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Socio-Political Instability and Foreign Direct Investments in Ghana:An ARDL Approach.

Yakubu Abdul-Salam
Department of Economics, University of Aberdeen, EWF04, Dunbar Street, AB24 3QY, UK
* E-mail of author: y.abdulsalam@abdn.ac.uk

Abstract:
This paper aims to examine the impact of unstable socio-political periods, characterised by national elections, on foreign direct investments (FDIs) in Ghana. Since the inception of multiparty democracy in 1992, the country had undergone five national elections. These elections however are often characterised by heightened socio-political tensions among opposing parties and have resulted in civil unrest, mass arson, even deaths in the past. During this period the country had also implemented numerous policies to encourage FDIs. Has the unstable socio-political climate during electioneering periods impacted upon the inflow of FDIs in the country; and to what extent? This paper adopts the robust Autoregressive Distributed Lag (ARDL) Bounds cointegration approach as developed by Pesaran et al (2001) in its analysis. The results indicate that socio-political instability exerts a negative influence on FDIs in Ghana in the short- and long-run. In conclusion the paper recommends that in order to maintain its competitiveness as a FDI hub in the West Africa sub region and indeed the world, Ghana needs to work at limiting the often high tensioned national mood that is suggestive of a country teetering towards implosive violence and civil unrest during its national electioneering seasons.
Keywords: Ghana, Foreign direct investments, socio-political instability, cointegration.

1. Introduction

The International Monetary Fund (IMF) defines FDIs as the 'net inflows of investment to acquire a lasting interest in or management control over an enterprise' (IMF, 2010) in a country that is foreign to an investor or firm. Accounting standards stipulate that FDIs are itemised on countries' balance of payments records and are computed as the 'sum of equity capital, reinvested earnings and other long term and short term' (IMF, 2010) assets and transactions by foreign entities in a country. FDIs are a major stimulant to economic growth in developing countries due to its ability to impact host economies through provision of financing for investment and capital formation, transfer of good business management skills and access to international markets among others. They are a phenomenon of globalisation and policy makers in developing countries including Ghana have emphasized FDIs in their developmental agenda in order to further integrate with other world economies.

Globally there are over 160 investment promotion agencies which are vehicles that individual governments use to promote FDIs (UNCTAD, 2001) in their respective countries. As a consequence of this global competition, Ghana over the last three decades had implemented policies to create the enabling environment to attract FDIs into the country. In 1983, the Ghana Economic Recovery Program (ERP) was formed under the auspices of the World Bank and the IMF. Under the program, international events tailored at encouraging FDIs including the African-American Summit(s) and the Pan African Investment Summit(s) and international investment missions have been sponsored. Subsequent governments have considered the ERP a major part of the country's developmental agenda (Abdulai, 2005). Among the steps the government of Ghana took in the 1990s to further boost investor confidence and the private investment climate in the country was to undertake a privatisation program to transition quickly to a more liberalised market economy. The government of Ghana via the program promoted private enterprise and actively engaged local and foreign private entities to invest in the country. The program which was implemented by the Divestiture Implementation Committee (DIC) saw equity in two thirds of the country's many state owned firms acquired by a majority of foreign investors in partnership with a few local investors (Abdulai, 2005). Successive governments have since privatised more public companies and sectors which were hitherto closed to foreign investors have now been opened for access. In 1994, the Ghana Investment Promotion Centre (GIPC) Act was enacted into law to monitor investments in most sectors of the economy and to oversee FDIs aimed at major mergers, acquisitions and takeovers of Ghanaian public and strategic private firms. The law provides investors with the legal framework they need to ensure confidence in the country.

Despite the country's active promotion of FDIs however, there are numerous economic and social factors that may hinder the success of these efforts. These may include socio-political instability, access to land, red tape in property registration, corruption, access to skilled labour, labour productivity, etc. This study investigates the impact of unstable socio-political periods on FDIs in Ghana. These periods are characterised by national

elections which began, for the country's fourth republic, in 1992. Section II reviews the literature on FDIs in Ghana whilst Section III discusses the data and methodology used. In Section IV the results of the analysis are discussed. Section V concludes with recommendations inferred from the findings of the study.

2. Literature Review

2.1 Theoretical Review

There are three major theoretical approaches to the phenomenon of FDIs in the literature (Abdulai, 2005). The first bracket of theories seeks to explain why a firm would have a preference for FDIs as opposed to franchising or exporting its brand or product. Prominent in this bracket of theories is the Internationalisation theory (Hymer, 1972) which posits that firms may prefer FDIs because licensing may lead to losing intellectual property that is critical to a firm's competitiveness and going concern. Again licensing may lead to the firm losing control over production quality and marketing which is critical to its brand. The second bracket of theories seek to posit on why firms in similar industries often undertake FDIs at the same times and locations; and why certain locations are favoured over others. Knickerbocker (1973) expounds on this phenomenon by positing that firms in oligopolistic industries follow their domestic competitors overseas due to imitation of one another's strategies. Another theory in this bracket is the Product Life Cycle hypothesis propounded by Vernon (1966) which states that firms invest in foreign countries at certain stages in the life cycle of their products because local demand abroad is enough to support local production. In this sense, firms in similar industries at similar product life stages may end up investing in the same locations because they conclude simultaneously about the viability of their products in these locations.

The most prominent theory to posit on FDIs perhaps is the Eclectic Paradigm theory as developed by Dunning (1977) and Dunning (1988). This theory, constituting the third bracket of theories, attempts to integrate the two approaches above into a holistic framework. The theory states that the extent, geography and composition of FDIs by a multinational firm is determined by the interaction of three sets of interdependent variables (Dunning, 2001). This is expressed mathematically as;

$$FDI = f(O, L, I)$$

where

O ownership

L location

I Internalisation

The ownership variable suggests that the greater the competitive advantage of a firm relative to its competitors, the more likely the firm is to engage in FDIs rather than licensing or exporting its brand or product (Dunning, 2001). The location variable posits that firms are more likely to engage in FDIs when the resources they need as factors of production are immobile and plentiful in foreign countries. Lastly the internalisation variable suggests that the greater the gains from international investments, the more probable a firm will engage in FDIs.

2.2 Empirical Review:

Singh et al (1995) found that a key determinant for FDIs into countries that have historically attracted low FDIs is socio-political instability. Chan et al (2004) studied determinants of FDI inflows and found that the degree of instability in a country is a much more critical determinant for FDI inflows into the Middle East and North African Regions than it is for many developing countries. The most cited study on the determinants of FDIs in Ghana is perhaps the study by Tsikata et al (2000). They identified FDI inflows in Ghana as having evolved over three separate periods. They noted that the period 1983-88 saw sluggish inflows of FDIs into Ghana. The annual inflow averaged about US$ 4 million with the minimum and maximum inflows being US$ 2 million and US$ 6 respectively. The second period spanned the years 1989-92 and saw moderate inflows of FDIs in the country. The inflows averaged US$ 18 million per annum with highest inflow being US$ 22 million. The third period identified by Tsikata et al (2000) spanned the period 1993-1996 which witnessed significant but oscillatory inflows of FDIs in the country. The FDI inflows into the country in this period peaked in 1994 with a recorded inflow of about US$ 233 million. Tsikata et al (2000) determined that among the factors accounting for the evolution of FDIs in the three periods are economic growth and political stability.

More recent studies on Ghana have determined the impact of several variables on FDIs in the country. A

study by Djokoto (2012) determined that FDI inflows particularly into the agricultural sector in Ghana had a statistically significant short-run and long-run relationship with imports. Djokoto (2012) concluded that there is a negative relationship between these variables indicating that more imports repel FDIs. Exports were found to have a negative but statistically insignificant relationship with FDIs. In another recent study, Djokoto (2012) investigated the effect of investment promotion on FDIs in Ghana and concluded that indeed schemes to promote investments did have a positive but statistically insignificant impact on FDIs in the country. Nyarko et al (2011) studied the impact of exchange rates on FDIs and determined that exchange rates had no significant effect on FDIs in Ghana. A study by Dah et al (2010) established that FDIs had a positive relationship with locational attraction. Locational attraction had two components in their analysis; access to natural resource and market size. Their study concluded that natural resource attracted more FDIs than market size.

3.0 Methodology and Data

3.1 The Empirical Model Specification

Why would a firm invest internationally? As outlined in Section 2.1 above, there are different competing theories. Consider however a firm whose underlying objective is to minimise its costs of production and is well capable of producing domestically and/or abroad. The firm must decide how much of domestic and foreign production will minimise their overall costs. The optimisation problem of the firm can be set up as follows (Djokoto, 2012);

$$minimise\ C = \omega_d(Q_d)Q_d + \omega_f(Q_f)Q_f \qquad (1)$$

$$subject\ to\ D = Q_d + Q_f \qquad (2)$$

where *C* is total cost of domestic and foreign production of the firm, *D* is the total demand for the firm's product in the domestic and foreign markets, ω_d and ω_f are the unit costs of production in domestic and foreign plants respectively and Q_d and Q_f are the quantities produced in domestic and local plants respectively. The firm by the above problem seeks to find the optimal mix of production in domestic and foreign plants. It can be shown via the Lagrangian solution method that the optimal allocation of production for the foreign plant is given as follows (Djokoto, 2012);

$$Q_f = \left(\frac{\frac{d\omega_d}{dQ_d}}{\frac{d\omega_d}{dQ_d} + \frac{d\omega_f}{dQ_f}}\right)D + \left(\frac{1}{\frac{d\omega_d}{dQ_d} + \frac{d\omega_f}{dQ_f}}\right)(\omega_d - \omega_f) \qquad (3)$$

where it is assumed that the coefficients of *D* and $(\omega_d - \omega_f)$ above are positive. The above results indicates that the level of production a firm allocates overseas, Q_f, has a positive relationship with the total level of demand for the firm's product (i.e. *D*) in domestic and foreign markets, and the difference in the unit cost of production in foreign and domestic plants $(i.e.\ \omega_d - \omega_f)$. The firm after determining the optimal level of production, Q_f, to be allocated to a foreign plant will need to determine how much of the different factors of production to use in order to produce Q_f at minimum cost. The firm does so by solving a second optimisation problem as follows;

$$minimise\ C_f = wL + kK \qquad (4)$$

$$subject\ to\ Q_f = L^{\alpha}K^{\beta} \qquad (5)$$

where C_f is the total cost of producing Q_f in the foreign plant; *L* and *K* are the factors of production labour and capital respectively; *w* and *k* are the respective unit costs of *L* and *K* whilst *a* and *b* are coefficients. For simplicity, it is assumed in equation 5 above that the firm's production function conforms with the Cobb-Douglas form and has only two factors of production, *L* and *K*. Using the Lagrangian solution method and substituting equation 3 into equation 5, it can be shown that the optimal level of capital that minimises the firms total cost, C_f , for producing Q_f in a foreign plant is as follows (Djokoto, 2012);

$$K = \left[\left(\frac{\beta}{\alpha}\right)\left(\frac{w}{k}\right)\right]^{\alpha/(\alpha+\beta)}\left[\left(\frac{\frac{d\omega_d}{dQ_d}}{\frac{d\omega_d}{dQ_d} + \frac{d\omega_f}{dQ_f}}\right)D + \left(\frac{1}{\frac{d\omega_d}{dQ_d} + \frac{d\omega_f}{dQ_f}}\right)(\omega_d - \omega_f)\right]^{1/(\alpha+\beta)} \qquad (6)$$

The above shows that the capital a firm allocates for foreign production has a positive relationship with the total demand for its product, *D* and a negative relationship with the relative costs of foreign production. *K* in equation 6 above is the amount of capital the firm allocates for foreign production. *K* is therefore an excellent proxy for FDI inflows into a country. Several authors including Bajo-Rubio et al (1994), Marchant et al (2002), Sosvilla-Rivero (1994 and Djokoto (2012) substitute *K* in equation 6 above with FDI and augment the right hand side of equation 6 with variables that capture demand (D) and the cost of doing business internationally, ω_f. Many variables have been used in the literature to augment the right hand side of equation 6 above, hence yielding different functional forms. It is reasonable to conclude that authors choose variables that can reasonably be construed to affect FDIs and are relevant to the research question. Among the variables used in the literature include gross domestic product (GDP) and GDP per capita (GDPPC) to capture the firms demand abroad; and interest rate (IR), exchange rates (ER), and inflation rate (INFL) to capture the cost of doing business. In this study, convention is followed by substituting *K* for FDI. The right hand side of the equation 6 is augmented with GDP per capita and inflation rate to yield the following functional form;

$$FDI = f(gdppc, infl) \qquad (7)$$

where gdppc (current US $) is the GDP per capita and *infl* is inflation rate (consumer prices, annual %). The two variables, GDP per capita and inflation rate were chosen for two reasons. Firstly, GDP per capita perfectly captures demand in equation 6 whilst inflation captures the cost of doing business. Both variables have been cited in the literature to have significant impacts on FDIs. Secondly the relatively short period considered for this study (1992-2010) yields a very small sample size thus few predictors are selected to avoid the problem of multicollinearity.

3.2 Data Sources and Description

All data were obtained from the World Development Index database (WDI, 2012). Data used spanned the years 1992 to the year 2010. In this period, Ghana underwent five national elections in 1992, 1996, 2000, 2004 and 2008. A dummy variable, ***elections*** *i*s introduced in equation 7 to capture the effect of socio-political instability in the period. ***elections*** is assigned a value of 1 in the periods elections were held in Ghana, and 0 otherwise. A logarithmic transformation of the functional form in equation 7 above was undertaken in order to transform the coefficients of the predictor variables into constant elasticities thus facilitating the discussion of the results. There's another advantage to logarithmic transformation of the variables. It can reduce the problem of heteroscedasticity in the model because it compresses the scale in which all variables are measured thereby reducing a tenfold difference between two values to a twofold difference (Gujarati, 1995). The substantive estimable econometric model is formulated as follows;

$$\ln(FDI) = \rho_0 + \rho_1 \ln(gdppc) + \rho_2 \ln(infl) + \rho_3(elections) + \varepsilon_t \qquad (8)$$

where all variables are as previously defined, *ln* is natural logarithm and ε_t is the error term.

3.3 Theoretical and a Priori Assumptions

GDP per capita is employed in equation 8 to capture the aggregate demand in the Ghanaian economy. It is expected a priori that demand hence GDP per capita will exert a positive effect on FDIs due to its contribution to increased economic activity and business opportunity hence $\rho_1 > 0$. Inflation on the other hand may have either a positive or a negative effect on FDIs. The ambiguity stems from the fact that under one scenario, inflation may dampen FDIs due to its negative effects on the real value of money and currency depreciation. In this respect inflation can repel FDIs thus may be expected a priori to have a negative exertion i.e $\rho_2 < 0$. On the other hand foreign investors may be attracted to a country due to the high prices induced by inflation. In this respect, inflation can be expected a priori to be positive i.e. $\rho_2 > 0$. Indeed this ambiguity can be further explained if inflation is induced by excessive government expenditure for example. Government spending may crowd-out FDIs via increased deficits and high interest rates as posited by the Ricardian Equivalence Theorem thus exerting a negative influence on FDIs i.e. $\rho_2 < 0$.. However, inflation induced by excessive government expenditure may also serve as a crowding-in catalyst because the provisions of infrastructure like roads, utilities, etc. through these expenditures can facilitate the investment environment. In this case inflation would be expected to have a positive exertion on FDIs hence $\rho_2 > 0$.

Finally the coefficient of *elections,* a proxy for socio-political instability is expected to be negative ie $\rho_3 < 0$. This is because the heightened national mood that is suggestive of a civil unrest in waiting during electioneering

periods is indicative of high investment risks, a situation risk-averse investors will like to avoid by decreasing their investments or in some cases pulling out of the country.

3.4 ARDL Bounds Cointegration Test

The ARDL Bounds cointegration test was first developed by Pesaran and Shin (1999) and later extended by Pesaran et al (2001). It has been used extensively in the literature for three reasons. Firstly, unlike the Johansen-Juselius cointegration test, it allows for cointegration testing even when all variables are integrated of order I(0) or I(1), or a mix of the two. Secondly it is not sensitive to the values of error parameters hence making it ideal for small sample estimation. Lastly, the ARDL Bounds approach is proven to provide unbiased long run estimates with valid t-statistics even when some of the cointegrated variables are endogenous (Amusa et al, 2009). The above features makes the ARDL Bounds approach to cointegration ideal for use in this paper since particularly the data sample is small and the variables are a mix of I(0) and I(1) (see Table 1).

The first stage of the ARDL Bounds approach involves formulating the unrestricted error correction model (UECM) given in this case as follows;

$$\Delta \ln(\text{FDI}) = \sum_{i=1}^{a} \beta_i \Delta ln(FDI)_{t-i} + \sum_{j=1}^{b} \delta_j \Delta ln(gdppc)_{t-j} + \sum_{k=1}^{c} \tau_k ln(infl)_{t-k} + \theta_1 ln(FDI)_{t-1} + \theta_2 ln(gdppc)_{t-1} + \theta_3 ln(infl)_{t-1} + \varepsilon_{1t} \quad (9)$$

where Δ is the first difference operator.

A maximum of one lag with no constant was chosen for the UECM above. The Bounds cointegration test involves restricting the parameters of lag level variables in the UECM above to zero. The set up for such a restriction is as follows;

Null hypothesis	No long run relationship	$\theta_1 = \theta_2 = \theta_3 = 0$
Alt. hypothesis	Long run relationship exists	$\theta_1 = \theta_2 = \theta_3 \neq 0$

The f-statistic of the above restriction is then tested against the Pesaran et al (2001) critical value bounds for ARDL cointegration. Once cointegration is established among the variables, the long run relationship of the form in equation 8 can be estimated. The last stage of the ARDL Bounds cointegration approach involves estimating the error correction model (ECM) expressed as follows (Adom, 2011);

$$\Delta(FDI)_t = \emptyset(1,p) ECT_{t-1} + \sum_{i=1} \beta_{i0} \Delta x_{it} + \delta \Delta w_t - \sum_{j=1}^{p-1} \emptyset_j^* \Delta EC_{t-1} - \sum_{i=1}^{k} \sum_{j=1}^{q_i-1} \beta_{ij}^* \Delta x_{i,t-j} + u_t \quad (10)$$

where x is k x 1 vector of explanatory variables, w is deterministic term and ECT_t is the error correction term. $\emptyset(1,p)$ computes the model's speed of convergence to equilibrium whilst the remaining coefficients relate the model's short run dynamics.

4. Results

4.1 Unit root Tests:

Table 1 shows the result of the unit root test for stationarity in all variables using the Augmented Dickey Fuller (ADF) method with Akaike Information Criterion (AIC). As can be seen, all the variables but LFDI are non-stationary at level but stationary at first difference whilst LFDI is stationary at level. The variables are therefore a mix of I(0) and I(1) hence justifying the use of the ARDL Bounds cointegration approach.

Table 1: Augmented Dickey Fuller Test of Unit root				
Variables	ADF-Statistic	P-value	Implication	Lag lenth
LFDI	2.814265	0.0760*	Stationary	1
DLFDI	-4.559821	0.0027	Stationary	1
LGDPPC	0.262499	0.9689	Non stationary	1
DLGDPPC	-3.120738	0.0440	Stationary	1
LINFL	-2.608457	0.1095	Non stationary	1
DLINFL	-4.359345	0.0053	Stationary	1

*test indicates stationary series at the 10% significance level.

4.2 Bounds Cointegration Test

Table 2 shows the results of the Bounds cointegration test. The section of the Pesaran et al (2001) critical bounds table used is 'No Intercept and No Trend' since the unrestricted error correction model in equation 9 included no intercept and no trend. From Table 2, since the F statitisc is significant (p value < 5%) and higher than the upper bound of the bounds critical values for k= 3 at 5% significance level, we conclude that there is cointegration among the variables.

Critical Value Bounds of F-Statistic (No Intercept and No Trend; Case II)								
k	90% level			95% level			99% level	
	I(0)	I(1)		I(0)	I(1)		I(0)	I(1)
3	2.022	3.112		2.459	3.625		3.372	4.797
F-statistic from UECM restriction is 5.234; p-value = 0.002								

Table 2: Cointegration test.

4.3 Results of the Long Run ARDL Model of FDIs in Ghana

Having established cointegration of FDIs and its determinants, the long run ARDL model can be estimated. The long run model in Table 3 below was chosen based on the AIC criterion with a maximum of 1 lag given the relatively short data series and its annual nature. The full ARDL model is in Appendix 1.

ARDL (1,0,1,0) selected based on AIC			Dependent variable: LFDI	
Regressor	Coefficient	Standard error	T-Ratio	P-value
LGDPPC	.70069	.25698	2.7266	.016
LINFL	-1.0893	.51480	-2.1160	.053
ELECTIONS	-.072279	.24116	-.29971	.769

Table 3: Estimated long run coefficients using ARDL using ARDL Approach.

In the above result, the a priori expectation of a positive relationship between GDP per capita and FDI is realised. The results indicate that a percentage increase in GDPPC in the long run would increase FDIs by about 0.70%. This determination is statistically significant at the 5% significance level and shows that indeed economic growth and higher income of the citizenry can stimulate FDIs in Ghana. The result is consistent with the findings of several authors in the literature including Djokoto (2012), Morisset (2000, 2003) and Dah et al (2010).

The relationship between FDIs and inflation in the long run was hypothesised a priori to be ambiguous. The results above shows that the relationship in Ghana in the long run is in fact negative which implies that a percentage increase in inflation repels FDIs by about 1.09%. If inflation is induced by excessive government expenditure for example, negative exertion will indicate a crowding-out effect as a consequence of government deficit/debt and high interest rates in the economy (see Ricardian Equivalence Theorem). The negative exertion is statistically significant at the 10% significance level. This result is consistent with some empirical findings including Were (2001). It however contradicts the finding of Djokoto (2012) and Acosta (2005) who find that

inflation has a positive exertion on FDIs in the long run. Finally, in the long run an election (a proxy for socio-political instability) does impose a negative impact on FDIs in Ghana. Though the result is not statistically significant, it has significant practical importance. The result shows that in the long run an electioneering event will decrease FDIs in the country by 0.0722%. This finding is not unreasonable and was expected a priori. Investors value certainty and stability. The inception of highly toxic socio-political periods as is the case in Ghana during elections has the potential to raise the risk that risk-averse investors attach to assets in the country. As a consequence, these investors expect much higher return to account for the increased risks. If these high returns are not achievable, they are likely to decrease or pull out their investments from the country. The result concurs with the finding of Singh et al (1995) and Chan et al (2004).

4.4 Results of the Short Run Dynamic Model

The last stage of the ARDL approach involves estimating the short run relationship between the variables as shown in Table 4 below;

ARDL (1,0,1,0) selected based on AIC			Dependent variable: DLFDI	
Regressor	Coefficient	Standard error	T-Ratio	P-value
DLGDPPC	.32875	.098418	3.3403	.004
DLINFL	.046727	.22966	.20347	.842
DELECTIONS	-.033911	.11364	-.29840	.769
ECM(-1)	-.46917	.14253	-3.2918	.005

Estimated Short run Error Correction Model using ARDL Approach.

As was expected a priori and confirmed in the long run result in Section 4.3 above, GDP per capita has a positive and statistically significant exertion on FDIs in the short run. The result shows that a percentage increase in the GDP per capita causes FDIs to increase by 0.32%. The result is consistent with the findings of Djokoto (2012). Further, contrary to the finding in the long run model where inflation was found to have a negative or crowding-out effect on FDIs, in the short run inflation is shown to have a positive or crowding-in effect on FDIs in Ghana. Though this result is statistically insignificant, it concurs with the findings of Morisset (2000, 2003), Dah et al (2010) and Djokoto (2012). The short run ECM model predicts that a percentage change in inflation causes FDIs to increase by 0.047% in the short run.

Finally the short run effects of elections on FDIs are negative as was the case in the long run model above. Electioneering periods therefore decrease the inflow of FDIs by about 0.03% though this effect is statistically insignificant. The error correction term indicates the speed of adjustment of FDIs when there is instability. It shows that in Ghana when there is a shock in the FDI sector, convergence to equilibrium is relatively high with about 47% of adjustments occurring in the first year.

5. Conclusion

The short and long run responsiveness of FDIs to inflation is interesting. Whereas the response is positive in the short run, it tends to be negative in the long run. This may mean that FDIs are positively inclined to high prices in the short run as this provides opportunities for bigger returns on investments. Persistent inflation however increases the costs of doing business in the long run and so FDIs tend to respond negatively to inflation with time. This is a plausible explanation for the results above. GDP per capita was found to exert a positive and statistically significant relationship with FDIs both in the short run and in the long run. This result has been widely obtained in the literature.

This paper investigated the effects of unstable socio-political periods on FDIs in Ghana. These periods are characterised by high tensioned national elections which often lead to disputes among opposing parties; sometimes leading to mass arson, even deaths. It was a priori hypothesised that these periods will negatively affect the FDI environment in the country. This paper confirms this hypothesis by finding evidence of a negative relationship between FDIs and elections (socio-political instability) in the country. Though the relationship between FDIs and elections in Ghana both in the short-run and long-run are statistically insignificant, they are of practical importance and so the government should take steps to reduce the toxic political rhetoric that induces tensions among opposing parties in the country during elections. In so doing the country could position itself as a socio-politically stable hub in the West Africa sub region in order to be a preferable location for FDIs.

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Appendix 1

Table 5: Full ARDL Results.

ARDL(1,0,1,0) selected based on Akaike Information Criterion		Dependent variable: LFDI		
Regressor	Coefficient	Standard Error	T-ratio	P-value
LFDI(-1)	0.53083	0.14253	3.7244	0.002
LGDPPC	0.32875	0.09841	3.3403	0.005
LINFL	0.04672	0.22966	0.2034	0.842
LINFL(-1)	-0.55779	0.24612	-2.2663	0.04
ELECTIONS	-0.033911	0.11364	-0.2984	0.77

R-Squared	0.69185
S.E. of Regression	0.21673
F-Stat. F(4,14)	7.85820
Akaike Info. Criterion	-0.0059