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For Fighting
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Face-To-Face**

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DETERMINANTS OF FOREIGN DIRECT INVESTMENT INFLOWS IN NIGERIA

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Abstract

This study examined the determinants of foreign direct investment (FDI) inflows in Nigeria from 1991 to 2020. The independent variable is FDI determinants measured by market size (real gross domestic product), exchange rate, inflation rate, and degree of trade openness. Meanwhile, the dependent variable is FDI inflows measured by proportion of FDI net inflows to GDP ratio. The study sourced data from the Central Bank of Nigeria (CBN) Statistical Bulletin (2020) and the World Bank Data Base (2020). The study adopted the Autoregressive Distributed Lag (ARDL) methodology through the instrumentality of Econometric Views (E-Views) version 99.0. The study affirmed that the FDI inflows and its drivers exhibited mixed integration, co-integrated, relatively stable, Homoskedastic, free from Multicollinearity problem, and well-specified. Further, market size (real gross domestic product) and exchange rate had a high direct effect on FDI both on the short and long run while inflation rate had a high dampening effect on FDI inflows to the Nigerian economy. However, degree of trade openness had a minimal dampening effect on FDI inflows to the Nigerian economy. Hence, the study concludes that market size (real gross domestic product), exchange rate, and inflation rate are the major determinants of FDI inflows into the Nigerian economy. As such, the study recommends among others: that for FDI inflows to increase continuously, there is need for continuous expansion of the country's GDP via production incentives.

Keywords: Determinants, Foreign Direct Investment Inflows, market size, exchange rate, inflation rate, and degree of trade openness, Nigeria.

· Introduction

The contributive role of foreign direct investment (FDI) inflows on economic growth cannot be underrated. As it were, FDI inflows offers much-needed funding for investment in emerging economies like Nigeria, but it also boosts job creation, management experience, and technology acquisition. More so, the Nigerian economy was

deregulated, a modern manufacturing policy was implemented in 1989, the Nigeria Investment Promotion Commission (NIPC) was established in the early 1990s, and Bilateral Investment Treaties (BITs) were signed in the late 1990s. The Economic and Financial Crime Commission (EFCC) and the Independent Corrupt Practices Commission were two others (ICPC). The significance of FDI cannot be overstated. Its tremendous impact on the development of new technology, goods, managerial skills, and a challenging business climate has fueled economic progress over time. According to Akinlo (2017), many nations around the globe, particularly developing markets, favor incentives that promote FDI inflows because of the positive spillover effects related to the provision of finances and knowledge and experience that can assist smaller businesses in expanding and increasing foreign sales and extension services, resulting in the formation of new types of capital investment (i.e., the circulation of increased business for manufacturing from an inventory comprising capital goods, such as instruments, facilities, and inventories.) That cannot be accomplished solely via financial investments or the exchange of products and services. In the meantime, (Abiola, 2019) claimed that the degree of FDI acquired by Nigeria is insignificant when compared to the source of energy and prospective need, given the fact that Nigeria is the world's eighth most populated country and 32nd largest economy. Furthermore, the current increase in FDI inflows to Nigeria is due to the nation's debt position being reduced (via debt agreements with London and Paris clubs) and foreign companies' regained trust in the Economic growth in Nigeria (Tubo, Ebierinyo and Captain 2018). This research is significant since Nigeria had seen diminishing and erratic foreign investment inflows prior to 2003. Nigeria, on the other hand, cannot offer all of the finances required to invest in diverse parts of the economy in order to try and make it one of the world's 20 largest economies by 2020 and reach the Millennium Development Goals (MDGs) by 2015. Given this context, it is difficult to overstate the significance of foreign direct investment. This is owing to the fact that the share of FDI to different sectors of the Nigerian economy shows that FDI inflows into the Nigerian economy is still low. More so, the low aggregate savings in the country also justify the need for more FDI inflows. This explains why identifying the various drivers (determinants) of FDI inflows in the Nigerian context is high imperative.

Empirically, empiricists are yet to come to stand still conclusion as to the key drivers (determinants) of FDI inflows since the construct is country specific issue. Various possible drivers of FDI inflows include: market size (RGDP), inflation rate, exchange rate, interest rate, private sector credits, financial sector development (broad money supply), domestic investments, amongst. However, researchers are inconclusive as too which of these parameters are the most significant driver of FDI inflows. This motivated us to re-examining the construct again. In view of this, this major question was raised: what is the quantity and direction of the determinants of FDI in Nigeria? The research project is built on these and other developing research questions. Hence, the main objective of this paper is to investigate the determinants of foreign direct investment inflows in Nigeria. Specifically, this paper sought to:

- examine the effect of market size (RGDP) on FDI inflows in Nigeria;
- evaluate the effect of exchange rate on FDI inflows in Nigeria;
- investigate the effect of inflation rate on FDI inflows in Nigeria; and
- determine the effect of trade openness on FDI inflows in Nigeria.

Summarily, this paper is organized into five (5) sections with relevant literature and methodology following the introduction. The results and discussions are presented in section 4 while section 5 provides the conclusions and policy recommendations.

2.0. Literature Reviews

This section covered the conceptual review, theoretical reviews and empirical studies

2.1. Conceptual Review

2.1.1. Concept of Foreign Direct Investment Inflows

Foreign direct investment, according to Ebiringa and Emeh (2019), is an investment in the nature of controlling possession in a corporation in one nation by a company established in some other nation. A sense of absolute authority distinguishes this from a foreign portfolio investment. It is just an investment produced by a firm or individuals in a foreign nation in a foreign nation's corporate interests. According to Odo, Anoke, Nwachukwu and Promise (2016), foreign direct investment, in general, allows individual investor develops foreign business activities or purchases foreign business assets, such as acquiring full ownership of a foreign company. Portfolio investments, in which an investor simply buys equities in foreign-based companies, are distinct from foreign direct investments. In contrast to heavily controlled nations, foreign direct investments are most typically made in open economies with a trained workforce or above growth potential for the investor. Foreign direct investment typically entails more than just a cash outlay. It may also involve management or technological provisions. The main element of foreign direct investment is that it creates either effective control of, or at the very least significant influence over, a foreign company's decision-making (Uwubanmwun & Ogiemudia 2016).

2.1.2. FDI Inflows Determinants

Prior studies work assessed a range of determinant variables that affect FDI inflows to developing countries, including market size, economic instability, company development, infrastructure facilities, trade openness, natural resource availability, financial development level, and labour factor. However, this study is confined to market size, exchange rate, economic instability, and trade openness

a. Market size (Real GDP of the receiving Country)

One of the most important factors of inward foreign direct investment is market size. In principle, market size is determined by a nation's economic Gross Domestic Product (GDP), GDP per capita, and the membership of the middle - income groups. The indicator used in this study is GDP at market price, expressed in billions of dollars. GDP is regarded the brand incentive for overseas investment, according with UNCTAD model. Nevertheless, it is a typical pattern that nations with a greater consumer industry always have more consuming possibilities hence more trade opportunities. These nations have made room for improvement and get more foreign direct investment inflows than nations with a limited customer base (Narayan, 2018). As a result, market size is likely to have a favorable impact on FDI inflows.

b. Economic instability (Inflation Rate)

The inflation rate is used as a measure for the extent of economic instability throughout this study. The

consumer price index was used to calculate this indicator. Generally speaking, investors want to invest in nations with far more successful economies and lower uncertain situations. As a result, a nation with a macroeconomic stability situation will tend to receive more FDI inflows than a nation with a turbulent macroeconomic situation (Babasanya, 2018). High inflation, on the other hand, stifles FDI inflows.

c. Exchange Rate One of the major drivers of FDI inflows is exchange rate. The term exchange rate is the price of one country's currency to another country's currency. The major linkage between exchange rate and FDI inflows is that change in exchange rate is linked to rise or fall in FDI inflows. This is because if the host country's currency depreciate while the rest of the world currency appreciates, foreign investors will be most likely to invest in such country and vice versa. Since the Nigerian currency always depreciates comparably, the possibility of positive relationship between exchange rate and high FDI Inflows is high.

d. Trade Openness

The proportion of total imports and exports of goods and services to total GDP at current market prices is known as trade openness. If the host nation's trade openness is higher, investors will find it easier to enter that marketplace. Generally speaking, trade openness has a positive impact on open and market FDI inflows. As a result, trade openness is projected to be a positive and significant driver of inward FDI.

2.2. Theoretical Underpinning

2.2.1. Institutional FDI Fitness Theory The phrase FDI fitness, coined by Wilhems and Witter (1998), refers to a nation's ability to attract, integrate, and sustain foreign direct investment. The capacity of the company to meet both the interior and exterior aspirations of its investors offers it an advantage in attracting FDI inflows. The hypothesis itself attempted to highlight the significance of unequal FDI allocation amongst the nations involved. Wilhem's institutional FDI fitness theory is based on the following fundamentals: government, market size, academic skills, and cultural fitness. Socio-cultural elements are at the top of the pyramid, according to Wilhelms and Witter (1998), the longest and most complicated of all institutions. The authors assert that education is critical to providing an appealing environment for FDI since educated human capital improves R&D inventiveness and knowledge processing capabilities. The degree of education required for FDI influx into a specific location is based on the key skills required for the projects to be performed, not on the actual level of education. Educational abilities, on the other hand, may have a favorable effect on the productivity, efficacy, and effectiveness of FDI activities in the country where they operate. These educational characteristics, such as with the freedom to talk, hear, and comprehend, as well as other educational abilities, are critical in attracting foreign direct investment. The marketplace, which provides for just a considerable amount of both the financial and economic components of institutionalized FDI capability in the form of equipment (capital equipment) and credit, is the third tier on the pyramids (financial capital). As a result, well-developed and functioning financial markets play an important role in MNC investment decision-making. The administration is the fourth and most significant tier of the pyramid. The political influence of a nation is the most effective way to attract FDI.

2.2.2. The Internationalization Theory The process of internationalization, according to Simionescu (2016), is the process through which a company expands its operations beyond its own nation's territory. This entails the consistent gathering, communication, and use of information regarding worldwide market operation, which contributes to the company's consistent pledges to international platforms (Johanson & Vahlne 1977). It is vital to

note that the Internationalization Theory arose from Coase's (1937) work, which proposed that transaction costs are essential aspects in a firm's performance. As a result, with two primary observations of four Swedish enterprises, Johanson and Wiedersheim Paul (1975) expanded the borders of Internationalization Theory. In fact, the first works did not consider competition as a barrier to the entry of a corporation from another country due to psychological distance. As a result, assumptions were established during the research process. The initial premise was that the company would first solidify itself in its home nation, following which the companies might be integrated into the global basis based on different judgments. In a similar line, imperfect competition resulting from a lack of awareness is an impediment to internationalization. The firm's ability to solve the barriers would be aided by the gather information from the foreign market through learning and evolutionary actions. Furthermore, risk perception causes a decrease in foreign market investments, but internationalization stimulates the need to regulate sales.

2.3. Empirical Review

Hanson, Efanga, Ekanem and Umoh (2020) empirically evaluated Foreign Direct Investment Inflows and its impact on the performance of the Nigerian Economy (1981-2018). The Bounds Test and the Auto Regressive Distributed Lag (ARDL) model were used as evaluating methodologies to confirm the presence of a long-run link between foreign direct investment and Nigerian economic growth. The dependent variable was real gross domestic product, while the explanatory or independent variables were foreign direct investment, balance of trade, and exchange rate. The data was taken from the Central Bank of Nigeria's statistical bulletin for the year 2018. Except for the exchange rate, all of the factors had a positive and significant impact on real gross domestic product, according to the empirical findings. The actual gross domestic product was negatively impacted by the exchange rate. Obonne, Okon and Okanya (2020) Investigate the impact of foreign direct investment on economic development in Nigeria between 1981 and 2018. The World Bank Data Base-World Developmental Indicators of 2018 and the Central Bank of Nigeria Statistical Bulletin of 2018 were used to compile the data for this research. Gross fixed capital creation was used as a proxy for Nigerian economic progress, and the exchange rate was used as a controlled variable, with data on foreign direct investment inflow to Nigeria as the explanatory variable. The Auto Regressive Distributed Lag (ARDL) Model was used to analyze data in this study, and other diagnostic tests such as the stability test, auto correlation test, Heteroskedasticity test, and BreuschGodfrey Serial Correlation LM test were also used to verify the existence and validity of the model. Between 1981 and 2018, foreign direct investment had a favorable but negligible effect on Nigeria's economic and social development, according to the inferential statistics. These findings are also in line with a priori economic expectations.

Abiola (2019) examined the determinants of FDI in Nigeria. The study analyzed the factors of FDI in Nigeria using Structural Vector Auto-regression (SVAR). All of the variables were non-stationary following the unit root test, but they were made stationary after initial differencing. Only infrastructure was found to be adversely

connected to FDI by the coefficients of the explanatory variables, which included the inflation rate (INF), exchange rate (EXR), degree of openness (DOP), infrastructure (INFRA), and GDP growth rate (RGDP). This was supported by both the SVAR projections and the error correction model. The most significant variables that determine FDI in Nigeria, according to the Conditional variance, are inflation and exchange rate. Ebiringa and Emeh (2019) examined determinants of FDI inflows using Nigeria as a case study, with particular emphasis on the exchange rate, GDP, inflation, stock market capitalization, and interest rate. The necessity to encourage regulations that entice foreign capital for longterm productivity expansion is the driving force behind the research. The methodological approaches included the unit root test, cointegration test, variance decomposition, and the Error Correction Model (ECM). The findings reveal that all of the identified factors had significant long-run effects on FDI inflows, both separately and in combination. Anichebe (2019) investigated the effect of foreign direct investment on economic growth in Nigeria. The research was conducted over a 37-year period, from 1981 to 2017. The Ordinary least square (OLS) technique was used to analyze the annual time series data for the study. The estimated model's results demonstrate that foreign direct investment had a significant beneficial effect on economic development. The foreign exchange rate and gross fixed capital formation both have positive connections with economic growth, whereas trade openness and education spending have a large negative impact. Babasanya (2018) examined the relationship between FDI and employment generation in Nigeria from 1999 to 2016. Findings from the OLS approach revealed that FDI has a favorable link with Nigeria's rate of employment. The study also revealed that the nation's degree of vulnerability be lowered (low inflation rate), particularly in light of recent terrorist incidents, in order to provide a safe atmosphere for prospective investors. Tubo, Ebierinyo and Captain (2018) investigated Foreign Direct investment impact on economic growth in Nigeria using annual data for 1981 to 2016, from CBN Statistical bulletin 2016. The analysis tools used were the Augmented Dickey Fuller (ADF), Johansen Co integration, Error Correction Model (ECM), and Pairwise Granger causality tests. After differencing once, the ADF result revealed that all variables (gross domestic product (GDP), foreign direct investment (FDI), Gross Fixed Capital Formation (GFCF), and exchange rate (EXR)) became stationary. FDI has a positive but negligible influence on GDP, according to the ECM, but GFCF has a positive and considerable impact. The inverse association between EXR and GDP is minimal. The model's adjustment speed is around 52%. A one-way causation exists between FDI and GDP, as well as a bi-directional causality between FDI and gross capital formation.

Offiong and Atsu (2018) examined the determinants of FDI Inflows in Nigeria during 1980 – 2011. The goal of the study was to figure out what functional links exist between GDP, wage rate, interest rate, and relative openness index, as well as how each variable has influenced FDI influx to Nigeria. The work adds to previous research by utilizing multiple regression analysis to determine if a group of independent variables adequately explained the dependent variable. The study discovered that GDP and FDI inflows, as well as real wage rates and FDI inflows, had a strong association. In the years studied, there was no significant association between FDI influx and the relative openness index, nor between loan rate and FDI inflow. Narayan (2018) was on the determinants of foreign direct investment in India. The link between FDI determinants and FDI inflows was investigated using a correlation matrix and multiple regression analysis. The researchers concluded, among other things, that GDP size and growth

rate are critical for obtaining bigger FDI inflows. Higher FOREX reserves also aided India's ability to attract FDI. Akinlo (2017) examined the determinants of foreign direct investments in Nigeria. Through the conditional probabilities, the study uses the maximum likelihood approach of the Markov-Regime Model (MSM) to detect prospective structural reforms in level and/or trends, as well as necessary adjustments in parameters of predictor variables. The findings reveal that Nigeria's FDI procedure is dominated by two separate regimes, and that shifting from one to another is dependent on posterior probability. GDP growth, macroinstability, financial development, exchange rate, inflation, and discount rate are the primary predictors of FDI, according to the findings. This means that liberalization that reduces inflation and raises the value of the indigenous currency will attract more foreign direct investment into the country. Odo, Anoke, Nwachukwu & Promise (2016) examined the impact of foreign direct investment on the growth of the Nigeria stock market from 1984 to 2015. In the assessment of the variables indicated in the regression model, the Ordinary least square technique is used. The test demonstrated that the dependent and explanatory variables have a long-run equilibrium relationship. According to the findings of the VECM, FDI and export have a negative association with stock market growth in both the long and short run, but import and gross capital formation have a strong relationship with stock market growth in both the short and long run. The study suggests that foreign direct investment has no substantial impact on Nigerian stock market growth based on the findings. Simionescu (2016) investigated the relationship between economic growth and foreign direct investment inflows in the European Union (EU-28) in the period of the recent economic crisis. The challenge of a short collection of data (2008–2014) is solved using a panel data approach and Bayesian approaches. Starting in 2008, a reciprocal and positive association between FDI and economic growth was established using a panel data technique (panel vectorautoregressive model and Bayesian random effect models). This tendency was revealed as being specific for most of the EU-28 countries using an individual method based on Bayesian linear regressions. Uwubanmwun & Ogiemudia (2016) studied the effect of FDI inflows on economic growth in Nigeria. The Error Correction Model (ECM) approach was used to analyze annual time series data from 1979 to 2013. In the short run, FDI inflows have both an immediate and a time lag influence on the Nigerian economy, according to the findings. In the long run, FDI inflows have had no major detrimental impact on the Nigerian economy during the period under consideration. Thus, FDI inflows have a high positive effect on the Nigerian economy's growth and development only in the short term within the period under consideration. Ogbokor (2016) examined the influence of foreign direct investment on economic growth in Namibia with annual dataset from 1990 to 2014. All of the factors were found to have long-term correlations in the study. The calculated long-run equation also shows that the explanatory variables and real gross domestic product have a positive relationship. In comparison to openness and the real foreign exchange rate, net foreign direct capital was found to have a higher impact on economic growth.

3. Research Methodology

The *ex-post facto* research design was deemed most appropriate for the study. The study population covered the all Nigerian economy. Specifically, this study was only confined FDI net inflows to GDP ratio, market size (RGDP), exchange rate (EXCR), inflation rate (INFR), and degree of trade openness (DOP). Meanwhile, economic growth was proxy by real gross domestic product. Data for the study was sourced from the Central Bank

of Nigeria Statistical Bulletin (2020) and World Bank Data Base (2020). The autoregressive Distributed Lag Model (ARDL) approach was used for the study through the aid of Econometric Views (E-Views) version 9.0. The model is expressed as:

Table 1: Operationalization of Studied Variables

$$FDI = f(RGDP, EXCR, INFR, DOP) \dots\dots\dots 1$$

Econometrically, the model can be restated as:

$$FDI = \hat{\alpha}_0 + \hat{\alpha}_1 RGDP + \hat{\alpha}_2 EXCR + \hat{\alpha}_3 INFR + \hat{\alpha}_4 DOP + U_t \dots\dots\dots 2$$

FDI = Foreign Direct Investment

RGDP = Real Gross Domestic Product

EXCR = Exchange Rate

INFR = Inflation Rate

DOP = Degree of Trade Openness

$\hat{\alpha}_0$ = Constant Value

$\hat{\alpha}_1 - \hat{\alpha}_5$ = Parameters

U_t = Error Term

Variable	Nature of Variable	Denotation	Operationalization/Justification	Apriori Expectation
Foreign Direct Investment Inflows	Dependent	FDI	This is expressed as the proportion of FDI net inflows to GDP ratio	Nil
Real Gross domestic Product	Independent	RGDP	This accounts for the monetary values of all final goods produced annual. It is a measure of market size.	Positive
Exchange Rate	Independent	EXCR	Proportion of domestic currency to foreign currency. It is a measure of macroeconomic stability	Positive
Inflation Rate	Independent	INFR	It accounts for continuous rise in general price level. It is a measure of Consumer price index.	Negative
Degree of Trade Openness	Independent	DOP	Proportion of the sum of imports and exports to GDP. It is a measure of a country's linkage to the outside world	Positive

Source: Researcher's Compilation (2022)

4. Results and Discussions

This section takes into consideration the presentation of the data sourced from the CBN statistical Bulletin (2020) and World Bank Data Base (2020) with respect to the studied variables.

4.1. Pre-estimation Analysis

To estimate the behaviour of the study variables and also for purposes of ease of comprehension, we used trend analysis, descriptive statistics, and correlation Analysis. They are presented below:

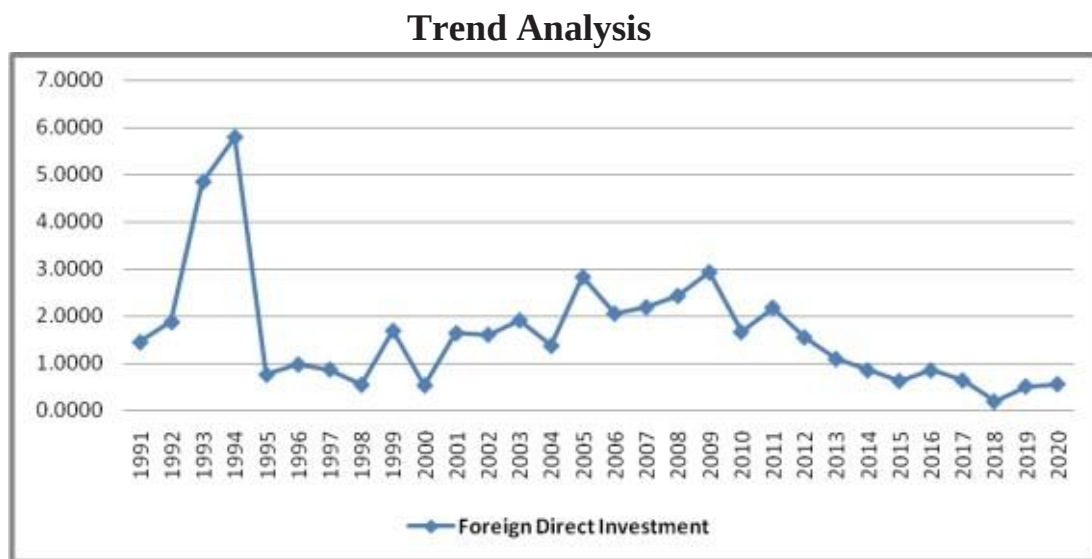


Figure 1: Real GDP for Nigeria from 1999 to 2020.

Source: CBN Bulletin (2020)

Critical analysis of figure 1 above evidenced that the proportion of FDI inflows to GDP moved in a zigzag fashion. However, it was at its peak in 1994 but recorded it lowest value in 2018. This therefore cast doubt on its efficacy in driving FDI inflows in Nigeria.

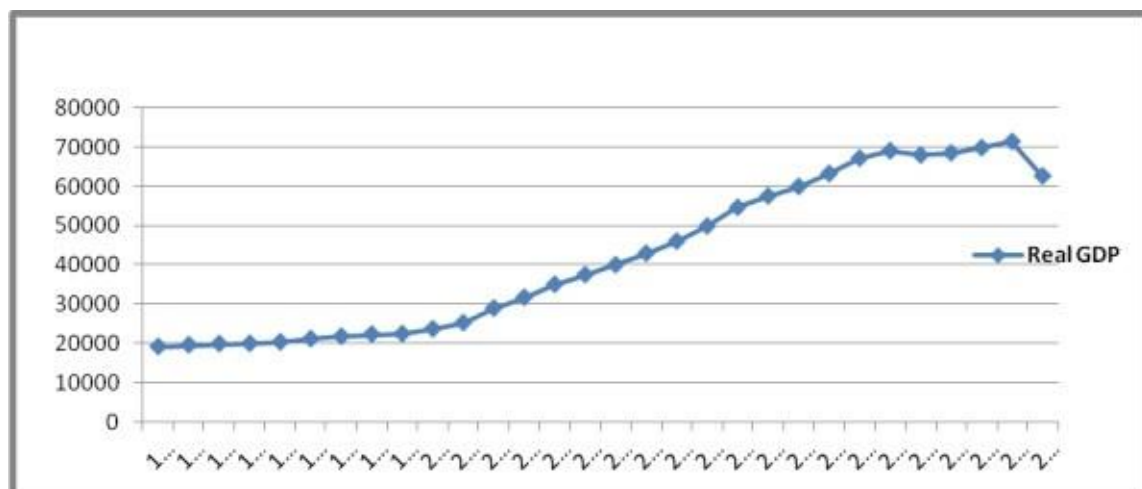


Figure 2: Real GDP for Nigeria from 1999 to 2020.

Source: CBN Bulletin (2020)

Critical analysis of figure 1 above evidenced that RGDP was at its peak in 2019 (N71387.83 billion) but fell sharply in 2020 ((N62,608.65 billion).This may be attributed to the emergence of Covid-19 pandemic in human history.

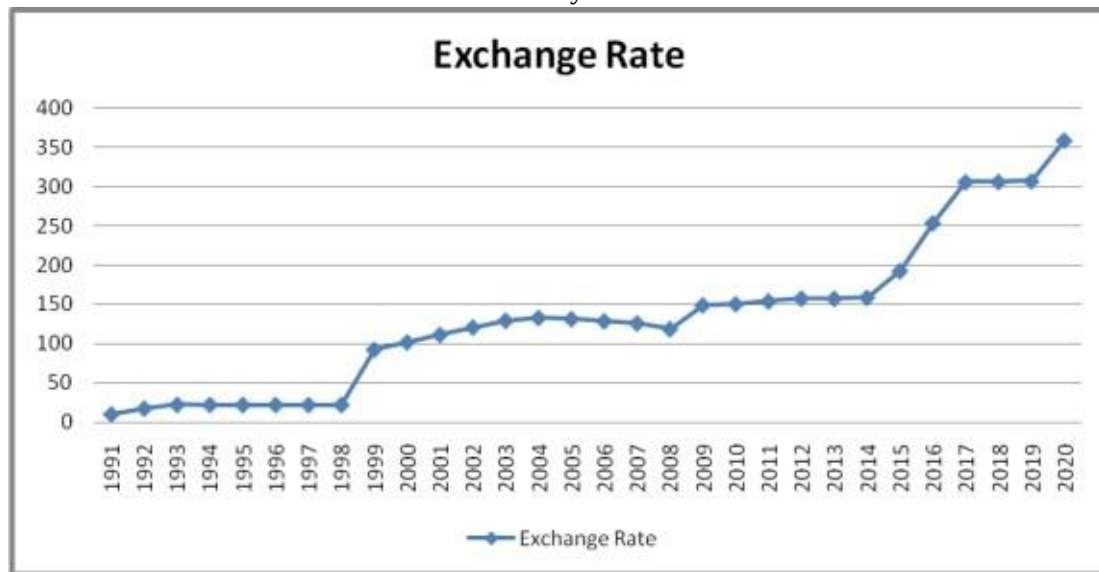


Figure 3: Exchange Rate for Nigeria from 1999 to 2020.

Source: CBN Bulletin (2020)

Figure 3 above evidenced that exchange rate denoted by EXCR reported an upward move signaling that the rate of the Nigerian currency to US dollar increased throughout the studied period even with the emergence of Covid-19 pandemic in human history. Accordingly, Nigerian currency depreciated while the Nigerian currency depreciated throughout the studied periods. More so, exchange rate recorded it lowest value in 1991 while its least value was recorded in 2020.

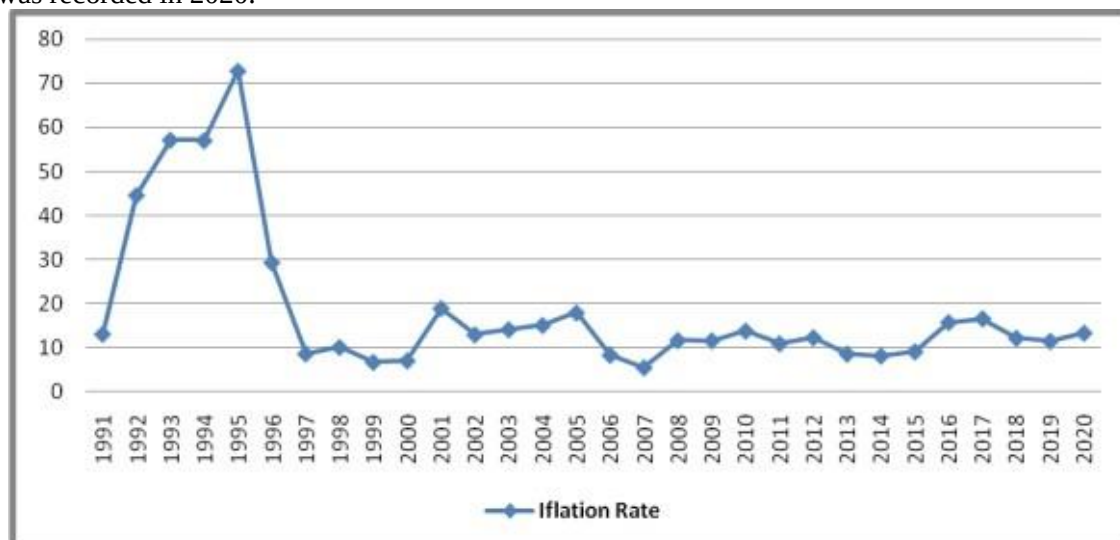


Figure 4: Inflation Rate for Nigeria from 1999 to 2020. Source: CBN Bulletin (2020).

Critical analysis of figure 4 above evidenced that RGDP was at its peak in 2019 (N71387.83 billion) but fell sharply in 2020 ((N62,608.65 billion).This may be attributed to the emergence of Covid-19 pandemic in human history.

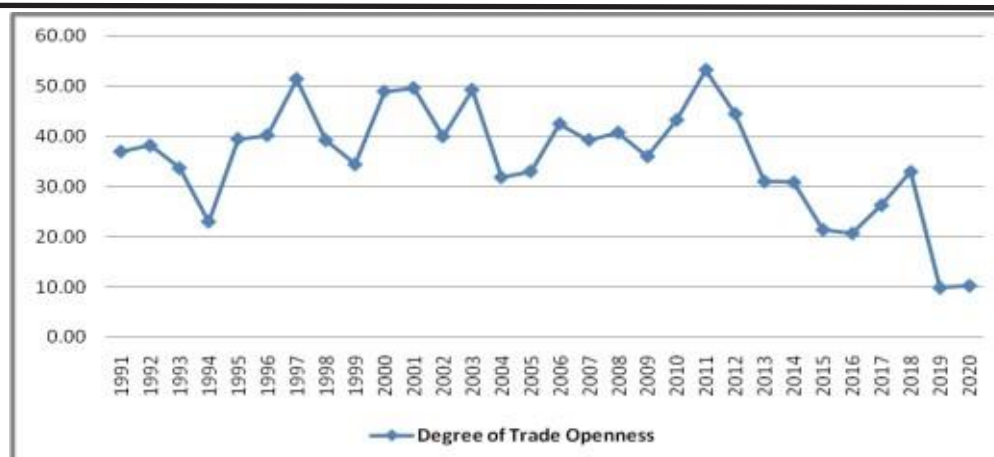


Figure 5: Degree of Trade Openness Rate for Nigeria from 1999 to 2020.

Source: CBN Bulletin (2020)

Trade openness denoted by DOP was as 10.30 of 2020. Apparently, it was at its peak in 2011 while its least value was recorded in 2019. Revelation from the analysis is that the degree of trade openness moved in a zig-zag fashion. This therefore cast doubt on its efficacy in driving FDI inflows in Nigeria. **Table 1-Summary of Descriptive Statistics**

	FDI	RGDP	EXCR	INFR	DOP
Mean	1.635801	41980.04	133.3610	18.42127	35.78633
Median	1.501210	38735.23	128.8850	12.55000	37.62500
Maximum	5.790840	71387.83	358.8000	72.84000	53.28000
Minimum	0.195180	19199.06	9.910000	5.380000	9.900000
Std. Dev.	1.239020	19551.31	96.13183	16.81082	10.95062
Observations	30	30	30	30	30

Source: E-Views Version 9.0 (2022)

Table 1 above reported that FDI, RGDP, EXCR, INFR and DOP have an average (mean) values of 1.635801%, N41980.04 billion, N133.3610/\$1, 18.42127%, and 35.78633%. Meanwhile, they deviated by 1.239020%, N19551.31, N96.13183, 16.81082%, and 10.95062%. Obviously, the standard deviation values of all the studied variables are relatively lower than their associated p-average values signaling low volatility. Further, FDI, RGDP, EXCR, INFR and DOP have maximum (highest) values of 5.790840%, N71387.83, N358.80/\$1, 72.84000, and 53.28000%. Meanwhile, they reported minimum (lowest) values of 0.195180%, N19199.06 billion, 9.91/\$1, 5.38%, and 9.90%. To ensure that all studied variables are in the same order, RGDP was logged.

Lastly, we subjected the model to normality test. Accordingly, the normality test reported that the model with a p-value of 0.715493 suggests that the model on the overall normally distributed (see figure 6)

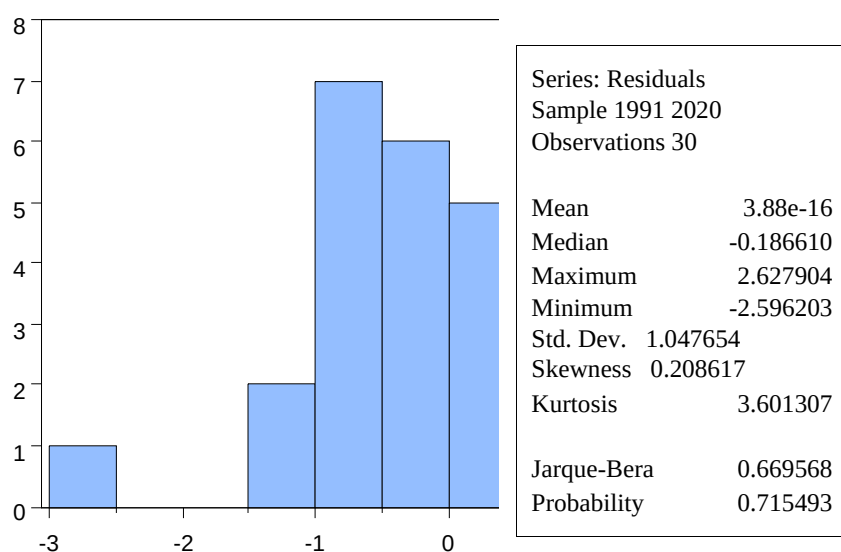


Figure 6-Normality Test

Source: E-Views Version 9.0 (2022)

Table 2: Summary of Correlation Analysis

	FDI	RGDP	EXCR	INFR	DOP
FDI	1.000000				
RGDP	0.870934	1.000000			
EXCR	0.766279	0.470934	1.000000		
INFR	-0.472212	-0.453870	-0.442061	1.000000	
DOP	-0.066953	-0.053284	-0.056279	-0.074017	1.000000

Source: E-Views Version 9.0 (2022)

The correlation result above affirmed that RGDP and EXCR have a strong positive relationship with FDI inflows. This is because their coefficient values estimated at 0.870934 and 0.766279 are positively signed at higher than the benchmark value of 70-100% for noting strong relationship (Osuji, 2019; Ahmed, 2019; Ighosewe, Akan, & Agbogun, 2021). However, INFR has a moderate dampening relationship with FDI inflows. Meanwhile, DOP has a weak dampening relationship with FDI inflows. On the overall, none of the regressors (RGDP, EXCR, INFR, and DOP) recorded high correlation since none of their coefficient values with each other recorded a high coefficient of 70%. This suggests the possibility of no multicollinearity as stated by Osuji (2019); Ahmed (2019); Ighosewe, Akan, & Agbogun (2021). To avoid variable perturbation and hasty conclusion, we subjected the model to variance inflation factor (VIF) and tolerance value (TV) to check if truly the model is devoid of multi-collinearity issue or not. The rule of thumb is that if the variance inflation factor (VIF) and tolerance value (TV) is higher than 10 and 1 respectively, we conclude that the series exhibit multicollinearity problem, otherwise reject such claim (Osuji, 2019). The results are presented below:

Table 3- Multi-Collinearity Test

Variables	Variance Inflation Factor (VIF)	Tolerance Value (TV)=1/VIF
RGDP	1.987592	0.503121
EXCR	4.672135	0.214035
INFR	5.361367	0.186520
DOP	3.549396	0.281738
RGDP	1.804346	0.554217

Source: E-Views Version 9.0 (2022)

Since none of the studied variables reported a VIF value higher than 10, and that their TV values were not higher than 1, we confidently conclude that the series does not have any multi-collinearity issue.

Table 4: Summary of Unit Root Test

AT LEVELS						
Target Variables		ADF Test Statistics	MacKinnon Critical Value @ 5%	P-value	Order of Integration	Decision
Foreign Investment	Direct	-0.205545	-3.012363	0.9237	1(0)	Non-Stationary
Real Domestic Product	Gross	-2.620532	-3.012363	0.1047	1(0)	Non-Stationary
Exchange Rate		-1.230096	-3.012363	0.6411	1(0)	Non-Stationary
Inflation Rate		-3.441991	-3.012363	0.0209	1(0)	Stationary
Degree of Openness	Trade	-1.758039	-3.012363	0.3895	1(0)	Non-Stationary
AT FIRST DIFFERENCE						
Target Variables		ADF Test Statistics	MacKinnon Critical Value @ 5%	P-value	Order of Integration	Decision
Foreign Investment	Direct	-6.850145	-3.020686	0.0000	1(1)	Stationary
Real Domestic Product	Gross	-2.233997	-3.020686	0.2013	1(1)	Stationary
Exchange Rate		-5.757476	-3.029970	0.0002	1(1)	Stationary
Inflation Rate		-7.435101	-3.020686	0.0000	1(1)	Stationary
Degree of Openness	Trade	-3.885795	-3.020686	0.0085	1(1)	Stationary

Source: E-Views Version 9.0 (2022)

Table 4 above evidenced that Inflation Rate was stationary at levels while the rest became Stationary at their first differencing. This signal that the model exhibited mixed integration justifying the need for ARDL Bond test. The result is therefore presented below:

Table 5-ARDL Bounds Test

Date: 01/14/22 Time: 03:47		
Sample: 1992 2020		
Included observations: 29		
Null Hypothesis: No long-run relationships exist		
Test Statistic	Value	K
F-statistic	4.581325	4
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

Source: E-Views Version 9.0 (2022)

The ARDL Bounds Test in table 5 above reported a f-statistics value of 4.581325 and a Critical Upper Bound Value of 4.01 at 5% significant level. This reaffirmed that RGDP, exchange rate, inflation rate, and degree of trade openness are major drivers of FDI inflows even on the long run. This reaffirmed that the alternative hypothesis with respect to the long run effect of FDI drivers hold true.

4.2. Robustness Check

This section is to ensure that the model is well fitted. Various results considered are discussed below:

Table 6: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.489058	Prob. F(5,23)	0.7438
Obs*R-squared	2.270339	Prob. Chi-Square(5)	0.6862
Scaled explained SS	1.140177	Prob. Chi-Square(5)	0.8878
	-	-	-

Source: E-Views Version 9.0 (2022)

According to the Breusch-Pagan-Godfrey test above with Obs*R-squared value of 2.27-3399 alongside Prob. Chi-Square(5) value of 0.6862), we can confidently say that the model is Homoskedastic (has equal mean and

variance). By implication, the model is fit for prediction since it was able to satisfy the OLS assumption of presence of Homoskedasticity.

Table 7: Ramsey RESET Test

Equation: UNTITLED

Specification: FDI C RGDP EXCR INFR DOP Omitted

Variables: Squares of fitted values

	Value	Df	Probabilit y
t-statistic	1.395173	22	0.1820
F-statistic	1.946507	(1, 22)	0.1820
Likelihood ratio	2.525749	1	0.1120
F-test summary:			
	Sum of Sq.	Df	Mean Squares
Test SSR	22.21951	1	22.21951
Restricted SSR	204.8606	23	12.05062
Unrestricted SSR	182.6411	22	11.41507

Source: E-Views Version 9.0 (2022)

The table 7 above is the result of the test for miss-specification or omitted variables done with the help of Ramsey RESET Test, which provides the probability value of 0.1820 and, this implies that the model has no omitted variables.

4.3. Regression Results

Having ensured that the model meet classical assumptions of OLS and that unit root test affirmed that the model exhibited mixed integration, the ARDL Cointegrating and long run is reported below: **Table 8: ARDL Cointegrating and Long Run Form**

Dependent Variable: FDI

Selected Model: ARDL(1, 0, 0, 0, 0)

Date: 01/14/22 Time: 04:20

Sample: 1991 2020

Included observations: 29

Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
DLOG(RGDP)	0.502094	0.192519	2.608019	0.0178
D(EXCR)	0.087685	0.035013	2.504359	0.0312
D(INFR)	-0.606603	0.217407	-2.790169	0.0191
D(DOP(-1))	-0.010081	0.025811	-0.390581	0.7043
CointEq(-1)	-0.731603	0.252997	-2.891748	0.0082
Cointeq = FDI - (0.9333*LOG(RGDP) +0.3609*EXCR -0.7298*INFR -1.1863*DOP + 9.6641)				
Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(RGDP)	0.933293	0.314389	2.968561	0.0141
EXCR	0.360904	0.160311	2.251281	0.0481
INFR	-0.729792	0.209653	-3.480950	0.0029
DOP	-0.186347	0.565924	-0.329279	0.7487
C	9.664109	1.566747	6.168265	0.0000
R-squared	0.86848	Mean dependent var		1253396.
Adjusted R-squared	0.83754	S.D. dependent var		400328.8
S.E. of regression	161356.	Akaike info criterion		27.01733
Sum squared resid	4.43E+1	Schwarz criterion		27.26530
Log likelihood	292.190	Hannan-Quinn criter.		27.07575
F-statistic	28.0662	Durbin-Watson stat		2.189257
	9			0.0000

Source: E-Views Version 9.0 (2022)

Table 8 above with a R-squared value of 0.868487 and adjusted R-squared value of 0.837543. This signal that the FDI drivers under study jointly accounted for 86.84% variation in FDI inflows while the rest 13.16% is caused by the error term. More so, the Durbin Watson value of 2.180257 signals that the model is not serially correlated. Meanwhile the F-statistic with a p-value of 0.0000 signal that on the overall RGDP, EXCR, INFR, and DOP have major drivers of FDI inflows in Nigeria. The above result led to us examining the individual results using their respective coefficient value and p-values to check which of the variables actually drives

FDI inflows in Nigeria throughout the studied periods (1991 to 2020).

Evidently, the ARDL Cointegrating and long run result affirmed that economic output (RGDP) is a major driver of FDI inflows in Nigeria both on the short and long run basis. This is adjudged on its p-values of 0.0141 and 0.0178 which are less than 5% significant level. More so, its coefficient values of 0.502094 and 0.933293 signal that RGDP drives FDI inflows in a positive manner. This suggests that the higher the value of RGDP, the higher the FDI inflows into the Nigerian economy. Put differently, a higher FDI inflow is caused by higher RGDP. This assertion put to the fact that the state of the economy is instrumental to inflows of FDI into such country. Again, the ARDL Cointegrating and Log run result affirmed that exchange rate has a positive significant impact on FDI inflows into the Nigerian economy both on the short and long run. This is premised on both the positive coefficient values and low p-values recorded in both short and long run. Apparently, the coefficient values of 0.087685 and 0.360904 signals that if exchange rate is raised by 1%, it would cause FDI inflows into the Nigerian economy to rise by 8.77% and 36.09% respectively. More so, with p-values of 0.0312 and 0.0481 signal that exchange rate is instrumental in FDI inflows determination. Conversely, inflation ratio denoted by INFR had a dampen effect on FDI inflows into the Nigerian economy throughout the studied periods as recorded by the ARDL Cointegrating and long run results. Apparently, inflation rate had negative coefficient values of -0.606603 and -0.729792 and p-values of 0.0191 and 0.0029. By implication, a higher inflation rate distorts FDI inflows into the Nigerian economy by significant values of 60.66% and 72.97%. Similarly, degree of trade openness by DOP had a dampen effect on FDI inflows into the Nigerian economy throughout the studied periods as recorded by the ARDL Cointegrating and long run results. Apparently, DOP had negative coefficient values of -0.010081 and -0.186347 and p-values of 0.7043 and 0.7487. By implication, a higher DOP distorts FDI inflows into the Nigerian economy by insignificant values of 1.01% and 18.63%. This is not farfetched in that even at the moment; the Nigerian business environment is still not open to trade due to harsh business conditions. More so, the proportion of the sum of the country's imports and export to GDP is still very low and also moves in a zig-zag fashion (see figure 5).

5. Conclusion and Recommendations

Using the ARDL methodology, this study examined the determinants of foreign direct investment inflows in the Nigerian context with specific focus on market size (real gross domestic product), exchange rate, inflation rate, and degree of trade openness. The study spanned from 1991 to 2020. Specifically, the study affirmed that the FDI drivers exhibited mixed integration, cointegrated, relatively stable, Homoskedastic, free from Multicollinearity problem, and well-specified. Further, market size (real gross domestic product) and exchange rate had a high direct effect on FDI both on the short and long run while inflation rate had a high dampening effect on FDI inflows to the Nigerian economy. However, degree of trade openness had a minimal dampening effect on FDI inflows to the Nigerian economy. Hence, the study concludes that market size (real gross domestic product), exchange rate, and inflation rate are the major determinants of FDI inflows into the Nigerian economy. As such, the study recommends that the:

1. Current RGDP should be sustained since it is a major driver of FDI inflows into the Nigerian economy.
2. Apex bank should ensure that contractionary monetary policy should be readdressed. This is owing to the fact that inflation has a retarding effect on FDI inflow into the Nigerian economy.
3. Apex bank should ensure that stern exchange rate policies are implemented so as to ensure that FDI inflows does not result to macroeconomic instabilities.
4. Policy makers must watch out for various factors which make the Nigerian business environment unfavourable for foreign investments to thrive.

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