North Asian International Research Journal Consortium

North Asian International Research Sournal

Chief Editor

Multidisciplinary

Dr. Nisar Hussain Malik

Publisher

Dr. Bilal Ahmad Malik

Associate Editor

Dr.Nagendra Mani Trapathi

Honorary Dr.Ashak Hussain Malik



NAIRJC JOURNAL PUBLICATION

North Asian International Research Journal Consortium

Welcome to NAIRJC

ISSN NO: 2454 - 2326

North Asian International Research Journal is a multidisciplinary research journal, published monthly in English, Hindi, Urdu all research papers submitted to the journal will be double-blind peer reviewed referred by members of the editorial board. Readers will include investigator in Universities, Research Institutes Government and Industry with research interest in the general subjects

Editorial Board

J.Anil Kumar Head Geography University of Thisyanathawam	Sanjuket Das Head Economics Samplpur University	Adgaonkar Ganesh Dept. of Commerce, B.S.A.U Arugaphad							
Kiran Mishra	Somanath Reddy	Rainal Choudhary							
Dept. of Engligh,Ranchi University, Jharkhand	Dept. of Social Work, Gulbarga University.	Dept. Govt. Engg. College Bikaner Rajasthan							
R.D. Sharma Head Commerce & Management Jammu University	R.P. Pandday Head Education Dr. C.V.Raman University	Moinuddin Khan Dept. of Botany SinghaniyaUniversity Rajasthan.							
Manish Mishra Dept. of Engg, United College Ald.UPTU Lucknow	K.M Bhandarkar Praful Patel College of Education, Gondia	Ravi Kumar Pandey Director, H.I.M.T, Allahabad							
Tihar Pandit Dept. of Environmental Science, University of Kashmir.	Simnani Dept. of Political Science, Govt. Degree College Pulwama, University of Kashmir.	Ashok D. Wagh Head PG. Dept. of Accountancy, B.N.N.College, Bhiwandi, Thane, Maharashtra.							
Neelam Yaday Head Exam. Mat.KM .Patel College Thakurli (E), Thane, Maharashtra	Nisar Hussain Dept. of Medicine A.I. Medical College (U.P) Kanpur University	M.C.P. Singh Head Information Technology Dr C.V. Rama University							
Ashak Husssain Head Pol-Science G.B, PG College Ald. Kanpur University	Khagendra Nath Sethi Head Dept. of History Sambalpur University.	Rama Singh Dept. of Political Science A.K.D College, Ald.University of Allahabad							

Address: - Dr. Ashak Hussain Malik House No. 221 Gangoo, Pulwama, Jammu and Kashmir, India - 192301, Cell: 09086405302, 09906662570, Ph. No: 01933-212815,

Email: nairjc5@gmail.com, info@nairjc.com Website: www.nairjc.com



North Asian International research Journal consortium www.nairjc.com

Capital Inflows, Governance effect on Economic Growth in some Selected ECOWAS Countries.

IDRIS AHMED SANI¹

¹School of Economics, Finance and Banking, College of Business Universiti Utara Malaysia; Dept. of Economics, Kogi State University Anyigba, Nigeria.

¹Corresponding author: <u>ias126@yahoo.com</u>

SALLAHUDDIN HASSAN²

²School of Economics, Finance and Banking, College of Business, Universiti Utara Malaysia.

MUHAMMAD AZAM³

³School of Economics, Finance and Banking, College of Business, Universiti Utara Malaysia.

ABSTRACT

The interest of this paper is to justify the impacts of governance and foreign capital inflows on economic growth in five countries (Nigeria, Ghana Gambia, Sierra Leone and Liberia) from Economic Community of West Africa (ECOWAS). Corruption and price inflation are proxies for Governance and is measured as such. Capital inflows comprise of Foreign Direct Investment (FC), workers' remittances (FR), external debt (FD) and foreign aid (FA). The study uses probabilistic econometric model based on growth theory and panel data set over the period between 1988 through 2014 to capture the stated objectives. For parameters estimation, the fixed-effects and random-effects models based on the Hausmann's test are employed as analytical techniques. The results proclaimed that inflation and corruption index have significant and negative impacts on economic growth, indicating the prevalence of weak governance which is detrimental to economic growth. Similarly, foreign aid and external debt have a negative and significant impact on economic growth. However, the capital inflows and remittances are found to be significant statistically and related positively to economic growth. The empirical results of capital inflows show that FC and remittances are favorable, whereas, foreign aid and external debt are inimical to economic growth. Thus, the empirical conclusion definitely justified the importance of capital inflows and good governance in the form of WRand FCin the process of economic growth and development Key words: ECOWAS, Capital inflows, Governance. JEL Codes:

INTRODUCTION

Over the years, the quest to attain desirable and sustainable level of economic growth has been the leading objective of every nation public policy to galvanize social welfare provision. Alley, Asekomeh, Mobolaji, and Adeniran (2014) and Asiedu (2002) observed that some countries are rich and others are poor majorly as a result of their respective response to the issue of understanding what encourage productivity. However, there has never been a concession on what determine nation's productivity level since the time of Adam Smith up till now



(Lambsdorff, 2005; Nye, 1967). These scholars are of the view that mantra of economic would persist as long as the fabrics of corruption have not been discovered and tackled. To scholars like Julca (2013), Mengistu and Adams (2007) and Nsiah and Fayissa (2013) submitted capital inflows and remittance encourage economic growth of countries, especially the developing economies. Based on the aforementioned, there are several factors which play a significant role in the determination of nation's aggregate output, where, the vital role of governance and capital flows cannot be neglected. As the objective of the "good governance" is to enhance the economic and social development of a country and by that improve living standard and pacify horrendous case of poverty. In good governance, there is pelluciddity in public action, reduce or avert corruption, security, a fair and equitable rule of law and also stability in macroeconomic parameters.

At various times, scholars have postulated that economic growth can be enhanced by the encouragement of capital inflow and good governance. They unanimously agreed that with a proper encourage of these two key variables sustainable growth can be achieved. World Governance Indicator (WGI) opined that good governance is can be attained with good positioning of some parameters. For a state or a country to operate a good government it must absence or scanty cases of violence/terrorism, rule of law, equitable distribution of resources, control of corruption, and existence freedom of expression. In their studies, Nye (1967), Roohollah, Bidabad, and Sherafati (2014), Shleifer and Vishny (1993) and Sundaram and Chowdhury (2013)elucidate that good governance connote sustainable economic growth and development. It signifies that the quality of governance determines the nature of growth to be expected. Bad governance condenses endemic corruption and resultantly dimpled the rate of economic growth.

Similarly, Akmal, Kemal, Hamid, Ali, Mumtaz, and Qutub (2003), Rivero (2004), and the United Nations Secretary-General in 1998) elucidate that Governance represent exercise of economic, administrative and political authority to manage at all levels a country's affair. It involves mechanisms, system, and institutions, by which citizens and groups clarify their interests, exercise their legal rights, meet their duty and resolve their differences. They maintained that corruption in the mold of favoritism, bribes, nepotism, embezzlement, extortion, and fraud negatively influences economic growth process. The outcome of these variables existence in an economy is weak governance as seen in most West African States and has been held responsible for the poor state of the region economic growth rates

Furthermore, capital inflows have also been viewed to significantly contribute to the economic growth and development of countries. Studies by scholars like Adeleke (2014), Azam, and Ahmed (2015), Borensztein, De Gregorio, and Lee (1998), Bosworth and Collins (1999), Insah (2013) and Kok and Ersoy (2009)have reveals that capital inflows are a crucial source of external finance which may simplify the transmission of modern inventions and technology of industrialized nations to developing countries, thus encouraging them to achieve their quest for an increased in the rate of economic growth and development. In corroborating with the above position, Buch, Kleinert, Lipponer, and Toubal (2005), Duada (2007), Lipsey, Feenstra, Hahn, and Hatsopoulos (1999) opined that in relative terms, capital inflows play a vital role in developing countries as compared to developed countries. That capital inflow facilitates the recipient countries to attain an investment height that is higher than their own local levels of savings due to increases in finance.



However, in their study Adams (2009), Driffield and Jones (2013) and Kose, Prasad, Rogoff, and Wei (2009) opined that foreign capital inflows do not placate growth in developing countries nor support it. Developing countries are frequently frustrated not by resources, but by the investment prospects that are short term financed. Completely, capital inflows are not inimical directly for it cannot be used comfortably for investment that has long period of gestation. it mostly cannot be used healthy, predominantly in investment intensive, low-initial-cash flow, and long-gestation projects. Fu, Pietrobelli, and Soete (2011) submitted a mixed findings for the relationship between capital inflow and economic growth but Gu and Huang (2014) maintained that capital inflows is inimical or negatively impact economic growth.

Despite these submissions and their subsequent implementation, ECOWAS countries are still finding it difficult in their drive to attain an enviable economic growth statue. It is on this background that this study tries to enlarge the understanding of the impact of governance and capital inflow on economic growth of these selected countries in West Africa sub-region for the period of 1988 to 2014. The study is unique for it considered only the Anglophone countries that are members of ECOWAS.

The above introduction is the study Section 1 and the Section 2 is the reviewed of available literature. Section 3 deals data discussion and methodology. Section 4 x-rays the empirical findings and finally Section 5 is the conclusion and some policy implication.

LITERATURE REVIEW

Reviewed literature has revealed that relationship between governance; capital inflows and economic growth have been estimated both theoretically as well empirically by previous scholars. The theoretical analysis of the relationship between capital inflows, governance, and economic growth has been postulated, studied and understand via various endogenous growth theories. In the endogenous growth theory, the combination of labor and capital generate growth. Where the quality of governance was used as the proxy for labor and capital inflows stands for the capital as the case may be in this study. However, Rebelo (1991) placed more emphasis on human capital than material capital as the determinant of growth. In this study, reviewed empirical literature is divided into two sub-sections; that is economic growth relationship with governance and then capital inflows.

Reviewed of literature on the relationship between economic growth and foreign capital inflows.

Capital inflows comprise of the foreign remittance (FR), foreign direct investment (FC), foreign debts (FD) and foreign aids (FA). Empirical studies based on the components of capital inflows are conducted and empirical finding were made by previous scholars. The empirical findings on the relationship between economic growth and capital inflows are still contentious in literature. Some scholars are of the view of a positive and statistically significant relation while other submit and negative and even statistically significant results. Studies by Azam and Ahmed (2015), Fambon (2013), Ikechi (2015), Nwaogu and Ryan (2015), and Orji, Uche, and Ilori (2014) all submitted a positive and statistically significant relationship between FC and growth. Azam and Ahmed (2015) studied the relationship in ten countries from commonwealth independent states, Fambon (2013) studied the short



and long run effect in Cammeroon, Ikechi (2015) reports on Sub-Sahara Africa, while Nwaogu and Ryan (2015) studied on 53 African countries and Orji, Uche, and Ilori (2014) estimated the relationship in some West African countries. However, Al-Sadig (2009), Ikpeze (2012) and Mencinger (2003) submitted a negative and some statistically significant results.

Furthermore, studies by Fayissa and El-Kaissy (1999), Hatemi-J, and Irandoust (2005) and Uzun, Kabadayi, and Emsen (2012) opined that there is a positive and statistically significant relationship between FA and economic growth in their respective research. On the other hand, Ali, (2013) and Azam (2014) in their own analysis reported a negative and statistically significant relationship between FA and economic growth. Similarly, FD has been found to be negatively related to economic growth (Ali& Sadraoui, 2013; Azam, Syed,& Hyder, 2013). But the study by Gianluca, Nathan, and Luca (2015) and Roe and Siegel (2011) maintained that FD positively and statistically influence economic growth.

On the relationship between economic growth and RM, Catrinescu, Leon-Ledesma, Piracha, and Quillin (2009) submitted that RM inflows has a positively weak effect on long-run in 12 countries aggregate output from 1970-2003. In their own contribution, Nsiah and Fayissa (2013) from their analysis of some selected countries from Asia, Caribbean Africa and Latin America countries submitted a positive and significant impact on growth. Corroborating with the above studies, Azam (2014), Azam and Khan (2011) and Benmamoun and Lehnert (2013) respectively reported a positive and significant relationship between RM and economic growth.

Review of literature on the relationship between economic growth and governance.

Previous studies on governance look at governance from the perspective of good and bad governance. Others viewed governance as politically stable or unstable of nature of a country. From any of the perspectives, the indicators for politically stable or good governance are the same and opposite of politically unstable or bad governance. Political stability is the absence or very low level of violence/terrorism, political intimidation and arrest by the state, corruption and present and the existence of a vibrant rule of law (World Bank, 2014). In this study, governance is proxy is corruption or bad governance.

Empirical findings of scholars on the relationship between corruption and economic growth remain inconclusive to both researchers and scholars of economics. Scholars like Badun (2005), Mauro (1995), Meon and Sekkat (2005) and Uddin and Joya (2007) in their separate submissions maintained that corruption weaken institutional quality, reduces output and exacerbate poverty. Also, in their own contribution, Ahmad, Amanullah, and Afreen (2012), Cooray (2009) and Roohollah, Bidabad, and Sherafati (2014) opined that corruption influence growth negatively by frustrating all policies and strategies put in place to facilitate growth in all the sample countries used in their respective study.

On the other hand, some scholars are of the view that corruption enhance growth (Aidt, 2003; Dzhumashev, 2014; Friedrich, 1972; Resnick & Birner, 2006). These scholars are of the view that corruption quickens the procedures



of doing business thereby encouraging an increase in productivity. They believed that corruption leads to efficiency which ultimately generates productivity by alleviating poverty.

On the reviewed literature on inflation, scholars differ on the direction of its influence on economic growth.Barro (2013), Bleaney and Francisco(2007) and Faria and Carneiro (2001) posited that inflation retard economic growth. Yet other scholars like Aisen and Veiga (2008) and Cologni and Manera (2008) believed that inflation enhance economic growth.

DATA AND METHODOLOGY

This study examines the impact of governance, and foreign capital inflows on economic growth in five ECOWAS countries. Governance is proxy by corruption and inflation and capital inflows are proxy by FC, FR, FD, and FA respectively. The data used in this research were obtained from, World Bank World Development Indicator (WDI) of 2014, the International Country Risk Guide (ICRG), and the Political Risk Guide Service (PRS) of 2013 and 2014 respectively. This study uses, the following general regression equation, which can be written as follows:

 $[1] \qquad GPC = f(G, CF)$

In Equation [1], *GPC* represents GDP per capita and is a function of governance (G) and capital inflows (CF). It was from Equation [1] that Equation [2] and Equation [3] were derived.

 $[2] \qquad G = f(CR, IF)$

Equation [2] express governance as a function of corruption (CR) and inflation (IF)

 $[3] \qquad CF = f(FC, FR, FD, FA)$

Equation [3] states that capital inflows is a function of foreign direct investment (FC), foreign remittance (FR), foreign debts (FD) and foreign aids (FA). Substituting Equation [2] and Equation [3] into Equation [1] gives Equation [4].

 $[4] \qquad GPC = f(CR, IF, FC, FR, FD, FA)$

Equation [4] transformed to Equation [5] expressing the econometric form.

$$[5] \qquad GPC_{ii} = \alpha_i + \alpha_1 CR_{i1} + \alpha_2 IF_{ii} + \alpha_3 FC_{ii} + \alpha_4 FR_{ii} + \alpha_5 FD_{ii} + \alpha_6 FA_{ii} + \nu_i + \varepsilon_{ii}$$

Where α_1 , α_2 , α_3 , α_4 , α_5 , and α_6 are coefficients of the estimated variables; *i* and *t* denote the *i*th country and the *t*th time period, respectively. *GPC* represent for the GDP per capita, *CR* is corruption index, *IF* stand for inflation, *FC* indicates foreign direct investment, *FR* is foreign workers remittances, *FD* represented foreign debt while *FA* stand for foreign aid and ε stands for error term.

GPC is defined as GDP per capita in current USD and it measures economic growth, CR is measured by the order of rating on the political risk rating, IF is measured Inflation, GDP deflator on annual percentage, and FC is measured as foreign direct investment and net inflow (BOP, current USD). Also, FR is the personal workers remittance received in USD, while FD is measured as the summation of International Monetary Fund credit (IMF) credit and public guaranteed and private nonguaranteed short and long term debts and FA is measured as net received official development assistance in USD. In this study, the apriority expectation from the variables *FC*, *FA* and *FR* is a positive relationship with economic growth while the expectation from the other variables *CR*, *IF*, and *FD* is a negative relationship.

For empirical analysis, a balanced set of panel of 27 years is employed forfive ECOWAS countries (Nigeria, Ghana Gambia, Sierra Leone and Liberia). The sample size is 135 ($n= 27 \times 5$). A summary of the descriptive statistics, as well as correlation matrix are submitted in Table 1. Table 1 reveals that the results of correlation except foreign aids have expected signs and support the study's hypotheses.

		-					
Statistics/ Variables	GPC	CR	IF	FC	FR	FD	FA
Mean	1021.101	1.0002	10.178	1.361	1.016	33.711	3.972
Median	345.108	1.778	3.216	0.910	1.325	21.307	2.014
Maximum	10210.52	2.190	137.352	21.620	11.014	251.109	18.315
Minimum	92.015	0.000	-5.621	-10.351	0.001	1.098	-0.021
Std. Dev.	542.109	0.798	13.701	1.502	2.031	34.212	8.073
Skewness	2.101	-0.013	2.012	2.004	1.061	1.009	1.041
GPC	1.000						
CR	-0.012	1.000					
IF	-0.031	-0.001	1.000				
FC	0.018	0.011	-0.015	1.000			
FR	0.004	0.014	-0.104	0.305	1.000		
FD	-0.103	0.056	0.121	-0.103	-0.023	1.000	
FA	-0.108	0.038	-0.106	0.140	0.1090	-0.098	1.000
Observations	135	135	135	135	135	135	540

Table: 1. Descriptive statistics and correlation matrix

Source: Author's computation



RESULTS AND DISCUSSION

The regression model used in is this study estimation has as depending variable GPC and the explanatory variables are CR, IF, FC, FR, FD, and FA respectively. Traditional panel approach was used since the aim of the study is to analyze the impact of governance and foreign capital inflows on economic growth in some ECOWAS countries. The Hausmann (1978) test was conducted to select the random-effects and fixed-effects model for estimation(Green, 2008). An insignificant p- value (p>0.05) signifies the use of random-effects model is favorable, otherwise the fixed-effects model ought to be used (Klarner, 2010; Noy & Nualsri, 2008). The Hausmann's test of the study indicated that in some specifications, the random-effects model is more preferred to the fixed-effects model, while in some specifications fixed-effects is more suitable to the random-effects model as depicted by the results on Table 2. The results affirmed that the overall estimated coefficient signs except FA agreed with the expectation signs and are significant statistically.

Thirteen versions of the model are regressed by the random-effects and fixed-effects based on panel data for the five selected ECOWAS countries over the period between 1988 through 2014, in order to obtain robust sample size and well-argued results empirically. In view of that, Table 2 column 1-13 displays the estimation results of the Random Effects (RE) and Fixed Effects (FE) model. From Table 2, it is obvious in the case of RE that the R^2 values are relatively small, but the estimated coefficient mostly is statistically significant and with the expected signs. Though, the F-ratios are found to be significant statistically, which means that response variable has a significant relationship with the all explanatory variables jointly.

In addition, Table 2 column 7-13 show that the submitted F-ratio is relatively large to report that there is the joint significance of the incorporated six explanatory variables namely CR, IF, FC, FR, FD, and FA. Whereas, interestingly, all of the six repressors tested have an impact on economic growth in five selected ECOWAS countries and are also individually significant which vehemently justify and suggested the technical acceptability of the model.

Corruption index (CR) as a measure of corruption is one of the essential elements of weak governance and institutional quality. Revealed empirical result on corruption index shows that it is positive and significantly related to economic growth. This implies that high level of corruption retards economic growth. This result on corruption index variable estimated coefficient correctly reflects the apriori expectations of the study. The estimated coefficient of corruption index variable is positive and significantly significant at one percent level as shown in Table 2 column 1-13. The results explain that the GDP per capita would be stifled by 9 percent due to a unit change in the corruption index. This result is supported by submissions of previous scholars like Azam and Emirullah (2014), Mauro (1995) and Mo (2001). Also in this study, inflation is incorporated to determine the level of macroeconomic instability which also measures the weak governance and a blockage to economic growth. Inflation empirical result denotes that it carries a negative sign as anticipated. Estimated coefficients in all eight specifications obtained are -0.001, -0.002, -0.003 and -0.004 for the inflation variable which at the one percent level of significance and are mostly statistically significant. The results agree with the theoretical expectation of a negative and inverse relationship between economic growth and inflation. The results imply that if the inflation rises by one percentage point, it will weaken economic growth by -0.002, -0.005 and -0.006



percent. The result is in accordance with reports of previous scholars like Azam and Emirullah (2014), Barro (2013), Driffield and Jones (2013) and Kimino, Saal, and Driffield (2007). The estimated results show that the two components of the weak governance namely CR and IF are inimical to economic growth.

On the other hand, the empirical results of various components of foreign capital inflows show that incoming FC has been found to be carrying a positive sign and significant statistically at one percent level. This, validate the apriori expectation that FC is growth-enhancing. With all the four specifications estimated coefficients found are 0.015, 0.018, 0.005, and 0.012 for the FC variable this indicates that the theoretically positive relationship between FC inflow and economic growth has been justified by the empirical results. Furthermore, theoretically, previous research maintained that economic growth and FR are positively related. The study empirical results reveal that FR has a positive impact on economic growth. With estimated coefficients of 0.012, 0.009 and 0.007 obtained from its three specifications, FR is found to be positively related to economic growth and statistically significant at the one and ten percent levels of significance respectively. The results imply that one unit increase in the remittances will enlarge by 0.012, 0.009 and 0.007 percentage points in economic growth. The empirical result on *FC* and *FR* corroborated the submissions of Azam and Ahmed (2015), Benmamoun and Lehnert (2013), Driffield and Jones (2013), Fayissa and El-Kaissy (1999), Fayissa and Nsiah (2010) and Nsiah and Fayissa (2013).

For the other explanatory variables included in the model that is FD and FA, the estimated results for FD are also found to be statistically significant and carry the expected sign. However, the results for FA were not as expected. Where, it has been predicted that FA has a positively significant impact on the economic growth but from the estimated results FA has been found to be negative statistically significant at one percent level and also bears a correct negative sign, thereby not confirming the basic hypothesis that FA is growth-inducing. With the estimated coefficient of -0.019 and -0.015 obtained for FA variable, it implies that with one unit increase in the FA brings about 0.019 and 0.015 percent decrease in economic growth. Although, this finding is in accordance to some previous studies like Ali (2013), Driffield and Jones (2013) and Nsiah and Fayissa (2013) submissions. Similarly, estimated results for FD found that variable is statistically significant and negatively related to economic growth. With the estimated coefficient of -0.003, -0.004 and -0.005 from the four specifications, it indicates that if the FD increases by one percent, it will decrease the economic growth by -0.003, -0.004 and -0.005 percent. This result corroborates the relationship between external debt and economic growth of this study are in accordance with the other research findings like for instance Adeleke (2014), Ali and Sadraoui (2013) and Ikpeze (2012). From the research findings of the various components of capital inflows, it can be stated that an increase in the units of FA and FD retard economic growth while and an increase in the unit of FC and FR induce economic growth in the studied ECOWAS countries.



	1	2	2	4	5	6	7	0	0	10	11	10	12
Regressor	I DE	Z DE) DE	4 FF	J DE	0 DE	/ DE	0 DE	9 DE	IU FE	DE	12 DE	15 DE
s/	KL Cof	KL Cof	KL Cof	TL Cof	KL Cof	KL Cof	KL Cof	KL Cof	KL Cof	TL Cof	KL Cof	Cooff	KL Cof*
Estimators	C01.	C01.	C01.	C01.	C01.	C01.	C01.	C01.	C01.	C01.	C01	Coeff.	C01.
CR	-0.001 ^a						-0.001 ^b	-0.001 ^a	-0.001 ^a	-0.001 ^a	-	-0.001 ^a	-0.001 ^a
	[0.0004						[0.0003	[0.0002	[0.0001	[0.0002	0.0003 ^c	[0.0001	[0.0002
	ĺ						1	j	1 I	1	[0.0002	j	1
	(1.235)						(1.251)	(1.312)	(1.120)	(1.625)	1 I	(1.051)	(1.105)
											(0.757)		
IF		-0.003^{a}					-0.004^{a}	-0.003^{a}	-0.002^{b}	-0.003^{a}	-0.004^{a}	-0.001 ^c	-0.001 ^b
		[0.0005					[0.0005	[0.0004	[0.0007	[0.0005	[0.0005	[0.0004	[0.0004
]]]]]]]]
		(4.432)					(4.651)	(3.781)	(2.245)	(3.325)	(4.212)	(1.001)	(1.130)
FC			0.015 ^a					0.018^{a}				0.005 ^b	0.012^{a}
			[0.003]					[0.003]				[0.002]	[0.005]
			(3.307)					(4.022)				(1.055)	(3.485)
FR				0.012 ^a							0.009°		0.007
				[0.006]							[0.009]		[0.007]
				(1.0264							(1.773)		(1.032)
ED)	0.0053				0.00.53			0.0003	0.00.43
FD					-0.005"				-0.005"			-0.003	-0.004
					10.0001				[0.0002			100001	10.0002
]] (9.410)] (7.220)	
EA					(9.430)	0.0108			(8.410)	0.0158		(7.320)	(6.042)
ГА						-0.019				-0.013			
						(5, 102)				(3.715)			
Intercent	/ 381	1 215	5 104	4.411	1 210	(3.192)	1 2/3	4 142	5 130	(3.713)	4 321	5 129	5.012
intercept	10 1071	4.215 [0.105]	5.104 [0.186]	10 0161	4.217 [0 100]	4.312 [0 108]	4.243 [0 102]	10 1161	IO 1011	4.314 [0.012]	4.321 [0.105]	[0 013]	5.012 [0.215]
	(19.052)	(18 887	(18 992	(90.061	(11706)	$(11 \ 307)$	$(11\ 101$	(10.042)	$(12\ 0.24)$	(93.426)	(10,102)	$(12 \ 426)$	$(11\ 209$
)))))))))))))
\mathbb{R}^2	0.010	0.051	0.459	0.602	0.051	0.009	0.041	0.129	0.132	0.415	0.036	0.164	0.210
adj. R ²	0.009	0.067	0.487	0.810	0.080	0.014	0.090	0.135	0.450	0.819	0.090	0.457	0.424
S.E. reg.	0.404	0.303	0.306	0.312	0.210	0.412	0.315	0.416	0.110	0.213	0.225	0.117	0.112
		22.476	144.27	77.32	13.501	7.410	16.613	29.454	98.135	45.512	7.35	44.170	37.317
F-stat	5.019		9										
Prob(F-		0.000	0.000	-99.219	0.000	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000
stat)	0.012												
Hausman	0.751	0.011	0.051	3.104	0.011	0.117	0.734	0.878	1.091	4.111	0.817	1.140	1.109
Test													
P-value	0.3130	0.703	0.701	0.012	0.712	0.352	0.405	0.831	0.321	0.020	0.605	0.316	0.451

Table: 2. Panel estimates (response variable is GDP per capita

Note: Asterisks a, b and c shows significant at 1%, 5 % and 10 % levels of significance respectively. Cof. is the coefficients, RE and FE are random-effects and fixed-effects * indicates that in the column all independent variables are in one period lagged form.

SUMMARY AND CONCLUSION

The broad objective of this research was to assess the effect of governance and capital inflows on economic growth in five selected countries of ECOWAS (Nigeria, Ghana, Sierra Leone, Gambia and Liberia). Based on Hausmann's test, the research used fixed-effects and random-effects models to analyze the series of panel data on these selected countries. The study has ensconced theoretically logical empirical findings and also added both of theoretical possibilities and previous empirical submissions. The empirical findings reveal that CR and IF are significant and negatively influence economic growth. These entrenched the assumption that, bad governance and price volatility have a negative influence on economic growth. Thus, the empirical submission on governance proposed that weak role of government has increased burden to the economic growth of the selected countries under the study. Furthermore, FD and FA have an egative and significant impact on economic growth. Thusly, the empirical findings found that FC and FR are convivial, while, both FD and FA are malignant to the economic growth of the selected ECOWAS countries.

The research findings certainly abnegate the significance of good governance, and foreign capital inflows in the shape of FR and FC in the course of economic growth and development. Therefore, monitoring corruption and reconciling inflation should be of serious concern by policymakers when planning and implementing macroeconomic policies. Careful analysis of the root of corruption can guide to effective and efficient means of preventing it. Fortifying anti-corruption institution, trimming of political interference by having a firm political will, overhauling both the private and public sector style of operations, encouraging transparency and accountability in the governance process, organized and independent legal system, improvement in human and physical infrastructures, and putting in place procedure for rewarding excellence among civil and public servants. Furthermore, management of inflation needs to be encouraged via effective and coordinated fiscal and monetary policies. Additionally, procedure and policies that engaged in the assessing FD, needs to be thoroughly examine and FA acceptance must be well utilized by the government of these countries in other to reduce their adverse effect on the economy. The study findings strongly support introduction of policies that encourage conducive climate for the FC and FR inflows into the studied countries and with the proper management and utilization by directing them into productive investment of these inflows, their economies will experience rapid growth and subsequent development.

REFERENCE:

- Adams, S. (2009). Can Foreign Direct Investment (FDI) Help to Promote Growth in Africa? African Journal of Business Management, 3(5), 178–183.
- Adeleke, A. (2014). FDI-growth nexus in Africa: does governance matter? Journal of Economic Development, 39(1), 111–135.
- Ahmad, E., Amanullah, M. and Afreen, M. (2012). Does corruption affect economic growth? *Latin American Journal of Economics*, 49(2), 277–305.
- Aidt, T. (2003). Economic analysis of corruption: a survey. *The Economic Journal*, *113*(491), 632–652.
- Aisen, A. and Veiga, F. (2008). Political instability and inflation volatility. *Public Choice*, 135(3-4), 207–223.

- Akmal, H., Kemal, R., Hamid, I., Ali, I., Mumtaz, K. and Qutub, A. (2003). Poverty, Growth and Governance Pakistan National Human. Development Report 2003. United Nations Development Programme. Oxford University Press, Karachi, Pakistan. United Nations Development Programme. Pakistan.
- Ali, H. (2013). Foreign aid and economic growth in Egypt: A cointegration analysis. *International Journal of Economics and Financial Issues*, 3(3), 743–751.
- Ali, T. and Sadraoui, T. (2013). (2013). External debt and financing of economic development: evidence from North African Countries. *Journal of North African Research in Business*, 1(1), 1–20.
- Alley, I., Asekomeh, A., Mobolaji, H. and Adeniran, Y. (2014). Oil price shock and Nigeria economic growth. *European Scientific Journal*, 10, 1–17.
- Al-Sadig, A. (2009). The effects of corruption on FDI inflows. *Cato Journal*, 29(2), 267–294.
- Asiedu, E. (2002). On the Determinants of foreign direct investment to developing countries: Is Africa different?". World Development, 30(1), 107–118.
- Azam, M. (2014). Foreign aid and economic growth: lessons for Pakistan. Journal of Applied Economic Sciences, IX, 2(28), 165–180.
- Azam, C., Syed, K., and Hyder, B. (2013). A structural VAR analysis of the impact of macroeconomic shocks on Pakistan's textile exports. *Economic Modellingodelling*, 32, 302–315.
- Azam, M. and Ahmed, A. (2015). Role of human capital and foriegn direct investment in promoting economic growth: Evidence from Commonwealth of Independent States. *International Journal of Social Economics*, 42(2), 98–111.
- Azam, M. and Emirullah, C. (2014). The role of Governance in economic development: Evidence from Some Selected Countries in Asia and the Pacific. *International Journal of Social Economics*, 41(12), 1265–1278.
- Azam, M. and Khan, M. (2011). Workers' remittances and economic growth: evidence from Azerbaijan and Armenia. *Global Journal of Human Social Science*, 11(7), 41–46.
- Badun, M. (2005). The quality of governance and economic growth in Croatia. *Financial Theory and Practice*, 29(4), 279–308.
- Barro, R. J. (2013). Inflation and economic growth. . Annals of Economics and Finance, 14(1), 121–144.
- Benmamoun, M. and Lehnert, K. (2013). Financing growth: comparing the effects of FDI, ODA, and international remittances. *Journal of Economic Development*, 38(2), 43–65.
- Bleaney, M. and Francisco, M. (2007). Exchange rate regimes, inflation and growth in developing countries An assessment. *The B.E. Journal of Macroeconomics Topics*, 7, 1–20.
- Borensztein, E., De Gregorio, J. and Lee, J.-W. (1998). How Does Foreign Direct Investment Affect Economic Growth? *Journal of International Economics*, 45, 115–135.
- Bosworth, B. and Collins, S. (1999). Capital Flows to Developing Economies: Implications for Saving and Investment. *Brooking Papers on Economic Activity*, 143, 143–169.
- Buch, C., Kleinert, J., Lipponer, A. and Toubal, F. (2005). Determinant and effect of foriegn direct investment: Evidence ffrom Germany Firm-level data. *Economic Policy*, 20(41), 52–110.
- Catrinescu, N., Leon-Ledesma, M., Piracha, M. and Quillin, B. (2009). Remittances, institutions, and economic growth. *World Development*, 37(1), 81–92.
- Cologni, A. and Manera, M. (2008). Oil prices, inflation and interest rates in a structural cointegrated VAR model for the G-7 countries. *Energy Economics*, 30(3), 856–888.
- Cooray, A. (2009). Government expenditure, governance and economic growth. *Comparative Economic Studies*, 51(3), 401–418.
- Driffield, N. and Jones, C. (2013). Impact of FDI, ODA and migrant remittances on economic growth in developing countries: a systems approach. *European Journal of Development Research*, 25(2), 173–196.
- Duada, R. (2007). The Impact of FDI on Nigeria's Economic Growth: Trade Policy Matters. Journal of Business and Policy Research, 3(2), 11–26.



- Dzhumashev, R. (2014). Corruption and growth: The role of governance, public spending, and economic development. *Economic Modelling*, 37, 202–215.
- Fambon, S. (2013). Foreign capital inflow and economic growth in Cameroon. WIDER Working Paper, 2013, 124.
- Faria, J. And Carneiro, F. (2001). Does high inflation affect growth in the long and short run? Journal of Applied Economics, 4(1), 89–105.
- Fayissa, B. and El-Kaissy, M.(1999). Foreign aid and the economic growth of developing countries (LDCs): Further evidence. *Studies in Comparative International Development*, 34(3), 37–50.
- Fayissa, B. and Nsiah, C. (2010). The impact of remittances on economic growth and development in Africa. *The American Economist*, 55(2), 92–103.
- Friedrich, C. J. (1972). The pathology of politics, violence, betrayal, corruption, secrecy and propaganda. New York: Harper and Row.
- Fu, X., Pietrobelli, C. and Soete, L. (2011). The role of foreign technology and indigenous innovation in the emerging economies: technological change and catching-up. *World Development*, 39(7), 1204–1212.
- Gianluca, B., Nathan, C. and Luca, F. (2015). Large Capital Inflows, Sectoral Allocation, and Economic Performance. Journal of International Money and Finance, In Press, Accepted Manuscript, Available Online 27 February 2015.
- Green, W. (2008). *Econometric analysis* (6th ed.). New Jersey: Pearson Prentice Hall.
- Gu, X., and Huang, B. (2014). Does inequality lead to a financial crisis? Revisited. *Review of Development Economics*, 18(3), 502–516.
- Hatemi-J, A. and Irandoust, M. (2005). Foreign aid and economic growth: new evidence from panel cointegration. *Journal of Economic Development*, 30(1), 71–80.
- Hausmann, J. (1978). Specification test in econometrics. *Econometrica*, 46(6), 1251–1271.
- Ikechi, K. (2015). Foreign capital inflows and economic growth in Sub-Saharan Africa: a study of selected countries. *Research Journal of Finance and Accounting*, 6(1), 52–64.
- Ikpeze, F. (2012). External shock and real GDP in Nigeria. In Coping with external shock in a globalised economy (pp. 1–24). Abuja, Nigeria.
- Insah, B. (2013). Foreign Direct Investment Inflows and Economic Growth in Ghana. International Journal of Economic Practices and Theories, 3(2), 115–121.
- Julca, A. (2013). Can immigrant remittances support development finance? *PANOECONOMICUS*, 29, 365–380.
- Kimino, S. Saal, D. S. and Driffield, N. (2007). Macro determinant of FDI inflow into Japan: Analysisof source country characteristics. *The World Economy*, 30(3), 446–469.
- Klarner, P. (2010). The rhythm of change: A longitutional analysis of the European Insurance Industry.
- Kok, R. and Ersoy, B. (2009). Analysis of FDI determinants in developing countries. *International Journal of Social Economics*, 36(1/2), 105–123.
- Kose, M., Prasad, E., Rogoff, K. and Wei, S. (2009). Financial globalisation: A reappraisal. *IMF Working Paper*, 56, 8–62.
- Lambsdorff, J. (2005). Consequences and causes of corruption-what do we know from a cross-section of countries? University of Passau, 34(5), 1435–3520,.
- Lipsey, R., Feenstra, R., Hahn, C. and Hatsopoulos, G. (1999). *International capital flows* (pp. 307–362). Published by University of Chicago Press,.
- Mauro, P. (1995). Corruption and growth. *The Quarterly Journal of Economics*, *110*(3), 681–712.
- Mencinger, J. (2003). Does FDI always enhance economic growth? *Kilkos*, 56(4), 491–508.
- Mengistu B. and Adams, S. (2007). Foreign direct investment, governance and economic development in developing countries. *Journal of Social, Political and Economic Studies*, 32(2), 223–249.

- Meon, P. and Sekkat, K. (2005). Does corruption grease or sand the wheels of growth? *Public Choice*, 122(1-2), 69–97.
- Mo, P. (2001). Corruption and economic growth. *Journal of Comparative Economics*, 29(1), 66–79.
- Noy, I. and Nualsri, A. (2008). What do Exogenous Shocks Tell Us about Growth Theories? *Nature*, 2007(December), 0–33.
- Nsiah, C. and Fayissa, B. (2013). Remittances and economic growth in Africa, Asia, and Latin American-Caribbean countries: a panel unit root and panel cointegration analysis. *Journal of Economics and Finance*, 37, 424–441.
- Nwaogu, U. and Ryan, M. (2015). FDI, foreign aid, remittance and economic growth in developing countries. *Review of Development Economics*, 19(1), 100–115.
- Nye, J. (1967). Corruption and political development. *American Political Science Review*, 6(1), 417–427.
- Orji, A., Uche, A., and Ilori, E. (2014). Foreign capital inflows and growth: an empirical analysis of WAMZ experience. *International Journal of Economics and Financial Issues*, 4(4), 971–983.
- Rebelo, S. (1991). Long-run policy analysis and long-lun growth. Journal of Political Economyolitical Economy, 99(3), 500–521.
- Resnick, D. and Birner, R. (2006). Does good governance contribute to Pro-Poor Growth?: A review of the evidence from cross-country studies Development Strategy and Governance. *International Food Policy Research Institute*, 12, 1–22.
- Rivero, R. (2004). Fighting Global Fraud and Corruption in World Bank Financed Projects Politica. In *meeting of the Committee of Juridical and Politica*. World Bank.
- Roe, M. and Siegel, J. (2011). Political instability: Effects on financial development, roots in the severity of economic inequality. *Journal of Comparative Economics*, 3(2), 1–60.
- Roohollah, M., Bidabad, B., and Sherafati, M. (2014). Good governance, economic growth and human resource development in Iran. *Indian Journal of Scientific Research*, 5(1), 321–326.
- shleifer, A. and Vishny, R. (1993). Corruption. *Quarterly Journal of Economics*, 108(3), 599–617.
- Sundaram, J. and Chowdhury, A. (2013). Is good gorvance a pre-requisite for Africa's development? Africa Review of Books, 9(2), 1–9.
- Uddin, M. and Joya, L. (2007). Development through good governance: lessons for developing countries. *Asian Affairs*, 29(3), 1–28.
- United Nations Secretary-General. (1998). Annual Report to the General Assembly on the work of the organization. Retrieved from http://www.unsystem.org/ngls/documents/pdf
- Uzun, A., Kabadayi, B., and Emsen, O. (2012). The impacts of external debt on economic growth in transition economies. *Chinese Business Review*, 11(5), 491–499.
- World Bank. (2014). World Development Indicator. Retrieved from data.worldbank.org/data-catalog/worlddevelopment-indicators

Publish Research Article

Dear Sir/Mam,

We invite unpublished Research Paper, Summary of Research Project, Theses, Books and Book Review for publication.

Address:- Dr. Ashak Hussain Malik House No-221, Gangoo Pulwama - 192301 Jammu & Kashmir, India Cell: 09086405302, 09906662570, Ph No: 01933212815 Email: <u>nairjc5@gmail.com, info@nairjc.com</u> Website: www.nairjc.com



