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ABSTRACT

Literature on the determinants of foreign direct investment has focused on the influence of macroeconomic conditions and market size, with research on the role of institutions on foreign direct investment especially in developing economies remaining inconclusive This paper seeks to study the Nigerian institutional environment how its positions may affect the inflows of foreign direct investment activity. The study employs the use of time series regression analysis of data sourced from the World Bank governance indicators and the Heritage Foundation index and finds that some institutional factors positively influence the level of foreign direct investment inflows.

Keywords: Institutional theory, Foreign direct investment, Economic growth,

JEL: F43, E22, O47

INTRODUCTION

Institutions in an economy serve as the rules of the game that guide the operations of societies and economies (North, 1990). These institutions, Singh asserts (2010), provide the bedrock for exchange in economies and societies, and as such are determinants for what costs may be incurred in carrying out transactions. Transaction costs are affected by institutional factors like level of democracy, corruption, accountability, political discretion and the nature of governance (Singh, 2010). Studies (Rugman, 2004; Singh, 2010) on transaction costs have differed in their positions as to whether higher transaction costs influenced by corruption serve as an attraction or a detraction for foreign investment. Rugman (2004) asserts that countries with higher levels of transaction costs are more likely to yield returns for large multinational organisations through their process of internalization of these market failures into advantages, this is corroborated by Singh (2010), who finds that poor quality institutions serve as an attraction for foreign investment in India. Meyer and Sinani (2009) assert that institutional developments attracts FDI, in advanced economies, a direct, positive and cumulative relationship.

Developing economies are generally characterised by a low level of savings, which affects the level of investment generated by the economy that may lead to growth. Foreign investment as an external source of investment in the theory of investment and savings is an important source for generating investment, employment and growth in the economy. This is especially as it is seen as an avenue for increased spill over effects which improve capital, technology, market, productivity and management. In Nigeria, attracting foreign investment has and still remains a major concern for the economy. To this end the government has embarked on programs within the last decade to improve the levels of foreign direct investment as a capital inflow to the economy. Some of such reforms include the 1989 New industrial policy, the enactment of the Nigerian Investment Promotion Council (NIPC) in the early 90s, and the signing of Bilateral Investment Treaties (BIT) in the later part of the decade. In more recent times, the launching of the New Partnership for African Development (NEPAD) and the development of the Lekki free trade zone to facilitate investment has been embarked upon.

In developing economies, the relationship between FDI and the institutional environment is much more complex, as such policy implications are not directly transferable. Most studies on the institution based view of international business strategy research (Peng, Wang & Jiang, 2008) has been done on specific countries or regions like China, India, Mexico or Thailand (Williamson and Zeng, 2009;Ramamurti & Singh, 2009;Lessard & Lucea, 2009;Pananond, 2009). There is a need to contextually understand how institutions matter in international business (Meyer and Sinani, 2009), as there still lies a considerable gap in its study as it affects economies in Africa (Peng, Wang & Jiang, 2008).

The potentiality of increased FDI as a result of market size and economic growth rates cannot be ignored. However, how do institutions as the established rules of the game influence foreign direct investment? This study seeks to understand how these institutions matter to Nigeria, particularly as it relates to increasing foreign direct investment. The paper proceeds with the next section providing an overview of contextual and empirical positions on economic growth and foreign direct investment, the next section provides a theoretical and empirical review of literature on the institutional theory. The methodology, data analysis and results discussion follows in the penultimate section, to round off the paper with conclusions and avenues for further research.

Theoretical and Conceptual framework

This paper focuses on the institutional theory as a framework for understanding its purpose.

North (1990) defines institutions as the rules of the game that sets the framework for the operations within societies, economies and nations. These institutions can either be formal or informal; formal in the sense that they are legally determined and informal in that they do not have strictly labelled systems but affect the structure of the society, through habits, cultures and belief systems. This "Northern" definition is supported by Scott (1995) who describes institutional environments as being "characterized by the elaboration of rules and requirements to which individual organizations must conform in order to receive legitimacy and support" (p. 132). Contextually, informal institutions are informal constraints such as conventions codes and behaviours (North 1990) that affects activities in varied contexts, including Nigeria. They complement the workings of formal institutions in developing countries, which are observed as often either weak or non-existent. The inability of these informal institutions to support formal institutions, is what Prasad and Khoury (2012: p1) refer to as a case of extreme institutional voids. An economy's institutional framework consists of the political, economic and legal aspects, which are categorised under the definitions of being formal (North, 1990). Informal institutions like norms and cultural values are also important to the effective functioning of the economy (Prasad and Khoury, 2012). In Nigeria, these institutions have consistently been influenced by a number of factors including the breakdown of rule of law, being pertinent to the collapse of institutions as Nigerian systems have little regard for the rules of the game. This is further aggravated by the dual nature of the economy, where both the informal and formal economy exists almost independently, with each having its own individual importance. This blurs the lines as to when communal rights in a land ownership stops and individual property rights sets in. North's (1990) definition of institutions provides the entry point for seeking to understand how institutions affect political, legal and societal structures, and how these structures affect economies.

The importance of institutions to economic growth is one that research has sought to address. Meyer and Sinani (2009) asserted that institutions are important determinants of FDI, where positive institutional environments are characterised by an enforcement of property rights, and rule of law adherence leading to increased FDI inflows (Jimenez et al, 2011). Cuervo-Cazurra and Genc (2008), however found that some multinational firms may benefit more from investing in countries with higher political risks due to capabilities that may have been developed from operating in other institutionally weak environments. These capabilities enable foreign investments to develop corporate political strategies which improve their relationships with the host environments and reduce the risks that the business may be exposed to (Ajai, 2015; Wocke & Moodley, 2015).

In determining economic change, North (1990) asserts that the key issue pertaining to economic history and development relates to how productivity is increased as a result of effective institutions (political and economic). Furthermore, De Mello and Luiz (1997) cites the importance of institutional factors to include not, just politics and government intervention, but also property rights, bottleneck bureaucratic procedures and the legal rights of foreign firms. The World Bank (2010) in their study of economies asserted to the importance of developing institutions as a path towards development especially as it pertains to developing countries, buttressed by Zoogah, Peng and Woldu, (2015), who averted that in Africa, a key ingredient for economic development are institutions, which are needed to guide other economic factors including but not limited to markets, industries and foreign investment. Meyer and Senani (2009) assert that a country's ability to innovate is also premised on its institutional development, as well as the ability of its local firms to compete with foreign firms. They found that countries with moderate levels of institutional development are less able to benefit from FDI spill over effects.

Economic growth and foreign direct investment

African developing economies in the past two decades have attracted increased inflows of foreign direct investment from predominantly developed economies. Records on foreign direct investment indicate a

tripling of about 200% in the decade between 2002 and 2012, increasing real income per person by over 30%, coupled with reforms in regulation that have improved doing business ratings (Adeleye et al., 2015). The sub-Saharan African region has also benefitted from this FDI surge, with recorded increases in FDI global stock from $33.5 billion in 2000 to $246.4 billion in 2012, with market size playing an important role in attracting FDI (Singh, 2010; Agarwal and Ramaswani, 1992; Rolfe, Perri & Woodward, 2015). Nigeria has attracted increased multinational activities due to its market which the economy offers with a population of about 170 million, and an increasing middle class with a high propensity to consume (Mckinsey, 2010). . Foreign direct investment in the region has seen increases in the past two decades as well (UNCTAD, 2013), falling slightly during the global financial recession, but picking up steadily and availing potentials for even more growth (Kekic, 2009; UNCTAD,2009).

In recent times the BRICS (Brazil, Russia, India, China and South Africa) nations have also consistently increased their investments in the African developing economies. China as a case in point has improved relations with developing African economies, with bilateral trade increasing by approximately 300% between 2006 and 2011 (Nartey & Mezias, 2015) measuring closely to that by the US and the EU. Further indications of Chinese investment is observable in the recent news by the Zimbabwean government to uphold the Chinese Yuan as its national currency due to the level of infrastructure and financial support that the country has benefitted from the Asian giant. Some scholars have attributed the China- Africa FDI predominantly to its resource seeking characteristics (Brautigam, 2009; Rugman 2007), even as Western European-developed-economy FDI remains market seeking and efficiency seeking from Eastern Europe (Jimenez, Fuente &Duran, 2011).Other researchers in their studies of determinants of FDI have attributed its increase to improvements in the macroeconomic condition (Biglaiser &Staats, 2010), market size (Esew &Yaroson, 2014; Asiedu, 2002), and trade openness of developing countries (Biglaiser &Staats, 2010). These determinants of FDI are supported by research on African economies, even as its role in the global economy is becoming more relevant for research and "Africa is rising" (Adeleye et al. 2015:p.1).

Economies within the continent are transitioning from less developed to developing and from developing to emerging nations. Nigeria and South Africa, the two largest economies, in population numbers and in their economic growth have recorded large strides in their growth trajectories. Saville and White's (2013) buttress the growth experienced in African economies, with the index indicating that across the different regions of sub-Saharan Africa, economies are emerging, with the 11 strongest economies, featuring in all three regions; West, East and South. These economies including Angola, Ghana, Kenya, Mozambique, Nigeria, Rwanda, South Africa, Tanzania, Zambia, Uganda, and Zimbabwe, have seen increases in their economic positions, improvements in living standards, with their annual gross domestic growth rates over the past two decades showing improvements in spite of the financial crises that rocked the world.

Nigerian scholars (Olokoyo, 2012; Wafure & Nurudeen, 2010; Egbo,2011) have sought to identify the determinants of FDI in the Nigerian economic space, and varied results have been determined. Wafure and Nurudeen (2010) assert that market size, exchange rate depreciation, deregulation and political instability are significant positive determinants to the levels of FDI into the Nigerian economy. Egbo (2011) asserts that the determinants of FDI vary across periods and specific country characteristics. In the case of Nigeria, the influence of the country's dependence on crude oil is also a major determinant, even though inflows along this route still remains relatively small (Asiedu, 2001 as cited in Egbo). In contrast to the findings of other studies, Olokoyo (2012) finds that there is a negative relationship between FDI and economic growth. Other researchers (De Mello & Luiz, 1997; Borensztein et al, 1995; Onaji-Benson, 2012) have asserted the influence which an economy's growth can have on foreign direct investment and the converse relationship, however other determinants of foreign direct investment exist.

Hypotheses

The study is premised on the assumption that the institutional framework of an economy affect the levels of foreign investment, which is influenced by the host (the country receiving the foreign investment) country's level of economic growth and the market size of the economy. These two additional factors are, however moderating factors that influence the strength of the relationship between the predictor variable and the criterion variable (see figure 3 in the appendix).Following the foregoing review of literature from other economies that assert that, with improved institutions, foreign direct investment (FDI) is more attracted to set up their operations, we therefore seek to test the following hypotheses

H1a: Foreign direct investment inflows increase with improved institutions

H1b: There is a positive relationship between the institutional frameworks in Nigeria and its

capacity to attract foreign direct investment.

Methodology

The study employs a deductive approach to understanding the role of institutions in attracting foreign direct investment as an engine for economic growth. We employ a 20 year- time period to enable our analysis to adequately determine how the institutional environment affects foreign direct investment inflows. Data on foreign direct investment over the past 20 years will be gathered from the United Nations conference on trade and development. Data will be analysed using quantitative methods to estimate the relationship between FDI and institutions.

Data Sources and Description

Data to be used in this time series analysis, will be sourced from the Heritage Foundation index and from Kaufmann, Kraay and Maastruzi's(2009) World Governance indicators. It is to cover a period of 20 years, from 1992 to 2013. Another reason for the choice of the time period is to cover for the growing period of African countries as they emerge from the 20th century as a "hopeless continent" (Economist, 2010) into the 21st century characterised by growth and hope. This emergence of the African continent had been influenced by individual country participation, as we seek to understand Nigeria's role, especially as the nation in the last two decades has experienced massive changes in its governance positions. Institutional development variables, used in this study will pertain to governance indicators and economic freedom. Economic freedom has five items sourced from the Heritage Foundation that most closely relate to the notion of institutions guaranteeing the efficiency of markets: business freedom, trade freedom, property rights, investment freedom, and financial freedom. The use of these variables is so as to measure the institutional environment within which the Nigerian economy operates.

Dependent variables

In this paper, we employ the use of FDI inflows sourced from the United Nations Conference on Trade and Development(UNCTAD), which provides data on FDI inflows into the Nigerian economy from 1992 – 2013, a period of twenty two years. The study in order to correct for the problems of different units of measurements uses the log of FDI inflows as the dependent variable.

Independent variables

Independent variables employed in this study, have been divided into exogenous variables that indicate the countries institutional environment and control variables. The latter is a list of macroeconomic variables, sourced from the UNCTAD database, which previous research has asserted influence FDI inflow determination. Variables like market size (Esew & Yaroson, 2014;Rolfe et al, 2015), economic growth (Onaji-Benson, 2014; Borenzstein et al,1996, De Mello & Luiz, 1997) and domestic investment(Onaji-Benson, 2015). The aforementioned control variables in this data analysis have proxies of GDP and GDP growth rate respectively. The essence of including control variables in the analysis premised on the author's conceptualised model is also to provide internal validity for the analysis (Bhattacherjee, 2012). This validity procedure ensures that changes in the dependent variables have been caused by the hypothesized independent variable.

Other independent variables employed in the study to measure the institutional environment are derived from the Heritage Foundation and Kaufmann et al's (2009) World Governance indicators. The Economic freedom variables for the twenty year period in line with (Jimenez et al, 2011) is averaged into an index, so as to measure all the varied aspects of the institutional environment of the host country, in this study we use the overall score as detailed by the index. The variables included in this index includes indicators that measure the freedom to do business, invest, and trade, it also includes indicators on corruption, property rights regulations and rule of law, ranging from to 0 to 100, with higher values implying higher economic freedom. The World governance indicators are employed as a determinant of the country's institutional environment; they include indicators that measure the Control of Corruption, Rule of law, Government effectiveness, Voice and Accountability, regulatory quality and Political Stability and Nonviolence. Recognising the similarities in some of the variables employed as independent variables, we test for multicollinearity to address any such similarities and to determine what variables will need to be expunged from the data analysis.

Multicollinearity diagnosis

Due to the high likelihood of multicollinearity, of the data employed in this study we will employ the use of the correlation matrix as a tool for identifying any multicollinearity that may exist between the variables. To test for the presence or otherwise of multicollinearity, we conduct a correlation analysis for the institutional variables. The results presented in table 2 show that there is significant correlation among some of the variables, this is observed where correlation between the explanatory variables is greater than 0.50. For instance, the correlation coefficient between PSNV and COC is -0.5311 while that of RQ and ROL is -0.5375. Similarly, the

correlation coefficient between VNA and ROL is -0.5517 whilst the coefficient of correlation between VNA and RQ is 0.6485. The correlation coefficients imply that the variable ROL is inversely related to RQ and VNA. In the same vein, COC is negatively related to PSNV (A lack of control of corruption tends to generate political instability in Nigeria). Conversely, there is a positive and significant correlation between VNA and RQ. This implies that public awareness and accountability of public officials improves regulatory quality. The correlation table provides an indication as to the level of interdependence (multicollinearity) among the institutional variables.(See table appendix for meanings of the abbreviations)

To solve the problem of the multicollinearity, when carrying out our regressions we add each of the institutional variables separately alongside with the control variables. The result of that model is presented in table 4 in appendix 1

Model specification

The equation to be estimated is:

$$lnFDI_t = GI_t + EF_t + XCT_t$$

Where FDI_t is a log of Foreign Direct Investment flows

GI_t is a vector of World Governance indicators

EF_t is a vector of Economic Freedom variables for

XCT_t is a matrix of control variables, including market size, GDP growth rate, trade openness, and domestic investment.

Data analysis

Data analysis will employ the use of descriptive statistics firstly to provide an overall picture of the data employed, after which time series regression analysis will be employed. Most often time series data are trended and therefore in most cases are nonstationary. The problem with non-stationary or trended data is that the standard OLS regression procedures can easily lead to incorrect conclusions. It is imperative therefore, to perform unit root tests in order to avoid spurious regression and also to confirm their order of integration ().Regression becomes spurious when both the dependent and independent variable (s) are not stationary at level. A spurious regression usually has a very high R^2, t statistics that appear to provide significant estimates, but the results may have no intuitive meaning whatsoever. This is because the OLS estimates may not be consistent, and therefore the tests of statistical inference are not valid.

To avoid the aforementioned problems, both the Augmented Dickey Fuller (ADF) and the Philips-Perron (PP) unit root tests were conducted in this study and the result is presented in table I in appendix 2.The results show that FDI, PSNV, ROL, and VNA are stationary at level (integrated of order zero i.e. I(0)), while COC, EFINDEX, GDPGRO, GOEFF, MKTSIZE, and RQ are stationary at first difference (integrated of order one i.e. I(1)). This implies that the variables are stationary at different levels of integration. We therefore conduct a co-integration test to examine the existence or otherwise, of a long run relationship between the dependent variables and the independent variables. The results of the co-integration test, using a bound testing approach is presented in table II of Appendix 2.

The rule of thumb of the bound testing approach to the co-integration test is that there is co-integration if the Wald F-statistics is greater than the critical value of the upper bound. On the other hand, there is no co-integration if the F-statistics is less than the critical value of the lower bound. The result in table II reveals that the Wald F-statistics (1.1426) is less than the critical value of the lower bound (4.87). So, there is no co-integration. This implies that there is no long run relationship among the variables considered in this study. In other words, the relationship between FDI inflow and the institutional variables considered in this study is a short run relationship.

Findings and Discussion

Since the results of the co-integration test shows that there is no co-integration, we estimated our model using the Least Square method with robust standard errors. The result of the estimates is presented in table 4. The dependent variable is log of foreign direct investment inflow (logFDI) while the size of market (LOGMKTSIZE) and GDP growth rate (GDPGRO) are the control variables. FDI and MKTSIZE are logged to harmonize the unit of measurement because the institutional variables are measured in percentage and nominal scales. The independent variables are the six governance indicators (Control of Corruption, Rule of law, Government effectiveness, Voice and Accountability, regulatory quality and Political Stability and Nonviolence) and the Economic Freedom Index which used together measures the political and economic institutional environment.

The regression results reveal that all the institutional variables except the economic freedom index and Voice and Accountability are positively related to FDI. This is indicated in the models presented in column 1 to 6 of table 4 where the variables are separately added to the model in order to solve the problem of multicollinearity reported in table 3. Meanwhile, when all the variables are

concurrently added in the model contained in column 7, Political stability and nonviolence turned out to be negatively related to FDI while economic freedom becomes positively related to the FDI.

The results also show that Control of Corruption (COC), Political stability (PSNV) and Voice and Accountability (VNA) are the only institutional variables that are statistically significant. A variable is said to be statistically significant if the estimate of its coefficient is greater than the standard error of the coefficient. The result of the model presented in column 1 of table 4 shows that the half of the coefficient of COC (0.057) is greater than its standard error (0.014). Similarly, in column 7 half of the coefficients (0.047/2, 0.042/2 and 0.034/2) of the three variables (COC, PSNV and VNA) are greater than their standard errors (0.012, 0.019 and 0.0099) respectively. This demonstrates that control of corruption is the only institutional variable that is independently significant at 1% level of significance. But, when all the institutional variables are included in the model contained in column 7, VNA and PSNV are also statistically significant. While COC is positively related to FDI VNA and PSNV are inversely related to FDI. This implies that control of corruption, Political stability and voice and accountability are the only important institutional variables that matters for the inflow of foreign direct investment in Nigeria. Robust and adequate control of corruption provides the enabling institutional environment for the attraction of investment from multinational corporations into Nigeria. However, increase in awareness on the part of citizenry and domestic companies about market opportunities hinders the inflow of FDI. This may be due to the fact that the domestic companies are likely to build protective mechanisms that bar free entry in to the national market space. On the other hand, multinational corporations take advantage of political instability (once it occurs) to enter the market. In other words, more FDI inflows are attracted during political instability in Nigeria. This conforms to the findings of Cuervo-Cazurra and Genc (2008), where they assert that western FDI is attracted to economies with high levels of political instability.

The findings indicate that institutions matters for the attraction of foreign direct investment in Nigeria, and are a major determinant as to the level of inflows of foreign direct investment, including multinational activity.

Conclusion and avenues for further research

The drive to reform the institutional environment by many African countries, following the end of the colonial rule, is one that needs to be rekindled to allow for African nations including Nigeria to benefit from the trends of globalisation as a positive consequence. This research set out to understand the role of Nigeria's institutional environment, measured through the influences of property rights enforcement, adherence to the rule of law, the Heritage Foundation indices and the World Bank Governance indicators on the inflows of FDI into the economy. The research finds that some of these factors like corruption play a positive significant role on how attractive the economy is for foreign investment. Even though, the study is limited to the use of data gathered from databases; an interesting angle to conduct further research will be on the perspective of individual investors on their attraction to the Nigerian economy through the use of qualitative methods of data gathering and analysis. Further research should also look at analysing how informal institutions and its weaknesses may affect foreign direct investment and economic growth in Nigeria, seeing as the confines of this research is limited to the effects of formal institutions

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APPENDIX

Table 1: Definition and source of variables

S/N	Variable name	Variable definition	Source
1	FDI	Foreign direct investment inflow	United Nations conference on trade and development (UNCTAD)
2	GDPGRO	Growth rate of Gross Domestic Product	UNCTAD
3	MKTSIZE	Market size	UNCTAD
4	COC	Control of corruption	World Governance Index
5	EFINDEX	Economic freedom index	Heritage Foundation Index
6	GEFF	Government effectiveness	World Governance index
7	PSNV	Political stability and nonviolence	World Governance index
8	ROL	Rule of law	World Governance index
9	RQ	Regulatory quality	World Governance index
10	VNA	Voice and accountability	World Governance index

Table 2: Correlation analysis

Correlation	COC	EFINDEX	GEFF	PSNV	ROL	RQ	VNA
COC	1.000000						
EFINDEX	0.405652	1.000000					
GEFF	0.091002	-0.235579	1.000000				
PSNV	[redacted]	-0.461496	-0.257818	1.000000			
ROL	0.284117	0.369599	0.221205	-0.479664	1.000000		
RQ	0.281139	0.234072	-0.273143	0.085685	[redacted]	1.000000	
VNA	-0.148449	-0.012557	-0.042726	0.189677	[redacted]	[redacted]	1.000000

Table 3: Summary Statistics

STATISTICS Variable	FDI	GDPGRO	MKTSIZE	COC	EF INDEX	GEFF	PSNV	ROL	RQ	VNA
Mean	3784 54	5.64433	197150.5	10.29171	52 49500	14.22092	6 624073	8 734949	22 69102	26 60781
Maximum	8914 89	21.3474	566496 3	21.35922	56 80000	20 00000	24 51923	14 83254	27 48820	30 28850
Minimum	1156. 70	0.474238	47018 00	1.463415	47 30000	9 569378	2 884615	4 306200	8 333333	4 807693
Std. Dev	2688 52	4 316639	169263 7	4 127201	3 086551	2.329061	4 509678	3.945020	5 892848	6.097515
Skewness	0.65302	2 110705	0 861515	0.520573	-0 245791	-0 050432	2 953607	0.062097	-1 229005	-2 607960
Kurtosis	1 97471	8.723771	2 379650	4 281982	1 769204	3.565757	12 11972	1.432075	3 400335	9.184476
Jacques -Bera	2 64210	48 47429	3.213933	2.613817	1 683324	0.316494	113.1451	2.370739	5 943657	62.72633
Probability	0 26685	0 000000	0 200495	0 270655	0 430994	0 853639	0.000000	0 305633	0 051210	0 000000
Observations	23	23	23	23	23	23	23	23	23	23

Table 4: Regression results

INDEPENDENT VARIABLES	DEPENDENT VARIABLE Log of FDI (LOGFDI)						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
LOGMKTSIZE	0 64***	0.76***	0.75***	0.69***	0.74***	0 77***	0.53***
	(0.079)	(0.11)	(0.093)	(0.15)	(0.093)	(0.089)	(0.093)
GDPGRO	0 019	-0.0092	-0 0072	-0.0065	0.0079	-0.0097	0.025
	(0.012)	(0.0092)	(0.010)	(0.011)	(0.013)	(0.0099)	(0.019)
COC	0.057***						0.047***
	(0.014)						(0.012)
EFINDEX		-0 0020					0.014
		(0.026)					(0.027)
GEFF			0 018				0 023
			(0.036)				(0.026)
PSNV							-0 042**
							(0.019)
ROL				0.020			0.0017
				(0.032)			(0.015)
RQ					0.016		0.0085
					(0.012)		(0.016)
VNA						-0 014	-0.034***
						(0.010)	(0.0099)
Constant	-0 24	-0.85	-1 13	-0 34	-1.12	-0.68	1 04
	(0.87)	(1.25)	(0.97)	(1.53)	(1.07)	(1.05)	(1.55)
R-squared	0.876	0.810	0 813	0.816	0.818	0 823	0.918

Robust standard errors in parentheses *** p<0.01, ** p<0 05, * p<0.1

Appendix 2

Table I: Result of unit root test

VARIABLE	ADF STAT	5% CRITICAL VALUE	ORDER OF INTEGRAT-ION	PP STAT	5% CRITICAL VALUE	ORDEROF INTEGRATION
COC	-5.4723	-3.6450	I(1)	-5.4526	-3.6450	I(1)
EFINDEX	-4 565034	-3.644963	I(1)	-4.592740	-3.644963	I(1)
FDI	-4.996631	-3.690814	I(0)	-5.252127	-3.644963	I(0)
GDPGRO	-7.104111	-3.644963	I(1)	-7.079604	-3.644963	I(1)
GEFF	-5.074889	-3.644963	I(1)	-5.302257	-3.644963	I(1)
MKTSIZE	-7.991176	-3.644963	I(1)	-11.42790	-3.644963	I(1)
PSNV	-4.976218	-3.632896	I(0)	-4.962069	-3.632896	I(0)
ROL	-4.490684	-3.632896	I(0)	-4.526253	-3.632896	I(0)
D(RQ)	-4.073984	-3.673616	I(1)	-7.857867	-3.644963	I(1)
VNA	-5.049531	-3.690814	I(0)	-5.720689	-3.632896	I(0)

Table II: Result of Co-integration test (Bound testing approach)

Wald F-statistics	Lower bound	Upper bound
**1.1426	4.87	5.85

**Results show no co-integration