An Investigation of the Determinants of Resource Seeking FDI: Evidence from Nigeria (1970 – 2005)

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Abstract

Examining the determinants of Foreign Direct Investment (FDI) inflows to developing countries has been the subject of extensive interest in the literature for some time. One of the arguments is that multinational companies (MNCs) select developing countries because of physical resources like oil and factors despite the existence of some serious barriers like bad infrastructure, social, economic and political instabilities. In the literature, this is called Resource Seeking FDI. In this paper, we provide an econometric evidence for Nigeria by testing existing theory on the determinants of FDI, by using a time series estimation of data from 1970 to 2005. For the analysis the ADF test is used to test for unit root and indicates that all the variables are trend stationary. Our results support the theory of resource-seeking FDI. Our results suggest that while foreign investors in Nigeria are affected by the availability of oil, political instability and the openness of the economy to investment, foreign investors are less sensitive to democracy, macroeconomic instability, market size and labor cost. To attract more FDI government in Nigeria should employ policies to further open up the economy; should increase its investment in the development of the nation's infrastructure (power supply, roads, telecommunication, etc.); should encourage production activity via production incentives and/or subsidies in order to increase the economy's GDP; and the economy should be ready to accommodate further depreciation of the domestic currency (Naira) so as to encourage the inflows of FDI in the form of merger and/or acquisition.

Keywords: *Foreign direct investment, Nigeria, Time Series, ADF Test*

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Kaynak Arayan Doğrudan Yabancı Yatırımları Etkileyen Faktörler: Nijerya Üzerine Bir Analiz (1970-2005)

Öz

Gelişmekte olan ülkelere yönelen yabancı sermaye akışını belirleyen temel faktörleri incelemek uzun zamandır literatürü meşgul eden ilgi odaklarından biri olmuştur. Bu konudaki tartışmalı alanlardan birisine göre çok uluslu firmalar gelişmekte olan ülkelerdeki alt yapı yatırımlarındaki eksikliklere, sosyal, ekonomik ve politik kararsızlıklara rağmen bu ülkelere yatırım yapmayı tercih ederler: Zira bu ülkelerde petrol gibi değerli doğal kaynaklar karlarını artırmak isteyen bu çok uluslu firmaların dikkatini çeker. Literatürde buna kaynak arayan doğrudan yabancı yatırımlar yaklaşımı denir. Nijerya ise bu kaynak arayan doğrudan yabancı yatırımlar yaklaşımının ilgi merkezi olan ülkelerden biridir. Nijerya Afrika'daki en geniş petrol rezervlerine sahip tek ülke olması yanı sıra, dünya sıralamasında da petrol ihraç eden ülkeler arasında altıncı sırayı rakiplerine bırakmayan şanslı ülkelerdendir. Nijerya geniş nüfusuyla büyük bir iç ve dış piyasa hacmine sahip olan ve çok uluslu firmaların tercih ettikleri ülkelerin başında gelmektedir. Bu çalışma kaynak arayan doğrudan yabancı yatırımları belirleyen faktörleri göz önünde bulunduran sermaye teorisini test etmek amacıyla Nijerya'da 1970-2005 yılları arasındaki doğrudan yabancı yatırımlar akışını zaman serisi kapsamında araştırmayı hedeflemiştir. Bunun için ADF testi uyarlanmış ve tüm değişkenlerin durağan oldukları bulunmuştur. Sonuçlarımız bu yaklaşımı destekleyecek yönde olup, bulgularımız yabancı yatırımcıların pek çok politik, ekonomik ve sosyal kararsızlıklara, hatta önemli engellere rağmen Nijerya'yı yatırım için seçmelerinin altındaki en büyük nedenin bu ülkenin geniş petrol rezervlerine sahip olması olduğu gerçeğinin yattığıdır. Bu ilgiden daha uzun süreli ve daha başarılı bir şekilde faydalanmak için Nijerya'daki hükümetlerin alt yapı yatırımlarına önem vermesi, uygun politikalar geliştirmesi, yerli paranın değer yitirmesine yönelik önlemler alması, ve demokratikleşme yönünde sağlam tedbirler alması gerekmektedir.

Anahtar kelimeler: *Doğrudan yabancı yatırımlar, Nijerya, Time Series, ADF Test*

1. Introduction

In spite of the global financial crisis that began in the second half of 2007, the World Investment Report (2008)[3] reports that FDI inflows increased in the major country groups – developed, developing, the transition countries of South-East Europe and the Commonwealth of independent states. This trend was also reported in 2007 and is related to strong economic performance, strong corporate performance and continued consolidation of mergers and acquisitions (M&As). This is consistent with the Global Development Finance (2009) that also reports an increase in global FDI inflows in 2008, reaching $583 billion, which is equivalent to 3,5 percent of the GDP of developing countries. This is based on the argument that FDI decisions are made with long-term expectations, which normally involves the intention to build productive manufacturing factories, exploit natural resources or diversify export bases. With this in mind, FDI flows are less likely to be reversed in terms of crisis.

Examining the determinants of Foreign Direct Investment (FDI) inflows to developing countries has been the subject of extensive interest in the literature for some time. According to Dunning[4] multinational companies (MNCs) select developing countries because of physical resources like oil and factors like infrastructure, government barriers and incentives. This type of FDI also called resource-seeking investment requires significant capital expenditure and is relatively a location-bound investment.[5]

The bulk of FDI in Nigeria is unquestionably resource-seeking FDI as Nigeria is the largest oil producer in Africa and the world's sixth largest oil exporter. However, before the reform path, like many other African countries, Nigeria also stuck to rather hostile policies for private sector development in general and FDI in particular. Nigeria only cautiously embarked on a reform path in the mid-1980s but this has been characterized by frequent interruption of political changes and policy reversals. Only with the transition to democracy in 1999, the government under the leadership of President Olusegun Obasanjo worked to overcome the barriers to FDI inflows by working towards turning Nigeria into a more invest-

[3] *World Investment Report*, Transnational corporations and the infrastructure challenge, United Nations Conference on Trade and Development New York and Geneva: United Nations, 2008.

[4] J. Dunning, "The Eclectic Paradigm as an Envelope for Economic and Business Theories of MNE Activity", *International Business Review,* 9, 2000, pp. 163-190.

[5] R. Narula and J. Dunning, "Industrial Development, Globalisation and Multinational Enterprises; New Realities for Developing Countries", *Oxford Development Studies*, 28, 2, 2000, pp. 141-167.

ment-friendly country. The UNCTAD (2009)[6] country fact sheet on Nigeria reports that the Nigerian Government now actively promotes FDI into the country and has also implemented the IMF monitored-liberalization of its economy. This welcomes foreign investors in the manufacturing sector, offers a number of incentives for the ownership in all industries, except for petroleum and certain key industries such as military equipment and also created a number of Export Processing Zones. This result is also consistent with the World Investment Report (2009)[7] that reports that the increase of FDI inflows in West Africa is mainly because of an increase in new projects in the Nigerian oil sector and investment in projects upgrades.

Although Nigeria has captured the attention of MNCs because of rich oil reserves and the transition to democracy in 1999, the empirical evidence on the determinants of FDI in Nigeria is still very limited. The aim of this paper is to investigate the determinants of resource seeking FDI flow to Nigeria by analyzing time series data of single country which is different from earlier cross sectional studies. Previous studies have mainly looked at FDI in Africa using traditional econometric techniques, such as either cross section studies or panel data studies [8] and non-consideration of natural resource in determination of FDI flow.

In order to answer some research questions such as: Why has Nigeria become an attractive country for FDI in the last 20 years? How important is the market size and endowment of natural resources in the determination of FDI flow? What is the trend of FDI flows in the long run? We attempt to provide an econometric evidence for Nigeria by testing existing theory on the determinants of FDI and by using a time series estimation of data from 1970 to 2005.

The paper is organised as follows: Section 2 literature review and Section 3 describes the estimating equation and the data. In Section 4, the results of the estimation are presented. Section 5 concludes our findings and policy recommendations.

2. Literature Review

There is a wide range of studies in the literature on Foreign Direct Investment (FDI) in less developed countries (LDC) but there are a very lim-

[6] *United Nations Conference on Trade and Development UNCTAD*, Investment policy review: Nigeria, New York and Geneva: United Nations, 2009.

[7] *World Investment Report*, Transnational corporations, agricultural production and development, United Nations Conference on Trade and Development New York and Geneva: United Nations, 2009.

[8] See Ayanwale 2007; Asiedu 2006; Udo and Obiora, 2006 and Morrisset, 2000.

ited number of studies for Nigeria. In Nigeria, Nurudeen et al.,[9] examines the major determinants of FDI in Nigeria, analyzing the annual data over the period 1970-2008, using the ordinary least squares and error correction techniques. Their regression results indicate that openness of the economy to trade (OP), privatization (PR), the level of infrastructural development (FR), and exchange rate depreciation (EXC) have significant positive effect on FDI inflows into Nigeria. In addition, the results reveal that the host country's market size (GDP) has a significant negative effect on FDI, while inflation (IF) has an insignificant (but positive) influence on FDI inflows.

According to Kesekende et al.,[10] Nigeria has the potential of being a major contender for resource seeking FDI, because Nigeria is the largest oil producer in Africa. The *second* factor in favour of Nigeria is physical geography. Nigeria is well positioned in the hub of West Africa and borders Central Africa, and can take advantage of being a coastal state. The *third* factor in favour of Nigeria is market size, which could provide opportunities for firms to reap increasing returns of scale and network effects. The large population could contribute to the labour force of the country, as well as grant them the advantage of big internal and regional markets. *Finally*, the private sector is relatively well established compared with the rest of Africa. This sector could facilitate the ability of the economy to shape the development of their respective sub-regional networks of economies, for attracting capital flows, facilitating regional infrastructure, and developing skills in the workforce that are needed to compete in the global economy.

Ekpo[11] examined the relationship(s) between FDI and some macroeconomic variables for the period 1970-1994. The results suggested that the political regime, real income per capita, rate of inflation, world interest rate, credit rating, and debt service explained the variance of FDI inflows into Nigeria.

Obadan[12] in his study concluded that market size, trade policies and raw materials are very important determinants of FDI in Nigeria. Dinda[13]

[9] A. Nurudeen, O. G. Wafure and E. Mevan, "Determinants of Foreign Direct Investment: The Case of Nigeria", *Foreign Direct Investment in Sub Saharan Africa: Origins, Targets, Impacts and Potential, African Economic Research Consortium*, (Ed. S. I. Ajayi), AERC, 2011.

[10] L. A. Kesekende, T. W. Oshikoya, P. O. Ondiege and B. Z. Dasah, "Competitiveness and investment climate in SANE economies", *African Development Bank*, 2007.

[11] H. U. Ekpo, "Foreign Direct Investment in Emerging Economies: Evidence from Nigeria", *Journal of Economics and Social Research*, 45, 8, 1997, pp. 134-145.

[12] M. I. Obadan, "Direct Investment in Nigeria: An Empirical Analysis", *African Studies Review*, 25, 1, 1982.

[13] S. Dinda, "Natural Resources Determining FDI in Nigeria: An Empirical Investigation", *International Journal of Research in Business and Social Science*, 3, 1, 2014, pp. 75-88.

also suggests that the endowment of natural resources, trade intensity, macroeconomic risk factors such as inflation and exchange rates are significant determinants of FDI flow to Nigeria.

Anyanwu[14] maintained that domestic investment, openness and indigenization policy are important determinants in attracting FDI to Nigeria. Wafure and Abu[15] investigated the determinants of FDI with a strong focus on deregulation. The authors employed the error correction technique, and confirmed that the market size, deregulation, political instability, and exchange rate depreciation were the main determinants of FDI in Nigeria.

Okpara[16] uses Granger causality and then error correction model to investigate the determinants of foreign direct investment inflow to Nigeria during the period 1970 –2009. The results show that causality runs from government policy, fiscal incentives, availability of natural resources and trade openness to FDI without reverse or feedback effect. The parsimonious result of the error correction model reveals that past foreign investment flows could significantly stimulate current investment inflows. Also, while inadequate natural resources reduce the inflow of FDI, fiscal incentives, favorable government policy, exchange rate and infrastructural development are found to be a positive and significant function of FDI in Nigeria. Market size (at lags 2 and 3) and trade openness are positively signed while political risk is negatively signed. These variables, however impact insignificantly on FDI. Thus, fiscal incentives, favorable government policy and infrastructural development are positive predictors of FDI inflows and should be used as policy instruments.

Udeaja et al.[17] examine in their sectorial study of foreign direct inflows in Nigeria and find past foreign investment flows could significantly stimulate current investment inflows.

[14] J. C. Anyanwu, "An Econometric Investigation of the Determinants of Foreign Direct Investment in Nigeria", *Proceedings of the Annual Conference of the Nigerian Economic Society,* 1998.

[15] Wafure, O. G. and Nurudeen, A. 'Determinants of foreign direct investment in Nigeria: An empirical analysis'. *Global journal of Human Social Science,* 10, 1, 2010, p. 26-34.

[16] G. C. Okpara, "An Error Correction Model Analysis of the Determinant of Foreign Direct Investment: Evidence from Nigeria", *MPRA Munich Personal RePEc Archive*, Online at http://mpra.ub.uni-muenchen.de/36676/ MPRA Paper No. 36676, posted 15. February 2012 15:29 UTC.

[17] A. E Udeaja, E. Udoh and F. S. Ebong, "Do Determinants of Foreign Direct Investment in Nigeria Differ Across Sectors? An Empirical Assessment", *Economic and Financial Review of the Central Bank of Nigeria*, 46, 2, 2008, pp. 38-47.

This study departs from other studies on the determinants of FDI in Nigeria because it contributes to the existing literature by providing new evidence that the availability of oil, openness to investment and political instability stimulates resource-seeking FDI in Nigeria. This study also include a new variable (democracy), which we consider could be important for Nigeria but we find that democracy, macroeconomic instability, labour cost and market size do not stimulate resource seeking FDI in the Nigerian case.

3. Model and Data

Data were taken from the International Statistics Yearbook published by the International Monetary Fund in 1992, 1996 and 2006, the Statistical Bulletin published by the Central Bank of Nigeria in 2006 and the Annual Statistics Bulletin published by the Organization of Petroleum Exporting Countries in 2005 and 2006. Dummy variables were used to capture the effect of democracy and coup, and these are based on the Political Instability Task Force reports published in 2003 and 2006. To avoid multi-collinearity, we consider two specifications:

$$FDIG = \hat{\alpha} + \hat{\beta}_1 OILR + \hat{\beta}_2 GDPCAP + \hat{\beta}_3 INFLA + \hat{\beta}_4 DAYSLO + \hat{\beta}_5 COUP + \hat{\beta}_6 DEMO + \hat{\varepsilon}_t \quad (1)$$

$$FDIG = \hat{\alpha} + \hat{\beta}_1 TRADE + \hat{\beta}_2 GDPCAP + \hat{\beta}_3 INFLA + \hat{\beta}_4 DAYSLO + \hat{\beta}_5 COUP + \hat{\beta}_6 DEMO + \hat{\varepsilon}_t \quad (2)$$

Where FDIG is the ratio of total inward FDI flows to GDP.[18] We use INFLA (inflation rate) as a proxy for macroeconomic instability. Following Kolstad and Tondel[19] that argue that labour costs are more than wages but also includes costs and compensations brought about by industrial relations, we therefore use DAYSLO (man days lost from strikes), as a measure of labour cost. OILR is for the oil reserve for Nigeria.

Asis consistent in the FDI literature, the ratio of trade to GDP (TRADE) is used as a proxy for openness to investment and the hypothesis is that the estimated coefficient will be positive. Also, considering that at least 95 percent of Nigeria's foreign exchange earnings is from oil, oil reserves is used as a measure of the availability of natural resources.

[18] Note that we use GDP per capita as a measure of market size. This is on the basis that absolute GDP is a poor indicator of market size especially in developing countries because it measures the size of the population rather than the income level of the population (Chakrabarti, 2001).

[19] I. Kolstad and L. Tondel, *Social Development and Foreign Direct Investments in Developing Countries*, Chr. Michelsen Institute, Development Studies and Human Rights, 2002, Bergen.

The effect of political instability on FDI in Africa is well documented. Between 1960 and 2008 Nigeria has had eight military governments, following seven military coups and five civilian governments. The military has ruled Nigeria for approximately 28 of its 48 years since independence. Ethnic and religious diversity and the struggle for the control of Nigeria's oil wealth, has been at the root of the conflicts.[20]

We use the number of coups (COUP) in Nigeria as a measure of political instability and democracy (DEMO) is used as a proxy for political stability. A dummy variable is introduced to capture their effect and it takes the values of 1 or 0, with 1 indicating the occurrence of coup or democracy and 0 indicates their absence.

4. Results

The Augmented Dickey Fuller test is used to test for unit root, and indicates that all the variables are trend stationary. Table 1 presents the results of model 1 while Table 2 presents the results of model 2.

The key difference between these two models lies in the fact that while the first model includes oil reserve of the country (OILR), the second model includes trade activities (TRADE). The estimations have been carried out with a correction for autocorrelation using the form AR (1).

Table 1: Results for Model 1

Dependent Variable: FDIG
Method: Least Squares
Sample: 1970-2005

	Coefficient	Std. Error	t-Statistic	Prob.
C	4.939322	1.334963	3.699968	0.0010**
OILR	0.000155	0.000669	2.311111	0.0287**
GDP	-0.088586	0.017143	-5.167501	0.0000***
INFLA	0.025561	0.014240	1.795063	0.0838**
DAYSLO	0.000135	0.000607	2.227793	0.0344**
COUP	-2.392056	0.997236	-2.398687	0.0236**
DEMO	-3.229793	1.603299	-2.014466	0.0540**

R-squared 0.736544 Adjusted R-squared 0.668240
Durbin- Watson stat 2.041176 F-statistic 10.78340
Prob (F-statistic) 0.000002

Note: ***, ** and * indicate significance at 1%, 5% and 10% respectively

[20] T. Dagne, *Nigeria in Political Transition. Congressional Research Service. The Library of Congress*, 2006.

We find that oil reserves and openness to investment are positive and statistically significant in both models. On the other hand, there is a negative significant relationship between FDI and GDP in the two models. While this is not consistent with the findings of Asiedu[21] and Chakrabarti,[22] it is consistent with the findings of Kolstad and Villanger[23] who also reported a negative correlation between FDI and GDP per capita. It therefore indicates that market size does not play a role in FDI inflows in Nigeria, which can also be attributed to the type of FDI dominant in Nigeria, which is resource-seeking.

Table 2: Results for Model 2

Dependent Variable: FDIG
Method: Least Squares
Sample: 1970-2005

	Coefficient	Std. Error	t-Statistic	Prob.
C	6.023295	1.447247	4.161897	0.0003***
TRADE	0.000136	0.000775	1.753017	0.0909**
GDP	-0.085898	0.018734	-4.585175	0.0001***
INFLA	0.031406	0.013808	2.274402	0.0311**
DAYSLO	0.000150	0.000621	2.410465	0.0230**
COUP	-1.634470	0.957055	-1.707812	0.0991**
DEMO	-1.347994	1.140041	-1.182409	0.2474

R-squared	0.719491	Adjusted R-squared	0.646767
Durbin-Watson stat	2.044778	F-statistic	9.893378
Prob (F-statistic)	0.000005		

Note: ***, ** and * indicate significance at 1%, 5% and 10% respectively

Inflation, in Table 1, has a positive correlation with FDI in the two models (Table 1 and Table 2) which is consistent with Ayanwale.[24]

It is proposed that uncertainty in the macroeconomic environment is expected to discourage FDI, however the results suggests that MNEs who

[21] E. Asiedu, *Foreign Direct Investment In Africa: The Role Of Natural Resources, Market Size, Government Policy, Institutions and Political Instability*, United Nations University, 2006.

[22] A. Chakrabarti, "The determinants of foreign direct investment: Sensitivity analyses of cross-country regressions", *KYKLOS*, 54, 1, 2001, pp. 89-114.

[23] I. Kolstad and E. Villanger, "FDI in the Caribbean", *Development Policy Review*, 26, 1, 2008, pp. 79-89.

[24] A. B. Ayanwale, "Foreign direct investment and economic growth: Evidence from Nigeria", *African Economic Research Consortium Research Paper*, 2007.

locate in Nigeria do not consider inflation a strong enough risk to reduce their investment operations in Nigeria. This is consistent with Addison and Heshmati,[25] who argue that FDI in mining is generally resilient in the face of economic instability, although they can deter FDI other than natural resource extraction.

Days lost to strikes also has a positive correlation with FDI, again this is not consistent with Menon and Sanyal[26] who reported a negative correlation. However it implies that since the major investors in Nigeria are oil companies, it can be expected that strikes by labor union members might not be considered risky considering that the strike actions are mainly by civil servants and university employees.

COUP as expected has a negative correlation with FDI in the two models, as shown in Table 1 and Table 2. This indicates that political instability reduces FDI inflows in Nigeria as is expected from the political history of Nigeria, which has been predominant with coups from 1966 to 1999, and a civil war from 1967 to 1970.

Building on the work by Li and Resnick,[27] and Biglaser and DeRouen,[28] the results of our study suggest that new democracies, as applicable in Nigeria, do not stimulate FDI. They propose that a large market and regime durability capture the impact of more established democracies, suggesting that regime type in newer democracies has a limited effect on FDI. New democracies need to show credible commitments to democratic institutions to stimulate investor confidence and attract FDI.

5. Conclusion

In this paper, we provide a new evidence for resource seeking FDI in Nigeria like Dinda[29] whose findings also suggest that in the long run, resource seeking is the significant factor for attracting FDI to Nigeria. On

[25] T. Addison and A. Heshmati, "The new global determinants of FDI flows to developing countries: The importance of ICT and democratization", *Discussion Paper, World Institute for Development Economics Research*, 2003.

[26] N. Menon and P. Sanyal, "Labor conflict and foreign investments: An analysis of FDI in India", *Brandeis University, Department of Economics, Working Paper*, 2004.

[27] Q. Li and A. Resnick, "Reversal of fortunes: Democratic institutions and foreign direct investment inflows to developing countries", *International Organization*, 57, 2003, pp. 175-211.

[28] G. Biglaser, K. DeRouen, "The effect of democracy on US foreign direct investment", *Conference Paper at the Political Economy of Multinational Corporations and Foreign Direct Investment Conference*, Washington University, 2005.

[29] S. Dinda, "Natural Resources Determining FDI in Nigeria: An Empirical Investigation", *International Journal of Research in Business and Social Science*, 3, 1, 2014, pp. 75-88.

the contrary to Dinda, we also identified the macro-determinants of FDI inflows in Nigeria as the openness of the government to investment, the standard of infrastructure and political instability.

Using time series data for the period, 1970–2005, our results support the theory that resource-seeking FDI is attracted by the availability of natural resources. Our results also support the argument that a new democracy is not sufficient in ensuring a large volume of FDI but that regime durability may play a bigger role in stimulating FDI. As expected, resource-seeking FDI in Nigeria is not affected by labor cost and macroeconomic instability.

The findings of this study therefore highlight several policy implications which the government needs to take account of in order to potentially improve FDI inflows.

On the same line with Nurudeen et al.,[30] this study also recommends firstly, government in Nigeria should employ policies to further open up the economy in a manner that the economy will be able to attract more FDI and fight with the corruption. For example, the political and social unrest in the Niger Delta has made the oil producing states in Nigeria a high-risk area for foreign investors. The government needs to address this issue through dialogue and not guerrilla tactics because for as long as the majority of the people of the Niger Delta continue living in extreme poverty, the area will remain volatile as the people demand better standards, and this will continue to adversely affect FDI in the region. There needs to be a recognised policy that will give the Niger Delta communities a stake in oil revenue, so that the communities, from which the oil is drilled, can get 'something in return'. Therefore, for democracy to be recognized as proof of political stability, the elements of transparency, accountability and a better control of governance have to apply in the Nigerian political arena.

Secondly, government in Nigeria should increase its investment in the development of the nation's infrastructure (power supply, roads, telecommunication, etc.) in order to reduce the cost of doing business thereby attracting more FDI. The lack of basic infrastructure especially power supply, is considered as a very important factor that adversely affect foreign investment in Nigeria. The government needs to focus on improving and maintaining a high standard of infrastructure, since this highly increases the costs of doing business in Nigeria and can deter FDI inflows. The

[30] A. Nurudeen, O. G. Wafure and E. Mevan, "Determinants of Foreign Direct Investment; The Case of Nigeria", *Foreign Direct Investment in Sub Saharan Africa: Origins, Targets, Impacts and Potential,* African Economic Research Consortium, (Ed. S. I. Ajayi), AERC, 2011.

government should also build and maintain access roads to a satisfactory standard. Currently, the government does this through private contractors, who get away with doing shoddy jobs because there is no standard of accountability demanded by the government.

Thirdly, government in Nigeria should encourage production activity via production incentives and/or subsidies in order to increase the economy's GDP. Considering that the government is working at promoting FDI in the oil sector and non-oil sectors of the country, in order to stimulate further market-seeking FDI, the policies should be aimed at improving and maintaining macroeconomic stability and economic growth. Considering that macroeconomic instability is a determinant of investment in other sectors, the government should therefore further empower the central bank to engage in reducing macroeconomic instability. Our finding also support the results of one reported by Nurudeen et al.[31] and Okpara.[32] In the light of these findings, recommendations such as government improving on the country's market size through its monetary and fiscal policy and revitalizing the agricultural sector for extraction of raw materials were made.

Fourthly, the economy should be ready to accommodate further depreciation of the domestic currency (Naira) so as to encourage the inflows of FDI in the form of merger and/or acquisition.

We strongly believe that more research is needed to identify the determinants of FDI in other sectors of the economy like *manufacturing* (a declining sector), *banking* (a fast growing sector) and *telecommunication* sector (fast developing sector) as well as oil sector in Nigeria, in order to find out if the same variables identified apply. We also suggest another promising area of interest is to investigate the impact of FDI inflows in Nigeria as much as identifying the determinants of FDI inflows. This should include not just investigating the impact of FDI on economic growth but also on economic development to develop strategies for stimulating FDI in Nigeria.

[31] Ibid.

[32] G. C. Okpara, "An Error Correction Model Analysis of the Determinant of Foreign Direct Investment: Evidence from Nigeria", *MPRA Munich Personal RePEc Archive, Online at http://mpra.ub.uni-muenchen.de/36676/ MPRA Paper No. 36676, posted 15, February 2012, 15:29, UTC.*

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