CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Foreign investment (FI) is defined as overseas investment by private multinational corporations, (Todaro & Smith, 2003). Foreign investment inflow, particularly foreign direct investment (FDI) is seen to have a positive impact on economic growth of a host country through various direct and indirect means. Some foreign firms have taken advantage of the incentives to satisfy their various motives of ensuring stable monopolistic control over sources of raw materials for their parent companies, access to control of local markets, utilizing low cost labour and realizing the possibility of higher returns which is important to every business organization because with enough fund, an entrepreneur can get other factors of production such as labour, machinery or technology, management as well as raw materials and be involved in any other business activity (Okafor & Arowshegbe, 2011).

The process through which economies, societies and culture relate through trade, transportation and communication is known as globalization. Economists support the view that capital flow is beneficial because they create new resources for capital accumulation and encourage growth in developing economy with capital shortages. There is potential advantages of cross-border capital flows which economic theory pointed out to bridge the gap between investment and domestic saving that increases growth. In economics, capital flow plays significant role.

World Bank (1996) conceptualized Foreign Direct Investment (FDI) as investment that is made to acquire a lasting management interest (usually 10% of voting stock) in an enterprise and operating in a country other than that of the investors, the investors purpose being an effective voice in the management of earning either long term capital or short term capital as shown in the nations balance of payments account statement (Macaulay, 2012). This can bring about economic growth if adequately and sustainably managed.

Economic growth can be said to occur when the ability of an economy to produce goods and services increases. One of the factors that affect the growth of an economy is Foreign Direct Investment (FDI). It is an investment made by a company or individual in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company. Foreign direct investment frequently involves more than just a capital investment. It may include provision of management or technology as well. Foreign Direct Investment is an agent that facilitates increased fund and transfer of technology which increases economic output (Eboh, 2013).

Prior to the introduction of Structural Adjustment Programme (SAP) in 1986, Nigerian economy was dominated by public sector. Thereafter, private sector has been encouraged through policy changes and enactment of laws aimed at diversifying the economy via private sector participation. It is believed that growing population of Nigeria and economic performance indicators can grow meaningfully if government creates enabling environment for creativity, industry and technology transfers. Foreign

investors' participation can definitely bridge the gap in the economy and living standard of the populace (Moghalu, 2009).

Nigeria's foreign investment can be traced back to the colonial era, when the colonial masters had the intention of exploiting the nation's resources for the development of their own economies. There was little investment by these colonial masters (Macaulay, 2012). The Nigerian governments have recognized the importance of FDI in enhancing economic growth and development and various strategies such as tax holidays for foreign and local investors and the signing of "ease of doing business" have been signed into law. Of course, since the enthronement of democracy in 1999, the government of Nigeria has taken a number of measures necessary to persuade foreign investors into Nigeria. The measures noted, include the repeal of laws that are detrimental to foreign Investment growth, circulation of investment laws, various overseas trips for image laundry by the President among others (Shiro, 2009).

Privatization was also adopted, among other measures, to encourage foreign investments in Nigeria. This involved transfer of state - owned enterprises (manufacturing, agricultural production, public utility services such as telecommunication, transportation, electricity and water supply), companies that are completely or partly owned by or managed by private individuals or companies (Lall, 2002).

FDI tries to bridge the capital shortage gap and complement domestic investment when it flows to a high risk areas of new firms where domestic resource is limited. It is given, all things being equal investment determines the rate of accumulation of physical capital,

and an important factor in the growth of productive capacity of any economy (Adeolu & Simon, 2004).

Foreign direct investment (FDI) in Nigeria has not been relatively predictable, though it appreciated relatively between 1986 and 2016. However, the FDI inflow fell from N1360.3 billion in 2011 to N602.1 in 2015. As at December, 2016 it was N1, 124.1 billion (CBN, 2017). More so, the FDI in Nigeria seems shifting more and more towards services; these services are also becoming more traditional (Adeolu & Simon, 2004). Balogun (2003) observed that very little foreign investment capital in Nigerian agricultural and agro-allied industries. The FDI in Nigeria increased from N2731 billion to N75,9 billion between 1994 and 1995 about 241.9% percentage increase; the agricultural and agro-allied sector share was merely 3.6% growth. While, the FDI fell by 18.4% in2015, the agricultural sector maintained a growth rate of 3.7% (CBN, 2016).

FDI can stimulate the additional resources to break the vicious circle of poverty and act as a complementary tool for domestic resources to raise the living standard of the citizens. Thus, FDI portends a compensation mechanism in breaking the vicious circle of poverty. However, Boyd and Smith (1992), Wheeler and Mody (1992) argued to the contrary. According to them, FDI can affect resource allocation and growth negatively where there are price distortions, financial, trade and other forms of distortions existing prior to FDI injections. Nunnenkamp and Spatz (2003) also criticized the view that developing countries should draw on FDI to create economic development. This view may not be unconnected to inadequate institutionalization of economy machinery of developing countries, creating loopholes for abuses.

FDI have effect on domestic investment, interest rate, inflation rate and the productivity of investment, technology overflow and Household financial development (Fuch-Schtinadakn & Herbert, 2001). Bekaert and Harvey (1998) observed positive relationship between equity capital flows and key macroeconomic indicators, including growth and inflation.

Nigeria is plagued by lingering foreign perception of being a high-risk country for investment with a challenging business environment. The country still remains hobbled with the perception and image of being corrupt, having inadequate infrastructure and recurring shortage of power and water supply in some parts of the country. Yet, one of the largest beneficiaries of foreign direct investment (FDI) in sub-Saharan Africa is Nigeria (Eboh, 2013). It seems that the effect on macroeconomic performance of Nigeria economy has not been commiserate.

1.2 **Statement of the Problem**

Foreign Direct Investment has been the bedrock of many developed and developing economies. It has stimulated growth through job creation and improvement in macroeconomic variables (Okafor & Arowshegbe, 2011).

In the last two decades Nigeria's macro-economic performance were generally negative (Ngozi & Philip, 2007) and Gross Domestic Product (GDP) annual growth was an average of 2.25 percent. Between 2013 and 2016 the real GDP (at 1990 factor cost) grows at 6.78%, 6.31%, 3.0% and -3.1% in 2013, 2014, 2015 and 2016

respectively. Thus, the rate of growth in the GDP seems to discourage potential foreign investors.

The exchange rate which hitherto exhibited relative stability has tended volatile. For instance, between 1981 and 1985 the ₦ per $ was averaged ₦0.73314; between 1986 and 1991, the average was ₦6.0076; between 1992 and 1997 it was ₦21.8861; between 2000 and 2015 the exchange rate was average of ₦148; and between 2015 and 2016 the exchange rate was averaged ₦250. The depreciation in naira is yet to be abet.

The inflation rate over time portrays relative instability. Perhaps the economy has not generated sufficient production to match the growing needs of the populace. In fact, between 2013 and 2015 the inflation rate was sustained in single digit; but from 2016 the rate was above 15%. This calls for further increase in production capacity of the economy to match the increasing demand of the society.

Some works have revealed that foreign direct investment in Nigeria has related positively to capital formation, and national savings; and showed spillover effects on manufacturing sector and Agricultural sector (Uremadu, 2008; Onyekwena, 2012; Oloyede, 2014). Yet, some scholars discovered that FDI in Nigeria has not related significantly to national savings, gross domestic product, and has not accelerated domestic firms in manufacturing sector of Nigerian economy (Onu, 2012; Adamu & Bende, 2013). This mixed findings raises concern for exploring further if the FDI has really exerted force to improve the macro-economic performance of the Nigeria economy especially the gross domestic product, inflation rate, and exchange rate. How true is the conclusion of Okoduwa (2012)

that the major reason why interest rate and inflation rate is in double digit in Nigeria is because of inadequate foreign direct investment? It is against these backdrops that this study evaluates the effect of foreign direct investment on macroeconomic performance in Nigeria.

1.3 Objectives of the Study

The main objective of this research work is to examine the effect of foreign direct investment on macroeconomic performance of the Nigerian economy (1981 -2016).

The specific objectives of this study were:

1. To determine the effect of foreign direct investment on Economic growth in Nigeria.
2. To ascertain the effect of foreign direct investment on exchange rate in Nigeria.
3. To assess the effect of foreign direct investment on inflation rate in Nigeria.
4. To explore the effect of foreign direct investment on interest rate in Nigeria.

1.4 Research Questions

The following research questions are stated to guide this study.

1. To what extent has foreign direct investment affected economic growth in Nigeria?
2. To what level has foreign direct investment affected exchange rate in Nigeria?
3. To what extent has foreign direct investment stimulated inflation in Nigeria?
4. To what degree has foreign direct investment influenced interest rate in Nigeria?

1.5 Research Hypotheses

H_{01}: Foreign direct investment has no significant effect on economic growth in Nigeria.

$H_{02:}$ Foreign direct investment has no significant effect on exchange rate in Nigeria.

H_{03}: Foreign direct investment has no significant effect on Inflation rate in Nigeria.

H_{04}: Foreign direct investment has no significant effect on interest rate in Nigeria.

1.6 Significance of the Study

The findings of the study will assist the following stakeholders:

Nigerian government: It will be able to review past years economic conditions against policies within the same period and also have the opportunity to introduce physical and monetary policy changes for the coming year. Nigerian federal government will see more reasons striving hard to make Nigeria more investor friendly, reduce bureaucracy, and above all to combat economic and financial crimes. The government has introduced strong measures which were designed to bring in more investors. The government will also justify plans to abolish restrictive laws, strengthen security, setup investment - protection treaties, privatize utilities and fully equip the export-processing zones in a bid to liberalize the investment climate.

Investors: It will equally encourage them to study the security situation in the country as well as cost of doing business in the Nigeria to avoid losing their investment and funds. The work will add more values to the use of freedom of information Act to obtain relevant information from government agencies.

Researchers/academia: The work avails them information to further execute related studies for human development. There is ongoing debate on the advantages and disadvantages of foreign investment inflows and macroeconomic performance (Bekert & Harvey, 2001; Calvo, 1994). Generally, this research work will benefit researchers like students, scholars, investors, policy makers and the economy at large with knowledge on the possible direction of the economy and reaction to such direction.

1.7 Scope of the study

The study is on the effect of Foreign Direct Investment on macroeconomic performance in Nigeria. The period covered began with 1981. This was a period when Nigeria recorded a lot of foreign direct investment owing to the return of democracy in 1999 (OSIC, 2005). For instance conglomerates like British-American Tobacco, Stumberger and SETRACO opened their branches in Nigeria in 1981. As at time of this research the official data above 2016 have not been published by the Central Bank of Nigeria.

The variables considered as independent variables representing the macroeconomic performance followed the work of Aboride (1999). He considered them as major macroeconomic variables: Gross Domestic Product (GDP), exchange rate, inflation rate and interest rate.

1.8 Limitations of the Study

The inability of the researcher to include all the macroeconomic variables is a major setback. Perhaps, other related dimensions say on employment level would have been discussed.

The other limitations were the usual assumptions in the method of data analysis, presupposing for instance linearity, heterogeneity of the variables to each other. The extent of reliability of the input data is based on the authenticity of the data published by the Central Bank of Nigeria and the National Bureau of Statistics.

1.9 Operational Definition of Terms

The following terms are defined as they relate to this study:

Foreign direct investment (FDI): This is an investment made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company.

Gross Domestic Product (GDP): This is a monetary measure of the market value of all final goods and services produced in a country within a particular period (quarterly or yearly). As measure of the annual improvement in the standard of living of the average citizen in a country, it accounts for all production within a country not minding the ownership of production sites whether local or foreign. What matters is that the production takes place within the country.

Liberalization: This is an act of removing tariff subsidies and other restrictions on the flow of goods and services between countries. It is a process whereby a state lifts restrictions on some private individual activities. Liberalization occurs when something which used to be banned is no longer banned or when the government regulations are relaxed.

Macroeconomic Performance: This shows an assessment of how well a country is doing in reaching key objectives of government policy. The main aim of the policy is usually an improvement in the real standard of living for their population. The achievements of any country economic will always reflect in their macroeconomic level. Macroeconomic performance defines a country with the way she relates to other international counterpart.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

Foreign Investment (FI) is a very important element in international economic integration. FDI creates direct, stable and long-lasting links between economies. Foreign Direct Investment encourages the transfer of technology and know-how between countries and allows the host economy to promote its products more widely in international markets. It is also an additional source of funding for investment and under the right policy environment; it can be an important vehicle for development (OECD Fact book, 2012). The term FDI also means the cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy.

FDI refers to investment by large multinational corporations with headquarters in the developed nations (Amadi, 2002). It is a distinctive feature of multinational enterprises. Thus, FDI is not simply an international transfer of capital but rather, the extension of enterprise from its home country (Tadaro, 1999). According to Root (1984), FDI involves flows of capital, technology and entrepreneurial skills to the host economy where they are combined with local factors in the production of goods for local and export markets. Mwilima (2003) describes FDI as investment made to acquire a lasting management interest (usually at least 10% of voting stock) and acquiring at least 10% of equity share in an enterprise operating in a country other than the home country of the investor. FDI has further been explained as the long-term investment reflecting a lasting interest and control, by a foreign direct investor (or parent enterprise), of an

enterprise entity resident in an economy other than that of the foreign investor (IMF, 1999). Mallampally and Sauvant (1999) describe FDI as investment by multinational corporations in foreign countries in order to control assets and manage production activities in those countries.

Expanded explanation on the meaning of FDI has been offered by Ayanwale (2007). He explained that ownership of at least 10% of the ordinary shares or voting stock is the criterion for the existence of a direct investment relationship. FDI comprises not only merger and acquisition and new investment, but also reinvested earnings and loans and similar capital transfer between parent companies and their affiliates (Ayanwale, 2007). Ikiara (2003) noted that foreign firm may allow local firms to appropriate its technology if this guarantees its access into some of the benefits available in the host country such as access to valuable local technology and possibility of receiving commercial advantages. By implication developing countries like Nigeria requires such technical change and technological learning to achieve meaningful growth.

Foreign Direct Investment (FDI) is one of the most debated topics and core theory of development economics which still keeps its prominent place. Many researchers like Oseghale and Amonkhienan (1987) and Odozi (1995) have presented various theories and numerous empirical evidences of importance of FDI. The subject matter is still unresolved and open for further discussions geared towards economic growth.

Economic growth can be explained by a variety of social, political, economic and institutional factors. The FDI-Growth nexus has gained importance in growth literature

in its varied dimensions. The overview of the studies confirm various dimensions such as fundamental theories of FDI, various macro-economic variables that influence FDI, the impact of economic integration on the movements of FDI followed by advantages and disadvantages of FDI.

2.1.1 Benefits of Foreign Direct Investment

Orogon (2010) outlined some benefits of foreign direct investment. These include:

i. It helps in the economic development of the particular country where the investment is being made. This is especially applicable for developing economies. During the 1990s, foreign direct investment was one of the major external sources of financing for most countries that were growing economically. It has also been noted that foreign direct investment has helped several countries when they faced economic hardship.
ii. Foreign direct investment benefits the global economy, as well as investors and recipients.
iii. Capital goes to whatever businesses that have the best growth prospects anywhere in the world. This is because investors seek the best return for their money with the least risk. This profit motive is colour-blind and does not care about religion or form of government. It reduces the effects of politics, cronyism, and bribery. As a result, the smartest money rewards the best businesses all over the world. Their goods and services go to market faster than if unrestricted FDI were not available.
iv. Recipient businesses receive "*best practices*" management, accounting or legal guidance from their investors. They can incorporate the latest technology, innovations in operational practices, and new financing tools. By adopting these practices, they enhance their employees' lifestyles. This raises the standard of living

for more people in the recipient country. FDI rewards the best companies in any country. It reduces the influence of local governments over them, making them less able to pursue poor economic policies.

v. Recipient countries see their standard of living rise. As the recipient company benefits from the foreign investment, it can pay higher taxes. Unfortunately, some countries offset this benefit by offering tax incentives to attract the FDI in the first place.

vi. Another advantage of FDI is that it offsets the volatility created by "hot money." That's when short-term lenders and currency traders create an asset bubble in a country. They invest lots of money in a short period, and then sell their investments just as fast. This creates the kind of boom-bust cycle that ruins economies and ends political regimes. Foreign direct investment takes longer to set up and has a more permanent footprint in a country.

2.1.2 Negative Effects of Foreign Direct Investment

Among the negative effects of FDI include:

First, countries should not allow too much foreign ownership of companies in strategically important industries. This could lower the comparative advantage of the country (Bernard, 2003).

Second, sophisticated foreign investors might strip the business of its value without adding any. They can sell off unprofitable portions of the company to local, less sophisticated investors. They can use the company's collateral to get low-cost local loans. Instead of reinvesting it, they lend the funds back to the parent company (IMF, 2001).

2.1.3 International Trade and Foreign Direct Investment

Two important questions that an enterprise seeking to serve foreign markets must address are: First, is it better to produce the goods in the home country and export to foreign markets, or is production abroad more profitable? Secondly, is it for production abroad, how should technology be transferred overseas? Enterprises can choose from a variety of arrangements that differ in their relative use of markets and organizations. On one hand arrangement transfers technology to wholly owned subsidiaries and on the other hand, transfers technology to unrelated parties through licensing. When serving a foreign market, an enterprise can choose from a number of options (Anthonette, 2001).

The literature mainly focuses on the choice between exports and FDI, assuming that exports and FDI are substitutes for one another. However, empirical work usually exposes a complementary relationship between exports and foreign affiliate sales. For instance, Lipsey and Weiss (1981) find that sales of foreign affiliates are positively correlated with exports. The industry level firm-level studies, such as Lipsey and Weiss (1984) and Blomstrom and Kokko (1998) also uncover a complementary relationship between trade and FDI. Does the evidence imply that most theoretical models are flawed? Only a study of the type done by Blonigen (1999) can really sort out the complementary nature of trade between intermediate goods and affiliate sales on the one hand and the substitutability of exports of final goods and FDI on the other. Not surprisingly, Blonigen's results agree nicely to the theory: exports of intermediate goods and sales of affiliates are complements, whereas exports and sales of final goods are substitutes. The only unresolved issue is why aggregate studies find a net

complementary relationship. The explanation probably lies in a fact that most intra-industry trade between industrial countries involves exchange of intermediate goods (Ethier, 1982).

The literature on intra-industry trade as derived from Dixit and Stiglitz's (1977) model may overemphasize the role of product differentiation and consumer emphasis on variety. As Ethier (1982) notes, actual trade is in intermediate goods needed for production. Thus, if such trade is indeed pervasive, there should be a strong complementary relationship between exports and FDI at the aggregate level. In other words, strategic considerations influence the choice between exports and FDI (Horstmann & Markusen, 1992). The presence of trade barriers creates a tariff-jumping motive for FDI. The mere threat of future trade restrictions may lead to anticipatory investment by foreign firms. When two enterprises are exporting to a foreign market, a switch from exports to FDI by one creates an incentive for FDI on the part of the other firm, which finds itself at a competitive disadvantage (Lin & Saggi, 1999). This is called the competitive incentive for FDI.

An old tradition in the management literature describes the interdependence between the decisions making of large multinationals as follow-the-leader behaviour. Hence, enterprises face a dynamic problem, just a onetime choice between exports and FDI. Enterprises may (and indeed do) switch between the two activities over time. Unfortunately, there is scarce literature that explores the dynamics of optimal entry strategies into foreign markets. Saggi (1998) builds a two - period model to investigate an enterprise's choice between exports and FDI in the face of demand uncertainty. Initial –period exports yield information about demand in the foreign market. As a result initial-period exports have an option value. That is, if a significant portion of the fixed cost of FDI is sunk, it is optimal for an enterprise to export in the initial period and to choose FDI if and only if demand abroad is large enough. Clearly, the preceding argument is not specific to demand uncertainty and can be generalized with respect to other types of uncertainty about which sales through exports can yield information. Roberts and Tybout (1997) highlight the role of sunk costs in determining the dynamic behaviour

of exporters. Using data for Colombian manufacturing plants, Roberts and Tybout show that prior exporting experience is an important determinant of the current tendency to export as well as the profitability of exporting. Their results show that sunk costs are indeed relevant for export behaviour and that learning is subject to strong depreciation.

The entry costs of a plant that has never exported do not differ significantly from those of plants that have not exported to more than two years. Although Roberts and Tybout (1997) do not consider other modes of serving foreign markets, their insight can be utilized in a more general context. Suppose enterprises also have the option of FDI. Building on the Roberts and Tybout approach, the choice between exports and FDI is a choice between two different technologies, where exports entail a higher marginal cost and a lower fixed (sunk) cost than FDI (Saggi, 2002). Under uncertainty, if enterprises do face such a cost structure, an interesting dynamic relation between exports and FDI may emerge. Similarly, exports and initial FDI may be strongly complementary because enterprises are not likely to shift the entire production process to a new location immediately. If first investment is profitable, local sourcing may reduce the need for imported intermediates. Often, such substitution effects may become stronger, and the complementarities between exports and FDI may become weaker (assuming local suppliers are indeed competitive or local production is consistent with comparative advantage considerations). Also the presence of multiple enterprises also creates the possibility of information externalities among investors; that is, the experience of one enterprise may impart lessons to others.

Enterprises from industrialized countries have little prior experience in operating in these new environments. This lack of experience coupled with the complexity surrounding the FDI decision implies that enterprises seeking to invest in these markets can learn valuable lessons from the successes and failures of others. Such externalities may be particularly relevant for FDI in many developing and formerly closed economies (China and much of Eastern Europe) that have only recently opened their markets to foreign investors. FDI involves hiring foreign labour, setting

up a new plant, meeting foreign regulations, and developing new marketing plans; these decisions require adequate information. In this context, decisions made by rival enterprises can lower an enterprise's fixed cost by helping avoid mistakes. For instance, Lin and Saggi (1999) use a duopoly model in which the initial enterprise to switch from exporting to FDI confers a positive externality on the subsequent investor by lowering its fixed cost of FDI. In their survey of Japanese firms planning investments in Asia, Kinoshita and Mody (1997) find that both private and public information play major roles in determining investment decisions. They argue that information regarding many operational conditions (such as the functioning of labour markets, literacy, the productivity of the labour force, and timely availability and quality of inputs) may not be available publicly. Such information is either gathered through direct experience or through the experience of others. Indeed, Kinoshita and Mody's empirical analysis finds that an enterprise's current investment is strongly affected by its own past behaviour as well as by the investments of its rivals. Although the degree of fixed/sunk costs may play a role in determining the choice between licensing, joint ventures, and FDI, other considerations are probably more important. A new foreign plant is the primary contributing factor behind higher fixed/ sunk costs of FDI relative to exports. This factor is unlikely to be of first-order importance in determining the choice between different entry modes that are distinguished basically by the extent of foreign ownership.

2.1.4 Causes of Capital Flows to Developing Countries

Capital moves across borders because it helps borrowers and lenders smooth or accelerate income and consumption over time, transfer risk and increase permanent income. Even, attracting foreign capital by developing countries require that a country

has investment opportunity that are considered profitable by world standard and its overall financial needs surpass domestic saving (Agarwal,1997).

Foreign flows of investment capital (leaving aside currency market and secured bank loans) take two forms: direct investment and portfolio flows. Broadly speaking, the basic difference between the two is the level of managerial control taken by the investor. Portfolio investors purchase equities and bonds in open market while direct investors take a substantial stake in fixed productive assets. The returns to both forms of investment are in part determined by the action of foreign governments, indicating nearly compatible sources for rent and similar types of risks. In the limits, the risks are the same: seizure, political and economic collapses. In the ordinary sense, however, the differences in ownership and liquidity have consequence for the individual determinants of direct and portfolio flows. The effect of political variables on capital flows is contingent on how different ownership structures effect risk and return (Ahlquist, 2006).

In international capital markets, Multinational corporations (MNCs) are another group of major players both as borrowers and lenders or better still, distributors. Due to the concept of transaction costs, the foreign economic literature has explained why enterprises undertake export operations for some transactions, in others licensing arrangements and direct ownership of overseas operations (FDI) in others (Buckley & Casson, 1976; Hymer 1976; Dunning, 1981). Transaction cost theories of the MNC holds that a firm will take ownership of foreign investment when the enterprise is trying to exploit market imperfections to earn so-called rents (Williamson, 1985; Caves, 1986; Henisz & Williamson, 1999).

Again foreign direct investment is marked by sufficient information flows between the relatively well informed owners/managers and prospective buyers of those assets (Goldstein & Razin, 2005). This situation indicates that FDI should be less volatile than portfolio flows, as empirical studies suggest (Albuquerque, 2003). Furthermore, Kobrin (1979) indicates that MNEs take into consideration the stability of host country governments and institutions. Foreign direct investment are allegedly more attached to democracies because they are believed to have more credible commitments and stable policy environments (O'Neal, 1994). Jensen (2003) argues that democratic governments are more reliable transaction partners; foreign direct investment should tilt towards more democratic regimes, all things being equal.

Foreign direct investment is the most important source of private external finance for developing countries. FDI is not like the major forms of external private capital flows because it is motivated mostly by the investors' long term prospects for making profits in production activities that they indirectly or directly control. Short term profit returns are been motivated by foreign bank leading and portfolio. Investment in other hands can be determined by some factors, like interest rate, and are inclined to herd behaviour. It represents investments in production facilities and so can contribute to investible resources and capital formation. It is also a form of transferring production technology, skills, innovative capacity, and organizational and managerial practices between locations, and also of procuring international market networks (Mallampally & Suavant, 1999). The main reasons for countries to seek investments by Multinational Corporations are to obtain modern technology and knowledge. The assumption is that new technology and knowledge could transfer to domestic

enterprises which will improve their output (Blomstrom & Kokko, 1998). These transfers and externalities can occur through various forms.

Transfer may occur when well trained staff of foreign enterprises' setup their own plants or become employed in locally owned enterprises. The operation of Multinational Cooperation may lead to the dissemination of information on new technology and production methods also referred to as *"the demonstration effect"*. By associating with domestic enterprises, foreign associates may improve the production competence of the host country (Rodriquez-Clare, 1996). There may be competition effect, where the emergent of foreign plants may accelerate competitions and so push domestic enterprises into being more effective and innovative (Doan, 2010). Another reason why governments make efforts to attract FDI is that it creates employment and FDI may generate foreign exchange for the host country if the Multinational Cooperation are export oriented.

In sharp contrast to other forms of capital flows, FDI has proven to be resilient during financial crisis (Prakash & Assaf, 2001; Haussmann & Fernandez- Arras, 2000; Dudash, 2000; Lipsey, 2001). The East Asian crisis of 1997-98, Mexican crisis of 1994-95 and the Latin American debt crisis of the 1980s all attest to this. This is why Haussmann and Hernandez-Arias (2000) further indicate that many host countries regard international debt flows, mostly the short-term ones as "bad cholesterol", because it is based on interest rate differentials and exchange rate expectations and not on long term considerations. In summary, in the long run, the transfer of technology and knowhow (indirect) by Multinational Cooperation to domestic enterprises may be of more importance than direct effects of FDI.

2.1.5 Institutional Conditions for Attracting FDI

Governments have the sole duty of providing an enabling environment for FDI. They need to provide conditions such as a stable political and economic environment, the rule of law and good infrastructure. An enlightened and technically skilled work force, low wages, an open economy and stable currency are also necessary (UNCTAD, 1997). Majority of these conditions, which can be analysed through the principle of macro institutional economies (North, 1991), develop gradually, take time to grow and are path dependent, being enshrined in the institutional heritage of the host country. Only countries measuring up to the basic minimum standards on the said conditions suffice for more evaluation by multinationals.

The next stage of the drafting procedure is when enterprises use the micro or transaction cost view (Williamson, 1985), to considers issues such as project - specific incentives, tax breaks, restrictions on investment ceiling, majority control and profit repatriation, stipulations about local content, technological transfer and export requirements. It needs a comprehensive approval of all these features to arrive at a holistic picture of whether the potential FDI destination is investment friendly or not. It is obvious that these high standards are not likely to be met by any country solely. Developing countries cannot equivalently meet the same standards that developed countries have. So Multinational Cooperation have a different combination of FDI factors for them. However, the necessity to lower costs would compel Multinational Corporation to trade off the standard combination in favour of low wage benefits.

2.1.6 Further benefits of FDI

FDI develops enterprises directly and help to strengthen economic potential. This is been achieved through two major forms: Greenfield Investment; and Mergers and Acquisition. Greenfield investment is adding new and different economic activity and thereby diversifying the economy while mergers and acquisition (M&A) involves building up existing enterprises and enhancing their potentials. Both of these investments will add a new healthy element of increased competition to an economy, since their production generally exhibit economies of scale and scope (Eichengreen & Mussa, 1998).

Foreign direct investment can boost the economy through competition. The entrance of foreign investors spurs other firms to increase their own efficiency and productivity. Competition also leads to improved efficient allocation of resources, enhancing the economic prospect of the domestic economy and global sustainable economic development. Competitions also spur domestic competitors to build up their technological capabilities and the productivity of their products in the face of technology transfer and the development of human capital often associated with foreign direct investment. Therefore, the entry of foreign investors can make domestic producers more efficient by enhancing competitive pressure (Obstfeld, 1994).

Technology transfer and Human capital development are often assumed as the two primary benefits of FDI. Foreign investors bring their management skills and technology to their enterprise, so by training the local workforce, they transfer those skills and technology to them. When those workers move on to other jobs in the domestic enterprises or start

their own businesses, they put to use the skills they have acquired. So in this way human capital of the host country is developed by FDI and the investment technology transferred.

Secondly, foreign investment may lead to rapid monetary expansion and too much increase in domestic demand, which cause inflationary pressures and the appreciation of real deficits. Akeoraoglu (2000) showed that investment inflows may result to growth in domestic absorption. When some of the spending falls on non-traded goods, their relative costs increase and real exchange rate rises. This boosts the demand for tradable goods, leading to current account deficits. However, if there is a fixed or crawling peg exchange rate regime, the central bank takes on either sterilized or non-sterilized policies to deal with exchange rate pressures due to investment flows (Berument & Dincer, 2004). Sterilized intervention involves sales of government bonds by the central bank in exchange for foreign currencies and securities. For the effectiveness of this intervention, domestic and foreign bonds should be imperfect substitutes. Nevertheless, sterilized intervention makes interest rate differential between home and foreign currency to enlarge, which attracts more investment flows. In a non-sterilized intervention, the central bank buys foreign currency in place of domestic currency. This process compels central bank to appreciate nominal exchange rate, which leads to a fall in the interest rate differentials still. This policy also leads to an increase in the monetary base, which adds to inflationary pressures. Under a floating exchange rate regime, there is no central bank intervention. So for a given level of shift in initial capital flows, the rise in value of domestic currency and decline in domestic interest rates, and the constancy of investment inflows are inadequate relative to one under a fixed (or crawling) exchange

rate. Foreign direct investment may also improve the development of equity markets and the shareholders, corporate governance. As business organizations contest for finance the market will compensate better performance, improved prospects for future performance and more excellent corporate governance (Berument & Dincer, 2004).

2.1.7 FDI and Multinational Corporations

Multinational Cooperation subsidiaries in some countries can play a major role in establishing building blocks of organizations. Westney (1993) discusses the potential significant impacts of Multinational Cooperation on the organizational patterns within a country. The introduction of new modes of business practice in Multinational Corporation subsidiaries can challenge the legitimacy of existing patterns and stimulate debates on better business practice in the host country. The mirror image of this influence is the 'de-institutionalization' of local firms' existing organizational patterns. Similarly, Dacin, Ventresca and Beal (1999) discussed the concept of '*disembeddedness*'. They argue that globalization may be regarded as a *disembedding* process that strips individuals and firms from their local structures and allows for restructuring at a more global level. Following this perspective, it is likely that the presence of foreign-owned subsidiaries will, on average, reduce the level of corruption of the host country. The Multinational Corporation influences its institutional environment over time via three major effects: regulatory pressure effect, demonstration effect, and professionalization effect. One motivating factor for the host institutions to change is that the host country also wants to gain legitimacy within the bigger, global business environment. As the host country grows, it would like to enhance its international reputation and attract more business.

i. Regulatory Pressure Effect

The business people representing the Multinational Corporation may be reluctant to offer a bribe. First, the subsidiary of a Multinational Corporation is faced with two sets of isomorphic pressures: the Multinational Corporation's and the host country's (Kostova & Roth, 2002). However, when a government official deals with a foreign entity, he or she may not be able to conduct business as usual. Besides trying to gain external legitimacy by adopting the common corrupt business practice of the host country, it also has to strive for internal legitimacy as the headquarters in the home-country environment may have adopted norms and practices that ban corrupt behaviours by their subsidiaries. Second, there is the regulatory pressure from the home government and the international business community (Oliver, 1997).

In a business culture where corruption is pervasive, corruption becomes the modality of business practice in local businesses and government offices. It becomes part of the regular practice, and both parties of the transaction would take it for granted. For example, the US Foreign Corrupt Practices Act, enacted in 1977, was prompted by a Journal of International Business where series of scandals involving questionable payments by US firms to overseas government officials. This act prohibits US firms from giving anything of value (such as a payment, gift, or bribe) to induce a foreign government to enter into a contract or business advantage or relationship. This act carries criminal penalties: imprisonment for up to 5 years, and fines of up to $100,000 for individuals and up to $2 million for companies. Similar legislation is enacted in the global business community. On November 21, 1997, representatives from 33 countries signed the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Among them were 28 of the 29 member states of the Organization

for Economic Cooperation and Development (OECD), together with Argentina, Brazil, Bulgaria, Chile, and the Slovak Republic (Don, 2003). Under regulatory pressure from the home country and the international business community, the employees of Multinational Corporation subsidiaries are reluctant to offer bribes. If the MNC has enough bargaining power, and its presence is much desired by the host government, it may simply refuse to offer bribes. Even if the subsidiary's employees think that they need to engage in bribery in order to secure business, the local officials may need to think of some circuitous ways to accept the bribes so that the Multinational Corporation employees are less likely to get caught.

ii. Demonstration Effect

Competition from FDI may force domestic firms to update production technology and change management styles in order to maintain their competitiveness. Domestic firms may also learn from observing the Multinational Corporation practice when there are close relationships between them. And, Multinational Corporation trains their employees, who may later move to domestic firms with learnt skills. Following this line of thought, there may also be a spill-over or demonstration effect on corruption (Oliver, 1997). In the international business literature, there is a line of research that studies the spill-over effects of foreign direct investment (Aitken & Harrison, 1999; Liu, 2000). Discussion of the spill-over effects concentrates mainly on productivity and technological transfer. For example, Blomstrom and Kokko (1998) and Gorg and Strobl (2001) summarize how FDI may affect the productivity of domestic firms.

In some host countries, corruption has been immersed deep in the local business culture. Local business people and government officials may think that this is the 'normal'

way to get business done. However, when they deal with the Multinational Corporation's through negotiations, joint ventures, or upstream or downstream relationships in the business chains, because they are geographically and operationally proximate, they have opportunities to observe closely how business decisions and allocations are made within the Multinational Corporation's (Eden, 1997). Business can be conducted more efficiently in an environment built on trust and ethical conduct. In the past, local advocates might also 'talk' about ethical business practice but might not produce a concrete, real example to follow. They want to enhance the country's international reputation and to attract more business. They may model themselves after the Multinational Corporation and change their traditional business practices gradually. The presence of Multinational Corporation demonstrates how a cleaner way of conducting business can be more effective and efficient in the long run. Furthermore, outward-looking local business people and government officials also want to gain legitimacy within the global business community.

iii. Professionalization Effect

Academics strive to improve business knowledge and develop practical applications by conducting theoretical and empirical research. All areas of business have, to one degree or another, become sciences. Academic curricula have become increasingly standardized and professionalized. Business schools around the world tend to adopt textbooks and course contents from the same pool of leading authors and universities. DiMaggio and Powell (1983) discuss two important aspects of professionalization. One is the resting of formal education and of legitimating a cognitive base produced by university specialists. The other is the growth and elaboration of professional networks that span organizations and across which new models diffuse rapidly. Multinational Corporation have been in the

forefront of the application of automation, information technology, and managerial techniques in order to enhance business efficiency. In order to excel above their peers, managers want to acquire professional business training. Afraid of being left out by competitors, even family-owned businesses consider sending their 'heirs' to business schools (Ramirez & Kwok, 2006). To the younger generation, the Multinational Corporations have special appeal. Multinational Corporations usually offer substantially better salaries than domestic companies in host countries. Not only is working for Multinational Cooperation prestigious, they can be exposed to sophisticated management practices, which will equip them with skills for a successful business career in the long run. Furthermore, they may be given opportunities to go overseas for short-term training or business assignments.

To enhance their chance of being recruited by Multinational Corporation, the younger generation needs to learn about global business practices. They attend schools to acquire professional business training. To certify their qualifications, they may take public examinations and join professional associations. Such professional organizations may set industry-wide ethical codes of conduct, product quality standards, uniform training, or certification in occupational professions (Oliver, 1997). Socialized by the professional business values, they become increasingly critical of the traditional ways. As the 'new blood' rise in the corporate ladder, they become business leaders. They may work for the Multinational Corporation, they may have started their own business, or they may have become senior advisors to government officials. They may use their influence to gradually reform the more corrupt old business practices. In short, the professionalization of management practice and the socialization of the younger generation lead to changes in the host-

country institutions over time. Through the three effects mentioned, the presence of Multinational Corporations may help reduce corruption in the host country over time. However, it would be naive to think that the influence of a Multinational Corporations (MNCs) on its environmental institution is always good. There is plenty of anecdotal evidence that MNCs sometimes bring undesirable influences.

In some situations, MNCs exploit natural resources, cause environmental pollution, employ child labour, or take advantage of the looser regulations of the host countries (to bypass the stringent regulations and costly requirements of parent countries). Robertson and Watson (2004) argue that foreign direct investment will lead to an increase of corruption in the host country in the short run. First, the increase in FDI represents a larger amount of foreign money flowing into the country and, therefore, an expansion of opportunities for bribery. Second, the eagerness of foreign investors to enter the market may tempt host- country nationals to resort to corruption as a means of sharing in the opportunities for profit presented by their own country (Robertson & Watson, 2004).

Although high net worth individuals continue to provide a steady supply of hedge fund capital, institutional investors including pension funds, mutual funds, insurance companies, and university endowments represent the more important investor base for hedge funds. Traditional institutional investors frequently undertake many of the same transactions as hedge funds. Specifically, mutual funds are increasingly pursuing more flexible and often hedge fund – like strategies as competition from hedge funds intensifies. Again, an increasing number of conventional institutional investors are turning to hedge funds in their search for asset returns that are not highly correlated (Eichengreen, 1998).

2.1.8 Factors affecting Foreign Direct Investment

There are a number of factors that has influenced the FDI inflows. Among them are:

i. **Wage rates:** A major incentive for a multinational to invest abroad is to outsource labour intensive production to countries with lower wages. If average wages in the US are $15 an hour, but $1 an hour in Nigeria, costs can be reduced by outsourcing production. However, wage rates alone do not determine FDI, countries with high wage rates can still attract higher tech investment. A firm may be reluctant to invest in Sub-Saharan Africa because low wages are outweighed by other costs (Investopedia, 2017).

ii. **Labour skills:** Some industries require higher skilled labour. Examples are pharmaceuticals and electronics industries. Therefore, MNCs will invest in those countries with a combination of low wages, but high labour productivity and skills (Investopedia, 2017).

iii. **Tax rates:** Big MNCs, such as Apple, Google and Microsoft have sought to invest in countries with lower corporation tax rates. For example, Ireland has been successful in attracting investment from Google and Microsoft (Investopedia, 2017).

iv. **Transport and infrastructure:** A key factor in the desirability of investment is the transport costs and levels of infrastructure. A country may have low labour costs, but if there are then high transport costs to get the goods onto the world market, this is a drawback. Countries with access to the sea are at an advantage to landlocked countries, which will have higher costs to ship goods (Investopedia, 2017).

v. **Size of economy / potential for growth:** Foreign direct investment is often targeted to selling goods directly to the country involved in attracting the investment. Therefore, the size of the population and scope for economic growth will be important for attracting investment. For example, Eastern European countries, with a large population, e.g. Poland offer scope for new markets. This may attract foreign car firms, e.g. Volkswagen, Fiat to invest and build factories in Poland to sell to the growing consumer class. Small countries may be at a disadvantage because it is not worth investing for a small population. China will be a target for foreign investment as the new emerging Chinese middle class could have very strong demand for the goods and services of multinationals. Resmini (2000) considering manufacturing FDI found that larger population tend to attract more FDI. Sun (2002) was of the view that market size and growth have positive effect on FDI due to its immediate influence on the expected income from the investment.

vi. **Political stability / property rights:** Foreign direct investment has an element of risk. Countries with an uncertain political situation will be a major disincentive. Also, economic crisis can discourage investment (Investopedia, 2017).

vii. **Commodities:** One reason for foreign investment is the existence of commodities. This has been a major reason for the growth in FDI within Africa – often by Chinese firms looking for a secure supply of commodities (Sun, 2002).

viii. **Exchange rate:** A weak exchange rate in the host country can attract more FDI because it will be cheaper for the multinational to purchase assets. However, exchange rate volatility could discourage investment (Investopedia, 2017).

ix. **Policy Framework:** Country policy framework is the basic determinant to be considered. Foreign direct investment will find it difficult, if not impossible, to operate where it is strongly hindered. That is why developing countries have during the last two decades or so, began liberalizing their national policies to build up a conducive regulatory framework for FDI by easing laws concerning market entry and foreign ownership, making better the kind of treatment given to foreign firms, and enhancing the performance of the markets (Lampally & Sauvant,1999). Countries that want to attract FDI are directing attention on measures that enhance business. These include improvement in amenities, investment incentives, post-investment services, investment promotion and procedures that minimize the "tussle" costs of doing business. These measures are put in place to attract individual investors in an area of choice and investments in particular industries. Financial or fiscal incentives can also be employed to entice new investors. Post investment services are important because they can stimulate reinvestment by present investors and also spur further investment.

x. **Market Size and Growth Potential:** Obadan (1982) in his study on direct investment argued that market size, trade policies and raw materials were very important determinants of FDI in Nigeria. lyoha (2002) also found market size as a major determinate of FDI. Many host countries' market may be linked with more FDI because of higher potential demand and reduced costs from economies of scale.

2.1.9 Foreign Investment and Financial Reforms in Nigeria

Financial reforms are intentional actions of the government to fast track, jump start and strengthen particular sectors of the economy to achieve desired objectives (Okeke,

2009). Also, financial reforms are intentional policy response to correct anticipated or forthcoming financial crises and resultant failure (Ebong, 2006). Many countries, both developed and developing have carried out critical financial reforms including capital market reforms over the last few years. These reforms include stock market liberalization, improvement in securities clearance and settlements systems and the improvement of regulatory and supervisory frameworks. These reforms in addition to improved macroeconomic fundamentals and associated reforms, such as the privatization of state-owned enterprises and the shift to privately managed outlined pension systems were assumed to enhance domestic financial development (Oke & Adeusi, 2012).

A poor domestic environment has since been viewed as one of the major argument for capital flight and more use of the financial services offered abroad by domestic residents (Pattilo, Collier & Horffler, 2000). This view indicate that capital market reforms will decrease incentives for firms to internationalize and will result in lower share of equity market activities taking place abroad. This may lead to important tendency for domestic market development as the exodus of trading to international financial centers can have negative excessive effect on domestic markets.

The Nigerian financial sector reform was a constituent of the Structural Adjustment Programme (SAP) which started in 1986. Nigeria adopted the International Monetary Fund (IMF) adjustment programme which influenced the economic policies formulated and implemented by her and this resulted to various reforms in the capital market since then. Starting from 1986, the financial system in Nigeria began to be deregulated and many substantial changes had taken place. Prior to the introduction of SAP, the Second-Tier

Securities Market (SSM) was established in 1985 as a calculated attempt to regularize the role of the Nigerian Stock Exchange (NSE) and accustom the market to provide for more of the prevailing institutional arrangements. It was basically, intended to help small and medium sized indigenous firms to gain access to the resources at the capital market for expansion and modernization, (Oke & Adeusi, 2012).

Among the financial reforms according to Oke and Adeusi (2012) are:

i. **Structural Adjustment Programme:** Nigeria introduced the Structural Adjustment Programme (SAP) in July, 1986. Its main aim was to activate local production, diversify the economic base, fiscal and balance of payment viability, reduction of the size of government expenditure and also enhance its efficiency and improve the growth capability of the economy. SAP was internationally designed and also a new-liberal development strategy conceived by international financial institutions to include national economies in the global market. One of the vital aims of SAP was therefore to work towards deregulation and privatization leading to removal of subsidies.

ii. **The Privatization and Commercialization Act of 1988.** Nigerian economy is public sector driven, so the privatization and commercialization. Act was promulgated in 1988 to bring about relinquishment of part or all the equity and other interests held by the federal government or any other agencies in enterprises whether wholly or partly owned by the federal government.

This move is believed will turn around the enterprises so that they can deliver goods and services more effectively and efficiently.

iii. **The Nigeria Deposit Insurance Corporation (NDIC):** This was established by Decree No.22 of 1988 and committed with the under listed responsibilities:

a. Insuring all deposit liabilities of licensed banks and such other financial institutions operating in Nigeria in order to boost confidence in financial transactions;

b. Protecting the interest of deposit by such actions as taking over the management of a distressed bank or merging a distressed bank with a viable one; and

c. Assisting monetary authorities in the formulation and implementation of banking policies in order to ensure sound banking practice.

iv. **Establishment of more discount houses 1992:** Three additional discount houses were licensed in 1992 to facilitate the development of a secondary market for government securities in addition to intermediate funds among financial institution;

v. **The Nigerian investment promotion commission 1995:** Before 1995, non - Nigerians were not allowed to invest directly in any sector of the Nigerian economy. With the establishment of the Nigeria investment promotion commission in 1995, it was charged with the responsibility of encouraging, promoting and coordinating investment activities in Nigeria. It was again vested with the power to initiate measures which would promote the investment climate in Nigeria for both indigenes and foreign investors. This commission is also required to register any enterprise in which foreign participation is permitted and to permit foreign enterprises to buy shares of any Nigerian enterprise in any convertible foreign currency.

vi. **The Central Securities Clearing System (CSCS)**: The central securities clearing system is based on the idea which supports an integrated central depository clearing and settlement (i.e. electronic entry transfer of shares from seller to buyer and payment for purchased securities) for all stock market trading. It started operation in Nigerian in 1997 as a subsidiary of Nigeria Stock Exchange to do away with the intrinsic hindrances in the transaction process in the capital market.

vii. **Pension Reform 2004:** The Nigeria Government launched the new pension system in 2004. The move shifted employees to a defined contribution plan from the existing non-contributing defined benefit scheme, thereby shifting the risk of retirement financing from Government to individuals. This reform created opportunities for workers in the private sector to be covered by retirement benefit arrangements.

viii. **Bank Consolidation Programme 2005:** The consolidation of bank in Nigeria took effect in 2005 after the announcement on July 6, 2004 by the Central Bank of Nigeria on its 13 point agenda of banking sector reforms. The two essential features of the reform agenda are: the requirement for Nigerian banks to increase their shareholders funds to a minimum of N25 billon by the end of December 2005 and consolidation through merger and acquisition. The implementation of this requirement resulted to the decrease in the number of banks in Nigeria from 89 to 25. This influenced dealings in the stock market as banks raised their required minimum capital through the market by issuing new securities.

Aremu (2003) related some other Nigerian government policies that influenced the direction of FDI**.** These are depicted in Table 1.

Table 1 Outline of FDI Policies in Nigeria

Year	Law/policy	Motive	Aim	Comments
1958	Pre-independence era:	Industrial Tax relief	To grant a maximum of 5 year tax holiday from inception date, to foreign companies operating in Nigeria	This was a strategy to attract Trans National Corporations (TNCs) by offering generous incentives.
1972	Indigenization Era: Nigerian Enterprise Promotion Act (NEP)	Restrictive measure	To restrict FDI in enterprises. These schedules were put in place: Schedule 1 requires 100% ownership of enterprises by Nigerians while schedule II requires as much as 40% ownership by foreigners.	Foreign investors were not adequately compensated for disposition of assets. Thus the implementation violated international investment laws.
1977	Nigerian Enterprise Promotion Act (NEP)	Restrictive measure	An amendment of NEP Act, 1972, which resulted in lowering the maximum limit of foreign ownership from 60% to 40%, and expansion of business activities under restriction.	Indigenization of major enterprises in Nigeria
1987	Nigerian Enterprise Promotion Act (NEP)	Promotion strategy	An amendment of the NEP Act 1977, to provide an opportunity for foreign investors to increase investment without increasing their voting power	Due to the emergence of a separate body to monitor the compliance of the Act, it resulted in the development of "red tape" to foreign investors in Nigeria.
1988	Industrial Development Coordinating Committee (IDCC) Act	Promotion strategy	IDCC was to act as a one-stop agency to approve and regulate investment in Nigeria (as recommended by The World Bank). To streamline the investment procedure by shrinking similar government departments into one.	The agency underperformed due to dishonest practises, as enterprises gave false information to secure expatriate quotas.
1989	Nigerian Enterprise Promotion Act (NEP)	Promotion strategy	To eliminate the discriminatory approach towards foreign investors that existed in previous	A turn around amendment to open up to FDI

			NEP acts. Schedule I and II were abolished, and Schedule III was amended to allow ownership of enterprises with more than 20 million naira capitalization.	
1990	Companies and Allied Matters (CAMA)	Promotion strategy	To mandate foreign companies incorporate outside Nigeria to incorporate in Nigeria. Failure to incorporate will lead to termination of the right to operate in the country.	The law was basically a measure to ensure the documentation and monitoring of the activities of foreign firms by government authorities.
1995	Nigerian Investment Promotion Commission (NIPC) Act 16, 1995	Promotion strategy	To promote and direct investment in Nigeria. Also, to market the Nigerian investment environment to potential foreign investors	A more radical approach than previous IDDC act (Aremu, 2003)
1995	Foreign Exchange Monitoring and Miscellaneous Provisions (FEMAMP) Act	Liberalization To liberalize foreign exchange transactions.	This was an amendment of the Exchange Control Act, 1962 1999 Investment and Securities Act	Liberalization To deregulate the Nigerian Capital market, in order to attract FDI The enforcement of the act required the amendment of other acts, to avoid the conflict of objectives

Source: Adapted from Aremu (2003)

2.1.10 Macroeconomic Performance in Nigeria

The major host of FDI in Africa is Nigeria and also one of the top three leading African countries that steadily obtained FDI in the past decade. Still, the amount of FDI flow is grossly inadequate. When the democratic government took over in May 1999, it declared its interest to attract and welcome FDI into the country as the opportunities emanating from FDI injection into an economy is sustainable (Adeseyoju, 2001). Nigeria government has been making efforts to enhance FDI inflows through various reforms.

The reforms include the deregulation of the economy, the new industrial policy of 1989, the establishment of the Nigeria investment promotion commission (NIPC) in the beginning of the 1990s and the signing of the Bilateral Investment Treaties (BIT) in the later part of the 1990s. Further reforms were the establishment of the economic and financial crime commission (EFCC) and the Independent Corrupt Practices Commission (ICPC). Nevertheless, FDI inflows to Nigeria have remained far below sufficient (Nurudeen, 2010). In 2006, the Central Bank of Nigeria reported surge in FDI inflows to the country. This was traceable to the reduction in the nation's debt profile through debt arrangements with London club and Paris Club and the renewed confidence of foreign investors in the Nigerian economy (CBN, 2006).

Foreign investments provide resources for capital accumulation in developing countries with capital shortages and allow inter-temporal smoothening in consumption, which raises welfare. Welfare advantages of foreign investments are similar to those from international trade in goods and services (Bernment & Dincer, 2004). Again economic growth may increase through technology and management skills transfer due to FDI (Helpman, 1985).

Further review on the macroeconomic performance in considered three major eras: pre-SAP, SAP and Post-SAP. The Structural Adjustment programme (SAP) was adopted in July 1986 to restructure the entire real sector of the Nigerian economy and position the nation as one of the leading world economies in Sub-Saharan Africa (SSA). Due to ineffectiveness and failure in achieving targeted economic goals SAP was withdrawn in 1993 - 94. The level of economic growth proxy by gross domestic product (GDP)

appreciated from a low level of 7.6% in 1980 during the pre-SAP to 32.7% in 1994 by the end of the SAP era, but later depreciated to 27.2% during the post-SAP. Again, the exchange rate of Naira vis-a-vis US Dollar depreciated significantly between 1980 and 2012, increasing at an average of N0.6636, N9.8043 and N95.4809 annually during pre-SAP (1980-1984), SAP (1985-1994), and post-SAP era (1995-2016) respectively. Furthermore, there have been inflationary pressures in Nigeria climbing up from 20.5% in 1980 to 30.6% in the SAP era (CBN, 2016).

Actually there are much impression that FDI is more vital for growth and development than other forms of capital flows. This impression was expected due to the fast growing economies seem to attract more FDI. It is assumed that FDI should flow to countries with somewhat sound economy and capable institutions, and that foreign investors would be worried about political instability, inflexible regulations, and poor development indicators among prospective staff. But the opposite seems to be the case, because in Nigeria, other African countries, FDI flows mostly into natural resource industries (Onu, 2012; Nguyen, Duysters, Patterson & Sander, 2017).

2. 1. 11 FDI and Macroeconomic Performance

This work reviewed the relationship existing between the FDI and major macroeconomic indicators. The macroeconomic variables are exchange rate, interest rate, inflation rate and gross domestic products.

a. **Exchange Rate:** The term "exchange rate" can be defined as the price of one country's currency in terms of another. lyoha and Unugbro (2005) defined exchange rate as the domestic price of a unit of foreign currency. It refers to the cost of exchanging one country's currency for others. In many developing countries exchange rate issues

have tended to influence macroeconomic policy discussions. This is attributed to the amount of the effect which exchange rate has on decisions to save and invest as well as its being a major determinant of capital inflow and external competitiveness of a country.

In pursuing some economic goals such as the achievement of a balance of payment viability, the maintenance of internal payment, as well as the solutions to the problems of defining, measuring, detecting and correcting situations of real exchange rate misalignment and over valuation, the exchange rate management is a must. Exchange rate can also be employed to entice new investors. Exchange Rate Adjustment (ERA) has been undertaken by governments for a number of years (Obaseki, 1991).

When payments for transactions in a foreign currency are to be made, or received, the rate at which the two currencies change hands will be determined in the foreign exchange. Hence the market price is determined by supply and demand of foreign exchange. Exchange rate is a veritable instrument of economic management and important macro-economic indicator used to assess the general performance of an economy (Ojo, 2003).

Exchange rates are important yardsticks for measuring economic performance, particularly, the impact on price signals, international trade and foreign direct investment. The maintenance of low inflation rates involves higher interest rates, and this leads to the appreciation of the country's exchange rate. Exchange rate regimes in Nigeria have gone through different levels of changes. Aizenman (1992) shows that a fixed exchange rate regime is more convenient for FDI than a flexible exchange rate, not minding the type of shock hitting an economy. When there is monetary

shock, the nominal shocks reduce expected profits from under a flexible exchange rates regime. For real shocks, flexible exchange rates are linked with higher employment volatility and lower expected returns. This arises because a country having a positive productivity shock usually experiences nominal and real appreciation which reduces the effect of employment expansion. For fixed exchange rates, the level of employment and production can be isolated from monetary shocks, and they are related to higher expected returns. These, in turn activate domestic investment and FDI. For real shocks under a fixed exchange rate, a positive productivity shock tends to expand employment and expected returns. So, in the face of productivity shocks, FDI flows will be more under a fixed than under a flexible exchange rate system.

The relationship between foreign investment and exchange rate has drawn attention from many studies. From the theoretical point of view, Phillips and Fredoun (2008) argue that the linkage between exchange rate risks and FDI can be classified into two major issues consisting of production flexibility and risk aversion. In the production flexibility approach, manufacturers commit to domestic foreign capacity ex-ante and to employment decisions ex-post, after the realization of real stocks. Thus, the movements of exchange rate play no role in explaining the level of FDI. This argument is based on the assumption that firms can adjust their variable factors after the realization of exchange rate stocks, as a result, it would not be held if factors were fixed. With the risk aversion approach, the evidence could be grouped into two aspects. The first impact is derived from exchange rate steadiness. A stability of dollar matched with a rise in the level of total investment inflow suggests that international investments would be driven partly by variability of exchange rate.

Relatedly, the study of Foad (2005) shows that under the condition of limited potential direct investment, FD1 flows from the countries with high level of exchange rate risk into the countries with higher stability in currency. This finding is consistent with Dixit and Pindyck (1994) who shows that FDI in a country with a high level of currency risk provides an uncertain flow of expected return on investment. As a result, the link between FDI and exchange rate stability is positive. Another effect can be obtained through the marginal revenue and cost channels. That is, it focuses on the effect of exchange rate differentiating investment decision based on the loss and profit from the investment. As suggested by Goldberg and Karlstad (1995). Higher volatility in the exchange rate reduces the expected returns functions of firms that make investment decisions in the current period in order to realize profits in future periods. According to Campa (1993) risk neutral firms tend to postpone their decision to enter the foreign market in order to avoid high exchange rate variability. And, for Nucci and Pozzoco (2001) currency depreciation stimulates aggregate investment responses for Italian manufacturing firms through revenue channels and disincentive investment through cost channel. As long as FDI is somewhat irreversible, there is some positive value to holding off on this investment to acquire more information. Given that there is a finite number of potential direct investments, countries with a high degree of currency risk will lose out to countries with more stable currencies (Foad, 2005).

Exchange rate movement and exchange rate uncertainty seem to be important factors investors taken into consideration in the decision to invest abroad by investors. Foreign capital inflows are generally perceived as something desirable to the industrialized and

developing countries. It can eliminate foreign exchange shortages, improve standard of living, deepen and broaden the financial markets. Capital inflows have also helped individual countries to absorb shocks either internal such as harvest failures to external such as fluctuations in commodity price or recessions in industrial economies (Unugbro, 2007). Since the world has moved towards higher integration, a degree of openness for foreign investments in many countries becomes higher. As both developed and emerging economies continue to open their markets to attract foreign capital flows and investors are becoming more interesting in diversifying their fund flows internationally the role of foreign investment is increasing important.

Considering the major determinants of foreign direct investment, exchange rate risk is possibly seen as the most important determinant of foreign investment flows (Aranyarat, 2010).

b. **Interest rate:** Interest rate is rate at which a bank will be willing to buy a deposit. Interest rate contain and reflect information about the expectations of agents in the economy (Cox, Ingersoll, & Ross, 1985). In Nigeria, the monetary policy rate (MPR) is common. The MPR is the rate of interest charged on loans to deposit money banks by the Central Bank of Nigeria. The level of the MPR is reviewed and announced by the Monetary Policy Committee (MPC) and its movements, both in direction and magnitude, signal the monetary policy stance. An increase in the MPR signals an increase in the banks' lending rates hence a tightening of the banks'' loan books.

The term structure of interest rate is another related concept. This represents the relationship among the yields on default-free securities that differ only in their term of maturity (Estrella & Hardouvelis, 1991).

Capital Asset Pricing Model (CAPM) helps understanding the essence of interest rate. Vaz, Ariff and Brooks (2008) reported the works of Sharpe (1964) and Lintner (1965) in the Capital Asset Pricing Model (CAPM). This provided a method for understanding returns and a firm's systematic risk as measured by its relative sensitivity to market factors. In practice the interest rate on secure debt securities, such as government bonds is often used as the surrogate for the risk-free rate. They argued also that Stone (1974) explained that there were variations in the cross sectional returns of securities that the CAPM was unable to explain using a single factor sensitivity. For he introduced a second factor, in addition to a stock's beta, the interest rate sensitivity; and thus provided a model that allowed for the inclusion of interest rate impacted securities such as bonds and banking stocks to be better understood. Stone's adaptation of the CAPM suggests that interest rate impacts on returns may be positive or negative depending on the nature of the interest rate sensitivity. Stone's work was built on and further enhanced by Lynge and Zumwalt (1980) who found that interest rate sensitivity varied depending on the term of interest rates, namely short versus longer term interest rates. They found for instance that stock returns of banks were more sensitive than non-financial stock returns; however, there were still significant extra- market and extra-interest rate effects that are unexplained. In addition, they also found that the sensitivity of bank stock returns had changed over time. Later work done by Ross (1976) in developing Arbitrage Pricing Theory (APT), provided for multifactor dependencies that

included interest rates although it was not specifically targeted at considering bank stock returns.

Stiglitz and Weiss (1981) suggested that interest rates are sticky in a competitive credit environment, as bank profitability might not grow with increases in interest rates. This theory is based on the proposition that there are optimal interest rates that banks can charge where their profits are maximized, hence banks will ration funds and charge lower interest rates in accordance with that principle, rather than increase lending rates and capture the higher demand arising from the suggested market equilibrium. In other words, disequilibrium exists between the market-clearing rate and the actual rate charged on funds that is applicable if the banking system is competitive and not concentrated. They postulated that a risk neutral borrower firm would be willing to undertake projects with a higher probability of failure when interest rates increased. Banks typically endure asymmetric information about the nature of a borrowing firm's behaviour and thus experience increased moral hazard problems brought about by higher interest rates, hence they prefer to ration their capital. They proposed that banks would rather ration lending, charging lower interest rates than the market would be willing to pay. Increasing interest rates causes existing, less risky clients, to switch banks but is likely to attract more risky, albeit higher interest rate business. In these circumstances, the additional risk inherent in such loans negatively offsets any gains from increased income from higher interest rates; this in turn reduces income and thus the value of bank stocks.

Interest rates are a primary input factor for investors expected returns in the context of alternative uses of their capital. Gordon (1962) suggests a formal relationship between a

firm's value today with its dividends in the following period, income growth rate and interest rates which are reflected in the cost of capital. When interest rates increase, if expected returns on stocks are perceived to be negatively affected, then we may see capital flows to bond markets and other classes of securities.

c. **Inflation Rate:** Inflation rate serves as a tool for measuring overall macroeconomic stability of a country. It represents an increase general level of prices in an economy and by implication reduction in value of money. Inflation on the high side, is an indication of macroeconomic instability and of the inadequacy of the government to manage the economy (Fisher, 1993). If inflation goes beyond certain level it will contract both private and foreign investment by increasing risks and twist price signals in the economy (Dornbusch & Reynoso, 1989).

Policy makers have been increasing interest in the potential connection between globalization and inflation (Ihrig, et al., 2005 cited in Bernanke, 2007). This is so because globalization brings about a continuous entry of lower -cost production from emerging market countries into the global trading system, this shows reduced market power for domestic producers (Bernanke, 2007) and acts to frustrate central bank's effort to lower inflation. The old structuralism and Philips curve views that inflation up to some point is good for growth have been replaced by the belief that higher inflation will tend to retard economic growth and some recent studies have found empirical evidence for this view. In an economy where nominal prices are fixed through government policies, the interaction of inflation with such policies results to adverse economic performance. An example is nominal ceilings on interest rate with high rate of inflation

often lead to negative real interest rate. Another common distortion is the maintenance of fixed nominal exchange rate which becomes increasing over valued as inflation continues. Such over valuation specifically, results to an increasing trade deficit and reducing reserves which often induce the increased use of exchange control and import barriers. Over valuation may also generate capital flight and retard investment inflows (Ahn, et al. cited in Bernanke, 2007).

Globalization is the economic integration of national markets in goods, services, labour, and capital and this has intensified since the early 2000 (Frankel, 2006). Various types of these flows were embraced to overcome the gulf between domestic saving and investment that accelerate growth. The effect of these flows on domestic financial indicators depends on their sustainability or unsustainability.

However, the widely accepted view is that inflation is a monetary phenomenon (McCandless & Weber 1995) ultimately determined in the long run by monetary policy (Ball 2006). This suggests that institutional change leading to better monetary policy frame works may be the main reason behind world-wide reduction in inflation over the past decade.

d. Economic Growth

Economic growth is the percentage or proportionate increase in real income during a given period usual a year. It is the quantitative sustained increase in the country's per capita output or income accompanied by expansion in its labour force, consumption, capital and volume of trade (Jhingen, 2007). Iyoha (2002) defined economic growth as a persistent rise in the national income over a

range of time of not less than five years. It is conventionally measured as the percentage increase in real gross domestic product. Thus, economic growth means either the growth in a nation's real GDP (increase in output of goods and services) or physical expansion of the nation's economy.

The Organisation for Economic Cooperation and Development defines GDP as "an aggregate measure of production equal to the sum of the gross values added of all residents, institutional units engaged in production (plus any taxes, and minus any subsidies on products not included in the value of their outputs)". The GDP can be determined by production approach, income approach and expenditure approach.

Foreign direct investment increases capital, and may effectively improve the factor labour by transferring new technologies; it also has the ability to raise total factor productivity. So, apart from having direct capital augmenting effects, foreign investment also has added indirect and thus, permanent effect on output growth rate. In the neo-classical production function approach, output is generated by using capital and labour in the production process. With this framework in mind, foreign investment inflows can have influence on each variable on the production function.

In the work of Prasad, Raghuran and Subramanian (2007) on foreign capital and economic growth, they show that among developing countries, there is a significantly positive correlation between current account balances (surpluses, not deficits) and growth. The correlation is quite strong because it was present in cross - sectional as well as in panel data; it was not very sensitive to the choice of period or countries examined. It cannot be attributed simply to aid flows and it survives some other robustness tests. They went

further to show that among industrial countries those that rely more on foreign finance seem to grow faster. Thus, it is probable that when facing improved domestic investment opportunities and related higher incomes, poor countries do not have financial systems that can readily use arm's-length foreign capital to pump investment up significantly. They therefore, demonstrate that countries with underdeveloped financial systems are particularly not probable to be able to utilize foreign capital to finance growth.

In the earlier stage of foreign direct investment, few studies had shown that FDI has a negative effect on the growth of developing countries (Griffin, 1970; Weisskopf, 1972). The major arguments of these studies were that FDI flows to less developing countries (LDCs) are mainly directed towards the primary sector, which fundamentally promote the less market value of this sector. Since these primary products are exported to the developed countries and are processed for import, it receives a lower price for its primary product. It could be the reason for the negative impact of FDI flows in such economies. However, some other studies were of the view that foreign capital inflows have positive impact on economic efficiency and growth of LDCs. It has been illustrated that FDI could have a positive short term effect on growth as it beefs up the economic activity. Still, in the long-run it decreases the growth rate because of the dependency, particularly due to "recapitalization" (Bornschier, 1980). The reason was because foreign investors repatriated their investment by contracting the economic activities in the long run. The endogenous growth theory questioned this view in analysing long-run growth rate of the economy by using endogenous variables like technology and human capital (Barro & Martin, 1995; Hellman & Grossman, 1991). FDl is a vital force for the transfer of technology and knowledge and shows that it can actually have a long-run impact on growth by creating increasing return in production through positive

externalities and productive spill overs. Foreign direct investment therefore, can bring about higher growth by combining new inputs and techniques (Feenstra & Markusen, 1994).

This work construes that Foreign direct investment (FDI) will be on increase if macroeconomic conditions: Gross domestic product (GDP), Exchange rate (EXC), Inflation rate (INF) and Interest rate (INT) of a nation show evidence of sustainable growth potentials as depicted in Figure 1.

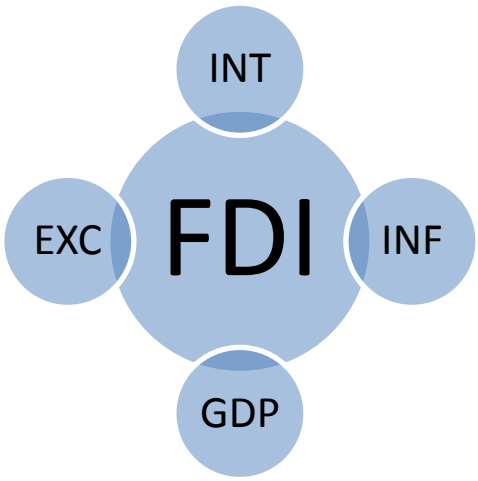


Fig.1 Conceptual framework of the study
Source: Author's construct

2.2 **Theoretical Review**

Vintila (2010) in the study of Foreign Direct Investment theories reveal that there is no unified theoretical explanation. It seems very unlikely that such a unified theory will emerge. However a number of FDI related theories guided the thought in this work. Among the theories are:

2.2.1 New Growth Theory

A central proposition of New Growth theory as propounded by Solow (1987) is that, unlike land and capital, knowledge is not subject to diminishing returns. Indeed, the development of knowledge is seen as a key driver of economic development. The implication is that, in order to develop, economies should move away from an exclusive reliance on physical resources to expanding their knowledge base, and support the institutions that help develop and share knowledge. Governments should invest in knowledge because individuals and firms do not necessarily have private incentives to do so. For example, while knowledge is a merit good, and acquiring it does not deny anyone else that knowledge, its usefulness to individuals and firms may be undervalued, and yet knowledge can generate increasing returns and drive economic growth. Government should, therefore, invest in human capital, and the development of education and skills. It should also support private sector research and development and encourage local investment and foreign investment.

This theory equally emphasized that essential utilities like electricity, gas, and water are natural monopolies, and in many countries are provided by the public sector. However, if these utilities are under-supplied due to inadequate public funds, the private sector will suffer and growth will be limited. This is because the industrial sector relies on energy and water for its production and distribution, without which it will not produce efficiently or competitively. The accumulation of private capital, therefore, depends up the correct level of expenditure by government. New Growth theorists also argue that government should also finance, or seek finance for, infrastructure projects, such as road, rail, sea, and air transport. Such projects involve the creation of quasi-public goods, and the theory of market failure suggests that they would be 'under-supplied' without

government. The huge fixed costs and the difficulty of charging users prevents the private sector supplying, and the state may choose to act like a producer and financier, and provide necessary legislation for and co-ordination of such projects. These projects also generate positive externalities, and as such justify government involvement. For example, an improved infrastructure increases the likelihood of tourist revenue as well as reducing production costs.

This study is anchored on this new growth theory. The work proposes that economies that manifests growing potentials and relative security will usually attract more foreign direct investment. Such potentials can hardly be observed in basic infrastructural deficit economies and rising insecure business environment. Thus, if the necessary structures are put in place, investors will be encouraged to invest given the promising and sustainable macroeconomic variables such as Gross Domestic Product, Exchange rate, in inflation rate, and interest rate.

2.2.2 The Theory of Exchange Rates on Imperfect Capital Markets

This is another theory which tried to explain FDI in relation to international trade. Foreign exchange risk as a determinant factor in international trade. Cushman (1985) showed that foreign exchange rate has influential effect on FDI. Cushman shows that real exchange rate increase stimulated FDI made by USD, while a foreign currency appreciation has reduced American FDI. Cushman concludes that the dollar appreciation has led to a reduction in United States FDI by 25%. However, the currency risk rate theory has not convincingly explained simultaneous foreign direct investment between countries with different currencies. Thus, investments are made in different times, but there are enough

cases that contradict these claims. This implies that foreign direct investment involves investing in a new enterprise by a parent company in a foreign country in order to maximize profit through the control and expansion of its market of that enterprise. This involves both ownership and control which distinguished it from international portfolio management.

2.2.3 Capital Movement Theory

Capital movement theory was the earliest explanation for FDI, which was seen as part of portfolio investments. According Hymer (1960) following FDI in the industrial organization tradition, FDI is a way of shifting knowledge and other firm assets both tangible and intangible. This shifting does not include transfer of ownership or control being renounced like in portfolio investment. His study showed that the idea of FDI as a single capital movement reacting to rates of return (with or without risk) did not correspond to the real characteristics of multinational's activities. He also pointed out that it was difficult to relocate their assets because of market imperfections. The imperfections is the concept of transaction costs. Transaction costs come from the difficulties of using the market to arrange transactions. Thus, the capital movement theory is connected with this study in the sense that in Nigeria there is no “ease of doing business”. This can be attributed to transaction cost emanating from bribery and corruption associated to doing business in Nigeria.

2.2.4 Eclectic Theory of International Production

In 1976, during a Noble symposium at Stockholm, John Dunning introduced a comprehensive blend of the trade theories with internalization theory to develop the OLI eclectic theory of FDI. OLI stands for Ownership-Location-Internalization advantages. According to Dunning a firm will engage in FDI if these three conditions are satisfied (Dunning, 1979; Itaki, 1991).

Ownership (firm - specific) advantages: These are unique advantages a firm possesses relative to its competitors in the foreign market. In accordance with Dunning's theory, FDI would occur when the merits of implementing the advantages are higher than its opportunity costs. These ownership (O) advantages could be in different forms (Dunning, 2000). It could be in the form of monopoly advantages possessed by firms as shown in Bain (1956) and Hymer (1960). The creation of barriers to entry could also depict ownership advantages as identified in Caves (1971, 1982) and Porter (1980, 1985). In the same vein, the ability of managers to detect and explore resources and potentials globally can be seen as "O" advantages. In recent times, "O" advantages appear in the form of alliance capitalism, which involves synthesizing assets with comparative advantages of a firm and that of its competitors. Dunning (2000) indicates that the following theories explain the "O" advantages: Product Cycle theory, Industrial organization theories; and Internalization theory (Hymer, 1960; Itaki, 1991).

Location (country-specific) advantage: Location (L) advantages are factors that influence the decision of MNCs to produce abroad. These include: low labour cost, potential foreign market and favourable investment incentive.

Internalization (I) Factors: In contrast with licensing and exporting by using better organizational efficiency or capacity to use monopoly power over the asset, a centralized market is made between parent companies and associates to be in charge of major resources of competitiveness or to lower risk of selling them to foreign firms (Dunning, 2000).

The exclusive feature of Dunning's Ownership, Location and Internalization paradigm is that it unifies and summarizes the various theories of foreign direct investment (FDI). According to these theories, foreign direct investment (FDI) is chosen as a market entry strategy so that a firm can achieve its ownership supremacy through internalizing transaction costs in a particular location, which possess location advantage. Secondly it shows that Ownership, Location, Internalization parameters are different from company to company and depend on context and reflect the economic, political and social characteristics of the host country. Therefore, this study is related to this theory since it takes cognizance of various characteristics of different countries. It equally shows that FDI can increase in a country where there is political stability, low cost of doing business and presence of infrastructural facilities.

2.3 Empirical Review of Related Literature

The empirical review of related literature are presented systematically in relation to the variables of interest in this work: Gross domestic product, Exchange rate, Inflation rate and Interest rate.

2.3.1 Foreign direct investment and the economic growth (GDP, GNP)

Kashibhatla and Sawhey (1996) in their study, supports a unidirectional casualty from Gross Domestic Product to foreign direct investment and not vice versa. This is probably due to the fact that for an industrialized country, foreign direct investment follows Gross Domestic Product, as Gross Domestic Product is the indicator for market size.

In a related study of the Chinese economy by Chen, Chang and Zhang (1995) using time series data for the period 1979- 1993, estimated the regression between GNP, domestic

savings in one period lag (all in logarithmic value). The results show that there is a positive relationship between foreign direct investment and GNP and it is significant at 5% level for the Chinese economy. And, in a study of the relationship between foreign direct investment flows and economic growth in China by Sahoo, et al, (2002) show that there is a long-run relationship between variables such as Gross Domestic Product, foreign direct investment and change in domestic capital formation. They also found a close relationship between foreign direct investment and the real non-oil Gross Domestic Product.

Mojekwu and Ogege (2012) studied foreign direct investment and the challenges of a sustainable development in Nigeria and finds that gross capital formation has a positive significant relationship with economic growth in Nigeria.

According to Olokoyo (2012) in his study of the effect of Foreign Direct Investment (FDI) on the development of Nigeria economy, using regression technique, evidently do not provide much support for the view of enough link between Foreign Direct Investment and economic growth in Nigeria as suggested by previous work of Ayashagba and Abachi (2002). Ayashagba and Abachi investigated the effect of Foreign Direct Investment on economic growth between 1980 and 1997. There result revealed the foreign direct investment had significant impact on economic growth in Nigeria. Yet, Uwabanmwen and Ajao (2012) examined the effect of FDI on economic growth in Nigeria and discover the direction of casual effect of Foreign Direct Investment on economic growth; the combination of results in Error Correction Model Techniques and granger causality method

prove that Foreign Direct Investment has significant positive effect on the growth as well as developing of Nigerian economy only in the short run.

However, Bekarert and Harvey (2003) showed through an empirical study on 95 countries, that Capital Market Liberalization offers the opportunity to the foreign investors of investing in the domestic equities. This situation emerges by an increase with the order in 1% in growth rate.

Nsofor, Sabina and Takon (2017) studied "Impact of Foreign Direct Investment on Economic Growth: Empirical Evidence from Nigeria: 1985-2016. Using the OLS estimation and the Johansen co-integration test, the work indicated that foreign direct investment has no positive impact on the Nigerian economic growth; Trade openness and exchange rate have positive but insignificant influence on economic growth; and there is evidence of a long-run relationship between foreign direct investment and economic growth in Nigeria.

Emmanuel (2016) worked on the Effect of Foreign Direct Investment on Economic Growth in Nigeria: 1981-2015 using multiple regression technique showed that foreign direct investment has a positive and significant effect on gross domestic product. The recommended that government should improve the state of infrastructures in the country in order to encourage meaningful investments in the economy.

Gandu and Yusha'u (2017) carried out a research work on "Analysis of the Impact of Foreign Direct Investment on Economic Growth in Nigeria: 2009-2016." The work used Auto regressive Distributed Lag (ARDL) approach, Co-integration and Error Correction (ARDL-

VECM) Model, and pair-wise Granger causality test to show that the existence of a long-run relationship between FDI, economic growth, exchange rate, interest rate and inflation rate. The work recommends that Nigerian policy makers should developed an enabling environment for ease of doing business to attract foreign direct investment inflow into the country.

According to Omankhanlen (2011) in his study of the effect of Foreign Direct Investment on the Nigerian economy over the period 1980-2009 he examined empirically growth determining variables in the economy-Balance on current account (Balance of Payment), Inflation and Exchange Rate and how they have any effect on Foreign Direct Investment and Gross Domestic Product at large. The study developed Economic model to investigate the relationships between the aforementioned variables and showed that Foreign Direct Investment has significant effects of the variables. But, Adewumi (2006), examined the impact of Foreign Direct Investment on economic growth in Africa using graphical and regression analysis. The study revealed that the contribution of Foreign Direct Investment to growth is positive in most of the countries but not significant.

To developing countries using time series data covering the period of 1970-2003, Asiedu (2002) suggest that macro-economic instability, investment restrictions, corruption and political instability have negative impact on Foreign Direct Investment (FDI) to Africa. But, Malik and Imaran (2015) studied the impact of Foreign Direct Investment on economic growth of Pakistan 2008-2013, using OLS Regression analysis shows that FDI was unable to significantly affect the economic growth of Pakistan within the period reviewed.

Adeleke, Olowe and Fasesin (2014), examined the impact of Foreign Direct Investment on Nigeria Economic growth over the period of 1999-2013. Regression analysis of OLS was the estimation techniques. The study revealed that economic growth is directly related to inflow of Foreign Direct Investment and it is also statistical significant at 5% level which implies that a good performance of the economy is a positive signal for inflow of Foreign Direct Investment. This implies Foreign Direct Investment is an engine of economic growth.

While in the study of Adigwe, Ezeagba and Ude (2015), examining the effect of Foreign Direct Investment on Nigerian Economic Growth 2008-2013 show that a significant relationship exist between FDI, Exchange rate and GDP in Nigeria. This signify that the duo of Exchange rate and FDI affect economic growth significantly. And, Ugwuegbe and Okore (2013) examining the impact of Foreign Direct Investment on the Nigerian economy: 1981-2009, indicated that Foreign Direct Investment has a positive and insignificant impact on the growth of Nigeria economy and domestic investment economic growth. Interest rate has positive but in significant effect while exchange rate had positively significantly effects on the growth of Nigerian economy.

Onu (2012) examined impact of Foreign Direct Investment on economic growth in Nigeria (1986-2007) using multiple regression models and time series data. The study discovered that Foreign Direct Investment has the potential to positively impact the economy through its contribution to GDP even though they were low within the period under review.

Related studies also examined the FDI and domestic investment. For instance Kernel (2007) examines the quantity and quality of indirect, transactional and collaborative linkages between foreign affiliates and domestic firms based in New Zealand. The results show competitive influence, levels of competition, motives for investment, business activity, technology transfer, age and ownership form are the unclear interpretation of policies, regulations and practice of double standards through internal document could have more direct and immediate effect on any FDI project. In a study by Hongxin, Kim and Du (2003) on the impact of corruption and transparency on FDI based on a cross-country data of 40 countries in 7 years, they find that the presence of high corruption and low transparency significantly hindered the inflow of FDI to host countries. Multinational firms arrive with exporting information such as fixed costs to establish distribution networks, creating transport infrastructure, regulatory arrangements, learn about consumers' tastes and so on in overseas markets and so make use of these from the new host country. Therefore, through collaboration and more likely imitation, local firms can learn how to enter export markets.

Some studies find negative effects of FDI. Konings (2001) posit that foreign firms reduce the productivity of local firms through competition effects. This is because the multinationals have lower marginal costs due to some firm-specific advantages which allow them to pull demand away from domestic firms, thereby forcing them to reduce production. Kokko (1996) finds a positive effect of competition on domestic firms for Mexico while arguing that spill overs depend on the complexity of the technology transferred by multinationals and on the technology distance between domestic firms and multinational firms. Using a cross-section industry level data for Mexico, he finds no evidence for spill

overs in industries in which multinationals use highly complex technologies (as proxied by large payments on patent or high capital intensity). Domestic firms can benefits only if the technology gap is not too hide so that domestic firms can assimilate the knowledge available from the multinational. Thus, there are evidence for productivity spill overs to domestic firms with moderate technology gaps (measured as the difference between the domestic firm's labour productivity and the average labour productivity in foreign firms) but not for firms that use considerably lower levels of technology.

2.3.2 Foreign Direct Investment and Exchange rate

The result of empirical research conducted by Goldberg and Kolstad (1995) showed that increased exchange rate uncertainty has a positive impact on FDI. They used quarterly data to analyse bilateral investment flows between the United States and the United Kingdom, Canada, Japan between 1978 and 1991. They found out that exchange rate variability had a positive and statistical significant impact on four of the six bilateral FDI shares, and so real exchange rate variability increased the share of total U.S investment capacity located in Canada and Japan and increased the share of Canadian and U.K investment situated in the United States. Exchange rate variability was insignificant only in situation where problems arose in estimating the regression equations.

Again, Servein (2003) using GARCH model of volatility investigates exchange rate volatility and investment in developing countries and finds that exchange rate uncertainties negatively affect investment in developing countries. The study equally shows that financial systems and the degree of openness of a country are important in establishing the

investment effect of exchange rate uncertainty. The work also show that more efficient financial system is positively related to investment.

Eun and Resnick (1988) investigated the effect of exchange rate volatility on the risk of foreign stock market investment and show that with the modern portfolio theory (MPT) investors estimate the risk-return nature of financial assets when considering optimal portfolio. In such situation exchange rate volatility leads to portfolio risk. On the other hand, based on efficient international portfolio strategy, the volatility of exchange rate is rather essential to multinational investors because of its ability to get potential gains from international diversification. Again, they further examined that variability of exchange rate and showed that it accounts for nearly fifty percent of the variability of dollar returns from equity investment in such major countries as Japan, Germany and the United Kingdom.

Corsetti and Konstantinonu (2009) shows that the valuation effect of exchange rate volatility acts as fund transfer across countries, with the capital gains to U.S investors following depreciation in dollar balanced by capital losses for foreign investors. This shows that the welfare consequent of redistribution of wealth is actually considerable.

Similarly, Gazioghi (2008) in a study of the effect of capital inflows and outflows on real exchange rates and the real stock market returns before and after the financial crisis in Turkey, finds an asymmetric impact of capital on exchange rate and stock market returns. In the case of Foreign Portfolio Investment, Biiger (1979) shows that from

international point of view, the overall rate of return from holding foreign financial assets consists of investment returns (dividends and capital gains) on the asset including gains and losses from the movement in exchange rate at the holding period. The volatility of exchange rate is an added source of uncertainty that may create both potential gains and losses to investors across countries. This also shows that the volatility of exchange rate quickly increases foreign investment risk in holding bonds and stocks, however the effect of exchange rate for volatility on international investment is significantly more than investment risk for stock because stocks are more volatile when compared to bonds.

Esheneke and Oriavwote (2012) in their study of FDI and real effective exchange rate, market size, openness and inflation found that a depreciation of the real effective exchange rate will definitely attract more FDI to Nigeria. A weaker exchange rate might be expected to enhance FDI flows as foreign firm make use of the conveniences of low prices in host countries to acquire facilities.

Blonigen (2005) uses a firm specific asset study to show that exchange rate depreciation in host country leads to more FDI inflows. But, Froot and Stein (1991) had hitherto asserted that a weaker host country currency favours increase in FDI inflows within an imperfect capital market setting because depreciation devalues host country assets if compares to that of home country.

Achugamonu, Uzoma, Ikpefan, Taiwo, and Okorie (2016) studied "Constraints to Foreign Direct Investment: The Nigerian Experience: 1980-2015." Using Johansen Co-integration and Vector Error Correction Models the researchers established that government external and

domestic debts, inflation rate and exchange rate appreciation (in favour of the domestic currency) have significant long run relationship with foreign direct investment in Nigeria. The researcher called for prudent management of the public debts and effective use of monetary tools to address instability in inflation rate and exchange rate.

Akinlo (2017) in his work Determinants of FDI in Nigeria: A Markov Regime-Switching Approach identified possible structural changes in level and/or trends and possible changes in parameters of independent variables through the transition probabilities and showed that the main determinants of FDI are GDP growth, macro instability, financial development, exchange rate, inflation and discount rate. This implies liberalization that stems inflation and enhance the value of domestic currency will attract more FDI into the country.

2.3.3 Foreign Direct Investment and Domestic Inflation rate

Inflation is an essential issue for any economy and that is why several empirical and theoretical studies have been carried out on it in different time periods. Inflation simply means a continuous increase in price level. Inflation has positive as well as negative impacts on an economy and investment is mostly effected. If capital inflows increase, the local currency tends to increase in value, thereby reducing the effectiveness of export industrials and possibly leading to rise in inflation. Inflation has some economic benefit which is based on three main arguments that favour positive inflation. First, there is trade-off between inflation, tax and other indirect taxes so that government tax optimization translates to positive inflation (Ehimare, 2011). Second, a commitment by policy makers to keep the inflation rate low limits the central bank's ability to respond to unfavourable supply shocks. This limitation may have been a major issue resulting to stagnation of the Japanese economy during the deflation of 1990 (Krugman, 1998). Third

and perhaps the most important, inflation serves as a lubricant that makes nominal price wages more flexible (Lucas, 1990).

According to Nazir, Sarwar and Ulah (2012) in a study of the impact of capital inflows on domestic inflation of Pakistan using variables such as export, FDI, remittances and inflation finds that there is positive relationship between FDI, remittances, export and inflation. And, Rashid, et al. (2010) also investigated the effect of capital inflows on domestic price level, monetary expansion and exchange rate volatility by employing variable such as real GDP growth, national saving, inflation, fiscal deficit credit to private sector, public debt, weighted average leading rate, and current balance using the linear and nonlinear co- integration and granger causality tests, they find that during the last 7 years there is a significant inflationary impact on capital inflow. The study suggests that there should be a requirement to achieve capital inflow in such a way that they would neither induce inflationary pressure in the economy nor enhance exchange rate volatility.

Kim and Yang (2008) employed the VAR model to examine why an increase in capital flow can offset asset price increase by using output, price level, capital inflow or portfolio inflows (as ratio of GDP) stock price and land price as variables. The result shows that capital inflows have actually contributed to asset price appreciation while capital inflow shocks explain a relatively small portion of the asset price fluctuations. While, Balderas and Hiranya (2005) focused on examining how remittances affect the distribution of relative consumer price changes and the overall inflation by using vector auto regression (VAR). They arrived at a significant positive effect of remittances after 1994.

Ercakar (2011) showed that foreign direct investment, inflation and trade surplus have positive and statistically significant effect on GDP growth, and import coverage of export also has effect on growth in the study of the long -run relationship among GDP growth, foreign direct investment, foreign trade, inflation and also the long-run relationship between GDP and microeconomic variables. The ARDC and VECM were used to analyse the long-run relationship.

According to Romer (1993) in his Romer's hypothesis of openness, show that closed economies tend to have higher inflation. He argues that central banks in economics more open to trade find currency fluctuations caused by money surprises more painful and so exercise more restrained than their open economy counterpart. However, Samimi, et al, (2012) contradict Romer's hypothesis by their study of Middle East and North African countries (MENA) which indicated a positive relationship between trade openness and inflation. Foreign investment inflows have been boosted by globalization.

Vega and Winkerlried (2005) show that the adoption of inflation-targeting regimes has significantly reduced the mean inflation rate in a sample of developed and developing economies. Mojon and Ciccaretli (2007) show that inflation is a global phenomenon by citing that inflation rate in the OECD countries have moved together over the last 45 years. This co-movement, on average, accounts for 70% of the variability of country inflation. They specify a multiple regression model trying to explain the determinants of global inflation. Many common determinants were tested and they concluded that looking at the 1971-2004 samples only a few variables contain explanatory power with regards to global inflation. Cost variables, including commodity prices, wage and real

GDP, as well as monetary policy developments have been all proven to have a positive (though not always significant) impact on global inflation. Then they investigate how much impact global inflation has on domestic inflation and found long term response of domestic inflation to global inflation. They conclude that this response to global inflation is lower in countries with tight commitment to price stability.

Romer (1993) finds that closed economies tend to have higher inflation. He argues that central banks in economies more open to trade find currency fluctuations caused by money surprises more painful and so exercise more restraint than their closed economy counterpart. Several studies have tested Romer's argument in different ways and have supported the conventional view of the negative relationship between trade openness and inflation. Thus, empirical findings of Kim and Beladi (2004); and Badinger (2007) all validate Romer's argument. Finally, Rower (1993) also finds no significant openness-inflation relationship among OECD economies.

2.3.4 Foreign Direct Investment and Interest Rate

Cavallari (2012) examines the role of country specific sources of output and interest rate volatility in driving FDI activities. Using the data of bilateral FDI flows among 24 OECD economies over the period 1985-2007, they find that output and interest rate volatility mainly act as push factors. Signifying that rise in host country volatility reduce the amount of FDI outflows in the recipient country, even after controlling for the state of the cycle. On the other hand, source country volatilities do not have a systematic effect on foreign investments. Again, their findings show that interest rate volatility reduces FDI flows more in booms than in recession. High interest rate makes it difficult for investors to cover

their expenditure because their products become less competitive in both the domestic and international market. Conversely, low interest rates enhance more and more investment in the economy which leads to more production, more employment opportunities and increase in the potential GDP.

So the real interest rate through its impact on investment improves growth and the future standards of living in a nation. According to Keynes, interest is in the reward for not hoarding but for parting with liquidity for a specific period of time. This definition however, focused more on leading rate. From Adebiyi (2002) point of view, interest rate is the return on equity or opportunity cost of postponing current consumption into the future. Interest rates include saving rate, leading rate and discount rate. Interest rates are normally expressed as a percentage. The volatile nature of interest rate is determined by factors like taxes, risk of investment, inflationary expectations liquidity preferences, market imperfections in an economy etc. Interest rate plays a crucial role in the efficient allocation of resources directed at facilitating growth and development of an economy.

Shahzad and Zahid (2012) examined the determinant of FDI in Pakistan using FPI, interest rate, domestic investment, inflation rate and tax rate as variables. The finding shows that interest rate has positive significant relationship with FDI in Pakistan. Uygur (2005) examined the determinants and importance of FDI for Turkey within the period 1992-2004 using the VAR model, in the study, he investigates the inflation rate, interest rate, investment atmosphere, export rate, growth rate and budget deficit rate and he finds that the real interest rate of official treasure department and consolidated budget balance are the determinants of FDI for Turkey. Cevis and Camurdan (2007) in

analysing the economic determinants of FDI in 17 developing countries and transition economies for the period 1989- 2006 considered variables such as the previous year FDI, GDP, wage, trade rate, real interest, inflation rate and domestic investment. The result shows that the previous period FDI, which is directly related to the host country's economic resources is important as an economic determinant. Also, the main determinants of FDI inflows are found to be inflation rate, interest rate, growth rate, and trade rate. In the study of the determinants of inward FDI in Malaysia, Yong and Tang (2009) also find that openness, interest rate, inflation rate, the joining of China into World Trade Organisation (WTO), and the level of corruption as the major determinants of inward FDI in Malaysia both in the short run as well as in the long run.

Era, Honda, Lahreche and Verdier (2010) in examining FDI flows to low income countries, they find two key results; First lower interest rates and positive real-side external factors as increasingly important drivers of FDI outflows to low-income countries in the pre-crisis period; second, economic fundamentals, the strength of economic reforms and commitment to macroeconomic discipline are crucial determinants of the growth dividends of FDI. The findings show that interest rates do not have any impact on FDI in the source countries but economic activities do. However, for inward FDI to low-income countries, lower interest rates tend to increase FDI. The point estimates from this study indicates that a one percentage point decrease in real interest rates in G7 countries is associated with a 10 percent increase in FDI flows to low-income countries. This effect is even more pronounced for the sample of sub-Saharan African countries.

Ndugbu, Duruechi & Ojiegbe (2017) worked on the topic: "Macroeconomic Policy Variables and Foreign Direct Investment in Nigeria: 1986-2016." The authors applied Vector Auto Regression (VAR) analysis on data sourced from Central Bank of Nigeria and showed that interest rates, inflation rates and RGDP (economic growth) have significant positive impact on FDI in Nigeria. The work called on the government to evolve sound policies that would strengthen the attraction of FDIs in Nigeria by paying more attention to the identified macro-economic policy variables. The variables have shown to be a vital tool that could be used to encourage the inflow of FDI into the country.

Some of the empirical works carried out in Nigeria on the relationship between foreign investment and interest rate are inconsistent. Okafor (2012) investigates if domestic macroeconomic variables matter for foreign direct investment inflow in Nigeria. Using the ordinary least square (OLS) estimation techniques finds that real gross domestic product, interest rate, and real exchange rate are key determinants of FDI inflow in Nigeria. The economy's level of investment is sensitive to changes in the prevailing interest rate. In general, if interest rate increases, investment lowers. On the other hand, if interest rate decreases, investment increases. Thus, the relationship between investment and interest rate is generally regarded as an inverse correlation. The real interest rate however reflects the impact of inflation on stated interest rates in the economy. Thus, the real interest rate helps interest rate to measure the actual cost and value of investment.

2.4 Summary of reviewed related Nigerian empirical Literature

From the foregoing of the study, there are diverse views of the effect of Foreign Direct Investment, on economic growth in both developing and developed countries.

There are arguments that FDI improve economic growth of developing countries in (Ugwuegbe & Okorie, 2013; Onu, 2012). Some other works showed that FDI has no effect on economic growth (Asiedu, 2002; Malik & Imaran, 2015).

Many other reviewed works suggest that FDI significantly affect macroeconomic performance (indicated by economic growth, exchange rate, inflation rate and interest rate) of the host country positively. Cebula and Helton (1995) and FitzGerald (1998) argue that foreign investments have acted to reduce nominal interest rates. Other studies like Athukorala and Rajapatirana (2003) shows that the degree of appreciation in exchange rate associated with foreign investments is much higher in some countries than in others. In the same way some studies also find a positive relationship between foreign investment and inflation (Nazir, Sarwar & Ulah, 2012).

The deregulation in Nigerian economy that allowed more FDI inflows is expected to have positive effect on some macroeconomic variables (economic growth, inflation rate) while having negative effect on others (interest rate and exchange rate). In Nigeria, macroeconomic performance has generally been on the increase in recent years (Olotu & Jegbefume, 2011). Some researchers find positive causal relationship between foreign capital inflows and economic growth in Nigeria (Nkoro, 2012), while some find a weak relationship (Obiechina & Ukeje, 2013). The Nigerian economy has also been found to experience robust GDP growth rates over the reform period 2000 to 2010 (Agu & Evoh, 2011). Generally, the rapid increase of exchange rate hurts exports and encourages imports. Hence, since SAP in 1986, the value of Naira to us dollar has depreciated

remarkably. However Asogwa, Okeke and Urama (2013) find no significant relationship between foreign capital inflows and exchange rate dynamics.

2.5 Gap in Literature

Some of the study that captured the Nigerian scenario had varying period of review and study. In 1981, for instance which is two years into President Shehu Shagari administration, there was massive foreign direct investment into Nigeria owing to presence of democracy in Nigeria but the inflow of funds could not be sustained. What would have accounted for that? Has the situation improved? The researcher is very curious to unravel the factors that may likely influence the inflow of FDI in Nigeria given the sustained democratic regime in Nigeria since 1999.

The study bridged the lacuna noticed by extending this research period to 2016. Other related works' period ended 2013. Equally the researcher extended the common related works models in Nigeria by including inflation rate as one of the independent variables.

Table A depicts a summary of the empirical literature exploration.

TABLE A: Summary of empirical literature exploration

S/N	Author & Year	Title	Location	Variables	Method of Analysis	Major Findings	Conclusion/Recommendation
A		**FDI & GDP/GNP**					
1	Nsofor, E. Takon, S (2017)	Impact of Foreign Direct Investment on Economic Growth: Empirical Evidence from: 1985-2016	Nigeria	FDI, Trade openness, Exchange rate, Economic growth(GDP)	OLS estimation and the Johansen co-integration test.	i) FDI has no positive impact on the Nigerian economic growth. Trade openness and exchange rate, however, have positive but insignificant influence on economic growth. ii) There is evidence of a long-run relationship between FDI and economic growth.	i) There is the need for in-depth investigation of economic and institutional forces that determine the composition of FDI inflows to Nigeria. ii) Government should take measures to stabilize the exchange rate system that may attract foreign investors in the country, and also liberalize the trade policy.
2	Ndugbu, M.O, Duruechi, A.H. & Ojiegbe, J.N. **(2**017)	Macroeconomic Policy Variables and Foreign Direct Investment in Nigeria: 1986-2016	Nigeria	FDI,Exchange rate, Inflation rate, Interest rate, Real Gross Domestic Product and Trade Openness.	Vector Auto Regression (VAR) analysis	Though all the variables put together impact on FDI, specifically, interest rates, inflation rates and RGDP (economic growth) have significant positive impact	Government should evolve sound policies that would strengthen the attraction of FDIs in Nigeria by paying more attention to the identified macro-economic policy variables. The variables have shown to be a vital tool that could be used to encourage the inflow of FDI into the country

						on FDI in Nigeria	
3	Akinlo A. Enisan (2017)	Determinants of FDI in Nigeria: AMarkov Regime-Switching Approach	Nigeria	GDP, macro instability, Financial development, exchange rate, inflation and discount rate.	Markov-Regime Model (MSM	i) FDI process in Nigeria is governed by two different regimes and a shift from one regime to another regime depends on transition probabilities. ii)Determinants of FDI are: GDP growth, macro instability, Financial development, Exchange rate, Inflation and Discount rate. This implies liberalization will attract more FDI into the country.	i) Government efforts at developing the financial sector will spur increase in FDI inflows into the economy. This therefore calls for more far reaching reforms in the financial subsector. ii) The liberalization policy in the sector must be pursued to the logical conclusion as results show that interest rate engenders increased FDI inflows. iii) There is the need to enhance the value of the domestic currency to boost higher FDI inflows. This could be done through increased domestic productivity. iv) Government should ensure that the rate of inflation is maintained at low level in order not to deter FDI inflows into the country. Moreover, government efforts at reducing importation while increasing exports will serve to boost FDI inflows into the economy.

4	Gandu, S & Yusha'u, I. A **(2**017)	**Analysis of the Impact of Foreign Direct Investment on Economic Growth in Nigeria:(200 9-2016**	Nigeria	FDI, GDP, Inflation rate, interest rate, exchange rate.	Auto regressive Distributed Lag (ARDL) approach; Co-integration and Error Correction (ARDL-VECM) Model and Pair-wise Granger causality test.	i) Long-run relationship between FDI, economic growth, exchange rate, interest rate and inflation rate. ii) Negative impact b/w the variables. iii) Unidirectional causality relationship running from FDI inflow to economic growth in Nigeria.	Nigerian policy makers to develop an enabling environment for ease of doing business, in order to attract FDI inflow into Nigeria.
5	John,E.I **(**2016)	**Effect of Foreign Direct Investment on Economic Growth in Nigeria: 1981-2015**	Nigeria	FDI, Exchange Rate GDP	Multiple regression techniques and Gretl1.9.8 economic software.	i) Foreign direct investment has a positive and significant effect on GDP ii) Exchange rate has a positive but not significant effect on GDP.	FDI has a positive effect on economic growth in Nigeria as opposed to the findings and belief of some researchers that FDI has a negative effect on the growth of the economy. i) Government should improve the infrastructural position of the country, in order to encourage meaningful investments in the economy. ii) Central Bank of Nigeria to come-up with policies that will help to stabilize the Naira exchange rate vis-à-vis the major currencies of the world, like the United States Dollar. This will boost the investors' confidence in the economy.
6	Achugamo nu, B. U, Ikpefan	Constraints to Foreign Direct	Nigeria	Foreign Direct Investment, Inflation rate,	i) Phillip Perron (PP) unit root test.	Government debts, inflation rate and	i) There should be a more economical management of both the domestic and external debt of Nigeria. ii) The monetary authorities in Nigeria should adopt

	O.A, Taiwo, J. N Okorie, U E.**(**2016)	Investment: The Nigerian Experience: 1980-2015		External Debt, Domestic Debt, Foreign Exchange	ii) Johansen Co-integration approach. iii) Vector Error Correction Model.	exchange rate appreciation, have significant long term relationship with FDI in Nigeria	an effective method of handling macroeconomic tools and variables
7	Malik, K. & Imran, N.(2015)	**Impact of Foreign Direct Investment on Economic Growth of Pakistan**	Pakistan	FDI, GDP, Trade Openness & Domestic capital.	Co-integration analysis, regression analysis, Correlation and Durbin Watson test, which check the long run relation and association among variables	FDI, trade openness and domestic capital are positively effecting the economic growth as compared to other variable which is showing negative trend.	i) Govt should take steps to increase FDI, Exports and Domestic Investment and protect industries that would benefit the country's economic condition. ii)Govt should also take measures in to stabilize the exchange rate that may attract more investors.
8	Adigwe,P. K,Ezeagba, C.E & Ude,F.P (2015)	**Effect of FDI on Nigerian economic growth, 2008-2013.**	Nigeria	FDI, Exchange Rate & GDP.	Pearson Correlation	Significant relationships exist between FDI, Exchange rate & GDP in Nigeria.	There is need for government to be formulating investment policies that will be favorable to local investors in order to compete with the inflow of investments from foreign countries.
9	Adeleke,K. M;Olowe,S .O & Fasesin,O. O (2014)	**Impact of FDI on Nigerian economic growth, 1999-2013**	Nigeria	FDI, Economic growth & Performance	Regression Analysis of OLS	Economic growth is directly related to inflow of FDI & it is also statistically significant at 5%	i) FDI is an engine of economic growth. ii) Government should liberalize the foreign sector in Nigeria, so that all barriers to trade such as: arbitrary tariffs; import and export duties and other levies, should be reduced to encourage investors.

						level. This implies that a good economy performance is a positive signal for inflow of FDI.	
10	Ugwuegbe S. U; Okore,A.O Onoh,J.O (2013)	**The Impact of Foreign Direct Investment on the Nigerian Economy**	Nigeria	FDI,Economic growth, Interest Rate and exchange rate	Ordinary Least Square & Granger causality test	FDI, GDP, Interest & Exchange rates have positive and insignificant impact on the growth of Nigerian economy.	Govt. to provide enabling environment that will encourage foreign investors to invest in Nigeria economy, by addressing the security challenges; improved regulatory framework as well as encourage domestic investment.
11	**Obiechina, M.E & Ukeje,E.U (2013)**	**Economic Growth, Capital Flows, Foreign Exchange Rate, Export and Trade Openness in Nigeria.**	Nigeria	Economic growth, Capital flows, Exports & Foreign Exchange Rate.	The unit root test, Johansen Co integration test & Engle Granger, Pairwise Granger	All variables except the FDI are statistically significant and impact on economic growth in the short-run dynamic equilibrium.	Govt. should pursue trade foreign exchange policies that will ensure competitiveness and viability of the export sector as well as economic growth; while FDI should be encouraged amidst thriving business environment that would engender economic growth.
12	Onu, Agbo Joel and Christopher (2012)	**Impact of Foreign Direct Investment on Economic growth in**	Nigeria	FDI, Govt Tax Revenue, Savings & Economic Growth	Multiple regression models	i) FDI has the potential to positively impact upon the economy ii) Govt tax revenue and	FDI induces the inflow of capital, technical know-how and managerial capacity, which stimulates domestic investment & accelerates the pace of economic growth. ii) There is the need to maintain a steady economic growth and low inflation, increased investment in human capital development and increased national savings among others.

		Nigeria.				savings also exerted positive but not significant impact, except savings, on GDP. iii) Foreign exchange and public expenditure on education had inverse relationship with GDP.	
13	Mojekwu, J. & Ogege, S. (2012)	**Foreign Direct Investment & the Challenges of sustainable development in Nigeria.**	Nigeria	FDI, GDP, Gross Capital Formation.	Co-integration, Error correction model, ADF and Philip Peron(PP)	Gross Capital Formation has positive significant relationship with economic growth.	i)Capital formation encourages economic growth. ii)There is the need for the provision of infrastructure, especially power generation and distribution, to enhance economic growth and development.
14	Olokoyo,F. (2012)	**The effect of FDI on the development of Nigeria economy.**	Nigeria	FDI & GDP	Regression Technique	The study did not provide much support for the view of enough work link between FDI & Economic growth in Nigeria.	For effective development to be achieved in Nigeria, it will be better to focus on the improvement of infrastructural development, human resource, entrepreneurship, and stable macroeconomic framework capable of fostering productive Investment.
15	Uwubanm wen,A.E & Ajao,M.G	**The determinants and impacts**	Nigeria	FDI & GDP, Market capitalization	Error Correction model	FDI has significant positive effect on	i)Growth inducing policies should be formulated and promoted. ii) Government should also introduce policies

	(2012)	**of FDI in Nigeria**		and Gross fixed capital formation.	Techniques & Granger Causality method	the growth of the Nigerian economy.	relating to enhanced infrastructure, steady power supply and good road networks. iii) Social unrest, corruption, macroeconomic instability should be discouraged and an Investment friendly environment created in Nigeria to enhance investors' confidence and courage.
16	Nkoro,E & Furo,A. (2012)	**Foreign Capital Inflows and Economic Growth in Nigeria: An Empirical Approach**	Nigeria	Foreign capital inflows, FDI, Remittance, Aid, External debt, Growth	Co integration, Variance decomposition and Impulse Response Analysis and Block Exogeneity tests.	i) Relationship exist between foreign capital inflows and Economic growth in Nigeria. ii) Causality runs from foreign aid, remittance, External debt and FDI to real GDP (growth).	There is a significant positive and negative effect of foreign aid, remittance, FDI and External Debt on real GDP respectively. It takes some time before their impacts are manifested Except FDI.
17	Olotu, M.& Jegbefume, K.(2011)	**The Place of Foreign Capital Flows in the Nigerian Economic Growth Equation: Evidence from Foreign Portfolio Investment**	Nigeria	Foreign Portfolio Investment(FPI), Real Non-Oil GDP & Capital Inflows.	Impact Assessment Model, Engle-Granger, Error Correction Model (ECM), Regression & Co-integration.	i)Domestic investment is not statistically different from zero, openness possesses a negative value. ii) Foreign Portfolio Investment (FPI) has a positive relationship with the growth rate of real non-oil GDP.	Government should put in place appropriate policies that will boost continuous Inflow of foreign portfolio investment in Nigeria.
18	Omankhanl en, A.E (2011)	**Foreign Direct Investment and its effect**	Nigeria	Balance of Payment, Inflation, Exchange Rate	Developed Economic model.	FDI has significant effects of the aforementioned	Concerted effort be made by policy makers and relevant authorities to formulate policies aim at creating a conducive investment environment so that Nigeria can be better destination for foreign

		on the Nigerian economy, 1980-2009.		& GDP.		variables.	investment.
19	Scott-Kennel, J. (2007)	**FDI and local linkages: An empirical Investigation .**	New Zealand	FDI, Domestic firms, Indirect, Transactional & Collaborative linkages	Engle-Granger, Error Correction Model (ECM), Regression & Co-integration	Competitive influence, Levels of competition, Motives for Investment, Business activity, Technology transfer, Age and Ownership form are significantly associated with linkage clusters.	Researchers and policy makers should recognise FDI heterogeneity with regard to impact on domestic industries.
20	Adewumi, C. (2006)	**Impact of FDI on Growth in developing countries: An African experience, 1970-2003.**	African Countries	FDI,GDP	Graphical Analysis, Regression Analysis and Granger Causality Test.	The contribution of FDI to growth is positive in most of the countries but not significant.	The contribution of FDI to growth is estimated to be positive from the Africa's point of view. Care should be taken when attracting FDI and it should be directed to some specific sectors where foreign investment is needed most, e.g. Agricultural sector in Nigeria.
21	Bakarert, G & Harvey, C. (2003)	**Emerging Markets finance**	Various countries	FDI, Capital Market & Domestic Equities.	Ordinary least Square (OLS) Regression method, Generalized autoregressive conditional heteroskedasticity (GARCH)	Capital market liberalization offers the opportunity to the Foreign Investors of investing in the domestic equities.	Economic growth increases post liberalization by about 1% per year on average over a 5-year period.
22	Hongxin, J.Z, Kim, S.H.& Du,	**The Impact of Corruption**	Various Countries	FDI, Corruption and Transparency	Engle-Granger, Regression &	Presence of high corruption and low transparency	Local firms can learn how to enter export markets, since the multinational firms always arrive with export information.

	J. (2003)	**& Transp-arency on FDI: An empirical review.**			Co-integration	significantly hindered the inflow of FDI in host countries.	
23	Ayashagba, G.I & Abachi ,P.I (2002)	**The Impact of Foreign Direct Investment on Economic Growth of the less Developed.**	Nigeria	FDI & GDP, Inflation, Real interest rate and Real exchange rate.	Endogenous growth model and Granger Causality test,	i)FDI had significant impact on economic growth in Nigeria ii)Economic growth is caused by the inflow of FDI into agriculture, Manufacturing and telecomm-unication sectors.	i)FDI exhibit positive impacts on economic growth of less developed countries like Nigeria, therefore any policy idea directed at reducing the inflow of FDI into any sector, such as Agriculture, could endanger the rate of economic growth in the country. ii) Authorities need to step up effort with relevant policies that could attract enormous inflow of FDI into agricultural sector which over time have been neglected due to the discovery of crude oil.
24	Asiedu, E. (2002)	**On the Determinant s of Foreign Direct Investment to Developing Countries: Is Africa different?**	Sub-Sahara Africa(SSA) Countries	FDI, Real Gross Domestic Product(RGDP), Return on Investment(ROI)	Ordinary Least Square for all estimations, Cross-section regression and Panel regression.	i) SSA countries receive less FDI than countries in other regions-there are a negative effect on FDI being an African country. ii) Higher return on capital promotes FDI to non-SSA counties, but has no significant impact on FDI flows to SSA countries. iii) Openness to trade promotes FDI to both	Infrastructure developt. and higher Capital promotes FDI to non-SSA countries. In contrast, these factors have no effect on FDI to SSA. However, marginal benefit from increased openness is less for SSA-suggesting that trade liberalisation will generate more FDI to non-SSA counties than SSA countries.

						SSA/non-SSA countries. iv) Infrastructure devt promotes FDI to non-SSA countries but has significant impact on FDI flows to SSA countries.	
25	Sahoo,*et al* (2002)	**The relationship between FDI and Economic Growth in China**	China	FDI,GDP and Domestic Capital Formation	The unit root test, Johansen Co integration test & Engle Granger, Pairwise Granger	There is a long relationship between variables such as GDP,FDI and change in Domestic Capital Formation	There is a close relationship between FDI and the real non-oil GDP.
26	Konings, J. (2001)	**The effects of FDI on domestic firms: Evidence from firm level panel data in emerging economies.**	Three(3) emerging economies of Central & Eastern Europe,viz: Bulgaria, Romania & Poland.	Foreign firms, Domestic firms, Foreign Investment, Spillovers & Emerging countries	Unique Firm level panel data, Estimation technique & Moment technique.	Negative effects of FDI. Foreign firms reduce the productivity of local firms through competitive effects.	By the time the domestic firms engage in substantial restructuring and market competition is established, the dominating competition effect of the foreign firms will vanish. In the long run, the technological spillover effects will start to dominate, leading to positive spillovers.
27	FitzGerald, E.V.K (1998)	**Short-Term Capital Flows, The Real Economy and Income Distribution In**	UK	**Investment, Interest Rate, Exchange Rate, Savings, Credit & Government Expenditure.**	Error Correction Mechanism (ECM), ADF unit root test, Johansen Co integration test;	i) Capital flows have a considerable effect on levels of output but the effect is asymmetric, with outflows.	The direct transmission effects on the real economy are through variations in credit to firms and in the demand for govt. bonds; the indirect effects are through variations in the real exchange rate and the level of economic activity;

		Developing Countries.				ii) The effects are exacerbated by the response of interest rates; (iii) The investment effect is also asymmetric. (iv)Domestic savings fall with capital inflows and rise with outflows.	
28	Kokko, A. (1996)	**Productivity spillovers from competition between local firms and foreign affiliates.**	Mexico	Competition, Local & Foreign affiliates. Technology.	Simple simultaneous model.	Positive effect of competition on domestic firms for Mexico.	There is evidence for productivity spill over to domestic firms with moderate technology gaps, but not for firms that use considerable lower levels of technology.
29	Kashibhatla, K. & Sawkey, B. (1996)	**FDI and economic growth in the U.S: Evidence from co-integration and Granger causality test.**	USA	FDI,GDP	**Co integration and Granger causality test.**	Supports unidirectional causality from GDP to FDI and not vice versa.	For Industrialized countries, FDI should follow GDP, as GDP is the indicator for market size.
30	Chen, C; Chang, L and Zhang, Y (1995)	**The role of foreign direct investment in China's post-1978 economic**	China	FDI,GDP & Fixed Asset Investment	Ordinary least square (OLS) ADF, PP and Regression model	i) Positively associated with economic growth ii) Increase of total fixed asset investment in China.	The opening of the Chinese economy to FDI is still an ongoing process, positive stimulating effects of FDI in China are observed, and these are found to contribute toward the success of its economic reforms.

		development				iii) Increase number of domestic manufacturers to compete globally. iv) FDI has also been associated with (a) Accelerating uneven development b/w the coastal and inland provinces (b) worsening income distribution (c) declining ideological commitment.	
B		**FDI & EX-RATE**					
31	Esheneke, S.J & Oriavwote, V.E (2014)	An empirical Assessment of financial sector development and Economic growth in Nigeria.	Nigeria	Real Gross Domestic Product, Financial deepening which is a ratio of money supply to Gross Domestic Product, Liquidity ratio, Interest rate & Credit to the private sector.	Cointegration technique., Error Correction Mechanism (ECM), ADF unit root test, Johansen Cointegration test; Vector Error Correction, Diagnostic tests & Cholesky variance decomposition	i)Financial sector development has not significantly improved private sector development. ii) The minimum capital base & liquidity ratio has improved the level of economic growth in Nigeria.	i) Further development of the financial sector should be oriented towards the development of the private sector. ii) There should be a long run relationship among the variables.

32	Asogwa,F; Okeke,I.M Urama,S.M (2013)	**The Impact of Exchange Rate Dynamics on Capital Inflows in Nigeria (1970-2010**	Nigeria	Capital Inflows, Exchange rate, and Inflation.	Generalized autoregressive conditional heteroscedasticity (GARCH) model,	The impact of exchange rate fluctuations on capital movement into Nigeria economy is not so intense as that of its trade openness.	Trade openness policies should be formulated and Implemented such that they would induce maximum capital inflows needed for economic growth.
33	Corsetti,G & Konstantinou,P (2009)	**What drives U.S foreign correlation in stock returns**	USA	Exchange rate, Stock returns and Capital gain.	GARCH model	The valuation effect of exchange rate volatility acts as fund transfer across countries, with capital gains to U.S investors.	The welfare consequent of redistribution of wealth is considerable.
34	Gazioghi,S. (2008)	**Stock market returns in an emerging financial market.**	Turkey	FDI, Exchange rate	GARCH model	There is an asymmetric impact of capital on exchange rate and stock market returns.	An unexpected capital outflow would certainly cause exchange rate fluctuations, balance of payments problems, and international debt crisis. Relatively high stock market prices may suggest an impending financial crisis.
35	Blonigen,B (2005)	A review of the empirical literature on FDI determinants.	USA	FDI, Multinational Enterprises (MNEs), Exchange rates, Taxes & Trade flows.	Regression equation, Augmented Dickey-Fuller (ADF)	Exchange rate depreciation in host counties leads to more FDI inflows.	The study is still young enough that most hypotheses are still up for grabs. Thus, it is perhaps not surprising that most determinants of cross-country FDI are fairly fragile statistically.
36	Athukorala ,P and Rajapatirana, S (2003)	**Capital Inflows and the Real Exchange Rate: A Comparative Study of**	Asia & Latin America	FDI, Other Capital inflow, Excess money growth & Government expenditure	Two Stage Least Squares (*TSLS*).	The degree of appreciation in Real Exchange Rate (*RER)* associated with capital inflow is uniformly much	i) Asian countries are more successful in averting real exchange rate appreciation through nominal exchange rate adjustment, compared to the Latin American countries. ii) The composition of capital flows matters in determining their impact on the real exchange rate. iii) Nominal exchange rate change seems to have a

		Asia and Latin America				higher in Latin American countries compared to their Asian counterparts, despite the fact that the latter experienced far greater foreign capital Inflows relative to the size of the economy.	significant lasting effect on the real Exchange rate only in Asian countries.
37	Serven, L. (2003)	**Real-Exchange-Rate Uncertainty and Private Investment in LDCs**	Developing Countries	Exchange rate, Financial system	GARCH model	i) Exchange rate uncertainties negatively affect investment in developing countries. ii) Financial systems & the degree of openness of a country are important in establishing the investment effect of exchange rate uncertainty. iii) Efficient financial system is positively related to investment.	The negative impact of real exchange rate uncertainty on investment is significantly larger in economies that are highly open and in those with less developed financial systems.
38	Goldberg, L.S & Kolstad, C.D.	**Foreign Direct Investment, Exchange**	USA	FDI, Exchange rate & Real GDP.	Regression equation, Augmented Dickey-Fuller	Increased exchange rate uncertainty has a positive impact	Exchange rate volatility can spur an increase in International capital Flows which can substitute for

	(1995)	**Rate Variability and Demand Uncertainty**			(ADF)	on FDI. ii) Exchange rate variability had a positive & statistical significant impact on 4 of the 6 bilateral FDI shares.	International trade in goods without depressing overall Economic activity.
39	Froot,K.A & Stein,J.C (1991)	**Exchange Rates and FDI: An Imperfect Capital Markets Approach**	USA	Exchange rate, FDI, Capital markets	Townsend Costly-State-Verification Approach; Regression model	By systematically lowering the relative wealth of domestic agents, a depreciation of the domestic currency can lead to foreign acquisition of certain domestic assets.	FDI depend on a number of subtle effects that may be difficult to measure in any given instance.
40	Eun, C.S & Resnick, B,G.(1988)	**Exchange rate uncertainty, forward contracts and International Portfolio selection**	USA	Exchange Rate, International & Domestic Portfolio	Multi-currency diversification and Hedging.	International portfolio selection strategies designed to control both estimation and exchange risks almost consistently outperform the U.S. domestic portfolio in out-of-sample Periods.	i) It is essential to effectively control exchange rate volatility. ii) Fluctuating exchange rates make foreign investment more risky and, at the same time, aggravate estimation risk, thereby diminishing the gains from international diversification.

41	Biger, N. (1979)	Exchange rate implication of International Portfolio diversific-ation.	UK	FDI, Foreign Portfolio Investment (FPI) & Exchange rate.	Equilibrium model-similar to the Capital Asset Pricing Model.	i) In the context of international portfolios, exchange risk matters much *less* than would be expected. ii) The overall rate of return from holding foreign financial assets consists of investment returns on the asset.	The volatility of exchange rate is an added source of uncertainty that may create both potential gains and losses to investors across countries.
C		**FDI & DOM INFLATION RATE**					
42	Nazir, S; Sarwar,N & Ullah, S (2012)	**Impact of Capital Inflows on Domestic Inflation: A Case Study of Pakistan**	Pakistan	Export, FDI, Remittances, and Inflation.	Unit root test, Co-integration Test and Error Correction Mechanism.	All the variables are stationary at 1st difference and there is positive relationship between FDI, REM, EXP and inflation.	To use capital inflows like remittances to increase the consumption and also to increase the investment that causes economic growth
43	Samimi,et al (2012)	Trade Openness and Inflation: Evidence from MENA Region Countries	Middle East & North African Countries	Trade Openness , Inflation.	Unbalanced static panel data method of estimation	There is a positive relationship between trade openness and Inflation	i) Foreign investment inflows have been boosted by globalization. *ii)* Countries with more open degree of international trade are exposed to higher rate of inflation.

44	Ehimare, A.O.(2011)	**The Effect of Exchange Rate and Inflation on FDI and Its Relationship with Economic Growth in Nigeria**	Nigeria	FDI,GDP, Exchange rate, Inflation	Linear and OLS Regression Analysis.	FDI follow economic growth occasioned by trade openness which saw the entry of some major companies especially the telecommunicati on companies, while Inflation has no effect on FDI. However exchange rate has effect on FDI.	Although FDI was not found to have significantly contributed to the Nation's economic growth, if well harnessed can contribute to economic growth in Nigeria.
45	Ercakar, M. (2011)	**Growth, FDI trade and Inflation: An empirical application on Turkey.**	Turkey	FDI, Inflation rate & GDP	ARDC & VECM	FDI, Inflation and trade surplus have positive and statistically significant effect on GDP growth.	The import coverage of export will have effect on the study of the long run relationship among GDP growth.
46	Rashid, A & Husain, F (2010)	**Capital flow. Inflation and exchange rate volatility: An Investigation for linear and non-linear causal linkages.**	Pakistan	Real GDP growth, National savings, fiscal deficit to private sector, public debt.	Linear & non-linear Co-integration & Granger causality tests	There is a significant inflationary impact on capital inflow.	There should be a requirement to achieve capital inflow in such a way that would neither induce inflationary pressure in the economy nor enhance exchange rate volatility.
47	Kim, S. & Yang, D. (2008)	**The impact of capital flows on emerging East Asian economies:**	East Asian Region	GDP, Price level & Land price, Real Exchange rates & Capital Inflow.	Vector Auto-Regression (VAR) model	Capital inflows contributed to the asset price appreciation in the East Asian region, although	An effective mix of available options and instruments must be crafted carefully as preventative measure to avoid disruptions they could be caused by any external shock to the system.

		Is too much money chasing too little good?				capital inflow shocks explain a relatively small part of asset price fluctuations.	
48	Mojon,B & Ciccorelli, M (2007)	**Globalization and monetary policy.**	OECD countries	Commodity prices, Wages, Real GDP & Monetary policy	Multiple Regression model	There is a long term response of domestic inflation to global inflation.	The response to global inflation will be lower in countries with tight commitment to price stability.
49	Badinger,H .(2007)	**Globalization, the output-inflation trade-off and inflation**	Austria	Inflation, Trade, Financial Openness,	Multiple Regression model; Romer's model	Countries which are more open both to international trade and financial flows show lower rates of inflation, and at the same time – a larger Output-inflation tradeoff.	The effects of globalization on inflation are economically significant.
50	Balderas, J.U & Hiranya, K.N.(2005)	**Remittances, Relative price variability and inflation in Mexico.**	Mexico	Inflation	VAR model	There are minor evidence of significant impact of remittances on inflation and relative price variability for the entire sample period. However, remittances seem to have significant positive effects after 1994.	A positive relationship between inflation and relative price variability should be made to exist irrespective of model specification and choice of sample period. ii) The government should formulate policies to channel the remittances for productive investments, rather than for consumption.

51	Vega,M& Winkelried, D.(2005)	**Inflation, Targeting and Inflation behaviour: A successful story?**	7OECD Countries	Inflation, Interest Rates and Business cycle.	Micro econometric techniques usually applied in quasi-experimental contexts, borrowed from the program evaluation literature.	Inflation Targeting has helped in reducing the level and volatility of inflation in the countries that have adopted it.	There is the need to formalize the theoretical link between Inflation Target, Inflation persistence, and long-run expectations (credibility), which can guide subsequent empirical efforts.
52	Krugman, P.R (1998)	**It's Baaack: Japan's Slump and the Return of the Liquidity Trap**	Japan	Inflation, GDP Liquidity trap.	OLS Regression Analysis.	Once an economy really is in a liquidity trap, much of the conventional wisdom of macroeconomics ceases to apply-indeed, applying conventional models to the liquidity trap universe implies some quite unconventional conclusions.	i) One must be careful about making inferences from divergences between the growth of monetary base and of broad monetary aggregates. The failure of aggregates to grow need not indicate dereliction on the part of the central bank; in a liquidity trap economy the central bank in principle cannot move broad monetary Aggregates. ii)a liquidity trap is always the product of a credibility problem: the public believes that current monetary expansion will not be sustained.
D		**FDI & DOM INT.RATE**					
53	**Cebula, R.J (2015)**	**On the Nominal Interest Rate Yield Response to Net Govt. Borrowing**	USA	i)e*x ante* real short-term real interest rate yield ii) *ex ante* real long-term interest rate yield iii) Monetary base as a % of	GLM (Generalized Linear Model)	The federal budget deficit, expressed as a % of GDP, exercised a positive and statistically significant	Govt policy-makers to revise their actions so as not to generate an unsustainable pattern of deficit-financed government spending.

		in the U.S.: GLM Estimates, 1972-2012		GDP. iv)Expected future inflation v) % growth rate of real GDP vi)Net financial capital inflows.		impact on the nominal interest rate yield on ten-year Treasury notes over the study period.	
54	Cavallari,L (2012)	**Output and Interest rate volatility as determinants of FDI**	OECD Countries	FDI,Interest rate, Exchange rate.	Regression equation, Augmented Dickey-Fuller (ADF)	i) Output and Interest rate volatility mainly act as push factors. This signifies that rise in host country volatility reduces the amount of FDI outflows in the recipient country, even after controlling for the state of the cycle.	Interest rate volatility mainly influences the amount of foreign investments.
55	Shahzad,N & Zahid,M (2012)	**The determinants of FDI in Pakistan**	Pakistan	Interest rate, FPI, Domestic Investment, Inflation rate & Tax rate.	Johansen Co-integration Test, Regression Analysis. Correction Model (ECM)	Interest rate has positive significant relationship with FDI in Pakistan.	Resource gap, declining official inflows and technological advancement can only be achieved by reducing public burden and by the encouragement of private business activities in the country. FDI is a potential source of filling this multidimensional gap.
56	Okafor,H. O.(2012)	**Do domestic macro-economic variables matter for FDI inflow in Nigeria?**	Nigeria	Real GDP, Capital	OLS	Real GDP, Interest rate and real exchange rate are the key determinants of FDI inflow in Nigeria.	The real interest rate helps interest rate to measure the actual cost and value of Investment. ii) policy makers should strive to improve macroeconomic environment to encourage the flow and benefits of foreign direct investment in Nigeria.
57	Era, D.N; Honda, J.	**FDI flows to low income**	Europe & Central Asia.	FDI, Interest rate,	Gravity model	Interest rates do not have any	Low-income Countries can turn to domestic policy solutions to

	Lahreche,A & Verdier,G, (2010)	**countries: Global drivers and growth implication.**		GDP.		impact on FDI in the source countries but economic activities.	mitigate the adverse effects of a potential decline in FDI in the post-crisis world.
58	Yong,T.A & Tang,T.C (2009)	**The determinants of inward FDI:The case of Malaysia.**	Malaysia	FDI, Interest rate, Inflation rate, Corruption & China joining WTO.	ADF & PP tests; ARDL approach to co integration Engle and Granger tests ,	Openness, Interest rate, Inflation rate, the joining of China into World Trade Organization and the level of corruption are the major determinants of inward FDI in Malaysia.	i) Foreign investors are being attracted & consequently shifting their investments to China, as the outcome of China joining the WTO in 2001. ii) Policy makers to monitor and manage the 'decomposition' of corruption ,since it does discourage FDI in Malaysia in the long run.
59	Cevis,I.& Camurdan, B.(2007)	**The economic determinants of FDI.**	17 Developing Countries	FDI, GDP, Wage, Trade rate, Real Interest, Inflation rate & Domestic Investment.	Autocorrelation and Heteroskedasticity tests Fixed effect model.	FDI which is directly related to the host country's economic resources is important as an economic determinant.	i) The main determinants of FDI inflows are the inflation rate, the interest rate, the growth rate, and the trade (openness) rate ii)FDI inflows give power to the economies of host Countries.
60	Uygur, E. (2005)	**Waiting for foreign direct Investment.**	Turkey	Interest rate, Inflation rate, Investment atmosphere, Growth rate and Budget deficit rate.	VAR model	Real interest rate of official treasury department & consolidated budget balance are the determinants of FDI for Turkey.	The variables are key to the country's economic growth.
61	Adebiyi,M.	**The role of**	Nigeria	Interest rates &	First Bank	Interest rate	There is the need to save as Savings encourages

	A.(2002)	**real Interest rates and savings in Nigeria.**		Savings	Quarterly review.	plays a crucial role in the efficient allocation of resources directed at facilitating growth and development of an economy.	economic development

CHAPTER THREE

METHODOLOGY

3.1 Research Design

Research design means the fundamental question of how the study will be employed within the research setting to yield the required information (Abdelah & Levine, 1979). The type of research design used in this study is *ex-post facto* research design which is the type of research involving events that have already taken place and for which data already exists.

The aim of a research design is to ensure that the overall strategy chosen to integrate the different components of the study address the research problem as unambiguously as possible. It is a kind of format which the researcher uses in order to systematically apply a scientific method in the investigation of problems (Onwumere, 2009). It compares two or more groups of variables with similar backgrounds that are exposed to different conditions as a result of their natural histories (Lammers & Badia, 2005). Thus, the justification for the adoption of *ex-post facto* research design hinges on the non-manipulability of data and the intention of the researcher to determine cause-effect relationship between the foreign investment inflows on macroeconomic performance in Nigeria from 1981-2016.

3.2 Source and Nature of Data

The data used for the study are secondary data and were sourced from Central Bank of Nigeria (CBN) Statistical bulletin of 2016 and the National Bureau of Statistics. Annual time series data of the variables are used and they include total inflows for foreign direct investment, real Gross domestic product, Exchange rate, inflation rate and Interest rate.

3.3 Variables of the Study

The variables used in this study include Foreign Direct Investment, real Gross Domestic Product (GDP), Exchange Rate, Interest Rate and Inflation.

FDI: Foreign Direct investment is the total value of foreign investments in tangible assets in the economy. It is obtained from the Central Bank of Nigeria (CBN) statistical bulletin.

Economic Growth: This was proxied by real Gross Domestic Product (GDP) in Kunt and Levine (1996); Olutu and Jegbefume (2012) and in this work too. The GDP represents the total value of goods and services produced in a country over a given period, regard less of whom, domestic or foreign owned production site.

Exchange Rate: The rate at which the naira is converted to the US dollar. It is necessary in order to show how the strength of a nation's currency affects her inward FD1. Foreign Investment may lead to an increase in domestic absorption. When some of the spending falls on non-traded goods, their relative prices increase and real exchange rate appreciate. This raises the demand for tradable goods, leading to current account deficits.

Interest Rate: The Keynesian theory of investment places emphasis on the importance of interest rates in investment decisions. According to the theory, changes in interest rates should have an effect on the level of planned investment undertaken by private sector business in the economy because it is the ultimate cost of funds to borrowers of money.

Inflation Rate: Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of

goods and services that may be fixed or changed at specified intervals, such as yearly. (World Bank, CIA World Fact book). Inflation in an economy can be the result of an increase in aggregate demand that is unaccompanied by an increase in an aggregate supply. One reason for a sudden, unanticipated rise in aggregate demand can be an unanticipated rise in the supply of money. Thus, foreign investment may result in a rapid monetary expansion, and excessive rise in domestic demand, which leads to inflationary pressures.

3.4 Model Specification

Simple regression models were applied to examine the relationship between foreign direct investment and macroeconomic performance in Nigeria and the choice of simple regression model is based on the use of one independent variable in a regression model (Onwumere, 2005). This study adopted the simple regression model of the form:

$$Y = f(X) \quad \text{---------- (1)}$$

Functional stated as: $Y = \alpha_0 + \alpha_1 X_i + \mu$ ---------- (2)

Where, Y = Investment; X_1 = Savings; α_0 = constant coefficient; α_1 = coefficient of the independent variable: savings; and μ = error term.

Thus, this study stipulates that:

$$RGDP = f(FDI) \quad \text{----------(3)}$$

$$EXCHR = f(FDI) \quad \text{----------(4)}$$

$$INFR = f(FDI) \quad \text{----------(5)}$$

$$INTR = f(FDI) \quad \text{----------(6)}$$

Where:

RGDP = Real Gross Domestic Product; FDI = Foreign Direct Investment; EXR= Exchange Rate; INFR = Inflation Rate; and INTR= Interest Rate

Functionally, the models are stated as follows in log format:

$$\log RGDP = \alpha_0 + \alpha_1 \log FDI + \mu \quad \text{----------(7)}$$

$$\log EXCHR = \alpha_0 + \alpha_1 \log FDI + \mu \quad \text{----------(8)}$$

$$\log INFR = \alpha_0 + \alpha_1 \log FDI + \mu \quad \text{----------(9)}$$

$$\log INTR = \alpha_0 + \alpha_1 \log FDI + \mu \quad \text{----------(10)}$$

Where:

*log*RGDP = Log Real Gross Domestic Product; *Log*FDI = Log Foreign Direct Investment *log*EXR = Log Exchange Rate; *log*INFR = Inflation Rate; *log*INTR= Interest Rate;

α_0 = constant coefficient; $\alpha_{1,}$ = coefficient of the independent variable: FDI; and

μ = error term.

3.5 Method of Data Analysis

The short run relationship between foreign direct investments and macroeconomic performance in Nigeria was estimated using the Auto-Regressive Distributed Lag (ARDL) technique. Auto-Regressive Distributed Lag (ARDL) model was also employed in ascertaining the long run relationship, while the granger causality was applied to determine the effect of foreign direct investments on selected macroeconomic variables.

To ascertain the stationarity of the variables unit root tests were conducted. The Augmented Dickey-Fuller (ADF), Philip Peron (PP) and Kwiatkowski-Phillips-Schmidt-Shin (KPSS) unit root tests were employed to ascertain the stationarity of the variables. Non-stationarity of concerned variables may lead to bias in regression output. The ADF, PP and KPSS test were performed in level and first difference and in three dimensions: constant, with trend and none.

Auto-Regressive Distributed Lag (ARDL) Bound Test was employed to estimate the co-integration relationship between variables. It takes into consideration of the mixed order of integration lacking the Johansen co-integration. The aim is to run the models at level wherein the output data will be reliable and unbiased for statistical decisions on the variables of interest.

Pairwise Granger causality tests were run on the models with the optimal lag of 2. This was used to test the hypotheses formulated. It tells us how the behaviour of a variable in the current period, can actually forecast the growth of another in the long-run. The interest in this work is to establish the direction of causality between the variables of the model, if any and thus the exact effect of the independent variables on the dependent variables and vice versa. The hypotheses were tested at 5% level of significance.

3.6 Statistical Criteria for Result evaluation

Statistical Criteria is concerned with statistical reliability and significance of the estimated parameters of the models and ascertaining the global utility of the models. The following statistics were applied:

R^2: This is also known as the coefficient of multiple determination. It is used to determine the goodness of fit of estimated coefficients of the variables in the specified models.

F-Statistic: This was applied to ascertain the overall significance of the model. The acceptance criteria for our null hypotheses of no significant relationship between the dependent and independent variables shall be based on the statement that "if the

calculated is less than the critical F-value, we accept; otherwise we do not accept the null hypotheses".

The p-value: The p-value provides a test of the null hypotheses that the true slope coefficient is simultaneously zero. Moreso, if the p-value computed exceeds the critical value from the F table at the percent level of significance, we reject the H_0 (null hypothesis). Therefore the critical value will be based on 2 degrees of freedom at 5% level of significance.

The t-statistic: Which is also referred as student t-test was used to test for significance, to ascertain the statistical reliability of the coefficient in the specified model. We tested whether the estimated coefficient are significantly different from zero. The t-statistic is applied to measure or judge the statistical reliability of the estimated individual regression coefficients. It is imperative to deploy the t-statistic where the sample size is below (30). The decision rule of the t-statistic (Bryant, 1960:160-161) is as follows:

Where the estimated (calculated) t is greater than the critical t value of the null hypothesis (H_0) is rejected and the alternate H_1 is accepted, i.e. $t_C > t_\alpha$; and

Where the estimated (calculated) t_C is less than the critical value of table t_α accept the null hypothesis H_0, and reject the alternate hypothesis, H_1 i.e. $t_C < t_\alpha$, reject H_1 and accept H_0.

Adjusted R-Square statistic: This is also known as coefficient of determination. In statistics, this is used in the context of statistical models whose main purpose is the prediction of future outcomes on the basis of other related information. It is the proportion

of a variety in a data set that is accounted for by the statistical model. It is a statistic that will give information about the goodness of fit of a model.

3.7 A Priori Expectation

The a priori expectation features in the theoretical relationship between the dependent and independent variables following the eclectic theory of foreign direct investment is supposed to have a positive relationship with real gross domestic product and exchange rate, while a negative relationship is expected between inflation rate, interest rate and foreign direct investment. Table 2 presents the expected signs of the macroeconomic variables.

Table 2: A Priori Expectation

Symbol	Variable	Expectation in respect to FDI
FDI	Foreign Direct Investment	+/-
GDP	Real Gross Domestic Product	+
EXR	Exchange rate (N & $)	+/-
INFR	Inflation rate	+
INTR	Interest rate	-

Source: Researcher's Compilation from the assumptions of eclectic theory

CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

4.1 Descriptive Data Presentation

In the descriptive data presentation section, that data utilized in the analysis to make statistical inferences were portrayed. A comprehensive display of the data: foreign direct investment, real gross domestic product, exchange rate, inflation rate and interest rate from 1981 to 2016 are condensed in Table 3.

Table 3: Foreign Direct Investment, Real Gross Domestic Product, Inflation Rate, Interest Rate and Exchange Rate: 1981 to 2016

Year	Foreign Direct Investment (₦'Million)	Real Gross Domestic Product (₦'Million)	Exchange Rate (₦ per SD)	Inflation Rate (%)	Interest Rate (%)
1981	334.70	15,258,000.00	0.6100	21.40	7.75
1982	290.00	14,985,080.00	0.6729	7.20	10.25
1983	264.30	13,849,730.00	0.7241	23.20	10.00
1984	360.40	13,779,260.00	0.7649	40.70	12.50
1985	434.10	14,953,910.00	0.8938	5.50	9.25
1986	735.80	15,237,990.00	2.0706	5.40	10.50
1987	2,452.80	15,263,930.00	4.0179	10.20	17.50
1988	1,718.20	16,215,370.00	4.5367	38.30	16.50
1989	13,877.40	17,294,680.00	7.3916	40.90	26.80
1990	4,686.00	19,305,630.00	8.0376	7.50	25.50
1991	6,916.10	19,199,060.00	9.9095	13.00	20.01
1992	14,463.10	19,620,190.00	17.2984	44.50	29.80
1993	29,660.30	19,927,990.00	22.0511	57.20	18.32
1994	22,200.00	19,979,120.00	21.8861	57.00	21.00
1995	75,900.00	20,353,200.00	21.8861	72.80	20.18
1996	111,300.00	21,177,920.00	21.8861	29.30	19.74
1997	110,500.00	21,789,100.00	21.8861	8.50	13.54
1998	80,700.00	22,332,870.00	21.8861	10.00	18.29
1999	92,800.00	22,449,410.00	92.6934	6.60	21.32
2000	116,000.00	23,688,280.00	102.1052	6.90	17.98
2001	132,400.00	25,267,540.00	111.9433	18.90	18.29
2002	225,200.00	28,957,710.00	120.9702	12.90	24.85
2003	258,400.00	31,709,450.00	129.3565	14.00	20.71
2004	248,200.00	35,020,550.00	133.5004	15.00	19.18

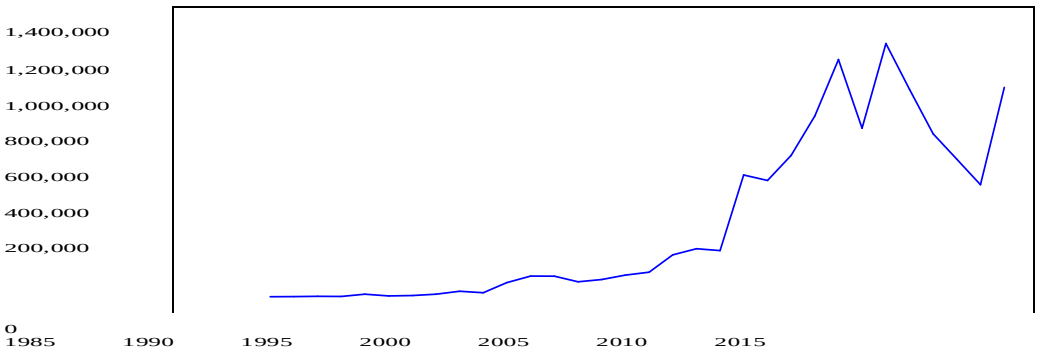
2005	654,200.00	37,474,950.00	132.1470	11.60	17.95
2006	624,500.00	39,995,500.00	128.6516	8.20	17.26
2007	759,400.00	42,922,410.00	125.8331	6.60	16.94
2008	971,500.00	46,012,520.00	118.5669	15.10	15.14
2009	1,273,800.00	49,856,100.00	148.8802	12.10	18.99
2010	905,700.00	54,612,260.00	150.2980	11.80	17.59
2011	1,360,300.00	57,511,040.00	153.8600	10.40	16.02
2012	1,113,500.00	59,929,890.00	157.5000	12.00	16.79
2013	875,100.00	63,218,720.00	157.3100	7.90	16.72
2014	738,200.00	67,152,790.00	158.5626	8.01	16.55
2015	602,000.00	69,023,930.00	193.2792	9.60	16.77
2016	1,124,100.00	67,931,230.00	253.4923	15.70	16.87

Source: Central Bank of Nigeria Statistical Bulletin, 2016

Foreign Direct Investment

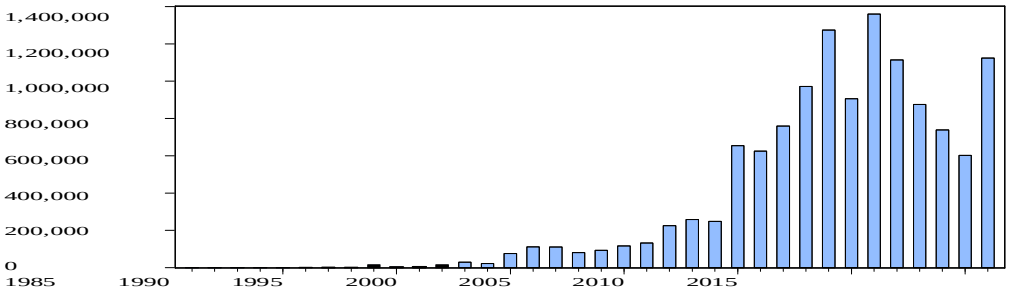
Foreign direct investment was valued at N334.7 million in 1981 but rose by over 100% by the end of 2009 to settle at N1, 273, 800 million. In 2010, foreign direct investments deteriorated by 40.64% to peck at N905, 700 million. Despite the marginal rise of 33.42% in 2011, foreign direct investments continued to depreciate by 22.16%, 27.24% and 18.55% respectively in 2012, 2013, and 2014. It degenerated further by 22.62% to close at N602, 000 million in 2015 but surprising appreciated by 6.44% in 2016 to record N1, 124,100 million. The trend in FDI is depicted in Table 3, Fig. 2 and 3.

Fig. 2: Graph Trend in FDI from 1981 to 2016



Source: Central Bank of Nigeria statistical bulletin; and E-views 9.0 output data

Fig. 3: Bar Chart Trend in FDI from 1981 to 2016

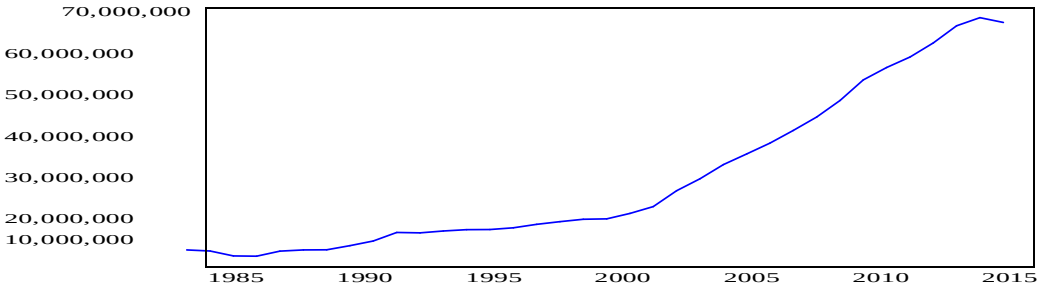


Source: Central Bank of Nigeria statistical bulletin; and E-views 9.0 output data

Real Gross Domestic Product Growth Rate

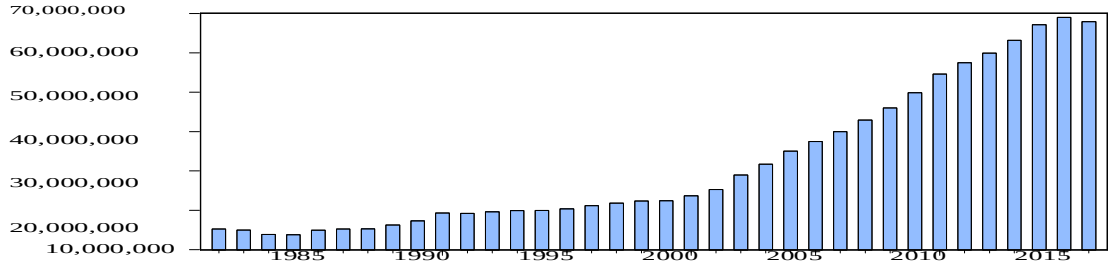
Real gross domestic product in 1981 worth ₦15,258,000 million but owing to the dynamic nature of the economy, it has grown over the years. As at 2010, the real gross domestic product stood at ₦54,612,260 million as appreciation of more than 72.61% relative to its value in 1981. The gross domestic product witnessed undeterred growth from 2000 to 2016, however, there was a decline in 2015 owing to economic repression in the country as that point in time. Fig. 4 and 5 give an insight to the graphical and bar chart trend in real gross domestic product.

Fig. 4: Graph Trend in RGDP from 1981 to 2016



Source: Central Bank of Nigeria statistical bulletin; and E-views 9.0 output data

Fig. 5 Bar Chart Trend in RGDP from 1981 to 2016



Source: Central Bank of Nigeria statistical bulletin; and E-views 9.0 output data

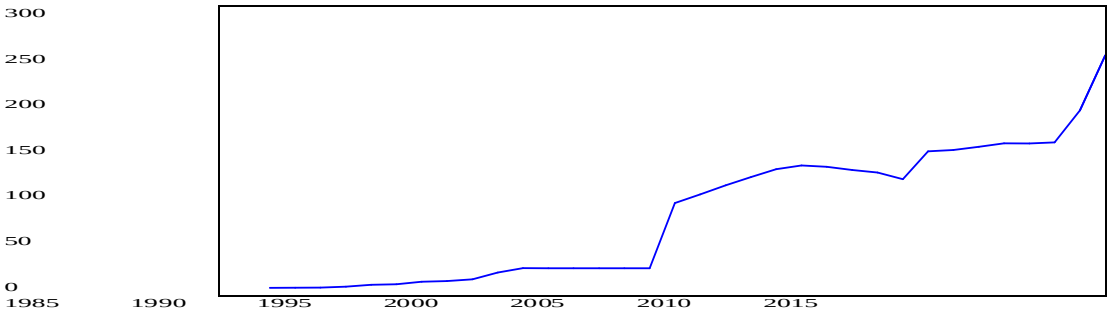
Exchange Rate

As can be seen Table 3, Fig.5 and Fig. 6 divulge that clear evidence that the exchange rate of Naira against one US dollar has so much depreciated from 0.6100 in 1981 to 253.4923 2016 based on official exchange rate of the Central Bank of Nigeria which is lesser than the parallel or black market rate. In 2009, the exchange rate declined by 20.36% from 118.5669 in 2008 to 148.8802 in 2009. Despite the various intervention programme of CBN to increase supply of forex, the value of Naira against the US Dollar is still very weak.

Inflation

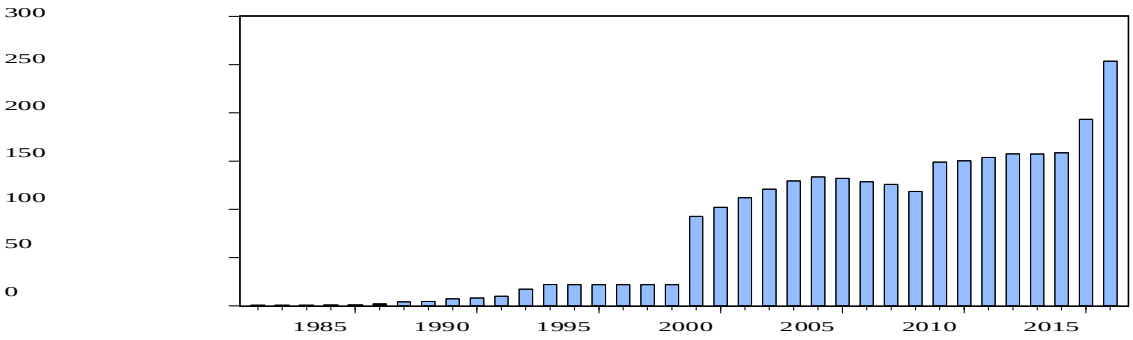
In 1981, the inflation rate was 21.40 but has depreciated by 36.31% to 15.70. Those notwithstanding the citizens believe there is no change in the inflationary level in the economy owing to purchasing power of the Naira. They even wonder the yardstick used by CBN at arrive at such statistic of inflation when the prices of goods and services are on the high side in the economy. The inflation rate surged marginally from 2010 to 2015, declining to 9.60% in 2015 compared to 11.80% in 2010. Table 3, Fig 7 and Fig. 8 detail the trend in inflation rate within of the study.

Fig. 6: Graph Trend in Exchange Rate from 1981 to 2016



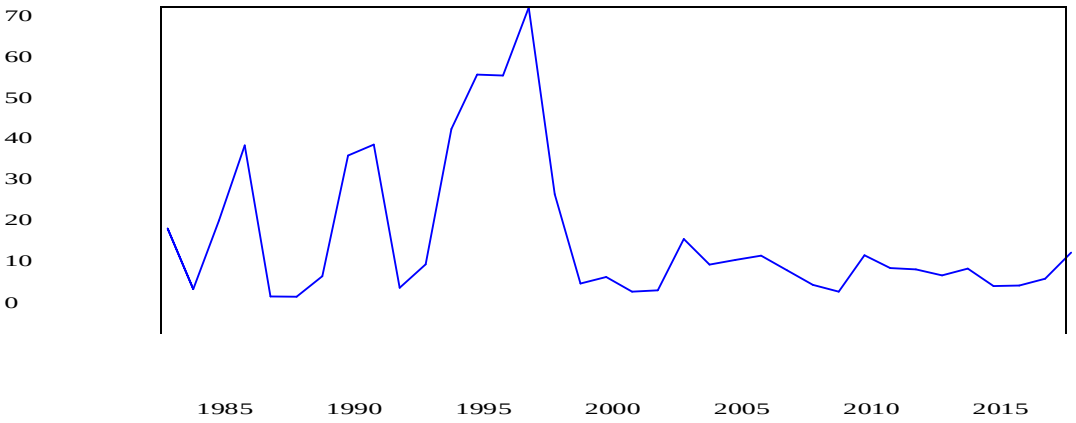
Source: Central Bank of Nigeria statistical bulletin; and E-views 9.0 output data

Fig. 7: Bar Chart Trend in Exchange Rate from 1981 to 2016



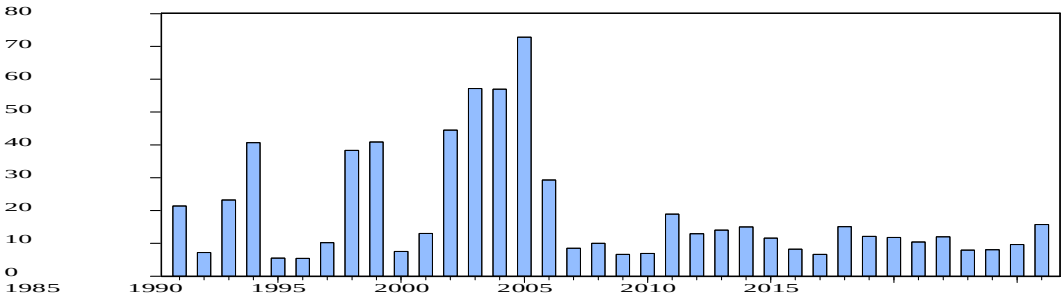
Source: Central Bank of Nigeria statistical bulletin; and E-views 9.0 output data

Fig. 8: Graph Trend in Inflation Rate from 1981 to 2016



Source: Central Bank of Nigeria statistical bulletin; and E-views 9.0 output data

Fig. 9: Bar Chart Trend in Inflation Rate from 1981 to 2016

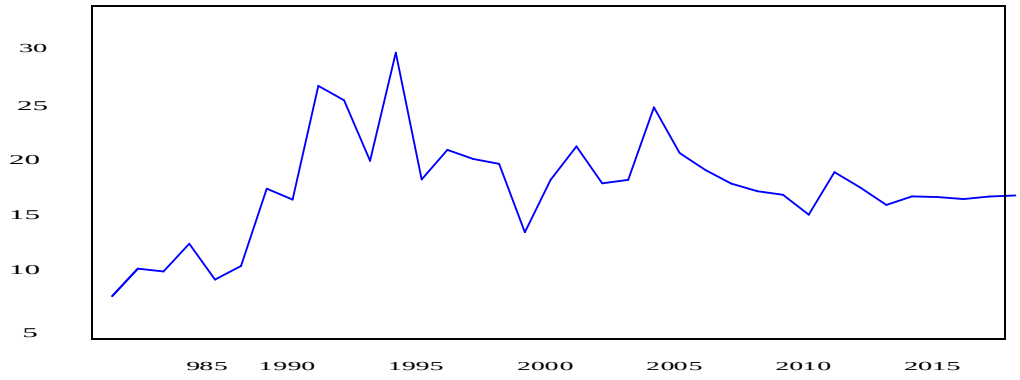


Source: Central Bank of Nigeria statistical bulletin; and E-views 9.0 output data

Interest Rate

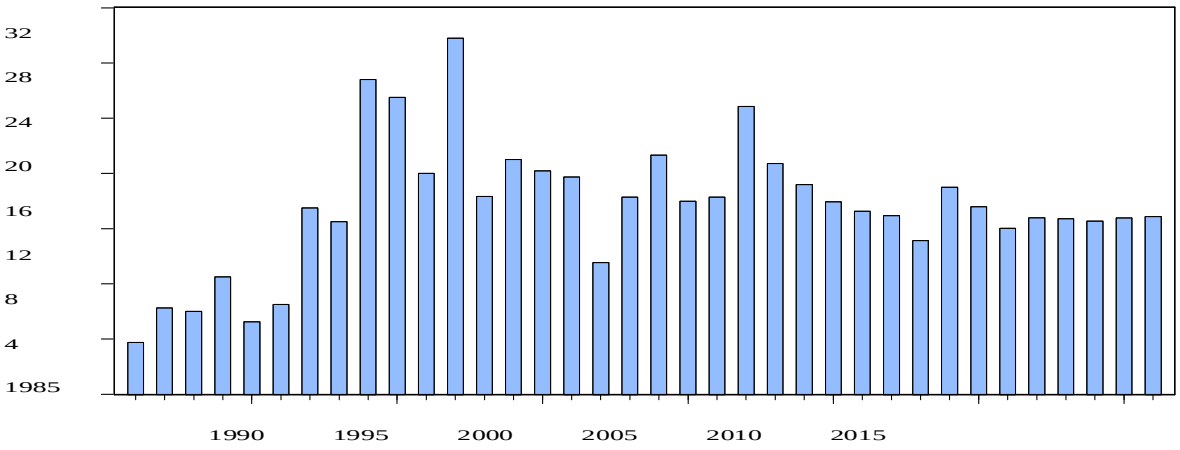
Interest rate in Nigeria is very high resulting in high cost of capital which does not augur well for small and medium enterprises operators. Interest rate was 7.75% in 1981 but sharply increased to 26.80% in 1989, and subsequent rise in 1992 to 29.80%. Interest rate went down to 16.72% in 2013 relative to 16.79% in 2012. With inferences from Table 3, Fig. 10 and 11, interest rate marginally increased 16.87% in 2016 as against 16.77% in 2015.

10: Graph Trend in Interest Rate from 1981 to 2016



Source: Central Bank of Nigeria statistical bulletin; and E-views 9.0 output data

Fig. 11: Bar Chart Trend in Inflation Rate from 1981 to 2016Fig.



Source: Central bank of Nigeria statistical bulletin; and E-views 9.0 output data

4.2 Descriptive Characteristics of the Data

Table 4 shows the descriptive characteristic of the data. The descriptive characteristic reveals the mean, median, maximum, minimum, standard deviation, skewness, kurtosis, Jarque-Bera, p- value and number of observations. From Table 3, the mean of the data are 348669.30 for FDI, 31757148 for RGDP, 76.59 for EXCHR, 19.33 for INFR and 17.59 for INTR, while 110900 for FDI, 22391140 for RGDP, 57.37 for EXCHR, 12.05 for INFR and 17.55 read the median of the data. The maximum and minimum values are 1360300 and 264.30 for FDI, 69023930 and 13779260 for RGDP, 253.49 and 0.61 for EXCHR, 72.80 and 5.40 for INFR and 29.80 and 7.75 for INTR. The standard deviation were seen at 437174.8, 18151713, 72.03, 17.01, and 4.75 respectively for FDI, RGDP, EXCHR, INFR and INTR. From the coefficient of the skewness, the data were positively skewed towards normality. As shown by the Kurtosis, FDI, RGDP and EXCHR are by nature not leptokurtic (Kurtosis value of 2.49, 2.32 and 1.98 for FDI, RGDP and EXCHR respectively are less than 3), whereas INFR and INTR are leptokurtic (Kurtosis value of 4.74 and 3.47 for INFR and INTR are greater than 3). The p-value of the Jarque-Bera statistic in Table 3 for RGDP, EXCHR and INTR suggests they are not normally distributed. Consequently, another test of normality via Doornik-Hansen test was performed for all the variables to ensure normality of the data. The p-values (significant at 5% level) for all the variables in Table 5 for Doornik-Hansen test affirms that the data were normally distributed, hence no influence of outlier in the regression result.

Table 4: Descriptive Characteristic of the Data

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	P-value	Obs
FDI	348669.3	110900.0	1360300.0	264.3000	437174.8	0.980167	2.49057	6.153640	0.04610	36
RGDP	31757148	22391140	69023930	13779260	18151713	0.874864	2.31838	5.289229	0.07103	36
EXCHR	76.59332	57.37225	253.4923	0.610000	72.03735	0.423761	1.98558	2.621017	0.26968	36
INFR	19.33083	12.05000	72.80000	5.400000	17.00779	1.637783	4.74538	20.66353	0.00003	36
INTR	17.59306	17.54500	29.80000	7.750000	4.757660	0.188229	3.47525	0.551371	0.75905	36

Source: E-views 9.0 output data

Table 5: Doornik-Hansen Test of Normality

Variables	Doornik-Hansen Test Statistic	P-value
FDI	26.0028	0.0000
RGDP	21.3565	0.0000
EXCHR	6.79125	0.0452
INFR	38.3297	0.0000
INTR	1483.32	0.0000

Source: Gretl output data

4.3 Diagnostic Test

Serial Correlation LM Test

The serial correlation LM test was performed to determine whether or not the variables in the models were serially correlated or not. This is in addition to the traditional of test of autocorrelation: Durbin Watson statistic available in the short run relationship estimation output. The result of the serial correlation LM test as summarized in Table 6 suggests no autocorrelation in the models as the p-values of the F-statistic are insignificant at 5% level of significance.

Table 6 : Breusch-Godfrey Serial Correlation LM Test

Equation Estimates	F-statistic	P-value
Eqn. 7	0.247874	0.7822
Eqn. 8	0.109497	0.8967
Eqn. 9	0.322685	0.7269
Eqn. 10	1.300964	0.2882

Source: E-views 9.0 output data

Heteroskedasticity Test

The situation where the variance of errors or the model is not the same for all observations result in heteroskedasticity problem. The presence of heteroskedasticity in any model is a fall out of the assumption of classical regression model thus affecting the result of analysis. To prelude the issue of heteroskedasticity, the Harvey test of heteroskedasticity was conducted and the output presented in Table 7. The p-values for all the models are insignificant at 5% level of significance hence, the variance homogeneous and no problem of heteroskedasticity in the models.

Table7: Harvey Heteroskedasticity test

Equation Estimates	F-statistic	P-value
Eqn. 7	0.243486	0.9113
Eqn. 8	0.087057	0.9971
Eqn. 9	0.226355	0.6376
Eqn. 10	1.874299	0.1552

Source: E-views 9.0 output data

Ramsey RESET Test

To confirm the fitness of the model/specification of the models, the Ramsey reset specification test was performed and results condensed in Table 8. The p-values of the F-statistic insignificant at 5% level of significance unveils that all the models were well specified.

Table 8 : Ramsey Reset Specification test

Equation Estimates	F-statistic	Df	p-value
Eqn. 7	2.176521	(4, 25)	0.1009
Eqn. 8	5.87E-06	(1, 24)	0.9981
Eqn. 9	0.000667	(1, 29)	0.9796
Eqn. 10	3.989566	(1, 29)	0.0552

Source: E-views 9.0 output data

4.4 Unit Root Test Result

The data were checked for stationarity defect via the Augmented Dickey-Fuller (ADF), Phillips Perron (PP) and Kwiatkowski-Phillips-Schmidt-Shin (KPSS). The essence of the stationarity test is to ensure that data are free any stationarity defects that may encumber the result of the regression analysis. The unit root test of ADF and PP were performed at level and first difference and three parapets: intercept, trend and intercept and none while KPSS was performed at level and first difference and two parapets: intercept, trend and intercept. Tables 9 and 10 present the ADF test as level: intercept, trend and intercept while Tables 11 and 12 feature the ADF test at first difference. The PP test at level and first difference were detailed in Tables 13 and 14 whereas, Tables 15 and 16 detail the KPPS test at level and first difference in three sets: intercept, trend and intercept and none.

Augmented Dickey-Fuller (ADF)

As can be seen in Table 9, all the variables were not stationary at level thus the need for first difference. The first difference ADF test as condensed in Table 10 depicts that the variables were all stationary at the three estimations.

Table 9: Result of ADF Test at Level

Variables	Constant	Trend and Constant	None	Remark
FDI	-0.654012 (0.85)	-2.433646 (0.36)	3.191872 (0.99)	Not Stationary
RGDP	-0.709427 (0.83)	-2.006479 (0.58)	0.483189 (0.81)	Not Stationary
EXCHR	1.311125 (0.99)	-1.385767 (0.85)	2.809754 (0.99)	Not Stationary
INFR	-2.861776 (0.06)	-2.833294 (0.20)	-1.844533 (0.06)	Not Stationary
INTR	-2.367578 (0.16)	-4.792898 (0.00)*	0.070077 (0.70)	Stationary

Source: Data output via E-views 9.0

Note: The optimal lag for ADF test is selected based on the Akaike Info Criteria (AIC), p-values are in parentheses where (*) and (**) denote significance at 1% and 5% respectively.

Table 10: Result of ADF Test at First Difference

Variables	Constant	Trend and Constant	None	Remark
FDI	-7.086338 (0.00)*	-3.796404 (0.03)**	-6.907289 (0.00)*	Stationary
RGDP	-3.958444 (0.00)*	-5.329364 (0.00)*	-5.187868 (0.00)*	Stationary
EXCHR	-3.669242 (0.00)*	-3.995108 (0.02)**	-3.041231 (0.00)*	Stationary
INFR	-5.693337 (0.00)*	-5.617884 (0.00)*	-5.784443 (0.00)*	Stationary
INTR	-5.808585 (0.00)*	-6.047522 (0.00)*	-5.850014 (0.00)*	Stationary

Source: Data output via E-views 9.0

Note: The optimal lag for ADF test is selected based on the Akaike Info Criteria (AIC), p-values are in parentheses where (*) and (**) denote significance at 1% and 5% respectively.

Phillips Perron (PP) Test

The result of the Phillips Perron (PP) unit root test in Tables 11 is similar to the ADF test in Table 9 as all the variables were found to be non-stationary. Consequently, the first difference test was conducted which affirmed the stationarity of all the variables at order one 1(1) as enshrined in Table 12.

Table 11: Result of PP Test at Level

Variables	Constant	Trend and Constant	None	Remark
FDI	-0.654012 (0.85)	-2.368320 (0.39)	0.139159 (0.72)	Not Stationary
RGDP	2.547533 (1.00)	-1.297328 (0.87)	5.620073 (1.00)	Not Stationary
EXCHR	1.142402 (0.99)	-1.616624 (0.77)	2.564295 (0.99)	Not Stationary
INFR	-2.842973 (0.06)	-2.923112 (0.17)	-1.686112 (0.08)	Not Stationary
INTR	-3.382071 (0.01)*	-3.204536 (0.10)	-0.135088 (0.63)	Stationary

Source: Data output via E-views 9.0

Note: In determining the truncation lag for PP test, the spectral estimation method selected is Bartlett kernel and Newey-West method for Bandwidth, p-values are in parentheses where (*) and (**) denote significance at 1% and 5% respectively.

Table 12: Result of PP Test at First Difference

Variables	Constant	Trend and Constant	None	Remark
FDI	-7.067563 (0.00)*	-7.009157 (0.00)*	-6.892836 (0.00)*	Stationary
RGDP	-4.985253 (0.00)*	-5.251937 (0.00)*	-5.089369 (0.00)*	Stationary
EXCHR	-3.669723 (0.00)*	-3.979343 (0.02)**	-2.994521 (0.00)*	Stationary
INFR	-9.766606 (0.00)*	-10.38390 (0.00)*	-10.25439 (0.00)*	Stationary
INTR	-9.402186 (0.00)*	-9.744750 (0.00)*	-9.472798 (0.00)*	Stationary

Source: Data output via E-views 9.0

Note: In determining the truncation lag for PP test, the spectral estimation method selected is Bartlett kernel and Newey-West method for Bandwidth, p-values are in parentheses where (*) and (**) denote significance at 1% and 5% respectively.

Kwiatkowski-Phillips-Schmidt-Shin (KPSS) Test

From Table 13, the KPSS results reveal that stationarity was attained for all the variables hence, Tables 13 and 14 confirmed the non-stationarity of the data at first difference.

Table 13: Result of KPSS Test at Level

Variables	Constant	Trend and Constant	Remark
FDI	0.574684 (0.00)*	0.142580 (0.00)*	Stationary
RGDP	0.643187 (0.00)*	0.186541 (0.00)*	Stationary
EXCHR	0.643187 (0.00)*	0.120301 (0.00)*	Stationary
INFR	0.292044 (0.00)*	0.101367 (0.05)*	Stationary
INTR	0.174622 (0.00)*	0.145162 (0.00)*	Stationary

Source: Data output via E-views 9.0

Note: The spectral estimation method selected for KPSS test is Bartlett kernel and Newey-West method for Bandwidth, p-values are in parentheses where (*) and (**) denotes significance at 1% and 5% respectively.

Table 14: Result of KPSS Test at First Difference

Variables	Constant	Trend and Constant	Remark
FDI	0.131025 (0.29)	0.054285 (0.47)	Not Stationary
RGDP	0.555547 (0.00)*	0.106796 (0.00)*	Stationary
EXCHR	0.343652 (0.02)**	0.068785 (0.06)	Stationary
INFR	0.427694 (0.95)	0.428230 (0.99)	Not Stationary
INTR	0.192829 (0.72)	0.064170 (0.46)	Not Stationary

Source: Data output via E-views 9.0

Note: The spectral estimation method selected for KPSS test is Bartlett kernel and Newey-West method for Bandwidth, p-values are in parentheses where (*) and (**) denotes significance at 1% and 5% respectively.

4.5 VAR Lag Selection Criteria

Prior to estimating the long run relationship between foreign direct investments and selected macroeconomic variables, determination of the reliability of this long run relationship is therefore imperative. In the light of this, the VAR lag order selection criteria was estimated to determine the lag length. The optimal lag level are evaluated with the aid of Akaike information criterion (AIC) and Schwarz information criterion (SC) test statistic. In VAR estimation technique, the reliability of a model is dependent on a low Akaike information criterion (AIC) and Schwarz information criterion (SC) values. Tables 15 to 18 summarize the VAR lag order selection criteria which the lag lengths were

automatically selected by econometric software: E- views 9.0. The lag length for Eqn. 7 is 2, while Eqns. 8 – 10 is 1.

Table 15: Lag Length Criteria for RGDP and FDI

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-1046.615	NA	1.37e+25	63.55245	63.64315	63.58296
1	-946.4889	182.0481	4.03e+22	57.72660	57.99870	57.81815
2	-937.5398	15.18639*	3.00e+22*	57.42666*	57.88014*	57.57924*
3	-935.0494	3.924281	3.32e+22	57.51815	58.15303	57.73176

Source: Data output via E-views 9.0

* Indicates lag order selected by the criterion, LR: sequential modified LR test statistic (each test at 5% level), FPE: Final prediction error, AIC: Akaike information criterion, SC: Schwarz information criterion and HQ: HannanQuinn information criterion.

Table 16: Lag Length Criteria for EXCHR and FDI

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-643.6839	NA	3.39e+14	39.13236	39.22305	39.16287
1	-580.5367	114.8131*	9.41e+12*	35.54768*	35.81977*	35.63923*
2	-578.5978	3.290226	1.07e+13	35.67259	36.12608	35.82518
3	-576.4879	3.324733	1.21e+13	35.78714	36.42203	36.00076

Source: Data output via E-views 9.0

* Indicates lag order selected by the criterion, LR: sequential modified LR test statistic (each test at 5% level), FPE: Final prediction error, AIC: Akaike information criterion, SC: Schwarz information criterion and HQ: Hannan Quinn information criterion

Table 17: Lag Length Criteria for INFR and FDI

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-613.9375	NA	5.59e+13	37.32955	37.42024	37.36006
1	-578.1235	65.11645*	8.13e+12*	35.40142*	35.67351*	35.49297*
2	-574.5788	6.015099	8.39e+12	35.42902	35.88251	35.58161
3	-574.1376	0.695251	1.05e+13	35.64470	36.27959	35.85832

Source: Data output via E-views 9.0

* Indicates lag order selected by the criterion, LR: sequential modified LR test statistic (each test at 5% level), FPE: Final prediction error, AIC: Akaike information criterion, SC: Schwarz information criterion and HQ: Hannan Quinn information criterion

Table 18: Lag Length Criteria for INTR and FDI

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-568.3374	NA	3.52e+12	34.56590	34.65660	34.59642
1	-534.5114	61.50181*	5.78e+11*	32.75827*	33.03036*	32.84982*
2	-531.2541	5.527455	6.07e+11	32.80328	33.25677	32.95587
3	-530.4342	1.291989	7.43e+11	32.99601	33.63090	33.20963

Source: Data output via E-views 9.0

* Indicates lag order selected by the criterion, LR: sequential modified LR test statistic (each test at 5% level), FPE: Final prediction error, AIC: Akaike information criterion, SC: Schwarz information criterion and HQ: Hannan Quinn information criterion

4.6 Co-integration Relationship

The long run relationship was estimated with the aid of Auto-Regressive Distribute Lag (ARDL) model technique. The Johansen co-integration of the Johansen and Juselius (1990) is the conventional approach to determining the co-integration relationship between variables on the assumption that the variables must be integrated or stationary in the same order. However, considering the fact that most tine series data are not stationary at level owing to stationarity defects, this study adopted the newly developed ARDL to determining the long run relationship. The ARDL result in Tables 19-22 show that it is only inflation rate that has a long run relationship with foreign direct investment. In other words, real gross domestic product, exchange rate and interest are not in the long run related with foreign direct investment in Nigeria. This assertion was made on the idea that the f-statistic of 6.909968 is greater than lower and upper bound critical value of 4.94 and 5.73 respectively, while for real gross domestic product, exchange rate and interest with 3.517966, 1.513821 and 3.427023 are accordingly lower than 4.94 and 5.73.

Table 19: Bound Test for RGDP and FDI

T-Test 5% Critical Value Bound

F-Statistic	Lower Bound	Upper Bound	
3.517966	4.94	5.73	Null Hypothesis Accepted

Source: Data output via E-views 9.0

Table 20: Bound Test for EXCHR and FDI

T-Test	5% Critical Value Bound		Remark
F-Statistic	Lower Bound	Upper Bound	
1.513821	4.94	5.73	Null Hypothesis Accepted

Source: Data output via E-views 9.0

Table 21: Bound Test for INFR and FDI

T-Test	5% Critical Value Bound		Remark
F-Statistic	Lower Bound	Upper Bound	
6.909968	4.94	5.73	Null Hypothesis Rejected

Source: Data output via E-views 9.0

Table 22: Bound Test for INTR and FDI

T-Test	5% Critical Value Bound		Remark
F-Statistic	Lower Bound	Upper Bound	
3.427023	4.94	5.73	Null Hypothesis Accepted

Source: Data output via E-views 9.0

With the regard of the long run relationship between inflation rate and foreign direct investment in Nigeria, the determination of the speed of adjustment to equilibrium as well as the nature of the long relationship are vital. From the result in Table 23 shows that the error correction coefficient for inflation rate and foreign direct investments showed the expected negative sign which is significant at 5% level of significance hence, there is significant indication for the model to move towards equilibrium following disequilibrium in past years. From the ECM, 60.49% of error generated in previous period is significantly corrected in current year. In terms of the nature of the long run relationship between inflation rate and foreign direct investment, Table 23 dispels that inflation rate has negative significant relationship with foreign direct investment in the long run. With this, a unit increase in foreign direct investment would continue to reduce inflationary tendency in the economy.

Table 23: ARDL Error Correction for INFR and FDI

Short Run Co-integration Form

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(INFR(-1))	0.313431	0.171280	1.829936	0.0772
D(FDI)	-0.000009	0.000006	-1.625466	0.1145
CointEq(-1)	-0.604912	0.163076	-3.709385	0.0008
		Long Run Coefficient		
FDI	-0.000016	0.000009	-1.774455	0.0861
C	25.694541	4.988758	5.150488	0.0000

Source: Data output via E-views 9.0

4.7 ARDL Regression Results

The short run relationship between foreign direct investment and selected macroeconomic variables of real gross domestic product, exchange rate, inflation rate and interest were assessed with the aid of the ARDL methodology. The result of the ARDL approach as presented in Tables 24, 25, 26 and 27 were interpreted using the relative coefficient of the variables, adjusted R- square, Durbin Watson statistic for autocorrelation and f-statistic and its p-value.

4.7.1 Real Gross Domestic Product and Foreign Direct Investment

From Table 24, lagging the independent variable by one year shows that there is a positive significant relationship between foreign direct investments and real gross domestic product in Nigeria. The essence of lagging the FDI by one year is that it allows varying amount of recent trend in FDI to be brought in the forecast. The coefficient of the constant 1319226 implies that real gross domestic product would be ₦1, 319, 226 million if foreign direct investment inflow is kept constant. As shown by the foreign direct investment coefficient of 3.294426, a unit increase in foreign direct investments results in ₦3.29 million increase in real gross domestic product. From the Adjusted R-squared, 99.74% variation in real gross domestic product was explained by changes in foreign direct

investment inflows. The p-value of the F-statistic unveils that the variation in real gross domestic product significantly reflected on the foreign direct investments within the period studied. Durbin Watson of 1.97 is quite close to the bench mark of 2.0 thus there is no autocorrelation problem in the model as estimated.

Table 24: ARDL Regression Result for RGDP and FDI

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RGDP(-1)	1.706985	0.177122	9.637353	0.0000
RGDP(-2)	-0.762803	0.180964	-4.215213	0.0002
FDI	-0.907947	1.004088	-0.904250	0.3733
FDI(-1)	3.294426	1.016978	3.239426	0.0030
C	1319226.	447299.0	2.949315	0.0062
R-squared	0.997787	Mean dependent var		32735713
Adjusted R-squared	0.997482	S.D. dependent var		18212452
S.E. of regression	913875.3	Akaike info criterion		30.42383
Sum squared resid	2.42E+13	Schwarz criterion		30.64829
Log likelihood	-512.2051	L Hannan-Quinn criter.		30.50038
F-statistic	3269.301	Durbin-Watson stat		1.972288
Prob (F-statistic)	0.000000			

Source: Data output via E-views 9.0

4.7.2 Exchange Rate and Foreign Direct Investment

As can been seen in Table 25, foreign direct investment inflows has a positive and significant relationship with exchange rate. Looking at the constant coefficient of 6.302032, if the foreign direct investment inflow is kept constant, exchange rate would be ₦6.30. Similarly, a percentage rise in foreign direct investment leads be ₦3.28 appreciation in exchange rate. From the adjusted R-squared value it has been shown that 95.58% changes in exchange rate was attributed to inflow foreign direct investment. Furthermore, variation in exchange rate significantly accounted for the level of foreign direct investment inflows in Nigeria. The Durbin Watson value of 1.79 is within the acceptable range signifying that there is no danger of autocorrelation in the model.

Table 25: ARDL Regression Result for EXCHR and FDI

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EXCHR(-1)	0.978900	0.081101	12.07020	0.0000
FDI	3.28E-05	1.71E-05	1.920620	0.0463
FDI(-1)	-3.01E-05	2.01E-05	-1.502431	0.1455
FDI(-2)	-4.09E-05	2.33E-05	-1.755233	0.0915
FDI(-3)	-5.17E-06	2.19E-05	-0.235639	0.8156
FDI(-4)	5.78E-05	1.93E-05	3.000908	0.0060
C	6.302032	4.276599	1.473608	0.1531
R-squared	0.964320	Mean dependent var		86.08086
Adjusted R-squared	0.955757	S.D. dependent var		70.87116
S.E. of regression	14.90703	Akaike info criterion		8.432183
Sum squared resid	5555.490	Schwarz criterion		8.752813
Log likelihood	-127.9149	L Hannan-Quinn criter.		8.538463
F-statistic	112.6130	Durbin-Watson stat		1.797739
Prob (F-statistic)	0.000000			

Source: Data output via E-views 9.0

4.7.3 Inflation Rate and Foreign Direct Investment

The regression result in Table 26 shows that inflation rate has an insignificant negative relationship with foreign direct investment. The coefficient of the constant depicts inflation rate to be 15.51% assuming the inflow of foreign direct investment is constant. A unit appreciation in foreign direct investment entails a 9.38% reduction in inflation rate. Considering the adjusted R- squared coefficient, 40.60% variation in inflation rate was owed to fluctuation in foreign direct investment inflows. Thus, inflation rate was significantly responsible for variation in foreign direct investment as evidenced by p-value (0.00) of the f-statistic which is significant at 5% level of significance. There is no problem of autocorrelation in the model as the Durbin Watson value is 1.86 is very close to 2.0 which is a suggestion that the variables in the model are free from autocorrelation.

Table 26: ARDL Regression Result for INFR and FDI

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INFR(-1)	0.708519	0.169504	4.179947	0.0002
INFR(-2)	-0.313431	0.171280	-1.829936	0.0772
FDI	-9.38E-06	5.77E-06	-1.625466	0.1145
C	15.54293	5.045974	3.080264	0.0044
R-squared	0.460007	Mean dependent var		19.62676
Adjusted R-squared	0.406007	S.D. dependent var		17.38151
S.E. of regression	13.39609	Akaike info criterion		8.137934
Sum squared resid	5383.656	Schwarz criterion		8.317505
Log likelihood	-134.3449	L Hannan-Quinn criter.		8.199173
F-statistic	8.518742	Durbin-Watson stat		1.866836
Prob (F-statistic)	0.000304			

Source: Data output via E-views 9.0

4.7.4 Interest Rate and Foreign Direct Investment

The regression output in Table 27 lays credence to the presence of a negative insignificant relationship between interest rate and foreign direct investment. The constant coefficient of 7.522773 is an indication that interest rate will experience 7.52% growth if foreign direct investment is kept constant. Each time foreign direct investment increases by a unit, interest rate declines by 1.25%. The revelation from the adjusted R-squared shows that changes in interest rate accounted for only 31.76% changes in foreign direct investment, and this is statistically significant based on p-value (0.00) of f-statistic (6.12). The Durbin Watson value of 2.1 is a clear evidence of no autocorrelation in the model.

Table 27: ARDL Regression Result for INTR and FDI

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INTR(-1)	0.312341	0.171021	1.826329	0.0778
INTR(-2)	0.308802	0.159336	1.938049	0.0621
FDI	-1.25E-06	1.44E-06	-0.873330	0.3894
C	7.522773	2.814118	2.673226	0.0120
R-squared	0.379709	Mean dependent var		18.09853
Adjusted R-squared	0.317680	S.D. dependent var		4.378817
S.E. of regression	3.617019	Akaike info criterion		5.519309
Sum squared resid	392.4849	Schwarz criterion		5.698880
Log likelihood	-89.82825	L Hannan-Quinn criter.		5.580548
F-statistic	6.121468	Durbin-Watson stat		2.132639
Prob (F-statistic)	0.002241			

Source: Data output via E-views 9.0

4.8 Effect of Foreign Direct Investment on Macroeconomic Variables

The effect of foreign direct investment on the selected macroeconomic variables of real gross domestic product, exchange rate, inflation rate and interest rate was determined using the Granger causality test which ascertains the direction of relationship between variables of interest based on the default number of lag. The choice of granger causality in effect assessment is based on its capacity to show the prediction power of one variable on the other. The OLS only ascertain the relationship between variables without giving insight on which variable that predicts or cause another to move. From Table 28, there is a significant two way causal/bidirectional relationship between real gross domestic product and foreign direct investment. Causality flows from foreign direct investment to real gross domestic product, and from real gross domestic product back to foreign direct investment at 5% level of significance.

Table 28: Granger Causality for Macroeconomic Variables and Foreign Direct Investment

Null Hypothesis:	Obs	F-Statistic	Prob.	Remarks
FDI does not Granger Cause RGDP	35	13.2585	0.0009	Causality
RGDP does not Granger Cause FDI		3.94618	0.0152	Causality
FDI does not Granger Cause EXCHR	35	0.88592	0.3536	No Causality
EXR does not Granger Cause FDI		7.88074	0.0084	Causality
FDI does not Granger Cause INFR	35	1.34601	0.2546	No Causality
INFR does not Granger Cause FDI		0.15245	0.6988	No Causality
FDI does not Granger Cause INTR	35	0.37333	0.5455	No Causality
INTR does not Granger Cause FDI		0.00418	0.9488	No Causality

Source: Data output via E-views 9.0

This implies that foreign direct investment has significant effect on real gross domestic product on one hand, while on the other hand, real gross domestic product exerts significant effect on foreign direct investment. It was also observe that there is unidirectional relationship between exchange rate and foreign direct investment as causality runs from exchange rate to foreign direct investment. In this scenario, it is exchange rate that significantly affects foreign direct investment in Nigeria. Put differently, it is the exchange rate stability that determines the inflow of foreign direct investment in Nigeria. Foreign direct investment has no significant effect on inflation rate and interest rate in Nigeria owing to the absent of causality between inflation rate interest rate and foreign direct investment.

4.9 Hypotheses Testing

Decision Rule: If the p-value of f-statistic in granger causality test is less than 0.05, the null hypothesis is rejected. On the other hand, the null hypothesis is accepted if the p-value of F- statistic in granger causality test is greater than 0.05. With regard to the hypothesis decision rule, the rejection of the null hypotheses/acceptance of the alternative hypotheses are detailed in Table 29.

Restatement of Hypotheses

1. H_0: Foreign direct investment has no significant effect on economic growth in Nigeria.

   H_1: Foreign direct investment has significant effect on economic growth in Nigeria.

2. H_0: Foreign direct investment has no significant effect on exchange rate in Nigeria.

   H_1 Foreign direct investment has significant effect on exchange rate in Nigeria.

3. H_0: Foreign direct investment has no significant effect on inflation rate in Nigeria.

   H_1: Foreign direct investment has significant effect on inflation rate in Nigeria.

4. H_0: Foreign direct investment has no significant effect on interest rate in Nigeria.

   H_1: Foreign direct investment has significant effect on interest rate in Nigeria.

Table 29: Test of Hypotheses Summary

Hypotheses	Model Estimates	F-statistic	p-value	Decision
Hypothesis 1	RGDP → FDI			
	FDI	13.2585	0.0009	Reject H_0
Hypothesis 2	EXR → FDI			
	FDI	0.88592	0.3536	Accept H_0
Hypothesis 3	INFR → FDI			
	FDI	1.34601	0.2546	Accept H_0
Hypothesis 4	INTR → FDI			
	FDI	0.37333	0.5455	Accept H_0

Source: Granger Causality Output in Table 28

4.10 Discussion of Findings

The evidence from the ARDL results is the presence of a long run between inflation rate and foreign direct investment only. Economic growth through real gross domestic product as shown in Table 24 has a positive significant relationship with inflow of foreign direct investment in Nigeria. This is an indication that the level of growth in the economy is a determinant of foreign direct investment inflow because it augments

domestic investment, which is crucial to the attainment of sustained growth and development. This is further confirmed by the granger causality result in Table 28 that economic growth propels the inflow of foreign direct investment in Nigeria. The result supports the work of Okafor (2012), Olokoyo (2012), Onu (2012), Malick and Imran (2015), Adeleke, Olowe and Fasesin (2014), Ugwuegbe, Okore and Onoh (2013), Omankhanlen (2011) and Godly and Ukpere (2014) on the dependent of foreign direct investment on the level of growth attained in the economy. However, it refutes the empirical findings of Adigwe, Ezeagba and Udeh (2015) that foreign direct investment is negatively related with economic growth in Nigeria.

Table 25 unveils that exchange rate has a positive significant relationship with inflow of foreign direct investment. The implication is that as more foreign direct investments flow into an economy, it tends to increase domestic output and exports and *ipso facto*, strengthen the value of the local currency. This is because as exports of locally produced goods are increased, the demand for the local currency rises. Again the flow of foreign currency to the domestic economy increases the supply or availability of such currencies vis-à-vis local currencies. This helps to strengthen the local currency in a flexible foreign exchange regime. Thus, the flow of foreign direct investments increase the volume of foreign currency in the local economy, expands the ability of the local currency to access foreign inputs and the ability of the host economy to increase output. This result agrees with the studies of Godly and Ukpere (2014), Adigwe, Ezeagba and Udeh (2015), Adeleke, Olowe and Fasesin (2014), Ugwuegbe, Okore and Onoh (2013), Omankhanlen (2011) and Okafor (2012) on the positive correlation between exchange rate and foreign direct investment in Nigeria. On the other hand, it is in contrary to Olokoyo (2012) and Onu

(2012) on the negative nexus between exchange rate and foreign direct investment in the context of Nigeria business environment.

Foreign direct investment was observed to have negative relationship with inflation rate as seen in Table 25. In other words, the inflow of foreign direct investment does not give rise to inflationary tendency in Nigeria. This is against theoretical postulation that inflow of funds to host country would propel inflation as there would be much money in the economy. This may be due to macroeconomic instability in the country which deters the attraction of foreign capital. This contradicts the findings of Nazir (2012), Rashid *et al.* (2010) and Balderas (2005) who have established the existence of a positive relationship between inflation and foreign direct investment inflows. From Table 28, interest rate was found to be negatively related with foreign direct investment which is in line with a priori expectation. This result reveals that the interest rate in Nigerian is unfavourable for the inflow of foreign direct investment. Interest rate in Nigeria is grouped among the highest in the world owing to its resultant effect on cost of capital which affect domestic production. A low interest rate in the host country will encourage foreign direct investment inflows, particularly in the non-financial firms seeking for derivatives. From the economic point of view, interest rate substantially affect the intensity and pattern of foreign capital flow. This is in agreement with Okafor (2012), Cavallari and D'Addona (2012), Shahzad and Zahid (2012) and Yong and Tang (2009) but evidently reject the findings of Omankhanlen (2011) on the positive association between interest rate and inflow of foreign direct investment.

4.11 A Priori Expectation

The observed sign of foreign direct investment relative to selected macroeconomic variables: real gross domestic product, exchange rate, inflation rate and interest rate were dispel in line with the theoretical framework of this study. As can be seen in Table 30 – 33, foreign direct investment showed the supposed sign except for inflation rate.

Table 30: Real Gross Domestic Product

Independent Variables	Supposed Signs	Observed Signs	Remarks
FDI	+	+	Accept

Source: OLS Regression Results in Table 24

Table 31: Exchange Rate

Independent Variables	Supposed Signs	Observed Signs	Remarks
FDI	+	+	Accept

Source: OLS Regression Results in Table 25

Table 32: Inflation Rate

Independent Variables	Supposed Signs	Observed Signs	Remarks
FDI	+	-	Reject

Source: OLS Regression Results in Table 26

Table 33: Interest Rate

Independent Variables	Supposed Signs	Observed Signs	Remarks
FDI	-	-	Accept

Source: OLS Regression Results in Table 27

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

This study examined the effect of foreign direct investment on selected macroeconomic variables vis- a-viz: real gross domestic product, exchange rate, inflation rate and interest rate from 1981 to 2016. The findings revealed the following:

1. Foreign direct investment has significant effect on economic growth of Nigeria. There is a positive significant relationship between economic growth and the inflow of foreign direct investment.
2. Foreign direct investment has no significant effect on exchange rate in Nigeria; but exchange rate positively and significantly relates with foreign direct investment.
3. Foreign direct investment has no significant effect on inflation rate in Nigeria; and the inflation rate is insignificantly negatively related with foreign direct investment.
4. Foreign direct investment has no significant effect on interest rate in spite of the presence of an insignificant negative relationship with foreign direct investment.

5.2 Conclusion

This study ascertained the effect of foreign direct investment on specified macroeconomic fundamentals in Nigeria. It is evident that optimal performance of macroeconomic factors not only attracts foreign direct investment but sustains foreign capital in the host country. Adequate FDI has been attracted to Nigeria. This may not be unconnected to ineptitude of the economic policy makers and managers of the country as well as the fact that governments have not demonstrated sufficient acumen in charting sustainable environment and policies to attract and retain Foreign Direct Investment in Nigeria. The Nigeria nation has evidences of increasing

capacity to grow and consume. Infrastructure deficits and investment opportunities especially in agriculture and technology abound in Nigeria despite the threats of insecurity.

5.3 Recommendations

In lieu of the findings of this study, the following recommendations are put forward for consideration by concerned authorities:

1. Macroeconomic fundamentals of the nation need to be reinvigorated. This can be achieved if the policy makers should strive to strengthen macroeconomic policies (fiscal, and monetary policies) by allowing foreign investors freedom of choice of location of business in Nigeria; and efforts sustained in building and maintaining infrastructure across the nations. These will ease the cost of doing business and attract foreign investment.

2. The Central Bank of Nigeria should formulate and implement favourable exchange rate policies. This can be done by sustained efforts at financing commercial farming and agro-allied businesses by the Central Bank of Nigeria and Bank of Agriculture; and encouraging standardization of products for exports by the Standard Organisation of Nigeria and Nigerian Export Promotion Council. This will earn additional foreign exchange to the country thereby appreciating the value of local currency naira. Available foreign currency should be allocated mainly to favour export-oriented businesses.

3. Government should strive to reduce the cost of doing business by providing the necessary incentives that could stimulate the flow of foreign direct investment in Nigeria. Foreign direct investment could be growth enhancing if the necessary fundamentals like robust market potential and low interest rate on financial security is promoted while high inflation that raises cost of doing business should be discouraged. Fully standardized

Free trade zones and industrial layout should be marked out across the nations and private sectors should be encouraged to power the zones and layouts.

4. Government should improve the investment climate for existing domestic and foreign investors through infrastructure development. The railway networks across the entire regions of nations must be designed and financed through private public sectors partnership; more private persons should be licensed to generate power, and the various electricity distribution companies should be directed to receive market price for electric consumption. Indeed, when production is sustained over time, enough supplies will be in the market and prices will remain relatively stable.

5.4 Contribution to Knowledge

This study contributes to knowledge on the subject area by extending the period up to 2016 which was obviously lacking in the works of Olutu (2014) and Ayanwale (2014) who stopped at 2013. Furthermore, the application of inflation rate as a measure of macroeconomic variables is an improvement to the subject matter as it is scarce in previous studies reviewed. This study also makes a contribution to knowledge by conducting annual effect examination of foreign direct investment on macroeconomic performance in Nigeria. The most remarkable result of the hypotheses tested show that foreign direct investment has no significant effect on interest rate in spite of the presence of an insignificant negative relationship with foreign direct investment. This finding is contrary to the findings of many authors such as Agu (1988), Anyanwu (1998), and Ayanwale (2007).

5.5 Suggestions for Further Studies

This study examined the effect of foreign direct investment on macroeconomic variables of real gross domestic product, exchange rate, inflation rate and interest rate using annual time series data from 1981 to 2016. It is suggested that future researchers should consider utilizing monthly or quarterly data to validate the result of this current study. Furthermore, other macroeconomic indicators such as industrial production, and money supply should be considered for inclusion in future studies.

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