Impact and Determinants of China's FDI in West African and Monetary Unions Countries

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Abstract: *Past reviews on the determinants of remote direct investment (FDI) have mainly concentrated on developed and developing economies. Though, there appear to be few reviews focusing on a comparative investigation of Chinese FDI to African nations. This study reviewed driving factors of Chinese FDI to African economies utilizing a panel data from 1980- 2016. Granger causality test, under vector error correction modeling (VECM) applied to check causality among the factors, the dependent variable is FDI inflows to growth, was proxy by the proportion of FDI streams to total national output (GDP). Results showed that factors showing the determinants of FDI inflows have positive influence on development of West African and Monetary Unions economies. In particular components like trade openness, macroeconomic condition, infrastructural improvement and market size have significantly positive and noteworthy impact on FDI inflows to African economies.*

Keywords: *Foreign direct investment, China's OFDI, WAMU Countries, VECM Granger Causality Approach.*

I.   Introduction

China has been emerged as one of the most renowned global FDI market. FDI outflows of the country rose at aggregate increase of $730 billion, counting from a notable increase in 2013 of US $101 billion and then in 2014 to $116 billion from the $7 billion in 2001. In terms of FDI outward flows China has been the sole most prominent home nation among all markets that emerged in 2014 and the third following United States and Hong Kong. China leading among all the countries of origin complements its position as the largest single host country between developing countries. It has been predicted that outflow of foreign direct investment by China will carry on to increase with a source expecting US $ 1-2 trillion in Chinese off shoring global FDI during 2010-20. In reality, already Chinese foreign direct investment outflows more or less are balanced with its inflows of foreign direct investment, for instance in 2001, foreign direct investment outflows as a percentage of foreign direct investment inflows was fifteen percent while in 2014 it was ninety percent. China might soon be a net outward foreign direct investor.

An undeveloped region regarding economic progress till the 90s, the African economies speed up their GDP growth rate from 2000 onwards significantly. The present GDP of these developing "economic lions" is almost equivalent to that of Brazil or Russia. This study initiates with investigating the potential investment opportunities in the region.

The Anglophone states in West Africa set up a financial union, the West African and Monetary Unions Countries on the fifteenth of December 2000 consisting of five participating nations to be specific, Nigeria, Ghana, Guinea, Gambia and Sierra Leone (Liberia participated in 2009). It was at first intended to be a bilateral contract amongst Nigeria and Ghana however it was later extended to incorporate other Anglophone nations of West Africa. The principle goal of the West African and Monetary Unions Countries is to make a monetary union portrayed by solitary currency, the ECO, which would supplant the prevailing monetary forms and currencies of the participant nations by a single currency and to build up a central bank. The ECO was pictured as money that would match the CFA France of the francophone nations. The West African Monetary Institute was set up in January 2001 to attempt the specialized arrangements for the foundation of a common West African Cen[3]tral Bank and the starting of single money unit for the West African and Monetary Unions Countries. As foreign direct investment of China over the past decade has increased, likewise its intention to protect Chinese interests abroad has raised. The third generation of China's international investment agreements

Represent distinct characteristics of the approach shows what appears to be more cautious to protect the treaty with on the one side lessening of accepting investors claims and on the other side increase the standards of objectivity protection granted to investors including state-owned enterprises. The Chinese new approach seems to be designed to reflect rule of equality. It guarantees that investment program focused by its state-owned companies is protected while the protection granted to foreign investors on an equal footing with the current international standards but nevertheless allows enough flexibility for China to enforce their sovereign powers of the police.

Two noteworthy sets of union criteria have been settled upon in the West African and Monetary Unions Countries in particular the fundamental and auxiliary criteria. The fundamental criteria incorporate; one digit inflation rate, fiscal optimization with the prohibition of all grants not surpassing four percent of GDP, Central Bank's financing of monetary deficit must be under ten percent of aggregate tax revenues in the past year and Gross reserves of participant nations must have the capacity to fund no less than three months of imports. The second criteria are; Tax revenues as a proportion of GDP ought to be more than or equivalent to twenty percent wage bill to tax revenue ought to be fewer than or equivalent to thirty-five percent, Public investment as a proportion of tax revenue must be more or equivalent to twenty percent, Real exchange rate stabilization must be kept up inside a band of fifteen percent and Real interest rate must be maintained positive.

Up to now, none of the West African and Monetary Unions nations have possessed the capacity to meet with the union criteria in the meantime in order to empower amalgamation of the participating nations. At specific circumstances, Nigeria and Ghana have possessed the capacity to attain the criteria however not in the meantime. This has prompted to the moving of the date of union from 2003 to 2005 to 2009 and now to 2018.

1.2. Objective of this study
The basic objective of this are
(i)   To analyze the trends and determinants of China FDI in WAMU countries.
(ii)   To find the impact of China FDI on growth and development of WAMU countries
(iii)   To examine the correlation China FDI in WAMU countries.
(iv)   To test the causal relation between China FDI and determinants of WAMU countries.

II.   Literature Review

In recent times, the contribution of organization has been a rising concern of the emerging financial and economic literature. However, a significant number of empirical researches has been done on institutional-FDI yet just few exists on the parts of governmental administration (a segment of institutional system) from one perspective, and still analyzing its cooperation with human capital factors then again. Interestingly, the past reviews' outcome on the role of administration of FDI are observed to be mixed to some degree. Explicitly, three distinctive lines of results can be refined from the torrent of empirical research that has hitherto dived into such association. The mutual conviction shared by these extensive groupings is that administration matters in FDI fascination yet with each outlined distinctive ways as far as results are concerned. The main line of reviewers supporting the positive effect of administration on FDI incorporates (Schneider and Frey, 1985; Edwards, 1991; Hines, 1995; Rodrik, 1996; Mody and Srinivasan, 1998; Globerman and Shapiro, 2002; Jensen, 2003; Meon and Sekkat, 2004; Busse and Hefeker, 2007). The second classification of analysts supports that the negative association exists amongst administration and FDI (Resnick, 2001; Li and Resnick, 2003; Egger and Winner, 2005) and the last group of analysts contentions can be pegged around inconsequential or, at best delicate effect of administration on FDI.

Yasin (2005) demonstrates that reciprocal public advancement help to chose SSA nations has significantly positive effects on FDI streams while multilateral improvement help does not have empirically significant impact on FDI streams. Additionally, Anyanwu (2012), utilizing cross country time series information of African nations for the time period from 1996 to 2008, found that higher FDI goes where foreign aid as well goes in Africa. Furthermore, FDI inflows are positively correlated to size of market, trade openness, rule of law and order, prevalence natural resources, agglomeration, and exploitation of resources (for example, oil) similarly as East and Southern African sub-districts show up positive effects arranged to get more elevated amounts of FDI inflows. Nonetheless, higher financial growth has negative impact on inward FDI (Wheeler and Mody, 1992; Gastanaga, et. al., 1998; Asiedu, 2002; Bevan and Estrin, 2004) correspondingly.

Udo and Obiora (2006) examined the determinants of foreign direct investment and economic development in the West African Monetary Zone by investigating the applicant factors of FDI in the West African Monetary Zone and exploring the cause and effect relationship amongst FDI and economic growth. They applied a system of simultaneous equations on WAMZ nations' panel data for the period 1980 to 2002. They found no confirmation of a bilateral causality between FDI streams and economic development rather they found that FDI has a tendency to be pulled in by high per capita income, improved infrastructure and political

stability. Thus any important endeavors at drawing in FDI must take into account sensitivity of these determinants.

Fabyan (2009) concentrated on FDI, its patterns, chronicle progression and determinants in member nations of West African Monetary Zone (WAMZ) took a gander at the patterns and chronological improvement of FDI in part nations of the West African Monetary Zone (WAMZ). The article talked about the determinants of FDI and investigated its effect on the development of these economies for the period of 1980 to 1999 with 100 observations for five of the WAMZ member nations, in particular Nigeria, Ghana, Sierra Leone, guinea and the Gambia. The review computes Panel Corrected Standard Errors (PCSE) applying the Ordinary Least Squares Estimation (OLS). The review affirms that foreign debt and economic openness are undoubtedly vital for the inflow of FDI while inflation and GDP development does not have much significance.

Babatunde (2010) in his study examined FDI and financial development by deriving a correlation of the impact of trade openness and human capital amongst BRIMCs and SSA nations demonstrates that the advantages of FDI differs regarding the level of openness and nature of human capital in developing nations. The review directs an empirical investigation on the association amongst FDI and monetary development in Brazil, Russia, India, Mexico and China (BRIMCs) and chooses SSA nations for the period 1985-2006. Specifically, the review uses the panel data random effect (RE) method to check whether trade openness and human capital has attracted FDI, and furthermore whether the degree to which FDI influences development relies on upon openness of trade and the nature of human capital. The consequences of the review show that FDI is principally controlled by literacy and skilled labor, improved infrastructure and trade liberalization.

Nnadozie and Osili (2004) find less vigorous confirmation on the contribution of GDP per capita in FDI inflow however GDP growth rate is derived to have significant effect. Size of market is assumed to perform an imperative role in inward FDI flows (Anyanwu, 1998, 2011, 2012) however the consequences of Kyereboah-Coleman and Agyire-Tettey (2008) demonstrate that most foreign investors don't consider this figure settling on a choice to invest or generally in Ghana. Lederman, et. al., (2010) discover a few contrasts amongst SADC and rest of the world in FDI conduct, to be specific, that in SADC, the income level is less essential and openness all the more so. Nonetheless, with respect to different areas of the world, SADC's low FDI inflows are clarified by monetary basics and economic fundamentals.

Sichei and Kinyondo (2012) in their review investigated determinants of foreign direct investment in Africa for a set of panel data for a sample of 45 African nations for the time period of 1980 to 2009. They applied a dynamic panel data estimation system. Their review distinguishes various elements that influence FDI streams in Africa, including natural resource, agglomeration economies, real GDP rate and global contracts of investment. Their review additionally demonstrated that the Africa wide condition has turned out to be more helpful for FDI since the year 2000.

By utilizing the IDP hypothesis, (You, 2015; Anyanwu and Yameogo, 2015) explored the home factors of Chinese OFDI at provincial level. A panel dataset for 30 Chinese districts from 2003 to 2011 were analyzed. This was the primary examination that concentrated on Chinese OFDI at regional level to affirm the vital part of the expanded IDP hypothesis, home location limitations, and government strategies in China territorial outward FDI among its regions. To be precise, Chinese cost of labor, contamination level and trade balance negatively affected local China's OFDI while innovative abilities, capital formation, and agglomeration has positive impacts on local Chinese OFDI.

III.   Model for empirical analysis and their Theoretical Background

After the criticism of (Baltagi, 2008) on the simultaneous equation model especially with reference to the included exogenous and endogenous model and the results variability of the variables has raised many questions regarding the selection and applying of a proper model. But, if all the included variables in the study are considered as endogenous, this will leads to a proper regression analysis of the variables through than on Vector Auto-Regressive model (Asteriou and Hall, 2007). Correa and Kumar (2003) concluded that Vector Auto-Regressive model is not only imperative in determining the dependence relationship between dependent and independent variables but also useful for finding the causal relation among the variables. However, the VAR model gives best and more liable results in case when the included model have endogenous and exogenous results (Lee and Tan, 2006), therefore, the model used in this study is completely taken from previous theoretical and empirical study (Lee and Tan, 2006).

In this study the VAR model for panel analysis is constructed with both random and fixed co-efficient adjustment. The classical and typical method of regression is quite restrictive, therefore, for better understanding the trends of Chinese FDI on the growth of WAMU countries regarding the effect can be achieved by including fixed and random VAR effects model in the estimation. The constant coefficient model assumes that the terms of the intersection and slope are constant and there are no differences between the data matrices of the cross-sectional dimensions. However, in case of panel analysis both are varies, therefore, the VAR with both effects

will be applied. The model of the study is presented in the following equation. To analyze the trends and effect of China's FDI on the growth of African and Monetary Unions countries, the following model will be followed.

$$FDIc/ GDP_i = f (TLB + MecGDP + MS + IsD + MU) \ldots\ldots\ldots\ldots (3.1)$$

In the above equation FDIc estimates foreign direct Investment of China in WAMU countries. GDP_i indicates growth of WAMU countries. TLB assumes trade liberalization policies, MecGDP macro economic conditions and political stability in African countries, MS indicates market size of WAMU countries. IsD shows infrastructure development to attract FDI in WAMU countries and MU assumes dummy for Monetary Unions countries. The VAR econometric model for estimation random and fixed model for empirical analysis is

$$FDIc / GDP_i = \beta_0 + \beta_1 TLB_{i-1} + \beta_2 MecGDP_{i-1} + \beta_3 MS_{i-1} + \beta_4 IsD_{i-1} + \beta_5 MU_{i-1} + \mu \ldots\ldots.. (3.2)$$

In the empirical analysis of the above model (3.2) for trends and determinants of China FDI in West African and Monetary Unions countries, the VAR model and Multivariate co- integration analysis via granger-causality tests within the framework of Vector Error-correction Model (VECM) will be applied to analyze the dynamic relationships among the variables.

3.1. Details of Data Used in this Study

In this study the panel data is employed for more than forty (40) West African and Monetary Unions countries to determine the trends and impact on its growth of China's foreign direct investment from 1980-2016. The data is collected from World Bank's African Development Indicators (ADI), Statistical Bulletin of China, World Trade Organization (WTO), United Nations Commodity Trade Statistics (UNCTS), World development indicators, International Monetary Fund (IMF), The World Economy, United Nations Statistics Database, The Global Economy and The Trading Economy Database.

IV.   Methodological Framework of economic growth

To check and fix autocorrelation and stationarity in the data, Augmented Dickey Fuller (ADF) was conducted (Anyanwu 2012). Given some specified necessary of uncorrelated error terms Phillips Perron (PP) test, was applied to observed data (Asteriou and Hall, 2007). These tests are significant because the data used in this analysis, as is often the case with the time series data of macroeconomic variables, are usually unstable (non-stationary) and have trend. As suggested by Blaise (2005), a regression of one variable on the other is most probably a representation that a significant relationship either positive or negative would result, even if in realty they are not correlated. This is violation of classical linear regression model (CLRM) simply known as spurious regression (Fedderke and Romm, 2006; Asteriou and Hall, 2007).

ADF test was conducted to tackle structural breaks, given that the variables and conditions specific to a country can cause a perpetual change due to great shocks (Harms and Lutz, 2006). Further, unit root test is also an introduction to the Granger causality test, as toke on in this analysis. The Granger causality test is established on the basis of asymptotic theory, which states stationarity of variables in the same order of integration (Granger, 1988). Two experiments were carried out at the level, first and second difference series (Hair, et. al., 1998). The outcomes of unit root tests are shown in below Table 1.

Table 1. ADF and PP test Results for Order of Integration

Variables	Symbol	ADF Results		Phillips Perrin		
		-0.4536	-5.4735	-0.7685	-5.7563	**I(1)**
Foreign Direct Investment	FDI	-1.3715	-4.5472	-1.7451	-4.7681	**I(1)**
Growth of WAMU countries	GDP	-1.8691	-3.7536	-2.1318	-3.8692	**I(1)**
Trade liberalization policies	TLB	-0.9582	-4.8672	-1.2174	-3.9865	**I(1)**
Economic condition & political stability in African countries	MecGDP	-1.8778	-6.2138	-2.0431	-5.9783	**I(1)**
Market size of WAMU countries	MS	-2.0153	-5.7609	-1.6571	-5.3806	**I(1)**
Infrastructure development	IsD	-1.4561	-4.6743	-1.7689	-5.3218	**I(1)**
Dummy for Monetary Unions countries	MU	-2.3104	-5.7682	-2.1628	-4.9806	**I(1)**

Presumably the results of the unit root are stationary of a series of all variables by refusing null hypothesis for second difference at every critical value with maximum lag of one. Thus, the model follows the integration of I (1) order and so are stationary process (Kok and Ersoy, 2009). Comparing the calculated value of test Statistics to the critical value for each of the ADF and PP test (constant with the trend) in order to refuse or accept the null hypothesis. As a result, the null hypothesis was rejected, as it the former was largest in absolute value than the latter (Hair, et. al., 1998).

The study examines the trends and determinants of Chinas outward foreign direct investment in West African and Monetary Unions countries and its effect on growth of these countries from 1980-2016. The important variables considered crucial to attract Chinese FDI to WAMU region discovered from panel data set applied the VAR method of regression with ECM and granger Causality approach for causal relation under VAR methodology. The results obtained from both methodologies is discussed and given below.

Table 2. The VAR Regression Results with Error Correction Term

	FDI/ GDP	TLB	MecGDP	MS	IsD	MU
	1	0.4627*	0.5471*	0.2803*	0.3801***	0.2914**
		(0.1024)	(0.0692)	(0.0381)	(0.2763)	(0.1108)
Co-Equation	0.5372*	0.6518**	0.6482***	0.7583*	0.4527*	0.2983***
	(0.06572)	(0.3715)	(0.4371)	(0.3721)	(0.0926)	(0.0975)
R^2	0.7391	0.6984	0.6987	0.7562	0.6875	0.7089
Adj. R^2	0.7452	0.7103	0.6995	0.7582	0.6893	0.7352

(*), (**) and (***) denotes p-value at ≤ 0.01, ≤ 0.05 & ≤ 0.09.

Principally, a selection between OLS and VAR with fixed-effects (FE) is made by applying standard F-statistics. The empirical analysis also estimated the model with random effect approach (RE) by applying ADF and PP unit root test where the statistical significance level prefers VAR as the best suitable model. Though, through analysis it has found that coefficient of per capita GDP is directly proportional to the foreign direct investment as well as statistically significant at the 1% level. Simple justification is that the size of the market is one of the root causes for the attraction of foreign investors to the member countries of the West African & Monetary Union (WAMU) Countries. These findings are coinciding with many of the past studies on FDI, such as (Elbadawi and Mwega, 1997; Lipsey, 1999; Onyeiwu and Shrestha, 2004; Krugell, 2005 and Asiedu, 2002).

Implicitly, FDI investors can utilize and take advantage of the benefits related to economies of scale with the broader market countries. Thus, the biggest economy is capable to attract more foreign direct investment. This result has provided credibility to the size of the market hypothesis also adopted in the theoretical explanation of determines of China's foreign direct investment towards West African & Monetary Union (WAMU) Countries. The results of this study also strongly support the significance of African Countries market size in attracting the Chinese foreign Direct Investment towards WAEMU countries.

The determinant of macroeconomic stability level although consistent to a priori anticipation has statistical significance at all the level of statistical significance. Findings supporting the descriptive statistics are given in Table 1. This is not surprising as every economy within the regional bloc has always sought to fulfill the conditions (for example, such as the preservation of inflation rate to single digit), imposed by the various regional bodies and also by regional integrated arrangements. For instance the Union of West African Economic and Monetary Community and West Africa Monetary Union (WAMU) and a host of others also noteworthy effect of macroeconomic conditions and political stability in attracting china's FDI.

Coefficient on the degree of openness is positive and has significant association with Chinese foreign direct investment in West Africa and Monetary Union (WAMU) economies. Possible clarification for the positive coefficient can be related to the idea that openness is generally imposing capable cost of crowding in effect local companies because of the high technologies. In terms of marginal effects, as each percentage increase in the degree of openness, China's foreign direct investment tends to rise in West Africa and Monetary Union (WAMU) countries. On the other hand as to a priori expectation, the coefficient on infrastructure quality is positive.

The granger co-integration approach is used to check co-integration. Approach referred to as rank reducing or demoted regression methodology (Levin, et. al., 2002) has been applied. In the first step the order of integration is determined. For this purpose unit root test is used to determine the level of integration and appropriate model selection has been done by the process used by (Mohamed and Sidiropoulos, 2010). The second step is to determine the optimal length of the lag. Estimated these lags to a low number and then reduces down to check AIC and SBC optimum value (Asteriou and Hall, 2007). It is also noteworthy that the methodology of diagnosis normally reduces the number of panel units in the estimate and thus, affects the explanatory influence of the model. According Aregbesola (2014) this defends the use of orthogonal deviation technique, which is more competent than differencing the panel data.

Table 3. The Granger Causality Test Results under VAR Regression Analysis

Dependent Variables	Independent Variables						
	FDI	GDP	TLB	MecGDP	MS	IsD	MU
FDI	--	3.92301*	4.9149*	5.5086	3.7491*	4.3862*	3.3974*
GDP	4.1246*	--	3.5253*	2.9834*	4.6582*	2.0917**	2.6150**
TLB	1.5412	1.9163***	--	2.3168**	1.3918	1.3151	1.0291
MecGDP	3.4247*	4.0867*	1.3172	--	0.9863	1.4924	1.6920
MS	3.3586*	2.4103**	2.0915***	1.5471	--	3.6132*	0.5461
IsD	3.0613*	2.1587**	1.1973	2.5386**	1.7591	--	4.6704*
MU	3.3353*	1.5143	1.7350	1.1804	2.3543**	4.0672*	--

(*), (**) and (***) denotes p-value at ≤0.01, ≤ 0.05 & ≤0.09.

Though, the co integration refers only to the presence or absence of Granger-causality, and usually fails to analyze the route of causal relationship and therefore, it was decided this way across the VECM (Oladipo, 2008). This investigation, though, used Granger causality test in the VECM to test the causal relationship between the variables (Pantelidis and Nikopoulos, 2008). In this dissertation, the null hypothesis of a causal test whether the probability statistics do not fall within the scope of 0:01 or 0:10, and vice versa. Reported the results of this study analysis in Tables (4) for the causal relation between determinants of Chinese FDI towards West African and Monetary Unions Economies (WAMUE). Granger Causality test under VECM results in Table 4 indicates that the and considered all the variables tested in this study are considered as significant determinants for attracting Chinese foreign direct investment to the West African and Monetary Unions Economies. In order of significance the macroeconomic situation, trade openness and monetary union and infrastructure variables are statistically significant at the level of 1% and 5% and 10% respectively. The VECM results also proposed that all the variables observed in the model are acknowledged as important determinants for China's foreign direct investment inflows to African economies. Specially, in order of significance, the size of the market (size of the population), macroeconomic situation, development of infrastructure and trade openness statistically significant at the level of 1%, 1%, 1% and 10%, respectively.

V. Conclusion

Africa is a noteworthy beneficiary of FDI streams thus lag behind other countries of the world, FDI inflows not just change crosswise over sub-region in the continent however also has indicated exceptionally vital and arousing growth in various states in West Africa. Without a doubt, during 2007 and 2013, FDI extends in West Africa progressing at a composite yearly development rate of 27.7%, the most prominent development in the African region. In 2013, West Africa outperformed North Africa in FDI ventures surprisingly, turning into the second most appealing sub-region in Africa. The West African sub-region, until the most recent Ebola episode, has been described by quick economic and financial development and a growing consumer group, momentarily changing increasingly into a demand driven economy. Together, the 16 part countries of the sub-region have a populace in overabundance of 300 million, along these lines exhibiting enormous opportunities. West Africa's known oil, gas, and minerals reserves are gigantic. Furthermore, because of high worldwide demand, Africa's share of worldwide production and export of these natural assets has been huge.

On the other hand, there is a lack of studies on FDI-determinants that have been embraced in the specific setting of West Africa as a sub-region. The greater part of the prior reviews on FDI has either been on Sub-Sahara Africa, Africa in general, or a state in particular. Africa is the second biggest continent on the earth with assorted societies and distinctive legislative conditions consequently investors ought not to see Africa as a single entity to put resources into. It is consequently that investors are progressively ready to take a look at a bigger destination than only a solitary nation. Territorial economic alliances, for example, West Africa give investors access to bigger markets and range of appealing conditions.

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