

Evaluating Management Trade Strategies through Trans-global Investment: the Subs-Saharan Africa in Focus

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ABSTRACT: In the case of the SSA Economy, the current study aims to evaluate if currency rates and inflation rates influence the dynamic relationship between foreign investment inflows (Foreign Direct Investment, or FDI, and Foreign Portfolio Investment, or FPI) and trade openness. This is done from a managerial perspective. The regressors are foreign investment indexes, while the regressed variables are trade policy initiatives defined by trade openness. The longitudinal research design was adopted in this study. Data from the World Bank database for 2021 was compiled for the article. 30 SSA nations out of the 48 in SSA during the 1992–2021 review periods were sampled for the study. In the meanwhile, the Robust Panel Regression (Panel Corrected Standard Error) approach was used in the study. According to the study, FDI significantly (prob. value = $0.0007 < 0.05$) and positively (coefficient value = 0.977169) affect trade openness. It follows that one of the main indicators of trade openness is FDI inflows. Similarly, trade openness is positively impacted by currency rates. Additionally, FDI has a marginally significant (prob. value = $0.7399 > 0.05$) yet positive (coefficient value = 0.005328) effect. By implication, FPI inflows have a direct but minor impact on trade openness. INFR discourages foreign investors from participating in the local economy. Overall, the paper's conclusions are consistent with a cross-country analysis. As a result, the study suggests that the SSA economy is an important predictor of foreign direct investment and what facilitates trade with other nations. Based on this assumption, the study contends that in order to attract greater foreign direct investment into the SSA economy, government agencies and other relevant sector players must collaborate to implement flexible regulatory rules.

Keywords: Management, oversea investment, trade strategies, SSA countries

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INTRODUCTION

With a projected population of 2.5 billion by 2050, Africa is a market that is expanding, and the African Continental Free Trade Area (AfCFTA) has the potential to play a big role in the world economy. The United States encourages African firms to expand so they may become suppliers and buyers for American companies. Since 2015, USAID has invested over \$94 million in Africa's trade and institutional capacity building. The implementation of prudent monetary and fiscal policies has improved investor mood. Due to the region's rising urbanization, increased labor force, and improved technology absorption, the economic landscape is undergoing dramatic change. Additionally, the region's financial

accessibility is improving due to a gradual easing of capital account limitations and a rise in non-official transactions. Along with a progressive easing of capital account limitations and a rise in non-official capital flows, the area is also becoming more financially accessible. Over time, foreign investment inflows continue to be one of the most important instruments available to help nations across the world attain sustainable economic growth. According to Odita et al. (2020), foreign investment is a significant instrument for policy because it guarantees that the receiving nation receives the cash required for investment, boosts competitiveness in the industries of the originating country, and ensures that

native businesses are very productive. It is important to remember that foreign investment is usually a productive way for nations to close the savings-to-investment gap (Oshiobugie, 2022). An economy can receive foreign investment through three main channels: foreign institutional investment (FII), foreign portfolio investment (FPI), and foreign direct investment (FDI). Foreign direct investment and foreign portfolio investment, however, are the most popular overseas investment avenues among these three. Foreign exchange transactions involving stocks, bonds, debt, or equity securities—aside from those included in direct investment or reserve assets—are classified as foreign exchange profit (FPI) by the International Monetary Fund (2018) (Sokang, 2018). Foreign investors that engage in short-term, exchange-based investments in foreign financial assets (stocks and bonds) are referred to as foreign portfolio investors (FPI) inflows (Agbogun and Ehiedu, 2022). This investing approach/strategy's main benefit is that, while it may not be desired in the long run, it is highly advantageous in the near term. This is a result of the financial assets' high liquidity, which allows for easy disposal.

Furthermore, Oshiobugie (2022) added that FPI are not considered as short-term investments but an attempt to make short term profits. Again, FPI may be unfavourable especially if the receiving country is faced with financial turmoil and currency uncertainty. Meanwhile, foreign direct investment inflows are direct flow of foreign capital by foreign investors with the sole intent not just to own a substantial amount of the stocks of the receiving country but also to build a long-lasting commitment to invest in the receiving country. According to the World Bank (2023), FDI involves the net inflows of investment into receiving country by foreign investor with the intent to acquire management interest say at least 10% voting rights on a long-term basis. In other words, it is the sum of equity capital, other long-term capital, reinvestment of earnings, and short-term capital as stated in the receiving country's balance of payments. Unlike FPI, most domestic investors in developing countries like Sub Saharan Africa prefer FDI since FDI is less vulnerable to crises. Consequently, participants in emerging and developing economies typically see FDI inflows reduce the receiving country's savings-investment gaps (Giwa et al., 2020). However, the extent to which foreign capital flows into an economy affects the degree of the country's openness to trade.

Most African nations liberalized their trade policies in the early 1980s in acknowledgment of the numerous benefits that foreign capital brought to the continent's economy. Interestingly, the most significant trade liberalization changes in nearly every nation were implemented alone. That is to say, the policies were not put into effect in accordance with a deal with trading partners. Nevertheless, the reform initiatives have been "locked in" by several agreements with trading partners. Most notably, African nations made promises to open

trade policies during the multilateral discussions of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), which culminated in the creation of the World Trade Organization in 1995. African nations have committed to more open trade with one another through a number of regional trade accords, some more substantive than others. Additionally, there are unique trade agreements between the United States and the European Union and groups of African nations. Openness and trade are currently top priorities for African nations' policies. According to Tahir et al. (2018), trade openness stimulates economic growth. Therefore, to create policies that remove or lessen trade barriers that now exist in the nation, policy makers and government officials who are focused on development must have a crucial grasp of the elements that determine trade openness. Trade policies that promote foreign investment inflows ought to be supported as they support economic expansion. This implies further that international investors are more inclined to invest in the SSA economy the more trade-open an economy is. Nevertheless, despite massive inflows of foreign investment into the African economy, Africa, and SSA in particular, has shown dismal economic performance during at least the past 20 years. The overall performance of SSA is still cause for concern, even though some of the nations have defied the trend and fared quite well. It is reasonable to say that between 1990 and 2000, the continent of Africa's share in global commerce trade fell precipitously in terms of both imports and exports. It hasn't been very steady since 2000 (World Bank Report 2021). One significant factor contributing to this might be the fact that the majority of foreign funding enters the country through unorthodox channels rather than being utilized for development. This might be explained by the inadequate trade policy formulation based on the arguments of Agbogun and Ehiedu (2022). This contribution lends lay support to the capital flight argument proposed by Lucas Paradox.

To the best of the researchers' knowledge, they have not yet discovered the study area discrepancy that essentially influences how the macroeconomic variables behave. This is since various research areas will require distinct methodologies and variables that can be used. Second, the research's 2000–2017 study period is a significant improvement above the literature mentioned before. Finally, a major advancement in the literature in identifying the variables influencing the patterns of attracting foreign direct investment in developing sub-Saharan African nations is the selection of the study variables and the use of contemporary econometrics methodologies. Hence, the main objective of the study is to empirically examine the effect of oversea investment inflows on trade strategies in Sub Saharan African countries. Specifically, the paper seeks to:

1. Assess how trade policy in a few SSA countries is affected by foreign direct investment (FDI) inflows.

2. Ascertain how trade policy in a few SSA countries is affected by foreign portfolio investment (FPI) inflows.
3. Assess how the exchange rate influences trade and foreign investment policies in a few SSA nations.
4. Determine how the inflation rate influences trade and foreign investment policies in a subset of SSA nations.

The paper is sectionalized systematically and structured to wrap up the study gap and address the kernel of the study.

Literature review

Conceptual review

The term overseas investment inflows accounts for the movement of capital into the home country through international nations either in the form of foreign investment (FDI or FPI), loans from multilateral agencies, including the World Bank, or loans from the governments of International countries. Osuji, Erhijakpor and Oliogu (2023) noted that overseas investment inflow is the increase in the quantity of money transferred from overseas sources to a country in order to promote financial performance across the board as well as wealth creation. In this study, overseas investment inflows are measured by: Foreign Direct Investment (FDI) inflows and Foreign Portfolio Investment (FPI) inflows. According to Ngouhouo et al. (2021), FDI refers to financial contributions made by investors to obtain a long-term stake in a foreign business that they do not now reside in. Put differently, it is an inflow of foreign funds intended for the investor's use in either managing or controlling a company located abroad.

In the past, foreign direct investment (FDI) inflows did not significantly target Africa about other continents. FDI inflows into African nations have significantly expanded recently. Ezeanyej and Ifeako (2019) claim that foreign portfolio inflows (FPI) refer to the movement of financial assets, including cash, stocks, and bonds, between nations with the primary goal of maximizing profit. FPI specifically happens when an investor or investors purchase non-controlling stakes in foreign businesses, as well as short-term notes, foreign government bonds, and corporate bonds (Onuora, 2019). FPI does not provide investors with actual ownership of the financial assets they have bought or authority over the business they have invested in.

FPI inflows are therefore seen as an example of indirect investment. Therefore, capital flows are also the result of people and nations trying to better themselves by relocating accumulated assets to where they are most likely to be productive, much as trade flows originate from people and nations hoping to maximize their well-being by taking advantage of their comparative advantage. Trade policy, on the other hand, includes measures meant to enhance the movement of products both inside

and beyond a nation's borders. The degree of trade openness is a traditional metric used to assess trade policy. According to Agobgun and Ehiedu (2022), this parameter—degree of openness to trade—accounts for how much a nation's trade policies facilitate trade exchanges and talks with other countries. As a result, it takes into consideration the ratio of a nation's total imports and exports to its GDP.

Theoretical framework

The Dunning eclectic model serves as the basis for the work. The hypothesis was developed in 1976 by John Dunning (Dunning, 1977a). It looks at the relationships between the many parts of the business. The Dunning hypothesis provides a framework for foreign direct investment, or FDI, growth. It makes a substantial contribution to both the division of international economics and international business studies (IBS) and the creation of global strategy.

According to Cantwell (2015), the growth of global operations is explained by the use of Dunning's Eclectic Paradigm. Dunning's Eclectic Model's inclusivity made it possible for business strategy and organizational studies to have a bigger impact on the study of global organizations. Although it is meant for the study of multinational corporations rather than the evaluation of specific corporate acts, the Eclectic Model provides a framework for both normative and descriptive studies of particular businesses. As per the theory, a company's foreign value-adding activities' level and structure are contingent upon three factors: (1) ownership of distinct and enduring advantages over other firms (Ownership Advantages – "O"); (2) the degree to which the company believes it is beneficial to enhance its O advantages instead of selling them to other foreign firms (Internalization Advantages – "I"); and (3) the degree of interest that companies have in a foreign location (Location Advantages – "L"). These three classes of advantages—location endowments, degree of control over the foreign investment, and types of ownership advantages firms need to have and/or develop to successfully engage in international production—can be combined to analyze the factors influencing foreign direct investment (FDI) (Dunning, 1977b). literature has traditionally prioritized ownership or internalization benefits above location, even if Dunning's approach has acquired a lot of momentum (Cantwell, 2009). Numerous geographic dimensions, methodological philosophies, degrees of investigation, and types of empirical data have all been used by researchers to examine the factors that influence foreign direct investment (FDI) (Jain, 2016). Nielsen et al. (2017) found that "our understanding of the drivers of FDI location choice is still somewhat limited due to data source limitations [and] empirical as well as methodological challenges, which render conclusive evidence mixed at best" in their analysis of 153 quantitative

studies on FDI location choice that were published between 1976 and 2015.

Empirical review

Ding et al. (2019) examined the link between capital movement and international trade from 2001 to 2016 using bilateral data. It was shown that capital flow and trade have a favorable long-term connection, but that capital flow can forecast trade in the near term. Gbalam and Ekokeme (2020) examined the impact of foreign direct investment on the growth of Nigeria's stock market. The researcher used historical data extracted from the Nigerian exchange group covering the years 1985–2018 and employed an autoregressive study method. The value of agreements and market capitalization have a favorable impact on foreign direct investment (FDI) inflows, while the entire share index has a negative impact on FDI, according to results from the Engle Granger error correcting approach.

In a study by Osuji et al. (2023), the macroeconomic drivers of foreign investment inflows in sub-Saharan African countries (SSA) for forty (40) years from 1982–2021 were examined. The data used for the analysis was generated from CBN statistical bulletin (2021). The result showed inflation rate, exchange rate and degree of trade openness as measures of international inflow in SSA countries.

Ewubare and Ezekwe (2017) investigated the relationship between trade liberalization and capital flows in Nigeria between 1986 and 2015 in a related study. The United Nations Conference on Trade and Development, the CBN statistics bulletin, and the World Bank development indicators provided the study's data. Long-term results showed that while tariffs and currency rates discourage foreign direct investment (FDI) into Nigeria, trade openness has a negative impact on FDI.

Using Nigeria as a case study, Anetor (2020) examined the contribution of foreign capital inflows to the development of developing nations between 1986 and 2016. There is a strong positive correlation between financial development and foreign direct investment (FDI), according to the results of the forecast error variance decomposition (FEVD) and impulse response function (IRF).

METHODOLOGY

The longitudinal research design was utilized in the study due to the long-term nature of the variables being examined. The research was compiled using data from the World Bank in 2021. The main point is that the researchers may find it difficult and time-consuming to organize the data according to each nation. It appears that 30 SSA nations out of the 48 SSA countries were included in the study's sample. Out of the 48 SSA countries, 30 were selected based on the availability of

data for the period from 1992 to 2021 that was under consideration. Therefore, the researchers purposefully chose the sample. In the meanwhile, the robust panel regression estimation method (Panel Corrected Standard Linear Model) is taken into consideration.

This is because the Robust Panel regression estimation takes into account both normality and variable perturbation concerns, in contrast to the traditional panel regression technique (Random or Fixed Effect Model). It makes sense that the variables under consideration included both cross-sectional data (48 nations) and time series data spanning from 1992 to 2021. Preliminary analyses that are taken into consideration include the Ramsey Reset Test (RRT), Heteroskedasticity test, variance inflation factors, and correlation analysis. The functional model is given by Eqn 1, which is consistent with findings from empirical work conducted by Osuji et al. (2023), Ngouhouo et al. (2021), Nga (2020), and Ehigiamusoe and Lean (2019).

$$TROP = f(FDI, FPI, EXR, INFR) \dots \dots \dots 1.$$

In this study degree of trade openness is used as a surrogate for trade policy (TROP) while foreign direct investment-FDI inflows, foreign portfolio investment-FPI inflows are the surrogate for overseas investment inflows (Table 1). Econometric form of the model in equation 1 is shown in equation 2:

$$TROP = \beta_0 + \beta_1 FDI + \beta_2 FPI + \beta_3 EXR + \beta_4 INFR + \mu) \dots \dots 2$$

Where:

FDI = Foreign direct investment inflows
FPI = Foreign portfolio investment inflows
EXR = Exchange rate
INFR = Inflation rate
TROP = Trade Openness

RESULTS AND DISCUSSION

Preliminary analysis

Before presenting the main regression, the preliminary analyses are presented in (Tables 2 and 3). Table 2 showed that whereas FDI inflows averaged \$4,130,000,000, they varied by \$1,200,000,000. In the meantime, throughout the analyzed years of 1992 to 2021, the largest amount of foreign direct investment (FDI) to enter the SSA economy was \$10,000,000,000, while the lowest amount was \$780,000,000. Conversely, the mean foreign portfolio investment inflows is \$1,200,000,000, with a variance of \$780,000,000. During the analyzed periods of 1992 to 2021, the greatest FPI that entered the SSA economy was \$2,320,000,000, while the lowest FPI that entered the SSA economy during the same time was \$800,811,000.

Furthermore, the Exchange rate (EXR) varied by 505.58/\$1, with an average value of 290.89/\$1.

Table 1: Operationalization of study variables

Denotations	Target Variables	Measure & Nature of Variables	Apriori Expectation
EXR	Exchange Rate	Official exchange rate (Control Variable)	Positive
INFR	Inflation Rate	Consumer prices (annual %) (Control Variable)	Negative
TROP	Trade Openness	Trade(% of GDP) (Dependent Variable)	Nil
FDI	Foreign Direct Investment inflows	Annual FDI inflows to GDP (Independent Variable)	Nil
FPI	Foreign Portfolio Investment inflows	Annual FPI inflows to GDP (Independent Variable)	Nil
Researcher's Compilation (2022)			

Table 2: Descriptive Statistics.

	FDI (\$'000)	FPI (\$'000)	EXR (\$)	INFR (%)	TROP (%)
Mean	4,130,000	1,200,000	290.89	11.80	66.88
Maximum	10,000,000	2,320,000	3727.07	38.82	78.46
Minimum	7,400,890	800,811	0.0028	13.06	44.20
Std. Dev.	1,200,000	780,000	505.58	20.44	23.00
Observations	900	900	900	900	900

Observation 30 Periods*30 SSA countries

Source: E-Views 9.0 (2022)

Table 3: Correlation and Multi-collinearity Test

Variables	TROP	FDI	FPI	EXR	INFR	VIF	TOV=1/VIF
TROP	1.0000						
FDI	0.7943	1.0000				2.0339	0.4917
FPI	0.5103	0.1109	1.0000			1.0987	0.9102
EXR	0.3999	-0.2238	0.3582	1.0000		2.0490	0.4880
INFR	-0.2103	0.0959	0.2744	-0.4650	1.0000	2.0248	0.4939
Average						1.8016	0.5959

Note: VIF is Variance Inflation Factors; TOV is Tolerance

Given that EXR's standard deviation is significantly larger than its mean value, this indicates that it significantly varied from its mean value during the study periods. Additionally, the greatest EXR of 52.07 and the minimum EXR of 0.0028/\$1 were recorded by all SSA nations. In the meantime, there was a 20.44% fluctuation in the maximum inflation rate of 38.82%. This indicates that the EXR strayed significantly from its mean value fluctuations.

Finally, the percentage of exports and imports to GDP, which indicates how open the African economy is to commerce, is 38.82% on average, 66.88% on average, but it varies by 23.00%. In the meanwhile, over the analyzed periods of 1992 to 2021, the maximum TOP that entered the SSA economy was 44.20%, while the lowest TOP that entered the SSA economy during that same period was 78.46%.

From the correlation analysis in (Table 3), FPI ($r=0.7943$) and FDI ($r=0.5103$) and EXR ($r=0.3999$) are positively related with TOP. By implication, the more the SSA economies are open to trade, the more FDI and FPI flows into the SSA economy. However, INFR ($r=-0.2103$) are negatively related with TOP. By implication, higher the inflation rate, the lower the TOP. On the overall, none

of the independent variables are highly correlated since none of their correlation coefficient were up to 70%. When tested further the average VIF was $1.8016 > 10$ while the $0.5959 > 0.10$ is free from multi-collinearity issues.

Regression estimate

To ensure that, the regression estimate is critical to policy formulation, the robust regression estimate is presented thus:

From the regression estimate, (Table 4) the study reported that, R-squared value of 0.687746 and an adjusted R-squared value of 0.548966. This reveals that the model has a high predictive power. This further suggests that overseas investment alongside the control variables (EXR & INFR) accounted for 68.77% while the remaining 31.23% is accounted for the error term. Although the model has a high predictive power but caution must be taken as it may not suggest that, the model is devoid of serial correlation. When tested further, the model reported a Durbin-Watson stat value of 2.023406 suggesting that the model is free from serial autocorrelation. Again, the prob. joint statistics (Prob (F-

Table 4: Robust Regression (Panel Corrected Standard Error)

Dependent Variable: TROP				
Method: Panel Corrected Standard Error				
Total Panel Observation : 900 (time scope : 1992 -2021 over 30 SSA Countries)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.44932	1.803918	8.009964	0.0000
FDI	0.977169	0.152010	6.428327	0.0007
FPI	0.005328	0.015324	0.347721	0.7399
EXR	0.341987	0.136039	2.513884	0.0307
INFR	-0.610904	0.123435	-4.949188	0.0008
Robust Panel Parameter Estimates				
R-squared	0.687746	Adjusted R-squared		0.548966
Mean dependent var	15.55786	S.D. dependent var		2.130602
F-statistic	13.86716	Prob(F-statistic)		0.000908
Durbin-Watson stat	2.023406			
Panel Diagnostic Test Estimates				
Panel Diagnostic Test	F-statistic	Prob Value	Interpretation of Panel Diagnostic Tests	
1. Hausman Test	1.866103	0.1992	Random Effect Model is Preferred	
2. Ramsey Reset Test	5.024669	0.1700	None of the Variables are omitted	
3. Heteroskedasticity Test	0.509074	0.9169	Residual of the series spread Evenly	
Source: Researchers' Compilation based on E-Views 9.0 Output (2022)				

Source: Researchers' Compilation based on E-Views 9.0 Output (2022)

statistic) of 0.000908 suggests that overseas investment jointly have a high statistically significant effect on trade openness. This suggests that overseas investment jointly is major predictor of trade openness.

Upon additional testing, the Hausman Test revealed a probability value of 0.1992, indicating that the Random Effect Model is the preferred option. Nonetheless, the Ramsey Reset Test (RRT) was applied to the model to prevent variable perturbation issues. A p-value of 0.1700 was given by the RRT, indicating that no variables appear to be missing. Conversely, the Heteroskedasticity test indicated a probability value of 0.9169, indicating that the series residual was distributed uniformly. The individual factors were discussed considering this.

First, the study found that FDI had a prob. value of $0.0007 < 0.05$, a positive t-value of $6.428327 > 1.96$, and a positive coefficient value of 0.977169. The SSA economies are hence more open to trade the more foreign direct investment (FDI) that enters these nations. This implies even further that trade openness is significantly predicted by FDI inflows. This supports the Hamod-Domar and cheerful hypothesis, which holds that nations may close their development disparities by bringing in foreign direct investment (FDI). According to the report, one of the best sources of foreign capital is direct investment inflows.

The justification for this is that foreign corporations may leverage their technical advantages over their local competitors by bringing in foreign direct investment. Similarly, TROP is significantly benefited by EXR. This implies that the SSA economy will be more accessible to foreign investment the higher the cost of exchanging dollars for local currency rises. This is in favor of the depreciation of the currency.

Additionally, the study found that FDI has a positive t-value of $0.347721 < 1.96$, a positive coefficient value of

0.005328, and a prob. value of $0.7399 > 0.05$. It follows that increased FPI inflows into SSA nations have a slight but direct impact on TROP. This implies further that TROP is not significantly predicted by the amounts of FPI inflows. Foreign investors are discouraged from investing in the economy by INFR, however. This explains why FPI inflows are thought to be counterproductive for foreign investors during periods of macroeconomic instability. This is consistent with the study's Aprili Expectation.

Conclusion

The current paper attempts to ascertain if exchange rate and inflation rate matter in the dynamic linkage between overseas investment (FDI & FPI) inflows and trade openness in the case of the SSA Economy. The overall outcomes of the paper conform to cross-country analysis. Hence, the paper concludes that foreign direct investment is a major overseas investment predictor which causes the SSA economy to be more open to trade.

Recommendations

- 1.To ensure the inflow of additional foreign direct capital investment into the SSA economy, government agencies and other pertinent stakeholders must work together to implement flexible regulatory legislation.
- 2.Given that the value of SSA domestic currencies is still declining, the government of that country must review its foreign exchange policy once more.
3. Lastly, the government of the SSA economy ought to allocate a larger portion of the proceeds from foreign investments to the advancement of technology, human capital, and infrastructure. This would lower the inflation rate that has been growing over time.

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