

**KAUNAS UNIVERSITY OF TECHNOLOGY
SCHOOL OF ECONOMICS AND BUSINESS**

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**THE INFLUENCE OF FOREIGN DIRECT INVESTMENT FOR NIGERIA
ECONOMIC GROWTH**

MASTER'S THESIS

Supervisor Prof. Dr., Jadvyga Šturbienė .

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SCHOOL OF ECONOMICS AND BUSINESS

THE INFLUENCE OF FOREIGN DIRECT INVESTMENT FOR
NIGERIA ECONOMIC GROWTH

BUSINESS ECONOMICS

MASTER'S THESIS

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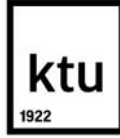
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SUMMARY

Many countries attempt to attract FDI as a result of the benefit attached to it as a mechanism of economic growth and development. Nigeria merged with the rest of the world in attempting to seek FDI so as to augment local resources of the economy and improve economic growth and development as proofed by the type of leadership policies intervention into the development of the economy. The aim of the study is to assess the impact of FDI on the economy with a view to highlighting the challenges to the flow of FDI and a resultant effect of increased flow of FDI in Nigeria. The broad objective of the study is to assess the performance of FDI in Nigeria. Methodology adopted comprises graphical representation and regression analysis. Graphical analysis is used to show the FDI inflow into the economy and into major sectors of the economy. The data adopted in this study covered a period of 1995-2013 adopting annual data from Central Bank of Nigeria statistical bulletin. Multiple linear regression method was adopted with the help of SPSS analysis to analyze the data and to find out the relationship that exists between FDI and economic growth in Nigeria. Other variables were considered such as real GDP, inflation rate, import level, export level and exchange rate. The value of F-statistics (2.795) and the co-efficient of determination R^2 of (0.518) indicated that the model was well specified and that the explanatory variables are adequate in explaining FDI inflow to Nigeria. The negative values of parameters such as the real GDP, inflation, import explain the inadequate FDI fund invested into the Nigerian economy which has not been able to significantly have impact on the economic growth. It also explains that there is need for policy reconsiderations. The result also indicates that FDI has a positive and insignificant impact on the growth of Nigerian economy for the period under study. The following recommendations were made, among others: Government should make provision for an enabling environment that will help to encourage foreign investors to invest in Nigeria economy, by providing better infrastructures. Government should also ensure improved regulatory framework that will encourage local and foreign investment by looking into the existing laws, eliminate or reduce the bottlenecks and search for new methods of raising foreign investment flow. A total of 11 tables, 10 figures and 80 pages were used for the thesis.

Keywords: Foreign Direct Investment, Economic Growth, Multiple linear Regressions, Nigeria.

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INTRODUCTION

Nigeria is seen as the 12th largest producer of petroleum in the world and the 8th largest exporter, and it also has the 10th largest proven oil reserves. Petroleum plays a significant role in the Nigerian economy, with the account of 40% of GDP and 80% of Government earnings (budget income) (United States Energy Information Administration Independent Statistics and Analysis. The country has natural resources as well as good number of agricultural products produced on vast lands in the country. Nigeria is a country that is naturally endowed with arable land and sufficient natural resources.

Governmental policies must be tailored towards improving the country and this result in the government inviting foreign investors into the country. Government policies and strategies towards Foreign Direct Investment (FDI) in Nigeria are based on two principal objectives: the need and desire for economic independence and the demand for economic development. The underdevelopment of the Nigerian economy has hampered economic development and this has led to the need for FDI into the country.

Nigeria as a developing country of the world has attempted to adopt several measures aimed to expedite growth and development of the economy, one of which is attracting FDI. The Nigerian leaderships acknowledges the import of FDI by that means trying to develop diverse techniques to design favorable policies and regulatory with the motive of raising the inflow of FDI to the country.

FDI is seen as a strategic tool for engendering economic growth in developing countries like Nigeria. The incapacity of Nigeria to boost the development of their infrastructure has made it difficult for foreign investors to come into the region. However there are other factors that could make a country more attractive to inflow FDI according to diverse authors. Natural resources, openness, macroeconomic risk factors like inflation as well as exchange rates are notable determinants of FDI inflow to Nigeria. Natural resources, large market size, lower inflation, good infrastructure, a literate population, and openness to FDI, less corruption, political stability as well as a dependable legal system as main determinants of FDI flows. Change in domestic investment, change in domestic output or market size, indigenization policy, and change in openness of the economy as vital determinants of FDI. But this finding shall be carried out to examine the influence of Infrastructure to the inflow of FDI in Nigeria to be precise. The study

employed secondary data obtained from the Central Bank of Nigeria statistical bulletins and annual report and statements of accounts covering the period of 1995–2013. The research methodology employed in this study is the ordinary least square (OLS) regressions. The choice of the data used is based on its wide coverage and the standardization as it has been processed from its raw form by the relevant authorities/agencies.

The aim of the study is to assess the impact of FDI on the economy with a view to highlighting the challenges to the flow of FDI and a resultant effect of increased flow of FDI in Nigeria.

The broad objective of the study is to assess the performance of FDI in Nigeria whereas the specific objectives are:

- To examine the present state of infrastructural facilities relevant to FDI in Nigeria;
- To determine the main determinants of FDI in Nigeria;
- To characterize infrastructure on the inflow of FDI in Nigeria;
- To determine how the inflow of FDI has been having influence on the economic growth Nigeria.

1. THE IMPORTANCE OF FOREIGN DIRECT INVESTMENT FOR NIGERIA ECONOMY

In this section, an attempt is made to discuss the trend of FDI by examining the sectoral composition of the FDI in Nigeria, the effect of unemployment on economic growth of Nigeria, the structure of Nigerian GDP and the main problem(s) of FDI in Nigeria.

1.1. Changes of Foreign Direct Investment Nigeria

The inflow of FDI in Nigeria has been concentrated on the extractive industries. However, the trend has changed significantly with diversification of the economy and attention being given to the manufacturing and processing (M&P), mining and quarrying (M&Q) as well as trading and business services sectors (T&BS) Table 1 shows that.

Table1. Sectoral composition of FDI in Nigeria* in 1995-2013 in ₦ billion (Central Bank of Nigeria Statistical Bulletin, 2014).

Year	Sectors							Total
	M & Q	M & P	Agric.	T & C	B & C	T & Bus. Serv.	Misc. Serv.	
1995	-810.0	8,692.4	382.8	373.2	1,471.6	1,452.2	682.0	12244.2
1996	6,417.2	9,746.3	386.4	391.5	1,406.6	1,482.5	682.2	20512.7
1997	27,686.9	13,885.1	1,214.9	426.4	71.2	1,864.5	22,638.0	67787
1998	26,680.0	14,059.9	1,208.5	429.6	1,707.0	2,247.6	24,381.1	70713.7
1999	56,747.3	27,668.8	1,209.0	374.8	1,553.0	2,990.7	28,848.0	119391.6
2000	56,792.3	29,814.3	1,209.0	485.6	1,864.3	3,668.7	28,766.7	122600.9
2001	59,221.4	31,297.2	1,209.0	672.6	1,259.8	3,625.7	31,046.2	128331.9
2002	59,970.5	34,503.9	1,209.0	689.2	3,888.3	10,460.5	41,689.5	152410.9
2003	58,855.4	36,282.1	1,209.0	820.3	3,995.9	10,927.3	42,100.4	154190.4
2004	60,710.9	37,333.6	1,209.0	820.3	3,995.9	11,201.3	42,237.6	157508.6
2005	61,611.9	37,779.6	1,209.0	955.3	4,211.9	12,016.3	43,657.6	161441.6
2006	61,611.9	39,953.6	1,209.0	1,736.3	4,293.9	12,317.3	45,509.6	166631.6
2007	61,809.1	45,719.4	1,209.0	2,890.5	4,545.8	14,457.3	49,056.5	179687.6
2008	62,145.7	102,995.8	1,209.0	4,281.1	5,194.1	20,242.4	53,571.2	249639.3
2009	80,789.4	133,894.5	1,209.0	5,565.4	6,713.3	26,315.1	69,642.6	324129.3
2010	105,668.4	212,729.0	1,209.0	8,291.0	10,461.1	41,309.3	102,780.0	482447.8
2011	132,085.5	219,512.0	1,329.9	10,758.2	12,030.2	47,505.7	129,277.1	552498.6
2012	140,497.1	229,764.6	1,397.2	11,383.3	12,702.5	50,194.9	140,370.1	586309.7
2013	155,550.2	249,805.4	1,425.4	12,479.1	13,613.4	58,327.2	160,484.3	593357.8

*M&Q - Mining and Quarrying, M&P - Manufacturing and Processing, Agric. - Agriculture, T&C - Transport and Communication, B&C - Building and Construction, T & Bus. Serv. - Trading and Business Services while Misc. Serv. - Miscellaneous Services.

According to Table 1, M&Q represents Mining and Quarrying, M&P represents Manufacturing and Processing, Agric. represents Agriculture, T&C stands for Transport and Communication, B&C stands for Building and Construction, T & Bus. Serv. stands for Trading and Business Services and Misc. Serv. stands for Miscellaneous Services. Table 1 shows that basically three main sectors: mining and quarrying, manufacturing and processing, and miscellaneous sectors have a significant and notable smooth inflow. In 2013 mining sector accounted for a maximum of ₦155,550,200 million, manufacturing and processing sector gave account of a maximum of ₦249,805,400 million whereas trading and business services accounted for a maximum of ₦58,327,200 million.

From this analysis, it is obvious that FDI inflow into these sectors is encouraging considering the uniqueness of these sectors to other sectors of the economy.

According to table 2, the sectoral composition of cumulative FDI in Nigeria as given indicates that, mining and quarrying as well as the manufacturing and processing sector are the most attractive, seeing that they obtained bulk of the FDI inflows into Nigeria.

Table 2. Sectoral Composition of FDI in Nigeria* in 1995-2013, % (National Bureau of Statistics and Central Bank of Nigeria, 2014).

Period	Sectors							Total
	M & Q	M & P	Agric.	T & C	B & C	Trade. & Bus. Serv.	Misc.	
1995 - 1999	43.5	23.6	0.9	0.4	1.8	4.5	25.3	100.0
2000 - 2004	34.7	27.6	0.5	1.1	1.9	7.6	26.0	99.4
2005 - 2008	23.7	41.1	0.3	1.8	2.2	8.5	22.6	100.2
2009 - 2013	15.9	46.2	0.2	2.3	3.4	9.3	23.1	100.4

*M&Q - Mining and Quarrying, M&P - Manufacturing and Processing, Agric. - Agriculture, T&C - Transport and Communication, B&C - Building and Construction, T & Bus. Serv. - Trading and Business Services while Misc. Serv. - Miscellaneous Services.

According to Table 2, mining and quarrying accounted for a maximum of 43.5% in 1995-1999. The stock of FDI in mining and quarrying sector was favorable in comparison to that of the manufacturing and processing sector during that period. Manufacturing and processing accounted for 46.2% between the period of 2009 and 2013. Agriculture; transportation and communications; building and construction remained the least attractive in an attempt to host

FDI in Nigeria. The sectors mutually gave account for a total of 16.8% of the stock of FDI in Nigeria from 1995T - T2013. The percentage increase of the sectoral composition of FDI in Nigeria between the period of 2000-2004 and 2005-2008 accounted for 0.8% and it accounted for 0.2% between the period of 2005-2008 and 2009-2013.

1.2.Trend in Unemployment, Inflation and Gross Domestic Product in Nigeria

Since the attainment of political independence in 1960, Nigeria has gone through diverse fundamental structural changes. These domestic structural shifts have however not led to any significantly notable and sustainable economic growth and development. Nigerian economy grew relatively in the greater parts of the 1980s, as regards the oil boom of the 1970 to 1980s. Also, the persistent poor performance of the Nigerian economy as captured by the growth rate of real GDP in the presence of high inflationary levels provides another key justification for this study as it is shown in Table 3.

Table 3. Unemployment, Inflation and Labor force participation in Nigeria in 1995-2013, % (Central Bank of Nigeria, 2014 Trade Economics, 2015 World Bank, 2015)

Year	Unemployment rate, %	Inflation rate, %	Labor force participation rate, % (15 - 64 years)	Economic growth, %
1995	1.9	72.8	56.7	-0.31
1996	2.8	29.3	56.6	4.99
1997	3.4	8.5	56.5	2.8
1998	3.5	10.0	56.3	2.72
1999	17.5	6.6	56.2	0.47
2000	13.1	6.9	56	5.32
2001	13.6	18.9	55.7	4.41
2002	12.6	12.9	55.5	3.78
2003	14.8	14.0	55.1	10.35
2004	13.4	15.0	54.8	33.74
2005	11.9	17.9	54.9	3.44
2006	12.3	8.2	55.1	8.21
2007	12.7	5.4	55.2	6.83
2008	14.9	13.2	55.4	6.27
2009	19.7	11.7	55.5	6.93
2010	19.7	9.6	55.6	7.84
2011	23.9	11.5	55.8	4.89
2012	23.9	10.9	55.9	4.28
2013	23.9	8.7	56.1	5.39

Available data reveal that the excessive profits from the oil boom motivated wasteful and extravagant expenditures in the public sector displacement of the employment factor and also distorted the revenue bases for policy planning. According to Table 3, the unemployment rate in 1995 accounted for 1.9%. It hovered between 2.8 and 13.1% between 1996 and 2000. It is impressive to note that, in 2005, Nigerian's unemployment rate declined to 11.9% from 14.8% in 2003. This decline was attributed to the various government efforts aimed at addressing the problem through poverty alleviation programmes. This decline also pointed to an increased number of people who got engaged in the informal sector activities. Unemployment increased sharply from 14.9% in 2008 to 19.7% in 2009 and kept increasing until 2013 where it accounted for 23.9%. In Nigeria, inflation was effectively curtailed in the late 1990s when the country recorded single digit of 8.5% and 6.6% in 1997 and 1999 respectively. Inflation entered the two digit range between 2001 and 2004 when 18.9%, 12.9%, 14% and 15% were recorded in 2001, 2002, 2003 and 2004 respectively. However, during the period of 1999-2007, inflation rate increased from 6.6% in 1999 to a peak of 17.9% in 2005, and later declined to 8.2% in 2006 and further eased to 5.4% in 2007 of its historical low (since 1986 Structural Adjustment Programme (SAP) era and also as a result of economic stabilization. The emergence of global financial crisis 2008-2011 further increased inflation rate by over 100% and it averaged 11.8%. The Labor force participation rate is defined as the proportion of the population ages 15-64 that is active economically. This also includes those that are employed and that are not employed: all those who supply labor for the production of goods and services during a specified period. The total figure for Nigeria at that period was 55.98 % giving account of a minimum of 54.8 % in 2004 and also a maximum of 56.7 % in 1995.

The structure of Nigerian Gross Domestic Product. The GDP of Nigeria as showed in Table 4, is made up of the following sectors; Agriculture, Industry, Building and Construction, Wholesale and Retail Trade and Services. The Agricultural sector is made up of crop production, livestock, forestry and fishing. The Industry is made up of crude petroleum and natural gas, solid minerals (coal mining, metal ores, quarrying and other mining).

Industry on the other hand consists of oil refining, cement and other manufacturing, while Services is made up of transport (road transport, rail transport and pipelines, water transport and air transport), communications (telecommunications and post), utilities.

Table 4. Structure of Gross Domestic Product in Nigeria in 1995-2013, % (Central Bank of Nigeria Statistical Bulletin, 2014)

Period covered	Total periodic GDP	Agriculture		Industry		Building & Construction		Wholesale and Retail Trade		Services	
		Periodic GDP	% of Total	Periodic GDP	% of Total	Periodic GDP	% of Total	Periodic GDP	% of Total	Periodic GDP	% of Total
1995-2000	13340350	4600090	34.5	5444608	40.8	101007.6	0.7	1953461	14.6	1241182	9.3
2001-2006	36115683	13673208	37.8	13923902	38.5	344317.3	9.5	4349191	12.0	3827075	10.6
2007-2013	114000000	38504069	33.8	45534242	39.9	1369480	1.2	15492191	13.6	12854033	11.3

Table 4 shows that between 1995 and 2000, industry gave account of the highest GDP which is 40.8%, followed by agricultural sector 34.5%, wholesale and Retail Trade 14.6%, services 9.3%, while Building and Construction 0.7% accounted for the least contribution to the GDP. This scenario continued up to the period between 2007 and 2013, while industry 39.9% maintained the lead, it was followed closely not by the wholesale and Retail Trade sector 13.6% but by Agricultural sector 33.8%. Table 4 again indicated that Industry dominated Nigerian GDP from 1995 to 2000, from 2001 to 2006 and from 2007 to 2013 industry and agriculture both dominated Nigeria's GDP. This progress and development was as a result of the contribution of crude petroleum sub-sector to the GDP of Industry. Building and Construction on the other hand, in a consistent manner accounted for the least contribution to the GDP from 1995 to 2013.

1.3. Main Problems affecting Foreign Direct Investment in Nigeria

It has been perceived that the base of infrastructure of the Nigerian economy has remained feeble in the past decades. This is as a result of the quite low gross domestic savings of Developing countries for example Nigeria, which is a main impediment to infrastructural. FDI can be perceived as segment of the international economic system that engenders economic growth inclusive of infrastructural development. In the light of the role being played by foreign capital inflows as investment mechanism or technique for economic growth in most countries, and as a sturdy index of the economic strengths of Nations', this research therefore is arranged for the purpose of examining the impact of the FDI on the Nigerian economy with an attempt to highlighting the challenges affecting the inflow in the economy.

The problems affecting FDI mostly are related with: 1) Problem of infrastructure. 2) Market size, GDP growth rate and unstable macro-economic. 3) Policy framework. 4) Political instability Sanusi (2012).

1. Problem of infrastructure: This has been an issue of great importance in this study whereby infrastructural facilities have been measured in Nigeria in comparison to the level of interest of the foreign investors considering the diverse view of different authors. The relationship that exists between infrastructure and interest of the foreign investors in the country has been established conflicting with each other. African countries generally are deficient in appropriate and sufficient infrastructure such as telecommunication, transport, power supply, professional labors, etc. in order to make easier the interest of foreign investors in the region. They made provision for the evidence that good infrastructure helps to impact positively FDI flows to Africa. The position of infrastructure in attempting to attract FDI to a country is of much importance. Infrastructure such as energy supply, good network of roads and efficient and effective telecommunication system, and water supply is very vital. Foreign investors do put into consideration some of these facilities as one of the main criteria prior to making decision whether or not to take up investment (Baker, 2008). Kolapo, (2010) postulates that infrastructural facilities serves as the pillar for growth and development, therefore the government should attempt to develop a policy that will motivate foreign investment into Nigeria's economy; seeing that foreign investment is really needed for essential infrastructure. Sanusi (2012) identified the poor level of infrastructure in Nigeria as the major constraint towards realizing the nation's vision of becoming one of the 20 largest economies in 2020. Recently, World Bank (2010)

assessment has revealed that more than one hundred million Nigerian's do not have access to electricity supply. Moreover, the different transport modes are not properly linked to serve the socio-economic needs of the people. Nigeria currently has a road network of about 193,200km and more are currently under construction and planned for the future. However, despite huge sums of money, which have been sunk into road construction, these roads have been plagued by problems (World Bank, 2010). Despite the high investment level in petroleum industry by government and private enterprises, the level of its performance has not been impressive and attributed by product shortages characterized by communal strife, pipeline sabotage, and failure to implement proper Turn-Around-Maintenance (TAM) of refineries and pipeline systems when required (Omagbeme, 2010). According to Oyinloye (2011) Nigeria's infrastructural deficit is estimated to be beyond \$200 billion (more than N30 trillion). Oyinloye (2011) opined on funds investment in infrastructure. The Rail system has also remained in its undeveloped state for several decades, attributed by out of date tracks with sharp curves and gradients limited speed to about 35km per hour. at the moment there are less than 30% of the 280 railway stations in the country operating. The sector is direly in need of reform.

2. Market size, GDP growth rate and unstable macro-economic: multinational corporations (MNCs) look out for localities that help to offer considerably large internal market and also open up large regional market. Nevertheless, one must be careful not to match population with market that is a country with vast population with little purchasing power may be unattractive to investors seeing that each investor is interested in making profit (Aboyade, 2007). Nigeria have really motivated this sector in this area, even the government import almost all their materials from abroad, then how is it expected that an investor should open an industry when he is not being guaranteed of patronage. One of the main factors making the continent to be regarded as developing countries is their low rate of GDP yearly. The GDP rate is low with comparative small market size so this serves as impediments to the inflow of FDI in the region. Economic growth is of importance to determining FDI flows to the region. The effective existence of macroeconomic is one of the quintessential determinants of FDI interference in any country and in a situation where macroeconomic variables have been demolished or not put in place by any nation then it will affect the interest and attraction of FDI. The existence of inflation, budget

deficit, currency crashes, etc. in Africa does not make the continent attractive to foreign investors.

3. Policy Framework and Political instability: For a country to be able to draw the attention of FDI, it is of much importance to put in place an investment friendly and transparent policy structure like the Nigerian Investment Promotion Commission (NIPC), Security and Exchange Commission (SEC). According to Kolapo (2010) the conspicuous obstruction in the way of sustainable growth in Nigeria are only a vivid indication of a government characterized by dishonesty and egocentrism. Eboh (2011) suggested that Nigeria should market itself productively, effectively and take up constant and systematic long term planning if it wants to remain an attractive place for foreign investors and FDI. According to Egolum (2011) past leaderships and regimes have attempted to resolve the problem by making known their resolution to see to the improvement of fundamental infrastructures thereby helping to enhance economic development by issuing soft loans and grants from Multilateral Financial Institutions (MFIs) these include International Monetary Fund (IMF), World Bank and other lending nations. These loans and grants are usually attributed with certain conditions such as downsizing of budgets in the social sectors; subsidy removal, which result to exchange rate crisis, enormous devaluation of local currency and terms of trade resolution, foreign content and expatriate usage, unemployment and underemployment (Egolum, 2011). As a result, owing to crumble of erected facilities, there is the urgent need for tremendous infrastructural development, which will be impossible to be entirely financed with the domestic savings and loans with conditions appended to it.

2. THEORETICAL ASPECTS OF FOREIGN DIRECT INVESTMENT

2.1. The Concept of Foreign Direct Investment

Given the evolution of foreign capital flows worldwide, UNCTAD experts believe that foreign investments have a major potential for achieving sustainable development (UNCTAD, 2014). Several economics theories made attempt to evaluate the role of FDI in the country both from positive and negative point of view. Economic theories like neo-classical theory, dependency theory, and endogenous growth model theory will be considered as fundamental points of discussion. Neoclassical perspective is based on a fundamental principle in economics, which proposes that economic growth requires capital investment in the form of long-term commitment (Adams, 2009). This implies that this theory forms a better relationship between the FDI and economy development of every society developing countries in particular. The second theory to be considered is dependency theory; dependency theory maintains that, the poorness of developing countries is as a result of: imperial neglect; overdependence upon primary products as exports to developed countries; foreign investors' malpractices, particularly through transfer of price mechanics; foreign firm control of major economic sectors with crowding-out effect of domestic firms; implantation of inappropriate technology in developing countries; introduction of international division of labour to the disadvantage of developing countries. The dependency theorists also focused on the several ways by which, FDI of multinational corporations distort developing nation economy. Some scholars of this theory believed that, distortive factors include the crowding out of national firms, rising unemployment related to the use of capital-intensive technology, and a marked loss of political sovereignty (Umah, 2007).

Researchers indicated that FDI are an important source of country development and of late they began to be considered as an important source for sustainable development. There is a wide acceptance between researchers that FDI engenders and promotes economic growth in target country as a result of the increased rate of capital formation on one side and on the other side indirectly leading to human capital growth, technological transfers and increase competition (Kneller, 2007). FDI is the distinguishing attribute of multinational enterprise hence; a theory of FDI is also a theory of the multinational enterprise as an actor in the world economy (Ekpo, 2010). Nigeria's share of FDI inflow to Africa averaged around 10%, from 24.19% in 1990 to a low level of 5.88% in 2001 up to 11.65% in 2002 (UNCTAD, 2009). It indicated Nigeria as the

continent's second top FDI recipient after Angola in 2001 and 2002 (Efem, 2009). Multinational Corporations (MNCs) are seen as the major drive of FDI and through their activities they help to change the economic environment of host countries. Adequate policies would positively affect FDI and sustainability issues if these were addressed for each specific economic activity (Pazienza, 2011). In this sense researchers found that MNCs promote environmental friendly practices, in countries with feeble regulations in this field, because of their implemented standards, like ISO 14001 (Zeng & Eastin, 2012), even though some studies found out that the laxity of environmental regulations has also been assessed as a potential source of comparative advantage (Chung, 2014).

Several definitions of FDI were developed on the basis of its international attributes and MNCs activities in host countries and were even compared with portfolio investment by a number of authors. The definition so developed and acknowledged, often has two typical components that involves two countries – which is very frequently described as the multinational FDI character, and the other components which is fundamentally associated with the affair of ownership and management – which makes it differ from portfolio investment. FDI is therefore regarded as the ownership and management of production businesses abroad, while foreign portfolio investment is the situation whereby financial capital, loan or equity is transferred of from one country to another. FDI separate itself due to its intricacy, as a result of the fact that it requires transfer of managerial and organizational capability and technical expertise. The definition of FDI is not segregated. The FDI as a segment of MNC's activities, a single and segregated definition is impossible (Piggot and Cook, 2006).

Regardless of its complication numerous definitions have emerged. According to the IMF balance of payment manual FDI is defined as an investment that is ventured into in order acquire a long-term interest in an enterprise that is being operated in an economy aside from that of the investor. According to (Piggot and Cook, 2006) FDI is the procurement, establishment or increment in production facilities by an organization in a foreign country. These definitions cut across all three elements of FDI such as mergers and acquisitions, 'Greenfield Investment' and reinvestment. According to the OECD, (2012), "A FDI establishment is an establishment resident in one economy and in which an investor resident in another economy owns and controls, either directly or indirectly, 10% or above of its voting power if it is incorporated or the equivalent for an unincorporated enterprise. An ownership of at least 10% of the voting power of

the establishment is considered as the essential proof that the investor has enough influence to have an effective voice in its management. Ayanwale, (2007) gives his opinion by giving an extensive explanation of the operational meaning of FDI as being the owner of at least 10% of the ordinary shares or voting stock in a foreign enterprise. In this way, ownership of 10% ordinary shares is the criterion for the existence of a direct investment relationship while ownership not up to 10% is documented as portfolio investment.

Annaek, (2007) defines Foreign Direct Investment as the process by which people in one country obtain ownership of assets for the sole aim of having control over the production, distribution and other activities of an establishment in a foreign country. OECD has made provision for an expansive definition of FDI (OECD, 2012) FDI arises when an establishment located in one country (the direct investors) invests in an establishment located in another country (the direct investment enterprise) with the objective of forming a strategic and a lasting relationship. Within an effective policy framework FDI can help host countries in the developing of local businesses, promoting trade and helping to contribute to technology transfer. In a like manner, it can make provision for higher market access to businesses in home countries. Governments, businesses and other stakeholders are need of reliable FDI statistics to notify and support their decisions for investments worldwide.” By bearing in mind all the above mentioned definitions, FDI can be defined as the investment set up by an organization (MNC’s) in another country to take advantage of the resources available in that country in order to spread internationally and to benefit long-term profits. FDI has been categorized into different types based on the opinion of different authors. It could be seen as inward FDI and outward FDI. The inward is relevant with the attempt of the developed multinational companies in the rich countries to invest in the developing countries while the outward identified the efforts of the developing economy countries to expand their investments out of their countries to developed nations. There are four motives of FDI extracted from ownership location and internalization (OLI) theory according to Dunning et al., (2008) and Franco et al., (2010). These include 1) resource-seeking FDI. 2) market-seeking FDI. 3). efficiency seeking FDI and 4). strategic asset seeking FDI. The prime aim of the market-seeking FDI is to enter the local markets of host countries regarding market size and per capita income, market growth, entry to regional and global markets, consumer tastes, desires and structure of domestic market.

Resource seeking motives: Franco et al., (2010) have expanded alternative solutions and locational determinants for the resource seeking FDI. As alternative solutions to the resource seeking FDI they suggest the adoption of international trading intermediates and outsourcing, particularly when transactions costs are reasonable and supply guaranteed. However, if the exchange rate of the host country is particularly volatile and unstable, FDI is normally employed for the protection of the MNE from the exchange rate risk of importing. This has been the case e.g. in natural resource FDI in Africa. Finally, the locations of a resource seeking FDI rely on the real costs and complete shortage of the resource and the productivity of the labor which is vividly higher in developed than in developing countries (Franco et al., 2010).

Market seeking motive: Market seeking FDI's are majorly based on strategic locational advantages and improving both the company's international, regional and local market power. Franco et al., (2010) interpolate that if the products or technology can be copied easily but it cannot be patented a company should attempt to harness FDI, but if patenting works exporting and licensing are also pertinent options. Market seeking types of FDI's are created for the utilization of new markets or protect markets that are in existence, or, as Franco et al (2010) add, act as an export-platform. This implies that an investment in a particular country (with other locational than market advantages) is a platform from which products or services can be exported primarily to nearby countries, e.g. to other European Union or North American Free Trade Agreement (NAFTA) countries.

Efficiency seeking motive: Franco et al., (2010) propose that the motive of efficiency seeking is quite similar to that of resource seeking as a result of the fact that it is most times based on benefitting from the fragmented production (organization of production in which diverse stages of production are grouped among diverse suppliers that are situated in diverse countries) and inexpensive labor cost in developing markets, and therefore would not be regarded as an independent motive.

Strategic asset seeking motive: the last category Dunning singles out may be regarded as a separate FDI because in this case, the objective of the investment is to acquire and supplement new technological base rather than utilizing the existing assets. Others see the procurement of any type of assets to be strategic by definition. Benito (2015) argues that asset-seeking is forward-looking, ambitious, and above any other foreign operation of an MNE, relies on the right assessment of the assets of other external actors (Narula and Santangelo, 2012).

The resource asset seeking FDI attempts to find and secure natural resources, such as, raw materials, lower unit labor cost of unskilled labor force and the pool of skilled labor, physical infrastructure (ports, roads, power, and telecommunication) and the level of technology. The efficiency seeking FDI is inspired by generating a source of competitiveness for firms and it prefers to go where the production costs are lower. And finally, strategic asset seeking FDI's objective is to advance firms' strategy at the global or regional level on how to operate in the internalization market. Figure 1 explains the motives of FDI for making FDI decisions and its determinants

Harunadanja (2012) opines and sees FDI and international capital flows as closing the savings gap in developing countries. FDI has been considered to be amidst the quickest rising economic activities around the planet. The FDI flows from one side to another side of the globe has increased evidently, from an annual average of US\$142 billion during the period of 1985-1990 to beyond US\$385 billion in the year 1996 and then it came up with a record by getting as far as a record of US\$1.9 trillion in the year 2007 (UNCTAD, 2009). These countries raise their yearly share out of total world FDI from 15 % in 1990 to 30 % in 2006 and then to 37 % in the year 2008 (UNCTAD, 2009).

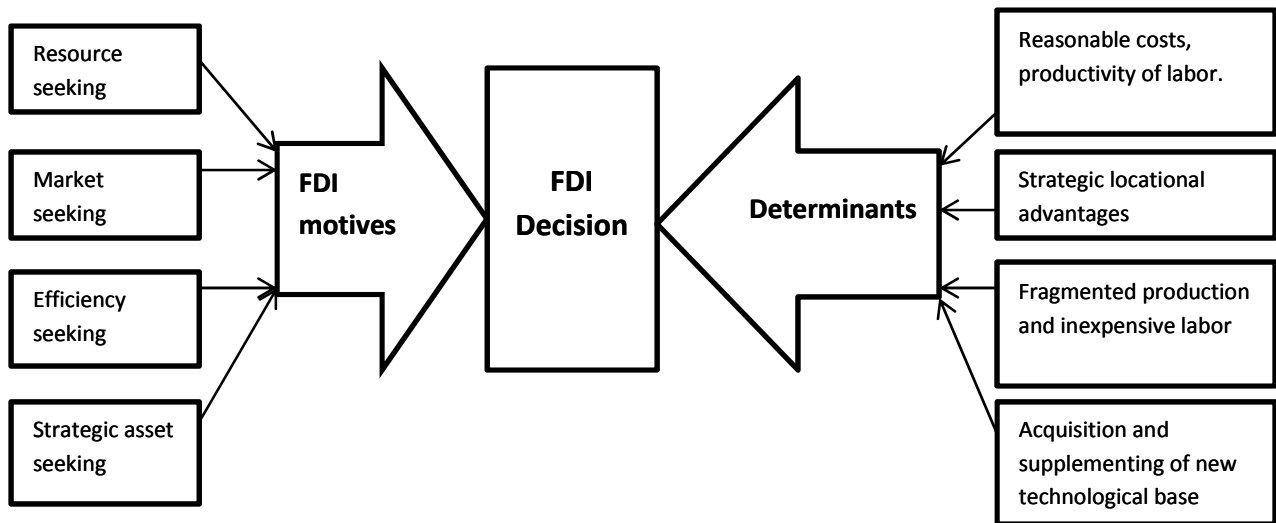


Figure 1. Framework of FDI motives and determinants of FDI decision.

2.2. General Theories and Forms of Foreign Direct Investment

The phenomenon of FDI has been the subject of diverse theories of international business and internationalization models. It must be recorded, however, that the field of international business is yet to develop a coherent theoretical foundation, instead relying on old concepts, addressing the issues of “why” (causality), “how” (modality), “when” and “how fast” (temporality) and “where” (location) of the foreign expansion (Kutschker & Schmid, 2008). Therefore, the set of theoretical explanations of the phenomenon of firm internationalization are highly heterogeneous and not completely consistent, still remains far from a “perfect theory”.

The increasing concern of FDI in this global big picture over the last few decades has prompted economists and researchers to pinpoint and create some explanations that relevant for FDI. These explanations therefore created, is regarded as the outcome of quite a few discoveries. As a result of the existence of considerable overlap in these explanations, we can classify them into three legitimate categories, namely, traditional, modern and radical theories. For the purpose of the case study, it is nonetheless essential to look through the different types of FDI and the factors that serve as determinants for the flow of such FDI's in the host country. In order to get the idea of these generic theories of FDI stated above, it will be suitable to explain these theories by using OLI paradigm of Dunning. MNC's at the same time taking up foreign investment projects will undergo certain advantages that the host country possesses.

Dunning emphasized these advantages as; Ownership advantage (O), Location advantage (L) and Internalization specific advantage (I). ‘L’- type of advantage is the external factor of the firm, while ‘O’- type and ‘I’- type of advantages are the internal aspects of the firm. Of these advantages, ‘L’- type has the lion share of advantage for FDI flows from developed to developing economies in common and majorly to countries that are undergoing transition. Langvinien et al., (2011) group FDI forms by the objective to resource-seeking, market-seeking, efficiency-seeking, strategic asset-seeking, by the role of the parent company to horizontal, vertical, etc. Dunning also grouped the motives for undertaking FDI into resource seeking, market-seeking, efficiency-seeking and strategic asset-seeking. While the latter category of motives is aimed at enhancing the resource base of a company in a given location, the former three motives can be collectively labeled as asset-exploiting (Dunning et al., 2008). Furthermore,

also the motives of the business firm have effect on the decision process of a foreign operation mode (Franco et al., 2010).

2.2.1. Ownership Specific Advantage

Ownership Specific Advantage (OSAs) are normally presented in form of: product differentiation ability, marketing, logistic and management skills, trademarks and brand names, access to raw materials, economies of scale, access to capital, technology, patents, etc., which are not readily available to other companies and are quite uneasy to imitate. Lately, the literature also attempts to include business relationships and networks within a company and between companies as a necessary firm-specific factor that can help lead companies to excellent performance in foreign markets (Johanson and Vahlne, 2009). They may be seen as something vital in the case of country-specific factors located in the host country, under the authority of host country firms and as a result not easily accessible. In this case, the development of a relationship with those companies is most times a prerequisite to obtaining access to the desired factor endowments (Hennart, 2009).

Multinational companies depend on knowledge capital; therefore they internalize ownership-specific advantages, which results in larger volumes of FDI (Jadhav, 2012).

They mainly emanate due to deficiencies that occur in factor and commodity markets. Deficiencies in factor market comprise management proficiency, patents, trade secrets, difference in being able to have access to capital market, trademarks and brands, whereas in the commodity markets appear in the form of promotional competences, collusion and product differentiation. The condition of imperfect market emerge as a result of several factors namely; economies of scale and government policies with respect to rates of interest, taxes etc. these imperfections in the market brings about several OSA's which can be categorized as follows Piggot and Cook, (2006); M.Neuhaus, (2006):

- Monetary and financial advantages – this includes having access to capital market in order to obtain cheaper capital;
- Industrial organization – advantages emerging out of Research and development and Economies of scale in a market of oligopoly;

- Technical advantage – benefits enjoyed in having patent rights, varied management expertise etc;
- Having access to raw materials.

2.2.2. Location Specific Advantage and Internalization Specific Advantage

There are not many empirical studies that directly investigate the FDI impact on the firm's competitiveness, illustrating areas where the impact was identified as a result of the investments made abroad (Szałucka, 2010; 2014; Gibb and Szałucka, 2012). While international trade theory has looked to take ownership advantages for granted or else to model them in averagely evident ways, rather more concentration has been given to exploration of alternative thoughts for MNEs to locate abroad. According to Benito, (2015), the 'classic motives' are intentionally all about internationalization (and act as minute purpose in trying to understand other operations of the firm). Decisions regarding internationalization imply that the rationale for a specific investment are connected with access (or lack thereof) of location-bound resources in the host country.

Liu, Daly and Varua, (2013) concentrate on the location theory which draws attention on policy, economy variables, and cost of productions to explain why different locations are more or less attractive for FDI. They are perhaps available in principle to all firms physically or legitimately domiciled in the host country (such as the ones connected with knowledge infrastructure, or natural resources) in which case they are location advantages (Narula and Santangelo, 2012). Portia Alimatu Bukari, (2011) opines that investors from foreign countries take advantage of the natural resources that are readily available in large quantities in another geographical location that is quite different from theirs and at cheaper prices or rates in some cases. If these natural resources are efficiently and effectively harnessed and managed by these foreign investors it may lead to a decrease in their costs and then increase their price capability.

Internalization Specific Advantage

According to Piggot and Cook, (2006) it refers to the effectiveness of the firms to utilize or exploit the ownership advantage they possess internally rather than through markets. It arises when the imperfection that exist in the foreign markets make market solutions very pricey. Internalization, the third strand of Dunning's taxonomy, is regularly considered as the most important. Figure 1 explains the motives of FDI and its determinants

2.3. Types of FDI

A vital issue that has attracted a lot of attention is the distinction between “horizontal” and “vertical” FDI. Scholars, based on the business operations MNCs had developed diverse of FDI’s. These include horizontal foreign direct investment, vertical foreign direct investment, Greenfield investment, mergers and acquisitions and benefit seeking FDI’s. Several studies have shown that both horizontal and vertical OFDI generally have positive effects on productivity as well as on the size of domestic activities (Barba Navaretti et al., 2010; Desai et al., 2009).

2.3.1. Horizontal Foreign Direct Investments and Vertical Foreign Direct Investment

Several scholars distinguish between the vertical and horizontal FDI. When a company attempts to transfer part of the home country production to branches in order to consolidate their competitive position globally, it implies the horizontal strategy of FDI. In case of vertical FDI, diverse levels of a product are being manufactured by several specialized subsidiaries in one or more countries. Usually a company that is looking out for vertical integration attempts to build subsidiaries in free economic zones. The rationales for this are exemptions from import barriers, less restrictive business regulations and income taxes holidays (Langvinien , Vengrauskas, Žitkien , 2011). Horizontal FDI is the situation in which a company attempts to invest in the same type of industry abroad that they are engaged in at home (FDI, 2009). Horizontal FDI is the situation whereby MNC’s goes to host countries to produce their products that is in existence at their home country. Japanese MNC’s for instance use the same type of investments hoping to prevent the occurrence of risks by sharing their resources, outfits, knowledge and experiences (J. Paul, 2008). Hering et al. (2010) put into consideration affiliate attributes, to help differentiate between horizontal and vertical FDI for Japanese MNEs. Affiliates with a high level of domestic purchases as well as high level of sales back to Japan are defined as vertical FDI which implies a high level of vertical specialization. In tandem with standard theoretical prognosis of the ‘proximity-concentration trade-off’, the authors notice that horizontal FDI replaces exports from MNEs’ home country. In contrast, imports rise for MNEs with vertical FDI. Horizontal FDI takes place when (J. Paul, 2008):

- A firm actualizes monopolistic uniqueness in a spotted territory;
- A firm faces competition in an infant industry;
- Economies of scale afford innumerable competitive edges;

- A firm has adequate human resources and capital to cater for the varied organization;
- A firm possesses the advantage of management proficiency when trying to compare it with that of their competitors.

Vertical FDI, on the other hand, according to (J. Paul, 2008) Vertical foreign direct investment refers to investments established by a company in a specific industry abroad. In this the company will be in control and be responsible for managing and controlling the whole activities beginning from raw materials to finished goods and distribution. Vertical FDI can again be grouped into two these include, Forward vertical FDI and Backward vertical FDI. Forward vertical FDI: This can be defined as a kind of promotional activity formed by the MNC's, where by it distributes locally made goods or products abroad or it can also be said as the production of Final goods in the host country using the intermediary goods from the home country.

Forward Vertical Integration occurs in a situation when (J. Paul, 2008):

- The current distributors are not dependable;
- Limited amount of available quality distributors;
- The firm is in possession of both human resource and capital required to ensure the running of the new distribution business;
- The current distributors are having high profit margins;
- There is an advantage of high stability in production;

Backward FDI: It is a situation whereby MNC's choose a specific territory or foreign economy to produce intermediate materials; this can be used as inputs for its production in the home country. Backward vertical FDI takes place when:

- The existing suppliers are nit dependable;
- There is large amount of competitors and the number of suppliers is relatively less;
- A firm attempts to compete in an infant industry or growing industry;
- The firm possesses adequate human resources and capital to ensure the running of the new supplying business;
- The firm requires stability in the production situation – which is of much importance.

2.3.2. Greenfield Investment and Mergers & Acquisition

Nanda, (2009) opines that Greenfield Foreign Direct Investment (GFDI) can help bring benefits to countries that are developing. Greenfield investment should begin new business in order to help the developing country to grow; however, quite a lot of the investments are mostly directed toward the benefit of the investor (Nanda, 2009). The greenfield investments would need clearances from different types of governmental departments that could serve as delay for the Greenfield investment above the target date (Nanda, 2009). Muller, (2007) proposes that Greenfield investments are best adopted when the competition in the local market is either high or low.

Mergers and Acquisition (M&A) investment is easier in developing countries as a result of the fact that the acquired organizations is formed and operated within the local rules and regulations (Nanda, 2009). Muller, (2007) proposes that mergers and acquisition investment would be the optimum choice when the competition in the local market is at the intermediate level. Sonenshine and Reynolds, (2014) observe that while most cross-border mergers happen among firms in developed countries, a rising amount of operation has been happening in emerging markets. Sonenshine and Reynolds, (2014) opine that firms primarily get involved in cross-border mergers versus other forms of FDI to gain control over assets, particularly as a result of difficulties attached to implementing complete contracts. The empirical study of Stiebale, (2010) applies an empirical framework that gives account for unobserved firm heterogeneity and the possible endogeneity of cross-border acquisitions. According to (Banerjee et al., 2009), mergers and acquisition is regarded as the major source of FDI. In an acquisition policy, a business entity merges with another established business entity working in the host country to gain control over the barriers of trade and business also makes the acquired firm a subdivision of the business. For example Tata motors India acquired Jaguar a company in Britain, with this acquisition Tata got the advantage of being able to supply its home product abroad and also got the advantage of technological expertise from Jaguar for its home products. Greenfield FDI consists of the construction of production capability abroad to allow a firm in deploying its assets into a foreign country (Dinkar and Rahul, 2014). Aside from greenfield investment, Merger and Acquisition helps to generate cash flow within a short period of time, going by definition a firm does not have to begin from base process to become engaged in

merger and acquisition. Another advantage attached to mergers and acquisition with that of greenfield investment is that it gets instant access to host country firm's resources. Wang and Wong, (2009) proposed that greenfield investment and mergers and acquisition have diverse impacts on economic growth. Greenfield investment helps to promote economic growth, whereas mergers and acquisition are negatively linked with the host country's economic growth. Mergers and Acquisition can be of benefit to a host country only if the country has gotten to a certain level of human capital. Other empirical evidence by Harms and Méon, (2011) reveals that the marginal effect of mergers and acquisition on economic growth is weaker than that of greenfield investment.

2.4. Determinants of Foreign Direct Investment

Mostly, it can be agreed upon that, those factors appropriate for domestic investments could be of great importance to foreign investments as well such as political, economic, social and cultural and geographical location of the country. Bandelj, (2009) pinpoints that economic theory asserts that economic incentives are the most significant determinants of FDI. According to Liu et al., (2013), the following determinants such as: market size, labor cost, labour quality, physical infrastructure development, telecommunication, degree of economic openness, and government incentives attract FDI. Ho and Rashid, (2011) regard Economic growth, degree of openness, inflation, exchange rate, manufacturing output, consumer income, infrastructure, telecommunication, employment, tourism, and skills & knowledge as determinants of FDI . Ekpo, (2010) suggests that political regime, real income per capita, rate of inflation, world interest rate and credit rating were crucial factors that helps to explain the variability of FDI into Nigeria. Ranjan and Agarwal, (2011) explored FDI inflow determinants in Brazil, Russia, India, China (BRIC) countries and found that market size, trade openness, labor cost, infrastructure and macroeconomic stability and growth prospects are potential determinants of FDI inflows in BRIC whereas gross capital formation and labor force were having insignificant impact on FDI inflows. Assuncao et al., (2011) provide a review the literature on determinants of FDI. Also the macroeconomic factors that arise from Dunning's theory are market size, macroeconomic stability, credit worthiness, trade openness, infrastructure and labor cost in the host country. Other macroeconomic factors that serve as potential determinants of FDI include domestic rates of return, exchange rate, FDI flows received by other big emerging economies, foreign economic

performance and foreign interest rates. The impacts of these factors are discussed. These proposed factors that could improve the inflow of FDI generally could be highlighted and explained as follows:

1. Infrastructure. The setting up of production units in the host country demands a well-developed infrastructure. Good infrastructure engenders and promotes efficient and effective utilization of labor force and hence can lead to increase in the profits of the firm by reducing the cost of production. Better infrastructure can help to raise the productivity of the firm and help to attract FDI. Akinyosoye, (2010) defined infrastructure as the unpaid factor of production which attempts to increase productivity of other factors while serving as intermediary inputs to production. Thus a positive relationship that exists between infrastructure and FDI flows is expected. Asiedu (2006); Kok and Ersoy, (2009), Mhlanga et al., (2010) and Vijayakumar et al., (2010) find that good infrastructure attracts FDI. Infrastructure covers a lot of dimensions, spanning from roads, ports, railways, and telecommunication systems to institutional development (e.g., accounting, legal services) Ajayi, (2006). Good infrastructure raises the investment productivity and can therefore trigger FDI flows. With the use of cross-section data, badly developed financial infrastructure can unfavorably have effect on an economy's ability to avail itself of the prospective benefits of FDI. Surveys carried out in sub-Saharan Africa signify that poor accounting standards, inadequacy in disclosure and weak enforcement of legal obligations has detrimentally affected the credibility of financial institutions to the level of hampering foreign investors. Bad roads, hold-ups in shipments of goods at ports, and undependable medium of communication have contributed to these deterrents (Ajayi, 2006). FDI relies solely on the infrastructure of the host countries so it is very pressing for every nation to improve her infrastructure so as to improve her domestic investments and also to draw the attention of foreign investors.

2. Labour Cost and Resources. MNCs that adopt labour intensive techniques of production decrease their costs by attempting to produce in labor surplus economies that offer cheap labor. However, lower wages could serve as an indicator of lower labor efficiency. Thus economies with high quality of human capital along with low wage rates are expected to attract higher FDI as it implies lower efficiency wages. Empirical evidence on labor cost and FDI is mixed. Vijayakumar et al., (2010) find a positive impact of wages on FDI. The ideology of attempting to invest in the developing countries is profitable and favorable as a result of the economical labor

cost and wages. All other factors remain unaltered, reduced labor cost cuts down the production cost, but the availability and accessibility of cheap labor give reasons for the relocation of a portion of the production operation in foreign countries. Hengel, (2010) suggests that impacts of labour productivity and cost on foreign investment in Central and Eastern Europe was huge and the same situation prevails in South East Europe. With FDI progressing toward intensive and extensive technological activities, low-cost menial labor is not trending; instead it is the required-eligible human capital that counts. Azemar and Desbordes, (2009) and Suliman and Mollick, (2009) examine FDI flows to developing countries and made a conclusion that the relatively low FDI flows into sub-Saharan Africa are partially explained by poor and substandard human capital and illiteracy. Both inexpensive labor cost and the quality of labor with high level of education attract the attention of the foreign investors to come into the economy of any nation. The availability of natural resources is of immense interest to any nation domestically and also to attract the foreign investors into the country. The increasing profits in the sector generated a flow of investment. Asiedu, (2006) suggests that, besides market size, natural resources are the salient determinants for FDI in Africa. Nigeria as a country is endowed with ample resources to draw the attention of FDI in the country but that problem besets the country in both improvement in domestic investments and foreign investment is leadership problem.

3. Macroeconomic and Political factor. Almost all of the factors explained under the limitations of inflow of FDI are as well the considering factors that serves as determinants for the inflow of FDI. When they are not put in place, they will certainly obstruct the FDI inflow and when they are well taken care of, they help facilitate the operation of FDI. The stability of macroeconomic variables such as; low level of inflation, little external debt, stable currency, better GDP rate will certainly stimulate the interest of the FDI inflow in any country. Greater macroeconomic stability reflects little investment risk, which tends to affect the expenses and revenues of the firm from foreign investment. Alkhasawneh, (2013) gives analysis on the causality relationship and its direction between the FDI inflows as a percentage of GDP and the economic development as measured by GDP per capita (GDP p.c.). The author discovers a solid and positive relationship that exists between GDP p.c. and FDI inflows. He also gives his conclusion that there is a bi-directional causality between FDI and GDP p.c. for one, two and three year lags. Georgantopoulos and Tsamis, (2011) also investigate the relationship between

GDP p.c. and FDI flows in Greece. Macroeconomic stability also gives an indication of the success of government policies in achieving economic equilibrium, and hence helps to create an environment that is conducive enough for FDI flows. Higher output volatility and inflation should serve as discouragement to FDI flows as they show instability in macroeconomic fundamentals. A lot of the studies in the literature consider only the inflation aspect of macroeconomic stability. While Faeth, (2009), find inflation to be negatively related to FDI, Mhlanga et al., (2010) for South African countries and Vijayakumar et al., (2010) for BRIC economies find inflation to be insignificant determinant of FDI. Kersan-Skabic, (2013) reflect the significance of economic determinants (GDP per capita and inflation) to FDI inflows, while among institutional factors, only corruption, large scale privatization, the development of trade and forex systems, and overall infrastructure reform have a significant impact on FDI inflows. Kersan-Skabic, (2013) sees the following variables such as: GDP p.c., Wages, Inflation, Enterprise restructuring, Trade and forex system, Corruption, Property rights freedom, GDP, Large privatization, Small privatization, Overall infrastructure reform. Clark and Kassimatis, (2009) find that default risk leads to FDI drops in Latin America. This is connected to the changing of leaders at regular and unusual interval, governmental policies, and security matters to government, and leadership type. The stability of political administration of a nation is of great import to the smooth operation of multinational companies. Security issue is also of topmost importance to them because unsuccessful attempt of government to guarantee foreign investors with high level of security will get them discouraged to run their operations without excessive risk of both their capital and labor force. Nigeria and Angola are examples of the countries with finer natural resources that could indeed attract the interest of the foreign investors but the issue of security in those countries and their leadership type is something to ponder about. Meon and Sekkat, (2012) analyze the effect of political risk on FDI. Jadhav, (2012) explores the impact of economic, institutional and political factors. As a dependent variable, he picks the FDI inflow.

4. Exchange Rates and Credit Worthiness. A depreciation of the host country currency also increases the relative value of the wealth possessed by the firms in the host country which induces the MNCs to invest a greater amount in the form of FDI in the host country. This is because a depreciating currency of the host country decreases that country's wages and

production cost relative to country whose currency is appreciating. So other things equal, a country that is experiencing real depreciation of its currency is more attractive for receiving investment in production by the foreign firms. Thus exchange rate depreciation increases the overall rate of return to foreign firms who want to invest in the country. FDI flows are thus expected to rise when the host country currency is depreciating. Ang, (2008), finds evidence in favor of these arguments. Country risk is seen as one of the significant factors that foreign investors put into consideration while investing internationally. The host country should have adequate foreign exchange reserves which is a sign that it will not default or impose capital controls in the face of withdrawal of funds from the country. It indicates that the external position of the economy is good which raises the investor confidence. Hayakawa, Kimura and Lee, (2011) found an insignificant impact of financial risk on FDI flows for a panel of 93 countries.

5. Market Size. A market with a larger size of the host country tends to attract greater FDI flows because a larger market means that the cost of production (or cost per unit output) reduces as a result of economies of scale. Moreover, if the objective of the investor is to serve the host country, i.e. if FDI flows are horizontal market seeking in nature, then higher levels of economic activity would mean bigger income levels which imply greater consumer demand and hence profitable investment opportunities. Thus a larger market size of the host country tends to attract FDI. However, if FDI flows are vertical in nature, and not market seeking, then they may not be driven by the size of the host country. Market size is one of the strong and resilient determinants of FDI in the empirical literature. Cleeve, (2008) find a positive interrelationship between FDI flows and GDP p.c. meaning that country with higher GDP p.c. has better investment opportunities and the FDI is market seeking in nature. Mohamed and Sidiropoulos, (2010) and Vijayakumar et al., (2010) also find a positive relation between host country GDP and FDI inflows. This also an indication that majority of the FDI flows are horizontal or market seeking in nature. Jadhav, (2012) also adds the market size, which is represented by GDP, and natural resource availability, which is represented by the share of minerals and oil in total export.

6. Domestic Returns and Privatization. According to capital market theory FDI will flow to those countries that offer higher returns to investment. In order to measure the returns on investment accurately, well-functioning capital markets are needed. However, this may not be

true for all the countries especially the developing countries. Thus estimation of returns to investment can be achieved through the host country's interest rates. Interest rates area serves as proxy for returns on FDI. Thus higher the interest rates, the greater the volume of FDI received by the host country. Verma and Prakash, (2011), find that higher returns on investment drive FDI. Some foreign investors can be attracted by privatization and this happened in countries such as Ghana in 1995 and Nigeria in 1992. This is connected with the facts that, quite a number of governmental companies are acquired by the private individual, which could result to competition among the private ownership of productions. Competition is of great benefit and/or profit to the final consumers seeing that it will provide room for multiple alternatives and finer environment for a number of FDI to run their operations successfully. The first-best privatization strategy is to link privatization with an opening of markets in order to increase competition. But a situation where the privatized entity remains largely unreconstructed before privatization, local authorities often resort to attempting to attract foreign investors by promising them protection from competition for a specified period. In this case there is a heightened need for solid, independent local regulatory oversight (Mustapha, 2009).

8. Trade Openness. Open economies of the developing countries are considered as a channel of success for FDI to penetrate in comparison to closed economy countries, which scarcely provides room for external intervention. There are lots of findings that suggested the fact open economy is a great determinant of FDI inflow. Hengel, (2010) opines that simultaneously opening trade and attempting to improve the investment climate helps to derive the highest levels of FDI. With the exception of price liberalization, the marginal effect of investment climate reforms raises when a country possesses a higher degree of trade openness. Ho and Rashid, (2011) pinpoint that for countries that are growing and/or developing, degree of openness can have influence on FDI. A liberalized trade regime can serve as encouragement or discouragement for FDI. If FDI is export oriented then greater trade restrictions imply greater transaction costs in exporting to other countries and if FDI is vertical in nature then MNCs may adopt imported intermediate inputs. In both cases greater trade openness of the host country helps to attract FDI. Moreover trade liberalization also leads to better and favorable business climate, expectation of better growth prospects and larger size of the host country in future. On the other hand, the relationship that exists between FDI and trade openness could be negative in case FDI flows are tariff jumping in

nature. This is because higher tariffs or restrictive trade policies leading to lower trade openness provide incentives to the firms to have access to the local host country markets through FDI. The empirical evidence on trade openness and FDI is mixed, Cleeve, (2008) and Mhlanga, Blalock and Christy, (2010) find a positive impact of trade openness on FDI. Vijayakumar et al., (2010), find trade openness to be insignificant. Table 5 also explains major determinants of FDI and the studies carried out on it.

Table 5. Major determinants of FDI and selected relevant studies carried out on it

Author	Topic of Study	Findings
Kok and Ersoy (2009)	Relationship between infrastructures and FDI	Better infrastructures, spanning from roads, ports, railways and telecommunication systems to institutional development helps to encourage FDI.
Vijayakumar Sridharan and Rao (2010)	The effect of wages on FDI	The idea of investing in developing country is profitable because of economical labour cost and wages.
Azemar and Desbordes (2009)	FDI flows to developing countries	The relatively low FDI flow into sub-Saharan Africa is because of poor human capital and illiteracy.
Faeth (2009)	Relationship between inflation and FDI	Inflation is negatively related to FDI as a result of high volatility.
Clark and Kassimatis (2009)	Default risk leads to FDI drops in Latin America	It is connected to the changing of leaders at regular interval, government policies and security matters to government and leadership style.
Ang (2008)	Relationship between FDI and host country's exchange rate/currency.	FDI flows are expected to rise when host country's currency is depreciating.
Mohamed and Sidiropoulos (2010)	Relationship between host country GDP and FDI inflows	Country with higher per capita GDP has better investment opportunities and the FDI is market seeking in nature.
Verma and Prakash (2011)	Higher return on Investment drive FDI	Interest rate area serves as proxy for returns on FDI. The higher the interest rate, the greater the volume of FDI received by the host country.
Mhlanga, Blalock and Christy (2010)	The impact of trade openness on FDI	Higher tariffs or restrictive trade policies leading to lower trade openness provide incentives to the firms to have access to the local host markets through FDI and vice versa.
Alkhasawneh (2013)	Analysis on the causality relationship between FDI inflows and GDP per capita	A positive relationship between GDP per capita and FDI inflows. There is a bi-directional causality between FDI and GDP per capita for one, two and three year lags.

2.5. Impact of Foreign Direct Investment in Host Country Development

According to (Portia Alimatu Bukari, 2011: 6) one of the most vital parts of FDI is its way of contributing to the economic growth of the host country. This contribution is of importance and is one that is anticipated by any host country particularly developing countries. In the last few decades, countries have been trying to compete with each other so as to attract FDI this is so as a result of the way it contributes immensely to the general growth of economies. Not only do FDI's offer stability in financial flows but also their long term commitments to host countries guarantees them of regular and consistent capital inflow. According to Wang, (2009) because capital formation and technological improvement helps to drive economic growth, FDI is expected to raise host countries' economic growth. The significance of FDI has developed from the role played by MNCs in helping to create positive externalities in economic growth through the provision of financial resources, creating jobs, transferring technological know-how, managerial and organizational skills, and enhancing competitiveness (Adams, 2009). The developing countries could have new technology through FDI which is necessary to promote all economic sectors that is needed for innovation that will help promote economic growth (Adams, 2009). Likewise, Ilgun and et al., (2010) opine that almost all studies support positive relationship between FDI and economic growth. It is worth mentioning that when the country is experiencing growth promptly it may result to foreign investors to be more encouraged to take part in the growing of output. The quick growth of FDI inflows of the developing countries requires an analysis of the impact on economic output. This is because the increase of FDI inflows makes immense impact on local economic growth and their productivity as a result of their extra facilities by adopting better technologies and managerial skills. Therefore, the impact of FDI on economic output is wide (Hossain & Hossain, 2012). Ugochukwu, Okore and Onoh (2013) pinpointed three advantages of FDI in the economy. Firstly, they believe that FDI helps to vital western knowledge and value in the form of superior western management qualities, business ethics, entrepreneurial attitudes, better labour/capital ratio, and production techniques. Secondly, FDI makes possible industrial grading by tying firms of developing countries hosting with global research and development (R&D) networks, and thus resulting in technology transfer as well as providing a greater deal of investment fund. Thirdly, FDI results to the growth of enterprises by providing access to western markets. This growth helps to provide a source of new

jobs and motivates demand for input from domestic suppliers. And so, FDI introduces new market entrant above the domestic economies hosting TNCs affiliates.

2.5.1. Impacts of Foreign Direct Investment on Technological Transfer

Many FDI enterprises adopt new technologies and promote innovations, achieving an increased efficiency and helping to create a low carbon economy (Tamazian et al., 2009). This fact is a big step forward because most of the time companies give priority to developing their business to the detriment of energy rationalization (Francoz, 2010). This ideology is supported by Vahter, (2010), who shows that there is a positive relationship between the inflows of FDI and the intensity of the technological transfer during the subsequent period, both from the company which makes the FDI, and from the suppliers. Also, the inflows of FDI decrease the probability that the transfer of technology is not used in the innovation process of the companies from the host country. Vahter, (2010) also indicates that the effects of the inflows of FDI on the innovating operations of the residents are not dependent on the distance at which the companies from the host country are from the technological frontier. Using a Ricardian framework, Ramondo, (2012) and Ramondo and Rodriguez-Clare, (2009) discover that openness to FDI results to large benefits through technology transfer. (Portia Alimatu Bukari, 2011) opines that having access to modern technology is likely one of the main reasons a country would want to venture into attracting FDI. Multinational co-operations who attempt to invest in host countries bring in new technology which host countries cannot produce themselves. Residents of the Host Country become exposed to new and simplified ways of raising productivity and this eventually helps and makes it people to have easy access to products. Domestic establishments, through the inception of external economies also benefit indirectly from productivity. Technological spill overs arise because of the influence that is moved from foreign investors to Host Countries. These spill overs exist in certain cases, as a result of the increased rate of competition that exist in the markets of Host Countries which in turn compels existing inefficient and incompetent local firms to be more productive.

2.5.2. Impact on Human Capital and Labour Market

FDI is seen as a significant source of capital by developing countries. Low skills and insufficient level of training affects FDI in a negative way and so downsizes the capital inflows to the host country. Countries with more human capital stock tend to attract more FDI inflows (Dutta and Osei-Yeboah, 2010). (Tiruneh and Radvansky, 2011; Farkas, 2012) confirmed that investment in human capital in the form of expenditure on education leading to higher enrollment, on-the-job training, and improved concentration on preventive and curative healthcare have augmented the level of economic growth. Heyuan and Teixeira, (2010) examined the direct and indirect impacts of human capital on FDI on microeconomic level with data from a survey carried out for 78 firms in 2008 by logit model. According to the results human capital has no direct effect on FDI for Chinese case and R&D operations have negative impact on FDI when human capital is being measured by academic qualifications. However, there is a positive indirect effect on FDI through R&D efforts. Also universities and transport network contribute to FDI. Adefabi (2011) carried out test on the interaction between FDI, human capital and economic growth for 25 countries of Sub-Saharan Africa, the results show that the effect of FDI on economic growth is positive; however it is not through the accumulation of human capital. As a rationale for this, the author mentioned that type of education could be of more importance than the level. According to Azam and Ahmed (2010) they discovered that both components of the Human Capital (HK), i.e. education and health have positive and statistically significant impacts on economic growth of Pakistan. Farkas (2012) analyzed the impact of FDI on economic growth. He showed that the contribution of FDI to economic growth is positive and significant depending on the level of human capital and the development of financial markets, but its presence in developing countries must complement instead of replacing a set of other growth determinants. (Portia Alimatu Bukari, 2011) suggests that FDI's create job opportunities for the citizens of the host country. Employees are being paid substantial salaries and this enables them to have and live an improved lifestyle. New industries are being established which leads to the increased development in manufacturing and production. FDI enhances the export resources of Host Countries. Study has helped to prove that, countries that get FDI from international organizations have lower interest rates, for this reason their exported products are much cheaper and this helps to improve exports. The higher income that is being generated through taxation in

host country is majorly because of FDI. The gains of FDI to host countries can be ascribed to the Pro-foreign investment (Neo classical) school which asserts that FDI adds new resources, capital and helps to enhance the marketing skill of citizens of the host country. It also helps to create employments and improves the effective and efficient way of harnessing natural resources among other things.

2.5.3. Impact on Capital Market

According to Amadeo, (2013) Financial Markets are markets where stocks, bonds, commodities, foreign exchange and even derivatives are traded to help raise cash for government or businesses, so as to reduce companies' risks and increase investors' wealth. Raza et al., (2012) all discovered that a positive significant relationship exist between FDI and stock market development. FDI and the stock market are complementary not substitute. For example, FDI can be positively linked to the involvement of firm in capital markets, because foreign investors might be willing to finance a section of their investment with external capital or might be willing to recover their investment by attempting to sell equity in capital markets. Also, giving the fact that foreign investors partially invest through purchasing existing equity, the liquidity of the stock markets will possibly rise. Thus, the value traded locally and internationally might both rise which depends on where these purchases occur. Fine and solid economies need solid local infrastructure with a fine foreign relationship (Smathers, 2014). Solid local infrastructures are projects that are capital intensive in nature inclusive of industries and corporate entities that need adequate capital financing so as to be able to survive. Short-term or short period capital flows are seen as the most risky ones because such inflows can leave the country easily in a short period of time (Blanchard et al., 2014). On the other hand, matters on longer-term capital inflows, particularly in the form of FDI, have been much more limited and such inflows have been seen as most useful and beneficial for developing economies. According to (Resminia and Siedschlag, 2013; Ostry et al., 2011; Voss et al., 2010). China for example, does not have free capital markets and they impose stringent regulations on foreign capital inflows. But, regulations regarding FDI towards this country have been limited as the policymakers in the country have truly believed that this form of capital flows benefits them most.

2.5.4. Impact on Balance of Payment

According to (Carbaugh, 2008) BOP is an account that puts into record the value of goods and services, capital movements, inclusive of FDIs, and other items that flow into or out of a country. A fascinating analysis of the effects of exchange rates adjustment is proposed by Syed Zahid Ali and Sajid Anwar, (2011). They reveal how the results obtained by compelling currency depreciation so as to help maintain stability in the balance of payments are mainly opposed reactions. They attempt to explain how, often, depreciation is the result of outputs crumble, rise in price and trade balance enhancement. Piggot and Cook, (2006) suggests that the effects of FDI on host countries balance of payment is of much importance to study at a point in time like this. The inflow of FDI can lead to three direct favorable impacts on a host country balance of payment. First, only foreign investment project in a host country by MNC is perceived as an additional unit of capital formed to the national account and it also helps to bring in foreign exchange. Secondly, a host countries current account can be of much gain by FDI substituting imports. Thirdly, FDI operations and transactions are formed by the MNC's to the place where they can have lowest likely cost of production. This in succession raises export oriented connection with the host country which will of advantage to the developing country's current account. Aside from positive direct effects there exist also indirect effects of FDI, particularly the spillover effects. The spillover effect, which emanates from the MNC's business process, serves as encouragement for the developing host country, particularly their local firms to export more. This spillover effects also helps to give the local or domestic firms to grasp and to apply the methods to become successful in foreign market, this is as well an added advantage. MNC's while dealing business with other countries, produces tremendous pressure to lessen the trade barriers. This softened trade barriers is of benefit to the domestic firms to do business within their country and with other developing nations. The other indirect effects often happen in the form of dissemination of skills. Employees who are obtained export proficiency and the contacts from MNC's might opt to transfer to domestic firms. This successively becomes of benefit to the local firms via the dissemination of those export management techniques and contacts. Hailu (2010) opines that FDI has a significant role to play in determining the surplus or deficit of the trade balance. The scholar further opines that it assumed that the initial impact of FDI on trade balance is positive but, the medium term direct effect could become either positive or negative as

investors attempt to raise their export output or imports of intermediate goods and services and start to repatriate profits. In addition, FDI is believed to have diverse effect on trade which depends on the motives of such investment Tabassum et al., (2012). Thus, FDI effects are almost unfeasible to forecast or measure with precision. For this reason, the real effects of investment on trade balance can be arguable Hailu, (2010).

2.5.5. Impact on Economic growth of the country

Portia Bukari, (2011) opines that economic growth and development theories usually concentrate on the rise in real per capita income in connection with rise in main factors which includes capital accumulation, technological progress, population growth and the discovery of new and modern natural resources. However the motive behind quicker growth is capital accumulation. It is rational and logical to suggest that capital accumulation through FDI must have the capability of having influence on economic growth. FDI's must serve as good catalysts for economic growth and also serve as supplements to domestic firms rather than substitutes. Ndikumana and Verick, (2008), propose that has notable positive effect on economic growth. The dynamism in international economic and political environment has brought about a revived interest in the gains FDI can proffer to developing countries in their attempt to achieve economic growth. Dauda, (2007) argues that FDI is usually considered to prompt economic growth in developing countries due to the fact that it makes notable contributions to the host country's development process particularly through allaying of the constraints of low levels of domestic savings and investment as well as foreign exchange deficits. He went further to argue that FDI enhances the GDP and generates a stream of real incomes in the host country. The increase in productivity benefits local income groups through higher wages and expanded job opportunities, reduction in the price of products paid by consumers, rent to local resource owners, and high tax revenue or royalties to the government. FDI is also identified by tremendous positive spillovers. According to some economists FDI makes use of varying effects. For instance Oseghale and Amonkhienan, (2008) found that FDI is positively associated with GDP, concluding that greater inflow of FDI will spell a better economic performance for the country. When analyzing FDI from the short- term aspect, it is more profitable than long-term (Andeolu Ajamoaler, 2007). Omagbeme, (2010) observed, there is a vast literature establishing the relationship between FDI

and economic growth especially in developing countries, it implies an “array of investments made to acquire lasting interest in enterprises operating outside the economy of the investor”, that is FDI is a form of lending or finance in the area of equity participation, which involves the transfer of resources, including, capital, technology, management and marketing expertise. Table 6 also explains major determinants of FDI and the studies carried out on it.

Table 6. Impacts of FDI and selected relevant studies carried out on it

Author	Topic of Study	Findings
Hailu (2010)	The role of FDI on BOP (trade balance surplus or deficit)	The initial impact of FDI on trade balance is positive but the medium term direct effect could become either positive or negative as investors try to raise their export output or imports of intermediate goods and services to repatriate profits
Blanchard, Ostry, Gosh, and Chamon, (2014).	The impact of FDI on capital market.	Long term capital inflows in form of FDI are more limited and such inflows are seen as more beneficial to developing countries.
Adefabi (2011)	Tests on the interaction between FDI, human capital and economic growth.	Results for 25 countries of Sub-Saharan Africa show that the effect of FDI on economic growth is positive, seeing education as more important than the level.
Azam and Ahmed (2010)	Relationship between human capital, health and economic growth	Discovered that both Human Capital (HK), i.e. education and health have positive and statistically significant impacts on economic growth of Pakistan.
Ugochukwu, Okore and Onoh (2013)	Three advantages of FDI in the economy	FDI helps to bring western knowledge and business ethics. It brings greater deal of investment fund by affiliating host countries to global R&D.
(Hossain & Hossain, 2012)	Impact of FDI on economic output.	Increase in FDI inflows lead to immense impact on local economic growth and productivity by employing better technology and managerial skills.
Ramondo (2012)	A Reflection on the ricardian framework on openness to FDI	Openness to FDI results to large benefits through technology transfer.
(Tiruneh and Radvansky, 2011; Farkas, 2012)	Investment in human capital in form of expenditures on education	It leads to higher enrolment on the job training and improved concentration on preventive and curative health care which augmented the level of economic growth.
Portia Alimatu Bukari (2011)	Economic growth and development theories	It concentrates on the rise in real per capita income in connection with rise in main factors which includes capital accumulation, technological progress, population growth and the discovery of new and modern natural resources.
Vahter (2010)	Impact of FDI on technological transfer.	There is a positive relationship between the inflows of FDI and the intensity of the technological transfer, both from the company which makes the FDI, and from the suppliers.

2.6. Criticism of Foreign Direct Investment

According to Portia A. Bukari, (2011), some countries that are undergoing development as well as the developed ones have in several ways attempted to control and oppose FDI as a result of the issues in political and economic influence and the attached sentiments of nationals. One reason behind these sentiments is that many developing economies with a history of colonialism dread that the introduction of FDI may result to a form of modern day colonialism thereby leading to the restriction of sovereign powers of host governments and exposing their resources to exploitation by foreign countries. However there exists a certain measure of truth and validity in these facts, host governments can have control on these effects of FDI if they are appropriately checked. However Orji (2004) specified most of the weaknesses alluded to as “cost” and the domestic policies of host countries which are as follows;

- Loss of political sovereignty, which in some host country leaderships consider an increase dependence and reliance on international operating firms.
- Deterioration of the balance of payments as the profit accrued to or being produced by foreign investors is repatriated.
- Deficiency of positive linkages with the local communities
- The possibility of harmful environmental impact of FDI, especially in the extraction of and hefty engineering industries, example Niger Delta area.
- Social disturbances of advanced commercialization in less developed countries.
- The effects of competition in national markets.
- This technological usefulness and satisfaction for host country may be elusive if, the host economy, in its present state of economic development, is unable to take avail itself of the technologies or expertise transferred through FDI

Figure 2 explains the structure of FDI both from the positive and negative perspective.

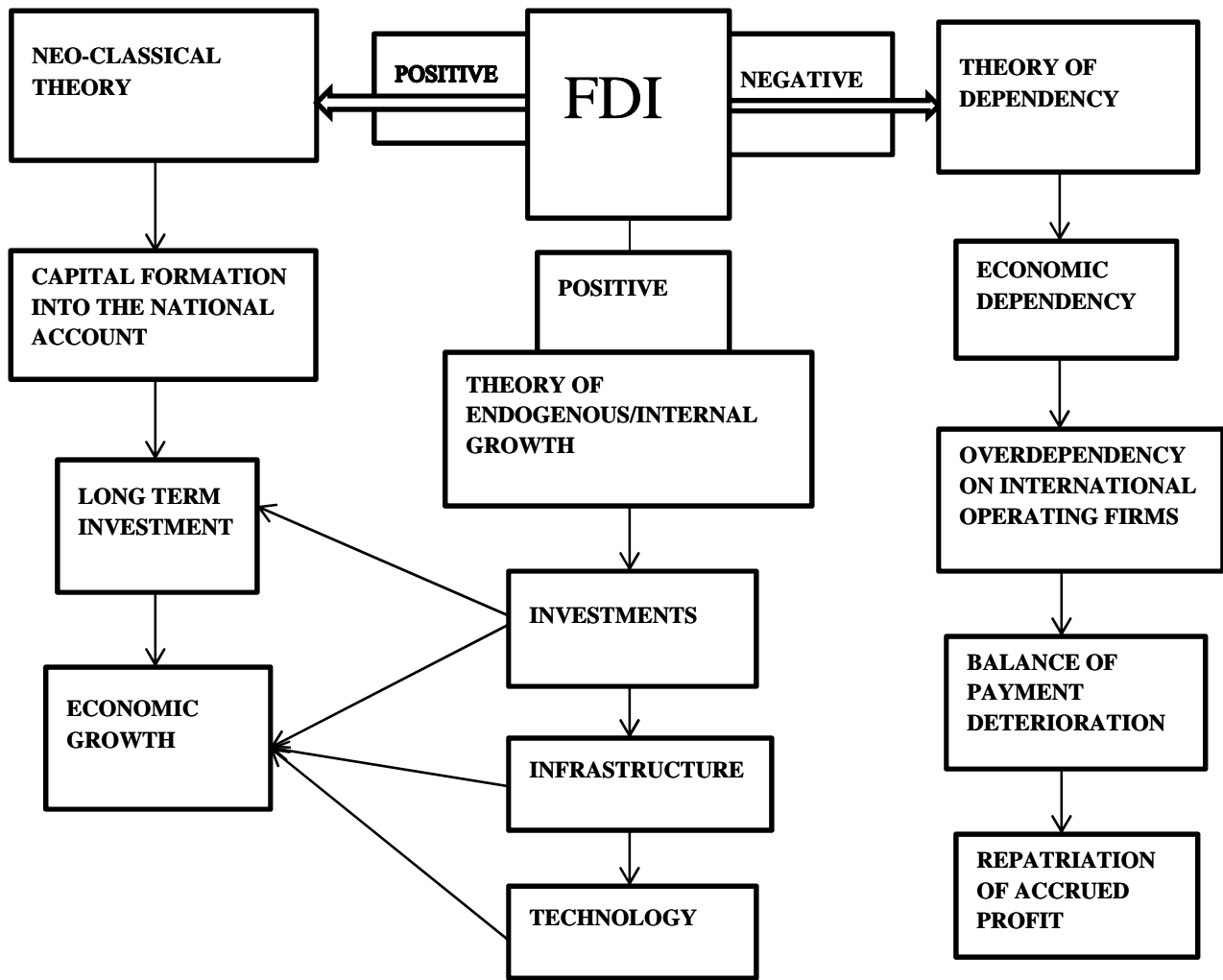


Figure 2. Theoretical Framework/Structure of FDI (Ogunleye Oyin, 2014)

3. RESEARCH METHODOLOGY ON THE IMPACT OF FDI IN NIGERIA

This chapter discusses the methodology used to provide data to investigate the research questions raised and also, aims to provide assurance that appropriate procedures were followed in the course of the study. This chapter comprises the 1) Research methods 2) data collection instruments/tools and 3) model and its specification.

1. Research methods. The methodology involves estimating an econometric model in which the connection that exists between FDI and economic growth in Nigeria is investigated. This section develops the estimating equation and draws from the literature by using regression model and/or analysis in investigating the interaction of FDI and trade policy regime in economic growth in Nigeria during the period of 1995-2013.

The research method employed in this study is the ordinary least square (OLS) regressions to determine the effect of the independent variable on the dependent variable. The choice of OLS is majorly as a result of the fact that it minimizes the error sum of squares and has certain advantages such as un-biasedness, consistency, minimum variance and efficiency; it is widely adopted based on its property of BLUE (Best, Linear, Unbiased, Estimate), simple and easy to understand, (Gujarati, 2004).

Microsoft Excel and SPSS were employed for this analysis. The statistical test of parameter estimates was conducted using their standard error, t-test, F-test, R, and R^2 . The economic criteria showed whether the coefficients of the variable conform to the economic a priori expectation, while the statistical criteria test was employed to help assess the significance of the overall regression. Whereas the archival data collected from National Bureau of Statistics [NBS] (Annual Abstract of Statistics) and Central Bank of Nigeria (CBN) Statistical Bulletin between a span of 1995-2013 were analyzed electronically with the use of statistical software (Microsoft excel).

The Microsoft excel conducted the trend analysis and also performed both the descriptive and analytical statistics through analysis of variance (ANOVA), to test the research hypotheses at 0.05 level of significance.

2. Sources of Data. This research work will rely on secondary sources of data. The annual time series data from 1995-2013 adopted in this study were obtained from Statistical Bulletin and Annual Report and Statement of Accounts of the Central Bank of Nigeria (CBN) as well as the Annual Abstracts of statistics (various issues) published by the National Bureau of Statistics (NBS). The choice of the data employed is premised on its wide coverage and the standardization seeing that it has been processed from its raw form by the relevant authorities/agencies. The study adopts regression analysis to generate empirical results for an analysis.

3. Model and its specification. Regression analysis is a technique that finds a formula or mathematical model which best described a set of data collected. It can also be defined as a technique that will form a mathematical model which best explains the data collected. Whereas simple linear regression model quantifies the relationship between two variables, one shall be dependent while the other is independent variable(s).

GDP is the dependent variable while FDI, Openness of trade (export + import/GDP), inflation and exchange rate (independent variables) are respectively the positive signs with respect to inflow of FDI into Nigeria but inflation could be negative or positive depending on the nature of industry that dominates the FDI in Nigeria on a priori expectations.

The variables are selected as they relate to GDP and economic growth in one way or the other. It is expected that variables such as explanatory factors such as FDI, openness of trade, inflation and exchange rate, show positive relationship with FDI whereas inflation could reflect either negative or positive relationship depending on the kind of investment that domineering in the FDI within the study period.

The Regression Model, (Gujarati, 2004): $Y = \beta_0 + \beta_1 X + U$, (1)

where: Y – dependent variable. Dependent variable, Y, is the focus of study (predict or explain changes in dependent variable)

X – Independent variable. Explanatory/Independent variable(s), X or others, help us explain observed changes in the dependent variable.

Parameters: β_0 and β_1 ,

Intercept (Constant): β_0 ,

Slope (Coefficient of X): β_1 ,

U: Random error or U: Error term.

In order to see to the achievement of the objectives of this work, a linear regression model was formulated. We state the model as follows (Gujarati, 2004): (GDP = F (FDI, IMP, EXP, INFL and EXCH) (2)

where:

FDI = Foreign Direct Investment,

GDP = Gross Domestic Product (proxy for economic growth),

IMP = Import,

EXP = Export,

INFL = Inflation,

EXCH = Exchange.

This can be econometrically modeled thus:

$$GDP = \beta_0 + \beta_1 FDI + \beta_2 IMP + \beta_3 EXP + \beta_4 INFL + \beta_5 EXCH + \epsilon, \quad (3)$$

β_0 = Constant

$\beta_1 - \beta_5$ = coefficients of the explanatory variables/parameter estimates/slope of the regression

ϵ = Random error.

As stated in this study, economic growth i.e. GDP, has a functional relationship with Foreign Direct Investment (FDI), import (IMP), export (EXP), inflation (INFL), exchange rate (EXCH)

4. THE INFLUENCE OF FOREIGN DIRECT INVESTMENT FOR NIGERIA MACRO ECONOMIC INDICATORS

This chapter has to do with the presentation of the result and analysis of the data collected from Central Bank of Nigeria (CBN) and National Bureau of Statistic (NBS) Annual Abstract of Statistics, analyzed through the various tests earlier explained in the previous chapter. The section for the purpose is divided into two. The first section deals with graphical representation. This method is adopted to explain the FDI inflow into the economy and into major sectors of the economy, the comparison between Nigeria's GDP per capita & growth rate and that of some developed countries and the comparison between Nigeria's oil reserves & production and that of another oil producing country in Africa precisely Angola. The second section presents the regression analysis for the aggregate for Nigeria as a whole using some determinants of FDI.

4.1. FDI inflow into the economy and into major sectors of the economy

The purpose of the analysis is to assess the inflow of FDI into the economy FDI and also evaluate the inflow of FDI into major sector of the economy using the sectoral composition of FDI data in Table 1.

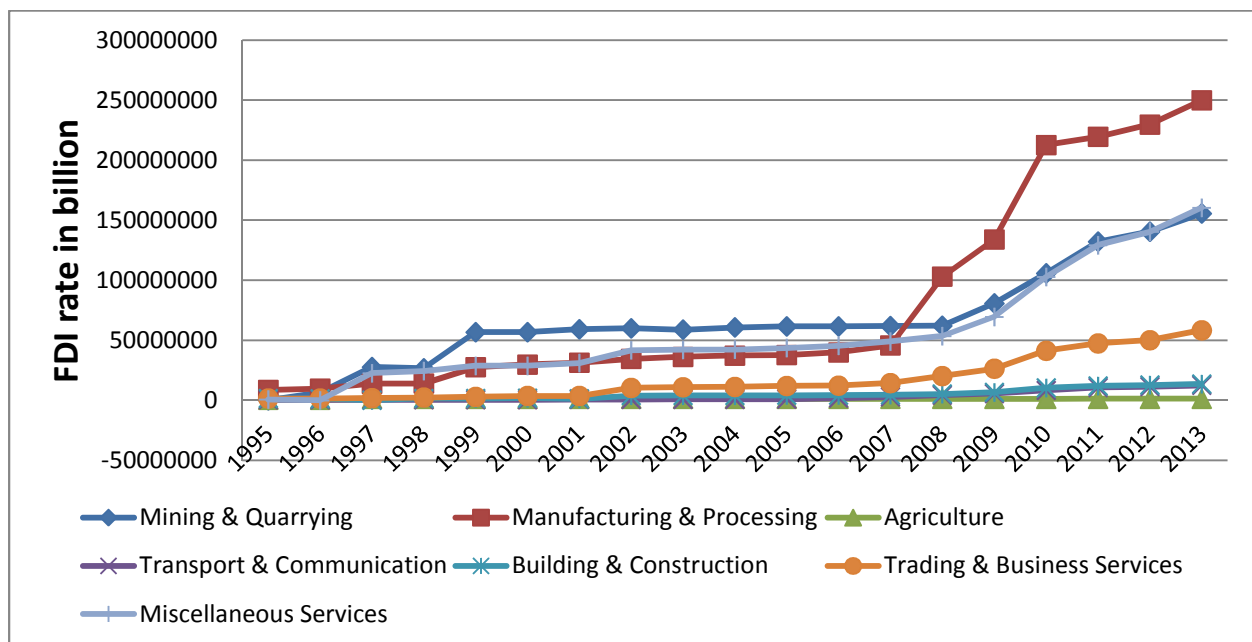


Figure 3. FDI inflow into major sectors of the economy in 1995-2013, in ₦ billion (Central Bank of Nigeria Statistical Bulletin, 2014).

According to Figure 3, it shows that fundamentally three main sectors: manufacturing and processing, mining and quarrying and miscellaneous sectors have a significant and notable smooth inflow as indicated on the graph. This was not in favor of the other sectors as shown in the above graph. For example, in 2009 mining and quarrying sector received ₦80789400.00 billion manufacturing and processing sector received ₦133894500.00 billion whereas trading and business services received ₦26315100.00 billion Also, in 2012 and 2013 mining sector received ₦140497100.00 billion and ₦155550200.00 billion respectively, manufacturing sector received ₦229764600.00 billion and ₦249805400.00 billion respectively while trading and business sector received ₦50194900.00 billion and ₦58327200.00 million also. From these two analyses, it is obvious that FDI inflow into these sectors is encouraging considering the uniqueness of these sectors to other sectors of the economy.

Table 7. Data for regression analysis and some determinants of FDI, GDP, import, export in ₦ billion, Inflation and Exchange, % in Nigeria in 1995-2013 (Central Bank of Nigeria Statistical Bulletin, 2015)

YEAR	GDP	FDI	IMP	EXP	INF	EXCH
1995	536,305,100	2,990,700	755,127,700	950,661,400	72.8	21.886
1996	688,136,600	3,668,700	562,626,600	1,309,543,400	29.3	21.886
1997	904,004,700	3,625,700	845,716,600	1,241,662,700	8.5	21.886
1998	1,934,831,000	10,460,500	837,418,700	751,856,700	10.0	21.886
1999	2,703,809,000	10,927,300	862,515,700	1,188,969,800	6.6	92.693
2000	2,801,972,600	11,201,300	985,022,400	1,945,723,300	6.9	102.105
2001	2,721,178,400	12,016,300	1,358,181,000	1,867,953,900	18.9	111.943
2002	3,313,563,100	12,317,300	1,512,695,000	1,744,177,700	12.9	120.970
2003	4,727,522,500	14,457,300	2,080,235,000	3,087,886,400	14.0	129.356
2004	5,374,334,800	20,242,200	1,987,045,000	4,602,781,500	15.0	133.500
2005	6,232,243,600	26,315,100	2,800,856,000	7,246,534,800	17.9	131.661
2006	6,061,700,000	41,309,300	3,412,177,000	7,324,680,600	8.2	128.651
2007	561,776,340	47,505,700	4,381,930,000	8,120,147,900	13.7	134.054
2008	573,176,450	31,987,300	5,921,450,000	9,774,510,900	13.2	132.372
2009	576,924,800	33,095,300	4,571,852,000	8,406,446,400	11.7	132.601
2010	570,625,860	37,529,400	4,958,411,000	8,767,035,100	9.6	128.270
2011	2,294,909,000	34,204,000	5,150,571,000	29,829,482,200	11.5	146.680
2012	1,147,486,500	48,082,100	4,893,611,000	10,515,610,104	10.9	150.20
2013	1,025,442,000	67,400,000	4,925,573,000	16,461,756,200	8.7	156.00

For the purpose of regression analysis annual Central Bank of Nigeria data of FDI and other determinants such as GDP, import, export, inflation, exchange rate as shown in Table 7 will be taken consideration so as to find out the relationship that exist between FDI and economic

growth of Nigeria. The data presented in Table 7 covered the period from 1995-2013. The variables employed in this work include, FDI, GDP, Import rate (IMP), Inflation rate (INF), Export rate (EXP) and Exchange rate (EXCR).

According to Table 7, GDP in Nigeria as shown in the table above is characterized with fluctuation and it stood at ₦536,305,100.00 billion at the beginning of the investigation but later rose to ₦688,136,600.00 million and ₦904,004,700.00 billion from 1996 and 1997 respectively. Thereafter, GDP experienced a sharp decline of ₦561,776,340.00 billion in 2007 and it steadily rose to ₦573,176,450.00 billion in 2008. It maintains a steady increase of ₦2,294,900,900.00 billion in 2011. However there was a decrease in the figure to ₦1,147,486.500.00 billion in 2012.

The rate of inflation (INF) stood at 72.8% in 1995; this was not for long as it witnessed a decrease of 29.3% in 1996, 8.5% in 1997 and 10.0% in 1998. The inflation rate gave account of two digit figure of 72.8% in 1995, 29.3% in 1996, 10.0% in 1998, 18.9% in 2001, 12.9% in 2002, 14.0% in 2003, 15.0% in 2004, 17.9% in 2005, 13.7% in 2007, 13.2% in 2008, 11.7% in 2009, 11.5% in 2011 and 10.9% in 2012. This increase as recorded in the rate of inflation is as a result of scarcely devaluation of the Nigerian Naira and high dependency on importation. The level of importation in Nigeria from 1995 to 2013 showed an unpredictable trend. Starting in 1995, the level of goods importation stood at ₦755,127,700.00 billion with an increased level of importation of ₦985,022,400.00 billion in 2000. The importation level stood at ₦4,893,611,000 billion and ₦4,925,573,000 billion in 2012 and 2013 respectively.

Exchange rate (EXCR) as clearly seen increased persistently in value during the period under review. Exchange rate stood at 21.886% in 1995 and the same rate was maintained till 1998 but there was a steady increase of 21.8861 to 133.500% in 1998 and 2004 respectively. This shows that the value of the naira was consistently depreciating thereby bringing about unfavourable Gross Domestic Product in Nigeria. The official value of exchange rate in Nigeria stood at 102.1052% in 2000 and rose to 133.500% in 2004 finishing at an increase rate of 156.00% in 2013.

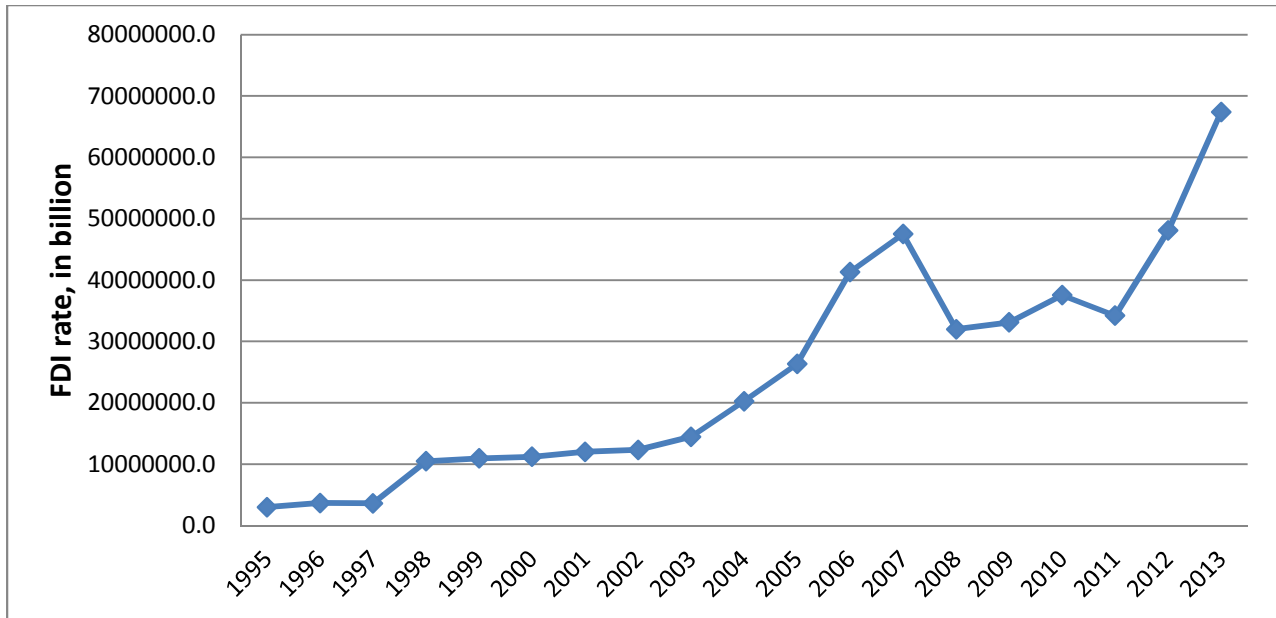


Figure 4. FDI inflow in total in 1995-2013, in ₦ billion (Central Bank of Nigeria Statistical Bulletin, 2014).

According to Figure 4 using FDI inflow in Table 6, the graph indicate a rise in the inflow from ₦2,990,700.00 – ₦3,668,700.00 billion in 1995 - 1996 then reduced a little bit in 1997 to ₦3,625,700 billion. But there was an increase in 1998 to ₦10,460,500.00 billion, the increment continued as shown in the graph to ₦47,505,700.00 billion in 2007. In 2013 it drastically increased to ₦67,400,000.00 billion. However there was a drop in the figure in 2008 to ₦31,987,300.00 in billion. The graphical trend in the movement of the FDI inflows from 1995 to 2013 suggests that there was a fluctuating pattern in the attraction of foreign investors into the economy. This is also a sign that political instability is a factor that determines the inflow of FDI in Nigeria. What this implied is that if the political atmosphere is stable, there is high probability that FDI inflow multiplier effect would increase more than expected in the economy. Therefore, the stability of increase flow of FDI actually started 1998 to 2013.

4.2. Nigeria's Oil production and Economic growth rate in comparison with some developed countries

Nigeria and Angola are seen as the largest producer of petroleum in Africa, also with their proven oil reserves. Petroleum plays a significant role in their respective economies. Available data from the Global Economy, the U.S. Energy Information Administration, figure 5 shows that.

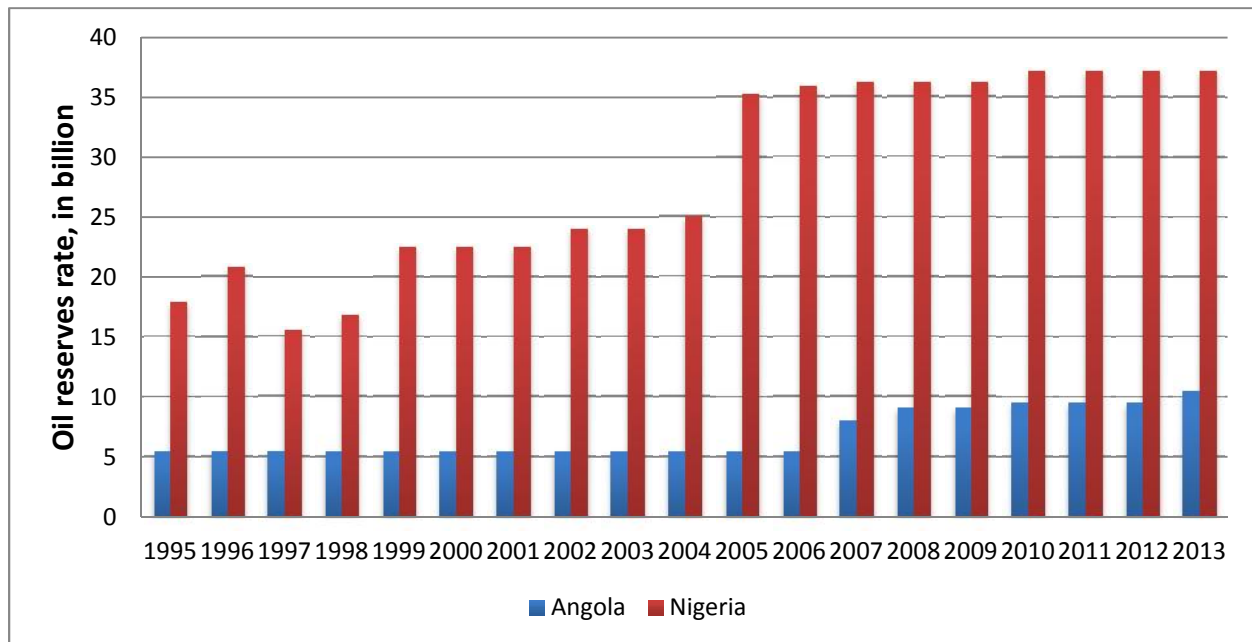


Figure 5. Oil reserves in Nigeria and Angola, in billion barrels in 1995-2013 (The GlobalEconomy.com, the U.S. Energy Information Administration, 2015)

Oil reserves is in billion barrels and can be defined as already proven reserves of crude oil that are considered as the estimated amounts of all liquids of crude oil, which geological and engineering data reveal with reasonable guarantee to be recoverable in the future from reservoirs under already existing economic and functioning conditions. According to figure 5, The U.S. Energy Information Administration provides data for Angola from 1995 to 2013. The average value for Angola during that period was 4.79 billion barrels with a minimum of 5.41 billion barrels in 1995 up till 2006 and a maximum of 10.47 billion barrels in 2013. While the data provided by the U.S. Energy Information Administration for Nigeria from 1995 to 2013. The average value for Nigeria during that period was 24.06 billion barrels with a minimum of 15.52 billion barrels in 1997 and a maximum of 37.2 billion barrels in 2010 and the figure was maintained until 2013.

Available data from the Global Economy, the U.S. Energy Information Administration also reveals this in their oil production capacity. See figure 6.

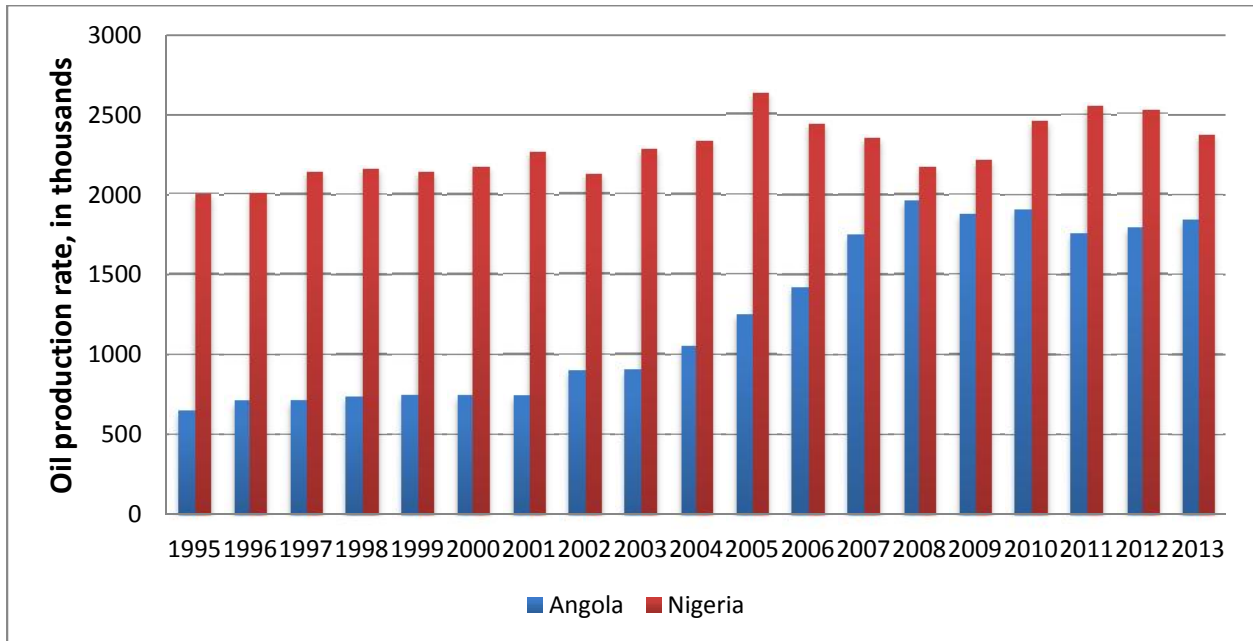


Figure 6. Oil production in Nigeria and Angola in 1995-2013 (The GlobalEconomy.com, the U.S. Energy Information Administration, 2015)

Oil production is in thousands of barrels daily and it is defined as oil production which includes crude oil production (inclusive of lease condensate), natural gas plant liquids, as well as other liquids, and refinery processing gain. Negative figures signify a net refinery processing loss. According to figure 6, The U.S. Energy Information Administration provides data for Angola from 1995 to 2013. The average value for Angola during that period was 865.46 thousand barrels per day with a minimum of 645.22 thousand barrels per day in 1995 and a maximum of 1955.21 thousand barrels per day in 2013. Whereas the data provided by the U.S. Energy Information Administration for Nigeria from 1995 to 2013. Nigeria accounted for an average value of 2007 thousand barrels per day during that period with a minimum of 1998.08 thousand barrels per day in 1995 and a maximum of 2630.86 thousand barrels per day in 2005.

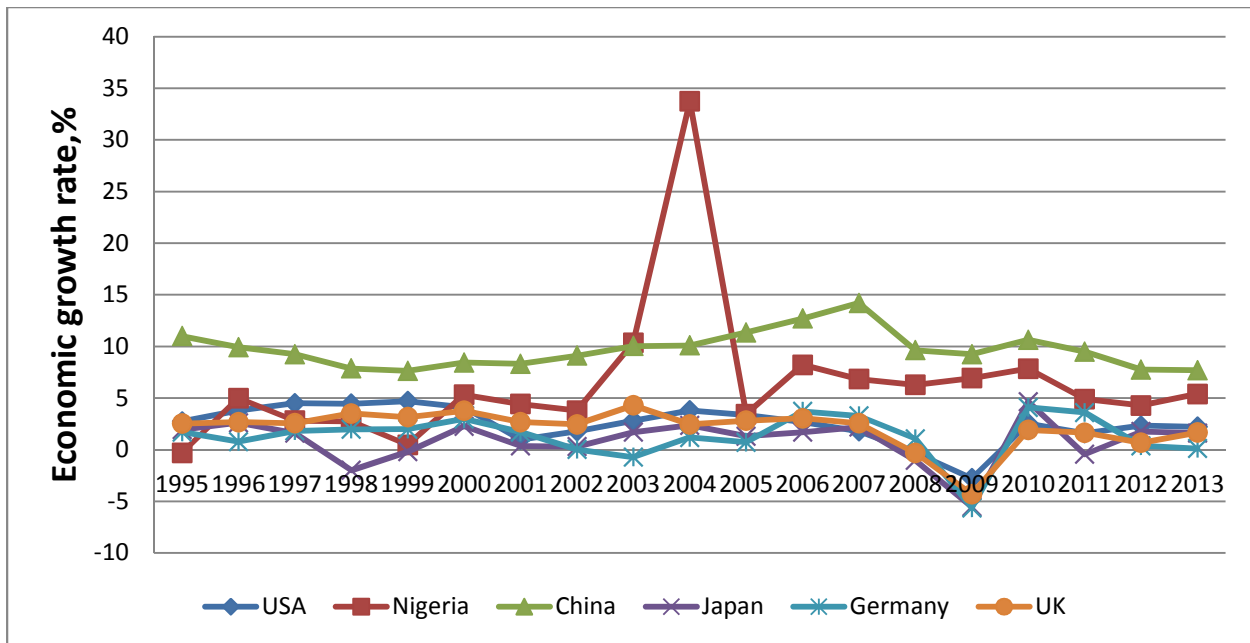


Figure 7. Economic growth rate comparison of Nigeria and five developed countries in 1995-2013, % (The GlobalEconomy.com, the World Bank, 2015)

Economic growth is seen as the rate of change of real GDP (measure: percent) and it is defined as the annual percentage growth rate of GDP at market prices on the basis of constant local currency. Totals are on the basis of constant 2005 U.S. dollars. It is the total of gross value added by the total of resident producers in the economy including any product taxes and excluding any subsidies that is excluded from the value of the products. It is estimated without deducting for depreciation of fabricated assets or for depletion and degradation of natural resources. According to figure 7, The World Bank provides data for Japan from 1995 to 2013. The average value for Japan during that period accounted for 3.82 % with a maximum of 4.65 % in 2010 and a minimum of -5.53 % in 2009. The data provided by The World Bank data for the USA from 1995 to 2013 gave account for an average value of 3.12 % during that period with a maximum of 4.69 % in 1999 and a minimum of -2.78 % in 2009. UK economic growth rate from 1995 to 2013 gave account of an average value of 2.5 % during that period with a minimum of -4.31 % in 2009 and a maximum of 4.3 % in 2003. According to the World Bank data for China from 1995 to 2013, the average value for China during that period was 8.31 % with a minimum of 7.62 % in 1999 and a maximum of 14.19 % in 2007. Germany accounted for an average value of 1.98 % during the period of 1995 to 2013 percent with a minimum of -5.64 %

in 2009 and a maximum of 4.09 % in 2010. While Nigeria economic growth rate according to data provided by the World Bank for Nigeria from 1995 to 2013 accounted for an average value 4.18 % during that period with a minimum of 0 % in 1995 & 1999 and a maximum of 33.74 % in 2004.

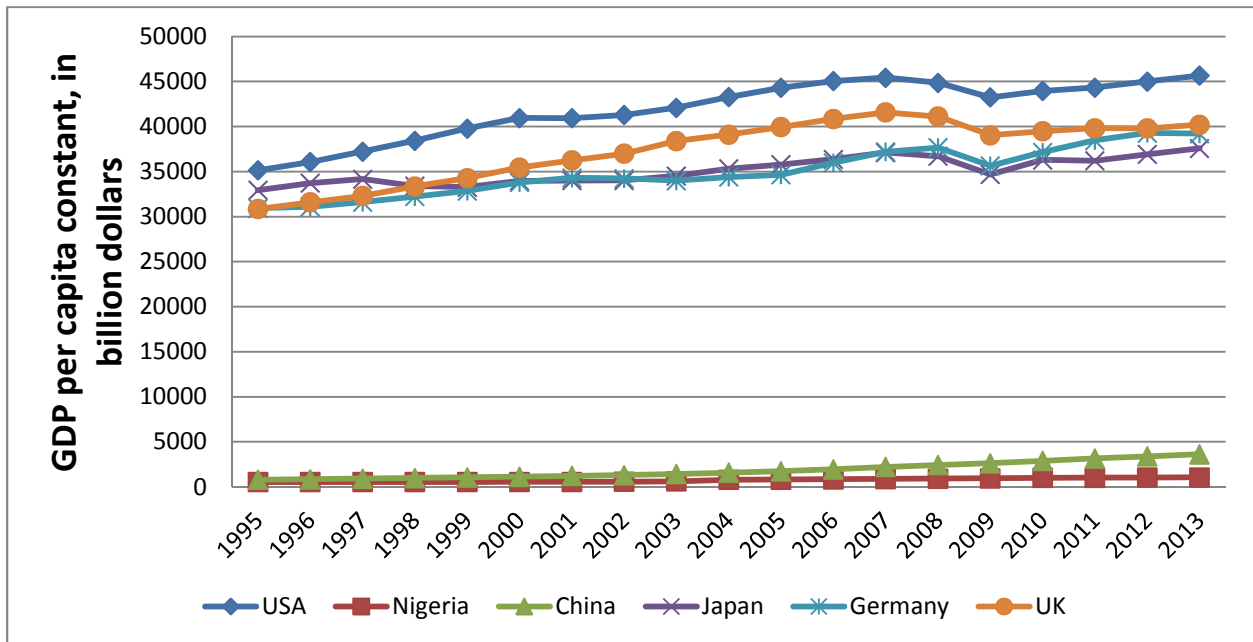


Figure 8. GDP per capita comparison of Nigeria and five developed countries in 1995-2013, in dollars (The GlobalEconomy.com, the World Bank, 2015)

GDP per capita, constant 2005 dollars (measure: U.S. dollars) can be defined as GDP per capita is gross domestic product divided by midyear population. It is the total of gross value added by the total of resident producers in the economy including any product taxes and excluding any subsidies that is excluded from the value of the products. It is estimated without deducting for depreciation of fabricated assets or for depletion and degradation of natural resources. According to figure 8, The World Bank provides data for Japan from 1995 to 2013. The average value for Japan during that period was 25357.33 billion U.S. dollars with a maximum of 37573.38 billion U.S. dollars in 2013 and a minimum of 32941.76 billion U.S. dollars in 1995. The data provided by The World Bank data for the USA from 1995 to 2013 gave account for an average value of 31261.08 billion U.S. dollars during that period with a maximum of 45660.73 billion U.S. dollars in 2013 and a minimum of 35149.39 billion U.S.

dollars in 1995. UK's GDP per capita from 1995 to 2013 gave account of an average value of 27152.82 billion U.S. dollars during that period with a minimum of 30842.19 billion U.S. dollars in 1995 and a maximum of 41567.28 billion U.S. dollars in 2007. According to the World Bank data for China from 1995 to 2013, the average value for China during that period was 873.24 billion U.S. dollars with a minimum of 782.09 billion U.S. dollars in 1995 and a maximum of 3619.44 billion U.S. dollars in 2013. Germany accounted for an average value of 28937.39 billion U.S. dollars during the period of 1995 to 2013 with a minimum of 30940.02 billion U.S. dollars in 1995 and a maximum of 39274.36 billion U.S. dollars in 2012. While Nigeria's GDP per capita according to data provided by the World Bank for Nigeria from 1995 to 2013 accounted for an average value of 694.07 U.S. dollars during that period with a minimum of 537.65 billion U.S. dollars in 1999 and a maximum of maximum of 1060.72 billion U.S. dollars in 2013.

4.3. Presentation and interpretation of Result

This part explains the regression result that is being generated from the data of FDI, GDP, IMP, EXP, INF and EXCH presented in Table 7 using the econometrics model specification in the previous chapter (chapter 3).

Table 8. Model Summary of regression result (IBM SPSS Statistics version 22)

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.720 ^a	.518	.333	1602011817.146

a. Predictors: (Constant), EXCH, INF, EXP, FDI, IMP

b. Dependent Variable: GDP

Model

$$\text{GDP} = \beta_0 + \beta_1 \text{FDI} + \beta_2 \text{IMP} + \beta_3 \text{EXP} + \beta_4 \text{INFL} + \beta_5 \text{EXCH} + \epsilon$$

$$\text{GDP} = 952750847.2 - 6.325 \text{ FDI} - 1.079 \text{ IMP} + 0.38 \text{ EXP} - 5801793.951 \text{ INF} + 41379580.36 \text{ EXCH}$$

t statistic = (0.714) (-0.144) (-2.264) (0.456) (-0.198) (3.083)

P - Value = (0.488) (0.887) (0.041) (0.656) (0.846) (0.009)

se = (1334718667) (43.792) (0.476) (0.084) (29336865.72) (13423382.39)

$R^2 = 0.518$

Adjusted $R^2 = 0.333$

F statistic = 2.795

Interpretation of Results:

$$\text{GDP} = \beta_0 + \beta_1 \text{FDI} + \beta_2 \text{IMP} + \beta_3 \text{EXP} + \beta_4 \text{INFL} + \beta_5 \text{EXCH} + \epsilon$$

$$\text{GDP} = 952750847.2 - 6.325 \text{ FDI} - 1.079 \text{ IMP} + 0.38 \text{ EXP} - 5801793.951 \text{ INF} + 41379580.36 \text{ EXCH}$$

t statistic = (0.714) (-0.144) (-2.264) (0.456) (-0.198) (3.083)

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se = (1334718667) (43.792) (0.476) (0.084) (29336865.72) (13423382.39)

$R^2 = 0.518$

Adjusted $R^2 = 0.333$

F statistic = 2.795

From the result presented above the following facts emerged prominently. The equation has FDI, import, export, inflation and exchange rate as independent variables. The estimate of GDP (β_0) is ₦952750847.2 billion. This indicates that if the value of the independent variables is positive, the dependent variable is 952750847.2 and it is statistically significant at 5% level.

The coefficient of FDI (β_1) is -6.325 which imply that there is an indirect relationship between the independent variables and the dependent variable and it is not statistically significant at 5% level. Also the coefficient of IMP (β_2) is -1.079 . This shows that there is an indirect relationship between the independent variables and the dependent variable and it is not statistically significant at 5% level. This shows that import of goods and services within the period does not contribute to the growth of the Nigerian economy. The estimation of export (β_3) is 0.38 EXP. This indicates a direct positive relationship between the independent variables and the dependent variable and it is not statistically significant at 5% level. It also indicates that export is not contributing positively to the growth of the Nigerian economy

The estimate of inflation rate (β_4) is -5801793.951 INF. This indicates that there is an inverse relationship between the independent variables and the dependent variable and it is not statistically significant at 5% level. Inflation does not contribute to the growth of the Nigerian economy. Exchange rate (β_5) however, assumes a positive sign of 41379580.36 . This implies that there is a direct positive relationship between economic growth and exchange rate. R square (R^2) explains how much of a variance in the dependent variable GDP is explained by the model so we have got five variables FDI, IMP, EXP, INF, EXCH. It explains how much those five variables explain the model. So in this case the value is (.518) according to Table 8. It expresses a percentage which is basically just multiplied by 100. It means that our model using our five predicted variables explains about 51.8% of the variance in GDP which means more than 40% of the variance of GDP is explained by other things. The co-efficient of determination (R^2) which is 0.518 indicates that the independent variables explained 51.8% of the total variation in the dependent variable while the remaining 48% is unexplained due to error term. The predictor variables jointly explained 51% of GDP, while the remaining 48% could be as a result of the effect of extraneous variables. It implies a good fit for the model. This explains that the independent variable can explain 51% of the variability of the dependent variable. The F statistics explain to us if the model will be accepted or not. Decision rule: For the model to be accepted the F statistics must be relatively high and positive. For this model the F statistic in

table 9 is 2.795, therefore it is accepted. Furthermore, it can be deduced from the result achieved that the constant parameter in the long – run is positive. This is an implication that if all the explanatory variables are held constant, GDP will increase by 0.33 units. This result is agreed with Oyatoye *et al* (2011); Alejandro (2010). One last thing to discuss in developing a regression model equation to actually be able to predict GDP other piece of information is the standard error of estimate. Making a prediction of GDP using all the variables FDI, IMP, EXP, INF and EXCH on the prediction of the total outcome might be off by about 1602011817.14. That gives an idea of how much variability there might be in the prediction. The more statistically significant an equation is and the higher the R square value is typically the smaller value of the standard error of estimate.

Analysis of Variance (ANOVA)

The next step is to assess the statistical significance the result in other words is the model statistically significant predictor of GDP. Does it make accurate predictions in a way that we can say this is a true prediction of what would happen in the population? Table 9 which is the ANOVA table shows that.

Table 9. ANOVA of regression result (IBM SPSS Statistics version 22)

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3586205212252 5397000.000	5	7172410424505 079800.000	2.795	.063 ^b
	Residual	3336374420956 0570000.000	13	2566441862273 890300.000		
	Total	6922579633208 5970000.000	18			

a. Dependent Variable: GDP

b. Predictors: (Constant), EXCH, INF, EXP, FDI, IMP

So this test the five variables that multiple R in the population = 0 in other words the model cannot predict accurately the outcome. In this case the model in Table 9 has a P-value of more than (.05) which is .063 so we would say that there are no statistical significance for this model,

in other words the model has not done a good job in predicting the outcome better than just chance.

The next step is to evaluate each of the independent variables so as to know if each of the variables in the model contributed most to the prediction of the outcome and so this can be found in the information in the coefficients table, Table 11.

The column labeled data under standardized coefficients is to be looked at in order to compare the different variables as far as their beta level. What is to be looked at is the standardized not the unstandardized data level. Standardized means that the values for each of the different variables have been converted to the same scale so that we can easily compare them. Having known the value of each independent variable we would use the unstandardized coefficients, using the value in the beta column to create a multiple regression equation. In this case area of interest is trying to compare the contribution of each variable and so standardized coefficients beta values will be used. The largest beta coefficient is to be looked at and also ignoring sign, either positive or negative. According to table 11, the largest coefficient beta level is 0.995 which comes from exchange rate (EXCH) variable. It means that the variable makes the strongest contribution to explaining the GDP when the variance is explained by all the other variables in the model. So that individual variable does the best job of explaining the outcome. So the beta total for all the other predicted variables FDI, IMP, EXP, INF is slightly lower and they mean less of a contribution but still make a fairly large contribution. For each of these variables the statistical significance of their contribution can also be checked, the column that is labeled sig. tells again whether the variable made are statistically significant unique contribution to the prediction model. The predicted variable is less than .05, .01 depending on how stringent it should be. As it can be seen according to the coefficients table for sig for five predicted variables only IMP which is .041 and EXCH which is .009 is less than .05 or .01 which means that the other variables are not making a significant unique contribution to the prediction of the outcome (GDP). If it is greater than (.05) then you can conclude that the variable is not making a significant unique contribution to the prediction of the outcome and this might be due to some overlap of the predicted variables and some multicollinearity. In this case all variables except IMP and EXCH did not make unique statistically contribution to the prediction of the outcome (GDP).

Table 10. Correlations Summary of regression result (IBM SPSS Statistics version 22)

		Correlations					
		GDP	FDI	IMP	EXP	INF	EXCH
Pearson Correlation	GDP	1.000	-.099	-.225	-.099	-.204	.286
	FDI	-.099	1.000	.864	.681	-.370	.747
	IMP	-.225	.864	1.000	.773	-.316	.743
	EXP	-.099	.681	.773	1.000	-.237	.594
	INF	-.204	-.370	-.316	-.237	1.000	-.479
	EXCH	.286	.747	.743	.594	-.479	1.000
Sig. (1-tailed)	GDP	.	.343	.177	.343	.201	.118
	FDI	.343	.	.000	.001	.060	.000
	IMP	.177	.000	.	.000	.094	.000
	EXP	.343	.001	.000	.	.165	.004
	INF	.201	.060	.094	.165	.	.019
	EXCH	.118	.000	.000	.004	.019	.
N	GDP	19	19	19	19	19	19
	FDI	19	19	19	19	19	19
	IMP	19	19	19	19	19	19
	EXP	19	19	19	19	19	19
	INF	19	19	19	19	19	19
	EXCH	19	19	19	19	19	19

Multi-collinearity/Correlations assumption

According to Table 10, what is to be known is if the independent variables show at least some relationship with our dependent variable in other words, to know if our value is greater than (.3). GDP which is the total outcome, it can be seen that all predicted variables have negative correlations with the outcome GDP except for exchange rate which has a positive sign. In that case all of the scales except exchange rate do not correlate with the total outcome (GDP). It can also be checked to know if the correlation between each of the independent variable is not too high, so it can be seen that the correlation between FDI and IMP is too high because it is higher than typically .7 which is (.864), between IMP and EXP is not too high which is (.773), also above .7, between EXP and INF is (-.237) and between INF and EXCH is (-.479).

Coefficients

Two values are given to us in this coefficient related to collinearity diagnostics. The first is tolerance and the other is Variance Inflation Factor (VIF).

Table 11. Coefficients Summary of regression result (IBM SPSS Statistics version 22)

		Coefficients ^a						Collinearity Statistics	
		Unstandardized Coefficients		Standardized Coefficients					
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF	
1	(Constant)	952750847.151	1334718667.267		.714	.488			
	FDI	-6.325	43.792	-.058	-.144	.887	.226	4.423	
	IMP	-1.079	.476	-1.034	-2.264	.041	.178	5.631	
	EXP	.038	.084	.139	.456	.656	.402	2.491	
	INF	-5801793.951	29336865.716	-.044	-.198	.846	.760	1.316	
	EXCH	41379580.356	13423382.392	.995	3.083	.009	.356	2.810	

a. Dependent Variable: GDP

Tolerance

It indicates or talks about how much of the variability of the specified predicted variable is not explained by other predicted variables in the model. So this value is very small in other words less than (.10) it indicates that there might be multiple correlations that are high suggesting multi-collinearity. According to Table 11 the value here in the five independent variables is .226 for FDI, .178 for IMP, .402 for EXP, .760 for INF, .356 for EXCH respectively which is well above (.10) it can be said that at least in this measure that there is no multi-collinearity.

Variance Inflation Factor (VIF).

The VIF is basically the inverse of the tolerance value and having have VIF values above 10 that will be a concern indicating multi-collinearity and it can be seen in the result our VIF values are 4.423 for FDI, 5.631 for IMP, 2.491 for EXP, 1.316 for INF, and 2.810 for EXCH respectively which is well below the level of 10 so all of the statistics give us an idea that we do not have multi-collinearity. So the assumption of multi-collinearity has been met in other words not having multi-collinearity. Note: if there are values below or above the threshold we just mentioned above then there should probably be a consideration for removing one of these predicted variables perhaps finding a predicted variable.

Normality, Linearity and Outliers

One of the ways of looking at these assumptions can be checked by expecting the normal probability plots.

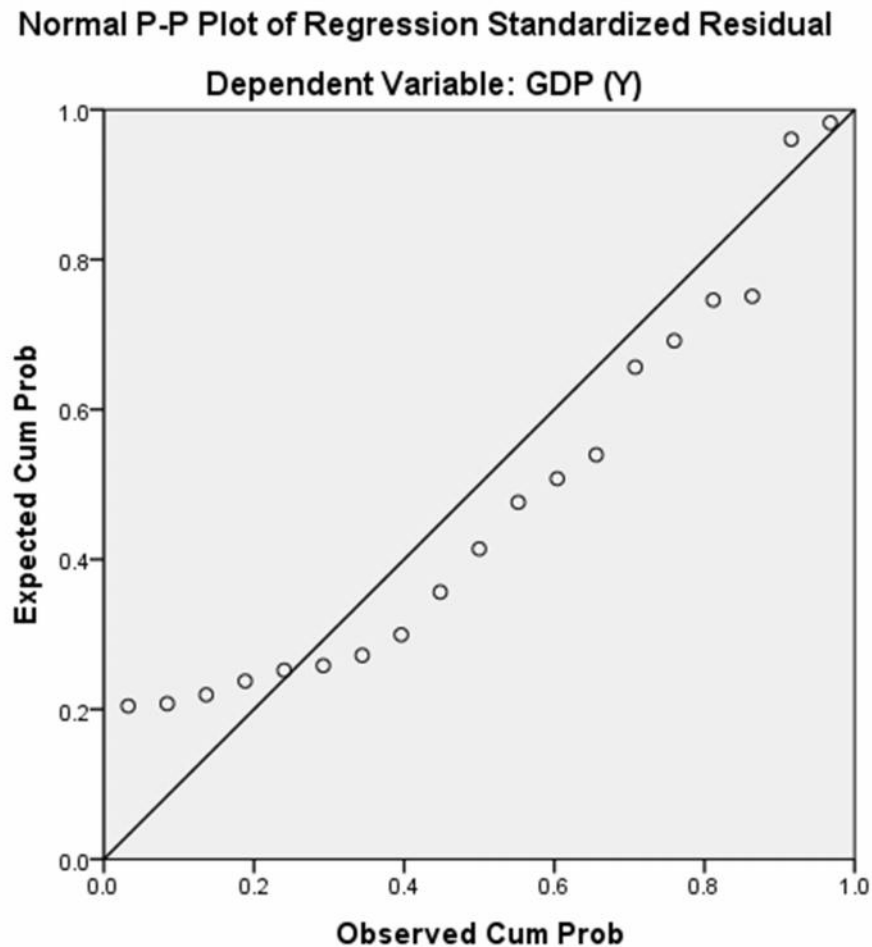


Figure 9. Normal P-P Plot of Regression Standardized Residual (IBM SPSS Statistics version 22)

In a normal P-P Plot, what is to be considered are the points and dots that will lie reasonably close to the kind of best fit that bisects the chart. So as it is seen it should be reasonably straight line that might deviate a little bit but as it is seen there are very little deviations from the perfect line. So according to figure 9, it appears that we have a good fit on a P-P plot so there are no major deviations from normality.

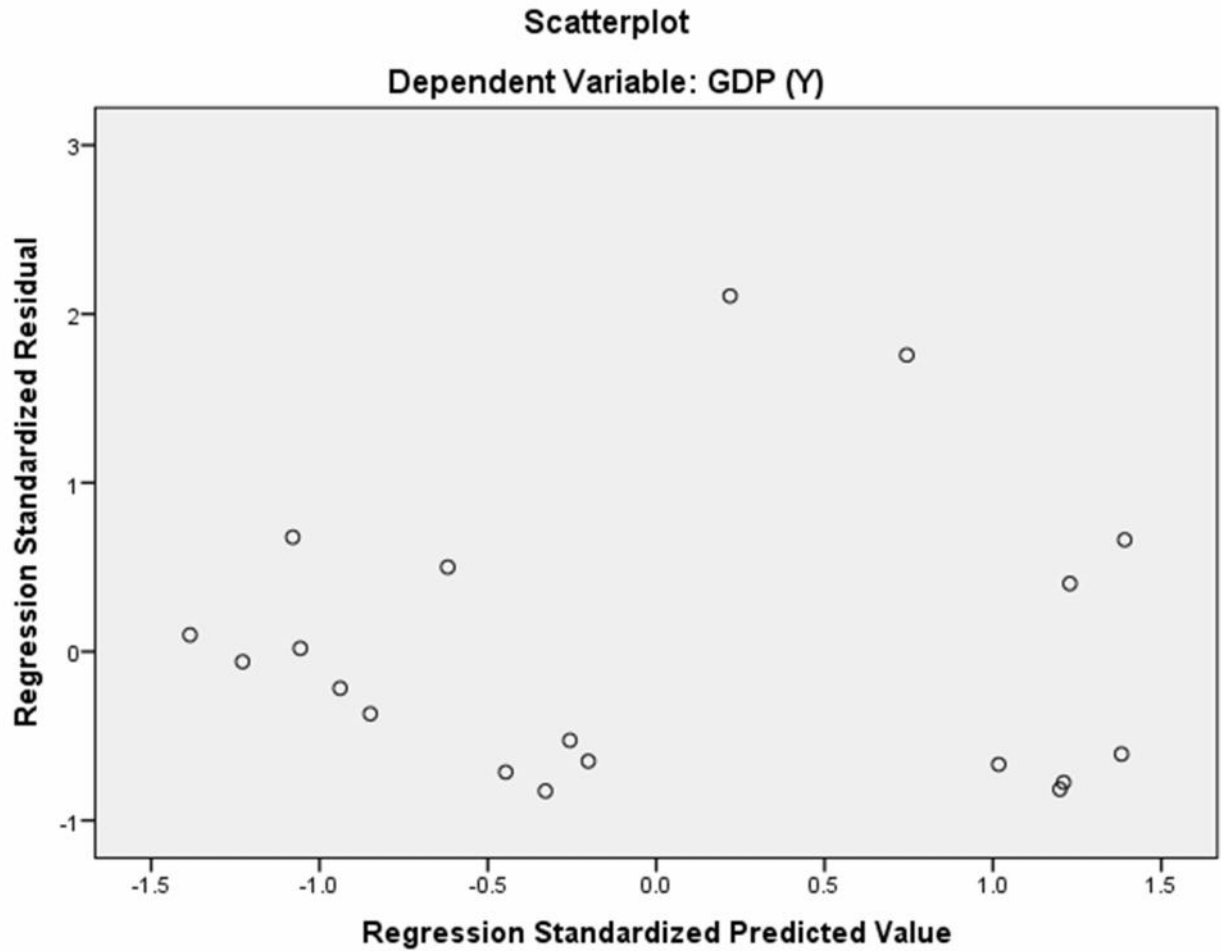


Figure 10. Scatterplot (IBM SPSS Statistics version 22)

There is also a scatter plot that is produced of the variables. And what is to be looked at is to see a roughly rectangular distribution. So looking at all the dots and try to be able to pretty much draw a rectangle round all of the dots. And if a roughly rectangular distribution can be seen then with most of the scores kind of clustered in the center then the assumption of linearity has been met. Deviations from centralized rectangular shape suggest some violation of those assumptions. Outliers can also be detected from the scatter plot. And outliers are typically defined as cases that have a standardized residual as displayed in the scatter plot of more than 3.3 or less than negative 3.3. So at large samples it is not unusual to find a few outline residuals but if it is found only a few it is probably not something that needs to be worried about or take action about.

As it can be seen see in Figure 10 there are no standardized residuals that are approaching -4 and +4 but these are a small number of residuals that are in there at that neighborhood so there is probably nothing to worry about.

CONCLUSIONS AND RECOMMENDATIONS

In conclusion, the study has examined the impact of FDI on economic growth. The first part examined the importance FDI for Nigeria economy thereby examining the trends of FDI in the economy and major sectors of the economy and also highlighted the problems affecting FDI in Nigeria. Chapter two has been able to discuss theoretical solutions such as general concepts, forms and determinants and the needs for FDI. Chapter three also discussed the research methodology adopted in finding out the relationship that exist between FDI and GDP and the growth rate of Nigeria in comparison to that of some developed countries while the final chapter was able to present and explain the result generated from the set of data presented. The empirical results show a positive relationship between economic growth (GDP) and FDI. The R^2 which is 0.518 indicates that the independent variables explained 51.8% of the total variation in the dependent variable while the remaining 48% is unexplained due to error term. The predictor variables jointly explained 51% of GDP, while the remaining 48% could be as a result of the effect of extraneous variables. It implies a good fit for the model. The F statistics explain if the model will be accepted or not. And for the model to be accepted the F statistics must be relatively high and positive. For this model the F statistic is 2.795, therefore it is accepted. The result was positive but not statistically significant contrary to some findings. This insignificant relationship could be because of inadequate FDI fund invested into the Nigerian economy which has not been able to significantly have impact on the economic growth. The result of the study also reveals that local investment was also accountable for the growth being experienced in Nigeria's economy over the period under review which makes a provision for one to understand that local investment serves as a main factor that helps to contribute to the growth of the Nigerian economy. And so, more emphasis should be on the encouragement of both domestic and foreign investment in order to propel the economy to the desired level of growth. In spite of the insignificant relationship that exists between GDP and FDI, it is of importance to note that FDI helps to contribute in a positive way to economic growth in Nigeria.

The lesson that emanates from this study is that constant inflow of FDI in mining and quarrying, manufacturing and processing, agriculture, transport and communication, building and construction as well as trading and business sectors has the likelihood to enhance Nigeria economic growth. The following recommendations have been proposed on the basis of the findings in this study and to enhance the impact of FDI on the Nigeria's economic growth and

development: As a result of the fact that mining and quarrying, manufacturing and processing, agriculture, transport and communication, building and construction as well as trading and business sectors have the prospects of enhancing the growth of Nigeria's economy and there is the need to appropriately channel and incorporate them into the mainstream of the economy.

The agricultural sector of Nigeria needs FDI for its development considering its vast arable lands. However, FDI inflows into this sector are very much minimal and restricted by the uncertainties involved and connected with the Nigerian economy most importantly in the aspect of favorable consistent policies. Hence, the need for continuity and consistency in government policies which has to be more directed especially towards the agricultural sector.

There is need for government to see to the improvement of the business environment to so as to enable FDI in contributing positively to economic growth. One of the ways of improving the business environment is by making provision of needful and essential infrastructure, which will help to lower the cost of running an establishment in Nigeria. The government should make provision to support institutions such as Power Holding Company of Nigeria (PHCN), Federal Road Maintenance Agency (FERMA), to mention a few Government should not only stop at reviewing existing laws and policies, but should also ensure that these laws and policies are easily accessible to both local and international investors. It is a thing to note that political instability exposes an economy to diverse forms of economic distress in the form of decreased investment by foreign Multinationals, a situation that would also unfavorably have effect on FDI level in the country. Government should look into the existing laws, eliminate or reduce the bottlenecks and search for new methods of raising foreign investment flow.

Finally, according to the study in chapter two which examines the theoretical aspects of FDI where it also made an indication that infrastructural development, trade and investment are highly acknowledged, technological transfers, enterprise development and encouraged positive competition are benefits derived from FDI inflow in any economy that attempt to encourage the inflow of FDI. Hence, policy makers should put all mechanisms in place in order to help motivate the inflow.

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ANNEXES

```

GET DATA /TYPE=XLSX
  /FILE='E:\Master thesis BOI Regression Analysis Data.xlsx'
  /SHEET=name 'REG DATA'
  /CELLRANGE=full
  /READNAMES=on
  /ASSUMEDSTRWIDTH=32767.
EXECUTE.
DATASET NAME DataSet1 WINDOW=FRONT.
REGRESSION
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS R ANOVA COLLIN TOL
  /CRITERIA=PIN(.05) POUT(.10)
  /NOORIGIN
  /DEPENDENT GDPY
  /METHOD=ENTER FDI IMP EXP INF EXCH
  /CASEWISE PLOT(ZRESID) OUTLIERS(3).

```

ANNEX 1

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	EXCH, EXP, INF, FDI, IMP ^b		Enter

a. Dependent Variable: GDP (Y)

b. All requested variables entered.

ANNEX 2

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	413544.5938	4306246.0000	2355260.1237	1402221.03319	19
Residual	-1332311.25000	3399025.00000	.00000	1371004.64918	19
Std. Predicted Value	-1.385	1.391	.000	1.000	19
Std. Residual	-.826	2.107	.000	.850	19

a. Dependent Variable: GDP (Y)

ANNEX 3

Collinearity Diagnostics^a

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions					
				(Constant)	FDI	IMP	EXP	INF	EXCH
1	1	4.430	1.000	.00	.00	.00	.01	.01	.00
	2	.893	2.227	.01	.00	.00	.29	.17	.00
	3	.479	3.042	.00	.01	.01	.57	.24	.01
	4	.120	6.077	.23	.13	.09	.13	.28	.06
	5	.043	10.154	.03	.85	.74	.00	.00	.02
	6	.035	11.293	.73	.00	.15	.00	.30	.90

a. Dependent Variable: GDP (Y)