



NEAR EAST UNIVERSITY  
GRADUATE SCHOOL OF SOCIAL SCIENCES  
ECONOMICS PROGRAM

**EFFECT OF COVID19 PANDEMIC COUPLED WITH INSECURITY  
CHALLENGES ON FOREIGN DIRECT INVESTMENT IN NIGERIA.**

MASTER'S THESIS

UMAR HABIBA MOHAMMED BELLO

NICOSIA  
September, 2021

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## ACCEPTANCE/ APPROVAL

We certify that we have read the thesis submitted by **HABIBA M. B UMAR** titled “**EFFECT OF COVID ON FDI IN NIGERIA** (in bold)” and that in our combined opinion it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Educational Sciences.

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## **DECLARATION**

I Umar Habiba Mohammed Bello hereby declare that this dissertation titled “the effect of covid 19 pandemic coupled with the security challenges on foreign direct investment in Nigeria.” has been prepared myself under the guidance and supervision of Assist. Prof. Mehdi Seraj in partial fulfillment of requirement of Near East University, Graduate School of Social Sciences regulations and does not to the best of my knowledge breach any law of copyrights and has been tested for plagiarism and the copy of the result can be found in the thesis.

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## **DEDICATION**

I dedicate my work to ALLAH Almighty for the wisdom, strength, and gift of health he bestowed on me during the time of this research. I dedicate it also to both my late parents for their prayers, my husband and children for their understanding during the period of my studies and lastly to my supervisor for all his efforts and time despite his schedules.

## **ACKNOWLEDGEMENT**

In the name of Allah, the most Gracious, the most Merciful. All praise to Allah the owner of the world and blessings and prayers is upon the Great prophet (peace be upon Him) his companion, family, and all those who follow them sincerely till the Day of Judgment. Thanks are to Allah for giving me the strength and ability to complete this dissertation paper

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Special thanks and prayers to my beloved husband for his understanding and support throughout the programmed may Allah reward you for your wonderful effort and also a million thanks to my kids, Abdullahi and Husna for understanding what it takes for me to take away time away from the family time for my studies for me to accomplish this objective. I love you all. And a special note of thanks to my family and friends.

## **ABSTRACT**

### **EFFECT OF COVID19 PANDEMIC COUPLED WITH INSECURITY CHALLENGES ON FOREIGN DIRECT INVESTMENT IN NIGERIA**

The recognized importance factors associated to foreign direct investment (FDI) inflow has made various countries to struggle to attain this advantage for which the Nigeria economy is not left behind. The recent pandemic COVID 19 coupled with political challenges in the country has affect the amount of foreign investment inflow into the country. The study investigates the impact of the pandemic coupled with insecurity in the country to FDI inflow into Nigeria. The Augmented Dickey-Fuller (ADF) was employed to test the integration level prior to investigation of the possible co-integration among the variables, and the variables were found to be integrated at level I (0) and at first differences I (1). using a monthly time series data for the period of January 2015 to October 2021. Various econometric techniques were administered; bound test using ARDL model, the long and short run co integration ARDL test among the variables, and some normality and stability test all using ARDL mode for analysis. From the analysis of the long run relationship, COVID 19 was shown to be significant and negative which implies a decrease in foreign investment as a result of increase in the rate of the pandemic. Rise in political instability displays increase in FDI inflow in the country as depict in the long run relationship result, that is a positive relationship between the variables. and high exchange rate was significant and negative shows decrease in FDI inflow and lastly government capital expenditure was found not significant. The results of the study recommend various policies implications, that the government should provide an enabling environment by increasing the security issues and capacity of its forces so as to crop the political instability issues in the country. On the case of restrictive measures by the various authorities to reduce spread of the pandemic, reduction on the restrictive mention can encourage more inflow and other mention can be implemented like proper medical check before a person is allowed into a country. A suitable policy can be established by the authorities to help the economy bounce back on it fit after the various shock on the nation's economy due to covid.

**Keywords:** COVID 19, foreign direct investment, political instability, ARDL

## **OZET**

### **GÜVENSİZLİK ZORLUKLARIYLA BİRLEŞTİRİLEN COVID19 PANDEMİSİNİN NİJERYA'DAKİ DOĞRUDAN YABANCI YATIRIMLAR ÜZERİNDEKİ ETKİSİ**

Doğrudan yabancı yatırım (DYY) girişiyle ilgili olarak kabul edilen önemli faktörler, çeşitli ülkeleri Nijerya ekonomisinin geride bırakılmadığı bu avantajı elde etmek için mücadele etmeye zorlamıştır. Son zamanlardaki pandemi COVID 19, ülkedeki siyasi zorluklarla birleştiğinde ülkeye yabancı yatırım girişi miktarını etkiledi. Çalışma, ülkedeki güvensizlikle birleşen pandeminin Nijerya'ya DYY girişine etkisini araştırıyor. Artırılmış Dickey-Fuller (ADF) değişkenler arasındaki olası eşbütünlüğe araştırılmadan önce bütünleşme düzeyini test etmek için kullanılmış ve değişkenlerin I (0) düzeyinde ve birinci farkları I (1) düzeyinde bütünleştiği bulunmuştur. Ocak 2015 - Ekim 2021 dönemi için aylık zaman serisi verileri kullanılarak. Çeşitli ekonometrik teknikler uygulandı; ARDL modeli kullanılarak sınır testi, değişkenler arasında uzun ve kısa dönem ortak entegrasyon ARDL testi ve tümü analiz için ARDL modunu kullanan bazı normallik ve kararlılık testi. Uzun vadeli ilişkinin analizinden, COVID 19'un pandemi oranındaki artışın bir sonucu olarak yabancı yatırımda bir düşüş anlamına gelen önemli ve olumsuz olduğu gösterildi. Siyasi istikrarsızlıktaki artış, değişkenler arasında pozitif bir ilişki olan uzun dönemli ilişki sonucunda gösterildiği gibi ülkeye DYY girişinde artış olduğunu göstermektedir. ve yüksek döviz kurunun anlamlı olduğu ve negatif yönde DYY girişindeki azalmayı gösterdiği ve son olarak devlet sermaye harcamalarının anlamlı olmadığı tespit edilmiştir. Çalışmanın sonuçları, hükümetin ülkedeki siyasi istikrarsızlık sorunlarını ortadan kaldırmak için güvenlik konularını ve güçlerinin kapasitesini artırarak elverişli bir ortam sağlaması gerektiğine dair çeşitli politika çıkarımları önermektedir. Pandeminin yayılmasını azaltmak için çeşitli makamlar tarafından kısıtlayıcı önlemler alınması durumunda, kısıtlayıcı sözün azaltılması daha fazla girişi teşvik edebilir ve bir kişinin bir ülkeye girmesine izin verilmeden önce uygun tıbbi kontrol gibi diğer ifadeler uygulanabilir. Ülke ekonomisinde covid nedeniyle yaşanan çeşitli şoklardan sonra ekonominin eski haline dönmesine yardımcı olmak için yetkililer tarafından uygun bir politika oluşturulabilir.

**Anahtar Kelimeler:** COVID 19, doğrudan yabancı yatırım, siyasi istikrarsızlık, ARDL



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## **ABBREVIATION**

<b>ADF</b>	Augmented Dickey Fuller
<b>ARDL</b>	Autoregressive Distributed Lag Model
<b>COVID</b>	Covid 19 pandemic
<b>EXCH</b>	Exchange Rate
<b>FDI</b>	Foreign Direct Investment
<b>GCE</b>	Government capital expenditure
<b>MNC's</b>	Multi- National Companies
<b>NEPAD</b>	New Economic Program for African Development
<b>PLS</b>	Political Instability
<b>PP</b>	Phillips - Perron
<b>SAP</b>	Structural Adjustment Program
<b>UNCTAD</b>	United Nations Conferences on Trade and devp
<b>WDI</b>	World Data Indicator



## **CHAPTER ONE**

### **1.1 Introduction**

The idea of Foreign Direct Investment (FDI) which is considered as a machine of growth globally has grown rapidly since globalization. The idea of FDI has provided the required capital that is needed for growth of every economy, brought about competition in individual countries which has helped developed the local industries in such host countries bringing in innovations and more efficient use of technology which can bring about advancement in both physical and human capital resources of the host countries, and create development in the world. among few of its benefits for which the Nigeria economy is also not excluded Aremu, (1997). There have been numerous researches been carried out on the impact of FDI to the nation's economy, Chakraborty & Basu, (2002) believe that the positive effect of FDI is more enormous in an economy that is open it has a bidirectional reaction towards economic growth. On the contrary, the reaction is unidirectional in an economy that is close, meaning GDP growth inspires FDI flow into a country and several other factor such as the political status of the economy, the economic strength, the tax level, the literacy rate and institutional environment of the host nations all plays an important role on the level at which FDI can affect the economy's growth (Mallampally & Sauvart, 1999).

Flood of economic liberalization subsequently in 1980s brought about the stream of private investment in the form of foreign direct investment (FDI) athwart many advancing countries. Foreign venture, mostly FDI, has repeatedly been seen as a main source of foreign exchange, that helps in facilitating the balance of



payment limitation on economic growth. Besides, it also complements domestic investment capitals required to push economic growth. This broadly held awareness concerning foreign venture resulted in altering the environment policy of the economies to entice FDI. Foreign Direct Investment (FDI) is a method of obtaining foreign reserves in most developing countries through investments, businesses, and foreign help from industrialized countries. Foreign direct investment (FDI) is thought to be a key driver of economic growth in developing countries, but its impact differs by country. FDI is regarded as a valuable source of cash, technology transfer, and know-how, as well as a viable channel for cross-national trade. The spillover effect also enables the spread of inventions and creation to receiving countries, one of which is my own (Nigeria). Nigeria is currently the most important FDI host economy in Sub-Saharan Africa, as well as the continent's third largest base. Nigeria has recently witnessed many trade initiatives aimed at diversifying the economy's operations away from the oil sector. These objectives are focused on improving the industrial sector, which, of course, has serious consequences. It is thought that FDI performance in Nigeria has been poor, which could be due to the country's weak macroeconomic plan. The success of foreign investments in the state is mostly determined by market size, human capital, and a stable macroeconomic environment, as well as the pull and push aspects. FDI has increasingly grown to be seen as a source of economic development, transformation, income growth, and job creation in developing countries. Countries have loosened FDI laws and used various strategies to attract investment.

considering how to effectively pursue domestic tactics in order to maximize the benefits of foreign companies in the local economy

The benefits of FDI reimbursements for developing countries' economies are well known. A plethora of studies show that FDI inducts technology advancement, supports human capital formation, contributes to international trade incorporation, helps generate a more competitive business environment, and improves enterprise expansion when appropriate host-country strategies and a rudimentary level of development are in place. All of this contributes to increased economic development, which is the most powerful instrument for alleviating poverty in developing countries. Furthermore, FDI may contribute to the advancement of environmental and social conditions in the host country by, for example, advancing better technology and resulting in more socially responsible business policies. FDI plays an important part in assisting nations' economic development processes in the current globalization era. Countries employ FDI as a source of external capital for development projects and to boost economic productivity as their economies grow. For eons, FDI has been a common source of funding for developing economies, as well as the most resilient to economic and financial shocks (UNCTAD, 2018) According to a recent study (Anetor, 2019), FDI accounts for the significant difference Nigerian economic development when compared to other capital inflows. He used quarterly data from 1961 to 2016 to assess the effects of private capital influx shocks on the growth of the Nigerian economy, which he modeled using the Structural Vector Autoregression model (SVAR). The results show that FDI and portfolio venture inflow shocks are

statistically significant, and that they have a positive and direct connections on economic growth in Nigeria. Developing and newly industrialized countries have been pushed to rely extensively on foreign direct investment (FDI) to replenish national savings, particularly in light of previous financial crises in Asia and Latin America. Capital inflows as well as economic growth are both supported. Even the most vociferous opponents of wide capital account liberalization disregard the possibility of total isolation from global financial markets in favor of FDI access (e.g., Stiglitz 2000). Because direct investors frequently have a longer-term vision when participating in a host country, FDI is regarded to be less resilient to crises.

FDI is usually regarded to provide a bigger impetus to economic growth in host nations than other types of capital inflows, in addition to its risk-sharing qualities. The fundamental idea is that internationally, available technologies and management know-how are made available through FDI in addition to finance (The Economist 2001). Over the last two decades, foreign direct investment (FDI) has become increasingly important in the developing world, with a rising number of developing countries attracting significant and growing amounts of inward FDI. FDI inflows can benefit the host economy through a variety of avenues, according to economic theory. Foreign and domestic investments are available to most emerging countries. FDI, which is a form of direct investment by foreign multinational corporations (MNCs) with headquarters in developed nations, is one of the foreign forms of investments. FDI has traditionally been used to improve recipient economies, resulting in increased economic growth and development, many developing countries appeal to foreign investors in the expectation of

bolstering their economies by diversifying their foreign investment portfolio. Endogenous growth theories stress that foreign direct investment (FDI) is an important predictor of economic growth as it is a source of technical transfer from developed to developing countries as a result of globalization (Chenaf-Nicet and Rougier 2016). Many underdeveloped countries have put in place policies to facilitate FDI inflows and oversee FDI activities (World Bank 2013). These programs include financial sector modification programs, structural adjustment programs, economic recovery programs, and economic cooperation agreements, to name a few (Asamoah et al. 2016). (Egbo, 2010) used annual secondary data covering 1981-2007 and the OLS estimation approach to examine the extent to which FDI inflows influence economic growth in Nigeria. Findings demonstrate that FDI boosts growth, implying a positive connection. Moreover, utilizing time series data from 1981 to 2015 and multiple regression estimate techniques, (Emmanuel, 2016) discovered a statistically significant association between FDI and economic growth.

Differences in per capita income which are caused by differences in saving rates, are produced by inequalities in capital accumulation according to the usual neoclassical growth model. As a result, variations in saving rates between countries are blamed for differences in capital accumulation (Solow 1956; Koopmans 1965). Furthermore, emerging nations are defined by low per capita income, poverty, unemployment, rapid population expansion, and poor savings rates. Without a doubt, low levels of savings and investments lead to savings-investment gaps, which have negative effects for economic growth and development. Foreign direct

investment (FDI) helps to fill the gap between savings and investment needs (Sabir and Khan 2018). By strengthening the skills and knowledge of workers in the host country, FDI can reduce unemployment both directly and indirectly (Lipsey 2001). Incentivizing incumbent businesses to upgrade their technology, as well as spillover effects that allow local competitors to benefit from MNCs' technological and management approaches, are all possible positive outcomes of FDI. MNCs may use predatory pricing to drive competitors out of business, transfer skilled workers and R&D employees away from local businesses, or engage in restricting business practices that limit technological innovation, among other things. In an open and effective international economic system, foreign direct investment (FDI) is a vital engine of development. The advantages of FDI, on the other hand, are not spread evenly or automatically among nations, sectors, or local communities. According to Funke and Nsouli (2003), several African countries' efforts to enhance their business climate stem from a desire to attract foreign direct investment. In fact, it was one of the pillars on which the New Partnership for African Development (NEPAD) was founded, with the goal of increasing capital availability to 64 billion dollars by combining reforms, resource mobilization, and a favorable environment for foreign direct investment. Nigerian governments have recognized the importance of FDI in promoting economic growth and development, and have implemented a variety of methods, including incentive programs and regulatory measures, to encourage FDI influx. Privatization was used, among other things, to stimulate foreign investment in Nigeria, according to Lall (2002). This entailed the transfer of state-owned firms (manufacturing, agricultural production, and public

utility services like as telecommunications, transportation, power, and water supply), as well as companies owned or controlled entirely or partially by private persons or companies. However, when compared to the resource base potential demands and given the numerous policies put in place by the government to attain these aims, Nigeria's level of FDI attracted is second-rate (Asiedu, 2003).

Certainly, the world is not novel to pandemics; past has recorded countless deal of diseases, from Circa in 3000B.C to the Black Death in 1345, Cocoliztli in 1545, to Yellow Fever, to Polio, the Spanish Flu, AIDS, to Ebola and more recently Coronavirus otherwise called COVID 19. The entire economic activities of every nation have been brutally paralyzed, due to the strange crisis caused by the recent pandemic COVID 19, the idea of this pandemic which all started last year in march in Wuhan, China, has impacted on the global economy in various countless ways which has brought it influence on a nations social, political, economic, cultural and religious activities. The virus is highly contagious and is transferred mostly by droplets from an infected person's lips or nose. COVID-19 has a variety of consequences on its human host, with respiratory tract infections such severe acute respiratory syndrome (SARS) and Middle East respiratory disease (MERS) being particularly prominent. The majority of symptoms are minor, but some people develop more serious symptoms such as pneumonia, pulmonary edema, as well as organ failure, which can lead to death. (Chen, Zhou, Dong, et al 2019). various studies conducted has showed that the crisis has quite more impact to the lower-income and middle-income economy of the world. Although the impact of this pandemic is directly through contagion health wise, but the impacts on the

economic aspect are basically importance of the protective actions that was implemented by the various individual authorities to limit the spread. Businesses across the world has fell as an effect of the pandemic by which nations locked down their borders in order to limits the spread of the disease. the closing of these borders which has led to the weakening of the worldwide trade and also brought about sinking down of price of goods and services across the world. the fell in the first quarter in 2020 of Worldwide trade rate is 3% and projected quarter-on-quarter weakening of 27% is anticipated in the second quarter (UNDP 2020).

These various crucial actions employed by various countries to limit more spread include the lockdown of their borders, closure of businesses, schools and social services among other things etc. However, all these actions have created serious obstructions mostly in areas of low production capacity in trading within and outside the country especially in the African continent. these actions have increased the work pressure on high growth enhancing sectors of many economies, and eventually, on their income level generally. Therefore, individual countries have desired to estimates their anticipated economic loses that could arise following the introduction of the restrictive measures. Covid 19 has aggravated a long-term sliding trend in global investment flows (UNCTAD, 2020). Obi (2017) started that Oil epitomizes over 80 percent of the country's exports, with the fall in oil prices, government incomes are anticipated to drop from an already small percent of GDP in 2019 to a projected smaller percent in 2020 (Action Aid Nigeria in daily trust Nov. 4, 2020). Looking at the present worldwide pandemic i.e., COVID-19, its impact can never be tapering into tiny scope; it as a universal danger to the socio-

economic and political progress of the world. It seized the world into ransom. This, by allegation has modelled several trials to the progress of human activities. The tasks are upsurge in poverty, damage of income and jobs, upsurge in food uncertainty, dramatic reduction in tourism and aviation business, dropped commodity prices, deterioration in global trade. As mentioned by the OECD (2020) that one of the effects of the pandemic specially to developing countries is a drastic drop on FDI flows added to the fact that the sectors in the economic that benefits higher from FDI inflow which are the primary and the manufacturing sectors are more severely affected by the pandemic.

The idea of covid 19 is not the only challenges to FDI inflow into the country, the country has number of security challenges facing it ranging from civil war, ethnic – religious conflict, the issue of boko haram, the idea of military intervention in power or politics, insurgences, herdsmen and farmers clashes, kidnapping etc. which can discourage FDI inflow into the country. political unrest has greater effects negatively on investment climate which reduces FDI inflows and would in turn result in slow economic growth. Most third world war countries are not politically stable and these countries are experiencing poor quality of governance. Notwithstanding, some of individuals countries have been displaying decent economic routine in the recent past, but a country's political status is a very important influence which are well-thought-out by foreign investors for them to invest in a country (Moosa, 2002). Investors will wish not to capitalize and danger their hard-earned wealth in an unhinged environment. Political risk as seen by Daniels, Radebaugh and Sullivan, (2002). is connected to various other things like



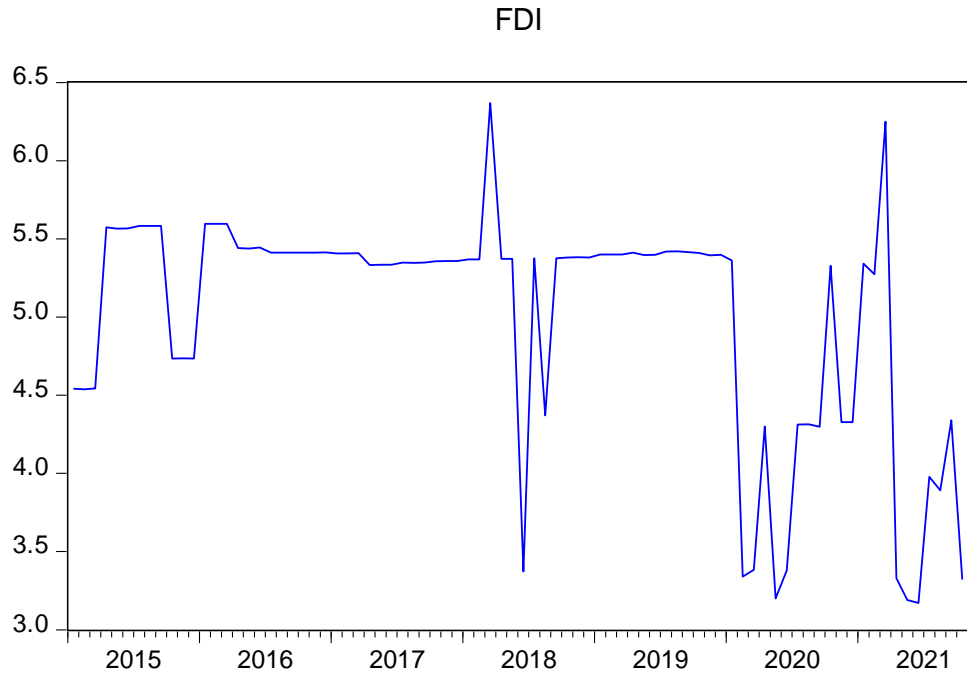
confiscation or harm to assets, manufacture disturbance, terrorizations to workers including working limitations that hinder the investors, fluctuations in controlling environment or the macroeconomic administration, capacity in undertaking certain activities, riots etc.

## **1.2: Background**

Looking at the economic situation in the country even before the outbreak, one can say that the Nigeria economy is fragile with a growth in GDP projected to be only 2.5% by year 2020, Nigerian authorities had been wrestling with weak salvage resulted of shock in oil price from 2014 with about 2.3 percent growth pointed in GDP in 2019(world bank report2020) The reviewed In February 2020 by IMF shows GDP growth rate from 2.5% to 2%, with one of the reasons to be as a results of low oil price. Relatedly, the country's debt outline has been a basis of worry for officials and development experts as the most current estimation places the debt service-to-revenue ratio at 60% (83 million people), which is likely to degrade the economic situation. These confining factors will exacerbate the economic effect of the COVID-19 epidemic and will make it more tough for the government to weather the crisis. The vulnerability of Nigeria economy to the covid pandemic is high particularly due to the fall in oil prices which saves as a main source of revenue to the government. Nigeria operates a mono cultural economy, depending largely on crude oil as its main source of revenue to its people. normally 40% of its populace lives below the poverty line, with its vulnerability to this pandemic, another 25% (53 million) will fall below the poverty line as reported by the world report 2020. The extent of the health impact of the pandemic depends on

the extend of the internal spread of the epidemic, whereas the economic effect centers on prices of oil in the country. (World report 2020).

The view on how traumatized the root of each global economy has experienced is quite transparent due to the pandemic, the overall impact of the pandemic has not yet been ascertained for now, but some analyzed impact has been established. A report from the International Monetary Fund (IMF) in April had assessed that the global economy will be shortened by 3% in the year 2020 (Wink, 2020). But another report in June from IMF foresees the shortened of the global growth rate by -4.9%, which was 1.9 % points higher than the forecast in April. The rising outcome of the pandemic on the Nigerian economy is estimated to increase by the end of 2020 at a GDP growth rate of 5% to 10% yearly. (Akpata & Nevin, 2020). The negativity of growing with an inaccurate lengthen time for economic salvage strategy might deteriorate the delicate structure of the economic as this for sure would certainly slow down the activities of FDI inflow into the country because the idea of ambiguity and undesirable growth are dissuasions to foreign investors.



**Figure: 1: foreign direct investment flow in Nigeria from 2015- 2021**

Using a monthly data from the period 2015 to date shows the fluctuating trends of foreign investment inflow in the country. A peak was experience in late 2017 due to little economic stability but the economic experiences a high shock in 2018 which was associated by the world shock on oil price. Nigeria been a mono cultural economic with 80% of its revenue discovered from the sale of crude oil, a shock from the world markets price causes a general effect on macroeconomic activities in the country. the beginnings of raise in prices of commodity by way of developments in cooperation interregional through the validation of the African region with free trade area contract by the authorities as planned was a step towards recovery from the high fall in foreign investment inflow that year. Another shock was experienced in 2020 which can be related with covid pandemic situation in the country given a fluctuating trend pattern in FDI in Nigeria.

The issue of political stability is considered a very important factor of FDI which can spur the rate of foreign investors inflow in every economy, it is a known fact that one of the reluctant factors that discourage investors to invest their asset in the African region despite the knowledge of its abundant resources and productive projects in such places, the indecision of them exposed to different financial crisis that can expose the firms to a greater level of substantial risks. The various level of danger is obviously seen in some part of the African continent, places like Nigeria which is characterized with high rate of political uncertainty. Rogoff and Reinhart (2003) conducted a study on the war rate around the globe, for which he stated that the high chance of exposure to crisis in the African continent is more as compared to other regions in the world, the result computed for various regional vulnerability to war indices for the period of 1960-2001 disclosed that chances of war occurring in the African regions are more likely than other part of the world. The vulnerability rate of regions to war index Africa is 26.3% as compared to Asia and the Western Hemisphere with 19.4% and 9.9% respectively. Report from the global terrorism index released on 27<sup>th</sup> Nov. 2020 categorized the Nigeria economy as the third most terrorized countries in the world. Olumide Adesina who's a member of the chartered financial analyst society stated in an African report that it is likely that Nigeria will see a further hollow in direct investment until at least the first quarter of 2021 because of the insecurity issue. He further stated that the fall in FDI inflow into the country by 2020 due to the pandemic can be estimated to reach 29%. The country is likely to experience the outflow of foreign investors from its financial markets due to the growing issue of

insecurity in the country, this was started in a report from the United Nations conferences on trade and development

### **1.3: Problem statement**

Since the country documented its initial case of Covid-19 in February, Nigeria been recognized as the giant of Africa in terms of economic status and its population size, has so far stated cases recorded to be 8344 of COVID-19, and fatalities cases of 246 in May 27<sup>th</sup>, Consequently, by March 29<sup>th</sup>, the management professed movement restrictions in three major states in the country, which include the Federal Capital Territory Abuja, Lagos and Ogun. Abuja stopping all non-important events around this region. Later, there was too restrictions on regional movement on non-important obligations which was later extended to all other states. All these and many others were measures engaged by the Officials to control the blowout of the virus. An observation by Nicholas Westcott that all Africans face a three-way curse with the COVID-19 pandemic, first, the downfall of universal demand and commodity values has extremely cut their external revenue; next, the lockdowns have knockout both type of jobs in formal and informal sector hard, slashing people's pay when they repeatedly have nothing else to rely on; and lastly, there is an emergent crisis of survival due to Africa's absence of abundance in food and the groups of locusts in East Africa and submerging and famine elsewhere. Soon, there is a danger that more and more Africans will descent into poverty level or start to famished (Westcott, 2020).

Based on the nature of Nigeria economy, where 80% of its revenue is gotten from crude oil, the shock in oil price has already affected the growth in oil, non-oil industries and services The country is facing huge developmental challenges, There

is no hesitation that the pandemic has further shocked the global economy it is relevant to state that Nigeria economy is the seventh most crowded country in the globe, the largest youth populous in Africa, one of the countries with highest youth unemployment rates in Africa (Joel-osoba, 2021). With the situation of lock down, the country continues to deal with lots of problems like inadequate social protection and poor infrastructure, rising of prices of goods and services, high Inflation rate risen to 18.1% in April 2021, the highest in four years, while food prices have gone up to 22.7% (Joel-osoba, 2021). there is the need by the authority to diversity the economy so as to lessen the reliance on oil sector, address the issues of inadequate infrastructure facilities, build robust and actual organizations, as well as address authority issues and public financial administration systems. These trials have exposed the Nigerian economy exposed to the COVID-19 epidemic and its penalties. Without the COVID-19 shock, a world bank report starts that the rate of increase in poverty level in the country is estimated to affect about 2 million Nigerians in 2020 as growth in population outstrips economic growth. With the recent COVID-19, the depression is estimated to drive lively extra 5 million Nigerians into poverty in 2020, bringing the total poverty level to 7 million this year. (World bank 2020).

The level of political stability of the economic can be one basis factor that can motivates the influences of FDI inflow into the country. As started by Husain, (2009) that the idea of political dangers mostly depends on the political stability of a country which is in relation to good governance of the government. The mark behind the ranking of political stability differs among countries. Political stability is

optimistic in business verdicts, Political liberty depicts good image of country and entices increased FDI as started by (Anna, 2012).

Showing conflicting evidence on the effect of political instability and foreign inflow in a country, According to ODI (1997) in his studies stated that a situation where the host country is blessed with rich natural resources, in that sense no further incentive may be essential to the foreign investors; a good example is situation in Angola and Nigeria where it's believed that resources available in such places motivate investors. In general, the idea behind it is that profit maximizations are primary aim of some foreign investors in business, therefore they can invest in any economy not minding it political status.

The Nigeria economy is affected by the terrorist group's outbreaks in the African continent, in Nigeria's northeast district, where the government has employed the armed forces to fight the Islamist extremist armed set presently in its 11<sup>th</sup> year called the Boko Haram, has caused over 7.5 million people in need of benevolent aid. Boko Haram and its fragment group, Boko haram has continued to attack the innocent civilians, target military, and humanity. By August, Nigeria's economy had contracted by 6 percent, economic, political, and social complaints are instigating viciousness and deaths. Numerous types of militant groups are vigorous in the country, leading to outbreaks on both civilian and military targets. The terrorist group Boko Haram is the deadliest terrorist group in the country which is an affiliate of the Islamic State. Battles which have cause over 20 thousand deaths between 2011 and 2021 between boko haram and Nigeria state. However, Boko Haram is responsible for thousands of deaths not just in the country, but also

Cameroon, Chad, and Niger the border countries. A state in Nigeria Borno in Maiduguri state is by far the most threatened state, in there, the number of deaths caused by Boko Haram is estimated to be around 32.8% in the area. the issue of Deteriorating Political Instability for instance Kidnapping in the country, before the oil survey, has its source inside the village circles and village oppositions. The indigenous hatred-contention was sufficient to seizure human and carry individuals away for dishonor and abolition. With the entrance of civilian consensus, political hint accepts the original hate scheme of “seizure and carry away”. During the political period, it is not difficult for a rival to vanish without a hint. In this process of kidnapping, politicians are connected to this conduct as jobless youths are arranged as political ruffians to stand against their political rivals, and sometimes, they are vested with the authority to kill their opponent (Effiong, 2009). Kidnapping is not focused only on the oil companies alone, it has occupied a broader tone as business inventive, scattering from political rivals, rivalry vengeance, detestation, business projects, to ethnic differences in all angles of the state. Families of politicians are frequently kidnapped for political reasons (Badiora, 2015; Effiong, 2009). Political abduction involves political franchises or strains that require administration’s devotion (Uzorma & Nwanegbo-Ben, 2014). In detail, they assemble political ruffians with arms. The deployment of political ruffians with arms during election procedure makes arms available for more command of other kinds of wrongdoing after the election. Ikpong (2009) states that those arms are usually not collected from their political brutes after the election, generating more

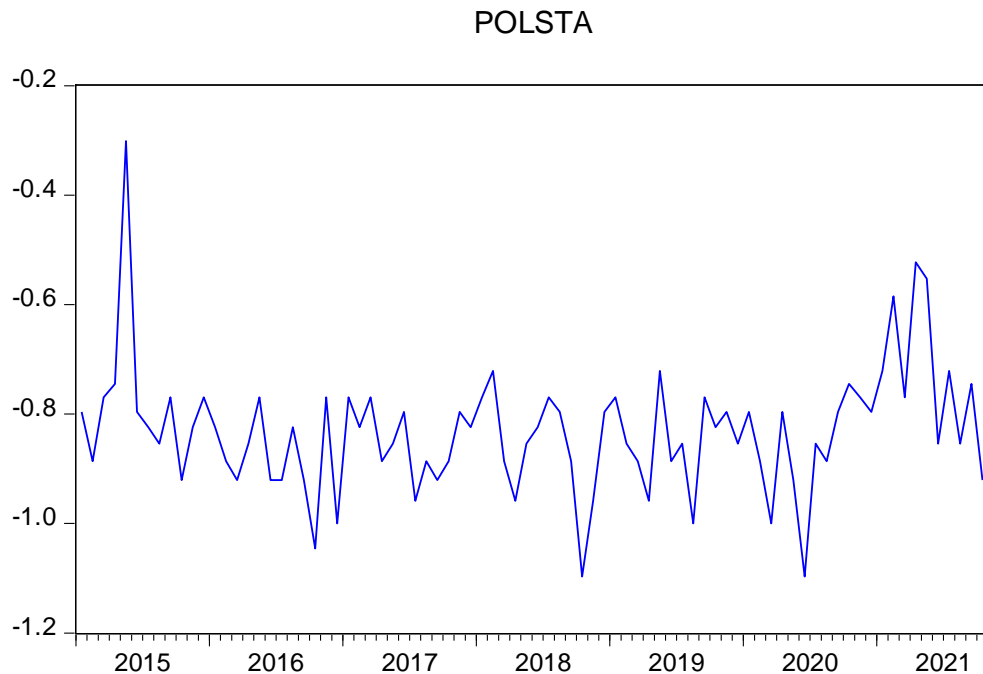


obstruction for the switch of kidnapping deeds. When offenders are equipped with classy attack arms in society, confiscating it from them are difficult.

There are issues of captive taking in the country, happening at different period in the past with important consequence on foreign speculation. In 2009 December it was disclosed by the, Police Affairs Minister that there are kidnapping cases of about 512 logged in 2008 from January to June 2009 contrary to in 2018 were the figure logged to be 353. The statement viewed that from 2008 July/September and 2009 July, more than 600 million was misplaced to abductors. outside statistics information of figures being obtainable, it is a recognized detail that the maximum abduction cases are not ever reported to the laws body for the terror of assassination of the person involved henceforth many families desire to result to payoff to losing any of its individuals. A good example, in Kano recently N80 million payoff was supposedly remunerated to abductors for the freedom of a multi- millionaire entrepreneur based in kano, without notifying the police authorities; a businessperson in Nnewi gave 70 million to re-claim his liberty from his abductors (Ngwama, 2014). The Associated Press in its statement of August 27, 2008 detailed that “above 200 immigrants were abducted in the last two years of sensitive violence across the country” the victims are usually released uninjured after a payoff is paid, while several have been murdered during failed seizures or salvage attempts “Victims are injured, assaulted and manhandled in such a way that the humiliation remains nearly continuously. The families and friends are bumped down by stubborn trauma”. In Kano, an entrepreneur was forcefully seized in the company of relatives. Those offenders were deceptively searching for dollars; not

getting dollars, they gunshot and hurt three of his offspring and still went with him. In Akwa-Ibom a state in Nigeria, ten health personnel at the university Teaching Hospital were abducted, leading to an indefinite strike following the failure of abductors to free the victim.

The kidnapping of 276 female students from a secondary school in Borno in 2014, for example, was reported in the media as one of the country's political disturbance activities. As of January 2021, 112 of the pupils kidnapped in the school remained missing, with six presumed to have died and others reclaimed. The absence of employment opportunities is very high leading to high poverty levels, regional disparity, and social and political conflict. Insecurity in the region persisted as high crime rate is at its peak.



**Figure: 2: political instability in Nigeria from 2015- 2021**

The above figure depicts the country's political stability state using a monthly data from post covid era to covid era showing a fluctuation trend with a peak in 2015 during the high crisis of the extreme group called boko haram and another in the late 2020 and early 2021 during COVID 19 pandemic. Given all these scenarios the study objectives is to analysis the effect of the novel pandemic COVID 19 in the country, given also the increase level of insecurity in the country on foreign direct investment in Nigeria?

#### **1.4: Significance of the Research**

The general believe of economist scholars is that economic growth and development of any country is depended largely on the rate of inflow of investment both within and outside organized through savings (Amaghionyeodiwe, 2010). Thus, this study is important as it will help determine the significant variables that can help triggers foreign direct investment inflow. The study increases the knowledge of users on the effect of some factors to Foreign Direct Investment (FDI) in Nigeria, highlighting the various determinants and how its affect the FDI inflow which gives awareness to the country on what attracts more investment into the country and what factor or determinant lead to the fall back of FDI in the country. The research evaluates the impacts of political stability on FDI inflow thereby given important information to policies markers in other to take appropriate measures in tackling the situation. It is also important to other stakeholders such as foreign and domestic investors because it will help them to determine the risk associated with their investment.

#### **1.5: Research questions**

- a) What is the extend of the effect of covid 19 pandemic on FDI inflow in Nigeria?

- b) How has political instability effect FDI inflow into the country?
- c) How has exchange rate affect FDI inflow in Nigeria?

### **1.6: Research objectives**

- a) To examine the effect of COVID 19 pandemic in the country on the FDI inflow
- b) To examine the effect of high insecurity level in the country to it FDI inflow
- c) To examine the effect of exchange rate on FDI in Nigeria

### **1.7: Hypothesis**

H0: there is no significant relationship between covid 19 pandemic and FDI inflow in Nigeria

H1: there is significant relationship between covid 19 pandemic and FDI inflow in Nigeria.

H2: there is no significant relationship between political instability and FDI

H3: there is significant relationship between political instability and FDI.

### **1.8: limitations**

The research work will be limited to availability of data, the pandemic incident started not more than a year and some months therefore the long run effect can be calculated more over a long duration of time using annually data frame but the research work is only restricted to weekly data frame. And another limitation is the accuracy of some of the data captured, each country will want to protect the image therefore for some reasons there wouldn't be accuracy in the data broadcast or released.

### **1.9: Contribution to knowledge**

The research will help create awareness more on the benefits of foreign direct investment inflow in a country and how economic variables like political instability and pandemic can create hindrance to amount of FDI inflow that can help develop the GDP level of each economy.

## **CHAPTER TWO**

### **2.1: Literature review**

Given the condition that the pandemic COVID-19 is a novel phenomenon, write ups concerning its effect on further economic variables are continuing worldwide. For this purpose, a struggle was made to current an all-around assessment of current studies concerning this new virus.

#### **2.1:1: Covid 19 Pandemic**

Collins (2020) scrutinized the impact of the novel virus on the worth of China stock market, Europe and that of USA through a request of discrepancy in investigation. He succumbed that there obtained different effects in the stock markets given various regions under study on COVID-19 in Pakistan on Small and Medium Enterprises (SMEs). The impact of COVID-19 has instigated decrease in processes, disturbance in chain of supply and monetary predicament of mainstream of the designated SMEs in the country. While, COVID-19 triggered loss in exportations order and displacement of workers in smaller SMEs in the country in a study on small and medium Enterprises (SMEs) in Pakistan by (Ganale and Zafar 2020) to appraised effects of Coronavirus (COVID-19) Similarly, Aderemi et al. (2020) succumbed that the blowout of COVID-19 to Africa as by-product of globalization while investigating on connection between Covid-19 pandemic and globalization concerning Africa and China. Chen et al. (2018) examined how severe affected pandemic the relation that occurred in stock exchange markets between four Asian country and China. It was revealed from the study that a decrease in association between these countries in their stock market exchange performance due to the pandemic.

COVID-19 has worsened a long-term sliding movement in global venture flows (UNCTAD, 2020b). The pandemic has formed concurrent supply, demand and strategy tremors affecting all facets of FDI. A slowdown in the execution of current investment schemes has deferred FDI flows. Many firms have delayed investment verdicts amid sensitive doubt as they struggle with substantial losses in revenue and, in certain cases. All over the world, effects on FDI drifts at the regional level are expected to differ, but are predictable to be significantly negative in all cases. In a report from UNCTAD projections, the flows of FDI into Latin America and the Caribbean (decreasing ranging between 40 and 55%) in Asia (fall between 30 and 45%) are expected to be affected, the anticipated range of fall in African in another study a general fall in FDI inflows between 25 and 40 per cent is anticipated.

An evaluation on the impacts of COVID-19 disease on the Nigerian economy Ozili (2020) but started that the existing predicament in the economy is as a result of the devastating pandemic COVID-19 and he recognized different networks by which the epidemic leaked into the country. Which include, the helplessness of debtors to service credit, shock in demand for oil, tremors in chain of supply globally, lessened nationwide budget, and lastly weakened performance generated from stock market. the study discovered that restriction in movement by lockdown in the economy for the anxiety of spreading the disease and feeble institutional eminence expanded the effect of the pandemic on the Nigerian economy.

UNCTAD (2020) investigated the worldwide impact of COVID-19 epidemic. Explicitly, the research examined the impact of the interruption of exports from

intermediate goods in China to different nations and segments of the world economic during COVID-19 health epidemic. It detected in the study that even if the outbreak of the disease is limited inside China, the circumstance governs exports from China are important for numerous productions and developing nations round the biosphere infers that any interruption in export from China will be felt outside the country also, the study discovered that the spill-over impact of a transnational corporation's assessment of 127 interruption in supply from Chinese will be varied across sectors of the economic, reliant on the environmental localization of the epidemic and of the control actions inside China.

Covid pandemic had socio-economic destructive effects on African nations which include influences that are exogenous and endogenous. The endogenous influences are spread through novel virus in African nations, through increasing disease and death rate subsequent from the blowout of the pandemic, weakening in government income due to fall in oil and commodity values and ruin of economic activities Effect from exogenous aspects happen through trading directly between African continents and other continent which include Asia, Europe and the United States. Comprises of decrease in leisure industry, FDI, illicit financing flows, Diaspora remittances, official development aid and local market contraction. It also detected the problem of depreciation of exchange rate and upsurge in public spending to protect and support human health and economic activities. (The African Union, 2020). Olaniyi. (2020) scrutinized the socio-economic effect of COVID 19.it shows that the economic consequences of the novel disease are damaging to both the health and economic segments which include trade and travel, various market types

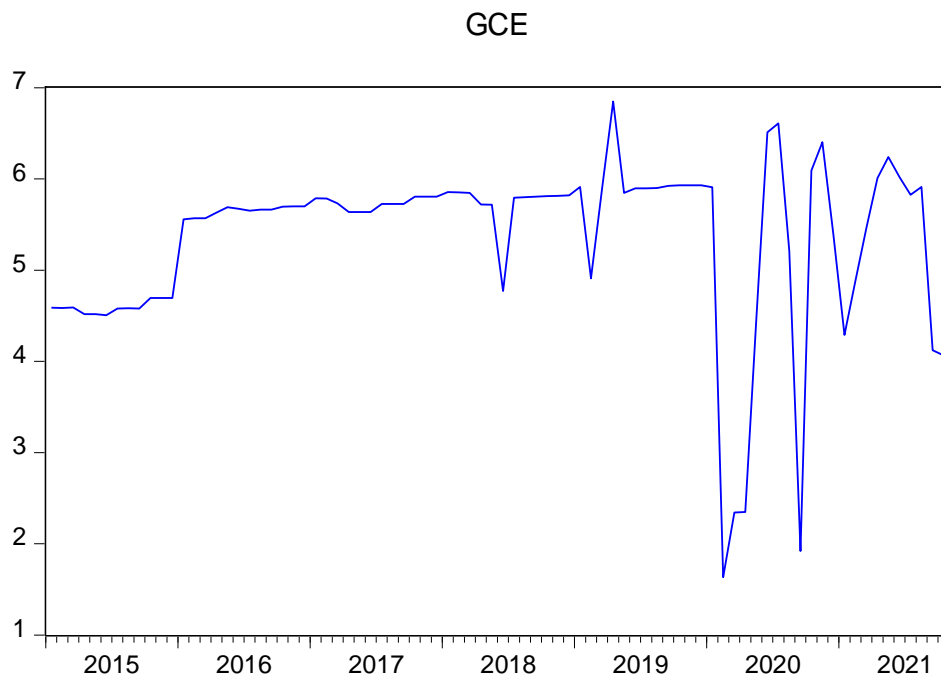


and retail chains, among others and food and agriculture industries. Recognizing the hard work of earlier literature on the inferences of the new disease on macroeconomic indicators, it is significant to memo that additional consideration was cited on performance of stock market whereas less care was given to other macroeconomic indicators such as rate of exchange and government expenditure.

### **2.1:2: Government Capital Expenditure**

There was no association between gross fixed capital creation and Gross Domestic Product in a study undertaken to check the relationships between public venture and economic growth in Nigeria by (Olorunfemi 2008) from 1975 to 2004. He also discovered that government spending has a beneficial impact on economic growth and that only 37.1 percent of government spending is spent on capital investment as compare to that spending on current expenditure which is 62.9%. Aigheyisi (2013) scrutinized the effect of federal capital and recurrent expenditures on the nation's economy. The data retrieved on Gross Domestic Product (GDP as the dependent variable), and other independent and control which include foreign direct investment and foreign aids indicated the presence of a long-run relationship among GDP and the independent. Other studies on government capital expenditure shows a contradictory view, Mitchell (2005) examined the impact of government spending on advanced economies and concluded that a large and increasing government is not conducive to improved economic performance. He also stated that reducing the size of government would result in higher salaries and more competitiveness. Vuale and Suruga (2005) in another studied of the impact of FDI and public expenditure on economic growth, they start there is sign that unnecessary expenses in public expenditures can delay the useful impact of FDI,

they scrutinized also some other possible associations between FDI and public expenditure and projected that more pains should be donated in building



**Figure 3: government capital expenditure flow in Nigeria from 2015- 2021**

A view of capital expenditure pattern by the government in the country for the period 2015 – 2021 using a monthly data. A high peak was experienced in early 2019 after the economy has recovered from the shock in world oil price in 2018. A fall in expenditure appears in two different period between 2020 to 2021 all during the covid 19 pandemic era. Any attempt by the government to increase the expenditure rate during this particular period keeps crumbling down.

### **2.1:3: Political Instability**

Several studies conducted from both advanced and advancing nations, examine the economic, financial and political outcome on aspects of investment inflow in every country which has yield different results. contradictory view from authors where some acknowledge the “grabbing hand” theory, which state that

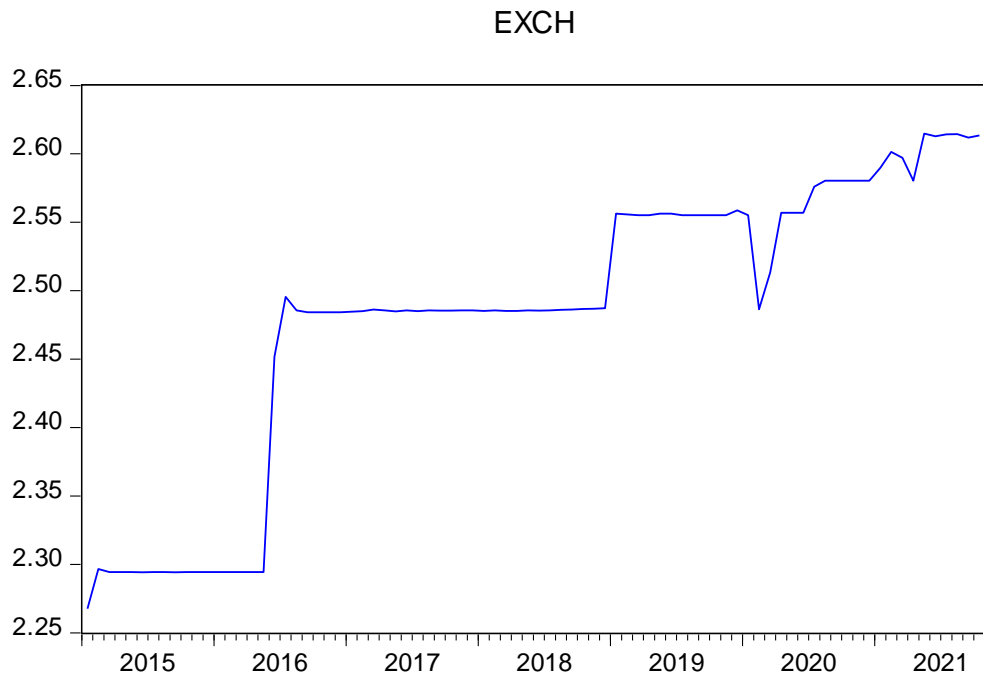
uncertainty on political issues enhances business charge of foreign venture as stockholders are obligatory to facilitate their business through paying bribes. Political uncertainty enhances another coat of hesitation on economic action, resulting in unsettling invention and dropping foreign investors encouragements to capitalize in a nation. In an argument by Al-Khoury and Abdul Khalik (2013) organized excellence and political certainty coupled with steady macroeconomic plans are vital basics in getting the courtesy of external investors. Moreover, According to Sparks et al. (2014), foreign direct investment is regulated in five areas, after economic factors, political influences are the next most important. Besides, Gastanga et al. (1998) struggle that nations having untrustworthy authorized structure and high corruption discourages FDI. the idea of the other theory, “helping hand” is preferable by other authors, which maintains for an optimistic connection amid political uncertainty and FDI, particularly once the danger is linked with dishonesty. the idea of productions to skip lawful protocols and luxurious paperwork is permitted by corruption, it cuts bureaucratic footraces and overpowers governmental difficult measures of doing business, thus enabling the actions of opening and doing business. (Egger and Winner 2005 and Dreher and Gassebener 2013). Showing conflicting evidence on the effect of political instability and foreign inflow in a country, in a study conducted by (ODI 1997) view the situation of the host country owning rich natural resources, serve as a yard stick for investors that is, no further motivation may be essential to the foreign investors; a good example is state of affairs in countries like Angola and Nigeria in African continents where political unrest phenomenal has been a general issue.

What this all means is that the self-confidents of foreign organizations to be able to function lucratively without extreme danger to its capital and workers, can make it endure investments in such countries.

#### **2.1:4: Exchange Rate**

The first studied on the consequence of rate of exchange discrepancy on FDI flows was done by Aliber, 1970. His judgement view that the nations with feeble rate of money, with the motive of growing buying strength, may smear for enticing foreign investment. despite the main logics behind Aliber, this clarification was not recognized earlier until last part of 1980s and the early 1990s and that was the period that the topic exchange rate was totally familiarized as one factors of FDI. showing from previous studies, Froot and Stein, 1991 in their research discovered that wear and tear of dollar causes the elevation of relative prices of foreign venture and so lessening of investment budgets. In their view, despites the circumstance that the whole foreign investment movement versus the real worth of U.S. dollar is in a diminishing form, FDI is the only means of speculation that statistically have had a negative relationship with the value of dollar. Restricted foreign venture has ended for the relation between exchange rate fluctuations and FDI. Polat and Payaslıoğlu (2016) Examined that there was no sign of the significant Impact of exchange rate volatility on FDI inflow in Turkey. Liu and Deseatnicov (2016) offered that exchange rate is negatively significant towards the FDI outward movement in short run, but positive related in the long run. In other words, outward FDI is prejudiced positively and significantly by exchange rate volatility. Udomkerdmongkol et al. (2008) revealed that FDI upsurges as currency

depreciate and anticipated depreciation of currency declines FDI. Yapraklý (2006) showed that exchange rate, that is measured as a symbol of rate of keenness in previous research, has an impact on FDI from revenue and cost outlooks. Wear and tear allow 287 investors with export-oriented creations to increase state input in terms of manufacturing, returns, and exports. Wear and tear of a currency in the foreign exchange markets has a positive impact on FDI as a result of the revenue effect. However, an export-focused investor's exports and earnings may suffer as a result of a significant reliance on imported inputs as a result of using such components in an innovation. A depreciation of the local currency in overseas markets has a negative influence on FDI, which is known as the cost effect. The net effect of fluctuating foreign exchange rates on FDI, taking into account the size of revenue and cost effects. The bigger the revenue effect than the cost effect, the greater the increase in the positive effects of exchange rate on FDI, and the lower the increase in the negative effects of exchange rate on FDI, i.e., the cost effect is more pronounced than the income effect (Green and Clegg, 1999 Chakrabarti, 2003)



**Figure :4 exchange rate in Nigeria using a monthly data from 2015 – 2021**

A pictorial view of the exchange rate pattern in the country using a monthly data from 2015 to 2021 showing an increasing trend especially from late 2020 to date showing the effect COVID 19 pandemic has on the exchange rate of the country.

## **2.2: Empirical Studies**

Based on the issue of the pandemic covid 19, studied conducted are quite a few on the impact of the covid 19 pandemic on the level foreign direct investment inflows in various countries. Foreign direct investment has been labelled as a significant factor that contributes to economic growth and development globally and particularly to developing countries. Some of the studies that evaluates on the effect of the pandemic on foreign direct investment inflow include a study by nwosa (2021) uses daily data from the 1st of December to the 31st of May to examine the

impact of oil prices, exchange rates, and stock market performance in Nigeria on transnational corporations (TNCs) and foreign direct investment inflow, checking how the pandemic has affect these variables, employing a descriptive and causality techniques to observed the relationship between the variables. It was observed that the effect in Nigeria, the epidemic has had a greater impact on oil prices, stock exchange rates, and stock market performance, than the recession experienced globally in the country in 2009 and 2016. The study concluded that the covid 19 pandemic has a negative impact on the oil price, exchange rate and stock exchange routine which has consequences on the FDI and TNCs in the country.

Another study by Qing, et al (2020) using a daily data from 1<sup>st</sup> June 2019 to 16 march 2020 observed the direct impact of the covid pandemic on stock market performance was detected in nations such as China, France, Germany, Italy, Japan, South Korea, Spain, and the United States. To examine the relationship, the researchers utilized a traditional t-test and a non-parametric Mann Whitney test. The study found that covid 19 has a negative short-term effect on stock market performance in the affected countries, as well as a bi-directional spillover effect of covid 19 on stock markets in Asia, Europe, and the United States of America, but there was no evidence that covid 19 has a negative effect on stock markets in the affected countries that is greater than the global average.

A studied carried out by Segundo and Mary (2020) describing the relevance's of FDI contributions to nations particularly the developing countries, the studied conducted assessed the effect of covid 19 pandemic and the policy lockdown in Ecuador using a regression discontinuity in the time design from

official administration foreign direct investment data. Discovery of the results shows that there's a decrease in FDI inflow to about 63% in the country and the differences that was assessed across FDI sources shows that 64% came from the capital increase as compare to the new firm constitution. In terms of the foreign direct investment's countries origin, the negative effect was mostly from north and south American investigation.

Manoj et al (2020) conducted a study in Nepal aimed at finding the impact of covid 19 on FDI inflow in the country, though in their study it was understood that not just the covid pandemic, other factors like poor infrastructure, the business environment, political transition, weak government, climatic changes are all critical factors that can impact the FDI inflow in the country so as such factors were also considered since its believe that best economic environments motivates inflow of FDI. the results analyzed shows a decreased in the FDI inflow in 2020 in Nepal given the covid 19 pandemic.

Baker et al. (2020) investigated COVID-19's one-of-a-kind impact on stock market performance. The authority's constraints on marketable activity and deliberate societal estrangement were blamed for COVID-19's large and opposing effect on the US stock market. Furthermore, the COVID-19 pandemic had a bigger influence on the US stock market than past health outbreaks including the Spanish Flu (1918–1919), Hong Kong Flu (1968), and Asian Flu (1957–1958), according to the study. Using the EGARCH estimation method and daily data from 2 January 2020 to 16 April 2020, another study looked at the influence of the COVID-19 outbreak on the stock exchange market performance in Nigeria., it showed that the pandemic was



significant and has opposing effect on stock market performance in Nigeria (Osagie, Maijamaa, and John 2020). The effect of covid 19 pandemic on FDI inflow in every economy of the world is very pronounced viewing from previous literatures and seeing the impact of the pandemic on the economic status of a nation, but adding to the high rate of insecurity in the Nigeria economy, the study is worth been carried out.

Various literatures have been established so far that studies the relationship between a country's Political instability and FDI inflows. According to a study by Sparks et al. (2014) state that five areas are known to regulate foreign direct investment, and the next most crucial one after considering economic factors are the political factors. In another study by Gastanga et al. (1998) oppose that the unreliability of the legal system of a country and high corruption rate discourages FDI inflow. Empirical studies on association amid political constancy and FDI influxes was also examined by numerous researchers. Using ARDL model a study carried out in Pakistan showed that government constancy and small external battle inspire FDI in Pakistan in the long run (Asif et al. 2018). In another study by Abdul Kahlik and Masih (2017) according to his research, there is a long-term and short-term association between political instability and FDI. Using ARDL approach to co-integration. The experimental relationship amongst political steadiness and FDI inflows was examined by several researchers. Using the ARDL approach, we show how good governance and minimal external conflict encourage FDI in Pakistan over time (Asif et al. 2018). Kurecic and Kokotovic (2017) find there exist long-term connection amid political instability and FDI using a panel of small countries,

using Granger Causality test and Vector Autoregressive framework (VAR) but no such connection was initiated for larger countries as discovered for smaller ones. Furthermore, An examined work on the effect of the political hazard issue on net FDI inflows by Al-Khoury and Abdul Khalik (2013) in the MENA district, the outcomes showed that, Taking all nations together the total political hazard, as anticipated, has confirmed negatively connected with FDI, and between the twelve political risk pointers, the idea of external war and corruption was statistically negatively related to foreign investment, while fewer democracy and extra socioeconomic burdens displayed statistically positive relationship with FDI. Abdul Kahlik and Masih (2017) discovered that there exist a long run and short run association amid political uncertainty and FDI by using Autoregressive distributed lag (ARDL) method to co-integration. Using information obtained of 146 advanced and under developed nations for the period 1984 to 2009. Political firmness was used as a proxied by the political risk indicators of 121 ICRG, which remained assembled into 3 classes by using factor examination. they ran a regression by means of fixed-effect and then pooled OLS method after the issue of multicollinearity among the political risk's mechanism has been removed. They discovered that extent of the market, trade openness, economic growth, and infrastructure have positive impacts, while cultural fight and partners' arrogance showed negative association with FDI (Goswami and Haider 2014). Governance failure exhibited inconsistent outcomes. in another study by Hayakawa et al. (2012) using the risk directories of ICRG provided by the group PRS to tackle the impact of a blend of financial risk and political mechanisms on FDI influxes for the time

1985-2007 considering a sample of 93 advanced and developing nations, while concentrating more on the last by considering 60 under developed countries. They used the dynamic GMM methodology and the fixed effects models to run their regressions. an attempted on the relationship among political risk and FDI, stressing on each political hazard factor by exploiting 94 nations for the period 1986-2009 using panel data, they confirmed their statistics on the entire world, lower middle-income nations, upper middle-income nations, low-income nations, and high-income nations. They reached an agreement that no matter the area or the nation, countries should work on vindicating political danger and doubt because they affect foreign investment negatively, and their part is essential in the determination of inflows of FDI (Khan and Akbar 2013). Habib and Zurawicki (2002) scrutinized the influence of corruption on FDI for 89 nations over the 1996-1998 periods. The investigation showed a negative effect of corruption on FDI. Furthermore, the study found a negative impact due to the variance in corruption strength between the host and home states. The outcomes suggest that foreign stakeholders generally evade corruption because of ethical duties and also the operational disorganizations that rise due to corruption. More prominently, foreign stockholders evade corruption because it can be problematic to manage, and is dangerous and expensive at the same time. Robertson and Watson (2004) deliberate the effect of corruption on fluctuations in rates of FDI from a planned perspective. They combined strategic results which managers of multinational companies (MNCs) need to implement in the existence of political hazards. However, research such as Nye (1979), discovered that corruption has a positive effect on economic growth and expansion

while Hines (1995) gets a non-significant relationship. Henceforth, it can be presumed that the association between political risk and economic growth is still unclear.

Most researchers agree that strong macroeconomic indicators contribute to advanced FDI inflow in countries. The parts of the administration in firming organizations, refining governance and expressing improvements on liberalizing the economy also play a vital role in enticing FDI in developing countries. A study on the impact of government expenditure to ignite FDI inflow in the economic shows that increase in government expenditure has an optimistic effect on FDI inflows and this effect is much more important in developing countries (Yuan et al. 2010). The idea of government capital expenditure can be referring to spending on various capital projects and provision of infrastructures which is believe to hasten economic growth of every nation. In developing countries, government investment serve a very vital determination and it is very supreme for a justifiable development in the economy. Administrations devote on various projects which are capital in nature, include construction of good roads and airports, building of new and health care facility centers and schools for education, generation of electricity, telecommunications, etc.to ensure economy development. All these are referred to capital investment expenditure mainly for capital projects which helps to improve and maintain economic growth and development.

using annual averaged period panel data for 22 Organizations for OECD nations for the period 1970 to 1995 and applying OLS and GLS methods, (Bleaney et al 2001) studied the effect of government expenditure on economic development.

They resolved those productive public expenses improve economic growth, but unproductive public expenditure does not. Bose et al (2003) using panel data for thirty under developed countries studied the influence of government expenditure over the periods of the 1970s and 1980s, concentrating on sectoral expenses. The result shows that the part of government capital expenditure in GDP is positively significant correlated with economic growth, but insignificant in current expenditure. using time series data and a simple growth accounting model, examined the impact of government expenditure on economic growth in Tanzania for the period between 1965 and 1996 (32yrs). They disaggregated spending into physical venture, consumption expenditure and human capital venture. It shows that improved productive spending in physical venture had a negative effect on growth and consumption spending re-counts positively to growth, while spending on human capital venture was insignificant in their regression and as such, concluded that public investment in Tanzania has not been creative, as at when the study was led (Josaphat and Oliver 2000).

Kimaro, Keong and Sea (2017) scrutinize the impact of government expenditure on economic growth using panel data of low-income Sub Saharan Africa economics for the period 2002 to 2015, The data was sourced from World Development Indicators (WDI) database. GDP per Capital was a proxy used to quantify economic growth of certain countries, while gross capital formation, population, inflation, and consumption expenditure serve a control variable. the findings from the study using Generalized Methods of Moments (GMM) showed that economic growth of low-income countries in Sub Saharan Africa are hasten by increasing government

expenditure, but the study starts that there's no sign that productivity by the government can boost government expenditure to stimulate economic growth. A fiscal policy was suggested by policy makers for low-income areas in Sub-Saharan Africa should ensure that government expenditure is used to improve economic growth.

A study by Jeanneret, 2007 research work titled "a non-linear Story, Foreign direct investment and exchange rate fluctuations:", has examined the volatility rate of exchange rate on FDI using the panel data of 27 states for the period 1982 – 2002. It shows there exist a U outline and non-uniform connections between FDI and exchange rate. Xiong, 2005 in his study on the topic of "Influence of exchange rate fluctuations on foreign direct investment", has deliberate the itemized topic for multi-national organizations in some part of the world for the period 1973 - 2002 using ARDL method and definitely anticipating the influence of other factors of FDI. In the studies FDI inflow to U.S shows bilateral and volatility of exchange rate have a negative impact on FDI outflow for Australia but, only the bilateral exchange rate has significant outcome in Canada, Japan and UK. Yasir et al. (2012) offered in his studies using VECM estimation display a positively and significant relationship between foreign exchange reserves and the exchange rate; but positively and non-significant relationship between FDI and foreign exchange reserves. Macdermott (2008) discovered that real exchange rate is negatively and statistically significant linked to FDI. The unpredictability of exchange rate affects FDI negatively and magnitude of both host nations and guest were positively linked to FDI. Masten, 2007 started the dynamic role played by exchange rate on foreign

direct investment on Latin America in the investigation of a main factor to affect flow of FDI from his thesis about the Effect of exchange rate volatility on U.S. Empirical evidence displays the significant effect that volatility of exchange rate discourages the flow of U.S. FDI into Latin America. but disputes and corruption are the political risk features that have significant effects on FDI flows

However, the image is not as clear as it looks, because higher political risk and government expenditure levels in some countries can also be a source of attraction to foreign investors specially to developing countries where mineral resources are considered first by investors.

There have been numerous researches carried out on the effect of political instability on FDI inflow and also a few research on the pandemic on FDI but the gap of this research is to bring in these two variables and check it impact on FDI inflow in Nigeria.

### **2.3: Theoretical Framework**

Various theories have attempted to elucidate the various explanations and significance behind foreign direct investment. To provide an understanding into the nature and conducts of how foreign direct investment functions, then a theoretical framework is required. Theories like the neo classical trade theory, monopolistic advantage theory, product life cycle advantages, gravity model approach theories all explain the different nature and operation of FDI. The theory that will be discussed in this section would enhance the effectiveness of the empirical analysis that will be discussed in this chapter. These theories have momentous steps towards the growth

of an organized framework for the development of FDI. The main theory that will be discussed is the eclectic theory.

### **2.3.1: Eclectic Theory**

A popular theoretical framework for factors that influences inflow of foreign investors is the “eclectic paradigm” which was ascribed to Dunning (1977, 1993). The theory offers a context that groups the various factors of influence of why and where foreign investors or MNC invest abroad into micro and macro-level. For Dunning in his main theory of internalization and Electric theory where he considered that elimination of imperfection as a cause of forming integration by firm which he refers to as internalization, stated that not just the structure of an organization serves as an essential factor. But that the layout level and arrangement of a multinational firm by FDI are influenced by the collaboration of three sets of codependent variables (Dunning, 2001). The variables are denoted mathematically as;

$$FDI = f(O, L, I)$$

That is foreign direct investment is a function of the three codependent variables where

O = ownership

L = location

I = Internalization

(a) the benefits behind Ownership are the important of competition the organizations get when involve in FDI for instance, such benefits include production techniques, return to scale entrepreneurial skills, and trade mark.



Ownership benefits discourse the motive some firms get overseas due to profits that MNCs have precise benefits that permit it to function and then overwhelmed the operational cost in the foreign nations.

(b) compensations behind location encompasses of area with presence of abundant resources, lower wage for skilled and unskilled labor, distinct taxes duties and tariffs etc. add values to the activities of multinational corporations MNCs.in the alternative countries or region is locational advantage, for undertaking it permit the organizations to trace its company in a foreign market someplace it can advance stimulus by the locations advantages of the country's influences which include policies by the government, legal, institutional preparations, and cultural surroundings and political.

(c) the compensations by productions individually rather than creating through a partnership procedure through joint ventures or licensing is referred to as Internalization advantages. there are three motives for internalization according to Dunning. primarily, hazard and doubt, originating from risk managing process. firm with economic of scale in an imperfect market is the second motive and lastly, absent of business pricing outwardness in the marketplace. in a theory by William 1997, he categories' FDI into

- a) Resource seeking FDI,
- b) Efficiency seeking FDI
- c) Market seeking FDI, and
- d) Strategic asset/capabilities seeking FDI

The backdrop of the OLI categories provides a broad foundation that includes a number of important elements that serve as motivators for foreign investment in a country. Despite the idea that foreign investors are putting their money into another country, the primary quality is that it is a macroeconomically stable country. A location that is suitable and conducive attracts more opportunities in business. Political stability and absence of pandemic play a significant role in investment in every country, with unsuitable political situations foreign ventures will be deferred until the atmosphere is considered satisfactory and encouraging (UNCTAD, 2010).

Dunning's eclectic paradigm made the most significant contribution to the existing literature on FDI by combining multiple complementary ideas and identifying a set of characteristics that drive MNC operations. As a result, his theory was more widely accepted than other flawed market-based hypotheses. Though the theory was criticized mainly on the ground that the eclectic paradigm contains several variables that it misses any operational practicality. Which Dunning himself acknowledged this detail and specified that it was an unavoidable consequence of trying to include the diverse enthusiasms behind FDI into one general concept. With respect to the motivational factors of FDI, what drives MNEs to invest abroad is the most essential question. The imperfect market, according to Hymer (1960), is the basic cause and justification for MNEs investing directly overseas. Furthermore, Resource-seeking: is a kind of FDI designed primarily to acquire natural resources from the nation they are investing into, for it to serve as raw materials in their business. Particularly, in nations that are endowed with rich natural resources on the lesser price as compare to that of their country. Moreover, the resource -searcher

companies increase their events overseas to benefit from low prices of labor mostly in mainly labor-intensive area like industrial and services segment (Kang and Lui, 2016). companies are encouraged to invest abroad to improve its income and competitive level in the other market. the actions of external companies that work in under developed states have been resolute largely by this category of foreign investment, Dunning (1998) claimed that the idea of location for foreign firms don't depend on the accessibility of factors of production but rather weather the investment is new or sequential projects, the aim matters according to Kalyvas and Webster (2011)

2) Market-seeking: is the kind of FDI whose goals is to find novel markets for firms from foreign countries to sell their excess of goods and services, particularly with inadequate market for their product at their country. It also strives to develop marketing tactics by bringing suppliers and customers together in the most important markets (Franco et al., 2010). Other motivations for businesses to engage in this type of FDI include the desire to familiarize their products with local needs or wants, to remove barriers resulting from cultural or religious changes, and to gain a better understanding of modes of communication, business duties, legal requirements, and marketing events. This type is also a fantastic way to break into markets outside of one's home country (Wadhwa and Sudhakara, 2011).

3) Efficiency-seeking: is demarcated as the kind business that are performed by the firms searching for a way improving their productivity by exploiting the reimbursements of economies of scale and opportunity. the main inspirations about this kind of FDI as stated according to Dunning and Lundan (2008) is to get benefit

of difference in cost of labor, price of production, economic rules, institutional measures, size of market, and structure of market across borders. And exploitations of geographical feature setting for host nation (Kudina and Jakubiak, 2008). For instance, the investment laws arranged by governments in host states in the effort to inspire and entice foreign investment is where the external firms take assistances and comfort from; these rights range amid tax concessions, giving guarantees to the investors, permanent investment chances, and eliminating limitations to trade in intermediate and final products.

4) Strategic Assets -seeking FDI is driven by the wish of foreign companies to encourage their worldwide affordability position by obtaining possessions or shares of local current companies for long-term planned purposes (Wadhwa, 2011). Furthermore, the longing of global firms to wane other entrants by misusing precise rate or promotion benefits over their competitors. The idea that stimulates them to improve their title through acquiring competitor's properties.

Markusen (1984) and Helpman (1984) also recommended that the inspirations for FDI can be alienated into two kinds: horizontal FDI (also called market seeking FDI) in order to pursue market in the host country and avoid trade frictions and vertical FDI (also called resource seeking FDI) with the purpose of retrieving low resource such as low labor prices, infrastructure or natural resources in the host country.

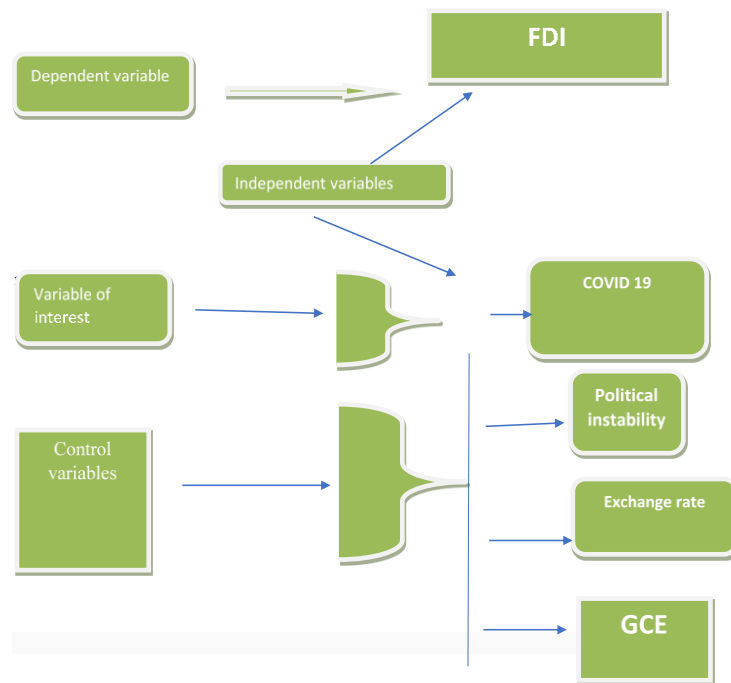
### **2.3:2: FDI Theory Based on Strength of Currency**

The first attempts to analyze FDI in terms of currency strength were made by Aliber (1970) and Dinkar & Rahul (2014). They stated that weaker currencies had a greater potential to entice FDI in attempt to benefit from market capitalization rate swings

than stronger currencies. Aliber had verified his hypothesis through testing in advanced nations such as the United States of America, Canada, and the United Kingdom, and found the results to be true. This concept appears to be ineffective in amplifying FDI between two or more developed nations with equivalent currency values, and it also does not seem to be relevant to FDI in less developed and emerging countries.

## 2.4: Conceptual Model

The conceptual model of the research in **figure 4** is adopted based on the various literature in the study showing the relationships between the dependent variable FDI and the independent variables Covid 19, Political Instability and exchange rate. The variable of interest among the independent variable is Covid 19 and political instability and exchange rate are control variables



**Figure: 5 the conceptual model of the study**

## CHAPTER THREE

### Data and Methodology

#### 3.0: DATA

OBS	VARIABLES	DEFINITION	MONTHLY DATA	SOURCES
1	FDI	Foreign direct investment	Jan. 2015/ oct. 2021	WBEIU
2	COV	Covid 19	Jan. 2015/ oct. 2021	Dummy variable
3	PLS	Political Instability	Jan. 2015/ oct. 2021	WBTE
4	EXC	Exchange rate	Jan. 2015/ oct. 2021	CBN
5	GCE	Governmentcapital expenditure	Jan. 2015/ oct. 2021	CBN

#### 3.1 Sources of Data

The data employed in the research work are secondary data which were obtained from various sources in the economy, for covid 19 dummy variable was used for the analysis since the timeframe used include the pre covid era, FDI was from World Bank Economics Intelligence Unit, EXC and GCE was from central Bank of Nigeria statistical bulletin and PLS data was gotten from the World Bank Trading Economics report all monthly data from the period of January 2015 to date October 2021. (82 observations)

#### 3.2 Justification of Variables

##### 3.2.1 Foreign Direct Investment

FDI is viewed as the quantity of wealth capitalized by foreign depositor in any country. Foreign investment is also referred to as occupational enterprises which are recognized in a state different from the nation's investment which denotes the net influxes of foreign direct investment of a nation with which the investment is

made. So,  $FDI = (fdi / \text{total population})$  which can be describe as foreign direct investment per capital.

### **3.2.2 Political Stability**

Political stability is a crucial instrument to investors in Africa continents, political uncertainty reduced inflow of FDI into East Asia and recommended that enhancing political and economic stability is accommodating for economic development, FDI and any investment in particular as started by Quazi (2007). The proportion of political unrest in any country is calculated given the political instability index rate given a particular time frame in the country.

### **3.2.3 COVID 19**

The recent pandemic covid 19 is believed to have a negative effect on every economy therefore the pandemic will reduce the amount of FDI inflow in a country. Covid 19 was measured using dummy variable.

### **3.2.4 Government capital expenditure**

The idea of government capital expenditure can be referring to spending on various capital projects and provision of infrastructures which is believe to hasten economic growth of every nation. government expenditure has an optimistic effect on FDI inflows and this outcome is much more important in developing countries, according to (Yuan et al. 2010).

### **3.2.5 exchange rate**

The rate at which a countries currency is exchange for the other. Higher exchange rate discourages FDI inflow into a country.

### 3.3 Table of the Data Used

MONTH	COVID19	FDI	GCE	EXCH	POLSTA
Jan-15	0	4.540905	4.587531	2.267641	-0.79588
Feb-15	0	4.537983	4.586272	2.296665	-0.88606
Mar-15	0	4.542987	4.592221	2.294466	-0.76955
Apr-15	0	5.573803	4.516086	2.294466	-0.74473
May-15	0	5.564478	4.516919	2.294466	-0.30103
Jun-15	0	5.567182	4.504892	2.294246	-0.79588
Jul-15	0	5.581614	4.579601	2.294466	-0.82391
Aug-15	0	5.581614	4.580948	2.294466	-0.85387
Sep-15	0	5.581614	4.578318	2.294246	-0.76955
Oct-15	0	4.734312	4.693964	2.294466	-0.92082
Nov-15	0	4.735822	4.693982	2.294466	-0.82391
Dec-15	0	4.735104	4.693876	2.294466	-0.76955
Jan-16	0	5.595501	5.557276	2.294466	-0.82391
Feb-16	0	5.595501	5.568212	2.294466	-0.88606
Mar-16	0	5.595501	5.568089	2.294466	-0.92082
Apr-16	0	5.440505	5.630338	2.294466	-0.85387
May-16	0	5.438316	5.689594	2.294466	-0.76955
Jun-16	0	5.444376	5.671369	2.451786	-0.92082
Jul-16	0	5.41113	5.651502	2.495544	-0.92082
Aug-16	0	5.41113	5.661945	2.485721	-0.82391
Sep-16	0	5.41113	5.663947	2.4843	-0.92082
Oct-16	0	5.411918	5.69486	2.4843	-1.04576
Nov-16	0	5.412153	5.699855	2.4843	-0.76955
Dec-16	0	5.413317	5.699768	2.4843	-1



Table 3.2 (Continued)

Jan-17	0	5.407156	5.788297	2.484727	-0.76955
Feb-17	0	5.406498	5.784103	2.485011	-0.82391
Mar-17	0	5.408257	5.73221	2.486289	-0.76955
Apr-17	0	5.3332	5.63786	2.485579	-0.88606
May-17	0	5.333342	5.637861	2.484869	-0.85387
Jun-17	0	5.333806	5.63787	2.485579	-0.79588
Jul-17	0	5.34725	5.724957	2.485153	-0.95861
Aug-17	0	5.34705	5.724264	2.485579	-0.88606
Sep-17	0	5.348403	5.725129	2.485437	-0.92082
Oct-17	0	5.356266	5.80399	2.485437	-0.88606
Nov-17	0	5.357938	5.804849	2.485721	-0.79588
Dec-17	0	5.357914	5.806188	2.485721	-0.82391
Jan-18	0	5.368795	5.855005	2.485295	-0.76955
Feb-18	0	5.368796	5.851228	2.485579	-0.72125
Mar-18	0	6.368799	5.847011	2.485295	-0.88606
Apr-18	0	5.371445	5.720524	2.485295	-0.95861
May-18	0	5.372354	5.717696	2.485579	-0.85387
Jun-18	0	3.373105	4.771623	2.485437	-0.82391
Jul-18	0	5.375577	5.7944	2.485579	-0.76955
Aug-18	0	4.37021	5.799408	2.486005	-0.79588
Sep-18	0	5.375577	5.80612	2.486289	-0.88606
Oct-18	0	5.381299	5.811708	2.486572	-1.09691
Nov-18	0	5.382214	5.814069	2.486855	-0.95861
Dec-18	0	5.381346	5.820215	2.487138	-0.79588
Jan-19	0	5.398922	5.910202	2.556303	-0.76955
Feb-19	0	5.398924	4.909009	2.555699	-0.85387

Table 3.2 (Continued)

Mar-19	0	5.398924	5.90304	2.555094	-0.88606
Apr-19	0	5.41095	6.84692	2.555094	-0.95861
May-19	0	5.396041	5.846235	2.556303	-0.72125
Jun-19	0	5.397937	5.897017	2.556303	-0.88606
Jul-19	0	5.419386	5.897194	2.555094	-0.85387
Aug-19	0	5.419793	5.898211	2.555094	-1
Sep-19	0	5.414622	5.924647	2.555094	-0.76955
Oct-19	0	5.410274	5.930474	2.555094	-0.82391
Nov-19	0	5.395002	5.929394	2.555094	-0.79588
Dec-19	0	5.398098	5.929436	2.558709	-0.85387
Jan-20	0	5.361554	5.907912	2.555094	-0.79588
Feb-20	1	3.339966	1.63322	2.486374	-0.88606
Mar-20	1	3.383437	2.34202	2.513391	-1
Apr-20	1	4.300162	2.34775	2.556905	-0.79588
May-20	1	3.201332	4.45103	2.556905	-0.92082
Jun-20	1	3.380645	6.51027	2.556905	-1.09691
Jul-20	1	4.31204	6.60958	2.575984	-0.85387
Aug-20	1	4.313597	5.2098	2.580355	-0.88606
Sep-20	1	4.298137	1.91923	2.580355	-0.79588
Oct-20	1	5.32777	6.09089	2.580355	-0.74473
Nov-20	1	4.327774	6.40177	2.580355	-0.76955
Dec-20	1	4.327768	5.37922	2.580355	-0.79588
Jan-21	1	5.340447	4.28922	2.589816	-0.72125
Feb-21	1	5.274211	4.87911	2.601549	-0.58503
Mar-21	1	6.24979	5.47069	2.597125	-0.76955
Apr-21	1	3.330085	6.01005	2.580332	-0.52288

Table 3.2 (Continued)

May-21	1	3.189659	6.24018	2.614887	-0.55284
Jun-21	1	3.17199	6.01818	2.612932	-0.85387
Jul-21	1	3.977408	5.82599	2.614328	-0.72125
Aug-21	1	3.892098	5.91262	2.61438	-0.85387
Sep-21	1	4.340425	4.121166	2.611798	-0.74473
Oct-21	1	3.322205	4.064982	2.613419	-0.92082

### 3.4: Unit Root Analysis

Before looking at probable co-integration between the independent variables and the dependent variable, the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests are used to test the level of integration. (Dickey & Fuller 1981; Phillips & Perron 1988; Dickey & Fuller 1981; Dickey & Fuller 1981; Dickey & Fuller 1981 To confirm our conclusion and assure the right level of integration of the utilized variables, we use the PP techniques, which calculate a residual variance that is robust to autocorrelation as an alternative to ADF to test for unit roots. The ADF test statistic is assessed based on the following three equations. Equation 3.1 tests unit root with constant only

Equation 3.2 includes time trend in addition to the constant.

Equation 3.3 specifies a pure random walk equation.

$$\Delta X_t = \mu + \alpha x_{t-1} + \sum_{i=1}^k \beta \Delta X_{t-i} + \varepsilon_t \quad (3.1)$$

$$\Delta X_t = \mu + \beta t + \alpha x_{t-1} + \sum_{i=1}^k \beta \Delta X_{t-i} + \varepsilon_t \quad (3.2)$$

$$\Delta X_t = \alpha x_{t-1} + \sum_{i=1}^k \beta \Delta X_{t-i} + \varepsilon_t \quad (3.3)$$

where  $\Delta$  denotes the first difference operator,  $X_t$  is the variable under consideration,  $\mu$  is the constant term,  $t$  is the time trend,  $x_{t-1}$  is the lag of the series being tested,  $k$  denotes lag length,  $\Delta X_{t-i}$  is first difference lagged series is usually engaged to remove the issue of serial correlation (Dickey & Fuller, 1979) and  $\varepsilon$  is the white noise process with  $\varepsilon_t \sim iid(0, \sigma^2)$ . The term  $k$  in this test is automatically resolute by Schwarz Information Criterion (SIC) or Akaike Information Criterion (AIC) in selecting the optimal lag length and ensure white noise process of the residuals. The null hypothesis of the ADF test states that the sequence is associated with a unit root, that is,  $\alpha = 0$  while the series is stationary is associated with the alternative,  $\alpha < 0$ . Therefore, if the  $t$ -statistic is less than the critical values at the appropriate significance level, the series is considered to be stationary.

### 3.5: Model Specification

The study adopts the linear model which stretches the inner suggestion between the dependent and independent variables. Our model can be depicting in the following linear form

$$LFDI_t = \beta_0 + \beta_1 COV_t + \beta_2 LPLS_t + \beta_3 LEXC_t + \beta_4 LGCE_t + \mu_t$$

Where LFDI = log foreign direct investment

COV = covid 19 pandemics

LPLS = log political stability rate

LEXC = log exchange rate

LGCE = log government capital expenditure

$\mu$  = disturbance term (white noise)

t = represents time period.

B's = the coefficient of the variables

### **3.6: Estimation Procedures**

The study will exploit ARDL mode of analyzing its variables, the techniques was first familiarized by Pesaran and Shin (1999) and Pesaran, Shin and Smith (2001) stretched it later to help study the co-integration relationship between the dependent variables and the independent variables. The uniqueness of this co integration test is that it has numerous advantages over the other cointegration test. first and foremost, unlike other various techniques, the ARDL techniques considered all the variables under study not minding their level of integration, regressors can be integrated of order one I (1) and order zero I (0) the ARDL does not place restrictions on the order of integration of the variables to be the same. secondly the model provides unbiasedness in its long run co integration and gives a valid *t*-statistics (Odhiambo, 2008; 2011). The ARDL model of testing does not mind the number of the sample size, that is to say it takes recognition of small sample size variables as compare to other technique that lay emphasis on large sample size. Narayan (2005). the study will like to estimate the co integration level between FDI and covid 19 pandemic using Autoregressive Distributed Lag (ARDL) model but first after conducting the bound test to check if their exit co integration amongst the variables.

the study did estimations of the robust Autoregressive Distributed Lag (ARDL) model. Following Pesaran et al. (2001); Narayan (2005), The bound's testing method is used to check the presence of any co integration connection amid the variables.

Our model is as follows: (3.6:1)

$$\begin{aligned}
 L\Delta FDI_t = & \beta_0 + \beta_1 L\Delta FDI_{t-1} + \beta_2 COV_{t-1} + \beta_3 LPLS_{t-1} \\
 & + \beta_4 LEXC_{t-1} + \beta_5 LGCE_{t-1} + \sum_{i=0}^p \Psi_1 \Delta LFDI_{t-1} \\
 & + \sum_{i=0}^p \gamma_1 \Delta COV_{t-1} + \sum_{i=0}^p \varphi_1 \Delta LPLS_{t-1} \\
 & + \sum_{i=0}^p \lambda_1 \Delta LEXC_{t-1} + \sum_{i=0}^p \delta_1 \Delta LGCE_{t-1} + \mu_t
 \end{aligned}$$

LFDI is log foreign direct investment,

COV = covid 19 pandemic

LPLS = log of political stability rate

LEXC = log of exchange rate

LGCE = log of government capital expenditure

$\mu$  = disturbance term (white noise)

The coefficient  $\beta$  denotes the parameters of the variables in question.

The subscript  $t-1$  denotes period of lag.

$\Delta$  denotes the differential operator or change

These coefficients  $\psi, \gamma, \varphi, \lambda, \delta$  denotes the parameters of each variables given the change or first differences, while  $\mu$  denotes error term.

$t$  represents time period.

To study long-run connection among the variables under thought, the ARDL bounds co integration test modeling method was implemented in the study. This test was used to scrutinize the indication of a connection in the long run among the variables that is shown using the F-test. It combined significance of a period lagged coefficients level of the variables. There critical values as reported by Pesaran and Pesaran (1997) are two sets and were also later explained in Pesaran et al. (2001). The arrangements of the regressors into virtuously I (1), virtuously I (0) or mutually co-integrated are explained by the two-set critical value.

It is stated that if the calculated F statistics value is greater than the critical value of the upper bound figures, at that moment the null hypotheses are rejected. It displays a sign that there is co-integration between the variables, the revise is the case if the value is lower than of F-statistics than critical value in the upper bound then we accept the null hypothesis because this is a sign that no co-integration amid the variables. The present of co integration in the variables will enable us to test for long run and short run elasticity estimations.

### **3.7: Long Run Estimation**

The coefficients of the long run are can assessed elasticity between the variables and FDI inflow based on Equation 4.4 specified underneath.

(3.7:1)

$$L\Delta FDI_t = \beta_0 + \beta_1 LFDI_{t-1} + \beta_2 COV_{t-1} + \beta_3 LPLS_{t-1} + S\beta_4 LEXC_{t-1} + \beta_5 LGCE_{t-1}$$

Here, the variables are as earlier explained under Equation 3.6 The study evaluates the long run equation built using automatically lag length selected information by Akaike information criteria in the presence of co integration.

### **3.8: Stability test**

Pesaran and Pesaran (1997) propose a stability test by applying the cumulative sum of recursive residuals (CUSUM) and the CUSUM of square (CUSUMSQ) tests proposed by Brown et al. (1975) to evaluate the parameter constancy that is stability.

### **3.9: Granger Causality Test**

For the interconnection amongst the variables to stand detected, the research implements the technique advanced by Engle and Granger (1987). It is a technique of examining the causality amongst dual variables that are carefully related. The lagged value of any value let's say Q is assumed by the null hypothesis that it does not affect the variation in another variable, Y. Assuming two non-stationary variables that are cointegrated, as given by Engle and Granger (1987), there is a misspecification in the result in the first difference. When identifying Granger causality, if there is a long-run steady equilibrium relationship between COVID and FDI, the requirement for model specifications with a dynamic error correction symbol arises, resulting in a one-lagged period ECT obtained from the cointegrated model.



$$\Delta LFDI_t = \alpha + \sum_{i=0}^p \gamma_1 \Delta LCOV_{t-p} + \sum_{i=0}^p \varphi_1 \Delta LPLS_{t-p} + \sum_{i=0}^p \lambda_1 \Delta LEXC_{t-p} + \sum_{i=0}^p \delta_1 \Delta LGCE_{t-p} + \mu t - 1 \quad \text{eq (1)}$$

$$\Delta LCOV_t = \alpha + \sum_{i=0}^p \gamma_1 \Delta FDI_{t-p} + \sum_{i=0}^p \varphi_1 \Delta LPLS_{t-p} + \sum_{i=0}^p \lambda_1 \Delta LEXC_{t-p} + \sum_{i=0}^p \delta_1 \Delta LGCE_{t-p} + \mu t - 1 \quad \text{eq (2)}$$

where  $\Delta$  denotes the first difference of variable,  $\mu t - 1$  is the lagged ECT, and  $p$  symbolizes the lag length and other variables are as explained before.

### 3.10: End of Chapter Summary

The idea in this chapter deliberated on the methodology that will be suitable in our investigation, the studies used the ARDL technique to analyze its result based on the model description on various literatures. It aimed at examining the impact of COVID 19 pandemic and other control variables like political instability, exchange rate, and government capital expenditure on FDI inflow in Nigeria by estimating the long run elasticity and short run elasticity of the coefficient using the formula of the equations based on the ARDL specifications.

## CHAPTER FOUR

### Empirical Results and Discussion

#### 4. 1: Introduction

The chapter aim to discuss the empirical findings of the analysis of the impact of covid 19 on foreign direct investment inflow in Nigeria. However, the ARDL will be used to find the long run relationship between foreign direct investment as the dependent variable and covid 19, political instability, exchange rate, and government capital expenditure as the independent variables. Some of the analysis involved includes the unit root estimation using the ADF (Augment Dickey Fuller), correlation analysis, the bound test, long and short run co integration, diagnostic check, and conclusion.

#### 4.2: Unit root test result

before any other estimation procedures, a unit root test is essential to obtain a valid t-statistics which show the level of stationarity in time series data. The unit root results are presented in table 5.2. both intercept and intercept and trend regressors were included in the equation in the unit root test.

**Table 4.2: unit root test**

Table 4.2.1: *ADF unit root test*

Variable	Constant without trend		Constant with trend	
	Level	1 <sup>st</sup> Difference	Level	1 <sup>st</sup> Difference
LFDI	-2.842*	-12.920***	-5.287***	-12.912***
COV	-0.570	-8.944***	-1.847	-8.969***
LPLS	-8.304***	-9.398***	-6.882***	-9.336***
LECH	-1.636	-8.031***	-2.337	-7.998***
LGCE	-4.962***	-8.318***	-5.107***	-8.304***

Note: Given the t statistical figure that the null hypothesis has unit root, \*\*\*, \*\*, and \* represent significance levels of 1%, 5%, and 10%, respectively. The length of the lag is calculated automatically using Schwarz information criterion. The critical values for intercept without trend are -3.483, -2.884, and -2.579, respectively, whereas the critical values for intercept with trend are -4.032, -3.146, and -3.148 for 1%, 5%, and 10%, respectively.

Table 4.2.2: *Phillips-Perron unit root test*

Variable	Constant without trend		Constant with trend	
	Level	1 <sup>st</sup> Difference	Level	1 <sup>st</sup> Difference
LFDI	-4.146***	-19.729***	-5.264***	-24.102***
COV	-0.570	-8.944***	-1.857	-8.969***
LPLS	-6.940***	-33.573***	-6.922***	-31.850***
LEXCH	-1.636	-7.992***	-2.337	-7.954***
LGCE	-4.774***	-17.984***	-4.708***	-22.275***

Note: Given the t statistical figure that the null hypothesis has unit root, \*\*\*, \*\*, and \* represent significance levels of 1%, 5%, and 10%, respectively. The length of the lag is calculated automatically using Schwarz information criterion. The critical values for intercept without trend are -3.483, -2.884, and -2.579, respectively, whereas the critical values for intercept with trend are -4.032, -3.146, and -3.148 for 1%, 5%, and 10%, respectively.

the unit root test results in table1 and table 2 which shows the level of integrated of all the variables are at order I (1) after taking the first differences. Three of the variables are also integrated at level I (0), those variables are COV, LPLS, LGCE were all integrated at both level and first differences given constant and constant with trend. Both unit root test shows rejection of null hypothesis (H0) implying that the series has a non-stationarity level as against the alternative hypothesis which stated that the series has stationarity. Our results show stationary of the variables at both order I (0) and I (1) respectively.

#### **4.3: Bound test for co integration**

When we determine the order at which the variables are integration, then subsequently we assess whether our variables investigated are co integrated. the assortment of the optimum lag length is a vital thing in smearing a bound testing method to co integration. A condition where the selected lag length is not as much as the real lag length, the lapse of related lags will result in biasness. Another condition is where the selected lag length is higher than the real lag, the presence

of unproductive assessment due to unrelated lag in the equation is offer and does not stretch the anticipated outcomes (Bahovec and Erjavec, 2009.) the lag length is established at maximum at four, which is a long adequate time for the monthly data to detent the dynamic connection (Tang & Shahbaz, 2011).

The result of the co integration is shown in table 4.3.1

**Table 4.3.1:** *The result of ARDL co integration bound test*

Bound testing to co integration		
F (LFDI/ COV, LGEC, LEXCH, LPOLSTA)		
Optimal lag structure	ARDL (1, 2, 3, 0, 0)	
f- Statistics	8.09	
Significant level	critical value	
	Lower bound I (0)	upper bound I
(1)		
10%	2.20	3.09
5%	2.56	3.49
2.5%	2.88	3.87
1%	3.29	4.37

Note: The significant levels at 1%, 5%, and 10% are shown by \*\*\*, \*\*, and \*, respectively. The f statistics numbers are used to test the null hypothesis that there is no cointegration between the series.

A combined significant F-test for the null hypothesis of no co integration relationship, represented as (H0:  $b_0 = b_1 \dots = b_k = 0$ ), was used to determine the existence of a co integration relationship between FDI and the other variables. The planned F-statistics for the co integration test F (FDI/ COV, GEC, ECH. PLS) = 8.09, which is more than the 1% upper bound critical value, is fascinating (4.37). This suggests that FDI and other factors in our analysis, as initiated by Narayan (2005), are co-integrated. Thus, calculation of the long run outcome is required to

evaluate the effect of COVID 19 pandemic, political instability, exchange rate and government capital expenditure to FDI influx in the country.

#### 4.4: ARDL results

The presence of a long run connection leads us to study the greatness of the effect of COVID 19 pandemic, political instability, exchange rate and government capital expenditure to foreign direct venture influx in Nigeria. The outcome of the long run bond can be perceived in table 4. 4:1 and that of short run-on table 4.4:2

**Table 4.4:1: ARDL results**

**ARDL coefficient** – dependent variable is FDI

Regressor	coefficient	P-Value
COV	-0.8066	0.0004 ***
LPLS	0.0993	0.0000 ***
LEXCH	-1.4581	0.0091 **
LGCE	0.2714	0.1522
C	7.5186	0.0035 **

The outcomes of the assessed coefficients of the connection in the results stated in Table 4.4:1 shows that COVID 19 is revealed to be very significant then negative as shown by the co efficient, which is as anticipated. It implies that a 1% increase in the rate of covid 19 pandemic infection in the country will lessening the proportion of foreign direct investment interested to invest in the state by 80% as shown in the table. It is a well-known fact for sure to all that the entire economic activities of every nation will be affected by this strange crisis, but the extend of which cannot be ascertained. the crisis has quite more impact to the lower-income and middle-income economy of the world. Although the impact of this pandemic

is directly through contagion health wise, but the economic impacts are largely an importance of the protective measures adopted by the various individual governments to limit its spread. The global effects of the COVID-19 outbreak were evaluated by UNCTAD (2020). Specifically, the study looked at the influence of the COVID-19 health crisis on China's intermediate goods exports to various countries and economic groups around the world. Even if the virus outbreak is restricted within China, the reality that China's exports are essential to many enterprises and underdeveloped regions throughout the world means that any disruption in China's exports will be felt globally, according to the report.

From the table above PLS as shown from the coefficient is significant but positive, several studies conducted from both advanced and under developed nations, examine the economic, financial and political outcome on investment inflow in every country which has yield different results. Some authors acknowledge the “grabbing hand” theory, which state that uncertainty on political issues enhances business charge of foreign venture as stockholders are obligatory to facilitate their business through paying bribes. Political uncertainty enhances another coat of hesitation on economic action, resulting in unsettling invention and dropping foreign investors encouragements to capitalize in a nation. In an argument by Al-Khouri and Abdul Khalik (2013) organized excellence and political certainty coupled with steady macroeconomic plans are vital basics in getting the courtesy of external investors. Furthermore, according to Sparks et al. (2014), there are five main areas that limit foreign direct investment, with political factors being the most important after economic factors. From this view one can agree with the short run

analysis that was significant and negative, but a contradicting view shows that various studies proclaimed that degree of political uncertainty is not important to investment inflow in the country, taking in recognition of the state's own natural resources, thus no additional encouragement may be essential by the foreign investors. the idea of the "helping hand" theory is preferable by other authors, which maintains that the relationship between FDI and political unrest is positive, particularly when the danger is linked with corruption. Cause the word corruption permits businesses to jump lawful protocols and luxurious paperwork. corruption cuts bureaucratic footraces and overpowers governmental difficult measures of doing business, thus enabling the actions of opening and doing business. (Egger and Winner 2005 and Dreher and Gassebener 2013). Such type of foreign investment is known as resource seeking. The results from our analysis are showing a positive connection between political instability and FDI inflow in the country. 1% increases in political instability can increase FDI by 9%.

Exchange rate as one of variable used in the analysis has a coefficient that was significant and negative in the result. Which infers that a 1% increase in level of exchange rate will reduces the number of foreign investors into the country by more than a 100% in the long run. According to a study carried out by phillip nwosa (2021) on covid 19 and FDI using exchange rate as one of its variables, The study concluded that the covid 19 pandemic has a negative impact on the oil price, exchange rate and stock exchange performance which has consequences on the FDI in the country. Liu and Deseatnicov (2016) offered that exchange rate is negatively significant towards the FDI outward movement in short run, but positive related in

the long run. In other words, outward FDI is prejudiced positively and significantly by exchange rate volatility. Udomkerdmongkol et al. (2008) revealed that FDI upsurges as currency depreciate and anticipated depreciation of currency declines FDI.

As a result of the COVID-19 epidemic, growth forecasts for the global economy have been revised. Every aspect of our lives has been affected by the pandemic. It has had a wide range of economic repercussions, from dramatically reduced consumer discretionary spending to a freeze on business activity like capital budgets, hiring, and a reduction in all but necessary operational expenses. Nonetheless, it is evident that, in the current environment, some industries, such as the information and communication technology (ICT) industry, may become more vital to our lives and confront increased demand. The Coronavirus (Covid-19) emergence and dissemination will have a negative impact on worldwide foreign direct investment (FDI) flows. Depending on the virus's course, which could range from short-term steadiness to year-long retention, the damage on FDI will be -5 percent to -15 percent (compared to previous forecasts projecting marginal growth in the FDI trend for 2020-2021). Despite the fact that negative demand shocks and the economic repercussions of supply chain disruptions may impair investment performance in other countries, the pandemic's effect on FDI will be focused in the worst-affected countries.

The immediate impact of COVID-19 on global foreign direct investment (FDI) flows was severe, resulting in a significant reduction. The Visegrad countries were also affected, but to a lesser extent than the rest of the world. The drop in FDI was



caused by underlying tendencies that began before the epidemic but were exacerbated by it, creating a "perfect storm." The digitalization of production and the birth of Industry, these secular trends include asset-light international production and reorganizations of company networks, the sustainability imperative, which has prioritized the impact of FDI over its quantity, and a slowdown in the liberalization of FDI policy frameworks both in individual countries and at the multilateral level. It will take a long time for FDI to recover from the shock of 2020, and it will be impossible to revert to pre-pandemic structural and geographical patterns. Investors will prioritize building resilience and diversification of production over searching for the lowest-cost sites, compelling host countries to rethink current investment promotion strategies based on cost reduction. The paradigm predicated on cheap labor costs in the Visegrad countries will eventually meet its limits, The Visegrad countries' position has been impacted by the pandemic-related drop in FDI. While they had a fall in FDI inflows in 2020, their overall share of global flows improved compared to prior years, owing to the slower rate of decline compared to other nations. The four countries in the study have relatively high performance can be linked to the completion of several significant projects in 2020. Some of these projects, particularly in the automotive industry, reflect the economies' longstanding specialization in "conventional" efficiency- or market-seeking endeavors. In the midst of the COVID-19 pandemic, this piece attempted to analyze the world of FDI in full mutation. We showed that the pandemic simply expedited and catalyzed underlying trends that have a large

impact on FDI, such as digitization, growing emphasis of sustainability, and fragmentation in international policy-making.

According to the UNCTAD World Investment Report 2020 (UNCTAD, 2020b), FDI climbed somewhat in 2019 in all categories of countries classified by income level, with the exception of the LDCs, which had a 5.7 percent fall. In the first half of 2020, global FDI declined by 49%, owing mostly to widespread lockdown measures that hampered the realization of ongoing and announced investment projects (UNCTAD, 2020a). Inward FDI flows to LDCs are likely to decrease even further in 2020. (UNCTAD, 2020c). According to the most recent IMF projections, net FDI flows per capita are expected to drop in 22 of the 29 sub-Saharan LDCs by 2020. LDCs that rely heavily on oil and gas are particularly vulnerable. Inward FDI has decreased by 27% in Mozambique, one of the top LDCs receiving FDI, owing in part to delays in the completion of an offshore gas project induced by the epidemic. Tourism-dependent LDCs will suffer a decrease in FDI in that sector as well. Greenfield FDI projects announced in 2019, a major sign of foreign investors' intentions, were already down in 2019 and fell further in the first quarter of 2020. (UNCTAD, 2020a)

According to UNCTAD's World Investment Report 2021, published on June 21, FDI flows to the transition economies of South-East Europe, the Commonwealth of Independent States (CIS), and Georgia fell by more than half in 2020, to \$24 billion, its lowest level since 2003. Despite recovery efforts, a return to pre-pandemic levels of inward FDI in the next years is improbable," said James Zhan, UNCTAD's director of investment and enterprise.

In China, the processes of attracting FDI and expanding the economy were almost simultaneous. From 1992 to 1997, it was the world's second-largest FDI receiver for five years in a row, accounting for more than 10% of worldwide cross-border FDI. China has maintained the world's second-largest FDI receiver for the past ten years, despite a global economic slowdown and a European debt crisis sparked by the global financial crisis (excluding 2015 and 2016). The overall amount of IFDI in 2019 hit a new high of \$141.2 billion. Even though China has reached the so-called New Normal, the continued increase of IFDI demonstrates that international investors remain optimistic about the country's economic potential. These empirical findings appear to be corroborated by China's total quantity of actually utilized FDI. Due to the statewide lockdown in February and March of 2020, when COVID-19 was initially discovered and distributed in China, total IFDI fell drastically by 25.6 percent and 14.1 percent, respectively. China implemented strict quarantine measures to prevent and control the pandemic, includes complete lockdown of badly infected cities and communities, mobilization of national resources to establish specialized and makeshift hospitals, provision of free medical tests and medical care/treatment, and so forth. The government has been able to effectively contain the sickness in a relatively short amount of time as a result of this. Certain western countries, such as the United States, on the other hand, were unwilling to deploy significant national control and preventative measures at the onset of the outbreak, missing a critical window for infection containment. However, because the epidemic was successfully contained, the Chinese economy has the ability to attract IFDI quickly rebounded. From April to November, China's IFDI increased

for eight months in a row, significantly compensating for losses in February and March. The plan from the Chinese government to sustain growth entails focusing on the domestic economy as a mainstay while also taking advantage of the complementing benefits of both the domestic and global economies. The goal of this type of development pattern is to assist in dealing with complex internal and external difficulties (China Daily, 2020). Instead of considerable development in drawing foreign capital or making investments in other countries, China's 14th Five-Year Plan (2021–25) is expected to focus more on developing a stronger home market and paying more attention to quality and efficiency.

In American, President Trump did not devote enough effort to averting the disease's spread across states and into local communities. He even ordered the United States to stop paying the WHO on April 14 and to depart the group on July 8. All of his activities are likely to have diverted domestic efforts to stop the virus from spreading in the United States. Various 'frictions' have arisen between the US and China. since Donald Trump assumed office in 2017. The ongoing trade war between the United States and China, as well as US sanctions against China's high-tech enterprises, represent substantial threats and difficulties to China's economic development and cross-border FDI goals. COVID-19's enormous shock has had an impact on China's overseas trade and investment. In response, China has promoted the so-called dual circulation model. In 2020, the United States raised its share of FDI in the region from 27% to 37%, while Europe (which fell from 51% to 38%) and Latin America (which fell from 51% to 38%) had large declines (which went from 10 percent to 6 percent). "The United States' reduced fall as a source of FDI

is primarily due to an increase in that country's investments in Brazil in 2020." In contrast, between 2020 and 2019, inflows from the two European nations with the greatest investments in Brazil – the Netherlands and Luxembourg – declined, reducing Europe's weight as an investor."

The coronavirus pandemic has wreaked havoc on India's economy and resulted in the deaths of thousands of people. Almost all industries have been negatively impacted, with a few notable exceptions, since domestic demand and exports have dramatically declined, with a few remarkable exceptions showing substantial growth. A few prominent industries are assessed for their influence and proposed cures. The COVID-19 epidemic has mostly harmed India's economy. According to the Ministry of Statistics, India's growth slowed to 3.1 percent in the fourth quarter of fiscal year 2020. According to India's Chief Economic Adviser, the reduction is primarily attributable to the impact of the coronavirus pandemic on the Indian economy. According to the World Bank, India has been in a pre-pandemic slump, and the current pandemic has "magnified pre-existing dangers to India's economic prospects.

#### **4.5: Diagnostic test**

The diagnostic test will be Heteroskedasticity using Breush-Pagan-Godfrey to determine if there is a problem with heteroskedasticity, LM test using Breush-Godfrey to see if there is auto-correlation, and the distribution of the error terms will be checked using the Normality test. All of this will be demonstrated in order to demonstrate the robustness of our research model., below is the discussion of the result. The result for the diagnostic test can be seen in table 4.5:1

**Table 4.5:1: Diagnostic testing**

Diagnostic test	tests statistic
JB Normality test	65.7479 (0.0000) ***
Breusch Godfrey serial correlation LM test	0.3733, 0.3350
Heteroskedasticity	0.0185*, 0.0225*

Note that \*\*\*, \*\*, and \* reflect the level of significance at 1%, 5%, and 10%, respectively.

The outcome presentation in table 4.5:1 displays the accuracies of the model to full diagnostic test executed for serial correlation, heteroskedasticity, and JB normality assessment. The LM serial correlation test has observed from the table shows non-significant rate of probability values which shows that the data does not exhibits the problem of serial correlations therefore we reject the null hypothesis. But this cannot be said for heteroskedasticity results which was significant at 10% for which therefore we accept the null hypothesis which started that there is problem of heteroskedasticity from the data. The JB normality test result also shows significant level; therefore, we accept null hypothesis that started that the data are not normally distributed.

**Correction of heteroskedasticity using weighted least square:** Weighted regression is a method of assigning a weight to every data set based on the variance of its fitted value. The goal is to use modest weights to lower the squared residuals of observations with higher variances. In weighted regression, the sum of weighted squared residuals is minimized. When the appropriate weights are employed, heteroscedasticity is replaced by homoscedasticity. below in table 4.5.2 is the

results of the heteroskedasticity test using Breusch- pagan- Godfrey in weighted least square

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.513122	Prob. F(4,77)	0.2067
Obs*R-squared	5.975787	Prob. Chi-Square(4)	0.2010
Scaled explained SS	15.56948	Prob. Chi-Square(4)	0.0037

Table 4.5.2

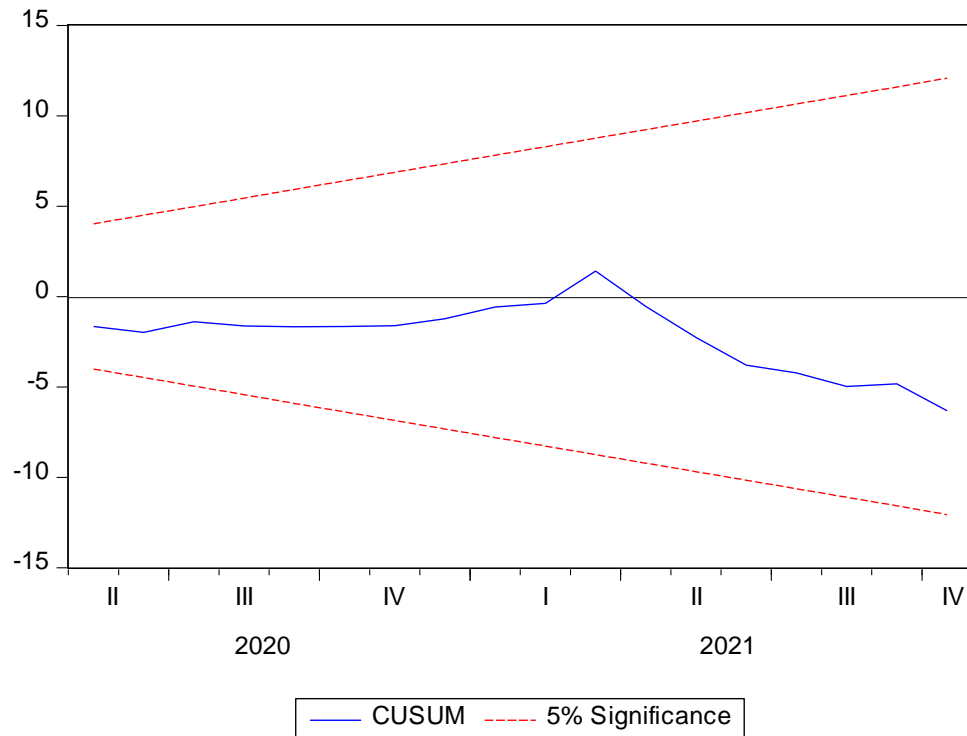
Diagnostic test	t- statistic
Heteroskedasticity	0.2067, 0.2010

Note that \*\*\*, \*\*, and \* reflect the level of significance at 1%, 5%, and 10%, respectively.

Given the probability values in table 4.5.2, which were not significant shows that we reject the null hypothesis that stated that the is problem of heteroskedasticity and accept alternative hypothesis that says no problem of heteroskedasticity in other words all variables are homoskedasticity in nature. which confirm that the model is now free from heteroscedasticity.

#### 4.6: Stability test

The CUSUM (cumulative sum of recursive residuals plot) and CUSUMSQ (cumulative sum of square of recursive residual plot) evaluations aid in displaying the consistency of the regressors' long run coefficients. The assessed coefficients are said to be stable if the CUSUM statistic's plan stays within the 5% significance level. The CUSUMSQ is analyzed using a similar technique.



The figure of CUSUM is within the boundary lines, showing the stability of the model in the long run co efficient of the regressors. Since all the results of the stability, normality, heteroskedasticity, and diagnostic check has been depicting from our analysis to be normal, we then check for the bound test, long run and short run relationship between FDI and the determinants in the series.



#### 4.7: Granger Causality test result

<b>Table:4.7:1 granger causality result</b>		
<b>Null Hypothesis</b>	<b>F-statistics</b>	<b>Prob. Decision</b>
COVID does not granger cause FDI	6.77528	0.0020 Reject null
FDI does not granger cause COVID	0.01308	0.9870 Accept null
GCE does not granger cause FDI	0.34386	0.7101 Accept null
FDI does not granger cause GCE	0.60185	0.5504 Accept null
EXCH does not granger cause FDI	2.09242	0.0005 Reject null
FDI does not granger cause EXCH	1.57695	0.0134 Reject null
PLS does not granger cause FDI	0.37135	0.0011 Reject null
FDI does not granger cause PLS	0.18108	0.8347 Accept null

Table 4.7:1 shows the granger causality test result. The result shows that COVID granger cause FDI so we reject the null hypothesis but the other way round FDI does not granger cause COVID therefore we accept the null hypothesis, this shows a unidirectional relationship between COVID pandemic and FDI inflow in the country. GCE does not granger cause FDI and FDI does not granger cause GCE therefore in this case we accept null hypothesis in both cases which so both does not granger cause one another. EXCH granger cause FDI and FDI granger cause EXCH therefore in these cases we reject null hypothesis which shows that both scenarios here show a bi directional relationship between EXCH rate and FDI inflow in the country. PLS granger cause FDI we reject null hypothesis and likewise FDI does not granger cause PLS we accept the null hypothesis and reject alternative hypothesis showing a case of unidirectional granger causality results within the study period at 5% significant level. All other causality results were not significant.

The general test depicted that the inside security and stability level could be an important optional strategy in the face of rising security risk to inspiring FDI inflow in the country.

#### 4.8: correlation result

**Table 4.8:1:** *Correlation table*

VARIABLES	FDI	COVID19	GCE	EXCH	PLS
FDI	1.000000				
COVID19	-0.689***	1.000			
GCE	0.332**	-0.313**	1.000		
EXCH	-0.310**	0.558***	0.195*	1.000	
PLS	-0.022	0.160	-0.065	-0.023	1.000

Note: \*, \*\*, and \*\*\* indicate significance at the 10%, 5%, and 1% level, respectively

From the above table it indicated that foreign direct investment is negatively related to COVID 19, negatively related to exchange rate and also negatively related to political instability though not significant to political instability, FDI was noticed to be positively related to GCE (government capital expenditure). COVID 19 according to the table is negatively related to government capital expenditure but positively related to exchange rate. Government capital expenditure was significant and positively related to exchange rate in the country.

#### 4.9: Conclusion

This analysis examines the impact of covid 19 given the political instability issues in the country to FDI inflow in Nigeria and found that the variables used were significant and goes along with the economic theory given on foreign direct

investment. The result helps in discussing the exact feature of the country and its FDI activities.

The covid 19 pandemic has created a negative impact on FDI inflow, in other words, an increase in the cases of covid in the country has discouraged and reduced foreign investors into the country and this is in line with studies by Segundo and Mary (2020), Manoj et al (2020) and Qing, et al (2020). High level of political instability or an increase in the unit of political instability in a country reduces the rate of FDI inflow, This is in line with studies of Loree and Guisinger,(1995), Ngowi (2001), Iyala (2009) Husain, (2009). investment inflow. High exchange rate discourages foreign inflow into a country and this is also in line with the study of Phillip Nwosa (2021). Government capital expenditure encourages foreign investors into a country as discussed by Yuan et al. 2010 saying that the effect is more significant in less developed countries. Diagnostic test was also conducted to check the normality, heteroskedasticity and serial correlation LM test.

## **CHAPTER FIVE**

### **Conclusion and Policy Implication**

#### **5.1: Introduction**

This chapter represents the ultimate summary of the study; it consists of four sections such as the general overview of the study, summary of the findings, policy implication and conclusion of the chapter.

#### **5.2 Summary of the Findings**

There are various empirical studies shown to observe the impact of COVID 19 pandemic on a nation's economy, some of these studies checked the effect on the health sector, GDP status, or the investment inflow level into a country which can also affect the economic status of any nation. The result from our analysis is in consistence with previous studies, all studies on covid 19 pandemic has shown that the impact of the pandemic on every nation be it on the political status, health, social, on economic status, the effect has a drastic negative impact on the nation's economy. From our analysis also the effect on COVID 19 on FDI inflow was significant and negative. As shown in some of our literature, Olaniyi. (2020) scrutinized the socio-economic effect of COVID 19.it shows that the economic consequences of the novel disease are damaging to both the health and economic segments which include trade and travel, various market types and retail chains, among others and food and agriculture industries. All over the world, effects on FDI drifts at the regional level are expected to differ, but are predictable to be significantly negative in all cases. In a report from UNCTAD projections, the flows of FDI into Latin America and the Caribbean (decreasing ranging between 40 and

55%) in Asia (fall between 30 and 45%) are expected to be affected, the anticipated range of fall in African in another study a general fall in FDI inflows between 25 and 40 per cent is anticipated.

The effect on political instability has two contradicting views in the short and long run which shows increase in FDI and decrease in FDI also and all this is in line with previous studies too. Some of the studies, emphasized that political uncertainty rate is not an important factor to foreign investment inflow in the country, observing from the resource endowment of the country, as a result, the investors may not require any extra incentive. The term "resource seeking investment" is used to describe this sort of FDI. The study investigates the impact of political instability on FDI inflows and whether such investment inflows may be classified as resource seeking or market seeking. Furthermore, the two contradicting signs of PLS to FDI (meaning negative and positive) can be explained in the format that foreign investment in Nigeria can be resource seeking investment and market seeking investment.

In a studied conducted to check the relationships between public venture and economic growth in Nigeria by (Olorunfemi 2008) from 1975 to 2004 start that there was no relationship between gross fixed capital formation and Gross Domestic Product. Also, he discovered that public spending has a positive impact on economic growth and that the percentage of government spending on capital investment is only 37.1% as compare to that spending on current expenditure which is 62.9%.

Macdermott (2008) discovered that real exchange rate is negatively and statistically significant linked to FDI. The unpredictability of exchange rate affects FDI negatively and magnitude of both host nations and guest were positively linked to FDI. Masten, 2007 started that that exchange rates play a dynamic role in the investigation of a major factor in the flow of FDI in Latin America, a work from his thesis title impact of exchange rate volatility in US.

Though, the assessment of the model with the assortment of the macroeconomic variables was in harmony with the previous literature. The variables that are measured in the analysis, such as covid 19 which was measured using dummy variables, political stability measured by the political index rate in the country, government capital expenditure (GCE) measured through the capital expenditure pattern in the country monthly, and exchange rate of the country monthly. COV and PLS were significant at 1% in the long run and significant at 10% in the short run. GCE was not significant in the long run but was significant at 5% in the short run and EXCH was only significant at 5% in the long run. All the variables used are in reliable with their predictable signs. Except for political instability which has a contradicting view. The contradicting view can be categories from the agreed theory on the various type of FDI inflow if such flow can be regarded as resource seeking or market seeking FDI, Resource-seeking: is a kind of FDI designed primarily to acquire natural resources from the nation they are investing into, for it to serve as raw materials in their business. Particularly, in nations that are endowed with rich natural resources on the lesser price as compare to that of their country. Moreover, the resource -searcher companies increase their

events overseas to benefit from low prices of labor mostly in mainly labor-intensive area like industrial and services segment (Kang and Lui, 2016). companies are encouraged to invest abroad to improve its income and competitive level in the other market. the actions of external companies that work in under developed states have been resolute largely by this category of foreign investment, Dunning (1998) claimed that the idea of location for foreign firms don't depend on the accessibility of factors of production but rather weather the investment is new or sequential projects, the aim matters according to Kalyvas and Webster (2011).

Market-seeking: is the kind of FDI whose goals is to find novel markets for firms from foreign countries to sell their excess of goods and services, particularly with inadequate market for their product at their country. Also, it aims to advance marketing strategies through the physical incidence of suppliers and consumers in the foremost markets (Franco et al., 2010). Other incentives that inspire companies to link with this kind of FDI are the wish to familiarize their goods to local wants or needs, to eliminate the barricades resulting from any alterations weather cultural or religious, and be extra acquainted with mode of communications, business duties, legal necessities and marketing events. Also, this kind is a good way to piercing markets outside the home nation (Wadhwa and Sudhakara, 2011).

Indeed, the coefficient of covid which was significant and negative shows that the incapability of the government to control and limit the spread of this pandemic can hamper or effect the investment growth rate of the economy. High impact of the pandemic coupled with the political stability issues has trigger the increase in exchange rate which was found significant and negative showing it can

also affect the inflow of investors into the country. Only government capital expenditure was significant and positive showing an increase by the government on capital expenditure will definitely improve inflow of investors into the country.

### **5.3 Policy Implication**

Previous research from the empirical literature specified has discovered the significant a country could spring from foreign direct investment inflow. Although it is widely expected that the COVID-19 pandemic will result in a decrease in the economy and investment, there is still a chance that the COVID-19 pandemic will result in a significant increase in foreign direct investment inflow. This could be due to advantages that countries have accumulated over time that have not been significantly eroded by the pandemic. A good example of such countries is China who still holds a hot spot to foreign investment. Therefore, the country has to open the safe areas where foreign investors can be inspired. Policy and business development may hasten the trend of FDI growth. The implementation of policy that can aid advance the level of security which will decrease the degree of unrest or instability in the state. Reduced acts of political unrest will expand the cert of participating of foreign investors in the state. The following are the policy recommendation for the study.

- i) The administration can set in place a sound trade liberalization policy which would support and simplify the actions of investors owing to the vital assistances that can be created in the economy from foreign inflow. In line with economy reform starting from 1980s, Nigeria undertook a privatization program, in 1981, the



Investment Promotion Commission was established, in 1986, structural adjustment programs (SAP) were implemented, and in 1991, the Export Processing Zones Decree was issued. All these efforts do not stimulate foreign direct investment into the country. Other policies can be put in place to cater for our political instability issues and macroeconomic stability. The implementation of such policies can boost competition among local firm at global market as well as helping in penetrating international market.

- ii) To ensure that the macroeconomic situation is stable, a good monetary policy should be put in place to regulate the volume of price and direction of money and credit to curb the high rate of inflation to sustain the macroeconomic stability which would attract more investment inflow. Tighter policy will tend to hinder investment, while slacker policy will boost it. However, worries of inflation might act as a check against FDI if monetary enlargement is seen as thoughtless.
- iii) economic strategies will not be justifiable in the long run if limitations and control actions are not relieved in the country. It is detected that many big economies are at risk of gross government debts, which may hinder maintainable economic development. However, in an advantage situation where all pandemic control

measures are lifted, this scenario will bring economic reboots in investment.

#### **5.4 Suggestion for future study**

The research was only able to survey four variables associated with the scenario of COVID 19 to foreign direct investment. Hence, it is recommended for further study as to in cooperate additional variables to observe the significant of those other variables given the current situation of the country and the present scenario of the pandemic. example of which include the idea behind corruption level in the country, though studies have been done on either corruption or political stability in the country but incorporating both variables for one study can help explain the magnitude of economic crisis the country is in. other variables include the effect the pandemic will have on other macroeconomic indicators like inflation, interest rate etc. Using the same variables study can also be conducted on other part of the African continent not just Nigeria to check the significant of the variables in the other part of the continent.

#### **5.5: Conclusion**

This study is an original effort to observe the effect of COVID 19 pandemic coupled with political instability in Nigeria to FDI inflow. signifying how the administration and the strategy makers are to overhaul the FDI policy to fascinate more investment into the country given the current scenario presently. The result of our findings confirms with the situation of the world given the pandemic and the political instability issue which has been a problem with developing country like Nigeria facing high political instability crisis and high trend of exchange rate presently in

the country, all this problem can sever as the reasons behind the low inflow of foreign direct investment into the country. The unpredictable situation of the country, regarding political violent and crisis due to religion differences or political issues can even drive out the few existing foreign investors out of the country.

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## APPENDIX

### Unit root test ADF

Null Hypothesis: COVID19 has a unit root  
Exogenous: Constant  
Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-0.570178	0.8705
Test critical values:		
1% level	-3.513344	
5% level	-2.897678	
10% level	-2.586103	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: COVID19 has a unit root  
Exogenous: Constant, Linear Trend  
Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-1.846621	0.6727
Test critical values:		
1% level	-4.075340	
5% level	-3.466248	
10% level	-3.159780	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(COVID19) has a unit root  
Exogenous: Constant  
Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-8.944272	0.0000
Test critical values:		
1% level	-3.514426	
5% level	-2.898145	
10% level	-2.586351	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(COVID19) has a unit root  
 Exogenous: Constant, Linear Trend  
 Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-8.969209	0.0000
Test critical values: 1% level	-4.076860	
5% level	-3.466966	
10% level	-3.160198	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LFDI has a unit root  
 Exogenous: Constant  
 Lag Length: 1 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-2.841655	0.0571
Test critical values: 1% level	-3.514426	
5% level	-2.898145	
10% level	-2.586351	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LFDI has a unit root  
 Exogenous: Constant, Linear Trend  
 Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-5.287086	0.0002
Test critical values: 1% level	-4.075340	
5% level	-3.466248	
10% level	-3.159780	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LFDI) has a unit root  
 Exogenous: Constant  
 Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-12.91987	0.0001
Test critical values: 1% level	-3.514426	
5% level	-2.898145	

10% level -2.586351

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LFDI) has a unit root  
Exogenous: Constant, Linear Trend  
Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-12.91281	0.0001
Test critical values:		
1% level	-4.076860	
5% level	-3.466966	
10% level	-3.160198	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LEXCH has a unit root  
Exogenous: Constant  
Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-1.635537	0.4600
Test critical values:		
1% level	-3.513344	
5% level	-2.897678	
10% level	-2.586103	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LEXCH has a unit root  
Exogenous: Constant, Linear Trend  
Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-2.336795	0.4095
Test critical values:		
1% level	-4.075340	
5% level	-3.466248	
10% level	-3.159780	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LEXCH) has a unit root  
Exogenous: Constant  
Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
--	-------------	--------

Augmented Dickey-Fuller test statistic	-8.031712	0.0000
Test critical values:		
1% level	-3.514426	
5% level	-2.898145	
10% level	-2.586351	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LEXCH) has a unit root  
Exogenous: Constant, Linear Trend  
Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-7.998403	0.0000
Test critical values:		
1% level	-4.076860	
5% level	-3.466966	
10% level	-3.160198	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LGCE has a unit root  
Exogenous: Constant  
Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-4.962219	0.0001
Test critical values:		
1% level	-3.513344	
5% level	-2.897678	
10% level	-2.586103	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LGCE has a unit root  
Exogenous: Constant, Linear Trend  
Lag Length: 1 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-5.106890	0.0004
Test critical values:		
1% level	-4.076860	
5% level	-3.466966	
10% level	-3.160198	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LGCE) has a unit root  
Exogenous: Constant  
Lag Length: 2 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-8.318376	0.0000
Test critical values:		
1% level	-3.516676	
5% level	-2.899115	
10% level	-2.586866	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LGCE) has a unit root  
 Exogenous: Constant, Linear Trend  
 Lag Length: 2 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-8.303767	0.0000
Test critical values:		
1% level	-4.080021	
5% level	-3.468459	
10% level	-3.161067	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LPLS has a unit root  
 Exogenous: Constant  
 Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-6.901267	0.0000
Test critical values:		
1% level	-3.513344	
5% level	-2.897678	
10% level	-2.586103	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LPLS has a unit root  
 Exogenous: Constant, Linear Trend  
 Lag Length: 0 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-6.881529	0.0000
Test critical values:		
1% level	-4.075340	
5% level	-3.466248	
10% level	-3.159780	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LPLS) has a unit root

Exogenous: Constant  
 Lag Length: 1 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-9.398085	0.0000
Test critical values:		
1% level	-3.515536	
5% level	-2.898623	
10% level	-2.586605	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LPLS) has a unit root  
 Exogenous: Constant, Linear Trend  
 Lag Length: 1 (Automatic - based on SIC, maxlag=11)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-9.335786	0.0000
Test critical values:		
1% level	-4.078420	
5% level	-3.467703	
10% level	-3.160627	

\*MacKinnon (1996) one-sided p-values.

### PP Unit root test

Null Hypothesis: COVID19 has a unit root  
 Exogenous: Constant  
 Bandwidth: 0 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-0.570178	0.8705
Test critical values:		
1% level	-3.513344	
5% level	-2.897678	
10% level	-2.586103	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: COVID19 has a unit root  
 Exogenous: Constant, Linear Trend  
 Bandwidth: 1 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-1.856795	0.6676
Test critical values:		
1% level	-4.075340	
5% level	-3.466248	
10% level	-3.159780	

\*MacKinnon (1996) one-sided p-values.



Null Hypothesis: D(COVID19) has a unit root  
 Exogenous: Constant  
 Bandwidth: 1 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-8.944272	0.0000
Test critical values:		
1% level	-3.514426	
5% level	-2.898145	
10% level	-2.586351	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(COVID19) has a unit root  
 Exogenous: Constant, Linear Trend  
 Bandwidth: 2 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-8.969721	0.0000
Test critical values:		
1% level	-4.076860	
5% level	-3.466966	
10% level	-3.160198	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LFDI has a unit root  
 Exogenous: Constant  
 Bandwidth: 0 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-4.145744	0.0014
Test critical values:		
1% level	-3.513344	
5% level	-2.897678	
10% level	-2.586103	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LFDI has a unit root  
 Exogenous: Constant, Linear Trend  
 Bandwidth: 2 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-5.263854	0.0002
Test critical values:		
1% level	-4.075340	
5% level	-3.466248	
10% level	-3.159780	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LFDI) has a unit root  
Exogenous: Constant  
Bandwidth: 16 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-19.72930	0.0001
Test critical values:		
1% level	-3.514426	
5% level	-2.898145	
10% level	-2.586351	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LFDI) has a unit root  
Exogenous: Constant, Linear Trend  
Bandwidth: 18 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-24.10259	0.0001
Test critical values:		
1% level	-4.076860	
5% level	-3.466966	
10% level	-3.160198	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LEXCH has a unit root  
Exogenous: Constant  
Bandwidth: 3 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-1.636172	0.4596
Test critical values:		
1% level	-3.513344	
5% level	-2.897678	
10% level	-2.586103	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LEXCH has a unit root  
Exogenous: Constant, Linear Trend  
Bandwidth: 0 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-2.336795	0.4095
Test critical values:		
1% level	-4.075340	
5% level	-3.466248	

10% level -3.159780

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LEXCH) has a unit root  
Exogenous: Constant  
Bandwidth: 4 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-7.992212	0.0000
Test critical values:		
1% level	-3.514426	
5% level	-2.898145	
10% level	-2.586351	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LEXCH) has a unit root  
Exogenous: Constant, Linear Trend  
Bandwidth: 4 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-7.953797	0.0000
Test critical values:		
1% level	-4.076860	
5% level	-3.466966	
10% level	-3.160198	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LGCE has a unit root  
Exogenous: Constant  
Bandwidth: 9 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-4.774987	0.0002
Test critical values:		
1% level	-3.513344	
5% level	-2.897678	
10% level	-2.586103	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LGCE has a unit root  
Exogenous: Constant, Linear Trend  
Bandwidth: 9 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-4.708434	0.0014

Test critical values:	1% level	-4.075340
	5% level	-3.466248
	10% level	-3.159780

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LGCE has a unit root  
 Exogenous: Constant  
 Bandwidth: 9 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-4.774987	0.0002
Test critical values:	1% level	-3.513344
	5% level	-2.897678
	10% level	-2.586103

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LGCE) has a unit root  
 Exogenous: Constant  
 Bandwidth: 36 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-17.98440	0.0001
Test critical values:	1% level	-3.514426
	5% level	-2.898145
	10% level	-2.586351

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LGCE) has a unit root  
 Exogenous: Constant, Linear Trend  
 Bandwidth: 35 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
Phillips-Perron test statistic	-22.27512	0.0001
Test critical values:	1% level	-4.076860
	5% level	-3.466966
	10% level	-3.160198

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LPLS has a unit root  
 Exogenous: Constant  
 Bandwidth: 2 (Newey-West automatic) using Bartlett kernel

	Adj. t-Stat	Prob.*
--	-------------	--------

Phillips-Perron test statistic		-6.940316	0.0000
Test critical values:	1% level	-3.513344	
	5% level	-2.897678	
	10% level	-2.586103	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: LPLS has a unit root  
 Exogenous: Constant, Linear Trend  
 Bandwidth: 2 (Newey-West automatic) using Bartlett kernel

		Adj. t-Stat	Prob.*
Phillips-Perron test statistic		-6.921705	0.0000
Test critical values:	1% level	-4.075340	
	5% level	-3.466248	
	10% level	-3.159780	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LPLS) has a unit root  
 Exogenous: Constant  
 Bandwidth: 26 (Newey-West automatic) using Bartlett kernel

		Adj. t-Stat	Prob.*
Phillips-Perron test statistic		-33.57275	0.0001
Test critical values:	1% level	-3.514426	
	5% level	-2.898145	
	10% level	-2.586351	

\*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(LPLS) has a unit root  
 Exogenous: Constant, Linear Trend  
 Bandwidth: 25 (Newey-West automatic) using Bartlett kernel

		Adj. t-Stat	Prob.*
Phillips-Perron test statistic		-31.85085	0.0001
Test critical values:	1% level	-4.076860	
	5% level	-3.466966	
	10% level	-3.160198	

\*MacKinnon (1996) one-sided p-values.

### BOUND TEST

F-Bounds Test Null Hypothesis: No levels relationship

Test Statistic	Value	Signif.	I(0)	I(1)
----------------	-------	---------	------	------

		Asymptotic: n=1000		
F-statistic	8.093538	10%	2.2	3.09
K	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37
Actual Sample Size		Finite Sample: n=80		
	79	10%	2.303	3.22
		5%	2.688	3.698
		1%	3.602	4.787
		Finite Sample: n=75		
		10%	2.313	3.228
		5%	2.725	3.718
		1%	3.687	4.842

F. Statistic test.

Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	8.093538	10%	2.2	3.09
K	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37

## ARDL ESTIMATION

ARDL Long Run Form and Bounds Test  
 Dependent Variable: D(FDI)  
 Selected Model: ARDL(1, 2, 3, 0, 0)  
 Case 2: Restricted Constant and No Trend  
 Date: 11/04/21 Time: 09:53  
 Sample: 2015M01 2021M10  
 Included observations: 79

Conditional Error Correction Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.819876	2.017805	2.884262	0.0053
LFDI(-1)*	-0.774066	0.112778	-6.863603	0.0000
COVID19(-1)	-0.624346	0.270356	-2.309347	0.0240
LGCE(-1)	0.210091	0.144435	1.454569	0.1504
LEXCH**	-1.128642	0.981758	-1.149613	0.2543
LPLS**	0.076865	0.536573	0.143252	0.8865

D(COVID19)	-1.639570	0.644211	-2.545083	0.0132
D(COVID19(-1))	-1.048021	0.649019	-1.614778	0.1110
D(LGCE)	0.099068	0.093889	1.055167	0.2951
D(LGCE(-1))	-0.228861	0.096634	-2.368341	0.0207
D(LGCE(-2))	-0.150594	0.083497	-1.803585	0.0757

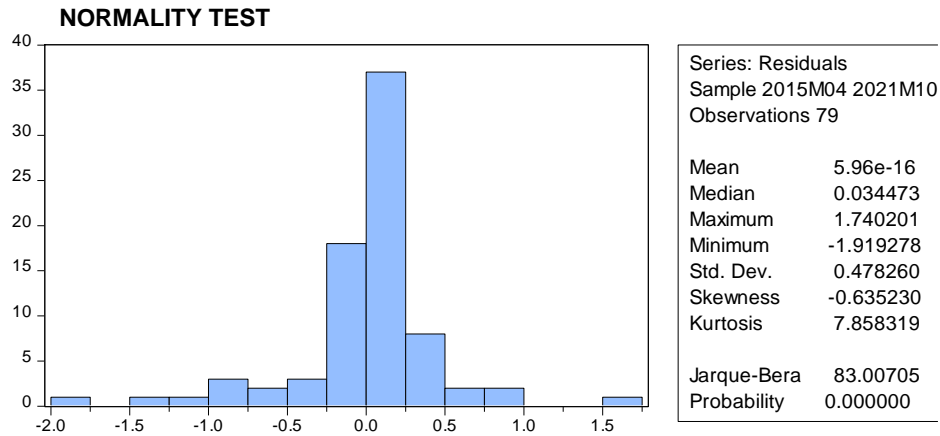
\* p-value incompatible with t-Bounds distribution.

\*\* Variable interpreted as  $Z = Z(-1) + D(Z)$ .

Levels Equation  
Case 2: Restricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
COVID19	-0.806580	0.314039	-2.568405	0.0004
LGCE	0.271412	0.187453	1.447896	0.1522
LEXCH	-1.458070	1.281289	-1.137971	0.0091
LPLS	0.099301	0.031472	3.155217	0.0000
C	7.518583	2.482875	3.028176	0.0035

$$EC = FDI - (-0.8066 * COVID19 + 0.2714 * GCE - 1.4581 * EXCH + 0.0993 * PLS + 7.5186)$$



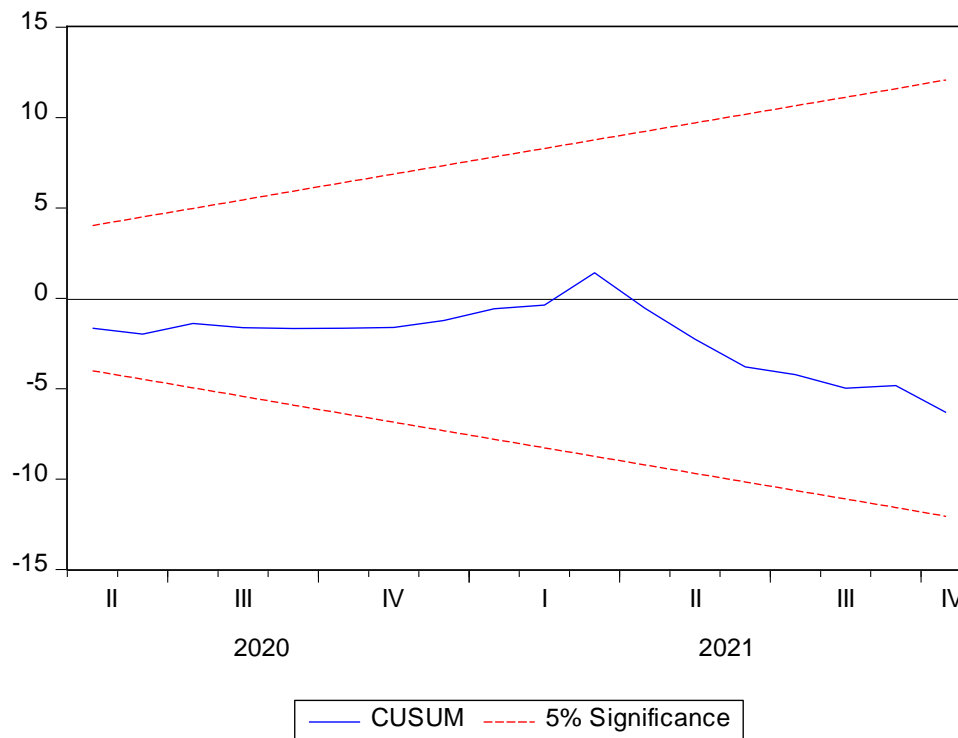
Breusch-Godfrey Serial Correlation LM Test:

F-statistic	4.247973	Prob. F(2,66)	0.0184
Obs*R-squared	9.009614	Prob. Chi-Square(2)	0.0111

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.127943	Prob. F(10,68)	0.0549
Obs*R-squared	11.23968	Prob. Chi-Square(10)	0.0092
Scaled explained SS	28.55652	Prob. Chi-Square(10)	0.0015

### STABILITY TEST



#### Pairwise Granger Causality Tests

Date: 11/04/21 Time: 10:08

Sample: 2015M01 2021M10

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
COVID19 does not Granger Cause FDI	80	6.77528	0.0020
FDI does not Granger Cause COVID19		0.01308	0.9870
GCE does not Granger Cause FDI	80	0.34386	0.7101
FDI does not Granger Cause GCE		0.60185	0.5504
EXCH does not Granger Cause FDI	80	2.09242	0.0005
FDI does not Granger Cause EXCH		1.57695	0.0134
POLSTA does not Granger Cause FDI	80	0.37135	0.0011
FDI does not Granger Cause POLSTA		0.18108	0.8347
GCE does not Granger Cause COVID19	80	0.12390	0.8836
COVID19 does not Granger Cause GCE		0.80705	0.4500
EXCH does not Granger Cause COVID19	80	0.83798	0.4366
COVID19 does not Granger Cause EXCH		2.11761	0.1275
POLSTA does not Granger Cause COVID19	80	0.09998	0.9050
COVID19 does not Granger Cause POLSTA		2.05377	0.1354
EXCH does not Granger Cause GCE	80	0.23147	0.7939
GCE does not Granger Cause EXCH		0.17794	0.8373



POLSTA does not Granger Cause GCE	80	0.04439	0.9566
GCE does not Granger Cause POLSTA		0.03978	0.9610
POLSTA does not Granger Cause EXCH	80	0.24652	0.7821
EXCH does not Granger Cause POLSTA		0.05928	0.9425

Covariance Analysis: Ordinary  
Date: 11/04/21 Time: 10:09  
Sample: 2015M01 2021M10  
Included observations: 82

Covariance Correlation	FDI	COVID19	GCE	EXCH	POLSTA
FDI	0.563400 1.000000				
COVID19	-0.225959 -0.689699	0.190512 1.000000			
GCE	0.237110 0.332332	-0.129720 -0.312663	0.903518 1.000000		
EXCH	-0.024479 -0.309947	0.025620 0.557873	0.019492 0.194892	0.011071 1.000000	
POLSTA	-0.001939 -0.022419	0.008087 0.160792	-0.007130 -0.065098	-0.000279 -0.023047	0.013277 1.000000

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.513122	Prob. F(4,77)	0.2067
Obs*R-squared	5.975787	Prob. Chi-Square(4)	0.2010
Scaled explained SS	15.56948	Prob. Chi-Square(4)	0.0037

## Thesis

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