

PROS AND CONS OF GHANA AS A DESTINATION FOR FOREIGN DIRECT INVESTMENT

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ABSTRACT

This study presents an in-depth analysis of foreign direct investments (FDI) determinants in Ghana. Following the typology of Dunning's motives of FDI location, they are categorised under the resource-seeking, market-seeking or efficiency-seeking FDI they foster. Literature on FDI drivers in Africa was considered and based on the tendency and/or comparison of the most recent official data (2000-2022), the pros and cons of such determinants were identified. The analysis reveals that Ghana presents a mostly favourable profile to attract resource-seeking and market-seeking FDI but a mixed situation in the determinants of efficiency-seeking FDI. This study adds to the FDI literature by categorising the drivers under Dunning's motives of FDI and studying the evolution of these factors in a specific developing African country (Ghana) in order to reveal the country's performance with the determinants. Results show that Ghana's trend is very positive and can become an attractive market for foreign companies. And government and policymakers should continue in the trend of improving their factors to attract and retain foreign investment.

Keywords: Ghana, Foreign Direct Investment, Resource-seeking, Market-seeking, Efficiency-seeking.

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INTRODUCTION

The importance of country factors in attracting foreign direct investments (FDI) in the global markets has been a central question in the international business literature since the initial contributions of classical macroeconomic theories (Adam Smith, David Ricardo or Heckscher-Ohlin). Since then, there has been numerous contributions that have allowed us to understand the FDI location determinants, or in Dunning's terminology, location advantages. However, the importance of these determinants will vary with the degree of development of the host economy (Ramírez-Alesón & Fleta-Asín, 2016).

Due to several reforms with the aim of attracting FDI, developing countries are becoming attractive markets for firm growth. Furthermore, firms are internationalising into geographically and culturally distant markets because of strong and global competition. As a consequence, developing countries are becoming the recipient of the majority of global FDI inflows and in 2021 they experienced the largest increase reaching \$777 billion (UNCTAD, 2022a). Africa is the continent with less FDI inflows. Although its tendency is growing (\$83 billion in 2021; UNCTAD, 2022a), there are great differences between countries due to political problems, corruption, instability and inflation rates, among other factors.

Many scholars have risen to study the significant drivers of FDI into developing countries in Africa. While some authors have done analyses of FDI into various regions of Africa like West-Africa, Sub-Sahara Africa (SSA) and non-SSA (e.g. Anyanwu & Yameogo, 2015; Asiedu, 2002; Kariuki, 2015; etc.), others have rather looked into FDI

inflows to specific economies such as Ghana and Nigeria (e.g. Ajibade et al., 2019; Barthel et al., 2011). Unlike most previous studies, our paper is based on the most relevant and influential typology presented by Dunning (Dunning, 1993), who identified four categories of FDI motives: the natural resource-seeking, market-seeking, efficiency-seeking and strategic-asset-seeking. Our study seeks to integrate the drivers of FDI in the taxonomy of Dunning's motives of FDI location, and to answer the question of what type of FDI determinants are in Ghana. The study focuses on the first three aforementioned categories, given that, following Narula and Dunning (2000, 2010), less developed countries are unlikely to attract strategic asset-seeking FDI due to the fact that local conditions are based mainly on generic resources. Less developed and emerging countries would attract resource-seeking, market-seeking and efficiency-seeking investments (Ramírez-Alesón & Fleta-Asín, 2016). Thus, this study provides a comprehensive analysis of the factors that attract (resource-, market- and efficiency-seeking) FDI into a specific developing African country, Ghana, identifying its advantages and disadvantages as a FDI destination, during the 21st century.

This study focuses on Ghana for quite a number of reasons. First, it has been one of the fastest growing economies in Africa (7% per year in 2017-2019) although its growth was reduced by the COVID-19 pandemic, being 5.4% in 2021 (WB, 2022a). Second, Ghana is second highest recipient of FDI in West Africa and seventh in Africa (UNCTAD, 2022a). Previous reasons would imply its attraction of market-seeking FDI following the Investment Developed Path –IDP- approach (Dunning, 1993; Narula & Dunning, 2000, 2010). Acheampong and Dana (2017) proposed Ghana as a Fast-Expanding Market given the country's increasing Gross National Income per capita. Lastly, the country holds a good record of environmentally friendly market for business due to its political stability, economic and institutional reforms (Barthel et al., 2011) as

well as its solid social capital (WB, 2022a), which may attract other types of FDI. Indeed, Ghana has successfully operated as an open economy during the last decades and it is one of the scarce democratic countries in Africa.

Our paper contributes to and complements previous studies in several ways. First, to the best of our knowledge, this is the first paper that, based on Dunning's motives of FDI location, provides a recent, systematic and holistic study of the major determinants of FDI in Ghana. Most previous papers based on other classifications or analysed different country factors without following a theoretical framework. Second, the in-depth nature of a specific country analysis like this one would help foreign firms have better knowledge of Ghana when deciding to invest in the country. Third, the study can also help policy makers of Ghana as it contributes to critical policy issues in relation to investment, financial integration and economic growth. In particular, the determinants that need special attention are highlighted (those that would be important to attract the right type of foreign investments into the country). Finally, this analysis will contribute, in part, to the entry mode literature by providing a component (country analysis) of the entry mode (FDI) decision making process. In this way, it is important to note that our work focuses on the first phase of the FDI process, analysing the factors that encourage FDI in Ghana, given that developing country governments have prioritised policies related to attracting FDI to enhance economic growth. However, an analysis of the positive and negative consequences of FDI is beyond the scope of this paper.

The remaining paper presents a literature review of the significant factors that attract FDI into developing countries in Africa, an analysis of the factors that attract (resource-, market- and efficiency-seeking) FDI into Ghana, and the conclusion and implications.

FDI DETERMINANTS IN AFRICA

Theoretical Background

This section identifies the significant drivers that would attract FDI inflows into Africa. Three particular reasons for foreign firms to invest in less developed countries are based on the availability of natural resources, market and efficiency in the host economy. Each determinant of FDI in Africa tends to attract a particular type of FDI or a couple of them, if not all three.

Moreover, there are some factors that are considered basic and therefore necessary for investment attraction. These determinants include *infrastructure*, without which it would be difficult to develop a business activity, and *investment incentives*, with which countries with less FDI become attractive. Apart from the fundamental drivers, there exist other determinants that attract different types of FDI.

The Resource-seeking FDI aims for specific resources that have lower costs and are more abundant in the host country than in the home country. Most of the outputs of such investments are exported to developed industrialised countries. Examples of such resources include physical resources such as minerals (oil, copper, tin, etc) and agricultural products (rubber, tobacco, palm oil, coffee, etc). Based on Dunning's exposition of the resource-seeking motive and the literature review of the FDI determinants in Africa, the most important drivers of resource-seeking FDI may include *natural resources* (Dunning, 1993), and *commodity price index* (Kariuki, 2015).

The Market-seeking FDI is aimed at supplying goods or services to a host country and/or its neighbouring countries in order to avoid trade barriers, follow suppliers or customers and also to serve a growing market size. Outputs of such investments are mostly adapted to the needs and requirements of the local market. The determinants of market-seeking FDI in Africa, stated in previous literature, include *market size*

(Dunning, 1993; Owusu-Manu et al., 2019), *trade openness* (Asiedu, 2002; Dunning, 1993; Owusu-Manu et al., 2019), *government agreements* (Dunning, 1993), *monetary integration* (Anyanwu & Yameogo, 2015) and *presence of FDI* (Dunning, 1993; Kariuki, 2015).

The Efficiency-seeking FDI seeks to utilise ‘different factor endowments, cultures, institutional arrangements, economic systems and policies, and market structures... by concentrating production in limited number of locations to supply multiple markets’ (Dunning 1993). This kind of investments thrives in regionally integrated markets. The drivers of efficiency-seeking FDI in Africa involve *cost/quality of labour* (Dunning, 1993), *access to credit* (Dunning, 1993), *real exchange rate* (Dunning, 1993), *inflation rate* (Kariuki, 2015), *International Financial Reporting Standards (IFRS) adoption* (Ajibade et al., 2019), and *institutional quality* (Dunning, 1993).

Dunning (1993) stated that there are some firms, that invest in a host country, with more than one motive. Moreover, although the most important drivers of each type of FDI are presented in previous paragraphs, it is important to note that there also exist some factors which attract more than one type of FDI.

Empirical Studies Review

A qualitative research based on a bibliographic review is followed to identify empirical studies on the main FDI drivers in Ghana. Based on different Databases (Scopus, WOS or Google Scholar), our research initially covers those empirical articles published in recent years (2005-2020) that focus on the study of the main FDI drivers in Africa, especially in Ghana. By reading these articles, we eliminated those that did not provide sufficient information or did not detail the FDI drivers and completed the search by reading and tracing the bibliography referenced in the selected documents (“snowballing”). This resulted in the 20 papers summarised in Table 1.

Table 1. Summary of FDI Determinants in Africa.

DRIVERS		ZONE	PERIOD	EFFECT ON FDI	AUTHORS
BASIC FACTORS					
Infrastructure	Land, road, water, energy & ICT	Ghana	2008	Positive	Barthel et.al.(2011)
	Electricity consumption		1966-2015		Ibrahim et.al.(2018)
	Electricity production		1984-2013		Owusu-Manu et al.(2019)
	Access to electricity		1989-2018	Positive/n.s with time	Lawson et.al.(2019)
	Telephone subscriptions		1975-2014	Positive	Anarfo et.al.(2017)
			1990-2015		Asiamah et.al.(2019)
	Internet users/100 people	Ghana	2000-2014	n.s.	Yakubu and Mikhail(2019)
	Gross fixed capital formation	Africa	1980-2013	Positive	Alhassan(2016)
		1984-2010	Kariuki(2015)		
Investment incentives	Investment incentives	Ghana	2008	Positive	Barthel et.al.(2011)
	Tax holidays		1989-2018	Positive/n.s . with time	Lawson et.al.(2019)
		Loan component of Foreign Aid	West-Africa	1970-2010	Negative
NATURAL RESOURCE-SEEKING					
Natural resources	Natural raw materials	Ghana	2008	Positive	Barthel et.al.(2011)
	Natural resources rents		1975-2014		Anarfo et.al.(2017)
	Oil	Africa	1996-2008		Anyanwu(2012)
	Oil/mineral	West-Africa	1970-2010		Anyanwu and Yameogo(2015)
Commodity price index	Commodity prices	Africa	1984-2010		Kariuki(2015)
MARKET-SEEKING					
Market size	GDP	Ghana	2000-2014	Positive	Yakubu and Mikhail(2019)
	GDP Log		1975-2014		Anarfo et.al.(2017)
			1990-2015		Asiamah et.al.(2019)
			1975-2017		Awunyo-Vitor and Sackey(2018)
	GDP growth	Ghana	1984-2013	Negative	Owusu-Manu et.al.(2019)
			1980-2010		Antwi and Zhao(2013)
			1966-2015		Ibrahim et.al.(2018)
	Real GDP per capita	West-Africa	1970-2010	U-shaped	Anyanwu and Yameogo(2015)
	First/second previous years of GDP growth	Ghana	1980-2012	n.s.	Enu et.al.(2013)
	First/second previous years of GDP per capita		1960-2015	Positive	Tuffour and Mensah(2018)
	Market size/potential		2008		Barthel et.al.(2011)
	Urban population size		Africa		1996-2008

		West-Africa	1970-2010		Anyanwu and Yameogo (2015)
Trade openness	Trade (imports+exports) per GDP	Africa	1984-2010	Positive	Kariuki(2015)
			2000-2014		Yakubu and Mikhail(2019)
		Ghana	1966-2015	Negative	Ibrahim et.al.(2018)
			1984-2013		Owusu-Manu et.al.(2019)
			1975-2014	n.s.	Anarfo et.al.(2017)
	Trade regulation and strategy		2008	Positive	Barthel et.al.(2011)
	Second past year of trade per GDP		1980-2012		Enu et.al.(2013)
Third/fourth past year of trade per GDP	Ghana	1960-2015	Tuffour and Mensah(2018)		
Government agreement	BITs (Bilateral Investment Treaties)	Ghana	1989-2018	n.s.	Lawson et.al.(2019)
	ITA (International Trade Agreements) and BITs	Developing countries (including Africa)	1970-2000	Positive	Büthe and Milner(2008)
	Protection of investors	Ghana	2008		Barthel et.al.(2011)
Monetary integration	WAEMU (West-African Economic and Monetary Union)	West-Africa	1970-2010	Positive	Anyanwu and Yameogo(2015)
Presence of FDI	First (Second) past year of FDI	Ghana	1980-2012	Positive (Negative)	Enu et.al.(2013)
		West-Africa	1970-2010		Anyanwu and Yameogo(2015)
	First past year of FDI	Africa	1984-2010	Positive	Kariuki(2015)
		Ghana	1990-2015		Asiamah et.al.(2019)
	Second past year of FDI		1960-2015		Tuffour and Mensah(2018)
EFFICIENCY-SEEKING					
Cost/quality of labour	Labour cost	Ghana	2000-2014	Negative	Yakubu and Mikhail(2019)
			1989-2018		Lawson et.al.(2019)
	Productivity/skills/cost & reliability of labour		2008	Positive/Negative	Barthel et al.(2011)
	Literacy rate	Developing countries (including Africa)	1980-2003	Positive	Dutta and Osei-Yeboah(2013)
	Secondary school enrolment	Ghana	1960-2015		Tuffour and Mensah(2018)
Credit & Cost	Access to credit	Ghana	2008	Positive	Barthel et.al.(2011)
	Domestic credit to private sector	West-Africa	1970-2010	Negative	Anyanwu and Yameogo(2015)
	Real exchange rate	Exchange rate	Ghana	1975-2014	Negative
1990-2015				Asiamah et.al.(2019)	
1975-2014				Anarfo et.al.(2017)	
1990-2015				Asiamah et.al.(2019)	
1960-2015				Tuffour and Mensah(2018)	
2000-2014				Yakubu and Mikhail(2019)	
1989-2018				Lawson et.al.(2019)	

		Africa	1984-2010	n.s.	Kariuki(2015)
	Exchange rate regime	Ghana	2008	Negative	Barthel et.al.(2011)
	Exchange rate volatility		1970-2002		Kyereboah-Coleman and Agyire-Tettey (2008)
	Exchange rate appreciation	Africa	1980-2001	Negative	Kandiero and Chitiga(2006)
	Last two years of exchange rate	Ghana	1980-2012	Positive	Enu et.al.(2013)
Y	Inflation rate	Africa	1984-2010	Negative	Kariuki(2015)
		Ghana	1990-2015		Asiamah et.al.(2019)
			2008		Barthel et.al.(2011)
			1975-2014	n.s	Anarfo et.al.(2017)
			2000-2014		Yakubu and Mikhail(2019)
		Ghana, Nigeria	1984-2017		Ajibade et.al.(2019)
	West-Africa	1970-2010	Anyanwu and Yameogo(2015)		
	First/second past year of inflation	Ghana	1980-2012	Enu et.al.(2013)	
	GDP deflator		1980-2013	Alhassan(2016)	
IFRS adoption	IFRS adoption dummy	Ghana, Nigeria	1984-2017	Positive	Ajibade et.al.(2019)
		Developing countries (including Africa)	1996-2013	Positive	Owusu et.el.(2017)
Institutional Quality	First past year of democracy	Ghana	1960-2015	Positive	Tuffour and Mensah(2018)
	Political stability		1984-2017		Ajibade et.al.(2019)
			2008		Barthel et.al.(2011)
	Political instability	West-Africa	1970-2010	n.s.	Anyanwu and Yameogo(2015)
Political risk rating	Africa	1984-2010	Kariuki(2015)		

n.s=Not significant. *Source: Personal elaboration*

Based on these papers, the different FDI drivers are identified and classified according to the main types of FDI they attract. It is noted that different measurements of variables are used for the same drivers by several authors and the impacts of FDI drivers sometimes have mixed results. It can be inferred that resource-seeking FDI drivers are always found to have significant positive impact on FDI inflows to Africa. However, market-seeking and efficiency-seeking FDI determinants tend to have mixed findings. Surprisingly, GDP growth and labour cost are mostly found to be negative or inflation rate insignificant in attracting FDI into Africa. Ibrahim et al. (2018) and Owusu-Manu et al. (2019) find GDP growth to have a long-run negative relationship with FDI inflows.

This implies that “the ‘market stealing’ effect associated with increased FDI is apparent...; where MNCs push out domestic firms without FDI out of the market” (Owusu-Manu et al., 2019: 1213).

The insignificance of inflation rate may be due to the overflowing benefit of other variables on FDI inflows which offsets the inflation-induced risk and cost on foreign investment (Asiedu, 2002). Inflation rate becomes significant when it depends on other determinants such as political stability (Ajibade et al., 2019).

ANALYSIS OF FDI DRIVERS IN GHANA

Ghana description and history

Ghana is a relatively small country located in West Africa. In December 2018, six regions were created in addition to the extant 10 in order to equitably spread developmental projects and bring governance closer to the people. Given the interventions of the state in certain developmental projects, Ghana is said to be gesturing towards a developmental state which is argued by Amoah and Asante (2019) to be critical for Ghana to industrialise.

There are eight major ethnic groups with the Akan being the largest group. Every ethnic group has its own language. However, English is the official language due to its British colonial master, which should facilitate doing business with foreign clients, suppliers or partners.

Ghana for almost five centuries (1471-1957) was under invasion and colonialism by several European countries (Portugal: 1471-1637; Britain: 1554-1957; Denmark: 1600s-1850; Holland: 1637-1872; Sweden: 1650-1657; and Germany: 1683-1865) engaged in quite a number of trades with Ghana. Revisiting the literature of colonialism shows the importance and longevity of European business activities in Ghana (Europe

holds a major part of FDI in Ghana) although recently Osei et al. (2020) found that colonial ties have limited influence on contemporary flow of FDI to Ghana.

The advantages or disadvantages of the determinants of FDI for Ghana are examined based on their positive/negative tendencies in the country and sometimes on their comparisons with other countries. For this purpose, this study uses the most relevant, recent and available data for each factor from different official sources, such as UNCTAD, World Bank (WB), International Monetary Fund (IMF), Bank of Ghana, and Ghana Statistical Service (GSS). The factors are also analysed according to the resource-seeking, market-seeking and efficiency-seeking FDI they attract.

Basic drivers

Infrastructure and investment incentives are fundamental in driving FDI inflows. Infrastructure is necessary for investment while incentives are usually used to attract investment to developing countries with less FDI.

Infrastructure

Infrastructure in a host country can be argued to attract all types of FDI. It is mostly measured using telephones or number of internet users, gross fixed capital formation and access to electricity (Asiamah et al., 2019; Yakubu & Mikhail 2019). Following the latest data from the Global Competitiveness Report (WEF, 2019), Ghana seems to rank better in utility infrastructure (112th out of 141 economies) than in transport infrastructure (127th/141). With regards to utility infrastructure, access to electricity (ranking 106th with a value of 84% of the population) and reliability of water supply (98th with a value of 53.6%) saw an improvement in 2019 compared to the previous year. Concerning transport infrastructure, Road connectivity (79th), Liner Shipping connectivity (69th), Efficiency of seaport services (114th) and Railroad density (74th) increased in value in 2019 as compared with the previous year. Airport connectivity

(94th) remained the same in value while Quality of road infrastructure (118th), Efficiency of train services (97th) and Efficiency of air transport services (110th) declined in score. In general, apart from some countries like Egypt, Morocco, South Africa, Cape Verde, Senegal and Cote D'Ivoire, Ghana ranks higher (118th/141 countries), in terms of general Infrastructure, than many other African countries (e.g. Tanzania, Angola, Benin, Cameroon, or Nigeria).

Investment Incentives

Investment incentives have been found in literature to have positive effect on FDI inflows (Lawson et al., 2019). This may have influence on all three types of FDI. Tax rates and tax holidays are mostly used as proxies for tax incentives. Following the latest World Bank Data, the total tax and contribution rate (per cent of profit) evolution of Ghana has seen a decline since 2005 to 2019, from about 53% to around 40%. In 2019, the country had a relatively lower tax rate compared to other developing/emerging countries like Brazil (65.1%), China (59.2%), India (49.7%), Cote d'Ivoire (50.1%), Angola (49.1%) and also to developed countries like Spain (47%) and France (60.7%).

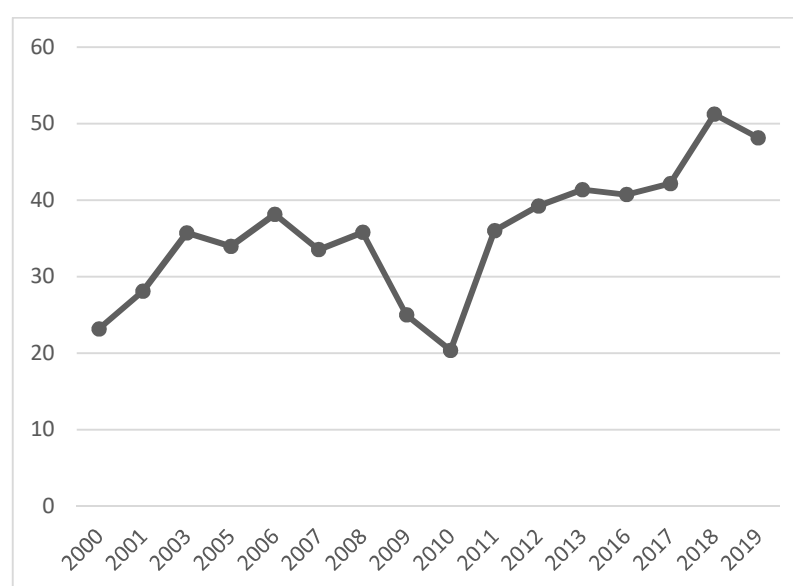
Analysis of resource-seeking FDI drivers in Ghana

In this section, we present the FDI determinants that significantly attract resource-seeking FDI in the context of Ghana.

Natural resources

Ghana happens to be one of the countries in Africa endowed with rich natural resources such as gold, cocoa and oil. Cocoa and oil production constituted 1.4 and 4.5%, respectively, of Ghana's GDP in 2019 (GSS, 2020). Following the latest available data, raw materials have contributed in an increasing manner to Ghana's export in comparison with intermediate, consumer and capital goods, from a 23.19% in year 2000 to over 48% in 2019 (figure 1).

Figure 1. Ghana's Raw Material % Share of Product Export, 2000-2019.



Source: Personal elaboration. Data from WITS (2019).

Commodity price index

Following Kariuki (2015), the commodity price index from UNCTAD is used for the analysis. This index reports the price trends of commodities such as fuels, agricultural raw materials, mineral, ores and metals. When commodity prices increase, the return on investment in exporting such goods also rises, thereby attracting foreign investors into that sector. This factor can be said to attract resource-seeking FDI. The evolution of this index showed a positive tendency for all commodities without fuels but a negative tendency when fuels are taken into consideration in 2019 (UNCTAD, 2019). However, since 2020 the price of fuels has seen a steady increase. From May to June 2022 fuels saw a 6.9 per cent increase in price while the rest of commodities saw a decline in price (UNCTAD, 2022b).

Analysis of market-seeking FDI drivers in Ghana

The literature of FDI determinants has also identified quite a number of factors to have an influence on market-seeking FDI into developing countries. The remaining subsections analyse these determinants in Ghana.

Market size

Population, GDP and GDP per capita are used for the market size analysis of Ghana. The population of Ghana is increasing due to the high birth rate, reaching in 2021 31.39 million people. The country's capital, though the smallest in terms of land surface area, happens to be the most populated region.

According to IMF (2022a), over the period 2000-2021 Ghana's GDP increased from \$20.06 billion to over \$66 billion (constant 2015 US\$). Therefore, Ghana recorded an average annual growth rate of GDP of 5.8% which helped drive the overall growth of the continent. These figures indicate that Ghana ranks the ninth fastest growing country in Africa in the period 2000-2021.

Table 2 shows the contribution of the economic sectors of Ghana to its GDP during the last available years (GSS, 2020). The most important sector in Ghana has been the service sector, with its increasing tendency. Within it, Trade; Repair of Vehicles, and Household Goods are the highest contributor with a relatively stable trend. However, Real Estate Activities show the highest growth (170% growth rate from 2013 to 2019). Surprisingly, the Agricultural sector's share of GDP has been declining steadily from 2016. Although Crops have averagely contributed the most to the country's GDP from 2013 to 2019, Trade; Repair of Vehicles, Household Goods contributed the most in 2018 and 2019. The sector with much potential seems to be the Services. Between 2013 and 2019, it recorded a 14% increase in its share of GDP. The industry activities rather saw a negative growth rate between 2013 and 2019 which does not seem to be leading to Ghana's industrialisation dream.

Table 2. Ghana's share of sectors in GDP, 2013-2019.

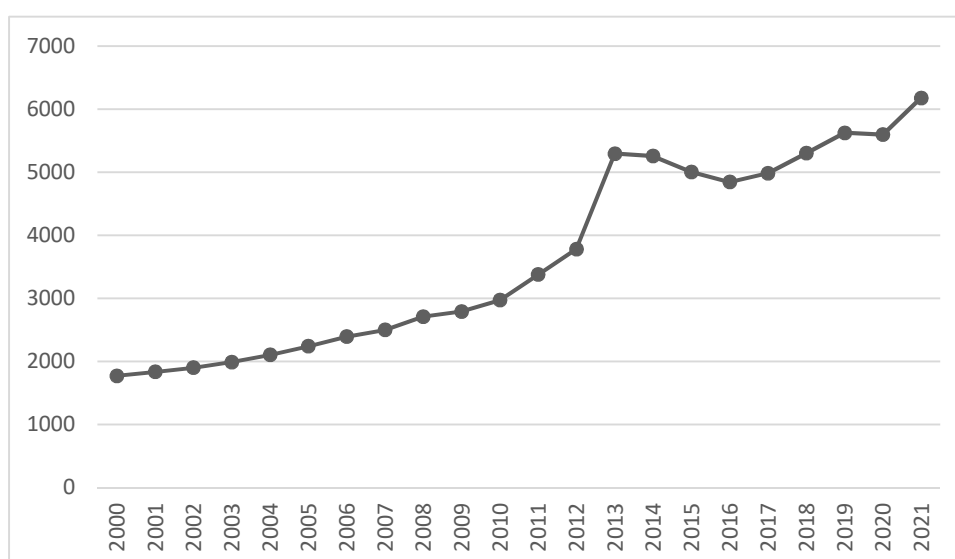
	2013	2014	2015	2016	2017	2018	2019
AGRICULTURE	21.7	22.0	22.1	22.7	21.2	19.7	18.5
Crops	14.6	14.6	14.8	16.2	15.4	14.5	13.8
o.w. Cocoa	1.7	2.3	2.2	1.9	1.8	1.6	1.4

Livestock	3.7	4.0	3.7	3.3	3.0	2.7	2.5
Forestry/Logging	1.8	2.1	2.1	1.8	1.7	1.5	1.3
Fishing	1.6	1.4	1.5	1.4	1.2	1.0	0.9
INDUSTRY	36.9	38.1	34.6	30.6	32.7	34.0	34.2
Mining/Quarrying	13.6	15.4	10.4	8.5	10.9	13.6	14.9
o.w. Oil	5.8	6.4	2.8	0.5	3.5	3.8	4.5
o.w. Gold	7.2	8.2	6.6	7.2	6.5	7.3	7.1
Manufacturing	12.4	12.5	12.4	12.1	11.3	11.3	11.2
Electricity	1.1	1.0	1.8	1.8	1.8	1.5	1.3
Water/Sewerage	0.6	0.6	0.7	0.7	0.6	0.5	0.4
Construction	9.1	8.6	9.3	7.6	8.2	7.1	6.4
SERVICES	41.4	39.8	43.2	46.7	46.0	46.3	47.2
Trade/Repair of Vehicles/Household Goods	11.2	11.3	12.4	14.1	14.0	15.2	15.6
Hotels/Restaurants	3.9	3.2	3.5	3.7	3.9	3.8	3.7
Transport/Storage	6.0	5.5	6.0	6.6	7.2	7.5	7.1
Information/Communication	1.6	2.0	2.2	2.2	2.1	2.4	3.0
Financial/Insurance Activities	5.1	5.1	5.8	6.8	5.0	4.2	3.9
Real Estate	1.0	0.9	1.3	1.7	2.3	2.2	2.7
Professional/Administrative & Support Service Activities	1.4	1.5	1.6	1.6	1.5	1.5	1.5
Public Administration & Defence/Social Security	3.7	3.2	3.2	3.3	3.3	3.3	3.3
Education	4.0	3.7	3.8	3.5	3.4	3.2	3.3
Health/Social Work	2.2	2.2	2.1	2.0	2.1	2.1	2.1
Other Service Activities	1.4	1.2	1.3	1.3	1.2	1.0	1.0
GDP (basic prices)	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: GSS (2020)

In order to determine a country's standard of living, it is worth comparing its GDP per capita to other countries on a purchasing power parity (PPP) basis. Figure 2 shows Ghana's ascending trend of GDP per capita (PPP) from 2000 to 2021. Ghana's GDP per capita (PPP) for 2021 was \$6178,3 ranking 163rd in the world, out of 266 countries and group of economies (WB, 2022b). However, amongst the developing countries in Africa, Ghana ranks 11th out of the 53 countries recorded in Africa. In West-Africa, Ghana ranks 2nd with Cabo Verde topping the list.

Figure 2. Ghana's GDP per Capita, PPP (Current International \$) 2000-2021



Source: Personal Elaboration. Data from WB (2022b).

Trade openness

Trade openness is the sum of exports and imports of goods and services of a country measured as a percentage of its GDP. Based on WB (2022c), the trend of trade openness in Ghana shows a decline from 116% in 2000 to 58% in 2021. However, Ghana is more open compared to other developing/emerging countries like Brazil (39%), Nigeria (34%), China (37%), India (44%), Egypt (31%), Cote d'Ivoire (51%), South Africa (56%), and even other developed countries such as United States (23%) and United Kingdom (55%),

Government agreements

Government agreements have been found in the literature to have positive and significant effects on both market- and efficiency-seeking FDI inflows. Ghana has since 1989 entered into several Bilateral Investment Treaties (BITs) such as with United Kingdom, North-Ireland, Netherlands, China, the Swiss Confederation, Germany, France and Malaysia in order to provide favourable conditions for companies from the other countries (Lawson et al., 2019). Ghana also participates in over 50 International

Organisations and Trade Agreements. These participations are paramount to Ghana in the sense of development and FDI attractions. Furthermore, Ghana's government is intervening with standard set of legal protections (such as access to international arbitration, prohibitions of expropriation without compensation, and commitments to stability of the regulatory regime) for foreign investors (Tienhaara, 2006).

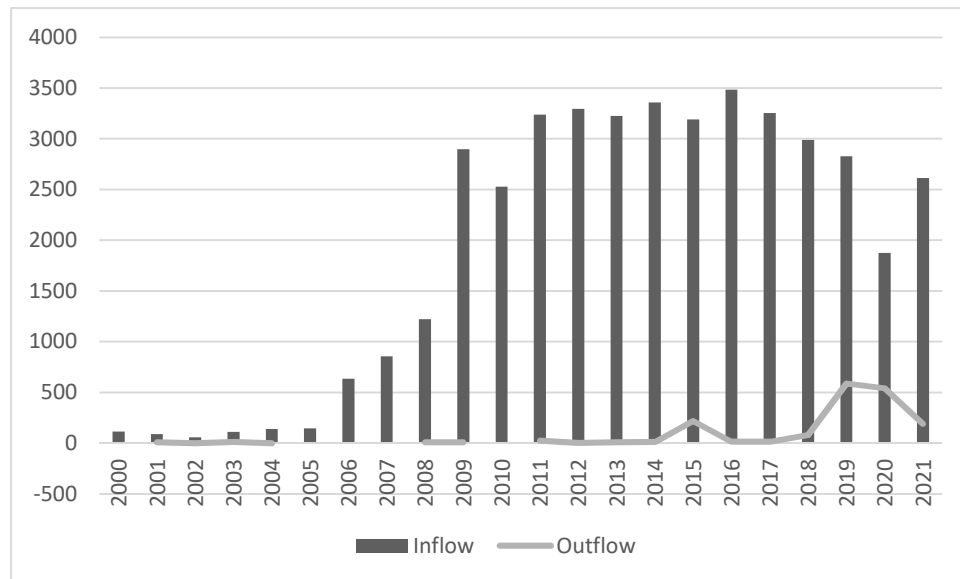
Monetary integration

Monetary Integration exists when a particular region of countries decides to use a single currency. This attracts market-seeking FDI because it increases the market size and also efficiency-seeking FDI since it reduces transaction and exchange rate volatility costs. Ghana does not participate in any monetary union even though there exists one in West-Africa known as the West-African Monetary Union, in which eight countries represent (Anyanwu & Yameogo, 2015). The exclusive currency of Ghana is the Cedi. However, it is important to note the announcement of a single currency in West-Africa known as the Eco which is to be launched in 2027. This implies the dropping of the CFA franc pegged to the French franc and later to the Euro.

Presence of FDI

The presence of FDI in a country offers a good reason for related investments to locate in the country and also serves as a signal of good business environment for potential investors, which attracts new FDI. Ghana's FDI inflows increased from \$114.9 million in 2000 to \$2.61 billion in 2021 (UNCTAD-STAT, 2022). Figure 3 shows the evolution of FDI inflows and outflows of Ghana over this period. In 2021, FDI inflow in Ghana constituted 3.43% of the country's GDP. However, Ghana's FDI outflows have been very low compared to her inflow. The highest outflow recorded ever was in 2019 at a value of \$587.7 million.

Figure 3: Ghana's FDI Flows (Millions of Current US\$). 2000-2021.



Source: Personal elaboration. Data from UNCTAD-STAT (2022)

FDI in Ghana come from all over the world, as it is stated by the Ghana Investment Promotion Centre. GIPC (2021) establishes that in the first half of 2021, a few of Ghana's largest investment partners were Singapore (US\$307.50 million), Australia (US\$204.01 million), India (US\$61.57 million) and Netherlands (US\$46.80 million); the two world powers (China and United States) also made large investments.

The importance of Ghana's FDI in Africa and West-Africa can be analysed through the comparison of FDI stock inflow of countries in the region (UNCTAD-STAT, 2022). FDI stock is approximated by the accumulated value of past FDI flows. As it can be seen in Table 3, South Africa is the first choice of destination for investing in Africa with the highest FDI stock inflow of \$173.05 billion as at 2021. It is respectively followed by Egypt, Nigeria, Morocco and Mozambique. Ghana happens to be the sixth destination choice for investing in Africa (2nd in West-Africa) with an FDI stock inflow of \$41 billion in 2021.

Due to the presence of diverse investment and the yearly increase of FDI inflows to Ghana which denotes the country's good business environment, it can be concluded

that market-seeking FDI, as well as efficiency-seeking FDI firms have an advantage of deriving benefits when they invest in Ghana.

Table 3: Africa's FDI Stock Inflow. 2021 (Millions of Current US\$).

Rank		COUNTRY	FDI STOCK INFLOW
Africa	West-Africa		
1		South Africa	173056
2		Egypt	137543
3	1	Nigeria	91857
4		Morocco	72941
5		Mozambique	50068
6	2	GHANA	41021
7		Congo	36653
8		Algeria	33977
9		Tunisia	33440
10		Ethiopia	31596
11		Sudan	29728
12		Dem. Rep. of the Congo	29149
13		Zambia	18912
14		Libya	18462
15		United Republic of Tanzania	17153
16		Uganda	16605
17		Gabon	15592
18		Equatorial Guinea	15585
19		Angola	13166
20	3	Côte d'Ivoire	12821
21		Kenya	10458
22	4	Mauritania	9995
23		Cameroon	9781
24	5	Liberia	8929
25		Namibia	6348
		Rest of Africa	91484

Source: Personal elaboration. Data from UNCTAD-STAT (2022)

Analysis of efficiency-seeking FDI drivers in Ghana

The literature of FDI determinants has identified quite a number of factors to have an influence on efficiency-seeking FDI into developing countries. The remaining sections analyse these determinants in the context of Ghana.

Cost/quality of labour

Previous studies have analysed the quality (productivity/skills) and cost of labour and found that these factors have positive and negative relationship, respectively, with FDI inflows. In this analysis, education is used as proxy for labour quality, while average monthly wage (on purchasing power parity) and minimum wage are used as a measure

of labour cost. According to the GSS (2022), school attendance in Ghana has steadily increased from 1960 to 2021. In 2021, Ghana had about 80% of its population above three years to have attained or to be currently in school. 40% of the population 18 years and above currently attending school are at the tertiary level while 13 percent of those who have attended school in the past have tertiary education (GSS, 2022). In this way, the increasing trend of education in Ghana could be an opportunity for company productivity.

According to data from the Global Wage Report 2018/2019 (ILO, 2018), the evolution of wages on purchasing power parity (PPP) in sub-Saharan Africa over the last decade (pre-COVID) shows that, compared to an average growth of 2.7% in the area's countries, wages grew in Ghana by 15.3%, making it the second country in the area with the highest growth in wages, behind Senegal (32.3%). As a consequence of the pandemic and high inflation rates in the following years, wages on PPP in Africa declined by 10.5% in 2020, 1.4% in 2021 and 0.5% in the first half of 2022 (ILO, 2022), with this decline being somewhat lower in the case of Ghana. Looking at the minimum wage in Ghana, it barely reached 26 euros per month (352 cedis) in 2022 (ILO, 2022a) (applying the exchange rate as of December 2022), which is below the average minimum wage in sub-Saharan African countries. Only Uganda, Burundi, Rwanda, Angola, Madagascar, Tanzania and Zambia have lower minimum wages. Therefore, although the consolidation of democracy in Ghana seems to have been reflected in the improvement of wage conditions, in relative terms and compared to other countries in the area, low labour costs may still be an element that plays in favour of Ghana in attracting FDI.

Access to credit and cost of capital

According to the Ghana Living Standard Survey Round 7 (GSS, 2019) major sources of credit in Ghana include private banks (15.3%), state banks (9.0%) and savings and loans schemes (22.4%).

Interest rates from financial institutions play a major role in determining efficiency-seeking FDI inflows to a host country since it reduces the cost of borrowing. As established by the literature, lending interest rate has a negative relationship with FDI inflows (Anarfo et al., 2017; Asiamah et al., 2019). In this study, data for this variable is obtained from the Bank of Ghana, and the trend shows a declining lending interest rate during the last years. For example, lending interest rate in Ghana decreased from about 27% in January, 2017 to around 23% in January, 2020. It further decreased from 23% in January 2020 to 20.16% in January 2022 with a slight increase (22.53%) in May, 2022. (Bank of Ghana, 2022).

Real exchange rate

High exchange rate and exchange rate volatility are said to mostly have negative influence on FDI inflows. Nevertheless, some scholars like Enu et al. (2013) assert that exchange rate has a positive significant impact on FDI inflows given that a higher exchange rate in the host country at the time of investment increases the investor's purchasing power but as the exchange rate keeps increasing during the investor's operation, their purchasing power tends to diminish. Given that the main objective of FDI is to maintain a long-term relationship with the host country, foreign investors would wish to invest in a country with stable exchange rate to minimise transaction costs.

Following other authors (Anarfo et al., 2017 or Lawson et al., 2019), data for this variable is obtained from World Bank's World Development Indicators. The Real

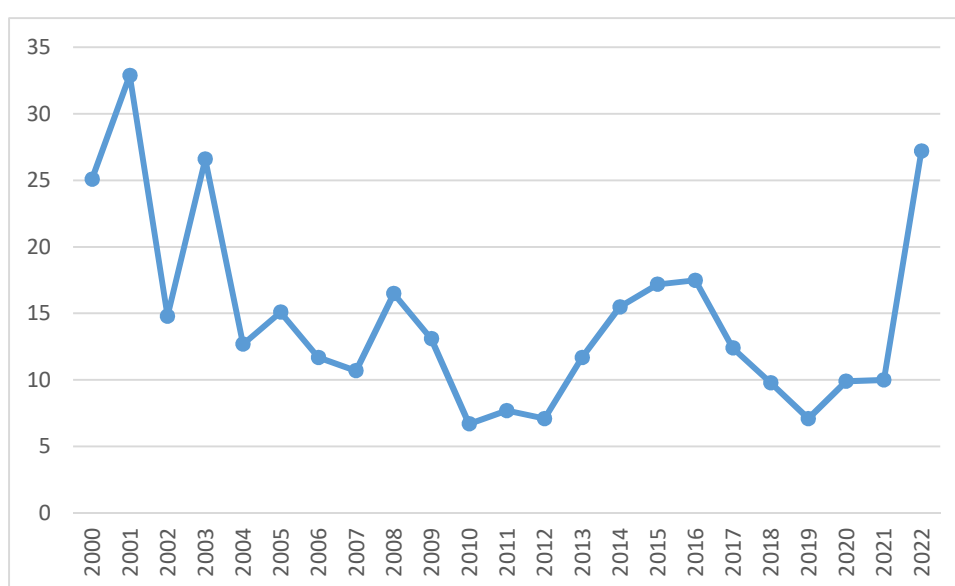
effective exchange rate index in Ghana for 2000-2020 shows a depreciating evolution of Ghana's cedi (WB, 2022d) which implies high costs and instability for foreign firms. This could discourage foreign investments.

Inflation

Inflation rate determines the soundness of macroeconomic policies and thus a higher rate reduces the purchasing power of foreign firms and deters efficiency-seeking FDI (Kariuki, 2015).

Following data from IMF (2022b), the inflation rate of Ghana reduced tremendously since 2001, from 32.9% to a single digit (7.1) in 2019. Ghana's inflation rate as at 2020 was 9.9%; 1.3% less than the average inflation rate of Africa. Although it was estimated to go further down in the upcoming years, recent events (COVID and war) have led to inflation in Ghana shooting up to 27.2% in 2022, but also in the rest of the world. This is a problem for Ghana due to several factors such as monetisation. Figure 4 shows the inflation rate trend of Ghana from 2000 to 2022. One effect of the high inflation in Ghana is the depreciation of its currency.

Figure 4: Ghana's Inflation rate, 2000-2022 (Annual percent change).



Source: Personal elaboration. Data from IMF (2022b)

IFRS adoption

International Financial Reporting Standard (IFRS) is a set of global accounting standards created by the International Accounting Standards Board for the preparation of financial report. Given that the adoption of the IFRS by a host country helps foreign investors do away with the cost of having to familiarise themselves with the specific local accounting standard, it attracts efficiency-seeking FDI (Ajibade et al., 2019).

Even though, the relationship amid IFRS adoption and FDI inflows is significant in the presence of other factors (Ajibade et al., 2019; Owusu et al., 2017), in the case of Ghana, IFRS adoption has had direct benefits on FDI inflows. In 2007, Ghana adopted the IFRS in place of Ghana National Accounting Standard and in 2010 adopted the IFRS for SMEs Standard.

Institutional quality

The institutional quality of a country comprises of various factors such as voice and accountability, political stability, rule of law, control of corruption, government effectiveness and regulatory quality (Owusu et al., 2017). Although political instability has mostly been empirically found to have insignificant effect on FDI inflows in Africa (Anyanwu & Yameogo, 2015; Kariuki, 2015), it is said to have significant negative relationship with efficiency-seeking FDI in Ghana (Ajibade et al., 2019). Political stability and corruption are selected for analysing the institutional quality in Ghana.

Ghana was the first sub-Saharan country to gain independence in 1957. Since then, Ghana has had different political systems (three republics and a military coup during 1966-1992) until a New Constitution emerged in 1992, which restored the multi-party-political system, making Ghana 4th Republic. Since then, seven peaceful elections have been held with three successful government changes. For this reason, Ghana is seen as

one of the more stable countries in West-Africa ever since its transition to multi-party democracy (Rahman, 2018).

Nevertheless, since Ghana's independence in 1957, political corruption has been a significant problem in the country (Asomah, 2019). Ghana's Corruption Perception Index (CPI) in 2021 scored 43%, ranking 73rd out of 180 countries. This represents a five-point improvement compared with year 2019 but the same score in 2020. Moreover, Ghana's corruption rate is lower than India's (85th /180 countries), Indonesia's (96/180), Colombia's (87/180), Panamá's (105/180), or Brazil's (96/180), among others, which are usually FDI destinations.

Furthermore, arguing that there is a level of corruption which is acceptable by foreign investors in Africa, known as the Tolerable Level of Corruption for Investment (TLCI), Abotsi and Iyavarakul (2015) found that only 12 African countries fell equal to or above the TLCI between 2009 and 2012, of which Ghana happened to be part.

Several legal and institutional frameworks have been established to combat corruption in Ghana. Some legal frameworks include the signing of the United Nation Convention against Corruption in 2004, Ghana's criminal code that criminalises corruption, the Anti-Money Laundering Act 2008, the Companies Act 2016, etc. The institutional frameworks involve the Commission of Human Rights and Administrative Justice which consolidates the work of anti-corruption agencies, Economic and Organised Crime Office, established in 2010 and responsible for economic crime prevention, detection, investigation and prosecution, and recovery of the proceeds of crime.

The establishment of the Office of the Special Prosecutor in 2017 to investigate and prosecute certain categories of corruption cases has brought new hope to the fight against corruption in Ghana (Rahman, 2018). Moreover, in March 2019, the Right to Information Bill was passed in parliament and took effect in January, 2020. This is said

to enhance good governance and help fight corruption in the country. On the other hand, the WB (2022a) reports Ghana as a country with a solid social capital given its consistent rank in the top countries in Africa for freedom of speech and press freedom.

Summary of the main results

A summary of the results of Ghana's analysis with respect to the important drivers that attract different types of FDI is presented in table 4.

From the analyses, the tendencies of the basic drivers of FDI in Ghana (infrastructure and investment incentives) show to be moving towards a favourable direction, having the capability of attracting all three types of FDI. Furthermore, English is the official language in Ghana, which facilitates foreign business in the country. With respect to the three main types of FDI, Ghana presents a mostly favourable profile to attract resource seeking and market-seeking FDI but a mixed situation in the determinants of efficiency-seeking FDI.

Table 4: The Pros and Cons of the FDI Determinants in Ghana.

PROS	CONS
BASIC DRIVERS	
Infrastructure availability	
Investment incentives	
NATURAL RESOURCE-SEEKING	
Natural resource availability	
Commodity price index (fuels)	Commodity price index (non-fuel commodities)
MARKET-SEEKING	
Market size	
Trade openness	
Government agreements	
Monetary integration	
Presence of FDI	
EFFICIENCY-SEEKING	
Labour quality (improving education)	
Labour cost	
Access to credit	Cost of capital (although decreasing, it is still high)
IFRS adoption	Exchange rate
Institutional quality (political stability)	Inflation (currently high)
Institutional quality (legal frameworks against corruption)	Institutional quality (high corruption, although lower than most African countries and other developing countries)

Source: Personal elaboration

CONCLUSION AND IMPLICATIONS

This paper has been motivated by a few reasons. First, there is a need for specific African country analysis (Barthel *et al.*, 2011; Lawson *et al.*, 2019), given the issue of different African countries being viewed as equal by investors when deciding to invest (Asiedu, 2002; Anyanwu & Yameogo, 2015), and thus ignoring some beneficial characteristics of certain African countries. Second, developing countries received the majority of FDI with the tendency of FDI into Africa increasing in the near future (UNCTAD, 2022a). Third, there exist a myriad of FDI determinants with mixed findings on the relationship with FDI inflows to developing countries in Africa (Asiedu, 2002; Anyanwu & Yameogo, 2015).

As a consequence, the paper has sought to review and establish the significant drivers of FDI into developing countries in Africa under Dunning's theoretical framework. Based on these determinants, we analyse the pros and cons of resource-, market- and efficiency-seeking FDI drivers in Ghana. From the analysis, we can conclude that most factors in Ghana mainly would favour natural resource-seeking and market-seeking FDI. Furthermore, Ghana is considerably improving those factors that favour efficiency-seeking FDI, which would broaden the types of FDI attracted by the country. While typically more difficult to attract, efficiency-seeking FDI is characterised by greater productivity and higher contribution to growth than the other types of FDI. If focused on the manufacturing sector, it can also lead to expertise and technology transfers, promoting the growth of technology-intensive industries and contributing to a better development of the country.

Our recommendation for managers is to take into account Ghana as a potential country because Ghana's trend is very positive and those firms that enter first, will be able to obtain the pioneer advantage. Our study is also of importance to policymakers as it

contributes to critical policy issues in relation to investment, financial integration and economic growth. Our recommendation for Ghana's government is to continue in the trend of improving the favourable tendencies of the factors that attract FDI, and, particularly, to insist on the implementation of the new monetary union of the West-African currency, which would help resolve the exchange rate complication. By so doing, Ghana will become an attractive and potential country for investment for companies that are looking for new unexplored countries. Moreover, it is important to note that while FDI attraction is critical, retaining investors is key, so this is also a challenge for the Ghanaian government as well as to ensure that these FDIs contribute to the sustainable growth and development of the country.

Our work is not without limitations. Thus, although the figures shown for the different variables analysed are the most up to date available and more attention has been paid to their trend or evolution over the last two decades than to their specific value at present, we find ourselves in turbulent times for the world economy and, therefore, we must be vigilant in detecting any change in the trend patterns observed.

As future lines of research, econometric analyses are proposed to quantify the influence of the different variables studied in this paper as drivers or inhibitors of FDI in its different categories. In addition, it would also be interesting to empirically examine the short- and long-term consequences of FDI, as this will allow for the formulation of suitable policy recommendations to maximize the positive and minimize the negative impact of FDI in Ghana, ensuring sustainable development of the country.

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