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THE MODERATING ROLE OF LAW ON THE RELATIONSHIP BETWEEN POLITICS AND FOREIGN DIRECT INVESTMENTS INFLOW TO GHANA

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AUTHOR'S CONTRIBUTION

The sole author designed, analysed, interpreted and prepared the manuscript.

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ABSTRACT

This empirical study saliently investigates if law significantly moderates the impact of politics on foreign direct investment inflow to Ghana using 2003 – 2019 secondary data from different international institutions (World Bank, International Monetary Fund, Transparency International, and United Nations Conference on Trade and Development). Institutional foreign direct investment fitness theory underpins the study. Politics is the independent variable; law is the moderating variable; and foreign direct investment is the dependent variable. Using hierarchical regression analysis, this quantitative parametric study establishes thus: (i) political system has 67% significant positive effect on foreign direct investment inflow to Ghana within the period 2003 to 2019; (ii) legal system has 25% nonsignificant positive effect on foreign direct investment inflow to Ghana within the period 2003 to 2019; and (iii) legal system significantly but negatively moderated the relationship between political system and foreign direct investment inflow to Ghana within the period covered in the study. The study established the relevance of institutional FDI fitness theory as political and legal institutions have positive relationship with foreign direct investment inflow to Ghana within the studied period. There is need to replicate this study in other emerging and emerged economies for good generalization of the findings. Finally, the need to strengthen the legal and political institutions of Ghana cannot be overemphasised. This is because it would result to improved foreign direct investment inflow to the country.

Keywords: Foreign direct investment; law; institutional fitness theory; politics.

1. INTRODUCTION

The Ghana Investment Promotion Centre Act, 1994 (ACT 478) is a legal instrument aimed at stimulating foreign direct investment into Ghana by way of eradicating unnecessary challenges to the inflow of FDI into the country; and promoting foreign investments in the country [1]. Ghana Investment Promotion Centre ACT 478 reestablishes the Ghana Investment Centre as an agency of the Government for the encouragement and promotion of investments, revises the laws relating to investments, and provides for related matters [2]. Some of the incentives open to foreign investors in Ghana Act 478 are free transferability of profits and dividends, foreign exchange retention accounts through which all foreign payments including dividends can be made, exemption from payment of customs duties on machinery and plant for the establishment of mines, depreciation of the capital allowance of 75 % of capital expenditure incurred in the year of investment and subsequent years, relief for selected items for on-

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going mining projects, and the establishment of well-defined rules for dispute settlement [3].

The Heritage Foundation Report [4] revealed that foreign direct investment (FDI) inflow to Ghana stood at $3.0 billion in 2019 and that the country's overall investment climate lacks transparency and efficiency. The report added that the public administration of the country is bedeviled with corruption and bureaucracy and that there is the need for further improvements in some rule of law indicators (these are judicial effectiveness, government integrity, and property rights). The Index of Economic Freedom of Ghana stood at 59.4 points in 2019, and the economy of Ghana has been in the 'mostly unfree' category since 2017 [4]. Groupe Societe Generale [5] reported that mining and oil exploration are the major sectors that drive FDI into Ghana and that the People's Republic of China is the highest foreign investor in Ghana followed by the Republic of India, the United Kingdom of Great Britain and Northern Ireland, the Republic of South Africa, the Republic of Turkey, the Islamic Republic of Mauritania, and the French Republic.

Groupe Societe Generale [5] states that the government of Ghana attracts foreign direct investment (FDI) to the country by simplifying complex and lengthy business registration procedures, providing good tax incentives to foreign investors, ensuring stable democracy since 1992, strengthening public institutions, and instituting friendly policies to foreign investors. Conversely, some of the critical factors hindering inflows of FDIs to Ghana are corruption and bureaucracy, weak public social amenities (such as transportation, electricity, and water), unskilled labourers, high cost of funds, and unclear property laws [5]. Bentsi-Enchill and Letsa [6] revealed that Ghana intensified foreign direct investment into the country in the wake of the implementation of structural adjustment programme (SAP) in 1984 using two fundamental investment laws: the Ghana Investment Promotion Centre Act 478 of 1994 (which reserves certain enterprises for Ghanaians), and the Free Zone Act 504 of 1995 (which declares any area of land or building as a free zone; and any airport, river port, seaport or lake port as a free port).

The United Nations Economic Commission for Africa [7] observed that foreign direct investment inflow to African countries, in general, has increased tremendously since 1990. The World Bank Group [8] reported that FDI remains one of the most important forms of cross-border capital flow into developing countries. In Sub-Saharan Africa (SSA), where countries tend to have liberal policies favouring inward flows, FDI has grown nearly six-fold over the past decade. However, just 15 countries (Ghana inclusive) accounted for over 80% of total FDI flows into Africa in 2012. Furthermore, the largest inflows are either in sectors in which the region has a comparative advantage (such as natural resources and agriculture) or where there is a need for investment and returns are high, such as construction. Foreign direct investment (FDI) covers both international movement of capital as well as an international movement of capital's complements (management, skills, technology processes, etcetera), and according to Padia [9], FDI could be Greenfield investment (creating a subsidiary concern in another country and builds its business operations there from the ground up) or Brownfield investment (leasing or purchasing existing facilities for its production).

Foreign direct investment has both positive and negative effects on the Ghanaian economy as it increases the productivity of Ghanaian firms, boosts Ghanaian agricultural exports, helps Ghanaian firms to maximize industrial outputs, boosts the efficiency and effectiveness of Ghanaian stock exchange, and leads to increased/improved Ghanaian gross domestic product as well as its growth rate. Conversely, agricultural foreign direct investment (FDI) to Ghana decreases Ghanaian food security [3]. Some of the established determinants of foreign direct investment to Ghana are exchange rate as well as its volatility in relation with the Cedi (Ghanaian local currency), the quantum of trade between Ghana and other countries, the democratic credentials of Ghana (quality of democracy), inflation and inflationary trend of the country, real exchange rate between Ghanaian Cedi and other world currencies, (especially the US Dollar, the British Pound, and the Chinese Yen), and the size of the Ghanaian economy [3].

The institutional theoretical framework is under applied in FDI literature in emerging economies like Ghana, Makoni [10] adduced that there is still no consensus on any superior or general theory of FDI. The need to adopt institutional theory in this study is hinged on the fact that the majority of obstacles facing FDI inflow to Ghana are institutionally leaned: burdensome bureaucracy, costly and difficult financial services, under-developed infrastructure, ambiguous property laws, costly power and water supply, high costs of cross-border trade, a shifting policy environment, lack of transparency, unskilled labour force, weak enforcement of laws and policies, delayed payments, opaque public procurements, and troubling trends in investment policy over the last five years [11]. This study is rooted in the interplay among law and politics in shaping and reshaping the dynamics and quantum of foreign direct investment inflow to

Ghana. This study desires to empirically establish the moderating role of Ghanaian legal institution (which is the epicenter of foreign direct investment) in attracting FDI to Ghana. In specific terms, this study answered the following questions:

R1: Does political system have significant positive effect on foreign direct investment inflow to Ghana?

R2: Is legal system having significant positive effect on foreign direct investment inflow to Ghana?

R3: Does legal system significantly moderate the relationship between the political system and foreign direct investment inflow to Ghana?

2. LITERATURE REVIEW

2.1 Theoretical Framework: Institutional FDI Fitness Theory

Makoni [11] states that "institutional FDI fitness theory" was propounded by Wilhems and Witter in 1998; and that it focuses on the capacity of countries to "attract, absorb, and retain" foreign direct investment by adapting/fitting to the internal-external needs of foreign investors. The four fundamental pillars of institutional FDI fitness theory are a government institution, market institution, educational institution, and socio-cultural institution [12,13,14] with the political strength (proxy of government institution) playing the biggest role in attracting foreign direct investment to a country [10]. Government fitness calls for the enactment of regulations and laws to protect and manage market/economic fitness. Also, government or political fitness of a country includes an open economy, limited trade/exchange rate control by the government, a high level of transparency, and lesser corruption [15]. Another import of government/political fitness is that foreign investors keep away from countries with negative/hostile investment policies as well as unstable political environments.

Wilhelms et al. [12] summarised by adding that politics (government) shapes economics (market forces), education (human capital), and cultural norms; economics influences politics, education, and cultural norms; education sways politics, economics and cultural norms; and politics, economics, and education originate from cultural norms and practices. Some studies that have empirically tested the institutional theory of FDI are Muthoga (2003) (as cited in Popovici & Calin, [15]), and Musonera, Nyamulinda and Karuranga [16]. Both studies focused on East African countries of Kenya, Kenya, Tanzania and Uganda; and the need to test the relevance of this theory in West Africa (Ghana) is of great importance. Muthoga (2003) (as cited in Popovici & Calin, [15]) revealed that foreign direct investment inflow to Kenya is a function of government economic policies and not necessarily due to the availability of natural resources. This is supported by Musonera, Nyamulinda and Karuranga [16] who comparatively investigated the determinants of foreign direct investment to East African countries of Kenya, Tanzania and Uganda and established that countries' political and economic policies (macroeconomic and political stability, and efficient regulatory framework) attract foreign direct investments to the countries and not necessarily natural resources (Tanzania and Uganda both resource-poor countries).

As a matter of fact, strong national policies, robust legal and regulatory framework, and strong and reliable institutions are cardinal factors in attracting foreign direct investment to a particular region, country or location inflow [17, 18]. Inefficient institutions connote corrupt institutions; and they kill innovations, and use of modern technologies for economic, effective, and efficient business operations [19,20]. The importance of strong institutions also extends to the enforcement of contract laws, property rights, and bilateral agreements [21]. Weak institutions generally lead to low efficiency levels in business and corporate performance indicators [22,23]. Hence, Abotsi [19] believe that the choice of a country for foreign direct investment is a function of the state (quality) of institution in the country; and that weak institutions attract lesser FDI while stronger institutions attract higher FDI.

2.2 Conceptual Framework

Politics is the independent variable; law is the moderating variable; and foreign direct investment inflow (FDI) is the dependent variable. Technically, the conceptual framework as captured in Fig. 1 indicates three scenarios: the impact of law on FDI; the impact of law on FDI; and the impact of the integration of politics and law on FDI.

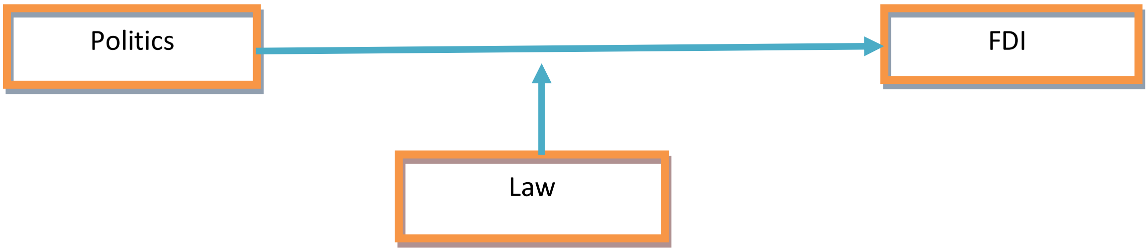

Fig. 1. Illustration of the study's conceptual framework (Source: Author)

2.2.1 Politics and foreign direct investment

Political economy theories of multinational corporations' foreign investment decisions emphasize how the host country's political characteristics shape and re-shape political risk inherent therein [9]. Political risk describes host countries' propensity to corruptly enrich themselves from multinational corporations by implementing corrupt policies ex-post and threatening to nationalize the assets of multinational corporations in extreme circumstances. Political risk has always been a core concept in the political economy of foreign direct investment because most countries in dire need of foreign direct investment have weak and unstable political systems [24]. The "grease the wheels" hypothesis suggests that an inefficient bureaucracy creates a major impediment to economic activity and so some grease" money may be needed to circumvent this impediment. With the "sand in the wheels of commerce" proposition, the malfunctioning of government institutions actually creates impediment to economic activity [19]. Bad politics (corruption) serves as "sand in the wheels of commerce" when it reduces foreign direct investment due to rising transaction costs, business uncertainties, and production inefficiencies. Conversely, bad politics (corruption) serves as "greasing the wheels" when it promotes business efficiency, winning contracts, obtaining official permits, and avoiding cumbersome bureaucratic structures [24]. Therefore, bad politics may play the role of "sand in the wheels of commerce" or "greasing the wheels" depending on the level of quality of institutions in the country: at low level of institutional quality corruption is high, and at higher level of institutional quality corruption is low [19].

2.2.2 Law and foreign direct investment

Foreign direct investments are laden with both opportunities and risks arising from the possibility that arbitrary or discriminatory treatment by the host government will reduce or eliminate the benefits of an investment. This is because law is at the heart of all soft and hard agreements upon which foreign direct investment is premised [24]. The impact of law on foreign direct investment looks at the following elements of rule of law (while holding that compliance with rule of law attracts foreign direct investment to host countries): transparent regulatory and legal-making processes, no unexpected and or retrospective changes to regulatory and legal measures, no arbitrary or discriminatory treatment by the host country government, recognition of contract rights, recognition of intellectual property rights, independence and impartiality of courts in the host country, no expropriation of investment without adequate compensation, and good human rights conditions in the host country [25].

2.2.3 Foreign Direct Investment (FDI)

FDI is the movement of investment capital, technology, and human resources from a source country to a host country for the primary purpose of acquiring ownership of assets to control production, distribution and related activities with the sole aim of maximizing profitability [26]. The types of foreign direct investment are multiple and take different legal and operating forms: horizontal FDI, vertical FDI, conglomerate FDI, platform FDI [27,28].

The Horizontal FDI is where an investor operates the same nature of business activity in both foreign and home countries whereas vertical FDI exists where an investor operates different but-related lines of businesses in multiple countries to gain a comparative cost advantage in each segment or line of business [27]. A platform foreign direct investment exists in a situation where an investor enters operation in a foreign country and exports the products manufactured in the foreign country to another third country [28]. Finally, a conglomerate FDI happens when an investor (company or individual) invests in two or more "completely different companies of entirely different industries" in two or more countries that are unrelated to its existing business in its home country [27].

2.3 Empirical Review

Morisset and Olivier [29] examined the impacts of corruption and bad governance (two political factors) on FDI inflows, and the study established that corruption and bad governance (proxies of quality of politics) have a significant positive impact on administrative costs of firms, and thereby push foreign firms away from investing in politically corrupt countries. A politically corrupt country signals bad public governance as a business have to pay their way through to get registered, win government contracts, influence tax matters, etcetera. This position is equally corroborated by Strange and Buckley [30], who argued that foreign firms enter foreign countries for business operations when empirical data suggest that their transactional costs would be reduced, and their profit margin increased. Calipha, Tarba and Brock [31] added that politically stable countries with less corrupt public service attract foreign direct investment than unstable countries with highly corrupt public service. They argued that lesser corruption and good governance promotes business exchanges, enhances market power, ensures the acquisition of firm competitive advantages, and help foreign firms to increase their resources and competencies.

Foreign investors are attracted to countries with politically stable and less-corrupt systems, good governance and respect for private and corporate citizens, strong and less-corrupt legal system, and competitive and open economic system [32,33]. Legal and political institutions have significant effects in attracting foreign direct investment to developed economies but not in Sub-Saharan African countries, where legal and political institutions are weak due primarily to corruption, nepotism, and other socio-economic variables [34]. Alaya, Nicet-Chenaf and Rougier [35] equally agreed that institutional factors like strong political and legal systems do have significant positive effects on foreign direct investments across the world. They emphasized that commerce strives in countries with stable political systems and legal systems that protect investors' rights and business opportunities.

Gdairia and Sellaouti [36] established that political stability and legal quality (country's legal framework) have 48% and 50% significant effects on foreign direct investment inflow to Tunisia respectively. The import of this statistical finding is that strong political and legal systems are sinequanon in the attraction of foreign direct investments into any country. Musonera, Nyamulinda and Karuranga [16] carried out comparative investigations into the determinants of foreign direct investment to East African countries of Kenya, Tanzania and Uganda. The study established that the countries' political, legal, and economic policies (macroeconomic and political stability, and efficient regulatory framework) attract foreign direct investments to the countries and not necessarily natural resources (Tanzania and Uganda both resource-poor countries). The study measured political systems with political stability index while legal system was measured with regulatory framework).

In conclusion therefore, Abotsi [19] demanded that empirical study be carried out to quantitatively ascertain the impact of corruption (a proxy of weak political institution) on foreign direct investment inflow to Ghana. This is hinged on the fact that corruption (weak political institutions) could either be "sand in the wheels of commerce" or play the role of "greasing the wheels of commerce". Although the institutional FDI fitness theory has been empirically tested in East African countries of Kenya, Tanzania and Uganda [15,16], its usefulness in the West Coast of Africa in general and Ghana in particular is missing in the literature. Therefore, this study is a golden opportunity to close this gap in the literature. Finally, another gap in reviewed literature is how the interaction of law with politics (moderation effect) affects FDI inflow to Ghana using an empirical approach. This is even though FDI is shaped and reshaped extensively by hard and soft laws as FDI is anchored on foreign trade and bilateral agreements between and among different countries.

3. RESEARCH METHODOLOGY

3.1 Research Design and Method

The descriptive research design forms the basis of this empirical study as it aids the collection of data necessary for testing questions already asked in the research [37]. Descriptive research design also leads to the development of research theories, the identification of contemporary problems, and the need for enhanced contemporary research practices [38]. According to Larson, Story, Eisenberg and Neumark-Sztainer [39], descriptive research design embraces the use of descriptive and inferential statistical techniques in scientifically testing research questions or hypotheses. This is a pure quantitative research paradigm (method) which is aimed at testing the relevance of institutional FDI fitness theory.

3.2 Research Model

$$\textbf{FDI} = \alpha + \beta\textbf{Politics} + \beta\textbf{Law} + \beta\,(\textbf{Law*Politics}) + \textbf{e}$$

Where:

FDI = Annual foreign direct investment inflow to Ghana

Politics	= Annual quality of the political system of Ghana
Law	= Annual quality of the legal system of Ghana
Law*Politics	= Interaction of legal and political systems of Ghana
α	= Constant factor or intercept
β	= Coefficients of each variable
e	= Error terms

3.3 Data Collection Process and Analysis Technique

Secondary data from different international institutions were used in this study. These secondary data are Ghanaian aggregate data which were accessed from the websites of the following global institutions: World Bank Group (Rule of law index), Transparency International (Corruption perception index for political data), UNCTAD (Foreign direct investment inflow). Roozitalab and Sayadi [40], Wahua, Tsekpo, and Nyamele [41], and Wahua and Yonney [42], support the use of secondary data analysis technique in quantitative studies.

Data were analysed with the aid of statistical package for social sciences (SPSS) version 23. The hierarchical regression analyses (the main statistical test carried out) applied the centering technique in order to remove collinearity problems: it involves subtracting the mean values of the independent and moderating variable before creating the interacting variables [24]. Widhiastuti, Murwaningsari and Mayangsari [43], Isik, Jones and Sidorova [44], Tsekpo [45], and Zraqat [46] are among some current studies that applied hierarchical regression analysis.

3.4 Operationalization of Research Variables

Table 1 summarises how the variables of the research were quantitatively measured. Politics was measured with Ghana's corruption perception index for 2003 – 2019. This is supported by Abotsi [19]. Legal system was measured with Ghana's rule of law index for the period under study. This approach is supported by Wahua [24]. Finally, foreign direct investment was measured with FDI inflow to Ghana within the same period under study. Zeqiri et al. [26] support this approach.

3.5 Test of Normality Assumption

Skewness and kurtosis were used to test that the data used in this study are drawn from the normal distribution. Table 2 shows that the Skewness Statistic of the data used in this research range from -1.283 to 0.105 while the Kurtosis Statistic of all the research data ranges from -0.965 to 0.543. These results are within the acceptable benchmarks of -3 to +3 (for Skewness) and -7 to +7 (for Kurtosis). These go to confirm that the normality assumption for the use of hierarchical regression analysis has been met in this study. Asiamah [47], Allwood [48], Wahua [49] used this approach.

Table 1. Summarized operationalization of variables

Variable	Sign	Measurement	Reference
Independent:			
quality of politics	CPI	Corruption perception index	Abotsi [19]
Moderator:			
quality of law	ROL	Rule of law index	Wahua [24]
Dependent:			
foreign direct investment	FDI	Foreign direct investment	Zeqiri et and Bajrami [26]

Source: Compiled by the Author

Table 2. Normality statistics

	Skewness		**Kurtosis**	
	Statistic	**Std. Error**	**Statistic**	**Std. Error**
Rule of Law **(ROL)**	**-.445**	.550	**.543**	1.063
Politics **(CPI)**	**.105**	.550	**-.752**	1.063
Foreign Direct Investment **(FDI)**	**-.896**	.550	**-.848**	1.063

Source: Author

4. RESULTS

Test of Research Questions

R1: Does political system have significant positive effect on foreign direct investment inflow to Ghana?

R2: Is legal system having significant positive effect on foreign direct investment inflow to Ghana?

R3: Does legal system significantly moderate the relationship between the political system and foreign direct investment inflow to Ghana?

Research Questions 1 to 3 were tested simultaneously with the aid of hierarchical regression analysis and the results are contained in Table 3. Data were entered in two blocks: all the predictors are in M1; and the two-way interaction of law and politics is in M2. Table 3 contains figures extracted from the Model summary, the ANOVA statistics, and the hierarchical regression coefficients. The model used in testing Question 3 technically investigates how the interaction of law and politics affects the inflow of foreign direct investment to Ghana. The model of interest is tagged 'M2' in Table 3. The model has a 94.5% aggregate positive correlation with FDI to Ghana as revealed by the R-statistic of M2. The R-squared and adjusted R-squared of M2 also indicate that the model used in testing Research Questions 1 to 3 accounted for 89.3% and 86.8% of variations that occurred in FDI inflow to Ghana when the impact of the error term is not considered, and when it is considered respectively. The ANOVA F-statistic of M2 (F = 35.977; P = 0.001) indicates that the model used in testing Research Questions 1 to 3 is a good fit for the analyses carried out. The Tolerance, Variance Inflator Factor, and Durbin-Watson statistic are all within the acceptable benchmarks; hence, indicating the absence of collinearity and multicollinearity among the variables used in the study [50,51,52].

Table 3. Hierarchical regression output

Model	Variable	B (USD)	Beta (%)	Sig
Model 1	(Constant)	2,261,345,355.53		.001
	ROL	97,023,227.27	.246	.212
	CPI	183,808,281.82	.671	.003
Model 2	(Constant)	2,625,314,168.15		.001
	ROL	32,193,194.23	.082	.542
	CPI	252,523,119.98	.921	.001
	ROL x CPI	- 38,532,752.07	-.434	.001
Statistics:		**M1**	**M2**	**Δ**
R		.859	.945	.086
R. Squared		.737	.893	.155
Adjusted R. Squared		.700	.868	.168
ANOVA F-Statistic		19.629 (.001)	35.977 (.001)	18.789 (.001)
Tolerance Statistic		.530	.436 - .823	
Variance Inflator Factor		1.887	1.215 - 2.292	
Durbin-Watson		2.276		
Model 1 (M1)		Predictors: (Constant), CPI, ROL		
Model 2 (M2)		Predictors: (Constant), CPI, ROL, ROL x CPI		
Dependent Variable		Foreign Direct Investment (FDI)		

Source: Author

FDI = α + CPI + ROL + ROL*CPI

FDI = USD2,625,314,168 + USD252,523,120 + USD32,193,194 – USD38,532.752

Model 1 of Table 3 statistically tests Research Questions 1 and 2 while Model 2 of Table 3 tests Research Question 3. The salient findings of the research (as contained in Table 3) are:

i. Political system has 67% significant positive effect on foreign direct investment inflow to Ghana within the period 2003 to 2019.
ii. Legal system has 25% nonsignificant positive effect on foreign direct investment inflow to Ghana within the period 2003 to 2019.
iii. Legal system significantly but negatively moderated the relationship between political system and foreign direct investment inflow to Ghana at the rate of 43% within the period 2003 to 2019.
iv. Therefore, the interaction of law and politics significantly decreased foreign direct investment inflow to Ghana by USD38, 532,752.02 within the period covered in this study.

5. DISCUSSION

5.1 Discussion of the main findings

Salient findings of this study include the fact that corrupt political system that existed in Ghana within the period under review mediated the impacts of law in attracting foreign direct investment to the Country. This goes to support the position held by different authors that a corrupt political system weakens laws/regulations and reduces foreign direct investment to the countries concerned [53,10,36]. This position is equally being shared by Anarfo, Agoba and Abebreseh [32], Buckley et al., [33], Gorynia et al., [54] and Myna [55].

Dreher and Gassebner (2013) find that at the maximum level of regulation (efficient legal system based on strong hard and soft laws), corruption significantly increases entrepreneurial activity and as such, corruption might be viewed as being beneficial rather than harmful. Abotsi [19] succinctly puts it thus: bad politics (corruption) serves as "sand in the wheels of commerce" when it reduces foreign direct investment due to rising transaction costs, business uncertainties, and production inefficiencies. Conversely, Bad politics (corruption) serves as "greasing the wheels" when it promotes business efficiency, winning contracts, obtaining official permits, and avoiding cumbersome bureaucratic structures.

Therefore, bad politics may play the role of "sand in the wheels of commerce" or "greasing the wheels" depending on the level of quality of institutions in the country. At a low level of institutional quality corruption is high; and at a higher level of institutional quality corruption is low. In the case of the outcome of this study, bad politics serve as sand in the wheels of attracting foreign direct investment to Ghana as its interaction with a moderately functional legal system significantly reduced FDI to Ghana by circa 43%.

5.2 Implications of the Findings

Theoretically, the study established the relevance of institutional FDI fitness theory as political and legal institutions have positive relationship with foreign direct investment inflow to Ghana within the studied period. Therefore, there is need for the strengthening all legal and political institutions in Ghana.

Practically, the fundamental findings calling for the immediate course of action is the fact that the interaction of corrupt politics and weak laws has a significant negative effect in decreasing foreign direct investment inflow to Ghana by circa 43%. This requires the government of Ghana to come harder in its fight against corruption, nepotism, and favouritism across the length and breadth of public and private establishments in the country.

The policy implication of this study demands that the parliament as well as the executive arm of the Government of Ghana should consider reeling out business-friendly laws and administrative instruments to strengthen the current economic policies of the country aimed at attracting more foreign direct investments to the country.

5.3 Additional Knew Knowledge

Given reviewed literature, this study has added new knowledge to researches on the roles of institutions in attracting foreign direct investment to host countries. The salient new knowledge added by this study rests on the empirical fact that the interaction of a moderately performing legal system with a corrupt political system significantly decreases foreign direct investment to a country by circa 40%. The import of this is that a corrupt political system weakens the legal system, and pushes foreign investors out of the host country. Investors are naturally scared of investing in countries with weak legal and political systems.

6. CONCLUSION

This parametric-empirical study saliently investigates if law significantly moderates the impact of politics on foreign direct investment inflow to Ghana using 2003 – 2019 secondary data from different international institutions (World Bank, International Monetary Fund, Transparency International, and United Nations Conference on Trade and Development). Institutional foreign direct investment fitness theory underpins the study. Politics is the independent variable; law is the moderating variable; and foreign direct investment is the dependent variable. Using hierarchical regression analysis with the aid of Statistical Package of Social Sciences (SPSS), this quantitative study establishes that: (i) political system has 67% significant positive effect on foreign direct investment inflow to Ghana within the period 2003 to 2019; (ii) legal system has 25% nonsignificant positive effect on foreign direct investment inflow to Ghana within the period 2003 to 2019; and (iii) legal system significantly but negatively moderated the relationship between political system and foreign direct investment inflow to Ghana within the period covered in the study. The study established the relevance of institutional FDI fitness theory as political and legal institutions have positive relationship with foreign direct investment inflow to Ghana within the studied period.

7. RECOMMENDATIONS

1. There is need to replicate this study in other emerging and emerged economies for good generalization of the findings.
2. The need to strengthen the legal and political institutions of Ghana cannot be overemphasised. This is because it would result to improved foreign direct investment inflow to the country.
3. The Republic of Ghana should continue to operate its positive economic policies aimed at attracting foreign investors to the country.

CONSENT

As per international standard or university standard, Participants' written consent has been collected and preserved by the author(s).

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COMPETING INTERESTS

Author has declared that no competing interests exist.

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