UNIVERSITY OF EDUCATION, WINNEBA

TAX POLICIES, EXCHANGE RATE MOVEMENT, EASE OF DOING BUSINESS AND FDI FLOWS IN THE ECONOMIC COMMUNITY OF WEST AFRICAN STATES (ECOWAS)

MARK YAW ANNAN

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DECEMBER, 2023

DECLARATION

Candidate's Declaration

I, MARK YAW ANNAN, hereby declare that this is the result of my original research and that no part of it has been presented for another degree at this university or elsewhere.

Candidate's Signature …………………………..   Date …………………………

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised following the guidelines on supervision of dissertation laid down by the University of Education, Winneba.
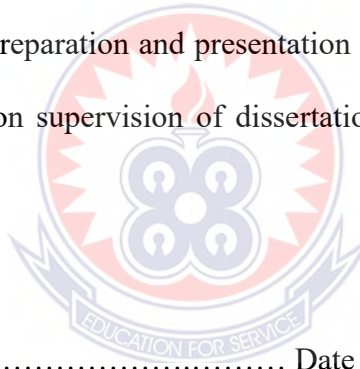
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Name: DR. CHARLES OMANE-ADJEKUM

ABSTRACT

The purpose of this study is to investigate the dynamics and the determinants of foreign direct investment (FDI) in the ECOWAS subregion within the context of tax policy, exchange rate movements and ease of doing business. Having adopted a quantitative research approach and a causal research design, the study obtained secondary data from 15 ECOWAS member countries using a census sampling technique. By using both random effect and fixed effect panel regression analysis techniques, the study found that tax policy and exchange rate movements registered negative effect on foreign direct investments whereas ease of doing business recorded a positive effect. The study concludes that high taxes and weakening domestic currency are inimical to foreign direct investment whereas creating a conducive business environment characterized by political stability, certainties in the financial ecosystem and minimized regulatory bottlenecks incentivize the establishment and expansion of businesses in the local economy. The study recommends for optimum tax policies, strong currency-targeted monetary policies and business-friendly regulatory regimes that attract foreign investors into the Ghanaian local economy.

DEDICATION

To my lovely wife Dorothy and kids

ACKNOWLEDGEMENT

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The Economic Community of West African States (ECOWAS) has emerged as a significant regional bloc, representing 15 member countries with diverse economic structures and developmental challenges. As the region strives for economic integration and sustained growth, Foreign Direct Investment (FDI) plays a pivotal role in facilitating capital inflows, technology transfer, and economic development. Understanding the determinants of FDI within the ECOWAS subregion is critical for policymakers, businesses, and scholars alike. Governments have adopted a more nuanced strategy to attract Foreign Direct Investment (FDI) to their nations with the aim of addressing developmental disparities, augmenting employment opportunities, and closing investment gaps (Sabir & Khan, 2018). Additionally, others have pursued this approach to bolster human capital development, foster technological progress, and maintain foreign exchange stability (Chenaf-Nicet & Rougier, 2016). Simultaneously, organizations have embraced the concept of foreign direct investment as a means to gain entry into new markets and facilitate participation in global value chains, thereby fortifying local firms and their subsidiaries (Dinh et al., 2019; Erhieyovwe & Eshanake, 2016; United Nations, 2019).

The contribution of foreign direct investment (FDI) to a country's success, especially countries in West Africa, cannot be overemphasized (Lily et al., 2014; Lee & Brahmasrene, 2018). For instance, the flow of foreign direct investments in Africa has played a crucial role in facilitating development, and it has complemented the efforts of various governments towards realizing the 2030 Agenda for Sustainable Development Goals

(Submitter et al., 2020). Foreign direct investment (FDI) emerges as a potent driver of economic growth, channelling capital into host countries to fund pivotal development initiatives (Leibrecht & Bellak, 2023), thereby fostering comprehensive economic advancement. FDI not only sparks the establishment and expansion of businesses, addressing pressing concerns such as high unemployment rates (Ali & Hussain, 2017) in West Africa, but also facilitates the transfer of advanced technologies and managerial know-how (Adeyeye, 2016). This infusion of expertise enhances local skills, stimulates innovation, and propels technological progress in the region. Moreover, FDI plays a crucial role in diversifying industries (Ashakah & Osakwe, 2019), reducing dependence on a singular sector and fortifying the economy against external shocks. The impact extends to improvements in the balance of payments, as FDI brings in foreign currency, aiding West African countries in managing trade deficits and maintaining exchange rate stability.

Over the past decades, ECOWAS countries have experienced varying levels of success in attracting FDI. The region's vast natural resources, demographic potential, and strategic geographical location create opportunities for FDI-driven economic transformation. However, challenges such as political instability, regulatory complexities, and varying tax policies have influenced the investment climate in the region (UNCTAD, 2020).

Tax policies are fundamental in shaping the attractiveness of a country to foreign investors. Variations in corporate tax rates, incentives, and the overall tax framework across ECOWAS member states can significantly impact FDI decisions (UNCTAD, 2019). For instance, while some countries may adopt policies to attract investment through tax breaks, others may face challenges in aligning their tax structures with regional and global standards. Also, the volatility of exchange rates in the ECOWAS subregion poses both

opportunities and challenges for FDI. Fluctuations in currency values can influence the cost of doing business, affect the profitability of investments, and introduce uncertainties for investors (OECD, 2018). An in-depth analysis of how exchange rate movements influence FDI is crucial for understanding the risk exposure of foreign investors operating in the region. The ease with which businesses can be established, operated, and closed is a critical factor influencing FDI as well. ECOWAS member states exhibit considerable variation in the ease of doing business, influenced by factors such as administrative procedures, contract enforcement, and property rights protection (World Bank, 2021). Understanding these variations is essential for identifying areas where improvements can be made to enhance the overall business environment.

As a result, this study seeks new evidence regarding the simultaneous impact of tax policy, exchange rate movements and ease of doing business on FDI inflow in some Six (6) ECOWAS countries, namely Ghana, Nigeria, Ivory Coast, Togo, Burkina Faso and Mali.

1.2 Statement of the Problem

Despite the significance of foreign direct investment to economic development, the ECOWAS subregion has not witnessed enough of this kind of investment. For example, U.S. foreign direct investment (FDI) in Ecowas was $6.8 billion in 2022, a 16.5 per cent decrease from 2021(Regional Economic Communities [REC], 2023). Additionally, recent FDI flow to Nigeria has been abysmal, marked by a mix of inflows and outflows. Between 1994 and 2018, 232 textile firms relocated (Frankilin, 2009), and in 2009, 820 manufacturing companies moved out (Frankilin, 2009). Additionally, from 2015 to 2017, 195 manufacturing firms, including major multinationals, shifted to neighbouring countries

(Babatope, 2020). In the same vein, Ghana's net foreign direct investment has been dwindling (World Bank, 2021). Other countries in the subregion suffer a similar fate.

The big question is: what factors drive foreign direct investment in the ECOWAS subregion? Finding answers to this fundamental question is essential to informing policy directions to bolster foreign direct investment in the subregion. A number of factors have been identified as drivers of FDI, among which are Market size (GDP), natural resources, openness, inflation rate, exchange rate, interest rate, infrastructure, fiscal deficit, debt ratio, size (Ratio of government consumption to GDP), political stability, electricity consumption, corporate tax, transportation and communication, telephone lines availability, labour cost and human capital as variables (Anyanwu & Yameogo, 2015; Arawomo & Apanisile, 2018; Eiya & Okaiwele, 2019). The discourse surrounding the utilization of taxation as an incentive for foreign direct investment persists. Taxation serves dual roles as a facilitator of economic growth and a primary source of government revenue. Advocates for tax reduction contend that diminishing tax burdens holds the potential to incentivize foreign investment decisions and stimulate overall economic growth (Adegbite & Shittu, 2017; Boly et al., 2020; Eiya & Okaiwele, 2019; Submitter et al., 2020; Van, 2019; Uwuigbe et al., 2019). Conversely, Opposers, as evidenced by the OECD (2015) and World Bank (2015), argue against this perspective, positing that tax cuts are not a pivotal factor in foreign investment decisions and assert that such policies compromise government revenue, thereby adversely affecting the broader economy. Moreover, exchange rates and ease of doing business were also amplified as key drivers of FDI in the extant literature. However, findings on these variables yielded mixed and inconsistent outcomes. For instance, whereas studies found a positive impact of exchange rate on FDI

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(Zakari, 2017; Wong et al., 2019; Okonkwo et al., 2021; Huong et al., 2020), others recorded a negative effect (Qamruzzaman et al., 2019; Ali et al., 2017; Latief & Lefen, 2018). Furthermore, even though the ease of doing business was found to have a stimulating effect on inflows of FDI (Huong et al., 2020; Nketiah-Amponsah & Sarpong, 2020; Nangpiire et al., 2018; Anggraini & Inaba, 2020), a shortage of literature exists within the ECOWAS subregion.

It is abundantly clear from the foregoing revelations that there is a gap in the literature on the simultaneous impact of tax policy, exchange rate and ease of doing business on FDI in the ECOWAS subregion. Specifically, there is a shortage of literature on ease of doing business and FDI in the subregion, inconsistencies in the findings of exchange – FDI nexus, and mixed results in the interplay between tax policy and FDI. This feeds into the motivation to investigate the simultaneous impact of tax policy, exchange rate movements and ease of doing business on the FDI in the ECOWAS subregion to deepen the understanding of the dynamics existing among these variables in the subregion. By so doing, a sufficient answer is provided to the big question: what drives foreign direct investment in the ECOWAS subregion?

1.3 Purpose of the Study

The purpose of this study is to investigate the dynamics and the determinants of foreign direct investment (FDI) in the ECOWAS subregion within the context of tax policy, exchange rate movements and ease of doing business.

1.4 Research Objectives

The specific objectives are to:

1. Examine the effect of tax policy on FDI flows.

2. Ascertain the effect of exchange rate movement on FDI flows.

3. Establish the causal relationship between ease of doing business and FDI flows.

1.5 Research Hypotheses

H_0: Tax policy has no statistically significant and negative effect on FDI flows

H_1: Tax policy has a statistically significant and negative impact on FDI flows

H_0: Exchange rate movements have no significant and negative effect on FDI flows

H_1: Exchange rate movements have a significant and negative effect on FDI flows

H_0: Ease of doing business has no significant and positive effect on FDI flows

H_1: Ease of doing business has a significant and positive effect on FDI flows

1.6 Significance of the Study

The study aims to investigate the multifaceted impact of exchange rate movements, tax policy, and the ease of doing business on foreign direct investment (FDI). This research is crucial in understanding the intricate relationships between these key factors and their implications for global economic dynamics. The significance of this study can be analysed through its contributions to policy formulation, practical implications for businesses, and its advancement of the general body of knowledge in international economics and business studies.

For policy, the study provides policymakers with valuable insights into the factors influencing FDI. Understanding how exchange rates, tax policies, and the ease of doing business affect FDI allows for the formulation of informed and targeted policies to attract foreign investments. More so, policymakers can use the findings to design policies that optimize economic growth by strategically adjusting tax regulations, fostering a favourable business environment and managing exchange rate fluctuations to attract and retain foreign

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investors. Additionally, governments can gain a competitive edge in the global market by aligning their policies with the preferences of foreign investors. This study equips policymakers with the knowledge needed to create an environment that appeals to multinational corporations seeking to establish or expand their operations.

For practice, corporations operating in international markets can leverage the study's findings to refine their business strategies. Understanding the impact of exchange rates, tax policies, and the ease of doing business helps businesses navigate the complex global economic landscape more effectively. Furthermore, businesses can use the insights gained from the study to identify and mitigate risks associated with exchange rate volatility and changes in tax policies. This proactive approach enhances the resilience of businesses to external economic factors. The study would also assist businesses in optimizing resource allocation and investment planning by providing a clearer understanding of the factors influencing FDI. This knowledge is crucial for companies looking to expand their global footprint or enter new markets.

In terms of contribution to the body of knowledge, the study contributes to the academic understanding of the relationship between exchange rates, tax policies, ease of doing business, and FDI. It provides a foundation for future research in international economics and attracts scholarly attention to the complexities of these interrelated factors. Finally, the study has the potential to bridge gaps between economics, business studies, and policy research, fostering a cross-disciplinary approach. This interdisciplinary perspective enhances the richness and depth of the general body of knowledge.

1.6 Delimitations

The study centred on 15 countries within the Economic Community of West African State (ECOWAS). This frame was considered due to the bilateral traits and treaties shared by countries within this community. Again, the democratic characteristics shared by most countries in the state make it necessary for the consideration of the ECOWAS as the focus of the study. A 12-year secondary data on tax policy, exchange rate movements, ease of doing business and FDI was used as interested variables in the study.

1.7 Limitations of the Study

The study used a sample of 15 ECOWAS member countries for the analysis which is an indication of a potential sample bias, considering the exemption of other African countries. To mitigate the risk of sample bias, the countries selected have different economic, political, and cultural orientations, thereby making the sample a heterogeneous sample and capturing the varying characteristics in the subregion and Africa at large. Again, the study used 12-year secondary data on the variables involved spanning from 2010 to 2021, posing a potential risk of failure to capture the dynamics of pre-2010 and post-2021. However, this will not affect the robustness of the result since the data captures the dynamics of pre-covid and post-covid era. Finally, the study used three interesting variables, such as tax policy, exchange rate movements and ease of doing business, despite the multitude of factors affecting foreign direct investment. However, a number of factors have been introduced and controlled to mitigate endogeneity problems in the model.

1.9 Definition of Terms

Tax Policy: Tax policy refers to the set of principles, rules, and regulations established by a government regarding the imposition and collection of taxes. It encompasses decisions

on tax rates, tax structures, exemptions, and incentives, aiming to achieve specific economic and social objectives.

Exchange Rate Movements: Exchange rate movements refer to the fluctuations or changes in the value of one currency relative to another in the foreign exchange market. Various factors, such as supply and demand dynamics, economic indicators, geopolitical events, and market sentiment, drive these changes.

Ease of Doing Business: Ease of doing business refers to the overall simplicity and efficiency of the regulatory and bureaucratic environment in a specific location or country concerning starting, operating, and closing a business.

Foreign Direct Investment: Foreign Direct Investment (FDI) refers to the investment made by a person, company, or entity from one country into business interests located in another country.

1.8 Organization of the Study

The study is divided into five (5) chapters. Chapter One of the study consists of the general introduction, which includes the background to the study, the statement of the problem, the objective of the study, the research hypotheses, the significance of the study, the scope of the study, the limitations of the study and the organization of the study. Chapter Two provides a detailed review of theoretical and empirical literature on the interested variables. Chapter Three focuses on research methodology. The chapter discusses the research paradigm, research design and approach, the population and sample, data and data collection techniques, as well as data analysis techniques used. Chapter Four looks at the results and discussion. The chapter presents the findings of the study, their interpretations

and discussions. Chapter Five, which is the last chapter of the study, is devoted to the summary, conclusion and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter shall focus on theoretical review and empirical and conceptual frame framework. The chapter is organized as follows: the theoretical review presents a review of theories that relate to the concepts under discussion. The empirical review delves into existing literature to know the extent to which the topic has been explored and the findings thereof.

2.1 Theoretical Review

This section of the chapter is dedicated to reviewing theories underpinning the concept under emphasis. FDI theory based on exchange rate analyses the relationship between FDI flows and exchange rate changes.

2.1.1 Theory of Asymmetric Information

In this theory, as developed by Akerlof (1978), asymmetric information refers to the disproportionate understanding of a transaction between the parties, with one party having access to more information than the other. That generates a transaction imbalance. One of the issues with information asymmetry, which occurs before the parties engage in the investing activity, is that it results in one party having more information than the other. For example, if the country receiving the capital flows has more information than the foreign investors, they only divulge it when the arrangement is being finalized.

By giving international investors the necessary information, they require to make investment decisions, sovereign ratings play a critical role in decreasing the information asymmetry between the recipient countries of capital and outside investors. Credit ratings

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are crucial in decreasing information asymmetry between international investors and a receiving country, as was emphasized by Gonenc and de Haan (2014). This is because they make information available that is crucial for investors to know when making investment decisions, especially information regarding opaque economies (Bianco et al., 2013). When international investors plan their investments, sovereign credit ratings offer more affordable information (in the financial industry) than they require.

2.1.2 The liquidity and economic runs theory

This theory suggests that if a country exhibits signs of having unhealthy economic fundamentals or if investors anticipate that the economic fundamentals may get worse, they will often move their money to another country (Zeng, 2017). A healthy economy is associated with less risk and high returns, and therefore, investors prefer healthy economies as their investment destinations. Mutize and Gossel (2018) indicate that any deterioration in the economic fundamentals may result in investment withdrawals, and if there is a major spill-over that may cause capital flights. Basic quantitative and qualitative information are aspects of economic fundamentals used for the subsequent financial valuation of companies, securities, assets or currencies and signify the economic or financial health of an institution. Investors and analysts apply these fundamentals in asset examination, developing estimates to verify if investments are worthwhile. Normally, investors evaluate the economic fundamentals of a country relative to riskiness. Scholars such as Mutize and Gossel (2018) indicate that sovereign credit rating by credit rating firms is one of the economic fundamentals that is considered by global investors when they determine whether an investment destination is a good one. The admonitions of the theory give rise to the assessment of the effect of ease of doing business indicators on foreign investment

in a country. Again, the exchange rate as an economic fundamental serves as indicator multinational firms consider before making an optimal investment decision. This necessitates its usage and its effect on foreign direct investment in the study.

2.1.3 Portfolio equilibrium approach of capital flows

The portfolio equilibrium approach, as developed by (William, 1970), seeks to explain international capital movements. It is thought to be more appropriate for estimating portfolio flows since it identifies the two most important components: market return and investment risk (Koepke, 2018). When allocating their funds, international investors consider the risk in each country that might have an impact on those funds, such as sovereign credit ratings and exchange rate volatility (Al-Hassan et al., 2013). Biglaiser and DeRouen (2006) underline how important it is for governments and foreign investors to make informed decisions and how trustworthy information about a country's risk is one way that sovereign credit ratings can play a significant role in this process (default risk). Hyun and Kim (2010) stress that sovereign risk is essential to evaluate cross-border foreign capital. When sovereign ratings drop below a crucial threshold, countries often lose all access to private financial markets (Bierschenk & De Sardan, 2014).

In contrast, nations with relatively high scores have constant access to capital." The portfolio equilibrium approach caters to the factor of risk. Since the theory concerns itself with the flow of capital, it necessitates determining the effect of the exchange rate on the foreign capital flows.

2.1.3 Institutional FDI Fitness Theory

The institutional FDI fitness theory was propounded by (Wilhelms, 1998). This theory was used to explain the determinants of FDI. The ability of a country to attract, assimilate and

hold foreign direct investment is termed FDI fitness. The ability of the country to satisfy the expectations of potential investors gives the country an edge in accessing FDI inflows. The theory tries to explain why foreign investors prefer one country over another. The roles of the government and other market participants are identified as the major factors determining the volume of FDI in a country. With regard to the role of the government, Makoni (2015) highlights that the ability of the government to manage the economy and reduce or mitigate any risk plays a central role in attracting FDI into the country. Makoni (2015) shows that no investor will be interested in investing in a country where there is a huge risk of locking his or her investment. This practically applies to the current study as the investigations concerns itself with the effect of exchange rate on foreign direct investment and the effect of foreign direct investment on exchange rate movement. The theory assesses factors that encourage FDI flows into a country, which economically includes ease of doing business and exchange rate. These variables were considered because any good indication would lead to a rise in the level of FDI.

2.2 Conceptual Review

This section of the study is devoted to the discussion of concepts that serve as a build-up toward the construction of a conceptual framework on the exchange rate movement, ease of doing business, and foreign direct investment nexus.

2.2.1 Foreign Direct Investment

The exchange rate is the amount at which a country's currency is traded for another within a specific period (Felix & Otieno, 2012). Exchange rate stability is crucial for fostering investor confidence. Sudden and unpredictable currency fluctuations can introduce additional risks for foreign investors, potentially deterring long-term commitments. A

stable and predictable exchange rate environment, on the other hand, provides a more favourable climate for foreign direct investment (Bilawal et al., 2014). The exchange rate serves as a linchpin in the realm of international finance, and its movements can significantly influence the direction and magnitude of foreign direct investment flows. The relationship is intricate, as exchange rate dynamics can impact the cost and returns of investments, thereby shaping the decisions of multinational corporations and investors in the global market

2.2.2Tax policies

The tax policies in the study are proxied with corporate tax for the purpose of quantitative analysis. Corporate tax denotes the amount of percentage of a company's income that is paid to the government of a country (Boly & Keke, 2020). The corporate tax rate in a country can influence the attractiveness of that nation as a destination for foreign direct investment. A lower corporate tax rate may make a country more appealing to multinational corporations seeking to maximize their after-tax profits. Such favourable tax environments can incentivize foreign businesses to establish subsidiaries, invest in local projects, or relocate their headquarters to take advantage of tax efficiencies. Conversely, higher corporate tax rates may act as a deterrent to foreign direct investment. Multinational corporations are often sensitive to tax considerations, and elevated tax burdens can reduce the net returns on investments (Edo et al., 2020). This, in turn, may lead companies to explore alternative jurisdictions with more favourable tax regimes. Beyond the nominal tax rate, the complexity and predictability of a country's tax system also play a crucial role. A transparent and straightforward tax system reduces uncertainty for foreign investors, fostering a more favourable investment climate. Ambiguous or convoluted tax regulations,

on the other hand, can increase compliance costs and pose challenges for businesses, potentially discouraging foreign direct investment.

2.2.3 Ease of doing business

The ease of doing business refers to the regulatory and administrative environment in a country that facilitates or hinders the operations of businesses. It encompasses factors such as the efficiency of administrative processes, the simplicity of regulatory frameworks, and the overall business-friendly atmosphere (Enu, 2013). The ease of doing business is a critical consideration for multinational corporations when deciding on foreign direct investment (FDI) destinations. Countries that offer a conducive and streamlined business environment are more likely to attract foreign direct investment. A high ranking in global ease of doing business indices signifies that a nation has efficient processes for starting a business, obtaining permits, dealing with construction permits, getting credit, and navigating other regulatory procedures (Edo et al., 2020). These factors reduce the bureaucratic hurdles faced by businesses, making the country an attractive destination for foreign investors.

Investors often seek jurisdictions where they can establish and operate businesses with minimal complications. A favourable ease of doing business index reflects a government's commitment to creating a business-friendly environment, which, in turn, encourages foreign corporations to establish subsidiaries, invest in local projects, or engage in joint ventures. The simplicity and efficiency of regulatory processes contribute to a positive perception of a country's investment climate. Conversely, a challenging business environment with excessive red tape, bureaucratic delays, and cumbersome regulations can act as a deterrent to foreign direct investment. Investors may be hesitant to commit capital

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to a country where they face unnecessary obstacles and delays in setting up and running their operations.

2.2.4 Foreign direct investment

Foreign direct investment (FDI) involves the cross-border investment by a company in a foreign country, establishing a lasting interest and a degree of influence (Enu, 2020). FDI contributes to economic development by bringing in capital, technology, and managerial expertise. The decision to engage in FDI is influenced by factors such as market access, labour costs, and political stability. FDI can enhance a host country's economic growth and create employment opportunities, fostering a mutually beneficial relationship between the investing and receiving nations (Boly & Kekek, 2020). Policymakers often implement measures to attract FDI, recognizing its potential impact on economic prosperity and global competitiveness.

2.3 Empirical Review

This section of the chapter previews the review of existing studies on the concepts ease of doing business, tax policies, exchange rate and foreign direct investment.

2.3.1 Relationship between tax policies and foreign direct investment

Boly and Keke (2020) employed an empirical approach to evaluate the impact of changes in Corporate Income Tax (CIT) rates on Foreign Direct Investment (FDI) net inflows in Africa. Utilizing a dynamic spatial Durbin model with fixed effects, the findings indicate that reductions in CIT rates contribute to an increase in FDI net inflows both in the host country and its neighbouring nations, exhibiting significance in both short and long-term perspectives. Again, the study identifies a strategic complementarity in FDI inflows among the sampled countries, implying that a surge in FDI inflows in a host country is likely to

influence FDI inflows in its neighbouring countries positively. However, it's essential to acknowledge certain weaknesses in the study. First, the empirical analysis relied on a specific model, and the generalizability of the findings to diverse contexts may be limited. Additionally, while the study considers alternative spatial weighting matrices, potential variations in the effectiveness of CIT rate changes across different regions or economic conditions are not thoroughly explored. Furthermore, the study could benefit from a more nuanced exploration of the mechanisms through which CIT rate changes influence FDI inflows, providing a deeper understanding of the observed patterns. Addressing these limitations would enhance the robustness and applicability of the study's findings.

Again, Edo et al. (2020) delved into the impact of corporate taxes and Exchange rate on the inflow of Foreign Direct Investments (FDI) in Nigeria spanning the period from 1983 to 2017. Employing an ex-post facto research design, the study dwelled on secondary data from sources, including the World Bank Development Indicator, the Central Bank of Nigeria database, and the Federal Inland Revenue database. The Error Correction Model (ECM) is used for data analysis. The study unveils noteworthy findings: Company Income Tax, Value Added Tax, and Custom and Excise Duties exhibit a significant but negative correlation with FDI, while Tertiary Education Tax is positively associated with FDI. This finding deviated from the account of Boly and Keke (2020), who discovered a significant positive relationship between corporate tax and foreign direct investment in Africa.

Also, Sato (2018) delved into the impact of corporate income tax on foreign direct investment (FDI), considering the heightened mobility of labour and capital in the context of globalization. To empirically examine the relationship between corporate tax and FDI, the investigation analysed FDI patterns using a panel of bilateral flows among OECD 30

countries from 1985 to 2007. In contrast to previous research utilizing static panel data analysis, our approach incorporates dynamic panel data analysis, specifically employing System GMM. This methodology allowed the researchers to explore the nuanced dynamics of FDI by considering the influence of the previous year's investment level. Through this comprehensive analysis, the inquiry found that corporate tax has a statistically significant negative relationship with foreign direct investment in the studied countries. The negative effect of corporate tax on foreign direct investment flows found by the study agrees with the negative result recorded by Edo et al. (2020). Conversely, this result deviates from the account of Boly and Keke (2017), who discovered that corporate tax has a significant positive effect on foreign direct investment in Africa.

Similarly, Hunady and Orviska (2017) sought to discern the principal determinants influencing Foreign Direct Investment (FDI) in European Union (EU) countries, employing panel data regression models. Notably, the focus of the investigation centred on investigating the influence of both effective and statutory corporate tax rates on FDI. Contrary to expectations, the findings reveal no statistically significant impact of corporate taxes on FDI. This result deviates from the positive and negative findings documented by Boly and Okeke (2017) and Edo et al. (2020), respectively. Conversely, the research identified significant effects associated with labour costs, economic openness, firing costs, GDP per capita, and public debt within the country. Additionally, the analysis indicates a noteworthy negative impact of the financial and economic crisis on FDI inflows in the EU. However, it's essential to acknowledge the limitations of the study. The absence of a statistically significant effect of corporate taxes on FDI may be contingent on various contextual factors, and the study does not delve deeply into the nuanced mechanisms

through which these taxes may or may not influence FDI. Moreover, while the focus on key determinants provides valuable insights, the study may not capture the entirety of factors influencing FDI dynamics in EU countries. Furthermore, the concentration of the study on only countries in the EU limits the generalization of the findings to other economic blocs. Addressing these limitations would contribute to a more comprehensive understanding of the complexities surrounding FDI determinants in the EU.

Gui-diby et al. (2016) examined essays on the impact of foreign direct investments in Africa. The objective of the thesis was to analyse the impact of foreign direct investment (FDI) inflows towards Africa on economic growth, industrialization, and technological transfer. Analyses aiming at studying the nexuses of FDI-economic growth and FDI- FDI-industrialisation were based on macroeconomic data from 49 African countries observed during the period from 1980 to 2009 and analyses on FDI-related technological spill overs are based on Kenyan firm-level data observed in the manufacturing sector during the period 2012/2013. Concerning the FDI-economic growth nexus, it is found that FDI inflows had a significant impact on economic growth in the African region during the period of interest. It also finds that while the low level of human resources did not limit the impact of FDI, the impact of FDI on economic growth was negative or non-significant during the period from 1980 to 1994 and positive during the period from 1995 to 2009. The results indicate that FDI most likely did not have a significant impact on the industrialization of African countries. Concerning the existence of FDI-related technological transfer, it was found that FDI inflows did not spur innovation in local firms competing against multinational firms. In a similar vein, Jelil et al. (2017) assessed the correlation between various taxes and the inflow of Foreign Direct Investment (FDI) in Nigeria during the period from 1996 to 2015.

Employing an ex-post facto research design, secondary data were gathered from sources such as Central Bank of Nigeria Statistical bulletins, National Bureau of Statistics publications, and Central Bank of Nigeria Annual Reports. Descriptive analytical procedures and inferential statistics, specifically multiple regressions for analysis and time series for estimation, were utilized. The study reveals an inverse relationship between multiple taxes and Foreign Direct Investment (FDI) in Nigeria, indicating that higher tax rates correspond to lower FDI inflows into the country. This adverse effect of corporate taxes on foreign direct investment disagrees with the positive argument as put forward by Boly and Okeke (2017).

Again, the finding refutes the result of Hunady and Orviska (2017), who documented that corporate tax has no significant effect on foreign direct investment flows. The substantial R^2 value of 0.858333 signifies that approximately 85.83% of the systematic variation in Foreign Direct Investment (FDI) is explained by Company Income Tax (CIT), Value Added Tax (VAT), Education Tax (ED), and Customs and Excise Duties (CED). The F-statistics, with a value of 16.96471 and a P-value of 0.000017, affirm that the model successfully passes the F-test at 1%, 5%, and 10% levels of significance. This validates the hypothesis that there is a significant linear relationship between the dependent and independent variables collectively. Based on these findings, the study recommends that, for Nigeria to establish itself as an economically competitive nation in Africa, efforts should be directed towards achieving an internationally competitive tax system by eliminating various forms of multiple taxes in the country.

2.3.2 Exchange rate movement and ease of doing business

By employing the ARDL bounds test approach, Lily et al. (2014) studied exchange rate movement and foreign direct investment in Asian economies. The paper empirically analyses the exchange rate movements and foreign direct investment (FDI) relationship using annual data on ASEAN economies, that is, Malaysia, the Philippines, Thailand, and Singapore. The empirical results show the existence of significant long-run cointegration between exchange rate and FDI for the case of Singapore, Malaysia, and the Philippines, with all countries recording negative coefficients, implying that the appreciation of the Singapore dollar, Malaysian ringgit, and the Philippine peso has a positive impact on FDI inflows. Using the ECM-based ARDL approach for the causality test, both Singapore and the Philippines show long-run bidirectional causality between the exchange rate and FDI. In contrast, long-run unidirectional causality runs from the exchange rate to FDI in Malaysia. Furthermore, the study also found that short-run unidirectional causality running from the exchange rate to FDI exists in Singapore.

Meanwhile, in Ghana, Enu et al. (2013) explored the impact of macroeconomic factors on foreign direct investment: a cointegration analysis. The main objective of the study was to find out the major macroeconomic determinants of foreign direct investment in Ghana between the periods 1980 to 2012. All the variables considered were integrated in first order; as a result, Johansen's cointegration approach was used, and the result showed that the variables were not cointegrated. Therefore, the vector autoregressive model was estimated. The result showed that the first year of foreign direct investment, the last two years of exchange rate were statistically significant. Based on the findings, the research

recommended that policies that encourage foreign direct investment, moderate exchange rate depreciation, and increase trade openness should be implemented.

Edo et al. (2020) delved into the impact of corporate taxes, ease of doing business, and Exchange rate on the inflow of Foreign Direct Investments (FDI) in Nigeria spanning the period from 1983 to 2017. Employing an ex-post facto research design, the study dwelled on secondary data from sources, including the World Bank Development Indicator, the Central Bank of Nigeria database, and the Federal Inland Revenue database. The Error Correction Model (ECM) is used for data analysis. The study unveils that Exchange Rate demonstrates a negative but significant relationship with FDI, Inflation displays an insignificant but positive association, and GDP growth rate. These findings deviate from prior research, introducing new insights such as the influence of a higher Education tax rate on FDI and novel evidence regarding the impact of non-tax variables on FDI inflow. In as much as the study provides insightful discoveries, it is necessary to recognize certain weaknesses in the study.

Firstly, the reliance on secondary data might introduce limitations in terms of data accuracy and completeness. Additionally, the exclusive use of the Error Correction Model raises questions about the sensitivity of the results to the chosen econometric approach, and alternative models could be explored for robustness. Furthermore, the study could benefit from a more nuanced exploration of the mechanisms through which tax variables and non-tax factors influence FDI in the Nigerian context, providing a deeper understanding of the observed relationships. Since the focus of the study was only on Nigeria, generalizing the findings to a broader spectrum would be problematic. Addressing these limitations would enhance the reliability and applicability of the study's findings.

Cambazoğlu (2016) used a bound test cointegration approach that is based on the Autoregressive Distributed Lag Model (ARDL) to examine the relationship between foreign exchange rate and foreign direct investment in Turkey. The study tested the hypothesis that a reciprocal relationship exists between FDI inflows in Turkey and the real exchange rate level. Time series data for the period from January 2007 to January 2015 were used to investigate the effect of the real exchange rate on foreign direct investment in Turkey in the long run. The results obtained from a long-term static analysis of the estimated ARDL model revealed that there is a cointegration relationship between the exchange rate and foreign direct investment in Turkey.

A study conducted in Mexico by Parajuli (2012) examined the relationship between the exchange rate, foreign direct investment and trade. The study examines the relationship between FDI, exports, and economic growth in the context of FDI from developed to developing country (Mexico). The second chapter analyses the relationship of FDI with the level of the exchange rate, exchange rate volatility, and exchange rate expectations during the period from 1994 to 2008. The analysis revealed a significant impact of the level of exchange rates and exchange rate expectations on FDI flows. Regional trade agreements, such as the European Union (EU) and the North American Free Trade Agreement (NAFTA), were important factors to attract FDI. The third chapter examines the long-run relationship between U.S. FDI and U.S exports to Mexico from 1988Q1 to 2008Q4.

This analysis found a complementary (positive) relationship between FDI and exports. However, the strength of the relationship differs with different types of FDI. The analysis further revealed a weak complementary relationship with exports of processed food and a strong positive relationship with manufacturing exports. The study also showed a

significant impact of NAFTA on manufacturing and total FDI and an insignificant impact on processed food FDI. Chapter four examined Granger causality among GDP, exports, and FDI in Mexico for the period of 1970 to 2008. The causality was tested from the bivariate to the multivariate framework using Toda, Doland, and Lütkepohl's (1996) (TYDL) methodologies. An important finding in this study is the Ganger causality from gross fixed capital formation and labour force to imports. The results suggest that the Granger causality between GDP and exports, FDI and GDP, and exports and FDI observed in two, three or four variable frameworks are through a channel of imports.

Bilawal et al. (2014) studied exchange rates, which play a main role in affecting the macroeconomic performance of a country. The objective of this research was to investigate whether uncertainty or fluctuations in the exchange rate affect Pakistan's macroeconomic situation. The study was based on secondary and time series data. For this purpose, 32 years old data on Exchange rates and FDI for the period of 1982 to 2013 was used and was collected from the website of the State Bank of Pakistan. The tests of Correlation and regression analysis were applied through SPSS software to check the relationship between the Exchange rate and FDI. The correlation results showed that there is a positive significant relationship between the Exchange rate and Foreign Direct Investment. In contrast, in regression analysis, the value of R-square = 0.679, which shows that the independent variable Exchange has a 67% impact on the dependent variable Foreign Direct Investment and the research model was accurate.

Felix and Otieno (2012) also wrote about the impact of exchange rate fluctuation on foreign direct investment in Kenya. Hence, the main objective of the research project was to examine the impact of exchange rate fluctuations on the much-needed foreign direct

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investments in Kenya. The exchange rate regimes in Kenya have been influenced through historical government macroeconomic policy from fixed exchange rate regimes to pegged and later floating through liberalization in the nineties. The exchange rates have been characterized by significant fluctuations, with the local currency hitting historical highs and lows. Time series data for exchange rate fluctuation and foreign direct investments to Kenya between 1981 and 2010 were collected from the Central Bank of Kenya and the World Bank Country data websites for analysis. The standard deviations for the exchange rates were derived for each year under study to determine the fluctuations. The absolute figures of the foreign direct investments data to Kenya were transformed through logarithmic transformation for normalization purposes. Pearson moment correlation was used throughout the study to examine the relationship between exchange rate fluctuations and foreign direct investments. From the collected data, it was observed that while 1987 and 2002 recorded the lowest fluctuations in exchange rates and fairly low net foreign capital inflows in the country, 1993 recorded the highest exchange rate fluctuations and relatively high foreign direct inflows. This should point to a strong relationship between the two variables.

However, the inferential analyses found a weak relationship between exchange rate fluctuations and foreign direct investments. The best line of fit also revealed a positive for exchange rate fluctuations plotted against the logarithm of net foreign direct investments in current prices of tens of millions of United States dollars. This means that an increase in the exchange rate fluctuations leads to an increase in the foreign capital inflows. However, the finding was made less important by the insignificant relationship between the two variables. Hence, the conclusions drawn from the study's findings suggest that the impact

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of exchange rate fluctuations in attracting FDI was insignificant. The study recommended that policymakers should put less effort into influencing exchange rate fluctuations in the bid to attract foreign direct investments to the country (Felix & Otieno, 2012).

2.3.3 Ease of doing business and foreign direct investment

Enu et al. (2013) explored the impact of macroeconomic factors on foreign direct investment: a cointegration analysis. The main objective of the study was to find out the major macroeconomic determinants of foreign direct investment in Ghana between the periods 1980 to 2012. All the variables considered were integrated in first order; as a result, Johansen's cointegration approach was used, and the result showed that the variables were not cointegrated. Therefore, the vector autoregressive model was estimated. The result showed that trade openness as a measure of ease of doing business had a statistically significant positive relationship with foreign direct investment inflow to Africa. Based on the findings, the research recommended that policies that encourage foreign direct investment, moderate exchange rate depreciation, and increase trade openness should be implemented.

Edo et al. (2020) delved into the impact of corporate taxes, ease of doing business and Exchange rate on the inflow of Foreign Direct Investments (FDI) in Nigeria spanning the period from 1983 to 2017. Employing an ex-post facto research design, the study dwelled on secondary data from sources, including the World Bank Development Indicator, the Central Bank of Nigeria database, and the Federal Inland Revenue database. The Error Correction Model (ECM) is used for data analysis. The study unveils noteworthy findings: Substantively, the analysis discovered that Trade Openness indicate positive and significant connections with FDI in the studies jurisdiction. Again, inflation and GDP growth rate

displays an insignificant but positive association with foreign direct investment. These findings deviate from prior research, introducing new insights such as the influence of a higher Education tax rate on FDI and novel evidence regarding the impact of non-tax variables on FDI inflow. In as much as the study provides insightful discoveries, it is necessary to recognize certain weaknesses in the study. Firstly, the reliance on secondary data might introduce limitations in terms of data accuracy and completeness. Additionally, the exclusive use of the Error Correction Model raises questions about the sensitivity of the results to the chosen econometric approach, and alternative models could be explored for robustness. Furthermore, the study could benefit from a more nuanced exploration of the mechanisms through which tax variables and non-tax factors influence FDI in the Nigerian context, providing a deeper understanding of the observed relationships. Since the focus of the study was only on Nigeria, generalizing the findings to a broader spectrum would be problematic. Addressing these limitations would enhance the reliability and applicability of the study's findings.

To add to the knowledge of the nexus between ease of doing business and flow of foreign direct investment and how these interrelated variables play a remarkable role in capital flight among countries, Shabani and Parang (2018) used a dynamic panel model with data stream collected from East Asian countries from 2004 to 2015. The empirical test revealed that ease of doing business has inverse and exert a significant negative impact on foreign capital flows. The enquiry pointed out that a percent rise in ease of doing business causes a decrease of 0.09 percent in capital flows from foreign countries. This conclusion supports the position of Janaćković & Petrović-Ranđelović (2019), who, in the study of the relationship between foreign direct investment and ease of doing business, proffered that a

negative relationship exists between ease of doing business and foreign direct investment. Notwithstanding, the account of the study debunks the assertion of Matete (2021), Nketiah-Amponsah and Sarpong (2019), Mahuni and Bonga (2017), who, in their studies on the subject under discussion, posited that a direct and significant relationship exists between ease of doing business indicators and foreign direct investment.

On the other hand, a study that sought to unearth the relationship between ease of doing business and foreign direct investment in Serbia deployed dynamic and correlational analysis for the consideration of the interdependence of ease of doing business measures. The findings revealed that ease of doing business indicators such as enforcing business contracts, getting operational permits, and access to credit have a positive relationship with foreign direct investment (Janaćković & Petrović-Ranđelović, 2019). However, another account of the study states that access to electric power, and registering property have a negative influence on foreign direct investment, connoting that increment in these factors impedes influx of foreign investors in a local economy (Janaćković & Petrović-Ranđelović, 2019). The findings bring various policy implications to economic policymakers on the factors that need much attention if a country wants to attract more foreign investors to invest money to raise investment in a specified emerging market.

Similarly, an empirical apprehension that sought to investigate the linkage between ease of doing business and foreign direct investment flows in sub-Saharan Africa used forty-five countries within the sub-region with a data period spanning from 2004 to 2018 through a system generalized method of moment estimation approach the outcome showcased that ease of doing business measures play an instrumental role in influencing the level of foreign direct investment a country receives in the sampled countries within the sub-region

(Nketiah-Amponsah & Sarpong, 2020). The research specifically pointed out that enhancement in the rate of starting a business considerable tax rate on corporate earnings with proper tax administration significantly entices foreign and multinational corporations into an economy. The research contributes to the literature by introducing a quantitative impact of ease of doing business on foreign direct investment inflows. The assertions of this study directly correlate with the findings of Janaćković and Petrović- Ranđelović (2019). In their study, they alluded that the ease of doing business has a positive relationship with foreign direct investment in the republic of Serbia. The study failed to incorporate other measures of doing business to assess its relationship with foreign direct investment as done by Janaćković & Petrović-Ranđelović (2019) who considered the different measures of ease of doing business.

In similar account, to investigate the effect of ease of doing business on the level of foreign direct investment flows in southern African countries, the enquiry deployed the Generalized Moment of Method technique with a sample size of sixteen countries and a data period spanning from 2010 to 2019. The findings revealed that ease of doing business is positively related to foreign direct investment flows into the southern Africa sub-region (Matete, 2021). The research put forward that the degree of foreign inflows into the region is significantly interrupted by the rate of corruption in the region mentioned above. The discovered result coincides with the position of Janaćković & Petrović-Ranđelović (2019) and Nketiah-Amponsah & Sarpong (2019), who, in their separate studies on the relationship between ease of doing business and foreign direct investment flows unanimously concluded that a significant and positive relationship exists between ease of doing business and foreign direct investment. Conversely, the account of the study deviated

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from the findings of Janaćković and Petrović-Ranđelović (2019), who posited that other measures of ease of doing business, such as getting access to electric power, solvency have a negative relationship with foreign direct investment.

Bosire (2019) enquired whether a better business regulatory environment translates to high foreign direct investment inflows with emphasis on Eastern African countries. The investigation sampled twelve countries that fall within the study's jurisdiction with a data collection period covering 2004 to 2017. Through the application of the ordinary least square estimation technique on a panel of pooled data, the study discovered that there is a significant positive relationship between ease of doing business and foreign direct investment into the region. The pronouncement supports the earlier account of Nketiah-Amponsah and Sarpong (2019) and Matete (2021), who, in their study on the relationship between ease of doing business and foreign direct investment flow, concluded that better ease of doing business facilitates foreign direct investment inflows. The same account disagrees with the position of Janaćković & Petrović-Ranđelović (2019), who documented in the research that some measures of ease of doing business, such as solvency measures, discourage foreign direct investment flows into a country. The study is said to be microscopic since Africa is made up of more than 50 countries; therefore, using only twelve countries does not necessarily reflect the reality on the ground so long as the continent of Africa is concerned.

To explore the nexus between the ease of doing business and foreign direct investment indicators in Zimbabwe through a time series analysis, Mahuni and Bonga (2017) employed a trend analysis to check the movement of ease of doing business measures over the period 2004 to 2016. Further, a time series data from 2009 to 2016 was considered for

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analysis through Ordinary Least Square Regression (OLS); the study uncovered those four measures of ease of doing business, namely enforcing contracts, paying taxes on corporate income, access to credit and getting electricity are significant positive determinant of foreign direct investment. These findings support the position of Nketiah-Amponsah and Sarpong (2019) and Matete (2021), who posited that ease of doing business measures such as getting access to electric power positively relates to foreign direct investment inflows. Conversely, the finding by Mahuni and Bonga (2017) contradicts the conclusion of Janaćković & Petrović-Ranđelović (2019), who opined that ease of doing business measures such as getting access to electric power negatively relate to foreign direct investment. The divergence in the findings between the two studies can be attributed to the peculiar conditions that prevail in the countries in which these separate studies were conducted. The findings can be contended to some extent since using time series data to find whether ease of doing business measures leads to higher foreign direct investment through ordinary least squares estimation would not serve the purpose than using a causality approach, which might have served the right purpose.

2.4 Hypothesis Development

Upon review of existing studies, diverse arguments have been put forth, with some confirming earlier conclusions whilst others refute certain claims regarding exchange rate movement and foreign direct investment. Parajuli (2012) concluded that the exchange rate of a country's currency to major trading currency exerts a significant impact on foreign direct investment in a country. Bilawal et al. (2014) also emphatically alluded that the exchange rate has a significant positive relationship with foreign direct investment. Premised on this evidence, the study hypothesizes that

H₁: *There is a statistically significant negative relationship between exchange rate and foreign direct investment.*

According to extant literature, ease of doing business indicators exerts significant explanatory power in determining the level of foreign direct investment a country attracts (Nketaiah-Amponsah & Sarpong, 2019). The author furthered that the relationship between these indicators and foreign direct investment is positive. This assertion supports the account of Matete (2021), who concluded that there is a positive association between ease of doing business and the rate of foreign direct capital flows into an economy. Notwithstanding, Shabani and Parang (2018) argued that there is a negative association between the indicators used in assessing the ease of doing business and the level of foreign direct investment in a country. In support of this argument is the posit of Janaćković & Petrović-Ranđelović (2019). Owing to the above exegesis, the study hypothesizes that

H₂: *There is a positive relationship between ease of doing business and foreign direct investment.*

In an enquiry to establish the relationship between corporate tax and foreign direct investment level, Edo et al. (2020) concluded that a negative association exist between statuary corporate tax and foreign direct investment. Adding to this strand of literature is the account of Jelil et al. (2017), who unequivocally posited that there is a negative relationship between corporate tax and foreign direct investment. In contrast, Boly and Okeke (2020), in their study of the corporate tax foreign direct investment relationship, concluded that there is a positive effect of corporate tax on foreign direct investment. Based on this dichotomy in the literature, the present study formulates this hypothesis.

H₃: *There is a significant negative relationship between corporate tax and foreign direct investment.*

2.5 Conceptual Framework

Independent Variables   *Dependent Variable*
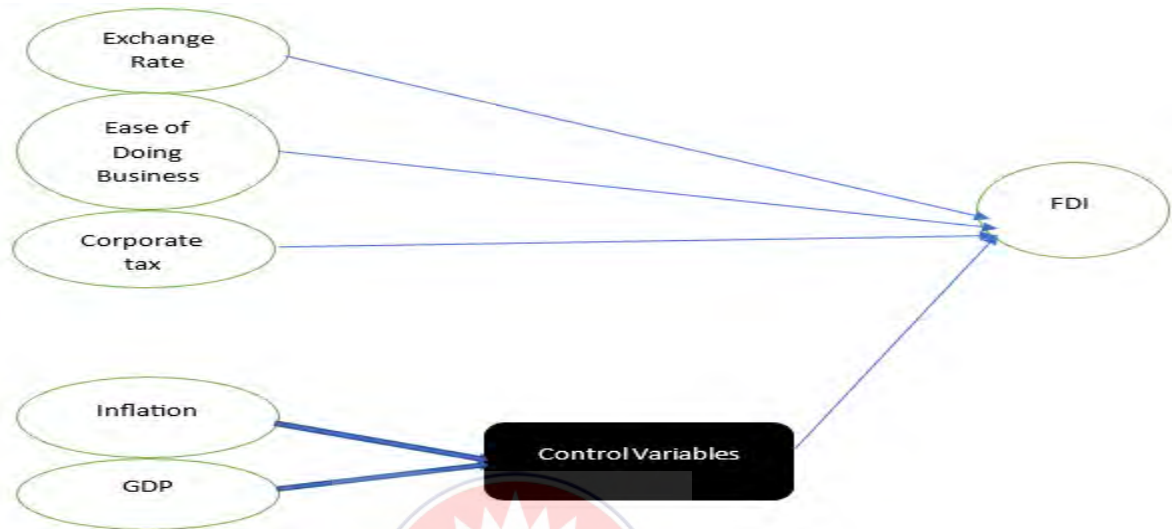
Figure 2. 1:Conceptual Framework

Author's Construct (2023).

The above pictorial presentation demonstrates the relationship between the independent variables and the dependent variable. Specifically, Exchange Rate Movement (EXRM) is assumed to cause an effect on the dependent variable in question Foreign Direct Investment (FDI) within an economy. The relationship assumes that the level of foreign direct investment flows into a country is propelled by the level of exchange rate of the country in question with major trading currencies. Similarly, the level of foreign direct investment in a country is assumed to trigger an effect on the level of exchange rate in an economy. Therefore, in this cause-and-effect relationship, the study assumes a bi-causal relationship between exchange rate movement and foreign direct investment. Thus, a reciprocal relationship is put forth (Felix & Otieno, 2012). Again, the ease of doing business as a measure of the business friendliness of a country is proxied to affect the level of foreign

capital flowing into a country. The independent variable Ease of Doing Business (EODB) is assumed to influence the level of foreign direct investment.

2.6 Chapter Summary

This chapter focused on the review of literature where notable theories relating to tax policies, ease of doing business, exchange rate, and foreign direct investment such as theory of asymmetry information, the liquidity and economic runs theory, institutional FDI theory and the portfolio equilibrium approach of capital flows. The chapter proceeded with the conceptual review of the study's variables to give it an overview and to show how it relate to foreign direct investment. The chapter continued with the conceptual framework where the relationship between the dependent and the independent variables are demonstrated on the framework to give the pictorial view of the relationship between the variables. The hypothesis development followed the conceptual review where the expected relationship between the ease of doing business, tax policy measure and exchange rate and foreign direct investment were stated. The last aspect of the chapter focused on empirical review where existing studies on the concepts were reviewed to know the extent of exploration of the concept over the years and the approaches that were adopted by previous studies in exploring the concept and similar topic of that nature. The review of the empirical studies showed that mixed result has been documented in extant literature by previous authors. Again, the review also revealed that diverse methodologies including fixed, random and time series estimation techniques have been used in literature which might be the reason for the inconsistent results. This call for further explorations to enlighten the macroeconomic foreign direct investment literature.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the methodology applied in this study. The design of this research, including the procedure selected for data collection sampling technique, population, and research design, was highlighted here. The method of data analysis, including the estimation technique, was elaborated in this chapter to achieve the objective of the study.

3.2 Research Philosophy

The study used the positivism philosophy. Park et al. (2020) adjudged that positivism as a concept is reliably grounded on measurable counts that result in statistical analyses. It is well acknowledged that positivism as a research philosophy is in accordance with the empiricist advocate that knowledge comes from human exploration. Knowledge serves as a foundation upon which scientific explanations offered by scientists to events that take place in the real world are premised (Crowther & Lancaster, 2015). Deploying empirical research mechanisms such as relational, measurement, and control stems from a positivist approach. In the account of Park et al. (2020), adopting a positivist approach to a study eliminates and restricts any external human interference during the study and sets the researcher as an independent entity in the study. The adoption of the positivist philosophy was motivated by the type of data under consideration, which the researcher has no control over. Again, the focus of the study, which is to establish patterns and make generalisations to the entire group, makes it necessary to select a positivist philosophy. Also, the quantitative approach and the explanatory design adopted by the study jointly influenced the adoption of the positivist philosophy.

3.3 Research Design

Research design refers to the overall strategy or plan that researchers develop to guide their study and answer specific research questions or test hypotheses. It is a blueprint that outlines the methods and procedures to be used in collecting, analysing, and interpreting data in a research project (Yin, 2018). The explanatory research design is applicable when the topic or the concepts under study seek to examine the association between variables of interest (Rahi, 2017). This research was based on a casual research design, otherwise known as an explanatory study. This design was chosen because the study aimed to establish the impact of exchange rate movement, tax policies, and ease of doing business on FDI in developing countries, specifically ECOWAS.

3.4 Research Approach

According to Nachimias and Nachimias (2014), the research approach refers to the general perspective or worldview that underlies the researcher's beliefs and assumptions about the nature of knowledge and how it can be acquired. It guides the researcher's overall approach to the research process, including the methods used to collect and analyse data and how findings are interpreted and understood. The type of approach chosen for a study depends on the focus and the choice of the type of data under emphasis. This study adopted the quantitative approach in exploring the concepts under discussion. Quantitative research is a methodical and empirical scientific inquiry characterized by the systematic collection and analysis of numerical data. The primary objective is to identify patterns, relationships, and trends, with a focus on measuring variables, testing hypotheses, and drawing generalizable conclusions applicable to a broader population (Sauders et al., 2018). The adoption of the quantitative approach was motivated by the objective of the study, which was to examine

the impact of selected macroeconomic variables on FDI. Again, the adoption of the quantitative approach was induced by the research design chosen by the study. Also, the nature of the study, which involves hypothesis testing and numerical data, induced the choice of a quantitative approach.

3.5 Population

According to Saunders et al. (2018), population refers to the total number of elements in a study's jurisdiction who bear similar characteristics or share commonalities with which research seeks to generalise its results. The population for this research included all the countries of the ECOWAS economy. This involves every sovereign state within the specified setting, totalling 15 countries.

3.6 Sampling Procedures

A sample is comprised of a subset of a population or a portion of a population that is drawn to participate in a study (Sekeran & Bougie, 2016). The study sample comprised 15 countries within the ECOWAS bloc. The selection of the 15 countries as the sample size is anchored on the fact that the study sought to ascertain comprehensive data for its exploration; therefore, it is necessary to consider all countries in the population. Again, the study sought to ascertain the narrative in all these countries because the exclusion of any country in the bloc may lead to misleading results. The sampling technique, on the other hand, refers to the method that is used to draw a sample for data collection for a study (Osuagwua, 2020). In this study, census sampling was adopted to draw the unit for data collection. Census sampling is a method that considers or selects all elements in a population as part of the sample for a study (Rahi, 2017). The selection of the census sampling is based on the justification that these countries share some economic

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commonalities, which include similar per capita income and similar population sizes; most of these countries belong to the organisation of petroleum exporting countries.

3.7 Data and Sources of Data

Secondary panel data for all concerned countries were used to conduct this research. The data period for the study was 12 years, ranging from 2010 to 2021. The 12 years of data are considered appropriate based on the assertion of Rashid (2020), who alluded that using a data period of 10 years and above is sufficient to yield accurate results, as confirmed by the empirical works of Forson et al. (2020) who used data period of more than 10 years and reported reliable results. The variables for which data would be collected include Exchange Rate (EXR), Ease of Doing Business (EOB), Corporate Tax (CT) as a proxy for tax policy, Foreign Direct Investment (FDI), Inflation (INF), Gross Domestic Product (GDP). The data for the variables, as mentioned earlier, will be extracted from the World Development Indicators (WDI) section of the World Bank data repository.

3.8 Data Processing and Analysis

Descriptive and inferential analyses were used to analyse the data, all in an effort to investigate the relation between the independent variables and foreign direct investment in these ECOWAS countries. Engle granger least square was employed as the estimation technique. Multivariate regression analysis was used to evaluate the relationship between the regressor and the regressand. The adoption of Engle Granger Least Square is a result of the inherent strength exhibited by the technique such as its ability to normalise data inherent problems which are autocorrelation and heteroskedasticity. Again, the property of the technique to process large volumes of datasets motivated its application in the study.

3.9.1 Model Specification

To examine the direct effect of the explanatory variables on the outcome variable, the research employed the linear model. The application of the linear model is anchored on the assumption that the regressors and the regressand relate linearly. The linear model adoption in this study is inspired by its empirical application (Aboagye-Otchere & Boateng, 2023).

$$LFDI = f (EXR, EOB, LGDP, CT, INF) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (1)$$

Equation 1 is a linear function linking the regressors to the regressand. Theoretically, it is expected that variability in the explanatory variables affects FDI inflows due to increased risk and increased uncertainty (Lawless, 2013).

The model was linearized for estimation by the following statistical method.

$$LFDI = \alpha_o + \alpha_1 EXR + \alpha_1 EOB + \alpha_2 LGDP + \alpha_3 IF + \alpha_4 CT + \mathcal{E}_t \dots\dots\dots\dots\dots\dots\dots\dots (2)$$

Equation 2 is a vector form that relates the endogenous variables to the outcome variable while the objectives of the study.

Where:

FDI = Foreign Direct Investment

CT = Corporate Tax

IF= Inflation

EOB = Ease of doing Business

EXR = Exchange Rate

n = Number of years

α_o = Intercept

α_1 = elasticities

$\mathcal{E}_t$ = idiosyncratic error term?

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3.9 Variable Measurement

This section of the study describes the variables under emphasis and demonstrates how it was measured.

3.6.1 Ease of Doing Business

Ease of doing business is the indicators that are deployed to assess the economic and business friendliness of an economy. The variable is measured using myriad of indicators and subjects per the author's preference as to which one to choose over the other owing to the current discussion. The variable is measured based on access to electricity and a good road network, among other things. The inclusion of the variable was inspired by the institutional FDI fitness theory (Wilhelms, 1998) as well as its previous use by Janaćković and Petrović-Ranđelović (2019); Nketiah-Amponsah and Sarpong (2019); Matete (2019).

3.6.2 Inflation

This refers to the rise in general prices of goods and services, which, when it persists, leads to an increase in the cost of living. The consumer price index per a defined period measures the variable. The inclusion of the variable in the present study was motivated by literature (Mutize & Gossel, 2018; Otieno, 2012).

3.6.3 Gross Domestic Product (GDP)

Gross Domestic Product refers to the measure of the monetary value of goods and services produced in a country within a defined fiscal period. The variable is measured by summing the production of goods and services during the accounting period under consideration. The inculcation of the variable was motivated by the liquidity and economic run theory (Wilhelms, 1998; Zeng, 2017), institutional FDI fitness theory as well as credence given by literature (Mutize and Gossel, 2018).

3.6.4 Corporate Tax

This refers to the amount levied on the disposal income of companies. Thus, the rate r

portion of a company's earnings paid to the state for the use of national resources such as

roads among others. The variable is measured as a fraction or a percentage of a company's

earnings before tax. The addition of the variable in the study was a result of its usage in

extant literature (Kovermann & Velte, 2019; Mahuni & Bonga, 2017). Again, since it is an

indicator of corporations' investment decision-making, its consideration was inspired by

the liquidity and economic run theory (Zeng, 2017).

3.6.5 Foreign Exchange Rate

This refers to the rate at which a country's currency is traded for the other dominating

currencies. The rate at which each currency is traded depends on the strength of that

currency under consideration. The measurement uses the real time strength of the

currencies under discussion in exchange for the other. The inculcation of the variable in the

study was motivated by the liquidity and economic run theory and its application in extant

literature (Makoni, 2015).

3.6.6 Foreign direct Investment

This refers to the total amount of capital that flows from external sources into a country.

Net inflows measure it; thus, the total outflow is less the total inflow. The consideration of

the variable was based on the institutional FDI fitness theory (Wilhelms, 1998) and

motivated by extant literature (Enu et al., 2013; Cole et al., 2017).

3.7 Ethical Consideration

This study was conducted in accordance with internationally acceptable principles guiding

the conduct of academic research. The protocols regarding research were observed, which

include but are not limited to disclosing to any unauthorised person sources from which information was obtained for the research. Guidelines governing the conduct of research or thesis writing in the University of Education Winneba (2018) were fully observed by the study.

3.8 Chapter Summary

The chapter focused on the methods employed to explore the concepts of ease of doing business, tax policies, exchange rates, and foreign direct investment. The chapter began by highlighting the type of research design which was causal research while the approach and philosophy were quantitative and positivist philosophy. The population for the study was 15 countries that firms the ECOWAS, the census sampling technique was used to draw all the 15 countries in the ECOWAS jurisdiction for the study. Panel secondary data for 12 years sourced from the World Indicators section for the World Bank data site was used for the study. The chapter further elaborated on the multivariate linear model and the Engle granger least square estimation technique. Finally, the chapter defined and described how the various concept in the study were operationalized and gave the ethics governing the study.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter of the study present the ascertained result from the various statistical tests, analyse it and compares the findings. This analysis gives room for comparison between the study findings and that of existing knowledge in literature.

4.1 Descriptive

Since in empirical studies that adopt quantitative approach uses series of statistical data, it is important for descriptive statistics to be run in order to know the characteristics of the data under discussion. Owing to this axiom, the measures of central tendency and measures of dispersion were used to explore the characteristics of the data. The highest mean for the series was recorded by Ease of Doing Business (EODB), followed by log of Gross Domestic Product (LGDP), log of Exchange Movement (LEXRM). On the measure of the middle part of the series, the highest median was recorded by ease of doing business whilst Inflation (IF) proxied by consumer price index recorded the lowest median of the study. The maximum value of the series was registered by ease of doing business nonetheless the lowest minimum value was registered by inflation.

On the measure of dispersion, corporate tax was the variable that dispersed most from the centre of the series followed by ease of doing business notwithstanding, log of foreign direct investment least deviated from the centre of the series. Measuring the thickness of the respective variables in the series with the use of kurtosis demonstrated that corporate tax was the thickest in the series whilst log of gross domestic product registered the lowest thickness. The position of the individual variables in the distribution showed that with the

exception of log of exchange rate and log of foreign direct investment which were positively skewed, the remaining variables fell on the left side of the distribution.

Table 4. 1: Descriptive Statistics

	LFDI	**LGDP**	**LEXRM**	**IF**	**EODB**	**CT**
Mean	19.44784	23.04586	5.838113	5.183453	49.20222	17.63889
Median	19.48346	23.10075	6.204142	2.778070	47.90000	16.20000
Maximum	22.80574	27.02712	9.253345	23.56351	67.10000	57.00000
Minimum	13.87378	20.56060	0.419121	-3.233389	33.50000	0.000000
Std. Dev.	1.454059	1.524081	1.819276	5.782433	6.523194	10.12705
Skewness	-0.232767	0.705480	-0.624481	1.204983	0.680648	2.036482
Kurtosis	3.584008	3.299360	4.091585	4.002031	3.594160	8.579181
Jarque-Bera	4.090435	15.60318	20.52133	51.09004	16.54613	357.8723
Probability	0.129352	0.000409	0.000035	0.000000	0.000255	0.000000
Sum	3422.820	4148.254	1045.022	933.0216	8856.400	3175.000
Sum Sq. Dev.	370.0002	415.7850	589.1379	5985.139	7616.819	18357.73
Observations	176	180	179	180	180	180

Source: Author's estimate.

4.2 Correlation

In statistical analysis a relationship study between variables requires a test of possible relationship between the variables under consideration. In order to ascertain if the understudied variables correlate, Pearson moment correlation was estimated for all variables. The registered result presented in Table 1 below shows that the strongest correlation of 0.72 was recorded between log of gross domestic product and log of foreign direct investment. Followed by the correlation between inflation and corporate tax. The study observed a positive correlation between log of exchange rate and inflation, ease of doing business. Again, log of exchange rate and log of foreign direct investment, ease of

doing business and corporate tax all recorded negative correlation. On the wholes, the weakest correlation was observed between ease of doing business and corporate tax.

Table 4. 2: Correlation Matrix

	LFDI	LEXRM	LGDP	IF	EODB	CT
LFDI	1					
LEXRM	-0.28	1				
LGDP	0.702	-0.098	1			
IF	0.274	-0.091	0.198	1		
EODB	0.212	-0.508	0.114	0.253	1	
CT	-0.036	0.284	0.029	0.539	-0.036	1

Source: Author's estimate.

4.3 Diagnostics

Diagnostics are checks caried out in a statistical analysis to ensure the data being used are fit for the test as well as checking whether the adopted model are appropriate for the study in order to arrive at accurate findings and conclusions. The study therefore tests the fitness of the data and the model through the following diagnostic tests.

4.3.1 Normality test

Normality test is a necessary requirement when dealing with quantitative data in statistical analysis. This test is conducted to ensure that the data used are free from biases. The study used the Jarque Bera normality test which test the null hypothesis that there is no normality in the dataset at 5% significance level. Based on Jarque Bera p-values ascertained which were less than the 0.05 rejection level on table 2 above the study reject the null hypothesis and concludes that the series is normal.

4.3.2 Heteroskedasticity

To assess whether the variance of the residual across the x values are equal, the study employed heteroskedasticity test that test the null hypothesis that the residuals are homoscedastic at 5% significance level. From table 3 below the result showed a p-value 0.987 which is above the rejection level of 0.05, on that note the study fails to reject the null hypothesis and conclude that the series is free of heteroskedasticity.

Table 4. 3:Panel Period Heteroskedasticity LR Test

	Value	df	Probability
Likelihood ratio	5.513781	15	0.9868
LR test summary:			
	Value	df	
Restricted LogL	-312.0961	169	
Unrestricted LogL	-309.3392	169	

Source: Author's estimate.

4.3.3 Cointegration Test

To ensure that the variables in the study cointegrate and to ascertain the order of cointegration in order to carry on the subsequent test, the study employed the Johannsen panel cointegration test which test he null hypothesis that there is no cointegration and alternative hypothesis that common autoregressive coefficient within-dimension at a rejection level of 5%. From the table 4 below the panel Augmented Dickey-Fuller-statistic showed a p-value of 0.000 since this is less than the significance level of 5% the study rejects the null and conclude that the variables cointegrate. As a confirmatory test to the above conclusion, the Panel Philip-Perron-statistic test was conducted which test the same

null hypothesis at 5% significance level, due to the recorded p-value which is below 0.05 the study rejects the null and concludes that the variables cointegrate.

Table 4. 4:Panel Cointegration Test

	Statistic	Prob.	Weighted	
	Statistic	Prob.	Statistic	Prob.
Panel PP-Statistic	-16.11740	0.0000	-9.202941	0.0000
Panel ADF-Statistic	-9.439264	0.0000	-4.604873	0.0000
	Statistic	Prob.		
Group PP-Statistic	-15.38830	0.0000		
Group ADF-Statistic	-8.137874	0.0000		

Sources: Author's construct.

4.4 Panel Regression Results

The result from the Correlated Random Effect-Hausman Test as contained in Table 4.6 provides insufficient evidence to reject the null hypothesis, hence, a conclusion is made that the random effect panel regression estimation technique is most appropriate for the study. This is evident as the result exhibits a chi-square statistic of 7.139783 with a p-value of 0.2105. However, both the random and fixed effect panel estimation techniques were run to ascertain the results from diverse lenses as contained in Tables 4.5 and 4.7

Table 4. 5:Effect of LEXRM, EODB and CT on FDI (Random effect estimation)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.088617	1.399108	4.351786	0.0000***
LEXRM	-0.132100	0.050593	-2.611032	0.04018**
LGDP	0.613870	0.049522	12.39585	0.0000***
IF	0.047111	0.016507	2.853911	0.0049**
EODB	0.043397	0.013520	3.209837	0.0366**
CT	-0.016247	0.002839	-5.722789	0.0000***

	Weighted Statistics			
R-squared	0.557585	Mean dependent var		19.44580
Adjusted R-squared	0.544495	S.D. dependent var		1.457979
S.E. of regression	0.984006	Sum squared resid		163.6373
F-statistic	42.59877	Durbin-Watson stat		0.820081
Prob(F-statistic)	0.000000			

Source: Author's construct (2023). *Note: *, ** and *** denote significance at 10%, 5% and 1%.*

Table 4. 6:Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	7.139783	5	0.2105

Source: Author's construct.   *Note: *, ** and *** denote significance at 10%, 5% and 1%.*

The study preferred the use of random effect estimation over the fixed since it failed to reject the null hypothesis that the random estimation is appropriate for the data. This declaration is premised on the p-value of 0.21 which is above the 5% significance level.

Table 4. 7:Effect of EXRM, EODB and CT on FDI (Fixed effect estimation)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.972467	1.625221	2.444262	0.03560**
LEXRM	-0.067085	0.026443	-2.536966	0.02641**
LGDP	0.626729	0.049859	12.57005	0.0000***
IF	0.041359	0.017227	2.400742	0.01754**
EODB	0.029872	0.009747	3.064738	0.01434**
CT	-0.055034	0.009976	-5.516640	0.0008***
	Effects Specification			
R-squared	0.587396	Mean dependent var		19.44580
Adjusted R-squared	0.545614	S.D. dependent var		1.457979
S.E. of regression	0.982797	Akaike info criterion		2.895267
Sum squared resid	152.6107	Schwarz criterion		3.202703
Log likelihood	-236.3359	Hannan-Quinn criter.		3.019972
F-statistic	14.05838	Durbin-Watson stat		0.826136
Prob(F-statistic)	0.000000			

Source: Author's construct (2023). *Note: *, ** and *** denote significance at 10%, 5% and 1%.*

The regression result between exchange rate movement and foreign direct investment showed p-values of 0.04 and 0.03 and beta coefficients of -0.13 and -0.07 for random and fixed effect estimation respectively. This indicates a significant negative relationship between exchange rate movement and foreign direct investment. Based on this result, the study rejects the null hypothesis (1) and concludes that foreign exchange rate movement have significant negative relationship with foreign direct investment. The finding indicates that structural break exerts significant power in explaining the level of foreign capital flows into an economy. The continuous variation in a country's currency against major trading currencies discourages foreign direct investors. The ascertained result also means that in times of structural breaks foreign investment flows decline at significant rate.

The test also registered coefficients of 0.0434 and 0.0298 and p-values of 0.0366 and 0.1434 for random and fixed effect estimations respectively signifying a positive and significant relationship between ease of doing business and foreign capital flows into a country. Based on this result the research rejects the null hypothesis and concludes that there is a positive and significant relationship between ease of doing business and flow of foreign capital into a defined economy. The recorded result means that a better business environment encourages foreign flow of capital. However, the result was insignificant in determining the level of foreign direct investment in a country.

Tax policy was, however, found to have negative and significant impact on the foreign direct investment for both the random effect (β=-0.162, p-value=0.000) and fixed effect regression results (β=-0.055, p-value=0.000). This revelation implies that foreign investors are attracted if the tax regime of a country is favourable such that the tax regime does not pose so much burden on the foreign business. This further connotes that countries that offer tax holidays, rebates and waivers on foreign businesses are perceived as countries providing conducive environment for businesses to thrive. This gesture, therefore, incentivises foreign businesses to establish businesses in our local economies.

4.4 Discussion of Findings

This section of the study presents a discussion of the various results ascertained from the study's statistical tests. These results are captured under subsections 4.4.1, 4.4.2 and 4.4.3.

4.4.1 Effect of Exchange Movement (EXRM) on Foreign Direct Investment (FDI)

Exchange rate movement was found to have a significant and negative effect on foreign direct investment. The identified relationship connotes that in times of deteriorating currency value foreign business become sceptical and withdraw from investing in such

economy with the fear of losing their investment. Asides, foreign investors losing their investment by investing in a country whose currency is declining in value against other currencies, multinational corporations cease investing in such economies because repatriation of profit after the financial year into their home currency would worth less. The adduced finding supports the posit of (Marco, 2012). Since structural breaks may be caused by civil war, political uproar, structural shake in government machinery these identified conditions significantly impedes business growth thereby scaring foreign investors. For example, a typical structural break can be caused by the current ongoing economic war between Ukraine and Russia. Since no rational investors would be motivated to invest in a war plunged country the level of existing multinational companies would cease operation and relocate to any peaceful country that can guarantee them of their investment returns. This gives credence to the identified relationship in the study. Another reason for the inverse relationship is that cost of living become high, few people are left with enough money to spend, due to this situation produced goods become expensive coupled with lower sales margins making it unattractive for foreign investors to invest in such economies.

The labour force in such economy would be demanding more in pay rise, extra condition of service from their employers and failure to meet these demands may lead to industrial actions such as strike and picketing which significantly reduce productivity making investment not worthwhile. A classical specimen of the above exegesis is what Ghana is experiencing in the public sector. In the perspective of the institutional foreign direct investment theory which explains the factors that induce foreign direct investment into countries, according to the admonition of the framework, countries with ailing currency

would attract less volumes of foreign investment (Wilhelms, 1998). This confirms the expectation of the institutional FDI fitness theory. The finding by the study confirms the assertion of Okonkwo et al. (2021) and Enu et al (2013) who concluded in their studies that exchange rate movement exerts a significant influence on the level of foreign direct investment flowing into a country.

4.4.2 Effect of ease of doing business on foreign direct investment flows

From the multivariate regression results, it was found that ease of doing business has a positive and significant impact on foreign direct investment. The observed direct relationship signifies that when a country's ease of doing business indicators is in better shape it paints a good picture about the country and present it as a better investing ground ahead of countries with less ease of doing business. This makes such a country a preferred investment destination for multinational corporations who want to grow their brand beyond their country incorporation. Improved in ease of doing business has a positive relationship with foreign direct investment flows because it serves as a guarantee for secured investment. Since there is a guarantee of safe investment every rational investor would like to invest in such an economy. Ease of doing business indicators like access to electric power, cheap labour as well as access to credit entice investors since the availability of these indicators means there would be ease of expanding the business within the invested country.

Countries with torn-out ease of doing business indicators coupled with ailing economy stand to attract low level of foreign capital. This connotes that countries that intentionally implement policies aimed at strengthening the various indicators of ease of doing business have positive balance on its current account. This explains the reason war plunged

countries within the sub-region have negative net foreign direct investment. Countries with prolong insecurity records and fragile economy records lower level of foreign direct investment. For instance, the structural policies implemented by countries in the sub-region like Ghana by providing industrial park and free zones, moratorium among others for companies in the automobile industry significantly attracted a colossal number of renowned automobile companies like Volkswagen, Sino truck, Renault, Nissan, Toyota and Suzuki.

The observed relationship by the study supports the account of Nketiah-Amponsah & Sarpong (2019) and Matete (2021) who in the study to unearth the relationship between ease of doing business indicators and foreign capital flows into the southern African region and sub-Saharan Africa documented that there is a positive relationship between ease of doing business and foreign direct investment. Similarly, the account of Mahuni and Bonga (2017) who alluded in their study that the mechanisms used in measuring ease of doing business have a positive effect on foreign direct investment thus, improvement in such variables encourages foreign business to invest in such economies. Notwithstanding, the same aha moment contradicts the conclusions of Janaćković and Petrović-Ranđelović, (2019) and Shabani and Parang (2019) who augured that ease of doing business indicators have significant explanatory power on the level of foreign direct investment in a country but have negative relationship with capital flows into a country. The discrepancies in the findings by these distinct studies can be attributed to the difference jurisdiction of the studies and the approach adopted by the authors toward their exploration. Gross Domestic Product (GDP) proxied as a control variable in finding its effect on foreign direct investment registered a coefficient of 0.61 and 0.62 with significance values of 0.00 for

both estimations respectively. This indicate that there is a positive and significant relationship between gross domestic product and foreign direct investment. The level of economic growth in a country possesses the significant explanatory power in determining the level of foreign investment attracted by a country. According to Organization for Economic Cooperation and Development (OECD, 2002) gross domestic product is the standard measure of the total quantity of goods and services produced in a country for a defined accounting period. This signifies that the total number of goods produced in a country stand to influence the appetite of investors for possible investment in such economy. Thus, increased in the production of goods and services in a country means that the country is doing well economically.

Again, high gross domestic product for a country signifies that such country is very productive and this influence investors in a positive manner. Increased in gross domestic product level for a country means that such country has in place business friendly environment. therefore, this would attract multinational corporations looking for possible investment areas to invest their capital. A country that put in place measures to resource the local industries would achieve high gross domestic product which when coupled with peaceful political atmosphere present the country as preferred investment destination. Improvement in gross domestic product exert positive significant effect on foreign direct investment in the West African sub-region because it portrays to the business world that such region has good standard of living and investing there would be worthwhile. When standard of living is high crime rate would be minimal with ceteris paribus and this encourage expatriate firms to invest in such countries since that country stand a better chance of having conducive business atmosphere for firms to thrive. This result supports

the position of Puri and Sengupta (2020); Kumar (2014) who documented in their study on the relationship between gross domestic product and foreign direct investment that gross domestic product positively associates with foreign flow of capital. Inflation as measured by consumer price index and proxied in the study as a control variable demonstrated a coefficient of 0.003 and an insignificance value of 0.81 which signify that there is a negative but insignificant relationship between inflation rate and foreign direct investment. The observed relationship means that in times of rising inflation there would low level of foreign direct investment. The result stand to reason that when price of general goods and services in a country are also on the rise without consumer receiving a commensurate rise in salaries, they would not be able to afford goods and service that they use to afford with their level of income.

Since a dollar today is worth less than a dollar tomorrow, consumers would possess less purchasing power when there is soar in inflation. Low purchasing power means sellers of goods and services would also record lower sales during times of rising inflation, this would send a bad signal to foreign investors and paint a picture that investing in such economy is not worthwhile. This phenomenon would therefore decrease the level of foreign direct investment pumped into a country. In a similar vein, within any economic space, rising inflation increases the price of factors of production such as land, labour and raw materials, this increment is directly translated into higher production cost and consequently rendering finished product expensive and difficult to afford by the ordinary consumer.

This analogy would scare foreign investors as every rational producer would prefer producing in a country with relatively lower cost of production. On this note, countries

with hyperinflation would have less foreign direct investment inflows compared to a country with relatively stable inflation. Since inflation has the potential of affecting other related macroeconomic variables such as interest rate, rising inflation increase interest rate and discourage businessmen to seek for loan to expand their firms, rising inflation cause labour to demand more from employers which if not complimented with satisfactory pay rise may lead to industrial unrest. Hyperinflation also limits the quantity of goods and serves consumed by citizens leading to lower gross domestic product values. Due to the observed negative relationship between inflation and foreign direct investment, any country which experiences the above economic conditions would certainly record lower levels of foreign capital flight since such indications drive away multinational corporations in an economic space.

Another possible reason that account for the inverse relationship between inflation and foreign direct investment is that investing in a country that experiences frequent hyperinflation is not worthwhile because repatriation of earned profit into home countries reduces the value of the profit. The explained result is in tandem with Sabir et al. (2019) who in their study that sought to establish the relationship between inflation and economic growth concluded that there is a negative relationship between the two variables thus, rising inflation significantly impedes economic growth. Nonetheless the account put forward by Mengistu and Adhikary (2011) in their study that investigated the relationship between economic policy indicators and its linkage with foreign direct investment concluded that a positive linkage exists between these variables. The observed discrepancies in the findings are attributed to the varying degree of methodologies employed by the two studies. Differences in jurisdiction can also account for the divergence in findings.

4.4.3 Effect of Tax Policy on Foreign Direct Investment

The regression results also demonstrated a significant and negative impact of tax policy on foreign direct investment as evidenced by the beta coefficients and p-values. High tax rates can indeed have a detrimental impact on foreign direct investment (FDI), and this relationship can be justified through various economic, financial, and strategic perspectives.

For instance, high tax rates directly impact the after-tax profits of foreign investors. Corporations are motivated by maximizing profits, and high tax rates reduce the net returns they receive from their investments. As a result, multinational corporations may find it less attractive to invest in a country with high tax rates (Ślusarczyk, 2018), as it diminishes the overall return on investment compared to jurisdictions with lower tax burdens. Consequently, high tax rates can place a country at a competitive disadvantage compared to other nations with lower tax rates. This is because investors often seek locations with favourable tax environments to maximize returns. As a result, countries offering lower tax rates attract more FDI as investors seek to optimize their after-tax profits (Aprian & Irawan, 2019). It is, therefore, not surprising when Ghana, to attract foreign investors into the local economy, offered a number of tax holidays and rebates. For instance, to attract Component Manufacturers into Ghana and encourage Registered Assemblers to upgrade their investment to a completely knocked down (CKD) Assembly, the Ghana government, through the Ministry of Trade and Industry, offered a corporate tax holiday of 5 years for Enhanced semi-knocked down (SKD) Registered Assemblers, 10 years for completely knocked down (CKD) Registered Assemblers and Component Manufacturers. The government also offered exemption of import duties and related charges on any plant,

machinery, equipment or parts of the plant, machinery or equipment (that are not already zero-rated) imported for SKD, Enhanced SKD and CKD Auto Assembly (Ministry of Trade and Industry [MoTi]). As a result of this initiative, a number of automotive companies including Toyota, Suzuki, Volkswagen and Mahindra opened their assembly plants in Ghana.

Furthermore, high tax rates can affect the repatriation of profits for foreign investors. If a significant portion of profits is subjected to high taxes, it reduces the net returns that investors can repatriate to their home country (Demirhan & Masca, 2016). Consequently, investors may be deterred from committing capital in a jurisdiction where repatriating profits is economically burdensome. High tax rates may also lead to capital flight, where investors move their funds to jurisdictions with more favourable tax conditions (Johannesen & Pirttilä, 2016). This is particularly true for mobile capital, such as portfolio investments and financial assets. A flight of capital connotes a loss of potential investment and economic growth for the host country. In the same vein, high taxes reduce the cash flow available for corporations to reinvest in their operations. This can limit the capacity of foreign subsidiaries to expand, innovate, or upgrade technology. Investors may prefer countries with lower tax rates, as this allows for more substantial reinvestment and contributes to long-term economic development (Edo et al., 2020).

It is imperative to note that high tax rates introduce uncertainty for investors. Frequent changes in tax policies or the imposition of new taxes can create an unpredictable business environment. Consequently, investors are generally averse to uncertainty and may be more hesitant to commit to long-term investments in countries where tax policies are unstable. More so, high taxes can have broader macroeconomic consequences, such as reduced GDP

growth and employment. This can further deter foreign investors looking for stable and growing markets. On the legal front, high tax rates create incentives for corporations to engage in aggressive tax planning or even tax avoidance strategies. This can lead to legal disputes between the host country and investors, further complicating the investment environment.

The negative relationship between tax policy and foreign direct investment aligns with the empirical literature (Amuka & Ezeudeka, 2017; Demirhan & Masca, 2016; Ślusarczyk, 2018; Boly & Keke, 2020; Edo et al., 2020; Sato, 2018). For instance, Amuka & Ezeudeka, (2017) investigated the effectiveness of tax incentives in attracting foreign direct investment in Nigeria's economy. The study, utilising a multiple regression model, affirms that these tax incentives, in the form of company income tax reduction, effectively changed FDI patterns, particularly benefiting the non-oil sector and suggesting a potential revival of the sector. This empirical position garnered validation from Demirhan & Masca (2016) who sought to investigate the determinants of foreign direct investment and found, inter alia, that tax rate significantly deters the flow of foreign direct investments into developing economies. The finding of the study also concords with the pronouncement made by Janaćković and Petrović-Ranđelović (2019) in the research that sought to investigate the relationship between paying taxes and foreign direct investment and discovered an inverse relationship. The discovery by the study that a negative relationship exists between foreign direct investment and paying taxes supports the account as put forward by Shabani and Parang (2018) who concluded that the association between paying taxes and foreign direct investment is negative.

Consistent with Demirhan & Masca (2016) was a study conducted by Ślusarczyk (2018) which discovered that foreign investors frequently and substantially benefit from the incentives offered by the Polish government, which is confirmed by the value of the capital invested by them in the form of FDI. Again, Boly and Keke (2020) employed an empirical approach to evaluate the impact of changes in Corporate Income Tax (CIT) rates on Foreign Direct Investment (FDI) net inflows in Africa. Utilizing a dynamic spatial Durbin model with fixed effects, the findings indicate that reductions in CIT rates contribute to an increase in FDI net inflows both in the host country and its neighbouring nations, exhibiting significance in both short and long-term perspectives. In a similar fashion, Edo et al. (2020) delved into the impact of corporate taxes on the inflow of Foreign Direct Investments (FDI) in Nigeria. By employing the Error Correction Model (ECM) the study unveils among other things that Company Income Tax, Value Added Tax and Custom and Excise Duties exhibit a significant and negative impact on FDI. In an attempt to address heightened mobility of labour and capital, Sato (2018) investigated the impact of corporate income tax on foreign direct investment among 30 OECD countries. The result is consistent with previous studies as it discovered a negative and significant impact of corporate tax on foreign direct investment.

Contrastingly, Hunady and Orviska (2017) found evidence that disagrees with previous studies. Hunady and Orviska (2017) sought to discern the principal drivers of Foreign Direct Investment (FDI) in European Union (EU) countries, employing panel data regression models. Notably, the focus of the investigation centred on investigating the influence of both effective and statutory corporate tax rates on FDI. Contrary to expectations, the findings reveal no statistically significant impact of corporate taxes on

FDI. On the same wavelength, Mahuni and Parang (2018) alluded that paying taxes has a positive significant relationship with the level of foreign direct investment in a country.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter serves as the final part of the study and presents the summary of the study, the conclusions based on the study findings and the recommendations based on the conclusions.

5.2 Summary of the Study

The research aimed at exploring the effect of some selected macroeconomic variables on foreign direct investment, specifically, the study was built on three research questions as follows; What is the effect of exchange rate on foreign direct investment in ECOWAS? What is the relationship between ease of doing business and foreign direct investment flows in ECOWAS? What is the relationship between tax policy and foreign direct investment in ECOWAS? To explore these intricacies, the study used a sample size of 15 countries drawn through the census sampling technique from the population of 15 countries that make up the ECOWAS region, the explanatory research design and the quantitative approach were used in the study. Multivariate regression analysis through the Engle-Granger Least Square estimation technique was deployed to analyse 12 years of panel secondary data for the concerned countries. The results are summarized based on the objectives in the subsequent section.

5.2 Summary of Key Findings

The various findings discovered by the statistical tests are summarized below.

5.2. 1 Relationship between exchange rate and foreign direct Investment.

The statistical result demonstrated that there is a significant negative relationship between exchange rate movement and foreign direct investment. Thus, exchange rate volatility inversely impacts the level of foreign direct investment flows in the studied countries.

5.2.2 Relationship between ease of doing business and foreign direct investment

On objective two, the study observed a positive relationship between ease of doing business and foreign direct investment flows. Thus, better ease of doing business indicators encourages foreign capital flows into a country. This connotes that countries that ensure good indicators of ease of doing business would have more foreign corporations vouching to pump more capital into their economies.

5.2.3 Relationship between tax policy and foreign direct investment.

On the third objective which sought to examine the effect of tax policy on foreign direct investment, the analysis found a negative statistically significant relationship between tax policy and foreign direct investment. This shows that a tax policy that seeks to increase corporate tax leads to a reduction in the level of foreign direct investment into the country.

5.2 Conclusions

The ascertained results from the various statistical tests call for the following conclusions.

5.2.1 Relationship between exchange rate and foreign direct investment

In the first place, since the statistical test found an inverse association between exchange rate movement and foreign direct investment, the study concludes that the weakening of a country's currency in the ECOWAS region reduces foreign capital inflow into the region. Again, it is concluded that investing in a country with a weaker currency does not yield the desired profit and therefore deters investors from investing in the ECOWAS region.

5.2.2 Relationship between ease of doing business and foreign direct investment.

Again, since there was a positive association between ease of doing and foreign direct investment, the study concludes that improvement in the business environment of the ECOWAS region attracts multinational corporations to invest in the region. Providing access to factors such as electricity, and ease of acquiring business permits motivates foreign investors to commit their capital into a country.

5.2.3 Relationship between tax policy and foreign direct investment.

Per the inverse association found between tax policy and foreign direct investment, the inquiry concludes that tax policies that lead to upward adjustment of corporate taxes discourage multinational corporations from investing in the region.

5.3 Recommendations

The myriad findings of the study call for various recommendations to the concerned stakeholders.

5.3.1 Relationship between exchange rate and foreign direct investment

To begin with, the central government should implement various measures that would automatically regulate the level of local currencies against major dominating currencies in order to keep a moderate level of foreign direct investment. Again, to strengthen local currencies in the region policymakers should ban the use of foreign currencies for local transactions.

5.3.2 Relationship between ease of doing business and foreign direct investment.

The study recommends that governments in West Africa should develop pragmatic economic policies that would strengthen their ease of doing business measures in order to become the preferred investment destination for multinational corporations looking for

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business-friendly locations to invest their capital. Again, governments in the region are also implored to liberalize and digitalize their business registration processes to minimize the hectic trauma that prospective investors go through when acquiring business permits.

5.3.3 Relationship between tax policy and foreign direct investment.

Finally, to garner more foreign investment, the study implores policymakers to institute tax policies that give preferential treatment such as tax caps, and tax holidays for multinational firms who seek to invest in specific sectors of the economy such as the agriculture and technology industries.

5.4 Suggestions for Further Studies

The investigation recommends academics explore the concepts in detail in sub-blocs in the ECOWAS region such as the francophone and the anglophone countries of the ECOWAS region as well as on the country level.
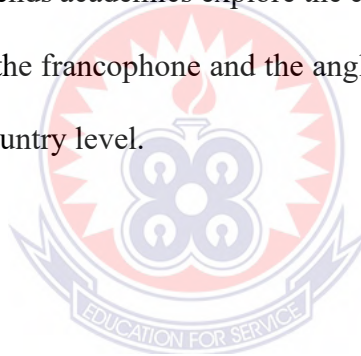
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