THE IMPACT OF FOREIGN CAPITAL INFLOWS ON ECONOMIC GROWTH IN SELECTED WEST AFRICAN COUNTRIES

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ABSTRACT

Background: The West African countries have been identified with inadequate capital for investment, being one of the poorest sub-regions in the world. **Objective**: The objective of this study is to examine the nature of relationship between foreign capital inflows and the level of economic growth in selected West African Countries and to observe the causality between foreign capital inflows components and economic growth. **Method**: This study employed panel data from 1980 to 2015 to examine the impact of foreign capital inflows on the economic growth in the selected West African countries using Two Gap Theory. In addition, we adopt Pedroni cointegration and granger causality test. **Result:** The findings indicate shows the existence of long run relationship between foreign capital inflows and economics growth in selected West African country. All the variables were positive but only foreign direct investment is significant. Net migrant remittance, foreign direct investment and official development assistance cause growth in the short run. **Conclusion:** The study concludes that foreign capital inflows is imperative in closing the savings-investment gap required for economic growth in selected west African countries. **Recommendation**: The study recommends policy to encourage capital inflows via provision of enabling environment for foreign investment, reduction political instability and diversification of domestic economies.
Keywords: capital inflows, panel cointegration, fully modified ordinary Least square, penal causality, economic growth.
JEL Classification : F21, C34, F43, O16.

1. INTRODUCTION

Over the years, some appreciable economic developments have been achieved by West African countries with regards to economic growth. One of the salient sources is via Foreign Capital inflows. A nation can achieve fast economic growth through the motivation of foreign capital. Foreign investments have been viewed as form of merger and acquisition which as do with the existing interest rather than new investment [1].

Foreign Capital Flows has been seen as the main activities that enhance economic growth of any nation from the developing world. Capital needed for domestic investment, employment creation, managerial skills and transfer of technology can be achieved through foreign capital inflows [2]. Although, event had changed over times where foreign capital inflow is subject to countries within the region of Africa as many Nigerians' investors heavily invest in Ghana and other West African countries. Nigeria also receives managerial skills, investments from other African countries [2].

The impact of Foreign Capital inflow is high imperative in moving nations from the period of economic depression to achieve economic success as supported by supported by the above mentioned literatures which are of the same opinion. Public and private investments among African countries have been facing a perennial shortage of resources in the respect of financing their investments [3]. The lack adequate finance has reduced the ability of governments to embark on public expenditure in infrastructure and social services required to boost domestic demand, encourage private sector activity and sustain high level of growth for economic transformation [3]. The chronic resource gaps emanate from imbalances between exports and imports, between debt payments and resource inflows and between domestic savings and domestic investments [4].
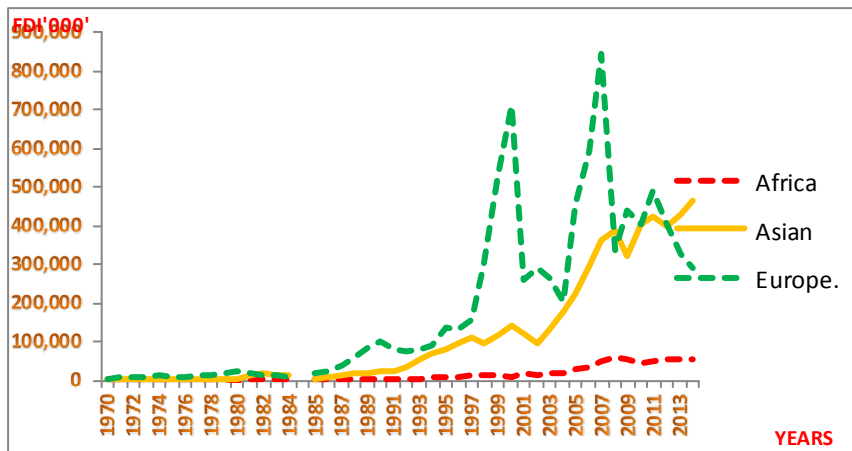
Figure 1: Comparison of FDI in Africa with other continents.
Source: World Investment Report, UNCTAD, 2015.

From figure1 above shows that the percentages of FDI in Africa compared with other continents is relatively low. The Africa countries had been facing crises over 3 decades amount to different political crises, wars, insecurity, corruption in investment on adequate infrastructural facilities to attract foreign capital flows. Foreign Capital inflows are highly important in West African economy, the World's poorest continent as compared to other counterpart [5]. West African countries remain the world poorest continent as many are living below one dollar per day according to World Bank report 2016. Capital inflows viz Foreign direct investment, Remittance and Foreign Direct Investment should be target for the policy makers in this region.
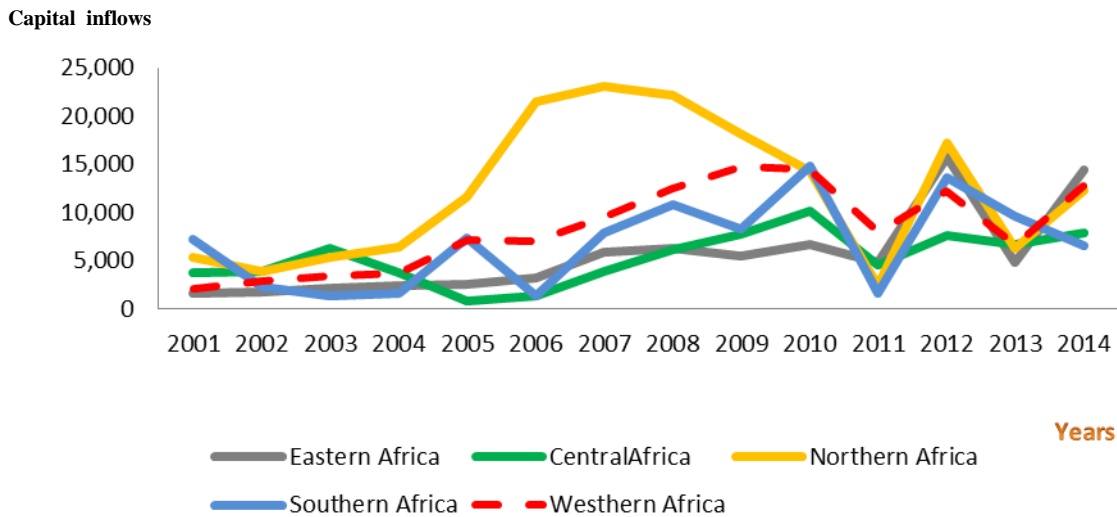

Figure 2: The inflows of FDI among African Sub-Region.
Source: Authors, using UNCTADStat online data 2016.

UNCTADStat Report (2016) showed that capital flows in WA was significantly low for 2 decades owing to political crises and inability to provide enabling environment to attract capital and investment to WA. Fundamentally, critical part of the changing character of FDI exercises in West Africa is traced to rate at which the intra-regional investment is expanding into new FDI projects [6]. This growth in intra-regional investment is being driven by Nigeria, the regional powerhouse of West Africa. In fact, statistics has shown that there is large expansion in Nigerian investments into intra-African investment, prominently after world financial and economic crises (2008–2013). Somewhere around 2008 and 2012, for instance, investment from Nigeria in relation with other African countries has 73.2 percent growth in FDI more than other West African Countries [7]. Likewise, in 2007 and 2013, intra-regional investment in Nigeria has increased by sum of 10.7% while the quantity of projects rose by 11.6% [7]. Amid the same period, its occupation creation also increased by 11.4% [5].

Efforts had been made by governments of developing countries to solve these economic doldrums (depression) without achieving success as planned. The governments of these countries have neglected investment especially foreign capital flows which will not only guarantee employment for them but will also have positive impact on economic growth and development. Foreign Capital is high imperative in any economy as it reduces the difference between the desired gross domestic investment and domestic savings [8].

A study of Chi-Chi in 2012 claimed that, there is a connection between foreign direct investment, economic growth and foreign capital. The study found that, FDI cause growth in an economy through foreign capital and also facilitate an increase in the total investment in such economy and subsequently provide extra job opportunities to the residents and poverty reduction. The study claimed that, FDI linkage to the home economy is a form of forward and backward association [9].

According to Adegbite and Ayadi (2011), Domestic Revenue-Generation Gap will be filled in the developing economy through the help of FDI, given that most emerging countries' governments do not seem to be able to make enough revenue to meet their expenditure required to attain sustainable growth [10]. Another study of [11], claimed that, the benefit of capital inflows in an economy are in the form of spillover effect when economy enjoy poverty reduction through employment creation and increase in per capita income via remittance and adoption of foreign technology [12].

2. THE LITERATURE REVIEW

It is often asserted that Capital inflows is an indispensable component to economic growth solid and development, mostly since it's the core driver of the fast and effective transfer and adoption of best practices from one nation to another [13]. Foreign flows are mostly adapted to the transfer and its transformation into global growth, precisely in making the most of human capital. They concluded that FCI are positively and significantly associated with economic growth in low income economies [14]. Moreover, these variables are equally important for countries that are highly dependent on FDI.

Foreign Capital Inflow have a positive and significant impact on economic growth if the government controls her institutions. Additional interesting is the way that coefficient estimates related to these foreign capital streams are of similar magnitude [15]. The determinants of an aggregate Capital variable to measure aggregate external financing (AID, FDI and settlement) were established by [16]. In any case, they found that these variables are also significant .Their findings are similar to that of Driffield and Jones. The endogenous growth theories state that the long-run growth of a nation is not just depended on the volume of physical investment but also relies on upon the efficiency in which investment is utilized in the economy. Subsequently, endogenous growth model focuses on incorporating organizational, managerial, technical and human skills, accumulation of knowledge additionally advancement and mechanical advance endogenously in the growth theories which are regularly brought by FDI [17]. The long-run economic growth in the endogenous growth model is seen as an element of innovative advancement getting from knowledge spillovers and technology transfers [11]. In his effort to differentiate between inputs into foreign capital and domestic capital found positive association among the variables.

Similarly, Bagli and Adhikary (2014) developed Solow's swan model to test the impact of foreign capital on growth and found that the technology growth rate is an increasing function in foreign capital [18]. They made an assertion that the domestic capital increases with the increase in foreign capital. Nevertheless, it can be viewed that FDI may not only increase the productivity of firms receiving FDI but also to all firms. Furthermore, FDI can boost overall economic growth by enhancing competition in the local input market and hence boost home firms to achieving high productivity through several efficient techniques [19].

Households' recurrent expenditure is made from remittances [20]. He concluded that, at aggregate level it difficult to divert remittance into productive activity since most of the worker remittance is received by the households and decision on its usage is subject to their wish [13]. As far as we know among published the articles, of Giuliano and Ruiz (2009) are the first to include migrants' remittances into investment equation in estimation [21]. The study expressed that the parameter of migrants' workers' remittance variable was found positive and significant across all specifications. He concluded that, the tool of economic growth is indeed migrants' remittances [21]. The decisions on saving and invest are function of RER, and also the area that the government divert international capital flows to. Instability in the RER has positive effects on demand and supply in the economy, government finances, the price stability of commodity and factor, income and wealth distribution, employment, and in fact on general success of economic policies [22].

Upon reviewing the related literature, this study found a dearth of literature on the contribution of foreign capital inflows on Economic growth in selected West African countries. It has identified that little studies have been done combining both cointegration and causality to test association between foreign capital inflows on economic growth in WA [14, 13]. It is foreseeable that economy with foreign capital inflows viz FDI, Development assistance, remittance and with free corrupt society will growth rapidly. Using single foreign direct investment, Official Development assistance and Migrant Remittance alone in FCI modeling may not capture the real effect without adding other macroeconomic variables like interest rate and real exchange rate [12]. Mali and Mozambique in Africa achieve economic growth due to inflows of foreign capital. Foreign Capital Inflows have influence on economic growth of Pakistan [22]. In conclusion there is limited few studies looking beyond the established FCI impact on economic growth especially in the context of West African countries thus, this study will look at how foreign direct investment, Official Development assistance and Migrant Remittance affect economic growth in the context of the selected West African countries [14,22].

3. DATA AND ESTIMATION METHODS

The study utilized data from eight selected West African countries and the analysis used panel data techniques, and fully modified ordinary least squares (FMOLS) estimation to investigate the relationship between components of foreign capital inflows (Foreign Direct Investment, Official development assistances, Workers' migrants' remittances, Real Exchange Rate and Real Interest Rate and economic growth.

3.1 EMPIRICAL MODEL

3.2 The Model Specification

In order to estimate foreign capital inflows in this study we employ real gross domestic product for growth and remittance, official development assistance, foreign portfolio investment and foreign direct investment. Following their model with a little modification the model for this study is specified as thus:

$$InRGDPit = \beta0 + \beta1\,(InFDI)it + \beta2(ODA)it + \beta3(InREM)it + \beta4(REXR)it + \beta5(InINT)it + \mu it$$

(1)

RGDP$_{it}$ is Real Gross Domestic Products of countries i at period t. G$_{it}$ = the growth rate of GDP of country i at period t.
FDI$_{it}$ is Inflows of Foreign Direct Investment (gross foreign direct investment) over real GDP (dollar term) in country i at period t.
ODA$_{it}$ is Official development assistances in countries i at period t.
REM$_{it}$ is Workers' remittances in countries i at period t
REXR$_{it}$ is the official exchange rate to the US$ (annual average),) in countries i at period t.
RINT$_{it}$ is Real Interest Rate in countries i at period t.
β is a vector of coefficients
E$_{it}$ is stochastic error term in countries i at period t.

In conclusion, Secondary data are used in the study. We employed time series data to form a balanced panel data. Using time spans of 35 years (1980-2015). The balanced panel consists of annual data for Migrant Remittance, Official Development Assistance and FDI inflows into West Africa from selected West African countries viz Nigeria, Ghana, Gambia , Guinea, Liberia, Muaritania, Serria Leone, Cote D'Voire. The data are gathered and verified from various sources i.e. International Financial Statistics by World Development Indicators, Direction of Trade Statistics, political rating group (PRSG) and International Monetary Fund (IMF).

3.3 Penal Cointegration Analysis

Pedroni's heterogeneous panel cointegration method tests just for the presence of long run relationship (association ship). The tests show the existence or absence of long run equilibrium among the variables, however don't show the direction of causality when the variables are found co integrated. Having distinguishing the quantity of co incorporated comparisons (Johansen's techniques) we utilized a mistake revision model (ECM) for a nation by nation investigation. Cointegration requires that the variables to be integrated are of the same order I(1) i.e. first difference. The presence of unit roots in variable and found stationary at first difference I(1), the Error Correction Model (ECM) is utilized to analyze

the long-run or co integrating relationships between the variables and additionally the presence and the direction of causality between the time series.

We shall the following form to estimate the bi-variate ECM for each country.

$$\Delta G_{it} = a_{0} + \sum a_{1i} \Delta G_{it-1} + \sum a_{2i}\Delta FCI_{it-1}+\varphi ECT_{it-1} +u_{1it} \tag{2}$$
$$(i=1...n_1) \qquad\qquad (i=1...n_2)$$
$$\Delta FCI_{it}= b_{0} + \sum b_{1i} \Delta FCI_{it-1} + \sum b_{2i}\Delta G_{it-1}+\varphi ECT_{it-1} +u_{2it} \tag{3}$$
$$(i=1...n_1) \qquad\qquad (i=1...n_2)$$

Where Δ is the difference operator for each series, G_t is the RGDP, FCI_t is the FCI speak to the segment of outside Capital inflows, ECT_{it-1} is the error correction term derived from the long- run co integrating relationship, v_{1t} and v_{2t} are the white noise error terms t means the years and n1, n2 are the lag orders of a's and b's individually. The VECM results recognize short-run and long-run Granger causality. The coefficients of the lagged error correction term show that there is a long-run causal relationship between economic growth and FCI. It additionally shows that FCI and economic growth are adjusting to their long-run equilibrium relationships i.e. the speeds of adjustment to equilibrium in the long run among the series. The coefficients (and the magnitudes) of the ECM shows the speed of adjustment to the long-run equilibrium relationship.

If φ is find statistically significant in the first equation, but not significant in the second then we say that FCI Granger causes RGDP, if the inverse happens we say that RGDP granger causes FCI. If by chance φ is statistically significant in both equations we say that there is a bi-directional relationship.

3.4 Fully Modified Ordinary Least Squares (FMOLS) Estimation

In this stage we shall adopt FMOLS procedure from [15]. Full modified OLS (FMOLS) introduced by [23]. FMOLS tackles consistent estimates in panel series, non-exogeneity and serial correlation problems. Due to the fact that the variables are found cointegrated with trend through the panel unit root test and panel cointegration test, we proceed to estimate FMOLS for heterogeneous cointegrated panels [23, 24]. FMOLS make it possible for consistent and efficient estimation of cointegrated vectors. It handles the problem of non-stationary regressors and problem of simultaneity biases. Since OLS can yield biased results due to the that regressors are exogenously determined in the case of order one $I(1)$. We shall start with the OLS following cointegrated system:

$$y_{it} = \alpha_i + x'_{it}\beta + e_{it} \tag{4}$$
$$x_{it} = x_{i,t-1} + \varepsilon_{it} \tag{5}$$

where $\xi_{it} = [e_{it}, \varepsilon'_{it}]$ is the stationary with covariance matrix Ω_i. The estimator β will be consistent when the error process $\omega_{it} + [e_{it}, \varepsilon'_{it}]'$ satisfies the assumption of cointegration between y_{it} and x_{it}.

Due to the some nuisance parameters, that limit distribution of OLS estimator. Semi correction can be made to the OLS following [25] which eliminate the second order bias cause to the fact that the regressor are endogeneous. FMOLS estimator is stated as thus:

$$\hat{\beta}_{FM} - \beta = \left(\sum_{i=1}^{N}\hat{\Omega}_{22i}^{-2}\sum_{t=1}^{T}(x_{it} - \hat{x}_t)^2\right)^{-1}\sum_{i=1}^{N}\hat{\Omega}_{11i}^{-1}\hat{\Omega}_{22i}^{-1}\left(\sum_{t=1}^{T}(x_{it} - \bar{x}_t)e_{it}^* - T\hat{\gamma}_i\right) \tag{6}$$
$$\hat{e}_{it}^* = e_{it} - \hat{\Omega}_{22i}^{-1}\hat{\Omega}_{21i}, \qquad \hat{\gamma}_i = \hat{\Gamma}_{21i} + \hat{\Omega}_{21i}^0 - \hat{\Omega}_{22i}^{-1}\hat{\Omega}_{21i}\left(\hat{\Gamma}_{22i} + \hat{\Omega}_{22i}^0\right)$$

Where, the covariance matrix can be decomposed as $\Omega_i = \Omega_i^0 + \Gamma_i + \Gamma_i$ where Ω_i^0 represents the contemporaneous covariance matrix, and Γ_i being a weighted sum of auto-covariances. And also, $\hat{\Omega}_i^0$ is the appropriate estimator of Ω_i^0.

For the purpose of the analyses in this study, both the within-dimension and between dimension panel FMOLS test [23,24] will be used. One of the salient advantages of the within-dimension estimator is that the pooled data give way for greater flexibility in the presence of heterogeneity of the cointegrating vectors.

4. EMPIRICAL RESULTS

4.1 Panel Unit Root

In this sub-section, the main issues in time series will be determined, namely the existence of the unit root problem. To avoid spurious results in the time series analysis, in the first stage, the LLC unit root test is conducted to examine the stationarity for each data set in the study. A brief description of the error correction model used to unify the long and short run estimate is also examined.

Table 4.1: The Penal Unit root result

	LEVEL		FIRST DIFFERENCE		Stationary Order
Variables	Constant LLC	Constant +Trend LLC	Constant LLC	Constant +Trend LLC	Stationary at Order One.
InGDPit	6.15756 (1.0000)	4.38164 (1.0000)	-3.02067 (0.0013)	-2.87251 (0.0020)	I(1)
InRIRit	-0.18123 (0.4281)	0.62460 (0.7339)	-7.08227 (0.0000)	-3.98519 (0.0000)	I(1)
InREEXit	0.15916 (0.1513)	-1.60009 (0.0548)	-13.6399 (0.0000)	-11.1015 (0.0000)	I(1)
InFDIit	-1.59283 (0.0556)	-1.96820 (0.0245)	-13.2528 (0.0000)	14.4221 (0.0000)	I(1)
InODAit	-4.12295 (0.0002)	-3.41552 (0.0003)	-16.5293 (0.0000)	-14.6835 (0.0000)	I(1)
InREMit	0.04478 (0.5179)	-3.49947 (0.0002)	-15.0203 (0.0000)	-13.7165 (0.0000)	I(1)

Note: The number in ( ) denotes probability value. The lag length is chosen based on the Akaike"s Information Criteria (AIC) where maximum lag order was specified (k) in autoregression and then the appropriate lag order was selected according to the AIC. All the reported values for the LLC *t*-stat are distributed N(0,1) under null of unit root or no cointegration. N.B: * Indicates significant at the 5% level.

The results suggest that variables are integrated of order one, I(1) at 5 percent level of significance. Thus, the economic growth indicator RGDP, follows an integrating I(1) process so that the foreign capital inflows variables are a stationary process. So all the variables can be carried forward for cointegration test. The result of the Johansen cointegration test which is used to assess the presence or otherwise of a long run relationship among the variables reveals robust results. The result of the Johansen cointegration test is shown in tables below.

4.2 Panel Cointegration Analysis Result and Interpretation

In determining the number of co-integrating vectors, trace test and maximum eigen value test using the more recent critical values of Mackinon-Haug-Michelis (1999) was applied. The assumption of no deterministic trend and restricted constant was for all the variables. The choice was tested using Akaike Information Criterion (AIC) and Schwartz Information Criterion (SIC). The result for both trace test and maximum eigen value for unrestricted co-integrated rank test are presented for the Sub-Saharan countries. The results below show cointegrating relationship among variables used.

Table 4.2 : Johansen cointegration test's Result (Pedroni Result).

S/No	Test	Statistic	Prob
1	Panel v-Statistic	-0.610904	0.7294
2	Panel rho-Statistic	-1.302613	0.0964
3	Panel PP-Statistic	-1.878597	0.0301
4	Panel ADF-Statistic	-2.000235	0.0227
5	Group rho-Statistic	-1.238286	0.1078
6	Group PP-Statistic	-2.842358	0.0022
7	Group ADF-Statistic	-4.426511	0.0000

Authors Computation 2016

Table 4.3: *Kao Residual Cointegration Test*

	t-Statistics	**Prob**
ADF	**-1.778384**	**0.0377**

Authors Computation 2016

The result of from the Pedroni test, at 5% level of significant all the variables under the Panel v-Statistic and the Panel ADF-Statistic shows a long run relationship meaning that null hypothesis was accepted at that 5% level. Meanwhile, under Panel rho-Statistic and Panel PP-Statistic null hypothesis is rejected and we accept the alternative hypothesis because the significant level is less than 5%. The Kao residual cointegration test reject null hypothesis since it is not up to 5% level of significant. This means that we have a long run relationship among all the four variables in our model. The Granger causality results at lag 2 for short run causality (presented in table 4.4) show the impact of individual variable of foreign capital on growth. To see which of the variable cause growth in the selected West African countries via Wald Test.

Table 4.4: Wald Test (*Short Causality Test*)

Dependent Variable	**GDP Value**	**Probability**
ΔIn REEX	11.19336	0.0037
ΔInRIR	5.706210	0.0577
ΔInFDI	16.56336	0.0003
ΔInREM	19.86143	0.0000

N.B: * Indicates significant at the 5% level.

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The table 4.4 above shows the short causality running from independent variables to the dependent variable. Real exchange rate is 11.193(0.0037), Foreign Direct Investment is 5.706(0.003), Net Migrate Remittance is 19.861(0.000) shows that is a short run causality running from FDI, REM and REEX to GDP except Real Interest Rate. We can conclude that, there exist short run causality between foreign capital variables and economic growth in the selected West African countries. FDI, REM and REEX cause growth in the selected West African countries. It has been proved that, foreign capital inflows cause growth in the short term. The effect of repatriation of profits by the foreign investors back to their home land led to long run distortion in the West African economy which produces negative effect over time. Thus is the short run inflow of remittance, development assistance and Foreign Direct Investments have positive impact on the economic growth in the selected West African country.

Table 4.5: FMOLS (Individual) Results, Dependent Variable: InGDP

Indicator /country	Nigeria	Ghana	Gambia	Guinea	Liberia	Muaritania	Serria Leone	Cote D' Voire
InRIRit	2.08 (0.16)	-3.05 (0.0000) *	1.95 (0.0000)*	-2.74 (0.0000)*	-3.16 (0.003) *	-2.30 (0.0339) **	5.54 (0.7312)	-0.64 (0.02) **
InREEXit	3.49 (0.000) *	2.35 (0.0000) *	6.83 (0.40)	7.05 (0.0000)	-7.7 (0.0001)*	6.20 (0.000) *	2.26 (0.076)***	1.07 (0.3920)
InFDIit	-9.81 (0.0003)*	3.22 (0.0000) *	4.81 (0.0000)	-7.81 (0.0000)	-2.73 (0.04) **	7.58 (0.000) *	2.97 (0.13)	3.08 (0.07) ***
InODAit	-3.23 (0.0045)*	9.82 (0.0000) *	1.55 (0.0000)	8.05 (0.0000)	9.36 (0.0000)*	-0.97 (0.0057)*	7.44 (0.33)	7.08 (0.0035)
InREMit	-1.01 (0.74)	11.52 (0.0000) *	0.95 (0.0000)	-3.09 (0.6226)	0.42 (0.59)	4.78 (0.0000)*	40.25 (0.0002) *	0.64 (0.6752)

Note: The null hypothesis for the *t*-ratio is H0=βi= 0; Figures in parentheses are *t*-statistics (*), (**) and (***) significant with 95% (90%) confidence level

Authors Computation 2016

Table 4.5 above also presents the fully modified ordinary least square of the selected individual countries in west Africa. The estimated coefficient of the real interest rate is positive in thres countries [2.08 (Nigeria), 1.95 (Gambia), and 5.54 (Serria Leone)] while the remaining five countries are negative-3.05(Ghana), -2.74 (Guinea) -3.16(Liberia), -2.30 (Muaritania) and − 0.64 (Cote d, Iviore) and statistically significant at 5% except Nigeria and Serria Leone were not

statistically significant at 5 per cent level. The estimate of coefficient for Real Exchange Rate for Nigeria, Ghana, Gambia, Guinea, Mauritania, Serria Leone and Cote d' Ivoire are positive (3.49, 2.35, 6.83, 7.05, 6.20, 2.26 and 1.07 respectively) while only Liberia are negative and statistically significant at the 5% level except Gambia, Serria Leone and Core d' Ivoire. The estimate coefficient for FDI inflows for Ghana, Gambia, Mauritania, Serria Leone and Cote d' Ivoire are positive (3.22, 4.81, 7.58, 2.97, and 3.08 respectively. Nigeria, Guinea, Liberia, is negative-9.81, -7.81 and -2.73 statistically significant at and 5% level. Except Serria Leone and Cote'd ivoire. The estimate of official development assistance is positive for all countries expect Nigeria and Guinea. [9.82(Ghana), 1.55(Gambia), 8.05 (Guinea), 9.36(Liberia), 7.44(Serria Leone and -7.08(Cote'd ivore)] and all were statistically significant at 5%. These results show that Net Migrant Remittance were positive in six west African countries Ghana, Gambia, Guinea, Liberia but negative in Nigeria (11.52, 0.95, 0.42, 4.78, 40.25, and 0.64 respectively) -1.01(Nigeria) and -3.09 (Guinea). It is significant Ghana, Gambia, Mauritania and Serria Leone.

Table 4.6 FMOLS (Group) Results, Dependent variable: InGDPit

InRIR*it*	InREEX*it*	InFDI*it*	ODA*it*	REM*it*
0.601645	1053586	2.4800	5.98191	13.9486
(0.7572)	(0.8032)	(0.0014)	(0.786)	(13.9486)

Note: The null hypothesis for the *t*-ratio is H0=βi= 0; Figures in parentheses are *t*-statistics
(*) and (**) significant with 95% (90%) confidence level

Table 4.6 shows all the group fully modified ordinary least square for the panel of the selected West African countries. This shows generally the impact of capital inflows on economic growth in the Selected West African Countries. From the above results the variables of foreign capital inflows are positive for all the variables 0.601645, 1053586, 2 .4800, 5.98191, 13.9486 for real interest rate, real exchange rate, foreign direct investment, official development assistance and Net migrant remittance respectively but only foreign direct investment is significant Hence, it is accomplished that all variables are cointegrated and have a long term relation.

5. CONCLUSION

Foreign capital inflow, which comprises FDI and Foreign Portfolio Investment and Net Migrant remittance enhance the economic growth of the country. With the increased in these variables of foreign capital inflows, West African countries are still characterized by low per-capita income, low and falling growth rates of GDP and high unemployment rates. This has led to a lot of arguments in the literature. This study therefore examined the impact of Foreign Capital Inflow on the economy of West African region. Among the findings was that impact Foreign Capital Inflows on economic growth of West African countries is a function of Foreign Direct Investment, Net Migrant Remittance and Real Exchange Rate while the variables were jointly cointegrated and cause economic growth in the short run. Policy recommends that, issues on Foreign Capital Inflows should not be ignored in policy decisions aimed at promoting the economic development of West Africa especially for foreign direct investment the significant variable. Consequently, steps to attract more Foreign Capital should be undertaken by the West African governments as one of the ways of boosting their economy as practiced by developed countries and other developing countries such as Asian Tigers.

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