Determinants of foreign direct investment in a democratic society: the Nigeria experience.

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Keywords

Abstract

This study investigated the relationship between foreign direct investment (FDI) and its various determinants in a democratic society. This was achieved through a review of both theoretical and empirical literature and the use of panel data study. The data for the study were generated from the Central Bank of Nigeria (CBN) statistical bulletin of various editions and the World Development Indicators of the World Bank Group. The data were analysed using the multiple regression analysis. It was gathered in this study that market size, natural assets, infrastructure, domestic credit, exchange rate, legal system and population health of the country have a positive relationship with FDI; while corruption, human capital development, political risk and trade openness have a negative relationship with FDI. Based on the above, it was recommended that the Nigerian government should provide the necessary incentives for investment and production activities to strive as well as creating an enabling environment for substantial growth in GDP.

Introduction

In a democratic society there are checks and balances on elected officials, which in turn reduce arbitrary government intervention, lower the risk of policy changes and strengthen property right protection; and as such foreign direct investors prefer to invest in such an economy. Foreign Direct Investment (FDI) occurs when a corporate entity commits its financial resources in foreign markets for the purpose of direct production or marketing. In the time past, many countries particularly the developing nations were concerned with trade protection and therefore applied barriers to foreign direct investment. This is because they believed that foreign direct investment is the coming back of imperialism from the window which was fired out through the door. But in recent years, these countries have realized that foreign direct investment is a potent instrument for the international free flow of goods, services and capital thereby promoting economic growth and development. According to Koreem, Kari, Alam, Chukwu, David and Oke (2012), foreign direct investment is pertinent for improving a country's economy since it enhances the existing capital towards promoting economic growth that can raise standards of living of the people. It can also promote sustainable economic development through acquiring new technologies and skills as well as method of production. In addition, it

can facilitate global markets, improve effectiveness of resource use, waste and pollution reduction, raise services and create production range (UNCTAD, 1998; Hiller, 2004).

In view of the manifold benefits associated with foreign direct investment he discussion among academics and policy makers has shifted from whether FDI should be encouraged to how democratic nations including Nigeria can attract FDI. Indeed, Asiedu and Lien (2011) posited that many international development agencies, such as the World Bank consider FDI as one of the most effective tools in the global fight against poverty and therefore actively encourage poor countries to pursue policies that will enhance FDI inflows. Considering the importance of FDI, the Nigerian government has over the years initiated several policy and strategic measures for its attractiveness. For example, the ceiling for foreign participation in equity capital in various sectors of the Nigerian economy prescribed by the Indigenization Decree of 1972 as amended in 1976, 1997 and 1989 has been abolished. More so International Economic Relation Department whose primary function is to inform foreign investors about the conducive investment environment in Nigeria has been established in all Nigerian mission abroad (Gbosi, 2002). In addition, the creation of Free Trade zones in different parts of Nigeria particularly the Onne Oil and Gas free trade zone, is a government strategy of attracting foreign direct investment I the oil and gas sector.

Considering the fact FDI has over the years proved to be a major stimulus of economic growth through its contribution to transfer of technology, enhancement of balance of payment ability, employment generation among others, it is surprising that there is a death of research on the variables that attract FDI inflow to Nigeria. The common perception is that FDI is largely driven by natural resources and market size (Asiedu, 2006). Most of the previous studies on the determinants of FDI do not focus particular attention to Nigeria (see Schoeman, Robinson, 2002; Asiedu, 2002; Asiedu, 2006). Factors that attract FDI to other Africa countries and advanced economies may not attract FDI to Nigeria. A few available studies of FDI determinants in Nigeria failed to wholistically consider all the relevant factors in their methodology (such as corruption and population health and some of the studies are not empirically based (see Yakub, 2001; Isenmila and Okolie, 2007; Abubakar and Abdullahi, 2013. This research is therefore an improvement of the existing studies on the determinants of FDI because it aimed at analyzing the impact of natural assets, market size, infrastructure, human capital, investment policies, population health, reliability of legal system, corruption, and political risk on FDI in Nigeria during the period of 1999 – 2012, and also to determine the factor with the strongest and weakest impact.

Literature Review

Ogamba, (2002), asserts that Foreign Direct Investment is positively affected by the ability to earn profits on activities in the foreign country. The payment for FDI is normally in the form of profits (dividends, retained earnings, royalty payments, management fees etc). FDI is measured either as a flow or as a stock. FDI occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage that asset (World Trade Organizatoin, 1996).

According to Yakub (2005) FDI refers to the flow of capital and personnel from abroad for investment in another country, the ownership of such capital being either an individual or a corporate body or a government. The basic consideration of FDI is the control of a certain amount of shares of such firm. FDI flow to a country depends largely on the presence in that country, of a certain critical minimum requirements. Among the requirements is the presence of economic, political and social stability as well as rules regulating entry and operation of

business. Others include the standard of treatment of foreign affiliates, business facilitation, investment incentives, market size, growth, structure and accessibility, raw materials, low cost but efficient labour force and physical infrastructure in the form of ports, roads, power and telecommunication. FDI has over the years proved to be a major stimulus of economic growth in developing countries through its contribution to transfer of technology, enhancement of balance of payments ability, employment generation and diversification of the industrial base of an economy among others. The emphasis on these resources for economic growth has made FDI the focus of policy-makers in many low-income countries.

Theoretical and empirical evidence suggests that Nigeria possess the capacity to adequately attract FDI and though, Nigeria had embarked on policies and structural reforms leading to increased openness, lowering barriers to trade, liberalizing domestic financial markets and removing restrictions on capital movements, FDI flow has been mainly in the oil sector of the economy where the country derives over 90 percent of her export. According to Isenmila and Okolie (2005), FDI is influenced at least in theory by the size of the market for the products, expected increase in higher profit rates, availability of relevant raw materials, the existence of protectionist policies, level of domestic investment, low laobur and production cost, political stability and enduring investment climate, international product differentials, cordial supplier relationships, favourable regulatory environments, and financial infrastructural facilities. The principal determinants of FDI are related to the economic and political nature of the host country's economies.

In relation to emerging or developing, economies, the following critical variables have been identified as major determinants of foreign direct investment (i) the size of the domestic market, (ii) inflation, (iii) exchange rate volatility, (iv) interest rate and macroeconomic policies (Pfeffermann and Madarassy, 1992). Their findings indicate that the size of the domestic market and capacity utilization are positively related to• foreign direct investment, while inflation and volatile exchange rates have negative effects on foreign investment High and rising inflation rates heighten fears of rising costs Of imported capital goods and inputs, while an unstable exchange rate also creates foreign exchange risk and uncertain investment climate.

The literature suggest that the dominant influences on FDi are the growth and size of the host country's market while Root and Ahmed (1988) also found statistical relationship between FDI and market demand as measured by per capital GDI of some developing countries. This is because high rates of inflation adversely affect private investment by increasing the risk of longer-term investment projects, reducing the average maturity of commercial lending, and distorting the information content of relative price. Obadan (1994) noted that high inflation rate reduces international competitiveness of exports, foreign exchange earnings and puts pressure on current account and exchange rates. High inflation rates simply indicate macroeconomic instability and a country's inability to control macroeconomic policy, both of which contribute to adverse investment climate. Root and Ahmed (1988) found that political stability was a significant variable in direct investment flows. Wai and Wong (1992), confirmed the importance of government investment, the change in bank credit and capital inflow' to the private sector in determining private investment.

The determinants of investment demand in Nigeria, from 19601975 were traced to the expected rate returns, the supply of funds, absorptive capacity and government policies (Osuagwu; 1983). Obadan (1994) on his .own part confirmed that the importance of market size, trade policies and raw materials are critical determinants of foreign direct investment in Nigeria. In his elaboration, Anyanwu (1998) highlighted the significance of domestic investment, openness. of the economy and indigenisation policy as playing major role in determining the

degree of FDI in Nigeria. Ajakaiye (1997) posited, that the rising bank lending rate profile in 'Nigeria during the 1987-1990 periods was noted to have discouraged productive investment, consequent upon the fact that lower lending rate in the host economy is expected to have an overall effect of higher internal rate of return (IRR) on investment and boost investment inflow. Aremu's (1997) observation has also shown that the host country of FDI provides credit to investors in the form of subsidized loans, loan guarantees as well as guaranteed, export credits. These credits are provided directly to foreign investors for their operations to defray certain costs that may consistently have an immediate impact on liquidity and cash flow. Obadan (1994) .also traced the importance of exchange rate on inflows of foreign private investment and noted that its importance as the centrepiece of the investment derives from the argument that a sustained exchange rate misalignment in terms of over-valuation of under-valuation is a major source of macroeconomic disequilibrium. Consequently, an over-value negatively affects the foreign private investment environment.

The presence of large external debt burden plays a vital role in reducing investment activities. (Front and Krugman, 1990). This is because the higher debt service payments associated with a large external debt reduce the funds available for investment. Secondly, the existence of a large debt overhang in the form of high ratio of external debt to GDP can reduce the incentives for investment, because much of the returns from investment must be used to pay existing debt. Thirdly substantial external debt leads to difficulties in meeting debt service obligation, which may strain relations with external creditors and make it costlier to finance or attract private investment. There exists a confirmation that there is a long-run equilibrium relationship between FDI flow to Nigeria and variables such as credit rating, debt service, interest rate differential, nominal effective exchange rate and real income.

Despite the growing consensus on the importance of attracting foreign direct investment, government still enact policies that have direct and indirect negative effects on the profitability of multinational firms. These risks have led to the development of an industry dedicated to providing insurance covering political risks for multinational operations. Political risk insurers charge premiums for political risk coverage against the confiscation of firms' assets (expropriation risk) restricting the repatriation of profits or other capital transactions (transfer risk) or risks associated with war or civil disturbance (political violence risk).

The U.S government agency that provides investment insurance for US firms researchers at the World Bank's Multilateral Investment Guarantee Agency (M1GA 2004) analyzed political risk insurance claims from 1971-2000. They found that the period between 1971-1980 as investors in emerging markets were exposed to both restrictions on transferring and repatriating funds (transfer risk) and were subject to a number of expropriations. The period of 1981-1990 saw an even larger increase in the number of transfer risks claims and major reductions in the number of expropriation claims. The period of 1996-2000 continued to be a risk time for multinational& where political violence and civil war claims increased dramatically

Although political violence risks have received a tremendous amount of attention recently expropriation risk remains the catastrophic claim that is most damaging for firms. The Organization for Economic Cooperation and Development notes. "disputes on direct expropriation mainly related to nationalization that marked the 70s and 80s have be replaced by disputes related to foreign investment regulation and indirect expropriation" (OECD, 2004).

Issues involving restrictions on capital transfers and civil war related events are more common in terms of the number of claims but expropriation dominates in dollar terms. Of all the dollars paid out by Oversea Private Investment Corporation (OPIC) from 1970-1978, 96% of these claims were for expropriation. From 1991 – 2004, even after the major financial crises that

triggered a number of transfer claims, 84% of the settlement amounts of OPIC claims were for expropriation.

A study in China by Ali and Guo (2005) which examines the likely determinants of FDI by analyzing responses from 22 firms operating in China on what they see as the important motivations for them to undertake FDI. Results show that market size is a major factor for FDI especially for US firms. For local, export-orientated, Asian firms, low labour costs are the main factor. Labour cost is high in a country with low human capital development. Chakrabarti (2001) uses Extreme Bound Analysis (EBA) to examine whether FD1 respond to small change in the conditioning information set from eight variables: market-size, tax, wage, openness, exchange rate, tariff, growth and trade balance. The EBA upholds the robustness of the correlation between FDI and market-size, but indicates that the relation between FDI and tax, wage, openness, exchange rate, tariff, growth, and trade balance is barely sensitive to small alterations in the conditioning information set.

Using a panel dataset of bilateral flows of FDI, Bevan and Estrin (2004) studied the determinants of FDI from Western countries, mainly in the European Union (EU), to Central and Eastern European ones. Their study identified the most important influences to be unit labour costs, gravity factors, market size, and proximity. Interestingly, host country risk proves not to be a significant determinant. Finally, their result also indicates that announcements about EU accession proposals have an impact on FDI for the future member countries.

Also using panel data from 68 low-income and lower-middle income developing countries, Abdul-Mottaleb and Kalirajan (2010) examined the factors that determine FDI inflow to developing countries. Based on a comparative discussion focusing on why some countries are successful in attracting FDI, their study demonstrates that countries with larger GDPs, higher G-DP growth rates, higher proportion of international trade and a more business-friendly environment are more successful in attracting FDI.

Khan and Nawaz (2010) empirically investigated the determinants of FDI in Pakistan. Their analysis identified some economic determinants of NDI in Pakistan, like GDP growth rate, volume of exports, human tariff on imports and price index. Volume of exports emerged the most powerful determinant of FDI. Cuvvers, Soeng, Plasma and Buloke (2011) analyses the determinants of FDI inflow into Cambodia using unbalanced panel data sets for the period 1995-2005, for both approved and realized FDI. Their results show that the determinants of approved and realized FDI are somewhat similar. The FDI home country's GDP, its bilateral trade with the host country and the exchange rate have a positive impact on inward FDI flows into Cambodia. And finally, geographic distance negatively affects the level of FDI inflows in Cambodia.

Abubakar and Abdullahi (2013), reported that there is a positive causality running from market size to FDI, positive causality also exists between inflation and FDI, there also exist a causal relationship running from macroeconomic stability to market size, and finally natural resources also have a positive causal relationship to openness.

It is suggested that one of the main features of a country's attractiveness is financial sector development. It is addressed that external funding of the local and foreign firms is crucial in every country (Atkin and Glen, 1992). Thus, a strong and developed financial system would contribute positively and significantly in the attractiveness of the host country. MNEs could have the opportunity of ensuring low - cost financing via a rational and developed financial system. Al Nasser and Gomez (2009) supported that FDIs is strongly and positively correlated with private credit offered by the host country's banking sector. Korgaonkar (2012) applied data mining techniques of attribute analysis, association and classification in 78 countries for the period 1980 - 2010 and found a positive and significant relationship between various proxies of

financial and banking sector development and FDIs. On the contrary, evidence support that financial sector development could have a negative effect on inward FDI inflows. MNEs originate from developed economies, where financial sector is more developed. According to this theory, positive or negative correlation between FDIs and financial sector development depends on the maturity of the financial system of the host country. In addition, internal finance of the operations of MNEs in other countries is in common practice. Firms in G7 for example is proved to be independent and financed from their own funds (Atkin and Glen, 1992). Hausmanr and Fernandez (2000) also suggested that MNEs tend to promote inward FDIs to countries which have volatile and underdeveloped financial system. The cause of that decision is to avoid unnecessary and avoidable transaction costs with local suppliers. According to Skouloudakis and Tampakoudis (2003), financial sector development could have a negative effect on inward FDIs on another aspect. An integrated financial system is secured by providing liquidity insurance. This type of security covers the financial system of financial crises but decreases the liquidity of the market. In other words, an integrated financial system offers limited availability of capital which is negative associated with inward FDIs.

Inflation is also considered as an important and traditional determinant of FDIs. It reflects the consumption rates of an economy but also the potential instability of the political and economic environment of the country. In the earliest case, high consumption rates promote economies of scale, leading to a massive decrease of the production costs and maximizing profits. As Tabsoba (2012) suggests, inflation has a positive and significant effect on inward FDIs in emerging economies and used as a pull factor in attracting inward FDIs. On the contrary, it is suggested that high inflation rates, which are usually caused by economic and political instability, have a negative effect on inward FDIs. In this case, MNEs, which prefer to promote long - term investments to more stable countries, a negatively affected by high inflation rates. Ahn et al. (1998) suggested that countries which did not succeed in reducing inflation rates in moderate levels, tended to be unattractive to MNEs for long - term investments.

Trade openness is also a significant determinant of FDIs but its effect on inward FDIs is inconclusive due to the various trade agreements reduction of tariffs promoted from different sets of countries. Trade. openness represents the easiness the country allows exports and imports of goods and services. It is suggested that MNEs which tend to locate their production activities in a host country and export their goods to other neighbor economies would be positive affected by increased openness of the host economy. Seim (2009) supports that market - seeking and efficiency - seeking FDIs are positive affected by greater degree of openness of the host country. Biglaiser and deRouen (2006) also found a positive relationship between openness and inward FDIs in Latin America. But the significance of openness on the dependent variable was found to be very low. Ponce (2006), on the other hand, found that trade openness has a positive and significant effect on inward FDIs in 17 countries of Latin America by using a panel data model with feasible generalized least squares estimators.

The existence of natural assets in a country could be beneficial in attracting inward FDIs under certain circumstances. Natural recourses are thought to be one of the most significant inputs especially in manufacturing industries. Low-cost recourses can be a significant asset for certain economies in attracting inward FDIs. Asiedu (2006) suggests that African countries with high levels of under soil endowments attract inward FDIs. Kinoshita and Campos (2003) also found that abundance of natural recourses is one of the most significant explanatory variables in attracting inward FDIs in transition economies. However, Poelhekke et al. (2010) suggests that natural recourses are significantly related only to recourse - seeking FDIs which tend to export the subsoil assets of the host country, effecting negatively the promotion of other kinds of FDIs.

Moreover, countries with rich recourse endowments lack of democracy and transparency which are negatively related with all types of inward FDIs. It is supported that lack of macroeconomic stability discourages MNEs to promote long term investments in countries with high recourse endowments (Miambo and Oshikova, 2001).

Skouloudakis and Tampakoudis (2013) claimed that market size and development is also a determinant whose effect on inward FDIs is still under research but most of the researchers conclude that inward FDIs are positively affected by economic growth. Large markets and high GDP growth can promote high consumption rates which could maximize production and minimize costs through economies of scale. Basu et al. (2003) suggest that there is a positive and significant relationship between inward FDIs and economic growth in 23 developing countries. Culem (1986) also proved that inward FDIs from United Stated to EEC countries are positively significant related to GDP growth.

Another important determinant of inward FDIs is infrastructure in the host economy. It is believed that high quality of infrastructure (roads, telephone lines, internet connection) can minimize transportation and communication costs and could be a strong incentive for MNEs to promote inward FDIs. Cheng and Kwan (2000) used three different proxies in order to capture the effect of infrastructure on inward FDIs in China and by using a dynamic panel regression analysis; they proved that there is a positive relationship between inward FDIs and infrastructure. Bartlett and Ghoshal (1998) also suggested that MNEs depend on high quality of telecommunication which enables them to share information globally. Kok and Arsoy (2009) also proved that infrastructure is the most significant determinant of inward FDIs in emerging countries. However, Fung et al. (2005) suggested that infrastructure is less important than economic reforms in attracting inward FDIs in China. In this study it is proved that the economic reforms in China helped to boost inward FDIs whereas infrastructure was not significant.

Health, viewed as a form of human capital, could affect foreign direct investment (FDI) through several mechanisms. The World Health Organization's Commission on Macroeconomics and Health (2001) as cited by Alsan, Bloom and Canning (2004), suggests that a healthy workforce is important when attracting foreign direct investment due to the effect of health on worker productivity. In addition, for fear of endangering their own health and that of their expatriate staff, foreign investors may shun areas where disease is rampant and where access to health care is limited. A classic instance of disease interfering with investment was during the building of the Panama Canal. Yellow fever and other pathogens claimed the lives of 0,000 to 20,000 workers between 1882 and 1888, forcing Ferdinand de Lesseps and the French to abandon the construction project (Jones, 1990). More recently, the outbreak of Severe Acute Respiratory Syndrome (SARS) has exemplified how disease, or even the fear of disease, can dampen investment: FDI inflows into mainland China declined by US$2.7 billion during 2003 (Business Daily Update, 2003). Similarly, FDI inflows to Hong Kong fell 62% in one quarter (Tarn, 2003), These trends quickly reversed once the outbreak was controlled, but they suggest that lengthier epidemics, such as HIV/AIDS or malaria, could have severe, long-term effects on FDI (Alsan, Bloom and Canning, 2004).

Asiedu (2006) in her study on the determinants of FDI to Africa, revealed that large local markets, natural resources endowments, good infrastructure, low inflation, an efficient legal system and a good investment framework promote FDI. In contrast, corruption and political instability have the opposite effect. These findings are consistent with the reports of multinational companies that operate in the region.

Methodology and Analysis

The data used for this study were gathered from publications of relevant government agencies such as the Central Bank of Nigeria statistical bulletin of various editions and the World Development Indicators of World Bank Group. Being a panel data research, the population consisted of the documents used and the variables under-study that is Foreign Direct Investment and its determinants, while the study sample covers the period of 1999 – 2012.

In testing the data generated for the study, the multiple regression analysis was used, which was computed with the aid of the Statistical Package for Social Sciences (SPSS) version 16.

The model specification for this study is as shown below

$FDI = f[a_o + b_1 MKTS + b_2 INF + b_3 INFRA + b_4 DOCRE + b_5 EXCH + b_6 HUCA + b_7 POH + b_8 COP + b_9 POR + b_{10} LES + b_{11} OPE + b_{12} NAS + \ldots\ldots\mu i]$

Where FDI = Foreign Direct Investment (Gross)

NKTS = Market Size (measured as GDP at current basic prices)

INF = Inflation rate

INFRA = Infrastructure (measured as % internet users per 100 population)

DOCRE = Domestic credit (measured as % of GDP)

EXCH = Exchange rate

HUCA = Human capital (measured as % of education expenditure to GDP)

POH = Population health (measured as % of health expenditure to GDP)

COP = Corruption (measured by perception index)

POR = Political Risk (measured by perception index)

LES = Legal System (measured by perception index)

OPE = Trade Openness (measured as % of trade to GDP)

NAS = Natural Assets (measured as value of oil exports)

The result of our data analysis is as presented in table I below:

		FDI	GDP	INF	INFRA	DOCRE	EXCH	HUCA	POH	COP	POR	LES	OPE	NAS
Pearson Correlation	FDI	1.000	0.883 (0.000)	-0.121 (0.340)	0.844 (0.000)	0.779 (0.001)	0.711 (0.002)	-0.743 (0.001)	0.357 (0.105)	-0.927 (0.000)	-0.616 (0.009)	0.494 (0.036)	-0.491 (0.037)	0.871 (0.000)
	GDP	0.883 (0.000)	1.000	-0.063 (0.415)	0.967 (0.000)	0.570 (0.017)	0.846 (0.000)	-0.669 (0.004)	0.202 (0.245)	-0.884 (0.000)	-0.635 (0.007)	0.387 (0.086)	-0.767 (0.001)	0.817 (0.000)
	INF	-0.121 (0.340)	-0.063 (0.415)	1.000	-0.050 (0.433)	-0.106 (0.359)	0.250 (0.194)	0.161 (0.291)	0.072 (0.404)	-0.225 (0.219)	-0.035 (0.453)	0.144 (0.312)	0.077 (0.396)	-0.032 (0.457)
	INFRA	0.844 (0.000)	0.967 (0.000)	-0.050 (0.433)	1.000	0.612 (0.010)	0.793 (0.000)	-0.588 (0.013)	0.085 (0.386)	0.836 (0.000)	-0.492 (0.035)	0.252 (0.192)	-0.795 (0.000)	0.705 (0.002)
	DOCRE	0.779 (0.001)	0.570 (0.017)	-0.106 (0.359)	0.612 (0.010)	1.000	0.401 (0.078)	-0.467 (0.046)	0.372 (0.095)	0.705 (0.002)	-0.327 (0.127)	0.268 (0.177)	-0.218 (0.2	0.602 (0.011)

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EXCH	0.711 (0.002)	0.846 (0.000)	0.250 (0.194)	0.793 (0.000)	0.401 (0.078)	1.000	-0.537 (0.024)	0.308 (0.142)	0.664 (0.005)	-0.759 (0.001)	0.517 (0.029)	-0.758 (0.001)	0.718 (0.002)
HUCA	-0.730 (0.001)	-669 (0.004)	0.161 (0.291)	-0.588 (0.013)	-0.467 (0.046)	-0.537 (0.024)	1.000	-0.214 (0.231)	-0.849 (0.000)	0.405 (0.076)	-0.465 (0.047)	0.484 (0.040)	-0.696 (0.003)
POH	0.357 (0.105)	0.202 (0.245)	0.072 (0.404)	0.085 (0.386)	0.372 (0.095)	0.308 (0.142)	-0.214 (0.231)	1.000	0.335 (0.121)	-0.302 (0.132)	0.598 (0.012)	0.245 (0.199)	0.324 (0.129)
COP	-0.927 (0.000)	0.884 (0.000)	-0.225 (0.219)	0.836 (0.000)	0.705 (0.002)	0.664 (0.005)	-0.849 (0.000)	0.335 (0.121)	1.000	-0.579 (0.015)	0.493 (0.037)	-0.560 (0.019)	0.832 (0.000)
POR	-0.616 (0.009)	-0.635 (0.007)	-0.035 (0.453)	-0.497 (0.035)	-0.327 (0.127)	-0.759 (0.001)	0.405 (0.076)	-0.320 (0.132)	-0.579 (0.015)	1.000	-0.670 (0.004)	0.476 (0.043)	-0.740 (0.001)
LES	0.494 (0.036)	0.387 (0.086)	0.144 (0.312)	0.252 (0.0192)	0.268 (0.177)	0.517 (0.029)	-0.465 (0.047)	0.598 (0.012)	0.493 (0.037)	-0.670 (0.004)	1.000	-0.074 (0.401)	0.571 (0.017)
OPE	-0.491 (0.037)	-0.767 (0.001)	0.077 (0.396)	-0.795 (0.000)	-0.218 (0.227)	-0.758 (0.001)	0.484 (0.040)	0.245 (0.199)	-0.560 (0.019)	0.476 (0.043)	-0.074 (0.401)	1.000	-0.451 (0.053)
NAS	0.871 (0.000)	0.817 (0.000)	-0.032 (0.457)	0.705 (0.002)	0.602 (0.011)	0.718 (0.002)	-0.696 (0.003)	0.324 (0.129)	-0.832 (0.000)	-0.740 (0.001)	0.571 (0.017)	-0.451 (0.053)	1.000

Source;SPSS Version 16 Window Output

Table 1:   **Correlation Matrix**

Note: The values in parenthesis represent the level of significance

Discussion of Findings

With due consideration to the data presented in table I, we opt to highlight and amplify the research findings. It was observed that the relationship between FDI and market size revealed a correlation coefficient of 0.883 with 0.000 level of significance for a one-tailed test. This suggests a significant relationship between FDI and market size. This result agrees with Abubakar and Abdullahi (2013), Ali and Guo (2005), and Bevan and Estrin (2004), who reported in their various research that market size is a major determinant of FDI. It was also gathered in this study that inflation has a negative and insignificant impact on FDI, as it reveals a correlation coefficient of -0.121 and 0.340 level of significance. This result seems not to be in alignment with Tabsoba (2012) who suggests that inflation has a positive and significant effect on inward FDI in emerging economies. Regarding the effect of infrastructure on FDI, the result indicating 0.844 and 0.000 suggests a significant relationship. This agrees with Abubakar and Abdullahi (2013,

Kok and Arsoy (2009) and Cheng and Kwan (2010). The result of their study shows that infrastructure in the host country has a positive relationship with FDI.

Furthermore, this study shows that domestic credits offers have a significant relationship with FDI, as the analysis indicated 0.779 and 0.001 of correlation coefficient and level of significance respectively. This agrees with Al Nasser and Gomez (2009) who affirmed that FDI is strongly correlated with private credit offered. The link between exchange rate and FDI revealed a correlation coefficient of 0.711 and 0.002 level of significance, which indicates a significant relationship. The work of Chakrabarti (2000) supported this finding. On the part of human capital development as a determinant of FDI, this study shows a negative significant association between FDI and human capital development as the analysis revealed -0.730 and 0.001. this is due to the fact that human capital development in Nigeria is still at a very low abb. Khan and Nawaz (2010) led support to this result.

In this study the association between population health and FDI (0.357 and 0.105) appears to be positive but insignificant. This is in concordance with Alsan et al (2004) who reported that a healthy workforce is important when attracting foreign direct investment. More so, it was revealed in this study that FDI is strongly related with corruption. The link revealed a correlation co-efficient of -0.927 and 0.000 level of significance. As the level of corruption increases, FDi will decrease. Asiedu (2006) in her study supported this finding when he revealed that corruption has a negative effect on FDI.

Regarding the effect of political risk on FDI, our study revealed a correlation co-efficient of -0.616 and 0.009 level of significance. This suggests a negative significant effect of political risk on FDI. MIGA (2004), Isenmila and Okoye (2005) and Asiedu (2006) confirmed that political instability hinders FDI. Similarly the effect of reliability of the legal system on FDI shows a moderate but insignificant relationship with values of 0.494 and 0.036. Asiedu (2006) also supported this finding.

It was equally observed fro the result of our analysis that trade openness has a negative insignificant effect on FDI. This finding fails to agree with Biglaiser and DeRouen (2006) and Ponce (2006) who reported a positive relationship between trade openness and FDI. Finally, regarding the effect of natural assets on FDI, the result indicating 0.871 and 0.000 suggests a significant relationship. This is in line with several previous studies such as Abubakar and Abdullahi (2013), Poelhekke et al (2010), Asiedu (2006) and Kinoshita and Campos (2003) who are all of the view that natural assets endowment attracts FDI.

Conclusion and Recommendations

It was gathered in this study that market size, natural assets, infrastructure, domestic credit, exchange rate, legal system, and population health have a positive relationship with FDI; while corruption, human capital development, political risk and trade openness have a negative relationship with FDI in Nigeria. It was observed that while corruption serves as the most dis-incentive factor for foreign direct investment in a democratic society, market size is the strongest means of attracting FDI. Based on the above, it was recommended that the Nigerian government should provide the necessary incentives for investments and production activities as well as creating an enabling environment for substantial growth in GDP.

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APPENDIX
DATA SET

Year	FDI	GDP(₦, m)	INF	INFRA	DOCRE	EXCH	HUCA	POH	COP	POS	LES	OPE	NAS
1999	1004.9	3194	6.6	0.0	13.5	92.7	3.96	5.4	1.6	24.5	4.0	64.2	100.7
2000	1140.1	4582	6.9	0.1	12.4	102.1	14.75	4.6	1.2	8.7	5.0	63.9	614.0
2001	1193.6	4725	18.9	0.1	16.6	111.9	12.64	5.2	1.0	16.6	4.0	68.3	947.2
2002	1874.0	4912	12.9	0.3	13.0	121.0	1.58	3.9	1.6	7.2	5.0	47.1	934.3
2003	2005.4	8487	14.0	0.6	13.8	129.4	9.36	6.5	1.4	5.8	4.8	60.9	996.3
2004	1874.0	11411	15.0	1.3	13.1	135.5	8.23	7.0	1.6	4.8	6.0	57.7	998.4
2005	4982.5	14572	17.9	3.5	13.2	132.1	0.82	6.6	1.9	6.3	7.0	68.9	148.4
2006	4854.4	18565	8.2	5.5	12.2	128.7	0.89	5.9	2.2	2.9	5.3	57.8	2074.2
2007	6034.9	20657	5.4	6.8	25.2	125.8	0.88	7.0	2.7	3.9	6.0	60.5	1851.0
2008	8196.6	24296	11.6	5.9	33.8	118.6	0.83	6.3	2.7	5.3	5.5	64.6	1807.9
2009	8544.8	24794	11.5	20.0	38.5	148.9	0.70	6.8	2.5	4.3	6.0	52.3	1911.0
2010	6048.6	33985	13.7	24.0	24.8	150.3	0.58	5.4	2.4	3.3	5.3	40.4	1856.6
2011	8841.9	37330	10.1	28.0	20.9	154.7	0.53	5.3	2.7	3.3	5.3	37.9	1858.5
2012	7101.0	40544	12.2	32.9	20.9	157.3	0.47	5.8	2.7	3.3	5.8	33.6	1875.4

Source: CBN Statistical Bulletin and World Development Indicators of World Bank