Foreign Direct Investment and Nigerian Macroeconomy

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ABSTRACT

The study examines the effects of macroeconomic variables on Foreign Direct Investment (FDI) inflow from 1981 to 2022. Different from existing studies, this study also captures the effect of regime shift on FDI inflow to Nigeria, which enabled us to capture the role of political system in crowding-in FDI. The Autoregressive Distributed Lag (ARDL) model was adopted to show the long-run relationships and dynamic interactions between FDI and the macroeconomic variables. The estimated long-run and short-run coefficients for FDI models revealed that inflation rate and the degree of openness of the economy are significant factors inducing FDI inflow to Nigeria. The GDP growth rate and non-oil export also positively affect FDI inflows in the long run. However, they are not statistically significant. The key policy variables, exchange rate and monetary policy rate, have significant effect on FDI inflows to Nigeria. The estimated results show that exchange rate depreciation causes an increase in foreign direct investment inflows. This is in accord with the real wage channel theory which states that currency depreciation reduces the country's wages and production costs relative to those of its foreign counterparts. The study recommended that exchange rate stability is very crucial for attracting FDI flows to Nigeria; Government should reduce the monetary policy rate which is presently considered too high and adversely impinging on FDI inflows; while intensifying the war against corruption in all forms and at all levels.

Keywords: FDI, Macroeconomic Variables, ARDL, Nigeria

1. Introduction

The steady expansion in financial transactions between nations is responsible for the recent notable increase in capital inflows into economies throughout the globe. Furthermore, a primary driver of this experience has been the growing globalization of investors in search of longer-term rates of return on investment and the chance to diversify their risk across borders (Giwa, George, & Okodua, 2019). Because of this, several economies around the world have removed barriers to capital inflows in order to promote capital inflows (Adediran, George, Alege, & Obasaju, 2019). Among these limitations are those on the deregulation of the local financial market, the loosening of prohibitions on foreign direct investment (FDI), and the improvement of the country's economic prospects and environment through the adoption of market-oriented initiatives, which would help it escape the financial depression era.

Attracting foreign capital flows is a core goal of all stakeholders throughout the world, particularly less developed nations where a shortage of money is a severe limitation to their economic dynamism and success. The popularity of FDI stems from the multiple benefits it provides. One major point is that FDI is seen to be less vulnerable to crises since investors often have superior investment arrangements and understand the host country's economic

dynamics. As a result, stakeholders in countries that are developing or emerging often expect FDI inflows to deliver much-needed money, new technologies, marketing tactics, and managerial skills (Adediran et al., 2019; Amoo, 2018; Giwa et al., 2019).

Foreign Direct Investment (FDI) has emerged as a prominent policy tool for producing consistent capital inflows, enhancing technical know-how and higher-paying employment, developing entrepreneurial and workplace skills, and creating new export prospects (Prasad et al., 2003). The success of a number of fast-growing East Asian Newly Industrialized Economies (NIEs), including China, has increased the appeal of FDIs as a means of bridging the resource gap and decreasing debt load. One of the primary goals of Nigerian government strategy is to attract major FDI inflows. The implementation of a stable exchange rate policy, a moderate monetary policy rate, and a single-digit inflation rate were all intended to stimulate both local and international direct investment in Nigeria. FDI, or foreign direct investment, has emerged as a key political tactic for encouraging Furthermore, the government has formulated other investment inducements, such as establishing a centralized investment hub, extending the profit repatriation policy for foreign investors' capital, and revamping corporate governance frameworks. Massive efforts to revitalize the infrastructure are being made in order to create an environment that is conducive to both local and international investment and capital inflows. These efforts include building and renovating airports, road and rail networks, and port operations.

The rebasing of the GDP in 2014, which identified new areas in which additional investments are required to promote inclusive growth, produce wealth, and create jobs in the nation, increased the demand for greater investments in Nigeria. Even while the country's foreign investment inflows have significantly improved recently, the trend has been unbalanced in favour of portfolio investments, or "hot money," which is prone to abrupt swings. Compared to 10.93percent in 2012, foreign direct investment (FDI) made for 8.31percent of all foreign capital inflows (FCI) in 2013. In comparison, 84percent of the total FCI in 2013 and 82percent in 2012 came from Foreign Portfolio Investments (FPI); while Nigeria Foreign Direct Investment (FDI) increased by 752.7 USD million in 2022, compared with an increase of 495.7 USD million in the previous quarter. Nigeria Foreign Portfolio Investment increased by 337.4 USD million in 2022 respectively. In view of the above, this study examined the effects of macroeconomic variables on FDI inflow from 1981 to 2022. Different from existing studies this study also captures the effect of regime shift on FDI inflow to Nigeria. Specifically, the regime shift captures the role of political system, with emphasis on introduction of the democratic rule that started in 1999. This allowed the capture of the role of political system in crowding-in FDI.

Including the introduction, the paper is structured into five sections. Section two presents the literature review along theoretical and empirical lines. Section three provides the methodology and data employed for the analysis. In section 4, empirical results were presented. The last section concludes with some policy recommendations.

2. Literature Review

Several theories provide rationale why firms migrate, with ideologies propounded based on development framework, trade theories under a perfect market, or imperfect market set up (Nayak and Choudhury, 2014). Irrespective, these theories are unanimous in their submissions that firms migrate abroad to reap the benefits of location advantage, firm-

specific or internalization of markets. The theories articulate the importance of domestic government policies in attracting FDI.

The foundation of the early works of FDI theory may be found in MacDougall's (1958), which developed his model under the presumption of a completely competitive market. Kemp (1964) developed his hypothesis further. MacDougall and Kemp both claimed that when there was free movement of capital from an investing country to the destination nation, the marginal productivity of capital tended to be balanced between the two countries, assuming a two-country model and prices of capital being equal to its marginal productivity. They discovered that following the investment, the investing nation's output decreased without the nation's national revenue declining. This is because the country making the investment eventually earns more money from its overseas investments.

On the other hand, one of the earliest efforts to use currency strength to explain FDI was made by Aliber (1970). Based on the relative strengths of the several currencies, he proposed his theory of foreign investment. Regarding the variations in the value of the currencies in the source and host countries, according to this theory, weaker currencies have a greater ability to draw foreign direct investment (FDI) in order to capitalize on variations in market capitalization rates than stronger currencies. After testing his theory, Aliber discovered that the outcome was in line with FDI in the US, the UK, and Canada. While Aliber maintained that it was an alternative theory, and may be a valid explanation for foreign direct investment in developed countries, it doesn't seem to apply as much to less developed nations with severely restricted foreign exchange rates, extremely flawed or nonexistent capital markets, or both (Lall, 1976).

Empirically, existing studies identified various determinants of FDI flows along formal theories while others are suggested based on host country peculiarities; such as corruption index, transparency index, among others. In the instance of Nigeria, Abubakar, Ibrahim, and Eleojo (2023) investigated whether governance quality mattered in the dynamic relationship between foreign direct investment, trade openness, and economic growth. This study looked at how foreign direct investment and trade openness connected with governance quality. The study found that the interplay between foreign direct investment and governance quality had no influence on economic development. Furthermore, the trade-governance quality connection has a negative impact on economic growth. Based on the findings and statistical significance, the study indicated that governance quality is important in attracting foreign direct investment and facilitating commerce. As a result, in order for Nigeria to attract major capital inflows and trade flows, the requisite regulatory legislation must be put in place as soon as possible.

Murtala (2023) empirically examined the Impact of foreign direct investment on macroeconomic variables (exchange rate, and inflation rate) in Nigeria and the period analysis covered 5 years (2017-2021). The study employed is the Generalized Autoregressive Conditional Heteroscedasticity (GARCH) model. The econometric analysis started with pre-diagnostic and this is a first condition for estimating GARCH. Augmented Dickey-Fuller (ADF) unit root test was used to study and test properties of the time series variables. The result at this revealed that the variables: foreign direct investment, exchange rate and inflation rate were first difference I(I) or stationary at either level I (0). The GARCH model discovered that foreign direct investment (FDI) has positive Impact on exchange rate while the inflation rate has negative Impact. Based on this, the study recommended the delivery of suitable policy framework that will be conducive for doing business in Nigeria, to attract the inflow of FDI necessary to stimulate growth Macroeconomic variables.

Primus (2019) examined the effect of macroeconomic factors on foreign direct investment in Nigeria between 1986 and 2017 using the ARDL technique. The study employed macroeconomic data shock as; Gross Domestic Product (GDP), government size, exchange rate, inflation rate, and interest rate. The results showed that foreign direct investment in Nigeria was highly correlated with the exchange rate, interest rate, gross domestic product, and size of the government. The study found a long-term correlation between macroeconomic factors and foreign direct investment in Nigeria and suggested that the country's government support economic policies that would increase foreign direct investment.

Ndubuisi (2017) examined the link between FDI and macroeconomic factors (economic growth, inflation, exchange rate, and oil price) in Nigeria from 1981 to 2014. The study used the Vector Error Correction Model (VECM) causality approach and the Johansen cointegration method. According to the study, there was proof of a long-term link between the factors. The VECM demonstrated evidence of unidirectional and bidirectional causal relationships between foreign direct investment and economic growth, exchange rate and FDI, short-term unidirectional causal relationship between inflation rate and FDI, and oil price and FDI. Similarly, Uwubanmwen and Ajao (2012) utilized VECM approach to investigate the determinants of FDI in Nigeria on annual data spanning 1970 to 2009. Their empirical analysis reveals that variables such as exchange rate, inflation rate, interest rate, and openness of the economy are the major and important factors that determine the inflow of FDI into Nigeria.

Johansen cointegration analysis was adopted by Achugamonu, et al. (2016) to identify the variables preventing foreign direct investment (FDI) from entering Nigeria between 1980 and 2015. The study found a substantial long-term association between foreign direct investment in Nigeria and the level of domestic and external government debt, as well as the rate of inflation and currency rate. Imoghele (2016) investigated the macroeconomic variables that affects foreign direct investment (FDI) inflow into Nigeria between 1986 and 2012. The study demonstrated that there was a real long-term relationship between the influx of FDI and the macroeconomic parameters using Johansen cointegration and ECM tests. The study also found that the three main variables that may aid in facilitating FDI into the country are GDP, exchange rate, and credit to the private sector. Adefeso and Agboola (2012) examined the long run determinants of FDI inflows in Nigeria using Residual-Based Engle-Granger-Dickey-Fuller cointegration test using annual data from 1970 to 2009. The result revealed that, one percent change in degree of openness, market size, ICT, oil sector, tax, tourism, and mobile phone penetration will determine a 15, 67, 11, 79, 48, 38 and 34 percent change in the mean inflows of FDI in the long-run.

Abubakar and Abdullahi (2013) investigated the determinants of FDI flow in Nigeria by examining the influence of natural resources, market size, openness and inflation over the period 1981 to 2010. Time series econometric technique was employed- cointegration and Granger causality test. The results of Johansen cointegration test suggest that, availability of natural resources, market size, openness of the economy and macroeconomic stability do not attract FDI in the long run in Nigeria. While the results of Granger causality test showed that market size and inflation are positively affected by FDI in short run. Inflation increases the market size in the short run and availability of natural resources also leads to openness of the economy in the short run. In the same vein, Akinlo *et.al.* (2013) carried out an empirical study on the determinants of FDI in ten African Countries for the period 1995 to 2011. The study found that the endowment of natural resources, openness, macroeconomic, risk factors like inflation and exchange rates are significant determinants of FDI flow to Africa. Domestic investment and natural resources accounted for the bulk of FDI inflow to Africa as both variables are positive and significant.

Empirical studies reviewed above have considered different combinations of the determinants of FDI flows with mixed results, with respect to significance as well as the direction of the effect. However, a host country location specific advantage is pertinent in attracting FDI flows; thus, this study considers the determinant of FDI inflow with specific interest on change in the political regime in Nigeria. The analysis will guide policy strategies for crowding-in FDI to Nigeria.

3. Methodology

3.1 Data and Sources

The study employed secondary data. The secondary data are annual and cover the period from 1981-2022 for Nigeria. The data were sourced from the Central Bank of Nigeria Statistical Bulletin (CBN Various issues). The variables of interest are foreign direct investment, exchange rate, inflation, growth rate of Gross Domestic Product, non-oil export, interest rate, share of oil in total export, the degree of economic openness, and the political regime. Table 1 gives the list of variables, their descriptions, and data sources.

Table 1.
Definitions and Sources of Variables

Variable	Description	Data Sources
FDI	Foreign Direct Investment	CBN
MPR	Interest Rate measured by Minimum Rediscount Rates (1981-1998) and Monetary Policy Rate (1999-2022)	CBN
OILSHARE	Share of oil in GDP	CBN
OPEN	Trade as a share of GDP	CBN
INF	Inflation Rate	CBN
EXR	Exchange Rate is the end of Period official rate	CBN
POL	Dummy variable capturing political regime; the value of POL=0 from 1981-1998 and POL=1 from 1999-2022	
NOILEXP	Non-Oil Export	CBN
GGDP	Growth Rate of GDP	CBN

Source: Compiled by the authors.

3.2 The Model

This study adopts the Dunning's (1988) eclectic approach with specific interest on the location specific advantage which recognizes the inherent factors a host country has in attracting FDI inflow. In order to determine the underlying factors driving FDI behavior in Nigeria as well as the long-run and short-run relationships among the variables of interest (FDI, non-oil export and growth) the standard autoregressive distributed lag (ARDL) cointegration technique is employed. The empirical form of the model is specified in the model below:

$$\Delta ln\text{FDI}_t = c_i + \propto_{01} ln\text{FDI}_{t-1} + \propto_{11} ln\text{EXR}_{t-1} + \propto_{21} ln\text{MPR}_{t-1} + \propto_{31} ln\text{INF}_{t-1} + \propto_{41} ln\text{OPEN}_{t-1} + \propto_{51} ln\text{GGDP}_{t-1} + \propto_{61} ln\text{OILEXP}_{t-1} + \sum_{i=1}^{p} \varphi_{02}\Delta ln\text{FDI}_{t-1} + \sum_{i=1}^{q} \varphi_{12}\Delta ln\text{EXR}_{t-1} + \sum_{i=1}^{q} \varphi_{22}\Delta ln\text{MPR}_{t-1} + \sum_{i=1}^{q} \varphi_{32}\Delta ln\text{INF}_{t-1} + \sum_{i=1}^{q} \varphi_{42}\Delta ln\text{OPEN}_{t-1} + \sum_{i=1}^{q} \varphi_{52}\Delta ln\text{GGDP}_{t-1} + \sum_{i=1}^{q} \varphi_{62}\Delta ln\text{NOILEXP}_{t-1} + \propto_7 \text{POL}_t + \varepsilon_i$$

$$(1)$$

In equation (1) above, $\propto_{ij}$ are the long run multipliers, c_i is the drift and ε_i are white noise errors. Equation (1) is specified to ascertain the underlying factors driving FDI behavior in

Nigeria. The bound test is based on the joint significance of the coefficients of lagged levels of the variables i.e. $H_0: \propto_{01} = \propto_{11} = \propto_{21} = \propto_{31} = \propto_{41} = \propto_{51} = \propto_{61} = \propto_7 = 0$; while the alternative hypothesis is given as $H_1: \propto_{01} \neq \propto_{11} \neq \propto_{21} \neq \propto_{31} \neq \propto_{41} \neq \propto_{51} \neq \propto_{61} \neq \propto_7 \neq 0$.

The time series properties of the data were examined. A unit root test based on Im, Pesaran, and Shin W-test (2003), was carried out. (Im, Pesaran, and Shin (2003). A multivariate-Autoregressive Distributed Lag (ARDL)-model was used to empirically analyze the above specified model. This method is adopted for two reasons. First, compared to other multivariate co-integration methods (i.e. Johansen and Juselius (1990), the bound test is a simple technique because it allows the co-integration relationship to be estimated by Ordinary Least Squares (OLS) once the lag order of the model is identified. Second, the long-run and short run parameters of the model can be simultaneously estimated (Aregbeyen and Ibrahim, 2012).

4. Empirical Results

4.1 Unit Root Test Result

ARDL bound test requires that the order of integration of all variables do not exceed I(1), given that presence of I(2) among the considered variables may likely result in spurious results; this is because in the presence of I(2) variables the computed F-statistic provided by ARDL bound test valid, for the ARDL bound test is based on the assumption that the variables are either I(0) or I(1). Augmented Dickey-Fuller Unit Root Test was employed to validate the order of integration of the employed variables. Specifically, two of the variables were found to be of order zero (inflation rate and GDP growth rate), while the other variables (foreign direct investment, monetary policy rate, exchange rate, non-oil export, oil share, degree of openness and political instability) were of order one (I(1)) (Table 2).

Table 2.
Augmented Dickey-Fuller Unit Roots Tests

Variables		t-Statistic	Conclusion
FDI	Level	-1.96	I(1)
	1st Difference	-8.96*	
MPR	Level	-2.88	I(1)
	1st Difference	-99*	
INF	Level	-3.28*	I(0)
EXR	Level	-2.01	
	1st Difference	-4.48*	I(1)
NOILEXP	Level	-0.59	I(1)
	1st Difference	-7.13*	
GGDP	Level	-4.71*	I(0)
OILSHARE	Level	-2.07	I(1)
	1st Difference	-24*	
OPEN	Level	-1.9	I(1)
	1st Difference	-7.43*	
POL	Level	-0.91	I(1)
	1st Difference	-5.65*	

Note: The critical value is -2.9571 at 5percent significance level; * means significance at 5percent level.

4.2 Bound Tests for Cointegration

Testing for cointegration requires conducting ARDL Bounding test that enables one to ascertain whether or not long run relationship exist among the variables of interest. Specifically, ARDL bounding test was implemented using the collected data for foreign direct investment equation.

Given the short data span, maximum lag order of 4 was imposed for the dependent variables while that of the independent variables was restricted to maximum lag order of 1. The calculated F-statistics of the FDI Model of 5.359 is higher than the upper critical value for I(1) Bound at 5percent level (Table 3). Thus, the null hypothesis of no cointegration was rejected, suggesting the existence of long run relationship in the model.

Table 3.
Results from Bound Tests

Dep Variable	K	F-Stat	Outcomes
FDI=f(Exr, MPR, Inf, Open, GGDP, Noilexp, Pol)	6	0.359	Cointegration

Having established the existence of long-run cointegrating relationships in the estimated model since the F-statistic value was above the I(1) at 5percent for FDI model, ARDL specification was estimated for the model using the following ARDL specification (4,0,0,1,0,0,0) , where POL was introduced as fixed regressor with the assumption of linear trend. The selection of the estimated model was based on the Schwarz criterion model selection criteria.

4.3   Result of Estimated Long and Short-run Coefficient of FDI Model

The estimated long-run and short-run coefficients for FDI models were presented in Tables 4 and 5 respectively. The major factors influencing the behavior of FDI inflow to Nigeria in the long run are reported in Table 4. The table reveals that inflation rate and the degree of openness of the economy are significant factors inducing FDI inflow to Nigeria. These findings align with the work of Primus (2019) who found a long-term correlation between macroeconomic factors and foreign direct investment in Nigeria and suggested that the country's government support economic policies that would increase foreign direct investment. The GDP growth rate and non-oil export also positively affect FDI inflows in the long run. However, they are not statistically significant. This outcome conforms with the results of Imoghele (2016) who found that the three main variables that may aid in facilitating FDI into the country are GDP, exchange rate, and credit to the private sector. The key policy variables (exchange rate and monetary policy rate) have significant effect on FDI inflows to Nigeria. The estimated results show that exchange rate depreciation causes an increase in foreign direct investment inflows. This is in accord with the real wage channel theory which states that currency depreciation reduces the country's wages and production costs relative to those of its foreign counterparts. Thus, the country experiencing real currency depreciation has enhanced "locational advantage" or attractiveness as a location for receiving productive capacity investments. This emerging empirical discovery is consistent with the study Ndubuisi (2017) which identified proof of a long-term link between the factors. The VECM demonstrated evidence of unidirectional and bidirectional causal relationships between foreign direct investment and economic growth, exchange rate and FDI, short-term unidirectional causal relationship between inflation rate and FDI, and oil price and FDI. By this, the exchange rate depreciation improves the overall rate of return to foreigners contemplating an overseas investment project in this country. It seems that the wealth channel is valid for Nigeria as the results suggest that if domestic currency depreciates sharply, the international price of domestically owned enterprises also falls; and as a result, foreign firms divert their investments to Nigeria. The results also show that the interest rate captured by the monetary policy rate adversely impinges on the inflow of foreign direct investment. This results aslo align with the result of Primus (2019) who found a long-term correlation between macroeconomic factors and foreign direct investment in Nigeria and suggested that the country's government support economic policies that would increase foreign direct investment.

Non-oil export was found to have inverse relationship with FDI, although the relationship was not significant. This can be interpreted to mean that non-oil export, in the long run, does not help in predicting the inflow of foreign direct investment in Nigeria. The model also showed that regime of governance in Nigeria did not significantly impact on the inflow of foreign direct investment in Nigeria as there was no significant difference in the inflow of FDI within the two regimes. The emerging empirical discovery is consistent with the study of Abubakar, Ibrahim, and Eleojo (2023) which discovered that the interplay between foreign direct investment and governance quality had no influence on economic development. Furthermore, the trade-governance quality connection has a negative impact on economic growth.

Table 4.
Estimated Long Run Coefficients for FDI Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EXR	0.958583	0.412818	2.322047	0.0329
MPR	-1.060835	0.49627	-2.137617	0.0474
INF	1.012057	0.459879	2.200701	0.0419
OPEN	1.15595	0.685375	1.686595	0.1099
GGDP	1.631004	1.024275	1.59235	0.1297
NOILEXP	0.008729	0.266625	0.032737	0.9743
POL	-0.568294	0.837886	-0.678247	0.5067
C	-19.39057	11.90454	-1.628838	0.1217

The result of the short-run dynamic coefficients associated with the long-run relationships obtained from error correction model for FDI is presented in Table 5. The signs of the short-run dynamic impacts are maintained to the long-run. Specifically, exchange rate has positive effect on FDI (although not significant), while the effect of interest rate on FDI in the short run was negative and significant. This implied that increase in interest rate further prevent the inflow of FDI. This emerging empirical discovery is consistent with the study of Uwubanmwen and Ajao (2012) which revealed that variables such as exchange rate, inflation rate, interest rate, and openness of the economy are the major and important factors that determine the inflow of FDI into Nigeria Openness and growth of gross domestic output were found in the short run to significantly influence the inflow of FDI positively. The result also showed that the persistence of the FDI inflows significantly assist in predicting the behavior of FDI overtime in the short term. Overall, the political system of a country plays a crucial role in shaping the investment climate and influencing FDI inflows. Political stability, institutional quality, rule of law, and policy predictability are key factors that investors consider when evaluating investment opportunities in foreign markets. Therefore, policymakers need to prioritize political reforms, strengthen institutions, and adopt transparent and investor-friendly policies to attract higher levels of FDI inflows and promote sustainable economic growth Once more this emerging empirical discovery is consistent with the study of Uwubanmwen and Ajao (2012). The equilibrium correction coefficient (ECM) estimate (-0.6298) is highly significant, has the right sign as well as magnitude. The coefficient of ECM implied that approximately 62.9 percent of disequilibria from previous year's shock converge back to the long-run equilibrium in the current year.

Presented in Table 6 are the various diagnostic tests rests. The result of serial correlation test in the FDI model showed that the null hypothesis of no serial correlation cannot be rejected as the test statistics are not statistically significant. The linearity test confirmed the existence of linear relationship between FDI and other variables as the null hypothesis of the model under consideration is linear or correctly specified cannot be rejected as the test statistics are not

statistically significant. Similarly, the normality test and the heteroscedasticity test implied that the residuals of FDI model estimated are purely white noise given that the test statistics are not statistically significant.

Table 5.
Error Correction Representation for ARDL Selected FDI Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(FDI(-1))	-0.414877	0.164085	-2.52843	0.0216
D(FDI(-2))	-0.253885	0.157688	-1.61005	0.1258
D(FDI(-3))	-0.310818	0.13194	-2.35575	0.0308
D(EXR)	0.603698	0.381531	1.582305	0.132
D(MPR)	-0.668095	0.34383	-1.9431	0.0688
D(INF)	0.246814	0.158973	1.552555	0.1389
D(OPEN)	0.727997	0.347442	2.095303	0.0514
D(GGDP)	1.027178	0.570707	1.799835	0.0897
D(NOILEXP)	0.005497	0.168762	0.032573	0.9744
D(POL)	-0.357901	0.594682	-0.60184	0.5552
ecm(-1)	-0.629782	0.202824	-3.10507	0.0064

ecm = FDI - (0.9586*EXR -1.0608*MPR + 1.0121*INF + 1.1560
*OPEN + 1.6310*RGDP + 0.0087*NOILEXP -0.5683*POL -19.3906)

Table 6.
ARDL-VECM Model Diagnostic Tests for FDI

Serial Correlation	3.2105 [0.2338]	Normality	0.5499 [0.7595]
Linearity Test	0.0984 [0.7571]	Heteroscedasticity	1.0019 [0.4779]

5. Conclusions and Recommendations

Foreign Direct Investment has historically played important roles in the economies of developing countries by making available resources and technologies which are in short supply. This study has revealed that exchange rate and the monetary policy rate are critical factors in FDI flows to Nigeria. Exchange rate depreciation promotes the inflow of FDI. However, its instability or volatility can constrain FDI inflows. High monetary policy rate constrains the inflow of FDI to Nigeria. To boost FDI inflows to Nigeria, the study recommends an effective control mechanism through strong institutions to manage the exchange market for more stability. In addition, it suggests a reduction in the monetary policy rate so as to serve as an incentive for increased FDI inflows. There is also the need to reduce the cost of doing business in Nigeria in addition to improved security in the country.

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