TITLE PAGE

THE IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH: A COMPARATIVE STUDY OF GHANA AND NIGERIA

BY

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ABSTRACT

The economic development performance can be used to measure the economic growth of a given country. In economic analysis, a country can attain economic growth through the growth in national income measurement. However, the role of foreign direct investment (FDI) on economic growth continues to be debated and tested in the literature on international economics and development economies. This paper extends the previous empirical studies on the issue by providing some evidence from time series data for the period 1971 to 2013 of Ghana and Nigeria. The primary objective of this study is to analyze the impact of FDI on economic growth of Ghana and Nigeria taking trade openness, Gross Fixed Capital Formation and human capital as control variables. To investigate the long run equilibrium relationship, Johansen and Juselius co-integration approach is analyzed, while the speed of adjustment in the short run is analyzed through the use of VECM method. In addition to check for the direction between FDI, T.OPEN, GFCF, HK and economic growth, granger causality test is performed for both Ghana and Nigeria. In Ghana, all the explanatory variables have long run relationship with economic growth. In Nigeria, FDI, GFCF and HK have long run relationship with economic growth. However, the VECM results in Ghana reveal that only T.OPEN and GFCF are statistically significant and therefore have short run relationship with economic growth. Similarly, the coefficient of ECM is statistically significant at 1% level of significance. Thus, 23.3% of the adjustment is achieved due to the correction of the adjustment speed in a year. In Nigeria, the coefficient of ECM is statistically significant at 1% level of significance. Thus, 10.8% of the adjustment is achieved due to the correction of the adjustment speed in a year. To this effect, Ghana's correction of the speed of adjustment in a year moves faster than that of Nigeria.

ABSTRAK

Prestasi pembangunan ekonomi boleh digunakan untuk mengukur pertumbuhan ekonomi sesebuah negara tertentu. Dalam analisis ekonomi, sesebuah negara boleh mencapai pertumbuhan ekonomi melalui pertumbuhan dalam pengukuran pendapatan negara. Namun, peranan pelaburan langsung asing (FDI) terhadap pertumbuhan ekonomi berterusan menjadi perdebatan dan diuji di dalam karya tentang ekonomi antarabangsa dan ekonomi pembangunan. Kajian ini meneruskan kajian empirikal yang terdahulu terhadap isu tersebut dengan menyediakan beberapa bukti daripada data siri masa Ghana dan Nigeria dari tempoh 1971 kepada 2013. Objektif utama kajian ini adalah untuk menganalisis kesan FDI terhadap pertumbuhan ekonomi Ghana dan Nigeria dengan mengambil keterbukaan, pembentukan modal kasar tetap dan sumber manusia sebagai pembolehubah terkawal. Untuk menyiasat hubungan keseimbangan jangka panjang, pendekatan Johansen dan Juselius ko-integrasi di analisis, sementara kecepatan penyelarasan dalam jangka pendek dianalisis melalui penggunaan VECM method. Tambahan itu, untuk memeriksa hubungan arah di antara FDI, T.OPEN, GFCF, HK dan pertumbuhan ekonomi, ujian penyebab granger digunakan untuk Ghana dan Nigeria. Di Ghana, semua pembolehubah bersandar mempunyai hubungan jangka panjang dengan pertumbuhan ekonomi. Namun, keputusan VECM di Ghana mendapati hanya T.OPEN dan GFCF adalah secara statistik signifikan dan maka mempunyai hubungan jangka pendek dengan pertumbuhan ekonomi. Begitu juga, koefisyen ECM adalah secara statistik signifikan pada aras 1% signifikan. Oleh itu, 23.3% penyelarasan ECM dicapai disebabkan kecepatan pembetulan penyelarasan dalam satu tahun. Di Nigeria, koefisyen ECM adalah secara statistik signifikan pada 1% aras signifikan. Maka, 10.8% penyelarasan dicapai disebabkan kecepatan pembetulan penyelarasan dalam satu tahun. Dalam kesan ini, korelasi kecepatan pembetulan penyelarasan dalam satu tahun oleh Ghana bergerak lebih pantas dari Nigeria.

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ABBREVIATIONS

ADF	Augmented Dickey Fuller
ECM	Error Correction Model
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
HK	Human Capital
IMF	International Monetary Fund
MNCs	Multi-national Companies
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Squares
R&D	Research and Development
SIC	Shwarz Information Criterion
T.OPEN	Trade Openness
UNCTAD	United Nations Conference on Trade and Development
VAR	Vector Autoregressive
VECM	Vector Error Correction Model
WDR	World Development Report
WIR	World Investment Report

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Foreign Direct investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to economic development. FDI is simply defined as the long term participation by one country into another country. Normally, it involves participation in management, joint venture, transfer of technology and expertise (Agrawal & Khan, 2011). Similarly OECD (2008) referred FDI as a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. However, the lasting interest signifies the long term relationship that will exist between the direct investor and the direct investment enterprise. Thus, a significant degree of influence on the management of the enterprise is expected to hold. Therefore, the statistical evidence of such a relationship is the 10% or more direct or indirect ownership of the voting power of an enterprise resident in one economy by an investor resident in another economy.

For many years FDI has been playing a vital role on economic growth. There were lots of discussions on the relationship between FDI and economic growth in both present and past theoretical and empirical literatures. However, most of the studies conducted on FDI and economic growth focus on the traditional neo-classical and the endogenous growth

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