the factors attracting FDI into the Agricultural sector of Ghana between 1970 and 2009. The author

uses quantitative approach to establish an exponential growth equation for foreign direct investment and other influential variables. Notwithstanding this, it is difficult to use this approach for explaining social phenomena, and cannot account for human emotions (Yin, 2015).

### **3.3 Research Population**

The research population was any World Bank development, governance and economic database containing data on Ghanaian performance over the years. These databases were considered appropriate for the study because they compile cross-country comparable data on development, governance and economies. They also contain over 1,600 time series indicators covering for 217 economies, and at least 40 country groups, for a period of more than 50 years. Several studies use World Bank databases for similar topics (Arawomo & Apanisile, 2018; Adi *et al.*, 2015; Nyarko *et al.*, 2011). For instance, Nyarko *et al.* (2011) deploy World Bank databases to obtain dependent and explanatory variables from 1970 to 2008. Arawomo and Apanisile (2018) use data from World Bank database for World Development Indicators covering the period from 1986 to 2014. Additionally, Adi *et al.* (2015) obtain data from World Bank's database to determine the effect of selected variables on foreign direct investment inflows.

### **3.4 Samples & Sampling Procedures**

Boateng (2016) holds the view that the size of a study population is large, and the time and other resources available are limited; hence, the need to sample a few from the population. In this study, a probabilistic sampling technique, a technique that allows every unit of the population to have equal chance of being selected to participate in the research activity was adopted. Doku (2015) indicates that probabilistic sampling is representative of the population, and therefore gives a strong support for generalization of findings from the study. This technique of data collection

reflects other studies of similar topics (Dondashe & Phiri, 2018; Bokpin *et al.*, 2015). Data for FDI was from 1994 to 2018. For the other variables, the size of data was from 1993 to 2017, which sum up to 25. The data for FDI was delayed one year to ensure that the effects of the other variables influence the FDI values.

As indicated earlier, data was collected from the World Bank databases for worldwide governance indicators and world development indicators. Foreign direct investment (FDI) is the measure of net annual investment inflows from China. Data on FDI was obtained from world development indicators database and Ghana Investment Promotion Centre. Political stability (POL) is the measure of confidence for investment. A combination of political rights index and civil liberties index were used to compute political stability measure. All data for political stability was obtained from world governance indicators database. POL is expected to have positive impact on FDI. Natural resource (NRE) is the measure of share of fuel and mineral exports. Data on natural resources was obtained from world development indicators database, and it was expected to have positive influence on FDI.

Also, gross domestic product (GDP) is the measure of economic growth. All data on GDP was obtained from world development indicators database. Year on year growth was determined as change in GDP, and it was expected to have positive relationship with FDI. Inflation (INF) is the measure of annual purchasing power of a nation's currency. Data on INF was obtained from world development indicators database, and it was expected to negatively affect FDI. Market size (MKT) is the measure of GDP per capita. Data on MKT was obtained from world development indicators database. It was expected to be positively related to FDI inflow. Exchange rate (EXC) is a measure of the value of one currency for the conversion of another attracts foreign investors. All data on

EXC was obtained from world development indicators database. Annual change was determined as change in exchange rate in percentages, and it was expected to have negative relationship with FDI inflow. Trade openness (TOP) is the measure of the ratio of imports plus exports to gross domestic product. Data on TOP was obtained from world development indicators database. Year on year growth was determined as change in trade openness, and it was expected to be positively related to FDI inflow.

### 3.5 Research Instruments & Model Specification

Both descriptive statistics and inferential statistics were employed with the aid of SPSS. The descriptive statistics was employed to explain the basic characteristics of the data. The mean and standard deviation of each variable together with the minimum value and maximum value were indicated. In terms of the inferential statistics, a multiple linear regression model was performed to evaluate a linear linkage between variables employed in this study. The logic for the multiple linear regression model used was based on the fact that political stability, natural resources, gross domestic product, inflation, market size, exchange rate, and trade openness have potential positive or negative effect on FDI inflow. Correlation analysis was employed to describe the degree to which each variable related to the other.

The model was of the form:  $FDI_{it} = \beta_0 + \beta_1 POL_{it-1} + \beta_2 NRE_{it-1} + \beta_3 GDP_{it-1} + \beta_4 INF_{it-1} + \beta_5 MKT_{it-1} + \beta_6 EXC_{it-1} + \beta_7 TOP_{it-1} + \xi_{it}$

Where,  $FDI_{it}$  is the total FDI inflow from China to Ghana in the particular period  $t$ .  $POL_{it-1}$  is the political stability and the level of confidence to invest in Ghana in the previous year of a particular period.  $NRE_{it-1}$  is the total natural resources in Ghana.  $GDP_{it-1}$  is the year on year change in gross domestic product in Ghana.  $INF_{it-1}$  is the inflation.  $MKT_{it-1}$  is the market size.  $EXC_{it-1}$  is the year

on year in change in exchange rate.  $TOP_{it-1}$  is the year on year change in trade openness, and  $\xi_{it}$  is the stochastic effect in the particular period.

### **3.6 Data Analysis Procedure**

The data obtained from the worldwide governance indicators, world development indicators, and Ghana Investment Promotion Center reports as applicable to a particular variable was prepared first in Microsoft Office Suite (Excel component) and then transported to the SPSS tool. Univariate data analysis was carried out on the eight time series data, and simple data diagnostics were followed by the time series analysis. Regression analysis was, then, executed based on the regression model specified above to establish linkage between the variables. Results from the analysis were then presented in tables and figures for clearer understanding.

### **3.7 Chapter Summary**

This chapter gave an explanation for the steps taken to achieve the research objectives. Major topics which were included in this chapter were research design, research population, samples and sampling procedures, research instruments and model specification, and data analysis procedure. Subsequently, ethical considerations were stated.

## CHAPTER FOUR

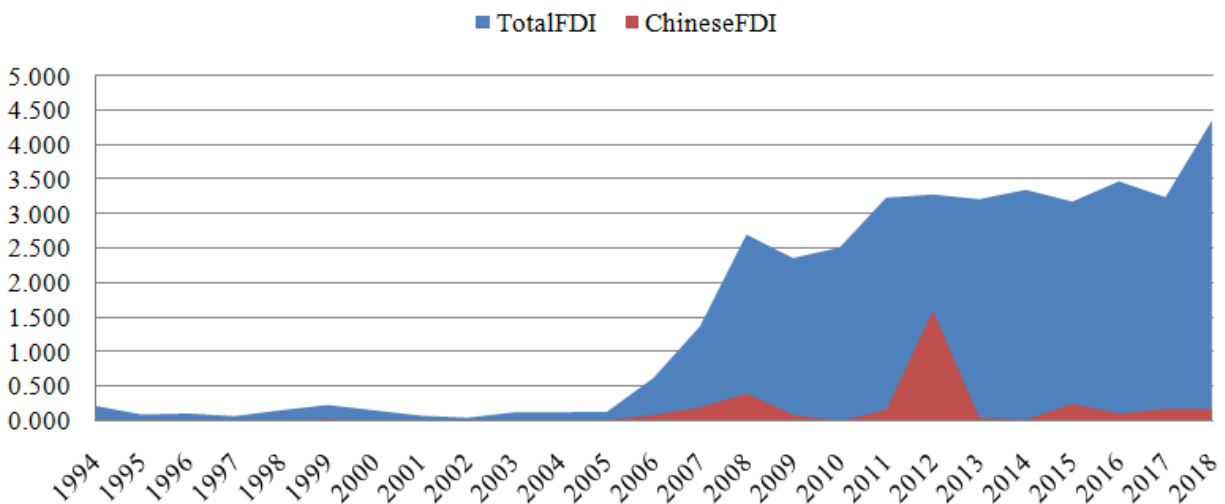
### RESULTS, ANALYSIS & DISCUSSIONS

#### 4.1 Introduction

This chapter provides responses to the research questions posed in Chapter One. These objectives are (1) to determine the factors influencing the motives of Chinese to invest in Ghana, and (2) to describe the relationships between the factors and the FDI in Ghana. Main sections in this chapter include data presentation, descriptive statistics, correlation analysis, and empirical regression results.

#### 4.2 Data Presentation

**Figure 4.1: Trend of Chinese Foreign Direct Investment Inflows to Ghana ('billion US\$)**

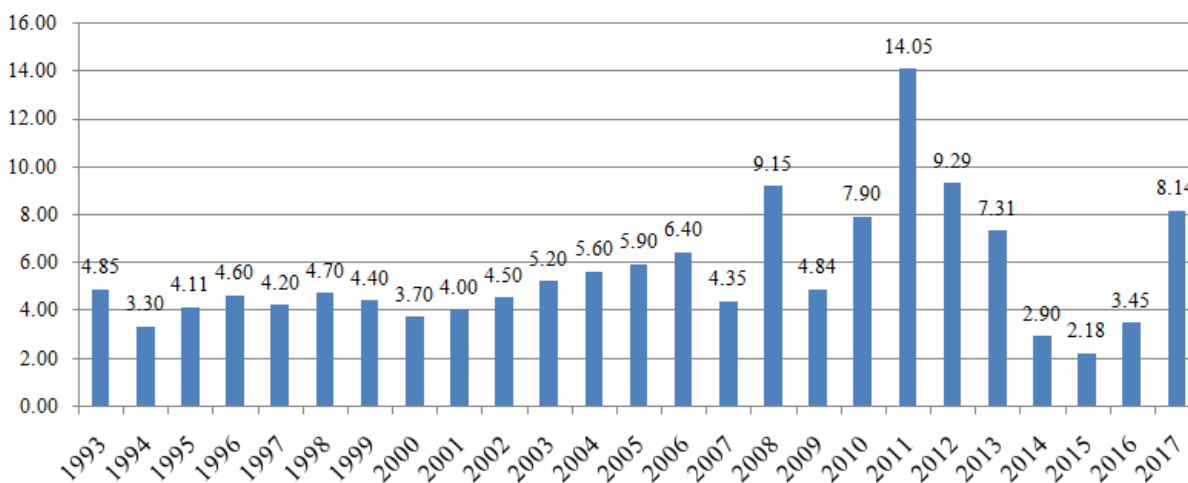


*Source: World Bank (2019), GIPC (2018)*

Figure 4.1 presents the trend of Chinese FDI inflows to Ghana from 1994 to 2018, a period of 25 years. The figure shows that Chinese FDI inflows to Ghana's economy is nothing compared to the total FDI inflows. The trend shows that after a low inflow in the 1990's, the FDI inflows drastically

increased in the 2000s. Specifically, there has been substantial leap in 2012 with an FDI value of US\$ 1,610 million. Since then, Chinese FDI inflows dropped and in 2018, its value was US\$185 million.

**Figure 4.2: Distribution of Year-on-Year GDP Growth**

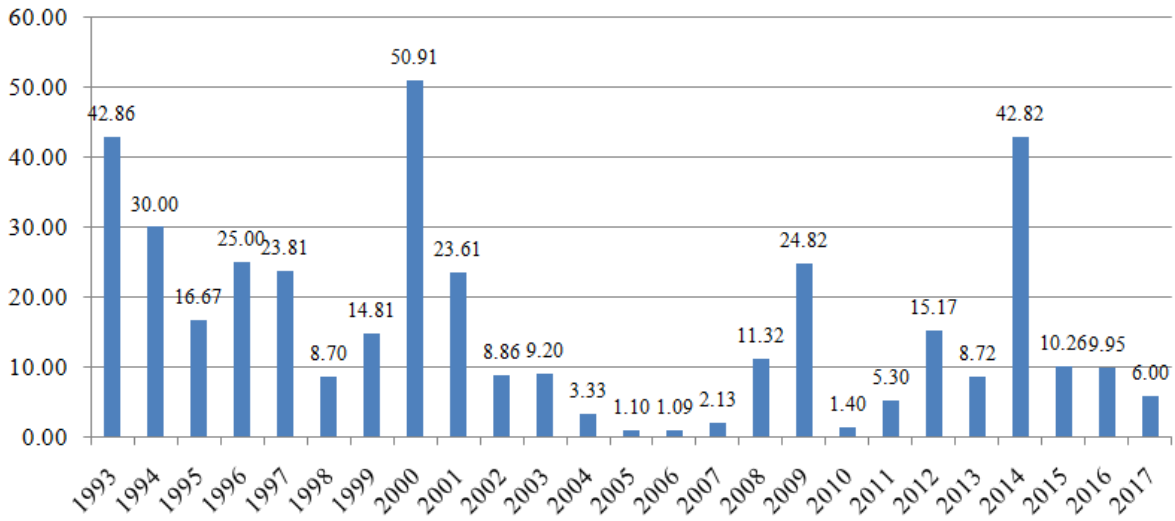


*Source: World Bank (2019)*

Figure 4.2 presents the distribution of GDP growth from 1993 to 2017. From the figure, the rate of growth in GDP was consistent between 2000 and 2006. Since then, the rate has been fluctuating, and had recorded the highest growth of 14.05% in 2011, and then dropped to a significant 2.18% in 2015. In 2017, the rate growth rate had picked up to 8.14%.

Figure 3 presents the distribution of year on year exchange rate (Cedis: US\$) from 1993 to 2017. The figure shows that the Cedis has been depreciating against the US\$ for a very longtime. In 2000, the rate of depreciation increased to 50.91%. However, in 2005, the rate slowed to 1.10%. In 2015, the rate of depreciation started showing a low movement, from 10.26% to 6.00% in 2017.

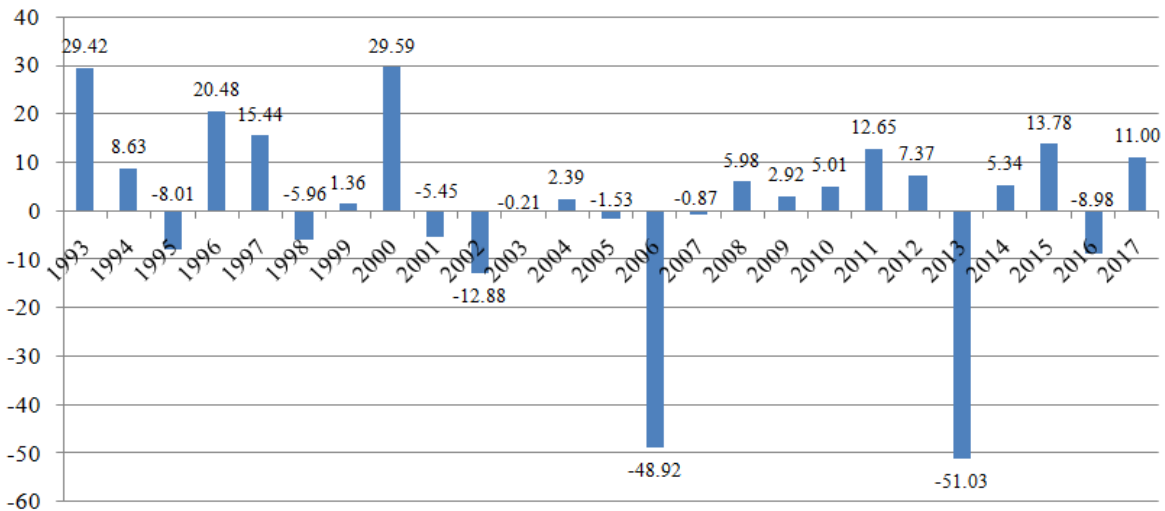
**Figure 4.3: Distribution of Year-on-Year Exchange Rate**



*Source: World Bank (2019)*

Figure 4.3 presents the distribution of rate of trade openness from 1993 to 2017. It is revealed that Ghana’s trade has been shrinking sharply relative to it has been opening. The best rate of market openness occurred in 2000 (29.59%), and its worst occurred in 2013 (-51.03%).

**Figure 4.4: Distribution of Year on Year Trade Openness**



*Source: World Bank (2019)*

### 4.3 Descriptive Statistics

Table 4.2 presents the descriptive statistics of the variables under study. From the table, apart from political stability (POL) and trade openness (TOP), all the other variables have coefficient of skewness to be positive. This means that the values of all these variables (apart from POL and TOP) fall toward the lower side of the scale and there are few high values. Furthermore, apart from inflation (INF), all of the other variables have values for kurtosis was below normal distribution which forms the benchmark of value 3, confirming that the data sets are near normality.

**Table 4.2: Description Statistics of Variables (N = 25)**

	FDI' billion	POL	NRE	%GDP	INF	MKT	%EXC	%TOP
Min	0.006	-0.36	6.37	2.17	7.13	263.11	1.09	-51.03
Max	1.610	0.17	19.93	14.05	59.46	2401.75	50.91	29.59
Mean	0.152	-0.02	12.61	5.45	20.16	909.50	16.33	0.68
Std Error	0.067	0.02	0.76	3.89	2.53	136.61	2.87	3.89
Std Dev	0.320	0.12	3.75	2.57	12.28	669.26	14.07	19.05
Kurtosis	0.03	1.64	-0.59	2.43	3.99	-0.69	0.49	2.95
Skewness	4.201	-0.89	0.52	1.88	1.89	0.82	1.09	-1.38

*Source: Author (2019)*

There is also a wider variation among the data sets, with FDI recording the largest standard deviation (US\$320 million). This is expected because Chinese FDI is intuitively highly volatile (Tee *et al.*, 2017).

### 4.4 Correlation Analysis

Table 4.3 presents estimated cross-correlation coefficients from correlation analysis among the variables in the study. From the table, results of the correlation indicate that there is a significant positive association between Chinese foreign direct investment (FDI) and natural resources ( $r(25)$

= 0.74,  $p < 0.01$ ), market size, ( $r(25) = 0.96, p < 0.01$ ), change in gross domestic product, ( $r(25) = 0.39, p < 0.05$ ), and a negative relation with inflation, ( $r(25) = -0.47, p < 0.05$ ).

**Table 4.3: Correlation Analysis (N = 25)**

	FDI	POL	NRE	GDP	INF	MKT	EXC	TOP
FDI	1							
Sig. (2-tailed)								
POL	0.23	1						
Sig. (2-tailed)	(0.28)							
NRE	0.74**	0.26	1					
Sig. (2-tailed)	(0.00)	(0.23)						
GDP	0.39*	0.55**	0.28	1				
Sig. (2-tailed)	(0.05)	(0.00)	(0.18)					
INF	-0.47*	-0.30	-0.19	-0.39*	1			
Sig. (2-tailed)	(0.02)	(0.16)	(0.38)	(0.05)				
MKT	0.96**	0.23	0.73**	0.31	-0.48*	1		
Sig. (2-tailed)	(0.00)	(0.29)	(0.00)	(0.15)	(0.02)			
EXC	-0.15	-0.49**	-0.07	-0.40*	0.38	-0.20	1	
Sig. (2-tailed)	(0.48)	(0.01)	(0.74)	(0.05)	(0.06)	(0.34)		
TOP	-0.12	-0.24	-0.04	-0.09	0.23	-0.31	0.54**	1
Sig. (2-tailed)	(0.58)	(0.27)	(0.86)	(0.67)	(0.29)	(0.14)	(0.00)	

\*\* . Correlation is significant at the 0.01 level (2-tailed)

\* . Correlation is significant at the 0.05 level (2-tailed)

Source: Survey Data (2019)

Thus, anytime natural resources, market size, and change in gross domestic product increases, Chinese foreign direct investment inflows increases. Also, an increase in inflation reduces Chinese foreign direct investment inflows. Additionally, there is a significant positive relation between political stability and change in gross domestic product ( $r(25) = 0.55, p < 0.01$ ), and a significant negative relation and change in exchange rate ( $r(25) = -0.49, p < 0.01$ ). This means that when there is a unit increase in political stability, there is a corresponding increase in change in gross domestic product; and a decrease in exchange rate. In Ghana, change in political systems is likely to occur every four years, since 1992. The various changes occurred as 1993-1997, 1997-2001, 2001-2005, 2005-2009, 2009-2013, and 2013-2017. In Figure 4.2, there is evidence that the most

stable and consistent increase in change in gross domestic product occurred between 2001 and 2005 (4.00% to 5.90%). However, the highest increase in change in gross domestic product occurred in 2011 (14.05%) but this growth was not sustained, leading to its drop to 2.18% in 2015. Natural resources and market size are also significantly positively correlated ( $r(25) = 0.73, p < 0.01$ ). In addition, there is significant negative relation between change in gross domestic product and change in exchange rate ( $r(25) = -0.39, p < 0.05$ ), and inflation ( $r(25) = -0.40, p < 0.05$ ). Moreover, there is a significant negative relation between inflation and market size ( $r(25) = -0.48, p < 0.05$ ), implying that anytime inflation increases, market size shrinks. And, the relation between change in exchange rate and change in trade openness is significantly positive ( $r(25) = 0.54, p < 0.01$ ).

#### 4.5 Empirical Regression Results

In Table 4.4 presents a summary output of the regression analysis. The regression model is of the form:  $FDI_{it} = \beta_0 + \beta_1 POL_{it-1} + \beta_2 NRE_{it-1} + \beta_3 GDP_{it-1} + \beta_4 INF_{it-1} + \beta_5 MKT_{it-1} + \beta_6 EXC_{it-1} + \beta_7 TOP_{it-1} + \xi_{it}$

Where,  $FDI_{it}$  is the total FDI inflow from China to Ghana in the particular period  $t$ .  $POL_{it-1}$  is the political stability and the level of confidence to invest in Ghana in the previous year of a particular period.  $NRE_{it-1}$  is the total natural resources in Ghana,  $GDP_{it-1}$  is the year on year change in gross domestic product in Ghana.  $INF_{it-1}$  is the inflation,  $MKT_{it-1}$  is the market size,  $EXC_{it-1}$  is the year on year in change in exchange rate.  $TOP_{it-1}$  is the year on year change in trade openness, and  $\xi_{it}$  is the stochastic effect in the particular period.

**Table 4.3: Summary Output of Regression Analysis (N = 25)**

Regression Statistics	
Multiple R	0.98
R Square	0.96
Adjusted R Square	0.94
Standard Error	0.35
Observations	23

**Source: Survey Data (2019)**

The result in Table 4 indicates that political stability, natural resources, change in gross domestic product, inflation, market size, change in exchange rate, and change in trade openness predict Chinese foreign direct investment inflows to Ghana. This is because, the overall model is significant at level of significance,  $p$ -value = 0.00, and R-square in this model is 0.98. This means that 98% of variability in foreign direct investment is explained by all these variables. In effect, only 2% variability in the model is unexplained.

**Table 4.4: Summary Output of ANOVA Analysis**

	<i>Df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Sig</i>
Regression	7	44.84	6.41	53.68	0.00
Residual	17	1.91	0.12		
Total	24	46.75			

**Source: Survey Data (2019)**

In Table 4.5, summary output of ANOVA analysis is presented. The table presents the results of the F-test which represents the model of statistical significance. The regression model is statistically significant at  $F(7, 17) = 53.68$ ,  $p = 0.00$ . This gives an indication that there is more than 99% confidence that the regression model relating Chinese FDI inflows and political stability, natural resources, change in GDP, inflation, market size, change in exchange rate, and change in trade openness is correct, and does not occur by chance. Therefore, it can be deduced that political

stability, natural resources, change in GDP, inflation, market size, change in exchange rate, and change in trade openness impact Chinese FDI inflows into Ghana.

**Table 4.5: Summary Output of Coefficient of Variables**

	Coefficient	P-value
(Constant)	-0.850	0.043*
POL	-0.144	0.857
NRE	0.000	0.991
GDP	0.053	0.166
INF	0.000	0.941
MKT	0.002	0.000**
EXC	-0.003	0.664
TOP	0.016	0.006**

\*\* . Correlation is significant at the 0.01 level (2-tailed)

\* . Correlation is significant at the 0.05 level (2-tailed)

Source: Survey Data (2019)

In Table 4.6, summary output of coefficient of variables is presented.

$$\text{FDI} = -0.850 - 0.144 (\text{POL}) + 0.000(\text{NRE}) + 0.053 (\text{GDP}) + 0.000 (\text{INF}) + 0.002 (\text{MKT}) - 0.003 (\text{EXC}) + 0.016 (\text{TOP})$$

A regression equation was found significant,  $F(7, 17) = 53.68$ ,  $p < 0.01$ . Political stability and year-on-year change in exchange rate had negative relations with Chinese FDI. This implies that whenever political stability increases by a unit, FDI decreases by US\$144 million, and a unit increased in year on year change in interest rate will reduce FDI by US\$3million. There is indication that natural resources and inflation were indifferent as far as the relationship was concerned with FDI. There is also a positive relation between Chinese foreign direct investment inflows to Ghana and change in gross domestic product, market size, and change in trade openness. Thus, a unit increased in change in gross domestic product, market size, and change in trade

openness will increase FDI by US\$53 million, US\$2million, and US\$16 million respectively. Specifically, the regression model shows that two variables, market size and change in trade openness, are statistically significant at 1% level of significance ( $p < 0.01$ ) in explaining the variability in Chinese foreign direct investment inflows to Ghana. The model shows that there is a positive relation between market size and Chinese foreign direct investment inflow to Ghana which is consistent with the initial priori assumption. Pearson correlation coefficient also indicates a strong positive relation ( $r = 0.96$ ) between market size and Chinese foreign direct investment to Ghana (c.f. Table 4.2). Year on year change in trade openness has a positive relation with foreign direct investment. This is also consistent with initial priori assumption. Correlation result in Table 4.2 shows a weak negative relation ( $r = -0.12$ ) between change in trade openness and the foreign direct investment.

In contrast, the regression model shows that five variables, political stability, natural resources, change in gross domestic product, inflation, and change in exchange rate, are not statistically significant at 1% level of significance ( $p > 0.01$ ) in explaining the variability in Chinese foreign direct investment inflows to Ghana. There is a negative relation between political stability and the foreign direct investment, which is contrary to priori assumption. Coefficient of correlation indicates a weak positive relation ( $r = 0.23$ ) between political stability and Chinese foreign direct investment. Also, there is a positive relation between change in gross domestic product and the foreign direct investment, which is in line with the initial priori assumption. The Pearson coefficient of correlation predicts a moderate relation ( $r = 0.39$ ) between gross domestic product and foreign direct investment. Additionally, there is a negative relation between year on year change in exchange rate and Chinese foreign direct investment. This is consistent with priori assumption. The correlation analysis predicts a negatively weak relation ( $r = -0.15$ ) between the

exchange rate and the foreign direct investment. Furthermore, natural resources and inflation did not have any relation with foreign direct investment inflows from China contrary to priori assumptions.

This study adds to existing studies. This study indicates that market size contributes significantly to foreign direct investment in Sub-Saharan African (Ali *et al.*, 2018; Arawomo & Apanisile, 2018; Owusu, 2017; Adi *et al.*, 2015; Djokoto & Dzeha, 2012). Djokoto and Dzeha (2012) emphasize the relevance of market size for foreign direct investment, and explain that increasing in economy size of Ghana would ultimately induce FDI inflow into the country. Adi *et al.* (2015) support the stand, and indicate that large markets are fundamentally important for efficient deployment of resources and exploitation of economies of scale. Ali *et al.*'s (2018) adds that large market size economies draw investment more than small market sizes.

In addition to market size, year on year change of trade openness is found to be statistically significant determinant of Chinese foreign direct investment. This finding is consistent with existing studies (Dondashe & Phiri, 2018; Ali *et al.*, 2018; Arawomo & Apanisile, 2018; Mottaleb & Kaliranjan, 2010). Dondashe and Phiri (2018) note that trade openness contribute to attracting foreign direct investment into a country. Mottaleb and Kaliranjan (2010) found that a more business friendly an environment is, the more successful that environment is in attracting foreign direct investment. Ali *et al.* (2018) identify countries that adopt liberation of free trade, and promote trade agreements, to have the tendency of attracting more foreign inflows in the long run. Arawomo and Apanisile (2018) concur that when governments remove structural barriers, it leads to higher level of openness, and internationalization, which in effect attract more foreign direct investment.

Despite the positions of existing studies that political stability (Senkuku and Gharlegh, 2015; Ndem *et al.*, 2014; Wafure & Abu, 2010), natural resources (Senkuku & Gharlegh, 2015; Djokoto, 2012), gross domestic product (Dondashe & Phiri, 2018; Wasseja & Mwenda, 2015; Ebiringa & Emeh, 2013), and exchange rate (Wasseja & Mwenda, 2015) are statistically significant positive determinants of foreign direct investment, it is not the case of Chinese foreign direct investment inflows to Ghana. The fact that political stability is not statistically significant is not surprising. This is because in Thailand, Chinese investors are pouring billions of dollars on Thai properties despite a turbulent political scene (Tan, 2019).

On natural resources, the variable is not significant probably because outflow foreign direct investment from China is seeking to acquire strategic assets (Robins, 2013) and import industrial supplies from abroad. Gross domestic product is found to have no significant impact on Chinese foreign direct investment inflows in Ghana. It may be that Chinese FDI inflows in Ghana causes factor price distortions and bad terms of trade for the country (Tee *et al.*, 2017). However, gross domestic product is expected to put a long-term positive effect on foreign direct investment flows (Ebiringa & Emeh, 2013). In Ghana, the foreign exchange rate of all major currencies, especially the United States Dollar, has been depreciating at alarming rate. Thus, Chinese foreign direct investment inflows are targeted towards countries and economies with market-seeking policies and activities.

These foreign direct investors are focusing on where to locate highest sales from international market ever. The International Food Policy Research Institute's (IFPRI) recent report indicates that Ghana has experienced a consistent increase in Chinese manufacturing investments in the past decade because of opportunities in both local and regional markets with little competition (Tang, 2017). These manufacturing projects were located in different sectors including pharmaceuticals,

steel and plastics. Chinese investors perceive Ghanaian competitive environment as less fierce than in China, and believe that their products are more competitive than other imported products. Some of the FDIs made in Ghana can be found in at least 35 companies including Arising Plastic Company Ghana, Limited, China Hardware Manufacturing Company Ltd, and Chuang Hui Company Limited.

#### **4.6 Chapter Summary**

This chapter provides responses to the research questions posed in Chapter One. Main sections in this chapter include data presentation, descriptive statistics, correlation analysis, and empirical regression results.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents succinct information about the entire study. First, information on chapters one, two, three, and four would be summarized to provide a succinct view of the entire study. Second, a conclusion is drawn from the findings. And finally, recommendations are made for practical and future research considerations.

#### 5.2 Summary

In Chapter One, the introduction to the entire study was presented. It encompassed the background of the study, the problem statement, the purpose, the result objectives and questions, as well as how data was proposed to be collected and analysed, and the significance of the study. The chapter indicated that emerging economies are liberalizing their foreign direct investment regimes and adapting to best practices to attract investment globally because of financial investment provides overwhelming benefits for the host country. It was in line with this that it was considered important to understand how to create an environment for attracting foreign direct investment. It was also noted that extensive work has been done in the area of determinants of foreign direct investment, and impact of foreign direct investment. The United Nations Conference on Trade and Development report indicates that now, apart from developed economies, other economies like Russia, Brazil, India, and China have increasingly recognized that foreign direct investment has the potential of increasing the operational efficiency, and positive financial returns. In sub-Saharan Africa, China has stepped up investment efforts and takes significant position in the region as a

result of a 2006 partnership agreement between some Asian countries and sub-Saharan Africa. Since then, Chinese foreign direct investment has been rising in the sub-region, while the increasing interests of China in sub-Saharan Africa manifest beyond rising foreign direct investment figures. China is unique in terms of its FDI outflows. Chinese outward FDI is relatively new but has fast-growing feature of the global economy. The FDI outflows are creating concerns and uncertainties in many countries which received such FDI inflows because they are state-owned and managed, hence Chinese government has influence over policy directions of major Chinese corporations. But in recent times there seems to be an increase interest of China in Ghana specifically, and sub-Saharan Africa as a whole. Meanwhile, it is not clearly known what make China to develop such interests in foreign direct investment in Ghana. The purpose of this study was to identify the motives behind increased Chinese decision to make foreign direct investment in Ghana, and two major questions required to be answered. First, which factors influence the motives of Chinese to invest in Ghana, and second, what is the extent of relationships that exist between the factors and the foreign direct investment in Ghana? It was proposed that a quantitative approach would be adopted for the study by obtaining data from databases of the World Bank on worldwide governance indicators and world development indicators. Specific data on Chinese FDI inflows into Ghana would also be obtained from the Ghana Investment Promotion Center (GIPC). Both descriptive statistics like means and standard deviation, and inferential statistics like regression are computed. It was anticipated that results of the study would be significant by both practitioners and researchers.

In Chapter Two, the literature review was presented to encompass concept of foreign direct investment, importance of foreign direct investment to the receiving country, and the determinants of foreign direct investment in sub-Saharan Africa. Obtaining a global concept for FDI has formed

the creation of a unique forum of democratic governments, the Organization of Economic Cooperation and Development (OECD), and main definitions of the concept were provided by International Monetary Fund (IMF) and OECD with specific emphasis on the level of relationship and level of control. Thus, FDI was considered as a direct investment relationship existing between a resident enterprise in one economy (direct investor) and an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor, when the direct investor has control (possesses over 50% of the voting power) or influence (from 10% to 50%) over the direct investment enterprise. It was also identified that foreign direct investment contributes to the economic growth of the host country through augmentation of domestic capital by a source of external capital and increases revenue leading to creation of new jobs and generation of tax revenues. Foreign direct investment also contributes to economic growth through improvement of efficiency by exposing local enterprises and citizens to new business practices, marketing and managerial skills, innovation, economic concepts, technology and best practices to help develop local industries. For the multinational enterprise, foreign direct investment provides advantage for entering into a foreign market. However, multinational enterprise access to the market has the likelihood of derailing local businesses, and pushing local producers out of business. In Ghana, natural resources are used as means of attracting foreign investors. Ghana has made efforts including implementing Economic Recovery Programme, Structural Adjustment Programme, and instituting Ghana Investment Promotion Center (GIPC) to provide useful protection and guarantees to these investors. As at 2017, Ghana placed the 7<sup>th</sup> position in the league of countries that attract foreign direct investment in Africa. Generally in sub-Saharan Africa and Ghana in particular, the main determinants of foreign direct investment inflows were identified as

political stability, natural resources, gross domestic product, inflation, market size, exchange rate, and market openness.

In Chapter Three, the methodology was presented to explain the steps taken to achieve the research objectives. Major topics included in this chapter were research design, research population, samples and sampling procedures, research instruments and model specification, and data analysis procedure. It was explained that quantitative approach was adopted for the research design to gain numerical data to generate statistics, to look at relationships between variables, and to determine cause and effect. The research population was any World Bank development, governance and economic database containing data on Ghanaian performance over the years, and Ghana Investment Promotion Center database. These databases were considered appropriate for the study because they compile cross-country comparable data on development, governance and economies. In this study, a probabilistic sampling technique was adopted. The size of data was 25. Data for political stability was obtained from world governance indicators database, and data for natural resources, gross domestic product, inflation, market size, exchange rate, and trade openness were obtained from world development indicators database. Also, data for foreign direct investment value was obtained from world governance indicators database and Ghana Investment Promotion Center reports. Both descriptive statistics and inferential statistics were employed with the aid of SPSS including minimum value, maximum value, mean, and standard deviation of each variable, and a multiple linear regression model was performed. The logic for the multiple linear regression model used was based on the fact that political stability, natural resources, gross domestic product, inflation, market size, exchange rate, and trade openness have potential positive or negative effect on foreign direct investment inflow. The data obtained from the World Bank databases and Ghana Investment Promotion Center reports as applicable to a particular variable was prepared first in

Microsoft Office Suite (Excel component) and then it was exported to SPSS analytical tool. Analysis of univariate data analysis was carried out on the eight time series data, and simple data diagnostics were followed by the time series analysis. Regression analysis was then executed based on the regression model specified above to assess relation between the variables in the study. The results from the analysis were put in tables and figures to make it easy and clear to understand.

In Chapter Four, the findings, analysis and discussions were presented to provide responses to the research questions. The main sections included in the chapter were data presentation, descriptive statistics, correlation analysis, and empirical regression results. A trend analysis of Chinese FDI inflows to Ghana showed that Chinese FDI inflows to Ghana's economy was nothing compared to the total FDI inflows. The trend showed that after a low inflow in the 1990s, the FDI inflows drastically increased in the 2000s. Specifically, there has been substantial leap in 2012 with an FDI value of US\$1,610 million. Since then, Chinese FDI inflows dropped and in 2018, its value stood US\$185 million. Descriptive statistics revealed that apart from political stability and trade openness, all the other variables have coefficient of skewness to be positive. This means that the values of all these variables fall toward the lower side of the scale and there are few high values. Apart from inflation, all of the other variables had values for kurtosis below the benchmark for normal distribution of 3, confirming that the data sets are near normality. A regression equation  $FDI = -0.850 - 0.144 (\text{political stability}) + 0.000 (\text{natural resources}) + 0.053 (\text{year on year gross domestic product}) + 0.000 (\text{inflation}) + 0.002 (\text{market size}) - 0.003 (\text{year on year exchange rate}) + 0.016 (\text{year on year trade openness})$  was found significant,  $F(7, 17) = 53.68, p < 0.01$ , with an  $R^2$  of 98%. Specifically, the regression model shows that two variables, market size and change in trade openness, are statistically significant at 1% level of significance ( $p < 0.01$ ) in explaining the variability in Chinese FDI inflows to Ghana. In contrast, the regression model shows that five

variables, political stability, natural resources, change in GDP, inflation, and change in exchange rate, are not statistically significant at 1% level of significance ( $p > 0.01$ ) in explaining the variability in Chinese FDI inflows to Ghana.

### **5.3 Conclusion**

To fulfill the purpose of this study, thus to identify the motives behind increased Chinese decision to make foreign direct investment in Ghana, two objectives (1) to determine the factors influencing the motives of Chinese to invest in Ghana, and (2) to describe the relationships between the factors and the foreign direct investment in Ghana were set out to achieve. The findings from the study indicated that market size, and year on year trade openness were major determinants of Chinese foreign direct investment inflows to Ghana. This study adds to such studies and indicates, for instance, market size contributes significantly to foreign direct investment in Sub-Saharan African (Ali *et al.*, 2018; Arawomo & Apanisile, 2018; Owusu, 2017; Adi *et al.*, 2015; Djokoto & Dzeha, 2012), and that trade openness is a significant determinant of Chinese foreign direct investment (Dondashe & Phiri, 2018; Ali *et al.*, 2018; Arawomo & Apanisile, 2018; Mottaleb & Kaliranjan, 2010).

Also, there was a significant relationship between Chinese foreign direct investment inflows into Ghana and all the variables – political stability, natural resources, year on year gross domestic product, inflation, market size, year on year exchange rate, and year on year trade openness, with these variables accounting for 98% of variability in Chinese foreign direct investment inflows to Ghana. Adi *et al.*(2015) had 86% explanatory power on foreign direct investment from per capita, economic growth, education, trade openness, wage rate, and exchange rate as independent variables. Bokpin *et al.*(2015) provide that in the presence of certain type of natural resources,

trade openness is less desirable for FDI flow in sub-Saharan Africa. So, the inclusion variables which were not statistically significant in the determinants is important to cater for colinearity. For instance, this study found that there was positively significant correlation between trade openness and exchange rate, and also between market size and natural resources. The unexplained variability (2%) in the Chinese foreign direct investment inflows to Ghana may be associated to stochastic noise found in variables like infrastructure (Ali *et al.*, 2018; Owusu, 2017; Kishor & Singh, 2015; Senkuku & Gharlegh, 2015), human capital (Adi *et al.*, 2015), and corporate tax (Majavu & Kapingura, 2017).

#### **5.4 Recommendations**

In this study, the findings showed that trade openness together with market size were statistically significant determinants of Chinese FDI inflows to Ghana. This result implied that Chinese investors were market-seeking and made investment decisions that would help them get access to larger markets. One major challenge facing Ghana is the way to detect and promote the required necessary policies to obtain the relevant kind of FDI, to avoid FDI curses. As shown in the findings, trade openness was statistically significant but contributed marginally to Chinese FDI. In line of this finding, it is recommendable to the Government of Ghana to develop policies to improve on the level of openness of foreign trade for domestic enterprises to take part in the global economy fully. To do this, the government must use combined approach towards increasing business sector competition, allowing greater international and domestic openness to business, and safeguarding against negative effects of a rise in concentration. As there is evidence of relation between trade openness and macroeconomic factors, government policies must strive towards strong macroeconomic stability to sustain the level of Chinese foreign direct investment inflows to

Ghana. To pursue a sound macroeconomic policy, government must critically consider sectors of the economy that can lead to high employment, high economic growth, and price stability.

This study has based its findings on data from World Bank databases and Ghana Investment Promotion Center reports only, without considering other databases such as United Nations Conference on Trade and Development (UNCTAD), Organization of Economic Cooperation and Development (OECD), and International Monetary Fund (IMF). Although there were data for most of the variables from 1970 to 2017, this study focused only data from 1993 to 2017 for the independent variables, and from 1994 to 2018 for the dependent variables. Also, only selected variables were used for the studies neglecting others which may have relevance to the phenomenon of foreign direct investment in Ghana and sub-Saharan Africa. Based on these limitations, it is recommended that future research should include more variables to cover human capital, corporate tax, and infrastructure. Moreover, there is need to employ larger data size to carry out the same study to find whether political stability, natural resources, gross domestic product and inflation would be statistically significant. Also, future research should employed data from the databases of UNCTAD, OECD, and IMF, in addition to World Bank databases, and GIPC reports.

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