Attracting and retaining foreign direct investment: A critical assessment of government policies in Ghana.

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Attracting and Retaining Foreign Direct Investment: A Critical Assessment of Government Policies in Ghana

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Abstract

This thesis explored the critical role of government policies in attracting and retaining Foreign Direct Investment (FDI) in Ghana. The study was motivated by the dearth of research on how government policies influence the attraction and retention of FDI in Sub-Saharan African (SSA) countries. The paucity of studies on this issue is surprising in light of the active role that government policies and agencies have assumed in the last three decades in attracting inward FDI to Africa. This study attempted to fill this gap by using Ghana as a case study to analyse the extent to which government policies have been successful in attracting and retaining FDI in the country. In setting the conceptual and theoretical background of the study, the international business literature on FDI and corporate strategies that guides the activities and decision making of multinational firms in investing abroad was explored and conceptualised. The study adopted a mixed method of enquiry. This involved the use of questionnaire surveys and semi-structured interviews to collect data from foreign investors in Ghana and government policymakers. Both the quantitative and qualitative data collected was analysed using a variety of methods, including an independent sample t-test, ANOVA, factor analysis, correlations, multiple regression and content analysis. This approach yielded some novel and interesting findings, and provided deeper insights into the role of government in the attraction and retention of FDI. The principal finding of the study was that government policies such as tax, privatization, investment promotion policy, free zone, entry and operations, and the standard of treatment of foreign firms play a critical role in attracting and retaining FDI. In essence, SSA governments have attempted to create an attractive and conducive environment for FDI, but the study revealed that the existence of favourable FDI policies alone is not sufficient in attracting and retaining substantial FDI. It is argued that the policies have to be supported by efficient business facilitation factors, as well as generous incentives. All of these, it is further argued, are necessary for the country to meet the minimum requirement of being competitive enough to attract and retain substantial FDI. The study also revealed that in SSA countries in particular, political and social stability is seen as absolutely crucial to the country's ability to attract and retain FDI. The study also underscored the importance of a marketing strategy, such as the direct targeting of particular investors with specialist expertise to invest in sectors in which Ghana possesses competitive advantage. It is argued that this is the best way for Ghana to attract the right type and amount of FDI into the country. The study thus postulates that such a strategy is more likely to fully reward Ghana with a substantial inflow of FDI that is commensurate with the country's potential. Essentially, a successful inward FDI approach requires the creation of a favourable investment environment that is boosted by direct targeting of investors, and luring them into the important sectors of the SSA nation's economy. The theoretical, methodological and policy contributions and implications of the study are discussed, along with the limitations and areas for future research.

Declaration and Statements

This work has not previously been accepted in substance for any degree and is not being concurrently submitted for any degree.

Signed (candidate)..

Date...25TH MARCH, 2011.........

Statement 1

This thesis is the result of my own investigation, except where otherwise stated. Other sources are acknowledged by the use of explicit references. A bibliography is appended.

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I hereby give consent for my thesis, if accepted, to be available for photocopying and for inter-library loan, and for the title and summary to be made available to outside organisations.

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Date...25TH MARCH, 2011.........

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Dedication

I dedicate this piece of work to my parents, **Mr and Mrs Nyuur,** and the entire family.

Mum and Dad, thank you for such a wonderful family.

Courage brother! Do not falter,
Dry your tears and cease from sighing;
Though clouds look black, they may soon alter,
And the sun will send them flying.

Work today and give up grieving,
Know that joy is born of sorrow;
And though today is rainy weather,
Hap 'twill brighter be tomorrow.

Abdullah Quilliam (1851-1932)

Acknowledgements

"If it had not been the Lord who was on our side, now may Israel say" (Psalm 124.1). I ascribe my profound gratitude to the glorious God Almighty who has been my rock and my refuge. He saw the end from the beginning and has seen me from the beginning to the end. It is the Lord's doing and is marvellous in my eyes.

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Finally, to my parents again, "n Saa ne n Maa"; it is dedicated to you already but I wish to acknowledge you again for your training, correction, rebuke, support and encouragement. May God richly bless you.

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List of Abbreviations

ABA	Anything But Arms
ACP-EU	Africa-Caribbean-Pacific European Union
AGOA	African Growth and Opportunity Act
ARCS	Administrative and Regulatory Cost Survey
AU	African Union
BITs	Bilateral Investment Treaties
BOG	Bank of Ghana
BPO	Business Process Outsourcing
CHRAJ	Commission on Human Rights and Administrative Justice
CIS	Commonwealth of Independent States
COMESA	Common Market for Eastern and Southern Africa
DIC	Divestiture Implementation Committee
DTTs	Double Taxation Treaties
EAC	East African Community
EBA	Everything But Arms
ECA	Economic Commission for Africa
ECG	Electricity Corporation of Ghana
ECOWAS	Economic Community of West African States
EFTA	European Free Trade Area
EPZs	Export Processing Zones
ERP	Economic Recovery Program
ETLS	ECOWAS Trade Liberalisation Scheme
EU	European Union
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
GFZA	Ghana Free Zone Act
GFZB	Ghana Free Zone Board
GFZR	Ghana Free Zone Regulations
GIPC	Ghana Investment Promotion Centre
GNI	Gross National Income

GNPC	Ghana National Petroleum Company
GOG	Government of Ghana
GSP	Generalised System of Preferences
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
LDCs	Less Developed Countries
MC	The Minerals Commission
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MNCs	Multinational Companies
MNE	Multinational Enterprise
MTI	Ministry of Trade and Industry
NEPAD	New Partnership for Africa's Development
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
SACU	Southern African Custom Union
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SFO	Serious Fraud Office
SOEs	State-Owned Enterprises
SSA	Sub-Sahara Africa
TIDCA	Trade, Investment and Development Cooperative Agreement
TIFA	Trade and Investment Framework Agreement
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
US	United States of America
USD	United States Dollar
VAT	Valued Added Tax
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organisation

Chapter One

Context and Purpose of the Study

1.1 Introduction

Three events – the 9/11 attack on the US, the Credit crunch that started in the US in 2007, and the Icelandic Volcanic Ash in April, 2010 – show how interlinked the world economy has become and how local events can become global very quickly. This phenomenon of globalisation has opened a window of opportunity for firms to exploit markets and other opportunities in distant countries. In seeking to take advantage of globalisation, firms' operations in other countries through Foreign Direct Investment (FDI) are at the same time considered to be a crucial element driving globalisation. This has also generated renewed interest in FDI by both governments and researchers over the past few decades. First, policymakers recognise the benefits that inward investment can generate for destination economies in terms of not only job creation; but also capital formulation, transfer of technology, production and management techniques (Gilmore et al., 2003; Driffield and Love, 2007; Ofori-Brobbey and Ojode, 2009). Nowhere is this truer than in developing African countries where domestic saving is low, and where the countries for years depended heavily on loans mainly from the IMF/World Bank as the source of funding (Ajayi, 2006). The heavy dependence on these institutions has not pulled these countries out of poverty and underdevelopment as perceived, but has rather pushed them further into severe debt. Chakrabarti (2001) observed that countries' high levels of debt can translate into sharp decline in investment because of financial constraints, as well as decline in the economic growth rates of those countries. African countries are characterised with these features, and the only meaningful remedy that can reverse the poverty and debt scenarios in these countries will be to attract and retain foreign capital into their economies.

This has resulted in the growing importance of FDI as a relatively reliable source of capital flows for these developing countries. A number of empirical studies in other regions (see for example, Brewer, 1993; Loree and Guisinger, 1995; Globerman and Shapiro, 1999) revealed that government policies are important drivers in attracting FDI into host countries. As such, governments of African countries, taking cues from other regions have over the past recent years also aggressively developed policies to attract FDI (Ofori-Brobbey and Ojode, 2009). Despite numerous FDI-oriented policies being developed in many African countries, the region lags behind all other regions in the attraction of FDI and has, over the years, consistently been the region with the lowest FDI inflow (UNCTAD, 2009). This study therefore seeks to critically explore the role of government policies in attracting and retaining FDI in Ghana. The question worth asking at this point is whether the FDI policies in Ghana have a significant influence in the country's capacity to attract and retain FDI?

This chapter sets out to introduce the theoretical and practical research context of the study, and begins with a brief background discussion on the concepts of government policies and their role in attracting and retaining FDI in host countries; particularly in Africa. This is followed by a description of the research problem to be addressed and the statement of the study aims and objectives. This is followed by a review of the methodology adopted as well as the justification of the study. Thereafter, the chapter concludes with a brief explanation of the structure of the thesis and the order of presentation.

1.2 Government Policies and Foreign Direct Investment Flow: a brief review

One of the most important aspects of government policies is the influence they can have on firms' strategic decisions and business operations. Government policies are not only capable of affecting firms' decision-making behaviour with regards to the industry, country or regional location of investment, but also providing the context in which business can operate to achieve their strategic objectives (Driffield and Love, 2007). Government policies over the last four decades have stimulated a major shift in the business environment within economies through the phenomenal development of FDI. The benefits of FDI have changed host countries attitudes to, and policies toward, foreign investment in general and FDI in particular as numerous countries relaxed legislative restrictions on inward FDI and/or on other aspects of multinational firm (MNE) activities (Globerman, 1988; Gastanaga et al., 1998). Regarded as an important component of globalisation and a crucial developmental ingredient for host countries, many developing countries' governments have made the attraction of FDI a major economic developmental goal. Almost all host governments are rarely neutral towards the phenomenon (Young, 2005), as various groups of developing countries have participated to strikingly different degrees in offering both explicit and implicit incentives through their policies to attract and retain foreign investors in their economies (Globerman and Shapiro, 1999; Globerman and Shapiro, 2002; Cleeve, 2008).

Such policies include the liberalisation of FDI regulations (Nunnekamp, 2001); the whole sale privatisation of state-owned enterprises and the deregulation and liberalisation of markets (Appiah-Kubi, 2001; Dunning 2002); the relaxation of performance requirements (Nunnenkamp, 2002); the development of effective business facilitation factors, fiscal and financial incentives (Nunnekamp, 2001, Cleeve, 2008); and economic reforms which emphasise stabilisation and structural adjustment of the economies (Hamdok, 2001). This progressive liberalisation of most economies is to a large extent evident in the wide range of numerous policy changes that have been taking place over the years. Such policy developments tracked and published annually by the United Nations give credence to the phenomenon. For example, between 1991 and 1996, over 100 countries made 599 policy changes (UNCTAD, 1998); and in 2006 alone, the United Nations also recorded 184 policy changes of which 80 per cent were aimed at attracting FDI and 109 of these policies identified were adopted in developing countries (UNCTAD, 2007). In 2008, 110 new FDI-related changes to national laws and regulations were introduced by a total of 55 countries, of which 85 regulatory changes were in favour of FDI inflow (UNCTAD, 2009). One important observation of these policy changes is the variability of policy developments in different countries, but all are seeking to attract FDI. This has led to differences in prevailing investment conditions in different countries, contributing to the variations in the flow of FDI to different countries and regions. Brewer (1993) observed that these wide ranging government policies affect firm's FDI decision-making, and that the effects of these policies vary across the several individual components of FDI flows.

This issue of government policies driving the phenomenon of FDI lies squarely within the literature of international business, and particularly the activities of Multinational Companies (MNCs). This is because the environments within which these firms operate, and the decisions managers make, are influenced by government policies and activities. Rightly so, the theories of international business find the role of government in promoting investment activities of firms to be crucial. Accordingly, government actions can create market imperfections, thus establishing and satisfying the fundamental condition for firms to extend their business operations abroad through FDI (Hymer, 1960; Kindleberger, 1969, Buckley and Casson, 1976). Additionally, Dunning (1980) and Caves (1996) suggested that government policies can promote the locational attraction of a particular country and encourage foreign firms with the interest to invest abroad, and to locate in the country with the best suited investment conditions. The line of argument here is that investors typically consider a range of investment factors such as regulations regarding the entry and operation of firms; the standard treatment of foreign affiliates; policies on functioning and structure of markets; international agreements on FDI (UNCTAD, 1998); macroeconomic stability; market size; transparency in the process of doing business; political stability; consistency and predictability of the legal; administrative and regulatory framework; infrastructure; incentives; physical safety; and the quality of life (Foreign Investment Advisory Service - FIAS, 2003). Most of these factors are products of government policies.

As countries compete in attracting FDI, it is becoming increasingly important to have a well-liberalised economy and a combination of effective business facilitation factors, so as to have a competitive locational advantage capable of influencing foreign investors' decisions in favour of that country. It can, therefore, be argued in this respect that FDI is critical to the development of countries, especially the developing countries in Africa. In line with the importance of government policies in the flow of FDI, this thesis seeks to address two issues. The first is an attempt to reassess the role of government policies within the theories of the international business studies literature dealing with developing countries; and secondly, to identify and critically evaluate the role of various FDI policies developed by Ghanaian governments aimed at attracting and retaining FDI inflow into the country.

1.3 The Research Problem

"How are some countries able to attract huge amounts of capital through FDI?" This question has consumed the attention of scholars, companies and governments for some time now. UNCTAD (2008) suggests that the principal broad factors that determine whether firms invest in countries are: the policies of host countries, the proactive measures that countries adopt to promote and facilitate investment, and the characteristics of their economies. As a result, much of the work on this subject in the

field of international business has been concerned with Multinational Companies (MNCs) and government policies; examined under the theories of international trade, strategy and FDI. The role of government policies in creating an attractive investment environment of any country, as well as in the investment decision-making of firms, have been conceptualised by various scholars under several different theories of international trade and FDI. For instance, in the mercantilism literature of international trade, the measure of a country's wealth is its ability to export more than it imports, in which case it receives favourable balance of trade (Daniel et al., 2009). However, for a country to successfully export more than it imports, the government may employ policy interventions to impose restrictions on most imports, and possibly at the same time subsidise production of products that would otherwise not be able to compete in either the domestic or export markets. Government policies therefore assume a critical role within this theoretical framework. Additionally, the free trade theories of Adam Smith's (1776) absolute advantage and Ricardo's (1817) comparative advantage also depict the indirect, but critical, role of government policies in countries' quests to develop these advantages. The theories demonstrate how government policies ensure economic growth through specialisation and trade. The new trade theory put forward by Krugman (1987), which embodied imperfect conditions and increasing returns to scale, suggests that an active role of governments in trade through policy interventions is beneficial to countries. The theory opens up the possibility that government interventions in trade may, under some circumstances, be in the national interest. Together, the international trade theories depict the vital role of government policies in business operations and the strategic decision-making of firms, because they affect which countries can produce a given product more efficiently and whether countries will permit imports to compete against their own domestically-produced goods and services. Daniels et al. (2009) pointed out that government strategic trade policies enable developing countries especially to go global, and to attract companies from all over the world to invest in their economies.

Porter's (1990) diamond model in the strategy literature, which purports to explain the importance of national environments in firms' attainment of competitive advantage, also underscores the importance of government policies. Advancing the theory, Porter (1990) argued that competitive advantage for a firm emanates from the national environment, in that conditions within a nation may create an environment in which firms can attain international competitive advantage. In addition to the four major determinants (factor conditions, demand conditions, related and supporting industries and the firm's strategy), Porter (1990) observed that chance and governments (through their policies) are external variables that also affect the competitiveness of a country.

In the FDI literature, the market imperfection theory (Hymer, 1960; Kindleberger, 1969) also contains the important insight that government policies such as exchange rates, wage policies, incentives, tariffs and taxes create market imperfections which enable some firms to acquire certain advantageous situations over their competitors, and thus stimulates these firms to invest abroad. The internalisation theory (Buckley and Casson, 1976) further reveals that government policies and actions in restricting imports may create market imperfections and make FDI an economic and rational strategic alternative for firms to take advantage of the ownership advantages that they possess, or to acquire intermediate products that they need instead of using other forms of foreign market entry such as licensing. These two theories explain the reason as to why firms invest abroad, but not in which countries they invest. Dunning's (1980) eclectic paradigm, which seeks to explain the determinants of which countries receive investment from foreign firms, points to the fact that government policies play a pivotal role in creating locational advantages and in the firms' choice of a country to invest in. Voluminous empirical research on the determining factors that decide which countries receive the various forms of FDI places government policies as being an important determinant in firms' choice of a country in which to invest (Lall, 1995; Enright, 2009; Dunning, 2009).

Brewer (1993), however, notes that there is a wide range of government policies with numerous dimensions of variability that affect firms' decisions to invest in a particular country. Some of these were identified by scholars to include investment incentives (Agarwal, 1980; Lim, 1983; Guisinger et al., 1985; Wheeler and Mody, 1991; Loree and Guisinger, 1995, Wint and Williams, 2002), investment promotion efforts (Young and Hood, 1994); government regulations (Vindelyn and Omar, 2005), political risk (Agarwal, 1980; Wallace, 1990; Wells, 1998), trade openness (Janicki and Wuannava, 2004); liberalisation (Deichman, 2001; Bevan and Estrin, 2000), good institutions and governance infrastructures (Cheng and Kwan, 1999, Benassy-Quere et al., 2007). Accordingly, the effects of these policies vary across several components of FDI flows, and may determine which countries receive more inflow than their counterparts (Brewer, 1993).

Even though the effect of governments' policies on FDI flow is widely recognised by these studies, Neumayer and Spess (2005) observed that there remains a surprising absence of hard quantitative evidence addressing the issue, leaving some scholars rather pessimistic towards the effects of these policies. Additionally, Globerman and Shapiro (2002) suggested that there has been very little systematic research on government policies surrounding the FDI process. There have also been identical arguments over the last three decades among scholars of international business that the relationship between FDI and important country characteristics resulting from government policies has not been established empirically (Asiedu, 2003), and that there has not been a sustained attempt in the literature to develop the implications of FDI policies (Brewer, 1993). The relative paucity of studies on the impact of FDI-specific policies is surprising in light of the strong policy interest in the issue and the active role towards FDI that government policies in most countries, especially in the developing ones, have taken (Globerman and Shapiro, 1999). As a result, many important policy issues and questions remain poorly understood and unanswered, again especially in the developing countries (Root and Ahmed, 1978; Chadee and Rose, 2003). Just as most of the existing FDI literature focuses on FDI activity involving United States (US) firms or FDI flow into developed countries like the US (Caves, 1988; Froot and Stein, 1991; Chadee and Rose, 2003), many of the studies on government policies and FDI are dated and focused on the developed economies (Globerman, 1988; Boddewyn, 1988; Globerman and Shapiro, 1999; Globerman and Shapiro, 2002).

This also raises important questions in the minds of scholars who ask whether the existing theory can be applied elsewhere, and what smaller and developing nations can learn from the experience of firms from larger and developed economies (Chadee and Rose, 2003). For example, Froot and Stein (1991) examined the flow of FDI into the US and found a falling dollar exchange rate to be associated with additional FDI inflows into the country. Caves (1988) also arrived at a similar conclusion that a country's currency relative to the dollar is an important explanatory variable for direct investment emanating from that country to the US. However, when analysing the impacts of source and host country factors on the flow of FDI into China, Pan (2003) found that some of the factors generally viewed as critical determinants for FDI in developed countries, such as the exchange rate findings, were not particularly relevant in China. The argument in this finding was that making exchange rate considerations is very important when investing in developed countries, because firms tend to make plans for capital movements into and out of the host nation. However, when investing in a developing country like China, such importance of exchange rates as a consideration is reduced, because foreign investments usually tend to be for a longer duration. These kinds of results raise important questions regarding the generalisability of findings from FDI studies pertaining to developed countries (Chadee and Rose, 2003). Additionally, the few empirical foundations of government policies and FDI in developing countries have also largely been built on the experiences of East Asian economies, which are eventually generalised in an effort to draw the appropriate conclusions for other developing countries (Wint, 1998). Ofori-Brobbey and Ojode (2009) questioned if the results of studies focused in other regions can be applied to Sub-Saharan African (SSA) countries.

Thus the impetus for a study on government policies was borne out of the dearth and contradiction of research relating to its role on FDI flows, especially to developing SSA countries. To this end and in response to calls for further research in the area, a more rigorous conceptualisation was attempted. In this regard, wider literature on international business (specifically free trade, FDI and corporate strategy) which guides the activities and decision-making of multinational firms when investing abroad is explored and conceptualised. This is performed through studying Ghana, a country in the under-utilised laboratory that is the SSA region.

SSA has consistently been the region with the least inflow of FDI, and a number of studies focusing on FDI flow into the region suggested that governance failures, problems of policy credibility, macroeconomic policy failures, corruption and poor liberalisation policies are deterring FDI inflows into the region (Ajayi, 2006). Others also attributed the continent's inability to attract the desired amount of FDI to a negative image of the continent in the minds of many investors, who perceive the continent to be endemic with political turmoil, economic instability, diseases, natural disasters, and military coup d'états (Cleeve, 2009). Thus, the resulting common perception of the FDI phenomenon in Africa is that it is largely driven by natural resources and market size

(Asiedu, 2006; Chaudhuri and Srivastava, 1999; Collier and Patillo, 2000). Data on FDI in Africa from UNCTAD and the World Bank gives credence to this perception, in the sense that the countries that consistently receive the largest FDI flow into the region - South Africa, Angola and Nigeria - have colossal natural resources and market size.

On other possible determinants of FDI into the region, a number of studies found that liberalised economies (Morisset, 2000; Cotton and Ramachandran, 2001), openness to trade, good institutions (Asiedu, 2002, 2003, 2004a, 2006), government consumption, inflation rate, investment incentives, accountability and political stability (Naude and Krugell, 2007) are important determinants that can attract substantial FDI into the region. As a result many African countries in the past decade have made considerable efforts to improve their investment climates by liberalising their FDI regimes and adopting the Structural Adjustment programmes that hinged on pushing down inflation and government expenditures, and establishing realistic exchange rates (Ajayi, 2006).

However, the expected surge in the FDI inflow as a result of these improvements is yet to occur in SSA. Recent studies exploring the reasons for the inability of countries in the African region to attract the required FDI suggested that Africa is suffering from a negative perception of instability, and that potential investors too often shy away from Africa because of the negative perception of the continent (Jenkins and Thomas, 2002; Ajayi, 2006). In some cases, the findings suggested that Africa is different, and that the factors attracting FDI into other regions may not be equally applicable in Africa. According to Asiedu (2002), policies that have been successful in other regions may not be equally successful in Africa, since these policies may have different impacts on the region. However, the credibility of this kind of pessimism about the region can be questioned on the strength of the recent high interest of Chinese investments in Africa (Tull, 2006). The enormous Chinese involvement in this phenomenon has amused many observers, who question the motives of such high-scale investment in the region despite the traditional perception of political, economic and social risks associated with the region (US Senate, 2008).

The above reasons reveal the fact that our understanding of the drivers of FDI in African countries is much weaker than our understanding of this issue in the developed world, as well as the Asian and Latin American regions. There is also little understanding of the relationship between government policies and FDI flow in SSA countries (Ofori-Brobbey and Ojode, 2009). In addition, we do not know much about the country-specific factors, as well as business facilitation factors, that limit the flow of FDI into these countries.

Based on an extensive review of literature drawn from international business, strategy and management domains, this study will seek to identify and critically evaluate various FDI policies developed in Ghana that were aimed at attracting and retaining FDI inflow in the country. A single SSA country is selected as the focus of the study in order to provide answers to the research questions because of the limitations of time and resources. The choice of Ghana was made because, its' characteristics and experiences are similar to those of many other regional countries. For instance, the country in the past has gone through both political and economic instability like other regional countries, and all things being equal, it should be perceived as risky for investment. Secondly, the country has a substantial amount of natural resources like other African countries and under normal circumstances should only be able to attract FDI into the natural resource sector, as pointed out in the literature. Additionally, the country's internal market is relatively small like other regional countries' markets, and should not be able to attract more market-seeking FDI than natural resource-seeking FDI. Ghana also embraced the IMF-backed Economic Recovery programme policies like other regional countries, in an effort to open up the economy and attract FDI without backtracking.

The country therefore shares many similarities with other regional countries, and the only way it could differentiate itself in attracting and retaining more FDI than other regional countries would be based on the strength and quality of its policies in favour of FDI. The country has a sustained and stable political environment that fosters the development and implementation of policies to create an attractive investment environment. The long sustained periods of policy development in the country in favour of FDI earned it the reputation of being a "frontrunner", or a "star pupil", in attracting FDI among African countries (UNCTAD, 1998). The country has also, since 1998, been assessed as being one of the seven African countries that attract FDI over and above the average for both African developing countries and all developing countries. It has a more diversified economy that receives significant FDI into non-primary sectors. This demonstrates that, even when reports of political strife and economic instability discourage many investors from exploring the opportunities that the continent has to offer, African countries can become attractive locations for foreign investors; not only in the natural resource sectors but other sectors as well (UNCTAD, 2008). Additionally, until the discovery of oil in 2007, the country could not boast the oil that attracts FDI to other SSA countries such as Nigeria, South Africa, and Angola; no matter the kind of policies, political and economic situations in those countries. Also, Ghana's policy frameworks have expanded the country's small internal market to include the rest of West Africa; America, through the African Growth and Opportunities Act (AGOA); and Europe, through the Africa-Caribbean-Pacific European Union Partnership (ACP-EU). AGOA is an agreement between the US and countries in SSA that allows products from these countries duty and quota free access to the US market. ACP-EU is also a new trade agreement characterised by the progressive abolition of obstacles to trade between the ACP and EU countries, in accordance with WTO Rules. Additionally, in a project benchmarking regulations protecting investors in 178 economies, the World Bank (2008a) ranked SSA countries poorly on the regulatory cost and ease of doing business among the 178 economies. Ghana, however, was ranked 33 overall for protecting investors, ahead of other West African Countries (Nigeria 51, Sierra Leone 98 and Mali 147). The country also ranks higher on many other benchmarks than other SSA countries. It is arguable to suggest that government policies may therefore be playing an important role in attracting and retaining non-natural resource-seeking FDI into the country, and that FDI flowing into the country is based on the strength and quality of these policies in favour of FDI.

Ghana therefore has characteristics and experiences of a typical SSA country, but the strengths and success of its policies in attracting and retaining non-natural resource-seeking FDI in recent years makes the country a much stronger candidate as a focus country in the region to answer the research questions. The Ghanaian experience will therefore reveal if favourable FDI policies play an instrumental role in the attraction and retention of FDI. The findings will also reveal if other SSA countries can employ similar policies to attract and retain substantial amounts of FDI, in accordance with their potential.

1.4 Aims of the Study

Having established the weakness in our understanding of the drivers of FDI in Africa compared to the developed world as well as the Asian and Latin American regions, it is necessary for researchers, policymakers and foreign investors to improve our present understanding of the drivers of FDI in Africa. In the first place, improving our understanding will enable policymakers to develop the right kind of strategies and policies capable of attracting and retaining the right amount and type of FDI in their economies. Additionally, it will inform investors if Africa really is different, and whether it requires different strategies for their operations to succeed in the region. Finally, the study will serve as a bridge for further innovative studies by the research community. As a result, this study aims to:

1. Explore the development of the Ghanaian government's policies in attracting and retaining inward FDI.
2. Explore the main policy factors, economic factors, business facilitation factors and the country-specific factors that impact the flow of FDI into the country.
3. Examine the relationship between government policies and FDI inflow into the country.
4. Explore the main factors that are contributing to the retention of FDI in Ghana.
5. Understand the factors that could precipitate the outflow of FDI from Ghana.

1.5 Objectives of the Study

Due to the perceived positive contribution of FDI inflow to national developmental needs of developing countries, and in response to the growing interest in the FDI drivers in SSA, the principal objective of this study is to provide a substantial contribution to knowledge in this area by highlighting the Ghanaian perspective and context to the wider discourse on FDI policy determinants in developing countries. Using the case of Ghana, this thesis attempts to fill the gap in the literature by exploring those policies that are attracting and retaining FDI in developing SSA countries and other comparative developing countries. More specifically, it will contribute to our understanding of FDI-related policies and business facilitation factors and how they influence investor decision-making. This study will also be very significant as an addition to the growing literature on FDI in African countries. The unique institutions and policies of African countries not only provide grounds to explore how these countries attract and retain FDI, but also how these drivers and experiences differ from the established literature.

Another objective of this study is to ascertain if indeed government policies matters very much in attracting FDI, and if there are inadequacies of these policies in attracting certain types of FDI into the country. Another objective is to provide information that will help policymakers to identify the kind of policy programmes to promote in order to attract the required amount and type of FDI flow into the country. The findings of this study are also expected to further our understanding of the economic, policy and business facilitation factors that influence foreign investors to continue their operations in Ghana. Finally, it will also inform potential investors about the various policies in the country, the investment environment, and the benefits of investing in Ghana. Although this study focuses on FDI policies in Ghana, comparisons will be made with findings in other national contexts (from the available literature), to highlight similarities and differences.

1.6 Research Questions

As noted above, this study aims to explore and analyse the factors that attract and retain FDI in Ghana. The study further aims to examine the relationship between government policies and FDI flow into Ghana. The research will thus shed light on the determinants of FDI in Ghana. In essence, the thesis is guided by seven key research questions which include:

1. What are the main motives of foreign firms investing in Ghana?
2. Of the many possible economic, social, political, business facilitation and policy variables that may influence FDI inflow into a host country, what are the key factors attracting and retaining foreign firms in Ghana?
3. What is the role of government policies in attracting and retaining foreign capital in Ghana?
4. What are the policies/factors that may constrain the inflow of FDI into a developing SSA country such as Ghana?
5. What are the policies/factors that may precipitate outflow of FDI from Ghana?
6. Is there a relationship between foreign investors' level of satisfaction and their decisions regarding expansion, downsizing, relocation and termination of their operations in Ghana?

7. What factors can best predict firms' decisions to expand, relocate or terminate their operations in Ghana?

These questions are further recomposed into both qualitative and quantitative research questions. It is important to note that the use of both qualitative and quantitative research questions in this study is in line with the mixed methods approach guiding this study, as discussed in Section 5.3 of the methodology chapter. Contemporary researchers are increasingly supporting the use of mixed method research questions in a study. For instance, Creswell (2003) suggested that the use of mixed method research questions and hypotheses in a single study can be advantageous by narrowing and focusing the purpose statements. However, Creswell (2003) also acknowledges the insufficiency of models on which to base guidelines for writing research questions into mixed method studies. What is required in this case is the researcher's creativity in the development and presentation of the research questions.

Although several different frameworks (neoclassical, monetary, transaction cost, portfolio theory) have evolved for analysing the determinants and effects of FDI, Dunning's (1980) 'eclectic paradigm' is found to be very flexible and has been increasingly used for similar studies (Gastanaga et al, 1998). This study will therefore adopt the eclectic paradigm framework to guide the research in finding answers to the research questions.

1.7 Methodology

In order to fulfil the aims of the study and address the research questions identified above, it was vital to adopt an appropriate methodological approach that will ensure suitable data collection, analysis and interpretation of the findings. The study was guided by the mixed method approach which consists of both qualitative and quantitative data collection methods. This approach was found to be appropriate for the study after a review of relevant literature in the area of FDI, which led to the development of a conceptual model for the study. To this end, a self-delivered survey questionnaire was used in eliciting the quantitative data from foreign investors operating in Ghana, which is the research focus area. Subsequently, the qualitative approach was used in eliciting the relevant data from both government policymakers and foreign investors operating in the country. A content analysis technique was employed to analyse and interpret the qualitative data. The quantitative data was, however, analysed using statistical tools such as descriptive statistics, t-test, ANOVA, Factor Analysis, correlation and multiple regression. Findings from both the qualitative and quantitative analyses were then compared and integrated to affirm the research findings.

1.8 Justification of this Study

There are voluminous studies on FDI with vast amounts of empirical literature developed around the determinants of FDI (Benassy-Quere et al., 2007; Chakrabarti, 2001; Cheng and Kwan, 1999), the characteristics of host nations to FDI (Bevan and Estrin, 2000), the benefits of FDI (Janicki and Wunnava, 2004), and the motives and forms of FDI (Buckley and Casson, 1998; Meyer and Estrin, 1998; Görg, 2000; Floyd, 2002). Yet literature dealing with FDI in SSA, though growing, is relatively small. Some of the recent studies that focused on FDI in Africa include Chaudhuri and Srivastava (1999), Collier and Patillo (2000), Morisset (2000), Cotton and Ramachandran (2001), Asiedu (2006), Jenkins and Thomas (2002), Naudé and Krugell (2007), and Cleeve (2009). The findings of this small number of studies on the phenomenon of FDI in Africa highlight contradictions with a significant amount of literature dealing with the determinants and effects of FDI in other parts of the world. This calls for more research on the policies developed by governments to promote the inflow of FDI in the SSA region. The justification of the choice of Ghana is based on the fact that it ranks higher than other SSA countries on many benchmarks dealing with conducting business, protecting investors, and governance. It seems prudent for further research to be carried out with meaningful evaluation of the wide-ranging policies formulated by the government and their contribution to FDI flow into the country. Additionally, literature on FDI in Ghana is dated, and this study brings up-to-date information on FDI in Ghana.

1.9 Structure of the Thesis and Order of Presentation

Silverman (1985) suggested that the structure of the research process from start to finish should comprise of five key stages. These are: (1) Introduction; (2) Literature Review; (3) Specification of the research problem; (4) Fieldwork; and (5) Analysis and Implications. These five key stages are fully covered by the nine chapters of this thesis, as outlined below.

Chapter One, which is an overview of the thesis, introduces the research context in terms of the background of the study, the research problem and the questions it seeks to answer. It outlines the aims and objectives, as well as the justification for the study. The chapter also contains within it the significance of this study. **Chapter Two** presents a review of the relevant literature on international trade, corporate strategy, FDI and the activities of Multinational companies. The chapter thus identifies the various theories explaining the trend of FDI flows into emerging economies, as well as the determinants and policies promoting FDI flows into these countries. This provides a conceptual framework of the flow of FDI into emerging economies.

Chapter Three gives a general overview of the nature and trend of FDI flows in emerging economies and SSA. It therefore reviews various empirical studies on FDI in emerging countries, including countries in SSA. This chapter, therefore, explores whether Africa is different when it comes to the determining variables of FDI. **Chapter Four** presents an overview of the study area, explaining the development of the Ghanaian economy from the pre-Colonial period to the present. The focus in this chapter is on the policy developments over the years that have played a role in the flow of FDI into the country. The chapter further presents trends of FDI inflow into the country over the past few decades, as well as the performance of the country on many international indexes. **Chapter Five** explains the methodology used in this study. Thus the chapter concerns itself with research design, data generation sources, questionnaire and interview research instrument development, survey methodology and the data analysis methods.

Chapter Six contains the analysis of the quantitative data and the results presented. This is followed with the findings and discussion of the qualitative data analysis presented in **Chapter Seven. Chapter Eight** discusses the research questions and propositions drawing from both the quantitative and qualitative results presented in chapters six and seven respectively. The discussions in this chapter enabled the researcher to provide answers to the research questions. **Chapter Nine** then draws the research to a close as a summary chapter that highlights the major findings, and the contributions of the findings to existing literature. Limitations of the study are also discussed, and areas of future research indicated.

Chapter Two

Theoretical Framework

2.1 Introduction

The aim of this chapter is to provide a review of the relevant literature in international business, corporate strategy and management, with a view to highlighting the dynamics between host governments, policies and FDI inflow. The chapter will endeavour to identify the theories developed under international trade, strategy and FDI, and to draw a distinction between the three perspectives to assist in the formulation of the conceptual framework for the study. The theories of international trade are relevant to the issues of international business, and hence FDI, because the old trade theories sought to explain the exchange of goods and services between countries (Smith, 1776; Ricardo, 1817). However, these goods and services are produced by firms. The New Trade Theories therefore identify firms which are also the potential investors in foreign countries as the major players on the international trade scene (Markusen, 1995). Firms play a central role in exporting and importing goods to and from countries, and can exert a strong influence on government policy developments to promote or restrict trade. They also influence government policy developments in promoting or restricting the inflow of FDI into host countries. Vernon (1966) observed that researchers, who sought to understand the shifts in international trade and investment (and used the trade theories), found them to be acutely inadequate as analytical tools because they carried the analyst only a very short way towards an adequate understanding of international investment. Vernon (1966) therefore advocated the formulation of new theories to explore and explain the international investment activities by firms and the shift in international trade. The result is a number of theories that later emerged seeking to explain FDI, which occurs when a firm undertakes an investment in an overseas enterprise; obtaining both a lasting interest and substantial control, as well as exerting a considerable degree of influence on the management of the overseas enterprise (Chadee and Rose, 2003). It is therefore arguable to suggest that the theories of FDI have their genesis in the international trade theories, and that the New Trade Theories are still relevant in partly explaining the FDI phenomenon (Markusen, 1995). It is also feasible to argue that international trade and FDI are interlinked. Even though the thesis is focused on FDI, the need to explore the international trade theories is paramount, and so the chapter begins with a review of the theories developed under international trade. This is followed by explanations of FDI and government policies, with an extensive review of the FDI theories. Thirdly, the motives of foreign investors engaging in the FDI phenomenon are evaluated, followed by a review of the empirical research on the determinants of FDI. Finally, propositions are developed and a conclusion drawn on the chapter.

2.2 Theories of International Trade

Globalisation has made cross-national commercial activities a global imperative for all businesses, and acting globally is now a key principle for their success. Governments, both willing and unwilling, are also drawn in to become participants in this global phenomena through the development of policies. The response from academia is the advancement of theories in international business literature to explain issues surrounding international business, and most importantly, in international trade and FDI. In both theoretical perspectives, government policies and the multinational firm play very crucial roles in driving commercial activities across national borders (Hymer, 1976; Helpman, 1984). This section will critically review the international trade literature and then follow up with the theories of FDI in the next section. The review of international trade literature is very important to the understanding of the genesis and development of the literature on FDI.

2.2.1 The Old Trade Theories

In discussing the origins and implications of international trade, researchers usually emphasise comparative advantage and increasing returns to scale (Bernard et al., 2007), in which case governments are at the forefront of exporting more or importing less in order to maximise a country's welfare gain. The main thesis of the traditional trade theories is about countries exploiting international differences in factor endowments, technology and preferences through the exchange of goods and services. These traditional theories of trade are discussed in this section of the chapter.

2.2.1.1 Mercantilism and Neo-mercantilism

The first group of international trade theories emerged in the mid-sixteenth century, and were associated with Thomas Mun (Hill, 2009: 170). This group of trade theories dealt with whether governments should intervene directly to affect a country's trade with other countries, or whether it should adopt a laissez-faire approach which allows market forces to determine trading relations. These initial theories, known as mercantilism and neo-mercantilism, prescribed a great deal of government intervention through policies to affect trade (Daniels et al., 2009: 269-271). The core thesis of mercantilism is that governments should maintain a pivotal role in the development of a strong national economy through more exports than imports (Holslag, 2006). According to the theory, countries should export more than they import in order to achieve a favourable balance of trade (Daniels et al., 2009: 270). To export more than imports, governments would have to impose restrictions on most imports and subsidise production of many products that could otherwise not compete in the domestic or export markets. By doing so, a country would accumulate gold and silver and, consequently, increase its national wealth, prestige and power (Hill, 2009: 170).

Neo-mercantilism on the other hand refers to the practice where countries intentionally try to run favourable balance of trade in an attempt to achieve some social or political objectives. For instance, in seeking to achieve full employment for its citizens, a country may develop economic policies that encourage its companies to produce in excess of the demand at home and to send the surplus abroad. Alternatively, a country may attempt to maintain political influence in an area by sending more merchandise to the area than it receives from it, such as a government granting aid or loans to a foreign government (Daniels et al., 2009: 271). Smith (1776) and Ricardo (1817) however reasoned that mercantilism will result in a gain by one country and a loss by another, and suggested that free trade will rather lead to a situation in which all countries can benefit. Their view was that free trade is a much more efficient way of promoting national prosperity. The free trade theories are briefly discussed below.

2.2.1.2 Absolute and Comparative Advantage Theories of Free Trade

The Absolute and Comparative Advantage Theories of Free Trade, usually referred to as the "traditional" or "old" theories of international trade, explain the flow of goods between countries in terms of differences in opportunity costs of production (absolute or comparative advantage), which can arise due to productivity differences (Bernard et al., 2007). The old trade theories of absolute advantage and comparative advantage, developed by Smith (1776) and Ricardo (1817) respectively, both held that nations should neither artificially limit imports nor promote exports, and that all countries will benefit if each specialises in what it does best. Sometimes referred to as the "classical" trade theory (Morgan and Katsikeas, 1995), these theories describe the scenario where a country specialises in the production of goods and services in which it has the greatest relative advantage. This enables the country to effectively combine the use of their resources of land, labour, capital and entrepreneurship in the most productive way to produce goods and services that are consumed locally, and then export the surplus. The theories therefore dictated that countries are able to gain if each country devotes resources to the generation of goods and services in which they have an advantage, and import those goods and services in which they have an economic disadvantage (Smith, 1776; Ricardo, 1817).

Smith's (1776) Absolute Advantage theory, contained within his famous inquiry into the nature and causes of the wealth of nations, suggested that unrestricted trade policies will help increase national wealth through specialisation in those products that give it a competitive advantage. Smith's (1776) theory heavily emphasised the importance of free international trade to a nation's economic welfare and development, and suggested that economies need to import goods and services which cannot be produced locally. Free trade, according to Smith (1776), benefited not only producers but also consumers who could purchase goods cheaply, and countries which could exchange their excess goods for ones that they needed. Like Smith, Ricardo's (1817) theory of comparative advantage held that free trade would increase national wealth through global efficiency, which occurs when a country specialises in those products it can produce more effectively than other products, regardless of whether other countries can produce those same products even more efficiently.

Both theories therefore dictated that countries are able to gain if each devotes resources to the generation of goods and services in which they have an advantage, and import those goods and services in which they have an economic disadvantage (Smith, 1776; Ricardo, 1817). According to these theories, economic advantages or disadvantages may arise from a country's differences in factors such as natural resource endowments, labour, capital, technology or entrepreneurship. These economists further suggested that the extent to which a country exports and imports relates to its trading pattern with other nations. They claimed that the basis of the international trade can be sourced to differences in production characteristics and resource endowments which are founded on domestic differences in natural and acquired economic advantages. Government policy intervention was not encouraged under these old trade theories, because the view was that interference will work against the general good of countries by preventing the most beneficial utilisation of resources. Trade policy activism was only advocated here as a means to correcting trade distortions (Alam, 1995); which relate directly to (or can arise from) market failures in international trade or policy imposition, such as import protection, foreign exchange restrictions and export taxes which create bias against exports in favour of imports (Bhagwati, 1971). In either case, the burden will be on governments to actively promote free trade with policy intervention that can offset the bias and allow trade to take place on the basis of comparative advantage.

The tenets of these neoclassical trade theories are opposite to mercantilism and neo-mercantilism, which emphasise that government intervention is less likely to benefit the nation than governmental restraint. The theories however fail to offer adequate explanations as to what causes the differences in relative advantages between countries (Morgan and Katsikeas, 1995), and little attention is paid to firms that actually drive trade flows (Bernard et al. 2007). In addition, the failure of the classical trade theory to explain the causes of the differences in advantages subsequently resulted in the development of the Factor Proportion Theory (Heckscher and Ohlin, 1933).

The Factor Proportion Theory put forward by Heckscher and Ohlin (1933) was a marked contrast with the proposition of the comparative advantage cost theory put forward by Ricardo (1817). The theory provides an explanation for the differences in advantages exhibited by trading countries, but at the same time extends the concept of economic advantage by focusing on the endowment and cost of factors of production. The theory assumes that trade occurs because of different countries' resources, endowments and posits that differences in countries' endowments of labour compared to their endowments of land or capital explain the differences in the cost of production factors. According to Hecksher and Ohlin (1933), if labour were abundant in comparison to land and capital, labour costs would be relatively low compared to that of land and capital costs, and vice versa. The theory further suggests that these relative factor costs would lead countries to excel in the production and export of products that used their abundant and therefore cheaper production factors. The theory, therefore, dictates that countries will tend to generate and export goods and services that harness a large amount of abundant production factors, and will import those goods and services that require a large amount of production factors which may be relatively scarce.

Wassily Leontief (1956) tested whether the factor proportion theory could be used to explain the types of goods that the US imported and exported. He postulated that since the US had a relative abundance of capital compared with other countries, it would be an exporter of capital intensive goods. However, he found that the products the US firms exported were relatively more labour-intensive than the products the US imported. This finding therefore suggested that if the factor proportion theory was valid, then the US could be classified as a relatively labour-rich country. However, the interpretation of the results was not acceptable to many scholars in the field of international trade (Czinkota et al., 2003: 128), and a variety of explanations and continuing studies have attempted to solve the contrasting findings to the assumptions of the factor proportion theory. Since the finding varied from the predictions of the theory, it has become known as the Leontief Paradox (Hough and Neuland, 2001: 34). Some of the continuing studies have found support for the factor proportion theory whilst some findings are consistent with Leontif's (1956) findings (Czinkota et al., 2003: 128). For instance, Mmieh and Owusu-Frimpong (2004) observed that Ghana is well endowed with natural resources such as mineral wealth, abundant agricultural land suitable for crops, forest resources and the production of livestock; and that these sectors have witnessed growth in production, as well as in the attraction of foreign capital. They therefore suggested that the factor proportions model of Heckscher and Ohlin (1933) offers an explanation for growth in specialisation in these sectors, the attraction of FDI into these sectors, and international trade. The theory, however, fails to capture the role of government policies in enhancing international trade or FDI inflow into the host economy. Limitations of the Old Trade Theories, that inadequately explained the dynamics of international trade and FDI, lead to the development of the New Trade Theories.

2.2.2 The Product Life Cycle Theory

Vernon's (1966) Product Life Cycle Theory, categorised under the trade theories, is also often used to explain the strategic behaviour of foreign firms, and hence FDI. The theory suggests that a trade cycle emerges where a product is produced by a parent firm, then by its foreign subsidiaries and finally anywhere in the world where costs are at their lowest possible (Vernon, 1966; Wells, 1968, 1969). In advancing the theory, Vernon (1966) argued that in the initial stages of the product life, firms undertake production in the home country so as to ensure easy access to inputs, and to also maintain quick communication with suppliers and competitors. Vernon (1966) argued that firms start production at home and then later on begin to export to a foreign market. Upon becoming familiar with the foreign market conditions, the same firms undertake FDI to produce for consumption in foreign markets. The view of this theory is that firms engage in FDI at particular stages in the life cycle of the product, when the firm has acquired full knowledge of the foreign market and when the attractiveness of producing in the foreign country increases. The attractiveness of producing in the foreign country could arise from the imposition of restriction on imports by the host government, and/or the possibility of rival firms establishing operations in the host economy to capture that market. This will stimulate the firm to start producing in the host country. Since the initial thesis of the research was based on US firms, Vernon (1966) suggested that production usually began in the US and then expanded to other advanced countries, and later on to other developing countries. Investing in developing countries, where labour costs are lower, is seen as the best way to reduce costs.

The theory, however, fails to explain why it is profitable for firms to undertake FDI at such times, rather than continuing to export from its home base or licensing a foreign firm to produce its product. Just because demand in the foreign country has grown large, it does not necessarily follow that producing in the foreign country would be the most profitable option. It may still be more profitable to produce at home and export to that country, or license a foreign firm to produce its products for sale in that country. The failure of the theory to identify when it is profitable to invest abroad limits its explanatory power and its usefulness to business (Hill, 2009: 252). However, the theory does bring out the crucial insight that firms are the main drivers of international trade and not governments, as suggested under the Old Trade Theories of Absolute and Comparative Advantage Theories of Free Trade. This view of firms being the major players of international trade is well espoused under the New Trade Theory explained in the next section. The theory is also used to explain the phenomenon of FDI.

A modern international trade theory has emerged in recent times suggesting that government involvement through its policies and regulations play an important role in international trade. The theories is usually called the New Trade Theory. This is explained below.

2.2.3 New Trade Theory

The new trade theory put forward by Krugman (1987) embodied imperfect competition and increasing returns to scale, suggesting that an active role of governments in trade through policy interventions is beneficial to countries. The theory opened up the possibility that government interventions in trade may under some circumstances be in the national interest after all. This is a reversal of the ideology under the old trade theories. The insight in Krugman's (1987) new trade theory is that even in the absence of such trade distortions as those discussed under the Old Trade Theories; trade intervention is beneficial to countries and should be pursued. Two arguments have been put forward for trade intervention under this theory – the profit-shifting argument and the externalities argument.

The profit-shifting argument holds that international competition in many markets is oligopolistic in nature. That is, a market where the price charged for goods exceeds the marginal cost of production. Examples of such markets cited in the literature usually include the markets for high technology goods such as aircrafts, semiconductors and biotechnology products (Alam, 1995). The argument goes further by stating that countries importing such goods pay rents to the exporting firms. This provides a necessity for the role of government policy intervention, to alter the firms' strategic decision-making so that production and the associated rents can be shifted to domestic firms, in which case national welfare will be increased.

The externalities argument holds that certain industries or firms which are of importance to a country, because they generate positive externalities, need government policy intervention and promotion in order to grow and operate fully. Krugman (1987) argued that unlike the traditional old international trade theories which relied on perfect competition, the new trade theory has given a concrete argument in favour of government policy intervention to promote external benefits.

Markusen and Venables (1998) observed that the new trade theory adds elements of increasing returns to scale, imperfect competition and product differentiation to the more traditional comparative-advantage old models of international trade. They applauded Krugman (1987) for using the theory to explain in more detail the causes and consequences of trade than the old trade theories. The new trade theory also shifts attention from countries exporting or importing to the firms that actually react to government policies and drive trade flows (Bernard et al., 2007). This strand of theory also assumes firms as being a single plant, national firms producing in one location and any profits earned by these firms entering into the income stream of the country in which they are located. Thus, the policy intervention will involve governments acting as agents in support of national champions who are competing with the champions of foreign countries in the international market place (Markusen and Venables, 1998). However, other phenomenal developments and facts in the international business environment call into question this assumption of national champions or enterprises.

Many firms that drive international trade are multinational firms (Bernard et al., 2007), and these firms also dominate the industries that form the empirical basis of the new trade theory (Markusen and Venables, 1998). These groups of firms in general make both horizontal and vertical investment decisions in foreign markets, choosing the number and location of production facilities. In line with this argument is Porter's (1990) theory of competitive advantage, which seeks to explain how national environments influence the decision-making of these multinational enterprises that drive international trade to attain competitive advantage.

2.2.4 The Theory of Competitive Advantage of Nations

The model developed by Porter (1990) purports to explain the importance of national environments in firms' attainment of competitive advantage. In advancing the theory, Porter argued that the competitive advantage of a firm emanates from the national environment, in that conditions within a nation may create an environment in which firms can attain international competitive advantage. He identified four features or determinants which can enable a firm to develop a sustainable competitive advantage. These determinants include factor conditions, demand conditions, related and supporting industries, and the firm's strategy. In addition, he indicated that chance and governments are external factors that also affect the competitiveness of a country. Chance events occur outside the firm's control and can result in changing competitive advantages in many industries; while governments, through policies, can influence the development of national competitive advantage. The inference made in this theory is that just like firms, countries compete with each other to attain competitive advantage and that the agents of such competitions are the governments. Krugman (1994), however, argued that countries do not compete with each other the way firms do, and that scholars' obsession with competitiveness of countries is not only wrong, but dangerous. Siebert (2006), on the other hand supported Porter's view with the argument that the paradigm of competition between countries for the internationally-mobile factors of production is a powerful one. He observed that the locational competition is about explicitly competing for internationally mobile factors such as capital, technology and highly skilled labour. The argument goes further; countries compete for these mobile factors to breathe life into the immobile domestic factors of production, such as land, natural resources and traditional labour. If they succeed in attracting them, they increase their factor endowment and raise the productivity of their immobile factors. However, if they lose them, the productivity of their immobile factors is reduced. This paradigm, according to Siebert (2006), contrasts the traditional trade theory approach of competitive advantage, where the exchange of goods and services is at the centre stage of countries' interaction and where exploiting international differences in given factor endowments, technology and preferences remains the main theme.

In line with this previous research, it is arguable to suggest that governments can influence the attractiveness of their countries and attract the mobile factors (usually associated with FDI), or induce them to leave through the use of a set of policy instruments such as tax rates, institutional arrangements, and the improvement of public goods such as infrastructure and education. Siebert (2006) noted that large parts of the competition between countries takes place in the form of institutional competition in the regulatory framework, which determines the way things are done in a country. The increasing trends of foreign capital floating over the past few decades has witnessed the tremendous efforts of governments, through policy developments, to establish attractive investment environments (and for that matter competitive advantages) in order to attract this foreign capital. All countries have, to a significant degree, participated in this phenomenon. Porter's (1990) diamond model, therefore, explains how nations develop competitive advantages and how firms can use these national features, through their corporate strategy, to also develop a competitive advantage in their industry.

2.2.5 Summary of Trade Theories

The Old Trade Theories suggested that the trade liberalisation regime, with the absence of government intervention, is the best way to reallocate resources and promote national welfare gains through either the Ricardian comparative advantage, the Smith's absolute advantage or the Heckscher and Ohlin's factor proportion theory. The new trade theory, on the other hand, suggests an active role of the government's policy interventions in trade to maximise national welfare. However, literature suggests that even though these theories of international trade are relevant to the issues of international business, direct investment has grown faster than international trade, especially in the developed countries (Markusen, 1995; Markusen and Venables, 1998). The fast-paced increase in direct investment over international trade has also galvanised interest in the FDI phenomenon, thus generating a new set of theories to explain the phenomenon of FDI carried out by firms, but not adequately addressed by either old or new trade theories. This interest has generated a large volume of empirical evidence emphasising the vital contribution of FDI to host countries development, especially in the developing countries. Since the core focus of this thesis is to critically assess how government policy can attract FDI into developing SSA countries, the theories developed to explain the FDI phenomenon will therefore be reviewed in the next section, and a guiding theoretical framework or model selected for this study.

2.3 Foreign Direct Investment

There is a widespread assumption among scholars that the phenomenon of FDI is known by all, and the definition of FDI has therefore not been a major preoccupation among international business scholars. Only a few scholars periodically attempt to explain what FDI really is, and what differentiates it from other forms of investments. In addition, documents from a number of governments and international organisations, such as the Organisation of Economic Cooperation and Development (OECD), the United Nations Conference on Trade and Development (UNCTAD) and the International Monetary Fund (IMF) have variously defined the FDI phenomenon. Even though Ngowi (2001) observed that FDI definitions vary greatly across countries, because of the different ownership requirements between foreign and host country nationals in a firm prevailing in different countries, there are salient features that are present in all of these definitions in the literature (e.g. see Caves, 1971; Hymer, 1976; Chadee and Rose, 2003; Gilmore et al., 2003). These features are succinctly captured in the definition of FDI by the United Nations Conference on Trade and Development (UNCTAD, 2008: 249), which reveals that:

> *"Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities."*

The World Investment Report (UNCTAD (WIR08), 2008) further points out that flows of FDI comprise of capital provided by a foreign direct investor to an FDI enterprise (either directly or through other related enterprises), or capital received from an FDI enterprise by a foreign direct investor. The definition brings out the salient features of FDI, as discussed in the literature, which distinguishes it from other modes of foreign operations (e.g. importing and exporting, licensing and franchising turnkey operations, and management contracts), and other forms of foreign investment such as portfolio investment, in terms of a higher degree of control being conferred to a firm through FDI (Caves, 1988; Hennart, 2000; Gilmore et al., 2003; Chadee and Rose, 2003; Pitelis, 2006). The focus of this definition is adopted in this study.

2.4 The Consequences of Foreign Direct Investment

The consequences of inbound FDI for a host country have been noted in many books, government reports, global institutional reports such as the United Nations and the World Bank, and in scholarly publications such as academic and professional journals. These studies, to a varying degree of sophistication, suggest that FDI (and for that matter the activities of MNCs) have far-reaching and positive impacts on overall economic growth and sustainability for the host economy; especially in developing economies (Cheng and Kwan, 1999; Cotton and Ramachandran, 2001; Cleeve, 2009). Supporting this view, other scholars articulate that FDI benefits developing economies through the transfer of financial, technology and managerial resources; as well as through the local allies of global companies that later become self-sufficient with additional operations (Asiedu, 2003; Janicki and Wunnava, 2004; Young, 2005; Na and

Lightfoot, 2006). The underlying argument, therefore, is that FDI provides a strong stimulus for sustainable economic growth in host countries, as well as offering access to internationally-available technologies and management know-how (Chowdhury and Mavrotas, 2006; Naudé and Krugell, 2007; Benassy-Quere et al., 2007).

Nunnenkamp, (2001) and Cleeve (2008), signalling support of the benefits of FDI, stipulated that FDI is an important source of capital, complements domestic private investment, creates new job opportunities, enhances innovation through technology transfer, promotes human capital development through transfer of knowledge and management skills, and boosts overall economic growth in host countries. Other benefits they suggested include facilitating local firms' access to foreign markets, and generating both technological and efficiency spillover to local firms. It is expected that by providing access to foreign markets, transferring technology and generally building capacity in the host country firms, FDI will inevitably improve the integration of the host country into the global economy and foster growth, as well as positively contribute to the host country's balance of trade. This makes the attraction of FDI a major priority for developing and newly industrialising countries, as FDI is expected to supplement national savings with capital inflows and the promotion of economic development. Developing countries are also encouraged by scholars to dismiss the option of isolating themselves from international trade and capital markets with restrictive policies by opening up their economies towards FDI (Nunnenkamp, 2001). Whilst the literature points out that FDI can undoubtedly be a trigger for productivity spillovers, through the transfer of technology and know-how to local industries by way of imitation and forward and backward linkages with local firms (Saggi 2002), others indicated that this can be realised only if local firms are able to invest in absorbing foreign technologies and skills (Blomstrom and Kokko, 2003).

However, in their study, Görg and Greenaway (2002) reported that negative (rather than positive) productivity spillovers of FDI at the firm level were found by five out of six studies on productivity spillovers in transition economies, and that the results in only one of the studies were inconclusive. This indicates that FDI also has negative aspects to host economies. This negative aspect of FDI in host economies is further revealed by Cotton and Ramachandran (2001), who said that FDI crowds out domestic investment by being a monopolistic competitor; that FDI could be divorced from the domestic economy and increase income inequality; that over-generous fiscal and financial incentives and subsidies in an effort to attract FDI could negatively impact government revenue; and finally, that foreign companies would not pay attention to environmental effects. The authors further argued that domestic firms are simply not able to compete with foreign firms in terms of their advertising power, ability to dominate the market and their engagement in predatory pricing to prevent market entry. Additionally, they asserted that foreign firms are seen to be technologically advanced and well-resourced compared with local firms, and could easily capture a large market share and thereby lower demand for products made by domestic firms, or prevent domestic firms from innovating. Driffield and Love (2007) referred to this as *'market stealing'* effects. Cotton and Ramachandran (2001) further noted that foreign firms who enter a host economy through FDI have the capacity to corner the market for highly-skilled labour, thereby depriving the domestic firms of this resource. Mencinger (2003) also observed that FDI does not automatically increase competition because it could force small emerging local competitors out of business, thus reducing potential competition and creating monopolistic or oligopolistic structures. FDI is also seen to develop only low-level skills in the host country and profits earned in the host nation are not reinvested, but repatriated. Cleeve (2008) also pointed out that foreign MNCs could engage in 'transfer pricing' which has the potential of eroding a large part of their tax liability, resulting in a loss to the host country. Aitken and Harrison (1999) also presented evidence of a negative effect of FDI on domestic productivity, because the foreign firms (MNE) which are usually technologically-superior tend to take market share from domestic enterprises, forcing them to produce at lower output levels with increased unit costs (Markusen and Venables, 1999), resulting in a net reduction in domestic productivity.

Basu and Guariglia (2007) also found that FDI promotes both wage inequality and growth, and tends to reduce the share of agriculture to GDP in the recipient country. While Tsai (1995) found that the relationship between FDI and wage inequality tended to vary significantly across geographical areas, Choi (2004) in a similar study concluded that FDI promotes income inequality in the host country. Other studies focusing on wage inequality in both developed and developing countries suggest that capital inflows generally increase the demand for skilled workers, causing their relative wages to rise and wage inequality to deteriorate (Aitken et al., 1996; Feenstra and Hanson, 1997;

Basu and Gauriglia, 2007). Blomstrom and Kokko (2003) argued that FDI could exacerbate inequality, particularly in an environment where the poor are unable to access the modern FDI-based technology because of low initial human capital. Using country time series and annual cross-section data series to analyse the relationship between FDI and economic growth in eight EU transition countries, Mencinger (2003) further reported a significant negative relationship. His findings suggested that FDI hampered the growth of those economies, and therefore contradicted the popular view (and some empirical evidence) that FDI contributes positively to economic growth. He explained that the negative impact of FDI on economic growth in the eight candidate countries in the post-transition period could be explained by the characteristics of the FDI in those countries. Detailing his findings, he suggested that FDI was predominantly acquisitions related to large (and often politically-motivated) privatisation. Another group of critics, as indicated by Cotton and Ramachandran (2001), suggested that FDI also encourages export of pollution-intensive technologies from developed countries where these technologies are no longer allowed. They also suggested that environmental groups are now expressing strong concerns about the fact that foreign firms operating in situations where rules are either non-existent or not enforced have greatly exceeded the emission and effluent levels allowed in their home countries, and cited the US-Mexican border as an example of where the land, water and air have been polluted to alarming levels by firms. Multinational firms have also been accused of taking advantage of poor and unenforceable rules, and of exercising significant political influence to prevent the imposition of rules regarding the environment.

On the issue of privatisation raised by Mencinger (2003), in the eight EU transition countries, Deresky (2008: 8) posited that the privatisation of state-run businesses in these countries enabled them to meet the EU accession requirements, and to become members of the border-less European market. According to this author, there is free movement of goods and people among these countries, with an elimination of internal tariffs and customs, as well as financial and commercial barriers. In light of these opportunities, together with the improvements in their infrastructure and the revamping of their finance and banking systems, one would expect these countries to benefit positively from FDI. Wells (1998), however, pointed out that some FDI is beneficial and some also certainly harmful, but that it is extremely difficult to determine which ones are beneficial and which are harmful. Wells (1998) further suggested that the implications of MNE activities for security and political independence matter in almost every country, and as such, governments go beyond purely economic criteria in judging the impact of FDI. Notwithstanding, Chudnovsky and López (1999) observed that FDI generates more benefits than costs for host countries. As a result, the advantages are at the forefront of the FDI debate, culminating in the view that it is the most potent element of globalisation that is capable of unlocking the growth and development potential of host countries. This view is evident in the continuous removal of restrictive policies and the liberalisation of FDI policies by all countries, as well as the intense competition among countries in order to attract FDI that is believed to be a key instrument in fostering growth and competitiveness in the host country (Chudnovsky and López, 1999). This holds true for developing countries, particularly in the SSA region. The next section will discuss the theories developed that explain the phenomenon of FDI.

2.5 Theoretical Underpinnings of Foreign Direct Investment

Why do firms go to all the trouble of establishing operations abroad through FDI, when the options of exporting, licensing or selling patents to service foreign markets are available for exploiting the profit opportunities in markets abroad? The limitations of international trade theories that fail to adequately explain the motives, reasons, patterns and general issues surrounding FDI in the globalising world have resulted in the development of other theories under the ambit of FDI. These theories offer explanations on issues surrounding the phenomenon of FDI, and the factors that influence its behaviour in different countries. Early theories of FDI were originally developed largely to explain the behaviour of firms originating from advanced industrialised countries making investments in other countries. Barclay (2000:3) observed that the early theories also attempted to explain the factors that influence the initial investment decision of firms in other industrialised countries (Hymer, 1960, 1976; Vernon, 1966; Kindleberger, 1969; Caves, 1971, 1974), the factors that gave rise to Multinational Enterprises (MNE) per se (Buckley and Casson, 1976; Dunning, 1979, 1980, 1981; Rugman, 1980a,b,c, 1981), the locational attractions of both developed and developing countries which induced FDI (Reuber et al., 1973; Agodo, 1978; Root and Ahmed, 1979; Schneider and Frey, 1985), the efficacy of a single factor in attracting FDI (Guisinger et al., 1985; Lim, 1983; Wheeler and Mody, 1991), and the factors influencing the MNE's selection of a market entry mode (Johnson and Weidersheim-

Paul, 1975; Johanson and Vahlne, 1977; Kogut and Singh, 1988). The main theories of FDI are summarised in Table 2 below. These will be explained in detail, and an attempt will also be made to select a theoretical model to guide this study.

Table 2.1: Theories of Foreign Direct Investment

FDI Theories	Description of Theory	Theorist
Market imperfections theory	The firm's decision to invest overseas is explained as a strategy to capitalise on certain capabilities not shared by competitors in foreign countries.	Hymer (1970)
Oligopolistic theory	Firms within one industry undertake defensive foreign investment in order to maintain the balance of competition within the industry.	Knickerbocker (1973)
Product life cycle theory (for international trade)	The cycle follows that: a country's export strength builds; foreign production starts; foreign production becomes competitive in export markets; and import competition emerges in the country's home market.	Vernon (1966, 1971) Wells (1968, 1969)
Internalisation theory	Internalisation concerns extending the direct operations of the firm and bringing under common ownership and control the activities conducted by intermediate markets that link the firm to customers. Firms will gain in creating their own internal market, such that transactions can be carried out at lower cost within the firm.	Buckley (1982, 1988) Buckley and Casson (1976, 1985)
The eclectic paradigm (international production theory)	The propensity of a firm to initiate foreign production will depend on the specific attractions of its home country compared with resource implications and advantages of locating in another country.	Dunning (1979, 1980)

Source: Adapted from Morgan and Katsikeas (1995: 70)

2.5.1 The Market Imperfection Theory

The development of FDI theories began with Hymer's (1960) seminal thesis on FDI, in which he put forward the argument that imperfect market conditions provide the rationale for FDI. For FDI to occur, according to Hymer (1960, 1976), foreign firms must have ownership advantage over local firms and the market for the sale of this advantage must be imperfect. The ownership advantages are not only firm specific, but also include core competencies that give the company a comparative advantage in the foreign country's environment. The market imperfection theory departs from the traditional theory of international economics established under the assumptions of perfect market competition, adequate information and immobile production factors among countries (Morgan and Katsikeas, 1995; Calvet, 1981). The theory of perfect competition dictates that firms produce homogenous products and enjoy the same level of access to factors of production (Morgan and Katsikeas, 1995). The market imperfection theory of Hymer (1960), however, holds that firms constantly seek market opportunities and their decision to invest overseas is explained as a strategy to capitalise on certain capabilities that the firm has, but which are not shared by competitors in foreign countries and these capabilities or advantages are explained by market imperfections for products and factors of production (Hymer 1976). Hymer therefore asserted that firms undertaking FDI operated in an imperfect market environment, where it was possible for foreign firms to obtain ownership advantages vis-à-vis firms in the host countries, which more than offset the advantages developed and possessed by their rival foreign firms. The basic concept of Hymer's argument was that firms will engage in FDI once they have advantages such as production technology, finance, cost, product differentiation or superior distribution networks that their domestic competitors do not possess. The argument here is that imperfections in the goods or factor markets is the only rational for the phenomenon of FDI taking place, and that the possession of these advantages by firms is a necessary condition for market imperfection. Advancing the theory further, Hymer observed that firms in the host country are more knowledgeable about the local market conditions, the legal and institutional frameworks for business, and local business customs that the competing foreign firm can only obtain at a cost, and hence the foreign firm is at a disadvantage in comparison with the local firms. In addition, the theory notes that foreign firms incur additional costs from operating at a distance because of the difficulties of operating in an unfamiliar foreign environment, and so if the foreign operation is to be profitable, the foreign-owned firm must have certain advantages over local firms. The unequal advantages and abilities of firms is thus emphasised in this theory as a sufficient condition for international operations of firms.

Despite the fact that the market imperfection theory does not explain why foreign production is considered the most desirable means of harnessing the firm-specific advantage, the theory nonetheless has received support from other researchers due to its applicability to firms directly investing across countries. Using Hymer's (1960) work as a guide, Kindleberger (1969) provided a comprehensive analysis of FDI theories and also rejected the premise that FDI occurs in perfectly competitive markets. He suggested that market imperfections are the reason for the existence of FDI. Detailing the nature of the monopolistic advantages that the foreign investor may have over its domestic competitors, Kindleberger (1969) remarked that the prospering of direct investment may come from imperfection in the goods market (product differentiation, superior marketing and distribution skills); in the factors market (preferential access to capital, restricted technology and superior managerial skills); in the firm's ability to attain vertical or horizontal integration (scale economies); and/or through the actions of government-imposed disruptions, such as restricting imports, that may inadvertently accord foreign firms with advantageous positions and thus stimulate FDI (Kindleberger, 1969: 14). He further espoused that the legal and institutional frameworks for business can create an advantageous situation for local firms or foreign firms. Lall and Streeten (1977: 26) expanded this view with the explanation that government policies giving privileged access to raw materials or minerals convey a monopolistic advantage to the foreign investing firm, possibly because of their superior access to capital than that of the local firms.

Calvet (1981) supported this strand of theory and reclassified the sources of the market imperfections to be from market disequilibrium, government-imposed distortions, market structure imperfections and market failure imperfections. He argued that under the market disequilibrium hypotheses, FDI is an equilibrating force among segmented markets and eventually comes to an end when equilibrium is re-established. This means that in a disequilibrium context, FDI will take place until markets return to stability. Calvet also suggested that government-imposed distortions will include the role played by either host or home governments in providing an incentive to invest abroad. Under the market structure imperfections, he argued that the behaviour of firms that deviates from that assumed under perfect market conditions (through their ability to influence market prices) will create market imperfection, resulting in the setting up of FDI. The fourth source of market imperfection suggested by Calvet was the market failure imperfections, which include those phenomena which lead to market failure or cases where the efficiency of the price-market system fails.

In an explanation of the determinants of FDI, Caves (1971, 1974) was also of the opinion that FDI takes place primarily in industries characterised by imperfect market structures. Caves noted that foreign firms possess unique advantages over their local competitors in the form of product differentiation; particularly, when the foreign firms extend the production of the same product in the foreign country through horizontal extension. The merit that product differentiation accords the foreign firm is the difficulty that the local rival will have in reproducing the product, since it is protected by trademarks and brand names. In explaining the term 'differentiation', Caves suggested that it includes the possession of managerial, financial, and innovative skills; as well as privileged access to the factors of production. Further advancing his support for the theory of imperfect market conditions giving rise to FDI, he contended that any advantage the firm possesses and embodied in knowledge, information or technique (and that yields a positive return over direct costs in the home market) can potentially be used in foreign markets without the need to again incur the sunk costs that are associated with its initial discovery, hence giving advantage to the foreign firm. Barclay (2000), however, observed that the emergence of cross-cultural issues in business and management in recent times raised questions about the validity of Cave's (1971) argument that a successful firm producing a differentiated product controls knowledge about serving the market that can be transferred to other national markets for the same product at little or no cost. Barclay (2000) further pointed out that Caves' thesis focused on the activities of firms in the US and Western Europe, where cultural differences are minimal; unlike the present time where firms' activities span across fundamentally different cultural backgrounds and regions such as Asia, Africa, Latin America and the Caribbean regions. It is arguable to suggest that even within the US and Western countries, firms may not be able to successfully apply the same knowledge, technology or managerial practices as in the foreign country, and will have to change and adapt to the practices in the host country in order to succeed.

Barclay (2000) also noted that the monopolistic advantage theory was advanced by theorists from the developed world to explain the phenomenon of FDI occurring among industrialised economies, and as a result little or no applicability of the theory to the phenomenon of FDI occurring in emerging economies could be found. Supporting this view, Hood and Young (1979) contested that the imperfect market conditions' theory explains the FDI made by US multinational enterprises during the post-World War II period, and questions whether a foreign firm needs to possess any advantage when investing in developing countries since they are faced with few, if any, effective local competitors. They further argued that the monopolistic advantages enjoyed by MNEs have limited impact on domestic competition in developing or Less Developed

Countries (LDC), because host governments may discourage local competition to ensure that maximum economies of scale are achieved. In this sense, monopolistic advantages may not be a motivation for foreign firms to enter these markets. This is evidenced in the findings of Aswicahyono and Hill (1995), who explored the impact of a restrictive policy environment on MNE's use of monopolistic advantages in their involvement in Indonesia. Their study established that foreign firms' use of product differentiation is limited since advertising is severely restricted, and that consumers in such countries are more price sensitive than those in the industrialised nations. In addition, they suggested that since manufacturing in Indonesia is dominated by labour-intensive and low value-added activities, the use of technology by foreign firms was not very important.

Despite the limited applicability of the theory in empirical research, especially in developing countries, it is still upheld as the main rational for firms' decisions to invest abroad, and thus establishes the foundation of the theories on FDI. It stands to suggest that imperfect market conditions exist between firms operating outside African countries and local firms operating in African countries. Many countries in the region have for decades been liberalising their economies, and the opening up of these economies through government policies may well have created imperfect market conditions for MNEs to invest in these countries, especially where local firms lack unique advantages or global competitive potentials to effectively compete with foreign firms. The theory, however, fails to explain why a foreign firm chooses to invest in a particular country, and not another. It also does not explain why firms decide to establish a subsidiary in the foreign country, and to not serve the market through export, licensing or other methods. This contributed to the development of other theories, such as the internalisation theory, which attempts to explain why foreign firms enter another country to operate through FDI instead of exporting, licensing or even selling their advantages to foreign competitors.

2.5.2 The Internalisation Theory

The emphasis of this theory, put forward by a number of theorists is to explain why firms undertake international production instead of selling their advantages to foreign competitors (Buckley and Casson, 1976; Rugman, 1980a,b,c, 1981; Hennart, 1986). The theory states that transaction costs are always present in the trading market, but the cost of market trading is much higher and more inefficient than the cost of internal management trading. This point was first identified in Coase's (1937) discussion on the origin of the multinational corporation, in which he put forward a case that under certain circumstances the firm might find it more efficient to create an internal market than to keep using the existing one. This point was succinctly revealed by Coase (1937) when he stated that:

> *"A firm will tend to expand until the costs of organising an extra transaction within the firm become equal to the cost of carrying out the same transaction by means of an exchange on the open market or the cost of organising in another firm."*

The theory was later extended by McManus (1972), who further developed the internalisation theory and applied it to the behaviour of multinational enterprises (MNEs). The works of Coase (1937) and McManus (1972) inspired other researchers, such as Williamson (1981), Buckley and Casson (1976), Rugman (1980a, b, c, 1981) and Hennart (1986) to further extend the theory.

The principle of the internalisation theory holds that a firm will internalise the production of intermediate goods and services whenever their markets fail due to the absence of a future market, the firm's inability to exercise discriminatory pricing and information protection. Hennart (2000) further suggested that firms will internalise their markets for knowledge, reputation, some types of raw materials and components, some types of marketing and distribution services, and in some cases, financial services when the cost of internalising them in the foreign location is less than the benefits. Internalisation may also occur because of locational factors and may even become prominent when governments intervene in international markets through the imposition of value-added taxes or the restriction of capital movements, as well as the differences in the income and profit taxes between countries (Buckley and Casson 1976: 36-39). Hennart (2000) also observed that in economies where government policies are ineffective, to the extent that they cannot protect or enforce the firm's patents rights, the firm will be motivated to internalise their markets in that country, as it will prove less costly in the long-term. Thus the firm will find it prudent to organise, control and govern those activities that were formerly linked by the market.

In a similar manner, Buckley and Casson also hypothesised that a firm will engage in international production if it evaluates that the net benefits of its operations of domestic and foreign activities exceed those offered by the market. Moreover, it is argued that a firm will internalise its markets until the costs of further internalisation exceed the benefits (Casson 1979; Buckley 1983). The internalisation process is seen to be a dynamic one, in that once the MNE is established abroad, it will use its internal organisation to prevent the loss of its firm-specific advantage by maintaining control over the production and sale of final products which incorporate this firm-specific advantage (Rugman 1980a, b, c; Barclay, 2000). Buckley (1988) summed up the two essential pillars of the internalisation theory as being that firms will choose the least-cost location for each activity they perform, and that firms grow by internalising markets up to the point where the benefits of further internalisation are outweighed by the cost.

2.5.3 The Eclectic Paradigm (OLI)

Dunning's (1980) Eclectic Paradigm pulled together the ownership advantage theory of Hymer (1960) and the internalisation theory of Buckley and Casson (1976), and added a third locational element to explain the phenomenon of FDI. While the internalization theory deals with the firm and why it becomes multinational, the eclectic paradigm put forward by Dunning (1980) offered a holistic framework for identifying and evaluating the reasons as to why firms internationalise. The paradigm's preoccupation is with international production and trade, and their determinants at both micro and macro levels. The theory states that the extent, geography and industrial composition of a firm's foreign investment is determined by three independent sets of advantages, which explain why firms choose to engage in FDI (Dunning, 2002). The theory's approach to internalisation therefore consists of an attempt to analyse the why, where, and when/how decisions in terms of ownership (O) specific advantages of the firm that give it a competitive advantage, the locational (L) attractions of alternative countries or regions in which to invest, and the benefits of a firm internalising (I) instead of licensing (Dunning, 2002). In doing so, Dunning (2002) synthesised three strands of FDI by arguing that it was the ownership-specific advantages, together with the locational advantages and internalisation that influence a firm's decision to engage in foreign production.

The ownership (O) specific advantages sub-paradigm stipulates that the greater the competitive advantages of the investing firms, relative to other firms especially domiciled in the country in which they are seeking their investments, the more likely they are to engage in or increase other foreign production. The ownership-specific advantages are those assets that are both tangible and intangible, are specific to the investing firm, and they are related to the extent to which it possesses a set of internal factors or resources and capabilities that its competitors (or potential competitors) lack. They constitute competitive advantages over rivals, and enable the company to take advantage of investment opportunities wherever they arise (Ietto-Gillies, 2005). Some of the ownership advantages identified include special access to inputs or markets, capital, established market position, superior technical and/or organisational knowledge, marketing or managerial skills, size and monopoly position (Ietto-Gillies, 2005; Barclay, 2000). Thus ownership advantages enable the firm to retain control of the subsidiary, and to enjoy exclusive use of its patents, technology, research, management, supply chains, financial sources and marketing techniques, so as to reap the benefits of economies of scale.

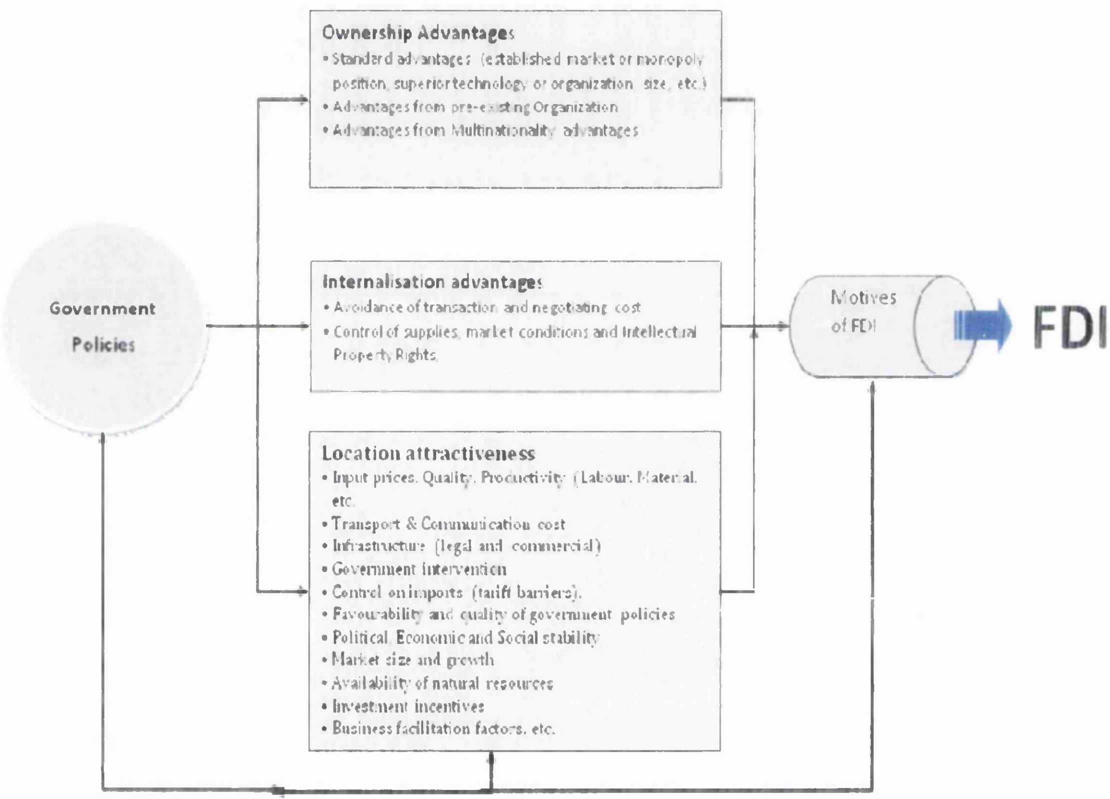
Dunning (1980) argued that a firm which possesses superior ownership-specific advantages over its foreign competitors, and who decides to internalise them, is confronted with the decision of whether to create or use these ownership-specific advantages in a foreign location. The firm's choice of locating its foreign operations is influenced by the locational advantages of a country. Dunning noted that locational advantages are not limited to the cultural, legal, political, social and institutional environment in which a firm operates, but also identified the market structure and government legislation and policies. This is as well as all those advantages specific to a country, such as technological and/or infrastructural developments, which are likely to make it attractive to foreign investors (Ietto-Gillies, 2005; Barclay, 2000: 26). Some of the locational advantages include access to cheaper inputs such as raw materials, knowledge of markets and local production conditions, low-cost labour, access to markets and access to innovation and technology available at zero or low marginal costs (Ietto-Gillies, 2005). The Location (L) attraction sub-paradigm therefore asserts that the more the immobile, natural, or created endowments (which firms require to justify the use of their competitive advantages in a foreign location), the more the firms will exploit their ownership (O) specific advantages by engaging in FDI (Dunning, 2002).

The sub-paradigm also suggests that the propensity of a firm to initiate foreign production will depend on the resource implications and advantages in the host country, as compared with the specific attractions of the firm remaining in the home country. The theory makes it explicit that not only are resource differentials and the advantages of the firm important in determining overseas investment activities, but foreign governments' actions may significantly influence the attractiveness and entry conditions of the location for firms (Morgan and Katsikeas, 1995).

Given the locational attractions of different countries, the third Internalisation (I) sub-paradigm evaluates modalities through which firms may organise the creation and exploitation of their core competencies, ranging from the buying and selling of goods and services in the open market, through to a variety of inter-firm non-equity agreements, to the integration of intermediate product markets, and an outright purchase of a foreign firm (Dunning, 2002). The internalisation sub-paradigm involves a form of vertical integration, bringing new operations and activities formally carried out by intermediate markets under the ownership and governance of the firm (Dunning, 2002). The internalisation advantages are all those benefits that derive from producing internally to the firm, which allow it to bypass external markets and the transaction costs associated with them, and are therefore essentially benefits of operating within hierarchies rather than markets (Ietto-Gillies, 2005). In other words, the internalisation advantages stem from the existence of market imperfections and the different transaction costs associated with the different ways of accessing international markets, such as exports, contracts or FDI (Galan et al., 2007). The theory therefore centres on the premise that firms aspire to develop their own internal markets whenever transactions can be made at a lower cost within the firm (Morgan and Katsikeas, 1995). The eclectic paradigm further asserts that the firms' response to the OLI configuration will reflect the economic and political features of the country or region of the investing firms, and of the country or the region in which they are seeking to invest; the industry and the nature of the value-added activity in which the firms are engaged; and the characteristics of the individual investing firms, including their objectives and strategies, in pursuing these objectives and the motive for the FDI (Dunning, 2002).

Figure 2.1 below depicts Dunning's eclectic paradigm and the various elements making up the theory. It reveals the important insight that the phenomenon of FDI takes place when the three elements of ownership advantages, internalisation and locational advantages are operational. The figure further depicts that policy factors, business facilitation factors and economic factors will determine the attractiveness of a particular location, and the various types of motivations for which firms decide to invest in a foreign country. According to Dunning (2000), the eclectic (or OLI) paradigm is a simple, yet profound, construct that has remained the dominant analytical framework for accommodating a variety of operationally-testable theories of the determinants of FDI and the activities of MNEs.

Figure 2.1: The OLI Research Model



Source: Adapted from Dunning (2000)

Gastanaga et al. (1998) observed that the OLI framework is compatible with any theory of comparative advantage; be it of Heckscher-Ohlin classical or product cycle variants, as well as with any transaction cost explanation, and thus makes it very flexible and appropriate for this study. Another advantage is that it can be applied either at the micro or macro levels. At the micro level, according to Gastanaga et al. (1998), the model allows one to relate individual firm, industry, and home and host country characteristics to one another. At the macro level, the eclectic theory can be used to explain the relative importance of various FDI-sending and/or receiving countries. Since the method was effectively adopted by scholars to explain reforms and FDI, it is also seen as the most appropriate framework to guide this study. Brewer (1993) also explained that numerous studies on government policies and FDI related to the locational advantage element of the eclectic paradigm, and that the theory has been successfully employed. Other scholars (Boddewyn, 1988) adopted the eclectic paradigm in analysing the role of government policies and political variables in attracting FDI. Since the main focus of this study is to explore whether government policies can serve as important determinants of attracting and retaining FDI, the theory has been chosen to guide the study. The main motives for firms engaging in FDI will be explored in the next section of this chapter.

2.5.4 The Motivations for Foreign Direct Investment (FDI)

The theories put forward by Hymer (1960) and Caves (1971) revealed that FDI takes place because of imperfect market conditions. These conditions accord foreign firms with specific advantages, which they become motivated to exploit in foreign countries. The investment may take place because of the desire to penetrate other markets, access raw materials, diversify its business activities or rationalise production processes (Gilmore et al., 2003). The oligopolistic theory put forward by Knickerbocker (1973) is at times also used to explain the motivation for firms' investment in foreign markets (Barclay, 2000). The theory is based on the concept that firms within an industry are motivated to undertake defensive foreign investment in order to maintain the balance of competition within the industry (Knickerbocker, 1973). The assumption is made in this theory that a large proportion of foreign investment is motivated by defensive tactics, and in reaction to problems at home and markets reaching saturation. In this strand of argument, Knickerbocker (1973) explained that when firms establish operations in a foreign country, their rival firms will follow them into the foreign markets in order to reduce any advantage that the first enterprise may have gained. Based on the activities of US manufacturing firms, Knickerbocker (1973) examined this theory and concluded that risk-avoiding firms in an oligopolistic industry will follow one another into any substantial foreign market in which one of them has set up production. He argued that by doing so, oligopolistic firms are protecting the exploitability (in the foreign country) of the special firm-specific capabilities (technological and organisational skills) that they have acquired. The reason for this behaviour by other oligopolistic firms, he argued, is that rival firms moving into a foreign market will not only threaten the corporate earnings of their competitors, but could also result in a firm acquiring competitive assets far in excess of those it already possesses. Hence, the defensive strategy of the other rival firms will be to follow the pioneering firm by also investing directly in the foreign country or market. In his analysis, Knickerbocker (1973) found that firms in highly concentrated industries, producing heterogeneous products like food and electrical and transport equipment, are the ones most likely to engage in this form of investment. He noted that this form of investment prevails in vertically integrated industries such as primary metals, paper and especially petroleum, in which case the oligopolists check their rivals' attempts to secure access to low-cost and reliable raw material supplies.

Kogut and Chang (1991, 1996) in their analyses of Japanese FDI found evidence of follow-the-leader behaviour among the firms. Hennart and Park (1994) and Yu and Ito (1988) added a measure of previous rival investment in their analysis of Japanese FDI in the US, and established a positive effect of follow-the-leader behaviour among firms in their latter paper, but an insignificant effect in the former. Head et al. (2002) incorporated important elements of the theory's framework into their model to evaluate the conditions required for an oligopolistic reaction to hold, and found uncertainty and risk-aversion to be the essential conditions for this to take place. They reported that when uncertainty exists about costs in the foreign market, a sufficiently risk-averse oligopolist is more likely to establish a manufacturing facility in a foreign country once its rivals have invested there. However, in the case of certainty, the incentive to move abroad falls with rival investment there. Additionally, they suggested that uncertainty coupled with risk neutrality reinforces the desire not to follow a rival into a foreign market. Their study therefore supported the theory, but under the essential conditions of uncertainty and risk-aversion. Graham (1998) also put forward an oligopolistic reaction thesis that differs from the follow-the-leader behaviour espoused earlier by Knickerbocker but this was based on rivalry behaviour which he termed "exchange-of-threat" (Graham, 1998), or "tit for tat" (Dunning, 2002). According to Graham's model, a foreign firm entering a host market will trigger off a rivalry reaction from local firms to also invest in the home market of the foreign firm. The firms enter each other's markets, so that the local firm will deprive the foreign firm of its monopoly in its home market.

Dunning (2000), however, posited that managers of firms seeking to invest in foreign countries are driven by four fundamental motives. These include market-seeking, resource-seeking, efficiency-seeking and strategic asset-seeking (Dunning, 2002). The market-seeking FDI occurs where foreign firms invest in a particular foreign country or set of foreign countries with the aim of serving those markets (Dunning, 2000). He observed that firms may be motivated to invest abroad for market-seeking reasons because of a limited home market or demand in terms of scale or expansion opportunities. He further explained that a large part of the recent record of flow of FDI into the Asian region, especially China and India, was possibly for market-seeking purposes. These two countries are the most populous nations in the world, and the people in each also have adequate purchasing power for many goods. In this case, the size and growth of the domestic or regional (as well as international) markets will serve as a dominant determinant for market-seeking FDI.

The resource-seeking FDI on the other hand are those firms investing in a foreign country in order to gain access to natural resources such as minerals, agricultural products and unskilled labour. Arguably, firms investing in foreign countries for such reasons as gold extraction, oil production, and steel manufacturing could be seen as resource-seeking FDI. Afriyie (1998) and Boateng and Glaister (1999), whose respective studies were on FDI in Ghana, noted that a large part of the FDI entering Ghana was of the natural resource-seeking type, because the country is rich in natural resources such as minerals and agricultural products. Efficiency-seeking FDI on the other hand, according to Dunning (2000), is that designed to promote the efficiency of a firm's operations through specialisation, cost reduction or some other factors in the host country that will afford it efficiency in its operations. Finally, the strategic asset-seeking FDI are those firms investing in a foreign country in order to protect or augment their existing ownership-specific advantages, or to reduce the ownership advantages of its competitors. Some of these advantages may include advanced technology, human resource management skills, distribution networks or new patents. According to Dunning (2000), the motives of the investing firm in the foreign country play a crucial role in the precise composition of his eclectic paradigm's parameters of ownership advantages, locational advantages and internalisation. More importantly, it is assumed that foreign firms will opt for one motive or another, depending on the different locational factors existing in the countries selected as potential destinations for FDI. In this respect, MNE managers can choose between two broad groups of host countries that vary in their economic development, and other factors that are compared in order to select the best country to invest in (Galan et al., 2007). It is therefore proposed in this study that:

Proposition 1: *The main motive for foreign firms investing in Ghana is natural resource-seeking.*

The next section discusses the determinants of FDI inflow in host countries.

2.6 Empirical Analyses of Host Country Determinants of FDI

Having reviewed the theories explaining how, why and where FDI takes place, this section reviews the literature on the factors that attract foreign capital into host countries. These are made up of the locational element of the OLI paradigm. The argument here is that the first two elements of the OLI framework are firm-specific, and by them alone FDI cannot take place, unless the firm finds an attractive location with advantages that it can use to exploit its ownership-specific advantages through internalisation. Boateng and Glaister (1999) also noted that although ownership-specific advantages, internalisation advantages, and locational advantages are important in firms' decisions to invest abroad, the locational advantages are the only determinants among the three sets of factors that host governments can directly influence. It is therefore, arguably, important to point out that these sets of location-specific advantages are crucial in influencing the flow of FDI into host countries, and that countries seeking to attract FDI would need to focus on creating attractive locational advantages. In this line of argument, it is plausible to suggest that the differences in the quality of these locational determinants may account for the variability in the volume of FDI inflow to different countries. A lot of research has been conducted on the determinants of FDI in host countries, and since the focus of this study is on the role of government policies in attracting FDI inflow, it is befitting to review the earlier literature on host country-specific determinants of FDI flows.

The amount of empirical research on the determinants of FDI is large, and covers both developed (Dunning, 2002; Vindelyn and Omar, 2005) and developing economies (Chakrabarti, 2001, Dunning, 2002; Asiedu, 2002, 2003, 2004a,b, 2006; Naudé and Krugell, 2007; Benassy-Quere et al. 2007; Buckley et al., 2007). The view that FDI is one of the most stable components of capital flows to developing countries, and also a source of technological progress through the use and dissemination of improved production techniques, has accounted for the growing research interest in the determinants of FDI into developing countries (Benassy-Quere et al., 2007). The list of determining factors is long, and researchers have not been able to determine the exact quantity and quality of FDI determinants required in a given location in order to attract a given level of inflow. However, a critical minimum of the determinants found in the literature needs to be present in the location before FDI can occur (Ngowi, 2001). The most dominant determinants found in the literature, however, include market size and income levels (Dunning 1981; Lim, 1983); quality of infrastructure (Cheng and Kwan, 1999); market growth rate (Root and Ahmed, 1978); and to a greater degree, various types or results of government policies (Brewer, 1993; Lall, 1995) such as fiscal incentives (Lim, 1983; Guisinger et al., 1985), political stability (Nigh, 1985; Ofori-Brobbey and Ojode, 2009) and investment promotions (Leowendahl, 2001). Ngowi (2001) also found strong that a indigenous technological base, regional trading blocs, language and business culture, tax holidays and exemptions, relative strength of local currency, economic and structural reforms, economic growth, availability of investment opportunities, and the signing of binding multinational investment agreements to be important determinants of FDI in host countries. Dunning (2002) observed that most of these are strongly dependent on the motivation for the FDI (natural resource-seeking, market-seeking, efficiency-seeking, and asset augmenting-seeking objectives), the economic and business environments of the host (or potential host) countries, and the FDI-related policies pursued by their governments.

On the motives for FDI, there are four main motives of firms investing in a foreign country, and these include market-seeking, resource-seeking, efficiency-seeking and strategic asset-seeking reasons (Dunning, 2008). Investors seeking markets for example will be attracted to a country with a large and fast-growing market, while resource-seeking investors will be attracted to a country with abundant natural resources (Campos and Kinoshita, 2003). The next sections will discuss these factors, and some of the studies already conducted on the determining factors of FDI. The discussion will attempt to limit the scope to the literature that seeks to explain the factors that promote or limit the flow of FDI into developing countries. The review begins with the economic determinants of FDI (constituting the motives), followed by national policy drivers, and finally, the business facilitation factors that attract FDI into host countries.

2.6.1 The Economic Determinants of FDI

The economic determinants of FDI may be clustered according to the principal motivations of firms investing in foreign countries. These were noted in the previous section to include resource-seeking, market-seeking, and efficiency-seeking reasons (Dunning, 2002). The economic determinants of FDI in a host country are discussed below.

2.6.1.1 Market Size

A scan through the literature on the determinants of FDI suggests that market size is one of the most significant and widely-identified determinants of FDI in host economies (Nunnenkamp, 2002). The type of FDI that is attracted to a host country because of the size and growth of the country's market is that of market-seeking FDI (Dunning, 2000). This may be as a result of a limited home market or demand in terms of scale or expansion opportunities. All things being equal, countries with large markets will attract more FDI, since the size of the market is a measure of the market demand in the country. Buckley et al. (2007), in their study on the determinants of FDI by Chinese MNEs from 1984 to 2001, found that market size strongly influenced Chinese outward direct investment. Cheng and Kwan's (1999) study of the determinants of FDI into China also suggested that a large market size is a crucial factor in attracting foreign investors to China. Billington (1999) also concluded in his study that market size is significantly and positively associated with a higher level of inward FDI. Bevan and Estrin (2004) and Janicki and Wunnava (2004) also confirmed in their studies the importance of the size of the host economy as a determining factor in FDI flows.

An earlier study by Reuber (1973) on the factors influencing firms in North America, Europe and Japan to invest in developing economies also revealed that market size is a very important determinant in influencing investors' decisions to invest in the host economies. In a similar study, Chakrabarti (2001) reviewed over 64 articles from 1968 to 2000 on the determinants of FDI in 135 countries. He categorised the major determinants identified in the studies into market size, labour cost, trade barriers, growth rate, openness, trade deficit, exchange rates and taxation, and examined whether one could have any confidence, and if so how much, in the conclusions reached on the above determining forces of FDI by the reviewed studies. He identified in his analysis that variables representing the host country market size appeared to be significant in nearly all of the empirical studies on FDI determining forces. His finding suggests that one could have confidence in market size being an important determinant of FDI inflow in host countries. On this basis, it could be argued that a large part of the recent record of flow of FDI into the Asian region, especially in China and India, is for market-seeking purposes. These two countries are the most populous countries in the world, with enormous market size and growth potential. It can therefore be proposed that countries with large markets are likely to attract capital from foreign firms seeking to expand their market share.

2.6.1.2 Natural Resources

The availability of natural resources has also been established by a number of studies as being a critical factor in attracting FDI into host countries. Firms with the motive of resource-seeking will invest in a foreign country that possesses the kind of natural resources that the firm is looking for, in order to gain access to natural resources such as minerals, agricultural products and unskilled labour. In this case, the availability of natural resources in the host country becomes the factor driving FDI inflow into the host nation. Arguably, firms investing in foreign countries for such reasons as gold extraction, oil production, and steel manufacturing could be regarded as resource-seeking FDI. Research focusing on FDI in Africa usually discovers the natural resource-seeking type flowing to the region (Asiedu, 2002, 2006). This is particularly illustrated by the fact that African countries with an abundance of natural resources, such as Nigeria, have consistently attracted a larger share of FDI than that of its regional counterparts. In some cases, an abundance of natural resources has been combined with a large domestic market. However, Dunning (2000) suggested that improved recycling techniques, the miniaturisation of components, the innovation of new alloys, and the replacement of natural materials by synthetic ones may be leading to a less impressive amount of resource-seeking FDI in the global scene. Though declining in importance, a natural resource still explains much of the motive of FDI into many SSA countries, especially FDI originating from China (UNCTAD, 2008).

2.6.1.3 Labour Cost

The cost of labour is another factor established in the literature as being very important in attracting foreign investors to host economies, especially when the investment is export-oriented (Wheeler and Mody, 1992). This factor is also suggested to be very important in attracting efficiency-seeking FDI, because it promotes efficiency of a firm's operations through specialisation, cost reduction or some other factors in the host country that will afford it efficiency in its operations (Dunning, 2000). This is particularly the case in situations where companies seek to make use of cheap labour or drive down the cost of operations (Dunning, 2002; Buckley et al., 2007). Developing countries are therefore mostly viewed as location sites associated with low labour cost and labour intensive activities. The Product Life Cycle theory of Vernon (1966) which contains the important insight that factor cost considerations, generally identified as labour, are important determinants of FDI in developing countries. Barclay (2000) also observed that a number of empirical studies widely supported Vernon's view of labour cost influencing the FDI decisions of companies. A productive, skilled and low-cost labour presence appears to be an asset for developing countries, enabling them to attract FDI. Lower labour costs reduce the overall cost of production (all other factors remaining unchanged), so as the availability of (cheaper) labour justifies the relocation of a part of the production process of some firms to foreign countries (Ajayi, 2006).

An empirical study by Love and Lage-Hidalgo (2000), who analysed the determinants of direct investment from the United States in Mexico, found that domestic demand and relative factor costs influenced the FDI flows. In a similar vein, Feenstra and Hansen (1997) found that low labour costs had a large impact on US assembling companies in Mexico that were deliberately set up to take advantage of low wages. Park (2003), who examined the patterns and strategies of FDI by Japanese manufacturing firms, found that Japanese FDI in Asia and other developing countries tended to be low-cost resource-seeking, specifically in labour-intensive sectors. Janicki and Wuannava (2004) also argued that labour cost is a unique determinant, and could be positive or negative depending upon the type of investment. Labour-specific investments, they claimed, will find countries with high unemployment and low labour cost, which are lucrative markets for production. In the same vein, market-oriented investments will concentrate on a labour market that is capable of high consumption. The availability of low-cost unskilled labour has therefore been found to be very important in attracting efficiency-seeking FDI, in the sense that an abundance of such a resource leads to low-cost productivity and economy of scale. On the contrary, Bevan and Estrin's (2000) empirical study found a negative correlation between labour cost and FDI flow.

Further observations that FDI is seeking low-cost inputs could be regarded as "vertical" or "production cost-minimising" FDI, as it usually involves splitting the vertical chain of production and relocating part of the chain in the low-cost location. Mmieh and Owusu-Frimpong (2004) observed that Mercedes-Benz assembles a series of its cars in South Africa, while the sophisticated component parts and final sales usually take place in Germany or other advanced countries. This suggests that the establishment of the assembling subsidiaries in South Africa by Mercedes-Benz is to take advantage of the low-cost labour. Thus the literature is widely supportive of low labour cost being an important determinant of FDI in host countries.

Despite the finding that the availability/cost of labour is an important driver of FDI, Noorbakhsh et al. (2001) suggested that countries that rely exclusively on low-cost low-skilled labour to attract FDI will find it difficult to induce FDI into high value-added industries, and may therefore suffer slower economic growth. In the same line of argument, Lall (1998) noted that given levels of skills and infrastructure, low labour costs may now matter only in a handful of low-technology activities, such as low-end garment production, since semiconductors have become highly automated and capital intensive. He revealed that the presence of a well-educated pool of labour has increasingly become an attractive determinant of FDI relative to low labour cost.

2.6.1.4 Skilled Labour

Recent studies suggest that with globalisation, FDI is moving towards technologically-intensive activities that require skilled and qualified human capital, instead of unskilled low-cost labour (Pigato, 2001). Arguably, highly educated personnel are able to learn and adopt new technologies faster, thus reducing the cost of training. Investors may therefore target countries where the government maintains a liberal policy on the employment of expatriate staff, so that they can bring in capable foreign staff to meet their skill needs (Ajayi, 2006). Noorbakhsh et al. (2001) analysed the importance of human capital as a determinant for FDI, and found it to be very important. He observed that because foreign firms are adopting complex global integration strategies in order to compete, the presence of sophisticated, created assets in host countries has become a significant factor influencing locational decisions. He therefore argued that it is crucial, especially in the context of competition for FDI, that developing countries formulate policies that improve local skills and build up their human resource capability. This author was of the view that building up local skills and human capital is extremely necessary in raising not only the volume but also the quality of FDI that a country can attract.

Filippaios et al. (2003) also examined the determinants of FDI from the US to Australia, New Zealand, Korea and Japan; and their results indicated that qualified and productive labour had significant impact on the time and location of US investors in these countries. It can also be argued that the type of FDI attracted to a host country for skilled labour is the strategic asset-seeking FDI. The rational here is that firms will seek skilled labour by investing in a foreign country in order to protect or augment its existing ownership-specific advantages, or to reduce the ownership advantages of its competitors. Some of these advantages may include advanced technology, human resource management skills, distribution networks, or new patents. Dunning (1988) maintained that the skill and education level of labour can influence both the volume of FDI inflows and the activities that MNCs undertake in a country. Blomstrom and Kokko's (2003) research on the interactions between FDI and human capital showed that technology-intensive FDI will flow essentially towards those economies with high educational levels; further contributing to the development of human capital in these economies. Globerman and Shapiro (2002) argued that since there is increasing amounts of FDI of the skill and efficiency-seeking type, the availability of an educated workforce in the host country is essential in attracting FDI. The absence of educated and healthy workers can pose a significant deterrent to FDI inflow. In the same way, Lewin et al. (2009) also suggested that the growing globalisation of markets for technology and knowledge workers drives the increasing number of MNEs who are offshoring their higher value-added knowledge-intensive processes and innovations. This line of argument thus suggests that globalisation has opened a window of opportunity for emerging countries to effectively compete for FDI, through the development and training of a highly-skilled labour force (Lewin et al., 2009).

2.6.1.5 Return on Investment

Return on investment is suggested to be another determinant of FDI flows (Asiedu, 2002). One would expect, in a rational situation that investors would choose a location in accordance with the profitability of the location, and that FDI will be attracted to countries with a higher return on capital. But testing the rate of return on capital in developing countries is difficult, because most of them do not have a well-functioning capital market (Asiedu, 2002). Buckly et al. (2007) also found the return on investment to be the most important factor that attracts and retains FDI in host countries.

2.6.1.6 Cultural Similarity

Cultural similarity is also considered an important institutional factor that impacts the inflow of FDI and the continuous operation of foreign firms in the host country. Cultural similarity is considered to be positive driver of FDI inflow into a host country (Hofstede, 1980). The argument here is that similarity of culture makes it easier for foreign firms to establish and effectively operate in the host country, using the knowledge and experience they have already developed in their home country. Gilmore et al. (2003) observed that disagreement among researchers does exist about the extent to which firms prefer to invest in markets that are culturally dissimilar. A recent study by Slangen and Beugelsdijk (2010), however, found that cultural distance is negatively related to FDI and the operations of foreign firms in the host country. Cultural differences may therefore pose as informal institutional hazards to the foreign firms operating in the host country. Other scholars suggested that the magnitude of these informal institutional hazards depends on the cultural distance between the MNE's home country and the host country (Dikova et al., 2010; Kogut & Singh, 1988). Cultural distances, serving as an informal institutional hazard for foreign firms, have been identified as playing an important role in the foreign investment decisions of these firms. The greater this cultural distance, the more the organisational and managerial practices, communication and negotiation styles, desired behaviours, customer preferences, and effective marketing tactics in the two countries differ from one another; and hence the larger the informal institutional hazards (Slangen and

Beugelsdijk, 2010; Hofstede, 1980). Despite the contrasting findings on the role of culture, it seems evident that cultural similarity plays an important part in the inflow of FDI to host countries.

2.6.1.7 Perception

Past FDI inflows embody information on operating conditions and the general quality of the business climate in a host country. This information shapes average perceptions about a country, leading potential investors to view a particular location favourably or otherwise (Kinoshita and Mody, 1997). Johanson and Wiedersheim-Paul (1993) showed in their evidence that investors tend to favour familiar countries, and regard territories that they do not know as being risky. The lack of knowledge is thus negatively associated with the fear of negative possibilities. Some investors also stagger their investments in newly opened markets, in order to test the ground before committing the full amount of capital funding (Pfeffermann and Madarassy, 1992). Thus, flows are likely to require time to adjust to desired levels, depending on specific constraints faced by these firms. Lack of knowledge of a particular location may therefore increase the perception of that location as being extremely risky in the minds of the foreign investor.

2.6.2 Government Policy Drivers of FDI

Having discussed the economic determinants of FDI, this section will review the government policy drivers of FDI in host countries. Firms usually enter a foreign country and operate in new sociocultural, political, and legal environments; and may be confronted with formal institutional hazards which will depend on the quality of the country's governance system (Dikova and Van Witteloostuijn, 2007; Slangen and Beugelsdijk, 2010), defined as the, "...public institutions and policies created by governments as a framework for economic, legal, and social relations" (Globerman and Shapiro, 2003). According to Slangen and Beugelsdijk (2010), the lower the quality of the governance system, the higher the level of political instability and corruption; and the higher the risk that the local government will suddenly implement less favourable policies towards foreign-owned affiliates, making the country less attractive for foreign investment. In such a situation, policies will be serving as a negative driver of FDI. Flores and Aguilera, (2007) found that foreign firms are less likely to locate value-creating activity in countries that are characterised by a highly-deficient governance system, with Globerman and Shapiro (2003) noting that such countries receive less FDI.

However, governments of all countries formulate policies which have wide implications in many areas, including creating an attractive investment environment for foreign investors. This is particularly the case in developing countries, where governments identify the inflow of foreign capital as being vital in the development of the country. Governments therefore formulate both direct and indirect policies that are aimed at attracting foreign firms, which also influence the strategic decision-making of companies regarding the most attractive country to locate in and pursue their corporate objectives. Host governments' attitudes and polices toward FDI can therefore play a vital role in firms' decisions about where to locate foreign production facilities, and where to make FDI. Other things being equal, firms prefer to invest in countries that have permissive policies toward FDI as opposed to countries that restrict FDI.

Many countries, before liberalisation of their policies, had heavily-regulated FDI regimes which served as entry barriers to foreign firms. Many of these restrictions were particularly pronounced in sectors considered to be of strategic importance to the country (Globerman and Shapiro, 2003). These restrictive policies, such as performance-related requirements which needed approval before such investments could be made (as well as sweeping nationalisations of foreign affiliates), did close many countries' doors to FDI inflow. However, with the emergence of FDI driving globalisation and international trade on a high scale, such negative policies have given way through reforms that removed restrictions in almost all countries; especially in developing countries. The removal of these restrictive policies has gone hand in hand with the development of policies in favour of FDI. These FDI-specific policies consist of rules and regulations governing the entry and operations of foreign investors, the standard of treatment accorded to foreign investors, and the functioning of the markets within which foreign firms operate (UNCTAD, 1998). In addition, the signing of international treaties such as the Bilateral Investment Treaties (BITs) which is meant to protect foreign investors, and the Double Taxation Treaties (DTTs) (also used to deal with the allocation of revenues generated from the investments between the host and home countries of foreign firms), have gained momentum as both developed and developing countries seek new ways of presenting a more attractive investment environment to foreign investors. Signing these multilateral and Bilateral Investment Treaties (BIT) have become one of the most important policy instruments countries are using to promote their economies and attract substantial FDI in recent decades (Elkins et al, 2006). According to Neumayer and Spess (2005), these treaties have become particularly popular with policy makers in developing countries, because of the conviction that signing these treaties will increase FDI flow into their economies. Reviewing three earlier studies conducted by Hallward-Driemeier, 2003; Tobin and Rose-Ackerman, 2005; and Salacuse and Sullivan, 2005 on the subject, Neumayer and Spess (2005) observed a positive effect of BITs on FDI inflows. Their research findings suggested that there is a payoff for developing countries willing to incur the cost of negotiating treaties and succumbing to the restrictions on the sovereignties contained in the treaties, as they successfully increase the flow of FDI into member countries. Collier and Gunning (1995) also suggested that regionally-coordinated (not regionally preferential) trade liberalisation would benefit African countries through growth. It can therefore be inferred that the combined aim of these treaties is to provide predictability and security for foreign investors and their investments in the host country, as well as providing transparent and reliable dispute settlement procedures.

Empirical research was conducted by Guisinger et al. (1985) who surveyed 74 FDI projects based in four industries and located in ten countries (both developing and developed countries) and they point out that government policies and the stability of these policies positively impact the flow of FDI into developing countries. They concluded that policies mandating the fulfilment of some performance requirements by foreign investors, widely used in developing countries, still influenced the investment decisions of foreign firms. Wallace (1990), who studied the locational choices of 140 US multinationals operating in developing countries to ascertain the critical impediments that foreign investors face when investing in the developing economies, revealed that the tax policy of the host country plays a critical role in the locational decision of foreign firms. The author also posited that the risk level of a country also plays a significant role in the locational choice of foreign firms, and hence stated that political instability, threats of expropriation and stringent policies towards profit repatriation are serious deterrents to FDI. Chakrabarti (2001) observed that openness, exchange rate, taxation, tariff, growth rate and trade balance are highly important drivers of FDI, and these are arguably all dependent on government policies, and therefore indicate the importance of policies as influencing variables in the flow of FDI. Indeed, sound macroeconomic policy has been found to be a key indicator that is likely to affect the FDI locational decisions, with Aliber (1993) emphasising a positive relationship between the growth rate of the host country and FDI inflow. According to a number of researchers (Mmieh and Owusu-Frimpong, 2004; Wheeler and Mody, 1992), all empirical studies, except in the case of Scaperlanda and Mauer (1969), have established the statistical significance of economic growth as a vital determinant of FDI.

Buckley et al. (2007), in their study that investigated the determinants of FDI by Chinese MNEs from 1984 to 2001, suggested that policy liberalisation has had a positive influence in stimulating Chinese outward direct investment. So FDI policies do not only play a role in attracting FDI but also in stimulating outward direct investment, especially for those domestic firms that seek to expand their operations across other borders. Vindelyn and Omar (2005) analysed 121 UK international business firms that operate in an international context, to assess the role played by regulations in influencing their investment decisions. They used econometric analysis to assess the importance of regulations with respect to 121 firms that operate within the international context. Their results revealed a positive relationship between political risk and FDI; as perceptions regarding political risk increase, there is a marginal increase in inflows. They attribute the result potentially to the changed nature of political risk, whereby powerful host country business interests enjoy government patronage. They supported Wells' (1998) view that emergent government policies are at times biased against foreign business. The risk posed to net asset accumulation arises from the promotion of narrower domestic business prosperity. They further argued that MNCs' strategic response to this threat appears to be one of a 'fight' instead of a 'flight' approach.

Janicki and Wuannava (2004) studied the key determinants of FDI in the Central and East European Countries (CEEC), and found that international trade which possesses a variable of openness is perhaps the most important determinant of investment. Their findings supported Deichmann's (2001) and Bevan and Estrin's (2000) earlier views that trade and investment complement each other, and that countries which are more liberal in their trade approach tend to export more; and this situation tends to be more attractive to foreign firms, especially the export-driven ones. They also asserted that countries that have succeeded in creating a strong economic and political environment, characterised by financial market stability, have a low level of perceived risk and hence are more likely to gain through increased flow of FDI.

Kang and Kim (2010) also observed that foreigners invest less in firms that are located in countries with poor investor protection and disclosure, and suggested that foreigners hold greater shares of their investment portfolios in the US if they have less-developed financial markets in their home countries; indicating that financial market development and the ability of firms to float shares on the stock market could also be an important element that influences the locational decision of foreign firms. Countries with quality policies, as well as good financial markets, will therefore be considered to be very conducive for investment.

2.6.3 Business Facilitation Factors

The institutional environment is also seen as an important determinant of FDI, because it directly affects business operations in the host economy. Many countries that have liberalised their economies, but are not yet registering the expected FDI inflow level are using business facilitation factors to give them an edge over competitor countries in attracting FDI. Business facilitation factors such as promotion efforts, the provision of incentives to foreign investors, the reduction in the "hassle costs" of doing business in the host country (e.g. reducing or eliminating corruption and improving administrative efficiency), and the provision of amenities that contribute to the quality of life of expatriate personnel are all proactive measures that hosts governments are using to facilitate foreign investors' business operations in the host country. Accordingly, these factors play an important role in the presence of other locational advantages, but will rarely be decisive determinants of FDI inflows (Noorbakhsh et al., 2001). For example, Guisinger et al. (1985) argued that net incentives, the timing of incentives, investment promotion and government services in infrastructural projects will all impact on the flow of FDI into developing countries. They concluded that business facilitation factors are therefore effective mechanisms for attracting FDI; and singled out net incentives, which they described as being the net rate of return on all the investment incentives granted, as the most important influencing factor.

Benassy-Quere et al. (2007) also evaluated business facilitation drivers of FDI in a host nation, and again noted that there are several reasons as to why the quality of business facilitation factors may matter in attracting FDI. According to these authors, good institutions that raise productivity prospects and good governance infrastructures may attract foreign investors, while poor institutions such as those filled with bureaucracy and corruption will bring additional costs to FDI, and hence negatively impact the inflow of FDI. Additionally, they suggested that FDI is vulnerable to any form of uncertainty, including uncertainty stemming from poor government efficiency, policy reversals, and weak enforcement of property rights and of the legal system in general. They therefore articulated in their findings that information, financial sector institutions and the legal institutions are important determinants of inward FDI, while weak capital concentration and employment protection tend to reduce inward FDI.

2.6.3.1 Incentives

Many governments also use various kinds of incentives to attract FDI into the country or a favoured industry, or better still, to influence the character of an investment. Such incentives take many forms, but the most common are tax concessions, low-interest loans, grants and subsidies (Cleeve, 2008). The incentives are motivated by the potential rewards the host country stands to benefit from the inward FDI, which could include a gain from resource transfer and positive employment effects. For example, when export-oriented FDI or technology-intensive investment is sought, governments tend to offer incentives relating to investments in those areas. However, Lim's (1983) study, which also sought to test the influence of investment incentives on firms' decisions to engage in FDI in developing countries, found no support for fiscal incentives being necessary to attract FDI. He found that the presence of natural resources and a proven record of economic performance play more decisive roles in the locational decision of firms than incentives do. Lim (1983) also discovered an inverse relationship between the generosity of fiscal incentives and FDI inflows; and argued that developing economies, in their excessively generous provision of fiscal incentives, give way to potential revenues from corporate taxes. Wheeler and Mody (1991), who reached similar conclusions, described the manner in which foreign governments compete for FDI with tax and other incentives as essentially being 'location tournaments'. Their study suggested that US firms are influenced by agglomeration benefits; such as the infrastructure quality, degree of industrialisation and the level of investment in their choice of locating international production. For developing countries, it is argued that the critical variable that influences a firm's locational decision is not tax incentives, but the presence of a good quality infrastructure. Later research by Loree and Guisinger (1995) lent support to the argument that the provision of generous investment incentives does not necessarily result in increased flows of inward FDI, and suggested that it may be more beneficial for a developing country to invest in upgrading its infrastructure than to grant redundant incentives. Similarly, Borensztein et al. (1998) suggested that incentives may result in a flow of FDI that does not respond to higher efficiency, but only to profit from the opportunities created by the distorted incentives. In support of this view, Cleeve (2008) observed that incentives are the most popular instruments SSA countries are using to attract FDI, and yet these measures have so far failed to deliver the expected increase of FDI inflows. As a result, he suggested that the fiscal incentive system in SSA countries should be made simple and clear, time-bound, performance-based, consistent with regional countries and not susceptible to abuse.

2.6.3.2 Promotional Efforts

Many countries have over the years adopted promotional activities in their efforts to attract FDI; particularly countries that have had hostile or restrictive policies to FDI inflow in the past, but still have an image problem after the removal of such inimical policy restrictions, as foreign investors still view them as being hostile, unstable and unfriendly locations for FDI. This is particularly the case for SSA countries that are perceived to be highly unstable and risky to invest in (Cleeve, 2009). Such countries seeking to change the perception of their investment regimes and regain investors' attention have seen promotional measures as being an extremely potent policy direction to pursue if they are to stand any chance of attracting FDI inflow. This is because it is one thing to liberalise FDI policies, but another thing to get the information to FDI decision-makers; let alone convince them to make an investment. Promotional measures could therefore shorten the delayed reactions of investors to emerging investment opportunities, or help investors (especially small, medium and medium-sized firms) to discover new opportunities that they would not find on their own. Such promotional efforts also give rise to the 'born-global' type of firms ,which are small and medium size firms that internationalise right from the beginning and successfully compete from their inception against large established players in the global arena (Rasmussan and Madsen, 2001; Andersson and Wictor, 2003). So the more attractive such factors are in a country, the higher the likelihood of its selection as an important location in which to go global. These possible arguments in favour of promotional measures have led to the unprecedented development of investment promotion agencies in many countries around the world, of which SSA countries are not an exception (UNCTAD, 1998, 2008). Wells and Wint (1990) tested the effectiveness of promotional activities in attracting FDI on a sample of 18 developed and 32 developing countries, and found a statistically-significant positive impact; and concluded that promotional efforts can help influence inflows of FDI, particularly to developing countries. In a revised edition of the study, they also suggested that investment promotion programs have proved effective in attracting only certain types of investors (Wells and Wint, 2000). A recent study by Wint and Williams (2002) found a relative insignificance of promotional activities in attracting FDI, a possible explanation being that all countries have developed promotional strategies to the extent that there appears to be convergence in the promotional activities. As such countries find that promotional activities alone are not enough to differentiate themselves as being more attractive to investors. Wint and Williams (2002) suggested that the finding does not discourage the use of promotional efforts by countries, but they should be part of the minimum requirements of countries seeking to attract and retain FDI. In their view, discontinuation of promotional activities by a country will only lead to a differential disadvantage for that country in attracting and retaining FDI. They therefore advocated the adoption of selective interventions by countries, targeted at attracting specific foreign firms and complemented by functional interventions that improve prospects for all potential investors within the economy.

2.6.3.3 Removal of Bureaucratic Barriers

The removal of bureaucratic barriers is another important business-facilitating measure for governments, especially in SSA countries, that are pursuing to promote their nations. Countries in SSA have highly-bureaucratic procedures in day-to-day business operations that cause a lot of delays and increase the costs of doing business in terms of loss of time and resources. Foreign investors tend to be discouraged from investing in countries with many 'red-tape' bureaucratic procedures. The removal of such barriers and bottlenecks are therefore seen as being important components in motivating firms to invest in a host country. Many investment promotion centres are therefore involved in accelerating the various stages of the approval process, providing assistance in obtaining all the required permits, incentives, quotas and counselling to ensure that the investors feel comfortable and succeed in their business. Such services are also increasingly extended to include after-investment services that are rendered to foreign investors to assist with their day-to-day operational matters (Hood and Young, 1994).

2.6.3.4 Terrorism

A negative factor identified to affect business operations both directly and indirectly in host countries, and hence FDI inflow, in recent times is terrorism. Terrorism is said to be the premeditated, systematic threat or use of violence by sub-national groups to attain a political, religious, or ideological objective through intimidation of a large audience. It involves communicating a political, religious, or ideological message via fear, coercion, or intimidation of noncombatant persons or the general public (Enders and Sandler, 2000; Rosendorff and Sandler, 2005; Wernick, 2006), with the goal of influencing a target audience and affecting, its behaviour in ways that serve the interests of the terrorist (Victoroff, 2005). Czinkota et al. (2010) observed that few firms experience the direct effects which are characterised by loss of life, as well as by destruction of infrastructure, buildings, and equipment; while the indirect effects are characterised by declines in buyer demand, increased transaction costs, interruptions in international supply chains, and declines in FDI tend to be widely-felt by many firms. The authors observed that the threat of terrorism has also been seen to contribute to the increasing development of new government anti-terrorism policies, regulations and procedures which are intended to stem emergent threats (Spich and Grosse, 2005). These policies are usually considered for national security reasons, and also tend to be unfavourable for FDI inflow and alter the commercial environment in ways that are harmful to business interests (Czinkota et al., 2010). As a result, scholars have cited terrorism as a key international policy issue (Czinkota and Ronkainen, 2009), and the increasing trend of it as, "the ultimate form of anti-globalization" (Ricart et al., 2004).

2.6.3.5 Uncertainty

Uncertainty has also been found to be a negative determinant of FDI flow into developing countries (Ramasamy, 1999; Lehmann, 1995). In the case of Africa, Bennell (1995) and Pigato (2001) highlighted the role of uncertainty without formally addressing the impact of either economic or political uncertainty on the flow of FDI. A study in this direction worth noting is that of Lemi et al. (2001), who analysed how uncertainty affects the flow of FDI from US firms into African economies. Their findings suggested that the impact of uncertainty on the flow of FDI is insignificant, and that economic and political uncertainties do not affect FDI from the US. They observed that economic uncertainties will only become a major impediment for non-manufacturing FDI when coupled with political instability and debt burdens of host countries. For US manufacturing FDI, political instability and government policy commitment were found to be important.

There is, however, a varying degree of argument in the literature on FDI about the importance of these factors. Buckley et al. (2007) found that among all these factors, the most important ones in attracting and retaining investors in host countries (from best to worst) were: (1) ROI; (2) market growth; (3) market size; (4) remaining in the same line of business; (5) market stability; (6) exploitation of assets; (7) asset protection; and (8) the cost of production. They also identified the least important factors (from worst to best) to include: (16) culture; (15) having a democratic government; (14) investment incentives; (13) currency depreciation; (12) access to new resources; (11) pre-emption of competition; (10) barriers to trade; and (9) having established relations in the market. In the context of this study (which does not aim to identify and contrast all of the possible determinants of FDI, but only assess the importance of government policies as determinants of FDI), the assumption is made here that the elements used in the questionnaire will help identify which factors are relevant in promoting SSA countries as FDI destinations.

It is therefore proposed in this study that:

Proposition 2: *The main determinants of FDI in Ghana are the availability of natural resources, liberalised policies, good infrastructure, tax holidays and incentives.*

2.7 Government Policies and Entry Mode of FDI

Firms seeking to enter a foreign market have a wide range of entry modes available to them. As defined by Kuada and Sorensen (2000), a market entry mode is an institutional/organisational arrangement established to reach and cooperate with foreign customers. A large body of research has dealt with entry mode choice of foreign firms in a host country, and the literature suggests that these choices include Equity Joint ventures, Mergers, Acquisitions and Greenfield Investments (Anderson and Gatignon, 1986; Kogut and Singh, 1988; Kumar and Subramaniam, 1997; Buckley and Casson, 1998; Kuada and Sorensen, 2000; Görg, 2000; Floyd, 2002; Tihanyi et al., 2005; Puck et al., 2009). Meyer and Estrin (1998) identified Brownfield Investments as another alternative mode through which a firm can enter a foreign market. They suggested that acquired firms (especially in emerging markets) that do not necessarily match the organisation of the investor, and which are eventually extensively restructured to resemble a Greenfield investment, are Brownfield investments. The choice of a foreign market entry mode is a strategic decision made by managers, who take certain influencing factors into consideration. The factors influencing the choice of a particular foreign market entry mode have also been a subject of both conceptual and empirical research.

Transaction cost theory has frequently been used to explain the choice of market entry mode into a foreign country (e.g., Buckley and Casson, 1976; Hennart, 1986; Teece, 1986; Anderson and Gatignon, 1986; Kogut and Singh, 1988; Cleeve, 1997). The argument in support of the transaction cost theory is that the firm will weigh the cost and benefits of all entry modes and select a foreign market entry mode that minimises transaction costs (Jung, 2004; Kumar and Subramaniam, 1997). While the contribution of transaction cost theory to explaining entry mode choice is well-established, the theory has been criticised for failing to take into account non-rational entry mode decisions (Puck et al., 2009). Gomes-Casseres (1990) for instance suggested that most of this research stream has ignored the effects of host government ownership restrictions on firms' choice of entry mode. Such restrictions, they argued can make an investing firm form a joint venture even when transaction cost analysis would predict a wholly-owned subsidiary.

The institutional theory is usually seen as the best alternative explanation or supplement in understanding the choice of the mode of foreign market entry (Hennart, 1991). The institutional theory holds that the behaviour and decision-making of firms is at times not founded on a purely-economic basis, but other external institutional factors which could be in the form of societal expectations of appropriate organisational form and behaviour, or government regulations (Puck et al., 2009). Organisations are assumed to face pressure to conform to this institutional context, and may thus make decisions that are not based solely on efficiency criteria, as implied by transaction cost theory (Oliver, 1991). A number of scholars found government regulations to be an important element of the institutional theory in explaining the mode of market entry, particularly regulations on ownership restrictions (Gomes-Casseres, 1989; Beamish, 1985; Puck et al., 2009).

Other researchers (Fagre and Wells, 1982; Grieco, 1982; Lecraw, 1984; Kobrin, 1987) used the bargaining power of firms and the host government to explain this phenomenon (Gomes-Casseres, 1989). According to this strand of research, the source of bargaining power for firms is their ownership advantage, while that of the government lies in its ability to control or restrict access to a market (Kumar and Subramaniam, 1997). The relative bargaining power of a firm and the government helps to determine the ownership structure the firm will use in the host market, and thus the choice of entry mode. Gomes-Casseres (1989) argued that a firm will make a choice of entry mode through a process of preference ranking the available options. They further stated that a firm ranking whole-ownership significantly higher than a joint venture will be less likely to give up the ownership issue than a firm that prefers whole-ownership and still considers a joint venture to be a close second choice. They argued that in return for gains on other issues, both the firm and government might be willing to accept something less than their top ownership preference. Thus the government might drop its' insistence on a joint venture in return for an increase in the firm's contribution to other national goals, and the firm might also settle for its second choice in return for access to a lucrative market.

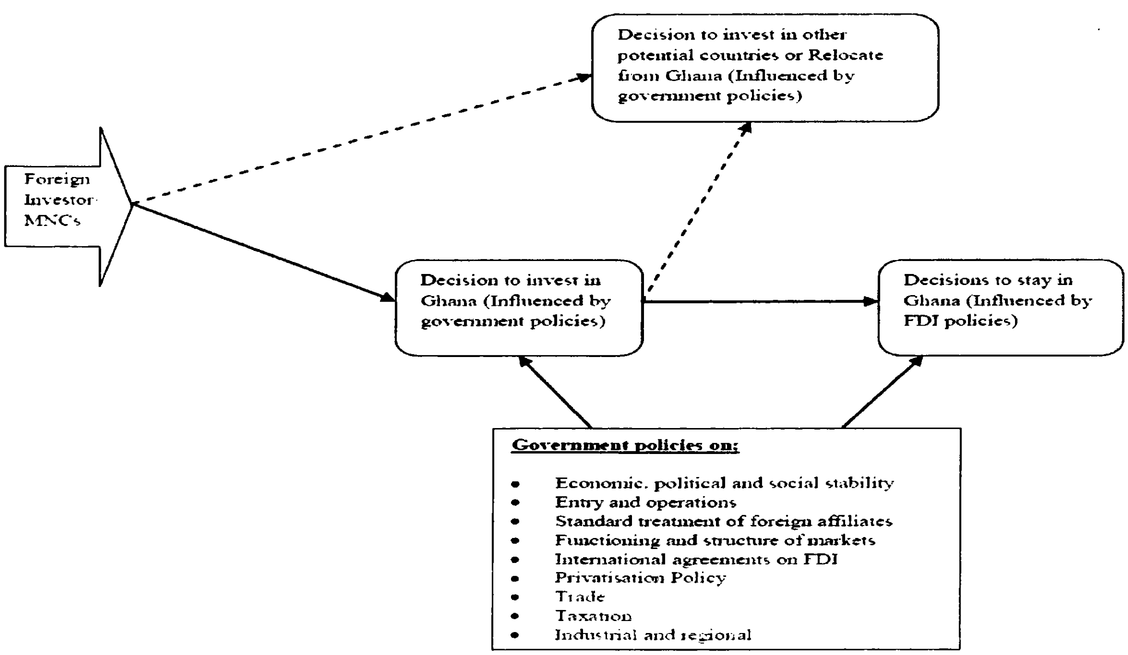
It is worth pointing out that both the institutional and bargaining power models used to explain the choice of foreign market entry mode reveal the important role of government policies. For example, Floyd (2002) suggested that the governments of China and Poland prefer joint ventures and mergers respectively. He observed that China favours joint ventures because of the potential benefits of technology transfer for the country, without it losing its' sovereignty of labour laws and economic policymaking which may arise in the case of a merger or Greenfield investment. Floyd (2002), however, found that more recently the government has allowed a greater number of Greenfield investments and mergers, because these modes provide opportunities for working through problems of bureaucracy and infrastructure. Barclay's (2000) study of firms' entry mode into the Caribbean region also found that the government plays a decisive role in firms' selection of market entry mode into the primary sector of the countries in the region. She did however find that the Trinidadian government relaxed its' restrictive policies on foreign wholly-owned subsidiaries in its strategic sector because of deteriorating economic conditions. It is therefore proposed in this study that:

Proposition 3: *The importance of government policies in attracting and retaining FDI in Ghana will vary with firms' mode of investment, motives, markets, length of stay, source region and sectors of operation.*

2.8 Developing a Conceptual Framework

Based on the literature reviewed in this chapter, a conceptual framework for attracting and retaining FDI in a host country is attempted here. This framework is limited to the locational policy determinants of Dunning's eclectic paradigm, as reviewed in the literature. Figure 2.2 depicts that foreign investors have many choices in terms of countries in which to invest. However, their choice of host country is greatly influenced by the attractiveness of the potential host country's (Ghana's) government policies. These policies make the drivers for other locations weaker (dotted lines) than the host country. After the initial investment decision in the host country, this researcher is of the view that MNCs/investors will still continually evaluate the favourability of the host country's policies, as well as the attractiveness of other possible comparable locations.

Figure 2.2: Policy determinants attracting and retaining FDI in Ghana



The proposition therefore is that the more favourable the host country's policies are to the firm, the more satisfied the investor will be about operating in the host country. In addition, the more satisfied they are in the host country, the more likely they will continue to stay, and reinvest their earnings back into the host country, thereby increasing the FDI stock in the host country. This situation presents an advantageous position for the host country in the sense that other potential investors will not merely be attracted to the host country, but will also have confidence in locating in the host country. Those operating in the host country may also explicitly invite their partners to invest in the host economy, so that they can take full advantage together of the locational advantages in terms of market, natural resources, efficiency or assets.

Thus, this researcher is of the view that government policies should not only focus on attracting FDI, but to a greater extent ensuring that once they have invested, foreign firms will find the investment environment to be very favourable for them to continue operating in the host country for a longer period of time. Government policies should therefore ensure that they weaken the possibility of firms relocating to other countries from the host country, and strengthening their decision to continue operating in the country. It would be disastrous for the host country to spend time, effort and resource in attracting FDI, only for it to relocate after a few years of operating in the country. The relocation phenomenon would also give negative feedback to potential investors about the quality of government policies and the attractiveness of the host country, and would therefore discourage substantial FDI inflow into the country.

This study evaluates the role of the various government policies in attracting FDI inflow in the first place, and then in the subsequent decisions of foreign firms to stay and continue operating in the country without relocating. Figure 2.2 therefore attempts to capture the framework for this study. It identifies the FDI-specific policies in the host country to consist of economic, political and social stability; policies on entry and operations of foreign firms; policies on the standard treatment of foreign affiliates in the country; policies on the functioning and structure of markets; international agreements on FDI; privatisation policy; trade policies; taxation; and industrial and regional policies. The importance of attractive government policies are best depicted by the obvious fact that FDI cannot take place if it is not allowed to enter a country. This study also suggests that while some of these policy factors may be dominant in influencing investors' decisions in favour of the host country, the overall decision of firms will depend on the combined attractive strength of these policy drivers. Additionally, the argument is still made here that policy variables alone may not be able to retain foreign firms operating in the host country. Other factors that help efficient business facilitation and the economic factors previously identified in the literature, combined with the policy drivers, will keep investors satisfied and continuing to operate in the host country.

2.9 Formulation of Propositions for the Study

There is a popular view by some researchers that hypotheses must be formulated in a study in order to undertake an investigation. Kumar (2005:73) acknowledged that hypotheses bring clarity, direction, specifity and focus to the study, but argued that a study can be conducted without a hypothesis. Kumar (2005:74) defined a hypothesis as being a, "*...hunch, suspicion, assumption or an idea about a phenomenon, relationship or situation, the reality or truth of which you do not know*". He further referred to the definition of a hypothesis by Webster's New International Dictionary of English language as, "*...a proposition, condition, or principle which is assumed, perhaps without belief, in order to draw out its logical consequences and by this method to test its accord with facts which are known or may be determined*". The term hypothesis can therefore be used interchangeably with propositions in some contexts (Kumar, 2005:74). Accordingly, the assumptions or propositions become the basis of inquiry based on either existing literature or observation. In order to ensure clarity and specifity in this study, these assumptions were formulated and referred to as propositions in order to examine the research questions. From the literature review already discussed, the following propositions were developed for exploration in this study. Paramount among these propositions was the role of government policies in attracting and retaining FDI in Ghana. These propositions include:

<u>Proposition 1</u>: The main motive for foreign firms investing in Ghana is natural resource-seeking.

<u>Proposition 2</u>: The dominant determinants of FDI in Ghana are the availability of natural resources, liberalised policies, good infrastructure, tax holidays and incentives.

Proposition 3: The importance of government policies in attracting and retaining FDI in Ghana will vary with firms' mode of investment, their motives, length of stay, source region, markets and sectors.

Proposition 4: The factors that may constrain FDI inflow into Ghana are political instability and a small local market.

Proposition 5: The factors that may precipitate outflow of FDI from Ghana are political instability and unfavourable FDI policies.

These propositions are to a large extent re-framed from research questions one to five that were put forward in Chapter One.

2.10 Conclusion

In conclusion, the theories of FDI spawn a range of perspectives. But Dunning's (1980) eclectic paradigm is seen as the most dynamic framework to produce a holistic explanation for the activities of MNEs and the phenomenon of FDI. Dunning (2002) further suggested that the theory has remained the most prominent and dominant analytical framework for accommodating a variety of operationally-testable economic theories of the determinants of FDI, as well as the foreign activities of MEs. This study on the role of government policies in attracting and retaining FDI in Ghana will therefore adopt Dunning's OLI theory as the guiding framework. On the determinants of FDI, market size, labour cost and the availability of natural resources have received wide support as being important determinants of FDI in developing countries (Cheng and Kwan, 2000; Billington, 1999; Chakrabarti, 2001; Nunnenkamp, 2002; Bevan and Estrin, 2004; Janicki and Wunnava, 2004; Buckley et al., 2007). Finally, governments' policies and actions have been empirically found to be important determinants of FDI in developing countries (Morisset, 2000; Nunnenkamp, 2002; Naudé and Krugell, 2007). However, in the case of Africa, Asiedu (2002) pointed out that government policies in the form of trade liberalisation will tend to generate more FDI flows to non-African countries than they would to Africa, but suggested that openness to trade will promote FDI in Africa. The next chapter discusses the flow of FDI into developing countries in general and SSA in particular, and the determinants of FDI in Africa.

Chapter Three

FDI in Developing Countries

3.1 Introduction

FDI is considered to be a crucial developmental component for developing countries, as most of their governments consider it as a key driver of economic growth. Attracting and retaining it has therefore become a priority, not just because it boosts capital formation, but also due to its ability to enhance the quality of capital stock (Görg and Greenway, 2004). Other benefits of FDI include it serving as a source of much needed capital for investment, generating employment, facilitating access to foreign markets, increasing competition in the host country's industries, generating both technological and efficiency spillovers to local firms, and aiding local firms in becoming more productive by adopting a more efficient technology or by investing in human and/or physical capital (Ajayi, 2006). According to Findlay (1978), FDI increases the rate of technical progress in the host country through spillovers of advanced technology and management practices used by foreign firms to local firms, leading to improvements in productivity and efficiency in local businesses. Arguably, FDI also has the potential to improve the integration of host countries into the global economy (Cleeve, 2008). As a result of the potential role of FDI in accelerating growth and economic transformation, many developing countries in general seek foreign investments to accelerate their development efforts. Promoting, attracting and retaining FDI have therefore become a major component of development strategies for developing countries. The objective of this chapter is to briefly discuss the global trends of FDI, focusing on the developing countries. Secondly, it provides an analysis of the allocation of FDI into the various sectors in Africa, as well as the characteristics of FDI in a number of African countries.

3.2 FDI in Developing Countries

Globally, FDI inflow into economies since the mid-1980s has been on the increase. This trend of the increase in global FDI inflow into all regions continued into the 1990s, soaring to a record level of $1396.5 billion in 2000 (World Bank, 2006). However, the global recession which was triggered by the bursting of the so-called "dot-com" bubble in 2000 saw the increasing trend of FDI slipping from its' 2000 peak to $632.6 billion in

2003. With the recovery from the global recession, the increasing trend resumed in 2004, reaching a new record level of $1979 billion in 2007 (see Table 3.1). That amount surpassed the previous record set in 2000 by over $400 billion. This trend occurred in all three of the major groups of economies: developed countries, developing countries and the transition economies (see Table 3.1).

Table 3.1: FDI inflows, by region and economy, 1998-2008 (Billions of dollars)

Region	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
World	402	1092	1397	826	716	633	648	959	1461	1979	1697	1040
Developed economies	256	849	1134	596	548	442	380	611	973	1359	962	566
Developing economies	139	233	253	218	156	166	233	316	434	529	621	406
Transition economies	7	11	9	12	13	24	35	31	57	86	114	69

Source: (UNCTAD, 2005; 2008; 2009) and UNCTAD Global Investment Trends Monitor 2 (2010)

In the case of developing countries, the trend of growth in FDI inflows reached a record of $253.2 billion in 2000, slipped from the 2000 peak to $155.5 billion in 2002, but then recovered and maintained a gradual increase that reached an amount of $529 billion in 2007. The sustained growth of FDI inflow up until 2007 largely reflected the relatively-high economic growth and strong economic performance in many parts of the world at the time. Additionally, the World Investment Report (UNCTAD (WIR08), 2008) observed that an increase in the corporate profits of parent firms which are generated in developing countries; further liberalisation of their economic policies; and more specific factors such as currency movements, stock exchange and financial market developments, and high commodity prices at the time also contributed to the sustained increase.

However, the global financial and economic crises that began with the bubble in the sub-prime US housing market, culminating in the collapse of companies such as the Lehman Brothers in the second half of 2007, changed the global FDI inflow landscape. The impact of the crises led to a 14% global FDI decline in 2008. While the developed economies also suffered a 29% decline in accordance with the global trend, the developing economies still registered a 14% increase of FDI in 2008. These economies were able to escape the adverse effects of the global economic downturn in 2008, but were not in 2009, when the crises adversely contributed to a further 39% decline in global FDI inflow. FDI inflow into developed economies was the most adversely affected, as they registered a further 41% decline in 2009, while the developing and the transition economies registered 35% and 39% declines respectively (UNCTAD 2007, 2008, 2009). It is arguable to suggest that both the so-called "dot-com" bubble, which triggered the global recession in 2000, and the bubble in the sub-prime US housing market, which set off the global financial and economic crises in 2007, had the same effect on FDI by drying up the finance required to support acquisitions or Greenfield investments.

The inflow of FDI to emerging economies has been uneven (see Table 3.2), with the majority of the inflows being concentrated in a small group of countries; mainly in the regions of Asia and Latin America.

Table 3.2: FDI inflows, by region and economy, 1998-2007 (Billions of dollars)

Region	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Developing economies	139	233	253	218	156	166	233	316	434	529	621	406
Africa	7	12	10	20	13	18	18	30	57	69	88	56
Latin America and Caribbean	48	109	98	89	51	48	68	76	93	127	144	86
Asia and Oceania	84	112	146	109	92	101	148	211	283	333	389	264

Source: (UNCTAD, 2005; 2008; 2009) and UNCTAD Global Investment Trends Monitor 2 (2010)

Asia has consistently retained its' strong attraction for investors, accounting for two-thirds of the total inflows directed to developing countries in 2007. Even in 2009 when all regions recorded a decline, Asia was able to attract more FDI inflow than the combined inflow going to other developing economies. China has consistently been the dominant recipient of almost 25% of the total FDI going into emerging economies (UNCTAD, 2008). Africa's share of the FDI going into developing countries remains very small; notwithstanding the abundance of natural resources, sizable markets and numerous policy developments in favour of FDI by governments within the region. It is however worth pointing out that the proportion of FDI flowing into Africa in relation to other developing regions grew nonetheless (see table 3.2). In 1998 for instance, FDI flows into Latin American and Caribbean countries were almost 7 times those flowing into Africa, and those into Asia and Oceania were 12 times those flowing into Africa. By 2009, this had diminished to 1.5 and 5 times respectively. Additionally, despite the global financial and economic crises, the African subregional FDI inflows increased significantly by 27% in 2008. But the sub-region couldn't escape the impact of the crises, and succumbed to a 36% decline in FDI inflow in 2009 (see Table 3.2). The decline was a source of concern to many countries in the region, as FDI is considered to be a major contributor to the continent's capital formation and overall development.

Many countries are left counting the cost of the crises as it resulted in declining profits, increasing divestments and layoffs, and forced the restructuring of numerous MNCs as well as mounting debt crises and increased unemployment. According to UNCTAD (2009), 85% of the TNCs in 2009 indicated that the crisis had affected their short-term plans to engage in FDI, resulting in cutbacks in their investment plans. This could be ascribed to the failure of firms to reinvest their earnings, especially in the case of developing economies, the decline in international Greenfield projects, the repatriation of profits, as well as the closure of some firms. FDI, with its accompanying advantages of job creation, income generation, capital formulation and other benefits, is arguably the panacea to the untold effects unleashed upon economies by the global financial and economic crises. It thus stands to reason that the pursuit of FDI by various countries, especially the developing economies, has become even stronger than before. This is rightly so when given the projection of a modest rebound in global FDI flows in 2010, and an expected stronger recovery in 2011 (UNCTAD, 2010). This projection is based on the improving investment conditions in many countries as a result of strategic policy formulations.

3.3 Global FDI Policy Formulations

FDI policy framework changes have assumed an increasing trend and importance for decades. Literature on countries that have pursued FDI-friendly policy developments indicates remarkable success in the attraction and retention of FDI in those economies (Bhagwati, 1978; Krueger, 1978; Stiglitz, 1996; Saggi, 2002; Lall, 2003). For instance, Hong Kong and Singapore opened up their economies by creating entrepot centres, tax havens and small industrialising economies whilst maintaining liberalised trade, thereby building large and competitive industrial sectors. Hong Kong took advantage of unique initial conditions, and Singapore through an all-encompassing industrial policy. Countries such as Korea and Taiwan, have combined import protection with some other variations of industrial policy on export orientation, whilst encouraging their firms to compete in global markets (Lall, 1996). These policy formulations, together with huge markets, have made these countries very attractive to FDI; compared to other economies that pursued socialist policies, and developed policies to protect their State-Owned Enterprises (SOEs).

The success of most of these Asian countries in attracting FDI through policy interventions also stimulated the turnaround from socialist policies by many countries, and liberalisation received a greater support in many of these nations as well. As globalisation and FDI increased in size and importance, liberal policy formulation also assumed importance in order to create an enabling framework for FDI. Table 3.3 depicts that up until 2004, national regulatory changes assumed an increasing trend in terms of the number of countries that introduced changes, the total number of regulatory changes and the policy changes found to be more favourable to FDI. The year 2004 witnessed an unprecedented number of 103 countries making 270 policy changes, of which 234 were in favour of FDI inflow. Some of these policies consisted of rules and regulations governing the entry and operations of foreign investors, standards of treatment of foreign affiliates, the functioning of markets, openness to trade, privatisation, tax and incentives, and regional integration memberships, just to mention a few.

Table 3.3: National Regulatory Changes, 1992-2007

Item	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
No. Of Countries that introduced changes	43	56	49	63	66	76	60	65	70	71	72	82	103	92	91	58	55
Number of regulatory changes	77	100	110	112	114	150	145	139	150	207	246	242	270	203	177	98	110
More favourable	77	99	108	106	98	134	136	130	147	193	234	218	234	162	142	74	85
Less favourable	0	1	2	6	16	16	9	9	3	14	12	24	36	41	35	24	25

Source: UNCTAD (2009: 13)

This increasing trend of policy development in favour of FDI reflects the important role of FDI in the economic development of countries, and their desire to facilitate its attraction. However, from 2005, the number of countries that introduced regulatory changes began to reduce and by 2008 only 55 countries had introduced a total of 110 new FDI-related policies; of which 85 were more favourable, while 25 were less favourable. Of these, 20% were introduced in developed economies where FDI tends to concentrate with the rest occurring in developing and transition economies. Amongst these, Asia and Oceania recorded the highest number of regulatory changes, with 37 changes; Africa recorded 16 changes; 20 were made in Latin America; and 15 in the Commonwealth of Independent States (CIS) (UNCTAD, 2009). Additionally, 33% of these changes consisted of more favourable entry regulations, while 44% of the measures improved the treatment or operations of firms.

Another important observation worth making is the subtle increase of unfavourable FDI policy developments from 0 in 1992 to 16 in 1996, and to 41 in 2005. The increasing trend of less favourable regulatory policies, especially from 2003 to 2008, has prompted concerns of protectionism (UNCTAD, 2008). Some of these less favourable policies relate to the entry and treatment of firms in their operations in host nations, the nationalisation of certain firms in industries considered to be 'strategic' and posing national security concerns, and scrutinising investments for national security purposes (UNCTAD, 2009). Despite the growing concerns and political protectionism, the overall policy trend continues to be towards greater openness in favour of inward FDI, as policymakers are continuing to seek ways of making the investment climate in their countries more attractive.

3.4 FDI in Africa

African countries have been trying to build their economies largely on the infrastructure inherited from their colonial periods, and later developed by socialist regimes. The economic performance of these countries over the last three decades can be described as below-potential, as the economies are characterised by widespread poverty. The real average annual growth of GDP during 1998-2001 was 3.3%, which slightly increased to 4% during the 2002-2005 period (UNECA, 2008). When compared to Asia's average annual growth of GDP of 2.05% and 4.13% respectively for the same periods (World Bank, 2008b), it might seem that the region is performing well. However this rate of growth, according to Ajayi (2006), is insufficient to reduce in a significant way the level of poverty in Africa, which remains the over-arching goal of development policy in the region. Rapid economic growth is necessary, and African countries depend on domestic savings, aid from outside donor agencies such as the Official Development Assistance (ODA), and FDI as important sources of the resources that are critical for growth. However, Africa's average annual ratio of savings to GDP (or the level of domestic savings relative to investment requirements) is low, compared to what is observed in East Asia, Latin America and the Caribbean economies. It is also low relative to Africa's investment requirements for the achievement of the Millennium Development Goals (MDGs) (UNECA, 2008). One of the most important MDGs calls for the eradication of extreme poverty and hunger, and the reduction by half of the proportion of Africans living in poverty by 2015. In order to meet this goal, Africa needs to fill a resource gap that is variously estimated to be of the magnitude of 10 to 15% of its' GDP, or an estimate of US$60 to 64 billion (Ajayi, 2006). The New Partnership for Africa's Development (NEPAD) targets an annual investment of US$64 billion to achieve a growth rate of 7 to 8% per year in order to remedy the economic decline and poverty in the continent, but the attainment of 7 to 8% annual growth has remained elusive for many African countries (Ajayi, 2006).

Facing a persistent financial gap, most African countries have had to borrow from bilateral and multilateral lenders over a number of decades. Consequently, these countries accumulated large stocks of debt, which they eventually had difficulty in servicing (UNECA, 2008). Arguably, external debt problems may also constrain spending on social services and infrastructure, and can lead to a reduction in investment with dire consequences for economic growth and poverty reduction. A low rate of economic growth has serious consequences for a country's ability to maintain sustainable debt ratios, and if a country has a sustained growth rate higher than the rate of growth of its' debt, it can grow out of debt (UNECA, 2008). Unfortunately, African countries rate of economic growth is low, while the borrowing is extensive with high interest rates. As a result, the ODA continues to be a vital source of resources for African countries, particularly those countries emerging from conflicts and without the capacity to attract private capital flows (World Bank, 2002). However, according to UNECA (2008), donors' performance in meeting their commitments on the quantity of aid is found to be poor, and tends to be concentrated on only a few countries

FDI is therefore seen to be crucial for many developing countries, particularly those in SSA, as it entails the importation of financial and human capital by host economies, with measurable and positive spillover impacts on host countries' productivity levels (Holland and Pain, 1998). Praised as being the missing ingredient in the recipe for development, the attraction of FDI has therefore become a major economic developmental goal of many developing countries (Young, 2005). This is particularly true for SSA, which attracts a very small share of FDI inflow in relation to other regions (Asiedu, 2003). Given the low levels of Africa's income and domestic savings, its' resource requirements, and its' inability to raise funds domestically (coupled with the increasing need to achieve the MDGs by the year 2015), the bulk of its' finance for the future will have to come from abroad; mostly in the form of FDI. As a result, many SSA countries are actively encouraging MNEs' participation in their efforts at economic development (Cleeve, 2008).

According to Asiedu (2002), the average rate of return on US investment in Africa from 1991 to 1996 was 30%, compared with 21% for Asia and the Pacific, 14% for Latin America and 16% for all developing countries. Despite the realisation that the rate of return on new investments in Africa is higher than other regions, especially for capital-intensive industries, Africa's performance in attracting FDI compared to other regions is very poor. The region's current share of global FDI also remains much lower than it used to be in the 1970s and early 1980s (UNCTAD, 2006; Cleeve, 2009). However, Africa's share of FDI going into developing countries in 2008 exceeded their previous years' records, reaching a historic high of $88 billion and indicating a strong FDI growth in the region (Table 3.2). According to the World Investment Report (UNCTAD (WIR08), 2008), this growth was driven by high prices and buoyant global demand for commodities; rising corporate profitability of investment and an increasingly FDI-friendly environment. Accordingly, the trend also illustrates a greater diversification of inflows into some countries away from the traditional sectors of oil, gas and other primary commodities, and concentrating on countries where income levels are comparatively higher and natural resource endowments are abound (UNCTAD, 2007). FDI has traditionally concentrated in South Africa, Egypt, Nigeria, Morocco and Sudan. In 2005, these countries alone accounted for 66% of the region's FDI inflow (UNCTAD, 2006). While large inflows went to the traditional top recipients of South Africa, Egypt, Nigeria and Angola, other countries such as Congo, Ghana, Guinea and Madagascar also performed well, with each receiving more than $1 billion worth of inflows in 2008 (UNCTAD, 2009). These last four countries may be succeeding in attracting more FDI because of their relative political and economic stability, as well as the serious attempt at good governance being implanted in their countries. This supports Cleeve's (2009) view that SSA countries with relatively effective governments, stable institutions that are well-governed, political stability, rule of law, regulatory quality and less graft are increasingly likely to receive more FDI than those that are unstable and poorly governed.

The key traditional sources of FDI in Africa are the United Kingdom (with a total FDI stock of US$30 billion in 2003), United States ($19.0 billion), Germany ($5.5 billion) and France ($4.4 billion) (UNTAD, 2006). By 2005, the trend had changed a little with the leading investors being TNCs from France, Canada, Switzerland and the United Arab Emirates (UNCTAD, 2008). In 2008, developed countries still remained the main sources of FDI, but there were also increasing amounts of investment originating from Asia, particularly from China and India. Chinese investment in African countries has been increasing tremendously and flowing largely to the natural resource secto, while Indian investments have been directed to the IT sector. The sectoral distribution of FDI in Africa in 2008 shows a rise of inflows to the manufacturing and service sectors, while the primary sector still attracted large amounts of FDI (UNCTAD, 2009). This may be in response to the policy initiatives of a number of African countries, and the significant efforts made in the improvement of factors governing FDI, such as economic reform, democratisation, privatisation, enduring peace and stability (Ajayi, 2006).

3.5 Policy Reforms and Privatisation in Africa

On their independence, almost all African countries perceived FDI negatively, with the view that it undermines national development in terms of negative effects on employment, income distribution, and national sovereignty and autonomy (Razin et al., 1999). It was also viewed to have the potential of adversely affecting balance-of-payments if inputs were to be imported, as well as diminishing foreign reserves when profits were repatriated (Musila and Sigue, 2006). The fear of such adverse effects of FDI culminated in the widespread nationalisation of foreign-owned corporations and the adoption of import substitution policies in many African countries in the early years of independence (Musila and Sigue, 2006). This policy empowered governments to set up many State-Owned Enterprises (SOEs), with the aim to be self-reliant and to jump-start industrialisation. These SOEs however eventually failed to perform, and generate profits, and imposed huge national burdens on public revenue in the form of non-recoverable loans and annual subventions in many of these countries (Ademola and Afeikhena, 1999). Taylor (2002) was of the view that the functions and objectives of SOEs are different and predominantly political, as opposed to purely economic, and so did not merit their comparisons with private firms' performance, and defined their characterisation as inefficient, backward and less competitive. Notwithstanding, the popular view is that these SOEs became unprofitable, a drain on economies and a national burden, resulting in policy reversal in the development strategies of these countries. The policy reversal involved the adoption of structural-adjustment policies which saw countries in the region embrace privatisation and liberalisation (Musila and Sigue, 2006).

The first privatisation experience of a SOE in Africa began in Ghana in 1966 when the first military regime, headed by General Joseph Ankrah, privatised several SOEs which were created as part of the post-independence industrialisation drive (Ademola and Afeikhena, 1999). Five other francophone West African countries that included Benin, Guinea, Niger, Senegal and Togo also pursued major privatisation programmes from the late 1970s up to the mid-1980s (Bennell, 1997). Privatisation further gained considerable momentum on the continent in the 1980s, as part of the adopted Economic Recovery Programme (ERP) with endorsement by the multilateral financial institutions, because of the worsening economic conditions, severe financial crises, huge debt burdens and fiscal deficits that characterised these countries. For instance, Tanzania privatised several sisal plantations in 1985, due to dismal performance (Ademola and Afeikhena, 1999). Other countries within the region that also pursued large-scale privatisation of SOEs included Ghana, Nigeria, Cote d'Ivoire, Mali, Kenya, Malawi, Mozambique, Uganda and Madagascar. The success of the privatisation exercise in many of these countries also influenced other countries within the region, such as Burkina Faso and Zambia, that had not started privatisation to also embrace it in the 1990s. Accordingly, the 1990s witnessed a marked increase in the number, size and geographical scope of privatisation transactions in SSA (Bennell, 1997). According to Debrah and Budhwar (2001), the main purpose of the privatisation of SOEs was to expose them to competitive market forces, and to stimulate more cost-effective and financially-responsible management.

However, the privatisation efforts pursued in some countries over the years have often not been sustained, but have in fact stalled in a handful of the countries as years went by. For example, Nigeria's privatisation attempt, which started in 1986, was gradually eroded and they subsequently suspended the privatisation programme in early 1995 in favour of 'commercialisation'; while in Gambia, the leaders of the military regime at the time also suspended their programme, and even tried to reverse some of the privatisations. Madagascar also suspended its' privatisation programme in 1993 because of serious mismanagement and the programme's unpopularity among the people of the country (Bennell, 1997). Except in a handful of cases of the efforts stalling, the privatisation exercise in the region continues to the present day, attracting private investors both local and foreign. Despite widespread privatisation programmes in the region, empirical evidence suggests that the expected benefits are yet to be felt in many of these countries. As a result, many countries are developing policies aimed at attracting FDI to establish Greenfield projects or in partnership with local private firms or the government.

Collier and Gunning (1995) observed that while wide-ranging liberalisations have been implemented and generous tax incentives offered, African governments have been unable to convince potential investors of the strength of their commitment to new policies and as such are attracting a negligible proportion of the FDI going into developing countries. They further argued that limited or unconvincing liberalisation and policy credibility is harmful, just as costly as restrictions, and that a convincing liberalisation is of paramount importance to African economic improvement. The FDI policy developments in the region are discussed in the next section.

3.6 FDI Policy Changes in Africa

Due to the positive impact of FDI, many African countries are re-doubling their efforts aimed at improving their investment climate in order to overcome the perception of being a risky location for FDI; and to attract substantial FDI inflow to help develop their private sectors, as well as release the growth potential of their economies. Cleeve (2008) particularly noted that SSA countries have improved their investment climates through major policy efforts, such as liberalisation of their investment regulations, privatisation of SOEs and generous incentives. These efforts are evidenced in the numerous policy changes or developments that have taken place in the region over the years. For example, in 2005, 53 regulatory changes were observed in Africa that were aimed at creating a more favourable host-country environment for FDI (UNCTAD, 2006). In 2007, ten African countries introduced policy measures towards making their regulatory frameworks more favourable to FDI; and in 2008, a number of African countries also introduced 16 FDI-related policies (UNCTAD, 2009). Most of the policy developments involved the opening up of their economies; the dismantling of regulatory barriers to FDI; the adoption of policies to protect investors against expropriation on investment; the relaxation of capital controls to allow repatriation of profits; the retention of export proceeds and liberalisation of currency markets; the introduction of new promotional efforts, incentives and continued privatisation across the region (Musila and Sigue, 2006). All these efforts were aimed at improving the investment climate and increasing FDI inflow into certain economic activities. For instance, the South African government acted to remove some of the key constraints on attracting and benefiting from FDI, while other countries such as Ghana and Mali reformed their admission procedures by introducing a one-stop shop (UNCTAD, 2006). In 2008, Burundi introduced a new investment code which aims to attract foreign investors; Egypt established various free industrial zones; Kenya privatised a number of utilities; and Mauritius enacted competition legislation, introducing a restriction on monopolies and collusion (UNCTAD, 2009). These sets of policies can thus be seen to consist of rules and regulations governing the entry and operations of foreign investors, standard of treatment of foreign affiliates and the functioning of markets. These core policies are extremely important, as foreign investors will most definitely be discouraged from investing in economies where they are forbidden to enter. However, with globalisation and liberalisation in almost all countries of the world, these policies tend to be developed in many countries, and thus these alone will not necessarily give one country a more attractive investment environment than others.

This realisation has also reinforced the extension of policy developments in the region, to include the signing of Bilateral Investment Treaties (BITs) and Double Taxation Treaties (DTTs), as well as promoting membership of a regional integration framework in some of their investment policies. Many African countries have therefore sought to enhance the credibility of their investor-friendly policies by becoming signatories to various bilateral and multilateral investment and trade treaties (Musila and Sigue, 2006). In 2007 for instance, eleven African countries signed a total of eleven BITs, and ten countries signed eleven DTTs. In 2008, some countries in the region signed twelve new BITs and eight new DTTs, raising the total number in the region to 715 and 467 respectively. Approximately 50% of the BITs and 60% of the DTTs signed by African countries were with developed countries; mainly the United Kingdom, France, Germany and Italy (UNCTAD, 2008). Under the New Partnership for Africa's Development (NEPAD), the number of BITs and DTTs between African countries is expected to increase (UNCTAD, 2006). Despite the fact that BIT negotiations between countries vary, they nevertheless share a common provision in which investors are entitled to fair and equitable treatment from the signatory governments (Sokchea, 2006). According to Salacuse (1990), all BITs address issues relating to (a) the scope of application of the BIT; (b) conditions for entry of foreign investment; (c) general standards of treatment; (d) monetary transfers; (e) operational conditions of the investment; (f) protection against dispossession; (g) compensation for losses from armed conflict or internal disorder; and (h) settlement of disputes. These provisions of BITs ensure that foreign investors are protected from discrimination and expropriation, and also have a mechanism for dispute settlements. In this regard, investors have the right to sue the national government at the international arbitration if there is any violation of the treaty. Negotiating these treaties, particularly with advanced countries, enhances the investment climate of the developing country by assuring investors of the government's efforts to protect them (Sokchea, 2006). Signing these treaties is therefore seen as an important FDI policy that is capable of making countries more attractive to foreign investors, and hence the reason that many African countries are pursuing BITs.

Regionalisation is another potent FDI policy framework being pursued at all corners of the continent. Africa is divided into regional entities such as the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC), and the East African Community (EAC). These regional entities tend to introduce a number of FDI-related policies and institutional reforms, which can range from tariff reduction among member countries to policy harmonisation on many fronts. This creates an attractive investment environment, especially in the area of market size and growth (UNCTAD, 2008).

Additionally, the Southern African Custom Union (SACU) and the US drew up a trade, investment and cooperative agreement; and the East African Community (EAC) and the US signed a Trade and Investment Framework Agreement (TIFA). Both agreements established an institutional framework between the parties to monitor trade and investment relations. The Africa-India summit that took place in April 2008 resulted in the development of an Africa-India Framework for Cooperation Agreement, which recognises the need to foster an environment for mutually-beneficial economic development by reinforcing efforts to promote FDI. The Economic Community of West African States (ECOWAS) in 2008 also adopted three Acts, all aiming to foster the creation of a single economic space within which business and labour can operate, in order to stimulate greater productive efficiency, higher levels of domestic and foreign investment, increased employment, and growth of intra-regional trade and extra-regional exports (UNCTAD, 2009). In addition, the Doha Development Agenda, the Monterrey Consensus, the New Partnership for Africa's Development (NEPAD), the 2002 Organization for Economic Cooperation and Development (OECD) Ministerial and the Johannesburg World Summit all underscored the importance of FDI in the achievement of sustainable development in Africa (Ajayi, 2006).

3.7 African Development Partners in Promoting FDI

African countries' ability to attract and benefit from FDI has become an important issue within a broader policy context of how they can enhance their economic growth, as well as improve and expand their capital infrastructure (Globerman et al., 2006). Various countries and international regional organisations have launched a number of initiatives to promote investment in Africa, and thus attain the above objective. The US in 2000 passed the African Growth and Opportunity Act (AGOA), which allows duty free and quota free access of products from SSA into the US market (Government of Ghana (GOG), 2003). The US has also signed trade and investment framework agreements with three African countries (Mauritius, Rwanda and Liberia), and also negotiated a Trade Investment and Development Cooperative Agreement (TIDCA) with the Southern African Custom Union (SACU) to provide a framework for trade and investment promotional activities in these countries. Everything But Arms (EBA) is also a European market access initiative launched in 2000, giving goods from Least

Developed African countries duty-free and quota-free access to the EU for all products except arms (Page and Hewitt, 2002). The aim is to help African countries attract FDI into the manufacturing sector. Japan, in May 2008, also announced its' decision to create a facility within the Japan Bank for International Cooperation (JBIC) for investment in Africa of $2.5 billion over the next five years, which is twice the amount of Japanese FDI stock in Africa as at 2007 (UNCTAD, 2008).

China has also increased its' involvement in Africa, offering more aid without preconditions, debt cancellation and the establishment of Chinese-African trade agreements, which are all proving to be mutually advantageous for China and Africa (Tull, 2006). In 2007, China also expanded its' support to Chinese investments in Africa, building on its' general investment policy in Africa that was adopted in 2006. In this regard, the Export Bank of China financed over 300 projects in the region, constituting almost 40% of the Bank's loan book (Davies et al., 2008).

The Commonwealth Secretariat also launched a programme of assistance to African countries that includes the review and modernisation of national trade-related investment legislation, to ensure that it is consistent with international trade commitments and conducive to harnessing foreign investment to economic growth and development. The Secretariat is also involved in promoting the development of professional services in African countries by encouraging investment in those services (UNCTAD, 2008). In 2007, the European Free Trade Area (EFTA) also stated that it was implementing a free trade agreement with Egypt, which involved the provision of investment, services, state monopolies and subsidies, protection of intellectual property, capital movements, government procurement, and institutional and procedural matters. The European Free Trade Area (EFTA) and the Southern African Customs Union (SACU) also entered into a free trade agreement in May 2008 (UNCTAD, 2008).

The Organisation for Economic Cooperation and Development (OECD) has also taken various initiatives involving the promotion of private and international investment in Africa. For example, a round table was organised to discuss the application of the OECD Principles for Private Sector Participation in infrastructure to the water and sanitation industries in Africa, following the launch of the principles (UNCTAD, 2008).

All these initiatives are aimed at transforming the investment climate in the region, and promoting the inflow of FDI to Africa.

Despite all these unilateral and multilateral policy developments being witnessed across all African countries, FDI inflow into the region is still below the potential of many countries in it. The question then is what factors will attract the much-needed substantial amount of FDI into countries within the region? A number of studies have attempted to explain the determinants of FDI into the region, as discussed in the next section.

3.8 Determinants of FDI in Africa

Literature focusing on the determinants of FDI in Africa has been on the increase. Recent and notable studies include Chaudhuri and Srivastava (1999), Collier and Patillo (2000), Morisset (2000), Cotton and Ramachandran (2001), Asiedu (2002, 2003, 2006), Jenkins and Thomas (2002), as well as Naudé and Krugell (2007). These studies identified the most popular specific determinants of FDI in the region to include natural resources, market size, low labour cost, openness to trade, low taxes, incentives, political stability, favourable policies, and in some cases, good infrastructure. Natural resources consistently stand out as the most dominant determinant of FDI into the region. In the same way, the United Nations Conference on Trade and Development (UNCTAD) consistently find that FDI in the region is mainly for natural resources and that countries such as Nigeria, Egypt, Angola and South Africa (that have huge natural resources) usually attract most of the FDI flowing into the region every year. Asiedu (2006) therefore observed that in addition to the natural resource endowment, large markets, good infrastructure and as efficient legal framework should be used by African countries to promote FDI inflow. Morisset (2000) also advocated aggressive liberalisation, modern investment codes and strong economic growth by African countries as being vital to increasing FDI into Africa. Additionally, Naudé and Krugell (2007) noted that political stability, accountability, regulatory burden, investment incentives and rule of law are the most important determinants of FDI inflow into the continent. They stressed the crucial importance of policies made by good institutions to ensure stability and good governance. Policies to improve economic and political stability by implication will improve FDI flow into Africa. It can also be observed that these factors fall within the categories of economic factors, government policy factors, and business facilitation factors.

However, other studies have disagreed with the potency of some of the above factors, apart from natural resources, as determinants of FDI in the region. For instance, the conventional wisdom in the case of market size is that a large market will attract more FDI into an African country. While Asiedu (2003) empirically found market size to be a key determinant of FDI in Africa, Elbadawi and Mwega (1997) suggested that market size is relatively unimportant in explaining FDI flows to Africa, but emphasised the importance of economic growth in attracting FDI in Africa.

On the factors that inhibit the flow of FDI into Africa, Asiedu (2003) suggested that macroeconomic instability, corruption, political instability, poor infrastructure, inflation and investment restrictions will deter investment inflows. Jenkins and Thomas (2002) also observed that Africa has a perception problem of being viewed as endemic with instability across the continent, and this perception is negatively influencing as a determinant of FDI into the region. Rogoff and Reinhart (2003) showed that during the 1960-2001 period, 40% of the countries in Africa have had at least one war, and 28% had two or more wars. Musila and Sigue (2006) noted that this rate is three times more than that in the Western Hemisphere (excluding Canada and US), and twice that of Asia; thus serving as a powerful deterrent to FDI flow to Africa. Cleeve (2009) also observed that spillover effects from neighbouring countries' instability often affect those countries that experience internal stability. Asiedu (2002) therefore concluded that, all things being equal, Africa (by virtue of its' geographical location) will always receive less FDI than other regions. Naudé and Krugell (2007) however disagreed with the assertion of Asiedu (2002), by suggesting that geography does not have a direct influence on FDI flows to Africa. Asiedu (2002) further opined that Africa is different, and that the factors attracting FDI into other regions may not be equally applicable in Africa. She observed that some regions successfully used certain policies to attract FDI, but these may not be equally successful in Africa, since the policies may have different impacts on the region.

Empirical literature on the determinants of FDI in individual African countries shows that factors such as natural resources, political stability and favourable FDI policies are important in all of them (Siphambe, 2006; Khan and Bamou, 2006; Akinboade et al., 2006; Obwona and Egesa, 2006; Asante, 2006). Other factors found to be important in many individual country studies include large market size, access of country's products to neighbouring markets, generous incentives, infrastructure, openness to trade, human capital development and the rate of economic growth. However, findings regarding market size are contradictory (Olawale and Afeikhena, 2006; Akinboade et al., 2006). Investment promotion activities, international agreements, human capital development and labour relations have rarely been investigated; yet the few studies on them did find them to be relevant in a number of individual African countries, and similar to the results found on studies focused across the whole region (Siphambe, 2006; Musila and Sigue, 2006; Asante, 2006).

Many of these individual African country studies also found that the factors that constrain the inflow of FDI into the countries are political instability, insecurity and uncertainty, corruption, hostile policies, poor infrastructure, weak rule of law and inconsistent regulations, high utility cost, high cost of borrowing, red tape bureaucracy, low labour productivity, shortage of skilled labour, and the enhancement of FDI policies in neighbouring countries (Mwega and Ngugi, 2006; Siphambe, 2006; Olawale and Afeikhena, 2006). These findings mirror the outcome of studies focused on the factors inhibiting the flow of FDI into the whole region. The literature so far, however, fails to explain whether the absence of the negative determinants of FDI will automatically increase the inflow of FDI into African countries. In the same way, it has not yet been established whether the prevalence of both positive and negative determinants in an African country will attract or still restrict FDI inflow to the country. It has been established however that countries which promote the positive determinants, and at the same time eliminate the negative determinants, will receive more FDI inflow.

3.9 Conclusion

The review of literature on FDI in Africa, and on specific African countries, suggests that the global share of FDI going into Africa is substantially below the continent's potential; and that FDI inflow to an African country is determined principally by its' natural resources and the size of its' local market. Recent literature, however, points to the prime importance of various government policies in attracting and retaining FDI into the region. Thus, a number of governments in the region have developed (and are still pursuing) various policy measures in order to improve their investment environments, so as to incentivise foreign investors. Although it is possible to say that FDI does not necessarily reflect the quality of policies and the political environment of host countries, the literature suggests that the right type of policies do matter in African governments' efforts to attract substantial foreign capital. African countries' governments therefore have a great opportunity to seize the benefits of globalisation through quality policy frameworks that will attract and retain FDI into their economies. This could involve streamlining their investment regulations framework, implementing policies that promote macroeconomic stability and improve infrastructure; and at the same time curbing corruption and the bad perception of the continent, developing a more efficient legal framework, and by reducing political instability. The next chapter will discuss the investment environment of the study area, and the various policies developed by the government in order to attract and retain FDI in Ghana.

Chapter Four

The Ghanaian Economy

4.1 Introduction

Ghana, formerly called the "Gold Coast" is a West African country that extends from the Gulf of Guinea (Atlantic Ocean) in the south to almost the Sahel Belt in the north. It shares a border with Burkina Faso to the north, Cote d'Ivoire (Ivory Coast) to the west and Togo to the east. The country occupies a land area of 92,100 square miles (238,537 square kilometres), about the same size as the United Kingdom (Debrah, 2002). Ghana is an emerging country with a free market economy where businesses are expected to grow, develop and become competitive through markets.

Figure 4.1: Map of Ghana

Source: www.google/com/images

The country is also well-endowed with natural resources, particularly in agriculture (cocoa), minerals (gold, diamond, manganese, limestone, bauxite, iron ore clays and granite deposits) and recently discovered oil. Since declaring independence, the structure of the economy has been dependent on the traditional agricultural and mineral commodities (Government of Ghana, 2003). Apart from cocoa being the main agricultural product, other crops produced for export include bananas, pineapples, kola nuts, limes, coffee, copra, shear nuts and palm kennel (Debrah, 2002). As a result the economy has been dominated for a long time by agriculture both in terms of its contribution to GDP (over 30%) and employment of over 60% of the working population (Government of Ghana, 2003).

Efforts have been made to diversify the structure of the economy from over reliance on agricultural and mineral commodities. The country has seen many policy developments in an attempt to attract foreign capital into other important sectors. In order to fully appreciate and analyse the policy developments in the country with respect to FDI, it is also important to comprehend the dynamics that have played within the country over the years culminating in the present free market economy.

This chapter will therefore attempt to review the economic reforms and policies of the country during the Pre-colonial period, the colonial period, the immediate post-independence period and the current economic policies developed by successive governments to promote foreign trade and investment in the country. Understanding the economic systems and policies made by successive governments over the years is important to understanding why Ghana may still be attracting FDI below its potential as indicated by the World Bank (World Bank, 2003).

4.2 Forms of Economic Organisation in Pre-Colonial Ghana (Pre-1874)

Historical writings on Ghana indicate that there were two major economic reforms prevailing in Ghana before it was colonised by the British at the end of the nineteenth century; the subsistence economy and the foreign trade economy. The subsistence economy refers to the land tenure system where households own a piece of land from which they produce food and basic agricultural products for consumption as well as for voluntary trade with other households (Hymer, 1970). According to Hymer (1970), a large part of the economy was characterised by a household subsistence form of economic structure with a low degree of specialisation and exchange, and a low levels of material production. He further indicated that people had similar standards of food, housing, and clothing and even though a certain amount of trade between villages occurred in various goods, markets reflected their social function as a forum for exchanging ideas and news. However, over the years people began to shift into the private sector resulting in the vast majority of households engaging in some form of private sector activity (Government of Ghana, 2003).

Hymer (1970) also reveals that the second form of the Pre-Colonial period economic activity was a vibrant foreign trade economy supported by an extensive inland network of intra-African trade routes which had existed long before colonisation and had integrated large parts of the continent into the world economy. With this network, Ghana became one of the great trading economies formed in the interior of Africa especially in gold becoming the chief supplier of gold for the Western world (Hymer, 1970). It was arguably Ghana's commercialised economy, abundance of gold and its integration into the continental trading system which made it so attractive to the European traders who arrived in Ghana in 1471. The Portuguese were the first European traders to reach Ghana (Elmina) and tapped into the already developed trading system of producing and selling gold and were able to buy large quantities of it at the coast and named the land Gold Coast in recognition of its wealth in gold and natural resources (Debrah, 2002). With time the Portuguese were able to monopolise the gold trade and maintained this monopoly until after the 1530s when the English and French traders increased their activities in the gold trade (Hymer, 1970). From this period, rivalry began among the European nations in their quest for supremacy over the land as they built forts and castles that served mainly as trading posts (Debrah, 2002).

The first fort was built in 1471 by the Portuguese and the last one built in 1822 by the British (Government of Ghana (GOG), 2008). Even though the Dutch entered the gold trade later than the English and French (towards the end of the sixteenth century), they were able to establish several forts and castles along the coast during the sixteenth, seventeenth and eighteenth centuries as Ghana became a principal focus of rivalry among the European nations. It was governed at times by the French, English, Swedes, Danes, Dutch and even the Brandenburgs (Hymer, 1970). A total of 32 forts were constructed by foreign traders for use as trading posts with the Dutch and English holding eleven and seven of these structures respectively. The Portuguese and Danish had eight forts between them while France, Brandenburg, the Swedish and traders of unknown origin claiming the remaining six. Judging by just the number of forts it is possible to deduce that trade must have been substantial. According to Hymer (1970) the prices of goods and services were determined by the market forces of demand and supply. This suggests that Pre-Colonial Ghana had a free market economy which arguably played an important role in shaping the Ghanaian economy in the twentieth century. Subsistence farming possibly led to the production of cocoa which later became a very important export crop for the economy. The cocoa farmers together with the gold traders played an important role in developing an export economy during the colonial period.

4.3 The Colonial Economic Policies (1874-1957)

Ghana was the first place in Sub-Saharan Africa where Europeans arrived in 1471 to trade first in minerals, especially gold, and later in slaves. In 1874, ninety-eight years after the United States of America obtained independence from the British in 1776, Ghana was formally colonised by the British. In 1957 however, Ghana became the first black African nation on the continent to achieve independence from a colonial power; in this instance, the British (Debrah, 2002). The country also became the first Sub-Saharan African country to experience the trauma of military takeovers after independence long before other countries suffered similar fates. These events sometimes lead people to refer to Ghana as 'the country of firsts'.

The colonial economy was largely characterised by agriculture and commercial trade. The main economic policies during the colonial period according to Kay and Hymer (1972: 13) were the enhancement and maximisation of the free trade that had developed during the Pre-Colonial period. This was to be achieved by focusing on the development and efficient operation of the agriculture, transport, finance and educational sectors (Kay and Hymer, 1972: 41). It is possible to argue that though natural resources were available in large quantities in the country the maximisation of the free trade was less successful due to administrative barriers that served as stumbling blocks to full exploitation of these resources and efficient operation.

Unlike the physical and fiscal restrictions imposed on the free flow of commodities from Ghana to certain parts of the world after independence, Ghana's currency before independence was held at parity with the British pound sterling and there were almost no physical or fiscal restrictions imposed on the free flow of commodities into and out of the country. As a result external trade (see Table 4.1) grew substantially during the colonial period (1900-1960). Though the pattern from the table depicts a growth in the total value of exports during the period it is worth noting the emergence of the massive importance of cocoa to the economy during the period and beyond.

Table 4.1: Value of Ghana's major exports from 1900-60 (5 year average in £000s)

Year	*Cocoa*	*Gold*	*Manganese*	*Total*
1900-04	90	152	-	803
1905-09	467	931	-	2,019
1910-14	1,761	1,314	-	3,788
1915-19	4,145	1,489	46	6,221
1920-24	6,896	872	208	8,720
1925-29	10,012	758	681	12,324
1930-34	5,397	1,616	435	8,183
1935-39	6,499	4,123	790	12,314
1940-44	3,654	6,088	1,195	12,059
1945-49	21,890	5,343	2,636	32,433
1950-54	61,638	9,161	6,878	88,088
1955-59	59,718	9,624	7,330	95,835

Source: Kay and Hymer (1972: 11)

Accordingly the production and export of cocoa were controlled by local capital while foreign capital during this period was concentrated in the already established gold trade (Kay and Hymer, 1972: 6). From the figures in Table 4.1 it is also possible to argue that the agricultural sector was the largest and most important sector for the country as it produced export products and accounted for the bulk of the foreign exchange. Cocoa stands out especially in the 1950s as the main cash crop of the economy and therefore it is possible to suggest that the colonial government depended heavily on the cocoa trade to generate revenue it needed to finance the apparatus of the state and the social and economic infrastructure needed for business operations in the country.

The most notable effort pursued at the time to further trade maximisation was the Ten-Year Development Policy covering the period 1920-1930 to develop the infrastructure in particular the provision of transport facilities for trading goods (Kay and Hymer, 1972: 48). Industrialisation was also considered an option to maximise the trade, however the country at the time was lacking in coal, the resource needed for industrialisation (Kay and Hymer, 1972). The prevalence of subsistence farming in the country however meant that agricultural productivity per capita was stagnant and therefore limited the country to primary products. According to Kay and Hymer (1972: 88) a report by Lewis in 1953 also revealed that the market was small, savings low and the supply of labour from the agricultural sector too slight to man a substantial industrial sector. As a result the first priority for the country at the time was to improve the system of food production and to expand the infrastructure to make way for industrialisation in the future.

In the early 1950s the colonial masters also introduced the Lidbury reforms intended to build a British-style public administration in the country to support pre-independence political reforms and market operations (Domfeh, 2004). Before the reforms could make any meaningful impact however, the colonial period came to an end in 1957. At the time the level of domestic production did not meet the levels of consumption therefore making imported goods and services very important. Due to this the country traded commodities such as cocoa, gold and manganese which it produced but did not consume for other manufactured goods that it did consume but did not or could not produce domestically (Kay and Hymer, 1972). At independence Ghana still had a vibrant economy, it was a world leader in the production and exportation of cocoa with gold and timber exports also serving as predominant sources of foreign exchange. As a result the economy immediately after independence enjoyed an annual average GDP growth rate of over 6% (Debrah, 2002). The country was seen at independence to be prosperous relative to other African countries with cocoa playing an essential role in this relative prosperity (Genoud, 1969: 23). This prosperity did not last long after independence as many events resulted in crises and changed the course of development of the country.

4.4 The Post-Independence Economic Policies (1957-1982)

Ghana at independence had an open but fragile economy with the private sector serving as the main engine of economic growth and the public sector mainly concerned with public administration (Dordunoo and Nyanteng, 1997: 2). The economy however, remained pre-industrial and underdeveloped and heavily dependent on foreign trade and external economic forces. After independence the country enjoyed a brief period of economic growth and development made possible by the extensive sterling reserves, which were built up during the cocoa boom. A policy to rapidly develop the social and economic infrastructure after independence coupled with an increase in demand for imports, mostly consumer goods, as well as the pursuit of a fixed exchange rate regime, led to a rapid drain and eventual depletion of the country's foreign reserves (Tsikata and Amuzu, 1997: 23).

According to Genoud (1969: 23) the government responded to the situation developing a seven-year development policy to modernise the country into an industrialised economy and increase economic productivity through the establishment of heavy industries premised on rapid accumulation of capital stock with major state investments. Tsikata and Amuzu (1997: 23) observe that this rapid industrialisation agenda was founded on the economic philosophy of self-reliance which in turn led to the establishment of import-substitution industries under highly protective trade and non-trade barriers. By the end of 1960 the trade liberalisation efforts came to an end with the imposition of trade and exchange controls, import licensing and the introduction of a socialist system of government (Debrah, 2002). This policy gradually but firmly shifted the production and distribution sectors of the economy away from the private sector to the public sector, making the latter the engine of economic growth and the economy became increasingly closed in the years that followed (Dordunoo and Nyanteng, 1997: 2). Deterioration began creeping into the economy as investors were indirectly shut out of the economy to a point where the country could not import adequate quantities of essential goods and services needed for economic development which could not be produced locally (Dordunoo and Nyanteng, (1997:2).

A change of government in 1966 through a military coup' resulted in the first attempt at liberalisation and stabilisation of the economy through the reduction in government expenditure. The next civilian government that succeeded the military government in 1969 increased the pace of liberalisation as some public sector production and trade activities were streamlined or abolished entirely (Vordzorgbe, 1997) and the number of commodities on import licences reduced. This civilian government was overthrown again in another military coup' in 1972 and the military government promptly re-introduced stringent import and domestic price controls and temporarily suspended foreign debt servicing (Dordunoo and Nyanteng, 1997: 3). In 1979, after seven years of the military regime and socialist policies a new civilian government was installed. This civilian government did not introduce any new policy direction for the country before it was overthrown again in 1981 through another military coup'. The succeeding military regime continued the socialist policies for the first two years and had to abandon the socialist direction and adopt the Economic Recovery Programme (ERP) and Structural Adjustment Programme (SAP) promoted and supported by the International Monetary Fund (IMF) and the World Bank (Debrah 2002; Boateng and Glaister, 1999). These programmes helped the regime to make the greatest strides towards a free enterprise economy (Debrah, 2002).

These events however resulted in a precipitous decline of the economy in the 1970s and early 1980s when the GDP growth rate plunged into negatives at an average of about -0.5% annually reaching a crisis level in the years between 1980 and1983 (Dordunoo and Nyanteng, 1997: 3). The decline was characterised by shrinking output and exports, high and accelerating inflation, declining real per capita income, large budget deficits as well as a culture of flourishing illegal economic activities (Tsikata and Amuzu, 1997: 23; Dordunoo and Nyanteng; 1997: 3). The rate of investment also decreased from 14% in 1970 to 2% by 1983 and government budget deficits were financed by the banking system, thereby diverting investment away from the private sector (Tsikata and Amuzu, 1997: 23). This also had the effect of drying up possible private capital formation and led to a deteriorated production base of the economy (Tsikata and Amuzu, 1997: 23).

It is significant therefore to note that from independence to the early 1980s, Ghana lacked political stability as it endured a succession of government administrations mainly through coup and counter-coup (Debrah 2002). The existence of this real political instability also robbed the country of a political environment conducive to private enterprises and therefore made long-term investment in the country a high risk undertaking for international investors. For a large part of this period nationalist policies were being pursued and promoted by many of the successive governments after independence with most policies not favouring foreign investors. For instance prior to liberalisation (1957-1983) the government dominated the economy, functioning as the major shareholder in over 400 different enterprises (Grant, 2001). Secondly, while the

Ghana Business Promotion Act 1970 permitted Ghanaian small firms to engage in import and export trade, medium and large foreign companies were starved of imported raw materials, spare parts and equipment. The Act (1970) also attached rigid strings to foreign investment by requiring them to give the government the first option to buy shares whenever it intended to sell all or part of the equity capital. These companies were also required to reinvest 60% of their profits in Ghana and were prevented from repatriating their after-tax profits (Grant, 2001). Such policies served as a catalyst for capital flight from the country.

Additionally the financial sector including the financial markets and the banking systems, were controlled and influenced by the public sector as the government was an active and persuasive stakeholder in the sector through monetary and credit policies. The government of Ghana enjoyed sole or majority share ownership in all banks established in the country between 1950 and until after its independence. The two exceptions to this were the Standard Chartered Bank Ghana Ltd and Barclays Bank Ltd with the majority of their shares (60%) owned by foreign investors (Gockel et al., 1997). Though the two banks were not controlled by the government directly, it is feasible that their policies and operations were influenced by the government through the Bank of Ghana. This monopoly possibly served as a deterrent to FDI inflow into the sector or indeed the country as a whole, as investors consider such environment to be risky. Investors in the sector were not allowed to operate freely but were controlled by the government; it led to a collapse of business or total disappearance of the capital invested. Investors in other sectors could possibly have also been turned off by prevalent conditions in the financial sector because of the possible bureaucracies and bottlenecks they faced when transferring capital into the country through the banking system. All these factors contributed to the overall prolonged economic crisis that bedevilled the country which also prompted the country to implement the Economic Recovery Programme (ERP) in the early 1980s to turn the situation around.

4.5 The Period of Structural Adjustment, Stabilisation and Growth (1983-1991)

This period marks the last period of military regime in the country's history. It is also during this period that the government transformed the country from a socialist-orientated economy to a free market economy without backtracking (Debrah, 2002).

The programmes and policies developed during this period changed the direction and the dynamics of the economy, and the rate of growth within the country and marked an important shift in Ghana's macro-economic policies. It began with the launching of a government initiated market-oriented programme in April 1983 under the name Economic Recovery Programme (ERP) developed in collaboration with the World Bank and the International Monetary Fund (IMF). The set of policy reforms implemented under the ERP were designed to liberalise and increase transparency in the economy, stimulate investment activities, attract FDI and stabilise the economy. Specific policies and measures were implemented in order to eliminating barriers to FDI and attract investors including the privatisation of state owned enterprises and the reduction and eventual elimination of import tariffs. Efforts were also made to privatise state owned enterprises and improve the physical infrastructure (Boateng, 2004).

The Investment Code of 1985 is one of the liberalisation policies that sought to encourage more foreign companies' investment in Ghana by lowering the required initial investment capital for foreign investors especially in the case of joint ventures from \$60,000 to \$10,000 (Boateng and Glaister (1999). The investment policies and legislative changes in Ghana since then reveal progressive moves in favour of FDI (Boateng, 2004). In 1985 and 1994 for example, Ghana's investment legislation made it easier for prospective foreign investors to invest in the country by placing a lower equity capital requirement on them. Implementation of policies and programmes of reforms gained momentum during this period and the economy responded strongly to the policy reforms under the ERP with GDP rising from a negative figure to over 8% in 1984. The economy maintained growth rates above 5% in 1985 and 1986. Inflation was remarkably reduced; prices stabilised as well as improved cocoa and industrial productivity (Dordunoo and Nyantang, 1997: 7). Even though the ERP brought substantial progress in reversing the downward trend of the economy, it also brought to light some major structural problems. According to Nyanteng (1994), export, particularly cocoa remained far below historical levels possibly because of the lack of good transportation networks as well as the weakness and deterioration of the export facilities. This made it difficult to transport cocoa beans from the interior farms to the port for export. The ERP also brought to light the weaknesses in the financial system which hindered the mobilisation of savings and the resurgence of private investment. Production of goods and services was well below potential, particularly in agriculture and manufacturing. Public sector administration was also still weak and the brain drain continued unabated (World Bank, 1994).

In view of these and other problems and in order to lay a solid foundation for sustained growth the government in 1986 broadened the reform effort by implementing a programme of Structural Adjustment (SAP) which focused on structural reforms in the financial, agricultural, energy, industrial, educational and health sectors. One of the major objectives of SAP was to improve the investment environment by promoting growth and laying a firm foundation for private sector development (Debrah, 2002). The SAP also highlighted: (a) monetary and banking reforms to improve access to capital; (b) investment in infrastructure; (c) liberalisation of imports and foreign exchange; (d) privatisation of state-owned enterprises; (e) reduction of corporate tax rates from 45% to 35%; and (f) incentives for export-oriented businesses. As a result the financial sector saw major reform programmes entailing financial liberalisation and institutional reforms to reverse the prevailing conditions in the sector. Additionally privatisation of SOEs resulted in the successful privatisation of 300 of the over 400 state-owned and controlled enterprises by 2000 (Grant, 2001). This privatisation effort continued under the reconstituted Divestiture Implementation Committee of the next government's administration bringing the total number of privatised state-owned enterprises to 351 as at 31st December 2005 (DIC, 2004). Unlike in the 1960s and 1970s the country has also been able to sustain its political stability since 1981 and successfully experienced five free and fair electoral cycles since 1992.

The constant pursuit of an efficient free market system through the ERP and SAP for approximately two decades resulted in modest changes in the Ghanaian economy with relative stability and growth transpiring and deterioration halted in the economy. Little diversification in the structure of the economy however, has occurred as agriculture which still dominates the economy with primary products accounting for 85% of the exports (GOG, 2003). Industry still makes a relatively smaller contribution to the economy (25% of GDP) with Ghanaian firms tending to focus on domestic markets. A large number (70%) of these domestic firms are small (employing less than 5 people) and their domestic orientation means that they have limited exposure to competition with little or no incentive to invest and or increase levels of productivity (GOG, 2003). Another striking feature of the business environment in Ghana is the fact that many of these small businesses operate in the informal sector as 40% of the country's Gross National Income (GNI) is from the informal sector.

To fully exploit Ghana's competitive position with regards to FDI inflow the Ghana Investment Promotion Centre developed a five-year (2003-2008) strategic plan to improve the investment climate and achieve enhanced levels of FDI. The investment promotion initiatives contained in the strategic plan include creating a 'one stop shop' for both international and national investor approvals, reforming investment regulations and advocating for an enhanced investment climate. Development of partnerships and networks between potential and actual investors and policymakers as well as targeting overseas investment promotion initiatives also formed part of the plan (GOG, 2003). In another effort, the government in 2003 articulated the need to take advantage of the clear opportunities of trade agreements to give Ghana's products access to regional and international markets and respond to the need to open up its domestic markets. Key initiatives were undertaken including the signing of the Africa Growth and Opportunity Act (AGOA); the ACP-EU Cotonou Partnership Agreement; WTO Uruguay Round Agreements; New Partnership for African Development; ECOWAS Protocol and Conventions including the ECOWAS Trade Liberalisation Scheme; AGOA; and Anything But Arms (ABA).

In 2003 the government again in an attempt to attract and promote FDI formulated a number of policy documents including the Coordinated Programme for Economic and Social Development, the Ghana Poverty Reduction Strategy and the National Medium Term Private Sector Development Strategy (GoG 2003). As a result the World Bank (2008a) ranked Ghana the third best reforming country in the world behind Egypt and Croatia highlighting the five areas of reforms in 2007 alone.

4.6 Major Policy Reforms in Certain Sectors of the Economy

The investment environment of the country is regulated by four major policy frameworks establishing four government agencies. These include the Ghana Investment Promotion Centre Act, 1994 (Act 478); the Free Zones Act, 1995 (Act 504); the Minerals and Mining Act, 2006 (Act, 2006); and the Energy Sector Act. As part of the reforms to turn the economy around, these specific sector policies were promulgated to create an attractive investment environment. These will be discussed individually.

4.6.1 Ghana Investment Promotion Centre Act, 1994 (Act 478)

The Ghana Investment Promotion Centre (GIPC) was initially established in 1964 as the Capital Investment Board with the main aim of regulating foreign investment entering the country. The investment environment at the time was highly regulated and all foreign investment projects, except in the case of those going into the mining and energy sectors, had to be vetted, appraised and approved by this board before they could start operation. The name was changed in 1985 to the Ghana Investment Centre but with the same functions. In 1994 the government enacted Act 478 which established the current Ghana Investment Promotion Centre (GIPC) and also changed the centre's mandate from regulating to promoting and facilitating business operation in the country. This is vividly espoused in Section One of the Act which states, inter alia, that the Centre is to (a) encourage and promote investment in the Ghanaian economy and (b) co-ordinate and monitor all investment activities to which the Act applies. The section further specifies that the centre shall, among other things, initiate and support measures that will enhance the investment climate in the country for companies; promote investments in and outside Ghana through effective promotional means; collect, collate, analyse and disseminate information about investment opportunities and sources of investment capital, and advise upon request on the availability, choice or suitability of partners in joint venture projects; register and keep records of all enterprises to which the Act is applies; identify specific projects and invite interested investors for participation in those projects; initiate, organise and participate in promotional activities such as exhibitions, conferences and seminars for the stimulation of investments; maintain liaison between investors and ministries, government departments and agencies, institutional lenders and other authorities concerned with investments; provide and disseminate up-to-date information on incentives available to investors; assist incoming and existing investors by providing support services including assistance to procure authorities or permits required for the establishment and operation of enterprises; and register and keep records of all technology transfer agreements relating to investments under the Act.

These functions reveal a comprehensive policy effort to create an investment environment in the country conducive to attraction and the retention of foreign investors. It is also the single government policy framework that covers all the sectors of the economy except mining and energy. Underlining the need for efficient business facilitation and operation in the country, the centre is also tasked by the Act to ensure that registration of businesses is smooth and fast at the convenience of foreign investors. For example, Section 21 of the Act provides that the officers responsible for the incorporation and registration shall complete the processing of the application and issue the requisite certificate to the applicant within a period not exceeding five working days from the date of submission of the application.

The policy further reveals that foreign investors can invest and participate in the operation of any enterprise in the country except in certain cases including petty trading, hawking or selling from a kiosk, the operation of taxi and car hire services, the operation of beauty salons and barber shops, and all aspects of gambling. Even within these areas reserved for Ghanaians, a foreign investor, according to the Act, can invest as long as certain criteria are met, for example a foreign investor can establish a taxi or car hire service provided the investor has a minimum fleet of ten new vehicles. Additionally the Act requires that a foreign investor will need not less than US$10,000 or its equivalent worth of capital goods by way of equity to participate in a joint venture in the country or not less than US$50,000 or its equivalent worth in capital goods by way of equity capital in the case of a wholly owned foreign investment. A wholly owned or partly owned foreign trading enterprise involving only the purchasing and selling of goods will require an initial capital outlay of at least US$300,000 and the enterprise should be able to employ at least ten Ghanaians (GIPC, 1994). These are the only restrictions foreign investors face in all the sectors of the economy except in the mining and energy sectors where different conditions regulate the operation of firms in those sectors.

Another important element of this investment policy enactment involves the generous incentive packages made available to foreign investors. These incentives include tax rebates, tax holidays, customs duty exemptions and work and residential permits. Investors are also guaranteed 100% repatriation of dividends or net profit attributable to the investment and an unconditional transferability of convertible currency for the servicing of a foreign loan obtained for the business, fees and charges in respect of any technology transfer agreement registered and proceeds in the event of sale or liquidation of the enterprise or any interest attributable to the investment. Investors are also entitled to initial automatic quota of immigrants depending on the capital invested in the country.

Unlike the 1980s when the government nationalised many foreign enterprises the Act also provides that no enterprise shall be nationalised or expropriated by the government. Anyone who partly or wholly owns capital of an enterprise will not be compelled to cede his interest in the capital to any other person. The policy however, provides a leeway for government to acquire an enterprise only when it is in the national interest or for a public purpose. In that situation the policy makes it evident that the acquisition must be done under law which ensures the payment of fair and adequate compensation and the investor must have access to a High Court which will determine his interest and rights as well as the amount of compensation to which he is entitled.

Additionally the policy provides that in the event of a dispute between an investor and the government with respect to an enterprise, such a dispute should be amicably settled through mutual discussion. But where the dispute cannot be settled amicably, the Act allows the submission of the case in accordance with the rules of procedure for arbitration of the United Nations Commission of International Trade Law or within the framework of any bilateral or multilateral agreement on investment protection to which the Government and the country of which the investor is a national are parties; or in accordance with any other national or international machinery for the settlement of an investment dispute agreed to by the parties. In any of these situations, the foreign investor's choice of dispute settlement to be adopted shall prevail.

The essence of all these provisions is to ensure that investors find the investment environment comparatively attractive. Table 4.2 reveals that the enactment of Act 478 establishing the GIPC further stimulated the inflow of FDI into the country as 405 foreign investment projects amounting to US$266 million entered the country and registered with the centre in 1994 alone. The following year, the country witnessed a sharp decline in FDI inflow as the centre registered only 149 investment projects at a value of US$182 million.

Table 4.2: Total Annual FDI Inflows under the GIPC (1994-2009)

YEAR	Number of Registered Projects	Total Estimated Value ($)
1994	405	266,356,460
1995	149	182,328,330
1996	192	254,162,810
1997	233	631,551,910
1998	191	172,828,600
1999	199	234,098,360
2000	180	132,061,478
2001	184	97,935,461
2002	152	69,149,118
2003	165	119,004,218
2004	202	205,890,714
2005	229	213,738,686
2006	256	2,367,866,479
2007	307	5,029,011,033
2008	269	4,440,126,762
Jan. 2009-Sep.2009	201	396,974,840.20***

***This figure does not include that of the last quarter because it has not been duly certified by the centre.

Source: GIPC (2009)

1995 remains the year with the least number of investment projects since the establishment of the centre but in terms of value it was in 2002 when 152 investment projects with a value of just US$69 million. The trend since then has been an increase of both investment projects and FDI inflow reaching as high as 307 projects in 2007 at an historic value of US$5 billion. It is worth pointing out that despite the financial crises that engulfed the world economies in 2007, Ghana was able to attract so many projects and its highest level of FDI inflow in the same year. The 2007 FDI inflow was largely accounted for by a US$4.67 billion investment in the energy sector by Balkan Energy Ltd. As the crises deepened in 2008, the number of projects slightly decreased to 269 with FDI inflow also dipping slightly to US$4.4 billion in 2008. Again, this amount was also largely accounted for by the US$900 million acquisition of the government-owned Ghana Telecom Ltd by Vodafone. The average annual investment projects and FDI inflow amounts to 220 projects and US$657 million. This is quite substantial and reveals the progressive nature of this policy framework in attracting FDI into the country. The centre also revealed that 53% of all projects registered are Greenfield investments while 47% are joint ventures with Ghanaians or the government (GIPC, 2009).

Table 4.3 depicts the distribution of the total number of registered foreign projects among the various sectors. It shows that the majority (940) of the investment projects went into manufacturing followed by the service sector (764) with the export trade sector registering the least number of projects.

Table 4.3: Number of registered projects in various sectors as at 2009

Sector	Manufacturing	General Services	General Trading	Tourism	Building and Construction	Agric and Agribusiness	Liaison Offices	Export trade	Total
No. of Projects	940	764	406	380	269	213	175	155	3302

Source: GIPC (2009)

The data also paints a distinctive picture of the fact that FDI is flowing into the non-natural resource sectors particularly the manufacturing and service sectors of the economy. This also gives the perception of increasing investor confidence in the Ghanaian economy. Much of the investments into the manufacturing sector as evidenced by Table 4.4 are from the United Kingdom and the United States of America. These two are the leading sources of investment in the Ghanaian economy followed by the United Arab Emirates that invest mainly in the building and construction industry. Investments from Nigeria also outstrip that of China and India and are directed mainly into the areas of general trade and services.

In terms of the number of projects however, China is the country with 376 has the highest number of registered projects in the country, followed closely by India with 365. These two countries however rank 6th and 7th respectively in terms of the value of FDI inflow into Ghana. While investment projects from China go mainly into the manufacturing sector, investment projects from India go into agricultural and the general trade sectors. Another important issue worth noting is the increasing investments originating from countries within the Sub-Saharan African region such as Nigeria, South Africa, Mauritius, Kenya and Cote d'Ivoire. Thus the investment environment is not only attractive to investors outside the Sub-Saharan region but also within the region.

Table 4.4 Top 27 countries with investments in Ghana

COUNTRY	No. of Projects	FDI inflows ($millions)								
		Agric	Bld/Cons	Export Trade	General Trade	Liaison	Manufacturing	Service	Tourism	Total ($millions)
Britain	251	4	37	2	12	0	4,661	55	6	4,777
USA	167	49	27	1	3	2	2,222	138	15	2,458
United Arab Emirates	4	0	2,057	0	0	0	0	0	0	2,057
Nigeria	110	0	8	0	795	0	7	294	0	1,105
Malaysia	14	0	0	0	0	0	5	402	0	407
China	376	5	6	1	47	0	159	13	4	235
India	365	47	7	8	33	0	28	14	1	138
Switzerland	56	46	1	4	3	0	26	16	4	102
Italy	80	0	36	1	2	0	57	0	2	99
Lebanon	271	1	10	0	44	0	25	3	6	89
France	69	50	1	1	1	7	8	7	1	76
Ireland	5	0	0	0	0	0	0	70	0	70
Netherlands	94	9	9	4	4	0	7	25	3	61
Korea	86	14	7	0	3	0	8	22	1	55
South Africa	48	0	2	0	9	0	3	30	2	46
Mauritius	9	0	0	0	12	0	2	30	0	44
British Virgin Islands	22	2	1	0	5	0	6	24	0	38
Denmark	32	23	1	0	1	0	7	6	0	38
Norway	13	1	0	0	0	0	32	0	0	34
Germany	125	2	11	0	1	0	7	6	1	28
Cayman Island	2	0	26	0	0	0	1	0	0	27
Canada	49	0	7	0	1	0	13	4	0	26
Bermuda	5	0	0	0	0	0	0	26	0	26
Saudi Arabia	1	0	0	0	0	0	0	0	22	22
Belgium	34	8	0	0	2	0	10	1	1	22
Kenya	3	0	0	0	0	0	21	0	0	21
Cote d'Ivoire	1	0	0	0	0	0	20	0	0	20
Total	2292	260	2,256	23	979	10	7,335	1,188	70	12,121

Source: GIPC (2009)

It could be suggested that the policy reversal from regulating to promoting and facilitating the business operations in the country is attracting many investments from all parts of the world. These investments outlined above do not include the mining and petroleum sectors of the economy and these will be discussed subsequently in this section.

4.6.2 The Free Zones Board

Another important policy framework developed by the government to attract foreign direct investment into the country is the Free Zones Policy which established the Ghana

Free Zone Programme in 1995 by an Act of Parliament (The Free Zones Act, 1995 (Act 504). This Act enabled the establishment of Free Zones or Export Processing Zones (EPZs) in Ghana for the promotion of economic activities by way of the processing and manufacturing of goods as well as the development of commercial and service activities in these zones. This programme is an extension of the major reforms that the government began in the early 1980s to promote and develop the private sector and attracts investments into the country. The outlook of this particular programme is to stimulate firms to locate and produce in Ghana for the West African and Sub-Saharan regional markets as well as the world markets, especially the US and European markets. The fundamental condition for a free zone enterprise is that the company should be able to export at least 70% of its products to an external market while at most 30% of their products or services being sold in Ghana (GFZR, 1996). Companies registered with the Free Zones cannot be registered with or operate under the GIPC, Minerals Commission and the Ghana National Energy Authority (GFZA, 1995; GIPC, 1994).

Both local and foreign investors operating within the Free Zones have equal status and rights and all enjoy the same benefits entitled to all Free Zones' companies. Some of the benefits include 100% exemption from payment of direct and indirect duties and levies on all imports for production and exports from Free Zones, 100% exemption from payment of income tax on profits for the first ten years and thereafter a maximum corporate tax rate of 8%. These companies also enjoy total exemption from the payments of withholding taxes on dividends arising out of Free Zone investments and Valued Added Tax on items bought in Ghana, minimal custom formalities and no import licensing requirements are needed, and finally relief from double taxation from investors and employees. Additionally there are no conditions or restrictions on repatriation of dividends or net profit, payments for foreign loan servicing, payments of fees and charges for technology transfer agreement and remittance of proceeds from the sale of any interest in a Free Zone investment. There is available real estate and serviced plots for investors wishing to operate within the Free Zones and these investors are permitted to operate foreign currency accounts with banks in Ghana.

Just like investments under the GIPC, all Free Zone investments are guaranteed against nationalisation or expropriation by the government. Investors are also allowed to submit any dispute they have for an amicable settlement in accordance with the rules of procedure for arbitration of the United Nations Commissions of International Trade Law; or within the framework of any bilateral or multilateral agreement on investment protection to which the government and the country of which the investor is a national are parties. Additionally investors have the flexibility of pursuing their grievances in accordance with any other national or international machinery for the settlement of investment disputes (GFZA, 1995). All these incentives and guarantees make investing under the Free Zones very attractive to foreign investors.

The aim of this government policy is to help transform Ghana into the Gateway to West Africa by creating an attractive and conducive business environment through the provision of competitive Free Zone incentives and operation of an efficient "one stop shop" for the promotion and enhancement of domestic and foreign investment. This programme is making Ghana accessible to potential investors who have the opportunity to use the Free Zones as focal points to produce goods and services for foreign markets. Foreign investors under this policy could also go into joint ventures with Ghanaians. This kind of investment has the potential of enhancing technical and managerial skills/expertise of Ghanaians, promoting technology transfer and diversifying exports from the traditional minerals and cocoa.

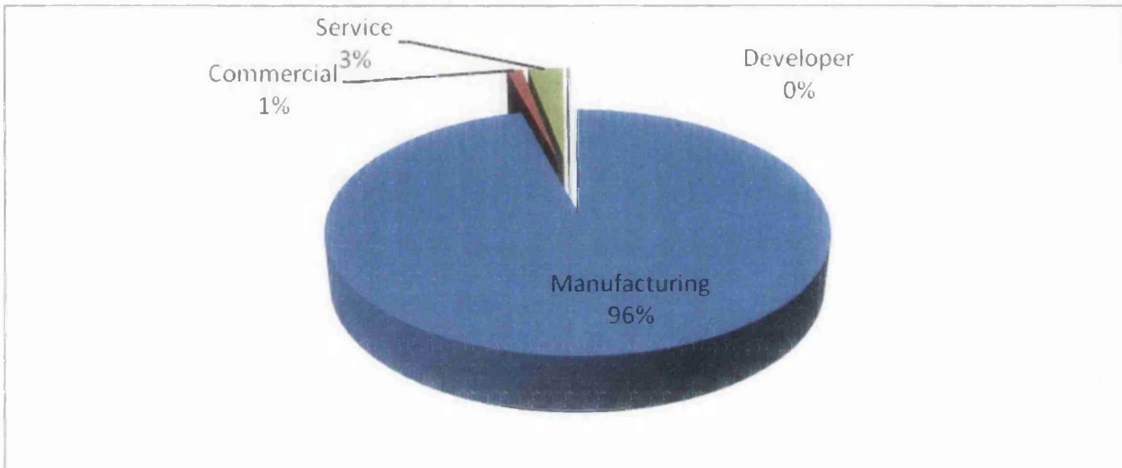
Table 4.5: Annual investments under the Free Zones Board (1998-2008)

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Capital invested (US$ million)	117	81	44	164	42	161	131	186	152	166	1,627

Source: Data from Ghana Free Zones Board (2009)

Data obtained from the Free Zones Board as illustrated in Table 4.5 which reveals that substantial investments have been made in the country since the inception of the Free Zone policy. The agency recorded the lowest investments in 2002 and this is reflected in the global FDI flow that saw a sharp decline in 2002. The centre has however been able to attract increasing amount of investment under this policy framework since then reaching the highest levels in 2008 at US$1,627 million (GFZB, 2009). While annual investments fluctuated between US$ 42 million and US$186 million in the period 1998 – 2002 it suddenly increased tenfold to US$1,627 million in 2008 (GFZB, 2009). The increase is surprising since global FDI flow was declining during that time. The extraordinary explosion of annual investment at the time possibly underscores the attractiveness of the business environment and the level of confidence investors have with doing business in the country. These investments went into three of the four main areas of the economy and these include commercial, manufacturing, services and developers.

Figure 4.2: Free Zones Investments in various sectors



Source: Data from Ghana Free Zones Board (2009)

The data as depicted in Figure 4.2 further reveals that 96% of all the inflows under the Free Zones Board went into manufacturing. The service and commercial sectors received negligible 3% and 1% respectively while the activities classified under the developer attracted no foreign investments. The reason could be that all development of the Free Zone infrastructure and support services were undertaken by the government and then given out to investors to facilitate their operations. The GIPC and the Free Zones Board are the two main agencies that independently and separately promote, register and facilitate foreign direct investment projects into all the sectors of the economy except the mining and energy sectors. The next section will discuss the policies' formulation of the mining sector and the FDI inflow into that sector of the economy.

4.6.3 The Mining Sector Policies

The mining sector policy development can be traced to the colonial period when Ghana, then known as the Gold Coast, had ties with the outside world through the gold trade.

The sector was very valuable as it provided an economic significance for the colony's connection with European trade (Kay and Hymer, 1972: 3-4). More capital intensive and large scale mining by foreign investors began during the colonial period and the development of the colony owed a great deal to the foreign mining companies (Kay and Hymer, 1972: 210; Tsikata, 1997). The colonial mining policy at the time centred on a number of key elements. These included, establishing a legal and administrative framework to facilitate such mineral operators as well as ensuring security of tenure for guarantees of mineral rights. The policy also helped to manage problems which arose in the relations between mining companies and representatives and members of the local communities, and lastly in obtaining revenue for government through the levying of duties or income taxes (Bentsi-Enchill, 1986; Tsikata, 1997). These were the tenets of the mining policy in the colony contained in the Diamond Mining Industry Protection Regulation 1927; the Minerals Regulations 1937; the Transaction Gold Regulations 1947; and Prospecting and Digging License Regulations 1950. For decades the mineral resources were exploited in commercial quantities to help develop the economy until 1957 when the country attained independence and the name changed from Gold Coast to Ghana. It is arguable to suggest that the change of the name from Gold Coast to Ghana was to move the country away from its heavy dependence on the mining sector and diversify the economy into other areas that would ensure trade flourished just like in the ancient Ghana Empire but instead through industrialisation.

4.6.3.1 Mineral policy from 1957 to 1982

The government of the newly independent country realised that the country was heavily dependent on the mining sector and probably felt that the policies guiding the mining sector could not fully help the country fast-track its industrialisation agenda. Within a year of independence, the new government set up a commission to enquire and recommend to government the best way to regulate the mining industry. The commission recommended the role of the government in the mining sector change, its new role would mean that the government would take over the ownership and management of mineral rights from the landowning communities and take responsibility for productivity of the area of the mineral rights and termination of those mineral rights held for undue lengths of time. The Government would also give consideration to the acquisition of 51% of shares in mining companies or the establishment of state owned monopoly for the exportation of minerals. (Tsikata, 1997) The recommendations prompted foreign capital flight with the sale of five gold mining companies owned by British foreign investors and one foreign-owned diamond company to the government in 1961 (Tsikata, 1997).

The government enacted the first minerals Act in 1962 (Act 126) which vested the ownership of all minerals in the President of the Republic in trust of the people of Ghana and gave the president the power to demand sale of minerals produced in Ghana to a state agency at a negotiated price determined by the high court. The Act also embodied the recommendation of the commission to tighten the area and duration of mineral rights held by companies. In the same year the government also enacted the Concessions Act (Act 124) which among other things provided for the establishment of a tribunal and empowered the minister assigned responsibility by the President to determine a concession in respect of which the investor unreasonably refuses to vary a term which had "become oppressive by reason of a change in economic conditions". Other legislative instruments put in place to regulate the mining sector in due course included the minerals Regulation 1962 (LI 231); the Minerals Regulations 1963 (LI 253); the Gold Mining Corporation (Acquisition of Assets Amendment Decree, 1968 (NLCD, 218); the Mining Regulations 1970 (LI 665); and the Diamonds Decree, 1972 (NRCD 32). It can be suggested that these policy measures discouraged the flow of foreign capital into the mining sector which was the backbone of the economy. As a result pressure on government revenues increased and government reacted by implementing strict exchange controls which severely limited repatriation of profits (Killick, 1978). Exporters were to surrender their foreign currency earnings for Ghanaian currency at the official rate which increasingly diverged from the parallel market rates (Tsikata, 1997).

It is possible these policies discouraged foreign direct investment in the country at the time. The result was high inflation and other harsh difficulties facing Ghanaians, this threw the country into political instability for a couple of years. Ghana saw nine changes of government between 1957 and 1983 including four military coups, but the principal elements of the policy contained in the 1962 Minerals Act (Act 126) and Concessions Act (Act 124) remained in place throughout the different regimes until the launching of the Economic Recovery Programme in 1983. The only policy adjustment worth mentioning was when the National Redemption Council (NRC) government in

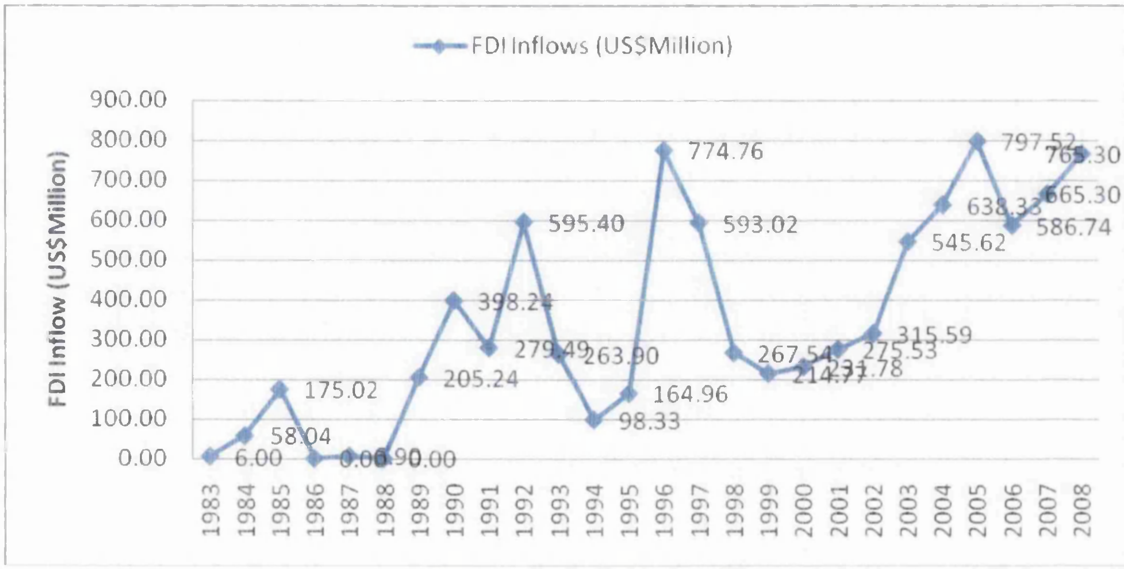
1972 instituted a policy of acquiring majority shares in mines in which the government had minority shares or none at all. As a result of that policy the government acquired 55% of the shares in the foreign mining companies including the Ashanti Goldfields (AGC) which started operations in April 1897 and was listed on the London Stock Exchange in July of the same year. AGC was a UK company and was the first company in Ghana to be listed on the London Stock Exchange. This enabled the investors to raise money to support the development of the mines in Ghana. The company was thus a private foreign company dominating the mining industry in Ghana in the extraction of gold until 1972 when government, by legislation, acquired 55% of the shares of the company and other companies and registered them under the Ghana Companies Code, 1963 (Act 179) as Ghanaian companies. This forced many foreign investors into joint ventures with the government resulting in a loss of control as they became minority shareholding partners. This made the company's shares very risky investments in the stock markets and thereby reducing the overall market value of the company. The acquired mines soon became under-performing using antiquated technology (Hilson and Potter, 2005).

Up until the 1980s no new mine was opened in Ghana due to the myriad of problems encountered by the existing and potential investors as a result of the policy framework within which the sector operated (Aryee, 2001; Addy, 1998). Socialist policies were also pursued during this period prior to the early 1980s. By the early 1980s the Ghanaian economy was characterised by depleted foreign exchange reserves, high inflation, declining exports and low GDP (Jeong, 1998; Hilson and Potter, 2005). After unsuccessful experimentation with socialist policies the government, to resolve to reverse the economic crises in 1983, adopted the World Bank/IMF-sponsored Structural Adjustment Programme under the label of Economic Recovery Programme (ERP) without backtracking (Jeong, 1998; Debrah, 2002). One of the government's cardinal objectives of the ERP was to quickly attract investments into key sectors which had export potential especially the mining sector to help turn the economy of the country around (Aryee, 2001).

4.6.3.2 Mineral sector policy since 1983

Since Ghana possesses some 70% of West Africa's proven gold reserves (Utter, 1993), the mining sector has been a major target of the reforms since the inception of the Economic Recovery Programme (ERP). The sector received priority attention unrivalled by any other sectors in the country under the ERP to boost investor confidence and interest in the mining sector (Awudi, 2002). Specific policy reforms and legislative instruments were enacted in order to liberalise, promote and regulate the mining sector as well as decrease the government's controlling stake in the industry through privatisation (Hilson and Potter, 2005). The various principal legislative instruments guiding the operation of the mineral sector include: the Additional Profits Tax Law 1985 (PNDCL 122); Gold Mining Products Protection Ordinance (Cap 149); Rivers Ordinance (Cap 226); Diamond (Amendment) Law 1989 (PNDCL 217); Small-scale Gold Mining Law 1989 (PNDCL 218); Precious Minerals Marketing Corporation Law 1989 (PNDCL 219); the Constitution 1992; the Minerals and Mining Amendment Act 1993 (Act 475); and the Minerals and Mining Act, 2006 (Act 703) (Minerals Commission, 2009). The most significant legislative and policy framework for mining is laid down in the Minerals and Mining Law 1986 (PNDCL 153) and the subsequent Minerals and Mining Amendment Act 1993 (Act 475) as amended by the Minerals and Mining Act 2006 (Act 703) and modified by the Constitution of 1992. The provisions of these legislative instruments further liberalised the sector and extended a series of generous benefits to prospective investors including: a reduction in the government's entitlement to 10% of equity in new mining operations; complete capitalisation of all pre-production expenses; a provision of favourable amortisation levels (75% the first year, and 50% thereafter); elimination of import duties on capital equipment; generous retention allowances on foreign exchange profits; tax breaks; flexible labour policy; unregulated repatriation of profits; cheap asset transfers and very fair dispute resolution procedures. These laws also established the Minerals Commission as a key institute to ensure a one stop investment centre for all mining companies in the country. In addition to these, the employees of the mining companies are also exempt from payment of income tax related to furnished accommodation at the mining sites. These policy developments successfully created an attractive investment climate for mining in Ghana and the sector has experienced a phenomenal growth since the inception of the ERP programme in 1983 (Tsikata, 1997; Addy, 1998; Aryee, 2001). Figure 4.3 below shows that FDI inflows into the mining sector have been increasing since 1983 despite sudden declines in some years such as 1986, 1994 and 1999.

Figure 4.3: Annual FDI inflows in the mining sector (1983-2008)



Source: Data from the Minerals Commission of Ghana (2009)

The sector recorded a steady increase of FDI inflow since 2000 reaching a peak of US$796 million in 2005. It suggests that the policy reversal has galvanised investors trust in the investment environment resulting in a steady stream of investment into the mining sector. An important observation is how FDI inflows into the non-mining sectors have increased and consistently surpassed the inflow going into the once dominant mining sector in recent years. Table 4.1 reveals that inflows into non-mining sectors registered under the GIPC have been in billions since 2005 outstripping the inflows into the mining sector since then. Under the Free Zone Board, investments, especially in 2008, were over a billion dollars and 96% of that went into the manufacturing sector. The implication is that government policies are creating an investor friendly and attractive investment environment which is attracting investors also into other important sectors of the economy.

4.6.4 The Energy Sector

The energy sector is another very important sector for the Ghanaian economy especially in recent times. The sector has been one of the long-standing key structural vulnerabilities for the country's economy with the fluctuation of oil prices in the world market. The sector is made up of the power industry and the petroleum industry. The power industry comprises of electricity, renewable energy and traditional energy; while the petroleum sector involves the upstream (exploration) and downstream (refining, storage and distribution) activities. Since independence the government has been at the forefront of supplying the energy needs of the country with state-owned enterprises dominating the sector. The Electricity Corporation of Ghana (ECG) oversees the country's electricity industry and supplies electricity to the country while the Ghana National Petroleum Corporation runs exploration, refining and distribution of the petroleum products in the country. It oversees the oil and gas industry in the country.

The Ministry of Energy is responsible for developing and implementing the energy sector policy and the legal framework guiding the downstream activities of the petroleum sector is the National Petroleum Authority Act 2005 (Act 691). Unlike the other sectors of the economy where the government has developed attractive policies with the view to attracting FDI, such efforts cannot be effectively observed in the energy sector. For years up until 2007, the main companies in this sector were government-owned enterprises generating and supplying power in the country. The Act (Act 691) specifies that the business or commercial activities of the downstream industry in respect of crude oil, gasoline, diesel, liquefied petroleum gas, kerosene and other designated petroleum products are importation, exportation, re-exportation, shipment, transportation, processing, refining, storage, distribution, marketing and sales. A licence to undertake any of these commercial activities in the downstream industry is only accessible to a Ghanaian citizen or a Ghanaian company. A foreign individual or company can only obtain a licence to undertake any of these commercial activities within the downstream petroleum industry if they are in a registered joint venture relationship with a citizen of Ghana or a Ghanaian company. Despite these provisions in the Act a number of foreign companies have been attracted into the industry to distribute, market and sell petroleum products. However, refining of crude oil has been done mainly by the only government-owned oil refinery (Tema Oil Refinery) in the country. Crude oil is therefore imported and refined in the country for distribution.

Until the discovery of oil in the Jubilee Fields in 2007 there were no companies or active commercial activities in the upstream (exploration) business of the petroleum sector. Since the discovery of the oil, however, the country's nascent petroleum industry has attracted attention from some of the world's top energy companies who are rushing to obtain stakes in the exploration of oil in Ghana. According to the Ministry of Energy, about fifty foreign companies had so far indicated their interest to invest in the upstream sector of the country's oil industry (Yeboah, 2009). Those interested parties include offers from the Chinese, US and Scandinavian oil companies. Some of these include Tullow Oil PLC, Kosmos Energy, Exxon Mobile, Anadarko Energy, Total SA, Chevron Corp, Royal Dutch Shell Group PLC, BP PLC, Cnooc, ONGC's Videsh Ltd, just to mention a few. But those oil companies that have secured stakes in the Jubilee Oilfield in Ghana are Tullow Oil PLC with 34.7%, Anadarko Petroleum Corp with 23.49%, Kosmos Energy with 23.49%, Ghana National Petroleum Corporation with 13.75%, Sabre Oil and Gas with 2.81% and EO Group with 1.75% (Bloomberg, 2009).

Tullow Oil PLC invested US$3.1 billion in developing the Jubilee Field of Ghana which is estimated to contain 1.8 billion barrels of crude oil. The Jubilee Field started pumping crude oil at the end of 2010 and the volume of production is expected to increase to about 500,000 barrels of oil a day by 2014 setting the country up to become one of the world's top 50 oil producers. Tullow Oil PLC also declared that another offshore field called the Tweneboa Offshore Field has the potential to yield almost as much oil as the nearby Jubilee block (Bloomberg, 2009). In 2009, Kosmos indicated an interest to sell its 23.49% stake in the Jubilee Field and that generated huge interest from major oil companies. Exxon Mobile indicated their willingness to pay US$4 billion for Kosmos' stake while other oil companies those with or without stakes in the Jubilee Field also declared their interest to bid for the Kosmos stake. Even those with stakes in the Jubilee Field, especially the government-controlled GNPC, all registered their interest in buying Kosmos' stake.

In another phase, Eni SpA, Italy's biggest energy company, acquired majority stakes in two oil and gas exploration licences of Ghana after finding "high quality reservoir sands" at the Sankofa Well in Ghana. Eni SpA holds 47.22%, Vitol Group with 37.78% and the government GNPC also hold 15% (Bloomberg, 2009). Other reputable companies, such as Schlumberger; Vanco Energy Co; OAO Luke Oil, have established subsidiaries in the country to help drill oil rigs for these oil companies in Ghana, most of them are already adopting Ghana as the headquarters for their business operations in Sub-Saharan Africa.

In April 2009 the GNPC, which manages the country's oil and gas industry, also revealed that it was seeking investors to help fund a US$1 billion natural gas processing plant and had received various expressions of interest from foreign companies. After the tendering process Oando Plc, Nigeria's biggest independent energy company, Saipem SpA and Modec-Itochu of Japan were selected by the government to partner the GNPC in a joint venture to develop the gas facility. The energy sector looked set to attract more FDI inflow than any other sector in the economy. The rush for stakes in the petroleum sector in Ghana by the world's major oil companies gives credence to the quality of government policies in promoting the country for business operations. Ghana is therefore set to become one of Africa's newest oil exporters as production began at the offshore Jubilee Field.

4.7 Global and Regional Integration Programmes

Ghana is a member of a number of global and regional integration programmes that promote free trade policies giving the country's products access to both regional and international markets. These policies and agreements are characterised by the elimination of obstacles and restrictions to trade between member countries, speeding up regional integration initiatives, harmonisation of economic and industrial policies and promotion of joint development projects in member states and assisting countries with their gradual harmonious integration into the world economy. The key integration programmes of which Ghana is a member include the AGOA; the ACP-EU Cotonou Partnership Agreement; WTO Uruguay Round Agreements; New Partnership for African Development (NEPAD); ECOWAS Protocols and Conventions; ECOWAS Trade and Liberalisation Scheme; and the West African Economic and Monetary Union (GOG: 2003).

The AGOA is a law passed by the US Congress in May 2000 that allows duty free and quota free access to the US market for products from Sub-Saharan Africa. It is an integral part of the US Trade and Development Act 2000 that laid the foundation of economic partnership between the United States and 38 African countries of which Ghana is a member. Under a scheme called the Generalised System of Preferences (GSP), the US grants least developed countries preferential tariff concessions for approximately 4,600 trade items. With AGOA, over 1,800 trade items are added to the

GSP list of products. The objective of AGOA is to help African countries attract US technology and investment partners, improve efficiency and capacity for export to other countries as well as helping African countries through trade with the US to develop their economies (GOG, 2003).

The Africa-Caribbean-Pacific European Union Partnership (ACP-EU) agreement provides a new trade agreement characterised by the progressive abolition of obstacles to trade between the ACP and EU countries, in accordance with WTO Rules. The agreement is open to all ACP states for the duration of 20 years starting from March, 2000. The main objective is to help reduce and eventually eradicate poverty in the ACP countries and also gradually integrate these countries into the world economy (GOG, 2003).

The World Trade Organisation Uruguay Round Agreements (WTO) signed by Ghana provides the common institutional framework for the conduct of trade relations among member countries The WTO Uruguay Round Agreements were signed by 124 governments and the European Communities that participated in the Uruguay Round of Multinational Trade Negotiations. The key objectives of these agreements are to facilitate the implementation, administration and operation, and further the objectives of the Multilateral Trade Agreements; provide a forum for negotiations among members concerning their multilateral trade relations; administer the understanding on rules and procedures governing the settlement of disputes; administer the trade policy review mechanism; and achieve greater coherence in global economic policymaking (GOG, 2003).

The New Partnership for African Development (NEPAD) is a programme of the African Union (AU) to implement a pledge by African leaders based on a common vision and a firm and shared conviction to eradicate poverty and to place all African countries, both individually and collectively, on a path of sustainable growth and development. It is also to halt the marginalisation of Africa in the globalisation process and enhance its full and beneficial integration into the global economy. The vital principles under the programme are: good governance for peace, security and sustainable political and socio-economic development; acceleration of regional and continental integration; building the competitiveness of African countries and the continent; and forging new international partnerships that will change the unequal relationship between Africa and the developed world (GOG, 2003).

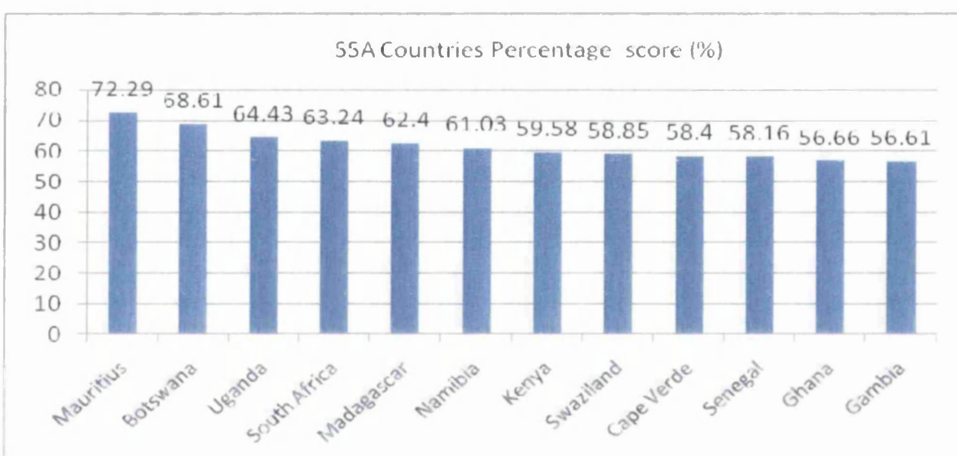
The Economic Community of West African States (ECOWAS) is a union of all West African Countries and its protocols seek to promote cooperation and development in all fields of economic activity for the purpose of raising the standard of living of its people, increasing and maintaining economic stability, fostering closer relations among members and contributing to the progress and development of the African continent. One of the initiatives under the union is the ECOWAS Protocols and Conventions which has its specific targets of eliminating customs duties and other charges of equivalent effect in respect of importation and exportation of goods; abolition of quantitative and administrative restrictions on trade among member states; the harmonisation of monetary, commercial and agricultural policies among member states; and the abolition of the obstacles to free movement of persons, services and capital among member countries. Another initiative under the union is the ECOWAS Trade Liberalisation Scheme (ETLS) which also involves the liberalisation of trade in three groups of products among member countries. These three groups of products include unprocessed goods, traditional handcraft products and industrial products. Additionally six West African countries in a declaration made in April 2000 in Accra (Ghana) signed a commitment to an institutional cooperative framework of a West African Monetary Zone under the West African Economic and Monetary Union (WAEMU). The main objectives of the monetary zone is to establish a monetary union characterised by a common central bank and a single currency to replace the six existing national currencies, promote zonal contiguous market for trade and investment and enhance economic integration for suitable growth and development (GOG, 2003).

These programmes coupled with instability in some neighbouring countries have opened a window of opportunity for Ghana to increase inflows of FDI. As highlighted by Neumayer and Spess (2005) these programmes and initiatives implicitly signal the country's willingness to protect all foreign investors and thus give the country a positive image. Ghana's rankings on a number of reputable indices however suggest the country is still unable to fully exploit the benefits of all these agreements. Some of these indices are discussed below.

4.8 The Ranking of Ghana on International Competitive Indices

As countries compete for FDI the attractiveness of their economies are compared using reputable international country-level competitiveness indices such as the Global Competitiveness Index and Heritage Index of Economic Freedoms. These indices assess national competitiveness by considering the national business environment within which firms operate. Key criteria used in the assessment are economic policies, government efficiency and infrastructure development. According to these indices, for example, Ghana's ranking on the Heritage Index of Economic Freedom 2008 is 94th behind Mauritius (18th), Botswana (36th), Uganda (52nd) and seven other Sub-Saharan countries as indicated in Figure 4.5. Economic Freedom according to Beach and Kane (2008) refers to the individual's freedom to work, produce, consume, and invest in any way they please and be protected, and at the same time be unconstrained by the state. The index is, however, an average score of ten individual freedoms (Figure 4.7), each vital to the development of personal and national prosperity of a country. The average scores of 162 countries are compared and ranked. The higher a country's average score of the ten bench marks the better its ranking (Figure 4.4). A score of 100% signifies an economic environment or set of policies that is most conducive to economic freedom (Beach and Kane, 2008). The average scores of the countries' economies are also interpreted in terms of the level of economic freedom for doing business as: free (80%-100%); mostly free (70%-79.9%); moderately unfree (60%-69.9%); mostly unfree (50%-59.9%); and repressed economy (0%-49.9%). Figure 4.4 below therefore suggests that only Mauritius has an economy considered to be mostly free for doing business.

Figure 4.4: Top 12 SSA Countries Ranking Scores on Economic Freedom for 2008

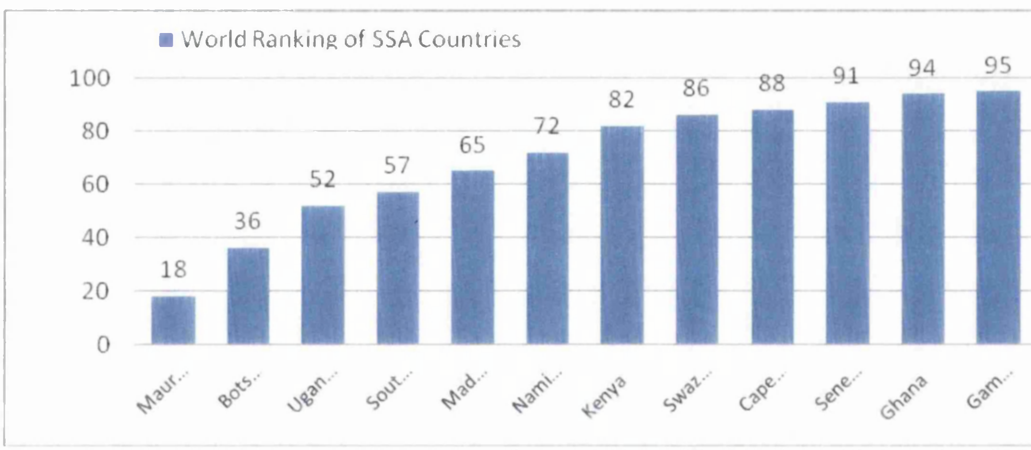


Source of data: The Heritage Foundation, 2008

According to the Index scores Botswana, Uganda, South Africa, Madagascar and Namibia are the only SSA countries assessed to have moderately free economies. Kenya, Swaziland, Cape Verde, Senegal, Ghana, Gambia and a couple of other SSA countries are assessed to have mostly unfree economies while the majority of SSA countries such as Zimbabwe (29.8%), Republic of Congo (45.2%), Togo (48.8%) and Sierra Leone (48.9%) are considered to have repressive economies. Since the inception of the Index in 1995 no Sub-Saharan African country has been ranked among the top ten countries with a free economy for doing business.

Other developing countries, especially in Asia, Hong Kong and Singapore for example have constantly been ranked among the top ten countries with free economies for business. Coincidentally these countries constantly attract larger portions of the FDI inflow to developing countries. The 2008 countries ranking suggests that not a single country in Africa had an economy considered to be entirely free for business transactions (Figure 4.4).

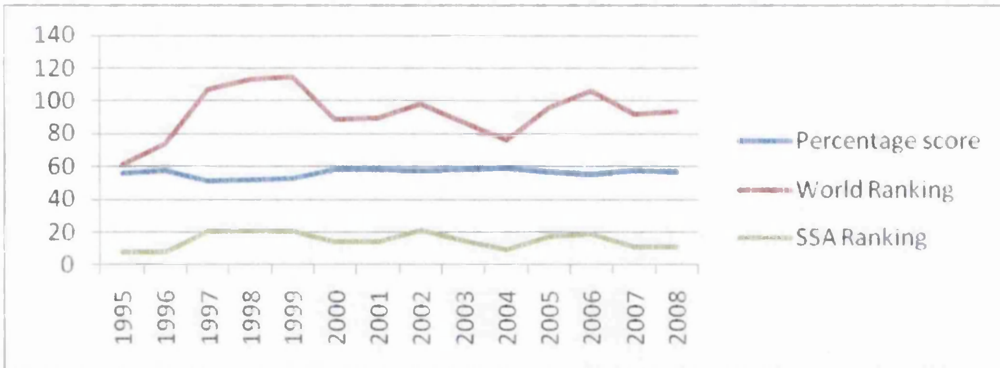
Figure 4.5: Top 12 SSA Countries Ranking on Economic Freedom for 2008



Source of data: The Heritage Foundation, 2008

Among SSA countries Ghana ranks 11th out of the 40 countries in the SSA region. Interestingly, though some benchmarks score high marks, the average scores for the country over a decade have never fallen below 50% or risen up to 60% as shown in Figure 4.6.

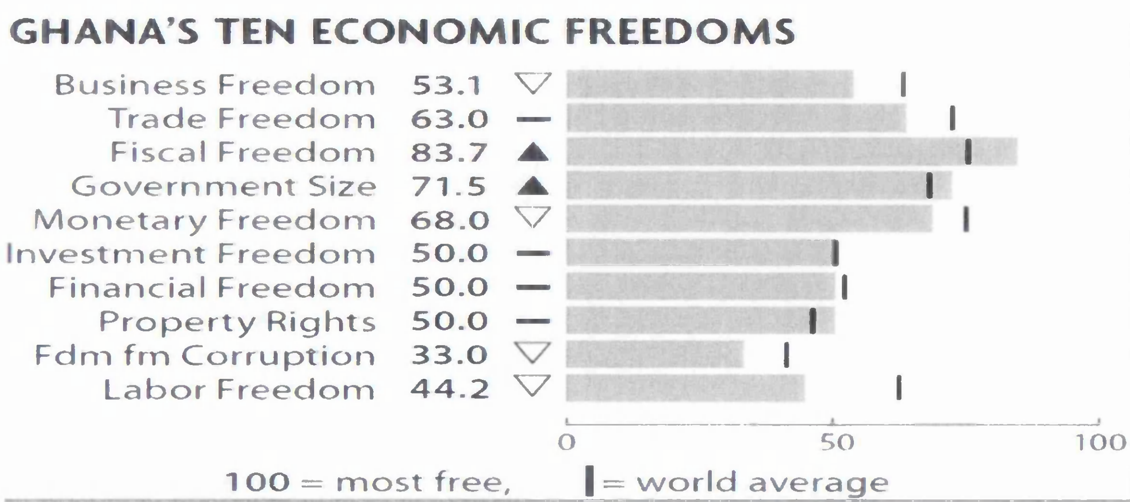
Figure 4.6: Ghana's yearly ranking on the Heritage Index of Economic Freedoms, 1995-2008



Source of data: The Heritage Foundation, 2008

For over a decade Ghana's ranking has been fluctuating without marked enhancement. In 1995, 1999, 2004 and 2008 for example, Ghana's world ranking was 61st, 115th, 76th and 94th respectively. This suggests that on the whole the country is considered comparatively less free to do business. It is also possible that competing countries are opening up their economies more to businesses and eliminating the inefficiencies in their systems than Ghana. Ghana's average score in the ten benchmarks (freedoms) for 2008 are indicated in the Figure 4.7 below.

Figure 4.7: Ghana's Score in the ten Benchmarks

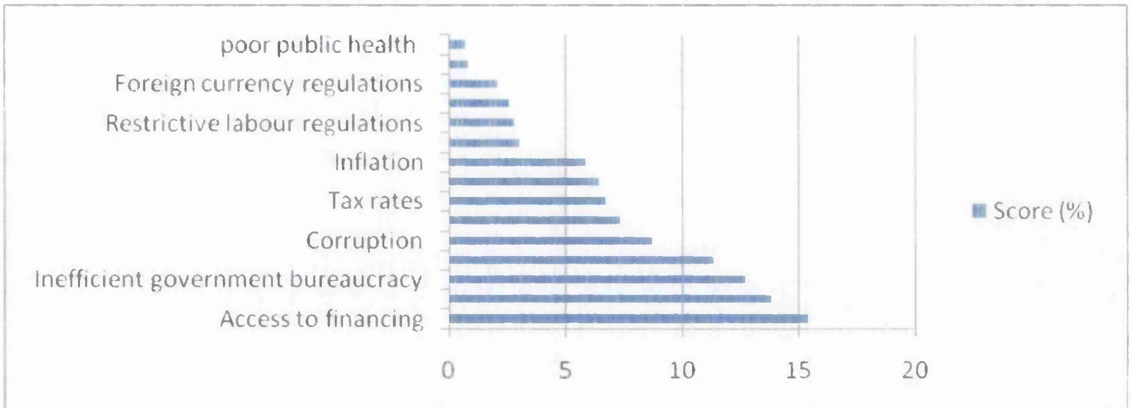


Source: The Heritage Foundation, 2008

Business freedom refers to the ability for an individual or a firm to create, operate, and close an enterprise quickly and easily. Trade freedom on the other hand is a composite measure of the absence of tariff and non-tariff barriers that affect imports and exports. Fiscal freedom is a measure of the burden of government by way of taxation from the revenues of individuals and businesses. Government size is assessed to include all government expenditures including consumption and transfers. Monetary freedom on the other hand combines a measure of price stability with an assessment of price controls. In this case, price stability without microeconomic intervention is seen to be the ideal state of a free market while inflation and price controls distort market activity. Investment freedom is an assessment of the free flow of capital, especially foreign capital, while financial freedom is a measure of banking security as well as independence from government control. State ownership of banks and other financial institutions such as the capital markets is an inefficient burden as political favouritism does not support free capital markets. Property rights are an assessment of the ability of individuals to accumulate private property, secured by clear laws that are fully enforced by the state. Freedom from corruption is an assessment of the perception of corruption in the business environment, including levels of governmental, legal, judicial and administrative corruption. Finally, labour freedom is a measure of the ability of workers and businesses to interact without restriction from the state (Beach and Kane, 2008). It is clear from Figure 4.7 that freedom from corruption and labour freedom are the two areas Ghana is exceptionally failing.

Another reputable index worth mentioning is the Global Competitiveness Index of the World Economic Forum. In this Index Ghana's global growth competitiveness ranking in 2008-2009 is 102nd out of 134 countries behind South Africa (45th), Botswana (56th), Mauritius (57th), Namibia (80th), Kenya (93rd), Nigeria (94th) and Senegal (96th). The Index assesses the productive potential of nations worldwide based on twelve benchmarks of competitiveness. This enables the forum to provide a comprehensive picture of the competitiveness landscape in countries around the world. The benchmarks used in the assessment include institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training; goods market efficiency, labour market efficiency, financial markets sophistication, technological readiness, market size, business sophistication and innovation (World Economic Forum, 2008). The most problematic factors for doing business in Ghana, as reported by the forum are shown in Figure 4.8, include: access to financing, inadequate supply of infrastructure, inefficient government bureaucracy, poor work ethic in national labour force and corruption.

Figure 4.8: Most problematic factors for doing business in Ghana; 2008-2009



Source: World Economic Forum, 2008

Other indices for the country include the Inward FDI Potential Index and the Inward FDI Performance Index. The Inward FDI Potential Index captures factors expected to affect an economy's attractiveness to foreign investment. Ghana's attractiveness in this Index has taken a declining trend since 1991 when it was ranked 88 out of 141 countries. In 1995 Ghana's attractiveness declined to 110th reaching an all-time low level of 116th in the ranking in 2000. The country's ranking has since improved slightly with 2006 recording 113th position which is still far behind the 1991 ranking. The Inward FDI Performance Index on the other hand ranks countries by the FDI they receive relative to their economy size (UNCTAD, 2008). Ghana's ranking on this Index has also been declining since 1994 when its performance was ranked 36th among 141 countries. The declining trend reached an all-time low ranking of 104th in 1998. In 2006 Ghana's performance of FDI inflow improved slightly making it occupy the 76th position out of the 141 countries assessed globally.

These indices suggest that Ghana's efforts in enhancing the attractiveness of its economy for investment and business operations has chalked less successes. It is therefore possible to argue that the policy developments since 1983 have not rewarded the country with the desired results. Alternatively, it is possible other competing developing countries are developing policies that enhance the attractiveness and competitiveness of their own economies faster than that of Ghana, thus resulting in their improved performance and ranking than Ghana. The indices further point to the fact that the attractiveness of a country for investors is based on a range of factors such as macroeconomic stability, transparency, stability, consistency and predictability of the legal, administrative and regulatory framework, infrastructure, physical safety and quality of life. Arguably, governments can enhance the attractiveness of the country through policy developments that will eliminate the inefficiencies and risks associated with doing business in the country. This is because investors usually have their ultimate objective of maximising their profits or shareholder value and minimising their risks. In an environment where there are inefficiencies and these objectives cannot readily be achieved, such environments are considered costly and risky and investors are less likely to do business there.

In accordance with the trends of the indices illustrated above (especially the Global Competitive Index shown in Figure 4.8), a 2003 World Bank Administrative and Regulatory Cost Survey (ARCS) of 391 domestic and foreign enterprises operating in Ghana found that interest rates, bank regulations, and tax rates were major impediments for business activities in Ghana. Political stability and improved economic performance were, however, among the main favourable factors influencing both foreign and domestic investors' decisions to do business in the country (World Bank, 2003). Arguably, the impediments result from poor design or implementation of laws and regulations and the delivery of services to the business community. The government of Ghana also supports this view and stipulates that these constraints are caused by the government through the burden of administrative and regulatory procedures and are affecting efficient operations of the free market system in the country (GOG, 2003). These impediments, influenced by the burden of administrative and regulatory procedures, are translated into time, money, risk and inefficiency for individual businesses and thus affect Ghana's competitiveness in global and regional markets.

Despite the above ranking of Ghana on international indices, the World Bank (2007) observed that Ghana is one of the few Sub-Saharan African countries with sound political stability, economic liberalism, abundant natural resources, and highly motivated work force as well as improved infrastructure. Owing to the country's political stability, low wages, abundant supply of skilled and motivated workers and its comfortable standard of living, investing in Ghana should be attractive to potential investors. The World Bank (2007) reports that surveyed investors concluded that Ghana possesses the best supply of skilled workers in Sub-Saharan Africa as companies are generally able to fully staff operations with local residents. The report also stated that Ghana's health care and schools are better than other profiled Sub-Saharan countries, while the country's seaports allow for inexpensive container shipments to European and US markets. Firms also indicated utility costs to be relatively low, resulting in the lowest fares on international calls and inexpensive Internet connectivity at US$252 a month, compared to the surveyed average of US$1,001 in Africa. Investors also reported the lowest land lease rate in Ghana compared to other surveyed countries. The country has also been assessed to be among the top ten reforming countries in the world since 2006 and in 2007 it ranked 3rd behind Egypt and Croatia (World Bank, 2008a). As a result the country ranked higher than other countries within the sub region on the ease of doing business as illustrated in figure 4.9

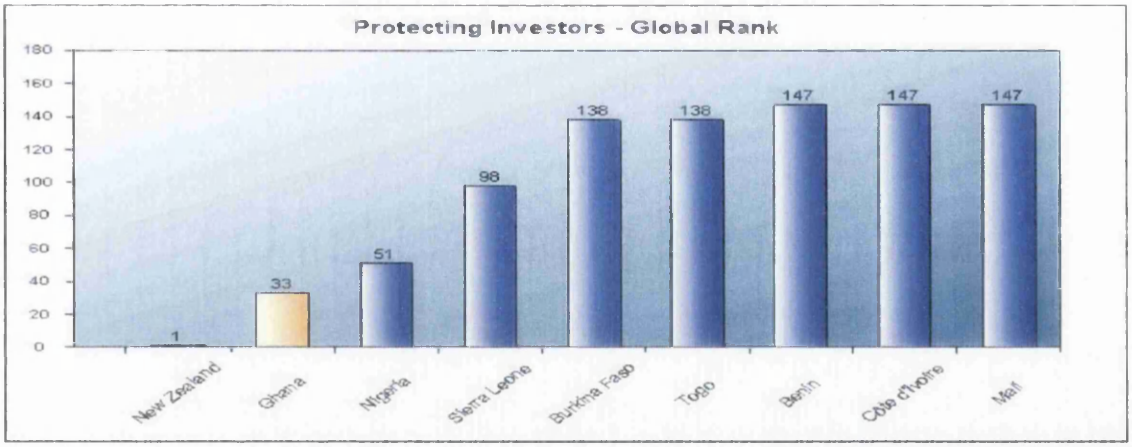
Figure 4.9: Economy Ranking – Ease of Doing Business

Source: World Bank Group (2008)

The country also ranks highly above competing regional countries on other benchmarking measures such as in protecting investors (Figure 4.10), enforcing contracts (Figure 4.11) and trading across borders (Figure 4.12)

Figure 4.10: protecting investors

Ranking of Ghana in Protecting Investors - Compared to best practice and selected economies:

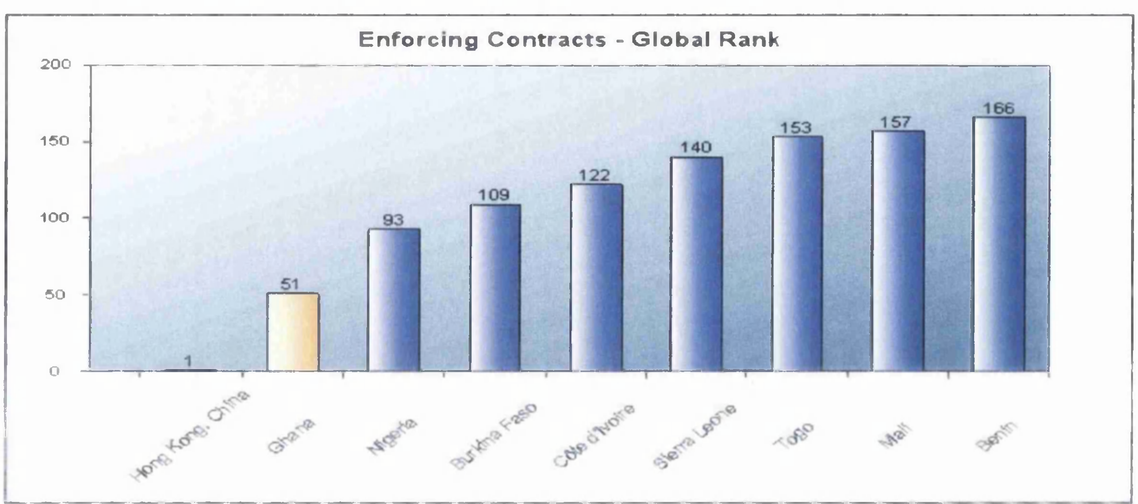


Source: World Bank Group (2008)

Protecting investors is paramount to ensuring investor confidence about doing business in a country. Overall, New Zealand is the top ranked economy in protecting investors followed by Singapore, Hong Kong, China and Malaysia. Ghana is ranked 33 overall out of 178 countries. By African standard, its ranking is higher than other countries. The country has signed a number of BITs and MITs which contain within them provisions to protect investors and it has been observed to adhere to these provisions. Additionally, the judicial system of the country is considered to be much efficient in enforcing contracts than other countries within the region as depicted in figure 4.11. This is crucial for commercial disputes and strengthens the confidence of investors about doing business in Ghana.

Figure 4.11: Enforcing Contracts

Ranking of Ghana in Enforcing Contracts - Compared to best practice and selected economies:



Source: World Bank Group (2008)

Globally, Hong Kong, China is the top ranked economy in enforcing contracts followed by Luxembourg, Latvia and Singapore while Ghana is ranked 51 out of 178 countries (World Bank Group, 2008). Efficiency in enforcing contracts in the benchmarking is the measure of cost involved, time taken to resolve disputes as well as the number of procedures that disputes go through to resolution.

Trade is another important area that has the potential to make a country attractive to investors. The ability of businesses to import and export from the country to global and regional markets is essential. Ghana has signed a number of trade agreements including AGOA, EU-CPA, and ECOWAS, and these have expanded the country's market beyond the local market of 24 million Ghana nationals. This is particularly attractive for the market-seeking type of FDI.

Figure 4.12: Trading Across Borders

Ranking of Ghana in Trading Across Borders - Compared to best practice and selected economies:

Source: World Bank Group (2008)

As illustrated in figure 4.12 Ghana by comparison is performing much better than other regional countries in trading across borders. Singapore is the top ranked economy followed by Denmark, Hong Kong, China and Norway and Ghana is ranked 61st out of the 178 countries. The various rankings so far reveal that within the West African regional standard, Ghana is performing above the rest of the countries and could therefore be considered to be more attractive than other sub regional countries. In accordance with this position, they enumerated the strengths and weaknesses of the country against other countries within the region as depicted in figure 4.13.

Figure 4.13: Comparative Strengths and Weaknesses of Ghana vs. Snapshot Africa

Strengths	Weaknesses
Good country credit rating	Weak current export performance
Low country risk rating	Decreasing trade competitiveness
Business start-up procedures minimal	Poor availability of unskilled workers
Good rating on corruption perception	High wage rates for managers
Favourable labour regulations	High wage rates for professionals
Ease of sourcing local inputs	High wage rates for skilled workers
Good availability of Managers	High water costs
Good availability of professionals	
Good availability of technical workers	
Good availability of skilled workers	
Low site lease costs for industrial land	
Low electricity usage charge	

Source: World Bank (2007)

4.9 Conclusion

The chapter reviewed the Pre-colonial, colonial, the immediate post-independence period and the current economic reforms and policies developed by the government to promote foreign trade and investment in the country. The chapter established that Ghana has gone from a free market economy to a socialist and mixed market economy and back to the free market economy. The chapter has also reviewed a number of policy directions developed by successive governments and the changing trends, patterns and characteristics of FDI inflow into the country. The statistics depicts a generally positive improvement in the FDI inflow. Despite the World Bank's (2003) assessment that Ghana's performance in attracting FDI inflow is below its potential, the improvement in the various constructs of FDI inflow presents an indication of an increasing investors' confidence in the Ghanaian economy.

The indices on the other hand suggest that it is relatively costly to do business in Ghana when compared to other countries. For example, the Administrative and Regulatory Cost Survey (ARCS) discussed earlier shows that while Ghana's political stability, low cost and good availability of labour as well as raw materials and improved economic performance favourably influence investors' decisions to invest in Ghana, other factors such as the burden of administrative and regulatory procedures impede their activities and increase their cost of doing business (World Bank, 2003). Principal among them include the complexity of policies, laws and regulations, tax rates, corruption, business registration, unfair competition, regulations in getting premises and foreign investment regulations. These may be the main reasons inhibiting the substantial flow of FDI into the country.

To reverse this trend the government, through policies, has given many guarantees and incentives. Among the numerous guarantees and incentives offered by the government include low corporate tax rates, tax holidays, and low equity requirements, custom duty exemptions for plant, machinery, equipment and parts, automatic immigrant quotas, and relief from double taxation for foreign investors. Ghana's foreign investment code also eliminates screening of foreign investment, guarantees capital repatriation, and does not discriminate against foreign investors. The only pre-condition for investment is a minimum capital-requirement. The question that begs asking is whether these policies have achieved their desired result of promoting and attracting significant FDI inflow into the country. This issue is explored in subsequent chapters. The next chapter, however, discusses the methodology of the study.

Chapter Five

Research Methodology

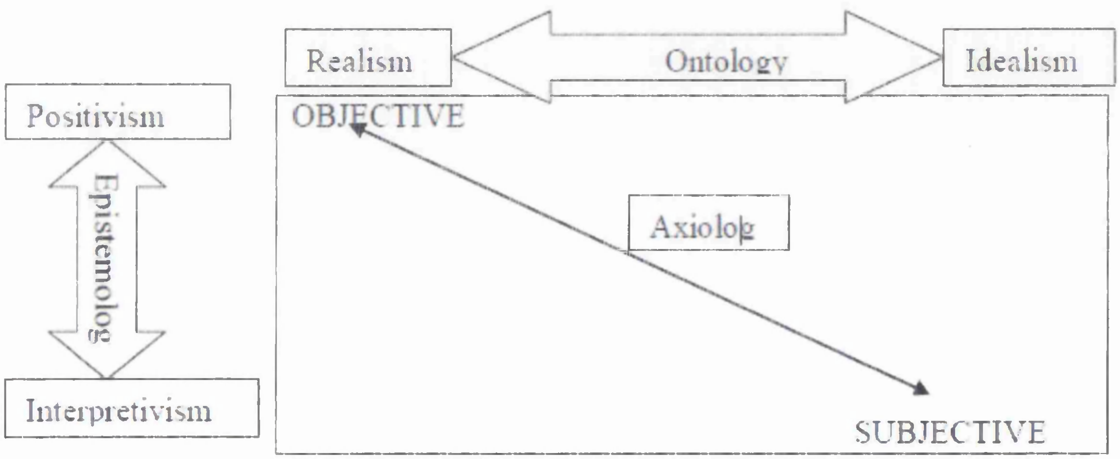
5.1 Introduction

A review of relevant existing literature on foreign direct investment, international trade and strategy which are central to this study were conducted and presented in Chapters Two, Three and Four. These chapters provided the theoretical grounding for designing the research methodology. Chapter Five therefore focuses on the research methodology adopted for the study. The research methodology involves a systematic explanation of the research design with justification of the choice of research method. It includes the assumptions and values that became the rationale for the research including the criteria and framework for the collection, analysis and interpretation of the data for the generation of evidence suited both to the set of criteria and to the research questions in order to reach the conclusions (Bryman and Bell, 2007: 39). This chapter is perhaps one of the most important chapters of this study as it demonstrates the grasps of the theory of method and lays out general methodological considerations consistent with the research problems, ontological and epistemological positions and the underlying theories (Zolan and Lewis (2004: 511). Thus the principal themes covered in this chapter are the research philosophies and paradigms, the research strategy, research design, questionnaire and survey methodology and data analysis methods.

5.2 Philosophical Overview

This section attempts to present the philosophical stance/theoretical orientation of the researcher. Research philosophy according to Saunders et al. (2007: 101) relates to the development of knowledge and the nature of that knowledge. It contains the important assumptions about the way one views the world. It also underpins the research strategy and the methods chosen as part of that strategy. The major ways of explaining research philosophy include epistemology, ontology and axiology; each containing important differences and each differently influences the research process (Saunders et al., 2007: 102). Creswell (1994: 4) highlighted the importance of understanding the assumptions of positivism and interpretivism based on the epistemological, ontological and axiological approaches by pointing out that the understanding will provide direction for designing all phases of a research study. Westwood (2004: 56) also noted that "*research methods are not innocent; they are political and we cannot reflect on methodology without reflecting on matters epistemological, ontological and ideological.*" Zolan and Lewis (2004) further observed the need for outlining the epistemological, ontological and methodological tenets of a study to be well beyond impressing the examiner and fellow researchers with the use of complex terms but justifies the choice of methodology and research methods that underpin subsequent analysis and interpretation of the data.

Figure 5.1: Dimensions of research philosophy



Source: Adapted from Pathirage et al. (2005)

Figure 5.1 depicts the various philosophical dimensions and shows how positivism and interpretivism are influenced by the various approaches. It will be necessary to discuss them briefly to help highlight the approach taken in designing and carrying out this research.

5.2.1 Epistemology

Epistemology is a branch of a research philosophy concern with the study of knowledge and what we (or should) accept as valid knowledge in a discipline (Collis and Hussey, 2003:48). In other words, epistemology seeks to understand what knowledge is and the methods employed to obtain the knowledge. Bryman and Bell, (2007) revealed that the core issue in this philosophy relates to the question of whether the social world can and should be analysed according to principles, procedures and ethos similar to that of natural sciences. Thus the two fundamental issues faced by researchers in the sciences are to understand; (a) what is (or should be) regarded as acceptable knowledge in a discipline? and (b) how is this knowledge acquired? (Bryman and Bell, 2007; Creswell, 2003; Carson et al., 2001). According to Bryman and Bell (2007:16) a more central issue in the epistemological context is the question of whether or not the social world can and should be studied according to the same principles, procedures, and ethos as the natural sciences. The dominant approaches usually adopted in epistemological research are positivism, and interpretivism. These perspectives are examined in greater detail below.

5.2.1.1 Positivism

Positivism upholds true knowledge as that obtained objectively through value-free discovery approach. Thus knowledge obtained from the research exercise using this method is considered as a precise reflection of the world as it is (Bryman, 2004; Carson et al., 2001; Creswell, 2003). Collis and Hussey (2003:48) noted that positivists maintain an independent and objective stance based on the belief that valid knowledge can only come out of phenomena that are observable and measurable. Saunders et al. (2007) suggested that if the principles of the research philosophy adopted by the researcher reflect positivism, then the researcher is likely to adopt the natural scientists philosophical stance of preferring to work with observable social reality. This has the potential of law-like generalisations similar to physical and natural scientist. Stated differently, Neuman (1997: 63) insisted that positivism involves *"precise empirical observations of individual behaviour in order to discover ... probabilistic causal laws that can be used to predict general patterns of human activity."* The main claim of positivism is that all knowledge is controlled within the confines of science and can only be acquired via scientific methods. Thus the assumption guiding positivism is that natural science is the yardstick against which all endeavours should be measured (Carson et al., 2001: 1). In this sense the positivist philosophy holds that truth exists concretely independent of the researcher and that reality is divorced from the individual who observes it. Positivism therefore advocates rejection of rumour, myth and fiction through meticulous execution of scientific and positive methods in human phenomena. Consequently, the philosophy relies on experiments and empirical evidence and high value is placed on objective precision in measuring outcomes to discover truth. Positivist methods should therefore contain formal propositions, quantifiable experiments or quantifiable questionnaires as researchers who adopt a positivist approach assert an emphasis on objectivity, measurement and repeatability (Pratt et al., 2005).

This adherence to such rigid and rigorous scientific methods of measurement has been criticised for ensuring that quite a significant amount of information would be submerged or gradually overlooked. Supporting the view of Bhaskar (1989), Saunders et al. (2007) argued that researchers will only be able to understand what is going on in the social world if they try to understand the social structures that have given rise to the phenomenon that they are trying to understand through interpretivism. Indeed, the majority of business management research takes place within this interpretive perspective of which this study is no different.

5.2.1.2 Interpretivism

Interpretivism holds a different view from positivism and rests on the view that the world is a creation of the mind and should be interpreted through the mind (Bryman, 2004). Interpretivists rely on interviews and subjective observation with each researcher interpreting from his or her own frame of reference in order to describe knowledge. They therefore depart from believing in only one universal truth (Creswell, 2003; Carson et al., 2001) and represent an alternative view to the positivist position that advocates the application of methods of the natural sciences to the study of social reality. It contains the view that a strategy is required that appreciates the differences between people and objects of the natural sciences and therefore requires the social scientist to understand clearly the subjective meaning of social actions (Bryman and Bell, 2007). The challenge is to enter the social world of the research subjects and to understand their world from their point of view (Saunders et al., 2007). In other words, the approach posits that meaning exists in our interpretation of the world and individuals seek understanding of the world in which they live and work. Individuals develop subjective meanings of their experiences – meaning directed toward certain objects or things; thus placing a strong emphasis on the researcher's perspective and the interpretative nature of social reality (Creswell, 2009: 8). These meanings are varied and multiple leading the researcher to look for a complexity of views rather than narrowing meanings into a few categories or ideas. The goal of the research is to rely as much as possible on the participants' views of the situation being studied. Knowledge consequently obtained is suggestively based on the interpretations of different people at different times.

This subjective philosophical position informs the research methodologies employed by interpretivists who often lean towards qualitative analysis, exploratory analysis, induction, field experiments and idiographic experiments as the questions become broad and general so that the participants can construct the meaning of a situation, typically forged in discussions or interactions with other people (Creswell, 2009: 8). Thus interpretivism accesses reality through the assumption that meanings can only be derived from social constructions and classifications (the meanings people ascribe to them) because these phenomena have no independent existence from our thoughts (Carson et al., 2001).

Critics of the interpretivists approach fault its central theme which posits that reality is not separate from the individual who observes it and the resulting accepted truth is a construct determined or influenced by the observer. Saunders et al., (2007), however, pointed out that some researchers' find the interpretivists' perspective to be highly appropriate for business and management research, particularly in fields like organisational behaviour, marketing and human resource management. They do, however, query the suitability of generalising research findings since business organisations are complex and unique. While the nature of the interpretivist approach allows for the collection of a vast amount of information, researcher influence in analysis arguably prevents results from being easily replicated.

Table 5.1 provides further contrasting implications of the choice between positivism and interpretivism. The table depicts that in positivism the researcher is independent from that being researched whilst in interpretivism, the researcher interacts with that being researched. With regards to human interest, positivism upholds it not to be relevant because it is not the main subject of research, while interpretivism rather considers human interests to be the main driver of the investigation. Additionally, in positivism, concepts need to be operationalised so that they can be measured whilst in interpretivism the interest of stakeholders has to be incorporated. Above all, while in interpretivism the focus is normally on small samples to help develop theoretical abstraction, relatively large sample size may be required in positivism to draw statistical conclusions.

Table 5.1: Contrasting implications of positivism and interpretivism

	Positivism	Interpretivism
The Observer	Must be independent	Is part of what is being observed
Human Interests	Should be irrelevant	Are the main drivers of the science
Explanations	Must demonstrate causality	Aims to increase general understanding of the situation
Research progresses through	Hypothesis	Gathering rich data from which ideas are induced
Concepts	Need to be operationalised so that they can be measured	Should incorporate stakeholder perspectives
Unit of analysis	Should be reduced to the simplest terms	May include the complexity of whole situation
Generalisation through	Statistical probability	Theoretical abstraction
Samples required	Large number selected	Small numbers of cases chosen for specific reasons

Source: Keraminiyage et al. (2005)

The two are generally considered to be diametrically opposed theoretical perspectives in epistemological research. It has been argued that the boundaries between these epistemological perspectives are becoming increasingly blurred, particularly in international business research which is multi-paradigmatic by nature (Toyne and Nigh 1998). This study takes the stand that both perspectives can be adopted in a single study instead of taking an "either/or" position. The study aims to establish an objective view of the role of government policies in attracting and retaining FDI and therefore leans more to the positivist approach. The interpretivist perspective is also considered instrumental in this study because the researcher is of the opinion that the role of government policies on the decisions and activities of foreign firms relating to investing and operating in Ghana may not be adequately examined using only probabilistic or the natural science perspective.

5.2.2 Ontology

While epistemology was noted earlier to concern the relationship of the researcher and that being researched as well as what constitutes acceptable knowledge in the field of study, ontology on the other hand is concerned with what is real and the nature of the reality (Saunders et al., 2007; Creswell, 1994). According to Bryman and Ball (2007:22) the central point of ontological orientation is "*the question of whether social entities can and should be considered objective entities that have reality external to* *social actors, or whether they can and should be considered social constructions built up from the perceptions and actions of social actors*". In management research, the fundamental ontological question is whether reality is of an objective nature and external to the individual or the product of individual cognition and mind (Zolan and Lewis, 2004). On the ontological issue of what is real according to Creswell (1994: 4), the quantitative researcher views reality as "objective", "out there" independent of the researcher. For the qualitative researcher, reality is mainly that which is constructed by the individuals involved in the research situation. These ontological perspectives are usually delineated as objectivism and subjectivism.

5.2.2.1 Objectivism

Objectivism according to Saunders et al. (2007) portrays the position that social entities exist in reality external to social actors. Reality is objective and singular apart from the researcher (Creswell, 1994). Objectivism position therefore asserts the view that social phenomena and their meanings have an existence that is independent of social actors. In other words the social phenomena and the categories that are used in everyday discourse have an existence that is independent or disconnected from actors (Bryman and Bell, 2007). Using objectivism in management research, Saunders et al. (2007) argued that management in an organisation could be seen as having a reality separate from the managers that inhabit that reality. They therefore observed that one could advance the argument that management is an objective entity and a decision to adopt an objectivist position to the study of particular aspects of management can be an important example.

5.2.2.2 Subjectivism

Subjectivism, on the other hand, holds the view that social phenomena are created from perceptions and the consequent actions of social actors. It is a continual process of social interaction through which the social phenomena are in constant state of revision (Saunders et al., 2007). Using management theory and practice as an example, Saunders et al. (2007) argued that the subjectivist viewpoint will be to reject the view that organisational culture is a variable, something the organisation has, something that can be manipulated, changed in order to produce the sort of state desired by managers, as too simplistic and see culture as something that is created and recreated through a complex array of phenomena which includes social interactions and physical factors such as office layout to which individuals attached certain meanings, rituals and myths. Drawing from Remenyi et al. (1998: 35) who emphasised the necessity to study the details of the situation to understand the reality or perhaps a reality working behind them, they argued that it is the meanings that are attached to these phenomena by social actors within the organisation that is needed to be understood in order for the culture to be understood. Furthermore, due to the continual creation and recreation of an organisation's culture, it is difficult for it to be isolated, understood and manipulated. This, they suggested, is often associated with constructionism or social constructionism. They further observed that this follows from the interpretivist position that it is necessary to explore the subjective meaning motivating the actions of social actors in order for the researcher to be able to understand these actions.

This study adopts an objectivist position because the researcher is of the view that decisions by foreign investors to invest their capital in a host country as well as continue operating in the country are based on objective assessment of various countries favourability to their investment. This is in line with the view of Saunders et al. (2007) that management is an objective entity and a decision to adopt an objectivist position to the study of particular aspects of management is acceptable.

5.2.3 Axiology

Axiology is a branch of philosophy that studies judgements about value (Saunders et al., 2007; Creswell, 1994). The axiological question in research is what the role of values of the researcher is at all stages of the research process? Is it the process value free and unbiased or is it value that is laden and biased? (Creswell, 1994). Saunders et al. (2007), depicting axiology, uphold Heron's (1996) argument that human values are guiding reasons for all actions and hence researchers demonstrate axiological skills by being able to articulate their values as a basis for making judgements about what research they are conducting and how they go about doing it. Choosing one topic rather than the other, or a particular philosophical approach, or even the method of data collection reflects what the researcher deems to be more important and hence his values. Table 5.2 illustrates the assumptions made under each of the philosophies with regards to positivism and interpretivism. On the epistemological question, positivism holds that the researcher should remain distant and independent of that being researched, whilst in the interpretivism researchers interact with those they study whether this interaction assumes the form of living with or observing informants over a prolonged period of time, or actual collaboration.

Table 5.2: Positivists and interpretivists assumptions in the various philosophies

Philosophy	*Question*	*Positivism (Assumption)*	*Interpretivism (Assumption)*
Epistemology	What is the relationship of the researcher to the researched	Researcher is independent from that being researched	Researcher interacts with that being researched
Ontology	What is the nature of reality	Reality is objective and singular apart from the researcher	Reality is subjective and multiple as seen by participants in a study
Axiology	What is the role of values	Value-free and unbiased	Value-laden and biased

Source: Adopted from Creswell (1994)

On the ontological issue, positivism views reality as "objective" "out there" independent of the researcher whilst interpretivism upholds that the only reality is that constructed by individuals involved in the research situation. Finally, on the axiological issue of the role of values in the study, positivism keeps the researcher's values out of the study whilst in interpretivism the researcher admits the value-laden nature of the study and actively reports his or her values and biases, as well as the value nature of information gathered from the field. The researcher in this study draws on both perspectives because of the mixed method nature of this study. The rational is that using both objective and subjective knowledge will improve the quality of answers to the research questions as in much business management research. Having said that the researcher leans more to the positivist stand because, on the ontological perspective, the position is taken that reality is objective based on empirical information obtained and not subjective to the views of the researcher. On the axiological perspective value is seen as that which is unbiased.

5.3 Research Strategy

The strategy of research is usually explained in line with how quantitative or qualitative the selected methods of inquiry are in the study. To this end, three types of strategies are identified: qualitative, quantitative and a mixture of the two. Historical evolution to both approaches identified quantitative approaches dominating the forms of research in social science from the late nineteenth century up until the mid-twentieth century.

Interest in the qualitative research approach increased during the latter half of the twentieth century and along with it the development of mixed methods of research (Creswell, 2009). The distinction between qualitative and quantitative research is framed in terms of using words (qualitative) rather than numbers (quantitative), or using closed ended questions (quantitative hypothesis) rather than open-ended questions (qualitative interview questions) (Creswell, 2009: 3). To some authors, quantitative and qualitative research differs with respect to their epistemological foundations (Bryman and Bell, 2007). Newman and Benz (1998) suggested that qualitative and quantitative approaches should not be viewed as polar opposites or dichotomies but should rather be viewed as representing different ends on a continuum. A more complete way to view the gradations of differences between them is in the basic assumptions researchers bring to the study, the types of strategies used overall in the research and the specific methods employed in conducting these strategies.

According to Creswell (2009), qualitative research is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem. The research process in this regard therefore involves emerging questions and procedures, data typically collected in the participant's setting, data analysis inductively building from particulars to general themes, and the researcher making interpretations of the meaning of the data. This strategy of inquiry supports a way of looking at research that honours an inductive style, a focus on individual meaning, and the importance of rendering the complexity of a situation (Creswell, 2007). Quantitative research strategy on the other hand is a means of testing objective theories by examining the relationship between variables which can be measured on instruments and the numbered data analysed using statistical procedures (Creswell, 2009). Researchers using this form of inquiry have assumptions about testing theories deductively, building in protections against bias, controlling for alternative explanations, and being able to generalise and replicate findings. The final written report also has a set structure consisting of introduction, literature and theory, methods, results and discussion (Creswell, 2008). According to Hurmerinta-Peltomäki and Nummela (2004: 162), the methodological choice between the use of qualitative and quantitative are not made in isolation but always in relation to the researcher's assumptions of the phenomenon itself (ontology), the basis of the knowledge (epistemology), and the relationship between human beings and their environment. They further suggested that a researcher with a positivist/objective approach emphasises the methods and values of the research in the natural sciences and is bound to adopt quantitative methods. On the other hand, they suggested that a researcher with a constructivist/subjectivist orientation attempts to get as close as possible to the phenomenon in question in order to acquire more understanding. This, in turn, requires the use of qualitative methods.

Pragmatists, however, argue that researchers should use both methods effectively in order to increase their understanding of the phenomenon in question (Hurmerinta-Peltomäki and Nummela 2004: 162). The argument here is that the most important determinant of the philosophy adopted is the research question. Instead of focusing on methods, researchers emphasise the research problem and use all approaches available to understand the problem as one approach may be better than the other for answering particular questions (Creswell, 2009; Saunders et al., 2007). The debate on both epistemology and ontology is often framed in terms of a choice between either the positivist or the interpretivist research philosophy. However, if the research question does not suggest unambiguously that either a positivist or interpretivist philosophy is adopted then the situation confirms the pragmatist's view that it is perfectly possible to work with both philosophies. The pragmatism philosophy therefore underpins the use of mixed methods, both qualitative and quantitative in a research. Tashakkori and Teddlie (1998), and Morgan (2007) conveyed its importance for focusing attention on the research problem in social science research and then using pluralistic approaches to derive knowledge about the problem.

Creswell (2009) and Morgan (2007) observed that pragmatism is not committed to any one system of philosophy and reality but applies mixed research methods in that the inquirers draw liberally from both quantitative and qualitative assumptions when they engage in their research. Individual researchers therefore have a freedom of choice to choose the methods, techniques, and procedures of research that best meets their needs and purposes. Pragmatists do not see the world as an absolute unity but look to many approaches for collecting and analysing data rather than subscribing to only one way; that is either quantitative or qualitative. According to this view truth is what works at the time and purity of method is less important than dedication to relevant and useful information (Hurmerinta-Peltomäki and Nummela 2004: 164). It is not based in a duality between reality independent of the mind. Thus, in mixed methods research, investigators use both quantitative and qualitative data because they work to provide the best understanding of a research problem. In using mixed methods, researchers need to establish a purpose for their mixing, a rationale for the reasons why quantitative and qualitative data needs to be mixed in the first place. Thus pragmatism opens the door to multiple methods, different worldviews, and different assumptions, as well as different forms of data collection and analysis. According to Saunders et al. (2007), Tashakkori and Teddlie (1998) contend that pragmatism is intuitively appealing, largely because it avoids the researcher engaging in what they see as rather pointless debates about such concepts as truth and reality. They posited that researchers should study what interests them and is of value to them, to study in different ways in which they deem appropriate, and use the results in ways that can bring about positive consequences within their value system (Saunders et al., 2007: 110). Mixed methods strategy of inquiry therefore imbibes the philosophical assumptions under both strategies and the mix use of both qualitative and quantitative approaches in tandem so that the overall strength of the study is greater than either qualitative or quantitative research (Creswell, 2009; Creswell and Clark, 2007).

Mixed methods have been discussed and referred to in various terms including multiple methods, multi-method research, methodological mix (Tashakkori and Teddlie 1998) and commonly triangulation (Hurmerinta-Peltomäki and Nummela 2004: 164). The use of mixed methods or the integrated use of qualitative and quantitative research strategies within a single study has been subjected to a raging debate in the literature. The arguments against the combined use of these research strategies largely have been on the grounds that they represent differing epistemological positions (Morgan and Smircich, 1980; Delamont and Hamilton, 1984). Each of these research strategies according to this view is associated with a unique and separate paradigmatic perspective and it is these two perspectives that are in conflict (Cook and Reichardt 1979: 9). These critics of the mixed strategy of inquiry further assumed that qualitative and quantitative strategies are fixed and rigid and the only option for the researcher is to choose only one. Other critics also argue that a researcher's choice of investigation strategy is informed by his view on the proper foundation for the study of social reality (Bryman, 1989: 9). Supporters of the mixed strategy of inquiry are of the view that if the research problem invites a combined approach, there is little to prevent such a strategy, other than time money and possibly inclination (Bryman, 1989: 107). Whilst qualitative research can facilitate quantitative research by providing hypothesis and aiding measurement, quantitative research can prepare the ground for qualitative research through the selection of people to be interviewed, or organisations to be selected for case studies. Additionally, whilst quantitative research strategy allows for broad-based generalisation theory testing and comparability of observations, qualitative research strategy captures the richness of the data, allows for meticulous attention to be paid to detail and enables the researcher to study the phenomenon in its context (Harrigan, 1983:399). According to Hurmerinta-Peltomäki and Nummela (2004: 164), the selection of mixed methods should be based on the fact that important elements of the research problem would remain unresolved if only one method were used. Thus, this approach to multi-strategy research is often adopted when the researcher believes the reliance on either a quantitative or a qualitative method is insufficient to achieve research objectives, but needs to support findings by drawing from the other research strategy (Bryman and Bell, 2007).

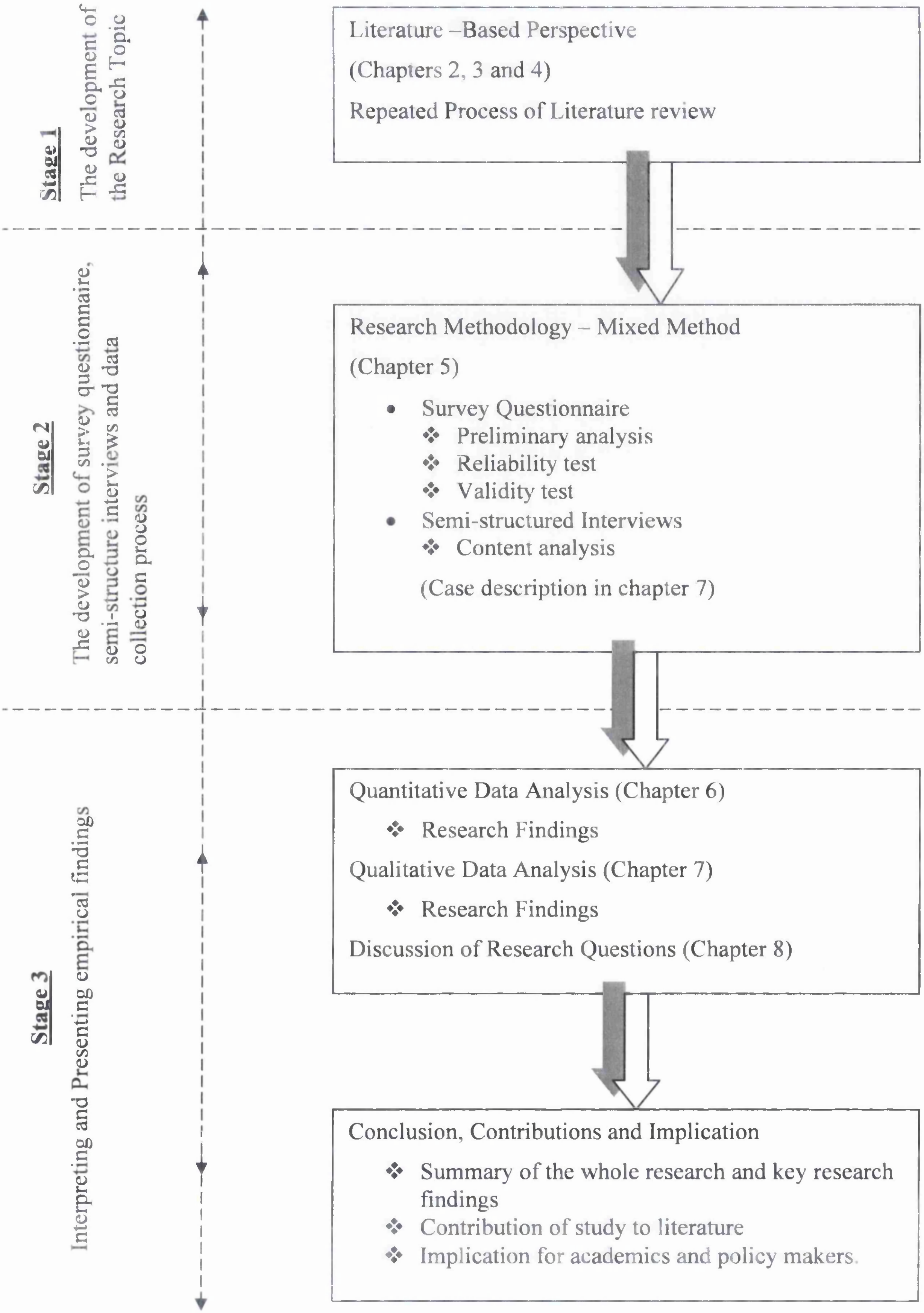
This study deals with a relatively unexplored area – the role of government policies in attracting and retaining FDI in Ghana. For this reason it was felt that a mixed method of inquiry was considered the most appropriate to undertake a detailed investigation of the research questions, as it provides flexibility in the exploration, description and analysis of issues (Yin, 1994). The choice of the mixed strategy is dictated by the need to provide definitive answers to the questions: (1) How effective are government policies in attracting and retaining FDI in Ghana? and (2) How can Ghana increase the inflow of FDI into its economy? The aim of using this method is to capture a complete, holistic picture of the subject matter with the view to uncovering something that might have been missed with a simpler research design (Jick, 1979). Argument has been put forward that the two different methods complement each other and thus increase the validity of the findings (Hurmerinta-Peltomäki and Nummela 2004; Jick, 1979). The mixed strategy is thus believed to be the appropriate strategy to use in the inquiry of the research questions in this study because the flaws of one method will be compensated by the strengths of the other (Denzin, 1989). The strategy also allowed for a deeper understanding of dimensions of the issues to emerge and bolster confidence in the results (Jick, 1979). The mixed method strategy was used in this study to also ensure a greater understanding of the critical role government policies are playing in attracting and retaining FDI in Ghana. The strategy permitted the investigation of the FDI phenomenon in the country from a variety of viewpoints, crossing the boundaries between different factors and provided an opportunity for intensive analysis of many specific details (Kumar, 2005: 113) of government policies focused on FDI in Ghana. The research design process is then explained in the next section.

5.4 Research Design Process

Figure 5.3 reveals the research process of this study. Selltiz et al. (1962: 50) defined a research design as "the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure." Similarly, Saunders et al. (2007: 131) asserted that a research design is a general plan, structure and strategy of how to go about investigating and answering the research questions or problems. The plan is the complete scheme or programme of research. It includes an outline of what the researcher will do from writing the hypotheses and their operational implications to the final analysis of data (Kumar, 2005: 84). Additionally, it is contended that a traditional research design is a blueprint or detailed plan for how a research study is to be completed – operationalising variables so they can be measured, selecting a sample of interest to study, collecting data to be used as basis for testing hypothesis, and analysing the results (Thyer, 1993: 94).

Creswell (2003) put forward four central questions which demonstrate the interrelated and progressive decisions which should be made in the selection of an appropriate research design. These questions are as follows: (1) what epistemology drives the research exercise (such as objectivism or subjectivism); (2) what theoretical perspective or philosophical stance determines the methodology in questions (for instance, positivism or interpretivism); (3) what methodology best links to outcome (for example, experimental research, ethnography or survey); and (4) what methods or techniques should be utilised (for example, questionnaire, interview or focus group). As previously stated, this study seeks to obtain an objective view of the role of government policies in attracting and retaining FDI into Ghana through appropriate methods that are rigorous, reasonable and explicit. Given the research problem, the overall objectives of the study and the availability of literature and theoretical evidence on which to formulate propositions, an exploratory design was seen to be the most suitable for this study. In furtherance to that survey questionnaire and semi-structure interviews were employed in the primary data collection. Figure 5.3 reveals the research process of this study.

Figure 5.3: Research Process



5.5 Data Collection Methods

There are many data collection methods used in gathering primary research information. The most commonly used methods are observations, survey questionnaires and interviews. Observation as a method of data collection is a purposeful, systematic and selective way of watching and listening to and interaction or phenomenon as it takes place (Kumar, 2005:119). It is further divided into participant and non-participant observation. The participant observation according to Collis and Hussey (2003) is where the researcher is fully involved with the participants and the phenomena being researched in order to obtain a detailed understanding of values, motives and practices of those being observed. The non-participant observation is where the researcher separates himself from the activities taking place without getting involved in the activities and the subjects of the research may or may not be aware that they are being observed. This method has been criticised on the grounds that problems of observer bias may arise and that the observer may fail to observe some activities because of distractions. There are also associated problems regarding ethics, objectivity, visibility, technology for recording what people say and/or do, boredom and the impact of the impact the researcher has on those being observed (Kumar, 2005). Additionally, the method is time consuming and problematic in gaining access to organisations to observe activities. It becomes very feasible if the researcher is has already been a member of the group or organisation. In the context of this study, it was considered impossible for the researcher to gain access and to observe the decision making process of many foreign firms regarding how important certain factors influenced them to invest in Ghana or continue to stay in the country. As a result this method was considered impractical for the data collection.

The use of questionnaires in data collection is comparatively convenient and an inexpensive survey instrument to use when substantial information is sought through structured questions from a large sample, as it saves time, and human and financial resources. As there is no face-to-face interaction between respondents and interviewer, questionnaires provide greater anonymity and in some situations when sensitive questions are asked it helps to increase the likelihood of obtaining accurate information (Kumar, 2005: 130). It also ensures rapid turnaround in data collection (Creswell, 2009: 146). The survey questionnaire was therefore used to collect the quantitative data for the study.

Interviews may be formalised and structured using standardised questions for each respondent or they may be informal and unstructured conversations. These are commonly categorised as structured, semi-structured and unstructured interviews (Saunders et al., 2007: 311; Bryman and Bell, 2007: 474-507). Structured interviews use questionnaires based on predetermined and standardised set of questions which the researcher reads out and then records the response on a standardised schedule, usually with pre-coded answers (Saunders et al., 2007: 312). Unstructured interviews also referred to as in-depth interviews are informal and used to explore in depth a general area in which the researcher is interested in. The interviewee is given the opportunity to respond freely about events, beliefs and behaviour in relation to the topic area, with the interviewer simply responding to points that seem worthy of being followed up (Bryman and Bell, 2007: 474). With semi-structured interviews on the other hand, the interviewer will have a list of themes and questions to be covered but the interviewee has a great deal of leeway on how to reply. Questions may not follow on exactly in the way outlined on the schedule but at the end all the questions will be asked and a similar wording will be used from interviewee to interviewee. Additional questions may be asked as the interviewer picks up on things said by interviewees to explore the research questions and objectives (Saunders et al., 2007: 312; Bryman and Bell, 2007: 474-507). Saunders et al., (2007: 312) also observed that the nature of the semi-structured questions and the ensuing discussion mean that data will be recorded by audio-recording the conversation or perhaps note taking.

According to Bryman and Bell (2007: 472), interviews are probably the most widely employed method in qualitative research and their flexibility makes them so attractive for researchers. They further observed that interviewing, the transcription of interviews, and the analysis of the transcripts are all very time-consuming but that they can be more readily accommodated into the researcher's personal life. Certainly, questionnaire surveys are far less costly in terms of time and money, and secondary data requires far less commitment from the researcher than interviews. Parkhe (2004) observed that interviews are subject to potential problems of self-reporting bias, poor recall, and selective memory. However, Marschan-Piekkari and Welch (2004: 13) noted that, while interviews suffer from biases and limitations, they are potentially a rich source of data. Parkhe (2004) emphasised, that despite the limitations, there is no data source as rewarding as interviews in international business research. Saunders et al. (2007: 310) also observed that interviews can help a researcher gather valid and reliable data that are relevant to the research question(s) and objectives. Qualitative research in international business is largely dominated by case studies based mainly on data collected from interviews (Ghauri 2004; Osland and Osland 2001; Marschan-Piekkari and Welch 2004:13).

According to Kumar (2005), researchers can use more than one method to collect data. However, the choice of method should depend on the purpose of the study, the resources available and the skills of the researcher. Kumar (2005) further noted that there are times when the most appropriate method for the study cannot be used because of constraints such as lack of resources and/or skills. This study deals with a relatively unexplored area, and for this reason it was felt that a mixed method of inquiry was considered the most appropriate to undertake a detailed investigation of the research questions, as it provides flexibility in the exploration, description and analysis of issues (Yin, 1994). The essence of an analysis of the role of government policies in promoting foreign direct investment flow into Ghana can be captured through quantitative methods and statistical tests. However, valuable insights into the role of government policies on foreign firms investing in the country and their continuous operation in the country may be lost by using only such methods. It is qualitative methods such as semi-structured and structured interviews that are able to capture the nuances, provide greater detail and understanding of this phenomenon. Thus, the triangulation of semi-structured interviews and questionnaire surveys were employed in this study to collect the primary data. The strengths of interviews and survey questionnaire in generating qualitative and quantitative data respectively influenced the choice of questionnaire used as a survey instrument for gathering the quantitative data and the semi-structured interviews for gathering the qualitative data of this study. Hence, in order to gain a deeper insight into the role of government policies in the investment decision-making of foreign firms as well as the flow of foreign direct investment into the country, the semi-structured method of primary data collection was employed to complement the questionnaires. It also helped check and validate the information received from various sources and examined it from different angles (Ghauri and Gronhaug, 2002). The terms 'triangulation' and 'mixed methods' are used synonymously in this study, given that mixed methods represent one form of triangulation (Hurmerinta-Peltomäki and

Nummela 2004: 164). The next subsections will discuss how the sample was selected in administering the questionnaire. The quantitative data collected was analysed using statistical methods while the qualitative data was analysed by means of content analysis procedures.

5.6 The Target Population

The research population according to Punch (2005) refers to the total target group who would, in the ideal world, be the subject of the research and about whom the researcher is trying to say something. It is therefore critical to define and identify the population properly and accurately for this study. For the purpose of this study, the population of the quantitative data collection is defined as all foreign firms operating in Ghana. The population for the qualitative data also refers to all foreign firms operating in the country as well as government FDI policymakers. This is in accordance with the affirmation of Bryman and Bell (2007) that the definition of the population should be related to the particular research inquiry. However, for reasons of specificity, a condition of all foreign companies being controlled by foreigners as suggested by the literature was imposed especially in the case of joint ventures. Kumar (2005:164) noted that it is impossible in many cases to gather data from the bigger group (population). Researchers therefore tend to select a sample from the total population for the study so as to gain information about the population. The sampling frame and methods are discussed next.

5.7 The Sampling Frame

Sampling frame is a list or other record of the population from which all the sampling units are drawn (Collis and Hussey, 2003:155). In this study, a number of sampling frames were consulted in order to determine which one or what combination would be suitable for the study. Though the Registrar-General Department (RGD) of Ghana is responsible for registering all investment projects in the country, it could not satisfactorily provide a comprehensive listing of all the foreign firms operating in the country with their contact information. The GIPC, which is currently responsible for promoting the country to foreign investors, also registers investment projects in the Manufacturing, Service, General Trade, Tourism, Building Construction, Agric and

Agribusiness, Liaison Offices and Export Trade sectors of the economy. Foreign investment projects in these sectors are also by law required to work with the GIPC. The Minerals Commission (MC) and the Ministry of Energy are also responsible for registering investment projects in the Mining and Energy sectors of the economy respectively. Investment projects also operating within the Free Zone enclaves are required to register and operate with the Ghana Free Zone Board (GFZB). None of these agencies could produce a list to completely capture the requirement of the study and as a result, all these government agencies and institutions together with the Ministry of Trade and Industry (MTI) were consulted to gather information on foreign firms operating in the country.

The GIPC revealed it had a total of 3,378 approved and registered foreign firms operating in the country. The researcher was only able to obtain a list of 500 wholly owned and controlled foreign firms actively operating in the country from the GIPC. The list included the firms from different sectors, their addresses, locations and countries of origin. The researcher also obtained a list of 136 and 88 foreign companies from the GFZB and the MC respectively that are operating under these government agencies. The resulting list from these agencies was used as the sample frame to administer the questionnaire. The assumption is that the resulting list represented a good sample of the population of all foreign firms operating in the country. The aim was also to obtain a list of firms that reflected the diversity of the types of foreign direct investment that is undertaken in the country such as market- seeking, resource-seeking and export-seeking investment firms.

5.7.1 Methods of Sampling

Despite the view that sampling has the possibility of generating errors in the resulting sample information meant to explain a phenomenon about the population, it is still considered very important. Kumar (2005) however observed that information can be ascertained from the sample, and if the method of enquiry is correct, the findings should be reasonably accurate. There are several types of sampling methods employed in business research, broadly divided into probability and non-probability sampling techniques. The most popular probability sampling methods are simple random sampling, systematic random sampling and stratified random sampling; while the non-probability sampling methods which are widely used are quota sampling and convenience sampling. These are discussed below in greater detail.

5.7.1.1 Simple Random Sampling

Simple Random sampling is a probability sampling method where each member of the population has an equal and independent chance of inclusion in the sample and where each combination of members of the population has an equal chance of constituting the sample (Bryman and Bell, 2007: 185). The method is thus considered as the purest form of probability sampling and is defined by its main properties. A technique commonly employed in this type of random sample selection is the assignment of a unique number to each case of the sampling frame followed by the employment of random numbers in the selection of the desired sample (Saunders et al., 2007: 215). As succinctly described by Silver (1997: 17), this method of selection is similar to writing the number assigned to the name of each foreign firm from the sample frame on a piece of paper, *"dropping them in a big hat, shaking it very well and picking the required sample size blindfolded."* The method has the advantages of simplicity and high suitability for statistical purposes. Also, there is almost no opportunity for the manifestation of human bias in the study. The method has however been faulted on the grounds that it requires an accurate list of the whole population which many be difficult to obtain. Additionally, it is very expensive if those to be sampled cover a wide area. Finally, large variances may be obtained when the population is heterogeneous. These make the method difficult to apply and therefore unsuitable for this study.

5.7.1.2 Systematic Random Sampling

This sampling method also referred to as the Nth name selection technique and involves the direct systematic selection of elements (foreign firms) from the sampling frame without resorting to random selection of elements (Bryman and Bell, 2007: 187). In this method, the population is divided by the required sample size (N) and the sample chosen by taking every 'N^{th}' subject (Collis and Hussey, 2003:156). The starting point of the selection process is at random but all selections thereafter are at regular intervals. For example, if a sample of 10 foreign firms is required from a sample frame of 300 the sample frame is divided by the required sample (i.e. 300/10 = 30). Every 30th foreign firm in the country is selected after a random starting number between 1 and 30. This technique is considered to be much easier to conduct than simple random sampling and allows the sample to be more evenly spread over the population. Additionally, this method lends itself to the selection of a specified number of records from a computer file. The demerit with this method, however, is that it has the potential to interact with a hidden pattern in the population which may also lead to distortion. Inherent ordering of the sampling frame might therefore bias the resulting sample using this method; as such this method was also found to be unsuitable for this study.

5.7.1.3 Stratified Random Sampling

This is a probability sampling method which involves the stratification of the population by a criterion into mutually exclusive, homogeneous groups (such as the sectors of the firms) called strata, and selecting either a simple random or a systematic sample from each of the resulting strata to form an independent sample. The aim is to select a sample that is proportionately representative of all the sub-groups (Bryman and Bell, 2007). This method ensures that the resulting sample will be distributed in the same way as the population in terms of the stratifying criterion. Therefore, the characteristics of different non-overlapping sub-groups can be illustrated and comparisons between sub-groups facilitated. The method has the merits of equal representation of segments and better coverage of the population than simple random sampling; greater precision when members of the same stratum are similar in terms of the characteristics under study; and if required the results from each stratum can be analysed separately. The drawbacks of the method include the difficulty in identifying appropriate strata and the high level of complexity in the organisation and analysis of obtained results. It is likely to be uneconomical if identification of population members for stratification purposes entails a great deal of work because of unavailable listing in terms of strata. The method is thus only feasible when the relevant information is available and hence was not employed in this study.

5.7.1.4 Quota Sampling

The main consideration directing quota sampling is the researcher's ease of access to the sample population (Kumar, 2005). Additionally, the researcher is guided by some visible characteristic of the study that is of interest and promotes the inclusion of members in the sample. Elements are specifically selected until the desired number of units (quotas) is obtained for various sub-groups. For example, if the population consists of 250 manufacturing foreign firms and 250 mining foreign companies and the study seeks to obtain the opinions of 150 of these to ensure that groups are evenly represented, 75 manufacturing companies and 75 mining companies must be drawn. The method therefore forces the inclusion of all sub-groups of interest. This is similar to stratified sampling where homogeneous elements are grouped together. However, whereas stratified sampling requires the random selection of units, quota sampling is a non-random sampling method where the choice of units' selection is left to the discretion of the researcher. The method is considered to be very quick and easy to administer, relatively inexpensive to conduct and satisfies population proportions. It is however criticised on the grounds that the resulting sample is not a probability one and findings cannot be generalised to the total population. It is also suggested that the most accessible members of the sample might have characteristics that are unique to them and hence might not be truly representative of the total sampling population meaning results obtained by this method may be tainted by potentially significant bias (Kumar 2005:178). This method is the first of the two non-probability sampling methods covered in this study and was also not employed.

5.7.1.5 Convenience Sampling

This method of sampling is based on the selection of elements from a population that are available to the researcher by virtue of easy accessibility (Bryman and Bell, 2007). The method is widely used in exploratory research where the aim is to obtain an inexpensive approximation of the true nature of the phenomenon under study. Convenience sampling is the most commonly applied in many practical situations. For instance, many psychological research studies tend to use university students as sample units. This allows for immediate testing of the phenomenon on an exploratory basis, before more structured methods are adopted for later studies. The method is known for its applicability across various contexts, ease of use and its inexpensiveness. This method has, however, been criticised for the likely effect of significant bias on the generated sample and problems with representation of the population. Given the advantages of this sampling method, the phenomenon under study and the exploratory nature of the study, it was considered as the best choice to serve the purpose of the study. This involved visiting foreign firms located mainly within the industrial areas and Free Zone areas within the country. Selection of the foreign firms located within the industrial Free zones areas was not purely arbitrary, however, attempts were made to survey foreign firms operating in Ghana that reflect the diversity of all types of foreign direct investment undertaken in the country. Concerted effort was therefore made to survey foreign firms in the country with motives of resource-seeking, market-seeking, efficiency-seeking, and asset-seeking investments. Thus the sample surveyed comprised of firms from all sectors of the economy ranging from large global firms to rather small firms. Specific details of the research sample regarding the sectors, size of firms, years since establishment, country of origin, motives, mode of entry and other background information are presented in section 6.2 of chapter six.

5.8 Research Instrument

In business research there are a number of different scaling methods employed but Thurstone, Gutman, Semantic Differential and Likert Scaling methods are the most widely utilised ones. Thurstone scale was developed by Thurstone and Cave (1929) specifically for measuring attitudes and was found not to be suitable in this study because the study is not measuring attitudes. The Guttman scale developed by Louis Guttman (1944) on the other hand is a comparative scaling technique developed for measuring the strength of attitudes towards a specific issue. This scaling method has however been criticised for being too rigid and deterministic and was also considered not to be the best method for this study. Charles Osgood (1952) developed the Semantic Differential scaling method also meant to measure attitudes via connotative meaning of words. The technique was also considered unsuitable for this study partly because of its dependence on the selection of bipolar opposites which can be tedious and time consuming. The Likert Scale is a widely used format first developed by Rensis Likert (1932), in a five-point bipolar format to systematically measure individuals attitudes on a range of values such as '*very dissatisfied*' to '*very satisfied*', and '*strongly* *disagree*' to '*strongly agree*'. The scale is deemed to measure the intensity with which respondents feel about an issue (Bryman and Bell, 2007:728). Numbers are then assigned to the responses in relation to their position on the scale. On a five-point scale for example, *'very dissatisfied' to 'very satisfied'* may be weighted and assigned values in order of 1 for '*very dissatisfied*', 2 for *'dissatisfied'*, 3 for *'neutral'*, 4 for *'satisfied'* and 5 for *'very satisfied'*. Sometimes the Likert scale is extended into a six-point or seven-point scale and in some instances the scale is restricted to three-points or four points (Saunders et al., 2007:373). The responses obtained are then summed and measured on an interval scale made possible by the assignment of the numbers which places equal distance between the response options. This provides the researcher with vital information about how the respondent feels about a particular issue and how strong those feelings are. The odd-numbered Likert scale offers added advantages of a neutral point which allows for the expression of indifference, reduces acquiescent response bias and does not oblige an answer unlike the other forced choice scales (Saunders et al., 2007: 373). This makes the odd-numbered Likert scales more empirically viable for research purposes and has been very popular in business research (Saunders et al., 2007). It can be suggested that this scaling method has a long standing familiarity with large sections of the population (foreign firms) from which samples are drawn for this study and can easily be adapted to a variety of business research settings. Based on these reasons, the Likert scaling was considered to be the most suitable method among all the approaches examined for the study and responses to the questions were mainly placed on the a five-point odd numbered scale. Some responses were, however, ranked in order to discover the relative importance of different international investment agreements to the respondents. The resulting survey questionnaire was pre-tested before the actual survey.

5.8.1 Constructs of the Questionnaire

The constructs of the survey questionnaire included the background of the company (presented in section 6.1), the mode of entry into Ghana, the motive of investing in Ghana, the influence of government policies in the company's initial decision to invest in Ghana and its continued operation, as well as the influence of the business facilitation factors to the investment decision of the firm. A provision was also made for respondents to indicate their willingness for a follow-up interview which was meant to explore the questions in detail. The second phase of the data collection was a follow-up interview with nine (9) of those foreign investors. As the questions were of a strategic nature, it was determined that the respondents should be upper-level managers of foreign companies capable of making strategic decisions. These were then subsequently contacted and a semi-structured face-to-face interview was conducted by the researcher. Additionally, nine (9) senior directors at government agencies responsible for promoting and coordinating foreign direct investment and their activities in the country were also interviewed. Thus, the people interviewed were key players in government policy formulations with regards to FDI in Ghana. Additional information and data were gathered from available literature as well as documents provided by some of the organisations that participated in the study and these were used to complement the primary data sources. The quantitative data collected were analysed using statistical methods while the qualitative data was analysed by means of content analysis procedures. This enabled the researcher to take advantage of the strengths of both methods. It also helped check and validate the information received from various sources and examined it from different angles (Ghauri and Gronhaug, 2002).

5.9 The Questionnaire Pre-test and Revision

The purpose of the pre-test is to identify in advance the problems that respondents might confront during the survey. The process of solving these problems ensures that the questionnaire meets the researcher's expectations in terms of the information obtained (Aaker et al., 2007). An attractive and neat questionnaire with appropriate introduction, instructions, and a well-arrayed set of questions and response alternatives was considered to make it easier to obtain good responses. The questionnaire was "piloted" before the actual primary data gathering from the target population. Conducting a pilot before research survey allows any potential problems in the questionnaire to be identified and corrected (Gill and Johnson, 2002) and also helped the researcher to gain an assessment of the questions' validity and likely reliability of the data (Saunders et al., 2007: 386). Gill and Johnson (2002: 120) described the use of a pilot study as *"a trial run-through to test the research design with a subsample of respondents who have characteristics similar to those identifiable in the main sample to be surveyed."* Piloting is very important as it is very difficult to predict how respondents will construe, interpret and react to questions. The questionnaire was piloted in three phases. The first phase involved the administration of the survey questionnaire to ten managers of foreign firms with considerable involvement in the firm's international activities and decision-making. The second phase consisted of conducting interviews with five directors of government institutions responsible for promoting and managing foreign investments in the country. In the final phase, interviews were conducted with five additional managers of foreign firms operating in the country. The pilot study enabled the researcher to make minor revisions regarding the order of some questions and words to the questionnaire in order to make it clear and easy to apply.

5.10 The Quantitative Data Collection

The quantitative data was collected via a cross-sectional survey from June 2009 to September 2009 using a questionnaire on a sample of foreign firms operating in Ghana. As indicated earlier, a total list of 3,378 registered foreign companies with GIPC was obtained from the agency, 88 mining companies from the Minerals Commission and 136 companies from the Ghana Free Zones Board. This resulted in a long list of foreign companies operating in the country with some overlapping. Convenience sampling was then employed to select three hundred and fifty (350) foreign companies for the survey. This involved visiting foreign firms located mainly within the industrial areas and Free zones areas within the country. Because of the unreliability of the postal system usually associated with Sub-Saharan African countries and the delays involved in the questionnaire finally getting to the right person, the questionnaires with covering letters were personally delivered to potential respondents in Ghana to eliminate the unreliability of the postal system in the country. Two weeks after delivery, the questionnaires were personally collected by the researcher from the respondents. The researcher subsequently made follow-ups in the third, fourth, fifth and sixth weeks and was able to collect back a total of one hundred and two (102) questionnaires representing 29%. Ninety two (92) of the questionnaire collected back representing 26% were useable. This rate of response is acceptable based on Kumar's (2005:130) suggestion that 20% response rate is acceptable. The characteristics of the firms that responded to the survey questionnaire are illustrated in Tables 5.3 to 5.7

Table 5.3: Sectors of Survey Respondents

Sectors of Survey Respondents	Number of Responding Firms	Percentage (%) of Responding Firms
Manufacturing	33	35.9
Mining	5	5.4
Building & Construction	8	8.7
Tourism	2	2.2
Services	29	31.5
Agriculture	1	1.1
Export Trade	2	2.2
General Trade	11	12.0
Energy (Oil and Gas)	1	1.1
Total	92	100.0

Table 5.4: Region of Origin of Survey Respondents

Region of Origin	Number of Responding Firms	Percentage of Responding Firms
America	16	17.4
Europe	34	37.0
Asia	29	31.5
Africa	13	14.1
Total	92	100.0

Table 5.5: Size of Respondents' Companies

Size of Company	Number of Responding Firms	Percentage of Responding Firms
Micro (less than 5 employees)	2	2.2
Small (between 6-29 employees)	32	34.8
Medium (between 30-99 employees)	28	30.4
Large (more than 99 employees)	30	32.6
Total	92	100.0

Table 5.6: Main Motives of Firms

Motives of Firms	Number of Responding firms	Percentage of Responding firms
Market Seeking	59	64.1
Natural Resources Seeking	13	14.1
Efficiency Seeking	17	18.5
Asset Seeking	3	3.3
Total	92	100.0

Table 5.7: Mode of Entry

Mode of Entry	Number of Respondents	Percentage of Respondents
Greenfield	55	59.8
Joint Venture	26	28.3
Acquisition of a local firm	11	12.0
Total	92	100.0

The data collected from the survey were then subjected to statistical analysis as indicated below and presented in Chapter six.

5.11 The Quantitative Data Analysis and Presentation Method

The quantitative data generated from this study was analysed using Statistical Package for Social Science (SPSS). Data from all useable questionnaires were entered into an SPSS file. When all data had been entered, each case (a case represents data for each respondent) was double-checked and during this stage a small number of corrections were made. Descriptive statistics, including maximum and minimum values, were examined for each variable and as a further check to ensure that a value did not breach the range of values that could be taken. The data analysis was completed using descriptive statistics (Frequency analysis, Mean scores), inferential statistics (Factor analysis, T-test, ANOVA) as well as multivariate analysis (Correlations and Multiple regression) to enable rigorous and complementary testing of the propositions and the research questions. These analytic techniques have been found to be suitable for this study because they were used in similar studies. For example, Gilmore et al. (2003) employed mean score analysis to assess the motivations and satisfaction levels of foreign firms operating in Northern Ireland and Bahrain. They also used independent sample T-test analysis to find out if significant differences in the determinants of FDI between the two countries. Boateng et al. (2002) also employed factor analysis and descriptive statistics in their study of international joint ventures in West Africa. The other techniques are also widely used by researchers; particularly for publications in leading international business journals. The results of the analysis and the interpretations are presented in Chapter 6.

5.12 The Qualitative Data Collection

The qualitative data was also collected between June and September 2009 via interviews. A provision was also made in the survey questionnaire for respondents to indicate their willingness for a follow-up interview which was meant to explore the questions in detail. As the questions were of a strategic nature, it was determined that the respondents should be upper-level managers of foreign companies capable of making strategic decisions. The targets of the interviews were therefore senior executives of selected foreign firms who had already responded to the mailed questionnaire. Additionally, policymakers such as directors of the investment promotion agencies; and officials at the ministries and the local chamber of commerce were also interviewed. In total, nine (9) directors from eight government policymaking agencies and nine directors of foreign companies operating in the country were interviewed. The details of companies and government institutions where respondents were interviewed are illustrated in Tables 5.8 and 5.9 respectively.

Table 5.8: Profile of Nine companies

Code	Home country	Year of entry	Mode of entry	No. of Staff	Main functions
A	South Africa	2004	JV	7200	Gold exploration, mining, processing and export
B	Netherlands	2002	Acquisition	21	Cocoa processing and warehousing
C	France	2007	Greenfields	65	Oilfields exploration and services company
D	France	2007	Greenfields	76	Shipping company
E	India	2003	Greenfields	200	Garment manufacturing company
F	Lebanon	1955	Greenfields	20	Shoe manufacturing company
G	Lebanon	1999	Greenfields	34	Plastic furniture manufacturing company
H	Netherlands	1991	JV	284	Hospitality company
I	American	2007	Greenfields	120	Business outsourcing company

Table 5.9: Government Institutions where Officials were interviewed:

Government Institutions	Number of Respondents
The Ghana Ministry of Trade and Industry	2
The Ghana Investment Promotion Centre (GIPC)	1
The Ghana Registrar General Department	1
The Ghana Minerals Commission	1
The Ghana Free Zones Board	1
The Ghana Chamber of Mines	1
The Ghana Standard Board	1
The Ghana National Development Planning Centre	1
Total	9

The interviews were audio- recorded where possible so as to overcome the potential limitations of poor recall, selective memory, and self-reporting bias. The themes covered during the interviews of the respondents from the foreign firms included; their motives of investing in Ghana; the reasons they chose to invest in Ghana over other African countries; their opinion about the attractiveness of the country's business environment; the favourability or otherwise of the country's FDI policies, and their future plans in Ghana. The aim of these themes was to identify the economic, policy and business facilitating factors that are attracting and retaining FDI in the country. The themes covered during the interviews with the government officials included, the various policies the government is using to attract and retain FDI, the reasons why foreign investors visit these government policy making institutions, their opinion regarding the quality of the policies as well as the general business environment of the country. This provided substantial and meaningful information in support of the quantitative data obtained. Secondary data from government reports, published economic and social data, company reports, industry reports, newspaper articles and other journalistic pieces were also used to complement the primary data. At each stage of this research process, the indispensability of continuous literature review is stressed.

5.13 Qualitative data analysis

The qualitative data recorded through the semi-structured interviews was transcribed and checked with the interviewees for them to confirm that the transcribed information did not depart from what they said. This was to ensure validity, reliability and authenticity of the qualitative data gathered. Inaccuracies were therefore corrected before coding. The coding and analyses of the qualitative data was therefore done by means of content analysis technique. These procedures involved the systematic categorisation of responses on topics pertaining to the research. Bryman and Bell (2007: 302) observed that well-known definitions of content analysis contain a reference to two important qualities: objectivity and being systematic. For example, Berelson (1952: 18) defined content analysis as "*a research technique for the objective, systematic and quantitative description of the manifest content of communication.*" Holsti (1969: 14) also defined the technique as "*any technique for making inferences objectively and systematically identifying specified characteristics of messages.*" Content analysis offers the prospect of different kinds of 'units of analysis' being considered. Bryman and Bell (2007: 308-310) however observed that decisions about what should be counted in the course of a content analysis are bound to be profoundly affected by the nature of the research questions under consideration. They further observed that a researcher using content analysis will want to code text in terms of certain subjects and themes, but that what is essentially being sought is a categorisation of the phenomenon or phenomena of interests.

Content analysis can be performed manually or by the aid of computer-based software such as the Computer Assisted/Aided Qualitative Data Analysis (CAQDAS). According to researchers, CAQDAS facilitates the organisation and analysis of large volumes of data and thus reduces the weakness associated with qualitative research methods such as time required in the data coding and analysis process (Seale, 2000; Doland and Ayland, 2001; Lindsay, 2004). Additionally, CAQDAS encourages similar and consistent process of data handling and can provide more rigour and traceability in the interpretation of interview result; thus enhancing reliability. Lindsay (2004) also asserted that the application of CAQDAS provides a measure of internal validity not easily achieved with manual methods. Lindsay (2004) further noted that the programme provides versatility in the treatment of data enabling them to be combined, viewed in new ways and re-analysed as new perspectives emerge. Researchers' experiences with CAQDAS suggest that the tool provides considerably more opportunities for interpreting and understanding qualitative data than is possible using a manual system (Doland and Ayland, 2001; Richards, 1995; Lindsay, 2004). Widely used CAQDAS programs include NUD*IST (N6) and NVivo. Both NUD*IST (N6) and NVivo support coding, re-coding, editing of text, search and retrieval of data, automated processing, data linking, and data displays (Lindsay 2004: 482-506). NUD*IST (N6) is noted to be useful for research that requires primarily coding, searching, managing and tracking documents while the NVivo is noted to be a fine detail analyser, allowing fluid exploration and interpretation, and integrating the interpretation and questioning process.

Despite the positives of the computer-based processes enumerated above, other researchers are of the view that such computer-based processes may detract the researcher from creative input (Burgess, 1995). Richards (1995) noted that the software is primarily a tool for assisting the analysis process but that the analysis is ultimately the responsibility of the researcher. Since none of the computer-assisted content analysis software was available when the data was ready, the researcher analysed the qualitative data manually in order to ensure the researcher's creative input. The information was therefore coded by means of content analysis procedures which involved the systematic categorisation of responses on topics pertaining to the research. In addition, reflection, interpretation and analysis of the detailed information yielded the emerging themes and findings reported in Chapter Seven which provides empirical evidence of the qualitative data.

5.14 Reliability and Validity

Reliability and validity of the scale and data gathered are two important concepts in research that need to be ascertained in order to present a true and fair view of the data set. The rational is that both reliability and validity are affected by the quality of the data collected (Pallant, 2007). These are explained in more detail in the next sections.

5.14.1 Reliability

Reliability is a central concept in measurement and basically means consistency. It is an assessment of the degree of consistency between multiple measurements of a variable so as to ensure that there is no measurement bias either across time or between variables (Hair et al., 2010: 125). It thus refers to the quality of a measurement procedure that provides repeatability and accuracy (Kumar, 2005). The two main aspects of consistency include consistency over time and internal consistency (Punch, 2005: 95). The consistency over time or stability measurement usually referred to as test-retest is where consistency is measured between the responses of the same people on two different occasions and requires two administrations of the measuring instrument (Punch 2005: 95). Reliability is ascertained if the same instrument is given to the same people under the same circumstances but at different time; they should yield the same results. The objective is to ensure that responses are not too varied across time periods so that a measurement taken at one point in time is reliable (Hair et al., 2010: 125).

The internal consistency applies to measuring the consistency among the variables in summated scale. Since multiple items are used in the measurement of a phenomenon, this reliability test enables the researcher to assess the extent to which the items are consistent with each other or are all working in the same direction (Punch 2005: 95). Internal consistency is the most commonly used measure of reliability and the rational is that the individual items or indicators of the scale should be measuring the same construct and thus should be highly inter-correlated (Hair et al., 2010: 125). In other words, the items used in the measurement should 'hang together' and be able to measure the same underlying construct independently, producing the same results even if different samples are used to measure the phenomenon during the same time period (Pallant, 2007: 95). The internal consistency reliability estimation requires only one administration of the instrument. The simplest way to do this in practice is to use split-half reliability method which randomly splits the data set into two and a score for each participant calculated based on each half of the scale (Field, 2006). If the scale is very reliable, the participants' scores from the two halves of the questionnaire should be same or similar (i.e. correlate perfectly). The problem with this method is that there are several ways in which the data set can be split into two and so the result could be the product of the way in which the data was split (Field, 2006). To overcome this problem various other measures have been used to assess the extent to which all the items are working in the same direction. Some of these include the item-to-total correlation (the correlation of the item to the total summated scale score), the inter-item correlation (the correlation among items), the coefficient alpha (Cronbach's alpha) and the reliability measures derived from confirmatory factor analysis (Hair et al., 2010: 125). The most widely used measure in research is the Cronbach's alpha which assesses the consistency of the entire scale and indicates how well the items positively correlate to one another. The measure is loosely equivalent to splitting data in two in every possible way and computing the correlation coefficient for each split and the average of the values is the measure of the reliability

Cronbach's alpha ranges from 0 to 1 with 0 standing for a completely unreliable test, higher values close to 1 indicating higher internal reliability and 1 standing for a completely reliable test. There are different positions on what constitutes an acceptable value of Cronbach's alpha. For example Nunnally (1967) originally advocated threshold values of 0.50 as acceptable while Peterson (1994) suggested that a Cronbach's alpha value of 0.6 or above can be deemed as an acceptable indicator of reliability. Nunnally (1978) later suggested that the alpha value should be over 0.7 for a scale to be considered reliable. Hinton et al. (2004) suggested that alpha values of 0.9 or above depicts excellent reliability, values between 0.7 and 0.9 depicts high reliability, values between 0.5 and 0.7 indicates moderate reliability and values below 0.5 indicates low reliability. Additionally, Van de Ven and Ferry (1980) also pointed out that in measuring and assessing organisations, a range of 0.55 to 0.90 alpha values for constructs are acceptable. Pallant (2007: 95) also pointed out that a generally acceptable Cronbach's alpha value is 0.70 while Hair et al. (2010: 125) suggested a value of 0.60 or above is deemed acceptable in exploratory research.

Reliability in this study was gauged via the examination of Cronbach's alpha and the item-to-total correlation. A summary of the result obtained from SPSS analysis of the reliability of scale coefficients using Cronbach's alpha is presented in Table A1 (Appendix 7) while that of the item-to-total correlation is presented in Tables A2 and A3 (Appendix 7). From the Cronbach's alpha results, it can be seen that all the scale reliabilities are above the 0.7 level which Nunnaly (1978) and Cronbach (1951) suggested is acceptable for basic research. Reliability was also assessed through Principal Component Analysis. Each factor loaded appropriately and produced a statistically significant Bartlett's Test of Sphericity as presented in Chapter Six. Additionally, the reliability was further assessed through plotting the item-total correlations of factors extracted from PCA (Nunnally, 1967). In all cases as illustrated in Tables A2 and A3 (Appendix 7), the coefficients were significantly high and therefore correlated very well. This, therefore, reveals that the instrument used for measurement in this research is reliable.

5.14.2 Validity

Validity is a second central concept in measurement which assesses the extent to which an instrument actually measures what the researcher purports to measure; the degree to which it is free from any systematic or non-random error (Punch, 2005). An indicator is said to be valid to the extent that it empirically represents or measures the concepts it purports to measure. Thus when the differences in observed scores reflect true differences on the characteristics the researcher is attempting to measure, then the measure is said to be valid. Validity ensures that correct procedures have been applied in the research to find answers to the research questions (Kumar, 2005). Among the various approaches to the assessment of validity, there are four main ones which include: face validity, content validity, criterion-related validity and construct validity (Punch, 2005).

Face validity refers to the judgemental assessment of the outlook of the questionnaire by the researcher, and scrutinised or agreed by experts or people familiar with the target research area. Agreement among all these people on all the questions and the whole questionnaire indicates an implicit assessment of face validity. Face validity, however, is considered the weakest, basic and very minimum index of content validity (Creswell, 2009). Content validity is a non-statistical type of validity that involves the systematic examination of the construct content and focuses on whether the full content of a conceptual definition is represented in the measure (Punch, 2005). This form of validity is closely related to face validity which subjectively assesses the correspondence between the individual items and the concept through ratings by expert judges, pre-test subpopulations or other means. Content validity is also assessed by experts (such as academics and/or practitioners) in the field of study who are able to determine if developed scales are in keeping with the theoretical framework. The examination is thus heavily reliant on the subjective interpretations or judgement of the experts who ascertain whether or not scale items actually tap the constructs under study (Churchill, 1999). The objective is to ensure that the selection of scale items extends past just empirical issues to also include theoretical and practical considerations (Hair et al., 2010).

Criterion-related validity

In criterion-related validity, an indicator is compared with another measure of the same construct in which the researcher has confidence (Punch, 2005). In other words, it is where a measure is developed as an indicator of some observable criterion and assessing how good an indicator it is (Kumar, 2005). The measurement's validity might be determined by comparing with another assessment or with a future observation and these types of comparisons establish two types of validity: concurrent and predictive (Kumar, 2005). Concurrent validity refers to the relationship between a criterion variable and a current variable whereby the predictor variable exists in the present and both are assessed at the same time (Punch, 2005). A predictive validity on the other hand is where the criterion variable will not exist until later and the validity is judged by the degree to which the instrument can forecast an outcome (Punch, 2005; Kumar, 2005).

Construct validity focuses on how well the results obtained from the use of a measure conform to theoretical expectations (Punch, 2005). Nunnally and Bernstein (1994) further explained that construct validity is concerned with the degree to which a construct is well- defined through a variety of observables; well-represented by alternative measures; and strongly related to other constructs of interest. Evidence of construct validity provides confidence that the item measure taken from a sample represents the actual true score that exists in the population. It is the most sophisticated technique for establishing validity and is based upon statistical procedures (Kumar, 2005). Construct validity is further subdivided into two subcategories which include convergent validity and discriminant validity. Convergent validity refers to the use of different methods or instruments in measuring the same concept and the results turn out to be in agreement or convergent (Hair et al., 2010). In other words convergent validity is established when the results from different measures are highly correlated. Discriminant validity seeks to establish the extent to which two conceptually similar concepts are predicted to be uncorrelated and are found to be distinct (Hair et al., 2010).

In the context of this study, the process to ensure content validity was through a literature review and positive feedback from my supervisors, other academics, and groups of assessors involved in the pre-testing stage of the instruments. The literature review is described in Chapter Two and the pre-tested instrument is described above in Section 5.6.1.5 of this chapter and these are indicative of the content validity of the employed measures. The same process was employed to ensure face validity.

5.15 Conclusion

The research methodology indicates that this study is built around two dimensions: fact finding and exploratory. This is expected in the course of this research to lead to identification and explanations of the role of government policies in the FDI phenomenon in Ghana. A triangulation method is thus employed to study the research questions. First, a quantitative method was implemented which involved the administration of a questionnaire survey to foreign firms operating in Ghana. The responses to the survey formed the basis for the selection of a number of foreign firms for the case studies. Additionally, interviews were conducted with policymaking government agencies that are mandated to institute changes in the business environment in the country. Moreover, secondary data was obtained from government reports, company reports, newspaper articles and other journalistic pieces to assist in this research. The next chapter presents descriptive statistics of the quantitative data collected through the survey instrument.

Chapter Six

Quantitative Data Analysis

6.1 Introduction

Having discussed the methodology adopted for this research in the preceding chapter, this chapter presents the quantitative analysis of the study. The analysis involves the use of descriptive statistics (Frequency analysis, Mean scores), inferential statistics (Factor analysis, T-test and ANOVA), as well as Multivariate analysis (correlations and multiple regression) to ensure rigorous and complementary testing of the research questions and propositions developed.

6.2 Descriptive Statistics

Descriptive statistics are mainly concerned with summarising, presenting and describing the data set (Punch 2005: 127). It focuses on establishing fact and is used particularly when, "*...the researcher is more concerned with describing the extent of occurrence of a phenomenon than with studying its' correlations*", (Punch 2005: 14-15). The descriptive statistics in this study highlight two main sections; the first one corresponds to a profile of the sample companies surveyed, and the second reports the descriptive analysis of the variables. The profile section examines the several patterns exhibited by the data set, which includes the general characteristics of the companies surveyed in order to gain an initial understanding of the data gathered. The descriptive analysis of constructs assesses the constructs in the locational determinant sub-model of the eclectic paradigm on a five-point scale. It contains percentage frequencies of all items, measures of central tendency (mean) and dispersion (standard deviation) for each construct. All of the data set used for this analysis was derived from responses generated from the research questionnaire. The findings are displayed using tables and graphs to elucidate the characteristics of the data, in order to provide a simplified picture of the data collected.

Considering the profile of the firms, this section displays information on the number of years of firms' operations in Ghana, their mode of entry, the sectors in which firms operate, the size of the firm in Ghana, the markets for the firms' products or services, their initial investment capital sum and the main motives of the firm investing in Ghana. These were the background information gathered by the researcher through the questionnaire. The firms in the sample differed widely in the number of years that the company had invested in Ghana; the mode of entry; the size of the firm in Ghana (defined by the number of employees); the markets for the firms' products; the initial investment capital sum; and the main motives of the firm in investing in Ghana. These results are presented in this section.

6.2.1 Number of years of firms' operation in Ghana

The following tables, figures and charts in this section depict the descriptions of the ninety-two (92) firms that participated in the survey phase of this research. The data presented in Table 6.1 below shows that while some firms invested in the country a year ago, others have been operating in the country for one hundred and twelve (112) years. The central tendencies of the firms' years of investment in the country as depicted by the mean and median are seventeen (17) years and nine (9) years respectively.

Table 6.1: Number of years of firms' operation in Ghana (Descriptives)

	Min	Max	Mean	Median	Std. Dev.
No. of years in Ghana	1	112	17	9	21

The data presented in Table 6.2 below also shows that out of the ninety-two (92) firms that participated in this study, 53 (57.6%) of the firms, which constitute the bulk of the investment projects surveyed, actually occurred during the last ten (10) years.

Table 6.2: Number of years of firms' operation in Ghana (Frequencies)

Range (in years)	Frequency	% of Companies	Cumulative %
1 – 10	53	57.6%	57.6%
11 – 20	21	22.8%	80.4%
21 – 30	2	2.2%	82.6
31 – 40	5	5.4%	88.0%
>40	11	12.0%	100%
Total	92	100%	

It is important to also note that a cumulative 74 (80%) of the sample firms surveyed invested in the country within the last twenty (20) years. The same trend is observed in the data obtained from the Ghana Investment Promotion Centre (GIPC), and other government institutions. It could thus be suggested that the business environment may have become progressively attractive to foreign investors over the years. This could be as a result of the market liberalisation polices, as well as other government policy developments over the past few decades. This is particularly noticeable within the last ten (10) years, during which the country consistently received an increasing trend of FDI and favourable reports on the country's investment climate.

6.2.2 Mode of firms' entry into Ghana

It can be appreciated from the description of the mode of market entry in Table 6.3 below that 59.78% (55) of the firms surveyed invested in the country through Greenfield. Joint ventures ranked second with a 28.26% (26 firms), and the mode of entry via acquisition trailed a distant third with just 11.96% (11 firms). This evidence is a departure from an initial research finding by Boateng and Glaister (1999), which revealed at the time that the legislative environment favoured investment in the country through Joint Ventures.

Table 6.3: Mode of entry

Entry Mode	*Frequency*	*Percent (%)*	*Cumulative Percent*
Greenfield	55	59.8	59.8
Joint Venture	26	28.2	88.0
Acquisition of a local firm	11	12.0	100
Total	92	100	

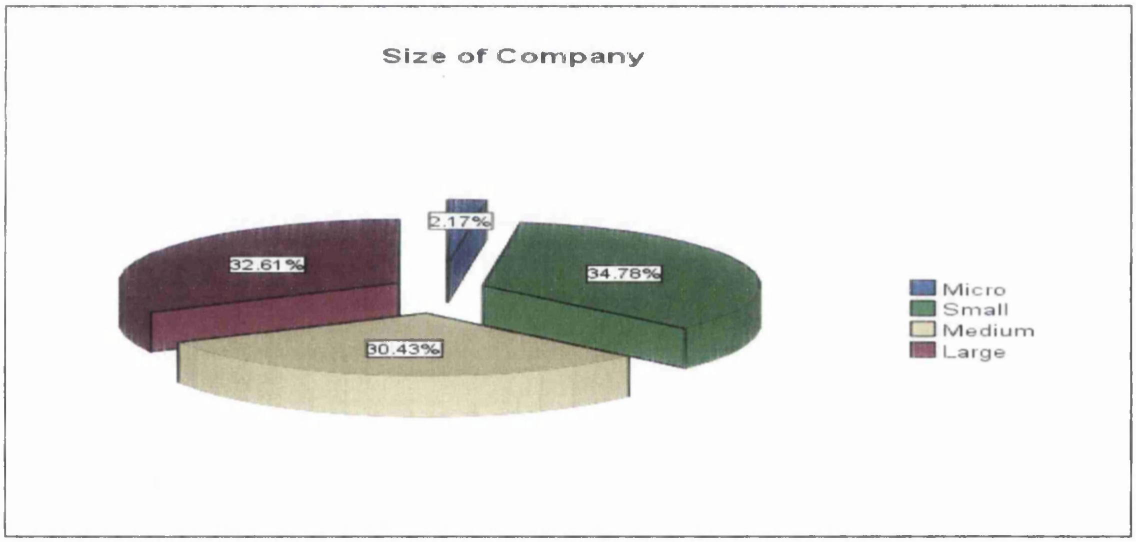
This data, coupled with data obtained from government institutions about the mode of foreign firms' entry, gives credence of a progressive entry mode in favour of Greenfield. It is interesting to also point out that most of the Greenfield investments occurred within the last 10 years. The liberalisation of the investment regime from a heavily-regulated market to a liberalised market may have also influenced foreign firms' mode of entry in favour of Greenfield investment in the country.

6.2.3 Size of foreign firms

The distribution of the size of foreign firms surveyed is measured by the number of full-time employees working for the companies. This is in accordance with the categorisation of firm size in a baseline report by Ernest and Young (2009) on Ghana.

According to the report, firms operating in Ghana are classified as Micro (with less than 5 workers), Small (between 6-29 workers), Medium (30-99 workers) and Large (more than 99 workers). It is this method of categorisation of firms that is adopted in this thesis. Available data from both the Registrar General Department of Ghana and the Social Security & National Insurance Trust (SSNIT) of Ghana revealed that 90% of private firms operating in the country are micro, small and medium; with a small number of large-scale enterprises (Ernest and Young, 2009). Figure 6.1 depicts that out of the 92 firms surveyed, 34.78% (32) of them are small firms employing between six (6) and twenty (20) full-time employees. This is followed by 32.61% (30) large foreign firms with more than hundred (100) full-time employees, and 30.43% (28) medium firms employing between thirty (30) and ninety-nine (99) full-time employees.

Figure 6.1: Distribution of company size by the number of employees

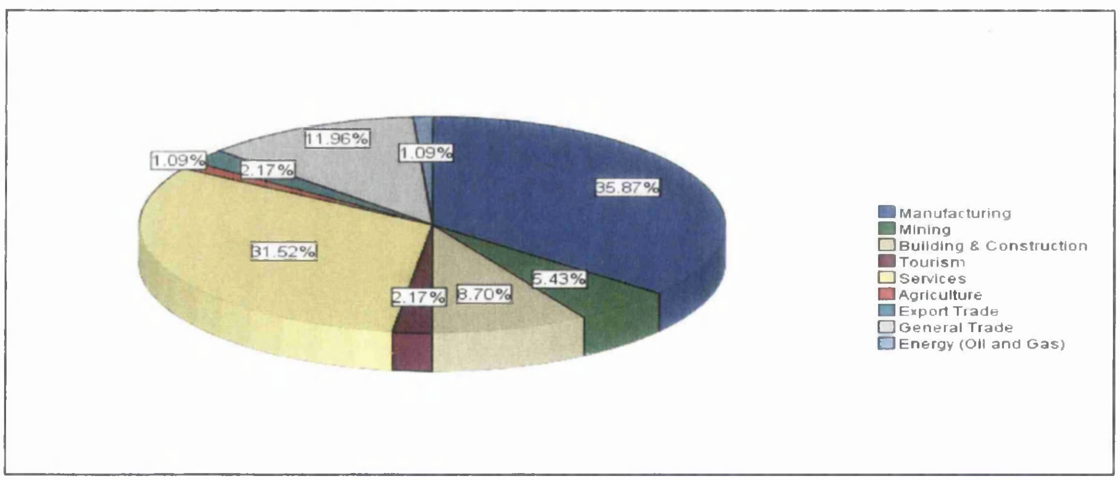


Only 2.17% (2) of the surveyed firms employed less than six workers (micro). Most of the large firms are from the US and Europe; while the micro, small and medium firms originate primarily from Asia, Latin America, the Middle East and Africa. The large firms have advanced technologies which enhance not only employees' learning opportunities but also their career and other opportunities. The micro, small, and medium firms tend to possess limited access to and use of technologies, market information, and are unable to acquire skills and modern technology (Ernst and Young, 2009).

6.2.4 Sectors of the Economy

The various sectors of the Ghanaian economy in which firms operate include manufacturing, mining, building and construction, tourism, services, agriculture, export trade, general trade and energy sectors (GIPC, 2009). A serious effort was made to survey a proportionate number of firms from each sector. However, survey questionnaires recovered from the participating firms, as evidenced by Figure 6.2, indicate that 35.9% of them operate in the manufacturing sector, followed by 31.5% in the services sector and 12.0% in the general trade sector. Firms from the building and construction, mining and tourism sectors constitute 8.7%, 5.4% and 2.2% of the sample respectively. Ironically, the agricultural sector, which is the backbone of the economy, recorded 1.1% of the sample participation. The energy sector, which over the past four years has attracted a huge FDI inflow because of the discovery of oil in the Jubilee Field, also attracted 1.1% the participants in the surveyed sample. The possible reason for the low number of firms from the agricultural sector participating in the study is that the sector is occupied mostly by Ghanaian investors. The few foreign firms operating in the agricultural sector also tend to be located in remote parts of the country ,which would be quite time-consuming and expensive to access. For the energy (oil and gas) sector, only four foreign firms had invested in the country to start oil exploration by 2010. Out of this number, only 1.1% of firms returned the questionnaire.

Figure 6.2: Sectors of foreign firms

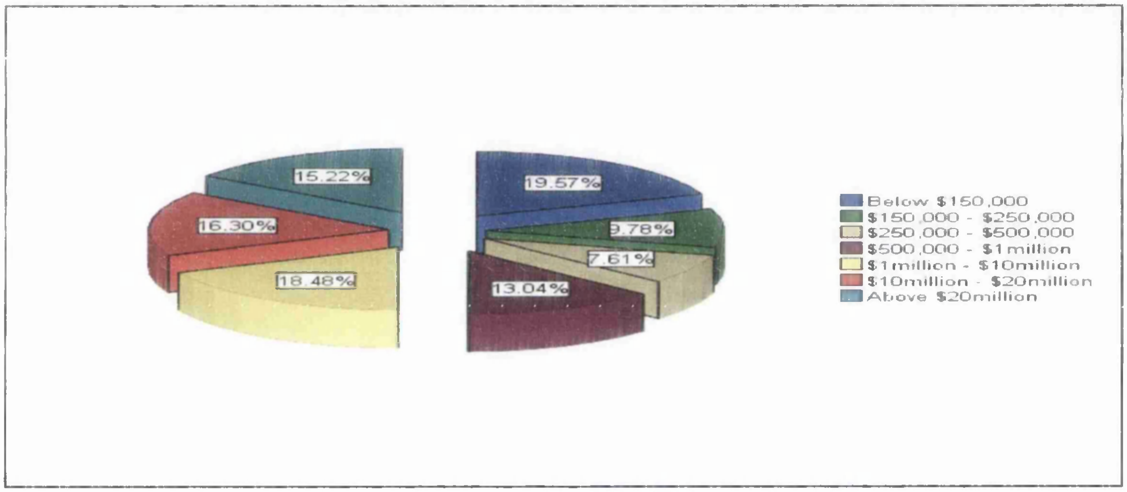


For the mining sector, many foreign firms were administered with the questionnaire at their head offices. However, the right people who could answer the questionnaire were based at the mining operations' sites in rural parts of Ghana. The questionnaires were duly forwarded from the head offices to these people located at the mining sites, but only a few were returned.

6.2.5 Initial Capital Sum of Investment

According to the Ghana Investment Promotion Centre Act 1994 (Act 478), foreign investors require at least US$10,000.00 to start a joint venture with a Ghanaian firm, and at least US$50,000.00 initial capital sum to start operating as a wholly-owned foreign firm in the country. The distribution of the initial capital sum of the surveyed firms is illustrated in Figure 6.3.

Figure 6.3: Initial investment capital sum

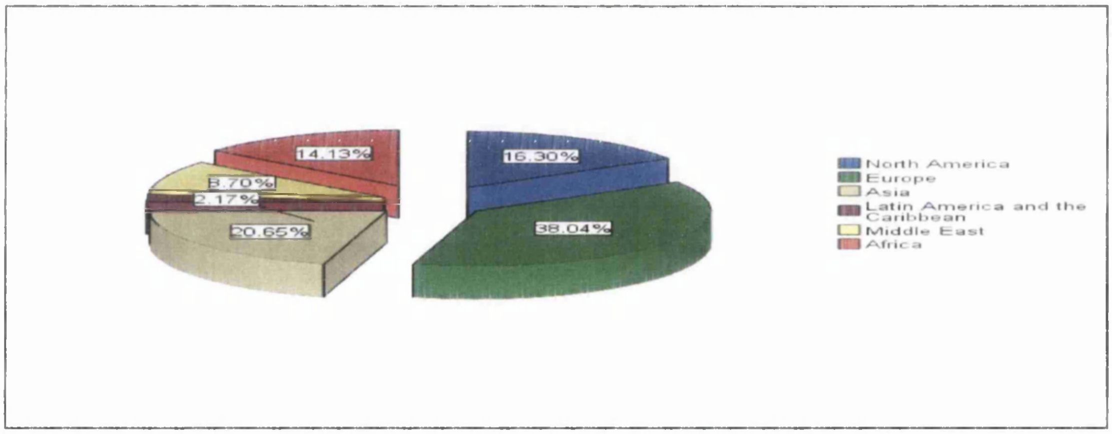


Firms that invested in the country with less than US$150,000.00 constituted 19.57%, and they largely consisted of firms in the general trade, export trade and agricultural sectors of the economy. These sectors do not require a huge capital outlay as compared to the mining and exploration sectors that require huge sums of initial investment capitals. Those investing initial capital sums of between US$10 million - $20 million and above US$20 million constituted 16.30% and 15.22% respectively of the sample. These sums mainly go into the mining and energy services, as well as the manufacturing sector of the economy. Additionally, 13.04% of the firms invested initial capital sums of between US$500,000.00 and US$1 million, while 9.78% of the sample invested initial capital sums between US$150,000.00 and US$250,000.00. These groups of firms are largely in the manufacturing services and tourism sectors of the economy. Finally, 7.61% of the sample invested initial capital sums ranging from US$250,000.00 to $500,000.00, as illustrated by Figure 6.3 above.

6.2.6 Source Region

Figure 6.4 describes the regions where the ninety-two (92) firms that were surveyed originated from. The majority of the firms, constituting 38.04%, are from Europe; with firms from the United Kingdom, France, Germany, Netherlands and Italy constituting 71% of this group. Other countries in Europe from which firms operating in Ghana originated include Belgium, Denmark, Spain, Switzerland, Norway, Sweden and the Republic of Serbia. Firms from Asia formed the second largest (20.65%) source region of firms in the sample, with China and India constituting 80% of all the investment projects from Asia. Other Asian source countries in the sample include Japan, Korea, Hong Kong and Singapore. Firms from North America (US and Canada) constituted 16.30% of the sample, with the US alone accounting for 87% of the group, while Canadian firms account for 13%.

Figure 6.4: Source region



Firms from the Middle East (8.70%) originated from Lebanon, Libya, Syria and Saudi Arabia. For Latin America and the Caribbean region, the percentage of firms in the sample is 2.17%, and all of them originated from the Cayman Islands. The last pair of the chart consists of firms from other African countries. These firms constituted 14.13% of the sample, with firms from South Africa and Nigeria being the dominant regional investors in Ghana. Firms from other African countries in the sample originate from Egypt for example. Despite the increasing number of investment projects from Asia, the bulk of FDI inflow to the country still comes from Europe and the US. However, the most important issue illustrated by the chart and worth pointing out is the fact that FDI is flowing into the country from various countries and regions around the world.

6.3 Motives of Firms Investing in Ghana

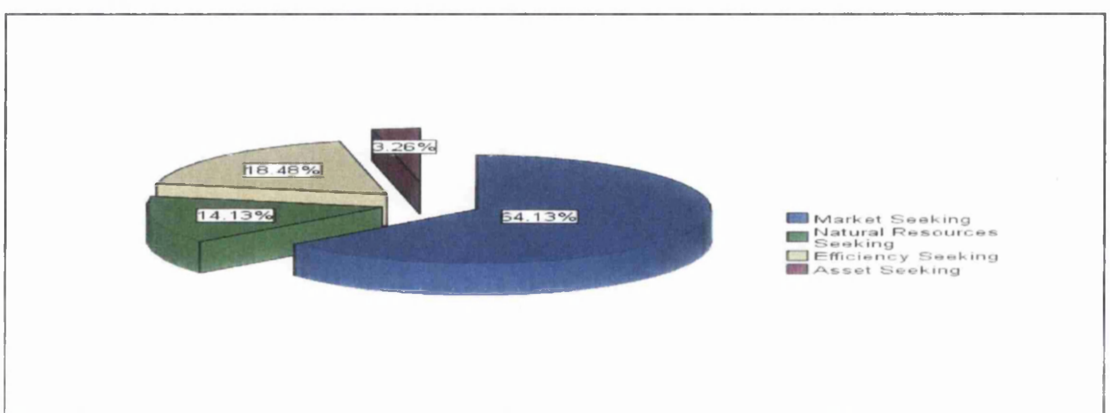
Research Question 1: *What are the main motives of firms investing in Ghana?*

The literature reviewed in Chapter Two established that the main motives of firms investing in a foreign country are market-seeking, natural resource-seeking, efficiency-seeking and asset-seeking (Dunning, 2000). Studies focused on Africa have consistently pointed out that foreign firms invest in African countries mainly to access natural resources and the market (Chaudhuri and Srivastava, 1999; Collier and Patillo, 2000; Morisset, 2000; Cotton and Ramachandran, 2001; Asiedu, 2002, 2003; Jenkins and Thomas, 2002; Siphambe, 2006; Ajayi, 2006; Khan and Bamou, 2006; Naudé and Krugell, 2007; Cleeve, 2009). Additionally, other studies focusing on FDI in Ghana noted that large parts of the FDI entering Ghana are the natural resource-seeking type (Afriyie, 1998; Boateng and Glaister, 1999; Debrah, 2002). This study therefore proposed that:

Proposition 1: *The main motive for foreign firms investing in Ghana is natural resource-seeking.*

The descriptive statistics illustrated in Figure 6.5 reveal that 64.13% (59) of the sample firms surveyed invested in the country mainly for market-seeking reasons, while 18.48% (16) and 14.13% (13) of the firms invested in the country for efficiency and natural resource-seeking reasons respectively.

Figure 6.5: Motive for investing in Ghana

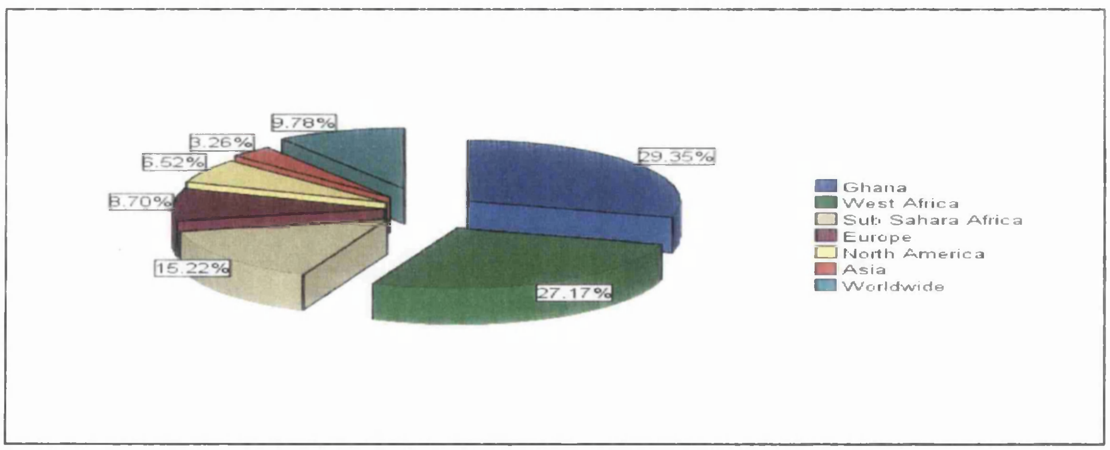


Asset-seeking FDI however remains a negligible 3.26% (3) of the total 92 firms surveyed. The results therefore reveal that the main motive of foreign firms investing in Ghana in recent times is market-seeking, followed by efficiency reasons. Firms investing for efficiency reasons made the strategic decision to invest in the country so as to enable them to compete effectively with their competitors on the global market, and not only in the Ghanaian market. Natural resource-seeking firms are now relatively fewer than the market-seeking and efficiency-seeking firms. It is important to point out that the trend of FDI going mainly into the natural resource sector is giving way to more market-seeking and efficiency-seeking FDI.

6.3.1 Markets Served by Foreign Firms

In light of the importance of market-seeking motives for FDI in the country, particular attention was given to the distribution of markets served by foreign firms operating in the country. Figure 6.6 reveals that 29.35% of the participants invested in the country to serve the Ghanaian local market. Those participants that invested in the country in order to serve the West African and SSA regional markets constituted 27.17% and 15.22% respectively.

Figure 6.6: Markets of foreign firms



While 9.78% of the participants serve the global market, 8.70% have the markets of their products in Europe; while 6.52% of the firms access the North American market. Only 3.26% of participants' markets are in Asia. All the participants with markets in Ghana and West Africa also indicated their interest in expanding their operations to the rest of the SSA region, and to serve the African regional market. This means that 72%

of the firms' markets are in the SSA region, confirming the assertion of Debrah (2002) that Ghana has been positioning itself as the gateway to West Africa, and the success in this effort has resulted in an expanded market size which has become increasingly more attractive to foreign investors than before.

6.4 Factors Attracting Foreign Firms into Ghana

Research Question Two: *Of the many possible economic, business facilitation and policy variables that may influence FDI inflow into a host country, what are the key factors attracting and retaining foreign firms in Ghana?*

Based on the literature review, it is proposed that:

Proposition 2: *The main factors attracting and retaining FDI in Ghana are natural resources, liberalised policies, good infrastructure, tax holidays and incentives.*

Mean score analysis was used to identify the main determinants of FDI in Ghana. The mean scores indicated how respondents rated the importance of various determinants that attracted them to invest in the country on a five-point scale as to whether it was: the only determinant (5), the main determinant (4), a secondary determinant (3), a consideration (2) or not at all a determinant (1), in their initial decision to invest in Ghana over alternate locations. These factors included among others: economic factors, government policies, business facilitating factors and incentives. Table 6.4 reveals that the mean score of stable political environment (3.88), government policies (3.57) and the Ghanaian market (3.50) are relatively high; and all above 3.50, which denotes that these are the main determinants that influenced investors' initial investment decisions in favour of Ghana. Government Incentives (3.12), the SSA market (2.99), level of skills/qualifications of the Ghanaian workforce (2.85), comparatively low cost inputs (2.77), the aim to defend market share in SSA (2.55) each also have a mean score above 2 but below 3.5, as indicated in Table 6.4. The interpretation of these numbers implies that foreign investors also assess these factors as secondary determinants in their initial decision to invest in Ghana.

Table 6.4: Determinants of FDI in Ghana

Factor	Minimum	Maximum	Mean	Standard Deviation
Stable political environment	1	5	3.88	.969
Government policies	1	5	3.57	.932
To access the Ghanaian market	1	5	3.50	1.155
Incentives provided by government	1	5	3.12	1.091
To access the SSA market	1	5	2.99	1.282
Level of skills/qualifications of Ghanaian workforce	1	5	2.85	1.006
Comparatively low cost inputs	1	5	2.77	1.122
To defend market share in SSA market	1	5	2.55	1.249
Availability of natural resources	1	5	2.41	1.419
Existence of clusters of firms	1	5	2.24	1.194
Investment made by competitors in SSA	1	5	2.22	1.264
Cultural similarities	1	5	1.99	1.326

The availability of natural resources (2.41), cluster of firms (2.24) and competitors in SSA (2.22) were also taken into consideration in their investment decision-making about the country. Another interesting aspect of the results is that cultural similarity (1.99) was also considered, but mainly by foreign firms originating from other African countries such as Nigeria, South Africa and Egypt.

It is evident from Table 6.4 that in addition to a stable political environment and market access, government policies, incentives and elements of business facilitation factors are also important factors that attract FDI into Ghana. In order to identify the specific elements of government policies, incentives and business facilitation factors that attract and retain investors in the country, further mean score analyses were conducted and are presented in the next section.

6.4.1 Policies Attracting FDI Inflow to Ghana

This section describes the mean score of the policy variables that influence foreign firms to invest in the country. Table 6.5 contains the various policy factors with their mean scores and standard deviations. The table reveals that the mean scores of all the policy variables are very high; all above 3.50. This suggests that the foreign firms surveyed considered all the policy variables to be very important in their decision to invest in Ghana. The most dominant influencing policy factors include: economic, political and social stability (4.57); tax policy (4.25); rules regarding entry and operations (4.19); and standard treatment of foreign affiliates (4.01). The variable with the least mean is the privatisation policy, which has a mean of 3.52.

Table 6.5: Policy factors that attract FDI into Ghana

Factor	Minimum	Maximum	Mean	Standard Deviation
Economic, political and social stability	1	5	4.57	.732
Tax policy	1	5	4.25	.961
Rules regarding entry and operations	2	5	4.19	.842
Standard of treatment of foreign affiliates	1	5	4.01	.989
Trade policy	1	5	3.68	1.191
Policies on functioning and structure of markets	1	5	3.63	1.213
International agreement on FDI	1	5	3.63	1.244
Industrial and regional policy	1	5	3.55	1.213
Privatisation policy	1	5	3.52	1.300

The implication from these results is that if Ghana is seeking to attract FDI, it must ensure that all these policy variables are in place in order to meet the minimum requirement of attracting FDI. The results also depict that some of these policy variables played a much more dominant role in influencing investors' decisions with regards to investing in Ghana. This is particularly true for economic, political and social stability. The results in Table 6.4 re-emphasise this point, as it stands out as the most important factor influencing investors' decisions in favour of Ghana.

6.4.2 Policies Retaining FDI in Ghana

The mean scores of the various policies in Table 6.6 also indicate that the quality of these same policies play an important role in foreign firms decision to continue operating in the country. Since foreign firms have many options in terms of relocating their subsidiaries, their decision to remain and continue operating in the country should be backed by conducive and favourable FDI policies. The survey depicts that these policies reinforce investors' confidence in conducting business in Ghana.

Table 6.6: Policies retaining FDI in Ghana

Policies	Minimum	Maximum	Mean	Standard Deviation
Economic, political and social stability	3	5	4.70	.550
Tax policy	1	5	4.24	1.031
Rules regarding entry and operations	2	5	4.19	.847
Standard of treatment of foreign affiliates	1	5	4.10	1.039
Trade policy	1	5	3.84	1.090
International agreement on FDI	1	5	3.74	1.107
Industrial and regional policy	1	5	3.74	1.127
Policies on functioning and structure of markets	1	5	3.66	1.143
Privatisation policy	1	5	3.54	1.350

Again, stability stands out as the most crucial factor influencing foreign firms' decisions to continue operating in the country. Table 6.20 further reveals that many of these firms operating in the country even plan to expand their operations in Ghana within the next three to five years. The mean scores on the same table depict that the firms surveyed are unlikely to downsize (2.08), relocate to a new location (2.32) and are very unlikely to terminate their operation in Ghana without relocating (1.74). This same result is supported by 76% of the firms that expressed their plans to expand their operations within the next three to five years. This paints a positive picture about the country's investment environment.

6.4.3 Business Facilitation Factors Attracting FDI Inflow to Ghana

Favourable FDI policies are seen as necessary conditions that must be present in the host country in order for the country to stand a chance of attracting FDI. However, other factors that will help to facilitate business operations in the country also need to be combined with these policies, in order to give the country a competitive advantage in attracting FDI. These business facilitation factors are presented in Table 6.7, and include investment promotion schemes, investment incentives, reduced 'hassle' costs related to corruption, less bureaucracy, good social amenities, pre-and post-investment services, protection of property rights, good infrastructure and support services, and economic morality. The availability and quality of these business facilitation factors may also play an important role in influencing foreign investors' decision in favour of Ghana as the best choice over alternative locations. Table 6.7 presents the foreign investors' view of the importance of these facilitation factors in influencing their initial decision to invest in Ghana.

Table 6.7: Business facilitation factors attracting FDI into Ghana

Factors	Minimum	Maximum	Mean	Standard Deviation
Good infrastructure and support services	1	5	3.98	.940
Economic morality	1	5	3.92	.852
Investment incentives	1	5	3.90	1.125
Protection of property rights	1	5	3.86	1.030
Investment promotion schemes	1	5	3.81	1.038
Pre-and post-investment services	1	5	3.72	.922
Social amenities	1	5	3.68	.977
Reduced 'hassle' costs related to corruption	1	5	3.48	1.039
Bureaucratic inefficiency	1	5	3.27	1.090

Most of the business facilitation factors, as depicted by their mean scores, were considered to play an important role in influencing firms' initial decision to invest in Ghana. The mean scores of investment incentives (3.90), good infrastructure and support services (3.98), and economic morality (3.92) show that these factors however had a greater influence than the other factors. The standard deviations of investment promotion schemes (1.038), investment incentives (1.125) and the protection of property rights (1.030) suggest that some investors considered them to be very important while other investors considered them as being not important at all. The reason for those who considered the investment promotion schemes as being not important could be that they were influenced by other factors to invest in the country, without any promotional efforts from the government. The results further reveal that reduced corruption and bureaucracy in the country were seen as neither important nor unimportant in firms' decision to invest in Ghana. The standard deviations of these two factors are 1.039 and 1.09 respectively, meaning the ratings of these variables are more spread from the mean, and the mean is not an accurate representation of their importance in the firms' initial decision to invest in Ghana. This suggests that some investors considered these factors as being very important in their choice of Ghana, while others considered it as being not important at all. Table 6.7 also points out that, despite the importance of these facilitating factors in attracting FDI, the policy factors depicted in tables 6.5 and 6.6 are given more weight by potential investors before FDI takes place.

6.4.4 Business Facilitation Factors Retaining FDI Inflow in Ghana

Table 6.8 also points out that the quality of many of these business facilitation factors are retaining investors in the country. Incentives and economic morality are seen as the most dominant business facilitation factors retaining investors in Ghana. Those who considered incentives as being not important in their initial decision to invest in Ghana may have seen comparable or better incentives in other countries, and hence the incentives did not stand out as a dominant influencing factor in their investment decisions in the country. Secondly, they may not have known about all of the incentives available to them in Ghana before their investment, as the mean (4.07) and standard deviation (0.958) of the same factor in Table 6.8 reveal that incentives are playing a more important role than any of the other business facilitation factors in foreign investors' decisions to continue operating in Ghana. An important issue also worth pointing out is the significant role that promotional schemes are playing in firms' decisions to continue operating in the country, as depicted by the mean score (3.90) and standard deviation (0.925).

Table 6.8: Business facilitation factors retaining foreign firms in Ghana

Factors	Minimum	Maximum	Mean	Standard Deviation
Investment incentives	1	5	4.07	.958
Economic morality	1	5	4.02	.853
Good infrastructure and support services	1	5	3.98	.904
Protection of property rights	1	5	3.92	.991
Investment promotion schemes	1	5	3.90	.925
Social amenities	1	5	3.71	.932
Reduced 'hassle' costs related to corruption	1	5	3.69	1.114
Pre-and post-investment services	1	5	3.69	.951
Bureaucratic inefficiency	1	5	3.49	1.169

Reduced bureaucracy (3.49) was considered as being neither important nor unimportant in firms' decisions to continue operating in Ghana. The reason could be attributed to the general perception of Africa as being riddled with corrupt practices and bureaucratic structures. Even though the decentralisation effort within the country's governance structures has reduced bureaucracy, foreign investors thinking of investing in Ghana are skeptical about the efficiency of doing business in the country compared to other locations. The standard deviation however suggests that some firms considered it as being important, while others did not consider it as being important in their decision to continue operating in Ghana. The mean score of corruption (3.69) however suggests that many investors considered the country to be less corrupt, and thus considered this important in their decision to continue operating in the country.

6.4.5 Incentives Attracting FDI into Ghana

Generous incentives are increasingly being offered by many countries in order to attract FDI. Foreign investors therefore evaluate the various incentives offered by countries before selecting a location, where the incentives will help to drive down costs and increase profits. Table 6.9 contains the various incentives that benefit foreign investors in Ghana. Repatriation of profits stands out as the most dominant incentive provision that influenced foreign investors in their initial decision in favour of the country. The mean score of free repatriation of profits is 4.01 and the standard deviation is 0.964, suggesting that there is not much variability in its' importance in firms' decisions to invest in Ghana.

Table 6.9: Incentives attracting FDI into Ghana

Factor	Minimum	Maximum	Mean	Standard Deviation
Free repatriation of profits	1	5	4.01	.964
Free repatriation of capital	1	5	3.92	1.108
Free repatriation of dividends	1	5	3.85	1.057
Small corporate tax	1	5	3.49	1.082
Insurance against non-commercial risks	1	5	3.47	1.134
Capital allowances	1	5	3.41	1.202
Import duty concessions and charges	1	5	3.40	1.249
Waiver of income tax profits and dividend	1	5	3.40	1.140
Tax holidays	1	5	3.38	1.382
Carry forward losses	1	5	3.31	1.220

Free repatriation of capital and dividends also stand out as important incentives in firms making an initial decision to invest in Ghana. Free repatriation of capital, profits and dividends give foreign investors the confidence of not losing their capital in any event, and that profits made from operating in the country can be repatriated to head offices to service debts, pay dividends or reinvest in other projects. In the past, there were restrictions as to the amount foreign investors could repatriate out of the country, but these have now become a thing of the past. The rest of the incentives, which include tax holidays, small corporate tax, import duty concessions and charges, waiver of income tax profits and dividend, capital allowances, carry forward losses, and insurance against non-commercial risks were regarded as being neither important or unimportant in firms' initial decisions to invest in the country.

6.4.6 Incentives Retaining Foreign Firms in Ghana

Table 6.10 gives credence to this view in that the results show that all of the investors surveyed found all of these incentives to be important in influencing their decision to continue operating in the country. In the same vein however, free repatriation of capital, profits and dividends played a more critical role in influencing firms' decisions to continue operations in Ghana.

Table 6.10: Incentives retaining foreign firms in Ghana

Factor	Minimum	Maximum	Mean	Standard Deviation
Free repatriation of capital	1	5	4.06	1.114
Free repatriation of profits	1	5	4.03	1.039
Free repatriation of dividends	1	5	3.93	1.149
Import duty concessions and charges	1	5	3.78	1.195
Tax holidays	1	5	3.69	1.270
Insurance against non-commercial risks	1	5	3.66	1.097
Capital allowances	1	5	3.64	1.141
Waiver of income tax profits and dividend	1	5	3.60	1.176
Carry forward losses	1	5	3.57	1.137
Small corporate tax	1	5	3.55	1.086

6.4.7 International Investment Agreements Attracting FDI into Ghana

International investment agreements are another tool that governments, especially those in developing countries, are using in an effort to effectively participate in international discussions and negotiations on FDI, as well as in attracting FDI (UNCTAD, 1998). These international agreements include establishing bilateral treaties, regional agreements and multilateral agreements. These agreements also contain within them the removal of entry barriers, the avoidance of double taxation and market access to products from participating countries. Ghana has signed all of the treaties and agreements contained in Table 6.11. The mean scores reveal that Bilateral and Multilateral Investment Promotion and Protection Agreements (3.93) and Double Taxation Agreements (3.83) were important in influencing firms' investment decision in favour of Ghana.

Table 6.11: International investment agreements attracting FDI into Ghana

Factor	Minimum	Maximum	Mean	Standard Deviation
Bilateral and Multilateral Investment Promotion and Protection Agreements	1	5	3.93	1.285
Double Taxation Agreements	1	5	3.83	1.315
ECOWAS Trade Liberalisation Scheme	1	5	3.48	1.600
ECOWAS Protocols and Conventions	1	5	3.29	1.592
The African Growth and Opportunities Act	1	5	2.58	1.531
The New Partnership for African Development	1	5	2.48	1.531
The ACP-EU Cotonou Partnership Agreement	1	5	2.19	1.468
The WTO Uruguay Round Agreement	1	5	2.15	1.460

Regional treaties which include the ECOWAS Trade Liberalisation Scheme (3.48) and ECOWAS Protocols and Conventions (3.29), were considered as being neither important nor unimportant in influencing investors' initial decisions to invest in the country. Since many firms have an interest in serving the rest SSA of the region, it would have been assumed that these treaties would play a greater influencing role in firms' decisions to invest in Ghana. However, it is arguable to suggest that these treaties may have played a role in firms' decisions to invest in the country, but not as much as the other factors and treaties such as the double taxation and the BITS. The standard deviations of these regional agreements in Table 6.11 reveal that there is a wide variability in the response to the importance of these agreements in firms' initial decisions to invest in the country. Those that invested with the aim to serve the regional markets may have found the agreements to be very important, while those that invested to serve the Ghanaian, American, European or Caribbean markets may not have found them to be important.

The mean scores of AGOA (2.58), ACP-EU (2.19) and WTO (2.15) suggest that they were seen as being less important in the initial decision to invest in the country. The African Growth and Opportunities Act (AGOA) gives investors access to the American market, while the ACP-EU Cotonou Partnership Agreement (ACP-EU) gives market access to the European and Caribbean markets for many goods produced in Ghana. The mean scores of these agreements in Table 6.11 also show that they are seen as not being very attractive, and investors are not taking advantage of these opportunities. One reason could be that products from other regions are preferred in the American and European markets to goods from African countries. Most firms therefore invest to serve the Ghanaian, ECOWAS and the SSA markets.

6.4.8 International Investment Agreements Retaining FDI in Ghana

The same trend is observed in foreign investors' decisions to continue operating in the country, as depicted in Table 6.12. The analyses so far suggest that foreign investors evaluate many of factors before committing their capital investments to a country, as well as in their continuous operations in that country. In the case of Ghana, it is revealing that political, economic and social stability is the dominant factor attracting and retaining investors into the country. These stability factors, accompanied by favourable policies, market size, efficient business facilitation factors and generous incentives, are making the investment environment of the country comparatively attractive.

Table 6.12: International investment agreements retaining FDI in Ghana

Factor	Minimum	Maximum	Mean	Standard Deviation
Double Taxation Agreements	1	5	3.82	1.287
Bilateral and Multilateral Investment Promotion and Protection Agreements	1	5	3.78	1.365
ECOWAS Trade Liberalisation Scheme	1	5	3.38	1.562
ECOWAS Protocols and Conventions	1	5	3.17	1.580
The African Growth and Opportunities Act	1	5	2.68	1.522
The New Partnership for African Development	1	5	2.57	1.485
The ACP-EU Cotonou Partnership Agreement	1	5	2.41	1.499
The WTO Uruguay Round Agreement	1	5	2.38	1.480

Due to the intense competition amongst countries for FDI, it has now become standard practice for developing African countries to ensure that all of these factors are in place, in order to be considered as a potential location for investment. The implication here is that countries will have to put in extra efforts beyond these factors in order to attain a competitive advantage in attracting and retaining FDI.

6.5 The Role of Government Policies Between Groups of Foreign Firms (T-Test)

Research Question Three: *What is the role of government policies in attracting and retaining foreign capital in Ghana?*

In order to answer this research question, it is proposed in this study that:

Proposition 3: *The importance of government policies in attracting and retaining FDI in Ghana, will vary with firms' mode of investment, their motives, length of stay, source region, markets and sectors.*

The earlier outcomes of the analysis established that policies play an important role in attracting and retaining FDI in the country. However, in order to fully explore the role of policies in attracting and retaining FDI, various government policies were further analysed using an independent sample T-test and One-Way Between-Groups Analysis of Variance (ANOVA). The analyses were conducted in order to ascertain if meaningful differences exist in the role of government policies between various groups of foreign firms operating in the country, in their initial decisions to invest in Ghana, and well as in their subsequent decisions to continue operating in the country.

For the purpose of the independent T-test analysis, the sample was split into proportional groups on the basis of length of stay, sectors, and markets of the foreign firms. For ANOVA, the sample was split on the basis of source region, entry mode and motives of firms for investing. The values of each categorisation were then compared on how important government policies influenced their initial investment decisions and their decisions to continue operating in the country. In accordance with Pallant (2007), this exploration allowed for the initial testing of the probability that the groups come from the same population. For the results to be considered statistically significant (suggesting a difference between means), a P value of 0.05 or less must be obtained. Additionally, Eta squared calculations were computed to ascertain the magnitude of differences in the importance of government policies in attracting and retaining FDI between the various groups of foreign firms. According to Cohen (1988), Eta squared values range from 0 to 1, with the guidelines for interpreting the strength of the values obtained as: .01 = small effect; .06 = moderate effect; and .14 = large effect. Direct Eta squared values for T-tests cannot be observed from the SPSS output, but can be calculated using the information provided in the output. The formula used in calculating Eta squared is $t^2 / t^2 (N1+N2 - 2)$ (Pallant, 2007). The results of the various analyses are presented in the following subsections.

6.5.1 Importance of Policies Attracting FDI Based on Length of Stay in Ghana

An independent sample T-test was employed to explore the mean score of groups of foreign firms operating in the country, in order to determine the existence or otherwise of a statistically significant difference between the groups. The main point of interest to test in this analysis was the interaction between a government policy and its importance in attracting two categories of firms, being those that invest for either a short period or a long period. The survey questionnaire provided a continuous variable for the number of years of a firm's operation in the country. The responses to this question were split into two fairly proportional categories labelled '*short stayers*' and '*long stayers*'. Group one consists of firms that have invested in the country within the past ten years, while group two consists of all firms that have invested in Ghana for more than ten years. The rational for this categorisation is because of the development of further important FDI investment policies within the last ten years. Some of these policies include AGOA, which came into effect in 2000 and which give access to the American markets for all goods produced in Ghana. Policies such as the EPA, double taxation treaties, multilateral agreements, corporate tax reduction, further generous fiscal incentives, deepening of political stability and good governance, and other policies that were further developed within the past ten years are also important. Hence it was considered prudent to divide the sample into two, according to the time of investment in the country, in order to ascertain if there is a significant difference between the two groups in the importance of the policies attracting and/or retaining FDI in Ghana.

The results of the analysis presented in Table 6.13 reveals that there is significant differences in three policy factors between the two groups of investors. These factors include privatisation, trade, and industrial and regional investment policies.

Table 6.13: T-test of mean scores of policies attracting FDI based on firms' length of stay in Ghana.

	Policies	10 years or less	More than 10 years	**T-test**
Policy type	Economic, political and social stability	4.52	4.65	-.917
	Rules regarding entry and operations	4.09	4.32	-1.294
	Standard of treatment of foreign affiliates	3.94	4.11	-.776
	Policies on functioning and structure of markets	3.43	3.92	-1.956
	International agreement on FDI	3.48	3.84	-1.348
	Privatisation policy	3.24	3.94	-2.746**
	Trade olicy	3.46	4.00	-2.301**
	Tax policy	4.19	4.35	-.808
	Industrial and regional policy	3.31	3.89	-2.412**

Scale: 5 items; ** denotes P- value < 0.05

On average, foreign firms that invested in the country more than ten years ago placed more importance on the privatisation policy in their initial decision to invest in Ghana (M =3.94, SD = 1.040), than those who invested in the country within the last ten years (M = 3.24, SD = 1.386). This difference was significant; t (90) = -2.746, P < 0.05 (two tailed). However, the proportion of variance in the importance of the privatisation policy that is explained by the length of stay in Ghana is small (Eta = 0.0114). When considering the trade policy, firms that invested in the country more than ten years ago also placed a significant importance on it in their initial decision to invest in the country (M = 4.00, SD = 1.313), than those who invested within the last ten years (M = 3.94, SD = .913; t (91) = -2.301, P < 0.05 (two tailed). Additionally, there is a significant difference in the scores for the short stayers (M = 3.31, SD = 1.315) and the long stayers (M = 3.89, SD = .966; t (91) = -2.412, $P < 0.05$ (two tailed) on the importance of the industrial and regional policy in attracting these groups of investors into Ghana. However, the proportion of variances in the importance of both trade policy (Eta = 0.0112) and tax policy (Eta = 0.0112) explained by the length of stay in Ghana are small. It stands to reason that while the T-test between the two groups revealed that there were no significant differences in many of the FDI policies, the size-effect calculation also depicts that in the three policy areas where there were significant differences between the groups, these differences could not be significantly explained by the length of stay in the country, because the Eta values in all cases were small. Differences thus exist between the two groups, but cannot be attributed to the length of stay in the country.

6.5.2 Importance of Policies Retaining FDI Based on Length of Stay in Ghana

An independent sample T-test analysis was conducted to examine possible differences in the importance of the FDI-related policies in these groups of investors' decisions to continue operating in the country, and not to relocate to another country. The mean scores illustrated in Table 6.14 depict that both groups saw all the policies again to be very instrumental in their decision to continue operating in the country. In many of the policy areas, significant differences could not be found, except in four policy areas. These include policies on the functioning and structure of markets, privatisation policy, trade policy and industrial and regional policy.

Table 6.14: T-test of mean scores of policies retaining FDI based on firms' length of stay in Ghana.

	Policies	10 years or less	More than 10 years	**T-test**
Policy type	Economic, political and social stability	4.69	4.72	-.312
	Rules regarding entry and operations	4.19	4.19	-.050
	Standard of treatment of foreign affiliates	4.07	4.14	-.288
	Policies on functioning and structure of markets	3.43	4.00	-2.395**
	International agreement on FDI	3.59	3.97	-1.684
	Privatisation policy	3.26	3.97	-2.625**
	Trade policy	3.63	4.17	-2.507**
	Tax policy	4.09	4.47	-1.910
	Industrial and regional policy	3.56	4.03	-2.097**

Scale: 5 items; ** denotes P- value < 0.05

The results reveal that on average, firms that invested in the country more than ten years ago found the policy on the functioning and structure of the markets to be more important in their decision to continue operating in the country ($M = 4.00$, $SD = 1.014$), than firms that invested in the country within the past ten years ($M = 3.43$, $SD = 1.175$). This difference was significant $t\ (90) = -2.395$, $P < 0.05$ (two tailed). However, the magnitude of differences in this policy explained by the length of stay was small (Eta squared = 0.011). In percentage terms, 1.1% of the variation in policy importance is explained by the length of stay in the country. The same significant difference was recorded between the two groups about the importance of the privatisation policy in their decision to continue operating in the country. Foreign investors who started operating in the country more than ten years ago found the policy to play a significantly dominant role in their decision to continue operating in Ghana ($M = 3.97$, $SD = 1.158$), than those who invested within the past ten years ($M = 3.26$, $SD = 1.403$); $t\ (90) = -2.625$, $P < 0.05$ (two tailed). The proportion of variance in the importance of the privatisation policy explained by the length of stay in the country was also small at 1.1% (Eta squared = 0.114).

Furthermore, the T-test result revealed that firms who invested in the country more than ten years ago, again assessed Ghana's trade policy to play a more important role in their decision to continue operating in the country ($M = 4.17$, $SD = 0.845$), than those who invested within the past ten years ($M = 3.63$, $SD = 1.186$); $t\ (90) = -2.507$, $P < 0.05$ (two tailed). Additionally, the value of Eta squared was small at 0.0114, suggesting that only 1.1% of the difference in the importance of the trade policy between the two groups was explained by the length of stay in Ghana. The industrial and regional policy also registered a significant difference between the two groups of foreign firms operating in the country. In a similar outcome, those who invested more than ten years ago in Ghana found the policy to play a more important role in their decision to continue operating in the country ($M = 4.03$, $SD = 0.910$), than those who invested within the last ten years ($M = 3.56$, $SD = 1.223$); $t\ (90) = -2.097$, $P < 0.05$ (two tailed). Again, the magnitude of difference in this policy explained by the length of stay was small (Eta squared = 0.011) at 1.1%. This means the magnitude of the variances explained by the length of stay was just 1.1% in all four of the policies. The differences could therefore be attributed to some unknown intervening factors, and not primarily by the length of stay in the country.

6.5.3 Importance of Policies Attracting FDI Based on Sectors in Ghana

As the independent T-test result on the length of stay in the country did not give very conclusive evidence of significant differences of the policies between the two groups, the data was further explored using the sectors of the economy. The various sectors accommodated by the questionnaire covered nine groups, as depicted in Figure 6.2. The corresponding number of foreign firms in each sector surveyed was as follows: manufacturing (33), mining (5), building construction (8), tourism (2), services (29), agriculture (1), export trade (2), general trade (11) and energy (1). These sectors were regrouped into two categories, and labelled manufacturing (33) and non-manufacturing (59) sectors for the computation of the independent T-test. The rational for the grouping is to evaluate the differences between manufacturing and non-manufacturing companies in relation to the policy importance in their decisions to invest and continue operations in the country.

The T-test result, as illustrated in Table 6.15, also shows that there was no significant difference between the two groups in 78% of the policies. A significant difference was observed between the two groups in privatisation and trade policies. The differences can be inferred that manufacturing companies weighed the privatisation policy more importantly in their initial decision to invest in the country (M = 3.90, SD = 0.916), than those that invested in other sectors of the economy (M = 3.32, SD = 1.395); t (90) = 2.262, P < 0.05 (two tailed). In a similar vein, the manufacturing companies also placed much importance on the trade policy in their initial decision to invest in Ghana, than those who invested in other sectors.

Table 6.15: T-test of mean scores of policies attracting FDI into different sectors in Ghana.

	Policies	Manufacturing sectors	Non-manufacturing sectors	**T-test**
Policy type	Economic, political and social stability	4.44	4.64	-1.123
	Rules regarding entry and operations	4.16	4.20	-.254
	Standard of treatment of foreign affiliates	4.16	3.93	1.045
	Policies on functioning and structure of markets	3.87	3.51	1.354
	International agreement on FDI	3.78	3.54	.873
	Privatisation policy	3.90	3.32	2.262**
	Trade policy	4.00	3.51	2.106**
	Tax policy	4.47	4.14	1.592
	Industrial and regional policy	3.88	3.37	1.912

Scale: 5 items; ** denotes P- value < 0.05

The implication is that many manufacturing firms invested in the country earlier than firms in other sectors of the economy; especially firms in the service, tourism and general trade sectors. The magnitude of variance of both policies explained by the sectors of the economy also revealed a small effect (privatisation policy = 0.0114; trade policy = 0.0112). This suggests that only 1.1% of the differences in the policies can be explained by the sectors. Other factors may therefore be able to explain the differences between the two groups.

6.5.4 Importance of Policies Retaining FDI Based on Sectors in Ghana

Further independent T-test analysis was carried out between the two groups of sectors to ascertain if there are any significant differences in the various policies in their decisions to continue operating in the country. As illustrated in Table 6.16, investors placed similar importance on many of the policies in their decisions to continue operating in Ghana. Significant differences between the two groups could be observed in the privatisation policy, trade policy, and industrial and regional policy. The privatisation policy played a more important role in the manufacturing companies' decisions to continue operating in the country (M = 3.94, SD = 1.093), than it did play in the case of the non-manufacturing companies (M = 3.34, SD = 1.434). This difference was also significant t (90) = -2.395, $P < 0.05$ (two tailed), but the Eta squared (0.011) revealed that the magnitude of difference in this policy explained by the sectors was small. In percentage terms, 1.1% of the variation in policy importance is explained by the sectors in the country.

Table 6.16: T-test of mean scores of policies retaining FDI in different sectors in Ghana.

Policies		Manufacturing Sector	Non-manufacturing Sectors	**T-test**
Policy type	Economic, political and social stability	4.74	4.68	.522
	Rules Regarding entry and operations	4.26	4.15	.560
	Standard of treatment of foreign affiliates	4.16	4.07	.404
	Policies on functioning and structure of markets	3.90	3.53	1.649
	International agreement on FDI	3.97	3.63	1.536
	Privatisation policy	3.94	3.34	2.202**
	Trade policy	4.19	3.66	2.585**
	Tax policy	4.48	4.12	1.611
	Industrial and regional policy	4.06	3.58	2.112**

Scale: 5 items; ** denotes P- value < 0.05

Additionally, manufacturing companies found that the trade policy played a significantly important role in retaining them in the country ($M = 4.19$, $SD = 0.749$), than non-manufacturing companies ($M = 3.66$, $SD = 1.198$); $t(90) = 2.585$, $P < 0.05$ (two tailed). The same result is obtained for the industrial and regional policy, where manufacturing companies found it significantly influenced them to continue operating in the country ($M = 4.06$, $SD = 0.964$), than the non-manufacturing companies ($M = 3.58$, $SD = 1.177$); $t(90) = 2.112$, $P < 0.05$ (two tailed). The magnitude of difference between the two groups in both trade and industrial and regional policies, as evidenced by the Eta squared figure of 0.114 in both cases, is small. This means that only 1.1% of the difference can be explained by the sectors in the economy. The result is similar to the pattern observed in the T-test result of the length of stay in the country.

6.5.5 Importance of Policies Attracting FDI Based on their Markets

An independent sample T-test was employed to further examine the variations in the importance of government policies in investors' initial investment decisions in favour of Ghana based on the markets they serve. The markets that foreign firms in Ghana serve were classified in the questionnaire into seven groups, as indicated in Figure 6.6. The number of firms in each group include: (1) Ghana, 27 firms; (2) West Africa, 25 firms; (3) SSA, 14 firms; (4) Europe, 8 firms; (5) North America, 6 firms; (6) Asia, 3 firms; and (7) Worldwide, 9 firms. Firms that invest to serve the Ghanaian markets may also have the intention to serve both the West African and SSA markets, so it was deemed convenient to put these into one group labelled *African Markets,* and to label the rest as *Non-African Markets*. The group labelled African Markets had 66 respondents, and Non-African Markets had 26 respondents. The result of the T-test in Table 6.17 depicts a widespread uniformity in the importance of government policies in the firms' initial decisions to invest in Ghana. A significant difference was observed between the two groups in the case of the importance of tax policy influencing their initial investment decisions. Firms that invested in the country to serve the African markets indicated that the country's tax policy influenced their decisions to invest in the country ($M = 4.40$, $SD = 0.806$), than those that operate in the country with the motive to serve non-African markets ($M = 3.88$, $SD = 1.211$). The differences observed between the two groups were significant $t(90) = 2.000$, $P < 0.05$. The magnitude of this significant variance between the two groups, as depicted by the value of Eta squared (0.0114), accounts for

1.1%. This means that only 1.1% of the variance between the two groups on the tax policy can be explained by the markets they serve.

Table 6.17: T-test of mean scores of policies attracting FDI based on markets of firms.

	Policies	African market	Non-African market	**T-test**
Policy type	Economic, political and social stability	4.54	4.65	-.677
	Rules regarding entry and operations	4.18	4.19	-.039
	Standard of treatment of foreign affiliates	4.05	3.92	.540
	Policies on functioning and structure of markets	3.72	3.40	1.134
	International agreement on FDI	3.65	3.58	.239
	Privatisation policy	3.61	3.31	.998
	Trade policy	3.72	3.58	.527
	Tax policy	4.40	3.88	2.000**
	Industrial and regional policy	3.68	3.23	1.598

Scale: 5 items; ** denotes P- value < 0.05

Admittedly, both groups of investors indicated that the tax policy played an important role in influencing their initial decisions to invest in the country. However, the level of importance between the two groups on the tax policy is significant. This significant difference cannot be explained by the market of the firms, but by some other unknown variables.

6.5.6 Importance of Policies Retaining FDI Based on their Markets

Table 6.18 also reveals the independent T-test result of the importance of the various policies in the two groups of firms' decisions to continue operating in the country. In a similar pattern to the previous test, the mean scores suggest that all of the policies were very important in retaining foreign investors in Ghana.

Table 6.18: T-test of mean scores of policies retaining FDI based on markets of firms.

	Policies	African market	Non-African market	**T-test**
Policy type	Economic, political and social stability	4.66	4.81	-1.264
	Rules regarding entry and operations	4.14	4.31	-.847
	Standard of treatment of foreign affiliates	4.11	4.08	.134
	Policies on functioning and structure of markets	3.72	3.50	.821
	International agreement on FDI	3.73	3.77	-.135
	Privatisation policy	3.59	3.42	.541
	Trade policy	3.84	3.85	-.009
	Tax policy	4.31	4.08	.982
	Industrial and regional policy	3.86	3.46	1.529

Scale: 5 items; ** denotes P- value < 0.05

There also appears to be no significant differences between the two groups of investors in all of the policy areas. This suggests that foreign companies serving both African and non-African markets attached similar values of importance to all of the FDI-related policies in their decisions to continue operating in Ghana.

6.5.7 ANOVA of Policies Attracting FDI from Different Regions

Government policies play critical roles in attracting and retaining FDI in a host country, as indicated by the analyses so far. It is important to still evaluate if there are differences in the importance of government policies between firms originating from different regions: firstly, in their initial decision to invest in Ghana, and secondly, in their subsequent decision to continue operating in the country. A one-way between-groups analysis of variance (ANOVA) was used to explore the importance of government policies in attracting FDI from different regions. Respondents were divided into four groups according to the major continents: Group 1, America; Group 2, Europe; Group 3, Asia; and Group 4, Africa. The main point of the analysis here is to ascertain if firms from different regions place importance on different policies in their initial decision in favour of Ghana. The results of the analysis are presented in Appendix 9 (Table A5). There was not a statistically significant difference at the $P < .05$ level in the scores of policy importance for the four groups of foreign firms; $F(3, 85) = .29$, $P = .83$. The effect size calculated using Eta square (sum of squares between groups/total sum of squares) was .01, depicting that the actual difference in the mean scores between the groups was very small. The post-hoc comparisons using the Tukey HSD test (see Appendix 9, Table A7) and the descriptive table (see Appendix 9, Table A6) indicate that the mean scores of firms from America ($M = 3.90$, $SD = .62$); Europe ($M = 3.85$, $SD = .79$); Asia ($M = 3.97$, $SD = .64$); and Africa ($M = 3.77$, $SD = .51$) did not significantly differ from each other.

This result prompted a further analysis of the importance of individual policies in the decisions of firms originating from different regions to invest in Ghana. The Analysis of Variance (ANOVA) was again employed to further explore if there were possible differences in specific policies between the four groups. The results of the ANOVA on individual policies between the groups revealed no significant differences between them (see Appendix 9, Table A8). The implication here is that foreign firms originating from different regions place similar values of importance on government policies in their initial decision to invest in Ghana.

6.5.8 ANOVA of Policies Retaining FDI from Different Regions

ANOVA was also employed to examine if government policies influenced investors originating from regions differently to continue operating in the country. The results, illustrated in Table A9 (Appendix 9), revealed once again that at the $P < .05$ level in the mean scores of policy importance, there was no statistically significant difference between the groups of firms from the four regions; $F (3, 86) = .54$, $P = .66$. Despite this finding, the magnitude of difference between the groups was still assessed using Eta squared. The outcome showed a small effect size (0.02), which means the 2% of the difference can be attributed to regional differences. Additionally, the post-hoc comparisons using the Tukey HSD test (Appendix 9, Table A11) and the descriptive (Appendix 9, Table 10) showed that the mean scores of firms from America ($M = 4.1$, $SD = .62$); Europe ($M = 3.95$, $SD = .76$); Asia ($M = 4.02$, $SD = .72$); and Africa ($M = 3.79$, $SD = .45$) did not significantly differ from each other. The implication here is that foreign firms from different regions placed the same importance on government policies in their subsequent decision to continue operating in the country.

This finding prompted further exploration of the variability of important individual policies between the groups of regional firms in their subsequent decisions to continue operating in Ghana. ANOVA was also conducted and the results show no statistically significant difference in many of the policies, except in the case of tax policy. A statistically significant difference between the groups at the $P < .05$ level was observed in the Tax policy section; $F (3, 86) = 3.33$, $P = .02$ (see Appendix 9, Table A12). The post-hoc comparison table (Appendix 9, Table A13) further reveals that the significant difference on this policy occurs between the mean score of foreign firms originating from Africa ($M = 3.46$, $SD = 1.40$) and Asia ($M = 4.43$, $SD = .92$), as well as between African and American firms ($M = 4.50$, $SD = .63$). There was no significant difference between the European firms and firms originating from all the other regions on the importance of tax policy in their decision to continue operations in Ghana. The implication here is that foreign firms originating from the American and Asian regions pay more attention to the country's tax policy than firms originating from other African countries in their decision to continue operating in the country. This could be explained by the corporate tax rates in African countries being generally high, and thus firms originating from other African countries do not value the policy in the same way as firms from other regions.

6.5.9 ANOVA of Policies Attracting FDI Based on Entry Mode

ANOVA was again conducted to examine if a meaningful difference in the importance of policies in attracting investors exists between groups of firms based on the mode of their entry into Ghana. Respondents were divided into three groups according to their mode of entry into the Ghanaian market (Greenfield, Joint Ventures, and Acquisition of a local firm). As depicted in Table A14 (Appendix 9), no statistically significant difference was observed between the three groups; $F (2, 86) = 1.14$, $P = .33$. The magnitude of variance between the groups, based on the calculated Eta squared, was 0.03; depicting a small effect size. Additionally, the post-hoc comparisons using the Tukey HSD test illustrates that the mean scores for Greenfield firms ($M = 3.82$, $SD = .66$), Joint Ventures ($M = 3.91$, $SD = .74$) and Acquisitions ($M = 4.15$, $SD = .56$) were not statistically significant (see Appendix 9, Tables A15 and A16).

It was also deemed important to further analyse the importance of individual policies in the decisions of firms that invested in the country through different modes of entry. ANOVA was employed again to further explore if there were possible differences in specific policies between the three groups. The results of the ANOVA of the individual policies (see Appendix 9, Table A17) between the groups showed no significant differences between the three groups of firms. The implication here is that the mode of entry cannot be a reason for firms to evaluate government policies differently in their initial decision to invest in Ghana. Firms that invested through Greenfield, Joint Ventures and Acquisitions all assessed government policies in the same way, and placed similar values on them before investing in the country.

6.5.10 ANOVA of Policies Retaining FDI Based on Entry Mode

The analysis here focused on examining if there was a meaningful difference in the role of government policies in retaining different groups of foreign firms based on their mode of investment. Table A18 (Appendix 9) depicts that the difference between the three groups (Greenfield, Joint Ventures and Acquisitions) at the $P < .05$ level was not statistically significant; $F (2, 87) = .63$, $P = .53$. The effect size calculated using Eta squared was also small at 0.01. The post-hoc comparisons, as illustrated in Table A20 (Appendix 9) and the descriptive statistics in Table A19 (see Appendix 9), reveal that the mean scores of Greenfield firms (M = 3.94, SD = .66), Joint Venture firms (M = 3.94, SD = .76) and Acquisition firms (M = 4.19, SD = .62) did not significantly differ from each other.

In order to also assess if significant differences existed between the three groups and the specific individual government policies in firms' decisions to continue operating in the country, ANOVA was again conducted. The results illustrated in Table A21 (Appendix 9) reveal that there was no significant difference in the mean scores of all the policies between the three groups of foreign firms. It can be inferred from these results that all three groups of foreign firms considered government policies to be important in their subsequent decision to continue operating in the country. The level of importance placed by each group on the policies was also found to not significantly vary from each other, and hence entry mode cannot explain policy importance differentials between foreign firms in Ghana.

6.5.11 ANOVA of Policies Attracting FDI Based on Motives

ANOVA was also carried out to assess the relationship between the mean scores of the importance of government policies based on firms' motives for investing in the country. In this analysis, respondents were divided into four groups according to their motives for investing in Ghana (market-seeking, natural resource-seeking, efficiency-seeking, and asset-seeking). The output of the ANOVA analysis, presented in Table A22 (Appendix 9), reveals that there was no statistically significant difference at the $P < .05$ level in the mean scores for the four groups; $F(3, 86) = 2.48$, $P = .07$. Additionally, the effect size calculated using Eta squared (0.08) suggested that the magnitude of difference in the mean scores between the groups was medium. Table A24 (Appendix 9) contains the post-hoc comparisons using the Tukey HSD test, and Table A23 (Appendix 9) contains the descriptive statistics of the analysis; depicting that the mean scores of the groups of firms with the motive of market-seeking (M = 3.99, SD = .68), natural resource-seeking (M = 3.95, SD = .49), efficiency-seeking (M = 3.53, SD = .75) and asset-seeking (M = 3.44, SD = .11) did not significantly differ from each other.

However, further ANOVA was conducted to explore the importance of individual policies between the four groups of firms based on their motives, which resulted in statistically significant differences between some of the groups. The results contained in Tables A25 and A26 (Appendix 9) reveal that significant differences were observed between the groups in the policies on the functioning and structure of markets, privatisation and tax. Each of the policy differences are explained below.

Policies on the Structure and Functioning of the Markets.

There was a statistically significant difference at the $P < .05$ level in the mean scores of this policy for the four groups of foreign firms; $F(3, 86) = 3.05$, $P = .03$, as illustrated in Table A25 (Appendix 9). The effect size obtained from the calculation of Eta squared also revealed that the actual difference in the mean score between the groups was however a medium-sized one (0.10). This means that 10% of the difference could be attributed to the motive of the investing firms. Post-hoc comparisons using the Tukey HSD test (see Appendix 9, Table A27) revealed that the mean scores for market-seeking firms ($M = 3.84$, $SD = 1.06$) were significantly different from those of asset-seeking firms ($M = 2.00$, $SD = 0.00$). The mean scores of natural resource-seeking firms ($M = 3.31$, $SD = 1.03$) and efficiency-seeking firms ($M = 3.44$, $SD = 1.67$) did not significantly differ from either the market-seeking firms or the asset-seeking firms, as well as from each other.

Privatisation Policy

ANOVA, as illustrated in Table A25 (Appendix 9), also depicts a statistically significant difference at the $P < .05$ level in the mean score of this policy for the four groups of firms; $F(3, 86) = 6.54$, $p = .00$. The calculation of the effect size (Eta squared = 0.19) also reveals a large effect. It means that 19% of the difference can be attributed to the motive of firms investing in the country. The post-hoc comparison table (see Appendix 9, Table A27) suggests that the mean score for market-seeking firms ($M = 3.69$, $SD = 1.25$) was significantly different from that of efficiency-seeking firms ($M = 2.38$, $SD = 1.41$). A significant difference was also observed between natural resource-seeking firms ($M = 4.15$, $SD = .56$) and efficiency-seeking firms ($M = 2.38$, $SD = 1.41$).The mean score of the privatisation policy for asset-seeking firms did not differ significantly from either the market-seeking firms, natural resource-seeking firms or efficiency-seeking firms. The explanation from these findings is that natural resource-seeking firms placed significantly more importance on the privatisation policy in their initial decision to invest in Ghana than efficiency-seeking firms did. Additionally, market-seeking firms also significantly valued the importance of the privatisation policy in their initial investment decision in favour of Ghana unlike the efficiency-seeking firms who did not value it.

Tax Policy

Lastly, the ANOVA analysis illustrated in Appendix 9 (Table A25) also generated a statistically significant difference in the importance of the tax policy between the four groups of firms; $F(3, 87) = 4.287$, $P = .01$ at the $P \leq .05$ level. The effect size assessed from Eta squared (0.13) revealed that 13% of the difference can be attributed to the motives of the groups of firms investing in Ghana, depicting a medium effect size. The post-hoc table (Appendix 9, Table A27) also revealed that the mean score for the market-seeking firms ($M = 4.41$, $SD = .83$) differed significantly from the mean score for efficiency-seeking firms ($M = 3.56$, $SD = 1.26$) on this policy. The mean scores of natural resource-seeking firms ($M = 4.23$, $SD = .83$) and asset-seeking firms ($M = 5.00$, $SD = .00$) on the other hand did not significantly differ from that of any of the other firms. Thus, while all groups of firms valued the tax policy as being important in their initial decision to invest in Ghana, there was a statistically significant difference in the importance attached to the policy between market-seeking firms and efficiency-seeking firms. Market-seeking firms considered it significantly more important compared to efficiency-seeking firms.

6.5.12 ANOVA of Policies Retaining FDI Based on Motives

This ANOVA was used to assess the importance of government policies in retaining foreign firms with motives for investing in the country. The ANOVA output in Table A28 (Appendix 9) shows that there was a significant difference at the $P < .05$ level in the policy importance between the four groups; $F(3, 86) = 3.462$, $P = .02$. The magnitude of variance between the groups obtained through the calculation of Eta squared (0.11) suggests a medium size effect. This means that 11% of the variance between the four groups of firms can be accounted for by the motive for investing in Ghana. Additionally, the post-hoc comparisons (see Appendix 9, Table A30) and the descriptive statistics (Appendix 9, Table 29) indicate that the mean score for market-seeking firms (M = 4.09, SD = .66) differed significantly from that of efficiency-seeking firms (M = 3.54, SD = .73). The mean scores of natural resource-seeking firms (M = 4.07, SD = .59) and the asset-seeking firms (M = 3.56, SD = .11) did not significantly differ from any of the other four groups.

The implication from this ANOVA result is that the market-seeking firms valued government policies as being significantly more important in their decision to stay and continue operating in the country than efficiency-seeking firms did. This result also necessitated further exploration of the significance of individual policy importance in the various groups of firms' decisions to continue operating in the country. The ANOVA was again conducted to explore the differences of these individual policies between the groups. The results portrayed in Table A31 (Appendix 9) reveal significant differences between the groups in the privatisation, tax and industrial and regional policies. These are discussed below.

Privatisation policy

As depicted by Table A31 (Appendix 9), a statistically significant difference at the $P < 0.05$ level in the mean scores of this policy for the four groups; $F(3, 86) = 6.53$, $P = .00$ was observed. The effect size (Eta squared = 0.19) calculated was large; meaning that 19% of the variance was accounted for by the motive of firms operating in the country. The post-hoc comparison (Table A33, Appendix 9) and the descriptive statistics (Table A32, Appendix 9) also indicate that the mean score for market-seeking firms (M = 3.78, SD = 1.23) was significantly different from that of the efficiency-seeking firms (M = 2.31, SD = 1.40). Additionally, the efficiency-seeking firms mean scores (M = 2.31, SD = 1.40) differed significantly with that of the natural resource-seeking firms (M = 4.00, SD = 1.16). The mean scores of asset-seeking firms (M = 3.67, SD = .58) did not significantly differ with any of the other groups of firms. Also, the market-seeking firms (M = 3.78, SD = 1.23) did not significantly differ from that of the natural resource-seeking firms (M = 4.00, SD = 1.16). This result suggests that market-seeking and natural resource-seeking firms place similar importance on the privatisation policy in their decision to continue operating in Ghana. However, they both place significantly more importance on the privatisation policy in their decision to continue operating in the country than efficiency-seeking firms do. Asset-seeking firms, on the other hand, equally valued the importance of the privatisation policy as much as the other groups in their decision to continue operating in Ghana.

Tax Policy

Table A31 (Appendix 9) illustrates that a statistically significant difference in the mean scores of tax policy exists between the four groups; $F (3, 86) = 4.12$, $p = .01$. The Eta squared calculation (0.13) showed that the effect size is medium. Additionally, the mean score of this policy for the market-seeking firms ($M = 4.38$, $SD = .93$), as depicted by the post-hoc comparison table (Appendix 9, Tables A32 and A33), was significantly different from that of the efficiency-seeking firms ($M = 3.50$, $SD = 1.32$). The mean scores of the natural resource-seeking firms ($M = 4.38$, $SD = .77$) and the asset-seeking firms ($M = 5.00$, $SD = .00$) did not differ significantly with any of the other four groups. The implication here is that the natural resource-seeking firms and the asset-seeking firms placed a similar importance on the tax policy in their decisions to continue operating in the country, the same as the other groups of firms. However, it can be observed that the market-seeking firms were much more influenced by the tax policy to continue operating in Ghana than the efficiency-seeking firms were.

Industrial and Regional Policy

The ANOVA conducted to explore the importance of this policy on the four groups of firms in their decisions to continue operating in the country (Appendix 9, Table A31) also revealed a statistically significant difference between the groups; $F (3, 86) = 3.32$, $P =.02$ at the $P < .05$ level. In the same vein, the effect size calculated using Eta squared (0.10) revealed a medium size effect. The post-hoc comparison table (Appendix 9, Tables A32 and A33) also revealed a significant difference in the mean scores of the market-seeking firms ($M = 3.97$, $SD = 1.12$) from the efficiency-seeking firms ($M = 3.00$, $SD = 1.03$). The mean scores of the natural resource-seeking firms ($M = 3.69$, $SD = 1.03$) and the asset-seeking firms ($M = 3.67$, $SD = .58$) on this policy did not significantly differ from any of the other groups. The results, however, revealed that market-seeking firms are significantly influenced by the industrial and regional policy in their decisions to continue operating in the country, more so than the efficiency-seeking firms are.

The section which contains the T-test and the ANOVA reveals the paramount importance of the government in attracting and retaining FDI. The T-test results largely depict that the various groups of foreign firms used in the analysis valued the importance of the policies in a similar manner way. Only a few significant differences were observed between the various groups, especially with regards to the privatisation, trade, and industrial and regional policies. However, the magnitude of the variation was found to be small. The rational therefore is that all of the policies are important in attracting and retaining FDI in the country. The ANOVA analysis pointed out that no significant differences in the importance of these policies could be observed between firms with different modes of entry, as well as firms from different regions, in their decisions to locate or continue operating in Ghana. Further analysis, however, found that the tax policy was considered to be more important by firms from the American and Asian regions, as compared to firms originating from other African countries, in their decisions to continue operating in the country. The analysis further reveals that firms with different motives for investing in Ghana are influenced by different policies in locating and continuing to operate in the country. The implication is that although all foreign firms consider government policies to be important, the level of importance varies between groups of firms with different motives. This could have an important influence on the type of policies the government should focus on in order to attract and retain specific groups of FDI.

6.6 Factors That May Constrain the Inflow of FDI into Ghana

Research Question 4: *What are the policies/factors that may constrain the inflow of FDI into a developing SSA country such as Ghana?*

It was proposed in this study that:

Proposition 4: *The factors that may constrain FDI inflow to Ghana are political instability and a small local market.*

The analysis so far has shown that the core determinants attracting FDI into the country include a stable political, economic and social environment; available market, government policies, incentives, skill of employees and the efficient operation of other business facilitation factors. It thus suggests that the absence of these important factors in the country will make Ghana unattractive to foreign investors. Political stability in particular is most essential. Countries with unstable political environments tend to constrain the inflow of FDI into their economies because of the perceived high risk levels. Additionally, the types of policies developed by host governments may also constrain the inflow of FDI. Indeed, policies are the core factors that will either allow or restrain the inflow of FDI into a host economy. Restrictive policies are seen to discourage and restrain FDI inflow. Favourable policy developments are therefore the minimum requirements in order to not constrain the inflow of FDI.

Market-seeking is also seen as the main motive for firms investing in the country in recent times. This market is not only limited to the 24 million people in Ghana, but has been expanded to include the whole SSA region; as well as the US and European markets. The large market has stimulated the inflow of FDI into the manufacturing sectors of the economy. It is therefore suggested that a small market will constrain the volume of FDI entering the country. In addition, generous incentives and efficient business facilitation factors, as well as the performance of employees, are deemed potent factors that will attract investors into the country. The inadequacy or absence of these factors will also discourage investors, who consider them as important when investing in the country, and thus constrain the inflow of FDI into the country. In effect, the absence of various factors that are attracting investors into the country will constrain the inflow of FDI into the country.

6.7 Factors That May Precipitate Outflow of FDI from Ghana

Research Question 5: *What are the policies/factors that may precipitate outflow of FDI from Ghana?*

To provide answers to the research question, it was proposed that:

Proposition 5: *The factors that may precipitate outflow of FDI from Ghana are political instability and unfavourable FDI policies.*

Foreign investors who are unhappy with the investment environment have the option to terminate operations in the country, and to relocate to another country where various elements of the investment environment make it conducive for business operation. Firms relocating from a country also leave behind a negative impression about the country's investment environment, and deter potential investors from entering the country to invest. Governments are therefore aware that even if they are not able to attract new investors, they should do everything possible to retain investors already operating in the country. Their ability to retain them will also depend on how satisfied investors are with various elements of the investment environment. Table 6.20 reveals that most firms surveyed plan to expand their operations in the country within the next three to five years. This means that they are satisfied with conducting business in Ghana. Table 6.19 also reveals that they are particularly satisfied with market access (4.09), performance of employees (3.92) and the cost of labour (3.84). Considering the fact that many firms invest in Ghana for market reasons, this suggests how attractive the country is for market-seeking investments.

Table 6.19: Level of satisfaction with various factors among foreign firms in Ghana

Factor	Minimum	Maximum	Mean	Standard Deviation
Market access	2	5	4.09	.640
Performance of employees	1	5	3.92	.715
Labour costs	1	5	3.84	.829
Foreign investment regulations	1	5	3.59	.771
Labour regulations	1	5	3.55	.883
Price regulations	1	5	3.51	.761
Telecommunication supply	1	5	3.43	1.015
Forex regulations	1	5	3.42	.867
Taxes and charges	1	5	3.28	1.042
Predictability of laws and policies	1	5	3.23	.656
Infrastructure (i.e. transportation networks)	1	5	3.16	.933
Port services	1	5	3.16	.913
Complexity of policies, laws and regulations	1	5	3.15	.687
Utility services cost	1	5	3.12	.969
Utility services supply	1	5	3.12	.945
Subsidies from government	1	5	3.07	.955
Bank loan regulations	1	5	2.80	.912
Financial costs	1	5	2.50	1.114

Firms operating in Ghana have access to various markets, which include the Ghanaian market, the ECOWAS market, the African market under NEPAD, the American market under AGOA, and both the European and Caribbean markets under the ACP-EU agreements. Firms operating in the country for market reasons, therefore, have a large and growing market to serve. The only areas in which firms are not satisfied are the cost of borrowing in Ghana (2.50) and the bank loan regulations (2.80) in the country. Interest rates in the country are around 25%, which is very high when compared with interest rates in other regions. For instance, while the interest rates in Ghana are around 25% (BOG, 2010), the cost of borrowing in Europe is around 6%. Foreign firms, however, have the opportunity to source finance from any part of the world, and thus the high interest rates in Ghana may not have much of a negative impact on them.

Based on the satisfaction levels of foreign firms operating in the country, they were asked about the future plans of their operations in the country, and they overwhelmingly stated that they are most likely to expand their operations within the next three to five years; as depicted by the mean score (4.42) in Table 6.20. The standard deviation (0.931) also suggests that there is not much variability in the answers. The results reveal that foreign investors operating in the country are not likely to relocate to a new location (2.32) or downsize (2.08), or terminate their operation in Ghana without relocating (1.74).

Table 6.20: Future plans of subsidiary in Ghana

Factor	Minimum	Maximum	Mean	Standard Deviation
Expansion	1	6	4.42	.931
Relocation to new location	1	6	2.32	1.318
Downsize	1	6	2.08	1.280
Terminate operation in Ghana without relocation	1	6	1.74	1.011

6.7.1 Reasons That May Stimulate Relocation from Ghana

Foreign firms also indicate the factors that may influence them to consider stopping operations in Ghana and relocate to another country. The mean scores of the various factors in Table 6.21 reveal that unfavourable government policies (3.61) is the most dominant factor that will stimulate their relocation decisions. Thus, changes of policies in an unfavourable direction to FDI inflow, especially in the case of radical nationalisation, will stimulate a relocation of foreign firms operating in the country and hence a reduction in FDI (UNCTAD, 1998). The mean scores of increased corruption (3.44), bureaucracy (3.43), insufficient market (3.43), high taxes, duties and charges (3.41), market demand saturation of products or services (3.34), other non-labour production costs (3.10), insufficient network of suppliers (3.06), and insufficient subsidies from government (3.03) also indicate factors that could influence firms to relocate from the country.

Table 6.21: Likely reason for relocation

Factor	Minimum	Maximum	Mean	Standard Deviation
Government policies	1	5	3.61	1.263
Corruption	1	5	3.44	1.175
Government bureaucracy	1	5	3.43	1.230
Insufficient market	1	5	3.43	1.223
Taxes, duties, charges	1	5	3.41	1.204
Market demand/saturation for your products/ services	1	5	3.34	1.180
Other (non-labour) production costs	1	5	3.10	1.202
Insufficient network of suppliers	1	5	3.06	1.162
Insufficient subsidies from government	1	5	3.03	1.317
Insufficient infrastructure	1	5	2.87	1.192
Lack of new technology and research and development	1	5	2.82	1.122
Current labour cost	1	5	2.69	1.149
Lack of skilled workers	1	5	2.69	1.196

Table 6.19 depicts that foreign firms are satisfied with most of these factors, thus supporting their plans not only to continue operating in the country but to expand within the next three to five years, as succinctly shown in Figure 6.20. Factors that are less likely to influence firms to relocate from Ghana (as revealed by Table 6.21) include insufficient infrastructure (2.87), lack of new technology and research and development (2.82), current labour cost (2.69) and lack of skilled workers (2.69). This suggests that the country is considered to have a sufficiently-more developed infrastructure than other countries in the region. Additionally, the result shows that the country has a well-developed, well-qualified and competent labour force to man the operations of foreign firms at a comparatively acceptable or lower cost. Foreign firms usually maintain their research and development functions in the home country, and therefore there would not be a need to consider this as a reason to relocate from the country.

6.7.2 PCA - Potential Relocation Factors

Principal Component Analysis (PCA) was employed to generate constructs of the possible reasons that may account for investors' intentions to relocate their operations from Ghana to another country. The analysis of the thirteen items resulted in three factors, all well-loaded with values of 0.580 and above, as evidenced in Table 6.22. The three factors extracted explain 69.111% of the total variance. Additionally, the results generated an appropriate KMO value of 0.853 and a statistically significant Bartlett's Test of Sphericity. The '*policy*' construct contains items which might be considered as restrictive policy-wise, burdensome or inadequate by foreign investors, and thus stimulate the intentions to relocate to a comparatively better location. The factor has an eigenvalue of 6.272 and explains 48.247% of the total variance. The second item labelled '*market*' is loaded with items which generate dissatisfaction of the market availability for products from the host country. The factor also generated an eigenvalue of 1.491 and explains 11.470% of the total variance. The final construct generated an eigenvalue of 1.221 and explains 9.94% of the total variance. It is labelled '*efficiency*', and contains items that make business operations in the host country inefficient and costly. These three factors together explain the dimensions that may prompt foreign investors to abandon the host country that they are currently operating in, and to search for a superior investment environment.

Table 6.22: PCA - Potential relocation factors

Item	Factor		
	Policy	Market	Efficiency
Government policies	.879		
Bureaucracy	.778		
Corruption	.735		
Insufficient subsidies	.700		
Taxes, duties, charges	.593		
Insufficient market		.872	
Demand saturation of product/services		.833	
Insufficient network of supplies		.740	
Lack of new technology and R&D			.906
Insufficient Infrastructure			.895
Other (non-labour) production cost			.744
Lack of skilled workers			.622
Labour cost			.580
Eigenvalue	**6.272**	**1.491**	**1.221**
% of variance explained:	48.247	11.470	9.394
Total variance explained: 69.111			
KMO: 0.853			
Bartlett's Test of Sphericity:	Approx. Chi-Square: 480.796 df: 78 Sig: .000		

*All loadings less than 0.3 suppressed

** Principal Component Analysis with Oblimin rotation converging in 8 iterations

In addition, unfavourable government policies, corruption, red tape bureaucracy, insufficient market, high taxation rates and saturation of demand are some of the dominant factors that may precipitate the outflow of FDI from Ghana. This finding therefore has policy implications regarding the government's efforts to retain FDI in the country.

6.8 Foreign Investors' Level of Satisfaction and Future Plans

Research Question 6: *Is there a relationship between foreign investors' level of satisfaction and their decisions regarding expansion, downsizing, relocation and termination of their operations in Ghana?*

The relationship between foreign firms' overall satisfaction with the business environment in Ghana and their decisions to expand, downsize, relocate or terminate their operations in the country were first investigated using the Pearson product-moment correlation coefficient. A preliminary analysis was performed to ensure that there was no violation of the assumptions of normality, linearity and homoscedasticity. The outcome (see Appendix 10) depicted a positive correlation between total satisfaction and the firms' decisions to expand; $r = .35$, $n = 83$, $P < .001$. It indicates that a high level of satisfaction by foreign firms operating in the country is associated with their decision to remain and expand their operations in the country by reinvesting more capital. The outcome, presented in Table A34 (Appendix 10), can therefore be inferred that in order to retain foreign investors in the country and motivate them to expand their operations, the government will need to create a business environment that will satisfy them.

Table A35 (Appendix 10), however, reveals no correlation between the firms' level of satisfaction with the country's business environment and their decision regarding downsizing; $r = .05$, $n = 83$, $P < .668$. This implies that the firms' decisions to downsize their operations in the country are not associated with the level of satisfaction with the business environment. It is arguable to suggest that their decisions to downsize may be influenced by factors that are not within the control of the government. Such factors could include the global economic crisis that forced many firms to downsize their global operations, while maintaining their core activities in foreign subsidiaries. Foreign investors may therefore be satisfied with the overall business environment of the country but other external factors may influence their decision to downsize, and not because they are dissatisfied with the business environment of the country. Hence, while the government can positively influence foreign firms to expand their operations in the country (possibly through attractive policies, generous incentives and efficient infrastructure), the decision of foreign firms to downsize on the other hand is considered not to be associated with how satisfied or dissatisfied they are with the country's business environment.

The correlation analysis further revealed a negative correlation between firms' satisfaction and their decision to relocate from the country; $r = -.35$, $n = 83$, $P < .001$ (as depicted in Table A36, Appendix 10). High levels of satisfaction are associated with low levels of intentions or decisions to relocate from the country. Additionally, a negative correlation was also established between firms' level of satisfaction and their decision to terminate operations in the country; $r = -.31$, $n = 83$, $p < .004$ (as illustrated in Table A37, Appendix 10). This outcome also indicates that the more satisfied firms are with the business environment of Ghana, the less likely they are to terminate their operations in the country. The correlation result therefore conveys an important insight in that the government's ability to retain foreign investors in the country is directly linked with the perceived satisfaction of foreign firms with Ghana's business environment. If foreign firms are satisfied with the business environment in the country, they are more likely to remain and expand their operations in Ghana. Satisfaction also means less likelihood of firms terminating their operations in the country or relocating to alternative countries. Efforts by governments to improve FDI inflow to their countries cannot be limited to purely attracting investors into their economies, but should also extend to ensure that those already operating in the country feel satisfied in operating in their economies. Dissatisfaction will only result in many investors terminating their operations or relocating to other countries. The effects of termination and relocation will be costly, as it will signal a negative perception of doing business in that country, and thus discourage potential foreign investors from entering into the economy.

6.9 Factors That Can Predict Foreign Firms' Future Decisions

Research Question 7: *What factors can best predict foreign firms' decisions to expand, relocate or terminate their operations in Ghana?*

Standard Multiple Regression was used to assess the ability of a number of satisfaction factors to predict the likelihood of foreign firms' decisions to expand, relocate or terminate their operations in Ghana. The resulting models indicate how much unique variance each of the satisfaction factors contribute to the future decisions of expansion, relocation and termination. Each model will be discussed briefly.

6.9.1 Predicting Expansion

The standard multiple regression analysis illustrated in Table A38 (Appendix 11) shows that the resulting model explains three satisfaction factors' ability to predict the expansion decision of foreign firms operating in the country. The total variance explained by the model as a whole was 27%; $F(3, 82) = 10.11$, $P < .000$. The three factors that contribute to the model are satisfaction with market access, satisfaction with labour cost and satisfaction with foreign investment regulations. All of them significantly contributed to the predictive model, with labour cost recording a higher beta value (beta = .30, $P < .004$) than satisfaction with foreign investment regulations (beta = .26, $P < .009$) and market access (beta = .24, $P < .016$).

The results indicate that the factors that can be used to predict foreign firms' decisions to expand include their satisfaction with market access, labour cost and foreign investment regulations. Since earlier results showed that many firms invest in the country for market reasons, it stands to reason that their ability to fully access both the Ghanaian and SSA market will stimulate them to expand their operations in the country; and to export to the markets in the subregion, since the country is relatively stable for business. Additionally, the favourability and satisfaction with both labour cost and foreign investment regulations are also vital factors that will retain foreign firms operating in the country. Admittedly, labour costs in Ghana are comparatively low. The important factor in which the government can have a better influence is the policies and regulations guiding foreign business operations in the country. The more favourable the policies, the greater the likelihood investors will feel happy to stay. In order to retain foreign firms operating in the country and motivate them to expand, the government has to ensure that the labour cost is not too high; and that they develop policies that will not only make operating in Ghana favourable, but will also extend the local market to include the subregional and other international markets.

6.9.2 Predicting Relocation of Operations from Ghana

Further standard multiple regression analysis established that four satisfaction factors constitute a model that can best predict foreign firms' decisions to relocate their operations from Ghana. This is depicted in Table A39 (Appendix 11). The total variance explained by the model is 34%; $F (4, 83) = 10.83$, $P = .000$. The factors contributing to the model include satisfaction with labour regulations, utilities services cost, labour cost and dissatisfaction with financial cost. Three factors out of the four contributed significantly to the predictive model. Satisfaction with labour regulations recorded a higher beta value (beta = -.36, P = .004) than satisfaction with utilities cost (beta = -.29, P = .009) and dissatisfaction with financial costs (beta = -.25, P = .015). Satisfaction with labour cost does not contribute significantly to the model (beta = -.17, P = .146).

The negative coefficients on some factors reveal that if foreign firms operating in Ghana find the country's labour regulations, utility costs and labour costs to be satisfactory, they will not relocate their operations from the country. The positive coefficient of finance cost suggests that dissatisfaction with the cost of finance in Ghana will not influence them to relocate their operations from the country to other countries where the cost of financing is deemed satisfactory. It is, however, important to suggest that dissatisfaction with finance cost alone may not result in foreign firms relocating their operations. The decision to relocate will gain potency if foreign firms are dissatisfied with all the above factors. This is because of foreign firms' abilities to source finance from elsewhere in the world at a lower cost, without having to relocate their operations. Higher finance cost in Ghana negatively affects business operations in the country, but the factor alone may not be potent enough to stimulate the termination and relocation of foreign firms' operations in the country.

6.9.3 Predicting Termination of Foreign Firms' Business Operations in Ghana

Standard multiple regression analysis was also used to examine the factors that can predict areas that will influence investors to terminate their operations in Ghana. The analysis reveals that two factors contributed to the model, and the total variance explained by the model was 17%; $F(2, 84) = 8.51$, $P < .000$. This is depicted in Table A40 (Appendix 11). The factors include satisfaction with market access and employees' performance. Both factors were statistically significant, with performance of employees recording a higher beta value (beta = -.31, $P < .003$) than market access (beta = -.021, $P < .040$). The negative coefficients reveal that satisfaction with these factors will not lead to firms terminating their operations in the country. Thus, in order to ensure the continuous operations of foreign firms in the country, these firms should be satisfied with the performance of employees, as well as the market access. Dissatisfaction with these factors will however influence foreign firms to terminate their operations in Ghana.

The factors that constitute the models for termination and relocation have important policy implications for countries seeking to attract and retain FDI. The ability to ensure that foreign firms operating in the country are satisfied with these factors, all things being equal, will motivate the firms to continue operating their businesses in the country. This means that they will continue to create jobs for people, pay taxes and add to the capital stock of the country's private sector. Additional expansion of foreign business operations will also help the country's economy to grow. These implications are very important, particularly for developing SSA countries. Hence it is vital to ensure that these factors are evaluated continually, so that they favourably serve investors and assist in retaining them and their capital. The absence of this continual evaluation will result in foreign capital taking flight from the country, which will have a negative knock-on effect for the country's economy.

6.10 Conclusion

This chapter presented the quantitative analysis of the study, and provided some answers to the research questions posed in this study. The findings point out that the main motives for firms investing in Ghana are market-seeking and efficiency-seeking. Natural-seeking and asset-seeking types of FDI are also entering the economy, but on a lower scale than the market-seeking and efficiency-seeking types of FDI. On the determinants that are attracting and retaining FDI in Ghana, the analyses suggest that political, economic and social stability are the most dominant factors in attracting and retaining FDI in the country. Additionally, the outcomes of the various analyses overwhelmingly point out the important role of government policies in attracting and retaining FDI in Ghana. The implication therefore is that favourable FDI policies are very important in attracting foreign capital into the country. These policies seem to constitute the minimum requirement for countries seeking to attract FDI, who need to ensure that they are in place as restrictive FDI policies will discourage investors from entering into the economy. The analyses further established that generous incentives and business facilitation factors that are more efficient than other countries in the region are attracting, as well as retaining, FDI in the country. There is also the revelation that although the country is very attractive to investors, this attractiveness is not well-known by many foreign investors; and they will only get to know its' attractiveness after entering the country. Much promotion is therefore required in order to project the image of Ghana to the world of foreign investors. Having presented the quantitative analysis of the study, the next chapter will present the qualitative findings in support of the findings in this chapter.

Chapter Seven

Qualitative Investigation of FDI Determinants in Ghana

7.1 Introduction

In chapter six, the quantitative data analysis and findings of this study were presented. The quantitative analysis identified the main motives and determinants of FDI in Ghana. This chapter presents the findings of the qualitative data collected from foreign firms operating in Ghana, and government agencies responsible for the promotion and attraction of FDI to Ghana. The chapter seeks to qualitatively to establish the main motives and determinants of FDI in Ghana. It also seeks to explore in detail the policy framework, business facilitation factors and economic factors that influence the choice of the country in the strategic decision-making of foreign firms. This section begins with an overview of the background of the case study firms. This is then followed by an examination of the factors which influenced the FDI decisions of the firms in Ghana. The chapter ends with a discussion on the conclusions drawn from the qualitative analysis.

7.2 Profile of Foreign Firms Interviewed

This section presents the backgrounds of the nine foreign firms selected for the study. For reasons of confidentiality, these firms are identified not by their names, but with the letters A, B, C, D, E, F, G, H, and I, as indicated in Table 7.1 below.

Table 7.1: Profile of foreign firms

Code	Home country	Year of entry	Mode of entry	No. of staff	Main functions
A	South Africa	2004	Joint Venture	7200	Gold exploration, mining, processing and export
B	Netherlands	2002	Acquisition	21	Cocoa processing and warehousing
C	France	2007	Greenfields	65	Oilfield exploration and services company
D	France	2007	Greenfields	76	Shipping company
E	India	2003	Greenfields	200	Garment manufacturing company
F	Lebanon	1955	Greenfields	20	Shoe manufacturing company
G	Lebanon	1999	Greenfields	34	Plastic furniture manufacturing company
H	Netherlands	1991	Joint Venture	284	Hospitality company
I	US	2007	Greenfields	120	Business outsourcing company

As the table shows, about 67% (A, B, C, D, E, and I) of the firms invested in the country after 2000, while 22% (G and H) invested in the 1990s. Only firm F invested in 1955 through a Greenfield approach suggesting that most of the policy developments since independence may have contributed to the firm's continuous operation in the country. It is also important to note that 67% (C, D, E, F, G, and I) of the firms invested in the country through the Greenfield approach, while 22% (A and H) used a joint venture to enter Ghana. Only firm B entered the country through the acquisition of a local firm.

Firm A is the oldest of the foreign firms studied. The company was founded by an English investor in 1897 as a UK company which was listed on the London Stock Exchange in the same year. The company dominated the mining industry in the extraction of gold in Ghana. In 1969, it was acquired by another London Stock Exchange (LSE) listed company. It remained a foreign company until 1972 when the government, via legislation, compulsorily acquired majority shares in all mines in which the government had minority shares or none at all. As a result of that nationalisation policy, the government acquired 55% of the shares of the company and registered it under the Ghana Companies Code, 1963 (Act 179) as a Ghanaian company. The remaining 45% was owned by the parent company, but was forced to become a minority shareholding partner. In the mid-1980s, the government developed the privatisation policy of SOEs, and this attracted foreign investors into the company again. The company was subsequently converted into a public limited liability company, with its, shares listed on the London, New York and Ghana stock exchanges. In 2004, the company formed a joint venture with another foreign company from the US. Following the merger of the two companies, **Firm A** is currently the third largest gold-producing mining company in the world, with operations in Argentina, Australia, Brazil, China, Ghana, Guinea, Mali, Namibia, South Africa, Tanzania and the US of America. The company is currently listed on the New York, London, Australia, Johannesburg and Ghana stock exchanges; as well as the Paris and Brussels bourses. It has a market capitalisation value of over US$15 billion, and 3.6% of its' shares are owned by the government of Ghana. It employs about 7000 permanent employees.

Firm B is a Dutch company that provides logistical services to manufacturing companies. The company was founded in July 2002 in Amsterdam by taking over another company that handled cocoa warehousing activities. In the second half of 2002, it acquired two other companies that handled similar activities in the United Kingdom and Ghana. It owns and operates facilities in the Netherlands, Belgium, United Kingdom and Ghana. In Ghana, the company is registered as a Free Zone company, and offers a wide range of logistical services in the ports of Takoradi and Tema. The subsidiary in Ghana is the only subsidiary in the African region, and its' market is not limited to the Ghanaian market but also includes other countries within the subregion, such as Togo, Cote d'Ivoire and Nigeria. The company plans to further expand its' operations in order to serve other African countries. The main commodity handled by the company is cocoa. However, it also handles peanuts, sesame seeds and has the intention to include coffee and Shea nuts in the near future. In terms of size, the company can be classified as a small company employing about 28 people.

Firm C is an oilfield services company established back in 1926 in Europe, and is currently listed on the New York, London, Euronext Paris, Euronext Amsterdam and the SWX Swiss stock exchanges. The company operates in the oil industry and is the world's leading oilfield services company supplying technology, information solutions and integrated project management for companies in the oil and gas industries. It has a global reach because the company has the technology to find and drill oil, and since oil is being produced all over the world, they are now operating all over the world. When oil companies like Kosmos, Exxon Mobile, Tullow Oil, BP, Royal Dutch Shell and Total are looking for oil, they contact the company to help them find and produce the oil. Without **Firm C**, Kosmos may not have been successful in finding or producing oil in Ghana. Ghana had been looking for oil for an extremely long time, and this company was involved in the discovery of oil in the country in 2007. Due to a very large oil reservoir being found in the country, and the government (together with other oil companies) deciding to produce the oil, firm C also established a subsidiary in Ghana instead of operating from another country. Currently, the company employs more than 79,000 people of over 140 nationalities working in approximately 80 countries, of which about 65 are permanent employees in Ghana.

Firm D is a French company founded in 1867 and has been a large player in the shipping industry. In 2006, the company formed a joint venture with another foreign company and this allowed it to widen its' scope of services. The company has a strong presence in Africa, Asia, the Americas and the Indian sub-continents, but operates all over the globe with regular lines connecting Africa to and from Europe, Asia, and America. It handles the shipment of any type of cargo, both on sea and on land, and has a minimum of seventy-six (76) vessels. The company established a subsidiary in Ghana in 2007, and by 2008 made a turnover of 10 million Euros in its' operations in the country, with its' global turnover standing at $1.7 billion. In 2008, the company invested about one million Euros in the Ghanaian economy and has so far employed 76 permanent staff, with plans to expand its' Ghanaian operations within the next three to five years.

Firm E is an Indian company that specialises in garment manufacturing for export. The company established a subsidiary in Ghana in 2003 under the Free Zone Board policy. It manufactures socks, vests, aprons and other garments for schools and hospitals in the US. Accordingly, its' operation in Ghana enables it to compete with other companies outside Ghana in supplying the US market with garment products. Since its' main market is the US market, it benefits greatly under the AGOA, and cites that agreement as the main reason as to why the company established the subsidiary in Ghana. It currently employs 200 permanent employees in Ghana and also indicated plans to expand its' operations in the country within the next five years, in order to meet the large volume of demand.

Firm F is a Lebanese shoe manufacturing company that was founded in Wales in the 1940s. In 1955, the company established a subsidiary in Ghana with factories first in Sekondi, then in Kumasi, and then later in Tema and Accra. Over the years, the company dominated in the manufacturing of shoes in Ghana for the market in West Africa. Subsequent political instabilities and nationalisation policies saw the company reduce its' portfolio in the country and close some of the factories. The company currently operates two shoe factories in the country, specifically in Accra and Kumasi, and seeks to further diversify its' portfolio by moving into the manufacturing of ceramic tiles with local Ghanaian materials and designs. This is because of stiff competition from China and second-hand shoes from the West and Middle East, which are posing new challenges for the company. The company used to employ 370 workers but has reduced that number to a little over 20 permanent staff. Its' plan of expansion is dependent on the success of the ceramic business it is venturing into.

Firm G is a Lebanese manufacturing subsidiary in Ghana. The company was established in 1989, and has since been in operation in the manufacturing of plastic home and garden products. Its' Ghanaian subsidiary was established in 1999 as a Greenfield company. Within the African region, it is only in Ghana that the company has a subsidiary. The subsidiary in Ghana manufactures mainly chairs and tables for the ECOWAS sub-regional market. The company therefore exports manufactured products from Ghana to other countries such as Cote d'Ivoire, Nigeria, Burkina Faso and Togo. In the Ghanaian market, the company also faces stiff competition from Chinese firms in the country, and Chinese imported plastic products. It plans however to expand its' operations in the country within the next three to five years. The company currently employs 34 permanent staff in Ghana.

Firm H is a worldwide hospitality company headquartered in the Netherlands. It has a presence in 40 countries in Europe, the Middle East, Africa, Asia and the Americas. It has been operating since its' establishment 50 years ago, and offers international standards of hospitality services and facilities. Its' branches are located in gateway city centres and business districts, and they have signed a commercial alliance with another foreign hospitality company; creating the eighth largest hospitality company worldwide. The company invested in Ghana in 1991 through the acquisition of a state-owned hotel that was being privatised. The government however still owns about 40% of the company, but the control and management is in the hands of the foreign investors. The company currently employs 284 permanent staff.

Firm I is the most recently established subsidiary in Ghana among all the firms studied. It is a multinational Business Process Outsourcing (BPO) company with its' headquarters in the US. The company operates in the information technology sector and has a proven expertise in transcription, data entry, back office service processing and other services. The core competency of the company is as a service provider to American businesses. It aims to drive down the cost of their operations and to increase quality by outsourcing their non-core business functionalities to a third party. The company invested in Ghana in 2007 through a Greenfield approach, based on the knowledge and conviction that Africa, and particularly Ghana, is the next frontier of 'offshoring'. The subsidiary in Ghana operates under the Free Zones Board and serves mainly the US market. The BPO industry is underdeveloped in Ghana, and in Africa for that matter. This presents a great opportunity for the company, as it plans to expand and develop the BPO industry in Ghana and then subsequently the rest of Africa in the long term. It employs 120 permanent workers in Ghana.

Having presented an overview of the backgrounds of the case study firms in this research, the next section discusses the qualitative findings in relation to the research questions. It begins with the main motives for the firms investing in Ghana. Representative quotations from a selection of informants have been included as they are broadly representative of the majority of the sample.

7.3 Motives of Firms Investing in Ghana

Research Question 1: *What are the main motives for firms investing in Ghana?*

Proposition 1: *The main motive for foreign firms investing in Ghana is natural resource-seeking.*

The literature reviewed in Chapter Three revealed that the four fundamental motives of foreign firms investing abroad are natural resource-seeking, market-seeking, efficiency-seeking and asset-seeking (Dunning, 2000). Earlier research on Africa in general, and on Ghana in particular, on the motives for FDI also suggests that foreign investors are mainly attracted to Africa (and Ghana for that matter) to access and exploit the natural resources (Boateng and Glaister (1999); Grant, 2001; Asiedu, 2002; Asante, 2006). The quantitative findings presented in Chapter Six, however, reveal that the main motive for FDI in Ghana is mainly for market-seeking rather than natural resource-seeking. Out of all the foreign companies interviewed, 45% of them (E, F, G, H) revealed that they had invested in the country mainly for market reasons; 33% (A, B, C) invested for natural resources reasons, while 22% (D, I) invested for efficiency-seeking purposes. This largely supports the quantitative findings that market-seeking stands out as the main motive for firms investing in Ghana. This finding departs from an earlier study which indicated that the Ghanaian market of 24 million people is quite small and will therefore not attract substantial FDI (Boateng and Glaister, 1999). It does however support Cleeve's (2008) argument that market size has become a crucial determinant of FDI in SSA countries. Regionalisation has also expanded the local market to include not only the 297 million people within the 16 member countries of ECOWAS, but also extended it to include the one billion people living in the African continent. Ghana has been positioning itself as the, "Singapore of West Africa", by making it a base for foreign firms that seek to access the sub-regional markets (Debrah, 2002). This view was reinforced by a director of Firm E, who noted that:

> *"The country is geographically well positioned within the region for business purposes...we have observed that many people from the neighbouring countries come to purchase goods and services in Ghana. Businesses operating in the country are also able to easily export their products to these neighbouring countries without much difficulties... the stability in the country is reinforcing its position as the centre of business operation in West Africa. This is because every investor usually looks for a stable location to invest and if possible use that location as a stepping stone to access the unstable ones."*

Similarly, a manager of Firm F also commented that:

> *"Ghana is blessed with stability, good people, lots of natural resources such as quality timber, diamond, gold, cocoa and now oil and gas. It is also fortunate to be without desert... these factors give the country a lot of capacity as a centre for businesses and possible industrialisation within the West African Region."*

Additionally, the signing of international market access treaties such as the AGOA and ACP-EU agreements also give companies in Ghana quota-free access to the US and European markets. It is very important to point out that all of the firms interviewed indicated that they do not limit their products to the local Ghanaian market. Some export their products to countries within the sub-region, as in the case of firms D, F and G. Others do market their products in Ghana, but at least 70% of their products are exported to the US and European markets. For instance, a director of Firm E revealed that:

> *"Our market is mainly the US market. We established in Ghana because of AGOA... Asian countries are here because you have something - a market given to Africa under AGOA, EPA, etc, but Africans are not taking advantage of it. Let's say Africa has 10% world market and if Africans use this market fully, that will affect us [Asians] a lot. If Africans increase this share to about 30% that will affect the Asian market hugely. But now that Africans are not using their market*

share, it is very good for us [Asians]. We use our market share fully and still come to Africa to take the market share they are underutilizing."

It is very revealing that the elimination of barriers to both regional and some international markets through bilateral and multilateral investment agreements are playing a fundamental role in changing the trend of the types of FDI entering Ghana. The elimination of barriers and the signing of international treaties are part of government policies intentionally pursued to open up the economy. The positive impact of these policies in attracting foreign investors also points out that good government policy can stimulate FDI inflow from different regions. In this case, it is evident that without AGOA and EPA, the country will not be very attractive to Asian foreign investors that seek to serve the US and European markets. Additionally, the country may not have been attractive enough to attract more market-seeking FDI if it did not sign these treaties and pursue other policies that eliminated barriers to other markets; and also expanded the country's market to include the rest of the African region, as well as the US and European markets. Despite the crucial role of government policies in attracting FDI, the qualitative findings therefore reveal that the main motive for foreign firms investing in Ghana is to access and serve markets.

Additionally, as indicated earlier, 33% of the firms interviewed also invested in the country for natural resource-seeking reasons. These natural resources are mainly in the mining sector (Firm A), agricultural sector (Firm B) and the newly-vibrant oil and gas sectors (Firm C). For instance, a director of Firm A indicated that:

> *"We are in Ghana because of the gold...our core activity is to explore, mine, process and export gold. So without gold, we would not have considered Ghana as a place for investment because, we do not and cannot market gold in Africa... there is no gold market in Africa."*

A director of Firm B also asserted that:

> *"The main reason for the company being in Ghana is because of the availability of cocoa. We store cocoa for third parties and in this case we store for Barry Callebaut and we do handling for Cargill. There are also other clients in Europe we serve. So we follow our clients and there was the need to start a warehouse here to fill that need."*

Another manager (from Firm C) attributed their existence in Ghana to resource-exploitation reasons and commented that:

"We are in Ghana because of the oil...we produce oil for the oil companies around the world and so we came to Ghana to produce the oil for the companies and the country."

All the natural resource-seeking investments occurred within the last eight years. The oil sector investments are the most recent, with Firm C entering the country in 2007. Just like Firm C, a lot of other investments have gone into the oil sector in recent years and it is projected to increase. Ghana struck oil in commercial quantities (estimated at 3 billion barrels) in 2007, while exploration was still in progress. The total expected oil revenues are estimated at $6 million per day by GNPC, or $2.2 billion per year. Oil revenues accruing to the State are estimated at US$2.3 million per day, which would translate to US$836,777,100 per annum. Enormous investment opportunities therefore exist in this sector and other sectors, thus attracting large amounts of capital inflow to the sector in recent years (GIPC, 2010). The country also still has a lot of gold and other mineral deposits which are increasingly attracting FDI inflow to the country. This finding also reveals that Ghana is still attracting substantial amounts of natural resource-seeking FDI. As already established, natural resource-seeking is no longer the most dominant reason for FDI inflow to Ghana; but rather market-seeking reasons. The finding of this study that that market-seeking FDI is flowing into the country more prominently than natural resource-seeking FDI could be interpreted in two possible ways. Firstly, that natural resource-seeking FDI inflow is falling in absolute terms. In this view, the argument could further be advanced that Ghana's natural resources are running out, or that other locations have resources that can be more easily accessed than those in Ghana. This first argument does not seem to be adequate in explaining the reason as to why market-seeking FDI is now the dominant type of FDI flowing into the country, over natural resource-seeking FDI. The unsuitability of this argument is supported by the fact that data on the FDI inflow to the mining sector, obtained from the Ghana Minerals Commission in September 2009, reveals an increasing trend of FDI inflow to the sector since 1993 (see Figure 4.2). A second possible reason that could be put forward is that various government policies have made the investment environment much more attractive to the extent that other types of FDI are flowing into the country at a rate that is much higher than natural resource-seeking FDI; and hence finding in this study that market-seeking FDI is the dominant type. This argument seems plausible, as evidenced by the fact that the policy framework has expanded the country's market size, and thus made it very attractive to foreign investors.

Another important issue coming out of this data is the fact that the distinction between the overriding motives that resulted in firms investing in Ghana seems blurred. Most of the firms interviewed had more than one motive for investing in the country, as depicted in Table 7.2 below. They usually have an overriding motive and a secondary motive, and the ability of both motives to be fulfilled in a particular country will result in FDI in that country. For instance, Firm B, which is a cocoa processing and warehousing company, established itself in the country because of the availability of cocoa; but at the same time had the motive to access the SSA regional market. As can be observed in the previous statement from the director of Firm B, they invested in the region for both cocoa and to serve their clients within the sub-region. The company therefore supplies cocoa to chocolate and confectionery manufacturing companies across the sub-region. The same director went further to reveal explicitly that:

> *"Of course, there are other reasons why we are in Ghana; otherwise, we would have been in Ivory Coast if it was only because of cocoa. Ghana has been stable for a number of years and has market access to both subregional and international markets which enable us to supply our clients efficiently under the Free Zones Board in Ghana."*

In this instance, the company had three three motives of natural resource-seeking, market- seeking and efficiency-seeking for investing in Ghana. As rightly revealed by the director, if their motive was only for cocoa, they would have invested in the Ivory Coast (which is the largest producer and exporter of cocoa in the world). However, Ghana has other locational advantages; a larger market under both regional and international treaties, and the efficiency aspect of doing business in the country.

Table 7.2 Dual motives of firms investing in Ghana

Code	Main functions	Main motive	Secondary motive
A	Gold exploration, mining, processing and export	Natural resource	-
B	Cocoa processing and warehousing	Natural resource	Market
C	Oilfield exploration and services company	Natural resource	Efficiency
D	Shipping company	Efficiency	Market
E	Garment manufacturing company	Market	Natural resource
F	Shoe manufacturing company	Market	Efficiency
G	Plastic furniture manufacturing company	Market	Efficiency
H	Hospitality company	Market	Efficiency
I	Business outsourcing company	Efficiency	Market

Firm E also invested in Ghana mainly to access the American market under AGOA, but at the same time to also access the cheap textile raw materials and labour in the country. If their motive was only to access the American market, the company would have found it more prudent to invest in the US and serve the market there. Better still, the company could have continued manufacturing in India and exported the textiles to the American market. While the company's main motive for investing in Ghana is market-seeking, the natural resource and efficiency reasons also played a dominant role in the firm's selection of Ghana as its' best location choice for investment.

In a similar vein, Firm D invested in Ghana for market reasons, but their decision was heavily influenced by the availability of two world-class harbours, an international airport and first-class roads which make the transportation of containers, cargo and staff across and within the country very efficient. The director further noted that because of these efficient facilities, the country hosts 15 of the world's top shipping companies. The efficiency motive therefore played an important role in the choice of country. Had it been only for market reasons, Nigeria (which has the largest market in the West African region) would have been the most obvious choice of location for investment. Firm C also revealed that they invested in Ghana because of oil and further revealed that they could have operated from the Ivory Coast, but relocated to Ghana because of the favourable climate which makes business operations much more efficient. The implication from this is that firms engaging in FDI usually have a dominant motive and other secondary motives that also influence their location choice decision.

The qualitative findings thus establish that the main motive for firms investing in Ghana is market-seeking. This finding is supported by the outcome of the quantitative data analysis (presented in Chapter Six) which reveals that market-seeking FDI is the most dominant type of FDI entering Ghana. The qualitative finding further reveals that the second dominant motive for FDI is natural resource-seeking. This is, however, in contrast to the quantitative outcome which reveals that efficiency-seeking FDI ranks as the second most dominant type, followed by natural resource-seeking.

7.4 Factors Attracting and Retaining Foreign Firms in Ghana

Research Question 2: *Of the many possible economic, business facilitation and policy variables that may influence FDI inflow to a host country, what are the key factors attracting and retaining foreign firms in Ghana?*

Proposition 2: *The dominant determinants of FDI in Ghana are natural resources, liberalised policies, good infrastructure, tax holidays and incentives.*

Research Question 1 pointed out that the key economic factors attracting and retaining FDI in Ghana are market access and the availability of natural resources. The quantitative findings in Table 6.4 also reveal that in addition to economic factors such as market size and natural resources, it is the case that government policies, business facilitation factors and incentives are also very important determinants of FDI inflow to Ghana. In order to provide full answers to this research question, this sub-section will focus first on the policy factors, followed by incentives, and then the business factors, so as to establish which factors are attracting and retaining FDI in the country.

7.4.1 Government Policy Determinants of FDI in Ghana

There are numerous government policies that play an important role in a firm's decision to invest in a foreign location. Some of the policies include rules regarding entry and operations; standard treatment of foreign affiliates; policies on functioning and structure of markets; international agreements on FDI; privatisation policies, tax policy, industrial and regional policy; and political, economic and social stability (UNCTAD, 1998; Dunning, 2000). The qualitative data in this study sought to also identify if these factors are important determinants in the case of Ghana, and if so, which of them are the most important policy drivers attracting foreign investment into Ghana. The respondents were asked to indicate the most important policy factors that attracted them to invest in the country, and also which factors were still motivating them to continue operating in Ghana.

7.4.1.1 Political, Economic and Social Stability

All of the respondents pointed to the crucial role of political stability in their decision to invest and continue operating in the country. This is in conformity with the findings of the quantitative analyses, which also show that political, economic and social stability are the most dominant policy factors attracting foreign firms into Ghana. Security of investments in a country is one important issue that influences the decision-making process of foreign investors. In particular, they consider a location where their investments will be protected, to be less risky, and thus have the potential to operate to their maximum. This is what investors are assured of in a country with political and social stability. There is a wide range of support in the literature for political and social stability being factors that influence the flow of FDI into host nations. In the case of Africa, research found that political instability is endemic in the continent, and therefore discourages the inflow of FDI (Asiedu, 2003; Ofori-Brobbey and Ojode, 2009).

Ghana has, over the years, established itself as a politically stable country within the African region, having successfully witnessed five democratic elections without any conflicts that usually accompany post-elections in the region. Good governance is given a serious attempt in the country, while the uncertainty regarding the extent to which laws, rules and regulations can be changed is also minimal. This relative degree of certainty about the investment environment is also occasioned by the many bilateral and multilateral investment agreements that the government has signed with other countries, and which they are forced to abide by. This accords the country an advantage, and as such many investors have chosen to invest in Ghana over other countries in the sub-region. This is in spite of the fact that other countries have large markets and even larger amounts of natural resources. Ghana has locational advantage mainly because of the political and social stability prevailing in the country. This could account for the strong performance of the country in attracting FDI in recent years. UNCTAD (2009) identified as being among the top ten recipients of FDI in the region, and this is arguably again largely due to the high level of stability prevailing in the country. This is in accordance with Cleeve's (2008) observation that countries within the SSA that have been able to establish macroeconomic and political stability for a period of time have also been able to improve the inflow of FDI, due to the suitable environment that enables them to successfully implement trade liberalisation and privatisation policies, and also adopt international treaties relating to FDI. The importance of the stability in firms' decisions to invest in Ghana is made succinctly, and variously exemplified by, the interviewees of all the companies involved in the case study. For example, the director of Firm C revealed that:

"It is mainly because of the stability in this country that we are here. You know if you take Iraq, there is a lot of oil in that country but we are not there. So it is not just the oil which brings us here, but the enabling environment is also a factor. So the stable environment is very important."

Similarly, the manager of Firm E also noted that:

"For us the macroeconomic and political stability were important factors we considered when we decided to invest in Africa...I think these are conditions attracting many other investors into the country. If you are investing, you will need security of your investment. So we do not want to invest in a country whereby there is always war and all that... you are not interested in investing in such a country... because you might lose your money and all that."

An interviewee from Firm I also commented that:

"There hasn't been any civil war in Ghana at least since independence. Look at what is happening in Somalia. When it comes to governance, I cannot say Ghana can compare itself to the UK, France or America. But there is a serious attempt in Ghana to make sure there is governance everywhere in Ghana. I am aware of the local districts and municipal administrations. It is going on well. As investors, we consider that when a country has developed a strong democracy and established good governance like Ghana then we are sure our capital will be safe."

Along similar lines, the CEO of Firm A also observed that:

"If you've toured the sub-region, you will see that the ongoing reforms in Ghana have made it possible for people to have a very good opinion about the economy of Ghana...the hospitality here is great... then the governance system has also improved for some time now... from the World Bank Doing Business report, Ghana has been the best performing country for the past four years in Africa. And that is good news in terms of the credit worthiness of the country and it is a plus for the economy."

The director of Firm C further illustrated the importance of the country's stability by comparing it to a neighbouring country:

"In terms of security, we find Ghana to be safe for people to live. In spite of the one-off armed robbery and all that, it is quite a safe place. You know if you go to Port Harcourt in Nigeria today it is not a safe place at all. And we spend lots and lots of money in order to provide security for our staff. In fact, our staff live in a camp and they are not allowed to go outside the camp. When they are going outside the camp, they will have an armed escort in front and at the back... If I

go to Lagos now and I am going from the airport to the hotel, there will be a vehicle in front with armed men inside and a vehicle behind me with armed men inside. That is not suitable for us and so we are moving to this country which is the most stable in the African region."

Depicting the important role of political and social stability as a determinant in attracting investment into a country, one manager also asserted that:

"Some of the policies that the government might have developed might not be directly linked to attracting foreign investment like the concept of the Free Zones and all that, but it creates the environment that makes companies comfortable in order to operate... For example, we wanted to put up a control tower to manage logistics of our freights for West African and Southern African countries. We could have put this in Nigeria, Cameroon, Cote d'Ivoire or even South Africa. But because of the enabling environment in Ghana, we decided to put it here... Abidjan just had more or less a civil war; Serra Leone had the rebel attacks as well as Liberia and so on... but Ghana has not had any conflict."

A director of Firm G also observed that:

"I have been to Serra Leone, Nigeria, Cote d'Ivoire and Ghana. But Ghana is the only country where when you pass by people they will say 'Hi' to you and talk to you very friendly. In Cote d'Ivoire, if you ask for directions, they don't direct you. Here in Ghana if the person does not even know your language, he will try to understand the message through sign language and come with you to help you out. This is something good you have in Ghana and you have to maintain it. I was in Liberia and it is not friendly in these terms; maybe it is because of the civil war and people are suspicious of foreigners. In this respect, Serra Leone is worse than Liberia. Inside the spirit and soul of Ghanaians, they are kind and hospitable... As always you have little things in Ghana like stealing which happens everywhere in the world... but it is not a big problem... you have to see that the Ghanaian spirit is pure and very good."

A government official at the Ministry of Trade and Industry also argued that:

"First of all, it is good governance and political stability - absolutely essential and almost everyone is talking about it. We were able to reach some level of economic development, or we express some level of appreciation or willingness to work hard to get the economy into shape, and I think that also has been appreciated by the investment community. They do appreciate that; yes, these are tough times but the country is attractive. So, for me, I think the major drivers are political stability and good governance."

The various illuminating statements from investors on the role of political and social stability in attracting FDI into a host country, as well as the observation of government officials, depict that political and social stability are very important in attracting and retaining FDI in Ghana. So in order for investors to enter the region, locations with political, economic and social stability become an important consideration. Debrah (2002) however notes that the varying degrees of internal malaise and collapse in many neighbouring countries may pose serious obstacles to doing business in Ghana, despite its' stability. He observed that while Liberia recently emerged from many years of civil war, Sierra Leone was still experiencing political turmoil. Cote d'Ivoire has also been experiencing coups and political instability over the years. These events occurring in neighbouring countries leave Ghana as the only stable country in the region for business operations. Much as the instabilities in the neighbouring countries could affect businesses in Ghana, they also open a window of opportunity for the country to establish itself as the hub for businesses in the region.

It is, however, significant to note that none of the respondents in the foreign companies stated that economic stability in Ghana influenced their choice of country in which to invest. The possible explanation for this could be that their reference to stability also included economic stability. Government monetary and fiscal policies determine the rate of inflation, external budgetary balances, exchange rates, interest rates and the cost of capital are all parameters of economic stability in a country (UNCTAD 1998: 97). Therefore high volatility of these parameters in a country is a cause of concern for investors seeking to invest in that country. Countries within the SSA region have been battling with high inflation and exchange rate volatility, and a higher cost of borrowing as compared to countries in Europe and America. The Financial Sector Reforms pursued by Ghana since 1986, as part of the Structural Adjustment Programme and Economic Recovery Programme, have reduced this level of volatility in the country to a tolerable level (relative to other African countries). Before and immediately after the implementation of the liberalisation programmes, the country's economy was characterised by high rates of inflation, continuous depreciation of the cedi, decreasing foreign reserves, an excessive public debt burden and fluctuating growth. Indicators from government documents further suggest that inflation was as high as 40.5%, while the exchange rate was depreciating at 49.8%. In the same year, the prime rate of the country was 24% (GOG, 2005). These indicators were subject to volatility from year to year. It is however important to point out that the extensive implementation of liberalisation and adjustment policies in the 1980s, coupled with the current ongoing reforms in the country, have improved the economic situation and stabilised some of these parameters. For example, the inflation rate and exchange rates sharply dropped to 11.8% by 2004, but had only increased slightly to 16% by 2009. The prime rate of the country, also on the decline over the years, reached 24% in 2003; but further dropped to 15.5% by 2005, and had increased slightly to 18% by 2009. Interest rates, which were above 40%, were also reduced to 35% in 2000; but consistently dropped to 21% in 2007 before increasing to 25% in 2009. The GDP also consistently increased from 5% in 2004 to 7.3% in 2008, before falling to 4.7% in 2009. The current average GDP growth rate now stands at 6.4% per annum. In addition to all of these factors is the continuous reduction of the taxation rate, from 45% in the early 1980s to the current 25% (GOG, 2005; BOG, 2010). These figures depict evidence of relative economic stability in the country; particularly over the past ten years.

Despite the relative economic stability prevailing in the country, a few respondents raised concerns with certain aspects of the country's economic stability. These aspects included the inflation rate, the exchange rate volatility and the high cost of borrowing compared to other developed countries. The respondents pointed to the fact that the cedi fluctuates in relation to the world's major currencies such as the dollar, pound and the euro; and therefore reduces the profitability of the business, and the firms have to adjust their prices frequently. This is depicted in the following statement made by a director at the Ministry of Trade and Industry:

> *"We had a meeting with some of the investors and importers to find out why there was a sudden price increase in most of the products. They all pointed to a high exchange rate, the high cost of borrowing (interest rate) and the inflation though stabilising, it is still high. So we have informed the Bank of Ghana.... The cost of borrowing is expensive; about 27% to 30% in Ghana, compared to 3% or 6% in Europe...These are the areas the government is working feverishly to address in the shortest possible time; ... to bring inflation down ... to bring the exchange rate down; and then to make it possible for the government to reduce the prime rate so that the interest rate will also come down. Because the prime rate is also very high at 18%, they could have put the interest rate at 20% to 22% and still make their profit. But the banks also claim the risk factor is also very high in Ghana. People get the money and there is a high risk of defaulting. So the banks usually charge interest rate of between 27% and 30%. So these are the factors that are affecting businesses in the country."*

Similarly, a director of Firm G who was interviewed also remarked that:

> *"The exchange rate fluctuation/depreciation of the cedi is affecting us because we pay for the raw materials in dollars. We also pay a lot of duty on the import of the raw materials to make quality products. And so the raw materials cost us more than our Chinese competitors who use recycled and cheap materials which is three times less than the quality materials we import and they produce cheap products and sell it at a lower price... the people also like cheap things, so they go for the cheap product than the durable one."*

Admittedly, the country's currency (Ghana cedi) has been consistently depreciating against the major international currencies. For instance, the exchange rates of the US dollar (US$), Euro and the British Pound to the Ghana cedi in 2005 were 0.91, 1.13, and 1.57 respectively. These rates increased to 0.97, 1.42 and 1.93 by 2007, and then 1.43, 2.07, and 2.31 respectively by 2009.

Despite the increasing exchange rate, these statements from the investors indicate that economic stability plays an important role in firms' decisions to invest in a host country. Previous research on the parameters of economic stability, such as the exchange rate, found relationships between the exchange rate fluctuation and FDI. For example, Caves (1988) suggested that a country's currency strength relative to the dollar, explains FDI originating from that country into the US. In a similar study for FDI flow into the US from 1973 to 1990, Froot and Stein (1991) supported Caves' finding. Pan (2003) also observed that firms from source countries with appreciating currencies tend to acquire higher equity levels in joint ventures in China. The argument here is that the depreciation of a currency in the host country makes investments (in terms of initial investment and cost of production) in the host country (Froot and Stein, 1991) cheaper for firms from a source country with appreciating currency. The depreciating cedi could therefore have played an important role in the firms' initial investment decisions in the country. The responses to the survey suggest that the depreciating cedi affects the operations of foreign investors, especially those that import raw materials for production. Arguably, this could also significantly influence firms' subsequent decisions to repatriate their profits abroad instead of reinvesting the profits. However, those investors depending on raw materials from Ghana or another country within the sub-region, but who sell their products in Europe or the US, will benefit hugely from the depreciating currency.

The cost of borrowing has also been found to be a significant determinant of FDI inflow, as foreign investors from countries with low interest rates have the luxury of raising more capital with a lower burden of interest payments for overseas investments (Pan, 2003). Multinational firms have many opportunities in sourcing funds from different places, and do not have to rely on loans from the host country. The interest rate in the country was around 50% in the 1980s, but decreased to 22% by 2000; and has since been hovering between 21% and 27% (BOG, 2010). This could explain the high number of investment projects from European countries and the United States in the country. The results in this study therefore support earlier research which suggests that strong economic stability and growth in African countries is vital in attracting and retaining FDI in the region (Morisset, 2000). Even though most of the previous studies used econometric variables which are subject to mathematical manipulations, the result of this study is similar to their findings. Therefore, investors' emphasis on stability in general, and the important role of other components of economic stability such as the exchange rate and inflation, supports the fact that economic stability is an important factor influencing foreign firms' locational decisions concerning Ghana. The results of this study therefore support the view that developing countries in the SSA region with stable political, economic and social environments are more likely to attract FDI (Asiedu, 2003, 2004a, 2006). Stability is therefore very important, especially for African countries seeking to attract FDI, as earlier research suggested that Africa has a perception problem (Ajayi, 2006). The perception is that countries in the continent are endemic with political instability. This perception of instability could also be the reason accounting for the region's earlier inability to attract other types of FDI, apart from those seeking natural resources. The findings therefore suggest that countries like Ghana in SSA with stable political, social and economic environments will therefore be able to attract significant amounts of FDI into their economies. Political, social and economic stability has therefore been established as an important driver of investors into the country.

Despite this, it is surprising that respondents found stability to influence their decisions to invest in Ghana, rather than the government's policy on the entry and operation of foreign affiliates in the country. An argument can be made that with restrictive policies, firms cannot enter the country in the first place. However, it stands to reason that the reforms and structural adjustment programmes which liberalised the markets of most developing countries in Africa have reduced barriers to foreign firms entering these countries. As a result, these firms do not need to significantly consider the importance of policies on entry into a country during investment decision-making, because the countries are liberalised. The rational is that firms now have many opportunities regarding the choice of country in which to locate, but any restrictive policies will drive away foreign investors. Investors are, however, usually concerned about the safety of their investment, especially in Africa; and seek a relatively stable investment environment. As governments all seek to attract foreign investments, the removal of restrictive policies has been at the fore of their investment policy, so as to remain competitive and attract the much-needed foreign investments. Barriers to entry and restrictive policies will only encourage firms to enter other countries with liberalised investment regimes. It is for this reason that Ghana embarked on the Structural Adjustment Programme, without backtracking. The programme enables reforms and liberalisation policies to be developed; therefore opening the country up to foreign investors. The reforms are ongoing, to ensure that restrictive policies are removed and to make Ghana much more attractive to foreign investors.

7.4.1.2 Tax Policies

Another important policy influencing foreign firms' decisions to invest in or continue operating in the country is the tax policy. Different views have been expressed on the role of tax policies in attracting or inhibiting FDI, with some researchers arguing that the tax factor remains a subsidiary to other factors (UNCTAD 1998; Plasschaert, 1994). However, as countries remove barriers in their efforts to attract FDI, taxation has become a prominent issue in investors' decision-making; as long-term investors attach more importance to the general features of a country's tax system than its' temporary incentives (UNCTAD, 1998). Thus, all things being equal, the higher the corporate tax rate of a country the less FDI it will attract, and vice versa (Gastanaga et al., 1998). Countries wishing to attract more FDI therefore may have to consider lowering their corporate tax rate in order to become more competitive with other countries in the quest for foreign investors. The corporate income tax for all companies in Ghana has been systematically reduced from about 45% since 1986 to 25% by 2009 (BOG, 2010). For companies that are listed on the Ghana Stock Exchange, their corporate tax rate has been further reduced to 22%. The respondents interviewed revealed that the corporate tax rate of 25% in the country is still too high compared to other countries. This supports the view that corporate tax rates in SSA countries, which generally range between 25% and 60%, are considered by investors to be very high (Gastanaga et al., 1998). On this issue, a respondent from Firm G insisted that:

> *"The rate of tax is very high for us. This problem is also compounded by the heavy import and export duties that we pay for our goods. That is affecting our business and I think the government ought to do something about it if the country is to remain competitive."*

This perspective of the interviewees also depicts the important role that a country's corporate tax rate could play in the long-term investment decision-making of foreign firms. The quantitative results in Chapter Six revealed that the country's tax policy is the third most dominant factor that firms consider before their initial decision to locate in Ghana. In Ghana there are different tax systems, in the sense that companies operating in other parts of the country (outside a few regional capitals) are required to pay corporate tax that is less than 25%. Secondly, companies operating within the Free Zones Board do not pay tax on anything for the first ten years, and thereafter are liable to pay tax not exceeding 8%. Additionally, while other companies pay withholding taxes on dividends to the internal revenue or VAT every month, the Free Zone companies have total exemption from the payment of withholding taxes for dividends arising from their Free Zone investments. They also have 100% exemption from the payment of direct and indirect duties on all imports for production and exports from Free Zones. These serve as generous incentives arising from the government's Free Zones policy, which seeks to attract export-oriented foreign investment. Firms B, E and I are all Free Zone companies and they all attested to the attractiveness of the tax holidays. However, there appears to be other factors serving as deterrents to the whole concept of Free Zones in the country. This is well illustrated by the director of Firm B in the following terms:

> *"The country's Free Zones concept is good partly because of the tax holidays. But Ghana is not very serious about the Free Zone project. They put half-hearted attitude into it. They make it difficult to stay as a Free Zone company. For example, we don't have to pay the VAT but they come up with the Flat Rate Scheme. Under this scheme, all companies that sell directly to the Ghanaian market in small quantities pay 3% tax flat rate. So we don't get it back like the VAT we get back."*

A manager of Firm E also emphasised that:

> *"The Free Zones incentives are very attractive, e.g. tax holidays ... and the laws and policies are good but the culture and attitude of delay in the country needs to be improved."*

Companies operating in the mining sector also have generous tax incentives. However, companies registered under the GIPC have tax holidays for the first ten years and thereafter are then required to pay the 25% corporate tax. These tax breaks therefore serve as incentives to attract investors but at the expiration of these tax holidays, investors consider the tax rate to be very high. The tax policy can therefore play both positive and negative roles in the attractiveness of a particular location. The qualitative results in this study show that the country's tax policy is the second most important policy factor that investors consider before their initial investment. This also means that this situation could negatively affect Ghana in its' efforts to retain foreign investments in the country after the expiration of the tax holidays. When they are required to pay the corporate tax rate of 25% on profit, foreign investors might find other locations that have lower tax rates to be attractive again, and thus relocate from Ghana.

However, it is arguable to suggest that the decision to relocate to a new country because of the tax rate will be highly dependent on the motive of the firm and the characteristics of the potential host country. Firms in the natural resource sectors will find it comparatively difficult to relocate if other countries do not have the deposits of the natural resources they are seeking, or if the natural resources are not of a commercial quantity with which to ensure sustainability of their operations. In a very good market, the tax rate may also play a minimally negative role in a firm's decision to relocate, if the potential relocation countries do not have that kind of market. A very good market will generate high sales, and for that matter profits and subsequently much higher retained earnings, compared with countries where the market is not as good but the tax rate is lower. In such a market, the company might not be able to make enough sales and would still be required to pay tax on their smaller profits, resulting in comparatively low retained earnings. It could therefore be argued in this study that efficiency-seeking FDI will be much more affected by high tax rates. This is because many countries are developing policies to make their business environments more efficient, and so investors will always have more choice in terms of potential location sites for efficiency-seeking FDI.

Incorporating the assumption that investors are rational in decision-making, high tax rates in a country will either negatively influence them not to invest or to relocate from the country, based on the motive of the investor. It is thus an important policy issue that plays a pivotal role in the attractiveness of a country. As African countries are considered to be risky places for investment, a high tax rate compounds the risk level of doing business. The implication for policymakers is a need to identify the right combination of tax rates and incentives for investors, based on their motives and the number of location choices that they have.

7.4.1.3 Policies on Entry into Ghana

As all governments seek to attract foreign investment, the removal of restrictive policies has been at the fore of their investment policies; so as to remain competitive and attract the much-needed foreign investment. Barriers to entry and restrictive policies will only encourage firms to enter other countries with liberalised investment regimes. In line with the quantitative findings, policies on FDI entry into Ghana were considered to be very important by all of the case study firms and government officials interviewed. This policy determinant plays a vital role, especially in African countries due to the history of the widespread nationalisation of foreign firms in almost all African countries immediately after independence (Musila and Sigue, 2006). Governments at the time perceived FDI as having the potential to undermine national sovereignty and autonomy (Razin et al., 1999). This negative perception culminated in the setting up of SOEs, and the development of restrictive policies to protect these institutions. Such restrictive policies will naturally discourage foreign investors from entering a country. Hence in making a decision to invest in Ghana, firms evaluated the policies on FDI entry and found them to be favourable; thus serving as a positive determinant of FDI. This supports the views of Elbadawi and Mwega (1997), Asiedu (2002) and Musila and Sigue (2006) that African countries with open economies will be able to attract FDI.

Arguably, globalisation has pulled down numerous barriers and restrictive policies in many countries, and firms tend to have many options in location choice for their investments. As pointed out in Chapter Three and presented in Table 3.3, there is however an increasing trend of restrictive policies (since 2003) in some sectors of countries; particularly in developed economies where some investments are considered to be a threat to hosts' national security issues. According to UNCTAD (2009), some of these less favourable policies relate to entry, treatment or operations in host nations; nationalising certain firms in industries considered to be of strategic value and posing national security concerns, as well as scrutinising investments for national security purposes. This depicts the relevance of the role of this policy factor in attracting and retaining FDI in a particular country. The importance of a favourable entry investment policy framework as a determinant was stated by the Chief Executive of one of the policy formulating government agencies as follows:

> *"From the 1960s until the early 1990s, we had the Capital Investment Board which heavily regulated the investment regime and every single investment project coming into the country had to pass through the Board to be appraised, vetted and approved. But since 1994, the GIPC Act 478 created the Ghana Investment Promotion Centre which replaced the Capital Investment Board and liberalised the investment regime. Since then, we are no more doing that kind of appraisal and vetting of projects. We have put every sector on the priority list and we are accepting every project that the investor brings. We have moved from regulating to promoting the country and facilitating the establishment of the businesses of foreign investors. So we are holding the hands of foreign investors and facilitating the establishment of their business."*

Another government official (at the Ministry of Trade and Industry) pointed out that:

> *"We are not doing any protectionism here to deter foreigners. Our aim is to formulate policies that will rather attract investors. So since 2003, the government has been trying to further improve the investment climate in the country and so the government established the new Ministry of Private Sector Development. The ministry, together with other agencies, came out with a strategic document on how to reform and develop the private sector further. In that strategic document, we have the investment area reforms, we have the financial sector reforms and we have the judicial reforms, all of which look at obsolete or outdated laws and laws that are restricting foreign investments or impeding business in the country. We are examining how such laws and regulations can be removed and how new ones come about to make it easier for foreign investors to enter and operate in the country and for businesses to flourish...Even now the Companies' Code has been on the drawing board for the past three to four years and it is being revised. People think it's been there for too long and there have been changes of world dynamics and the country needs to get abreast with the times."*

The statements of these policymakers underscore how Ghana perceives the rules on the entry of foreign firms to be important in attracting investors. After years of protectionism since independence, and up until the 1980s, Ghana witnessed the negative impact of restrictive policies in terms of foreign capital flight from the country (Debrah, 2002). The last statement depicts that there were, and still are, some bottlenecks negatively impacting foreign investors from entering the country, and hence efforts are being made to eliminate all of the barriers and restrictive policies to FDI. It also reveals that while an increasing number of restrictive policies are being developed in other countries, Ghana is still pushing on in eliminating all restrictive policies to FDI. Asiedu (2003) is, however, of the view that a very open economy will result in more FDI outflow than inflow. The argument of Asiedu (2003) does not seem to apply in the case of Ghana though, as there is little outflow of FDI, even as the openness of the economy to businesses deepens. Additionally, all of the managers interviewed from the foreign firms also pointed out in support of the fact that a liberal investment policy framework in Ghana greatly influenced their choice of location, and their continued operation in the country. Thus, it is evident that openness will not only attract FDI into African economies, but will retain it as well.

As a result, barriers to entry have been reduced and the investment environment has been improved for both domestic and foreign firms. This wass expressed by the manager from Firm A as:

> *"Following the privatisation of state-owned enterprises and the major reforms opening the country for investments, it was very easy for the company to acquire state-owned concessions and we later expanded our activities by investing in new concessions. Before the reforms, the mining sector was very much regulated and foreign firms could only jointly operate mines with the government and in which case government was, by law, required to have 55% interest while the foreign investor could only hold a maximum of 45% interest. To be able to form a joint venture with the government, all our attempted projects had to go through the Minerals Commission for appraisal and approval and that took a long time. Though new mining projects still have to go through the Minerals Commission for appraisal and approval for the sake of the environment and local communities' protection, the process is very much open and less restrictive. We have therefore realised that Ghana has been very much serious with its reforms as most of the obstacles investors used to encounter have been removed and so we acquired many more concessions in the country."*

Similarly, the managing director of Firm B asserted that:

"Regulations on entry and operation in the country are good. Even though there are little problems, the government will let you do your business without interference. Of course, we have to register with the appropriate authorities, pay taxes and follow the standard rules which are similar everywhere and it is normal. Environmental protection and all these things are the kind of things government asks of us and these things are part of the game. Everybody has to abide by the same rules and it is fair for all business in this country."

The government policymaking agencies, as well as the foreign investors studied, have all presented the view that policies on entry into the country serve as important considerations for foreign firms' decisions to invest in Ghana. It is therefore possible to suggest that the minimum requirement a country needs to attract foreign investment is to liberalise and open up its' investment environment. Restrictive policies and barriers will only marginalise a country from receiving FDI. Globalisation has resulted in a liberalised world, and has opened up many more locational choices for foreign firms who are making a decision to exploit their ownership advantages abroad. In line with other studies, this study has found support for the proposition that countries that liberalise and open up their investment regimes will attract more FDI than countries with a restrictive policy framework. However, this study further observes that a favourable policy regarding the entry and operations of foreign firms is a minimal requirement for countries seeking to attract FDI.

7.4.1.4 Functioning of the Markets

Rules and regulations on the functioning of a country's markets and business environment depict the level of freedom investors have in operating their businesses in a host country. These therefore play an important role in their decision to invest in a host country or somewhere else, as depicted by the quantitative results in Chapter Six. If the regulations limit the freedom of firms in their operation within the investment environment, this will serve as a deterrent to investors. For instance, in the late 1970s and early 1980s, the government had controlled pricing in place; and thus dictated the prices that firms were supposed to set for goods and services. This resulted in many losses being recorded by firms, and they therefore found it very unprofitable to continue operating in the country. The adoption of the World Bank and the IMF-backed Structural Adjustment Programme reversed the trend by ushering in policies that promoted the private sector, by empowering them to set their own prices for goods and services. The removal of the bottlenecks that were impeding the efficient functioning of the markets is still ongoing, as observed by a government official at the Ministry of Trade and Industry that:

> *"The government has been trying to improve the business climate in the country, and so the ministry in consultation with other government agencies came out with the strategic document on how to develop the private sector. And the document focuses on creating an enabling environment, which the private sector will then take advantage to develop their businesses. This strategy enabled the government to pursue further reforms in a number of areas which are ongoing.... we have the investment area, we have the financial sector reform which looks at obsolete or outdated laws and laws that are impeding businesses, the judicial reforms which also look at laws that affect businesses and also the land reforms. The judicial reform has led to the establishment of new commercial courts in the country mainly to handle business-related disputes. All these are to ensure that the business environment functions efficiently."*

To also underscore the importance of the policies on the functioning of the markets and the business environment, and thus influencing firms to invest in Ghana, a manager of Firm E remarked that:

> *"The policy framework in this country enables us to compete effectively with our competitors that are also multinational companies operating in other countries. The only problem is that the implementation of these regulations is a problem."*

Another manager (of Firm A) argued that:

> *"Policies on the structure and the functioning of the market are as good as you can find in the UK."*

These statements illustrate the important role of policies on the functioning of the markets in Ghana. Despite the efforts that the government has been making to ensure the proper functioning of the investment environment, international and regional competitive benchmarking reveal that although Ghana is successfully managing to reform and empower the private sector, futher effort is required to ensure that the market system is functioning much more efficiently. The country still has a long way to go in order to give firms a sustainable and competitive investment climate. For example, the government identified in 2005 that there were still some inefficiencies in the market system, which could be traced to weaknesses in the financial sector; underdeveloped infrastructure including utility connection services; weak public service delivery (including problems with corruption and unpredictable/uncertain laws and policies); inefficient customs clearance; weak tax administration; poor systems for business registration; limited access to timely and effective commercial dispute resolution; and limited access to land due to problems with property titling (GOG, 2005). This viewpoint was affirmed by a director in Firm B in the following manner:

> *"The infrastructure and support services are quite poor. We are currently running on a generator for two years now. Our transformer burned down and the government wanted us to replace it... but we realize that we could use that amount to run the generator for 7 years and so we bought the generator. Secondly, we have not had water for the past 6 months and before that we used to have water maybe one day in a week. For us, we don't need much so we are ok with it. But if you go to the factory next door to us, what you see is water running on and off... In addition, we don't have phone lines. Ghana Telecom allocated 32 lines for Free Zones and the first company that came here took all the 32 lines...and so no company within the Free Zones here has phone lines. So the infrastructure is very poor... but the problem comes from Free Zones and their developers. Because, aside from the Free Zone conclave in Tema where this problem exists, the rest of Tema and the country are well connected with phone lines, water and electricity."*

Again on infrastructure, the director of Firm C also remarked that:

> *"Accra to Takoradi road is very good...but sometimes we go to Kwame Nkrumah University of Science and Technology in Kumasi for recruiting and the road is not very good."*

As much as some of these infrastructural problems may be limited to certain sectors or parts of the country, as indicated above, they negatively affect the overall favourability of the investment environment. Additionally, weak and inefficient public services also play an important role in the overall functioning of the markets. Unfortunately, most of these issues are constraining the efficient operation of the markets in Ghana. The government has therefore been working hard through the ongoing reforms to solve these problems. Another government official at the Ministry of Trade and Industry was in agreement with the infrastructural problems identified above, and stated that:

> *"Government is aware that for the private sector to function properly, you need very good and efficient public sector machinery... and so the public sector reforms are going on to improve service delivery... so that the public sector will*

understand what it means when the private sector comes in... Because the private sector is talking about time and time is money... We are also monitoring the Ministry of Transport to see how best they are maintaining the roads... And then at the same time there are ongoing reforms at the registration of businesses...These are all part of our policy reforms the government is undertaking to ensure that the private sector is functioning well for businesses... So at the policy level, government is taking all these steps to make the country more attractive."

From the observations of both investors and policymakers, it is revealing that malfunctioning markets serve as deterrents to investors. It is quite clear that the improper functioning of the markets may be due to poor service, or to an imposition of undue costs on the private sector. Weak and inefficient administrations by the public services translate into wasted time and money, higher risk and inefficiency for individual businesses. This, in turn, affects Ghana's competitiveness in global and regional markets, and hence its' attractiveness to foreign investors. These constraints serve to emphasise the challenge facing the government of Ghana in creating a truly competitive market system. This is therefore another important policy area that can either promote or prevent FDI into a country.

7.4.1.5 International Investment Agreements

International investment agreements have been increasingly used by both developed and developing countries as important tools in presenting a more attractive investment environment to foreign firms. Since all countries are actively competing for the productive growth opportunities that accompany FDI, many governments respond by signing extensive and wide networks of international treaties. Such international agreements include BITs and MITs that are meant to protect foreign investors; Double Taxation Treaties (DTTs) that are also meant to deal with the allocation of revenues generated from the investments between the host and home countries of the foreign firms; and also regional market access agreements that are meant to give large market access to products from participating countries (UNCTAD, 1998). The combined aim of these treaties is to provide predictability and security for foreign investors and their investments in the host country, guaranteeing market access for investors, and providing transparent and reliable dispute settlement procedures (Salacuse, 1990). By signing these agreements, the countries are depicted as having a high standard of liberalisation and an attractive investment environment in which foreign firms will be well protected.

Ghana has not been left out in signing these treaties, as the country strives to establish an attractive investment environment. The country has participated in signing many of these treaties, as revealed by one government official interviewed:

> *"We have realised over the years that signing international agreements will give a positive image about the country to investors and so the country is currently a signatory to many investment guarantees like major dispute settlement guarantees with international laws, courts; bilateral investment promotion and protection agreements (BIPs or BITs) and we also have double taxation agreements with some countries like the UK, Germany and OPEC countries. Additionally, Ghana is a signatory to market access agreements through ECOWAS, NEPAD, AGOA which is the US market, and EPA agreement to the European market. An investor investing in Ghana has access to all these markets and investors in those markets also have market access in Ghana."*

Signing international investment agreements and being a member of a regional group is an important strategic policy that a country desiring to attract FDI cannot afford to opt out of. In the case of Ghana, the many international treaties outlined above, which include the African Growth and Opportunity Act (AGOA), the ACP-EU Cotonou Partnership Agreement, the WTO Uruguay Round Agreements, the New Partnership for African Development, and the ECOWAS Protocols and Conventions (including the ECOWAS Trade Liberalisation Scheme and the West African Economic and Monetary Union), open the country up to investors (BOG, 2010). These agreements provide for new trade arrangements characterised by the elimination of obstacles and restrictions to trade between the parties or members; the speeding up of regional integration initiatives; harmonising economic and industrial policies, and promoting joint development projects in member states; and assisting countries with gradual integration into the world economy. These international treaties also give a positive impression of the country to investors considering the establishment of their subsidiaries. The treaties communicate confidence in and the attractiveness of the investment environment to potential investors, especially for countries in SSA.

These treaties are particularly important in attracting market-seeking FDI, as they tend to expand the country's local market. This point is vividly outlined by a government official at the Ministry of Trade and Industry who said that:

"These treaties expand Ghana's market because the local market is a small and most of the investors coming in try to make it as a hub to supply other markets. For example, we have this American company, XXX... the company is here and they are working for the US...And still talking about other markets, Pioneer Food Cannery in Tema produce tuna for the European market. Especially the canned fish they produce is for export... and then of late the two cocoa producing companies that are in Tema, Cadbury, and Cargill are all for export...That is why Nigeria might not understand why Ghana decided to sign the EPA. Otherwise we lose that market for our products. And Nigeria doesn't lose anything. They don't export anything to Europe apart from oil. So they are ok. But look at our non-traditional export to Europe – in volumes. Our pineapples, mangos, pawpaws, etc., if we don't have any agreement and they put a tariff on us, then we are in big trouble."

An official at the Free Zones Board observed that:

"We have about five (5) Free Zones companies in the garment and apparel industry that export their products to the US under AGOA and are doing very well in the US market. There is a company in Tema, they sew aprons for pharmaceutical and health staff in one of the US companies. They produce socks, vests, pullovers, etc."

It is quite evident from the above quotes that international investment agreements are vital policy instruments that governments desiring to attract FDI to their economies, cannot neglect, as they are necessities in creating an attractive investment environment either in terms of market access or protection for the investments.

The above discussion signals the pivotal role that government policies explicitly develop in order to attract FDI, so that they will assist in promoting the country as a destination for foreign investors. Protectionism is no longer an option for governments to pursue, as globalisation has motivated countries all over the world to liberalise their economies. This has accorded foreign investors many choices in terms of potential host countries to invest in. It therefore means that liberalised FDI policies are necessary determinants for all developing countries, especially those in SSA. They are the minimum requirement countries need in order to attract the requisite amount of FDI. As a result, almost all countries in SSA have, since the early 1980s, adopted the IMF-recommended reforms under the Structural Adjustment Programme; but are yet to attract a substantial increase in FDI that is comparable to developing countries in other regions. Liberalising FDI policies per se may not automatically guarantee substantial FDI inflow, as has been the case in most African countries. However, it is important to point out that liberalised investment policies such as the removal of barriers to market entry and operations; privatisation of state-owned enterprises; the functioning and structure of the markets; economic, political and social stability; and international agreements on FDI are all necessary policy directions that developing SSA countries need to adopt.

The proposition that the most dominant government policies attracting and retaining FDI in Ghana are favourable rules regarding entry and the treatment of foreign affiliates in the country is not supported. The findings suggest that they are very important policy determinants of FDI inflow, because without favourable entry rules, FDI will simply not take place in the country. However, the most dominant determinant of FDI in Ghana found in both the qualitative and quantitative data is political, economic and social stability. Since African countries are considered to be very risky and volatile, the most important preoccupation of foreign investment in any African country is stability. In the case of Ghana, the political and social stability it has been enjoying over the years is serving as an important determinant in attracting investors into the country. The findings also suggest that rules and regulations removing barriers for firms' entry into the country will promote the inflow of foreign capital to the country. It is also found that the standard treatment of foreign affiliates in the country tends to influence firms' decisions to invest in Ghana. Additionally, the study establishes that international agreements on FDI such as BITs, DTTs and trade policies play a very important role in influencing the flow of FDI into the country.

7.4.2 Incentives as Determinants of FDI in Ghana

Having established the important role of government policies in attracting and retaining FDI in Ghana, it is also important to evaluate those other factors that may not be principal policy drivers of FDI, but which still contribute immensely to creating an attractive investment environment in the country. These factors include government incentives, business facilitation and economic determinants. This study posits that generous investment incentives greatly influence foreign firms' decisions to invest and continue operations in Ghana. The investment incentives are perceived to play an important role in influencing the FDI decisions of foreign firms; and many countries, including those in SSA, have offered generous incentives with the aim of stimulating more FDI inflow (Cleeve, 2008). The government of Ghana offers generous but different fiscal incentives to foreign companies operating under the main government agencies in charge of investments in various sectors of the economy. For instance, foreign investors establishing their operations under the Ghana Investment Promotion Centre (GIPC) enjoy benefits and incentives such as tax rebates, tax holidays, customs duty exemptions, capital allowances and carried forward losses for five (5) years. Investors are also guaranteed 100% repatriation of dividends or net profits attributable to the investment, and an unconditional transferability of convertible currency for the servicing of a foreign loan obtained for the business. They are also allowed to repatriate all their profits for the servicing of fees and charges in respect of any technology transfer agreement registered. They are also guaranteed 100% transferability of proceeds in the event of the sale or liquidation of the enterprise or any interest attributable to the investment. Additionally, investors are given work and residential permits, and are also entitled to an initial automatic quota of immigrants, depending on the amount of capital invested in the country.

Under the Free Zone programme, foreign firms have 100% exemption from the payment of income tax on profits for 10 years. Even after 10 years, what they pay will not exceed 8% as the rate of income tax. They also have 100% exemption from the payment of direct and indirect duties on all imports for production and exports from Free Zones. So a Free Zone company importing anything (be it equipment, plant or cars), which is related to the operation of the company's activities are exempt from paying duties on it. Companies operating under the Free Zones are even exempt from the payment of valued added tax (VAT) on anything purchased in Ghana. While other companies pay withholding taxes on dividends to the internal revenue or VAT every month, Free Zone companies do not pay withholding taxes. They are completely exempt from the payment of withholding taxes from dividends arising from Free Zone investments, as well as from the payment of double taxation. Furthermore, both Free Zone companies and their employees are exempt from the payment of double taxation, and the companies do not need an import licensing requirement. This point was well illustrated by an official at the Free Zones Board, who said that:

> *"For Free Zone companies, we have officers at the Customs Excise and Preventive Services (CEPS) that accompany them to clear their goods at the ports... When we process the documents and take it to the CEPS, we have officers who accompany them to the port. So they don't go through all the*

formalities to clear their goods. e.g. they don't say you don't have an import licence requirement or the minimum custom formalities and all that... They have special treatment for Free Zone companies."

Additionally, there is no restriction on the repatriation of dividends or net profits, and foreign companies operating under a Free Zone are treated as equally as local companies; there is no preferential treatment for Ghanaian firms as there is for foreign investors.

Under the Minerals Commission, foreign firms operating in the mining industry have capital allowances of 75% on capital expenditure in the year of investment, and 50% on a declining basis. This view was confirmed by a director at the Minerals Commission, who indicated that:

> *"What this means is that, when a company is conducting exploration, assuming the commission is using six years to define a foreign investor's deposits at the end of the day, if the investor spends $10 million, and once the company start production, it is allowed in the first year to recoup 75% of the capital expenditure (Capex) and the rest 50% on a declining basis."*

Mining companies are also offered a 5% investment allowance; so for the first year of the investment, mining companies have about 80% of their investments that they can recoup, and the rest can be recouped subsequently at 50% annually. Other incentives for mining companies include a dividend withholding tax of 8%. Import duties for plant, machinery and equipment exclusively for the mining operations are also exempt. Mining companies are further exempt from paying VAT on these equipments when bought or imported. These provisions benefit foreign firms operating in the mining industry, and thus make the country attractive to investors.

All of the companies interviewed also revealed the importance of incentives in their decisions to invest and continue operations in the country. For example, a director of Firm A revealed that:

> *"In multinational companies, because you are bringing in huge capital, you have leverage. If you are bringing anything above US$500 million into the country, in Ghana it is considered as huge and so you have a right to sign a stability agreement with the government... The government will give you a lot of things*

and you can negotiate on a one-on-one basis with the government instead of going as a group...The government does not paint you with the same brush like your competitors... You can engage them and renegotiate with them. For instance tax exemption is there... and as part of the stability agreement, we can repatriate 80% of whatever we earn. The workers are also given some incentives such as tax rebates for people working in the mining sector. So that is what we are enjoying and it is good for us."

A manager of Firm E also noted that:

"The Free Zone incentives such as tax holidays, repatriation of profits, capital and dividends are very attractive. Apart from the access to the US market we have under AGOA, these incentives also play an important role in our establishment in this country."

The director of Firm B also stated that:

"Additionally, we started as a normal VAT-paying company and we later changed to a Free Zone company because we have tax holidays under the Free Zone and it is a little bit easier to transfer money abroad to our mother company."

It can be concluded from these statements that incentives also serve as important drivers in attracting and retaining FDI in Ghana. Hence, the government's attempt to attract and retain foreign investors could be greatly enhanced by using these generous incentive packages. Thus, the proposition that the dominant investment incentives attracting and retaining FDI are tax holidays and free repatriation of profits is supported. Despite the importance of incentives, it is arguable to suggest that incentives may not be the best mechanism in the country's efforts to attract FDI, as a cost benefit analysis of the incentives will go a long way in helping the country to reap the positive benefits of FDI. For instance, Cleeve (2008) noted that tax holidays only benefit investment from new companies, rather than from existing companies; and they also discriminate against long-term investments. He further felt that tax incentives are only capable of attracting footloose investments in industries that can easily terminate their operations in one location and relocate to another. For SSA countries, the argument is that tax holidays often lead to a large erosion of the tax base, as companies manipulate their accounting reports through "transfer pricing" to avoid paying taxation (Cleeve, 2008). Accordingly, generous fiscal incentives in some SSA countries with poor physical and institutional infrastructure, as well as instability, have not been effective in attracting more FDI

(Cleeve, 2008). Thus, incentives are required, but good policies and efficient business facilitation factors may serve more as important determinants of FDI in the country.

7.4.3 Business Facilitation Factors Attracting FDI into Ghana

Aside from the incentives, there are other business facilitation factors that also play an important role in attracting and retaining FDI in host countries. Some of these factors include good infrastructure and support services, economic morality, protection of property rights, investment promotion schemes, and the negative effects of corruption and bureaucracy. The study contends that the quality of these factors will variously influence the volume of FDI inflow to Ghana. Good infrastructure and the provision of amenities do not only facilitate the business operation of foreign firms, but also contribute to the quality of life for expatriate personnel; therefore playing an important role in attracting and retaining investors in the country. Also, the removal of bureaucratic procedures in doing business helps to facilitate business operations, and is assumed to motivate firms to invest in the country. Investment promotion efforts also market the country to potential investors, and thus influence firms' decisions to invest and continue operating in Ghana. Additionally, corruption increases the cost of doing business for firms; hence this study further contends that there should be a reduction in the 'hassle costs' of doing business.

7.4.3.1 Good Infrastructure and Support Services

It appears that firms' decisions to establish and continue operating in Ghana were influenced by the infrastructure and support services. Ghana's infrastructure and support services are not of world-class standard, and these are negatively affecting the facilitation of business operations in the country. The managers who were interviewed also pointed out that the infrastructure and support services in Ghana are quite poor. The nature of the infrastructure and support services affects the business operations of companies. A manager of one of the firms observed that:

> *"Infrastructure is not good as compared to South Africa. Only a few major roads in Ghana are good."*

The companies operating within the Free Zones also revealed that the infrastructure and support services are worse within the enclaves and this affects the companies' operations. They suggested that the infrastructure and support services in the rest of the country, however, are not much better but good enough for business operations. According to Debrah (2002), Ghana's infrastructure has not expanded much since the colonial days, requiring modernisation in some areas. Some of the companies were quick to point out that despite the poor nature of the infrastructure in the country, it seems to be better than the infrastructure in other SSA countries (with the exception of South Africa). For instance, a manager of Firm C reflected that:

> *"I have been to Nigeria and surprisingly the infrastructure in that country is even worse than in Ghana."*

Admittedly, Ghana has been making sustained attempts to reverse the decay in its' infrastructure, particularly in the areas of energy, transport, and communication facilities since the 1990s (Debrah, 2002). Many companies surveyed therefore indicated that the availability of good infrastructure and support services played a contributory role in their initial decision to invest in Ghana. Many also admitted that the infrastructure accounts for their decision to continue operating in the country. An investor in Nigeria, who visited Ghana, remarked that:

> *"Peeved, completely riled and exasperated by a fuel-less, power-less and president-less country... I packed my bags and baggage, and off to Ghana I went... After six nights in the former Gold Coast, and having travelled extensively through Accra, Aburi, Kumasi and Cape Coast, I came back angrier... Six nights in Ghana - no power failure, not even for one second. In Nigeria, they promised us 6000 megawatts of electricity but they delivered pitch darkness. Why should Ghana work and Nigeria will not? Why should Ghana, which for now has not started exploiting its newly-found crude oil, not have fuel crisis, unlike Nigeria which has exported crude for about 50 years? Why should you travel hundreds of kilometres on smooth, almost silky roads in Ghana, and roads back in Nigeria are filled with craters and gullies? You passed through many police check points, but not at a single one were you questioned, harassed or money extorted from you or the driver. Like a troubadour, you traversed villages, towns and cities, but not once were you in danger of being waylaid and robbed silly... Dare you try that in Nigeria? Why?"*
>
> **Source: Ghanaian Chronicle 15/01/2010**

Firm D's manager also noted the availability of two world-class ports, an international airport and road networks connecting the country to other land-locked countries within the region, enabling the company to efficiently operate by delivering cargo and containers to their customers. It also made it easier for officials to travel around the world as and when required, because of the direct flights from Ghana to all continents and major cities in the world. It is thus illuminating that while factors these may not be dominant drivers of FDI into a host nation, they do positively or negatively contribute to the investors' final decision on location choice.

7.4.3.2 Social Amenities

The availability of quality and efficient social amenities also plays a role in the investment decision of foreign firms. These amenities determine the comfort and quality of life for investors, as well as their families. The survey data suggests that social amenities played a role in their initial investment decisions regarding Ghana, as well as their continued operation in the country. The managers interviewed acknowledged that social amenities in Ghana are quite poor, but much better than other SSA countries (apart from South Africa). This view was better expressed by a director of Firm B, who commented that:

> *"Social amenities are not as good as in South Africa. But what I hear is that social amenities for example in Nigeria are even worse. So Ghana is better than other West African countries; but not as good as South Africa."*

The conflicting results from the quantitative and qualitative data with regards to social amenities could therefore suggest that social amenities by themselves do not play a fundamental role in influencing the locational decision of foreign firms. African countries are not developed, and foreign investors will therefore consider principal drivers such as the policy framework regarding entry and exit, the market, the availability of natural resources and the other principal factors before considering which of the competing countries offer better social amenities. Many companies surveyed suggest that they are satisfied so far with the social amenities in the country, and this has influenced their decision to continue operations in the country.

7.4.3.3 Reduced 'Hassle Costs' Relating to Corruption

Another important business facilitation factor that can influence investors to enter a particular country is the low level or absence of corruption in the host country. African countries are perceived to be corrupt, and this negatively influences the investment decisions of foreign firms. Corruption impedes business operations and leads to bureaucracy. Many of the firms surveyed suggested that corruption in Ghana is comparatively low. For example, a manager of Firm B noted that:

> *"We invested in Ghana mainly because of its stability and the fact that it is quite fair to do business in Ghana...the government lets you do your business without too much interference...Of course you have to pay your taxes, because everybody has to pay their taxes and that is normal. Those are the kind of things government asks of us. Environmental protection and all these things are part of the game and rules and everybody has to abide by the same rules in Ghana. More or less, everybody follows the same rules."*

Another manager (of Firm I) revealed that:

> *"Corruption is very low in this country; as such having political connections becomes irrelevant. Political connection might only be able to help you a bit but in the long run, they might also work against you if there is a change of government."*

The absence of corruption reduces the cost of doing business in a country. The reduced cost relating to corruption in Ghana positively influenced the firms' decisions to invest in the country. This view is also supported by the qualitative data, as portrayed by a manager of Firm C:

> *"We have been in Nigeria for a long time and coming to Ghana, we see the government agencies to be very supportive. So far we have not come across any case whereby you have to put money down before you get something. The rules are there and everyone goes by the rules."*

A manager of a mining company also remarked that:

> *"Corruption in Africa is generally high... however because of the good governance being planted in Ghana, it's gone down especially in the mining sector. But what is happening is that, when I want a job to be done fast for me, I might give the guy 100 Ghana cedis. That is not the corporate corruption but the individual who wants the job to be done. For example, I am in charge of public affairs and government relations and I don't want the journalists to write bad or negative reports about the company. So I will cultivate their friendship long before the problem arises. So I will take them out and foot the bill. In this case, is that corruption? Someone might be travelling to a mining town and we have an empty plane that goes there every week. So when they ask for help to travel free on the plane, should I say no? Of course not. They are more or less ethical issues in the mining sector. The culture in this part of the world more or less*

encourages and reinforces such practices... so corruption is there but it is gone down because of the good governance."

This also seems to be one of the reasons why foreign firms prefer to invest in other regions instead of Africa. The perception is that the region is endemic with corruption, and in many cases this may prove to be true. It is important to point out that certain practices that are considered to constitute corruption are in fact part of the cultural practices in Ghana, as they are in other parts of SSA. For example, Debrah (2002) observed that the Ghanaian extended family system and kinship, which is highly collectivist, has the potential to promote favouritism, nepotism and ethnic bias. He indicated this to be particularly pervasive in such areas as recruitment, selection, performance appraisal and compensation. Accordingly, the high sense of collectivism has a negative impact on management, and at times exerts heavy burdens and costs on organisations by compromising the integrity and efficiency of the formal bureaucratic system.

Such practice slows down business operations and efficiency, as well as increasing the indirect cost of operating a business in these countries. An earlier study by the Government of Ghana and FIAS (2000) supports the finding that corruption is one of the militating impediments of effective and efficient business operations in the country. The government, in its' Growth and Poverty Reduction Strategy (2005), also acknowledged that corruption remains a challenge to service delivery and good governance. Ghana's corruption level may be seen to be low, but the prevalence of the incidence in itself negates to a larger magnitude in the efforts to attract foreign capital. The country's policy response to corruption in the past has been focused on eliminating malfeasance in public administration, especially that which relates to fraudulent payments and wages (GOG, 2005). According to the government, this involved supporting both governmental and non-governmental institutions such as the CHRAJ, the Serious Fraud Office (SFO), the Audit Service, and the Controller and Accountant-General's Department to perform their duties of clamping down on corrupt practices. However, these policy measures have not fully routed out corruption in the country, and the incidence still remains a threat to FDI inflow. In 2005, the government further proposed a three-pronged approach to addressing the problem, and this included reducing opportunities for rent-seeking; strengthening the capacity of the anticorruption institutions and the law enforcement agencies; and encouraging civil society, including the media, to effectively contribute in eliminating corruption by playing their roles more effectively. The comparatively low level of corruption in Ghana is projecting the country's favourability to investors. However, the ability of the government to eradicate corruption will go a long way to attracting FDI and retaining foreign capital in the country. It is therefore revealing that high levels of corruption will cost business operations more, and discourage foreign firms from investing in the country. On the other hand, a low level of corruption will attract FDI into the country.

7.4.3.4 Bureaucracy

Like corruption, inefficient bureaucracy is another important factor that negatively affects the facilitation of business operations in the country. There was also a unanimous support from the respondents for red tape bureaucracy inhibiting the attractiveness of the country for FDI inflow. Despite the suggestion that bureaucracy in Ghana is low compared to other African countries, it became evident that red tape bureaucratic bottlenecks in the investment environment tend to turn investors away to other locations where these bottlenecks are either less frequent or non-existent. A survey report of companies operating in Ghana by the Government of Ghana (GOG, 2005) overwhelmingly pointed out the frustrations that such bottlenecks can generate. Unfortunately, it is in the public institutions (some of which are dealing with investment projects) that the bureaucracy appears to thrive. For example, the process of establishing a business is complex and requires compliance with the regulations and procedures of at least five government agencies: the Registrar General Department, the Ghana Investment Promotion Centre, the Internal Revenue Service, the Ghana Immigration Service, and the Social Security and National Insurance Trust. Although some of the agencies involved have introduced steps to simplify requirements and improve the delivery of their services, there has still not been a comprehensive effort to streamline and integrate the overall registration and approval processes. As a result, businesses are still required to comply with the procedures and regulations of the individual agencies; sometimes providing duplicate information, and incurring relatively significant costs in terms of time and delay. However, many respondents thought that the level of bureaucracy in Ghana was better than in other SSA countries. A director of one of the companies interviewed pointed out that:

"Bureaucracy is there but it is not a huge problem like Nigeria, Cameroon or even Guinea. It is easy to approach a minister. It is so friendly in the country. We don't need to write long letters before meeting them. We can call them and meet up. But we respect their office by calling their secretaries before meeting them. This is how things are easy to be handled here. People are easy to deal with."

Another manager interviewed also remarked that:

"Decentralisation is going on but the bureaucratic bottlenecks make it difficult to be fully established. The institutions implementing the decentralisation programme need to be given the needed powers and the bottlenecks removed in order for the programme to work very well. But this is currently not the situation as things are still done at central points in the country. For example, a birth certificate or visa needs to be done still at the central point. This wastes time, money and resources and frustrates us - the businesses... Something that could have been done in a day will take days and sometimes weeks or months to be done."

These statements from interviewees show that they consider bureaucracy in their investment decision regarding a host country. It also plays an important role in their decision to continue operating in the country. Ghana may therefore be seen to be better than other African countries, but bureaucracy is still identified with the continent as a whole. If investors have the option of investing elsewhere, such as in Asia, this will be considered before Africa. Liberalised policies may open African countries up to investors, and the governments may also offer generous incentives; but if bureaucracy increases the cost of doing business then this will discourage them from investing in the region. Limited technology could also be the cause of bureaucracy, due to the time it takes to retrieve document archives filed away in stacks. As depicted in the quantitative findings, excessive bureaucracy is a factor that will negatively affect the facilitation of business operations; hence it will discourage foreign investors from entering the host nation.

7.4.3.5 Protection of Property Rights

Another important issue that investors consider is their ability to protect their property. In the absence of such guarantees in a host country, the investor will deem such locations to be very risky. They could lose not only their capital, but also their property; which includes land, buildings, patents and technology. A country's ability to protect investors' property will thus be seen as very attractive. Unfortunately, acquiring and developing property, especially land in Ghana, is a significant source of delay, frustration and cost to the investors. A director at the Ministry of Trade and Development remarked that:

> *"The biggest problem the investor always faces is land. Land acquisition in Ghana has become a headache. You might burn your fingers because the one who has sold the land to you may not be the bona fide owner of the parcel of land."*

The processes by which land, especially customary land, is allocated and transacted are time-consuming and frequently not transparent. Doubts about the marketability of land titles discourages investors, because land transactions in Ghana often provoke unforeseen multiple claims on the same land; leading to court actions and injunctions that can hinder site development for years. The problem is particularly acute in the cities, where much of the country's industrial base is located, and where appropriate and available development sites are most scarce. For instance, a manager of Firm C revealed that:

> *"We have got a policy to lease, use it and when we finish we leave it. Our only bitter experience is when we were trying to acquire a lease on a property in Takoradi for our base... we thought we had leased the property from the owner and the owner also believed that he had the title to it not knowing that the same property had been sold to somebody else, and that person had used it as collateral for a loan and since he had defaulted, the court had even passed judgment for the property to be sold. As to how this could happen, I don't know but it happened."*

Added to this situation is the slowness with which development permits and construction licences are issued, resulting in slow and expensive site development. In the mining industry, foreign investors complain about illegal miners poaching sites that the government has licensed to them. This is depicted by a manager in Firm A:

> *"Protection of property rights is a big problem. We have illegal miners poaching our mines but we ask government to assist us to control these things."*

These shortcomings discourage foreign investors. However, a director at the Ministry of Trade and Industry revealed that the government is working hard to solve this land problem. He noted that through the World Bank, Ghana has secured over $500 million for further reforms which are ongoing in the land sector, as the government tries to map out all of the available lands which can be given out to investors in the future. Despite this effort, it is revealing that the lack of protection of property rights is another factor that can discourage foreign firms from investing in the host country. It could also be a reason for foreign investors relocating from the host country to another country.

7.4.3.6 Investment Promotion Schemes

The government, through various agencies, has been actively promoting the country as being the best location for FDI within the region. These activities include regular trade fairs, which bring together local entrepreneurs and potential foreign investors in order for them to discover the numerous investment opportunities in the country. The findings of the quantitative survey data reveal that many foreign companies came to Ghana as a result of the effective promotional efforts of the government investment promotion agencies, such as the GIPC, the Free Zones Board, the Minerals Commission and the Ministry of Energy. This is particularly true of investment projects entering the manufacturing and service sectors of the economy. In terms of motives, those investing for market and efficiency reasons found the investment promotion schemes to be very influential in their decision to invest in the country.

However, those foreign direct investments in the mining sector, or those with the motive of natural resources-seeking, found that these promotional efforts did not play a role in their decision to invest in the country. They revealed that the promotional agencies are not doing enough in terms of marketing Ghana's its potential. This point is articulated by a director of Firm B:

> *"We are mainly a cocoa warehousing company and because of the availability of cocoa, Ghana was, of course, always in the picture. Our founders first worked for another cocoa company which doesn't exist anymore and after that they started this one... when we started our business we were forced to work with the GIPC... but I think they are not promoting the country enough. They seem to be just a state agency...what I notice in my line of business in Holland is that Ghana is unfortunately unknown even though we have about 120,000 Ghanaians in Holland. So something like that is quite a lot. But when people talk about West Africa, it is first of all Nigeria... and most people if they are not in the cocoa business or something like gold then they actually don't know Ghana...personally, what I hear from friends who came to visit me here is that*

they liked the country and would definitely come back to visit...these agencies could promote Ghana better by working with the Ghanaian Embassies in other countries to aggressively promote the country more because it is much better than Nigeria and the other West African countries."

A manager of Firm C remarked:

"We came here to do some work in the past and since we started coming here and visiting, it became obvious that there is a good enabling investment environment and so we found it to be the best environment to invest in the region. We did not come because of some promotional efforts. But what these government promotion agencies can do is to be proactive by targeting certain companies and bringing them to the country. Because when they come, of course, they will bring the investment, the know-how and they will employ people...the last government started the President Special Initiative to boost the cassava industry. They thought that the country could go into starch production from cassava. They actually built a factory called the Ayensu Starch factory to produce starch. But they tried to do it as a Ghanaian concern and it failed. Why did it fail? You know my company started nearly a century ago and what we have learnt nobody can just come and put money together to become what we are today, unless it is by some stroke of luck. So if you want to produce starch, you bring in the best starch producing company in the world. That will make the country more successful and known. Ghanaians ran Ghana Airways down. If this company were in the hands of Ghanaians, it would have failed a long time ago.

These statements also suggest that firms going into sectors such as mining, exploration and agriculture will still invest in the country, even without effective promotional efforts. It is important to also point out that the majority of the firms that invested in the country after 1993, and operating in the sectors controlled by the GIPC and the GFZB, indicated that the promotional agencies influenced their investment decision in the country. The Minerals Commission and the Ministry of Energy are responsible for the mining and oil sectors, and are seen not to be promoting these sectors effectively. Historical factors reveal the attractiveness of these sectors, and these are still influencing firms' investment decisions in the country. The data shows that these various investment promotion schemes, despite the fact that they are all government agencies, do not co-ordinate their activities. This is depicted by a director at GIPC:

"The promotion agencies are quite effective, yet there is still more to be done...there should be more collaboration...but tough fighting and red tape areas at some ministries should be controlled... but much effort keeps on being done to control it."

A director at the Minerals Commission also revealed that:

> *"The investment promotion agencies are performing well but still need improvement...we ought to harmonise all our laws and policies."*

A director at the Ministry of Trade and Industry also noted that:

> *"As a country and a government, we always collaborate with each other. For example, the private sector strategy I talked about is being implemented by other government agencies and we are co-ordinating them... so we co-ordinate 18 government agencies; the Attorney General and Ministry of Justice, Ministry of Agric, Lands and Forestry, Ministry of Finance, Public Sector Reforms, Ministry of Energy, Ministry of Transport, Ministry of Communication, etc., we deal with all these. We even have a monthly meeting with key representatives to see how far we are going with the implementation of the strategy, what are the challenges and the way forward...and the co-ordination is good and going on well even though there might always be some petty wars here and there, but these are part of human institutions and are of human nature."*

It is revealing that the government investment promotion agencies are important institutions that can be used to attract FDI into the country. Unfortunately, the agencies in Ghana are basically just advertising the investment opportunities in the country through the trade shows and registering projects. While this is reaping many benefits for the country, more needs to be done in order to fully unlock the potential of Ghana. As in companies, such agencies are the marketing arm of the country, so their effectiveness is paramount in increasing FDI inflow. As a result, agencies such as GIPC also need to target specific companies that will strategically benefit Ghana, and attract them into the country. This, in the long-term, will bring in the right quality and quantity of FDI required to accelerate the development and industrialisation of Ghana.

7.5 Conclusion

This chapter has presented the findings of the qualitative data from the interviews conducted on the role of government policies and business facilitation factors in foreign firms' decisions to invest in Ghana. The findings suggest that favourable government policies are important in their FDI decision-making. Also of paramount importance are liberal entry policies; and political, social and economic stability. The favourable policies by themselves, however, may not be able to attract FDI, as the findings reveal that business facilitation factors can also play a vital role in influencing investors about the country (and where to locate their foreign subsidiaries). Some of these factors include incentives, investment promotion schemes, good infrastructure and support services, and reduced hassle costs relating to corruption and bureaucracy. It is therefore revealing to suggest that the government policies, as well as the business facilitation factors, are all important in attracting FDI. Countries seeking to attract foreign capital must therefore focus on not only the core FDI policies, but also on the facilitating factors in the business environment.

Having presented the findings of the qualitative data on the role of government policies and business facilitation factors in firms' decisions to invest in Ghana, the next chapter will discuss both the qualitative and quantitative findings in respect to answering the research questions.

Chapter Eight

Summary of the Quantitative and Qualitative Findings

8.1 Introduction

The aim of the study was to critically analyse the importance of government policies in attracting and retaining FDI in Ghana. To effectively address the aims and objectives of this research, both quantitative and qualitative approaches were employed. In arriving at the quantitative findings, the researcher employed the use of descriptive statistics, mean scores, independent sample T-tests, one-way ANOVA, PCA, correlations and multiple regressions, as contained in Chapter Six. The qualitative findings presented in Chapter Seven, on the other hand, used content analysis in order to validate the quantitative results, triangulate the findings and add richness to the study. This chapter discusses both the quantitative and qualitative findings of the study.

8.2 Discussion on Research Questions and Propositions

This sub-section discusses the research questions using both the quantitative and qualitative findings.

Research Question 1: *What are the main motives for foreign firms investing in Ghana?*

Proposition 1A: *The main motive for foreign firms investing in Ghana is natural resource-seeking.*

Literature on the precise composition of the eclectic paradigm parameters of ownership advantages, the internalisation of these advantages and particularly the locational preferences of foreign direct investors has long been acknowledged that they will depend on the motives of the investing firm (Dunning, 2009). Copious literature since the 1970s has revealed that the fundamental motives for firms investing in foreign countries include market-seeking, resource-seeking, efficiency-seeking and strategic asset-seeking reasons (Dunning, 2000; Caves, 1996). For many years, research on FDI inflow to Africa has always been classified as the natural resource-seeking type

(Asiedu, 2002; Naudé and Krugell, 2007; UNCTAD, 2009). Evidence of FDI inflow to African countries over the years has also supported the theory that FDI is mainly attracted to the natural resource sectors of these countries; because countries rich in natural resources have, in the main, been able to consistently attract substantial FDI over the years (UNCTAD, 2008). Asiedu (2006) even asserted that this scenario should be worrying to those countries without natural resources, or only possessing a little of them; as these countries may fail to attract any foreign capital if this argument finds validity. The FDI story in Ghana has not been different, as earlier studies variously pointed out, in that it is mainly the natural resource sector that attracts foreign capital investment into the country (Asante, 2006; Mmieh and Owusu-Frimpong, 2004; Boateng and Glaister, 1999).

The findings in this study, however, present a picture that is contrary to the earlier research findings. This study reveals that the main reason for foreign firms investing in Ghana is to access not only the Ghanaian market, but also the African regional market; as well as the American and European markets. This is followed by efficiency-seeking FDI, and not natural resource-seeking FDI. The study therefore points out that the phenomenon of FDI keeps changing over time. The various policy developments, technological advancements and the falling rate of transaction costs may be reconstituting the types of FDI that enter different countries. In the case of Ghana, this finding suggests that the liberal policies of the government, coupled with the increasing growth of the local, regional and global markets which firms operating in the country can access, are serving as catalysts in attracting and retaining FDI. The liberal policies have expanded the Ghanaian market beyond the local market of 24 million people to include the one billion people on the continent; as well as both the American and European markets. This market is extremely huge, and is therefore attracting the attention of firms that primarily want to serve the global market.

This finding does not necessarily imply that FDI inflow to the natural resource sector is falling, but rather it indicates that it has maintained an increasing trend since the adoption of economic and policy reforms; particularly since the early 1990s. However, the favourable investment climate, coupled with the large market growth and size, has generated a lot of enthusiasm among the market-seeking investors about the economics of the Ghanaian investment environment. Arguably, the environment is also bringing in the efficiency-seeking investments. This is consistent with the findings of a recent study by Dunning (2009), who observed that much of the FDI going into developing countries in recent times has been prompted either by market-seeking motives or efficiency-seeking (the desire to take advantage of lower labour cost). Thus, market size, the physical and human infrastructure, together with the macroeconomic environment and institutional framework of Ghana, are all playing decisive roles in attracting and retaining FDI in the country.

This study therefore provides an important insight into the motives of foreign firms operating in Ghana. The findings provide evidence that the country is attracting all types of FDI. However, contrary to earlier research, the study demonstrates that the main reasons for foreign firms' decisions to invest and locate in Ghana are market-seeking and efficiency-seeking. The findings also provide the additional inference of the dynamic nature of multinational firms' motives and decision-making regarding investment in a foreign country. It therefore presupposes that countries will need to make a conscious effort to understand the current motives of firms, and use this knowledge to project possible changes in the future motives of foreign firms' activities in their economies. The findings, however, do not support the proposition that the main motive for firms investing in Ghana is natural resource-seeking.

Research Question 2: *Of the many possible economic, business facilitation and policy variables that may influence FDI inflow to a host country, what are the key factors attracting and retaining foreign firms in Ghana?*

Proposition 2: *The main factors attracting and retaining FDI in Ghana are natural resources, liberalised policies, good infrastructure, tax holidays and incentives.*

Literature on the locational determinants of FDI is vast, signaling the importance that both scholars and governments place on understanding these factors. Governments particularly seek to understand the crucial factors that will bring in foreign capital, so as to enable them to put in place the right strategies in order to attract the right type and amount of FDI into their economies. The established literature on the determinants of FDI is largely focused on developed countries and the developing Asian countries. This literature suggests that the major determinants of FDI include large market size and market growth, income levels, quality of infrastructure, availability of natural resources, open trade, tax holidays, political stability, human capital, coastal access and other various types of government policies (Agarwal, 1980; Brewer, 1993; Globerman and Shapiro, 2002; Filippaios et al., 2003; Driffield and Love, 2006). In the case of Africa, a growing number of studies have identified that the key determinants of FDI are open trade, availability of natural resources and favourable economic policies (Chaudhuri and Srivstava, 1999; Collier and Patillo, 2000; Morisset, 2000; Asiedu, 2002).

Both the quantitative and qualitative findings of this study reveal that the dominant factors attracting FDI into Ghana, in order of importance, are a stable political environment, favourable government policies, and market size and growth. Incentives, regional market, quality of workforce and low cost factors were also established as being secondary determinants that influence the investments made by foreign firms in the country. The findings further revealed that natural resource availability, conglomeration of firms, investments made by competitors and cultural similarities, although not prime factors, were also considered in the investment decisions of foreign firms.

Stable Political Environment

Political and social stability was established as the most dominant factor in this study in firms' initial decisions to locate in Ghana. The same factor dominates firms' decisions to continue operating, reinvest their earnings in the country and expand into the sub-region. Based on the perception of Africa as constituting unstable countries, it seems understandable that foreign investors place great emphasis on this factor in their initial decision to invest in Ghana, as well as in their subsequent decision to continue operating in the country. This study supports the views of Naudé and Krugell (2007), who said that good institutions in the form of political stability will attract FDI into an African country. This is particularly true for investments that are not seeking natural resources, but instead for market, efficiency and asset-seeking reasons. It could be argued that in many instances, natural resource-seeking firms are risk takers, and will still invest in countries considered to be unstable and risky; as has been the situation in a number of African countries over the years. In Ghana, for instance, earlier studies established that much FDI has historically been in the natural resource sectors. The country went through a number of political instabilities over the years until the early 1990s. It took over ten years of peaceful regimes, serious attempts at good governance, favourable policy formulations, and five transparent and peaceful electoral cycles in order to establish the prevailing political stability which serves as an important factor for foreign investors. Without this level of stability that the country enjoys, Ghana would not have been able to attract the quantum and types of FDI that it has in recent years.

The implication here is that countries with small or no natural resources will need to establish sound political and social stability before they can effectively compete in attracting and retaining FDI, particularly the market-seeking, efficiency-seeking and asset-seeking types of FDI. Political stability assures investors of the security of their capital, enabling them to commit their capital over a long period in a sustainable investment in the host country. This is particularly the case for firms seeking to invest, expand and extend their operations into the rest of the region. This could also generate many benefits in terms of job creation, technology transfer and other benefits that accompany FDI inflow.

Market Size and Growth

The size of the market and its' growth potential also featured prominently as an important factor attracting investors into the country in recent times. This particularly supports the findings that market-seeking FDI is now entering and remaining in Ghana, more so than natural resource and asset-seeking FDI. Admittedly, the national market is small; but due to regionalisation and globalisation, this market has expanded to include almost 300 million people in the West African sub-region, as well as the rest of Africa, America and Europe. The increasing trend of bilateral and multilateral treaties, and market access agreements such as AGOA and ACP-EU, have reinforced the increasing importance of the market in attracting and retaining FDI in Ghana. While the findings reveal that American and European firms invest in the country for the African market, foreign firms originating from Asia revealed that access to the American and European markets was their main reason for investing in Ghana. This finding is very important for African countries seeking to attract investors. Due to limited local markets, the potential of FDI flowing into such countries will be limited to the natural resource sectors, if the country has natural resources.

The expanded market is therefore serving as a magnet for FDI in Ghana, and contrasts with Dunning's (2009) assertion that market-seeking FDI would diminish in the future, while efficiency-seeking and asset-seeking FDI will be on the ascendency. It appears to be the opposite case in Ghana. The argument here is that with the expansion of local markets to include regional and globalised markets, firms are using this to augment their competitive advantages, and to also expand their global market shares. Market-seeking FDI will continue to increase in the case of Ghana and other African countries, with the market size and growth serving as an important driver. This is particularly important in view of the increase in purchasing power among many Ghanaians. The increase in the income levels of many Ghanaians, coupled with a new trend of sophisticated lifestyles, affords them the opportunity to patronise various types of products which hitherto were considered the preserve of the rich only. It is therefore worth pointing out that African countries that are not rich in natural resources still have a large potential to attract the new wave of market-seeking and efficiency-seeking types of FDI. This can be achieved by expanding their national markets to include regional and global markets through bilateral, multilateral and regional agreements.

Government Policies

This study also suggests that favourable government policies are crucial in attracting and retaining FDI in Ghana. Specific policies ranging from rules on entry to industrial and regional regulations are all considered to be important drivers that influence firms to invest and continue operating in Ghana. The study reveals that not a single policy factor was considered to be unimportant in attracting and retaining investors in the country. The rational is that an African country with a stable political environment and large markets alone may not be able to attract substantial FDI. There also needs to be favourable and non-restrictive FDI policies in order to make the country attractive to potential investors.

The study further reveals that the most dominant policies are stability, rules on the entry and operation of foreign firms, taxation and standard of treatment of foreign firms. Taxation in African countries is considered to be very high at 50%, and as such countries like Ghana that reduce taxation to 25% (coupled with tax holidays) appear to be attractive for investors. Firms that particularly intend to invest and stay for a longer time period are wary of taxation rates of 25% and above. High taxation rates reduce the retained earnings of investors, and thus limit their potential to reinvest, expand and undertake other important activities. Foreign firms that do not have the intention to commit their investment in the country over a long period of time may still invest in the short run, usually for the period in which they have tax holidays. Ghana's 25% corporate tax rate is among the lowest in Africa. This rate, coupled with the tax holidays that foreign firms enjoy, makes the country comparatively attractive within the region for FDI.

Secondly, rules regarding the entry and operation of foreign firms in Ghana also featured as one of the most dominant determinants of FDI in the country. Rules that are restrictive and biased against foreign investors will discourage them from entering and doing business in the country. The enactment of the Act 478 in 1994 established the Ghana Investment Promotion Centre (GIPC); and effectively removed all of the restrictive policies that were hitherto discouraging investors from doing business in Ghana. Prior to 1994, the country's investment environment was highly regulated and all foreign investment projects, except for those in the mining and energy sectors, had to be vetted, appraised and approved by the Capital Investment Board before the investor could start operating in the country. Additionally, all businesses (both local and foreign) are treated equally and hence foreign investors consider the regulations to be fair and transparent, thus empowering them with confidence in doing business in the country without interference. The implication here is that African countries who are seeking to attract foreign capital will need to develop favourable policies, so as to attract and retain the right quantity and type of FDI.

The findings also established the important insight that without a good policy framework, other factors such as political stability, good facilitation factors and generous incentives alone may not attract the right quantity and type of FDI into African countries. It is also worth pointing out that good policies alone, without political stability, will definitely limit the amount of inflow to the country; especially the non-natural resource-seeking types of FDI. Unlike earlier research which suggested that countries in Africa will always attract less FDI by virtue of their geographical location, this study posits that countries in the region with the right combination of political stability, favourable policies, efficient business facilitation factors and generous incentives, coupled with a proactive promotional strategy that targets specific foreign investors and the empowerment of small and medium enterprises, will be able to attract FDI over and above their potential.

Another issue worth pointing out in this study is the quality and skill levels of the Ghanaian workforce. Efficiency-seeking firms in particular pointed out the fundamental importance of competent human resources with which to efficiently man their operations in the country. The government's efforts to attract investors should therefore also be extended to developing and enhancing the skill levels of the Ghanaian workforce. Furthermore, efforts should be made to reverse the trend of the 'brain drain', and to ensure that they are not only retaining skilled and qualified employees in the country, but also that the 'brain gain' continues by attracting experts from abroad. This will project a positive image of the country in terms of the availability of a productive and competent workforce to man investors' business operations. The proposition is therefore partially supported.

Research Question 3: *What is the role of government policies in attracting and retaining foreign capital in Ghana?*

Proposition 3: *The importance of government policies attracting and retaining FDI in the country will vary with firms' mode of investment, their motives, length of stay, source region, markets and sectors.*

Existing literature suggests that foreign investors now evaluate host countries based on the broader policies that promote a favourable investment environment, and that governments' intervention in host economies through policies could have a decisive influence on FDI inflow (Buckley et al., 2007; Globerman and Shapiro, 2002; Nunnenkamp, 2002; Globerman and Shapiro, 1999; Brewer, 1993). The findings of this study support the earlier literature that claimed favourable government policies are crucial in attracting and retaining FDI, and that policymakers can no longer rely only on the overriding role of clearly-defined factors in shaping the distribution of FDI. The findings reveal that not a single favourable policy is unimportant in attracting and retaining investors. Such policies include low taxes, unrestricted entry and operation of foreign affiliates, and equitable treatment of foreign firms. All of these can be seen as favourable, and thus play a critically-positive role in attracting and retaining FDI in the country.

As indicated above, the existence of these favourable policies has stimulated the growth of market-seeking and efficiency-seeking FDI, over and above the natural resource-seeking FDI in Ghana. The implication here is that government policies will play an important role in increasing the confidence of investors about the economics of doing business in the country. Hence, such policies are absolutely crucial in attracting and retaining foreign investment in Ghana, and for that matter, other African countries as well. On the other hand, negative policies such as the radical nationalisation of foreign firms, imposing restrictions in sectors considered to be important in protecting the country's national security, performance-related requirements which need approval before such investments can be made, and other restrictions or prohibitions on foreign firms entering the host country could discourage the inflow of FDI and the continued operation of foreign investors in the country. The findings establish that government policies can play a dual role of attracting and retaining FDI, if they are favourable to the investors. Similarly, unfavourable policies will discourage the inflow of FDI and stimulate foreign capital flight from the country.

In order to establish if the initial findings agreed or differed among the various groups of investors, so as to provide further answers to the research question, the role of government policies was further explored based on the proposition that:

Proposition 3: *The importance of government policies in attracting and retaining FDI in the country, will vary with firms' mode of investment, their motives, length of stay, source region, markets and sectors.*

Importance of Policies Attracting FDI Based on Length of Stay in Ghana

The quantitative findings of this study did not fully support this proposition. The findings suggested that the importance of FDI-related government policies in both groups of firms' decisions to invest in Ghana did not significantly vary from each other except in three policy areas. Significant differences were identified in the privatisation policy, trade policy and industrial and regional policies. In the case of these policies, firms that invested in Ghana before the year 2000 considered them to be significantly more important than those that invested in the country within the last ten years. The privatisation of SOEs began in the 1980s, and continued until the late 1990s when many of these enterprises were successfully privatised. The policy on the privatisation of these enterprises was therefore an important and favourable one that positively influenced investors during that period to invest in the country. Trade policy, as well as the industrial and regional policies, also played significant roles at a time when globalisation was still unfolding. The favourability of these policies accorded investors with profitability in their businesses. It is noteworthy to point out that the findings also showed that despite the significant differences between the two groups of foreign investors in the three policy areas, significant differences were not observed between the two groups in all of the other FDI-related policy areas. It can also be inferred from these findings that the privatisation policy, the trade policy and the industrial and regional policies were very important in the foreign investors' decisions to invest in the country more than ten years ago. The level of importance has, however, decreased in recent times due to globalisation, regionalisation and widespread harmonisation of FDI-related policies and regulations between countries within regions. The quantitative study, however, found no support for this proposition, as both groups of investors revealed that there were no significant differences in any of the policies.

Importance of Policies Retaining FDI Based on Length of Stay in Ghana

This proposition also found partial support in the study. Interestingly, the quantitative findings revealed that there were significant differences between the two groups in a number of policy areas, such as the functioning and structure of the markets, privatisation policy, trade policy and industrial and regional policies. Similar importance was placed on the rest of the policies between the two groups of firms in their decisions to continue operating in the country. The "*long stayers*" found the four policies to be significantly more important in their decision to continue operating in the country than those that invested in the country within the last ten years. The findings suggest that these policies are related to the profitability of the "*long stayers*" business operations, hence the favourability of these policies contributed to their continued operations in the country. Further favourable policy developments, globalisation, regionalisation and the expansion of numerous markets have shifted the importance of these policies in the decision-making of the firms that invested within the last ten years onto other policies such as economic, political and social stability; the entry and operation of foreign firms; treatment of foreign firms; and tax policies.

Due to the widespread instability within African countries in the past, foreign firms seeking to invest in any country critically evaluate all of the policies before making their decision on whether to continue operating in the country. However, glimpses of stability, especially in Ghana, and the quality of other institutions means that firms can selectively focus more on some of the policies. Foreign firms are also interested in investing through Greenfield projects, rather than through the acquisition of SOEs which are very few in Ghana and largely of immense national interest; hence the difficulty in privatising them. The findings further suggest that the policies that were extremely crucial in attracting and retaining FDI in the country in the past have decreased in importance in recent times.

Importance of Policies Attracting FDI Based on Sectors in Ghana

This proposition was to examine the different sectors using both the quantitative and qualitative studies. It was largely unsupported by the quantitative findings, the qualitative findings did not support it either. Both manufacturing and non-manufacturing firms equally rated the importance of many of the policies in their initial decision to invest in the country. The findings show that manufacturing firms found the privatisation and trade policies to be significantly more important in their decision to invest in the country than the non-manufacturing firms. Many manufacturing companies were established and controlled by the government after independence. These SOEs mainly supplied the country with manufactured products. The privatisation of these companies meant that foreign firms had to evaluate the policy relating to the privatisation before investing. Many manufacturing companies were established in the country before the year 2000. Before 2000, foreign firms intending to invest in the manufacturing sector preferred to acquire well-established state-owned manufacturing enterprises, so as to avoid the potential difficulties and delays likely to be encountered in establishing and developing an entirely new business operation. Due to well-established market shares and market channels, acquisition of the SOEs was found to be the most feasible mode of entering into the country during that period, hence the significant importance of the privatisation policy.

The trade policy was also considered to be significant by the manufacturing companies. This is probably because these companies rely on imported raw materials to feed the manufacturing plants, as well as the potential export of the finished goods to other markets. Hence, investors in the manufacturing sectors sought to ensure that the trade policies in the country would not negatively impact on the profitability of their business on establishment. It is also worth noting that despite the significant differences between the two groups on the two policies, both manufacturing and non-manufacturing firms considered the policies important in their initial decision to invest in the country. Therefore, if the interest of the government is to attract more foreign manufacturing companies, the privatisation and trade policies have to be further assessed and developed in such a way that they would be very favourable towards investors. However, since there are no more SOEs to be privatised by the government, the focus should be placed on attracting foreign manufacturing firms to invest through Greenfield projects, or through the acquisition of private local manufacturing firms. At the same time, much importance can still be placed on the trade policy, so as to make the country very attractive to foreign investors in the manufacturing sector.

Importance of Policies Retaining FDI Based on Sectors in Ghana

Regarding firms' subsequent decisions to continue operating in the country, significant differences were observed in the privatisation policy, the trade policy and the industrial and regional policy between the manufacturing and the non-manufacturing foreign companies. This suggests that the proposition was again partially supported by the quantitative findings of the study. The manufacturing companies placed more importance on the three policies than the non-manufacturing companies. Apart from the policies on stability, entry and the operation of foreign firms in the country, foreign manufacturing companies operating in Ghana placed more importance on all of the other policies in their decisions to continue operating in the country than the non-manufacturing companies did. This implies that manufacturing companies with long-term investment plans will require all of the policies to be continually favourable. Non-manufacturing foreign companies on the other hand placed more emphasis on stability, entry and the operation policies, as well as tax policies. This indicates that favourable government policies promote/ensure the retention of more manufacturing companies than non-manufacturing companies. Non-manufacturing companies may be able to easily relocate from Ghana if they find the country to be unstable or the tax rate too high. Alternatively, they could relocate to another SSA country if it is more stable and has a lower corporate tax rate than Ghana. Thus, as much as policies attract and retain all types of FDI, foreign firms operating in Ghana will also serve as a catalyst for other foreign manufacturing companies to invest in the country. The proposition that the importance of government policies in the initial investment decisions of foreign firms will vary depending on the sector of the economy in which they operate in is only supported in the case of the privatisation and trade policies.

Importance of Policies Attracting FDI Based on their Markets

The quantitative findings revealed that foreign firms that invested in Ghana to serve the African markets placed more importance on many of the policies in their decision to invest in the country than those that invested to serve the non-African markets. However, the differences in the importance of FDI policies between the two groups were not significant, except in the case of the tax policy. Market-seeking foreign firms placed significantly more importance on the tax policy than those that invested to serve the non-African markets. The corporate tax rate in Ghana is 25% and 22% for those that registered with the Ghana Stock Exchange. This is usually considered to be on the low side by African standards, and hence it is attracting investors to produce in Ghana and serve the rest of the regional markets. Interestingly, the non-African market-seeking foreign firms pointed out that policies on stability, entry and operations in the country influenced them more to invest in Ghana than those firms that serve the African markets. Significant differences between the two groups were not, however, observed in these policies. It stands to reason that governments looking to attract export-seeking foreign firms will need to ensure that all policies, particularly those on stability, entry and the operations of firms, are favourable to investors. In summing up, the proposition is largely rejected by the quantitative findings.

Importance of Policies Retaining FDI Based on their Markets

There was a lack of support for this proposition. Both groups found all of the policies to be important in their decision to continue operating in the country, without any significant differences in any policy area. The essence here is that the favourability of FDI-related policies will encourage market-seeking firms to reinvest their earnings, expand and commit to continuing operations in the country. The ability to retain foreign firms in Ghana will also depict a positive impression of the investment environment in the country, and thus attract more FDI.

Importance of Policies Attracting FDI from Different Regions.

The qualitative findings of the study reveal that foreign firms originating from different regions place a similar value on the importance of government policies in their initial decision to invest in Ghana. The groups of firms from the different regions found all of the government policies to be very important in influencing them to invest in Ghana. Significant differences in specific policies were not observed among the groups. This implies that government policies cannot be used to selectively attract FDI from a particular region, or to discriminate against investors from another region. Since investors are all rational people, they place similar values on the importance of critical success factors such as government policies in their decisions, notwithstanding the region of origin. Thus the proposition that meaningful differences will exist in the importance of government policies between foreign firms from different regions in their initial investment decision is not supported.

Importance of Policies Retaining FDI from Different Regions

The quantitative study shows that at the general policies level, no meaningful differences were observed between firms from different regions in their decision to continue operating in the country. However, further analysis showed that foreign firms originating from the American and Asian regions pay more attention to Ghana's tax policy than firms originating from other African countries in their decision to continue operating in the country. This is mainly because the corporate tax rates in African countries in general are usually high, and firms originating from other African countries do not value it in the same way as firms from outside Africa. It thus means that firms originating from the American and Asian regions are more sensitive to high tax rates than firms originating from Africa. Interestingly, the European firms' views on the tax policy do not significantly differ from that of firms from the other regions. American and Asian firms therefore seem to use lower tax rates as a measure of whether or not to continue operating in the country. Thus the proposition that there will be meaningful differences in the importance of government policies in retaining foreign investors from different regions is not supported in the case of most FDI-related policies, but only in the case of the tax policy.

Importance of Policies Attracting FDI Based on Entry Mode

There was a lack of support for this proposition. Both the analysis of the general policy framework and specific policies resulted in no support for the proposition. Firms that invested through Greenfield, Joint Ventures and Acquisitions all assessed government policies in the same manner, and placed similar values on them before investing in the country. The implication here is that the mode of entry cannot be a reason for firms to evaluate government policies differently in their initial decisions to invest in Ghana. The decision to invest in the country through a particular mode of entry is made differently and independently after the decision to invest in Ghana has already been made, based on the favourability of government policies. The proposition on the importance of government policies in attracting FDI based on entry mode is thus rejected.

Importance of Policies Retaining FDI Based on Entry Mode

In a similar vein, no meaningful differences in government policies between the groups of firms were observed in their decisions to continue operating in the country. It can be inferred from the findings that all three groups of foreign firms considered government policies important in their subsequent decision to continue operating in the country. The level of importance placed by each group on the policies was also found not to be significantly different from each other. Hence entry mode cannot explain policy importance differentials in the foreign firms' decisions to continue operating in Ghana. Thus the proposition that the importance of government policies in retaining foreign investors in the country will vary with the entry mode is also rejected.

Importance of Policies Attracting FDI Based on Motives

The importance of a number of specific policies differed significantly with firms' motives for investment in Ghana. Despite the fact that meaningful differences could not be observed in many policies, significant differences were observed in the policies on market structure and functioning, privatisation policy and tax policy, based on the motives for investment. Market-seeking firms considered the policy on the structure and functioning of the market to be significantly important in their decision to invest in Ghana, as opposed to the asset-seeking firms. The efficiency-seeking firms also found the same policy to be significantly influential in their initial decision to invest in Ghana, more so than the natural resource-seeking firms. In order of importance of the policy, market-seeking, efficiency-seeking and natural resource-seeking all considered the policy to be influential in their decision to invest in the country. However, significant differences were observed only between the market-seeking and asset-seeking firms, as well as between the efficiency-seeking and natural resource-seeking firms.

The findings also showed that natural resource-seeking firms placed significantly more importance on the privatisation policy in their initial decision to invest in Ghana than the efficiency-seeking firms did. Additionally, market-seeking firms also significantly valued the importance of the privatisation policy in their initial investment decision in favour of Ghana more so than the efficiency-seeking firms. However, the importance of the privatisation policy for asset-seeking firms did not differ significantly from that of the market-seeking, natural resource-seeking or efficiency-seeking firms. A significant difference was observed in the tax policy between the groups. While all the groups of firms valued the tax policy as being important in their initial decision to invest in Ghana, there was however a statistically significant difference in the importance attached to the policy between market-seeking firms and efficiency-seeking firms. Market-seeking firms considered it to be significantly more important than the efficiency-seeking firms. Thus the findings partially support the proposition, in that significant differences were not observed in some of the specific policies.

Importance of Policies Retaining FDI Based on Motives

The proposition was supported by the quantitative findings of this study. In general, this means that government policies influenced foreign investors differently, depending upon their motives, to continue operating in Ghana and not relocate. Specific policy areas where differences between the groups were observed included the privatisation policy, tax policy, and the industrial and regional policy. For the privatisation policy, the differences occurred between the market-seeking firms and the efficiency-seeking firms, with the former group valuing the policy significantly more than the latter group in their decision to continue operating. Differences in the importance of the same policy were also observed between the natural resource-seeking firms and the efficiency-seeking firms. This means that the market-seeking firms and the natural resource-seeking firms placed similar importance on the privatisation policy in their decision to continue operating in Ghana. They also both placed more importance on the privatisation policy in their decision to continue operating in the country than the efficiency-seeking firms did. Asset-seeking firms on the other hand equally valued the importance of the privatisation policy as the other groups did in their decision to continue operating in the country. The implication here is that the favourable privatisation policy is motivating market-seeking, natural resource-seeking and asset-seeking firms to continue operating in the country. Efficiency-seeking firms tend to enter the country through Greenfield projects, and therefore do not require a favourable privatisation policy in order to be successful.

Additionally, market-seeking foreign firms operating in Ghana indicated that the tax policy significantly influenced them to continue operating in the country, more so than the efficiency-seeking foreign firms. Natural resource-seeking firms and asset-seeking firms placed similar importance on the tax policy in their decision to continue operating in the country, like the other groups of firms. However, it can be observed that market-seeking firms were much more influenced by the tax policy to continue operating in the country than the efficiency-seeking firms were. The same conclusions were reached on the views on the industrial and regional policy by the groups of foreign firms. The market-seeking firms were significantly influenced by the industrial and regional policy in their decision to continue operating in the country, more so than the efficiency-seeking firms were. The proposition that the importance of government policies in retaining foreign firms in Ghana will vary with their motives for investing in the country is supported. Further analysis revealed that it is in the privatisation policy, tax policy, and industrial and regional policies that significant differences are observed between the groups. Motives of investors can therefore be used as a guide for tailoring policies to attract and retain a particular group of foreign investments in the country.

The various propositions largely point out that the government policies play an important role both in attracting and retaining FDI in Ghana. Although significant differences were observed in the importance of a number of policies between some of the groups of investors, the findings suggest that the policies are a minimum requirement in the government's effort to attract and retain foreign capital. The absence of favourable policies, or the presence of restrictive policies, will discourage foreign firms from investing in the country; and will at the same time encourage the relocation of those firms already operating in Ghana to other countries with more favourable policies.

Research Question 4: *What are the policies/factors that may constrain the inflow of FDI to a developing SSA country such as Ghana?*

Proposition 4: *The factors that may constrain FDI inflow to Ghana are political instability and a small local market.*

It is argued that in the absence of favourable factors that attract FDI into a host country, foreign investors will not be motivated to invest or stay in that country. In this study, both qualitative and quantitative findings revealed that favourable government policies are very important in attracting and retaining foreign investments in Ghana. The absence of favourable government policies will constrain the inflow of FDI. Negative or restrictive policies will serve as a deterrent to foreign firms that are considering investing in the country. The study reveals that political, economic and social instability; restrictions on entry and operation of foreign firms; discriminatory treatment against foreign firms; high taxation; and the threat of nationalisation are some of the vital policy factors that will constrain the inflow or retention of FDI in the country. It is crucial to point out that by virtue of geography, a single unfriendly FDI-related policy will place undue weight in discouraging the inflow and retention of FDI. The implication here is that a favourable policy framework is a minimum requirement in the governments' efforts to attract FDI. Additionally, inefficient business facilitation factors and the absence of incentives may also make other countries appear to be more attractive than Ghana, and investors would thus gravitate to these alternative locations. Insufficient market or marketing channels may also discourage investors from doing business in Ghana. Since many firms are investing in the country for market reasons, the insufficiency of the market will also have a negative impact on the country's potential to attract FDI inflow. It is also important to point out that the qualitative findings revealed that the inefficient promotion of the country by the relevant government institutions will lead to a limited inflow of FDI, but a high retention rate of FDI.

Research Question 5: *What are the policies/factors that may precipitate the outflow of FDI from Ghana?*

Proposition 5: *The factors that may precipitate the outflow of FDI from Ghana are political instability and unfavourable FDI policies.*

The study revealed that unfavourable government policies are the most dominant factors that will precipitate an outflow of FDI from Ghana. Unfavourable FDI policies, such as radical nationalisation, will precipitate the relocation of foreign firms operating in the country. In addition, other factors such as corruption, bureaucracy, an insufficient market, high taxes, duties and charges, market demand saturation of products or services, other non-labour production costs, an insufficient network of suppliers and insufficient subsidies from the government could all precipitate an outflow of FDI from Ghana. Most of these factors are related to the facilitation of business operations in the country, and their presence will increase the cost of operating in Ghana; not only in financial terms but also in terms of delays, frustrations and untimely delivery schedules. The findings in Chapter Six, however, depict that foreign firms are satisfied with all of these factors and thus support their plans to not only continue operations in the country, but to also expand within the next three to five years. This study further establishes that the factors that are less likely to influence and precipitate the outflow of FDI from Ghana (as revealed by Table 6.16) include insufficient infrastructure, lack of new technology and research and development, current labour cost and a lack of skilled workers. This suggests that Ghana is considered to have a sufficiently-developed infrastructure more so than other countries in the region. Additionally, the results show that the country has a well-developed, well-qualified and competent labour force with which to man the operations of foreign firms at a comparatively acceptable or lower cost. Foreign firms usually maintain their research and development functions in their home country, and will therefore not consider the lack of research and development facilities as a reason to relocate from the country.

Research Question 6: *Is there a relationship between foreign investors' level of satisfaction and their decisions regarding expansion, downsizing, relocation and termination of their operations in Ghana?*

This research question could only be examined quantitatively, and so Pearson product-moment correlation coefficient was employed to examine it. The evidence indicated that a positive correlation between total satisfaction and the firms' decisions to expand their operations in the country within the next three to five years. This implies that a high level of satisfaction for foreign firms operating in Ghana is associated with their decisions to remain and expand their operations in the country by reinvesting more capital. Thus, in order to retain foreign investors in the country and motivate them to expand their operations, the government will need to ensure that the business environment is conducive and satisfactory to investors. This will build their confidence in doing business in Ghana and encourage them to stay. The ability to retain existing foreign firms in the country will also augur well for Ghana, as this will inadvertently attract further FDI into the country.

No correlation between firms' levels of satisfaction with the country's business environment and their decisions regarding downsizing was established by the analysis. This implies that firms' decisions to downsize their operations in the country are not associated with the level of satisfaction with the business environment. Arguably, their decisions to downsize may be influenced by factors that are not within the control of the government. Such factors could include the global economic crisis that forced many firms to downsize their global operations, while maintaining their core activities in foreign subsidiaries. External factors may therefore play a dominant role in influencing the investors' decisions to downsize, and not because they are dissatisfied with the business environment of the country. Hence, while the government can positively influence foreign firms to expand their operations in Ghana, possibly through attractive policies, generous incentives and efficient infrastructure, this study posits that the decision of foreign firms to downsize is considered not to be associated with how satisfied or dissatisfied they are with the country's business environment.

The correlation analysis further revealed a negative correlation between firms' satisfaction and their decisions to relocate from the country. High levels of satisfaction are associated with low levels of intentions or decisions to relocate from the country. Additionally, a negative correlation was also established between firms' levels of satisfaction and their decisions to terminate operations in the country. These results suggest that the more satisfied firms are with the business environment in the country, the less likely they are to terminate their operations or relocate to another country. The correlation results therefore convey an important insight in that the government's ability to retain foreign investors in the country is directly linked with the perceived satisfaction of foreign firms with the business environment. Foreign firms that are satisfied with the business operation in the country are more likely to remain and expand their operations. Satisfaction also means less likelihood of firms terminating their operations in the country, or relocating to alternative countries. Efforts by governments to improve the FDI inflow to their countries cannot be limited only to attracting investors into their economies, but should also extend to ensure that those firms that are already operating in the country feel satisfied with operating in their economies. Dissatisfaction will only result in many of them terminating their operations or relocating to other countries. The effects of termination and relocation would prove costly, as it would signal a negative perception of doing business in that country, and thus discourage potential foreign investors from entering the country.

Research Question 7: *What factors can best predict firms' decision to expand, relocate or terminate their operations in Ghana?*

Standard Multiple Regression was used to provide answers to this question. This involved assessing the ability of a number of satisfaction factors to predict the likelihood of foreign firms' decisions to expand, relocate or terminate their operations in Ghana. The resulting model which can best predict foreign firms' decisions to expand is explained by three satisfaction factors. The three factors that contribute to the model are satisfaction with market access, satisfaction with labour cost and satisfaction with foreign investment regulations. All of the three factors significantly contributed to the predictive model, with labour cost recording a higher beta value (beta = .30, $P < .004$) than satisfaction with foreign investment regulations (beta = .26, $P < .009$) and market access (beta = .24, $P < .016$). Since earlier results showed that many firms invest in the country for market reasons, it stands to reason that their ability to fully access both the Ghanaian and SSA markets will stimulate them to expand their operations in Ghana and export to the markets in the sub-region, since the country is relatively stable for business. Additionally, the favourability and satisfaction with both labour cost and foreign investment regulations are also vital factors that will retain foreign firms operating in the country. Admittedly, the labour cost in Ghana is comparatively low. An important factor which the government can further influence is the policies and regulations guiding foreign business operations in the country. The more favourable the policies, the more likelihood investors will feel continent to stay. In order to retain foreign firms operating in the country and motivate them to expand, the government has to ensure that favourable policies are developed, so as to extend the local market to include the sub-regional and other international markets.

On investors' decisions to relocate, four satisfaction factors were used to develop a model that can best predict their decision to relocate operations away from Ghana. The factors contributing to the model include satisfaction with labour regulations, utility services cost, labour cost and dissatisfaction with financial cost. Of the four factors, satisfaction with labour cost did not contribute significantly to the model (beta = -.17, P = .146), while satisfaction with labour regulations recorded a higher beta value (beta = -.36, P = .004) than satisfaction with utility services cost (beta = -.29, P = .009) and dissatisfaction with financial cost (beta = -.25, P = .015). The negative coefficients on some factors reveal that if foreign firms operating in Ghana find the country's labour regulations, utility services cost and labour cost to be satisfactory, they will not relocate their operations from the country. The positive coefficient of the financial cost suggests that dissatisfaction with the cost of finance in the country will not influence them to relocate their operations from Ghana to other countries where the cost of financing is deemed to be satisfactory. Therefore dissatisfaction with financial cost alone may not result in foreign firms relocating their operations. The decision to relocate will gain potency if foreign firms are dissatisfied with all of the above identified factors. This is due to foreign firms' ability to source finance from elsewhere in the world at a lower cost, without having to relocate their operations. Higher financial cost in Ghana negatively affects the business operations in the country, but the factor alone may not be potent enough to stimulate the termination and relocation of foreign firms' operations.

Finally, the Standard Multiple Regression model that can best predict investors' decisions to terminate their operations in Ghana was made up of two factors: satisfaction with market access and employees' performance. Both factors were statistically significant, with the performance of employees recording a higher beta value (beta = -.31, P < .003) than satisfaction with market access (beta = -.021, P <

.040). The negative coefficients also reveal that satisfaction with these factors will not lead to firms terminating their operations in the country. Thus, in order to ensure the continuous operation of foreign firms in Ghana, these firms should be satisfied with the performance of employees, as well as the market access. Dissatisfaction with these factors however will influence foreign firms to terminate their operations in Ghana.

The factors that constitute the models for termination and relocation have important policy implications for countries seeking to attract and retain FDI. The ability to ensure that foreign firms operating in the country are satisfied with these factors, all things being equal, will motivate the firms to continue operating their businesses in the country. This means that they will continue to create jobs for people, pay taxes and add to the capital stock of the country's private sector. The additional expansion of foreign business operations will also help the country's economy to grow. This is very important, particularly for developing SSA countries. Hence it is vital to ensure that these factors are evaluated continually, so that they favourably serve investors and retain them and their capital. The absence of this continual evaluation will result in foreign capital flight from Ghana, which will have a negative knock-on effect for the country's economy.

8.3 Conclusion

This chapter provided a comparative analysis of the quantitative and qualitative responses to the research questions. Overall, the chapter revealed the indispensability of quality government policies in attracting and retaining FDI in Ghana, and for that matter other SSA countries. The next chapter concludes the study by discussing its contribution, implications and limitations.

Chapter Nine

Conclusions, Contributions and Implications

9.1 Introduction

This study focused on the role of government in attracting and retaining FDI in a developing SSA country - Ghana. In order to fully accomplish the objectives of the study, a mixture of qualitative and quantitative methods were utilised. The previous chapter provided a review of the research questions, and a summary of the findings from both the quantitative and qualitative perspectives. This final chapter attempts to provide some general conclusions drawn from the study. The contribution of the study to the existing FDI literature, particularly those focused on Ghana and Africa, will also be outlined. In addition, the chapter discusses the implications of the study for foreign investors and policymakers concerned with the whole FDI phenomenon. Finally, the chapter concludes with a discussion on the limitations of the study, and suggestions for future research directions.

9.2 Conclusions of the Study

Even though the effect of governments' policies on FDI flow is discussed in the literature, some international business scholars suggest that: (1) there has been very little systematic research on government policies surrounding the FDI process (Globerman and Shapiro, 2002); (2) there remains a surprising absence of hard quantitative evidence addressing the issue, leaving some scholars rather pessimistic about the effects of these policies (Neumayer and Spess, 2005); (3) the relationship between FDI and important country characteristics resulting from government policies have not been established empirically (Asiedu, 2003); (4) there has not been a sustained attempt in the literature to develop the implications of FDI policies (Brewer, 1993); and (5) the relative paucity of studies on the impacts of FDI-specific policies is surprising in light of the strong policy interest in the issue and the active role towards FDI that government policies in most countries, especially developing countries, have taken (Globerman and Shapiro, 1999). As a result, many important policy issues and questions have remained poorly understood and unanswered, especially in the context of developing countries (Root and Ahmed, 1978; Chadee and Rose, 2003). Just as most of the existing literature focuses on FDI activity involving US firms or FDI flow into developed countries such as the US (Caves, 1988; Froot and Stein, 1991; Chadee and Rose, 2003), many of the studies on government policies and FDI are dated (Globerman, 1988; Boddewyn, 1988; Globerman and Shapiro, 1999; Globerman and Shapiro, 2002). Additionally, the main empirical evidence of government policies and FDI in developing countries has largely come from the experiences of East Asian economies, which were then generalised in an effort to draw appropriate conclusions for other developing countries (Wint, 1998). Thus, there has been a dearth of research and contradictory findings relating to government policies and their role in FDI flows, especially to developing African countries. These concerns reveal a glaring inadequacy of empirical work in the area, particularly on developing SSA countries. Consequently, in response to calls for further research in the area, this study attempted an empirical analysis of the role of government policies in attracting and retaining FDI in Ghana - a country in the under researched SSA region. The novel findings of the study confirm that adopting a mixed-method research approach greatly enabled a more rigorous and in-depth investigation of the topic. The qualitative findings in particular allowed the validation of the quantitative results, triangulation of findings and a more in-depth generation of high-quality insights relating to policy factors in the attraction and retention of FDI in Ghana. The findings of the study are summarised below.

First, the research indicates that government policies play a vital role in attracting and retaining FDI. The findings support the view that countries in SSA will not be able to attract and retain FDI without quality and favourable government policies that open up the market, protect investments and ensure stability. In the case of Ghana, its' ability to attract FDI has particularly been dependent on its' political stability, and the ongoing economic and institutional reforms that have created a large market and an attractive investment environment. It is important to point out again that foreign investors have many choices in terms of where they can invest their capital; and their final decision is based on the interplay of not only government policies, but also business facilitation factors, financial incentives, and other economic factors such as market size and the availability of natural resources.

Second, the findings further suggest that the development of favourable policies, generous incentives and the business facilitation factors may not necessarily attract the right quality and amount of FDI into a developing SSA country such as Ghana. All of these factors, however, are necessary for the country to meet the minimum requirement for attracting or retaining FDI. Further efforts such as marketing strategies, in terms of directly targeting particular investors, may be necessary to attract the right type and amount of FDI into the country. Anything short of this will not fully reward the country with a substantial inflow of FDI, in accordance with its' potential. For instance, the study revealed that the good promotional efforts by government agencies have not been fully rewarded with the right amount of FDI inflow. The reason for this arising from the study is that while the agencies are doing a good job in retaining investors, many foreign firms end up investing in the country anyway, and not as a result of these agencies' promotional efforts. This calls for further novel and strategic actions to be taken in order to attract the right type and amount of FDI in the country.

Third, the findings also suggest that the FDI phenomenon is dynamic in terms of the types of investments entering a country such as Ghana. In the past, the traditional type of FDI entering Ghana was mainly natural resource-seeking. However, this study reveals that the market-seeking and efficiency-seeking types of FDI entering Ghana have been increasing, and have now become more dominant than the traditional natural resource-seeking FDI. It is presupposed that countries will need to make a conscious effort in understanding the current and future potential of the motives of FDI entering their economies. This also further establishes that SSA countries have the capacity to attract substantial amounts of non-natural resource-seeking FDI, if the investment environment is conducive. Large market size and growth are important factors that can stimulate a large market-seeking FDI inflow to the region, over and above the traditional natural resource-seeking FDI. Additionally, the study also reveals that SSA countries have the potential to attract and retain efficiency-seeking types of FDI more than the natural resource-seeking types. However, the ability of a country in SSA to attract and retain more market-seeking and efficiency-seeking types of FDI is contingent on the quality of government policies, business facilitation factors and incentives, which all together create an attractive and conducive investment environment.

Fourth, the findings reveal that most investors do not usually have only one motive when investing in a foreign country. They usually have a main motive and a secondary motive, and the ability of a particular location to serve both motives will make it the superior country to invest in. For instance, gold is required everywhere in the world, but the lack of a market for gold in Africa has shut out other supporting industries to the gold mining industry in Ghana and the rest of the SSA region. Similarly, Ghana and Cote d'Ivoire are the world's top producers and exporters of cocoa beans, but the industry in Ghana has only recently been able to attract cocoa warehouses; mainly because some chocolate manufacturing companies have recently been established in the country. Hence countries such as Ghana within the SSA region, that have created large markets through policy developments and efficient business environments, will be the winners in attracting both market-seeking and efficiency-seeking FDI; in addition to the traditional natural resource-seeking type of FDI. This implies that countries seeking to attract and retain FDI in proportion to their potential will require the development of favourable policies. Prominent among these policies are good governance, favourable rules regarding entry and exit, political stability, and regional and international agreements that expand local markets and at the same time protect the investments of foreign firms. Countries will also need to make a conscious effort in understanding the current and future potential of the types of FDI that they can attract into their economies.

Fifth, the study suggests that foreign firms originating from outside Africa do not see the cultural dissimilarities as being important in investing in Ghana. Only firms originating from other African countries specified that cultural similarities played a dominant role in their decision to invest in the country. This suggests that Africa is culturally different from other regions, and that similarity in cultures cannot be a reason for FDI inflows originating from other regions into African countries.

Finally, the findings also show that for foreign firms investing in host countries with the intention to stay for a long period of time, their decisions to continue operating and expand their businesses are contingent on how satisfied they are with many factors in the country. Prominent factors include the quality of government policies, the market size and growth, performance of labour force and cost, quality of infrastructure, incentives and other business facilitation factors. Firms that are not content with these factors, or the business environment as a whole, may either terminate their operations or relocate to alternative countries or regions.

9.3 Contributions of the Study

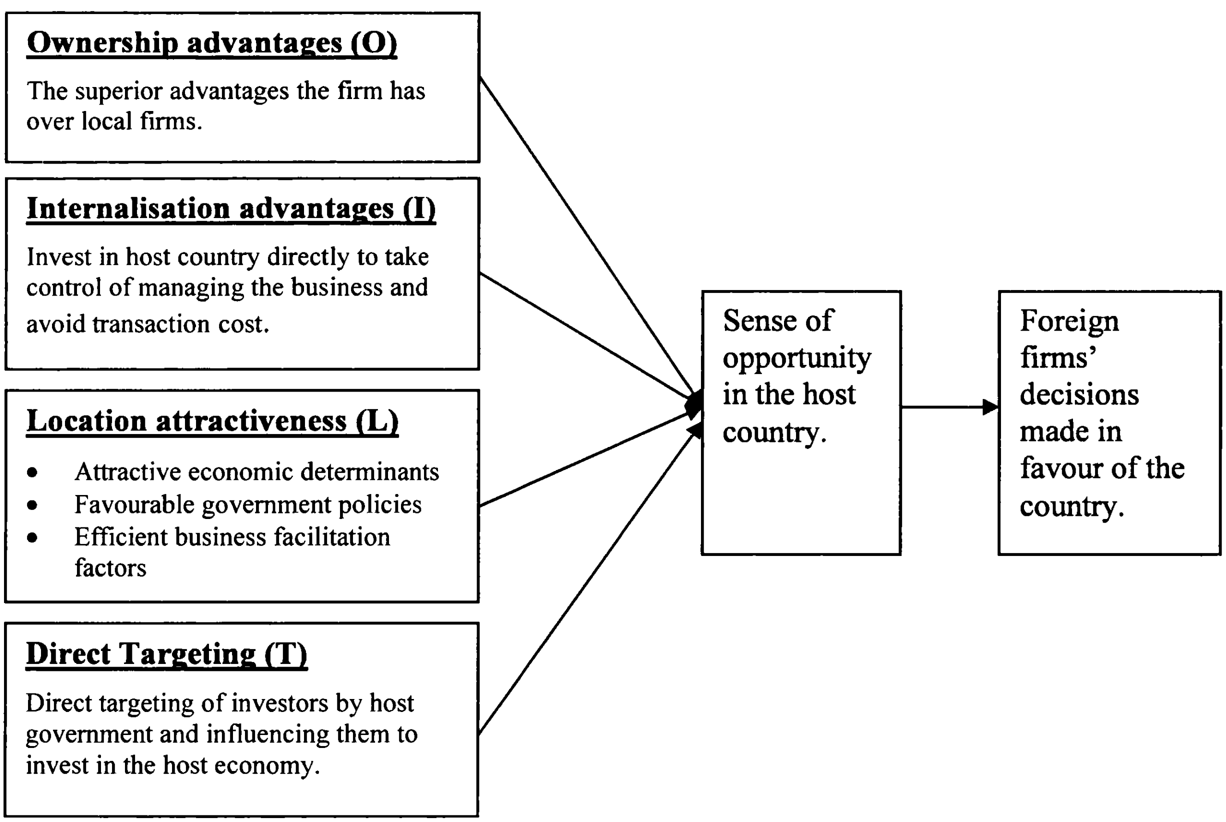
The section below presents the conceptual, empirical, methodological and practical contributions made by the study. This study, despite its' limitations, makes a significant contribution to the literature on FDI in Africa. The study enhances the understanding of the role of governments in attracting and retaining FDI in developing African countries such as Ghana.

9.3.1 Conceptual Contribution

Much of the research on FDI has focused on the activities and experiences of multinational companies in developed countries. The studies dealing with FDI in developing countries have been built on the experiences of Asian countries. Additionally, many of these studies examined the locational determinants of FDI in the host countries. As a result, the understanding of the FDI phenomenon in the African context was fuzzy; particularly on the role that government policies can play in attracting and retaining FDI. This study has therefore contributed generally to the FDI literature in a number of important ways. First and foremost, this study was a concerted effort to examine the applicability of the OLI theory-based framework of FDI to the SSA region. In order to achieve this objective, the study explored the role of government policies in attracting and retaining FDI. In this regard, the study explored the work of international business scholars (Globerman, 1988; Boddewyn, 1988; Brewer, 1993; Globerman and Shapiro, 1999; Globerman and Shapiro, 2002; Chadee and Rose, 2003; Asiedu, 2003; Neumayer and Spess 2005) on this issue, and applied the extant knowledge to the Ghanaian (and for that matter the African) context. The study has contributed to the literature on how government policies can create conducive investment environments, and how they can also influence the strategic decision-making behaviour of firms. Thus, the study supports the applicability of the OLI framework to SSA, and in particular, explains the FDI phenomenon in the case of Ghana.

However, it has also become evident that meeting the various elements of the framework alone will not be enough to attract substantial FDI in proportion to Ghana's potential. The study identified that a fourth element, which is the direct targeting of foreign investors, needs to be added to the framework in the case of Ghana (and for that matter other SSA countries), in order to explain how these countries attract the required amount of FDI (see figure 9.1). This does suggest that African countries are different, and the three elements of the OLI framework cannot fully explain the dynamics of FDI in SSA. What is novel about this finding is the identification of the important role that the direct targeting of foreign investors by the government can play in attracting and retaining the right type and amount of FDI in Ghana. Direct targeting is a marketing strategy that can be used by countries in the SSA to positively attract and retain substantial FDI inflow. This is particularly important for those sectors that are very strategic and require large financial capital, enhanced technology and highly skilled human resources to grow and become efficient. In this respect, the study has extended Dunning's OLI framework by adding a fourth dimension – Direct Targeting (T); as shown in Figure 9.1.

Figure 9.1: The factors that will lead to successful and substantial inward investment



Arguably, this is the first empirical study to explain the critical role of government policies in attracting and retaining FDI in the SSA region. In doing so, the study makes a general but important contribution to the existing body of work in the area. Essentially, a study that provides important insight on government policies in attracting and retaining FDI in developing SSA countries is enriching to the general literature of FDI in developing countries. Some additional principal contributions of this study include the following:

1. The study identified that for developing SSA countries, the development of favourable policies alone may not be enough to attract substantial FDI into the host country. To minimise the political and economic risks, the policies need to be backed by generous incentives and efficient business facilitation factors so as to meet the minimum requirement for attracting substantial FDI. Anything short of this will result in the country not being able to attract enough FDI in accordance with its' potential.
2. Additionally, the study suggests that some of the government policies appeal differently to different investors; hence specific policies should be used to target particular types of FDI.
3. The study also reveals that developing countries should (in addition to liberalising their investment regimes) properly understand their strategic strengths in terms of sectors, and take proactive steps to encourage foreign firms that specialise in those areas to invest; and thus unlock the countries' potential in those sectors. In this case, marketing strategies by government institutions/agencies that directly target specific companies would be required. This has the potential to generate a knock-on effect in stimulating the potential FDI inflow to the host countries. Also, such strategies can foster the growth of businesses in supporting industries.
4. Despite Globerman's (1988) argument that a comprehensive analysis of the determinants of government policies would present formidable conceptual and empirical difficulties, this study has attempted to empirically analyse the role of government policies in attracting and retaining FDI in developing SSA countries. The study therefore sheds light on the policy determinants of FDI inflow.
5. Finally, unlike the majority of previous studies that focused only on the policy factors that attract FDI into a host country, this study added the dimensions of "how" and "which" policies will retain FDI in a host country. This is an important addition to the literature.

9.3.2 Empirical and Methodological Contribution

Studies on FDI in Ghana have always been based on secondary data obtained from government institutions, except in the case of Boateng and Glaister (1999) and Grant (2001). However, Boateng and Glaister's (1999) work focused on joint ventures in Ghana, while Grant's (2001) study only focused on foreign companies in Accra (the regional capital of Ghana). To the best of this researcher's knowledge, this is the only comprehensive empirical study on FDI that focuses on government policies and all sectors of the Ghanaian economy. This study also departs from these previous studies in that it covers all modes of FDI in the whole country. Additionally, Boateng and Glaister's (1999) study used quantitative methods, while Grant's (2001) study employed a qualitative method of enquiry. This study used both quantitative and qualitative methods, and in addition covers all modes of market entry, all regions in the country and all sectors of the economy. It is thus the first comprehensive empirical study on the phenomenon of FDI in Ghana. The findings therefore reflect the real views and perceptions of investors about the various policies that were critical in their initial decisions to invest, as well as their subsequent decisions to continue operating in the country.

Due to the scant literature on FDI in the developing SSA region, it was difficult to find an appropriate methodology in the literature that could exactly guide this study. As this was a business studies thesis, as opposed to an economics one, this study avoided a micro focus on the determinants of FDI which require, in many cases, the use of econometric data. Instead it adopted an integrative approach to examining not only the economic policy and business facilitation determinants of FDI, but also the strategies that governments' need to adopt in order to attract, satisfy and retain foreign investors. As a result, the study also avoided restriction to a single-stage analytic methodology which requires a single instrument, but instead drew widely from disciplines in management to develop an appropriate multi-stage methodology; using three different research instruments in order to provide answers to the research questions. Although the nature of the study made it necessary to combine both Likert-scale survey questions and two different sets of interview questions in the same study, it is worth pointing out that such an approach is rare in the literature; particularly in the case of developing SSA countries. The use of multiple methods of data collection and measurement helped to overcome the potential problems associated with a single method of measurement, and thus provides a foundation upon which other FDI studies on SSA countries can be built.

Similarly, a multi-stage analysis was employed. The first stage involved the use of descriptive statistics, mean scores and principal component analysis to identify the main motives, determinants and satisfaction levels of foreign firms operating in the country. The second stage involved examining whether any variations existed between different groups of foreign investors on the role of government policies in attracting and retaining FDI in Ghana. The third stage sought to detect the underlying potential relationships between satisfaction variables and investors' decisions regarding expansion, downsizing, termination and relocation. Content analysis of in-depth interviews was also employed to bolster the results and enable verification of the findings.

It is important to reiterate that this study adopted a mixed-method approach which involved the collection of both qualitative and quantitative data from foreign investors operating in Ghana, as well as qualitative data from government policymakers. Secondary data was also obtained from government policymaking agencies responsible for FDI in the country, and this information was integrated into both the qualitative and quantitative data in order to provide a deeper understanding of the FDI phenomenon and the role of government policies in attracting and retaining FDI. The small amount of variation between the findings of the qualitative and quantitative data is an indication of the broad consistency of the results.

9.4 Implications for Investors, Policymakers and SSA Countries

The empirical findings of this study have brought to the fore some important implications for investors and policymakers in SSA countries. The aim of the study was to analyse the role of government policies in attracting and retaining FDI in Ghana. The study has established that developing favourable FDI policies is important in attracting and retaining investors. It has also revealed that the most important factor influencing/determining FDI flow to Ghana is political and economic stability. It can therefore be suggested that political and economic stability in an African country, as well as a competitive and sustainable business environment, are imperative in the attraction and retention of FDI. Hence, it is recommended that the government of Ghana should continue to adopt sound macroeconomic policies, as well as promote and sustain the social and political stability prevailing in the country.

On another level, the findings suggest that liberalised policies are no longer optional, but are in fact a crucial requirement in a nation's efforts to attract FDI. Along with this, it has become mandatory for nations seeking FDI to develop favourable investment policies. In fact, this is the minimum requirement for any country seeking to attract and retain FDI. This implies that SSA countries need not limit their efforts in attracting and retaining FDI to policy liberalisation and development. Further efforts and strategies should be employed in order to attract and retain the right type of FDI into their economies, so as to unlock these countries' true potential. This could involve directly targeting particular types of investors, and luring them into particular sectors that will help improve the whole economic situation of the country. Governments should see the world as being full of quality potential investors to be tapped, provided the appropriate marketing and targeting strategies can be devised. Thus, the winning countries will be those that directly target foreign investors and lure them into the important sectors of their economies.

Still on the policy implications front, the findings show that investors satisfied with the business environment will not contemplate terminating or relocating their operations from the country. The rational is that firms invest their capital with the aim to continue operating in the country, so long as the conditions and the country's business environment are conducive and efficient. This implies that SSA countries should not only focus on developing policies to attract investors, but should also ensure that those operating in their economies are satisfied with the business environment. The ability of a country to retain foreign investors already operating in their economies will give a positive signal to potential investors of the country's business environment, and therefore attract them into the country as well. Satisfaction also implies that they will reinvest their earnings and expand their operations in the country. This is therefore very important; not only for the government of Ghana, but also for other SSA countries in their efforts to increase their FDI stock.

Additionally, contrary to earlier studies on SSA that suggested FDI is mainly going into the natural resource/extractive sectors (and that SSA countries will only attract substantial FDI inflow to these extractive sectors), this study reveals that SSA countries have the potential to attract a substantial amount of non-natural resource-seeking FDI. However, this is dependent on the countries developing the right combination of policies, coupled with some favourable country characteristics that will make them attractive enough for the non-natural resource-seeking FDI. This implies that countries within the region can still diversify their FDI inflow portfolio to other sectors of their economies. This is particularly true for countries with a small local market, such as Ghana. The expansion of the country's market, to include regional and other international markets, has stimulated market-seeking FDI into the country.

It is evident from the findings that most of Ghana's promotional agencies are doing their best to market the country, but many foreign firms decided to invest in the country often without any awareness of the promotional activities. Thus, in spite of the favourable policies, efficient business facilitation factors and generous incentives prevailing in Ghana, many potential investors are not aware of these; resulting in the country's inability to attract critical types of FDI and industries that are required to unlock the full potential of the country. For example, Ghana's competitive advantage has long been identified to be in agriculture; but for more than fifty years, the country has been importing fertilizer at a high cost to the government and farmers. A fertilizer company could have been targeted and brought in to produce for the country, and this would have a large potential to increase the production and export of agricultural products. Ghana could also attract agriculture related manufacturing industries to take advantage of the low-price raw materials. The country is also well known for its' production and export of cocoa beans, but until recently could not boast of a chocolate manufacturing company in the country. Water purification, solar and wind energy, and electronic companies are also important for the growth of the country, but not much has been done to directly target such companies to invest in the country. The implication here is that merely promoting the country's investment opportunities to foreign firms may not yield the desired results; thus the promotion agencies, together with the government, need to adopt a proactive approach in directly targeting such companies and encouraging them to invest in the country.

The findings of the study also indicate that government policies play an important role in influencing the particular mode of market entry of foreign firms into the country.

This confirms the potential applicability of the institutional view in explaining the foreign market entry by firms. The findings indicate that government policies and institutions have progressively stimulated Greenfield investments in Ghana over the past decade.

The findings also widely reveal that many foreign firms are content with Ghana's investment environment, and are willing to expand their operations in the country. This goes against the backdrop of the widely held view that countries in the SSA region are very risky and not suitable for business operations. As the findings portray, there are countries within the region where such a perception does not apply; and investments in those countries are likely to result in higher returns than in other regions. Investors seeking high profits should therefore do due diligence about individual countries within the region, in order to identify stable and less risky locations where their investments can be protected, and where they will also be able to freely operate their businesses.

Finally, the study also shows that the determinants of FDI in the country tend to change over time, and factors that are serving as important drivers today may not be applicable in the near future. The government, therefore, needs to keep abreast with the dynamic nature of FDI determinants, so as to keep Ghana attractive to foreign investors at all times.

9.5 Limitations of the Study

Limitations are inevitably an inherent aspect of every research endeavour, and this study is no exception. Although the use of the mixed-method has reduced the limitations considerably, some still remained. Therefore the conclusions and implications should be read and interpreted with the limitations in mind. The section below highlights these limitations, with a view to directing future research in the area.

Firstly, as is typical of most exploratory studies, this study was cross-sectional in nature and therefore precluded the collection of the data at more than one point in time. As indicated earlier, the main aim of the study was to critically assess the role of government policies in attracting and retaining FDI. A longitudinal study which assesses relationships over time would have been a better-suited approach, but the cost and time constraints involved in conducting such a study proved to be impractical for the present purpose. As a result, the empirical results of this study represent only a snapshot view of foreign investors and policymakers, and inferences should be drawn from the results; not in terms of cause and effect, but in associative terms. However, since cross-sectional studies are widely used by international business scholars, it can be argued here that even though cross-sectional studies are technically not as appropriate as longitudinal studies, the use of cross-sectional studies in this research only constrained the conclusions in terms of the causal relationship that could be drawn, rather than compromising the integrity of the research. Future research could therefore endeavour to collect longitudinal data over a sufficiently long time period, in order to address this issue.

Secondly, the data collection efforts were directed at foreign investors currently operating in Ghana, because it was the belief of the researcher that the firms' perception of the quality of the country's investment policies directly influenced their investment decision about the country. The limitation in this case was that the method failed to collect data from foreign firms who decided against investing in Ghana. In a sense, it was not possible to assess their perception of the role of government policies in discouraging them from investing in the country. The acquisition of both views however would have greatly enhanced the results. Thus future research efforts could address this limitation, but there are methodological challenges in gaining access to those foreign firms who chose not to invest in Ghana.

Thirdly, while interesting results were obtained, it is important to emphasise that the collection of the data for this study was limited to Ghana. The quality of policies and the business environment of the country are different from those of other developing SSA countries. So while the findings do contribute to the existing literature on FDI in SSA, the generalisability of the findings should be further tested. This could be achieved through cross-country studies, or comparative studies in other developing SSA countries.

Additionally, the managers who made the initial decisions in the past to invest in Ghana may not still be working with the subsidiary in the country, and hence may not have been the ones who responded to the questions. The managers who did respond may not have been able to recall the important factors that influenced the initial decisions. This therefore introduced some historical bias in the analysis. Attempts were made to reduce the bias by targeting managers who were knowledgeable about the decision-making of their organisations. However, uncertainty still surrounds the respondents of the survey questionnaire – institutional memory.

Finally, the study was unable to access equal number of respondents from all sectors, and as a result the responses from investors in certain sectors may have been biased in favour of those firms operating in those sectors. As such, it would be good for future research to examine the role of government policies in attracting FDI into specific sectors of the economy, instead of the whole economy. Sectorial policies may also have an impact on the FDI phenomenon in Ghana.

9.6 Concluding Remarks

Despite these limitations, the researcher is of the view that the study has substantially answered the research questions, and has also generated relevant implications for investors and policymakers in both Ghana and other countries within the SSA region. The study firmly established that government policies play a paramount role in the FDI phenomenon, and that developing SSA countries such as Ghana need to adopt a more proactive approach to attracting investors. In line with these findings, this study also established that the prevalence of favourable conditions in a SSA country gives it a competitive advantage in receiving more FDI. The study further shows that these factors are necessary to meet the minimum requirements for a SSA country attempting to attract FDI, and that proactive direct targeting strategies are also required from the governments' promotional agencies to enable the countries to attract the right type and quantity of FDI. The study also highlights a number of issues which could be further explored in future research. Cleeve (2009) pondered whether SSA countries that are perceived to be well-governed and where there is rule of law, established institutional structures, zero tolerance to corruption, effective government machinery, and general political stability are able to receive more FDI than their poorly-governed counterparts. This is an important subject and theme for future research.

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APPENDICES

APPENDIX 1

School of Business and Economics
Swansea University
Singleton Park, Swansea
SA2 8PP, UK
26th June 2009

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

LETTER OF INTRODUCTION: RESEARCH ACCESS/INFORMATION

The bearer of this letter - Mr Richard B. Nyuur - is a student in our PhD (Business and Management) programme. He is currently at the fieldwork stage of his studies and is collecting data/information to write his thesis provisionally titled: **"Attracting and Retaining Foreign Direct Investment: A critical Assessment of Government Policies in Ghana".** The research focuses on Ghana and seeks to examine government policies in promoting FDI – (inward investment) in Ghana. In order to fulfil the research objectives, foreign companies based in Ghana have been chosen as the empirical focus of the study.

I would be most grateful, if you could please assist Mr Nyuur in any way you can. In line with the social science research ethics, the information provided will be used only for the purpose of this research and, in addition, will ensure the anonymity of the sources and organisations participating in the study.

If you require further information or clarification, please do not hesitate to contact me.
Yours sincerely,

Prof. Yaw A. Debrah, Ph.D (Warwick).
Chair in Human Resource and International Management.

APPENDIX 2

Attracting and Retaining Foreign Direct Investment: A Critical Assessment of Government Policies in Ghana

Richard B. Nyuur
Researcher (PhD Candidate)

Supervisors
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July 2009

The information you provide will be treated in strict confidence

Section A: Background information

1. Give an estimate of how long your company has been operating in Ghana:

____

2. How was your company originally established?: **(Tick all that apply)**

☐ Greenfield ☐ Joint Venture ☐ Acquisition of a local firm

☐ Others – please specify: ____

3. How many people does your company currently employ in Ghana?:

____

4. Please specify the nationality of your parent company:

____

5. Which of the following categories apply to your company's function(s) in Ghana?
(Tick all that apply)

☐ Manufacturing ☐ Mining ☐ Building & Construction ☐ Tourism

☐ Services ☐ Agriculture ☐ Export Trade ☐ General Trade

☐ Others – please specify: ____

6. Where is/are the current market(s) for the products (or services) from your operation in Ghana?
(Tick as many as apply)

☐ Ghana ☐ West Africa ☐ Sub Sahara Africa ☐ North Africa

☐ Europe ☐ North America ☐ Latin America ☐ Asia ☐

Australia

☐ Others – please specify: _______________

7. What is the main motive for your company's decision to invest in Ghana?

☐ Market seeking ☐ Natural resources seeking ☐ Efficiency seeking

☐ Asset seeking ☐ Others (please specify):

____

8. How much was your initial investment capital sum in Ghana?

☐ Below $150,000 ☐ $150,000 - $250, 000 ☐ $250,000 - $500,000 ☐ $500,000 - $1million

☐ $1m - $10 million ☐ $10m - $20 million ☐ Above $20 million

Section B: Policies

In answering questions 9 to 15, use a range of one (1) to five (5), where '1' stands for not important, '2' = less important; '3' = Neither important nor unimportant; '4' = important; and '5' stands for very important. Please tick the box corresponding to the relevant number.

9. How important were the following policy frameworks to your decision to invest in Ghana over alternative locations?

	Not important (1)	(2)	(3)	(4)	Very important (5)
Economic, political and social stability	☐	☐	☐	☐	☐
Rules regarding entry and operations	☐	☐	☐	☐	☐
Standards of treatment of foreign affiliates	☐	☐	☐	☐	☐
Policies on functioning and structure of markets (especially competition and M&A policies)	☐	☐	☐	☐	☐
International agreements on FDI	☐	☐	☐	☐	☐
Privatisation policy	☐	☐	☐	☐	☐
Trade policy (tariffs and NTBs) and coherence of FDI and trade policies	☐	☐	☐	☐	☐
Tax policy	☐	☐	☐	☐	☐
Industrial and regional policy	☐	☐	☐	☐	☐
Other (please specify):	☐	☐	☐	☐	☐

10. How important are the following policy frameworks to your continued operation in Ghana?

	Not important (1)	(2)	(3)	(4)	Very important (5)
Economic, political and social stability	☐	☐	☐	☐	☐
Rules regarding entry and operations	☐	☐	☐	☐	☐
Standards of treatment of foreign affiliates	☐	☐	☐	☐	☐
Policies on functioning and structure of markets (especially competition and M&A policies)	☐	☐	☐	☐	☐
International agreements on FDI	☐	☐	☐	☐	☐
Privatisation policy	☐	☐	☐	☐	☐
Trade policy (tariffs and NTBs) and coherence of FDI and trade policies	☐	☐	☐	☐	☐
Tax policy	☐	☐	☐	☐	☐
Industrial and regional policy	☐	☐	☐	☐	☐
Other (please specify):	☐	☐	☐	☐	☐

Section C: Business Facilitation Factors

11. How important were the following business facilitation factors to your decision to invest in Ghana over alternative locations?

	Not important (1)	(2)	(3)	(4)	Very important (5)
Investment promotion schemes including image-building and investment-generating activities and investment-facilitation services	☐	☐	☐	☐	☐
Investment incentives	☐	☐	☐	☐	☐
Reduced 'hassle' costs related to corruption	☐	☐	☐	☐	☐
Bureaucratic inefficiency	☐	☐	☐	☐	☐
Social amenities	☐	☐	☐	☐	☐
Pre-and post-investment services (e.g. one stop shopping)	☐	☐	☐	☐	☐
Protection of property rights	☐	☐	☐	☐	☐
Good infrastructure and support services (banking, legal, accountancy services)	☐	☐	☐	☐	☐
Economic morality	☐	☐	☐	☐	☐
Other (please specify):	☐	☐	☐	☐	☐

12. How important are the following business facilitation factors to your continued operation in Ghana?

	Not important (1)	(2)	(3)	(4)	Very important (5)
Investment promotion schemes including image-building and investment-generating activities and investment-facilitation services	☐	☐	☐	☐	☐
Investment incentives	☐	☐	☐	☐	☐
Reduced 'hassle' costs related to corruption	☐	☐	☐	☐	☐
Bureaucratic inefficiency	☐	☐	☐	☐	☐
Social amenities	☐	☐	☐	☐	☐
Pre- and post-investment services (e.g. one stop shopping)	☐	☐	☐	☐	☐
Protection of property rights	☐	☐	☐	☐	☐
Good infrastructure and support services (banking, legal, accountancy services)	☐	☐	☐	☐	☐
Economic morality	☐	☐	☐	☐	☐
Other (please specify):	☐	☐	☐	☐	☐

13. How important were the following to your decision to invest in Ghana?

	Not important (1)	(2)	(3)	(4)	Very important (5)
Government policies	☐	☐	☐	☐	☐
Government incentives	☐	☐	☐	☐	☐
Business facilitation efficiency	☐	☐	☐	☐	☐

Section C: Economic Factors

14. What were the motivations of your firm investing in Ghana over alternative locations? *(Please tick each factor you consider relevant)*

	Not a factor (1)	A consideration (2)	Secondary motive (3)	Main motive (4)	Only motivation (5)
Availability of natural resources	☐	☐	☐	☐	☐
To access competitively the Ghanaian market	☐	☐	☐	☐	☐
To access Sub-Sahara African markets	☐	☐	☐	☐	☐
Comparatively low cost inputs	☐	☐	☐	☐	☐
Level of qualification/ distinctiveness of skills of the Ghanaian workforce	☐	☐	☐	☐	☐
The existence of a local cluster of firms working on a similar or complementary activity	☐	☐	☐	☐	☐
Investment made by competitors in the Sub-Saharan African region	☐	☐	☐	☐	☐
Stable political environment	☐	☐	☐	☐	☐
Government policies	☐	☐	☐	☐	☐
The incentives provided by government	☐	☐	☐	☐	☐
To defend market share in the SSA market	☐	☐	☐	☐	☐
Cultural similarities (e.g. language, tradition)	☐	☐	☐	☐	☐
Other (please specify):					
1)	☐	☐	☐	☐	☐
2)	☐	☐	☐	☐	☐

Section D: Incentives

15. How important were the following investment incentives to your decision to invest in Ghana over alternative locations?

	Not important (1)	(2)	(3)	(4)	Very important (5)
Tax holidays	☐	☐	☐	☐	☐
Small corporate tax	☐	☐	☐	☐	☐
Import duty concessions and charges	☐	☐	☐	☐	☐
Free repatriation of capital	☐	☐	☐	☐	☐
Free repatriation of profits	☐	☐	☐	☐	☐
Free repatriation of dividends	☐	☐	☐	☐	☐
Waiver of income tax profits and dividend	☐	☐	☐	☐	☐
Capital allowances	☐	☐	☐	☐	☐
Carry forward losses	☐	☐	☐	☐	☐
Insurance against non-commercial risks	☐	☐	☐	☐	☐

Other (please specify):

....

16. How important are the following investment incentives to your continued operation in Ghana over alternative locations?

	Not important (1)	(2)	(3)	(4)	Very important (5)
Tax holidays	☐	☐	☐	☐	☐
Small corporate tax	☐	☐	☐	☐	☐
Import duty concessions and charges	☐	☐	☐	☐	☐
Free repatriation of capital	☐	☐	☐	☐	☐
Free repatriation of profits	☐	☐	☐	☐	☐
Free repatriation of dividends	☐	☐	☐	☐	☐
Waiver of income tax profits and dividend	☐	☐	☐	☐	☐
Capital allowances	☐	☐	☐	☐	☐
Carry forward losses	☐	☐	☐	☐	☐
Insurance against non-commercial risks	☐	☐	☐	☐	☐

Other (please specify):

....

Section E: Investment Treaties

17. Does your firm benefit from the provisions of investment-guaranteed market access offered under the following agreements?

(Circle all that apply)

1. The African Growth and Opportunities Act (AGOA) 1
2. The ACP-EU Cotonou Partnership Agreement. 2
3. The World Trade Organisation Uruguay Round Agreements (WTO)..................... 3
4. The New Partnership for African Development (NEPAD)................................... 4
5. ECOWAS Trade Liberalisation Scheme (ETLS)... 5
6. ECOWAS Protocols and Conventions.. 6
7. Double Taxation Agreements.. 7
8. Bilateral and Multilateral Investment Promotion and Protection Agreements......... 8
9. Other.. 9

In answering questions 18 to 24, use a range of one (1) to five (5), where '1' stands for not important, '2' = less important; '3' = Neither important nor unimportant; '4' = important; and '5' stands for very important. Please tick the box corresponding to the relevant number.

18. How important are the agreements identified in Q16 to your decision to invest in Ghana over alternative locations? *(Tick all that apply)*

	Not important (1)	(2)	(3)	(4)	Very important (5)
The African Growth and Opportunities Act (AGOA)	☐	☐	☐	☐	☐
The ACP-EU Cotonou Partnership Agreement.	☐	☐	☐	☐	☐
The WTO Uruguay Round Agreements	☐	☐	☐	☐	☐
The New Partnership for African Development (NEPAD)	☐	☐	☐	☐	☐
ECOWAS Trade Liberalisation Scheme (ETLS)	☐	☐	☐	☐	☐
ECOWAS Protocols and Conventions	☐	☐	☐	☐	☐
Double Taxation Agreements.	☐	☐	☐	☐	☐
Bilateral and Multilateral Investment Promotion and Protection Agreements	☐	☐	☐	☐	☐
Other (please specify):					

19. How important are the agreements identified in Q16 to your continued operations in Ghana?

(Tick all that apply)

	Not important (1)	(2)	(3)	(4)	Very important (5)
The African Growth and Opportunities Act (AGOA)	☐	☐	☐	☐	☐
The ACP-EU Cotonou Partnership Agreement.	☐	☐	☐	☐	☐
The WTO Uruguay Round Agreements	☐	☐	☐	☐	☐
The New Partnership for African Development (NEPAD)	☐	☐	☐	☐	☐
ECOWAS Trade Liberalisation Scheme (ETLS)	☐	☐	☐	☐	☐
ECOWAS Protocols and Conventions	☐	☐	☐	☐	☐
Double Taxation Agreements.	☐	☐	☐	☐	☐
Bilateral and Multilateral Investment Promotion and Protection Agreements	☐	☐	☐	☐	☐
Other (please specify):					

20. How important are the following trade restrictions to your decision to establish operations in Ghana?

(Tick all that apply)

	Not important (1)	(2)	(3)	(4)	Very important (5)
Tariffs	☐	☐	☐	☐	☐
Quotas	☐	☐	☐	☐	☐
Import licences	☐	☐	☐	☐	☐
Import surcharges	☐	☐	☐	☐	☐
Stamp duties	☐	☐	☐	☐	☐
Other (please specify)					
1)	☐	☐	☐	☐	☐
2)	☐	☐	☐	☐	☐

21. Did you invest in Ghana to defend your market share? ☐ Yes ☐ No

22. If yes, how important were government policies in the following areas in your decision to invest in Ghana?

	Not important (1)	(2)	(3)	(4)	Very important (5)
To competitively defend market share in Ghana	☐	☐	☐	☐	☐
To competitively defend market share in Sub-Saharan Africa	☐	☐	☐	☐	☐
To competitively defend market share in Africa	☐	☐	☐	☐	☐

23. Please rank the degree of satisfaction of the following aspects of the company's <u>current operation</u> in Ghana:

	Very dissatisfied (1)	Dissatisfied (2)	Neither satisfied nor dissatisfied (3)	Satisfied (4)	Very satisfied (5)
Market access	☐	☐	☐	☐	☐
Labour costs	☐	☐	☐	☐	☐
Financial cost (e.g. bank interest rates)	☐	☐	☐	☐	☐
Taxes and charges	☐	☐	☐	☐	☐
Utility services cost	☐	☐	☐	☐	☐
Telecommunication services	☐	☐	☐	☐	☐
Utilities services supply	☐	☐	☐	☐	☐
Infrastructure (i.e. transportation networks)	☐	☐	☐	☐	☐
Port services	☐	☐	☐	☐	☐
Performance of employees	☐	☐	☐	☐	☐
Subsidies from Government	☐	☐	☐	☐	☐
Labour regulations	☐	☐	☐	☐	☐
Foreign investment regulations	☐	☐	☐	☐	☐
Bank loan regulations	☐	☐	☐	☐	☐
Predictability of laws and policies	☐	☐	☐	☐	☐
Complexity of policies, laws and regulations	☐	☐	☐	☐	☐
Price regulations	☐	☐	☐	☐	☐
Forex regulations	☐	☐	☐	☐	☐
Others – please specify					
1)	☐	☐	☐	☐	☐
2)	☐	☐	☐	☐	☐

24. What is likely to be the plan for your operation in Ghana in the next 3-5 years?

	Very unlikely	Unlikely	Neither likely nor unlikely	Likely	Very likely	Don't know
Expansion	☐	☐	☐	☐	☐	☐
Downsize	☐	☐	☐	☐	☐	☐
Relocate to new location	☐	☐	☐	☐	☐	☐
Terminate operation in Ghana without relocation	☐	☐	☐	☐	☐	☐

25. If your company was to relocate in the future, which are likely to be the new location(s)?

☐ Other Sub-Saharan African countries ☐ Eastern Europe ☐ Middle East

☐ Western Europe

☐ Asia ☐ South America ☐ North & Central America ☐

Australia

☐ Others, please specify: ______________________

26. If your company was to relocate, what are reasons likely to be for your departure from Ghana in the future?

(Tick as many as apply)

	Very likel y (1)	Likely (2)	Neither likely nor unlikely (5)	Unlikely (6)	Very unlikel y (7)
Government policies	☐	☐	☐	☐	☐
Insufficiency in subsidies available from Government	☐	☐	☐	☐	☐
Government bureaucracy	☐	☐	☐	☐	☐
Corruption	☐	☐	☐	☐	☐
Taxes, duties, charges	☐	☐	☐	☐	☐
Current labour costs	☐	☐	☐	☐	☐
Other (non-labour) production costs	☐	☐	☐	☐	☐
Insufficient market	☐	☐	☐	☐	☐
Market demand/saturation for your products/or services	☐	☐	☐	☐	☐
Insufficient network to suppliers	☐	☐	☐	☐	☐
Lack of skilled workers	☐	☐	☐	☐	☐
Insufficient infrastructure	☐	☐	☐	☐	☐
Lack of new technology and Research & Development	☐	☐	☐	☐	☐
Other (please specify): 1)	☐	☐	☐	☐	☐
2)	☐	☐	☐	☐	☐

We welcome any further comments you may have regarding this avenue of study **(please continue on a separate sheet if required):**

- **Would you wish to expand on any issue that you consider important to your continuing operation in Ghana?**

- **What problems or concerns would you like the Government to address?**

- **Are there any other issues you would like to raise?**

- **We would like to follow up this questionnaire with a short interview. If you would be happy to grant us a short interview, please provide a contact name and company address**

Contact name:	....
Company address:	....
	....
	....
	....
	....

The information you provide will be treated in strict confidence.

Researcher:
Mr Richard B. Nyuur

Research Topic:
Attracting Foreign Direct Investment in Ghana

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APPENDIX 3

The Interview Questionnaire administered to foreign firms used for the case study.

1. Where did your company first learn about this country as a potential location for investment?

2. What are the main reasons for your investment in this country?

3. What factors did you consider before investing in this country?

4. How important were government policies in your firm's decision to invest in this country?

5. Which policies played an important role in your decision (1) to invest in the country? and (2) your ongoing operation in this country?

6. Do you benefit from any of the preferential trading agreements that the country enjoys with the US, EU, Asia and other African countries?
   - If so, how important are these preferential trading agreements to your company's continued operation in this country?

7. What elements of the investment incentive package offered by the government are attractive to your company?

8. Have you used the services of the institutions responsible for promoting inward foreign investment in this country? Were you satisfied with the services provided by these institutions?

9. Is the quality of the country's industrial infrastructure satisfactory to your company's needs? If no, in what areas do you believe the services to be unsatisfactory?

10. What are the unique advantages that this country possesses over all other competing locations?

11. How do your operations in this country assist with enhancing and maintaining the international competitiveness of your company?

12. What is the future of your company in this country and the African region?

APPENDIX 4

The Minister/ Chief Executive Officer

Dear Sir,

Re: Research information

I am writing to you to seek your consent in gathering data within your ministry. I am currently a registered PhD student at Swansea University (University of Wales, Swansea) in the UK. I am writing a thesis on: "**Attracting and Retaining Foreign Direct Investment: A Critical Assessment of Government Policies in Ghana".** The research seeks to examine government policies in promoting FDI – (inward investment) in Ghana. In order to fulfil the research objectives, government agencies working with foreign firms in the various sectors, as well as foreign companies based in Ghana have been chosen as the empirical focus of the study. I am currently at the fieldwork stage of my studies and am collecting data/information to write up my thesis.

I would, therefore, be very grateful, if you could please direct one of your assistants to provide me with information on the questions attached to this letter. In line with the social science research ethics, the information provided will be used only for the purpose of this research and, in addition, will ensure the anonymity of sources and organisations participating in the study.

If you require further information or clarification, please do not hesitate to contact me or my supervisor - Professor Yaw A. Debrah.

I count very much on your kind consideration

Yours sincerely,

Mr Richard B. Nyuur (BSc., MSc., MRes)

PhD Researcher

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APPENDIX 5

Interview Questionnaire for Policymakers in Ghana

1. Which countries do firms investing in the energy sector in Ghana come from?

2. What type of FDI in the energy sector mostly interests foreign investors? ---Greenfield, Joint Ventures (JV), Acquisition, etc?

3. What government policies are positively impacting the inflow of FDI into the energy sector in this country?

4. What policies do you think are negatively affecting the flow of FDI into the energy sector in the country?

5. What incentives does government give to foreign investors in the energy sector?

6. Are foreign investors mostly interested in investing by themselves or in partnership with Ghanaians?

7. What are the main reasons for foreign investors approaching government institutions?

8. Do their investment plans target only the Ghanaian market, Sub-Saharan African market or other markets?

9. What is the opinion of foreign investors on the incentives provided by the government?

10. How effective do you think are the government institutions in promoting the flow of FDI into the country?

11. What are the unique advantages that this country possesses over all the other competing locations (including Sub-Saharan Africa in general and the West African subregion in particular)?

12. Can you also kindly provide the list of all foreign companies registered under your agency with their nationalities, year of establishment in Ghana, number of employees, initial capital invested in Ghana and whether it is a joint venture or a Greenfield investment?

Name of Company	Nationality	Freehold or Joint Venture	Year of establishment in Ghana	Number of employees	Initial Investment sum	Comment

APPENDIX 6

A. Government Institutions where Officials were interviewed

Government Institutions	Number of Respondents
The Ghana Ministry of Trade and Industry	2
The Ghana Investment Promotion Centre (GIPC)	1
The Ghana Registrar General Department	1
The Ghana Minerals Commission	1
The Ghana Free Zones Board	1
The Ghana Chamber of Mines	1
The Ghana Standard Board	1
The Ghana National Development Planning Centre	1
Total	9

B. Profile of Nine foreign companies where Directors were interviewed

Code	Home country	Year of entry	Mode of entry	No. of Staff	Main functions
A	South Africa	2004	JV	7200	Gold exploration, mining, processing and export
B	Netherlands	2002	Acquisition	21	Cocoa processing and warehousing
C	France	2007	Greenfields	65	Oilfields exploration and services company
D	France	2007	Greenfields	76	Shipping company
E	India	2003	Greenfields	200	Garment manufacturing company
F	Lebanon	1955	Greenfields	20	Shoe manufacturing company
G	Lebanon	1999	Greenfields	34	Plastic furniture manufacturing company
H	Netherlands	1991	JV	284	Hospitality company
I	American	2007	Greenfields	120	Business outsourcing company

APPENDIX 7

Table A1: Cronbach's Alpha Reliability Coefficients

Factors	Reliability (Cronbach's Alpha)
Government policies attracting FDI into Ghana	**0.79**
Government policies retaining FDI in Ghana	**0.83**
Business facilitation factors attracting FDI into Ghana	**0.82**
Business facilitation factors retaining FDI in Ghana	**0.88**
Motivations for investing in Ghana (Economic factors)	**0.77**
Importance of Incentives for investing in Ghana	**0.92**
Importance of Incentives for Staying in Ghana	**0.92**
Importance of Investment agreements for investing in Ghana	**0.88**
Importance of Investment agreements for staying in Ghana	**0.88**
Importance of trade restrictions for investing in Ghana	**0.90**
Government policies in defending market share	**0.80**
Degree of satisfaction with operation in Ghana	**0.75**
Reasons for possible relocations from Ghana	**0.91**

Table A2: Item-to-total correlation in policies attracting FDI

Variables	Factors	Number of Items	Item-Total Correlation (1)	(2)	(3)	(4)	(5)	(6)	(7)
Economic Factors	Market	4	.81	.84	.79	.68			
	Policies	3	.77	.87	.79				
	Resource	3	.77	.64	.57				
	Asset	2	.75	.71					
Government Policies	Trade	4	.64	.83	.86	.69			
	Internal	3	.83	.89	.68				
	Tax	2	.78	.90					
Business Facilitation Factors	Environment	7	.73	.71	.66	.61	.65	.80	.80
	Incentives	2	.91	.91					
Duties and Charges	Duties & Charges	5	.81	.86	.80	.89	.92		
Investment Incentives	Tax	7	.76	.77	.70	.81	.86	.85	.76
	Repatriation	3	.90	.97	.93				
International Investment Agreement	Global	3	.88	.92	.88				
	Protection	2	.97	.97					
	Regional	3	.77	.96	.96				

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

Table A3: Item-to-total correlation in policies retaining FDI

Variables	Factors	Number of Items	Item-Total Correlation (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Government Policies	Internal	5	.74	.67	.79	.73	.72					
	Tax and Trade	4	.53	.83	.82	.82						
Business Facilitation Factors	Environment	6	.87	.77	.69	.71	.82	.85				
	Incentives	3	.78	.87	.85							
Investment Incentives	Incentives	10	.75	.58	.54	.81	.87	.89	.86	.88	.68	.76
International Investment Agreement	Regional	3	.78	.98	.98							
	Protection	2	.93	.94								
	Global	3	.89	.90	.83							
Satisfaction factors	Policies	6	.63	.66	.71	.73	.71	.76				
	Costs	2	.83	.85								
	Services	4	.82	.80	.72	.64						
	Subsidies	3	.80	.59	.60							
	Economic	3	.67	.67	.68							
Possible Relocation Factors	Policy	5	.79	.71	.87	.83	.73					
	Market	3	.82	.86	.85							
	Efficiency	5	.73	.78	.77	.89	.87					

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

APPENDIX 8

Table A4: Eta Squared: Independent Sample T-tests

Basis	Attracting Retaining	Policy Factor	Eta Squared = $t^2 / t^2 (N1+N2-2)$
Length of Stay in Ghana	*Attracting FDI*	Privatisation Policy Trade Policy Industrial and Regional Policy	**0.0114** **0.0112** **0.0112**
	Retaining FDI	Policies on functioning and structure of markets Privatisation Policy Trade Policy Industrial and Regional Policy	**0.0114** **0.0114** **0.0114** **0.0114**
Sectors of operation	*Attracting FDI*	Privatisation Policy Trade Policy	**0.0114** **0.0112**
	Retaining FDI	Privatisation Policy Trade Policy Industrial and Regional Policy	**0.0114** **0.0114** **0.0114**
Markets	*Attracting FDI*	Tax Policy	**0.0112**

APPENDIX 9

Table A5: ANOVA of policies attracting FDI from different regions

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.413	3	.138	.294	.829
Within Groups	39.733	85	.467		
Total	40.146	88			

Table A6: Descriptives of FDI policies

					95% Confidence Interval for Mean			
	N	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Minimum	Maximum
America	16	3.8958	.62125	.15531	3.5648	4.2269	3.00	4.89
Europe	33	3.8519	.79138	.13776	3.5712	4.1325	2.22	5.00
Asia	27	3.9712	.64317	.12378	3.7168	4.2256	2.78	5.00
Africa	13	3.7692	.51212	.14204	3.4598	4.0787	2.44	4.44
Total	89	3.8839	.67543	.07160	3.7416	4.0262	2.22	5.00

Table A7: Post-hoc Test of Multiple Comparisons using Tukey HSD

					95% Confidence Interval	
(I) Region of Origin	(J) Region of Origin	Mean Difference (I-J)	Std. Error	Sig.	Lower Bound	Upper Bound
America	Europe	.04398	.20828	.997	-.5018	.5898
	Asia	-.07536	.21570	.985	-.6406	.4899
	Africa	.12660	.25529	.960	-.5424	.7956
Europe	America	-.04398	.20828	.997	-.5898	.5018
	Asia	-.11934	.17742	.907	-.5843	.3456
	Africa	.08262	.22388	.983	-.5041	.6693
Asia	America	.07536	.21570	.985	-.4899	.6406
	Europe	.11934	.17742	.907	-.3456	.5843
	Africa	.20196	.23080	.818	-.4029	.8068
Africa	America	-.12660	.25529	.960	-.7956	.5424
	Europe	-.08262	.22388	.983	-.6693	.5041
	Asia	-.20196	.23080	.818	-.8068	.4029

*. The mean difference is significant at the 0.05 level.

Table A8: ANOVA of individual policies attracting FDI from different regions.

		Sum of Squares	df	Mean Square	F	Sig.
Economic, Political and Social Stability (Decision)	Between Groups	1.016	3	.339	.624	.602
	Within Groups	47.269	87	.543		
	Total	48.286	90			
Rules Regarding Entry and Operations (Decision)	Between Groups	.860	3	.287	.396	.756
	Within Groups	62.964	87	.724		
	Total	63.824	90			
Standard of treatment of foreign affiliates (Decision)	Between Groups	4.867	3	1.622	1.699	.173
	Within Groups	82.122	86	.955		
	Total	86.989	89			
Policies on functioning and Structure of Markets (Decision)	Between Groups	.710	3	.237	.156	.925
	Within Groups	130.190	86	1.514		
	Total	130.900	89			
International agreement on FDI (Decision)	Between Groups	3.835	3	1.278	.821	.486
	Within Groups	135.462	87	1.557		
	Total	139.297	90			
Privatisation Policy (Decision)	Between Groups	.828	3	.276	.159	.924
	Within Groups	149.628	86	1.740		
	Total	150.456	89			
Trade Policy (Decision)	Between Groups	3.938	3	1.313	.922	.434
	Within Groups	123.821	87	1.423		
	Total	127.758	90			
Tax Policy (Decision)	Between Groups	6.762	3	2.254	2.566	.060
	Within Groups	76.425	87	.878		
	Total	83.187	90			
Industrial and regional policy (Decision)	Between Groups	5.424	3	1.808	1.238	.301
	Within Groups	127.103	87	1.461		
	Total	132.527	90			

Table A9: ANOVA of policies retaining FDI from different regions

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.765	3	.255	.539	.657
Within Groups	40.669	86	.473		
Total	41.433	89			

Table A10: Descriptives of policies importance in retaining FDI from different regions.

					95% Confidence Interval for Mean			
	N	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Minimum	Maximum
America	16	4.0972	.61781	.15445	3.7680	4.4264	3.00	5.00
Europe	33	3.9529	.76277	.13278	3.6824	4.2233	2.56	5.00
Asia	28	4.0159	.71608	.13533	3.7382	4.2935	2.44	5.00
Africa	13	3.7863	.45465	.12610	3.5116	4.0611	2.56	4.44
Total	90	3.9741	.68231	.07192	3.8312	4.1170	2.44	5.00

Table A11: Post-hoc Comparisons

					95% Confidence Interval	
(I) Region of Origin	(J) Region of Origin	Mean Difference (I-J)	Std. Error	Sig.	Lower Bound	Upper Bound
America	Europe	.14436	.20949	.901	-.4045	.6932
	Asia	.08135	.21551	.982	-.4833	.6460
	Africa	.31090	.25677	.622	-.3618	.9836
Europe	America	-.14436	.20949	.901	-.6932	.4045
	Asia	-.06301	.17669	.984	-.5259	.3999
	Africa	.16654	.22518	.881	-.4234	.7565
Asia	America	-.08135	.21551	.982	-.6460	.4833
	Europe	.06301	.17669	.984	-.3999	.5259
	Africa	.22955	.23079	.753	-.3751	.8342
Africa	America	-.31090	.25677	.622	-.9836	.3618
	Europe	-.16654	.22518	.881	-.7565	.4234
	Asia	-.22955	.23079	.753	-.8342	.3751

*. The mean difference is significant at the 0.05 level.

Table A12: ANOVA of individual policies retaining FDI from different regions

		Sum of Squares	df	Mean Square	F	Sig.
Economic, Political and Social Stability	Between Groups	.152	3	.051	.163	.921
	Within Groups	26.748	86	.311		
	Total	26.900	89			
Rules Regarding Entry and Operations	Between Groups	1.186	3	.395	.543	.654
	Within Groups	62.603	86	.728		
	Total	63.789	89			
Standard of treatment of foreign affiliates	Between Groups	3.012	3	1.004	.927	.431
	Within Groups	93.088	86	1.082		
	Total	96.100	89			
Policies on functioning and Structure of Markets	Between Groups	.210	3	.070	.052	.984
	Within Groups	116.112	86	1.350		
	Total	116.322	89			
International agreement on FDI	Between Groups	1.497	3	.499	.399	.754
	Within Groups	107.625	86	1.251		
	Total	109.122	89			
Privatisation Policy	Between Groups	4.717	3	1.572	.858	.466
	Within Groups	157.605	86	1.833		
	Total	162.322	89			
Trade Policy	Between Groups	.249	3	.083	.068	.977
	Within Groups	105.574	86	1.228		
	Total	105.822	89			
Tax Policy	Between Groups	9.989	3	3.330	3.383	.022
	Within Groups	84.633	86	.984		
	Total	94.622	89			
Industrial and regional policy	Between Groups	5.941	3	1.980	1.589	.198
	Within Groups	107.181	86	1.246		
	Total	113.122	89			

Table A13: Post-hoc Comparisons of firms from different regions on tax policy

Dependent Variable	(I) Region of Origin	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	95% Confidence Interval Upper Bound
Tax Policy (Continuation)	America	.227	.302	.876	-.56	1.02
		.071	.311	.996	-.74	.89
		1.038*	.370	.031	.07	2.01
	Europe	-.227	.302	.876	-1.02	.56
		-.156	.255	.928	-.82	.51
		.811	.325	.067	-.04	1.66
	Asia	-.071	.311	.996	-.89	.74
		.156	.255	.928	-.51	.82
		.967*	.333	.024	.09	1.84
	Africa	**-1.038***	.370	.031	-2.01	-.07
		-.811	.325	.067	-1.66	.04
		-.967*	.333	.024	-1.84	-.09

*. The mean difference is significant at the 0.05 level.

Table A14: ANOVA of policies attracting FDI based on Mode of Entry

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.034	2	.517	1.136	.326
Within Groups	39.112	86	.455		
Total	40.146	88			

Table A15: Descriptives of policies attracting FDI based on the Mode of Entry

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Greenfield	53	3.8176	.66241	.09099	3.6350	4.0002	2.22	5.00
Joint Venture	25	3.9067	.73890	.14778	3.6017	4.2117	2.44	5.00
Acquisition of a local firm	11	4.1515	.56497	.17035	3.7720	4.5311	3.22	5.00
Total	89	3.8839	.67543	.07160	3.7416	4.0262	2.22	5.00

Table A16: Post-hoc Multiple Comparisons of policies on Mode of Entry

(I) Mode of Entry	(J) Mode of Entry	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Greenfield	Joint Venture	-.08906	.16362	.850	-.4793	.3012
	Acquisition of a local firm	-.33391	.22344	.299	-.8668	.1990
Joint Venture	Greenfield	.08906	.16362	.850	-.3012	.4793
	Acquisition of a local firm	-.24485	.24400	.577	-.8268	.3371
Acquisition of a local firm	Greenfield	.33391	.22344	.299	-.1990	.8668
	Joint Venture	.24485	.24400	.577	-.3371	.8268

*. The mean difference is significant at the 0.05 level.

Table A17: ANOVA of individual policies attracting FDI based on the mode of entry

		Sum of Squares	df	Mean Square	F	Sig.
Economic, Political and Social Stability (Decision)	Between Groups	.445	2	.223	.410	.665
	Within Groups	47.840	88	.544		
	Total	48.286	90			
Rules Regarding Entry and Operations (Decision)	Between Groups	1.725	2	.863	1.222	.299
	Within Groups	62.099	88	.706		
	Total	63.824	90			
Standard of treatment of foreign affiliates (Decision)	Between Groups	.676	2	.338	.341	.712
	Within Groups	86.313	87	.992		
	Total	86.989	89			
Policies on functioning and Structure of Markets (Decision)	Between Groups	2.661	2	1.331	.903	.409
	Within Groups	128.239	87	1.474		
	Total	130.900	89			
International agreement on FDI (Decision)	Between Groups	3.093	2	1.546	.999	.372
	Within Groups	136.204	88	1.548		
	Total	139.297	90			
Privatisation Policy (Decision)	Between Groups	5.416	2	2.708	1.624	.203
	Within Groups	145.040	87	1.667		
	Total	150.456	89			
Trade Policy (Decision)	Between Groups	2.135	2	1.067	.748	.476
	Within Groups	125.624	88	1.428		
	Total	127.758	90			
Tax Policy (Decision)	Between Groups	.253	2	.126	.134	.875
	Within Groups	82.934	88	.942		
	Total	83.187	90			
Industrial and regional policy (Decision)	Between Groups	3.442	2	1.721	1.173	.314
	Within Groups	129.085	88	1.467		
	Total	132.527	90			

Table A18: ANOVA of policies retaining FDI based on Mode of Entry

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.595	2	.297	.633	.533
Within Groups	40.839	87	.469		
Total	41.433	89			

Table A19: Descriptives of FDI policies retaining investors based on the Mode of Entry

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Greenfield	53	3.9434	.66081	.09077	3.7613	4.1255	2.44	5.00
Joint Venture	26	3.9444	.75637	.14834	3.6389	4.2499	2.56	5.00
Acquisition of a local firm	11	4.1919	.61882	.18658	3.7762	4.6076	3.33	5.00
Total	90	3.9741	.68231	.07192	3.8312	4.1170	2.44	5.00

Table A20: Post-hoc Multiple Comparisons of FDI policies based on Entry Mode

(I) Mode of Entry	(J) Mode of Entry	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Greenfield	Joint Venture	-.00105	.16405	1.000	-.3922	.3901
	Acquisition of a local firm	-.24852	.22700	.520	-.7898	.2928
Joint Venture	Greenfield	.00105	.16405	1.000	-.3901	.3922
	Acquisition of a local firm	-.24747	.24643	.576	-.8351	.3401
Acquisition of a local firm	Greenfield	.24852	.22700	.520	-.2928	.7898
	Joint Venture	.24747	.24643	.576	-.3401	.8351

*. The mean difference is significant at the 0.05 level.

Table A21: ANOVA of individual policies retaining FDI based on the mode of entry

		Sum of Squares	df	Mean Square	F	Sig.
Economic, Political and Social Stability (Continuation)	Between Groups	.991	2	.495	1.663	.195
	Within Groups	25.909	87	.298		
	Total	26.900	89			
Rules Regarding Entry and Operations (Continuation)	Between Groups	3.298	2	1.649	2.372	.099
	Within Groups	60.491	87	.695		
	Total	63.789	89			
Standard of treatment of foreign affiliates (Continuation)	Between Groups	.895	2	.447	.409	.666
	Within Groups	95.205	87	1.094		
	Total	96.100	89			
Policies on functioning and Structure of Markets (Continuation)	Between Groups	.346	2	.173	.130	.879
	Within Groups	115.976	87	1.333		
	Total	116.322	89			
International agreement on FDI (Continuation)	Between Groups	3.703	2	1.851	1.528	.223
	Within Groups	105.419	87	1.212		
	Total	109.122	89			
Privatisation Policy (Continuation)	Between Groups	2.240	2	1.120	.609	.546
	Within Groups	160.082	87	1.840		
	Total	162.322	89			
Trade Policy (Continuation)	Between Groups	1.396	2	.698	.581	.561
	Within Groups	104.426	87	1.200		
	Total	105.822	89			
Tax Policy (Continuation)	Between Groups	3.915	2	1.958	1.877	.159
	Within Groups	90.707	87	1.043		
	Total	94.622	89			
Industrial and regional policy (Continuation)	Between Groups	2.376	2	1.188	.933	.397
	Within Groups	110.747	87	1.273		
	Total	113.122	89			

Table A22: ANOVA of policies attracting FDI based on Motives of firms

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.230	3	1.077	2.479	.067
Within Groups	36.916	85	.434		
Total	40.146	88			

Table A23: Descriptives of FDI policies attracting investors based on the Motives of firms

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Market Seeking	57	3.9903	.67563	.08949	3.8110	4.1695	2.44	5.00
Natural Resources Seeking	13	3.9487	.49403	.13702	3.6502	4.2473	3.22	5.00
Efficiency Seeking	16	3.5347	.74835	.18709	3.1360	3.9335	2.22	5.00
Asset Seeking	3	3.4444	.11111	.06415	3.1684	3.7205	3.33	3.56
Total	89	3.8839	.67543	.07160	3.7416	4.0262	2.22	5.00

Table A24 : Post-hoc Multiple Comparisons of FDI policies based on the Motives of firms

(I) Main motive of Investing in Ghana	(J) Main motive of Investing in Ghana	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Market Seeking	Natural Resources Seeking	.04154	.20255	.997	-.4893	.5723
	Efficiency Seeking	.45553	.18645	.077	-.0331	.9441
	Asset Seeking	.54581	.39037	.504	-.4772	1.5688
Natural Resources Seeking	Market Seeking	-.04154	.20255	.997	-.5723	.4893
	Efficiency Seeking	.41400	.24608	.339	-.2309	1.0589
	Asset Seeking	.50427	.42211	.632	-.6019	1.6105
Efficiency Seeking	Market Seeking	-.45553	.18645	.077	-.9441	.0331
	Natural Resources Seeking	-.41400	.24608	.339	-1.0589	.2309
	Asset Seeking	.09028	.41463	.996	-.9963	1.1768
Asset Seeking	Market Seeking	-.54581	.39037	.504	-1.5688	.4772
	Natural Resources Seeking	-.50427	.42211	.632	-1.6105	.6019
	Efficiency Seeking	-.09028	.41463	.996	-1.1768	.9963

*. The mean difference is significant at the 0.05 level.

Table A25: ANOVA of individual policies attracting FDI based on firms' motives

		Sum of Squares	df	Mean Square	F	Sig.
Economic, Political and Social Stability (Decision)	Between Groups	1.387	3	.462	.858	.466
	Within Groups	46.899	87	.539		
	Total	48.286	90			
Rules Regarding Entry and Operations (Decision)	Between Groups	1.535	3	.512	.715	.546
	Within Groups	62.289	87	.716		
	Total	63.824	90			
Standard of treatment of foreign affiliates (Decision)	Between Groups	4.396	3	1.465	1.526	.214
	Within Groups	82.593	86	.960		
	Total	86.989	89			
Policies on functioning and Structure of Markets (Decision)	Between Groups	12.590	3	4.197	3.051	.033
	Within Groups	118.310	86	1.376		
	Total	130.900	89			
International agreement on FDI (Decision)	Between Groups	4.328	3	1.443	.930	.430
	Within Groups	134.969	87	1.551		
	Total	139.297	90			
Privatisation Policy (Decision)	Between Groups	27.933	3	9.311	6.535	.000
	Within Groups	122.523	86	1.425		
	Total	150.456	89			
Trade Policy (Decision)	Between Groups	6.129	3	2.043	1.461	.231
	Within Groups	121.629	87	1.398		
	Total	127.758	90			
Tax Policy (Decision)	Between Groups	10.704	3	3.568	4.283	.007
	Within Groups	72.482	87	.833		
	Total	83.187	90			
Industrial and regional policy (Decision)	Between Groups	5.903	3	1.968	1.352	.263
	Within Groups	126.625	87	1.455		
	Total	132.527	90			

Table A26: Descriptives of individual policies attracting FDI based on firms' motives

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean Lower Bound	95% Confidence Interval for Mean Upper Bound	Minimum	Maximum
Policies on functioning and Structure of Markets (Decision)	Market Seeking	58	3.84	1.056	.139	3.57	4.12	1	5
	Natural Resources Seeking	13	3.31	1.032	.286	2.68	3.93	2	5
	Efficiency Seeking	16	3.44	1.672	.418	2.55	4.33	1	5
	Asset Seeking	3	2.00	.000	.000	2.00	2.00	2	2
	Total	90	3.63	1.213	.128	3.38	3.89	1	5
Privatisation Policy (Decision)	Market Seeking	58	3.69	1.245	.164	3.36	4.02	1	5
	Natural Resources Seeking	13	4.15	.555	.154	3.82	4.49	3	5
	Efficiency Seeking	16	2.38	1.408	.352	1.62	3.13	1	5
	Asset Seeking	3	3.67	.577	.333	2.23	5.10	3	4
	Total	90	3.52	1.300	.137	3.25	3.79	1	5
Tax Policy (Decision)	Market Seeking	59	4.41	.833	.108	4.19	4.62	1	5
	Natural Resources Seeking	13	4.23	.832	.231	3.73	4.73	3	5
	Efficiency Seeking	16	3.56	1.263	.316	2.89	4.24	1	5
	Asset Seeking	3	5.00	.000	.000	5.00	5.00	5	5
	Total	91	4.25	.961	.101	4.05	4.45	1	5

Table A27: Post-hoc comparisons of individual policies attracting FDI based on firms' motives

Dependent Variable	(I) Main motive of Investing in Ghana	(J) Main motive of Investing in Ghana	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	95% Confidence Interval Upper Bound
Policies on functioning and Structure of Markets (Decision)	Market Seeking	Natural Resources Seeking	.537	.360	.447	-.41	1.48
		Efficiency Seeking	.407	.331	.610	-.46	1.28
		Asset Seeking	1.845*	.694	.046	.03	3.66
	Natural Resources Seeking	Market Seeking	-.537	.360	.447	-1.48	.41
		Efficiency Seeking	-.130	.438	.991	-1.28	1.02
		Asset Seeking	1.308	.751	.309	-.66	3.28
	Efficiency Seeking	Market Seeking	-.407	.331	.610	-1.28	.46
		Natural Resources Seeking	.130	.438	.991	-1.02	1.28
		Asset Seeking	1.438	.738	.216	-.50	3.37
	Asset Seeking	Market Seeking	-1.845*	.694	.046	-3.66	-.03
		Natural Resources Seeking	-1.308	.751	.309	-3.28	.66
		Efficiency Seeking	-1.438	.738	.216	-3.37	.50
Privatization Policy (Decision)	Market Seeking	Natural Resources Seeking	-.464	.366	.586	-1.42	.50
		Efficiency Seeking	1.315*	.337	.001	.43	2.20
		Asset Seeking	.023	.707	1.000	-1.83	1.87
	Natural Resources Seeking	Market Seeking	.464	.366	.586	-.50	1.42
		Efficiency Seeking	1.779*	.446	.001	.61	2.95
		Asset Seeking	.487	.765	.920	-1.52	2.49
	Efficiency Seeking	Market Seeking	-1.315*	.337	.001	-2.20	-.43
		Natural Resources Seeking	-1.779*	.446	.001	-2.95	-.61
		Asset Seeking	-1.292	.751	.320	-3.26	.68
	Asset Seeking	Market Seeking	-.023	.707	1.000	-1.87	1.83
		Natural Resources Seeking	-.487	.765	.920	-2.49	1.52
		Efficiency Seeking	1.292	.751	.320	-.68	3.26
Tax Policy (Decision)	Market Seeking	Natural Resources Seeking	.176	.280	.922	-.56	.91
		Efficiency Seeking	.844*	.257	.008	.17	1.52
		Asset Seeking	-.593	.540	.692	-2.01	.82
	Natural Resources Seeking	Market Seeking	-.176	.280	.922	-.91	.56
		Efficiency Seeking	.668	.341	.211	-.22	1.56
		Asset Seeking	-.769	.585	.555	-2.30	.76
	Efficiency Seeking	Market Seeking	-.844*	.257	.008	-1.52	-.17
		Natural Resources Seeking	-.668	.341	.211	-1.56	.22
		Asset Seeking	-1.438	.574	.066	-2.94	.07
	Asset Seeking	Market Seeking	.593	.540	.692	-.82	2.01
		Natural Resources Seeking	.769	.585	.555	-.76	2.30
		Efficiency Seeking	1.438	.574	.066	-.07	2.94

*. The mean difference is significant at the 0.05 level.

Table A28: ANOVA of policies retaining FDI based on Motives of firms

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.465	3	1.488	3.462	.020
Within Groups	36.968	86	.430		
Total	41.433	89			

Table A29: Descriptives of FDI policies in retaining investors based on the Motives of firms

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean Lower Bound	95% Confidence Interval for Mean Upper Bound	Minimum	Maximum
Market Seeking	58	4.0939	.65974	.08663	3.9204	4.2673	2.44	5.00
Natural Resources Seeking	13	4.0684	.58538	.16236	3.7146	4.4221	2.78	5.00
Efficiency Seeking	16	3.5417	.73128	.18282	3.1520	3.9313	2.56	4.89
Asset Seeking	3	3.5556	.11111	.06415	3.2795	3.8316	3.44	3.67
Total	90	3.9741	.68231	.07192	3.8312	4.1170	2.44	5.00

Table A30: Post-hoc Multiple Comparisons of FDI policies retaining FDI based on Motives of firms.

(I) Main motive of Investing in Ghana	(J) Main motive of Investing in Ghana	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	95% Confidence Interval Upper Bound
Market Seeking	Natural Resources Seeking	.02549	.20119	.999	-.5016	.5526
	Efficiency Seeking	.55220*	.18514	.019	.0671	1.0373
	Asset Seeking	.53831	.38820	.511	-.4788	1.5554
Natural Resources Seeking	Market Seeking	-.02549	.20119	.999	-.5526	.5016
	Efficiency Seeking	.52671	.24481	.145	-.1147	1.1681
	Asset Seeking	.51282	.41995	.615	-.5874	1.6131
Efficiency Seeking	Market Seeking	-.55220*	.18514	.019	-1.0373	-.0671
	Natural Resources Seeking	-.52671	.24481	.145	-1.1681	.1147
	Asset Seeking	-.01389	.41250	1.000	-1.0946	1.0668
Asset Seeking	Market Seeking	-.53831	.38820	.511	-1.5554	.4788
	Natural Resources Seeking	-.51282	.41995	.615	-1.6131	.5874
	Efficiency Seeking	.01389	.41250	1.000	-1.0668	1.0946

*. The mean difference is significant at the 0.05 level.

Table A31: ANOVA of individual policies retaining FDI based on firms' motives

		Sum of Squares	df	Mean Square	F	Sig.
Economic, Political and Social Stability (Continuation)	Between Groups	1.133	3	.378	1.260	.293
	Within Groups	25.767	86	.300		
	Total	26.900	89			
Rules Regarding Entry and Operations (Continuation)	Between Groups	.835	3	.278	.380	.768
	Within Groups	62.954	86	.732		
	Total	63.789	89			
Standard of treatment of foreign affiliates (Continuation)	Between Groups	5.884	3	1.961	1.870	.141
	Within Groups	90.216	86	1.049		
	Total	96.100	89			
Policies on functioning and Structure of Markets (Continuation)	Between Groups	9.283	3	3.094	2.486	.066
	Within Groups	107.039	86	1.245		
	Total	116.322	89			
International agreement on FDI (Continuation)	Between Groups	5.096	3	1.699	1.404	.247
	Within Groups	104.026	86	1.210		
	Total	109.122	89			
Privatisation Policy (Continuation)	Between Groups	30.132	3	10.044	6.534	.000
	Within Groups	132.190	86	1.537		
	Total	162.322	89			
Trade Policy (Continuation)	Between Groups	7.008	3	2.336	2.033	.115
	Within Groups	98.814	86	1.149		
	Total	105.822	89			
Tax Policy (Continuation)	Between Groups	11.890	3	3.963	4.120	.009
	Within Groups	82.732	86	.962		
	Total	94.622	89			
Industrial and regional policy (Continuation)	Between Groups	11.755	3	3.918	3.324	.023
	Within Groups	101.367	86	1.179		
	Total	113.122	89			

Table A32: Descriptives of individual policies retaining FDI based on firms' motives

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Min	Max
						Lower Bound	Upper Bound		
Privatisation Policy (Continuation)	Market Seeking	58	3.78	1.229	.161	3.45	4.10	1	5
	Natural Resources Seeking	13	4.00	1.155	.320	3.30	4.70	1	5
	Efficiency Seeking	16	2.31	1.401	.350	1.57	3.06	1	5
	Asset Seeking	3	3.67	.577	.333	2.23	5.10	3	4
	Total	90	3.54	1.350	.142	3.26	3.83	1	5
Tax Policy (Continuation)	Market Seeking	58	4.38	.933	.123	4.13	4.62	1	5
	Natural Resources Seeking	13	4.38	.768	.213	3.92	4.85	3	5
	Efficiency Seeking	16	3.50	1.317	.329	2.80	4.20	1	5
	Asset Seeking	3	5.00	.000	.000	5.00	5.00	5	5
	Total	90	4.24	1.031	.109	4.03	4.46	1	5
Industrial and regional policy (Continuation)	Market Seeking	58	3.97	1.123	.148	3.67	4.26	1	5
	Natural Resources Seeking	13	3.69	1.032	.286	3.07	4.32	2	5
	Efficiency Seeking	16	3.00	1.033	.258	2.45	3.55	1	4
	Asset Seeking	3	3.67	.577	.333	2.23	5.10	3	4
	Total	90	3.74	1.127	.119	3.51	3.98	1	5

Table A33: Post-hoc comparisons of individual policies retaining FDI based on firms' motives

Dependent Variable	(I) Main motive of Investing in Ghana	(J) Main motive of Investing in Ghana	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Privatisation Policy (Continuation)	Market Seeking	Natural Resources Seeking	-.224	.380	.935	-1.22	.77
		Efficiency Seeking	1.463*	.350	.000	.55	2.38
		Asset Seeking	.109	.734	.999	-1.81	2.03
	Natural Resources Seeking	Market Seeking	.224	.380	.935	-.77	1.22
		Efficiency Seeking	1.688*	.463	.003	.47	2.90
		Asset Seeking	.333	.794	.975	-1.75	2.41
	Efficiency Seeking	Market Seeking	-1.463*	.350	.000	-2.38	-.55
		Natural Resources Seeking	-1.688*	.463	.003	-2.90	-.47
		Asset Seeking	-1.354	.780	.312	-3.40	.69
	Asset Seeking	Market Seeking	-.109	.734	.999	-2.03	1.81
		Natural Resources Seeking	-.333	.794	.975	-2.41	1.75
		Efficiency Seeking	1.354	.780	.312	-.69	3.40
Tax Policy (Continuation)	Market Seeking	Natural Resources Seeking	-.005	.301	1.000	-.79	.78
		Efficiency Seeking	.879*	.277	.011	.15	1.60
		Asset Seeking	-.621	.581	.709	-2.14	.90
	Natural Resources Seeking	Market Seeking	.005	.301	1.000	-.78	.79
		Efficiency Seeking	.885	.366	.082	-.07	1.84
		Asset Seeking	-.615	.628	.761	-2.26	1.03
	Efficiency Seeking	Market Seeking	-.879*	.277	.011	-1.60	-.15
		Natural Resources Seeking	-.885	.366	.082	-1.84	.07
		Asset Seeking	-1.500	.617	.079	-3.12	.12
	Asset Seeking	Market Seeking	.621	.581	.709	-.90	2.14
		Natural Resources Seeking	.615	.628	.761	-1.03	2.26
		Efficiency Seeking	1.500	.617	.079	-.12	3.12
Industrial and regional policy (Continuation)	Market Seeking	Natural Resources Seeking	.273	.333	.845	-.60	1.15
		Efficiency Seeking	.966*	.307	.012	.16	1.77
		Asset Seeking	.299	.643	.966	-1.39	1.98
	Natural Resources Seeking	Market Seeking	-.273	.333	.845	-1.15	.60
		Efficiency Seeking	.692	.405	.326	-.37	1.75
		Asset Seeking	.026	.695	1.000	-1.80	1.85
	Efficiency Seeking	Market Seeking	-.966*	.307	.012	-1.77	-.16
		Natural Resources Seeking	-.692	.405	.326	-1.75	.37
		Asset Seeking	-.667	.683	.763	-2.46	1.12
	Asset Seeking	Market Seeking	-.299	.643	.966	-1.98	1.39
		Natural Resources Seeking	-.026	.695	1.000	-1.85	1.80
		Efficiency Seeking	.667	.683	.763	-1.12	2.46

*. The mean difference is significant at the 0.05 level.

Appendix 10

Table A34: Correlation of Satisfaction and Expansion

Descriptive Statistics

	Mean	Std. Deviation	N
Expansion	4.39	.928	88
Satisfaction	3.3487	.46758	83

Correlations

		Expansion	Satisfaction
Expansion	Pearson Correlation	1.000	.346**
	Sig. (2-tailed)		.001
	N	88.000	83
Satisfaction	Pearson Correlation	.346**	1.000
	Sig. (2-tailed)	.001	
	N	83	83.000

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

T able A35: Correlation of Satisfaction and Downsizing

Descriptive Statistics

	Mean	Std. Deviation	N
Satisfaction	3.3487	.46758	83
Downsize	1.91	.879	88

Correlations

		Satisfaction	Downsize
Satisfaction	Pearson Correlation	1.000	.048
	Sig. (2-tailed)		.668
	N	83.000	83
Downsize	Pearson Correlation	.048	1.000
	Sig. (2-tailed)	.668	
	N	83	88.000

Table A36: Correlation of Satisfaction and Relocation

Descriptive Statistics

	Mean	Std. Deviation	N
Satisfaction	3.3487	.46758	83
Relocation	2.25	1.196	88

Correlations

		Satisfaction	Relocation
Satisfaction	Pearson Correlation	1.000	-.352**
	Sig. (2-tailed)		.001
	N	83.000	83
Relocation	Pearson Correlation	-.352**	1.000
	Sig. (2-tailed)	.001	
	N	83	88.000

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

Table A37: Correlation of Satisfaction and Termination

Descriptive Statistics

	Mean	Std. Deviation	N
Satisfaction	3.3487	.46758	83
Termination	1.70	.912	88

Correlations

		Satisfaction	Termination
Satisfaction	Pearson Correlation	1.000	-.312**
	Sig. (2-tailed)		.004
	N	83.000	83
Termination	Pearson Correlation	-.312**	1.000
	Sig. (2-tailed)	.004	
	N	83	88.000

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

Appendix 11

Table A38: Multiple Regression - Expansion

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.520[a]	.270	.243	.807

a. Predictors: (Constant), Satisfaction of Foreign Investment Regulations, Satisfaction of Market Access, Satisfaction of Labour costs

b. Dependent Variable: Expansion

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.752	3	6.584	10.112	.000[a]
	Residual	53.390	82	.651		
	Total	73.143	85			

a. Predictors: (Constant), Satisfaction of Foreign Investment Regulations, Satisfaction of Market Access, Satisfaction of Labour costs

b. Dependent Variable: Expansion

Coefficients[a]

Model		Unstandardised Coefficients		Standardised Coefficients			95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	.557	.749		.744	.459	-.933	2.047					
	Satisfaction of Market Access	.350	.143	.241	2.451	.016	.066	.633	.290	.261	.231	.918	1.089
	Satisfaction of Labour costs	.330	.112	.295	2.942	.004	.107	.554	.410	.309	.278	.885	1.130
	Satisfaction of Foreign Investment Regulations	.315	.118	.262	2.683	.009	.081	.549	.302	.284	.253	.933	1.071

a. Dependent Variable: Expansion

Table A39: Multiple Regressions - Relocation

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.586[a]	.343	.311	.993

a. Predictors: (Constant), Satisfaction of Labour regulations, Satisfaction of Financial Costs, Satisfaction of Utility services cost, Satisfaction of Labour costs

b. Dependent Variable: Relocation to new location

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42.696	4	10.674	10.830	.000[a]
	Residual	81.804	83	.986		
	Total	124.500	87			

a. Predictors: (Constant), Satisfaction of Labour regulations, Satisfaction of Financial Costs, Satisfaction of Utility services cost, Satisfaction of Labour costs

b. Dependent Variable: Relocation to new location

Coefficients[a]

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	5.170	.552		9.360	.000	4.072	6.269					
	Satisfaction of Labour costs	-.238	.163	-.165	-1.467	.146	-.562	.085	-.377	-.159	-.131	.624	1.602
	Satisfaction of Financial Costs	.270	.109	.252	2.476	.015	.053	.488	.026	.262	.220	.765	1.307
	Satisfaction of Utility services cost	-.357	.134	-.289	-2.668	.009	-.624	-.091	-.384	-.281	-.237	.673	1.486
	Satisfaction of Labour regulations	-.441	.150	-.325	-2.935	.004	-.740	-.142	-.501	-.307	-.261	.644	1.553

Table A40: Multiple Regression - Termination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.411[a]	.169	.149	.841

a. Predictors: (Constant), Satisfaction of Market Access, Satisfaction of Performance of employees

b. Dependent Variable: Terminate operation in Ghana without relocation

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.049	2	6.025	8.514	.000[a]
	Residual	59.438	84	.708		
	Total	71.487	86			

a. Predictors: (Constant), Satisfaction of Market Access, Satisfaction of Performance of employees

b. Dependent Variable: Terminate operation in Ghana without relocation

Coefficients[a]

Model		Unstandardised Coefficients		Standardised Coefficients			95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	4.505	.706		6.379	.000	3.101	5.910					
	Satisfaction of Performance of employees	-.399	.129	-.313	-3.089	.003	-.657	-.142	-.354	-.319	-.307	.963	1.039
	Satisfaction of Market Access	-.302	.144	-.212	-2.090	.040	-.589	-.015	-.272	-.222	-.208	.963	1.039

a. Dependent Variable: Terminate operation in Ghana without relocation