CAPITAL INFLOWS, FINANCIAL DEVELOPMENT AND GROWTH IN ECOWAS COUNTRIES: A NEW EMPIRICAL INSIGHT

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Abstract
This paper empirically investigated the impact of foreign capital inflows and financial development on economic growth in ECOWAS countries. The study made use of quarterly data series from 2000 to 2017 for the analysis. Adopting the panel fixed-effect regression, the empirical results showed that Foreign Direct Investment (FDI), net domestic credit (CRE), Gross Capital Formation (GCF), and Foreign Aid (AID) increase economic growth in ECOWAS region while labour force (LF) and Trade Openness (OPEN) revealed otherwise. The study therefore recommended that concerned policy makers in the ECOWAS region should pursue financial deepening and strengthen policies that will enhance the operations of the financial system. Also member countries should create a conducive socio-political and economic environment for foreign investors to invest in the economies. This can be done by reducing the corruption prevalent in the system, ethnic unrest, introduction of tax holidays, stability of policies introduced by the government, among others. In this era of Covid-19 many have lost their jobs and the economy of ECOWAS needs to be revitalized by following these economic prescriptions, among others.

Keywords: *Foreign Capital Inflows; Financial Development, Investment; Economic Growth; ECOWAS*

JEL Classification: F21; F36; F38; F43; G15; O16

1. Introduction

The Lagos treaty established the Economic Community of West African States (ECOWAS) on May 28, 1975 with the aim of promoting economic integration in all fields of activity of the member countries. It also had the aim to achieve "collective self-sufficiency" as a trading union through the creation of a single large trading bloc through the economic cooperation of member countries. Its member countries are Nigeria, Ghana, Cape Verde, Liberia, Benin, Guinea, Burkina Faso, Sierra Leone, Cote d'Ivoire, Senegal, The Gambia, Niger, Guinea Bissau, Togo, and Mali. In recent times, in terms of economic performance and relative to other regions of the world, Africa have shown to be the weakest. For example, in 2010, while the lower-middle income group average was US$ 2530.50, Africa's per capita GDP averaged US$ 1669, which is far below the former. Furthermore, ECOWAS countries have also had some negative experiences even as the average GDP per capita of the region in 2010 was US$669.5 effectively placing the region in the low-income group (World Bank, 2013).

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From the literature, capital accumulation has been argued to be a major contributor to growth and the ECOWAS countries need to increase their capital either domestically or through foreign capital in order to support their growth agenda (Orji and Mba, 2011; Anthony-Orji, 2018a and Orji, et al, 2019a),

Given the ever-widening mismatch between their present stock of capital and their capital requirements as well as their meagre capital budget, the only way forward to supplement this shortfall was to attract foreign capital for domestic investment. Thus, leading to the wide acknowledgement or the relative advantage(s) of foreign capital inflow as a productivity-enhancing package. Given the need to fill their savings and foreign exchange gaps, developing economies such as ECOWAS countries need a substantial inflow of capital to enhance capital accumulation and growth, and thus, help in overcoming widespread poverty in these countries (Orji, Uche, and Ilori, 2014). Increasingly, economic development literature shows that a well-designed financial system provides incentives and stimulates investment by mobilizing savings and facilitating capital inflows and fosters trade and business linkages thereby facilitating technological diffusion and improved resource use (Orji, et al, 2021a and Orji et al, 2021b).

In the light of the above, different national authorities have been making serious efforts to attract foreign capital to their various economies. Examples of these efforts include the successful integration of African countries in large regional blocs such as the Economic Community of West African States (ECOWAS), Southern African Development Community (SADC) among others. In addition, measures such as tax holidays, accelerated depreciation allowances, signing of investment and promotional activities among others were implemented in a bid to attract foreign capital. However, in spite of these efforts, the foreign capital flow into these economies have not been very encouraging (Ajide, and Eregha 2014). Available statistics have shown that while the share of global FDI going to the developed countries maintains astoundingly high levels, the share of global FDI going to developing countries, more specifically, the sub-Saharan African (SSA) region has been meager and fluctuates consistently over time. The developed countries are the highest recipients of global foreign capital inflows in form of global FDI inflows, with almost three-quarters of total inflows going to them. They had a percentage share of 71.6% in 1970, which rose to 86.36% in 1980 and only declined to 83.05 in 1990 and has been declining steadily to reach a 54.62%. The developing countries share excluding Africa, on the other hand, was 17.82% in 1970, which declined to 12.64% in 1980 but rose to a peak of 41.67% in 1982 and with fluctuations in the flow, it was 40.33% in 2015. About the same period, the share of African countries in global FDI was drastically low in comparison to other regions of the world. The percentage share, which stood at 9.55% in 1970 and declined to 0.73% in 1980, rose to 1.39% in 1990 and declined to 0.71% in 2000. From 2001, it has maintained an average of 3.27% up to 2015 (IMF, International Financial Statistics, 2017).

Researchers argue that financial development can be a driving force in economic growth through increased access to the global economy. Following the McKinnon-Shaw (1973), which argued that financial liberalization, which leads to financial development is supposed to foster economic growth through increasing savings and encouraging investments especially in developing economies. The McKinnon-Shaw thesis gained a lot of attention following the directive of the Washington Consensus and the Bretton Woods