MACROECONOMIC BEHAVIOUR AND FDI INFLOWS IN NIGERIA: AN APPLICATION OF THE ARDL MODEL

Babajide Abiola Ayoopo[1] and Lawal Adedoyin I[2].
[1] Dept. of Banking and Finance, Covenant University, Ota, Nigeria, [2] Dept. of Accounting and Finance, Landmark University, PMB 1001, Omu Aran, Kwara State, Nigeria
Abiola.babajide@covenantuniversity.edu.ng; lawal.adedoyin@lmu.edu.ng +2348035233567

Abstract

Based on the Macroeconomic theory of FDI movement, this study examined the relationship between FDI and some selected macroeconomic variables both at the long and short run equilibrium in Nigeria. The study used ARDL estimation techniques to inquire if the selected macroeconomic variables have significant influence on FDI, what macroeconomic variable(s) need to be manipulated so as to enhance inflows of FDI to the nation's economy? What policy implication should be adopted? The results show that policy that attempt to expand trade, increase government expenditure, manipulate the exchange rate system, lower inflation and interest rates are useful in attracting FDI inflows.

Keywords: FDI, Interest rate, Exchange rate, Real Gross Domestic Product, Nigeria, Africa.

1.0 INTRODUCTION:

The relationship between Foreign Direction Investment (FDI) and the state of the economy have been extensively discussed both at the empirical and theoretical point of views in economic literature with mixed conclusion (Aitken and Harrison (1999); Lipsey (2002). Macroeconomic theory on FDI shows that a functional relationship exists between FDI and the state of the economy. Evidence abound in literature that inflows of FDI have significant impact on macroeconomic variables (Hong, (2014); Temiz *et al*, (2014); Sanchez-Martin, (2014); Yalta, (2013); Tomohara and Takii (2011); Turkcan *et al*, (2008)). Previous studies have focused on examining the impact of FDI in driving aggregate economy, with very few studies examining the impact of pull factors in attracting FDI inflows. Besides, most of the studies

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