

Foreign Direct Investment and Economic Performance in Cameroon

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This paper is designed to examine the major determinants of FDI, the link between FDI and economic performance of Cameroon. Using data from 1970 to 2007, and based on ordinary least squares technique and co-integration error correction mechanism (unit roots test), we observe that FDI responds to industrialization positively and faster than it does to political stability, gross domestic product, debt servicing, skilled labour force and terms of trade. The study also reveals that FDI impact positively to the economic performance of Cameroon and responds faster to growth than any of the variable specified in the economic performance function. Therefore, the results of this study suggest that FDI can be encouraged in Cameroon through the encouragement of industrialization, political stability, demand factors, qualitative and quantitative man power training. Also Base on this findings, we therefore, suggest the combinations of industrial promotion acts, political stability and guided trade protection, as enabling environments to enhance economic performance in Cameroon through FDI.

Field of Research: Monetary Economics

1. Introduction

The classical economists are of the view that most developing countries are endowed with numerous natural resources, which when refined, could serve as an engine of growth and development. They argued that, because of the low-income base and the high propensity to consume of the occupants of these developing countries, their levels of savings are low, which further translate to low capital formation and low productivity hence, the existence of high rate of poverty. These groups of thinkers therefore, suggested that to break this vicious circle theory of poverty, foreign direct investment (FDI) must be encouraged to complement domestic investment so as to provide these developing countries with their desired growth and development. Before independence and beyond, the Cameroon government has taught it wise to encourage this capital inflow into her economy. This was done by the provision of the necessary incentives to boost FDI inflows, such as stipulated national laws as well as acceptance to binding international arbitration Acts. At the national level, the government has introduced a number of legal instruments to encourage these foreign capital inflows among which are; the investment code 1990, amended 1994, Patent Right Acts usually called Bangui Agreement 1st of March 1977 amended February 1999, Trade marks Act called Bangui Agreement of March 1997 amended February 1999, industrial Designs called

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Bangui Agreement IV of March 1997 amended February 1999 and law No. 2000/011 on copyright and related rights of December 2000 ([Wiphttp:www.wipo.org](http://www.wipo.org)).

Furthermore, at the international level Cameroon has equally done much among which are; the Paris Convention for the protection of industrial property of 1883, revised at Brussels in 1900, Washington in 1911, Hague in 1925, London in 1934, Lisbon in 1958, Stockholm in 1967 and 1994. Convention on the recognition and enforcement of foreign Arbitral awards of 7th June 1959, Convention to the settlement of investment Disputes between states and nationals of other states of October 14th, 1966, convention establishing the investment Guarantee Agency of April 12th, 1988. Bilateral investment treaties for the protection and promotion of investments sign in Italy 1996. For more, visit Banque Des Etats L'Afrique Central (www.beac.int).

By 2004 a number of Firms and Companies were already operating in Cameroon, most of the firms or companies have their origin from France. Therefore, FDI are usually in the form of loan from abroad, private multinational companies as well as other foreign government investments from developed countries in to less developed economies. This is because the government widely acclaimed that economic growth and development encompass growth with structural and technological transformation, which cannot be provided internally by the domestic authorities alone. A graph presented by Forgha(2008) shows that while in 1970, the net foreign direct investment in Cameroon stood as 9.42 billion FCFA, the real GDP growth per capita was 6.42 percent. Ten years later, while FDI rose to 59.90 billion FCFA, real growth of GDP per capita recorded a negative value of 2.04%. While the overall trend of FDI between 1986 and 1993 was positive, that of real growth of GDP per capita maintained a negative value of 6.14 on the average. Both trends were positive between 1994 and 2007 except in 1995, 1996 and 1999 which FDI net recorded negative values of 227.93 billion, 154.22 billion, 154.22 billion and 49.83 billion FCFA respectively (see table 1.1 and figure 1.1).

Agriculture, which is the main source of foreign exchange in Cameroon economy, has suffered consistent world price fluctuation since 1986. This has seriously affected not only the revenue from it, but has also adversely affected fiscal planning and implementation, as well as development planning. Conventionally, to bridge the gap, the authorities are expected to borrow from outside, attract foreign investors or borrow from domestic money and capital markets. However, due to the lack of financial market in Cameroon since the Douala stock market is still to develop properly and the government cannot cope with providing the huge capital desired for growth and development in the key sectors of the economy, the government and other investors have no other options than to rely intensively on externally sourced funds.

As stated above, the government of Cameroon in an attempt to facilitate economic growth and development in Cameroon has enacted several laws and degrees to encourage foreign capital inflows prior to the advent of the Structural Adjustment Programme (SAP) of (1988/1989). However, most of these decrees, laws and policies have come and gone, but poor growth still prevails. This therefore, means

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that the road cause or causes of the dismal performance of the economic growth and development in Cameroon has not yet been identified and solved.

At this point the following questions are asked;

- Are foreign direct investments actually encouraged into the economy of Cameroon?
- If foreign investment complements growth and development, is that true with the case of Cameroon?
- Should foreign direct investment be encouraged or discouraged in Cameroon?

This study therefore, seeks to carry out an in-depth examination of the determinants of FDI in the economy of Cameroon and its contributions towards economic growth and development in the economy. To achieve the above objectives, this paper is divided into five sections. Having gone through section one, we proceed to section two entitled literature review next to which, is analytical methodology. While section four presents, presentation and discussion of results, section five transmits the study to logical conclusion via summary of major findings and recommendations

2. Literature Review And Theological Framework

a, Literature Review

Chenery and Strout (1966) observed that most countries before 1966 were able to achieve economic transformation by clamouring for foreign aid and foreign debt. To them, to achieve accelerated growth, countries must improve in the areas of skills, domestic savings and foreign exchange earnings. However, since in most developing countries, the savings rate is low, to overcome poor growth and development, they see foreign aid as the only source of their economic transformation. Hans (1948), Singer (1949), Nurske (1953) and Olaniyi (1995) identified capital insufficiency as one of the causes of LDCs low income. To them, the LDCs suffer from vicious cycle of low production and insufficient tools and equipment among other things, which helps to accelerate their low productivity. The resulting situation as argued by singer (1994) is mass poverty. The neo-classical economists therefore, recommend that for these developing countries to escape, this vicious circle of poverty and achieve rapid economic growth and development, they must massively go in for foreign funds to augment domestic savings (Olaniyi, 1995). Other views observed that in the 19th century, the rapid growth of America had been through the large supplied of men and funds from Europe particularly from Britain.

Presbich (1937) pointed out that FDI would be of help to LDCs as a convenient package of enhancing their capital base, technology, access to export markets and management skills to foster their industrial development. These benefits attracted to FDI support the governments of LDCs in their quest for economic empowerment through the demand for foreign capital investment. It is also worth pointing out here that policies to attract and maintain foreign direct investment through various fiscal incentives have been adopted in a number of developing countries among which are Ghana, Nigeria, Cameroon, Morocco, Kenya, Egypt, Gambia, Tanzania and Uganda,

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and others in Africa. These countries target what is usually called the complementary hypothesis.

However, the substitution hypothesis postulated by Haavelmo (1963) maintains that, FDI rather than acting as a complement to domestic savings, instead operates to discourage it, hence enhance wide gaps and economic inequalities between the rich North and the poor South. Furthermore, some writers from the dependency school of thought see especially multinational corporations, which are a component of FDI as a new form of dependency replacing colonialism centred on peripheral relationships. To them, multinational companies are merely profit-oriented outfits without concern for the welfare of the people.

Still from the substitutional hypothesis viewed point, foreign direct investment should not be relied upon as means of promoting national growth and economic development because it crowds out domestic savings by allowing domestic residents to increase their consumption of goods and services at the expense of further investment. Consequently, policies to discourage foreign capital inflow have been implemented in some countries. In fact, in some countries, there has been open hostility to foreign investment and all kinds of restrictions have been put in place to discourage portfolio investment, private direct investment, foreign debt, and even foreign aid. To them, foreign aid is neither a necessary nor a sufficient condition for economic growth and development or poverty alleviation parameter (Jhingan, 1995).

Based on these arguments put forward by the complementary and the substitutional hypotheses, and because of the serious policy consequences involved, greater intellectual rigour must be directed towards this area. So far, some studies have been conducted in this area with diversified conclusions. They include those by: Griffin and Enos (1970), Landau (1971), Weisskopf (1972), Papanek (1972), Griffin (1978), Wason (1979), Mosley (1980), Gersovit (1982), Olofin and Akinkugbe (1992), Jacques (1989), Ekpo (1998), and Nyong (2002). Unfortunately, the above-mentioned studies ended in several directions accounted for by inadequate methodologies.

Some of the previous studies have not only misspecified the determinants of FDI, their frameworks adopted are not suitable or appropriate for analysing the impact of FDI in a developing country like Cameroon. In the case of Morisset (189), no identifiable function was specified. Thus, previous results in some studies may be regarded as suggestive rather than empirically derived or conclusive. Therefore, this study might be considered as an extension of the previous studies in the areas of model specification, analytical methodology and reliability of results.

b. Theoretical Framework

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In an attempt to capture the true insight of the place of FDI in Cameroon's economic performance, enables us to critically look at some of the theories associated with FDI. First in our list is the Capital Arbitrage or the Cost of Capital Theory. This theory, which is linked to international trade, postulates that prospective foreign investors move their capital resources in response to changes in rates of returns on investment. By this, capital is expected to flow from a capital surplus to a capital deficit country in response to a higher productivity of capital until the rates of returns are equalized. This theory also sees the existence of foreign direct investment from the ground that investing enterprise has management skill or technological advantage, which it can exploit in the foreign economies.

The second theory under consideration is the Theory of the Firm. It assumed perfect market conditions and also postulates that transactional corporations invest abroad when their investments at home have reached an optimal level whereby further investments are likely to suffer from diminishing returns to scale. Here, it is expected that the desire to add to the existing plants would expand output as long as there exist a profitable future market for the products. Therefore, FDI is a function of market factors and marginal efficiency of capital.

Next is the Product Cycle Theory. This theory propounded by Raymond and Vernon (1966), Hirsch (1967) explains that the early life of a product, innovations tend to be centred in a richer industrialized country and later extends to other countries. Vernon, further argued that once a product has evolved in a standard form and competing products have been developed, the firm might decide to expand its production frontiers overseas. The resulting expansion tends to capture lower cost locations and new markets in form of exports. This theory also sees investment innovation in three phases. Phase one, called the innovative stage. Here, firms are located in the most advanced industrial countries. Phase two; called the maturing or process development stage where manufacturing process keeps improving. Here, similar firms arise producing the same product in other industrially advanced economies due to increase foreign demand for such product. The third phase called the mature or standardization phase allows for the installation of plant and machineries for production in LDCs. Therefore, based on the above, the product cycle theory provides a useful point of departure for the causes of international investment in the form of foreign direct investment (FDI).

Fourthly, is the External Capital Requirement Theory (ECRT). This theory is of the opinion that the extent to which foreign direct investment can be substituted for other forms of capital inflow differs amongst countries. These differences could be accounted for by variations in their economic structure, which comprises attractiveness to foreign investors as well as diversity in the existing macroeconomic causes of the need for these capital inflows. That is to say, larger countries that are better endowed in resources and possess a dynamic industrial sector have the privilege to substitute foreign borrowing from international financial market for FDI. FDI is also attracted into countries having existing international corporations affiliate; the theory further explains that countries having small internal market, relatively underdeveloped infrastructure and limited export potentials may have difficulties in attracting FDI in substantial magnitude into their economies irrespective of any existing incentive schemes.

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Fifthly, is the Two-Gap Model (2GM). This model expands out of the adaptation of Harrod- Domar growth hypothesis to the open economy by planners, is interested in exports, imports, savings, investment and foreign aid. This two-gap comprises of the foreign exchange gap and the domestic savings gap. Hollis and others concur that domestic savings and foreign exchange gaps are separate and have independent constraints towards achieving growth in the LDCs. To fill these gaps, Chenery sees its expedients to source for foreign aid in order to achieve economy's target growth rate. He further postulates a fixed relationship between targeted foreign exchange requirement and net export earnings. If the latter fall short of the former, a foreign exchange gap prevails, which can be obviated by foreign aid? To explain this phenomenon, the national income accounting identity is employed thus:

$$E = Y = I - S = M - X = F.$$

Where; E = National Expenditure, Y = National Output or Income, I = Investment, S = Savings, M = Import, X = Export and F = Capital inflow.

Therefore, an economy is said to be in a foreign exchange gap or savings constraints depending on the most prevailing one. However, foreign aid eliminates foreign exchange gap by allowing new investment project, importing plant and machineries, technical assistance and intermediate goods. In the long – run, the foreign aid required equals the difference between increase in investment and savings increase caused by increasing income. The elimination of savings gap brings about sustained growth rate. The vital issue is how beneficial or detrimental foreign aid is to the growth of LDCs. Appropriate utilization of foreign aid enhances rapid growth of a debtor country. This reflects through increase in investment level at a faster rate than it could otherwise have been, if the source of investible funds were to be domestic savings of the recipient country. Also, the size of the rate of investment increases depending on the assumed savings function.

On the other hand, foreign loan could be detrimental if it is spent on unproductive investment like political campaign, buying and maintenance of luxuries cars, houses etc at the expenses of necessities and consumption not likely to raise enough funds for debt servicing.

Sixthly, various investments theories exist, though the neo – classical accelerator investment model has generally gained more acceptances among economists. According to this theory, investment occurs to enlarge the stock of capital to produce more output. Under this framework, the decision to invest is to correct any discrepancy between desired capital stock and actual capital stock.

$$k = a\epsilon Y_t - (1 - \epsilon) k_t - 1 \dots\dots\dots (4a)$$

The above modification (4a) shows that the volume of investment is not only adjusted to current output, but it is also influenced by previous output with falling weight. Simplifying, equation (4a) becomes:

$$I = a (\epsilon Y_t - k_t - 1) \dots\dots\dots (4b)$$

Although this model has been widely applied in the developed countries, it is of little relevance to developing economies such as Cameroon because of its underlying assumptions (e.g., existence of perfect markets) and lack of reliable data on capital stock. Consequently, empirical determinants of FDI in developing countries have employed different variables (e.g., growth of real income, credit availability, cost of

capital, investment expectations by investors and investment profitability, which reflect Keynesian and neo-classical theoretical insights.

3. Methodology

Sequels to the fact that it has been posited that FDI discourages domestic savings, (Rahman, 1968, Chenery and Erksstein, 1970, Weisskopf, 1972 also advanced that FDI makes net contributions to investment in developing countries (Papancik, 1973, Assante, 1994, Mikesell and Zinser, 1999). Thus, the use of FDI has also featured in the determination of investment behaviour in developing economies. Due to the irreversible nature of investment, uncertainty and risk elements have been included in the investment function. It has been argued that since investment is generally sector-specific, equipment and machinery, for instance, may not easily be shifted to another sector should there be adverse changes in market conditions; and that disinvestment can only be made at a very high cost, suggesting that it is optimal for the investor to postpone investment decisions under conditions of high uncertainty (Solimano, 1989). In the light of the objectives of this work, econometric models are employed to examine the determinants of FDI in Cameroon and its impact on Cameroon's economic performance. For the determinants of (FDI), it is specified as a function of market demand factors, captured here by the GDP and the consumer price index as a proxy for measuring the general domestic price level. For the agglomeration factor, we use railway length per squared kilometre, tarred road length per squared kilometre, the degrees of flows at the air and seaports (RTF) to capture the infrastructure level and the GDP savings ratio (p/y) is used to capture the degree of industrialization in Cameroon. For the quality of labour force in Cameroon, we use university and other higher institutions graduating population as a proxy for skilled labour (SL), other factors include political stability as a dummy variable, terms of trade (TOT), and debt service payments as a percentage of export earnings. Thus

$$\Delta LFDIt = A_0 + A_1 \Delta LGDPt + A_2 \Delta POLSTAT + A_3 \Delta LP/Yt + A_4 \Delta LSLt + A_5 \Delta POLSTAT + A_6 \Delta LDSRt + A_7 \Delta LTOTt + U_1 \dots\dots\dots(6)$$

A priori $A_0 > 0, A_1 > 0, A_2 > 0, A_3 > 0, A_4 > 0, A_5 > 0, A_6 > 0, A_7 > 0.$

For the economic performance's equation, we employed the Augmented Neoclassical Cobb – Douglas growth function. Thus:

GDP is here specified as a function of (FDI), Technological Progress (TECH), Fiscal Deficit as a GDP ratio (FISDY), Expected Rate of Inflation (EXPINFLA) and Foreign Exchange Earnings (FOREXP). That is;

$$\Delta LGDPt = B_0 + B_1 \Delta LFDIt + B_2 \Delta LTECHt + B_3 \Delta FISDYt + B_4 \Delta EXPINFLAt + B_5 \Delta FOREXPt + U_2 \dots\dots\dots(7)$$

A priori: $B_0 > 0, B_1 > 0, B_2 > 0, B_3 > 0, B_4 > 0$ and $B_5 > 0.$

Where;

- $\Delta LGDPt$ = Change in Log of gross domestic product in current period.
- $\Delta LSLt$ = Change in Log of skilled labour in current period.
- $\Delta LFDIt$ = Change in Log of foreign direct investment in current period.
- $\Delta LRTFt$ = Change in Log of infrastructural development in current period.
- $\Delta LP/yt$ = Change in Log of the degree of industrialization in current period.
- $\Delta LSLt$ = Change in Log of skilled labour in current period.
- $\Delta POLSTAT$ = Political stability in current period used as dummy which attracts one for years of political stability and zero otherwise.

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LDSR_t = Change in Log of debt servicing GDP ratio in current period.

ΔLTOT_t = Change in Log of terms of trade in current period.

ΔLTECH_t = Change in Log of technical progress in current period.

ΔFISDY_t = Fiscal deficit as GDP ratio in current period.

ΔEXPINFLA_t = Expected rate of inflation in current period.

ΔFOREXP_t = Changes in foreign reserves as a proxy in measuring foreign exchange earnings in current period.

This study is conducted to test some of the frequently encountered hypotheses regarding the determinants of FDI and the relationship between FDI and economic performance in Cameroon between 1970 and 2007. We employed the ordinary least squares (OLS) as a technique to estimate our parameters because according to Gauss Markov theorem it is the best linear unbiased estimator (BLUE) since it is expected to have a minimum variance.

To test the time series characteristics of the data used in this study enables us to employ the unit roots, co-integration and error-correction modelling. This is done because it is generally accepted that regression equations between two non-stationary series could give “spurious” or meaningless results, Newbold and Granger (1974). That is, the regression could give “good fits” judging by the usually goodness-of-fit statistics when in fact the series are almost independent. It has then been shown that only relationship specified within stationary time series variables can be meaningful. However, it has also been found that many time-series variables are stationary only after first or second differencing. Using differenced variables for regressions would imply the loss of valuable information about the long-run equilibrium relationship between the variables. Thus, this is to integrate the short-run dynamics with the long-run equilibrium. This theory of co-integration pioneered by Granger (1981) and Engle and Granger (1987) addresses this issue of integrating short-run dynamics with long-run equilibrium. Basically, the new theory demonstrates that if there is a meaningful long-run relationship between them, the error-correction model can describe the short-run dynamics. This is known in the literature as the “Granger representation theorem” Maddala (1992).

The empirical test of co-integration usually proceeded by a unit root test in which the order of integration of each series employed is determined. The determination of the order of integration of each series is necessary for co-integration and indeed, for error correction models, simply because each series involved in the estimation of a model must be integrated at the same order (Engle and Granger, 1987), the weighted symmetric test, the Phillip Peron test, the Dickey – Fuller (DF) test and the Augmented Dickey – Fuller (ADF) test are unit root tests indeed, which are employed to determine the order of each series. Adopting the simple economic relationship of random walk with drift, the DF test is based on the following equation.

$Y_t = A + BY_{t-1} + U_t \dots (7)$. Under the null hypothesis of unit root, the coefficient of Y_{t-1} will not be statistically different from zero (i.e. $B = 0$). If there is no unit root, the series Y_t is said to be stationary in levels of integration of order zero (1[0]). If there is a unit root, By differencing the series once makes it stationary as such it is integrated of order one (1[1]).

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The null hypothesis of non-stationary is rejected if the t-statistic is less than the critical t-value (that is, if estimated Bs are significantly negative). The critical values adopted in this study are obtained from Charemza and Deadman (1977).

4. Discussion of Results

As explained above, we are to test the hypothesis that **Ho: $Y_t = 1$ (1)** against **$H_1: Y_t = 1$ (0)**. From our computed results not presented in this work because of space, we are expected to reject the null hypothesis when the variables are stationary. The absent results show that all the variables in both equations suffer from “spurious regression and have achieved stationarity in their first difference and as such integrated in the order 1. That is there are 1 (1) variables.

In order to search for the existence of the long-run equilibrium relationships between FDI and GDI and their direct and indirect determinants, we have to adopt the co-integration error correction technique as shown below.

Table 4.1 Presentations of Results Based on Ordinary Least Squares Co-integration Error Correction Mechanism for Equation 3.1 and 3.2 Respectively

$$\begin{aligned} \Delta LFDI = & 0.584 + 0.542\Delta LGDP + 0.0367\Delta LRTF + 0.6466\Delta LP/Y + 0.1207\Delta LPOLSTA \\ & (4.419)^* \quad (3.233)^* \quad (0.7148) \quad (6.948)^* \quad (2.281)^* \\ & - 0.3546\Delta LDSR - 0.3546\Delta LTOT - 0.448ECM(-1) \\ & (-1.9219)^{**} \quad (-3.4285)^* \quad (-2.1071)^* \\ \bar{R}^2 = & 0.9147, \text{ F-ratio (7:27) = 37.0041 and D.W. = 1.9674} \end{aligned}$$

$$\begin{aligned} \Delta DLGDP = & 0.5249 + 0.6629\Delta LFDI + 0.02199\Delta LTECH + 0.25715\Delta LFSDY \\ & (7.116)^* \quad (2.4221)^* \quad (0.0877) \quad (2.09298)^* \\ & + 0.0667\Delta LEXPINFLA - 0.0657\Delta FOREXP - 0.1192ECM(-1) \\ & (7.1364)^* \quad (-6.5732)^* \quad (-3.8856)^* \\ \bar{R}^2 = & 0.9758, \text{ F-ratio (6:28) = 31.474 and D.W. = 2.7397} \end{aligned}$$

Note:

*The numbers in parentheses denote the t-values. The asterisks marked against each coefficient indicate the level at which the coefficients are significant. * = Significant at one percent level. ** = Significant at five percent level. *** = Significant at ten percent level. ECM (- 1): Error correction mechanism variable based on Engle and Granger (1987). The dependent and independent variables are said to achieve stationary when the coefficients of the ECM are less than unity.*

An examination of the above results presented on table 4.1 and 4.2 for the parsimonious error correction model show that the a priori, expectations of the signs of all the parameter estimates were met. Other observations in our models are as follows:

The structural variables of model one, the determinants of FDI in Cameroon explain that more than 91 percent of the variations of in FDI in Cameroon is explained by the estimated relation with less than 9 percent of such variations in FDI accounted for by the error term. The D.W of 1.9674 shows that our estimated results fall within the

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inconclusive region as such we cannot say whether autocorrelation exist or not. Also, the F-value is quite high, showing that the model adequately explained about 99 percent of the situation of FDI and Economic Development in Cameroon.

The quantitative results also reveal that the signs of Gross Domestic Product, infrastructural development, the degree of industrialization, availability of skilled labour, and political stability as dummy variable are positively related with FDI. The implications of these findings are that ceteris paribus, 10 percent increase in the above variable leads to 54 percent, 4 percent, 64 percent, 12 percent, and 59 percent increase in FDI respectively. These results are statistically significant at one percent level, meaning that the above factors have contributed significantly to the growth of FDI in Cameroon. The above variables are in support of the hypothesis that market size and the general development level in Cameroon have attracting impact on FDI. This is consistent with economic theory.

The quantitative results for debt servicing and terms of trade are negative. This shows that in Cameroon, during our periods of study, debt servicing and terms of trade have exerted negative impacts on FDI. The results also claimed that 10 percent increased in debt servicing, and terms of trade all things being equal will lead to 35 percent and 45 percent fall in FDI. The debt-servicing coefficient is statistically significant at 7.3 percent, while that of terms of trade is at 1 percent. It is thus apparent from the regression results that increase in debt service payments adversely affects FDI during the period under consideration. Clearly, this result supports the existence of the debt overhang phenomenon in Cameroon. Export performance is observed to have had a strong positive impact on investment, validating the theoretical specification that as the share of export in GDP rises, domestic savings, which is central to investment, increases. Therefore, there is little doubt that this evidence underscores the need to vigorously pursue the export promotion strategy so as to enhance domestic savings and raise FDI for long – term growth and development. However, in this work, we observe that the unfavourable terms of trade, which were experienced by Cameroon for most of the years within this study, are detrimental to foreign capital inflow in Cameroon. The error correction variable (ECM) is highly significant and has the appropriate sign. The disequilibrium error from the long-run elasticity of FDI is 45 percent. This strong significance value of the ECM explains the existence of long-run equilibrium relationship between FDI and the factors that determine it. This established long-run equilibrium in our result reveals that our findings can be used for forecasting and policy recommendation (s).

For our second model, the quantitative results show that the signs of the coefficients of FDI, the level of technological progress, fiscal deficit as a ratio of GDP, and expected rate of inflation are positive. These relationships between the above variables and GDP are in agreement with our econometric theoretical a priori criteria. These relationships also explained that ceteris paribus, 10 percent increase in any of the predetermined variables above would result to 66.293 percent, 2.199 percent, 25.715 percent, and 6.671 percent increase in economic performance of Cameroon respectively. Special consideration to FDI and its elasticity reveals that Cameroon economic performance will respond faster to variation in FDI than to any of the variable specified in our second equation. This finding is consistent with studies by Kumo and Ndebbio 2002 in Nigeria, Wilson 1979 in China, Ekpo (1998) in Nigeria, Hitt (1993), in Latin America and contradicts work by Solimano (1989) in Chile who obtained a negative and significant relationship between FDI and economic growth of Chile.

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Further examination of the econometric results of the economic performance equation shows that the overall fit is satisfactory at the value of adjusted R-squared of 0.9758. Thus, 97.58 percent of the systematic variation in the economic performance is explained by variation in the explanatory variables specified in the economic performance equation. In other words, an infinitesimally less than 3 percent is unexplained by the model. The value of the F-statistic of 31.4744 is significant at less than 1 percent level meaning that our estimated results are more than 99 percent reliable. The coefficient of the ECM of 0.119231 is significant at 4.2 percent and is negative. Thus, it will rightly act to correct any deviations from the long-run equilibrium. Our test for auto-correlation shows that our D.W's value of 2.739 falls within no-autocorrelation region of the D.W. partition normal curve. The absence of the problem of series correlation enables us to suggest possible policy recommendations both for short-term and long-term.

5. Policy Implications and Conclusion

From our quantitative results based on ordinary least squares co-integration error correlation mechanism Engle and Granger (1987), the assertion that the variables specified in the FDI and GDP equations are in one way or the other determining their variations in Cameroon is still not rejected. In fact the (OLS) results show that the elasticity of FDI due to variation in industrialization proxy is high, followed by political stability, GDP etc, it means that FDI responds to variation in industrialization than it does with the case of the other explanatory variables. This is followed by political stability, and variations in GDP etc. also; economic performance of Cameroon elasticity due to FDI is higher than those of the other explanatory variables specified in the model. This is followed by that of fiscal deficit GDP ratio and technological progress. This therefore, means that economic performance changes faster with changes in FDI than it does with the other explanatory variables.

Thus, the path of wisdom required that policy implications should commence with industrialization and industrial development policies, which will directly expand the frontier of FDI in Cameroon at the same time if properly utilized leads to increase in economic performance of Cameroon. Therefore, the following industrialization promotion policies are recommended for Cameroon.

The introduction by the government of Cameroon the Import Duty Relief Act (IRA). This act is expected to provide for reform of import duties on materials brought into Cameroon for use in the manufacture or processing of goods or in the provision of services under given conditions. Therefore, import duty relief must be designed to protect domestic producers.

Income Tax Relief Act (ITRA). Under this act, the company concern is expected to operate on industrial enterprise for a tax-free period of five years or more. This could depend on the number of workers the company is employing.

Custom (drawback) Regulation Act (CRA). This act should be designed to encourage manufacturing for the export market. Under this act, producers/ exporters could import raw materials and intermediate products for use in the manufacture of export products free of import duty and other indirect charges. By this, company like CDC should not only be producers of raw materials but refined these raw materials to finish goods. This could also encourage export-processing zone in Cameroon.

Debt Conversion (Equity Swap) Act (DCA) This act calls for the transformation of foreign debt especially debt overhang into equity instruments so that foreign

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investors involved in such Swaps become partners in the development of the economy of the debtor country (Cameroon).

Guided Privatisation and Commercialisation Act (GPCA). This simply means the promotion of capitalism in Cameroon. This seems not to be new to Cameroonians but its practice is still a distance. This is proved by the recent excessive fiscal expansion (high taxation) and the distortions of the free flows of labour and goods by the forces of law and order given their dubious and corrupt attitudes.

Since political stability or its expectation promotes FDI, increase output reduces general price level and improve balance of payments situation of Cameroon, therefore, the existence of good governance and its associated conditions is further recommended. In other words, we are here calling for the elimination of the government of "affection" or government of affiliation, which have been practice in Cameroon since her independence of 1960.

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APPENDIX ONE

TABLE 1.1: Largest Affiliates of Foreign TNC's in the Host Economy. (Year 2004) (Figures in millions of dollars and numbers)

Table 1.1a Industrial

Company	Home Economy	Industry	Sales	Number of Employees
Mobile Oil Cameroon	United States	Petroleum	195.5	294
Société Camerounaise Equatoriale	France	Petroleum	160.7	864
Colgate Palmolive Cameroon	United States	Chemicals	29.0	154
Société Nationale	United States	Electrical and electronic equipment	24.4	825
Milchem Cameroun	United States	Diversified	22.2	233
Guinness Cameroun	Netherlands	Beverages	20.9	124
Plantations Pamol	United Kingdom	Food	18.0	200
Compagnie Equatorale de peintures	France	Food	11.0	2500
Plantes Du Cameroun Medicam	France	Food	6.8	232
Société Forestière industrielle	France	Tobacco	6.8	53
Socopao Cameroun	France	Tobacco	4.4	81
Sibaf	France	Chemicals	2.4	109
SDV Cameroun	France	Chemicals	2.2	37
Scet Cameroun	France	Chemicals	2.1	43
Sodexho Cameroon	France	Chemicals	1.4	23

Figure 1.1

