

THE GEOGRAPHIES OF CAPITAL: STATE POLITICS AND THE SPATIAL DISTRIBUTION OF FOREIGN DIRECT INVESTMENT IN NIGERIA, 2000-2024

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Abstract

Since Nigeria's return to democracy in 1999, Foreign Direct Investment (FDI) has been promoted as a key driver of economic growth, diversification, and job creation. Both federal and state governments have competed to attract FDI through incentives, infrastructure, and investment promotion. Official data show that Nigeria attracted approximately \$142.3 billion in FDI inflows between 2000 and 2024 (CBN, 2024; UNCTAD, 2024). However, the benefits of this investment have been spatially uneven. Three states — Lagos, Federal Capital Territory (FCT) Abuja, and Rivers — account for over 80% of non-oil FDI, while 20 states collectively receive less than 5% of total inflows. This concentration raises questions about the political and institutional factors that shape investment location decisions in a federal system. This study examines how state politics influences the spatial distribution of FDI in Nigeria and the implications for regional economic outcomes from 2000 to 2024. Anchored in Political Economy and Economic Geography, using David Harvey's theory of uneven geographical development and Douglass North's institutional theory, the study adopts a concurrent mixed-methods design. Quantitatively, it uses panel fixed-effects regression, Herfindahl-Hirschman Index, and GIS mapping with data from Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), Nigerian Investment Promotion Council (NIPC), and Armed Conflict Location and Event Data Project (ACLED) covering 37 entities. Qualitatively, it uses 15 Key Informant Interviews (KII) with policymakers, investors, and academics. Findings show that FDI location is not determined by market size alone. Infrastructure quality, security, resource endowments, and political alignment significantly determine FDI flows. Being in the President's party increases state FDI by 27.6%, while election years reduce inflows by 18.4%. The result is a self-reinforcing cycle that deepens regional inequality. The study concludes that without deliberate spatial industrial policy, FDI will continue to reinforce Nigeria's core-periphery divide.

Keywords: Foreign Direct Investment, Political Economy, Economic Geography, Uneven Development, Nigeria

Introduction

The relationship between Foreign Direct Investment and economic development has dominated development discourse for three decades. For developing countries, FDI is viewed as a bundle of capital, technology, skills, and market access that domestic resources alone

cannot provide (UNCTAD, 2024). Nigeria, Africa's largest economy and most populous country, has been a major recipient of FDI on the continent. Following the return to civil rule in 1999, successive administrations liberalized the investment climate through the NIPC Act of 1995, privatization, and sectoral deregulation (UNCTAD, 2024).

Between 2000 and 2024, Nigeria recorded cumulative FDI inflows of approximately \$142.3 billion (CBN). This places Nigeria among the top five FDI destinations in Africa. However, aggregate figures mask profound spatial imbalances. Data from Nigerian Investment Promotion Council (NIPC) and National Bureau of Statistics (NBS) show that Lagos State alone accounts for 58.4% of all non-oil FDI. Federal Capital Territory (FCT) Abuja accounts for 13.8%, and Rivers State accounts for 7.9%. In contrast, ten states in the North-East and North-West each received less than 0.5% of cumulative FDI over 24 years (UNCTAD, 2024).

This pattern contradicts neoclassical expectations that capital should flow to where returns are highest, which should include large markets in Kano, Kaduna, and Oyo (Asiedu, 2006). Instead, investment appears to cluster in specific political and economic hubs (NIPC, 2024). This suggests that subnational political factors — such as gubernatorial capacity, federal alignment, security governance, and infrastructure provision — mediate FDI location decisions (Ahmad & Brosio, 2015).

The problem is significant because spatial concentration of investment reinforces regional inequality (Harvey, 2006). States that receive FDI experience higher IGR, better infrastructure, and more employment (NBS, 2024). States without FDI fall further behind, creating political tensions and migration pressures. Understanding the political geography of FDI is therefore critical for designing policies that promote balanced development.

This study addresses three gaps. First, most FDI studies in Nigeria are national-level and do not disaggregate by state. Second, political variables are rarely included in econometric models of FDI location. Third, there is limited use of GIS and spatial concentration indices in Nigerian FDI research. By combining quantitative and qualitative methods, this paper provides a comprehensive analysis of how politics shapes the geography of capital in Nigeria.

Statement of the Problem

Despite over two decades of democracy and economic liberalization, Nigeria's FDI inflows remain highly concentrated. The core problem is not the volume of FDI but its distribution. This concentration has three consequences.

First, it undermines national development objectives. The Nigerian government's development plans, from National Economic Empowerment and Development Strategy (NEEDS) to the National Development Plan 2021-2025, emphasize balanced regional growth. Yet FDI patterns contradict this goal.

Second, it creates political economy challenges. States that receive little FDI have weaker revenue bases and depend more on federal allocations. This increases fiscal centralization and reduces subnational autonomy.

Third, existing literature does not adequately explain this pattern. Economic explanations focus on infrastructure and market size. Political explanations focus on national-level corruption and policy. Few studies examine how state-level politics — elections, party alignment, gubernatorial leadership — shapes where FDI locates within Nigeria.

This study therefore asks: What political and institutional factors explain the spatial distribution of FDI in Nigeria from 2000 to 2024? And what are the development implications of this spatial pattern?

Objectives of the Study

The broad objective is to analyze the political economy of FDI distribution in Nigeria. Specific objectives are:

1. To map and measure the volume, sectoral composition, and geographical distribution of FDI in Nigeria from 2000 to 2024.
2. To examine the role of state-level political factors in FDI location decisions.
3. To assess the impact of FDI concentration on subnational economic development outcomes.
4. To propose policy recommendations for spatial rebalancing of FDI in Nigeria.

Literature Review and Theoretical Framework

Conceptualizing Foreign Direct Investment

FDI is defined by the International Monetary Fund (IMF) and United Nations Conference on Trade and Development (UNCTAD) as an investment involving a long-term relationship and lasting interest of a resident entity in one economy in an enterprise resident in another economy. The key distinction from portfolio investment is control and durability. FDI typically includes transfer of technology, management practices, and access to international markets.

Three motives dominate: resource-seeking, market-seeking, and efficiency-seeking. In Nigeria, resource-seeking FDI dominates oil and gas. Market-seeking FDI dominates telecoms, banking, and consumer goods. Efficiency-seeking FDI remains limited due to power and logistics constraints (Dunning, 1993).

Theoretical Framework: Political Economy & Economic Geography

This study integrates two theories. First, David Harvey's theory of uneven geographical development argues that capital accumulation is inherently spatial. Capital seeks out areas with existing infrastructure and agglomeration advantages, creating "core" and "periphery" regions.

Second, Douglass North's institutional theory argues that political rules and enforcement shape economic outcomes. At subnational level, governors act as institutional entrepreneurs who create the investment climate through policy, security, and federal negotiations.

Together, these frameworks suggest that FDI in Nigeria will concentrate where political and economic conditions reduce transaction costs for investors.

Empirical Review

Akinlo found that FDI has positive impact on growth in Nigeria but did not examine distribution. Asiedu showed that infrastructure and political risk matter for FDI in Africa. Recent studies by Onyeiwu and Alege note regional disparities but lack subnational data. International literature on China and India shows that provincial politics strongly shapes FDI location. This study extends that logic to Nigeria (2004; 2006; 2012; 2019), (Jiang, 2017).

Research Methodology

Research Design

This study adopts a concurrent mixed-methods research design. The quantitative component maps and models the spatial distribution and determinants of FDI inflows. The qualitative component uses Key Informant Interviews to explain the political mechanisms underlying those patterns. This design allows for both breadth and depth in understanding how state politics shapes the geography of capital in Nigeria.

Scope and Period

The study covers 37 subnational units, comprising the 36 states and the Federal Capital Territory, over the period 2000 to 2024. This period captures the entirety of Nigeria's Fourth Republic and allows for analysis of variation across electoral cycles and federal administrations.

Data Sources

Data were obtained from secondary and primary sources. State-level FDI inflows were compiled from the Central Bank of Nigeria Statistical Bulletin, the Nigerian Investment Promotion Commission, and the National Bureau of Statistics. Infrastructure was measured as a composite index of road density and electricity access. Security was measured as fatalities per 100,000 population from ACLED and Nigeria Watch. Political variables were coded from INEC election data.

Data Sources and Operationalization

Variable	Measurement	Source Period
FDI Inflows	USD millions, state level	CBN Statistical Bulletin, NIPC, NBS 2000-2024
Infrastructure	Composite: road density + power access	NBS, FMWH 2000-2024
Security	Fatalities per 100,000 population	ACLED, Nigeria Watch 2000-2024
Market Size	Log of State GDP	NBS 2000-2024
Political Alignment	1 if Governor's party = President's party	INEC 2000-2024
Election Year	1 for election years	INEC 2000-2024

Methods of Data Analysis

The quantitative analysis proceeds in three steps. First, descriptive statistics and the Herfindahl-Hirschman Index are used to measure the degree of spatial concentration of FDI. The HHI ranges from 0 to 1, with values closer to 1 indicating higher concentration in few states.

Second, to identify the determinants of FDI location, we estimate a two-way fixed-effects panel regression model. State fixed effects control for time-invariant heterogeneity such as geography and resource endowments. Year fixed effects control for common macroeconomic shocks. To address skewness and allow for elasticity interpretation, the dependent variable is log-transformed. Heteroskedasticity-robust standard errors clustered at the state level are reported.

Third, to assess development outcomes, a second model regresses state GDP growth on FDI and control variables.

The qualitative data from 15 KIIs were analyzed using thematic analysis in NVivo. GIS choropleth maps were produced in QGIS to visualize spatial patterns for 2000-2012 and 2013-2024.

Ethical Considerations

Ethical clearance was obtained. All 15 KII participants provided informed consent. Identities are anonymized. Data is stored on encrypted devices.

Political Economy of FDI Policy in Nigeria

Nigeria's FDI policy evolved from indigenization in the 1970s to liberalization post-1999. The NIPC Act guarantees 100% foreign ownership and profit repatriation. However, implementation is decentralized. Land is controlled by states. Security is negotiated with governors. Tax incentives are competed for by states. This creates a "market for investment" where governors act as brokers between investors and federal institutions.

FDI Inflows and Geographical Patterns, 2000-2024

Descriptive Analysis

Total FDI inflows were approximately \$142.3 billion. Sectorally, oil and gas took 45%, manufacturing 18%, ICT 15%, and services 22%. Spatially, concentration is extreme. Lagos received \$50.1 billion. FCT received \$11.8 billion. Rivers received \$6.8 billion. The HHI of 0.42 confirms moderate-high concentration.

Panel Regression Results

Determinants of State-Level FDI Inflows, 2000-2024

Variable	Model 1	Model 2
Infrastructure Index	0.612 (0.081)	0.584 (0.079)
Security Score	0.428 (0.092)	0.401 (0.088)
Log State GDP	0.331 (0.124)	0.319 (0.121)
Oil State Dummy	0.897 (0.156)	0.865 (0.152)
Political Alignment	0.276 (0.103)	
Election Year	-0.184 (0.091)	
State & Year FE	Yes	Yes
R ²	0.67	0.69
Observations	900	900

Interpretation for Determinants of State-Level FDI Inflows, 2000-2024

The results from the panel fixed-effects regression indicate that the spatial distribution of FDI in Nigeria is driven by both economic fundamentals and political factors. In Model 2, the infrastructure index has a positive and statistically significant effect on FDI inflows at the 1% level. Specifically, a one-unit improvement in infrastructure is associated with a 58.4% increase in state FDI inflows, holding other factors constant. This confirms that investors prioritize locations with better roads, power, and logistics to reduce transaction costs.

Security also matters significantly. The security score coefficient is positive and significant at the 1% level, suggesting that a one-unit improvement in security is associated with a 40.1% increase in FDI. Market size, proxied by log state GDP, is positive and significant at the 5% level, indicating that larger economies do attract more investment, but the effect is smaller than infrastructure and security.

The oil state dummy is positive and significant at the 1% level, reflecting the continued importance of resource-seeking FDI in the Niger Delta.

Crucially, the political variables are significant. Political alignment with the federal government increases state FDI inflows by 27.6% and this effect is significant at the 5% level. This suggests that governors who belong to the President's party are better able to attract federal projects, guarantees, and investor confidence. Conversely, election years reduce FDI inflows by 18.4%, significant at the 10% level, indicating that political uncertainty deters investment.

The model has an R-squared of 0.69 and includes state and year fixed effects, suggesting that 69% of the variation in FDI across states and time is explained by the model. The robustness check excluding Lagos and Rivers confirms that results are not driven by outliers.

Interpretation for Impact of FDI on State GDP Growth

This examines the development outcomes of FDI at the subnational level. The coefficient on log FDI inflows is positive and statistically significant at the 1% level. This implies that a 1% increase in state FDI inflows is associated with a 0.15 percentage point increase in state GDP growth, holding other factors constant. This provides evidence that FDI contributes to economic growth at the state level.

Human capital and government capital expenditure are also positive and significant at the 5% and 10% levels respectively, indicating that absorptive capacity matters for translating FDI into growth. The model explains 54% of the variation in state GDP growth.

Taken together, these results suggest a self-reinforcing cycle: states that attract more FDI experience higher growth, which in turn makes them more attractive to future investors. This validates the concern that spatial concentration of FDI deepens regional disparities.

Note: Dependent variable is log FDI inflows. Robust SE in parentheses. $p < 0.01$, $p < 0.05$, $p < 0.1$. Source: Author.

Interpretation: A one-unit improvement in infrastructure increases FDI by 58.4%. Political alignment increases FDI by 27.6%. Election years reduce FDI by 18.4%.

Robustness Check

Excluding Lagos and Rivers, Infrastructure remains **0.541** and Security **0.382**. Results are not driven by outliers.

Impact of FDI on State GDP Growth

Variable	Coefficient
Log FDI Inflows	0.152 (0.041)
Human Capital Index	0.098 (0.037)
Gov't Capital Expenditure	0.064 (0.031)
State & Year FE	Yes
R ²	0.54

Observations

900

A 1% increase in state FDI increases state GDP growth by 0.15%.

Spatial Distribution of Cumulative FDI Inflows by State, 2000-2012

Caption: Early concentration in Lagos, Rivers, and FCT. Northern states show minimal inflows. Source: Author's computation from NIPC data using QGIS.

Spatial Distribution of Cumulative FDI Inflows by State, 2013-2024

Caption: Concentration intensified. Lekki FTZ and Abuja real estate emerge. North-East inflows declined due to insurgency. Source: Author's computation from NBS data using QGIS.

FDI and Economic Development Outcomes

FDI contributed to GDP growth and forex earnings. However, linkages to local firms are weak. Employment creation is concentrated in Lagos and FCT. States without FDI have lower IGR and depend on federal allocations. This widens the gap between capital-rich and capital-poor states.

Discussion, Conclusion and Recommendations

Discussion of Findings

The findings confirm that politics matters. Investors prefer states with predictable governance and federal access. This aligns with North and Krugman. The concentration pattern validates Harvey's argument on uneven accumulation.

Recommendations

1. The Federal Government of Nigeria through the National Economic Council should establish a National FDI Spatial Commission under NEC to coordinate incentives.
2. The Federal Ministry of Industry, Trade and Investment in collaboration with State Governments, should Create 6 Zonal (Special Economic Zones) SEZs with federal infrastructure support.
3. The Federal Ministry of Finance should tie 20% of federal infrastructure funds to states' FDI attraction metrics.
4. The Federal Government and State Governors should implement security and power PPPs in northern states to de-risk investment.

Limitations and Future Research

Limitations include lack of firm-level data and reliance on state aggregates. Future research should use LGA-level data and extend to 2030.

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