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THE IMPACTS OF LAW, POLITICS, ECONOMICS AND HUMAN CAPITAL ON FOREIGN DIRECT INVESTMENT INFLOW TO GHANA

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AUTHOR'S CONTRIBUTION

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ABSTRACT

As the debate on the roles of countries' institutional variables in attracting foreign direct investment to host countries rages, this parametric study investigates the impacts of law, politics, economics, and human capital on foreign direct investment inflow to Ghana using aggregate country-wise secondary data from 2003 – 2019 (17 years). Locational-institutional theory guides the study. Based on reviewed literature, the quality of politics was measured with corruption perception index; quality of economic decisions was measured with gross domestic product; human capital development was measured with quality of social life; quality of law was measured with rule of law index; and foreign direct investment was measured with foreign direct investment inflow. Using ordinary least square (OLS) multiple regression analysis, the study establishes that law, politics, economics, and human capital have significant positive associations as well as effects on foreign direct investment inflow to Ghana within the period under review. The findings of the work confirmed the relevance of locational-institutional theoretical framework in investigating the inflow of foreign direct investments to host countries (especially Ghana in West Africa). The study also exposes the need Ghana to improve the quality of its national institutions and economic policies in order to maximum foreign direct investment inflow. In line with the objectives and findings of the work, far-reaching recommendations were put forward.

Keywords: Economics; Foreign direct investment; human capital; law; location and institutional theory.

1. INTRODUCTION

The government of Ghana attracts foreign direct investment to the country by promoting a politico-economic legal framework that protects the interest of foreign investors. These foreign investors' protectionist policies are enshrined in The GIPC and Free Zone Acts. Principally, both Acts make it illegal for a foreign investor to be forced to give up his investment by way of nationalization or privatization. Bentsi-Enchill and Letsa [1] add that The GIPC and Free Zone Acts of Ghana provide that investment disputes between Ghana and foreigners are subjected to arbitration following the United Nations Commission on International Trade Law (UNCITRAL) or within the framework of any bilateral or multilateral investment protection agreement to which Ghana and the foreign investor's country are parties. In specific terms, the government of Ghana attracts FDI to the country by granting the following incentives to foreign investors who invest in Ghana: free transferability of dividends and profits,

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personal remittances, immigration quota, import duty exemption, corporate tax holidays for some years, 100% shareholding, and special incentives for mining firms [1]. Nordea [2] reported that the Government of Ghana formulated the following economic policies to encourage or restrict FDI inflow to the country: (i) a reduced corporate tax rate of 8% for companies engaged in non-traditional exports (and 20% for financial institutions on income from loans granted to farming enterprises and leasing companies); (ii) Free Trade Zone (FTZ) companies have a 10-year exemption period after which they pay corporate tax at 15% on export sales; (iii) a rebate is granted to manufacturing companies located outside Accra and Tema. In regional capitals (other than Accra and Tema):the rebate is 75% of the standard corporate tax rate of 25%, and in all other places it is 50% of the standard tax rate; (iv) tax holidays are granted, from the time operations commence, to companies in agricultural enterprises, agro-processing and waste processing companies, rural banks, and venture capital financing companies pay 1% corporate tax for periods ranging from five to 10 years; (v) real estate companies pay 1% corporate tax for five years on income from certified low-cost housing (with some limitations); and (vi) entrepreneurs aged 35 years and under are granted a five year corporate tax holiday if they are engaged in specific businesses (manufacturing, ICT, agro-processing, energy production, waste processing, tourism and creative arts, horticulture and medicinal plants). Entrepreneurs that are not more than 35 years also enjoy a rebate on corporate tax rates ranging from 5% to 15% for five years after the tax holiday. Privately-owned universities are exempted from corporate tax if they reinvest 100% of their profits into the operation of the university. Finally, employers of labour receive an additional tax deduction for employing new graduates as part of their workforce that ranges from 10% to 50% of the salaries or wages of such employees.

Foreign direct investment inflow to Ghana decreased from 3 million to USD 2.3 million between 2018 and 2019, and mining and oil exploration are the main sectors that attract most of the country's FDI. According to Santander Trade [3], Ghana ranked 118th worldwide in World Bank's 2020 Doing Business Report, losing four positions compared to the previous year. Also, FDI inflow to Ghana stood at 3,255 million USD in 2017, 2,989 million USD in 2018, and 2,319 million USD in 2018: a decreasing trend [3]. There are a good number of researches on foreign direct investment in Ghana, but, there is a dearth of empirical researches on the directional spillover effects of foreign direct investment in Ghana; as such, Djokoto and Dzeha [4] had demanded that this gap in literature be filled using aggregate data from different industries: aviation, oil and gas, agriculture, education, other natural resources, etcetera. In specific terms, the directional spillover effects of FDI in Ghana should look at two interrelated variables: the effect of FDI on the human development index of Ghanaians as well as on the economic growth of the country. While there are a multiplicity of studies on FDI and the economic growth (GDP growth rate) of Ghana, there is a dearth of studies on the relationship between FDI and the human capital development of Ghanaians. The need to investigate the relationship between FDI and human capital development in Ghana rests on the premise that the availability of a reasonable number of qualified human capital in a country attracts FDI to this country [5, 6, 7].

The role of human capital (a social factor) in attracting FDI to Ghana is not explored (based on available literature). The need to investigate and analyse the roles of law, politics, and economic policies in the regulation of FDI in Ghana is supported by Owusu-Antwi, et al. [8], U.S. Department of State [9], and Yeboah [10]. Owusu-Antwi, Antwi, and Poku [8] hinted at the roles of economic liberalizations policies, and policymakers on boosting foreign direct investment in Ghana; but, they did not factor in the place of political and legal factors. Owusu-Antwi, et al. [8] recommended that empirical study is needed to quantify the impact of economic structure, legal quality, and governance practices in attracting FDI to Ghana. Ghana drives a robust and aggressive FDI agenda using investment-friendly laws, favourable political considerations and inviting economic policies. It is thus imperative to ascertain in empirical terms, how a unit change in each of these variables (law, politics, and economics) contributes to FDI inflow to Ghana. The need to investigate and analyse this topic has become very important to help the Government of Ghana to ascertain how law, politics and economic individually and jointly increase or decrease FDI inflow to Ghana? The outcome of this study would shape and reshape the foreign direct investments policy thrust of the government of Ghana. The institutional theoretical framework is under applied in FDI literature in an emerging economy like Ghana, and Makoni [11] adduced that there is still no consensus on any superior or general theory of FDI. The need to adopt institutional theory in this study is hinged on the fact that the majority of obstacles facing FDI inflow to Ghana are institutionally leaned: burdensome bureaucracy, costly and difficult financial services, under-developed infrastructure, ambiguous property laws, costly power and water supply, high costs of cross-border trade, a shifting policy environment, lack of transparency, unskilled labour force, weak

enforcement of laws and policies, delayed payments, opaque public procurements, and troubling trends in investment policy over the last five years [9]. This study is rooted in the interplay among law, politics, and economics in shaping and reshaping the dynamics and quantum of foreign direct investment to Ghana. The importance of adopting the institutional framework is anchored on the significance of the topic to foreign investors, the Government of Ghana, and the international community at large. This study is curious to empirically establish the role of institutional quality in driving foreign direct investment to Ghana. In measurable (specific) terms, this study is aimed at establishing if the:

i. Legal system of Ghana has a significant effect on foreign direct investment inflow to the country within 2003 to 2019;
ii. Political system of Ghana has a significant effect on foreign direct investment inflow to the country within 2003 to 2019;
iii. Economic policies of Ghana have significant effect on foreign direct investment inflow to the country within 2003 to 2019;
iv. Human capital of Ghana has a direct relationship with foreign direct investment inflow to the country within 2003 to 2019.

2. LITERATURE REVIEW

2.1 Theoretical Framework

Different theories explain the concept of foreign direct investment even though there is no generally accepted one as the unified one. Some theories discuss FDI from independent perspectives while others take multiple perspectives approach. Marandu and Ditshweu [12] in an article entitled "an overview of the key theories of foreign direct investment: the way forward" identified eight (8) popular theories that seek to explain why and when foreign direct investments (FDI) take place: neoclassical theory of the rate of return on investment, monopolistic advantage (or market imperfection) theory of FDI, location theory of FDI, oligopolistic theory of FDI, the internalization theory of FDI, the product life cycle (PLC) theory of FDI, the Eclectic FDI theory, and strength of currency FDI theory. Oppong [13] equally undertook a study entitled "an overview of most used foreign direct investment theories" and five (5) most used theories of FDI by scholars and industry experts in explaining the reasons and movement of foreign capital across borders: exchange rate FDI theory, gravity theory of FDI, internalization FDI theory, market imperfection theory of FDI, eclectic theory FDI.

Fig. 1 illustrates the theoretical framework designed for this study. It clearly depicts that this study anchors on both locational and institutional theories (which are interrelated aspects of Dunning's Eclectic foreign direct investment theory). The institutions covered in this particular study are legal institution (law):political institution (politics):economic institution (economics):social institution (human capital). Figures 1 further illustrates the relationships between location-advantages inherent in a host country and foreign direct investment inflow; and qualities of country's institutions and foreign direct investment attraction. The theoretical framework rests on the roles of good location and presence of good institutions in attracting foreign direct investment to a country.

2.1.1 Location theory of foreign direct investment

The location-advantages element of the eclectic theory of FDI is institutionally oriented. Gdairia et al. [5] measured location-specific advantages of the OLI model using the following proxies: political stability, economic stability, quality infrastructure, government support service, country's legal framework, transparent investment climate, quality of life, physical security, the existence of foreign investors, double taxation agreement, cost of labour, availability of qualified work hand, raw material availability,

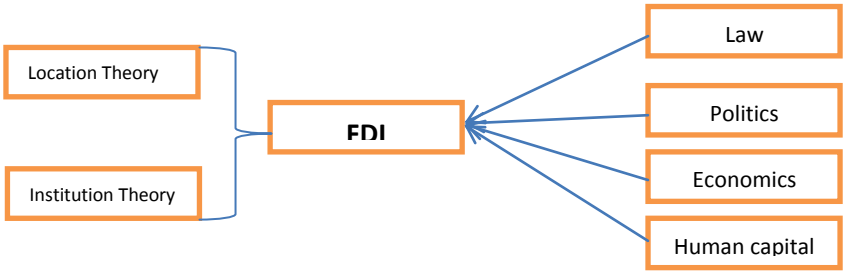

Fig. 1. Illustration of the study's theoretical framework
(Source: Author)

local suppliers, existing assets acquisition, project-specific investments, currency exchange rate, level of education, and consumer protection. Abotsi [14] categorized specific advantages of each country on FDI into three categories: economic benefits, social advantages, and political advantages. Gdairia et al. [5] measured internalization-specific advantages of firms seeking to invest in foreign countries with corrupt poor governance, market imperfection, and market power. The review above reveals that it is the location advantage (a subset of Dunning eclectic theory) that is mostly related to institutional theory. This is because it covers proxies of a legal institution, political institution, economic institution, and socio-cultural institutions (see: [15-18]).

The policy of attracting foreign direct investment has occupied many developing economies like Ghana for many years. Dadzie et al. [19] and Giuseppina [20] noted that countries articulate, formulate and execute attractive foreign direct investment promotional policies when they make foreign direct investment a state policy. These include legal, political and economic agenda aimed at providing amenities, strengthening institutions, and providing cost-saving-financial incentives for foreign investors to invest in the country [21]. The government of Ghana launched two politico-economic legal instruments in 1994 (Act 865: Ghana Investment Promotion Centre) and 1995 (Act 504: The Ghana Free Zones Authority) to smoothen the ease of doing business in the country in order to attract foreign investors.

2.1.2 Institutional theory of foreign direct investment

Institutional theory rests on what institutions are, and the role they play in the world of commerce and developmental economics. Abotsi [14] believe that the choice of a country for foreign direct investment is a function of the state (quality) of institution in the country; and that weak institutions attract lesser FDI while stronger institutions attract higher FDI. There is general shortage of foreign direct investment inflows to countries/locations where returns on investments reduce and capital accumulation decrease due to very weak institutional frameworks like corrupt political systems, inefficient and unreliable legal systems, and poor infrastructural developments [22,23]. As a matter of fact, strong national policies, robust legal and regulatory framework, and strong and reliable institutions are cardinal factors in attracting foreign direct investment to a particular region, country or location inflow [24, 25]. Inefficient institutions connote corrupt institutions; and they kill innovations, and use of modern technologies for economic, effective, and efficient business operations [14, 26]. The importance of strong institutions also extends to the enforcement of contract laws, property rights, and bilateral agreements [27]. Weak institutions generally lead to low efficiency levels in business and corporate performance indicators [28,29].

The four fundamental pillars of institutional FDI fitness theory are a government institution, market institution, educational institution, and socio-cultural with political strength (proxy of government institution) playing the biggest role in attracting foreign direct investment to a country [11]. Government fitness calls for the enactment of regulations and laws to protect and manage market/economic fitness. Also, government or political fitness of a country includes an open economy, limited trade/exchange rate control by the government, a high level of transparency, and lesser corruption [30]. Another import of government/political fitness is that foreign investors keep away from countries with negative/hostile investment policies as well as unstable political environments. Wilhelms et al. [31] summarised by adding that politics (government) shapes economics (market forces):education (human capital):and cultural norms; economics influences politics, education, and cultural norms; education sways politics, economics and cultural norms; and politics, economics, and education originate from cultural norms and practices.

2.2 Conceptual Framework

Fig. 2 is an illustration of the conceptual framework designed for this study. It is in sync with the theoretical underpins of the study as well as the research problem, research objectives (purpose):and research questions earlier put down. The independent variables are law, politics, economics, and human capital (a social factor); and foreign direct investment is the dependent variables. Five concepts therefore are the cardinal subjects under study: the roles of law, politics, economics, and human capital in attracting foreign direct investment to Ghana. This is supported by the Wahua [32] who investigated the impacts of law, politics and finance (economic variable) on capital adequacy of banking sectors in D-8 economies.

2.2.1 Law and Foreign direct investment

One way in which multinational corporations can mitigate the risks associated with the impact of a host country's national legal system on their investments is by seeking out nations with relevant bilateral investment treaties in place [33]. The import of law on foreign direct investment takes critical look at the

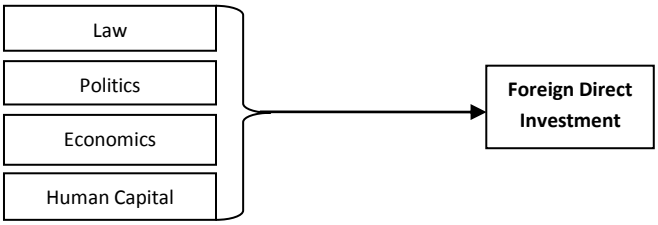

Fig. 2. Conceptual framework diagram
(Source: Author)

following: transparent regulatory and legal-making processes, no unexpected and or retrospective changes to regulatory and legal measures, no arbitrary or discriminatory treatment by the host country government, recognition of contract rights, recognition of intellectual property rights, independence and impartiality of courts in the host country, no expropriation of investment without adequate compensation, and good human rights conditions in host country [33].

2.2.2 Politics and foreign direct investment

The central issue in discussing the role of politics on businesses at single and comparative basis is corruption; and this is because local and foreign investors take critical analysis of prospective host countries' political climates in taking foreign investment decisions [32]. Pandya [34] notes that political economy theories of multinational corporations' foreign investment decisions emphasize how host country's political characteristics shape and re-shape political risk inherent therein. Political risk describes host countries' propensity to corruptly enrich themselves from multinational corporations by implementing corrupt policies ex-post; and threatening to nationalize the assets of multinational corporations in extreme circumstances. Yan and Oum [29] assert that corruption leads to low efficiency level in attracting foreign direct investments. The "grease and wheels" concept posits that at high level of political quality, corruption is expected to have a positive effect on foreign direct investment; and at low level of political quality, corruption is expected to have a negative impact on foreign direct investment. Abotsi [14] adds that at high level of institutional quality, corruption extends beyond paying bribes to win contracts, obtaining official permits, and avoiding unnecessary bureaucratic delays to situations where there is malfunctioning of general institutional framework of a country.

2.3.3 Economics and foreign direct investment

Economics is at the heart of foreign direct investment paradigm both in attracting or limiting agenda. It is economics that most often rally other institutional factors to attract FDI or to control it. This is primarily because the fundamental aim of FDI is to attract foreign capital for the development of the local economy in order to create jobs, raise revenue for government, and develop local infrastructure [35]. Efficient capital markets responsibly anchors the financial and economic dimension of institutional foreign direct investment theory (in the forms of physical and financial capitals):and a well-developed and properly-functioning capital and financial markets attract foreign firms to invest in a host country [11].

2.3.4 Human capital and foreign direct investment

The quality of education in a country plays a very critical role attracting foreign direct investment as educated human capital increases research and development needs of foreign forms. Gdairia et al. [5] adds that foreign investors do not necessary enter international operation due primary to raw materials availability; but, with due cognizance of availability of qualified human capital to man and steer their operations in the host countries. Zeqiri and Bajrami [7] believe that the role and impact of human capital in attracting foreign direct investments to host countries depends greatly on the availability, quality and mode of investment by the foreign investor, the location-advantage of the host country, the specific industry being entered into by the foreign investor, the and long-term objectives/goals of the foreign investors. It is important to also add that the quality and number of human capital available in a host country could also be among the critical factors for consideration in making foreign direct investment decisions by investors.

2.2.5 Foreign direct investment (FDI)

FDI is that it is the movement of investment capital, technology, and human resources from a source country to a host country for the primary purpose of acquiring ownership of assets in order to control production, distribution and related activities with the sole aim of maximizing profitability [7]. The IMF [36] see foreign direct investment as the acquisition of

a long-lasting interest in an offshore company by an investor who still controls the management of the foreign company. This definition by IMF has no much departure from that of Zeqiri and Bajrami [7]. UNCTAD [37] notes that foreign direct investment is one in which there is "long-term relationship as well as long-lasting control due to established interest in a foreign company by a foreign investor (which could be an individual or a parent company). A joint benchmarked definition of FDI by International Monetary Fund (IMF):and Organisation for Economic Cooperation and Development (OECD) see foreign direct investment as an international business arrangement where a foreign investor (residing in the home economy) acquires a long-term "influence" in the management of an subsidiary/affiliate firm in the host economy" [38]. This position is re-echoed by Moran [39] who opines that foreign direct investment is present in a situation where a foreign corporation sets up a business operation in another country by way of a new "wholly-owned affiliate or acquiring a local company or forming a joint venture in the host economy".

2.3 Empirical Review

Morisset and Olivier [40] examined the impacts of corruption and bad governance (two political factors) on FDI inflows, and the study established that corruption and bad governance (proxies of quality of politics) have significant positive impact on administrative costs of firms, and thereby push foreign firms away from investing in politically corrupt countries. A politically corrupt country signals bad public governance as business have to pay their way through to get registered, win government contracts, influence tax matters, etcetera. This position is equally corroborated by Strange and Buckley [41], who argued that foreign firms enter foreign countries for business operations when empirical data suggest that their transactional costs would be reduced, and their profit margin increased. Calipha, Tarba and Brock, [42] added that politically stable countries with less corrupt public service attracts foreign direct investment than unstable countries with highly corrupt public service. They argued that lesser corruption and good governance promotes business exchanges, enhances market power, ensures acquisition of firm competitive advantages, and help foreign firms to increase their resources and competences. Many scholars have really confirmed that location-advantage (or destination) attracts foreign direct investment significantly. Examples of such studies are Ragozzino and Reuer [43], Alaya, Nicet-Chenaf and Rougier [44], and Bouoiyour, Hanchani and Mouhoud [45]. As a matter of fact, foreign investors are attracted to countries with good infrastructural developments (good roads, good transportation system, good communication networks, etcetera):politically stable and less-corrupt system, good governance and respect for private and corporate citizens, strong and less-corrupt legal system, and competitive and open economic system [15, 16]. The multiplicity of studies on the impact of location-advantage on foreign direct investment flow is backed by empirical results corroborating that institutional factors like politics, economics, and law do have significant causal relationship with foreign direct investment flows [5].

Asiedu [46] investigated the impacts of market size (and economic factor):political instability (political factor):and quality of infrastructure (socio-political factor) on foreign direct investment inflows to developed and developing countries. The results of the empirical study established that these locational/institutional factors significantly attract foreign direct investments to developed economies while they are not significant drivers of foreign direct investment to Sub-Saharan African countries (which are considered developing). The take from this study is that developed countries institutions are strong and attractive to foreign countries while developing countries institutions are weak and repulsive to foreign investors. The solution therefore is for developing countries such as Sub-Saharan African countries to strengthen their legal, political, economic, and infrastructural institutions to divert foreign direct investments to the countries away from natural resources such as gold, diamond, gas, and oil.

The work of Alaya, Nicet-Chenaf and Rougier [44] identified foreign direct investment locational factors as political, institutional, and economic significant determinants of FDI flow across the world. They equally empirically established that institutional and infrastructural factors (locational-advantages determinants) do have significant positive effects in influencing the direction and quantum of foreign direct investments worldwide. This is corroborated by the works of Kinoshita and Campos [47], and Stein and Daude [48] who investigated the impact of countries' governance index (a proxy of politics) on foreign direct investment inflows. Ghemawat [49] equally supports the role of institutions in marketing or demarking foreign direct investments to countries as no foreign investor would like to risk his/her fortunes on countries that do not promote and protect foreign investors' interests. Ghemawat [49] added that locational-institutional factors also include socio-cultural variables like religion, language, and cultural norms. Investors are naturally prone to investing in friendly religious and cultural environments than in hostile ones.

The seminal work of Johanson and Vahlne [50] strongly assert that differences between two countries can make a huge difference in foreign direct investment inflows to them, and echoed that favourable cultural and business customs, similarities in business laws and ease-of-doing business significantly attract foreign direct investments as they reduce "transactional costs and risks of foreign market penetration". Social institutional factors like quality of education, quality of human resources, and availability of skilled workforce (subsets of location-specific advantages) have also been established to have significant effects on foreign direct investment flows to countries. Blonigen, [51], and Métais, Véry and Hourquet [52] add that political, economic, and other institutional factors do significantly shape and re-shape the quantum and direction of foreign direct investment flows. According to them, this is because favourable political, economic and other institutional environments attract foreign direct investments to host countries than unfavourable one. Therefore, it is apt to conclude that location-specific advantages attract foreign direct investors while location-specific disadvantages repel foreign investors. Finally, location-specific advantages influence and determine foreign direct investments decisions

Bouoiyour, Hanchani and Mouhoud [45] undertakes an investigation into the role of human resources in the attraction of foreign direct investments; and empirically established that the availability of quality and adequate human capital do significantly attract foreign direct investments to host countries. They argued that foreign investors would readily recruit locals with requisite skills and knowledge that recruit expatriates as doing otherwise would increase their transactional costs. When host countries do not have adequate and qualified local workforce, foreign firms would be force to recruit foreigners and pay them 'expatriate salaries and allowances' (thereby increasing their cost of operation). Therefore, foreign firms are attracted to host countries with availability of locals with requisite qualifications, skills, and expertise.

Gdairia et al. [5] investigated the roles of multiple location-specific factors and FDI-focused economic policies in Tunisia based on eclectic theory of foreign direct investment. The results of the study revealed that some specific location factors have statistical significant effects on FDI attraction. They summarised that traditional determinants (location factors) and host country's FDI-strategies are not enough to attract foreign direct investment inflows. In specific terms, the study revealed that level of education had the highest significant impact in attracting FDI to Tunisia at 57.5%. This is followed by country's legal framework, and currency exchange rate (50%):political stability (47.5%):economic stability, cost of labour, and transparent investment climate (42.5%):and physical security (40.0%). This reveals that foreign firms take availability of local workforce with higher academic qualifications (a social factor) seriously before in making investment decisions in Tunisia. The import of this is higher academic qualifications entails higher knowledge acquisition and ability to deliver superior tasks. The following factors are elements of political factors: quality of education, political stability, physical security, and transparent investment. Examples of economic factors stated by the author include economic stability, cost of labour, and currency exchange rage. It is apt to add that government regulates education in different countries of the world (approval, accreditation, and supervision). It is necessary to observe that legal quality (country's legal framework, 50%):economic quality (currency exchange rate, 50%):and quality of public administration (level of education, 57.5%) have pass mark each in attracting FDI to Tunisia. Regrettably, salient factors like quality infrastructure (17.5%):quality of life (25.5%):and raw materials availability (22.5%) did not matter significantly in attracting FDI to Tunisia within the period covered in the study.

Muthoga (2003) (as cited in Popovici & Calin, [30]) revealed that foreign direct investment inflow to Kenya is a function of government economic policies and not necessary due to availability of natural resources. This is supported by Musonera, Nyamulinda and Karuranga [53] who comparatively investigated the determinants of foreign direct investment to East African countries of Kenya, Tanzania and Uganda and established that countries political and economic policies (macroeconomic and political stability, and efficient regulatory framework) attract foreign direct investments to the countries and not necessarily natural resources (Tanzania and Uganda both resource-poor countries).

3. RESEARCH METHODOLOGY

3.1 Research Design and Method

The descriptive research design forms the basis of this empirical study. Some other features of descriptive research design include the fact that it leads to the development of research theories, the identification of contemporary problems, and the need for enhanced contemporary research practices [54]. According to Larson, Story, Eisenberg and Neumark-Sztainer [55], descriptive research design embraces the use of descriptive and inferential statistical techniques in

scientifically testing research questions or hypotheses; and x-raying the flowchart of executing an empirical research. Wahua [56,57] adopted descriptive research design.

3.2 Research Models

This study aims at empirically investigating the direct effects of law, politics, economics and human capital on the inflow of foreign direct investment to Ghana. In line with the properties of this data, four models guide the testing of the four hypotheses developed for this research. These four models are in sync with the research objectives as well as the theoretical and conceptual frameworks.

$$FDI = \alpha + \beta law + \beta economics + \varepsilon \quad (1)$$

$$FDI = \alpha + \beta law + \beta politics + \varepsilon \quad (2)$$

$$FDI = \alpha + \beta law + \beta politics + \beta economics + \varepsilon \quad (3)$$

$$FDI = \alpha + \beta law + \beta politics + \beta social + \varepsilon \quad (4)$$

Where:

FDI = Annual foreign direct investment inflow to Ghana for 2003 - 2019
Law = Annual quality of legal system of Ghana
Politics = Annual quality of political system of Ghana
Economics = annual economic growth of Ghana
Social = Annual human capital development of Ghana
α = Constant factor or intercept
β = Coefficients of each variable
ε = Error terms

Models 1 - 4 applies to Hypotheses 1 – 4, which were tested separately using the ordinary least square (OLS) multiple regression analysis. This is so to avoid collinearity or multicollinearity problem that might result to Type 1 error in the results of the data analysis. Type 1 error occurs in research is the rejection of the null hypothesis when it is true [58]. Wahua [32] adopted this approach in his investigation of the impacts of legal systems, political systems, and financial systems on capital adequacy of banking sectors in Egypt, Malaysia, Nigeria, Pakistan, and Turkey.

3.3 Data Collection Instrumentation

Data were collected from secondary source with the aid of checklist; and Aspal and Nazneen [59], Wahua and Ezeilo [60], and Wahua, Tsekpo, and Nyamele [61] support the use of checklist as a secondary data collection tool. The secondary data of the study are Ghanaian aggregate data, which were accessed from the websites of the following global institutions: World Bank Group (Doing business index, and Rule of law index):Transparency International (Corruption perception index):UNDP (Human development index):and UNCTAD (Foreign direct investment inflow).

3.4 Operationalization of Research Variables

Table 1. Summary of research variables operationalization

Variable	Sign	Measurement	Reference
Independent:			
quality of politics	CPI	Corruption perception index	Abotsi [14], Pandya (2016):Wahua [32]
quality of economics	GDP	Doing business index	UNCTAD [62]
quality of social life	HDI	Human development index	Gdairia et al. [5], Zeqiri et al. [7]
quality of law	ROL	Rule of law index	Hogan Lovells Firms [33], Wahua [32
Dependent:			
foreign direct investment	FDI	Foreign direct investment inflow	IMF [36], Zeqiri et al. [7]

Source: Compiled by the Author

3.5 Test of Normality Assumptions

Fig. 2 shows that the Skewness Statistic of the data used in this research range from -1.283 to 0.105 while the Kurtosis Statistic of all the research data range from -0.965 to 0.543. These results are within the acceptable benchmarks of -3 to +3 for Skewness and -7 to +7 for Kurtosis [63]. These go to confirm that the normality assumption for the use of multiple regression analysis has been met in this study.

Table 2. Data normality results

	Skewness		Kurtosis	
	Statistic	**Std. Error**	**Statistic**	**Std. Error**
Rule of Law **(ROL)**	**-.445**	.550	**.543**	1.063
Politics **(CPI)**	**.105**	.550	**-.752**	1.063
Economic Policy **(DBI)**	**-1.283**	.550	**.150**	1.063
Human Capital **(HDI)**	**-.570**	.550	**-.965**	1.063
Foreign Direct Investment **(FDI)**	**-.896**	.550	**-.848**	1.063

Source (Author)

4. DATA ANALYSIS

Hypotheses 1 – 4 were originally designed to be tested simultaneously; but, since the correlation between economic policies (as measured by doing business index) and human capital development (measured by human development index) is significantly high at 90% with 99% confidence level, both variables were excluded from one model. Therefore, Hypothesis three is tested jointly with Hypotheses one and two in one model; and Hypothesis Four is tested jointly with Hypotheses one and two in another model. The import of course of action is that Hypotheses one and two are tested twice in order to ascertain the importance of legal and political institutions in attracting FDI to Ghana when economic decisions (DBI) and human capital (HDI) are controlled. Fros [64] recommends this methodology in an attempt to avoid collinearity or multicollinearity problem in the interpretation of multiple regression coefficients.

4.1 Test of Hypothesis One – Three

H1: *Legal system has significant effect on foreign direct investment inflow to Ghana from 2003 to 2019.*

H2: *Political system has significant effect on foreign direct investment inflow to Ghana from 2003 to 2019.*

H3: *Economic policies have significant effect on foreign direct investment inflow to Ghana from 2003 to 2019.*

Table 3 contains the results of the three models used in testing hypotheses 1 – 3.

4.1.1 Interpretation of hypothesis 1 results

The R-statistic shows that economic decisions and law (DBI and ROL) jointly have 95.9% correlation with foreign direct investment flow to Ghana using data from 2003 – 2019 from global organisations. The statistical import of this is that when there is improvement in both economic policies and quality of Ghanaian legal institution, foreign investors become highly interested in investing in the country and vice versa. The R. Squared shows that the model used in testing Hypothesis 1 accounted for 92% variation in foreign direct investment inflow to Ghana within the period under review (2003 – 2019) when inherent statistical errors have not being considered. The Adjusted R. Squared statistically imply that Hypothesis One Model accounted for circa 90.8%

Table 3. OLS multiple regression coefficient for hypotheses 1 - 3

Variable	Model: FDI = α + DBI + ROL			Model: FDI = α + DBI + CPI			Model: FDI = α + DBI + ROL + CPI		
	B (USD)	Beta (%)	Sig.	B (USD)	Beta (%)	Sig.	B (USD)	Beta (%)	Sig.
(Constant)	- 16,882,355,327.59		.001	- 13,316,786,537.11		.001	- 15,552,400,942.35		.001
DBI	170,443,922.05	.794	.001	151,653,417.49	.707	.001	146,649,417.41	.683	.001
ROL	97,585,722.23	.248	.018				67,494,784.74	.171	.107
CPI				83,481,435.00	.305	.021	56,116,151.61	.205	.121
R.	.959			.958			.966		
R. Squared	.920			.918			.934		
Adj. R-Squared	.908			.907			.918		
Durbin-Watson	1.615			1.691			1.832		
ANOVA - F-Stat.	80.110 (0.001)			78.708 (0.001)			60.982 (0.001)		
Tolerance	0.667			.427			.334 - .522		
VIF	1.499			2.342			1.916 - 2.992		
Dependent Variable: FDI									

Source: Author

changes in FDI flow to Ghana when error terms have been factored into the analysis [65]. These suggest that economic policies and laws are good institutional indicators necessary for attracting FDI to an emerging country like Ghana. The ANOVA F-statistic of 80.110 is significant at 0.001 (which is below the critical value of this study: 0.05). This implies that the model used in testing Hypothesis One is a good fit for it, and therefore statistically sound [57]. The Durbin-Watson, Tolerance, and VIF are all within their acceptable limits of 1.500 – 2.500, 0.10 and above, and 1 – 10 respectively (see: [66-69]). These show that the data used in testing Hypothesis One is devoid of any serious collinearity or multicollinearity problems [70,71,60]. The results of Hypothesis One test show that when:

i. Economic policies and legal institutions are held constant (zero):foreign direct investment inflow to Ghana decreases by USD16,882,355,327.59 and the probability of this happening is significant (0.001) at critical value of 0.05;
ii. Economic policies are held constant (zero):the laws of Ghana increases FDI to the country by USD97, 585,722.23;
iii. Economic policies are controlled; law has 25% significant effect in attracting FDI to Ghana at critical value of 0.05. Therefore, Hypothesis One is hereby accepted as it has been empirically proved that law has significant effect in attracting FDI investment to Ghana.

4.1.2 Interpretation of hypothesis 2 results

The R-statistic shows that economic decisions and politics (DBI and CPI) jointly have 95.8% correlation with foreign direct investment flow to Ghana using data from 2003 – 2019 from global organisations. The statistical import of this is that when there is improvement in both economic policies and quality of Ghanaian political institution, foreign investors become highly interested in investing in the country and vice versa. The R. Squared shows that the model used in testing Hypothesis 2 accounted for 91.8% variation in foreign direct investment inflow to Ghana within the period under review (2003 – 2019) when inherent statistical errors have not being considered. The Adjusted R. Squared statistically imply that Hypothesis Two Model accounted for circa 90.7% changes in FDI flow to Ghana when error terms have been factored into the analysis [65]. These suggest that economic policies and politics are good institutional indicators necessary for attracting FDI to an emerging country like Ghana. The ANOVA F-statistic of 78.708 is significant at 0.001 (which is below the critical value of this study: 0.05). This implies that the model used in testing Hypothesis Two is a good fit for it, and therefore statistically sound [57]. The Durbin-Watson, Tolerance, and VIF are all within their acceptable limits of 1.500 – 2.500, 0.10 and above; and 1 – 10 respectively [66-69]). These show that the data used in testing Hypothesis One is devoid of any serious collinearity or multicollinearity problems [70,71,60]. The results of Hypothesis Two test show that when:

i. Economic policies and political institutions are held constant (zero):foreign direct investment inflow to Ghana decreases by USD13,316,786,537.11 and the probability of this happening is significant (0.001) at critical value of 0.05;
ii. Economic policies are held constant (zero):the politics of Ghana increases FDI to the country by USD83, 481,435;
iii. Economic policies are controlled; politics has 31% significant effect in attracting FDI to Ghana at critical value of 0.05. Therefore, Hypothesis Two is hereby accepted as it has been empirically proved that politics has significant effect in attracting FDI investment to Ghana.

4.1.3 Interpretation of hypothesis 3 results

The R-statistic shows that economic decisions, law and politics (DBI, ROL and CPI) jointly have 96.6% correlation with foreign direct investment flow to Ghana using data from 2003 – 2019 from global organisations. The statistical import of this is that when there is improvement in economic policies and quality of Ghanaian legal and political institution, foreign investors become highly interested in investing in the country and vice versa. The R. Squared shows that the model used in testing Hypothesis 3 accounted for 93.4% variation in foreign direct investment inflow to Ghana within the period under review (2003 – 2019) when inherent statistical errors have not being considered. The Adjusted R. Squared statistically imply that Hypothesis 3 Model accounted for circa 91.8% changes in FDI flow to Ghana when error terms have been factored into the analysis [65]. These suggest that economic policies, law and politics are good institutional indicators necessary for attracting FDI to an emerging country like Ghana. The ANOVA F-statistic of 60.982 is significant at 0.001 (which is below the critical value of this study: 0.05). This implies that the model used in testing Hypothesis 3 is a good fit for it, and therefore statistically sound [57]. The Durbin-Watson, Tolerance, and VIF are all within their acceptable limits of 1.500 – 2.500, 0.10 and above, and 1 – 10

respectively [65-67]. These show that the data used in testing Hypothesis One is devoid of any serious collinearity or multicollinearity problems [70,71,60]. The results of Hypothesis Three test show that when:

i. Economic policies, legal and political institutions are held constant (zero):foreign direct investment inflow to Ghana decreases by USD15,552,400,942.35 and the probability of this happening is significant (0.001) at critical value of 0.05;
ii. Law and politics are held constant (zero):the economic policies of Ghana increases FDI to the country by USD146, 649,417.41;
iii. Law and politics are controlled; economic policies have 68.3% significant effect in attracting FDI to Ghana at critical value of 0.05. Therefore, Hypothesis 3 is hereby accepted as it has been empirically proved that economics has significant effect in attracting FDI investment to Ghana.

4.2 Test of Hypothesis Four

H4: Human capital development has a direct relationship with foreign direct investment inflow to Ghana from 2003 to 2019

Table 10 contains results of ordinary least square regression analyses carried out to test Hypotheses 4. The three models in Table 4 (FDI = α + HDI + ROL; FDI = α + HDI + CPI; FDI = α + HDI + ROL + CPI) test the efficacy of human capital (HDI) in attracting foreign direct investment to Ghana. The R Statistic is the correlation coefficient of the variables used in the model and all the R. coefficient show that the correlations of the models with FDI to Ghana stand at 90.7%, 92.6%, and 92.7% respectively. The R-Squared statistics measures the degree of variations (changes) on the outcome (or dependent) variable caused by the model. The R- Squared values on Table 10 show that the three models accounted for circa 82% - 86% and 80% - 84% of the changes that occurred in FDI inflow to Ghana from 2003 – 2019 when error term is not considered and when error terms are considered respectively. The analysis of variance (ANOVA) contains the F-statistics; and since they are all significant at 0.05 critical value, it connotes that the three models are good fit for the testing of Hypothesis 4. The Durbin-Watson values for the three models show presence of slight multicollinearity (they fall outside the acceptable benchmark of 1.500 – 2.500); but the Tolerance and VIF indicators are within acceptable limits. This shows that the statistical analyses carried out in testing Hypothesis 4 are sound. The regression coefficients of the three models indicate that human capital (HDI) has circa 62 – 82% significant effect in attracting foreign direct investment to Ghana depending on the variable between controlled individually or jointly between law and politics. In specific terms, Table 4 shows that when:

i. Human capital and law are held constant (zero):FDI to Ghana reduces significantly by USD16, 456, 215, 182, 22 using data from 2003 – 2019;\

Table 10. OLS multiple regression coefficient for hypotheses 4

Variable	Model: FDI = α + HDI + ROL			Model: FDI = α + HDI + CPI			Model: FDI = α + HDI + ROL + CPI		
	B (USD)	Beta (%)	Sig.	B (USD)	Beta (%)	Sig.	B (USD)	Beta (%)	Sig.
(Constant)	- 16,456,215,182.22		.001	- 13,985,724,490.55		.001	- 14,392,746,139.84		.001
HDI	289,216,443.21	.815	.001	226,601,438.25	.639	.002	219,341,307.95	.618	.005
ROL	48,364,233.58	.123	.458				17,431,552.73	.044	.780
CPI				91,607,762.99	.334	.062	87,727,993.06	.320	.095
R.	.907			.926			.927		
R. Squared	.823			.858			.859		
Adj. R-Squared	.798			.837			.826		
Durbin-Watson	.715			.996			.982		
ANOVA - F-Stat.	32.618 (0.001)			42.221 (0.001)			26.326 (0.001)		
Tolerance	.488			.374			.318 - .450		
VIF	2.049			2.671			2.223 - 23.147		
Dependent Variable: FDI									

Source: Author

ii. Human capital and politics are held constant (zero):FDI to Ghana reduces significantly by USD13, 985,724,490.55 using data from 2003 – 2019;
iii. Human capital law and politics are held constant (zero):FDI to Ghana reduces significantly by USD14, 392,746,139.84 using data from 2003 – 2019;
iv. Law is controlled, human capital (HDI) has 82% significant positive effect on FDI flow to Ghana;
v. Politics is controlled, human capital (HDI) has 64% significant positive effect on FDI flow to Ghana; and
vi. Law and politics are controlled; human capital (HDI) has 62% significant positive effect on FDI flow to Ghana. Therefore, Hypothesis 4 is hereby accepted since it has been empirically established that human capital has significant positive effect on FDI inflow to Ghana.

5. DISCUSSION AND CONCLUSION

5.1 Discussion of the Findings

This empirical research has once again re-echoed the fundamental fact that economics of foreign direct investment do not escape legal, political, and socio-cultural dynamics of host countries as opined by Fontagné and Pajot [72], and Gdairia and Sellaouti [5] among others. Once again, the study established that the law, politics, economics, and human capital of Ghana had significant positive effects on foreign direct investment inflow to the country within 2003 to 2019. Abotsi [14], Wahua [32,57], and Quazi, Vemuri and Soliman [73] equally agreed to the fact that the politics of a country can make or mar FDI inflow to it. Joshi and Carter [74] observe that institutions are creations of law, and that law is at the nucleus of FDI drive and that it has significant effect in its inflow to host countries. This has the support of Evans [75], Yan and Oum [29], Hogan Lovells Firms [33] Wahua [32,57] among others.

Muthoga (2003) (as cited in Popovici & Calin, [30]) revealed that foreign direct investment inflow to Kenya is a function of government economic policies and not necessary due to availability of natural resources. This is supported by Musonera, Nyamulinda and Karuranga [53]. Wilhelms et al. [31] summarised by adding that politics (government) shapes economics (market forces):education (human capital):and cultural norms; economics influences politics, education, and cultural norms; education sways politics, economics and cultural norms; and politics, economics, and education originate from cultural norms and practices. Thus, it is good to end this sub-section of this research with a caution that no one institution can single handedly control the dynamics of global FDI and foreign direct investment inflow to a particular country or region, but the interaction of institutions does it better.

5.2 Implications of the Findings

Theoretically, the positions of Oppong [13], and Marandu and Ditshweu [12] that locational-advantages attract foreign investors to invest in a host country have being empirically confirmed in this study. Ashraf, et al. [35] observed that "macroeconomic FDI theories emphasize country specific factors; and Makoni [11] identified location-based FDI theory and institutional FDI Fitness theory as types of macroeconomic theories of foreign direct investment. Practically, corruption is an issue in the politics of Ghana; and the need to fight it head-on in order to increase FDI to the country cannot be overemphasised. Policy wise, the current economic policies of the Ghana as contained in Act 478 of 1994 and Act 504 of 1995 are attractive to investors, and the need to review them from time to time (in line with prevailing local and international best practices and circumstances) cannot be ignored.

5.3 Conclusion

As the debate on the roles of countries' institutional variables in attracting foreign direct investment to host countries rages, this parametric study investigates the impacts of law, politics, economics, and human capital on foreign direct investment inflow to Ghana using aggregate country-wise secondary data from 2003 – 2019 (17 years). Locational-institutional theory guides the study. Using ordinary least square multiple regression analysis, the study establishes that law, politics, economics, and human capital have significant positive associations as well as effects on foreign direct investment to Ghana within the period under review. The significance of the study in terms of theory, practice, and polices were enumerated along with far-reaching recommendations.

5.4 Recommendations of the Study

i. There is need to promote a better corrupt-free politics in Ghana in order to strengthen other national institutions and promote better development and living standard of the people.
ii. The government of Ghana through its appropriate agencies should continue making economic policies that attract foreign investors to the country;

iii. The current free secondary education in Ghana should be institutionalized and extended to other critical fields of education to increase human capital development;
iv. Judiciary staff and other supporting officers like the police, immigration, customs, and staff of Ministry of Foreign Affairs should be trained and retrained in order to up FDI inflow to Ghana; and lastly,
v. There is need to replicate this study in other emerging and emerged economies for effective generalization of its findings.

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COMPETING INTERESTS

Author has declared that no competing interests exist.

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