

**POLITICAL INSTABILITY AND FOREIGN
DIRECT INVESTMENT IN NIGERIA**

By

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ABSTRACT

Nigeria struggles to attract Foreign Direct Investment (FDI) because of its recognized advantage as a tool of economic development. This study investigates the determinants of FDI inflow into Nigeria by examining the influence of political instability which has constitute a problem in the country and other variables like openness, inflation and interest rate using a quarterly time series data for the period of 1980 to 2014 obtained from world bank development indicator. Series of econometric techniques were employed; unit root test, ARDL bound test, long and short run test all using the ARDL mode of estimation. The results of the long run relationship suggest that political instability which was significant shows that it decreases the rate of inflow of foreign investors into the country. Increase in inflation rate shows decrease in FDI but increase in the rate of interest rate increases FDI inflow. Openness was not significant in the long run but was significant in the short run.

INTRODUCTION

The nature of the Nigeria economic as an underdeveloped economic has hinders the progress of her economic development; this has led to the urge of inviting foreign direct investment into the country. Nigeria economic as a developing economic has adopted various measures aimed at accelerating economic growth and development one of which is the idea of foreign direct investment (Aremu, 1997). The role of Foreign Direct Investment (FDI) has been widely recognized as a growth-enhancing factor in the developing countries. FDI is a machine of growth as it provides the much needed capital for investment, increases competition in the host country industries and aids local firms to become more productive by adopting more efficient technologies or by investing in human and/or physical capital. Foreign direct investments contribute to economic growth in a substantial manner because it is more stable than other forms of capital flows (Ajayi, 2006). FDI is seen as one of the main factors to stimulate economic growth, explaining the effect of foreign direct investment on the host countries Falki, (2009) sees FDI as a way of expanding production level, increase the level of employment opportunities, raise in export and the speed of technological transfer. He also describe the advantage of FDI to the host country as a way of facilitating the application of the local raw materials, introduction of modern techniques of marketing and management

and also financing current account deficits and increase in the stock of human capital through the job training. All this generates a considerable impact on the host nation's productive capabilities. A developing country always wants to attract investment from foreign investors and foreign country which is needed for the growth of its economic as well as for the development of the people in the country.

The Nigeria economy is often referred to as the "Giant of Africa", owing to its large population and biggest economy in Africa. With approximately 182 million inhabitants, Nigeria is the most populous country in Africa and the seventh most populous country in the world. With crude oil as the main source of revenue, Nigeria is said to be the 12th largest producer of petroleum in the world and the 8th largest exporter, and has the 10th largest proven reserves. (The country became a member in OPEC in 1971). Petroleum plays a large role in the Nigerian economy, accounting for 40% of GDP and 80% of Government earnings. Nigeria is well endorsed with vast human and material resources that can guarantee sustainable economic growth and development. The country has a land area of 923,773km², with varied vegetation and soil types that are suitable for a variety of agricultural purposes.

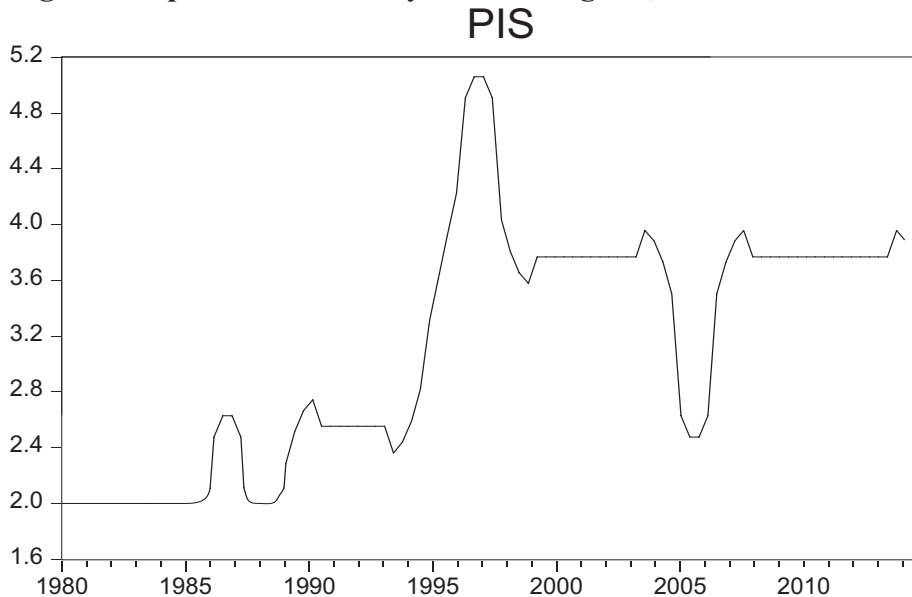
With the vast resources in the country the level of poverty is still high, that is the resources available are inadequate for the

large population size. The rate of unemployment in Nigeria is becoming alarming and the need to address poverty in Nigeria has become an issue. This is because it has been observed that over 70% of the Nigerian populations are living in abject poverty surviving under less than a dollar per day due to low level of investment in the country. These case of inadequate resources in the economics of the African countries chasing after many needs of its people and also the ability to be able to finance long-term development projects in Africa, and with the idea of poverty reduction looking more and more bleak, attracting FDI can be a very good

strategies that can be used by the African countries especially Nigeria economy. The Nigerian government has been trying to provide an investment climate conducive for foreign investments, since the inflow of foreign investments into the country has not been reassuring due to various economic, political problems in the country like security challenges, high level of religion and political crisis for the country to attract investors into the country.

The Nigeria economy is a region which is characterized by politically unstable incidences which include wars, politics, religious and ethnic conflicts etc.

Figure 1.1: political instability index of Nigeria, 1980- 2014



Source: world development data indicator.

From the chart in figure 1.1 it shows the fluctuation rate of the stability index in Nigeria, the rate of political stability which has been in increasing rate from 1993 due to the annulment of the 1993 presidential election which paved way for the intervention of general Sani Abacha's autocratic regime marked by political violence and unrestrained corruption raised the level of political instability in the country as can be seen from the data above. The rise in the index rate in 2000 has to do with various outbreak of violence caused by religion tension resulting in losses of life in places like Kaduna, Kano, Taraba, Jos etc. The recent political crisis in the country since 2006 is the Boko Haram, an Islamic extremist group based in northeastern Nigeria.

Political stability as one of the determinant of FDI which can influence the level of foreign inflow into the country, the main reasons why foreign investors are scared of investing their asset in the African continent despite the idea of the profitability ventures, is the uncertainty of the region to be exposed to various economic crisis which can expose the firms to high significant risks. This level of uncertainty can manifest itself in the Nigeria economic through high rate of political instability issues. There is a high probability of the African continent been exposed to crisis than the other regions in the world, in a study been conducted on the war rate around the globe, Rogoff and Reinhart,

(2003) started that the computed regional susceptibility to war indices for the period of 1960-2001 found out that wars are more likely to occur in the African continents than in other regions of the world. The regional susceptibility to war index is 26.3% for Africa compared to 19.4% and 9.9% for Asia and the Western Hemisphere respectively. Some other macroeconomic stability index can also be measure in this part, like the rate of inflation; interest rate etc. can also contribute to FDI inflow.

The study will be group into five chapters, chapter one comprises of the introductions and aims of the study. Chapter two includes review of relevant literature of the determinant of foreign direct investment and the theoretical theory of FDI. Chapter three contains the methodology used to achieve the research objectives. Chapter four is concern with data analysis of the empirical results. Lastly, chapter five includes summary conclusion recommendation as well as the implication for further research.

THEORITICAL FRAMEWORK

2.1 Eclectic theory

A popular conceptualization of, and theoretical framework for, FDI determinants is the "eclectic paradigm" attributed to Dunning (1977, 1993). It provides a framework that group's micro- and macro-level determinants in order to analyze why and where multinational

companies (MNCs) invest abroad. For Dunning, not only the structure of organization is important. The theory states that the extent, geography and composition of FDI by a multinational firm are determined by the interaction of three sets of interdependent variables (Dunning, 2001). This is expressed mathematically as;

$FDI = f(O, L, I)$ where

O = ownership

L = location

I = Internalization

(a) Ownership advantages is the competitive benefits of the enterprises seeking to engage in FDI, a good example include trademark, production techniques, entrepreneurial skills, and return to scale. Ownership advantage address the reason why some firms moves to abroad due to facts that MNCs have specific advantages that allowed it to operate and then overcome the operating cost in the foreign countries.

(b) Location advantages comprises of area with existence of raw materials, low wage for labor, special taxes and tariffs etc. locational advantage is the alternative countries or region, for undertaking the value adding activities of multinational enterprises (MNEs). It allowed the firms to locate its firm in a foreign market where it can gain influence by the country's location advantage such as government policies, institutional arrangements, political, legal, and cultural environments.

(c) Internalization advantages (advantages by own production rather than producing through a partnership arrangement such as licensing or a joint venture). According to Dunning there are three reason for internalization , firstly, risk and uncertainty, emanating from risk management process, secondly, firm in an imperfect market with economic of scale and third, absence of transaction pricing externalities in the market (William,1997). In his theory he categories the type of FDI into a) Resource seeking FDI, b) Market seeking FDI, c) Efficiency seeking FDI and d) Strategic asset/capabilities seeking FDI. The OLI framework provides a general framework that includes various influential factors that serve as determinant of foreign direct investment in the country. Despite the idea behind the foreign direct investors investing into a foreign country the main attribute to it is a macroeconomic stable country. A conducive environment is more suitable for any form of business. Political stability plays an important role in relations to every country's business, with bad political conditions foreign projects will be delayed until the environment is considered favorable and conducive (UNCTAD, 2010).

2.2 LITERATURE REVIEW

Political stability enhances the probability of attracting more FDI inflows into the developing countries. It is a very important factor for normal macroeconomic and investing environment. The level of political risks in a country largely depends

on the political stability state of the country and good supremacy of the government Husain, (2009). According to Iyela (2009), politically unstable economic decreases the cost of doing business and as such foreign investors would rather prefer a more political stable or lower political instability situation to place their investment. According to him the level of timidity that is noticeable in these countries in form of death, hostage taking and kidnapping will scare off investors, for they will prefer a more peaceful environment. The evidence behind the ranking of political stability is not very clear so far among countries, and there is unanimous conclusion about the significant of a politically stable country and the level of FDI inflow in the country. According to (Odi, 1997) where the host country owns rich natural resources, no further incentive may be required by the foreign investors, with good examples with countries like Angola where the situation of political instability has been a general issue. In general, the idea behind it is that as long as the foreign company is confident of being able to operate profitably without excessive risk to its capital and personnel, it will continue to invest in such countries. Specific proxy variables that are related to the issue of political instability proved very significant in some studies in relation to FDI inflow but the proxy variables used only covers some aspect of the measurement of political risk in the country, example of variables used are number of strike, riots, work days loss etc. Jaspersen et al. (2000)

and Hausmann and Fernandez-Arias (2000) conducted a research in the aspect of political risk and in their finding there was no relationship between FDI flows and political risk. Using data on U.S. FDI for two time periods, Loree and Guisinger (1995) found that political risk had no effect in 1977 but has a negative impact on FDI in 1982. Another study conducted by Ngowi (2001) argues that many developing countries have attracted little FDI because they are regarded as “high risk and are characterized by a lack of political and established stability and certainty.” Schneider and Frey (1985) in their investigation find an reverse relationship between the two variables Edwards (1990) uses two indices, namely political risk and political violence, to measure political instability and according to him Political instability which according to him measures the possibility of a change of government was significant and political violence which was measure by the occurrence of political assassination, violent, riots, political motivated strike etc was found not to be significant. In today's business foreign investors considered many features that are very important before establishing their business in any place of the world and one of these important factors is the degree of political stability of a country.

The degree of openness (DOP) is commonly measured in terms of the trade ratio which is as follows: $DOP = ((X+M)/GDP)$. Where, X is the annual

export value, M is the annual import value, and GDP is the Gross Domestic Products. Degree of trade openness shows the sign of the level of global integration of an economy. Charkrabarti (2001) in his view about trade openness stated that there is varied suggestion on the significant of openness as one of the determinant of FDI inflow but if the types of investment project are directed towards the tradable sectors of a country, then the degree of openness to trade should be a significant factors in the decision. In another study by Jordan, (2004) found the impact of openness on FDI to depends on the type of investment that is being carried out. If the type of investment is market seeking then less openness will be in that form cause high trade restrictions will be applied. In such cases if the foreign firms finds it difficult to import their product into the country in other to serve the local markets, they may set up companies in the host country. multinational firms that involved in export oriented investment may prefer a more open economy to invest into since additional market imperfections that accompany trade protection will imply higher or increase in the transaction cost that will be associated to export. Study from Kravis and Lipsey,(1982) Culem, (1988) and Edward,(1990) in their research find that degree of openness has a strong positive impact on FDI inflow. So far, a collection of assessment on openness has widely shows that openness to trade encourages more foreign direct investment inflow.

Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling. Inflation rate is a vital feature of a country's good economic fundamentals. Rate of inflation is regarded as a crucial factor in persuading the FDI inflows. The high rates of inflation imply economic instability of the country. Akinboade, (2006) have concluded that low inflation is a sign of internal economic stability in the country volatile and unpredictable inflation rate in the host market creates uncertainty and discourages MNEs' FDI activities (Buckley et al, 2007). The study of Awan and uzZaman (2010) in his study stated that inflation rates have a positive significant effect of the FDI inflows in Pakistan. Similarly, another study of Zaman K, Shan I.A, Khan M, and Ahmad M,(2006) also found that inflation rate have positive significant impact on FDI inflows in Pakistan.

Interest rate is cost of borrowing and return on savings. Investors will look for low cost funding sources or lower rates and will invest in higher return or higher interest rates. It means capital will move from low rate country to high rate country. When we speak of foreign investment two type of interest rate are important to be considered before taking a decision to invest the first is the international interest rate and the second is the domestic interest rate. The international interest rate which is the cost of fund to the foreign investors should have

a negative impact on foreign investment and the domestic interest rate which is the rate of return on investment in the host country should have a positive impact on foreign investment (investopedia). Interest rate is another important determinant of FDI. Interest rate adjusted for inflation is good measure and important variable of FDI inflows (Singhania, 2011). According to Gross and Trevino (1996) a relatively high interest rate in a host country has a positive impact on inward FDI. (Chakrabarti, 2001) found that there is positive relation between interest rate and FDI in India. Real interest rate mainly measures the economic stability of an economy.

The few studies on the determinant of foreign direct investment using time series to check the co integration level between FDI and its determinant in Nigeria uses Johansen co integration test or other forms of co integration test. In our study we will use the ARDL model which will constitute a main gap in our study. The test has a numerous advantage over the various co integration tests. First, unlike other conventional co integration techniques, the ARDL bounds testing approach does not impose the restrictive assumption that all the variables under study must be integrated of the same order. In other words, the ARDL approach can be applied to test the existence of a relationship between variables regardless of whether the underlying regressors are integrated of order one [I(1)], order zero [I(0)].

METHODOLOGY

The data employed in this study are secondary data which were obtained from the world data indicator for Nigeria from 1979 – 2014 using a quarterly range data.

FDI is the amount of capital invested by foreign investor in an economy. FDI inflow can also be referring to business enterprises that are established in a country different from the country's investor it represents the net inflows of FDI to a country with which the investment is made. Therefore, FDI is measured by FDI per capita, which is measured by

$$FDI = \text{fdi} / \text{total population}$$

Political stability is one of the most important determinants of FDI in Africa, (p.13). Quazi (2007) found that political instability decreased FDI inflow into East Asia and suggested that promoting economic and political stability is helpful for economic planning, investments and FDI in particular. The rate of political stability in the country is measured using the political index rate in the country for the period under studies.

Price stability is one indicator of a stable macroeconomic environment of a country. Inflation rate of the country was measured given the consumer price index rate. This variable is employed as a measure to control economic stability (macroeconomic stability) in the home country and it is expected to have a negative sign relationship.

The real domestic interest rate, which serves as an indicator of the rate of return on investment in the host country is expected to have a positive effect on foreign direct investment. Investors will look for low cost funding sources or lower rates and will invest in higher return or higher interest rates.

Openness measure the degree at which a country is open to trade with other part of the world. The more an economy is opened to trade, the more incentive for MNCs need to trade to that economy. The degree of openness should have a positive impact on FDI which implies high degree of openness in the country. A negative coefficient implies high restriction in trade in such country through tariff, quota etc. study carried out by Anyanwu (2006), Al-Sadiq (2009), Porters (2010), Aremu (2013) on openness to trade show a positive coefficient. The rate of degree of openness is given by the import rate plus export rate divide by the GDP value in the country.

The study utilizes the newly proposed ARDL bounds testing approach originally introduced by Pesaran and Shin (1999) and later extended by Pesaran, Shin and Smith (2001) to examine the co-integration relationship between FDI and its various determinants. The test has a numerous advantage over the various co-integration tests.

First, unlike other conventional co-integration techniques, the ARDL bounds testing approach does not impose the restrictive assumption that all the variables under study must be integrated of the same order. In other words, the ARDL approach can be applied to test the existence of a relationship between variables regardless of whether the underlying regressors are integrated of order one $I(1)$ and order zero $I(0)$. Another advantage of the ARDL technique is that it generally provides unbiased estimates of the long-run model and valid t -statistics – even when some of the regressors are endogenous (Odhiambo, 2008; 2011). Again, while other co-integration techniques are sensitive to the size of the sample, where the critical value on their estimation is based on a large sample from 500 and above, the ARDL test is suitable even when the sample size is small given the critical value of small sample size by Narayan (2005). Thus, the ARDL test has superior small sample properties compared to the Johansen and Juselius (1990) co-integration test (Pesaran & Shin, 1999).

Following Pesaran et al. (2001); Narayan (2005), the study estimates the robust Autoregressive Distributed Lag (ARDL) model. The bounds testing approach is employed to test the existence of a co integration relationship amongst the variables. Our model is as follows:

$$\begin{aligned} \Delta FDI_t = & \beta_0 + \beta_1 FDI_{t-1} + \beta_2 pls_{t-1} + \beta_3 inr_{t-1} + \beta_4 cpi_{t-1} + \beta_5 opn_{t-1} + \sum_{i=0}^p \psi_i \Delta FDI_{t-1} \\ & + \sum_{i=0}^p \gamma_i \Delta pls_{t-1} + \sum_{i=0}^p \phi_i \Delta inr_{t-1} + \sum_{i=0}^p \lambda_i \Delta cpi_{t-1} + \sum_{i=0}^p \delta_i \Delta opn_{t-1} + \mu_t \end{aligned} \quad (3.4)$$

Where FDI is foreign direct investment,
 PLS is the political scale
 INR is the interest rate
 CPI is the consumer price index which
 measures the inflation rate
 OPN is the degree of openness.
 The coefficient β are the parameters for each
 of the variables.
 The subscript $_{t-1}$ is the lag period.
 Δ is the first difference operator
 These coefficients
 are the parameters of the variables at first
 difference, and μ is a white noise
 disturbance term.
 t represents time period.

The model is based on the theoretical
 argument in the literature review.
 Therefore, the empirical model follows
 dunning (1980, 1988) Al sadiq (2009)
 though with a slight modification. The
 adoption of the model is because it gives
 the inside association of the dependent
 and independent variables. The model can
 express in the following linear form

$$FDI_t = \beta_0 + \beta_1 PLS_t + \beta_2 CPI_t + \beta_3 INR_t + \beta_4 OPN_t + \mu_t$$

To investigate the long-run relationship
 between the variables under consideration,
 the bounds test for co-integration within

ARDL modeling approach was adopted in
 this study. The bounds test is used to
 examine the evidence of a long run
 relationship which is conducted using the F-
 test. The F-statistic tests the joint
 significance of the coefficients of the one
 period lagged level of the variables. Two
 sets of critical values are reported in Pesaran
 and Pesaran (1997) as well as in Pesaran et
 al. (2001). The two sets of critical values
 provide critical value bounds for all
 classifications of the regressors into purely
 I(1), purely I(0) or mutually co-integrated.
 If the computed F statistics is higher than the
 upper bound of the critical values then the
 null hypotheses is rejected. This shows an
 indication that there is co-integration
 among the variables, if the F-statistics is
 lower than the upper bound of the critical
 values then we fail to reject the null
 hypotheses because this is indicating that
 there is no co-integration among the
 variables. If the variables are found to be co-
 integrated then we test for the existence of
 long run and short run relationship among
 the determinants of foreign investment
 using the following long run and short run
 elasticity equations.

The long run coefficients are estimated to
 find the elasticity of the determinants of FDI
 based on Equation 3.5 specified underneath.

$$FDI_t = \beta_o + \beta_1 fdi_{t-i} + \beta_2 pls_{t-i} + \beta_3 inr_{t-i} + \beta_4 cpi_{t-i} + \beta_5 opn_{t-i} + \mu_t \quad (3.5)$$

The short run relationship between foreign direct investment and the determinant is examined using the following equation (Equation 3.6).

$$\Delta FDI_t = \sum_{i=0}^p \gamma_1 \Delta FDI_{t-1} + \sum_{i=0}^p \gamma_2 \Delta pls_{t-1} + \sum_{i=0}^p \gamma_3 \Delta inr_{t-1} + \sum_{i=0}^p \gamma_4 \Delta cpi_{t-1} + \sum_{i=0}^p \gamma_5 \Delta opn_{t-1} + \xi ECM_{t-1} + \mu_t \quad (3.6)$$

Pesaran and Pesaran (1997) suggest applying the cumulative sum of recursive residuals (CUSUM) and the CUSUM of square (CUSUMSQ) tests proposed by Brown et al. (1975) to assess the parameter stability.

FINDINGS AND DISCUSSIONS

Variable	Constant without trend		Constant with trend	
	Level	1 st Difference	Level	1 st Difference
FDI	-1.977	-4.004***	-1.779	-4.246***
PIS	-1.806	-3.705***	-1.546	-3.879**
INR	-3.261**	-8.229***	-3.269**	-8.259***
CPI	-1.599	-3.707***	-1.089	-3.964**
OPN	-1.607	-5.219***	-1.368	-5.278***

Note: ***, ** and * represent significance level at 1%, 5% and 10% respectively given the t statistical figure that the null hypothesis has unit root. The lag length is determined automatically based on Schwarz information criteria. The critical values for intercept without trend are -3.483, -2.884 and -2.579 whereas, for intercept with trend the values are -4.032, -3.146 and -3.148 for 1%, 5% and 10% respectively.

Table 2: Phillips-Perron unit root test

Variable	Constant without trend		Constant with trend	
	Level	1 st Difference	Level	1 st Difference
FDI	-2.764*	-6.923***	-2.566	-8.918***
PIS	-1.651	-9.671***	-2.233	-11.801***
INR	-2.663*	-7.784***	-2.643	-7.771***
CPI	-1.594	-7.320***	-0.582	-7.460***
OPN	-1.851	-8.096***	-1.715	-9.674***

Note: ***, ** and * represent the significant level at 1%, 5% and 10% respectively. The statistical figure shows that the null hypothesis of the series has unit root. The bandwidth is determined automatically based on Newey and West (1986). The critical values for intercept without trend are -3.483, -2.884 and -2.579 whereas, for intercept with trend the values are -4.032, -3.146 and -3.148 for 1%, 5% and 10% respectively.

The result of the two unit root test in table one and two shows that all the variables are integrated after taking the first differences at order I(1) except for interest rate which was found in both the test to be integrated at level that is I(0). All the unit root test have a null hypothesis (H0) stating that the series in question has a unit root against the alternative that it does not. Our results review that our variables are stationary of both order I (0) and I(1) respectively.

After determining the other of integration of each of the variables, the next set is to evaluate whether the variables used in our analysis are co integrated. An important

issue in applying a bound testing approach to co integration is the selection of the optimal lag length. A situation where the chosen lag length is less than the actual lag length, the omission of relevant lags can cause bias. Another situation where by the chosen lag length is greater than the actual lag, the inclusion of irrelevant lags in the equation provides inefficient estimation and does not give the expected results (Bahovec and Erjavec, 2009.) we set the maximum lag length at four, which is sufficiently long for the quarterly data to capture the dynamic relationship (Tang & Shahbaz, 2011). The result of the co integration is shown in table 4.3

Table 4.3: The result of ARDL co integration test
Bound testing to co integration

F (FDI/ PLS, CPI, OPN, INR)		
Optimal lag structure	ARDL (3, 0, 1, 2, 1)	
f- Statistics	8.61	
Significant level	critical value	
	Lower bound I (0)	upper bound I(1)
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

Note: ***, ** and * represent the significant level at 1%, 5%, and 10% respectively. The f statistical figures are for testing the null hypothesis that the series have no co inte gration.

To ascertain the present of co integration relationship among FDI and its determinant, a joint significant F-test for the null hypothesis of no co integration relation ($H_0: b_0 = b_1 \dots = b_k = 0$) was conducted. Interestingly, the calculated F-statistics for co integration test F (FDI/ PLS, CPI, OPN, INR) = 8.61 which is higher than the 1% upper bound critical value (5.06) provided by Narayan (2005). This implies that there is evidence of co integration between FDI and the determinants in the country. Therefore

computation of the long run effect is needed to assess the effect of political instability, inflation, interest rate and openness to FDI inflow in the country.

The existence of a long run relationship leads us to examine the magnitude of the effect of political instability, inflation, interest rate, and openness as the determinant of foreign direct investment inflow in Nigeria. The result of the long run relationship can be seen in table 4.4

Table 4.4: long run results

Long run coefficient – dependent variable is FDI			
Regressor	coefficient	standard error	T-ratio (prob)
PLS	-0.3286	0.1116	-2.9422(0.0039) ***
CPI	-0.0041	0.0020	-2.0550(0.0420) **
OPN	-0.1445	0.4500	-0.3212(0.7486)
INR	0.0457	0.0174	2.6259(0.0097) ***
Short run coefficient – dependent variable is Δ FDI, Δ = first difference operator			
Regressor	coefficient	standard error	T –ratio (prob)
Δ PLS	-0.3674	0.0730	-5.03116(0.0000) ***
Δ CPI	-0.0010	0.0005	-1.8112(0.0725) **
Δ OPN	1.0534	0.2922	3.6053(0.0004) ***
Δ INR	-0.0102	0.0097	-0.0577(0.2922)
Coin Eq	-0.2504	0.0411	-6.0082(0.0000) ***

Note: ***, ** and * represent the significant level at 1%, 5% and 10% respectively.

The results of the estimated coefficients of the long-run relationship reported in Table 4.7 depicts that the coefficient of PLS is shown to be significant and negative, as expected. This implies that an increase in the unit of political instability in the country will decrease the rate of foreign direct investment into the country by 32% in the long run as shown in the table. The main reasons why foreign investors don't want to invest in African continent despite the profitable opportunities is the level of high degree of uncertainty in the region which expose the investors to significant risk. This level of uncertainty can manifest itself in the Nigeria economic through the various political instability issues governing the country in the form of religious and ethnic crisis among the people and also other crisis like the Boko Haram crisis.

The coefficient of inflation was significant and negative from the table in the long run implying that increase in inflation rate in the country reduces the inflow of foreign direct investment in the country, the magnitude of the change is a percentage change in inflation rate reduces FDI by the magnitude of 0.4 percent. The sign for inflation rate is just as expected and the level of inflation in the country is not based on the basis of improve standard of living but rather on the basis of shortage in the level of domestic productions in which the market demand is higher than, for that most of the goods has to be imported.

Interest rate coefficient was significant and positive though most of the studies regarding interest rate as a determinant of foreign direct investment believe the coefficient should be negative implying an increase interest reduces FDI but study from Singhanian, 2011 claims that if interest rate can serve as an adjusted variable of inflation in the country then it's a good measure and important variable for FDI inflow. The implication means that an increase in interest rate can adjust the inflation rate by reducing inflation in the economic which can then increase the attraction of foreign direct investment. The high interest rate in the country can only seek to attract foreign investors into the financial sectors in the country.

The degree of openness though not significant in the long run was significant and positive in the short run implying that a more open economic attracts more foreign direct investment than the other.

From the short run table it shows that the error correction model which was also estimated within the ARDL framework, the result is negative indicating that feedback mechanism is very effective. In other words, convergence to equilibrium in the long run after a shock given the value -0.25, suggested that a deviation from the long run equilibrium level quarterly will be corrected by 25% in the next quarter.

Table 4.5 diagnostic testing

Diagnostic test	tests statistic
R ²	0.525
Adjusted R ²	0.478
F – Statistics	12,338(0.0000) ***
JB Normality test	155.53(0.0000) ***
Breusch Godfrey serial correlation LM test	0.7839, 0.7728
Heteroskedasticity	0.5710, 0.5677

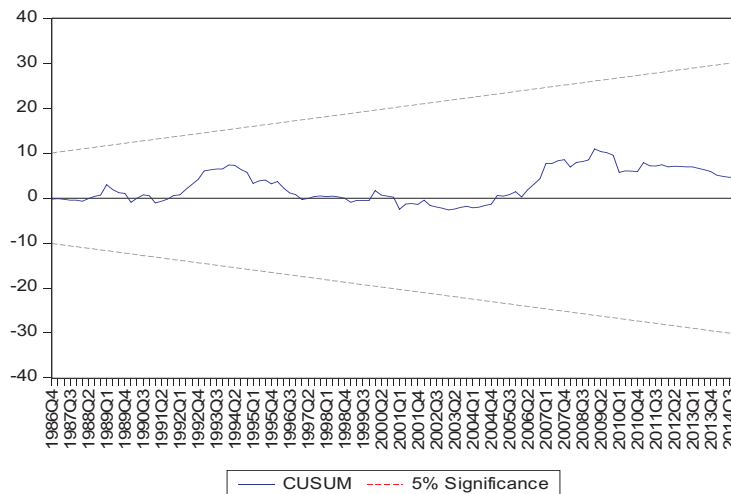
Note: ***, ** and * represent level of significant at 1%, 5%, and 10% respectively

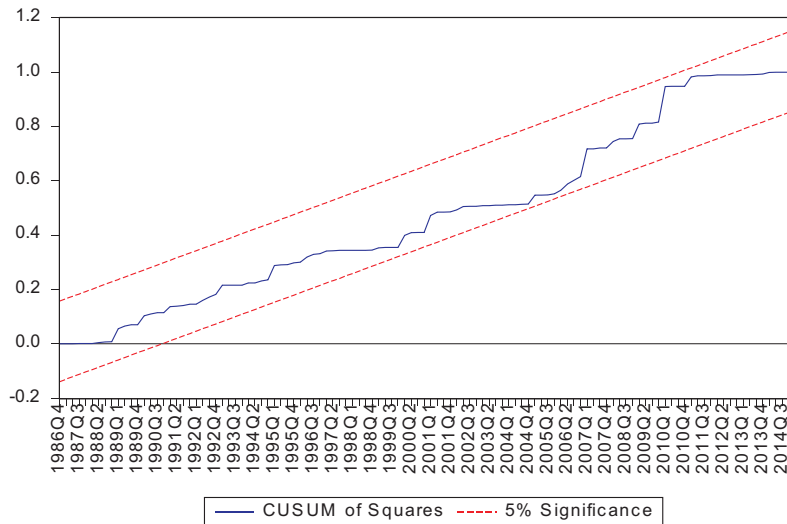
The result display in table 4.3 shows that the model passes the entire diagnostic test performed for serial correlation, heteroskedasticity, and normality test. The normality test viewing from the value of the probability shows that its statistically significant, both LM and Heteroskedasticity shows we will reject the null hypothesis, showing that no problem of

heteroskedasticity and the series are not serially correlated.

4.6 CUSUM and CUSUM square

The cumulative sum of recursive residuals plot and the cumulative sum of square of recursive residual plot estimation helps in showing the stability of the long run coefficient of the regressors.





Both figures of CUSUM and CUSUMQ are within the boundary lines, showing that the model is stable and confirm the stability of the long run co efficient of the regressors.

SUMMARY OF THE FINDINGS

There are theoretical and empirical studies conducted to examine the factors that can serve as determinant of FDI inflow. One of the most famous and widely accepted theories of FDI was adopted in our study, theory known as the Eclectic theory. This theory was adopted and applied to identify the factors that can influence foreign direct investment inflow in Nigeria. The result confirms the validity of the Eclectic paradigm modeling and also is in consistence with previous studies. However there are studies that asserted that rate of political instability is not significant to FDI

inflow in the country, viewing from the country's own natural resources, therefore no further incentive may be required by the foreign investors. Such can of FDI is referred to as resource seeking FDI. This study examines the effect of political instability on FDI inflow and if such inflow can be view as a resource seeking FDI or market seeking. Moreover, viewing from the significant of our analysis and negative coefficient of the political instability to FDI, we can say that FDI inflow in Nigeria is market seeking not resource seeking.

However, the estimation of the model with the selection of the macroeconomic variables was in accordance with the reviewed literature. The variables that are considered as the determinant of FDI inflow, such as political stability measured

by the political index rate in the country, inflation (CPI) this was used to measure the change in the price level of goods and services and macroeconomic stability, degree of openness in which import plus export divided by country's GDP was used to measure it and last variable interest rate. Political stability and interest rate were significant at one percent and inflation was significant at five percent level of significant. Degree of openness was significant at one percent but only in the short run. All the variables used are in consistent with their expected signs only interest rate that deviated from it expected sign.

Previous studies from the empirical literature given and even the theoretical framework has ascertained the important a country could derive from foreign direct investment inflow. It can be of many benefits to the country if they can adopt a policy that can help improve their security level and reduce the rate of political instability in the country. Decrease in the level of political instability can improve the certainty of investing into the country by foreign investors both from the theoretical and empirical literature perspective. The following are the policy recommendation for the study.

- i) Based on the result, it is found that political stability is an important determinant of FDI inflow. Therefore the Nigeria government should put in place a high security measures that can

help protect the country against internal and external crisis. Though the Nigeria government has been increasing its expenditure on security issues in the country, notwithstanding there are still high level of religious and political crisis in the country. Therefore the government can put more effort in educating the people on the important of unity and stability in the country. It can do so by educating the people on the effect of religion violent to the economic and the important of togetherness. Improve the working condition of the countries force power and ensure law and order enforcement that will bring peaceful co-existence among the people.

- ii) The government can put in place a very sound liberalization trade policy that would help facilitate the activities of foreign investors due to the crucial benefits that can be generated in the economy from FDI inflow.

The study was only able to examine four variables as the determinant for foreign direct investment. Therefore, it is suggested for future study to in cooperate more variables to examine the significant of these other variables as determinant of foreign direct investment.

This study is a pioneering attempt to examine the determinant of FDI inflow in

Nigeria suggesting how the government and the policy makers in to revamp the FDI policy to attract more investment into the country. The present study's main finding is that the impact of political stability on FDI inflows in to the country is very important. The study traced that macroeconomic variables like inflation and interest rate are very significant to foreign direct investment inflow in Nigeria.

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