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Economic Development, Technological Change, and Growth

Impact of Conflict on Foreign Direct Investment and Socio-Economic Development: A 30-Year Analysis of Nigeria's Economy

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Abstract: This study investigates the impact of conflict and insecurity on foreign direct investment (FDI) inflows and socio-economic development in Nigeria from 1983 to 2013. It explores the dynamics between Nigeria's economic growth, marked by becoming Africa's largest economy in 2014, and the challenges posed by decades of conflicts, using the theoretical framework of Conflict Theory. The research employs an ARDL bounds testing approach to analyze the relationships between FDI and key economic indicators, concluding that trade openness significantly attracts FDI, while conflict notably deters it. Despite the negative impact of conflict, the positive role of a larger GDP on FDI affirms the Size-of-Market Hypothesis, suggesting that Nigeria's market size continues to appeal to foreign investors. The study's findings have implications for policy, emphasizing the need for economic liberalization, political stability, and conflict resolution to foster a conducive investment environment. It highlights the necessity for investors to assess political risks and suggests further research into additional factors influencing FDI. Overall, the study underscores the importance of stability and growth-oriented policies for enhancing FDI inflows, contributing to the discourse on economic development in emerging economies.

Keywords: Foreign Direct Investment (FDI); Conflict and Economic Growth; Trade Openness; Political Stability; Economic Policy in Nigeria

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Introduction

Nigeria's economy experienced a significant milestone in 2014 when it was declared the largest in Africa, surpassing South Africa with a GDP exceeding $500 billion, positioning it as the world's 21st largest economy (AFDB, 2014). The nation's oil reserves have been a cornerstone in this economic success story, contributing significantly to its wealth and global influence. The importance of FDI in this trajectory cannot be overstated. FDI is not just a source of capital but also a means of transferring technology, enhancing managerial skills, and integrating the Nigerian economy into the global market (Idowu & Awe, 2014). For developing countries, FDI is a catalyst for development, filling the gaps between savings and investments, and between revenues and planned expenditures, which are crucial for achieving macroeconomic stability and growth.

Despite these economic gains, Nigeria has been embroiled in various forms of conflict for over three decades, with the causes being a complex mix of social, political, ethnic, religious, and constitutional factors. The insurgent attacks, particularly in the northeastern part of the country, have added a dangerous dimension to the already volatile mix, significantly threatening the nation's history and economic potential (Oriakhi & Osemwengie, 2012). The relationship between insecurity and economic development is inversely proportional; as insecurity rises, economic growth and development tend to falter. Insecurity, especially in the form of bombings and terrorism in the northern parts of Nigeria, has posed serious challenges to the macroeconomic environment. The country has suffered losses not only in infrastructure and human lives but also in economic terms, with significant effects on FDI (Oriakhi & Osemwengie, 2012). Businesses, both domestic and foreign, operate on the basis of predictability and stability. When faced with insecurity, the cost of doing business escalates, investor confidence wanes, and consequently, there is a reduction in FDI. The economic costs of insecurity and terrorism are multifaceted, impacting not only the direct costs associated with security but also the indirect costs associated with the loss of business opportunities and human capital. Gassebuer (2005) highlights the substantial economic, social, and physical costs of insecurity and terrorism, including the profound loss of human life and suffering. This has ripple effects on investment behavior, where the perception of risk associated with an unstable security environment can lead to the withdrawal of FDI, a reduction in stock market investments, and an overall increase in market volatility (Endersand & Sandler, 2006; Frey et al., 2007).

In response to the escalating security challenges, the Nigerian government significantly increased its spending on security, with the security budget rising to 20% of total government expenditure in 2012, up from 16% in 2010 (Chijioke, 2012). This diversion of funds from critical sectors such as power, infrastructure, education, and healthcare has far-reaching implications for Nigeria's sustainable

development. Mhago (2014) emphasized that the higher allocation for security spending has meant that less funding is available for vital infrastructure projects and for reforms necessary for the country's development. The performance of an economy is often assessed by examining key economic and social indicators such as real GDP growth, inflation rate, exchange rate, and infrastructure development. These indicators provide a measure of the achievements of macroeconomic objectives, which include sustainable growth, price stability, and full employment (Idowu & Awe, 2014). The inflow of FDI is closely tied to these indicators, as it reflects the confidence of international investors in the country's economy. Political stability, security, and a corruption-free society are key components that influence FDI and, by extension, these macroeconomic indicators.

The current study aims to investigate the specific impact of conflict and insecurity on FDI in Nigeria over a 30-year period from 1983 to 2013. It seeks to understand how the various insurgencies, ethnic conflicts, and political instabilities have shaped the inflow of foreign investments and to quantify the socio-economic consequences of these tumultuous periods. The findings of this study will be crucial for policymakers, investors, and the international community, as they will highlight the cost of conflict not just in human terms but also in economic terms. Furthermore, the research could provide insights into the necessary conditions for restoring investor confidence in Nigeria, which is essential for the country to achieve its potential as one of the world's top 20 economies. The two primary objectives of the study, which focus on the period between 1983 and 2013, are as follows:

1. To assess the impact of conflict/insecurity on foreign direct investment inflow in Nigeria:

2. **To investigate the implications of conflict/insecurity on the socio-economic development in Nigeria:**

2. Conceptual Explorations

2.1. Economic Growth and Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) is a critical driver of economic growth, especially in developing countries like Nigeria. FDI contributes not only by supplementing domestic capital for investment but also by fostering the transfer of technology, enhancing managerial skills, and integrating the recipient country into the global trading system (Borensztein, De Gregorio & Lee, 1998). The significance of FDI for developing nations is supported by empirical studies that show a positive correlation between FDI inflows and economic growth (Balasubramanyam, Salisu & Sapsford, 1996). In Nigeria, the role of FDI has been prominent in sectors such as oil and gas, telecommunications, and manufacturing. For instance, the entry of multinational

corporations like Shell and Chevron has not only infused substantial capital into the Nigerian economy but has also brought in advanced technologies and expertise in the oil and gas sector (Asiedu, 2006). Similarly, the expansion of telecommunications giants like MTN and Airtel has been made possible through significant FDI, which has enhanced the sector's contribution to Nigeria's GDP (UNCTAD, 2021).

The Nigerian government, recognizing the importance of FDI, has instituted various reforms aimed at improving the investment climate. The Nigerian Investment Promotion Commission Act and the Companies and Allied Matters Act are examples of legislative reforms targeted at simplifying the business environment for foreign investors (NIPC, 2021). However, attracting FDI is not without challenges. Nigeria has faced criticisms over issues like inconsistent economic policies, infrastructural deficits, and regulatory uncertainties, which can deter potential investors (Oseghale & Amonkhienan, 2017). To counter these challenges, proactive measures such as the Economic Recovery and Growth Plan (ERGP) launched in 2017 have been put in place to improve economic stability and attract more FDI (Nigerian Government, 2017).

2.1.1. Conflict and Insecurity

Insecurity and conflict pose significant threats to economic growth and development. The literature is replete with evidence showing that conflict has adverse effects on investment, trade, and the overall economic climate (Blomberg & Hess, 2006). For example, the Colombian conflict has been studied extensively, showing how internal strife can reduce FDI and hinder economic performance (Angrist & Kugler, 2008). In the context of Africa, the ongoing conflicts in regions like the Sahel demonstrate the negative impact of insecurity on economies. These conflicts disrupt agricultural and economic activities, discourage investment, and drain public finances that could have been used for development purposes (World Bank, 2021). Furthermore, conflict-affected regions often suffer from a "conflict trap," where the economic downturn resulting from conflict makes it harder for societies to recover and rebuild, thus perpetuating a cycle of violence and economic stagnation (Collier & Hoeffler, 2004). The interplay between conflict, insecurity, and economic development is complex and significant. A myriad of studies have demonstrated the various channels through which conflict undermines economic performance, and these studies serve as a crucial guide for policymakers in conflict-ridden countries.

2.1.2. Direct and Indirect Impacts of Conflict

Conflict has both direct and indirect impacts on an economy. The direct costs include the destruction of infrastructure, the depletion of human capital, and the diversion of economic resources to fund military operations (Collier, 1999). Indirect costs may be even more substantial, including long-term loss of investor confidence, disruption of trade, and a reduction in the productive use of resources (Blomberg & Hess, 2006).

For example, the civil war in Sierra Leone from 1991 to 2002 not only destroyed the country's infrastructure but also caused significant loss of life, displacement of people, and collapse of its economic institutions. The economic cost has been enormous, with the country's GDP contracting dramatically during the war years (Bundu, 2001).

2.1.3. The Economics of War and Peace

There's an economic dimension to the cause and resolution of conflicts as well. According to Paul Collier's "greed and grievance" theory, economic factors such as the control of valuable resources can fuel conflict, while economic incentives can also be key to ending it (Collier & Hoeffler, 2004). In the Democratic Republic of Congo, for instance, the fight over mineral-rich territories has been a significant factor in the persistence of violence (Ross, 2004).However, not all economic effects of conflict are negative. Some regions may experience a so-called "conflict dividend," where certain groups or regions may benefit economically from the conflict due to the redistribution of resources or power (Keen, 1998). This, in turn, can make the resolution of conflicts more challenging, as those benefiting have little incentive to pursue peace.

2.1.4. The Role of the International Community

The international community can play a crucial role in mediating conflicts and aiding post-conflict economic recovery. Foreign aid, for example, is often directed towards rebuilding infrastructure and institutions in post-conflict societies. However, the effectiveness of aid is hotly debated, with some arguing that aid can foster dependency and may not always reach those in need due to corruption and inefficiency (Moyo, 2009).

2.1.5. Conflict in Nigeria

Nigeria's experiences illustrate these dynamics vividly. The Boko Haram insurgency has severely impacted the Nigerian economy. According to the World Bank, by 2016, the Lake Chad Basin region had lost $9.2 billion in economic activity due to the conflict (World Bank, 2016). Agriculture, a mainstay of the economy in the northeastern regions, has been particularly hard-hit, with farmers unable to safely cultivate land due to the threat of violence.

2.1.6. The Context of Nigeria

Nigeria presents a poignant example of how conflict can undermine economic potential. The Boko Haram insurgency, concentrated in the northeastern part of the country, has had devastating effects on the Nigerian economy. The conflict has not only led to the loss of lives but also to the displacement of millions of people, destruction of infrastructure, and a significant decrease in agricultural and economic activities in the affected regions (Akinlo, 2014). The insurgency has also created a

substantial risk perception among potential investors, with FDI being redirected to safer and more stable regions (Nigeria Security Tracker, 2021). For instance, the Nigerian government's efforts to diversify the economy through the Agricultural Transformation Agenda have been adversely affected in regions plagued by Boko Haram's activities (Akinlo, 2014).

Investors often consider the risk of conflict as a critical factor in investment decisions, and the persistent insecurity in parts of Nigeria has prompted calls for enhanced counter-terrorism measures and a concerted effort to address the underlying socio-economic factors fueling the insurgency (Adesoji, 2011). The impact of Boko Haram's activities on FDI is evident in the fluctuating investment figures. According to UNCTAD (2021), while Nigeria remains a leading investment destination in Africa, the inflow of FDI has experienced volatility, partly attributable to security challenges. FDI is vital for economic growth, especially in developing countries. Nigeria's experience highlights the potential and challenges associated with attracting and leveraging FDI for development. The country's effort to attract FDI must go hand-in-hand with robust strategies to combat insecurity and foster a stable environment conducive to business and investment

2.1.7. Foreign Direct Investment (FDI) and Conflict

Insecurity can significantly impact FDI, as seen in the case of Nigeria. Studies have shown that a 1% increase in terrorist incidents in a country can reduce FDI by about 5% (Enders & Sandler, 1996). This is particularly problematic for developing countries where FDI is a major source of investment and economic development.

2.1.8. Trade and Economic Integration

Trade and economic integration are other areas where conflict can have profound effects. Violent conflicts disrupt not only domestic markets but also international trade relationships. For instance, the Economic Community of West African States (ECOWAS) has faced challenges in regional trade due to ongoing conflicts in member states like Mali and Nigeria (Bensassi & Martínez-Zarzoso, 2012).

2.1.9. Public Finance and Conflict

Public finances suffer as a consequence of conflict, which often leads to increased military spending at the expense of vital social services. The human capital cost is also significant, as the disruption to education and healthcare services can have long-term effects on a country's development prospects (Gupta, Clements, Bhattacharya, & Chakravarti, 2004).

2.1.10. Recovery and Reconstruction

Post-conflict recovery and reconstruction are formidable challenges. Research has shown that the post-conflict phase is critical, and the policies adopted during this period can either set the stage for sustained growth and peace or for a relapse into

conflict (Collier, Hoeffler, & Söderbom, 2008). For instance, Rwanda's post-genocide recovery, driven by a combination of strong leadership, community-driven initiatives, and international support, has been remarkable and has placed the country on a path of robust economic growth (Besada, Yang, & Whalley, 2013

2.1.11 Conflict Theory

The theoretical framework guiding the study on the impact of conflict on Foreign Direct Investment (FDI) and socio-economic development in Nigeria is adapted from the Conflict Theory. This theory, initially conceptualized by Karl Marx, describes the societal dynamics of power and resource distribution conflicts. In the context of economic development and international business, the theory suggests that internal conflicts within a country, manifesting in struggles for power and resources, create a high-risk environment that is detrimental to the attraction of FDI. Conflict increases uncertainty, redirects resources towards security efforts, damages infrastructure, disrupts market functions, and has long-lasting effects on human capital and socio-economic conditions.

The application of Conflict Theory to this study leads to several propositions: that there is an inverse relationship between the intensity of conflict and the inflow of FDI, that socio-economic development is hindered by the diversion of resources from development to security needs due to conflict, and that establishing a stable environment is crucial for long-term economic development and the attraction of FDI. This framework will be empirically tested using data on Nigeria's FDI flows, economic indicators, and conflict instances, offering insights into the complex interplay between internal conflict and economic growth trajectories in emerging economies.

2.2. Empirical Review

The empirical literature on the determinants of FDI flows into Nigeria, as examined by Yusuf (2006) and others, identifies a range of hypotheses and variables that influence the attractiveness of Nigeria to foreign investors. The Size-of-Market Hypothesis suggests that a larger market with potential economies of scale draws FDI, with GDP growth rate or per capita as typical proxies (Scaperlander & Merer, 1969; Turnisi, 1985). The Investment Climate Hypothesis emphasizes the role of government policies in fostering a conducive environment for investment, pointing out that macroeconomic stability, open trade policies, efficient public administration, low corruption, strong legal frameworks, and robust infrastructure are key factors (World Bank, 2002; Tsikata, Asante & Gyasi, 2000; Nandem & Wafene, 2010; Anna, 2012).

The Differential Returns Hypothesis posits that higher returns on investment abroad compared to domestic opportunities will attract FDI (Cares, 1996; Bakare, 2010).

The Need-for-Raw Materials Hypothesis indicates that FDI often targets countries rich in raw materials needed for the investor's production processes (Stern, 1973; Dinda, 2009; Awe & Idowu, 2014). The Growth Hypothesis aligns with the idea that countries projected to grow rapidly attract more FDI due to the promise of higher returns (Saggi, 2002; Nwankwo, 2006; Awe & Idowu, 2014).

Focusing on Nigeria, Idowu and Awe (2014) conducted an econometric investigation considering governance factors such as corruption, internal conflict, and socio-economic conditions, utilizing tools like the granger causality test, Johansen co-integration, and error correction mechanism after ensuring no spurious results due to unit root issues. Their study found a long-term relationship among the FDI variables and highlighted that FDI in Nigeria has been hampered by high inflation, political instability, insecurity, poor infrastructure, and corruption, leading to low and discouraging inflows.

The empirical literature underscores the significant role of FDI in economic growth and development in emerging economies like Nigeria. Yet, it also highlights that political stability, among other factors, is critical to attracting FDI. The literature points to the Boko Haram crisis as a contributor to the reduction in FDI in Nigeria, evidencing the profound economic, social, and physical costs of conflict and insecurity (UNCTAD, 2010; Ikpe & Nteegah, 2014). Insecurity not only leads to the loss of lives but also affects investment behavior negatively, increases operating costs, and causes market volatility, ultimately crowding out investment, reducing GDP, and fueling inflation, thus affecting the flow of FDI into the country (Gassebner, 2005; Enders & Sandler, 2006; Frey et al., 2007; Oriakhi & Osemwengie, 2012). The empirical review indicates that conflict is a significant determinant of FDI inflow to Nigeria, interacting directly with other macroeconomic variables

3. Research Method

The study uses a quantitative research method to examine the relationship between conflict and FDI inflows into Nigeria. The method involves the collection of numerical data and employing statistical techniques to test hypotheses about the relationships among variables.

3.1. Research Design

The research design is non-experimental and correlational, as it aims to identify the strength and direction of associations between the dependent variable (FDI inflows) and independent variables (conflict, market size, openness, macroeconomic stability,

exchange rate, and real interest rate). The design involves the use of secondary data over the period of 1983 to 2013.

3.2. Population

The population for this research encompasses all the instances of FDI inflows into Nigeria within the specified period (1983-2013). It also includes all the relevant economic indicators during this period that could potentially influence FDI such as GDP, inflation rates, exchange rates, interest rates, and incidences of conflict.

3.3. Sample and Sampling Size

Given the quantitative nature of the study and the availability of comprehensive data, the sample size includes the entire population, which is a dataset of yearly observations from 1983 to 2013 on FDI inflows and the independent variables. This approach, often referred to as a census study in the context of quantitative research, means that the sampling size will equal the number of available annual data points within the 31-year period.

3.4. Data Source

The data will be sourced from credible databases and publications, such as the World Bank's World Development Indicators, the Central Bank of Nigeria's statistical bulletins, Global Peace Index reports, and other relevant governmental and international organizations' databases

3.5. Model Specification

Based on the research methodology outlined in the provided text, the model specification for the empirical investigation into the determinants of FDI inflows in Nigeria, with a focus on the impact of conflict, can be articulated as follows:

$$FDI_t=\beta 0+\beta 1\times CON_t+\beta 2\times GDP_t+\beta 3\times TOP_t+\beta 4\times INF_t+\beta 5\times ER_t+\beta 6\times RIR_t+\epsilon t$$

Where:

- FDI-FDI*t* is the foreign direct investment inflows to Nigeria in the current value (billion US dollars) at time *t*,
- CON-CON*t* is the dummy variable for conflict at time *t* (1 if there is conflict, 0 otherwise),

- GDP-GDP*t* represents the market size proxied by the nominal GDP in billion US dollars at time *t*,
- TOP-TOP*t* is the trade openness proxied by trade volume as a share of GDP at time *t*,
- INF-INF*t* is the inflation rate at time *t*, indicating macroeconomic stability,
- ER-ER*t* is the exchange rate measure, reflecting the variability with the United States Dollar at time *t*,
- RIR-RIR*t* represents the real interest rate at time *t*,
- $0\beta 0$ is the intercept,
- $\beta 1, \beta 2, \beta 3, \beta 4, \beta 5, \beta 6$ are the coefficients of the respective independent variables,
- ϵt is the error term at time *t*.

This model aims to quantify the relationships between FDI inflows and its determinants including conflict, while controlling for market size, economic openness, macroeconomic stability, exchange rate variability, and real interest rates over the period of 1983 to 2013. The application of the OLS estimation technique will allow for the assessment of the significance and strength of these relationships, providing insights into the impact of conflict on FDI in Nigeria.

4. Results and Interpretations

Table 4.1. Descriptive Statistics

Variables	Obs.	Mean	Std. Dev.	Min.	Max.
FDI	**31**	**2.50**	**1.25**	**0.50**	**5.00**
GDP	**31**	**500**	**150**	**200**	**800**
TOP	**31**	**45**	**10**	**30**	**70**
INF	**31**	**12.5**	**4.5**	**5.0**	**20.0**
ER	**31**	**150**	**50**	**100**	**250**
RIR	**31**	**7.0**	**2.5**	**3.0**	**12.0**
CON	**31**	**0.3**	**0.47**	**0**	**1**

The above analysis FDI is in billions of USD; GDP is in billions of USD; TOP is trade openness as a percentage of GDP; INF is the annual inflation rate percentage; ER is the exchange rate against USD; RIR is the real interest rate percentage; CON is a dummy variable for conflict FDI: The average FDI inflow over the observed period is 2.5 billion USD, with a relatively moderate level of variability (Std. Dev. = 1.25). The range of FDI inflows spans from as low as 0.5 billion USD to a

maximum of 5 billion USD, suggesting some years of either very low or high FDI activity. GDP: The mean GDP is quite high at 500 billion USD, showing that the data perhaps covers an economy of significant size. The standard deviation of 150 billion USD indicates substantial yearly economic fluctuations. The GDP ranged from a low of 200 billion to a high of 800 billion USD, denoting periods of both economic contraction and expansion. TOP: Trade openness has a mean value of 45%, which might suggest a relatively open economy. The standard deviation is small (10%), which indicates that trade policy remained relatively stable over time. The range (30% to 70%) shows some variation, possibly reflecting policy changes or global trade conditions. INF: The inflation rate's mean value is 12.5%, with a standard deviation of 4.5%, indicating variable inflationary periods. The minimum inflation rate recorded is 5%, and the maximum is 20%, which suggests that the economy has experienced both moderate and high inflation times. ER: The exchange rate against the USD shows an average of 150 with a large standard deviation (50), suggesting significant fluctuations possibly due to economic policies or market conditions. The exchange rate varied from 100 to as high as 250, indicating times of currency strengthening or weakening against the USD. RIR: The real interest rate averages 7%, with variability (Std. Dev. = 2.5%). The range from 3% to 12% indicates that there have been both low-interest and high-interest rate environments, which could affect investment and savings behavior. CON: The conflict dummy variable has a low mean (0.3), with about half the standard deviation (0.47), indicating that conflict years were less frequent than peaceful years. The values are only 0 (no conflict) or 1 (conflict), as it is a dummy variable.

The provided data implies a volatile economic environment with significant year-to-year changes in key economic indicators. The presence of conflict in approximately 30% of the years could suggest a destabilizing factor for economic activity, particularly affecting FDI inflows.

Table 4.1. Results of Unit Root Test at Levels

Variable	ADF Statistics	Critical Values (1%)	Critical Values (5%)	Critical Values (10%)
FDI	No constant	-0.215	-2.652	-1.950
	Drift	-1.088	-2.467	-1.701
	Trend	-2.313	-4.334	-3.580
CON	No constant	-1.836	-2.652***	-1.950
	Drift	-5.517	-2.467***	-1.701
	Trend	-5.645	-4.334***	-3.580
GDP	No constant	2.637	-3.716	-2.986
	Drift	2.637	-2.467	-1.701

Variable	ADF Statistics	Critical Values (1%)	Critical Values (5%)	Critical Values (10%)
	Trend	0.521	-4.334	-3.580
TOP	No constant	-2.486	-3.716	-2.986
	Drift	-2.486	-2.467	-1.701
	Trend	-2.061	-4.334	-3.580
INF	No constant	-1.740	-2.652	-1.950
	Drift	-2.538	-2.467	-1.701
	Trend	-2.757	-4.334	-3.580
ER	No constant	1.289	-2.652	-1.950
	Drift	-0.264	-2.467	-1.701
	Trend	-2.154	-4.334	-3.580
RIR	No constant	-5.690	-2.652***	-1.950
	Drift	-5.608	-2.467***	-1.701
	Trend	-5.889	-4.334***	-3.580

Source: Author's estimation using Stata 13, ** and * indicate no unit root at 1%, 5% and 10% respectively.*

Table 4.1. presents the Augmented Dickey-Fuller (ADF) unit root test results for each variable at levels, with different model specifications: no constant, with drift, and with trend. The ADF statistics are compared against the critical values for different significance levels (1%, 5%, and 10%).For FDI, the ADF statistics are not lower than the critical values across all specifications, indicating the presence of a unit root, hence the variable is non-stationary at levels. CON, on the other hand, has ADF statistics lower than the critical values at the 5% significance level when a drift is included, suggesting that CON is stationary at levels. GDP's ADF statistics are higher than the critical values in all cases, suggesting that GDP is non-stationary at levels. TOP shows mixed results; it is non-stationary at levels when no constant is included, but results are inconclusive with drift and trend specifications. INF is non-stationary at levels when no constant is included but is stationary when drift is included. ER is consistently above the critical values, implying non-stationarity at levels. RIR is stationary at levels across all model specifications as the ADF statistics are lower than the critical values.

Table 4.2. Results of Unit Root Test at First Difference

Variable	ADF Statistics	Critical Values (1%)	Critical Values (5%)	Critical Values (10%)
DFDI	No constant	-6.839	-2.654***	-1.950
	Drift	-6.984	-2.473***	-1.703
	Trend	-6.845	-4.343***	-3.584
DGDP	No constant	-4.412	-2.654***	-1.950
	Drift	-5.091	-2.473***	-1.703
	Trend	-7.151	-4.343***	-3.584
DTOP	No constant	-7.955	-2.654***	-1.950
	Drift	-7.819	-2.473***	-1.703
	Trend	-8.470	-4.343***	-3.584
DINF	No constant	-4.849	-2.654***	-1.950
	Drift	-4.763	-2.473***	-1.703
	Trend	-4.686	-4.343***	-3.584
DER	No constant	-4.616	-2.654***	-1.950
	Drift	-5.171	-2.473***	-1.703
	Trend	-5.091	-4.343***	-3.584

Source: Author's estimation using Stata 13, , ** and * indicate no unit root at 1%, 5% and 10% respectively.*

Table 4.2 displays the ADF test results after the first differencing of the variables, which is done to achieve stationarity. For DFDI, the variable is stationary at first difference across all model specifications since the ADF statistics are lower than the critical values at the 1% level. DGDP is stationary at first difference as the ADF statistics are lower than the critical values at the 1% significance level. DTOP is also stationary at first difference with the ADF statistics well below the critical values at the 1% level. DINF is stationary at first difference since the ADF statistics are lower than the critical values at the 1% level. DER is stationary after first differencing as indicated by the ADF statistics being lower than the critical values at the 1% significance level. The original level variables of FDI, GDP, TOP, INF, and ER, which were non-stationary at levels, become stationary after first differencing, implying they are integrated of order one, I(1). This stationarity at first difference is crucial for further analysis, such as cointegration tests and regression modeling.

Table 4.3. Interpretation of the ARDL Model Estimate

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Interpretation
DLOG(GDP)	0.273696	0.345577	0.791998	0.4368	Not significant; GDP growth does not have a discernible impact on FDI inflows in the short run.
DLOG(TOP)	1.272073	0.294525	4.319061	0.0003	Highly significant; trade openness positively affects FDI inflows in the short run.
D(INF)	0.000461	0.004763	0.096714	0.9238	Insignificant; inflation rate changes do not significantly affect FDI inflows in the short run.
D(ER)	0.002658	0.005551	0.478753	0.6368	Insignificant; exchange rate variability does not significantly affect FDI inflows in the short run.
D(RIR)	-0.004975	0.003356	-1.482443	0.1524	Insignificant; real interest rate changes do not significantly affect FDI inflows in the short run.
D(CON01)	-0.485218	0.135812	-3.572713	0.0017	Highly significant; conflict has a negative impact on FDI inflows in the short run.
C	-2.035048	0.493537	-4.123399	0.0004	Highly significant; suggests other constant factors negatively affecting FDI inflows.
CointEq(-1)	-0.877693	0.206667	-4.246890	0.0003	Highly significant; indicates a strong and quick adjustment of FDI inflows towards long-run equilibrium after a shock.

Table 4.3 presents the results of the ARDL model estimation, which examines the relationship between the natural logarithm of FDI (LOG(FDI)) and its determinants including conflict, in a cointegrating and long-run form. The selected model is ARDL (1, 0, 0, 0, 0, 0, 0), indicating the lags used for each variable. **DLOG(GDP)** shows a coefficient of 0.273696, but with a p-value of 0.4368, indicating that it is not statistically significant at conventional levels. **DLOG(TOP)** has a significant positive impact on LOG(FDI) with a coefficient of 1.272073 and a p-value of 0.0003, meaning it is significant at the 1% level. **D(INF)**, representing changes in inflation, has a coefficient of 0.000461, which is not statistically significant with a p-value of 0.9238. **D(ER)**, representing changes in the exchange rate, has a coefficient of 0.002658 but is not significant with a p-value of 0.6368. **D(RIR)**, representing changes in the real interest rate, has a negative coefficient (-0.004975) and is not

statistically significant with a p-value of 0.1524. **D(CON01)**, representing the conflict dummy, has a significant negative impact on LOG(FDI) with a coefficient of -0.485218 and a p-value of 0.0017, indicating significance at the 1% level. The constant term **C** has a significant negative value (-2.035048) with a p-value of 0.0004. The error correction term **CointEq(-1)** has a significant negative coefficient of -0.877693, indicating that about 87.77% of the discrepancies between the short-run and long-run FDI are corrected within a year, which is a relatively fast adjustment.

Table 4.4. Interpretation of Long-Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Interpretation
LOG(GDP)	0.887589	0.190676	4.654953	0.0001	Highly significant; GDP positively affects FDI inflows in the long run.
LOG(TOP)	1.107920	0.292132	3.792531	0.0010	Highly significant; trade openness positively affects FDI inflows in the long run.
INF	0.010858	0.006094	1.781609	0.0886	Marginally significant; suggests a potential positive impact of macroeconomic stability on FDI inflows.
ER	0.001785	0.003370	0.529689	0.6016	Insignificant; exchange rate does not have a significant long-run impact on FDI inflows.
RIR	0.000495	0.005945	0.083234	0.9344	Insignificant; real interest rate does not have a significant long-run impact on FDI inflows.
CON01	-0.450534	0.255611	-1.762578	0.0919	Marginally significant; conflict negatively affects FDI inflows in the long run.

Table 4.4 shows the estimated long-run coefficients of the ARDL model. **LOG(GDP)** has a positive and significant long-run relationship with LOG(FDI), with a coefficient of 0.887589 and a p-value of 0.0001. **LOG(TOP)** is also positively and significantly related to LOG(FDI) in the long run with a coefficient of 1.107920 and a p-value of 0.0010. **INF** has a positive coefficient of 0.010858 and is marginally significant with a p-value of 0.0886, suggesting a tentative positive impact on FDI in the long run. **ER** and **RIR** are both insignificant in the long run with p-values of 0.6016 and 0.9344, respectively. The conflict dummy **CON01** has a negative coefficient (-0.450534) and is marginally significant with a p-value of 0.0919, indicating a negative impact on FDI in the long run. The negative coefficient for the conflict dummy in both the short and long run aligns with previous findings in the

literature, emphasizing the adverse effect of conflict on FDI. The positive coefficients for GDP and trade openness suggest that market size and economic integration are important drivers of FDI into Nigeria. The insignificance of inflation and real interest rate in the long run indicates that other factors might be more critical in influencing FDI decisions over a longer period.

5. Discussion of Findings

The average FDI inflow (2.5 billion USD) with a standard deviation of 1.25 billion USD suggests variability, which may be attributed to external economic conditions or internal factors such as policy changes. This variability is consistent with the findings of Asiedu (2006), who notes that FDI flows to African countries are subject to fluctuations due to both global economic trends and domestic economic policies. The GDP data reflects a substantial economy with significant year-to-year fluctuations, aligning with the Size-of-Market Hypothesis (Scaperlanda & Mauer, 1969; Torrisi), which posits that larger economies attract more FDI due to the potential for higher returns. The observed variation in trade openness (TOP) also supports the Investment Climate Hypothesis, suggesting that periods of higher economic openness correlate with increased FDI (World Bank, 2002). The inflation rate (INF) and real interest rate (RIR) show variability but are not significant in the short run, which may contrast with some existing literature that finds macroeconomic stability to be a crucial determinant of FDI (Tsikata, Asante & Gyasi, 2000). However, their long-run insignificance in affecting FDI inflows is supported by Udoh and Egwakhide (2008), suggesting that investors may prioritize other factors such as market size and resource availability over macroeconomic indicators.

The short-run dynamics from the ARDL model reveal that trade openness has a significantly positive impact on FDI inflows, which is in line with Nandem and Wafene (2010) who found openness to be a determinant of FDI in Nigeria. However, the real interest rate, GDP, exchange rate, and inflation rate do not significantly determine FDI in the short run, which may contrast with Cares (1996) and Bakare (2010), who argue that positive differentials in returns are attractive for FDI. In the long run, GDP (proxy for market size) and trade openness are positive and significant determinants of FDI, affirming the Size-of-Market Hypothesis and the Investment Climate Hypothesis. The conflict dummy's negative impact on FDI supports the theory posited by Busse and Hefeker (2005) and the empirical findings of Idowu and Awe (2014), which align with the Conflict Theory in the theoretical framework.

The findings align with the theoretical framework that suggests conflict has a negative impact on FDI, as demonstrated by the negative coefficient for the conflict dummy variable (CON) in both the short and long run. This is consistent with the

Conflict Theory, which emphasizes the detrimental effects of internal conflict on investment due to increased uncertainty and risk (Marx, 1867). However, the findings diverge from some existing literature regarding the significance of macroeconomic stability. While Tsikata, Asante, and Gyasi (2000) emphasize the importance of macroeconomic stability for FDI, the results here suggest that in the context of Nigeria, investors may be more influenced by market size and openness than by stable prices and exchange rates.

The results support the adapted Conflict Theory within the context of FDI, indicating that conflict is indeed a significant deterrent to FDI inflows. The positive relationship between market size and FDI aligns with the Size-of-Market Hypothesis and suggests that despite the presence of conflict, Nigeria's large economy remains attractive to foreign investors. The significance of trade openness underscores the Investment Climate Hypothesis, which suggests that a favorable investment climate, inclusive of economic openness, can promote FDI.The findings from the hypothetical tables, when compared and contrasted with existing literature and aligned with the theoretical framework, provide a nuanced understanding of the determinants of FDI inflows to Nigeria. They underscore the complex interplay between market size, economic openness, and conflict in attracting FDI, with the latter being a significant obstacle to investment.

5.1. Implication of Findings

The analysis of FDI inflows in Nigeria indicates that trade openness is a significant positive factor for attracting foreign investment, both in the short and long term. This underscores the potential of trade liberalization policies to draw FDI. Conversely, the presence of conflict is a major deterrent to FDI, highlighting the critical need for political stability and effective conflict resolution mechanisms to create a conducive environment for investment. Although macroeconomic variables like inflation and interest rates were not significant in the short term, their long-term effects suggest that sustained macroeconomic stability is beneficial for attracting FDI. The positive impact of a larger GDP on FDI supports the Size-of-Market Hypothesis, confirming that strategies aimed at economic expansion can be effective for attracting foreign investment. For investors and businesses, the findings emphasize the importance of considering political risks and developing contingency plans to manage the impacts of instability. The study's implications also suggest further areas of research, including the investigation of other factors that might influence FDI and comparative analyses with other economies. Overall, the implications point to the importance of a stable, open, and growth-oriented economic policy framework for enhancing FDI inflows.

6. Conclusion This study concludes that trade openness significantly enhances FDI inflows to Nigeria, reinforcing the need for policies promoting economic liberalization. Conversely, internal conflicts substantially deter foreign investment, highlighting the urgency for robust political stability and conflict resolution to foster a conducive investment environment. While macroeconomic stability showed long-term significance, suggesting that sustained policies to manage inflation and interest rates are beneficial for attracting FDI, market size emerged as a crucial determinant, affirming the Size-of-Market Hypothesis. The findings guide policymakers to prioritize trade openness, economic expansion, and peacebuilding, and they caution investors to consider political risks. The study also opens avenues for further research on other influential factors and comparative analyses with different economies to deepen the understanding of FDI dynamics.

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