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Foreign Direct Investments and Insurgency: Implications for Sustainable Economic Development (20011-2018)

DR. EMMANUEL, Tile Aime[1]
Akawe Torkula Polytechnic, Makurdi | tileaime@gmail.com | 08032454779
MRS. M-EMBER Gernah[2]
Department of Sociology,
Akawe Torkula Polytechnic, Makurdi
08064013941

Abstract: *The paper investigates the casual relationship between Boko-Haram insurgency and foreign direct investments in Nigeria. The ordinary least squares techniques were used on time series data from 20011-2018. The result showed that insurgency has a significant negative impact on foreign direct investments. The results imply that the insurgency negatively impact human development index in the country especially the period under review. The study however reveals that despite the empirical negative relationship between foreign direct investment and insurgency a positive outcomecan be achieved. The study therefore, recommends that government should minimize the wide income gap between the poor and the rich which is generated through corruption, nepotism, tribal sentiments, favoritism and operate a merit driven system in the economy. Moreover the prominent religious group in the country should learn to live in harmony to pave way for peace and sustainable economic development.*

Key words: *Forenign direct investments, insurgency, sustainable economic development.*

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1.0 INTRODUCTION

The world commission on environment and development described sustainable development as "meeting the needs of the present generation without compromising the needs of the future generation". Economic development must be sustainable which means that it should keep going. That is, the creation of sustainable improvements in the quality of life for all people as the principal goal of development policy Jhingan, (1997). Sustainable development according toworld development report 1997-2000has many objectives which apart from increasing economic growth and meeting basic needs, the aim of lifting living standards include: better people's health and educational opportunities, giving everybody the chance to participatein public life freely, helping to ensure a clean environment, promoting intergenerational equity amongst others (Pearce, Barbier, and Markandaya, 1990).

In an attempt to pursuepolicies for sustainable development, Government adopted certain measures like; reducing poverty, removing subsides, market based approaches, regulatory policies, economic incentives, trade policy among others. Effort is geared toward the provision of employment opportunities to the poor expansion of health and family planning series and education. Trade policy also offers international trade liberalization where many are of the opinion that it ushers negative environmental externalities with environmental gains. Externalities should be optimized and to insist on the foreign companies to transfer technology.

It is on the basis of the forgoing that foreign direct investment (FDI) is increasing investments rapidly at an extraordinary speed to bailout national economies of the third world countries by the industrialized countries of Western Europe and America, which begin making Africa different (Asiedu, 2002). The United Nations Conference on Trade and Development (UNCTAD) (2007) reports that FDI flow to Africa has increased greatly from 89.68mmillion in 2000 to 81.3 trillion in 2006. This is the new destination of FDI in Africa and Nigeria essentially. FDI inflows to Nigeria between 2000 to 2010 followed positive business environment in African region backed by reform framework for FDI. Many African countries have reformed their economic policies, investment laws, financial systems and as well as market sizes in terms of purchasing power because of large population.

The prevailing Nigerian population offers social, political, ethnic, legal and moreover constitutional problems which bedevil the nation in varying degrees. Prominent among these problems is terrorism and insurgency. It became so rampant in Nigeria in the year 2010 where attacks in the form of bombings of religious and many centers has been on the increasing rate. Insurgency the major concern under review aim at intimidating, frustrating and to raise the feeling of uncertainty imminent danger and the loss of hope tarnished economic activity of the people, moreoverhampered all aspect of human activity and normal livelihoods (Musdapher, 2012).

Many studies mainly exploratory were carriedout on FDI and also on insurgency. However, these studies could not empirically study the relationship of the FDI and insurgency on economic development in Nigeria. Few made an attempt to carry out empirical studies on FDI, noneof these studies to the best of my literature review used causality econometric test to find the relationship between the variables. The study wishes to find out the causal relationship between insurgencyand FDI. Moreover the impact FDI have on the economic development.

In the light of foregoing, thepaper hypothesized as follows:

Ho_1 there is no casual relationship between insurgency and FDI.

Ho_2 FDI does not have a direct bearing on economic development.

Ho_3 interest rate has no relationship with FDI

Ho_4 the degree of openness is not related to FDI

2.0 REVIEW OF LITERATURE

2.1 Theoretical Review

With reduction in oil prices in recent times, it became apparent that alternative sources of development financing must be sought along with official development assistance currently injected into the economy. Poverty, disease, youth unemployment, income inequality and illiteracy have persisted. It is argued that it is necessary to augment domestic savings by encouraging FDI inflow which will lead to improvement in the balance of payment, in technology, employment, foreign exchange earnings, and decrease in import bills. This is to say that FDI is seen as a driver of development by providing resources for advancement and transformation.

Kojima (1978) studied the theory of comparative advantage, where trade-oriented and anti-trade oriented models of investment decision- making is subject to the comparative production cost and profits. He used different terms to explain the models and argued that FDI works either as a compliment to or a substitute to foreign trade. Some theories that explain the existence and growth of FDI globally include;

1. The neo-classical theory of economic growth
2. The investment theory (the two gap model)
3. The product cycle theory
4. The location theory/eclectic theory
5. V. The integrative theory

According to neo-classical theory, all development is dependent on use of land, labour and capital. Since LDCs have underutilized land and labour, low savings rate, productivity of capital is likely to be greater here. The theory assume that interdependence between countries benefited the developing countries, more than the developed ones. This is based on assumption that capital will normally flow from rich to poor areas where the returns on capital investments will be highest, helping to bring about a transformation of the backward economies.

The theory predicts that poor nations grow faster because of diminishing returns on capital and that poor countries would converge with richer ones over time because of their higher capacity for absorbing capital.In reality, empirical evidence has shown that divergence has been the case; the gap between the rich and poor has continued to increase, and the volume of capital flow to the poorer countries relative to richer ones has continued to be low.

Critics of this theory argue that FDI is associated with commune investment, income inequality and high external dependency. The argument regarding the potential harmful impact of FDI on growth point to the importance of certain conditions to ensure that the negative effects do not outweigh the positive ones. The consensus seems to be that there is positive association between FDI inflow and growth, provided the enabling environment is created. Given the fact that growth is associated with increased productivity, FDI inflow is well suited to affect growth positively (Dunning, 1993).

The investment theory model is adapted from the Harrod-Domar's growth model which differentiates two gaps in any economy, namely the foreign exchange and the domestic savings gaps. The former is the amount by which imports required for a given output exceeds exports likely to be associated with the output whereas the later is the difference between the investment necessary for a given flow of goods and services and the savings that will be forthcoming given those incomes.

The model recognizes deficiency in demand in the domestic economy and the need for stimulating this demand from external sources. The theory justifies the need for developing and transitional economies, deficient in domestic savings to look outwards for investment in their quest f1or economic growth and development.

The product circle theory was developed by Vernon (1974) to explain how a firm becomes an MNC at a stage in its life and suggest that growth is needed to fill the gap in foreign trade. He argued that in the early stage of the development of a product, production will take place in the home country for whose market it was intended.This is because producers require continuous feedback from consumers and their suppliers to continue being relevant in business. Because countries are at different stages of development, new markets are readily available to receive fresh products through the demonstration effect of richer countries.

At this stage, expansion into overseas markets can only be by exports. After the product becomes standardized and has gained acceptance, other countries may offer relative cost advantages so that production gradually shifts to these countries. It is possible to then export from overseas outlet back to the country that originally invented the product. There are many examples of products that have followed this cycle, and presently, Japan and other Asian countries are major exporters of electronic appliances originally invented in USA and Europe.

Among FDI theories, Dunning (1977), synthesizes the explanations and suggest that three conditions are required to motivate a firm to undertake FDI. This has become known as the Ownership, Location and Internationalization (OLI) paradigm. He explained his approach and propounded an electric theory based on theories of industrial organization of location and the firm. The proposition is that the ability of the country to engage in international production depends on ownership specific advantages possessed, incentives to internalize rather than externalize these advantages and the interest of the enterprise in exploiting these advantages in a foreign location.

The integrative theory accounts for the multiplicity of heterogeneous variables involved in the FDI process.The theory approaches contemporary thinking on FDI by analyzing it from the perspectives of the host countries as well as investors. Dopfer, (2006) applied the model to account for the causes of FDI and its treatment by host countries. Having to face development challenges after the end of the cold war brought the development community to realize that neither the developed nor the developing world is monolithic. Each problem must be evaluated on its own terms, although it is possible to derive lessons from similar Process.

2.2 The Empirical Review

The Attempts shall be made to discuss the view of different writers and scholars on the effect of FDI both positively and negatively in the developing countries generally and Nigeria in particular. FDI is often seen as an important catalyst for economic development in the developing countries because it affects the economic growth by stimulating domestic investment, increase in capital formation and also, facilitating the technology transfer in the host countries. (Falki, 2009). Aremu (2003) observes that foreign firms can raise the level of capital formation, promote exports and generate foreign exchange. Indeed, the role of FDI in capital formation in Nigeria has been increasing over the years.

According to Todaro (1994); the primary factors which stimulate economic growth are investments that improve the quality of existing physical and human resources, that increase the quantity of these same productive resources and that raise the productivity of all or specific resources through invention, innovation and technological progress. FDI is regarded to have made meaningful contributions to GDP growth rates and it is also seen as a vital tool for economic progress. It is widely believed that economic growth depends critically on several factors. Notably it must be said that economic growth is reliant on both domestic and foreign investments (Andenyangtso, 2005). Equally, economic growth is the basic determinant of the rate of inflow of foreign direct investment in the country. Fabayo (2003), and Aremu (2005), attempt to establish a better relationship between investment and growth in Nigeria. However, empirical studies of the impact of FDI on growth are concerned with either the overall effect on growth (or net welfare) or with specific aspects of the FDI impact on employment, technology, trade, entrepreneurship and other areas of the economy, such as, infrastructures, education and health. Thus, the impact of FDI on economic growth remains unclear. FDI stimulates product diversification through investments into new businesses, stimulates employment generation, increase wages and accelerate declining market sectors of the host economies (Aremu, 2003).

According to Ariyo (1998); the impact of FDI on Nigeria's economic growth and discovered that only domestic investment contributed to raising GDP growth rates during the period 1970-1995. Adelegan (2000) also explored the seemingly unrelated regression model to examine the impact of FDI on economic growth in Nigeria and discovered that FDI is pro-consumption and pro-import and negatively related to gross domestic investment. His result was based on the fact that, there is no positive relationship between FDI and GDP in the country while some authors found some meaningful relationships between them. Unlike Osaghale and Amenkhieman (1987) in their research conducted to determine whether foreign capital inflows, oil revenues and foreign borrowing had any positive impact on the economic growth of Nigeria. They found out that there was increment in Nigeria's revenue from oil export between 1970 and 1982 and that there was a substantial growth in her total foreign debts and FDI. The result of the investigation made it known that there was a positive relationship between FDI and Gross Domestic Product (GDP). And the conclusion of the study was of the view that the economy would perform better with greater inflow of FDI; and it also recommended that less developed countries (LDCs) should create more conducive environments for FDI. Akinlo (2004) found out from his study that foreign capital has a small and statistically insignificant effect on economic growth in Nigeria. His own result was of the negative effect of FDI on the economic growth of the country. Amadi (2002) examined the impact of the macroeconomic environment on foreign direct investment in Nigeria using the ordinary least square regression technique for the period 1970-1997. In his findings, while some macroeconomic variables such as GDP per capita, interest rate and exchange rate had significant and very strong influence on FDI, others variables like inflation rate, unemployment record had weak relationship with FDI. The conclusion of the study was of the view that macroeconomic environment plays a vital role in determining the volume of FDI inflows.

There are many professionals who have argued that foreign direct investment (FDI) is capable of accelerating the process of economic growth of a developing country (Obiwona, 2001). Research has shown that most developing countries including Nigeria have not appreciably exploited Foreign Direct Investment (FDI) as a source of external financing of the economy due to a non-conducive investment climate and the attitude of the host nations (Asiedu, 2002; Balasubramanyam, 2001). Edozien (1968) stresses the linkages generated by foreign investment and its impact on the economic growth of Nigeria. He contends that FDI induces the inflow of capital, technical know-how and managerial capacity which accelerate the pace of economic growth. He also observed the pains and uncertainties that come with FDI. Specifically, he noted that foreign investment could be counter- productive if the linkages it spurs are neither needed nor affordable by the host country; and concluded that a good test of the impact of FDI on Nigeria's economic growth is how rapidly and effectively it fosters, innovates or modernizes local enterprises.

The effect of Foreign Direct Investment (FDI) has been recognized having positive relationship with growth-enhancing factor in the developing countries according to some authors. Falki (2009), emphasizing on the effects and advantages of FDI to the host economy, noted that the effects of FDI on the host economy are normally believed to be: increase in employment, augmenting the productivity, boost in exports and amplified pace of transfer of technology. The potential advantages of the FDI to the host economy are: it facilitates the utilization and exploitation of local raw materials, introduces modern techniques of management and marketing, eases the access to new technologies, foreign inflows can be used for financing current account deficits, finance inflows form FDI do not generate repayment of principal or interests (as opposed to external debt) and increases the stock of human capital via on-the-job training.

Some empirical evidence has shown that foreign direct investment responds to economic fundamentals, official policies and financial market practices (Dinda, 2009). Among the benefits that are said to be associated with the inflow of properly utilized FDI is the assistance it offers developing counties to acquire advanced technology and critical managerial skills which can increase local productivity, create additional jobs, lower production costs and provide workers with higher wages (Cohen, 2007). In addition, it has been argued that FDI helps developing countries in supplementing their domestic savings by making available capital from overseas, which is very important because domestic capital markets in such countries are usually inadequate for the financing of the corporate sector (Adeoye, 2009). It is further argued that FDI helps developing countries to gain access to foreign markets for goods and services for the people of the recipient country (Obiwona, 2001). The realization of the importance of FDI had informed the radical and pragmatic economic reforms introduced since the mid-1980s by theNigerian government. The reforms were designed to increase the attractiveness of Nigeria's investment opportunities and foster the growing confidence in the economy so as to encourage foreign investors to invest in the economy.(Ojo,1998).

Romer (1993) argues that idea gaps exist between the rich and poor countries and foreign investment can ease the transfer of technology and business understanding of the poorer countries. Boyd and Smith (1992) however argued to the contrary. According to them, FDI can affect resource allocation and growth negatively where there is price distortion, financial, trade and other forms of distortions existing prior to FDI injections. Wheeler and Mody (1992) also supports the view of Boyd and Smith (1992).

Ugochukwu, Okore and Onoh (2013) highlighted three advantages of FDI in the economy. Firstly, they believe that FDI brings crucial western knowledge and value in the form of superior Western management qualities, business ethics, entrepreneurial attitudes, better labour/capital ratio, and production techniques. Secondly, FDI makes possible industrial grading by tying firms of developing countries hosting TNCs affiliates into global research and development (R&D) networks, and thus resulting in technology transfer as well as providing a greater deal of investment fund (Fisher and Gelb 1991). Thirdly, FDI leads to the growth of enterprises by providing access to Western markets. This growth in turn provides a source of new jobs and stimulates demand for input from domestic suppliers. And so, FDI introduces new market entrant beyond the domestic economies hosting TNCs affiliates (Apter, 1965). In contrast to this submission by the pro-foreign investment school, the dependency theory advocates see FDI as the advanced guard for a new diplomacy of economic imperialism (Hejidra, 2002). To them, foreign investors' penetration into a host economy would result in disarticulated development.

The various effect of FDI in the country has always been topical issues to different authors. Many suggested the positive aspects of FDI and some are of critical criticism of its operation in the country. Attempts shall be made to discuss the view of different writers and scholars on the effect of FDI both positively and negatively in the developing countries generally andNigeria, in particular. Foreign Direct Investment (FDI) is often seen as an important catalyst for economic growth in the developing countries because it affects the economic growth by stimulating domestic investment, increase in capital formation and also, facilitating the technology transfer in the host countries. (Falki, 2009). Aremu (2003) observes that foreign firms can raise the level of capital formation, promote exports and generate foreign exchange. Indeed, the role of FDI in capital formation in Nigeria has been increasing over the years.

3.0 METHODOLOGY

This study used a common method of data analysis that is simple for all to understand. This was based on the objectives and hypothesis of the study that the method of study was developed. The study employed secondary data that was collected from Central Bank of Nigeria's (CBN)statistical bulletin, National bureau of statistics; statistical fact sheets CBN's National reports, National Dailies, www.economywatch.com, and so on. The data covers the period of 8 years (2011-2018) intensive activities of insurgency in Nigeria. In the light of forgoing econometric and statistical method of data analysis was adopted. Multiple regressionswere used as a method of data analysis. Data series sourced and used for this study include: forgoing direct investment (FDI), Insurgency (INS), Human development Index (HDI), Interest rate (INR), Degree of openness (DOP).

3.1 MODEL SPECIFICATION

Formulating the method for the study, we consider the theoretical framework and empirical verification, taken note of the nature of the Nigeria environment. FDI is the dependent variable, while insurgency was proxy by the number of attacks and casualties involved. HDI was used for proxy economic development. The model is representedin the functional form thus:

FDI=f(HDI+INS+INT+DOP+è)---(i)

The model is developed based on the work of Offiong and Ahmed (2014). The model can be optimized in a log-linear econometric construct to get held ofthe co-efficient of the variables, while lessening the probable effect that any outlier may have thus:

$LogFDI = a_0 + \beta_1 \log INS_t + \beta_2 \log HDI_t + \beta_3 \log INT_t + \beta_4 \log DOP_t + \mu_t$ …………..(ii)

where:
Log=Natural logarithm
FDI=Foreign Direct Investment.
INS=Insurgency
HDI=Human Development Index
INT=Interest Rate
DOP=Degree of Openness
μ=Error term.
a_0=Is a constant

3.2 APRIORI EXPECTATION

It is the supposed relationship between the dependent and independent variables. Like in this study it was expected that FDI would have a relationship with insurgency and other economic variables like interest rate, human development index and the degree of openness. The activities of insurgency attacks will have an adverse effect on FDI. Whereas favorable interest rate, trade openness will favour FDI which invariably enhancehuman development, as that can be exhibited through high degree of HDI.

4.0 DATA PRESENTATION

4.1 Results and Discussion

The least squares regression analysiswas conducted to examine the relationship between the dependent variable (FDI) and various predictors: INS, HDI, INT, and DOP. Considering the relevance of the study it is necessary to re-estimate our hypotheses-test model using logistic regression (logit). It is a standard statistical procedure that converts non-linear relationship between a dichotomized dependent and independent variables into linear by taking the log of old ratio in favour of the probability that the dependent variable is predicted as expected and then compute the maximum likelihood of such happenings. The estimation and analysis of the least square was done using the SPSS version 20 computer software.The results of the data were presented below:

Table I: Ordinary Least SquareEstimates.

Dependent Variable: LNFDI
Method: Least Squares
Date: 11/25/16 Time: 10:07
Sample: 2009 2016
Included observations: 8

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNNOA	-1.207448	0.492316	-2.452587	0.0392
LNCST	-0.663738	5.281985	-0.125661	0.9115
LNHDI	25.11230	68.89771	0.364487	0.7504
LNINT	-26.47500	45.24677	-0.585125	0.6177
LNDOP	-72.20673	232.7565	-0.310224	0.7857
C	384.4213	1123.387	0.342198	0.7648

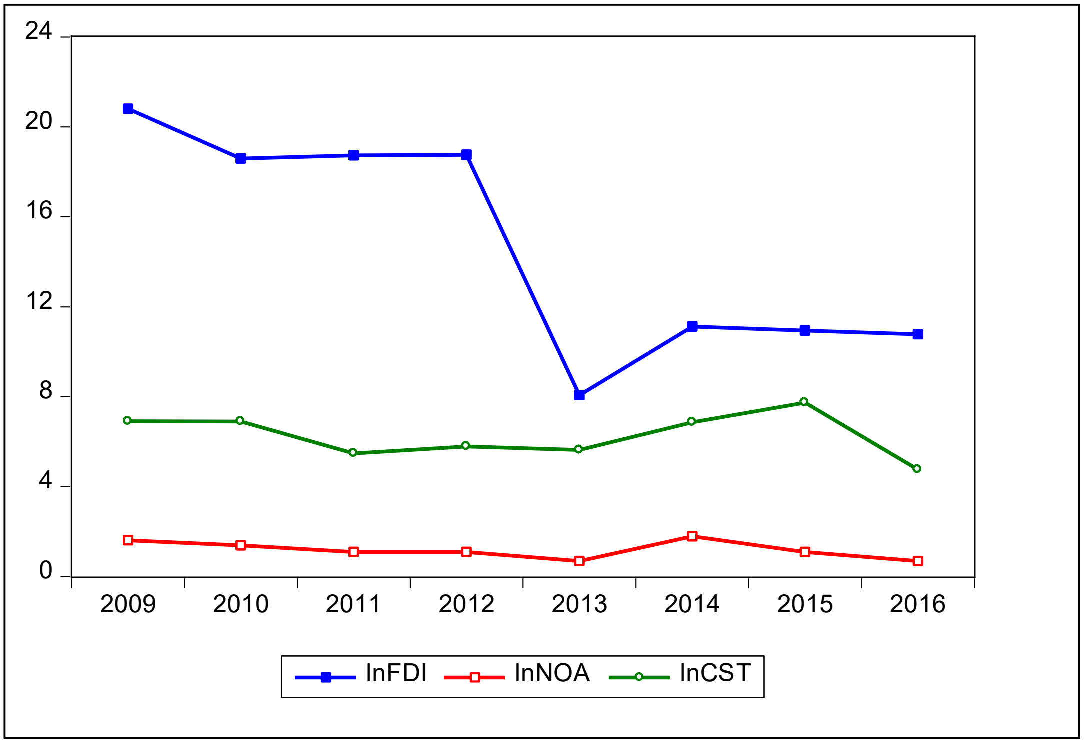
R-squared	0.882945	Mean dependent var	14.72313
Adjusted R-squared	0.759692	S.D. dependent var	4.947707
S.E. of regression	5.977707	Akaike info criterion	6.527657
Sum squared resid	71.46597	Schwarz criterion	6.587238
Log likelihood	-20.11063	Hannan-Quinn criter.	6.125806
F-statistic	11.55911	Durbin-Watson stat	1.868365
Prob(F-statistic)	0.000005		

The table provides the coefficient of determination (R^2=0.883), the adjusted coefficient of determination (adj, R^2=0.759), it also provides the standard error of the estimate. From the table, the value of R^2(0.883) shows that the independent variables explain 88.3% of the variability of the dependent variable, (FDI). The coefficient of determination represents the amount of variance in the outcome which is accounted for the predictors. The 75.9% of the variance in FDI is accounted for by the predictors like NOA, CST, HDI, INT, and DOP. This shows that the result is excellent. The model is highly significant and we can conclude that these independent variables together predict changes in FDI.

The standard coefficient table also indicates the statistical significance of the independent variables. According to standard coefficient tables LNNOA is -1.207 and the t-statistics is -2.453 and significant is 0.039% less than 95% confidence level. Same applies to LNCST whose coefficient value is -0.664 and the t-statistics is -0.125 while the level of significance is 0.912 percent less than 95% confidence: so we can reject H_0 and accept the alternative hypotheses and this confirm the result of the apriori expectation.

The probability value at the above table shows a 0.05 level of significance, meaning that the lag values of all the independent variables jointly impact on FDI for the period 2011 to 2018. All the variables negatively influence FDI with only HDI showing a positive significant result. Durbin-Watson is showing 1.868365 meaning that there is no sign of serial correlation in the model. This support the fact that as the number of attacks and casualties increase it affects FDI. So inNOA and inCST affect inFDI directly and inFDIforcefully drop, as fig. I attest to this.

Fig I



Source: Author Computation.

The coefficient of the result appears with the appropriate negative sign and statistically significant at 5% level after estimation. This is in agreement with the result of ordinance least square which shows a short-run relationship among the variables. The result shows that there is a casual relationship between insurgency and FDI. Though, the relationship is negatively influenced. Moreover, FDI have a direct bearing on economic development in Nigeria.

The findings of this study gain support from the studies of Offiong and Atsu (2004), Oyin (2014), Edwards (1990) and Musdapher (2012)that the issues of ethno-religiosity of politics and income disparities which fuels revolution and on the other hand adversely affect economic development.

Table 2: Serial Correlation test results

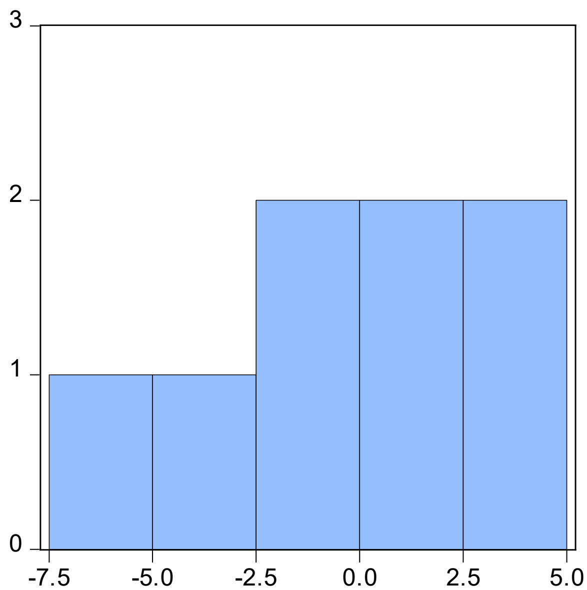
Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.063210	Prob. F(1,1)	0.8432
Obs*R-squared	0.475617	Prob. Chi-Square(1)	0.4904

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 11/25/16 Time: 10:12
Sample: 2009 2016
Included observations: 8
Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNNOA	7.661539	33.30186	0.230063	0.8560
LNCST	1.001336	8.267040	0.121124	0.9233
LNHDI	27.24506	143.7798	0.189492	0.8808
LNINT	13.67649	82.52414	0.165727	0.8954
LNDOP	-30.34242	341.2837	-0.088907	0.9435
C	90.71539	1582.445	0.057326	0.9635
RESID(-1)	1.047391	4.165967	0.251416	0.8432

R-squared	0.059452	Mean dependent var	-6.39E-14
Adjusted R-squared	-5.583835	S.D. dependent var	3.195219
S.E. of regression	8.198608	Akaike info criterion	6.716364
Sum squared resid	67.21717	Schwarz criterion	6.785876
Log likelihood	-19.86546	Hannan-Quinn criter.	6.247538
F-statistic	0.010535	Durbin-Watson stat	1.685125
Prob(F-statistic)	0.999933		



Series: Residuals	
Sample 2009 2016	
Observations 8	
Mean	-6.39e-14
Median	0.094891
Maximum	4.333006
Minimum	-5.262781
Std. Dev.	3.195219
Skewness	-0.269270
Kurtosis	2.097253
Jarque-Bera	0.368326
Probability	0.831800

5.0 CONCLUSION AND RECOMMENDATIONS

Insurgency as a menace has been regionally based in Nigeria and its threat to livesand properties cause a lot of devastation to the country. Like we have the Boko Haram, MEND, OPC, MASSOB in the country, they emerged as a result of ethnicity, religion and also the wide economic gap between the poor and the rich, others include: the unfulfilled political and economic promises, income disparity efficient use of information and communication technology, moreover, the proliferation of arms.

The operations of insurgency in the country portend negative economic implication for the survival and development of FDI and also to the nation. For the country to attract FDI there shall be an enabling environment that is peaceful, high degree of openness that will attract investors if Nigeria desires to be competitively in the global scene.

6.0 RECOMMENDATIONS

Based on the foregoing the following recommendations are made:

i. The issue of wide income gap between the rich and the poor which in most cases is precipitated by corruption and other forms of illegality should be curtailed by government. Policies should be adopted to totally eliminate corruption, elections malpractices amongst others.
ii. Two competing religion in the country, i.e Christianity and Muslim should learn to live and practice their deity together to give peace a chance in the country.

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