The copyright © of this thesis belongs to its rightful author and/or other copyright owner. Copies can be accessed and downloaded for non-commercial or learning purposes without any charge and permission. The thesis cannot be reproduced or quoted as a whole without the permission from its rightful owner. No alteration or changes in format is allowed without permission from its rightful owner.
THE IMPACT OF FOREIGN CAPITAL INFLOWS ON ECONOMIC GROWTH IN SELECTED WEST AFRICAN COUNTRIES

MUSIBAU HAMMED OLUWASEYI

MASTER OF ECONOMICS
UNIVERSITI UTARA MALAYSIA
June 2016
THE IMPACT OF FOREIGN CAPITAL INFLOWS ON ECONOMIC GROWTH IN SELECTED WEST AFRICAN COUNTRIES

By

MUSIBAU HAMMED OLUWASEYI

Thesis Submitted to
School of Economics, Finance & Banking
Universiti Utara Malaysia,
In Fulfillment of the Requirement for the Degree of Master of Economics
PERAKUAN KERJA DISERTASI
(Certification of Dissertation)

Saya, mengaku bertandatangan, memperakuan bahawa
(I, the undersigned, certified that)
MUSIBAU HAMMED OLUWASEYI (818466)

Calon untuk ijazah Sarjana
(Candidate for the degree of)
MASTER OF ECONOMICS

telah mengemukakan disertasi yang bertajuk
(has presented his/her dissertation of the following title)

FOREIGN CAPITAL INFLOWS AND ECONOMIC GROWTH: A STUDY OF SELECTED WEST AFRICAN COUNTRIES

Seperti yang tercantum di muka surat tajuk dan kulit disertasi
(as it appears on the title page and front cover of the dissertation)

Bahawa disertasi tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan
(That the dissertation acceptable in the form and content and that a satisfactory knowledge of the field is covered by
the dissertation).

Nama Penyelidik
(Name of Supervisor)

Tandatangan
(Signature)

Nama Penyelidik

Tanggal
(Date)

9 AUGUST 2016
In presenting this thesis in fulfilment of the requirements for a postgraduate degree from Universiti Utara Malaysia (UUM), I agree that the Universiti Library may make it freely available for inspection. I further agree that permission for the copying of this thesis in any manner, in whole or in part, for scholarly purpose may be granted by my supervisor(s) or, in their absence, by the Dean of Othman Yeop Abdullah Graduate School of Business. It is understood that any copying or publication or use of this thesis or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my thesis.

Requests for permission to copy or to make other use of materials in this thesis, in whole or in part, should be addressed to:

Dean of School of Economics, Finance & Banking
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman
Abstract

The West African countries have been identified with inadequate capital for investment, being one of the poorest sub-regions in the world. This study employed panel data from 1980 to 2013 to examine the impact of foreign capital inflows on the economic growth in the selected West African countries using Two Gap Theory. The objective of this study is to examine the nature of relationship between foreign capital inflows and the level of economic growth selected West African Countries and to observe the causality between foreign capital inflows components and economic growth. The study adopts Pedroni cointegration and granger causality test. The result shows the existence of long run relationship between foreign capital inflows and economics growth in selected West African country. All the variables were positive but only foreign direct investment is significant. Net migrant remittance, foreign direct investment and official development assistance cause growth in the short run. The study recommends policies to encourage capital inflows via macroeconomic management, a flexible exchange rate, financial sector supervision, large reserves and diversification of domestic economies.

Keywords: capital inflows, Pedroni cointegration, granger causality, economic growth.
Abstrak


Kata kunci: aliran masuk modal, kointegrasi Pedroni, sebab-penyebab granger, pertumbuhan ekonomi.
Acknowledgement

The first gratitude I owe is profoundly to God Almighty for giving me the strength and good health throughout my study period. The process of researching and writing a dissertation is an intensely personal endeavor, but it is also one which cannot be undertaken without a great deal of help from others. Without such assistance, I doubt I would have proceeded as far in this particular journey. Credit go to my supervisors, Assoc. Prof. Hussin Abdallah whose instructive guidance, encouragement and relentless support enabled me to complete successfully this study. From conceptualization to conclusion, you have been amazing in supervising this work. I am heartily grateful. Indeed, I look forward to work with you in the nearest future.

To Assoc. Prof. Hussin Abdullah again, I render to you a special and sincere debt. You have been a wonderful pilot. You were a mentor because you were more than a supervisor to me. You taught me the true meaning of humility and kindness. God bless you sir. I shall, and forever remain grateful to you! I am very grateful to Dr. Normizan Baker and Dr. Sabri Nayan. They were very kind during my proposal defense, viva and during period of the correction. Additionally their comments have helped to improve this work. I wish to acknowledge my parents, my brothers and sisters for being so supportive spiritually and financially throughout the period of study. Thank you so much for your love and kindness.

Finally, I wish to express special thanks to all my Nigerian friends for making my stay in Malaysia to be worth the while. You gave me love, support and strength when I was so weak to carry on. Completing the Msc. programme was not easy, but it
would have been much difficult without our assistance. May Allah always bless each and every one of you. Amin.

Musibau Hammed Oluwaseyi
# Table of Contents

Title Page...........................................................................................................i
Certification of Thesis Work..................................................................................ii
Permission to Use....................................................................................................iii
Abstract....................................................................................................................iv
Abstrak.......................................................................................................................v
Acknowledgement....................................................................................................vi
Table of Contents....................................................................................................viii
List of Tables...........................................................................................................xi
List of Figures...........................................................................................................xii
List of Abbreviations...............................................................................................xiii

**CHAPTER ONE INTRODUCTION**........................................................................1
1.1 Background of the Study..................................................................................1
  1.1.1 Trends of FDI inflows in Africa and across Africa sub-regions......................3
  1.1.2 Foreign Capital Inflows in West African Countries........................................9
1.2 Statement of Research Problem........................................................................11
1.3 Research Questions..........................................................................................13
1.4 Objectives of the Study....................................................................................14
1.5 Significance of the Study.................................................................................14
1.6 Scope of the Study............................................................................................17
1.7 Organization of the Study...............................................................................18

**CHAPTER TWO LITERATURE REVIEW**.............................................................19
2.1 Introduction.......................................................................................................19
  2.2.1 The Theory of Economic Growth.................................................................20
  2.2.2 Theoretical reviews on Foreign Direct Investment.........................................24
  2.2.3 Theoretical review on Official development assistance...............................28
2.2.4. Theoretical review on Workers Remittances.................................30
2.2.5. Theoretical review on Real Exchange Rate.................................34
2.2.6. Theoretical review on real Interest Rate......................................35

2.3 Empirical Literature Review.............................................................36
2.3.1 Overview of ECOWAS Member States Economy..........................38
2.3.2 Demographic Characteristic of ECOWAS Member States................39
2.3.3 Socio-economic Characteristics of ECOWAS Member States..........39
2.3.5 Trends of FDI, ODA and Remittance among the Leading West African Countries between 2004 and 2010.................................................................40

2.4 Empirical Reviews on Foreign Capital Inflows in West Africa..............41
2.4.1 Foreign Capital Inflow in Sierra Leone..........................................46
2.4.2 Foreign Capital Inflow in Nigeria................................................47
2.4.3 Foreign Capital Inflow in Ghana...................................................52
2.4.4 Foreign Capital Inflow in Liberia..................................................53
2.4.5 Foreign Capital Inflow in Guinea..................................................55

CHAPTER THREE RESEARCH METHODOLOGY........................................57
3.1 Introduction.......................................................................................57
3.2 Data..................................................................................................59
3.3. The Variables of this study..............................................................59
3.3.1 Dependent Variables of this study...............................................60
3.3.2 Independent Variables of this study............................................60

3.4 Theoretical Framework.................................................................60
3.5 Description of the model.................................................................63
3.6 Estimation Procedure.................................................................64
List of Tables

<table>
<thead>
<tr>
<th>Tables</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 4.1</td>
<td>Summary Statistics of the Variables Used In The Regression Analysis</td>
<td>77</td>
</tr>
<tr>
<td>Table 4.2</td>
<td>The Penal Unit root result</td>
<td>79</td>
</tr>
<tr>
<td>Table 4.3</td>
<td>Johansen cointegration test's Result (Pedroni Result)</td>
<td>80</td>
</tr>
<tr>
<td>Table 4.4</td>
<td>Kao Residual Cointegration Test</td>
<td>81</td>
</tr>
<tr>
<td>Table 4.5</td>
<td>Wald Test (Short Causality Test)</td>
<td>83</td>
</tr>
<tr>
<td>Table 4.6</td>
<td>FMOLS (Individual) Results, Dependent Variable: InGDP</td>
<td>85</td>
</tr>
<tr>
<td>Table 4.7</td>
<td>FMOLS (Group) Results, Dependent variable: InGDPit</td>
<td>86</td>
</tr>
</tbody>
</table>
# List of Figures

<table>
<thead>
<tr>
<th>Figures</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1</td>
<td>Comparison of FDI in Africa with other continents</td>
<td>6</td>
</tr>
<tr>
<td>Figure 2</td>
<td>The trend of FDI among African Sub-Region</td>
<td>7</td>
</tr>
<tr>
<td>Figure 3</td>
<td>The trend of FDI among African West Africa Countries</td>
<td>8</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
<td></td>
</tr>
<tr>
<td>---------</td>
<td>-----------</td>
<td></td>
</tr>
<tr>
<td>AU</td>
<td>African Union</td>
<td></td>
</tr>
<tr>
<td>BRVM</td>
<td>Bourse Regional De Valeurs Mobiliieres</td>
<td></td>
</tr>
<tr>
<td>BBC</td>
<td>British Broadcasting Corporation</td>
<td></td>
</tr>
<tr>
<td>BOPs</td>
<td>Balance of Payments</td>
<td></td>
</tr>
<tr>
<td>CBN</td>
<td>Central Bank of Nigeria</td>
<td></td>
</tr>
<tr>
<td>CEEC</td>
<td>Central and Eastern European Countries</td>
<td></td>
</tr>
<tr>
<td>CNPC</td>
<td>China National Petroleum Corporation China</td>
<td></td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market of East and Southern African</td>
<td></td>
</tr>
<tr>
<td>ECA</td>
<td>Europe and Central Asia</td>
<td></td>
</tr>
<tr>
<td>ECM</td>
<td>Error Correction Model</td>
<td></td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
<td></td>
</tr>
<tr>
<td>ECT</td>
<td>Error Correction Technique</td>
<td></td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
<td></td>
</tr>
<tr>
<td>FCI</td>
<td>Foreign Capital Inflows</td>
<td></td>
</tr>
<tr>
<td>FPI</td>
<td>Foreign Portfolio Investment</td>
<td></td>
</tr>
<tr>
<td>FE</td>
<td>Fixed Effects</td>
<td></td>
</tr>
<tr>
<td>GCN</td>
<td>Guinean Central Bank</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
<td></td>
</tr>
<tr>
<td>GDPR</td>
<td>GDP Growth Rate</td>
<td></td>
</tr>
<tr>
<td>GFI</td>
<td>Global Financial Integrity</td>
<td></td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
<td></td>
</tr>
<tr>
<td>INF</td>
<td>Inflation Rate</td>
<td></td>
</tr>
<tr>
<td>IV</td>
<td>Instrumental Variable</td>
<td></td>
</tr>
<tr>
<td>LDC's</td>
<td>less developed nations</td>
<td></td>
</tr>
<tr>
<td>LFRDR</td>
<td>Library of Congress Federal Research Division report</td>
<td></td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
<td></td>
</tr>
<tr>
<td>MNCs</td>
<td>Multinational Corporations</td>
<td></td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
<td></td>
</tr>
</tbody>
</table>
OLS  Ordinary Least Squares
ODA  Official development assistance
PDS  Private Domestic Saving
RER  Real Exchange Rate
RIR  real Interest Rate
REM  Workers Remittances
RIR  Real Interest Rate
RIT  Relative Income Theory
SADC  South Africa Development Community
SFP  School Feeding Programme
SMEs  Small and Medium Enterprises
SSA  Sub-Saharan Africa
TI  Transparency International
TNCs  Transnational corporations
TOT  Terms of Trade
TSCS  Time Series Cross-Sectional data
UN  United Nations
US  United States
VAR  Vector Auto Regressive Model
VECM  Vector Error Correction Model
WAC's  West African Countries
WDI  World Development Indicators
WAMZ  West Africa Monetary Zone
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Over the years, some appreciable economic developments have been achieved by West African countries with regards to economic growth. One of the salient sources is via Foreign Capital inflows. A nation can achieve fast economic growth through the motivation of foreign capital. Foreign investments have been viewed as form of merger and acquisition which as do with the existing interest rather than new investment (Madhok & Keyhani, 2012).

Foreign Direct Investment inflow has been seen as the main activities that enhance economic growth of any nation from the developing world. Obida and Abu (2010) stated that capital needed for domestic investment, employment creation, managerial skills and transfer of technology can be achieved through foreign direct investment. Although, event had changed over times where foreign direct investment inflow is subject to countries within the region of Africa as many Nigerians’ investors heavily invest in Ghana and other West African countries. Nigeria also receive managerial skills, investments from other African countries.

Efforts had been made by governments of developing countries to solve these economic doldrums (depression) without achieving success as planned. The governments of these countries have neglected investment especially foreign direct investment (FDI) which will not only guarantee employment for them but will also
The contents of the thesis is for internal user only
REFERENCES


Freytag, A., & Pasche, P. D. M. *IPE II: Monetary Macroeconomics*.


