THE ACCOUNTING PERSPECTIVE OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN NIGERIA: AN EMPIRICAL ANALYSIS (1986-2011)

Dr. Chris O. Udoka[1], Arzizeh Tiesieh Tapang[2*], Anyingang. Roland[3]
1. Department of Banking & Finance, Faculty of Management Sciences, University of Calabar, P.M.B. 1115, Calabar, Cross River State - Nigeria
2. Department of Accounting, Faculty of Management Sciences, University of Calabar, P.M.B. 1115, Calabar, Cross River State - Nigeria
3. Department of Banking and Finance, Faculty of Management Sciences, University of Calabar, P.M.B. 1115, Calabar, Cross River State - Nigeria
* arzizeh01@yahoo.com

Abstract

The purpose of this research study is to examine the accounting perspective of foreign direct investment on economic growth in Nigeria. It is the aim of this research to examine the relationship existing between foreign direct investment and some macro economic variable in the Nigerian economy for the period 1986 – 2011. Descriptive analytical design compiled with the test of hypothesis was the method adopted by the researcher. Data were collected mainly from secondary records and library research using ordinary least square to analyze the data collected. However, from the analysis of data, it was discovered that, with the exception of labour forced employment, gross domestic product, openness of the economy and an over valued exchange rate explain to a large extent, the variations foreign direct investment inflow within the period. This implies that the government must create an enabling environment and also put in place appropriate and effective policies and strategies to manage these variables for purpose of attracting, absorbing and sustaining substantial inflow of FDI into the Nigerian economy.

Keywords: Foreign Private Investment, Exchange Rate, Balance of Payment, Gross National Savings, Foreign Direct Investment

1.0 Introduction

Foreign Direct Investment (FDI) usually brings to mind a significant contribution of foreign Direct Investment to domestic investment. The development of an economy is one of the macro-economic goals of every nation. Some decades ago witnessed an increasing attention among economist and political leaders on the determinants of FDI of less developed countries like Nigeria.

The first advent of FDI in Nigeria started as a result of industrial revolution in Europe involving seven industrialist countries like Germany, Britain, Japan, USSR, Italy, among others. These counties have technologically developed to the extent that there was no place to market what they produced in terms of both tangible product and intangible product in their countries. These consequently led to the scramble for and partition into West Africa and Nigeria intensive. Eventually they succeeded after the Berlin conference in Germany. The result in Nigeria was the British Colonization of Nigeria which brought forth British investment in our educational system, transportation system, even in polities.

Furthermore, from this historical background of FDI in Nigeria, so many events developed and brought forth FDI in Nigeria. The trend of event happening from this history prevails till 1980 when there was political development which placed FDI in conducive environment to invest.

As a result of mutual dependency, philosophy and in effort to accelerate the pace of her economic growth and development, Nigeria and other less developed countries has over the years made concerted efforts supported by strong advocate in industry, government and academics to attract FDI to strengthen her developmental efforts. Some of the measures adopted include; tax concession e.g. tax holiday, favourable interest rate, credit concession, non-tax financial incentives and such investment promotional oriented strategy as the establishment of export processing zone (EP2). According to Shah and Slamrod (1990) and Essien and Onwio Duokit (1999), foreign capital flows to Mexico are sensitive to tax regimes.

This is an attempt to identify the determinants of FDI in Nigerian economy, various factors such as political instability, labour force and employment, privatization, size of the market, exchange rate, openness of the economy,

infrastructure, economic growth i.e. growth of gross domestic product, fiscal and other non-tax incentives as well as other institutional factors are discussed (CBN, 1998; Akliter, 1993).

In order to ensure investment friendly environment that will bring forth the desired levels of FDI, the government of Nigeria is striving to ensure stable and conductive macro economic policies, political and social stability as well as attractive regulatory framework and provisions, as these are given utmost considerations by foreign investors in deciding whether to invest in a particular country or not for reasons of safety of lives, property and investment.

1.1   Statement of the problem

Assessing the various views made by author as regard the impact of foreign direct investment in the economy, it is seen that reason behind foreign investment inflow appears unclear and also that the people do not really understand the implications of foreign capital inflows in Nigeria.

With the end of the oil boom, Nigeria found itself in series of economics problems. Consequently investment collapsed and this contributed strongly to a declining real output and falling per-capital real income level. By 1986, despite the austerity and stabilization measures, the economic had entered a recessionary and the existing stop gap measures (tax exemptions, reduce, tariff etc) to lure FDI could not revamp the economy. Thus this disappointing trend in foreign private investment especially in FDI has spured debates and burning interest in the determinants of foreign direct investment in developing or highly indebted poor countries. Therefore, it is beneficial for both the academics and policy point of view to critically analyze the factors that determine FDI inflow into the Nigeria economy.

Finally, the motive of this research work is to empirically examine the factors that determine foreign direct investment in Nigeria.

1.2   Objectives of the study

The objectives of this study are:
i.   To examined the impact of exchange rate on foreign direct investment in Nigeria.
ii.   To examine the effect of openness of the economy on foreign direct investment in Nigeria.
iii.   To examine the growth of Gross Domestic Product (GDP) on foreign direct investment.
iv.   To examine the impact of labour force and employment on foreign direct investment.

1.3   Research questions

The following research questions are proposed to guide the researcher.
i.   How does exchange rate affect the inflow of foreign direct statement in Nigeria?
ii.   What is the effect of openness of the economy on foreign direct investment in Nigeria?
iii.   In what way can labour force and employment be affected by the growth of foreign investors?
iv.   Is there any significant relationship between foreign direct investment and the gross domestic product (GDP)?

1.4   Research hypothesis

In order to give direction to this study, the following research hypotheses are stated in their null forms.
i.   There is no significant effect of exchange rate on the inflow of foreign direct investment in Nigeria.
ii.   There is no positive and significant effect of openness of the economy on the foreign direct investment in Nigeria.
iii.   There is no positive and significant relationship between FDI and the gross domestic product (GDP) in Nigeria.
iv.   Labour force and employment has no significant relationship with the growth of foreign investors.

1.5   Significance of the study

In recognition of the crucial role of FDI in the nation's economic growth and development, this study is of utmost significance in three (3) respects, namely:
   i.   It would serve as a reference material to researchers and student who might be interested in conducting further research into similar or related areas of study.
   ii.   The policy recommendations, based on our findings, would assist the government in designing effective policies to attract the desire inflow of foreign direct investment (FDI).

iii. It would assist the monetary authorities to appreciate the impact of monetary and other macro-economic variables such interest rate, inflation rate on (FDI) inflow with a view to managing such variable appropriately.

2.0 Literature review and theoretical framework
2.1 Theoretical Framework

It is often argued that there is no "unique established theory of FDI. Instead, there are various hypotheses emphasizing different macro-economic and micro-economic factor that are likely to have an effect on foreign direct investment". Thus, there are several factors influencing FDI and any effort to discuss conceptual issues on FDI must be ware of sweeping generalizations (Khan 1990:282) and (Ekpo 1997:62) for the purpose of this study, I shall highlight on various economic theories that critically explain the underlying determinants of FDI. Some of these theories include: The Product Cycle Hypotheses; Dunning's Electrics Theory; The Flow Theory of Capital Movement; The two-Gap Theory; The institutional FDI Fitness Theory; Internalization Theory and Market Power Theory.

2.1.1 Product Cycle Hypothesis

This theory is otherwise known as macro-economic development theory or model. It is an integrated theory of trade and foreign direct investment developed by Ramond Vernon in 1966 and further reviewed in 1974. It links FDI with trade and locational factors. Its earlier version says that overseas investment is an out-growth of the stages of development and marketing of new products. For instance at the initial stage, growth is promoted by export expansion into overseas market, making use of technological capability among countries and industries. The new market are developed and expanded by the international demonstration effects of the rich countries. It maintains that once the firm has standardized it's production process, it looks overseas for lower cost location and new market through price reduction (in the case of Oligopoly). Here FDI is regarded as a response to changes in national comparative advantage.

However this theory fails to explain why multinational corporations choose to use FDI rather than license their technology to foreign firms. According to Nyong, 2005, this is due to various reasons, first, Access to potential and generally unavailable technology team spirit, management skills, economics of scale and possession of band names. Also lack of control of the technology may increase the possibility of the leakage of the technology to competitors.

2.1.2 Dunning's Electric Theory

This theory was developed by Dunning in 1977. It is an attempt to integrate the various theories of FDI to offer a complete explanation of the determinants of FDI. The theory is usually referred to as OLI paradigm, where

O = Ownership advantages

L = Location considerations

I = Internalization gains. Which are the enabling conditions that must exist before a firm will be a lost or source of FDI.

Ownership advantages include advantages in technology and management skills, size and diversification, as well as access to and control of raw materials. Other includes access to finance on favourable terms and ability to call on the support of their government.

Locational advantages encompass transport cost, raw materials, import restrictions as well as the ease with which the firm may operate in another country. Other consideration includes profitability, tax policies in both source and host countries and political stability in the host countries.

Internalization gains deal with factors that promote profitable transactions within the firm than on the external markets. Such gains arise from eliminating market imperfections (uncertainty, scale economics), control problem as well as the undesirability of providing full information to a prospective purchaser.

The most important consideration in electic theory is that all the three enabling environments are necessary and must be present before FDI may be significantly attracted No one of them is sufficient.

2.1.3 Flow Theory of Capital Movement (FTCM)

The flow theory of capital movement states that in a two country world, domestic and foreign or developing and developed, an increase in domestic interest rate relatives to foreign interest rate would lead to an increase in capital flow from foreign (developed) country to domestic (developing) country to take advantage of the higher differential in returns between the two countries, ceteris paribus. This, capital flow is an increasing function of

foreign interest rate. In other words, an increase in foreign interest rate relative to domestic interest rate may lead to foreign capital outflow.

This theory has been criticized as being too simplistic because it recognizes interest rate as the only dominant determinant of foreign capital flows. In other words, it neglects other important determinants of such flows, such as exchange rate, political stability, high and strong economic growth, macro-economic stability, etc. The omission of these important determinants weakens the accuracy of this theory for policy purposes.

2.1.4 The Two-Gap Theory

The two-gap model, otherwise called savings and foreign exchange theory, was developed by Mckinnon in 1964.

The theory states, that, given the importance of financial capital in economic development, developing countries may be constrained by the unavailability of adequate domestic resources to prosecute development programmes. It identifies two gaps that may exist, namely, the savings gap arises because, with low income, there would be low level of saving, which will lag behind a targeted level of saving necessary to match the required level of investment in an economy. On the other hand, the foreign exchange gap arises because, given the import dependency of most developing countries, their high debt burden and their dependency on primary exports characterized by price and/or quantity instability, these countries do not have enough foreign exchange to pay for their imports. To have these gaps, there is the need to allow the to inflow of foreign resources, probably through FDI.

2.1.5 Institutional Foreign Direct Investment Fitness Theory

The institutional foreign direct investment fitness theory, which was developed by Saskia Wilhelms in 1960, embodies the views of three schools of thought. These are the three traditional schools of though. The independency and the modernization schools and the integrative school. The dependency school comprises dependency (Neo-Marxist) and the structuralist theories.

The Neo-Marxist flourished between the 1960's and the 1980s and it opines that developing countries are exploited either through international trade which leads to deteriorating terms of trade (an unequal exchange in Marxist terms) or through multinational corporations (MNC's) transferring profits out of developing economies. In other words, dependency theories attribute the cause of underdevelopment primarily to the exploitation by the industrialized nations. On the other hand, the structuralist theory posits that, international centers (industrialized countries) and domestic centers (national capitals) extract resources from the peripheries, namely, the poor countries or the local countryside (Udoka & Anyingang, 2010).

The modernization school of thought is of the opinion that there is a natural order through which countries ascend to what is seen as higher development stages. This school of thought view FDI as a prerequisite and catalyst for sustainable growth and development. It adopts the perfect market approach and the imperfect market approach. The perfect market theories assume perfect competition where all participants are price takers enjoying unhindered market entry and exit. The imperfect market, on the other hand, consist of the industrial organization theory of the firm (which holds macro and micro economic factors responsible for real life deviations from the perfect market model is based on the tenet that FDI occurs usually on Oligopolies) and the internalization theory which argue that firms keep operations internal through a hundred percent (100%) subsidiary because they want to control risk and retain control and market share.

Following from these two traditional school, comes the third called the integrative school of the right. This school attempts to transform categorical thinking on FDI by analyzing it from the perspective of the host countries as well as the investor. It integrates the dependency and modernization concepts applicable to current foreign direct investment, accounting for the causes of FDI and for its treatment by host countries. This school considers macro, micro and meso-economic variables that determine foreign direct investment (Udoka & Anyingang, 2010).

2.1.6 The Internalization Theory

This theory was developed by Buckley and casson in 1976 based on the following three postulations:
(i) Firms maximize profits in a world of imperfect markets.
(ii) Whilst the intermediate product markets are imperfect, there is an incentive to by-pass them by creating an internal market, and
(iii) Internalization of the markets across the boundaries of national markets creates multinational enterprises.

The theory focuses essentially on transactional market imperfections. According to it, these imperfections are impediments to interactions of the forces of supply and demand to set a price. The theory therefore supports the firms choice to directly own the foreign assets than to use some other means of acquiring the rents from the foreign production units. This is explained as a function of the relative losts and efficiency of transforming assets or co-

coordinative production through internal hierarchies compared with external markets (Voutilainen, 2005 in Udoka & Anyingang, 2010).

2.1.7 Market Power Theory

This theory which was developed by Nocke and Yeaple in the early 1960s focused on the structural imperfections, which are called the brain-type advantages. Here the firm specific asset power of the company is enhanced through scale economics, knowledge advantages, distribution networks, product diversification, and credit advantage and through superior management. These factors enable the multinational enterprises to create impediments to market entrance and thus increase their own market power. Therefore, FDI is mostly undertaken by certain type of monopolistically competitive companies. These firms won't invent unless through some monopoly advantages such that they can earn higher profits than host country firms in the same industry. However, the theory fails to explain why firms use FDI instead of some other alternative methods of entry (Voutilainen, 2005) in (Udoka & Anyingang, 2010).

2.2 Approaches to Foreign Direct Investment

The various approaches to FDI include:

(1) The pro-foreign investment approach which comprises the business school approach, the traditional economic approach and the neo-traditional approach. The business school approach believes in moral and practical virtue of the free enterprise system. The traditional economic approach argues that FDI is a net addition to invisible resource in host countries and as such raises their growth. Kindlebergen (1996) and Vernon (1971).

The neo-traditionalist approach believes in early capitalism but is worried by the giantism and the power of the present multinational enterprises (MNES). It has advocated in Berhman (1970) and Bannock (1971).

(2) The anti-foreign approaches which comprise the nationalist approach, the dependence approach and the Marxist approach. The nationalist argued that foreign direct investment damages the host country economies through the suppression of domestic entrepreneurship, importation of unsuitable technology and products, heavy advertising, excessive profits taking and the worsening of income distribution by a self perpetuation process which simultaneously reinforces high income elites and provide them with expensive consumer good. This approach has advocates in Streeton and Hall (1973). The independence approach which has advocates in Hymer (1972) and Dos Saitos (1976) postulated that the inherent dependent states which foreign aid investment brings can never permit real development in the host countries. According to the Marxist approach, foreign direct investments bring about neo-imperialism and exploitation, class conflict and economic surplus (Weisskopt 1972).

2.3 Literature Review

In this subsection effort will be geared towards analyzing and examining the determinants of foreign direct investment in Nigeria. It has been established in the literature, that the factors influencing foreign direct investment include:
1. Exchange rate
2. Political instability
3. Economic Growth (GDP)
4. Labour force and employment
5. Privatization
6. Size of the market
7. Infrastructure
8. Openness of the economy (Seven and Solimano, 1992) in (Ekpo, 1997).

These factors are empirically examined below

1. Exchange Rate: The significant role played by exchange rate on FDI has also been established in the literature for instance, Obadan (1994) in Salako and Adebusuyi (2001), traced the importance of exchange rate on the inflow of foreign private investment. According to him, it importance as the center-piece of the investment environment derives from the argument that a sustained exchange rate misalignment in terms of over-valuation or under-valuation is a major source of macro economic disequilibria, which spells danger for investment.

Consequently, an over valued exchange rate will discourage export and negatively affect foreign private investment environment. Supporting the finding of Obadan (1994), Tamin and Gabrielle (1995), in Ubom (2006), observed that a depreciation of the real exchange rate lowers the cost of production and investment in the host country. This also causes the foreign firms to use their retained profits to finance investment abroad, thereby increasing their relative wealth.

2.   Political Instability: In addition to the above literature, several opinions have been expressed on the impact of specific factors such as political instability on the inflow of FDI. However there is a general notion that political instability will not result in capital flight but will also discourage FDI. Edwards (1990) in Ekpo (1997), used the degree of political instability and the degree of political polarization and violence in his study. The results suggest that these political variable play a significant role in determining FDI.

Similarly, Root and Ahmed (1987), found that political stability was a significant variable in direct investment flows. In general, a politically unstable economy cannot attract a reasonable inflow of foreign investment and this induces marginal decision makers to undertake less direct investment.

3.   Economic Growth of Gross Domestic Product: Economic growth result from accumulation of factors of production or improvement in technology. According to MacDougall (1960) standard theory of international trade. It involves a partial equilibrium comparative-static approach put in place to examine how marginal increments in investment from abroad are distributed.

From this approach, it is believed that inflows of foreign capital will raise the marginal product of labour and reduce the marginal product of capital in the host country. There is a consensus among economists that a country's growth rate would have positive impact on foreign direct investment. The higher the growth rate of the GDP, the better is the nation's economic health and the brighter are the prospect that foreign direct investment will be profitable.

4.   Labour Force and Employment: Empirical research has also found relative labour costs to be statistically, significant particularly for foreign investment in labour intensive industries and for export oriented subsidiaries.

However, when the cost of labour is relatively insignificant, (i.e.) (when wage rate vary little from country to country), the skills of the labour force are expected to have an impact on decisions about FDI location studies of foreign capital flow to developing countries have indicated that changes in output are the most important determinants of private foreign capital flow (Bleger and Khan 1984, Green and Villankeva, 1/991) in Essien and Onwioduekit (1999).

5.   Privatization: Though privatization has attracted some foreign investment flows in recent years (e.g. in Nigeria in 1993 and Ghana in 1995), progress is still slow in the majority of low-income countries, partly because the divestment of state assets is highly political issue.

In India, for example, organized labour has fiercely resisted privatization or other moves which threaten existing jobs and worker's rights. A number of structural problems are constraining the process of privatization. Financial markets in most low-income countries are slow to become competitive, they are characterized by inefficiencies, lack of depth and transparency and the absence of regulatory procedures. They continue to be dominated by government activity are often protected from competition. Existing stock markets are thin and illiquid and securitized debt is virtually non-existent. An under-developed financial sector of this type inhibits privatization and discourages foreign investors.

6.   Size of the Market: Market size is one of the most important

determinants of foreign direct investment. Effective efforts to enlarge markets through the creation of regional markets could make the continent more attractive, especially for market seeking FDI projects.

However, Econometric studies comparing across section of countries indicate a well established correlation between FDI and the size of the market (proxied by the size of GDP) as well as some of its characteristics (for example, average income levels and growth rate). Some studies found GDP growth rate to be significant explanatory variable, while GDP was not, probably indicating that where the current size of national income is very small, increments may have less relevance to FDI decisions that growth performance as an indicator of market potential.

However, for a developing country like Nigeria, Pfeffermann and Madarassy (1992), identified size of the market as one of the major determinants of FDI and states that the size of the domestic market and capacity utilization have negative effects on foreign investment. Also, high and rising inflation rates heightens fears of rising costs of imported capital goods and input.

7.   Infrastructure: Infrastructure covers many dimensions, ranging from roads, ports, railways, and telecommunication systems to institutional development. Studies in China reveal the extent of transport facilities and the proximity to major ports a having as significant positive effect on the location of FDI within the country. Poor infrastructure is however an obstacle and an opportunity for foreign investment. For the majority of low-income countries, it is often cited as one of the major constraints. Foreign investors also point to the potentials for attracting significant FDI if host governments permit more substantial foreign participation in the infrastructure sector. Recent evidence seems to indicate that, although telecommunications and airlines have attracted FDI flows, other more basic infrastructure such as road-building remains unattractive, reflecting both the low returns a high political risk of such investments. Surveys in sub-Saharan Africa indicate that poor accounting standards, inadequate disclosure and weak enforcement of legal obligations have damaged the credibility of financial institutions to the extent of deterring

foreign investors, Bad roads, delays in shipment of goods at ports and unreliable means of communication have added to these disincentives (Overseas Development Institute).

8.   Openness of the Economy: Whilst access to specific markets judged by their size and growth is important, domestic market factors are predictably much less relevant in export oriented foreign firms. A range of surveys suggests a wide spread perception that opens economies encourage more foreign investment. One indicator of openness is the relative size of the exports sector. Singh and Jun's 1995 study indicates that exports, particularly manufacturing exports, are a significant determinant of FDI flows and that test shows that there is strong evidence that exports precede FDI flows.

2.4   Prerequisites for attracting and encouraging foreign direct investment in Nigeria
2.4.1   The Macro Economic Conditions and Environment
       The Nigerian government is conscious of the fact that while incentive measures may stimulate the inflow of FDI, some other factors, particularly the macro economic policies are more critical and crucial in influencing investment decisions. These factors are fiscal, monetary and exchange rate policies adopted, as well as the provision of a stable socio-economic environment in the country.

       Emphasizing the importance of the factors of macro-economic policies in determining the inflow of foreign direct investment in Nigeria, Ahmed (1988:28), noted that these factors, directly or indirectly affected the profitability or otherwise of investment projects, and when they were favourable, they would enhance the country's ability to attract foreign direct investment.

       Stability in macro economic conditions and environment is a necessary factors for increased and sustainable level of investment to be realized or attained. However, according to Udoka & Ogege (2012:231), "Macro-economic policies are aimed at establishing overall conditions favourable to both the domestic and foreign investment. Their focus is in domestic and external sectors stability and on such key prices as the interest rate and exchange rate which exist a dominant influence on savings and investment".

       As pointed out above, the major macro-economic policies of the government are the monetary, fiscal and exchange rate policies.

2.4.1.1 The Monetary Policy: Investment activities in an economy is determined by the chance of the government monetary policy. Over the short run, monetary policy is called upon to ensure the attainment of a wide range of other objectives or goals. These include combating inflationary pressures, restoring a sustainable balance of payment positions, maintaining a stable exchange rate at internationally competitive level and restoring stability in the money market.

       According to Akatu (1993:322), "sometimes changes in monetary policy are undertaken as part of the concerted actions to remove obstacles to the growth of savings and efficient allocation for investment.

2.4.1.2 The Fiscal Policy: The essence of fiscal policy is to effect discretionary chances in the level, composition and timing of government revenues and expenditures (NCEMA, 1995). This is to assist in achieving the objectives of stabilization and growth in the economy when it is complemented with appropriate monetary policy and management (CBN, 1995).

       According to Uduebo (1985:15), the major objectives of fiscal policy in Nigeria was to encourage foreign investors to invest in the country by providing necessary, conducive and attractive fiscal incentives and investment atmosphere.

2.4.1.3 The Exchange Rate Policy: Exchange rate policy involves choosing an exchange rate system and determining the particular rate at which foreign exchange transactions will take place. However, Obadan, (1993:368), noted that it was envisaged that a realistic exchange rate would accelerate the rate of economic growth through the attraction of foreign capital and direct investment and discouragement of outflow.

2.4.1.4 Co-ordination and Harmonization of the Monetary, Fiscal and Exchange Rate Policies: The co-ordination and harmonization of the monetary and fiscal policies should be seen as a matter of crucial important in order to achieve macro economic stability in the economy. Fiscal policy cannot be expensive while monetary policy is restrictive when all federal government borrowings are sourced from the Central Bank. This is the major cause of excess liquidity in the financial system and high interest rate.

       According to Asogu, (1985:37) "In the light of the strong links among domestic credit, money supply, interest rate exchange rate, external reserves and other monetary variables, Nigeria will benefit from a co-ordinated package of accommodating monetary policy, especially domestic credit and interest rate policies, designed to

maintain stability of the exchange rate, that the structure of interest rate should be linked to inflation rate as well as the differential with the corresponding foreign interest rate as the differential with the responding foreign interest rate and that this would stop capital flight and attract inflow of foreign investment.

Agreeing with the above reasoning, Odozi, (1993:6), noted that, "improvement in domestic policies would not only increase the supply of domestic resources, they indeed have become necessary conditions for attracting foreign official financing and direct investment, which are currently the main forms of foreign support for Nigeria and may remain so for the foreseeable future".

2.4.2 The Nigeria's Incentives and Regulatory Framework

Many countries offer various tax and investment incentives and concession to private foreign investors to induce them to invest in these countries. These incentives and concessions are meant to exempt qualified investors from paying certain taxes or import duties on selected goods.

Ahmed (188:26) equally noted that Nigeria like most other countries in the developing world seek to influence the locational decision of foreign investors by offering direct and indirect incentives. While some of these incentives are in form of commodity protection, which are designed to alter the prices of goods and services bought or sold by a foreign firm (such as tariffs and quotas on imported competing goods and exemptions from import duties on inputs). Others appears as factor protection that alters prices of inputs of production used by foreign firms (like tax holiday, investment allowance and subsidies for the training of local labour).

Generally these guarantees and incentives include among others, the following:

2.4.2.1 Fiscal Incentives: The overall objectives of fiscal incentives, is to reduce the incidence of host country's taxation policy on foreign investors. Fiscal incentives affects after tax profitability, the flow of funds, and he cost of capital relatives to labour, land and energy inputs in the foreign investment activities. Tax incentives affects both the average and marginal tax rate applicable to the foreign investment. Usually, the impact are felt more differently on new foreign private investment flows compared to investment financed by unremitted profit of already existing firms.

2.4.2.2 Financial incentives: Financial incentives involves the provision of funds directly to foreign private investment for their operations particularly at defraying some inevitable costs. Financial incentives have an immediate impact on cash flow and liquidity, in addition to favour capital intensity since they are direct subsidies in the purchase of equipment. The most common types of such incentives are;

(1)   Government Grant: A variety of measure to cover part of capital cost or marketing cost in elation to an investment projects.

(ii) Government Equity Participation: Publicly funded venture capital participating in investment involving high commercial risks.

(iii)   Government Insurance at Preferential Rates: Usually available to cover certain types of risks such as exchange rate volatility, currency devaluation or non-commercial risk such as expropriation and political turmoil.

2.4.2.3 Other Incentives: Apart from the above two groups, there are other types of incentives that are difficult to classify. These are known as non-financial incentives: Examples are:

(i)   Subsidized Dedicated Infrastructure: This includes the provision (of less than commercial prices) of land, building industrial plants or specific infrastructure such as telecommunication transportation, electricity and water supply.

(ii)   Subsidized Services: Services such as assistance in identifying finances, implementing and managing project, carrying out pre-investment studies, information on markets, availability of raw materials and supply of infrastructure, advice of on production processes and marketing techniques, assistance with training and retraining.

(iii)   Market Preference: Preference government contract, closing the market for further entry protection from import competition granting of monopoly rights are usually common incentives under classification.

3.0 Research methodology

In this research work, the descriptive and analytical research designs have been employed. The descriptive method transforms raw data into a form that makes them easy to understand, analyze and interpret. The analytical method on the other hand makes use of analytical tools for data processing and tempts to measure the statistical significance of the various independent variables on the dependent variable. These methods were chosen because our basic objective is to empirically identify the determinants of foreign direct investment in Nigeria.

This research work was undertaken subject to myriad of constraints. Thus, in order to obtain a theoretical frame work for the study in question and the background knowledge of the problem as well as insight into prevalent

views on the underdeveloped Nigerian economy, data were collected from secondary sources such as the Economic and financial review of the Central Bank of Nigeria (CBN), Abstract s of statistics, Central Bank of Nigeria Statistical Bulletins (1986 – 2011) volume 15, library journals, computer printouts, News papers, Ledure Not books, magazines and textbooks.

The method of data collection used for this research work is merely anecdotal records gotten from the Central Bank of Nigeria Bulletins (Vol 15) and Library Journals.

3.1 Model Specification

The specified model for the study is as follows:

$FDI = B_o + B_1 + B_1 + B_2 + B_2 + B_3 + B_3 + B_4 + B_4$……………..IIT

Where:

FDI = Foreign Direct Investment

Where X_1 = openness of the economy

$= B = \dfrac{X-M}{DGP}$

Where X   =   Export

M   =   Import

GDP   =   Gross Domestic Product

Where X_2 = Labour force and employment = B = $\dfrac{Total\ output}{Employment/Labour}$

Where X_3 =   Economic Growth

$B = \dfrac{DY}{Y} \times \dfrac{S}{K}$

Where DY   =   change in National Income

Y   =   National Income

S   =   Aggregate Savings

K   =   Capital Stock

Where X_4 =   Exchange Rate

B   =   N: $ (Naira; Dollar)

Therefore FDI = F (Openness of the Economy, Labour Force and Employment, Economic Growth and Exchange Rate)

Furthermore, in examining openness of the economy as a determinant of FDI inflows, Singh and Dun's (1995) study indicates that exports, particularly manufacturing exports, are a significant determinant of FDI flows and that tests show that there is strong evidence that exports precede FDI flows. This variable has a positive effect on FDI inflows.

Empirical research found out that labour force and employment is statistically significant for foreign investment, and the studies of foreign capital flow to developing countries have indicated that changes in output are the most important determinants of private foreign capital flow (Biefer and Khan, 1984; Green and Villiankeva, 1991) in Essien and Onwioduokit (1999).

Economic growth of a country has a positive impact on foreign direct investment. According to Macdougall (1960) standard theory of international trade, it suggest that this approach will raise the marginal product of labour and reduce the marginal product of capital in the host country. The higher the growth rate of the gross domestic-product, the better is the nations economic health and the higher the prospect that FDI will be profitable.

Finally, exchange rate has both negative and positive effect on FDI inflows. According to Obadan (1994) in Salako and Adebusuyi (2001), an over valued exchange rate discourages export and negatively affects FDI inflows. Tamin and Gabrielle *1995), in Ubom (2006), observed that a depreciation of the real exchange rate lowers the cost of production and investment in the host country. This also causes the foreign firms to use their retained profits to finance investment abroad, thereby increasing, their relative wealth.

4.0 Data analysis

The dependent variable is foreign direct investment FDI and four independent variables, that namely openness to trade, Labour force and employment, Gross domestic product and Exchange rate.

<Insert Table 1 here>

From table 1 above, figures represent regressed value the independent variables (Openness to trade, labour force and employment, Gross Domestic Product and Exchange rate as shown in Appendix I of this study for the respective year under review as measured in millions.

The general form of a multiple regression equation with four independent variables is:

$Y = 4.094 - 0.125\ x_1 + 0.\ 172\ x_2 - 5.77\ Ex_3 - 0.002\ x_4$ 4.094 represents the point of intercept for the regressed equation I in table 4.1 above.

The regression coefficient for openers to trade in the above regressed equation 1 is negative. This is not surprising as export increases, the cost of importation decreases   Labour   force   shows   a   positive result/coefficient in the above regressed equation above in Table 4.1, indicating a positive relationship.

Hence, we would expect an inverse relationship for each degree of gross domestic product increase or growth, it is also expected that FDI is to increased by 5.77 per annum (other factors held constant).

The variable exchange rate also shows an inverse relationship. The more local currency is exchange for foreign currency, the loss FDI into the country. So the negative sign for this coefficient is logical. For each additional naira exchange for the dollar, it is expected that the rate of FDI to decline by 0.002 as seen in the regressed equation I in table 4.1 above.

Adjusted R^2 (in the regressed equation I) is interpreted as FDI rate varing around the 98%. This is quite a respectable figure to obtain, leaving only 2% of the variation in Y left to be explained by other factors/variables.

The t-statistics with n-(K+I) degrees of freedom at 5% level of significance is = 2.042 (See Appendix). Where 35 – (4+1) = 30 df
n = 35
k = 4

Hence, one is able to test independent variables in equation I (in table 4.1) individually determine whether the net regression differ from zero.

The computed t-ratio is 2.574857 for OPEN
-        0.30441 for GDPG and
-        0.696153 for EXCHR
All of these t-values are in the rejection region to the left of 2.042.

Thus, one concludes that the regression coefficient of OPEN, GDPG, EXCHR variables are not zero.

The computer t-ratio for LABF if 4.676888, so one concludes that B_2 could equal zero. By multiplication therefore, it means that the independent variables "LABF" is not a significant predictor of FDI.

The "df" gives the degree of freedom associated with each sum of squares. These degrees of freedom are given by;
n – (k+1)
= 35 – (4+1)
30 df at 5% level of significance

The "MS" (Mean square) otherwise known as mean dependent var divides the sum of square otherwise known as S.D. dependent var, gives the F-statistics which is the ratio of two values i.e. 5.46.

This is the test statistics for hypothesis test which has an F-distribution with 3 and 30 degrees of freedom. The critical value of the test (i.e.K_1 3 and K_2 30 df) at 5% level of significant = 2.92 (See Appendix).

This is the value which cuts off 5% in upper tail of F-distribution with 3 and 30 degrees of freedom (See Appendix). Since the test statistic is greater is greater than the critical value, the null hypothesis is rejected with 95% confidence S.E of regression (standard error of regression) = 0.238157 as computed. This is interpreted as the typical "error" one makes when one uses this equation to predict the rate of foreign Direct Investment.

First, the units are the same as the dependent variables, so the standard error is in Naira. Finally, if the error is normally distributed, about 85% of the residuals should be less than = 1.575563 (Ref. to Durbin Watson statistics) in the regressed equation I.

4.1 Discussion of Findings

From the regression result and the subsequent analysis made, the following findings were made:
(i)   That labour force has no exert no influence on foreign direct investment into the country.
(ii)   That other independent variables of (OPEN, GDPG, and EXCHR) has positive influence on the rate of foreign direct investment into the country.
(iii)   That the more units of naira exchange for less units of foreign (dollar) would discourage foreign direct investment by those interested investors.

5.0 Conclusion/Recommendations

5.1   Conclusion

This study has examined the relationship existing between foreign direct investment and some macroeconomic variables in the Nigerian economy for the period 1980-2005. The results reveals that with the exception of labour force/employment, gross domestic product, openness of the economy and an overvalued exchange rate explain to a large extent the variations in FDI inflow within the period. This implies that the government must create an enabling environment and also put in place appropriate and effective policies and strategies to manage these variables for purposes of attracting, absorbing and sustaining substantial inflow of FDI into the Nigerian economy.

5.2   Recommendations

On the basis of the finding from this study, we offer the following policy recommendations.

1) The government should adopt appropriate exchange rate policy that would enable Nigeria to achieve a realistic level. In particular, there is a need to put in place appropriate policies and strategies that will ensure a stable foreign exchange rate as this has been confirmed to be a very important factor influencing FDI inflow.

2) The government should increase economic openness as this would facilitate a greater integration into the global markets. Integration and globalization are beneficial to developing countries although there are some potentials risks. Openness and integration would promote growth through the channels of better resource allocation, greater competition, innovation, transfer of technology and access to foreign savings.

3) Sound macroeconomic policies should be adopted. In order to rekindle investment for economic development, the economic policies that promote growth and a sustainable balance of payment position. In other words, the authorities should pursue policies which promote macroeconomic stability in the short run. This appropriate fiscal, monetary and credit policies should be employed.

4) A conducive macroeconomic environment: A conducive macroeconomic policy environment is one which guarantees an efficient allocation of resources, provide appropriate signals and inducement to investors in the productive sectors of economy and this eliminates bias and distortions in productions, investment and consumption, economics and deregulated trade is liberalized and the financial sector is also deregulated.

5) Improved political stability: The government should ensure an amicable resolution of the political impasses and violence that has destabilized the country. This can be done by installing a lasting and perpetual democratically elected government that is putting all the necessary machinery for an endearing democracy. This will go a long way in reducing perceived uncertainty in the Nigeria investment climate and consequently will enhance foreign participation and a reasonable increase in foreign, direct investment in the country. Recently, the American government warns its citizens on the danger of traveling to Nigeria. This statement obviously will have a negative effect on FDI inflow. This the government should try as much as possible to address this negative statement about Nigeria so as to encourage foreign investors from America.

6) Uncertainty reduction in the investment climate uncertainty in the investment climate such as high, unpredictable inflation and price variability, uncertain demand, increase reliability of demand out-put and above all frequency policy reversals should be reduced to bearest minimum.

7) Deregulated financial environment:- Authorities should continue to encourage the establishment of properly functioning, deregulated financial environment.

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Table 1**:** Regression Results on Multinational direct investment and economic growth 2001-2011

Variables	Coefficient	Std Error	T-statistic	Prob
C	4.094857	1.353244	3.025957	0.00052
OPEN	-0.125193	0.048622	-2.574857	0.0154
LABF	0.172666	0.036919	4.676888	0.0001
GDPG	-5.77E.05	0.000190	-0.304441	0.7630
EXCHR	-0.002493	0.003582	-0.696153	0.4919
AR(1)	0.846844	0.115607	7.325223	0.0000
R-Squared	0.985002	Mean department var		9.693867
Adjusted R^2	0.982416	S.D dependent var		1.774813
S.E of Regression	0.235349	Aaike info criterion		0.099309
Sum of Squared resid.	1.606284	Schwarze criterion		0.365941
Log like hood	4.262084	F statistics		380.9139
Durbin W. Statistics	1.575563	Prob (F-Statistics)		0.000000
Inverted AR Roots .85				

Source: Researcher estimation, 2012

APPENDIX

Variables	Coefficient		Std Error	T-statistic	Prob
C	4.094857		1.353244	3.025957	0.00052
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Inverted AR Roots .85					

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