

Determinants of Foreign Direct Investment In Nigeria (1980 - 2011)

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Abstract

One of the arguments for pursuing Foreign Direct Investment (FDI) by countries is the belief that FDI bridges the gap between rich and poor nations by promoting economic growth and development in addition to generation of technological transfers. However, empirical studies have found divergent views on the effect of FDI on growth and development. This paper examines the determinants of Foreign Direct Investment (FDI) in Nigeria during 1980 – 2011. It aimed at determining functional relationships that exist between GDP, wage rate, interest rate and relative openness index, and the extent to which each variable has influenced FDI inflow to Nigeria. The paper contributes to existing studies by using the multiple regression analysis in testing whether the set of independent variables explained the dependent variable. The study found that a significant relationship existed between GDP and inflow of FDI as well as real wage rates and inflow of FDI. It also found no significant relationship between FDI in flow and the relative openness index as well as lending rate and FDI inflow in the years under review. Based on the findings, it was concluded that Nigeria being a latecomer to the quest for FDI, campaigns for inward flow of FDI have not yielded the desired result. Specifically, it was found that improvement in GDP would lead to an improvement in inflow of FDI. Per capita income is too low to effectively draw FDI into sectors that will generate positive externalities. When the wage rates increase in Nigeria, it will have a positive impact on the FDI inflow. To address the problem, it was recommended that; government must follow through with the reform programmes and pursue policies that will increase the GDP and income per capita, address the issue of poor wage rates, review trade and investment policies as well as customs and banking regulations.

Key Words: FDI, Interest Rate, Wages, Relative Openness, Lending Rate.

Introduction

Advancement in technology and communication has made the world to become more globalized, witnessing an increasing growth in international economic transactions. Arising from this, foreign direct investment (FDI) has gained importance as the avenue for international resource flows, especially from the developed to the developing nations. Gorg and Greenaway (2004), found evidence that FDI can affect development by complimenting domestic investment and facilitating international trade, transfer of skills and technology.

Recognised as an engine of growth, FDI provides investment capital, boost competition and aids local firms in adapting more efficient technology and management styles in their operation. FDI also serves as a source of infrastructure, employment generation, resource utilization and access to the international markets as

well as managerial and technological transfers. Given the expected role of FDI in enhancing socio-economic transformation, countries are generally interested in attracting it. Most countries are therefore taking steps to improve their scores on the principal factors influencing the location of choices of foreign direct investors. Emerging and developing economies have thus realised the potency of FDI as the panacea for stimulating aggregate demand and are positioning themselves as preferred investment destinations (World Bank, 2003).

In recognition of the role of FDI in economic transformation, researchers and policy makers are interested in those factors that can swing FDI one way or the other. They also want to know its effect on the domestic economy, by asking if FDI actually leads to development in all cases and at all times.

In doing this, some scholars have isolated a two-way casual relationship between economic development and FDI. For them, though they recognise the empirical evidence which suggest that FDI impact positively on economic growth, they see economic growth itself as a determinant of FDI. The question therefore is; will developing countries grow as a result of FDI or should they grow first and by this attract FDI?

Theoretically, the literature on FDI identifies and classifies the motives that encourage companies to invest overseas into four (UNCTAD, 2008). These are:

- 1) Market-seeking motives, which highlight access to markets that are attractive because of their present size and the identified potential for expansion.
- 2) Efficiency-seeking motives aimed at taking advantage of cost-efficient methods of production. This is approximated by the cost and productivity of capital, labour, infrastructure and the administrative cost of doing business.
- 3) Natural resource-seeking motive which seeks to tap into the natural resources endowments in the locations being considered as against others.
- 4) Strategic asset-seeking motive oriented towards man-made assets, as embodied in the quality of the work force, the brand names, and market shares.

These motives are however never considered alone, as they usually combine to determine FDI location, based on expected profitability (Ajayi 2006).

With annual growth rate of 5.3% and a population of 167 million as at 2012, which is 25% of Africa, the Nigerian economy was the 2nd largest in Sub-Sahara Africa. The population is young, with 40% below 15 years and the urban population representing 48.2% (CBN Statistical Bulletin, 2012). Nigeria is immensely blessed with natural resources, such as vast agricultural land suitable for cultivation of crops, an estimated 124 trillion cubic feet of proven natural gas reserves, huge deposit of crude oil and gas, and large expanse of solid mineral deposits that have hardly been exploited.

Despite this, economic growth and development has been modest when compared to countries with similar economic history. Corruption, mismanagement and inefficiencies had resulted to the country having a GDP of about US\$212b, and an annual growth rate of 5.3%. The GDP amounted to about 41% of that of the sub-region while GDP per capita was \$300. Globally, Nigeria was among the 20 poorest countries with a very high debt profile (Oxford Business Group, 2010).

Nigeria is heavily dependent on oil and gas, which accounted for about 95% of her foreign exchange earnings, 85% of budgetary revenues and 20% of the overall GDP. The result of the failure to diversify is that economic performance is closely approximated by international oil prices and other attendant vagaries associated with the industry. As the leading Africa oil producer and the 6th largest producer in the

organisation of petroleum exporting countries (OPEC), Nigeria pumps 2.6 million barrels of crude daily. The country which was a net exporter of agricultural produce in the 1960s and 1970s became a net importer of the crops that it had comparative advantage, due to dilapidation in infrastructure and under investment in the sector (NIPC, 2009).

The above resulted in agriculture which hitherto was the bedrock of the economy being relegated to the background. However, with decreasing contribution of oil, occasioned by the insurgency in the Niger-Delta region and the global clamour for alternative sources of energy, agriculture is being primed to take its pre-eminent position. The sector contributed 42% of the GDP in 2007 and is gradually becoming a major source of employment, absorbing about two-thirds of the country's work force.

Nigeria, like other developing countries is facing serious disrepair in critical infrastructure like roads, technological infrastructure, power and energy. Underdevelopment of the economy is characterised by widespread poverty, rising inflation, underutilization of productive capacity, persistent balance of payment inequality, unemployment and income inequality.

The country has realized that no growth can be achieved without improvement in aggregate demand as a result various governments have attempted to address the challenges so as to attain growth and development. These attempts are articulated in strategic plans, annual budgets as well as the monetary/fiscal policies through which it attempts to control indicators like inflation, interest rates, exchange rates, unemployment, aggregate spending, deficit spending and GDP growth rate (NIPC, 2009).

In Nigeria, land and labour are abundant and relatively cheap, while capital is significantly lacking and dear (Edozien, 1968). Because of the insufficiency of consumption and investment and the inadequacy of the annual budgets as means of improving aggregate demand, FDI is considered critical as a source of physical and social infrastructural development. Sectors like manufacturing, solid minerals extraction, human capital development, and agricultural value-addition, power and energy, infrastructure and linkages need to be improved if the economy must prosper.

In response to the beliefs justifying the need for FDI, the authorities have put in place incentives for attracting foreign private investment and official development assistance. Some of these include the industrial policy of 1988 stipulating an extensive array of incentives and embodied provisions that departed fundamentally from previous policies. Foreign investment and official development assistance as a result increased to become the most common type of capital flowing across our borders. In 2007 for example, foreign investors ploughed an unprecedented US\$12.4b into Nigeria (World Bank, 2008).

The above investment was even more significant when considered against the background that this was the time the economies of developed countries were beginning to show signs of the economic meltdown. Policy makers welcomed the increase in FDI because it brings in capital in a way that is not as risky as other overseas borrowing and also has a range of other associated benefit.

There is however, conflicting evidence about the real world effect of FDI, leading to the argument that the case that FDI promotes economic growth is encouraging rather than compelling. FDI usually takes the form of purchase of existing assets in the home country, new investment in property, plant or equipment in the receiving country or joint venture with a local partner in a home country.

Statement of the Problem

Nigeria is noted for poor use of its natural resources, so increasing output levels has been the objective of successive governments. Policies have therefore been formulated to grow the productive capacity and improve aggregate demand in the country. Since the return to democracy, policy makers have outlined a road map for the attainment of economic development. Specifically, 'vision 20:20:20' aims at moving the

country to be among the first 20 economies in the world by 2020. This objective reinforced by the impressive growth rate in economic indicators between 2000 and 2006, which could be attributable to high oil prices and conscious economic reforms.

With reduction in oil prices between 2008 and 2009, it became apparent that alternative sources of development financing must be sought along with official development assistance currently injected into the economy. Poverty, disease, youth unemployment, income inequality and illiteracy have persisted. It is argued that it is necessary to augment domestic savings by encouraging FDI inflow which will lead to improvement in the balance of payment, in technology, employment, foreign exchange earnings, and decrease in import bills. This is to say that FDI is seen as a driver of development by providing resources for advancement and transformation.

FDI is scarce, so to flow into any country, several conditions must be present. Scholars have studied relationship between FDI and casual variables and compiled a list comprising factors in the destination as well as the investing firm (Ibrahim & Onokosi-Alliyu, 2008). These variables have been tested and have shown varying degrees of significance and direction. What else need to be done to grow the economy by creating job, better capacity utilization, and to rebuild infrastructure in the manufacturing sector? Fingers point towards policies aimed at improving the growth of factor endowments, production techniques and how output responds to this.

Since FDI is promoted as the panacea to changing the economic fortunes of Nigeria, the questions confronting us are: what factors influence FDI inflow into Nigeria? How have this been addressed in attempting to improve on the inflow? To what extent has FDI contributed to the growth and development of the country in the period under review? In effect, did the economy grow as a result of FDI inflows in the years 1980 to 2011; or should policy makers seek other growth channels first, and by doing this position the country to attract FDI?

Research Hypotheses

To evaluate the determinants of FDI flow and its implications in Nigeria as stated above, the following research hypotheses were proposed:

H₀1: There is no significant relationship between FDI and GDP in Nigeria.

H₀2: There is no significant relationship between FDI and interest and interest rates in Nigeria.

H₀3: There is no significant relationship between FDI and real wage in Nigeria.

H₀4: There is no significant relationship between FDI and openness index in Nigeria.

Literature Review

Theoretical Framework

Generally, academics and policy makers have never been in complete agreement on the determinants of FDI (Ibrahim & Onokosi-Alliyu, 2008).

Early explanations of multinational production were based on neoclassical theories of capital movement within the Hecksher-Ohlin framework, founded on the assumption of existence of perfect factor and goods market. These were criticised for being deficient in providing clear explanations of the nature and patterns of the FDI. In the absence of market imperfections, these theories presumed that FDI will not take place.

Kojima (1978) studied the theory of comparative advantage, where trade-oriented and anti-trade oriented models of investment decision-making is subject to the comparative production cost and profits. He used different terms to explain the models and argued that FDI works either as a compliment to or a substitute to foreign trade. Some theories that explain the existence and growth of FDI globally, include;

- I. The neo-classical theory of economic growth
- II. The investment theory (the two gap model)
- III. The product cycle theory
- IV. The location theory/eclectic theory
- V. The integrative theory

According to neo-classical theory, all development is dependent on use of land, labour and capital. Since LDCs have underutilised land and labour, low savings rate, productivity of capital is likely to be greater here. The theory assume that interdependence between countries benefited the developing countries, more than the developed ones. This is based on assumption that capital will normally flow from rich to poor areas where the returns on capital investments will be highest, helping to bring about a transformation of the backward economies.

The theory predicts that poor nations grow faster because of diminishing returns on capital and that poor countries would converge with richer ones over time because of their higher capacity for absorbing capital. In reality, empirical evidence has shown that divergence has been the case; the gap between the rich and poor has continued to increase, and the volume of capital flow to the poorer countries relative to richer ones has continued to be low.

Critics of this theory argue that FDI is associated with commune investment, income inequality and high external dependency. The argument regarding the potential harmful impact of FDI on growth point to the importance of certain conditions to ensure that the negative effects do not outweigh the positive ones. The consensus seems to be that there is positive association between FDI inflow and growth, provided the enabling environment is created. Given the fact that growth is associated with increased productivity, FDI inflow is well suited to affect growth positively (Dunning, 1993).

The investment theory model is adapted from the Harrod-Domar's growth model which differentiates two gaps in any economy, namely the foreign exchange and the domestic savings gaps. The former is the amount by which imports required for a given output exceeds exports likely to be associated with the output whereas the later is the difference between the investment necessary for a given flow of goods and services and the savings that will be forthcoming given those incomes.

The model recognizes deficiency in demand in the domestic economy and the need for stimulating this demand from external sources. The theory justifies the need for developing and transitional economies, deficient in domestic savings to look outwards for investment in their quest for economic growth.

The product circle theory was developed by Vernon (1974) to explain how a firm becomes an MNC at a stage in its life and suggest that growth is needed to fill the gap in foreign trade. He argued that in the early stage of the development of a product, production will take place in the home country for whose market it was intended.

This is because producers require continuous feedback from consumers and their suppliers to continue being relevant in business. Because countries are at different stages of development, new markets are readily available to receive fresh products through the demonstration effect of richer countries.

At this stage, expansion into overseas markets can only be by exports. After the product becomes standardized and has gained acceptance, other countries may offer relative cost advantages so that

production gradually shifts to these countries. It is possible to then export from overseas outlet back to the country that originally invented the product. There are many examples of products that have followed this cycle, and presently, Japan and other Asian countries are major exporters of electronic appliances originally invented in USA and Europe.

Among FDI theories, Dunning (1977), synthesizes the explanations and suggest that three conditions are required to motivate a firm to undertake FDI. This has become known as the Ownership, Location and Internationalization (OLI) paradigm. He explained his approach and propounded an electric theory based on theories of industrial organisation of location and the firm. The proposition is that the ability of the country to engage in international production depends on ownership specific advantages possessed, incentives to internalize rather than externalize these advantages and the interest of the enterprise in exploiting these advantages in a foreign location.

The integrative theory accounts for the multiplicity of heterogeneous variables involved in the FDI process. The theory approaches contemporary thinking on FDI by analysing it from the perspectives of the host countries as well as investors. Dopfer (2006) applied the model to account for the causes of FDI and its treatment by host countries. Having to face development challenges after the end of the cold war brought the development community to realize that neither the developed nor the developing world is monolithic. Each problem must be evaluated on its own terms, although it is possible to derive lessons from similar processes.

Literature Review

Historically, factors that determine investments are new discoveries, products, territories and frontiers, resources, new population, higher production and income. In effect, investment depends on the dynamics and unpredictable elements of growth in and outside the economic system. Some of the non-economic factors are technology, politics, investor expectations and government policies. Most investor advisors agree that though the rate of returns is cardinal to final decision, it only underscores the importance of credible and verifiable information (Schall and Harley 1986).

The significance of FDI in tackling the malaise of poverty is anchored in the new partnership of Africa's Development (NEPAD) declaration, stipulating that to achieve the millennium development goals, Africa need to fill an annual resource gap of US\$64b that is 12% of its GDP. Since income levels and savings are low, bulk of the resources needed has to come from international sources or foreign investment. From these, Official Development Assistance (ODA) has been declining while FDI is unavailable as most countries in Africa cannot raise funds from the international capital markets. The consequence therefore, is that the bulk of the external resources needed for poverty eradication, have by and large come from FDI (Asante, 2006).

The literature on determinants of FDI has adopted either the pull factor (demand side) approach or the push factors (supply side) approach, or some combination of both. The later examines factors that motivate MNCs to expand operations overseas, and tries to explain why firms evolve into MNCs and why they decide to locate production in another country rather than licensing or export their products (Singh & Jun, 1995).

Pull factors illustrate relationship between host country –specific conditions and flow of FDI. Factors such as infrastructure, market size, level of human capital development, distance from markets, labour cost, raw materials, openness to trade, legal system, fiscal and non-tax incentives and political stability exist in the host country that determine available opportunities and risk and thus influence location decision. The importance of pull factors depends on the type of investment in question, generally categorized as market-seeking or efficiency-seeking.

According to Lim (2001), market-seeking, involves the replication of production facilities in the host country to serve local and regional markets. The motive is to reduce the cost of supplying the market or to become more competitive by responding promptly to local situations and preferences. This FDI is expected to replace exports if the cost of market access through exports is higher than the net cost setting up a plant and producing abroad. Market-seeking FDI is driven by market size and growth prospects of the host economy. Tariff-jumping or export substituting FDI is a variant of market-seeking FDI.

Asset or resource-seeking FDI is motivated by factor cost considerations. Also called vertical, export-oriented or raw materials seeking FDI companies invest overseas to key into the use of raw materials or low cost labour which is absent at home. It goes for low cost factors of production and slices the vertical chain of production by relocating part in low production cost. International differences in factor prices and refinements in production technology tend to encourage this type of FDI.

Some scholars prefer differentiating strategic-asset seeking from the resource seeking investments. The former is oriented towards man made assets as embodied in a highly –qualified, skill and specialised work force, brand names and images, and shares in particular markets. Increasingly, this takes the form of cross border-mergers and acquisitions, where a foreign firm takes over the entire or a part of the domestic enterprise that possess such assets. While noting that horizontal and vertical FDI are not mutually exclusive, the implication is that while push factors influence the size of FDI, pull factors determine the direction of the flow (Carlson & Hernandez, 2002).

Efficiency-seeking FDI describes the case where firms locate somewhere in order to gain from the common governance of geographically dispersed activities in the presence of economies of scale. A good example is the first wave of European Union (EU) countries, where prospective membership of the EU conducive to the establishment of regional corporate networks seems to have attracted more of this type of FDI after the initial announcement of the progress of EU accession.

Research Methodology

The predominant type of data was pooled data, comprising time series and cross –section data, which had been accumulated over time. The data are of regular nature, maintained and monitored by the financial regulatory agencies of the Federal Government of Nigeria. We are satisfied that the data are reasonably accurate and reliable bearing in mind the sources. Also, intensive library research and the internet were used to gather additional information.

Both descriptive and inferential statistics were employed to summarize and describe the data for better understanding of the phenomena. Statistical/econometric techniques were used for analysis of the multiple regression equation. Each of the hypotheses were analysed independently, using the above techniques. The multiple regression analysis was used in testing whether the set of independent variables explained the dependent variable. Qualitative tools such as interviews of relevant public officials as well as content analysis of official and public documentary sources were also employed.

To analyse the inflow of FDI and the determinant variables, secondary data from statistical bulletins of CBN were preferred because that was the simplest and cheapest way of gathering the needed information. Moreover, the data are devoid of distortions that could be experienced in attempting to collect primary data directly.

The model takes a lead from the models of similar studies earlier undertaken. The specification is based on theories highlighted in chapter two. Therefore, the model specification is the electric approach, expressed as (Equation 1);

$$FDI = f\{GDP, R, WR, Dop\}$$

Where;

FDI = Foreign Direct Investment

GDP = Gross Domestic Product

R = Interest rate

WR = Wage rate

Dop = Degree of openness of the economy

We assumed an approximately linear correlation between the dependent variable and independent variables. The above expression is thus stated as follows;

$$FDI = a_0 + a_1GDP + a_2r + a_3WR + a_4Dop + u$$

Where :

FDI = Foreign Direct Investment

a_0 = The intercept term showing the value of FDI when all the independent variables are zero

a_1 to a_4 = The regression parameters to be estimated.

u = the stochastic error term

a_0 to a_4 are expected to be positive or negative, depending on the economic theory.

Data Presentation, Analysis, and Discussion of Findings

Data Presentation

In this study, the dependent and independent variables have been identified above. Table 4.1 shows the actual yearly values for the dependent and independent variables between 1980 and 2011.

Table 1 shows that GDP fluctuated in the 1980s and early 1990s and then witnessed continuous increase between 1997 and 1999 when the growth rate was negative. This could be attributed to the transition from military to civilian government.

The result also shows that FDI fluctuated within the same period. Interest rate witnessed a differential increase between 1980 and 1983. It then dropped by until 1986 when it rose till 1999, when it recorded the highest interest rate within the period under study. Wage rates in Nigeria were very low between 1980 and 1997, when it ranged between ₦ 2,496 and ₦ 4,753. From then, there was a sharp increase to ₦ 12,202 in 1998 and then to ₦50,823 by 2008.

For the relative openness index, the country was rated 48.6% in 1980, with an increase to 49.1% the following year. Thereafter, its rating dropped continuously until 1985, when it rose again in 1986 and 1987. From 1988, it started a gradual increase, hitting an all-time high of 97.3% in 1993. From 1994, it declined until 2002 when it started another round of increase.

To analyse the relationship, we relied on regression and ran separate regression on the four hypotheses. The result of the exercise is shown on Table 4.2

Table 1: FDI, GDP, interest rate, wage rate and openness in Nigeria

S/N	YEAR	GDP	FDI	R	WR	Dop
1	1980	50848.6	1527892	9.50	2496	48.60
2	1981	50749.1	1725033	10.00	3696	49.10
3	1982	51709.2	1942593	11.75	3696	38.70
4	1983	57142.1	2182951	13.00	3736	31.10
5	1984	63608.1	2136263	11.75	3736	27.80
6	1985	72355.4	1815443.7	12.00	4032	28.50
7	1986	73061.9	2813088	19.20	3708	37.60
8	1987	108885.1	3125223	17.60	3708	53.30
9	1988	145243.3	3639888	24.60	4050	45.20
10	1989	224796.9	5436637	27.70	4050	57.90
11	1990	260636.7	7188636	20.80	4050	72.20
12	1991	324010	9121579	31.20	4050	68.60
13	1992	549808.8	10184601	18.32	4050	82.70
14	1993	697090	13416946	18.32	4050	97.30
15	1994	914940	13086064	21.00	4753	82.50
16	1995	1977740	30776987	20.79	4753	86.50
17	1996	2823900	36346604	20.86	4753	75.60
18	1997	2939650	35237816	23.32	4753	57.46
19	1998	2881310	39156233	21.34	12202	62.05
20	1999	3377330	41455540	27.19	26828	62.42
21	2000	3291700	50253869	21.34	28598	62.48
22	2001	3443100	44876484.4	29.70	33503	60.86
23	2002	3562800	56377047.4	22.47	41586	65.01
23	2003	3927600	65151070	20.62	41586	74.62
25	2004	4102152	77648461.2	20.04	41586	75.15
26	2005	4721547	101133215.5	19.47	44586	68.85
27	2006	5472613	103143287	21.42	48562	70.28
28	2007	5936475	105353215	22.57	50356	72.62
29	2008	6124531	108365224	22.82	50823	71.35
30	2009	6539273	118252731.3	22.50	51826	72.43
31	2010	7262583	136828026.2	21.78	52273	72.82
32	2011	7835205	139268352.7	21.93	52792	73.78

 Source: Central Bank of Nigeria (2012). *Statistical Bulletin*. Abuja: Central Bank of Nigeria.

Table 2: Regression result of the relationship between FDI and the independent variables.

Variable	Coefficient	Std Error	T	Sig.
(Constant)	2.169	.103	21.138	.000
GDP	.683	.045	15.335	.000
R	-.00006	.003	-.022	.985
WR	.225	.053	4.270	.000
Dop	.001775	.001	1.597	.123

R = 0.996

R² = 0.991

F(4,24) = 697.059

DW = 1.50

The R value of 0.996 and R² of 0.991 derived from Table 4.2 revealed that there exists a strong positive correlation between the dependent variable, FDI and the independent variables, GDP, R, WR, and Dop. The R²-value of 0.991, which is the coefficient of multiple determinant shows that about 99% variation in FDI is caused by changes in GDP, R, WR, and Dop.

Also the F-value of 697.059 which is greater than the critical F-value of 3.14 confirms that there exist a significant relationship between FDI as the dependent variable and GDP, R, WR and Dop as the independent variables. This therefore means that GDP, R, WR and Dop are strong determinants of FDI.

The coefficient of GDP in the equation is positive, indicating that there exists a positive and direct relationship between FDI and GDP. This means that when GDP increases in Nigeria, FDI inflow will also increase.

This result is in order with economic a priori criteria with statistical significance at 1 and 5% level of significance. It shows that if other explanatory variables in this equation are held constant a 1% increase in GDP will lead to a 68.3% increase in FDI.

The estimated coefficient of interest (R) is negative, meaning that there exist an inverse relationship between FDI and interest rate. Though the result is not statistically significant at 5% level of significance, it is in line with economic a priori condition.

The estimated coefficient of wage rate (WR) is positive, meaning that when wage rate increases, FDI in the country will also increase. Though the result is statistically significant at both 1 and 5% level of significance, it is not in order with economic a priori condition.

Also the estimated coefficient of Dop is positive, indicating existence of a direct relationship between FDI and Dop. This means that when Dop in Nigeria increases, FDI will also increase. This result is in line with economic a priori condition but not statistically significant at 5% level of significance.

Discussion of Findings

The study revealed a significant relationship between GDP and flow of FDI. This agrees with the finding of Edwards (1990) who found that there existed a direct and significant relationship between the flow of FDI and the growth of GDP.

The study revealed that there exist no significant relationship between FDI and interest rate, implying that whatever the interest rate in Nigeria is, FDI will come in. Though this disagrees with economic a priori

conclusion, being that most FDI inflow does not borrow from Nigeria, this also disagrees with Campos and Kinoshita (2003) who found a significant relationship between domestic interest rate and FDI.

The study revealed that there exist significant relationship between wage rate and FDI, implying that FDI will flow to areas where wage rate is cheaper. This agrees with Asiedu (2002) who noted that what scared foreign investors is wage rate. It also agrees with Akinkugbe (2003) who found out that the first factor foreign firms considered before investing in a country is the availability of labour at a cheaper rate.

The study also revealed that there exist no significant relationship between Dop and the flow of FDI. This disagrees with that of Ibrahim and Onikosi-Alliyu (2008), who found out that there exists significant relationship between the variables.

Summary, Conclusion and Recommendations

Summary

This study was concerned with the determinants of FDI in Nigeria and the implications to Nigerian economic development between 1980 and 2011. It aimed at determining functional relationships that exist between GDP, wage rate, interest rate and relative openness index, and the extent to which each variable has influenced FDI inflow to Nigeria between 1980 and 2011. Four hypotheses were constructed and tested.

Secondary data were obtained from the CBN, quantified and analysed using regression and Fisher's protected t-test statistical technique to evaluate the influence of the variables, depending upon the nature of the hypotheses formulated. Each hypothesis was tested for significance at 0.05 alpha level of significance with different degrees of freedom relative to the statistical technique employed.

From the results, the following were found:

- i. There was a significant relationship between GDP and inflow of FDI to Nigeria in the years under review.
- ii. There was a significant relationship between real wage rates and inflow of FDI to Nigeria in the years under review.
- iii. There existed a direct but no significant relationship between FDI and the relative openness index in the years under review.
- iv. There was no significant relationship between lending rate and inflow of FDI to Nigeria in the years under review. This was so because majority of the investment funding is sourced off-shore and as such domestic interest rates will have little impact on the investment funds.

Conclusion

Based on the findings, it was concluded that Nigeria seems to be a latecomer to the market for FDI, as the campaigns for FDI had not yielded the desired result. Improvement in GDP would therefore lead to an improvement in the inflow of FDI into the country. Per capita income was too low to effectively draw FDI into sectors that will generate positive externalities. When the wage rates increase in Nigeria, it will have a positive impact on the FDI inflow.

There exists direct relationship between FDI and the relative openness index in the years under review, meaning that for the country to attract more FDI, it has to be seen to be open by foreign investors. Lending rate did not influence FDI inflow into Nigeria in the years under review, as there was no direct relationship between the two variables. The domestic banking sector could therefore be a direct beneficiary of FDI inflow since it provided a source for cheap funds for the sector.

The implications of these findings were that if Nigeria desires to be competitive globally, as an FDI destination, she must address all issues that could affect the variables that have been found to have significant influence on the sector.

Recommendations

Based on the findings and conclusion of the study, the following recommendations were made:

- i. To redress the issue of inadequate GDP, government must pursue policies that will positively impact on the GDP and per capita income. Some of these will include the problem of social and economic infrastructure like power, communication, transportation networks and so forth.
- ii. Since wage rate was significantly related to FDI, government should address the issue of wage rates. The income per capita was too low and could not serve as a catalyst to boost domestic consumption and improve aggregate demand.
- iii. Investors are likely to be attracted to an economy that is open and receptive to trade. To attract FDI government must review policies that have a bearing on trade and other financial transactions like customs and banking regulations. This will engender investor confidence and encourage inflow of FDI.
- iv. Government should pursue reforms to address issues in general administrative, fiscal and monetary policies. Issues like procedures for registration, approvals, licensing of businesses, land and tax administration, dispute resolution procedures and the justice system that impact on the investment climate must be addressed.

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