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IN WHAT WAY DO POLITICAL FACTORS AFFECT FOREIGN DIRECT INVESTMENTS IN NIGERIA? AN ECONOMETRIC APPROACH

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Abstract

Although existing studies from a global standpoint have recognised the influence of political factors on foreign direct investments, limited evidence emanates from Nigeria. This study, therefore, examines the effect of certainpolitical factors on foreign direct investment (FDI) in Nigeria. These political factors specifically include government effectiveness, regulatory quality, corruption control, and democratic accountability. An ex-post facto research design was adopted, using secondary time series data spanning 1980 to 2023 from the Cross-National Time Series Data Archives (CNTS) and the Nigerian Bureau of Statistics (NBS). Employing an econometric approach, we analysed the sourced datausing time series techniques, including multiple regression to determine the relationships between variables. A bound test was conducted to confirm long-term relationships, while the Autoregressive Distributed Lag Error Correction Model (ARDL-ECM) was used to assess both short- and long-term effects. Findings indicate that government effectiveness has a significant negative long-term effect on FDI (*β_1= -26.0200, p-value = 0.00158*). Regulatory quality has a positive short-term effect (*β_2= -25.2006, p-value = 0.0439*) but a negative long-term effect (*β_3= -51.3960, p-value = 0.0383*). Corruption control negatively affects FDI in both periods, while democratic accountability has a positive long-term effect (*β_4= 20.1101, p-value = 0.0234*). To boost FDI, we recommend that the government improve policy implementation, streamline regulations, combat corruption, and strengthen democratic institutions to ensure transparency and stability.

Keywords: Foreign Direct Investment, Government Effectiveness, Regulatory Quality, Corruption Control, Democratic Accountability

1.0 Introduction

Nigeria, as a key African economy, has faced severe political turmoil that undermines its ability to attract Foreign Direct Investment [FDI], which is crucial for economic growth, job creation, and technological innovation. This turmoil has been linked to various political factors, including government effectiveness, regulatory quality, corruption control, and democratic accountability. Specifically, effective governance, characterised by sound policy implementation, public service delivery, and law enforcement, is expected to foster a stable environment for investment (Afolabi & Abu Bakar, 2016). Also, regulatory quality, including clear and consistent policies, often minimises uncertainties, particularly in sectors requiring long-term commitments like banking and technology. Similarly, corruption control enhances transparency and reduces risks, making economies more attractive to investors. Additionally, democratic accountability, which ensures government responsiveness and civil liberties, is another critical factor supporting FDI.

However, despite Nigeria's progress towards the management of all the highlighted factors, persistent variability continues to erode investor confidence (Kim, 2010). In the same vein, existing literature affirms that the poor management of these political factors exposes the economy to weak governance, regulatory inefficiencies, corruption, and diminished democratic accountability, all of which create a volatile investment climate (Alfar et al., 2024);hindering job creation, technological advancement, and economic progress, leaving Nigeria struggling in critical sectors such as manufacturing, technology, and finance (Bovens, 2023). While the relationship between some political factors and FDI has been widely studied globally (Habib &Zurawicki, 2022; Afza & Anwar, 2023), limited research focuses on Nigeria.

This study,therefore, explores how government effectiveness, regulatory quality, corruption control, and democratic accountability influence FDI inflows in Nigeria. Covering 1980–2023, a period marked by significant political transitions, the research analyses data from the Cross-National Time Series Data Archives and the Nigerian Bureau of Statistics. Weaim to establish the effect of the highlighted political factorsonNigeria's FDI using an econometric approach, offering policymakers insights on improving governance, regulatory quality, and anti-corruption measures.

2.0 Literature Review

The relationship between diverse political factors and FDI has been widely studied from conceptual, theoretical and empirical perspectives. Conceptually, FDI is an important component of global economic integration, driving gross domestic product [GDP] growth, employment, and innovation (Acemoglu & Robinson, 2019). FDI refers to international investments where a firm takes a large controlling ownership stake in a foreign organisation or opens a subsidiary in another country other than its home country. However, some political factorshave posed significant challenges to FDI, particularly in Nigeria and globally. These limiting factors often manifest through inconsistent policies, economic uncertainties, and social unrest, stemming from leadership struggles, contested decisions, and socioeconomic pressures (Behrman, 2023).

Theoretical frameworks such as institutional theory and political risk theory provide valuable insights into how these political factorsaffectFDI inflows. Institutional theory emphasises the importance of robust institutions in fostering a stable environment for investment. Strong institutions ensure policy consistency, regulatory transparency, and legal protections, which are critical for attracting foreign investors. Conversely, weak institutions, characterised by corruption, policy unpredictability, and governance challenges, create uncertainty and deter investment (Habib &Zurawicki, 2022). Political risk theory highlights the risks foreign investors face due to political factors, including expropriation, policy reversals, civil unrest, and corruption. These risks increase the cost of doing business and make investing in politically unstable regions less attractive (Afza & Anwar, 2023). Together, these theories underscore the significant role of political stability and governance quality in shaping FDI inflows.

Empirical studies further illustrate the adverse effects of political factors on FDI. Globally, researchers have identified a strong negative correlation between political factors and foreign investment. For example, in Pakistan, frequent government changes and civil unrest have been shown to deter foreign investors significantly (Khan & Akbar, 2023). In India, politically stable regions such as Gujarat attract more FDI compared to conflict-prone areas like Kashmir (Rani & Batool, 2016). Similarly, in Brazil, high levels of political corruption discourage FDI in sectors reliant on regulatory transparency, such as energy and infrastructure (Nazeer & Masih, 2017). The findings consistently emphasise that political stability and governance quality are critical in creating an attractive investment environment.

The African context highlights similar challenges. Studies have shown that political unrest, such as the Arab Spring in Egypt or the transitional governance in Sudan, significantly reduced FDI inflows (Afolabi & Abu Bakar, 2016). Political violence, such as terrorism, further exacerbates the issue, as seen in Kenya and Ethiopia. In each case, political factorsdisrupt business operations, increase risk, and diminish investor confidence. In Nigeria, the effect of political factors on FDI is profound. Research has demonstrated that corruption, policy inconsistencies, and security challenges significantly deter foreign investments (Habib &Zurawicki, 2022). Specific studies have revealed that insurgencies, such as those by Boko Haram, have led to substantial declines in FDI, particularly in the northern regions (Afza & Anwar, 2023). Electoral volatility, characterised by violence and policy uncertainty during election cycles, has also been identified as a key deterrent (Khan & Akbar, 2023).
Sectoral analyses further reveal the negative effects of political factors. For instance, in the oil and gas sector, corruption and regulatory unpredictability discourage foreign investors (Habib &Zurawicki, 2022). In agriculture, conflicts between farmers and herders create uncertainty, while labour strikes

and unrest disrupt manufacturing operations. Even the infrastructure and energy sectors suffer due to policy inconsistencies and governance issues.

Despite the wealth of research on political factors and FDI globally and regionally, there remains a notable gap in the literature concerning Nigeria. While many studies include Nigeria as part of broader regional analyses, few delve deeply into the unique political and economic dynamics shaping FDI inflows in the country. This gap highlights the need for focused research that examines Nigeria's specific challenges, such as corruption, regional conflicts, and policy volatility. This study aims to address these gaps by providing a comprehensive analysis of the relationship between some political factors and FDI in Nigeria. By exploring the unique factors influencing investment decisions in the country, it seeks to offer actionable insights for policymakers and investors navigating Nigeria's complex political and economic environment. This approach not only contributes to the academic literature but also has practical implications for fostering a more stable and attractive investment climate in Nigeria.

In this study, political factors serve as the independent variables, encompassing elements such as democratic accountability, regulatory quality, government performance, and corruption control. Foreign direct investment (FDI) is the dependent variable. The diagram effectively illustrates how these key variables are conceptualised and measured within the study.

Independent Variables **Dependent Variable**

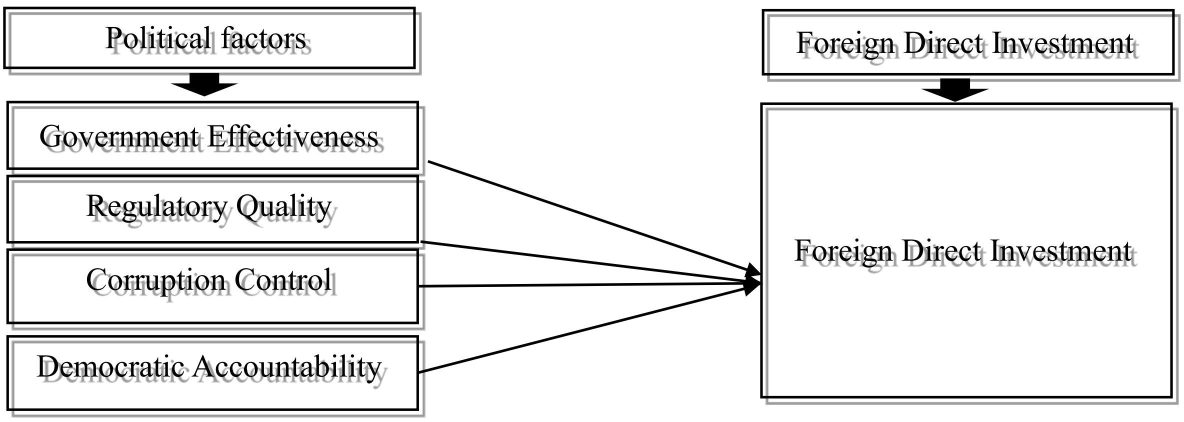

Figure 1: Conceptual Framework (Source: Researchers' Computation, 2025)

3.0Research Methodology

This study adopts anex-post facto research design, chosen for its ability to analyse time series data spanning from 1980 to 2023. The data for this study are secondary in nature, and they were sourced from the Cross-National Time Series Data Archives ([CNTS], 2023) as well as the Nigerian Bureau of Statistics [NBS]. Political factorsare measured through government effectiveness, regulatory quality, corruption control, and democratic accountability, while FDI serves as the dependent variable. They are, however, measured as described in Table 1.

For data analysis, we employed an econometric approach, integrating both descriptive and inferential statistics.

Table 1: Measurement of Variables

S/N	Variables	Description	Measurement
1.	Foreign Direct Investment	Refers to international investment where a firm takes large controlling ownership in a foreign organisation or opens a subsidiary.	Net inflows of Foreign Direct Investment (FDI) as a percentage of GDP: Measured using data from the World Bank or CNTS.
2.	Government Effectiveness	Refers to the government's ability to formulate and implement policies and services effectively.	Government Effectiveness Index (range: -2.5 to 2.5): Provided by World Governance Indicators (WGI) from the World Bank.
3.	Regulatory Quality	Refers to the ability to create sound policies and regulations promoting private sector development.	Regulatory Quality Index (range: -2.5 to 2.5): Provided by World Bank WGI.
4.	Corruption Control	Refers to government efforts to reduce corrupt practices through regulation and enforcement.	Control of Corruption Index (range: -2.5 to 2.5): From World Bank WGI, capturing perceptions of corruption.
5.	Democratic Accountability	Refers to the mechanisms that hold political leaders accountable through elections and public engagement.	Democratic Accountability Score (range: 0 to 6): Measured using data from the International Country Risk Guide (ICRG).

Source: Researchers' Computation (2025)

Using the Eviews statistical package for econometric analysis,the descriptive statistics provided insights into mean, median, maximum, minimum, skewness, kurtosis, and Jarque-Bera tests for normality. To ensure stationarity, a unit root test was conducted. Correlation analysis was utilised to examine relationships between variables.

Additionally, multiple regression analysis was used to explore the relationship between the selectedpolitical factors and FDI. A bound test was conducted to confirm the presence of a long-term relationship between variables, and the Autoregressive Distributed Lag Error Correction Model (ARDL-ECM) was employed to investigate both short-run and long-run dynamics.

4.0 Results and Findings

4.1 Descriptive Statistics

Table 2: Descriptive Statistics

	FDI	GE	RQ	CC	DA
Mean	1.1637	-1.1043	-0.8669	-1.0958	-0.9058
Median	0.9615	-1.1199	-0.8042	-1.1013	-0.9606
Maximum	4.2821	-0.8972	-0.6367	-0.7052	-0.2967
Minimum	-1.1509	-1.2669	-1.2928	-1.5021	-1.5125
Std. Dev.	1.0035	0.1104	0.1853	0.1607	0.3240
Skewness	0.6307	0.2249	-0.8365	-0.0339	0.1158
Kurtosis	3.7733	1.6926	2.6360	3.3685	2.0247
Jarque-Bera	4.0132	3.5046	5.3741	0.2574	1.8425
Probability	0.1344	0.1734	0.0681	0.8793	0.3980
Observations	44	44	44	44	44

Source: Researchers' Computation using EViews (2025)

The descriptive statistics for the variables —Foreign Direct Investment (FDI), Government Effectiveness (GE), Regulatory Quality (RQ), Corruption Control (CC), and Democratic Accountability (DA)—reveal important insights into their distribution and variability as shown in Table2.

The mean FDI value stands at 1.1637, with a standard deviation of 1.0035, indicating fluctuating investment levels over time. The skewness of 0.6307 suggests a slight rightward skew, meaning higher

FDI values occur more frequently than lower ones. Government Effectiveness has a mean of -1.1043 and a low standard deviation of 0.1104, reflecting consistently poor perceptions of governance. Regulatory Quality has a mean of -0.8669, with moderate variability (standard deviation of 0.1853) and negative skewness of -0.8365, indicating more frequent lower scores. Corruption Control shows a mean of -1.0958 and limited variation, with a skewness close to zero (-0.0339), suggesting a balanced but poor perception of anti-corruption efforts. Democratic Accountability has a mean of -0.9058, with a relatively high standard deviation (0.3240), indicating significant variability influenced by political events. The kurtosis values across these variables suggest distributions with heavy tails, pointing to occasional extreme values.

4.2 Correlation Analysis

Table 3: Correlation Matrix

	FDI	GE	RQ	CC	DA
FDI	1.0000				
GE	0.0942	1.0000			
	(0.5430)				
RQ	0.1080	-0.6580	1.0000		
	(0.4854)	(0.0000)			
CC	-0.0974	-0.5881	0.6041	1.0000	
	(0.5294)	(0.0000)	(0.0000)		
DA	-0.1560	-0.8127	0.6618	0.6184	1.0000
	(0.3119)	(0.0000)	(0.0000)	(0.0000)	

(*) denotes probability values.
Source: Researchers' Computation using EViews (2025)

Table 4.2 above reveals correlations amongst the employed variables, highlighting their relationships and interdependencies. At a 5% level of significance, Foreign Direct Investment (FDI) shows a weak and statistically insignificant relationship with all other variables. FDI's positive correlation with Government Effectiveness (GE) and Regulatory Quality (RQ) is slight but not statistically significant, suggesting that these factors have a limited influence on attracting FDI. Conversely, FDI demonstrates a negative correlation with Corruption Control (CC) and Democratic Accountability (DA), though neither relationship is significant. Government Effectiveness (GE) shows significant negative correlations with both Regulatory Quality (RQ) and Corruption Control (CC), suggesting that weaker government performance is associated with deteriorating regulatory quality and higher corruption. GE is also strongly negatively correlated with Democratic Accountability (DA), highlighting the effect of poor governance on democratic institutions. Conversely, Regulatory Quality (RQ) and Corruption Control (CC) exhibit positive, significant relationships with Democratic Accountability (DA), indicating that better regulatory frameworks and reduced corruption are linked to stronger democratic institutions. These findings suggest that improvements in governance, regulatory quality, and corruption control are crucial for enhancing democratic accountability in Nigeria.

4.3 Unit Root Test

Table 4: Augmented Dickey-Fuller Unit root test

Variable	Test-Stat	P-Value	Order of Integration	Remark
FDI	-4.1953	0.0019	I(0)	Stationary at level
RQ	-10.8094	0.0000	I(1)	Stationary at first difference
GE	-8.7530	0.0000	I(1)	Stationary at first difference
CC	-3.4922	0.0132	I(1)	Stationary at first difference
DA	-7.4463	0.0000	I(1)	Stationary at first difference

Source: Researchers' Computation using EViews (2025)

To assess the stationary conditions of the variables, the study employs the Augmented Dickey-Fuller unit-root test. The null hypothesis assumes the presence of unit roots in all variables, while the alternative suggests some variables are stationary.

Table 4 above presents the test results, showing that some variables are integrated at order zero (1(0)), while others are integrated at order I(1), indicating a mix of integration levels. As a result, an ARDL bound test is necessary to establish the long-term relationship between the variables.

4.4 Bound Test

Table 5: Bound Cointegrating Test

MODEL		
Test-Stat	**Value**	**K**
F-statistic	4.024597	4
Significance	**I(0) Bound**	**I(1) Bound**
10%	2.45	3.52
5%	2.86	4.01
2.50%	3.25	4.49
1%	3.74	5.06

Source: Researchers' Computation using EViews (2025)

The study conducted a bound test to examine the long-run relationship among the variables. Table 5 presents the results, which show a significant long-term relationship between the independent variables and the dependent variable. The F-statistics of 4.024597 exceed the upper bound I(1) of 4.01 at a 5% significance level.

4.5 ARDL Short Run and Long Run Test

Table 6: ARDL-ECM Test Result

Cointegrating Form				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
D(RQ)	2.3337	1.0946	2.1321	0.0439
D(CC)	-6.5248	1.6423	-3.9731	0.0006
D(DA)	1.1141	0.7996	1.3933	0.1769
CointEq(-1)*	-0.1210	0.0249	-4.8603	0.0001
Long run Coefficient				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
GE	-26.0200	70.5919	-0.3686	0.0158
RQ	-25.2006	74.5102	-0.3382	0.0383
CC	-51.3960	131.9006	-0.3897	0.0004
DA	20.1101	56.1357	0.3582	0.0234

Source: Researchers' Computation using EViews (2025)

In the short run, the cointegration equation (CointEq(-1)) has a statistically significant coefficient of -0.1210, indicating that approximately 12.1% of the deviation from the long-term equilibrium is corrected in each period. This relatively moderate speed of adjustment suggests that, while short-term shocks due to political factors may occur, the Nigerian economy gradually moves toward a long-term equilibrium (Acemoglu & Robinson, 2022).

In the long run, government effectiveness significantly affects FDI negatively, with a coefficient of -26.0200. This highlights the detrimental effect of poor governance on investor confidence. Poor government operations in Nigeria, such as delays in policy implementation and bureaucratic inefficiencies, discourage foreign investors.

Existing studies have emphasised that weak government effectiveness is a major deterrent to FDI, as investors prefer environments with reliable institutions and strong governance. Regulatory quality has a positive short-term effect on FDI, but its long-term effect is negative. In the short run, improved regulatory frameworks provide foreign investors with confidence, making Nigeria a more attractive destination for capital inflows (Globerman & Shapiro, 2020). However, in the long run, the study revealed that persistent inefficiencies and regulatory inconsistencies can deter sustained investment. This suggests that while regulatory reforms might initially boost FDI, long-term regulatory inefficiencies can negate these gains. Corruption control consistently shows a negative effect on FDI in both the short and long run. In the short term, corruption raises operational costs and increases uncertainty, deterring foreign investors from entering the Nigerian market. Habib and Zurawicki (2022) also concluded that corruption significantly reduces investor confidence by raising risks and uncertainties, particularly in developing economies. In the long term, persistent corruption exacerbates these negative effects, suggesting the need for sustained anti-corruption measures.

Democratic accountability, on the other hand, shows a positive long-term effect on FDI, with a coefficient of 20.1101. This suggests that greater democratic transparency, stability, and accountability foster a conducive environment for sustained foreign investment. From reviewed studies, it was observed that countries with strong democratic institutions tend to attract higher FDI due to political stability and enhanced transparency. Additionally, Busse and Hefeker (2007) highlighted that democratic systems provide greater protection for investors, ensuring their rights are safeguarded—a crucial factor for long-term investment decisions.

In summary, the study demonstrates that improving governance, reducing corruption, and ensuring strong regulatory frameworks and democratic accountability are essential for fostering an investment-friendly environment in Nigeria. Long-term efforts in these areas are necessary to attract sustained foreign direct investment and enhance economic development.

4.6 Policy Implications of Findings

The negative long-term effect of government effectiveness on FDI underscores the urgent need for institutional reforms. Policymakers should prioritise improving the efficiency of governmental operations, reducing bureaucratic delays, and enhancing the overall quality of governance. Streamlining administrative processes and ensuring transparency in policy execution can create a more favourable environment for foreign investors. Strengthening institutional frameworks will help mitigate the risks perceived by investors, making Nigeria a more appealing destination for long-term FDI.

Additionally, the positive short-term but negative long-term effect of regulatory quality suggests that while regulatory reforms may initially attract FDI, inconsistencies or reversals in policy over time can discourage investors. Policymakers must ensure that regulatory improvements are not only effective in the short term but also sustainable in the long run. Establishing a stable regulatory environment with well-defined, predictable, and transparent business laws will help maintain investor confidence. Continuous monitoring and evaluation of regulatory policies are essential to address potential challenges and adapt policies as needed to foster sustained FDI growth.

5.0 Conclusion and Recommendations

Using an econometric approach, we examined the effect of certain political factors on foreign direct investment (FDI) in Nigeria, focusing on government effectiveness, regulatory quality, corruption control, and democratic accountability. The findings reveal the existing relationships, highlighting both short- and long-term effects. Government effectiveness and regulatory quality have a negative long-term effect due to inefficiencies and inconsistencies. Corruption control shows a consistently negative effect, reducing investor confidence in both the short and long term. Conversely, democratic accountability demonstrates a positive and significant effect in the long term, promoting a stable and conducive environment for FDI.

Based on these findings, the following recommendations have been made:

1. The government should enhance the efficiency of its operations by reducing bureaucratic delays, ensuring consistent policy implementation, and fostering transparency in governance.
2. Streamlining regulatory processes and maintaining stable regulations can provide a conducive environment for sustained foreign investment.
3. Additionally, efforts to combat corruption through strengthened anti-corruption institutions and promoting ethical business practices are crucial for reducing operational risks and enhancing Nigeria's attractiveness to foreign investors.
4. Furthermore, strengthening democratic institutions through electoral reforms, judicial independence, and fostering transparency is vital for building investor confidence.

These initiatives contribute to a more stable political environment, encouraging sustained foreign investment.

However, this study also acknowledges its limitations, including the exclusion of other political factors such as political violence and civil unrest, like the prevailing banditry, religious and ethnic clashes, which could significantly affect FDI in Nigeria. Future research should therefore explore these additional factors and consider sector-specific effects, as well as comparative studies with other emerging markets in sub-Saharan Africa. This is expected to offer a more nuanced understanding of how political factorsaffect FDI and provide targeted insights for policy improvement.

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