

Determinants of Foreign Direct Investment in Six West African Countries 1990-2017

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Abstract— The aim of the study is to identify factor destemming the flows of foreign direct investment in six west African countries. The study adopted panel data regression model analysis techniques using secondary data. Estimates from the Random Effect Model shows that the major determinants of foreign direct investment flows in the West African countries are market size, resources rent, institutional quality, infrastructure, and trade openness of the economy. Based on these findings, it was therefore recommended that government of the west African countries should invest more in infrastructure development, build effective and efficient institutions to attract more foreign direct investment.

Index Terms— Eclectic Theory, Foreign Direct Investment, Multinational Corporation, Panel Data, Resources Rent.

I. INTRODUCTION

Highlight The West African countries have experienced transformation in economies, organization and distribution of production. The economies of Nigeria, Ghana, Liberia and Liberia have become important in the West-African sub region, and in Africa at large. Nigeria, Ghana, Liberia and Gambia have become important destination to Foreign Direct Investment in Africa in the last three decades. Foreign Direct Investment (FDI) is the net inflows of investment invested by an investor to acquire a 10% or more lasting management stake in a company that operates outside the economy of the investor (World Bank, 2014). The lasting interest means a long-term relationship between investor and the company; and the rule of 10% or more implies significant influence to be exerted by the investor (UN, 1999). these two attributes are key distinguishing features of Foreign Direct Investment

The competition for foreign direct investment has forced west African countries to change their commercial policies, put in place certain infrastructure, and making effort towards stabilizing the macro-economic environment. It is expected that, with economic changes in the region, the region would emerge as a strong and preferred destination for Foreign Direct Investment (World Bank, 2012). Irrespective of the abundance of natural resources in the region, favourably labour supply dynamics, easy entry policies, and improving infrastructural capacity, the West-African sub-region has not been able to attract enough foreign firectinvestment to stimulate her economy and bridge the gap

of prosperity. Between 2010 to 2015, Africa attracted about 26% of the total foreign direct investment. However, only a paltry 6.8% came to the West African region (WTO, 2016). There is still slow growth, inadequate capital, and high unemployment, which are the challenges the supposed benefits from Foreign Direct Investment should settle. It appears the easy policies, favourable human capital resources, large market size, and abundant varieties of natural resources in the region are not enough attractions to foreign direct investment to the region. If nothing is done to make the region attractive to investors, the economies of the region will lose out in the competition for foreign direct investment and in attracting foreign assistance for development.

Addressing these challenges requires the understanding of the elements which influence the flow of foreign direct investment, so that appropriate policies could be put in place to address these issues in the region. Several studies have been conducted to determine the factors which influence the flow of Foreign Direct Investment. Some of the studies include Sahoo, (2006); Boros-Torstila. (1999). and Moosa, (2002).

However, most of these studies considered the transition economies like the Eastern Europe and the Asian countries. Studies in Africa have been concentrated in the Southern and Northern African countries. The major determinants of foreign direct investment have not been appropriately examined in the sub-Saharan Africa, especially in the West-African region. In this context, the objective of the study is to empirically determine the factors which influence the flows of foreign direct investment in six West African countries of Nigeria, Ghana, the Gambia, Seria Leon, Senegal and Liberia from 1990 to 2017.

A study of this nature is important for many reasons. The findings of this study will equip the authorities concerned with better knowledge of international trade and commercial policies required to make their economies attractive to foreign investors in order to grow and develop their economies in today's competitive environment

The remaining parts of study is divided into four (4) sections as follows. section two (2) is the literature review. Section three (3) is the method of the study. Section four (4) is the empirical results and discussed the empirical findings, while section five (5) is devoted to the summary and conclusion from the study.

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II. LITERATURE REVIEW

Macroeconomic theories treat Foreign Direct Investment as a form of capital flow between different economies in the world, and attempt to explain the motivations and determinants of Foreign Direct Investment in macroeconomics context. The Capital market theory propounded by Markowitz (1959) postulates that Foreign Direct Investment is determined by interest rates. The capital market theory of FDI is sort of the introduction to the consideration of the factors of Foreign Direct Investment and their location. In the theory, the basic premise of making foreign direct investment and portfolio investment in a country is the expectation for a higher rate of return than in the home country. The expected profit rate should compensate the costs and risks associated with taking business overseas as well as foreign currency risks.

The deficiencies in theory have been pointed out by many scholars, including Hymer (1976) and Caves (1982). Caves (1982) observed that difference in expected returns is not sufficient enough to induce the flow of foreign direct investment. Capital market theory of FDI can only partially

explain foreign direct investment. Dunning (1981) proposed an all-inclusive macroeconomic theoretical structure of Foreign Direct Investment inflows. He established the eclectic theory of Foreign Direct Investment by way of the so-called Ownership-Location-Internalization (OLI) theory that, eventill date, has not lost its authenticity and relevance. It represents a weave of three partial theories of

Foreign Direct Investment, which focused on the ownership advantages, the location advantages and the internalization advantages.

Due to its complex nature, the OLI paradigm is often considered the general theory of Foreign Direct Investment, which allows one to answer fundamental questions regarding Foreign Direct Investment. The framework stipulates that firms invest abroad because of ownership, location, and internationalization advantages. In this model, there are other economic and institutional factors that influence Foreign Direct Investment (Chang Lo, 2013). The factors include market size, fiscal and monetary policies and natural resources (Chang Lo, 2013). A lot of empirical studies have been done in this area. A few of the study include:

Authors/year	Country of study	Period of the study	Variables used	method	finding
Zuhail and Yalta (2017)	113 developing economies	2002-2012	corruption perception, regulatory quality, effectiveness of governance, political stability and absence of violence, voice and accountability, and the rule of law	Dynamic panel and GMM	All variables significant to FDI inflows
Xanpanya, Rangkulnuwat, and Pawenawat (2015)	8 East Asian Countries	2000-2011	real exchange rates, inflation rate, infrastructure, trade openness, and development loan	pooled OLS and Fixed Effect (FE)	All variable Positive and significant
Long, Stretesky and Lynch (2016)	125 LDCs	2005-2013	Resources rent and resources depletion	Panel Data	Resources rent have positive impact on FDI concentration
Elheddad (2016)	6 GCC countries	1980-2013	natural resources rent	cross-section OLS, panel fixed effects and dynamic	Resources endowment have negative effect on FDI
Akhtaruzzaman, Yang and Omar (2018)	27 sub-Saharan African (SSA) countries		Resources endowment		Resources endowment have positive impact on FDI
Arazmuradov (2015)	5 Central Asian economies	1993-2008	gross fixed capital formation, exports, natural	(2S.L.S.) and Fixed Effect (F.E)	Resources rent and ODA have positive effect on FDI

			resource, banking sector reforms and ODA		
Bokpin, Mensah and Asamoh (2015)	49 African countries.	1980 - 2011	Natural resources Rent	GMM	Natural resource rent has positive impact on FDI inflows.
Asiedu (2013)	Sub-Saharan Africa.		natural resources, market size, government policy, political stability and institutional quality	Panel data regression	natural resources rent, and market size, political stability, and institutional quality have positive and significant on FDI.
Amal, Tamil and Raboch (2010)	Latin American countries	1996-2008	Institutional quality/ Effectiveness of governance	Panel data regression	Effectiveness of Governance has positive effect on FDI in Latin America.
Campos and Kinoshita (2003)	25 transition economies	1990-1998	Market Size and cost of labour	Panel data regression	Market size has positive effect, while labour cost has negative effect on FDI
Nonnemberg and Mendonca (2004)	38 emerging market economies	1975 - 2000	Openness to trade	Panel regression	Trade openness has positive effect on FDI

The review of empirical literature of the study shows that there is no consensus on the real determinants of Foreign Direct Investment inflow to all regions and in all countries

III. METHOD OF THE STUDY

This part of the study explained the method employed for the collection and analysis of the study data.

A. Model Specification

The analytical foundation of this study will be based on John Dunning (1981) eclectic macroeconomic theory of foreign direct investment. The framework considered more issues in determining the flow of Foreign Direct Investment. Following Dunning (1981) and Oscar (2007), theoretical and empirical review of the study, a model of the determinants of Foreign Direct Investment inflow to the West African countries could be expressed as:

$$FDI_i = \beta_0 + \beta_1 GDP_i + \beta_2 INFR_i + \beta_3 EG_i + \beta_4 PS_i + \beta_5 RR + \beta_6 OT_i + \mu_i \quad (3.1)$$

Where

FDI represents foreign direct investment

GDP is market size and proxy by real gross domestic product per capita

INFR is level of infrastructure development

EG is effectiveness of governance

PS is political stability and absence of violence

RR is natural resource endowment

OT is openness to trade

$\beta_1 \dots \beta_6$ are coefficient of independent variables

e_i is the error term

Definitions and Measurement of Variables

There are two types of variables in the model. The variables are dependent and the independent variables.

A Dependent Variable

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IV. EMPIRICAL RESULTS AND DISCUSSION

A. Descriptive Statistics

In statistical analysis, it is important to examine the statistical properties of the variables. This provided the researcher the opportunities to examine the behaviour of the variables and detect any problems in the data early before applying them in regression model. Descriptive statistical properties of the variables in the model are presented in table 4.1 below

Table 1: Descriptive Statistic for Variables in the Model

	FDI	GDP	RR	INFR	EG	OT	PS
Mean	9.34408	1988.024	18.44525	31.26857	-0.789568	-0.741438	-0.758395
Median	1.35808	1707.115	11.90500	10.62500	-0.785000	-0.730000	-0.475000
Maximum	8.84090	5670.630	82.88000	143.6000	0.880000	1.200000	0.890000
Minimum	-1.30081	247.4300	2.000000	0.000000	-3.030000	-2.020000	-2.480000
Std. Dev.	1.75096	1199.846	17.82748	39.95206	0.576488	0.505240	0.846955

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Skewness	2.574667	1.201815	1.539417	1.141051	-0.137595	-0.151990	-0.272435
Kurtosis	9.696106	4.166164	5.113606	3.139038	3.347058	3.484464	1.838804
Jarque-Bera	481.6359	48.17728	94.13926	35.28439	1.324209	2.207987	11.10549
Probability	0.000000	0.000000	0.000000	0.000000	0.515765	0.331544	0.003877
Sum	1.51E+11	322059.9	2988.130	5065.509	-127.9100	-120.1130	-122.8600
Sq.Dev.	4.92E+20	2.32E+08	51168.89	256982.9	53.50647	41.09803	115.4906
Observations	162	162	162	162	162	162	162

Source : E-view computer Printout

There are one hundred and sixty-two (162) observations in the data points. Foreign Direct Investment (FDI) has a mean of 9.344. Real GDP has mean of 1988; while the mean of Resources Rent (RR) is 18.4452. Infrastructural Development level (INFR) Effectiveness of Government (EG), Openness to Trade (OT) and Political Stability are 31.2685, -.7895, -.7414 and -7583 respectively. The median of the FDI, RGDP and RR are 1.35808, 1707.115, and 11.90500 respectively. The median of INFR, EG, OT and PS are: 10.62500, -.0785000, -0.730000,-0.475000. From the table, the mean of FDI, INFR, RGDP and RR are significantly different from their median This is a clue that the distributions of these variables are not normal. The standard deviations of FDI, GDP, RR and INFR are 1.75096,1199.846,17.82748, and39.95206. This also shows that the variables' spread is significantly distant from the mean. EG, OT, and PS have standard deviation which do not show wide spread from their mean values. The skewness values for the variables FDI, GDP, RR, and INFR are 2.574667, 1.201815, 1.539417, and 1.141051 respectively. These variables distributions are positively skewed. EG, OT, and PS have skewness value of 0.137595, -0.151990, and -0.272435 that could be considered normal respectively. This shows that they almost have normal distribution. The

kurtosis values for RGDP, FDI, RR and INFR EG, OT are all greater than 3.00 which show that they are leptokurtic (have peak top), while only the kurtosis values for PS is less than 3.00 and is platykurtic (flat top). The Jarque –Bera (JB) statistics for FDI, GDP, RR, PS and INFR are very high with probability values of 0.0000. It implies that the distributions of these variables are not normal. This confirms the earlier signs from the other statistics. EG, and RQ JB statistics are 1.324209, and 2.207987 respectively, and their probability value proved that the variables have normal distribution.

B. Correlation Matrix: Multicollinearity Test

In a multi-regression model, it is always necessary to examine the variables in the regression model to see if there is any issue of multicollinearity among the variables. Where multicollinearity exists among the variables in the model, it becomes difficult if not impossible, depending on the degree, to have definite estimates of the model parameters. In other words, there is no way to estimate a unique parameter in the model. There are several multicollinearity tests. However, the correlation matrix test approach was adopted because of its simplicity and popularity. The results of the multicollinearity test is shown in Table 2 below.

	FDI	GDP	RR	INFR	EG	OT	PS
FDI	1						
GDP	-0.0851	1					
RR	-0.2181	-0.1233	1				
INFR	0.2132	0.2858	-0.0186	1			
EG	-0.1058	0.4809	-0.4093	0.1811	1		
RQ	0.2991	0.2596	-0.3432	0.1917	0.3925	1	
PS	0.4589	-0.2127	-0.4991	0.1458	0.1639	0.4023	1

Source: E-view printout

The correlation matrix shows the pair wise correlation between two variables. It is a measure of multicollinearity among the variables in the model. If the pair-wise correlation coefficient between any variable is greater than .99, it implies a perfect collinearity and precursor of multicollinearity (Gujarati, 2005). From the table, none of the pair wise correlation coefficient is greater .50. Hence, there is no reason to suspect multicollinearity among the variables. Therefore, the variables can be combined in a multiple regression model.

C. Unit Root Test

The results of the unit root test are presented in Table 4.3 below.

Table 3: Penal Unit Root Test at Level

Variable	(LLC)	(IPS)	MW					
			ADF	PP				
FDI	0.1535	(05610)	-0.6849	(0.2467)	16.4749	(0.1704)	17.5400	(0.1304)
RGDP	0.8098	(0.7910)	1.4684	(0.9290)	3.8246	(0.9247)	3.3310	(0.9927)
RR	0.6173	(0.7315)	0.0999	(6.5397)	11.7663	(0.4646)	11.2576	(0.5070)
INFR	0.1314	0.5523)	0.1510	(0.5600)	8.4843	(0.7462)	7.7087	(0.8075)

PS	0.3421	(0.6338)	0.3022	(0.6188)	12.4311	(0.4117)	20.2161	(0.0631)
EG	0.1231	(0.5498)	-1.3308	(0.0916)	17.1130	(0.1454)	26.7205	(0.0085)
OPT	0.6217	(0.4933)	0.4113	(0.3771)	14.1729	(0.3218)	18.7701	(0.0718)

Source: E-view computer output, Levin, Lin and Chu (LLC), IM, Pesaran and Shin (IPS), Maddala and Wu (MW)

Table 4: Penal Unit Root Test at 1st Difference

Variable	(LLC)		(IPS)		MW			
					ADF		PP	
FDI	-3.8389	(0.0001)	-5.6975	(0.0000)	34.9135	(0.0000)	94.3507	(0.000)
RGDP	-2.2910	(0.0110)	-3.2448	(0.0006)	40.1818	(0.0001)	76.0996	(0.000)
RR	-4.1318	(0.0000)	-5.6930	(0.0000)	56.9866	(0.000)	91.3266	(0.000)
INFR	-0.4474	(0.3273)	-1.1347	(0.1241)	23.4859	(0.0239)	59.4985	(0.000)
EG	-2.9715	(0.0015)	-6.8710	(0.000)	66.8855	(0.0000)	129.322	(0.000)
OT	1.1531	(0.8756)	-5.7266	(0.0000)	56.1168	(0.000)	127.769	(0.000)
PS	-5.2125	(0.0000)	-7.0919	(0.0000)	68.7503	(0.0000)	139.897	(0.000)

Source: E-view computer output Levin, Lin and Chu (LLC), IM, Pesaran and Shin (IPS), Maddala and Wu (MW)

The panel unit root results for both at level and at 1st difference is presented in Table 4.3 and 4.4 above. The results show that all the variables have unit root at level. That is, the variables are not stationary at level. After 1st differencing of the variables, they became stationary. The Fisher tests show that all the variables are stationary after 1st differencing. Both ADF and PP statistics show that the variables are integrated of order 1 or simply I(1) series. However, the LLC test shows that infrastructure is not stationary after 1st differencing. Also, the Im, Pesaran, and Shin stationarity test proved that effectiveness of governance is not stationary after 1st differencing. The results appear to be conflicting. However, Maddala and Wu (1996) compared the various tests. Their results revealed that in most cases, the Fisher/Maddala/Wu test is more powerful than the Im, Pesaran and Shin test which in turn is more powerful than the

Levin, Lin, and Chu. The Fisher test is equally more robust than the IPS in the case of cross-country correlation among the error terms. Hence, the study adopts the results of the Fisher/Maddala and Wu (1996) test: all the variables are 1st difference stationary.

Panel Co-integration Test

As explained earlier in section, co-integration is necessary for modeling the long run relationship of an I(1) series. Co-integration examines the integrated variables whether there is any fixed long run relationship that could be model. Specifically, it is an attempt to see if the stochastic trend counseled out when combined in a model. The variables in the model were examined for co-integration using the Pedroni (1999) panel co-integration approach. The results are presented Table 4.5 below.

Table 5: Pedroni Panel Co-integration Results

Panel	Statistic	P-Value	Group Statistic		
Panel V statistic	-1.1821	0.8814	Group rho statistic	5.5999	0.0053
Panel rho statistic	2.5521	0.0094	Group PP statistic	4.5513	0.0093
Panel PP Statistic	6.8049	0.0045	Group ADP statistic	2.0587	0.0032
Panel ADF Statistic	4.0159	0.0009			

Source: E-view computer print out

The Pedroni panel co-integration techniques has seven (7) statistics. Four (4) statistics are within group and three (3) are between group. From the results, both the panel and the group statistic proved that there is co-integrating relations in the model. Three (3) out of the four panel statistics proved that there is co-integrating relation in the model; while all three-group statistic proved co-integration relationship. Therefore, it could be concluded that there is a fixed long run

relationship that could be modeled among the variables.

Having seen that the variables are cointegrated, that is, their relationship could be expressed as economic model, it becomes important to choose the right model among the two competing models. Hausman test comes handy for selecting the most appropriate model between the two alternative models. The result of the Hausman test is presented below.

Correlated Random Effects-Hausman Test Result

Table 6: Test cross-section random effects

Test Summary	Chi-Sq. Statistic	d.f.	Prob.
Cross-section random	0.000000	11	1.0000

the probability value of the Chi-Square statistics was examined and decision was made based on the decision criterion. The probability value here is 1.0000 which is greater than 5% critical value. Therefore, we accept null hypothesis and conclude that the random effects model is most appropriate model for analysis for the study

4.6 Panel Regression Results.

Table 7: Pool OLS, Fixed Effect, and Random Effect Models Results.

Variable	Pool OLS			Fixed Effect			Random Effect		
	Coefficient	t-statistic	p-value	Coefficient	t-statistic	p-value	Coefficient	t-statistic	p-value
D ₂	-		-	5.5568	5.0617	0.0000	-	-	-
D ₃	-		-	-4.7332	-2.1990	0.0000	-	-	-
D ₄	-		-	1.4910	6.9381	0.0000			
D ₅	-			4.2110	25.92290	0.0000			
D ₆	-			1.2319	8.8633	0.0000			
GDP	5.2265	0.8019		51.6818	7.9512	0.0000	21.1818	6.4998	0.0000
EG	3.9212	1.0770		3.9212	3.6647	0.0000	3.9156	3.6647	0.0000
INFR	0.43120	1.0439		5.1542	4.9237	0.0000	17.1542	4.9237	0.0000
OT	4.3743	8.1145		4.5713	0.3145	0.2140	15.7407	5.1176	0.0000
PS	2.1539	5.8630		2.1574	0.5667	0.4303	21.1500	3.6534	0.0003
RR	6.2726	3.4984		20.8272	6.4393	0.0000	24.2732	6.7393	0.0000
CONSTANT	-16.6642	5.2544		-1.0209					
R ²	0.7084			0.4082			0.7054		
F-Statistic	188.4239			93.6948			158.3739		
P-value(P-stat)	0.0000			0.0000			0.0000		
Number of Observation		168		168			168		
Number of Groups		6		6			6		

The estimated results of the panel regression models are presented above in Table 4.6. The results of random effect model are discussed. The result shows that the relationship between market size and FDI inflow is positive and statistically significant. This is in conformity with the *a priori* expectation for the variable and with economic theory. The positive and significant relationship implies that larger market size, that is, higher economic growth prospect, stimulates inflow of foreign direct investment. The result is in support of the findings of Anyanwu (2012) which found positive and significant effect of market size on FDI inflow. However, the result contradicts the findings of Parletun(2008) which found positive but insignificant effect.

Political stability has positive and significant effect on foreign direct investment inflow to the West African countries. The coefficient of political stability variable is 2.150 and statistically significant. The sign of the variable coefficient is in line with the *a priori* expectation for this variable. It implies that the more politically stable a country is, the more the inflow of foreign direct investment to that country. Countries and regions which are politically volatile experience low inflow of FDI and, at times, negative net FDI position.

Effectiveness of governance (EG) has positive and important impact on foreign direct investment inflow. The sign of the coefficient conforms with the *a priori* expectation for this variable. This also implies that effective government attracts more foreign direct investment. Also, the findings of the study are in line with the findings of Sedik(2012) which found positive relationship between government effective and FDI inflows in the MEMA countries. However, the result contradicts the findings of Koen et al (2012) and Amal et al (2010) which found negative, but insignificant effect of government effectiveness on FDI inflow in the OECD

countries and in the Latin American countries.

Infrastructure development (INFR) has direct and important effect on foreign investment inflow. Specifically, increase in the quality of infrastructural development will encourage increase in the inflow of foreign investment to the country. The findings of the study confirm the findings of Asiedu (2002) which found positive and significant relationship between infrastructural development and foreign direct investment in a selected African country. The result contradicts the findings of Onyeiwu (2003) which did not find any effect of infrastructure on FDI inflow in Nigeria. The difference in findings could be attributed to measures of infrastructure in the studies. Asiedu (2002) used number of telephone lines per 100 and panel data which the present study also followed. On the other hand, and Onyeiwu (2003) used bed space per 1,000 inhabitant and Vector Auto regressive Model. It has been observed that VAR model performs poorly in finite sample.

The sign of the impact of Openness to trade variable coefficient conforms to the *a priori* expectation for the variable. The greater the level of open to trade of a country, the higher the inflow of foreign direct investment to that country. The finding of the study confirms the findings of Chakrabarti (2001) who conducted a cross-country analysis of 135 countries and found that a country's openness to trade has positive impact on foreign direct investment. However, the result of the study contradicts the findings of Fetahi-Vehapia, Sadiku and Petkovic (2015) which found negative and insignificant effect of trade openness on foreign direct investment in 10 Eastern European countries. Although both studies used panel data, the differences in the results could be attributed to the size of the economies and the volume of foreign trade. Chakrabarti used 135 countries, while Fetahi-Vehapa et.al used only 10 countries.

The relationship between resources rent and foreign direct investment inflow in the West African countries is positive and statistically significant. This implies that countries with natural resources attract foreign direct investment coincidentally, all the West-African countries used in the analysis have one natural resource or the other. This implication of these findings is that countries that have natural resources endowment are more favourably to attract foreign direct investment than countries without. The finding of the study supports the results of Asiedu(2013), Rodrigo(2018), and Long, Stretesky and Lynch(2016) which found positive and significant effect of resource rent on foreign direct investment in panel data studies. The result, however, contradicts the findings of Elheddad which found negative and statistically significant relationship between resources rent and foreign direct investment in six GCC countries

V. CONCLUSIONS

The broad objective of the study was to identify factors influencing the inflow of foreign direct investment into the West African countries. The study adopted *ex-port*quasi-experimental research approach using a sample of the six (6) largest economies in the region. The analytical techniques relied on panel data regression approach using secondary data collected from the 1990 to 2017. The empirical model has foreign direct investment (FDI) as the explained variable, while the explanatory variables include of market size, openness to trade, infrastructure development resources rent, effectiveness of government, and political stability. All results of the panel unit root tests revealed that the variables have unit root at level; that is, the variables are not stationary at level. All the variables became stationary after 1st differencing. The Pedroni co-integration test results showed that the variables have a common long run trend, that is, the variables are co-integrated. Other major findings of the study could be summarized as follows:

- i. Market size had positive effect on foreign investment inflow to the six countries during the period 1990 to 2017.
- ii. Infrastructural development had positive and important influence on the inflows of investment to the six west African countries.
- iii. Openness to trade had positive for attracting foreign investment into the region during the period 1990 to 2017.
- iv. Resources rent is important for attracting investment to the regional economies.
- v. Effective and quality institutions are necessary factor for attracting investment to the West African countries in the during the period 1990 to 2017.

The study has empirically identified the factors which determined the volume of flow of foreign direct investment in the six selected countries in West African region. The analysis revealed that market size; openness to trade, effectiveness of government, resource rent and political stability had positive and significant influence on the inflow of foreign direct investment. It thus implies that improvement in political stability and by extension democratization of

West African countries would be beneficial to the ECOWAS region for attracting foreign investors to the region. There is no doubt that the inadequate inflow of foreign direct investment to the West African region is a direct consequence of the poor infrastructural quality and institutional decay in the region.

Without adequately addressing the issues of gross infrastructure deficit, political instability, and institutional building, the region will not be attractive to foreign investors. Attracting the level and structure of foreign investment that can bridge the capital, technological, and managerial know-how gaps the region entails more openness to trade, massive infrastructure development and institutions that would be attractive to foreign investors. The huge deposits of national resources in the region and high population of the region are not enough for attracting FDI.

The abundance of varieties of national resources and human capital must be backed by adequate infrastructure, effective and quality institutions to be attractive to foreign investors. Foreign investors in critical sectors of the economies could be attributed to political instability in the region. Government of the countries in the region should intensify efforts at opening their economies, building quality and effective institutions, and invest more in infrastructure development to attract capital to the region.

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