

Tax Harmonization and Foreign Direct Investment in Nigeria: An Empirical Evaluation

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Abstract: This paper examines the nexus between tax harmonization and foreign direct investment (FDI) in Nigeria. It reviews key theoretical, empirical and policy issues, as well as the current state of the debate. Utilizing the Auto Regressive Distributed Lag (ARDL) approach to cointegration and a dynamic error correction model, the study analyzes annual time series data spanning 1986 to 2024. The empirical findings suggest that tax harmonization promotes FDI by creating a synchronized tax structure, including tax rules, tax base, tax rates, and administration and enforcement practices. Conversely, tax competition discourages private initiative and investment. The paper concludes that institutional reforms are necessary to harmonize and coordinate tax policies to drive FDI in Nigeria

Keywords: Tax harmonization, FDI, Tax competition, Duplicative tax regime, Institutional reforms

JEL Classification: F21, F23, H25, O24, P33

1. Introduction

The investment environment, and by extension, its attractiveness to FDI is influenced by many factors, for which tax is a critical variable. Although tax policies do not represent the most important variables that influence business competitiveness, they play major impact on private investment decisions and initiative on account of their influence on the cost of capital and on the expected profitability (Ozekhome, 2022). Tax, itself, is a compulsory levy imposed or charged by tax authorities or

government on business and companies profit, dividends, interest, commission, and personal income of individuals. According to Onwe (2006) a good tax system should allow efficient and non-arbitrary administration being understandable to the taxpayers as possessing the qualities of convenience, fairness, minimum distortions, simplicity and minimum cost of collection. The duplication of taxes in both state and local government level under the guise of maximizing internally generated revenue has a negative effect on business competitiveness

Tax harmonization is the process of fine-tuning, organizing and or synchronizing tax systems across various jurisdictions to eliminate duplicity/multiplicity, complexity and conflicting and competing tax rules or base. It is the removal of tax distortions in order to encourage business competitiveness (IMF, 2015b). Harmonization of tax refers to an equalization of tax bases and/or tax rates across jurisdictions (states or local in this context) or regional in a bid to improving the ease of doing business, and eventually promoting business. Harmonization of tax is basically predicated on the onus of allocative efficiency by mean harmonized tax structures and policies. The fundamental objective of tax harmonization is the attainment of tax synchrony so as to stimulate business, trade and investment. Bénassy-Quéré, 2014; Florin, 2016; Ozekhome, 2022). The need for tax harmonization stems from the existence of multiple, cumbersome, conflicting and competing tax regimes that have become a bane to business growth. The issue of multiple taxation has negatively affected many business operations resulting into business collapse, depleting capital base of listed firms, and depleting returns on investment (Nnadiukwu, 2019).

Harmonization of tax base, for instance, can inspire and instill tax convenience, simplicity and equalization across income and profits, and enhance transparency as well as improved resource allocation. Thus, aside stimulating revenue mobilization, creation of a better business and investment climate in a country, tax harmonization can mitigate or eliminate adverse tax competition (see Quak, 2018). Nevertheless, in Nigeria, the harmonization of as it were, is yet to assume a holistic course, arising from institutional and legal constraints (Ozekhome & Oaikhenan, 2019). In the absence of harmonized tax structures/rules/policies, business and trade, as well as investment has been drastically affected by conflicting, competing and duplicating/multiplicity of tax. Apart from having an unfavourable effect on business, trade and investment, it increases business transaction costs, rendering the business environment uncompetitive (Ozekhome, 2022).

The proliferation of non-cooperative tax regimes (tax competition) has also created uncertainty in investment environment (Quak, 2018). While tax policies do not represent the most important variables driving FDI, they have a major impact on private investment decisions and initiative on account of their influence on the cost of capital and on the expected profitability from a given investment (Ozekhome, 2022). In a world of mobile capital, a well-designed, administered and reformed tax system can significantly drive FDI (Clark, 2005; Ozekhome, 2022). While private investors benefit from a reformed and less cumbersome tax system, the government benefits from lower prevalence of tax evasion and inflated tax relief and tax exemption filings by individuals and corporate entities. To this end, the general belief among economists, financial experts and accountants is that a cumbersome tax and exorbitant tax regime tend to reduce foreign direct investment and private capital formation. In Nigeria, the unfavourable tax regime and administration has been explained as one of the factors for the low FDI drive in the past years. Without doubt, a reformed tax system, and thus harmonization of tax has the capacity to attract FDI, and other international capital investments.

Apart from the multiple and cumbersome tax regime that has been in vogue in Nigeria in the past years, political instability, poor infrastructure and legal and institutional constraints have contributed to the decline of FDI in Nigeria. A recent report by the National Bureau of Statistics (NBS) showed that foreign investment inflows fell by 26.7 percent to US\$3.9 billion in 2023 from a US\$5.3 billion in 2022. The decline in FDI inflows was attributed to high and duplicated tax regime, political risks and elevated production costs arising from weak infrastructure, epileptic power supply and complex and multiple tax regimes, which have combined to raise production costs. From an FDI value of \$1,300,906,000 in 2016., which fluctuated within the past 45 years, the value has fluctuated between 27,000,000) in 1982 and US\$3.9 billion in 2023. The value was US\$14, 635,080 in 2005, US\$1,525,140,000 in 2009, US\$ 911, 716,700 in 2010, US\$1, 200,906,000 in 2016. As percentage of GDP, FDI stood at 0.36 percent in 2000, 0.21 percent in 2001, 0.30 percent in 2004, falling abysmally to 0.01 percent in 2005, further rising to 0.22 percent in 2006, 0.52 percent in 2007, 0.90 percent in 2009, 0.25 percent in 2010, 0.20 in 2011, 0.33 percent in 2012, 0.24 percent in 2013, 0.28 percent in 2014, 0.30 percent in 2015, 0.32 percent in 2018, 0.51 percent in 2023, and 0.58 percent in 2024 (UNCTAD, 2024).

While some studies have examined the link between tax and FDI (see Pitigala & Hoppe, 2011; Miao & Wang, 2014; Ozekhome, 2022), and other examined the effect

of tax on chosen economic variables at country specific levels the nexus between tax harmonization and FDI, has not been given a noticeable attention. It is the recognition of this gap that constitute the motivation and value-addition of this study. This study, however utilizes a literature review-based approach in examining the link between tax harmonization and FDI in Nigeria, an approach that is clearly missing in the literature. Aside this introduction, the rest of the paper is structured as follows. Section two reviews the literature comprising the theoretical and empirical literature. Section 3 contains some important tax reforms in Nigeria in recent times, aimed at encouraging FDI as well as benefits of tax reforms. The problems confronting FDI in Nigeria is presented in section 4, and Section 5 concludes the paper, with some policy perspectives.

Statement of Problem

The private environment in Nigeria is faced with numerous challenges ranging from high cost of operation/transaction, arising in part, from a very high and duplicative tax regime/environment, limited to low managerial skills, poor/weak infrastructure, poor access to credit and finance, weak technology baes, government bureaucracy, unfair competition, unfriendly business environment, arising from issues as insecurity, and unfavourable policies, and multiple taxation, amongst others.

According to Pitigala and Hoppe (2011) and Ajayi (2018), the incidence of multiple taxation brings about hostile business environment for many businesses in Nigeria thereby reducing their global competitiveness. Ozekhome (2022) noted that multiple, unfair and sometimes conflicting, and competing tax regime burdens indigenous businesses, thus reducing their ability to compete domestically with imported products and capacity to be successful in the export market. In Nigeria for instance, the ease of doing business, which measures the competitiveness of the business and environment, indicating how and the extent to which government policies, regulations and institutions favour such as the rule of lawor business in terms of the procedures and processes involved in setting up business in which economies are ranked on their ease of doing business, from 1–190, the Nigerian business environment has been largely unstable.

Using various indicators in the environment in terms of those that are more conducive to the starting and operation of a business, Nigeria ranked 169 out of 189 economies in the World Bank's ease of doing business report in 2015, improved its ranking to 131 out of 190 economies, with a score of 56.9 out of 100 in 2020, with

a slight improvement to a rank of 129 out of 190 countries in 2023 (World Bank, 2023). Given these performances and the place of tax in this discourse analysis, particularly with respect to multiple, conflicting and distortionary effect of tax, the need for the harmonization of tax has become imperative. Harmonization of tax, in this direction seeks to converge or synchronize tax across rule, and bases in order to remove conflict, multiplicity and hazardous competition, thereby improving business competitiveness in Nigeria. While some studies (see Pitigala & Hoppe, 2011); Ajayi, 2018; Ozekhome, 2022) have examined the link between tax policies and business/foreign private direct investment in Nigeria, no existing study, to the best of the author's knowledge has examined the nexus between tax harmonization and FDI in Nigeria. In addition, none of these studies considered how the changing dynamics in the current times is significantly influencing the investment environment. The recognition of these gaps is the motivation and value-addition of the current study.

Aside the introduction, and being a conceptual paper, section 2 discusses the theoretical and empirical issues relating to tax harmonization taxation. Section 3 discusses the lessons learnt from tax harmonization, the benefits inherent in tax harmonization, some of the challenges to business competitiveness, as well as the prospect of tax harmonization in Nigeria. Section 5 contains the empirical results and discussion, and section 6 concludes the paper with some evidence-based policy recommendations. This study examines the impact of cybersecurity threats on the stability of banks in Nigeria. The primary aim of the research is to assess how cybersecurity investment, fraud incidents, and bank size influence the financial stability of Nigerian banks, measured through the Z-score. The study uses a quantitative approach with panel data from 10 listed banks in Nigeria, covering the period from 2014 to 2023. Data were analyzed using random effects regression, and the Hausman test was conducted to determine the appropriate model. The results reveal that increased cybersecurity investment positively impacts bank stability, while cybersecurity attacks, ATM fraud, and cyber fraud have significant negative effects on stability. Interestingly, mobile fraud was found to be positively associated with stability, possibly due to stronger fraud prevention measures adopted by banks facing higher fraud incidents. Bank size was not found to have a significant effect on stability. Based on these findings, the study recommends that Nigerian banks increase investment in cybersecurity, strengthen regulatory measures, and enhance public education on fraud prevention. Banks should also collaborate on sharing cybersecurity best practices and threat intelligence to build a more resilient financial

system. These efforts will help mitigate risks, enhance consumer trust, and ensure long-term stability in the banking sector.

Against this backdrop of the statement of the problem, the research objectives are to:

- examine the relationship between tax harmonization and foreign direct investment (FDI) in Nigeria
- investigate the extent to which tax harmonization influences FDI in Nigeria

2.. Literature Review

2.1. Conceptual Issues

Tax Harmonization

Tax harmonization entails the adjusting, organization and bringing together of tax systems across jurisdictions e.g local, state and federal to eliminate issues of duplicity/multiplicity, ambiguity, and conflicts either in the tax base or rules to enhance greater efficiency and outcomes (Ozekhome, 2022). It involves the removal of distortions in the tax system that negatively affects business trade and investment, and in doing so, improving the ease of doing business. Harmonization of tax could involve different elements such as tax rules, tax base, tax rates and administration and enforcement, practices, procedures and processes with end-product of systematically aligning tax for greater efficiency and outcomes, such as revenue generation (see also Mansour, & Rota-Graziosi, 2013). To this end, it could involve the determination of effective tax rates: the tax base and statutory tax rate as well as the practice of enforcement (Pirvu, 2011; Bénassy-Quéré, 2014).

The harmonization of tax could involve direct tax, which includes individual / corporate income/profit (Osterloh, & Heinemann, 2013), tax, mining tax, capital gains tax or indirect tax involving trade duties harmonization, value-added tax harmonization and excise tax harmonization. Such harmonization is generally geared toward promoting business and trade. In practice, tax harmonization is mainly implemented by countries that are an economic bloc, such as regional market, in a bid to foster greater business and trade ties among member or participant countries to that bloc or region. An example is the tax harmonization initiative by the West African Economic and Monetary Union (WAEMU) in the French-speaking West African countries, the East- African Community, and that of the EU.

In general, the competitiveness and favourability of the environment to business is measured by the World Banks, Ease of Doing Business Report. The ease of doing

business measures the competitiveness of the business and trade environment in terms of regulations, and processes, procedures and institutions involved. Economies are ranked on their ease of doing business from 1–190. A high ease of doing business ranking, in the form of better ease of doing business ranking, suggests less business and trade barriers and documentations as regard regulations and the reforms) implies that the environment is highly conducive to the starting and operation of a business, while a low ease of doing business implies complex processes and procedures and unfavourable policies, regulation and institutional requirements to business operation, The rankings are based on several indicators/variables that influence business competitiveness (Ozekhome, Oaikhenan, 2019; Ozekhome, 2021).

Foreign Direct Investment

Foreign direct investment refers to direct investment equity flows made by a company (MNC) or individual from one country into a business or enterprise in another economy/country (host country). It represents net inflows of investment (i.e. new investment inflows less disinvestment) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital in the balance of payments. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. This type of investment involves acquiring a significant stake (typically 10 percent or more ownership or voting shares in a foreign enterprise, allowing the investor or multinational enterprise (MNE) to exert control or significant influence over the company's management (UNCTAD, 2015, Ozekhome, 2022).

Key Components of FDI

The key components of FDI are in the form of equity capital, which involves investment in shares or stocks of a foreign enterprise; reinvestment of earnings, which entails profits earned by a foreign subsidiary that are reinvested in the business/enterprise; long term capita, involving investments in assets that are expected to remain in the business for an extended period, and short term capital, which are investments with shorter duration, such as working capital or trade

finance. FDI is recorded in a country's balance of payments, which tracks cross-border transactions. It is an essential component of international investment, reflecting the flow of capital (movement of capital) between economies. A direct investment relationship is established when an investor owns 10 percent or more of the ordinary shares or voting stock of a foreign enterprise. This threshold indicates a significant degree of influence or control over the company's management (OECD, 2008).

2.2. Key Factors in Investment Competitiveness

Apart from tax, the key factors that influence the competitiveness of the environment for FDI drive are innovation, involving the development of new products, services or processes to stay ahead of potential rivals or competitors is key to business competitiveness as it enables firm have an edge over others; cost efficiency, in terms of achieving lower costs and greater efficiency than competitors gives competitive advantage to certain businesses over their rivals; operational efficiency, involving streamlining processes and optimizing resources in a bid to improve productivity and reduce waste.; and strategic partnerships: Creating strategic partnerships and beneficial alliances/collaborations with other businesses to gain access to new markets, technologies, or expertise is key to business competitiveness.

2.3. Lessons Learnt and Benefits of Tax Harmonization

Some important lessons learnt from tax harmonization includes

Harmonization framework ensures tax synchrony and organization (notably statutory tax rates), with the ability to stimulate revenue generation among different tax jurisdictions or levels/tiers of government (see Quak, 2018). In addition, through amenable institutional quality, tax harmonization has the capacity to promote the accountability of government and ensure the prevention of leakages, as well as tax evasion. Effective institutions are necessary to for effective following and monitoring (IMF, 2014). Harmonization of tax can also stimulate domestic revenue base greater priority in tax harmonization frameworks. By means of broadening of the tax base, strengthening of tax administration and elimination of unnecessary, ambiguities, duplicity/multiplicity, distortion, conflicts, competition and exemptions, greater domestic revenue can be mobilized. Government and policy makers in Nigeria should not undervalue the derivable benefits of tax harmonization framework, particularly, with respect to essential institutional support and other frameworks, as

well as directives and regulations to achieve greater domestic resource mobilization objectives (Ozekhome, 2022).

2.4. Benefits of Tax Harmonization's

Tax harmonization makes the business and investment environment safe, stable and certain, thus promoting business competitiveness. In addition, being less knowledgeable of a country's environment, entrepreneurs and private investors view the business decisions influenced by the business environment by others as a good signal of a favourable condition, to reduce uncertainty

Harmonization of tax leads to greater efficiency, accountability, aligning and administration of tax for effective results. A reformed and harmonized tax system and structures also reduces business transaction costs. Alongside, the reduction in transaction costs, tax harmonization enables simplification, standardization and modernization of tax in line with best practices and global standards, practices process and administration, thereby promoting private business and investment. Finally, harmonization of tax, and by implication, reforms in the tax system are clear indications of improvements in the ease of doing business, and this has the effect of stimulating businesses, trade and investment (Ozekhome, 2022).

2.5. Challenges to FDI Attraction in Nigeria

FDI attraction is challenged by high and multiple tax regime, inconsistent taxation policy; macroeconomic instability (in terms of high and variable exchange rates, inflation and interest rates, leading to high cost of business transaction/operation; political instability and security concerns; weak technological base and innovation; lack of adequate take-off incentives for business start-ups and initiative, and inadequate managerial enterprise and retention/experience (Ozekhome, 2022).

2.6. Prospect and Policy Issues in Tax Harmonization in Nigeria

The important prospects and policy issues discernible from the link between tax harmonization and business competitiveness in Nigeria are:

Non-harmonized tax regime creates ambiguity, duplicity/multiplicity, conflicts and competition in tax, and deters business. Added to this harmonization of tax will greatly improve the ease of doing business, by creating a favourable business environment in Nigeria. By aligning tax, tax harmonization, stimulates interactions, interface and collaborations between different tiers of government (e.g local, state

and federal), and among countries for greater revenue outcome. Finally, governments and policy makers should consider greater scope of tax harmonization in Nigeria, as this will not only create coordinate tax policies, but will enhance resource generation. Such uniformity in tax rate/rules and administration will simplify tax, make it consistent to with global standards through institutional tax reforms.

2.6. Recent Reforms in the Tax System in Nigeria

Tax harmonization and FDI IN Nigeria are closely linked, with recent reforms aiming to create a more favourable investment environment in Nigeria. The reforms in the tax systems are part of the broader macroeconomic/fiscal reforms, specifically undertaken by the administration of President Bola Ahmed Tinubu to reshape Nigeria's tax landscape. The reforms are designed to transform the tax system to support sustainable development and achieve a minimum 18 percent tax to-GDP ratio within the next three years. Specifically, four ground-breaking tax reforms that aims to transform Nigeria's fiscal and revenue framework have been signed into law. The four bills, the Nigerian Tax, the Nigerian Tax Administration Bill, the Nigerian Service (Establishment) Bill, and the Joint Revenue Board (Establishment) Bill, were passed the National Assembly (the Legislature). after extensive consultations with various interest groups and stakeholders. These new tax laws (reforms) are expected to significantly transform tax administration in the country, leading to increased revenue generation, improve business environment, and a boost in domestic and foreign investments.

One of the four tax reform bills, the Nigerian Tax Bill (Ease of Doing Business), aims to consolidate Nigeria's fragmented tax laws into a harmonized statute. By reducing the multiplicity of taxes, and eliminating duplication, the bill will enhance the ease of doing business, reduce taxpayer compliance burdens, and create a more favourable and predictable fiscal environment. The second tax reform bill, the Nigerian Tax Administration Bill, will establish a uniform legal and operational framework for tax administration across federal, states, and local governments (CBN, 2025).

Key Developments

Tax Reforms: The new tax law signed into effect aims to simplify tax compliance, widen tax base, and boost investor confidence. The reforms include changes in the Value-Added Tax (VAT), personal income tax, corporate tax and digital earnings

Unified Tax Administration: The Nigeria Revenue Service (NRS) will oversee tax administration, reducing duplication and enhancing efficiency. A single online portal will handle corporate tax, VAT, withholding tax, and excise duties.

FDI Incentives: The Nigeria Finance Act 2022 offers tax incentives to key sectors, such as manufacturing, agriculture and mining, providing lower corporate income tax rates for the first 5-years of operation

Digital Economy: The Act introduces measures to tax digital services provided by non-resident companies to Nigerian consumers, ensuring foreign digital service providers contribute to the Nigerian tax base

Importantly, the proposed reforms in the tax system are expected to enhance the digitization of revenue collection and create a more conducive and internationally investment environment, which are also crucial to supporting the growth of micro small medium enterprises (MSMEs). (Augusto & Co, 2023).

Prior to this reform, some important tax reforms, within the broader fiscal reforms intended to improve the ease of doing business was carried out by President Muhammadu Buhari. The reforms were centred on adopting a holistic and unified tax framework that is in consonance with the ‘Global Tax Deal’. The Global Tax Deal, is a deal initiated by the OECD that centres on the need for a permanent and effective plan to change tax rules for companies in the digital economy, and limit targeted tax planning by multinational companies; a move that led to the October 2021 agreement, with more than 130 countries (over 90 percent of the global economy), agreeing to set a minimum global corporate tax rate of 15 percent beginning from 2023. The represents a significant and fundamental shift in international tax rules. The OECD’s plan aims to reduce incentives for tax planning and avoidance for multinational companies and companies in the digital economy by limiting tax competition and changing where companies pay taxes (OECD; 2020; 2023; Adeosun, 2023). The tax reforms and coordination across the domestic and international environment are intended to drive business and investment and encourage an enduring and operational plan to transformation tax in a digital economic environment to a mutually beneficial stance (Zekhome, 2022).

2.7. Benefits of Tax Reforms to Investors

A reformed tax system has several beneficial effects, with respect to the drive of FDI in terms of:

Simplified Compliance

Streamlined tax processes and reduce bureaucracy will make it easier for foreign investors to operate in Nigeria. Such reformed and harmonized tax system creates certainty in the macroeconomic environment, leading to greater FDI inflows to the economy

Predictable Tax Environment

A stable tax environment will enable investors embark on long-term investment decisions with confidence. Reforms in the tax system also results to greater economies of scale in FDI. Finally, reforms in the tax system are clear indications of improvements in the ease of doing business, and this has the effect of stimulating businesses, trade and investment (Ozekhome, 2022). Strengthened transfer pricing regulations will provide a level playing field for foreign investors, particularly, MNCs, thereby enhancing transparency. In terms of challenges and opportunities,

Challenges and Opportunities

- **Implementation capacity:** The success of the reforms hinges on effective implementation, requiring adequate public education and skilled personnel within the tax ecosystem
- **Revenue Risk:** Tax exemptions may reduce short-term government revenue, posing challenges for fiscal sustainability.
- **Growth Potential:** The reformed offer opportunities for inclusive growth, improved public infrastructure, and enhanced investment (Ozekhome, 2022).

2.8. Theoretical Literature

The theoretical literature on tax harmonization is based on the works of Brennan and Buchanan (1980), Zodrow and Mieszkowski (1986), Edwards and Keen (1996), and (Osterloh & Heinemann, 2013). In line with the theory, tax harmonization promotes investment as opposed to competition that is detrimental to business, investment and trade. Thus, harmonization of tax has the capacity to organize, coordinate and synchronized tax for better outcomes ax as opposed to tax conflict or ambiguity or multiplicity for better outcomes (see also Letet, 2012; 2001; IBFD, 2013; Zodrow, 2003). By minimizing tax discrepancies, duplicity/multiplicity, and simplifying tax processes, harmonization of tax promotes business, trade and investment, avoiding

potential tax conflicts, thereby promoting global competitiveness. In addition, tax harmonization \minimize tax evasion. as well as the erosion of national tax bases IMF, 2015b; Diakité *et al.*, 2017).

Harmonization of also tax encourages tax reforms (Nnyanzi *et al.*, 2016). For instance, tax rates equalization enables greater scope of institutional reforms in the tax systems. Harmonization of taxes also promote regional cooperation in business and investment. Basically, the harmonization of taxes is more explicit in their efforts to deal with the challenges of harmful tax competition, tax multiplicity and ambiguity, and this is usually implemented through the following:

Enabling wide-ranging information relating to the national tax structures of countries; maintaining collaboration pertaining to tax incentives that promote business competitiveness, trade and investment as well as avoiding incidence of double taxation; Administrative know-how with respect to tax officials through regular training programmes and seminars on tax policies; Removal of injurious or preferential tax regimes and tax havens, where necessary, to avoid harmful tax practices and a continuous review and reform of existing tax p0olicies and measures; Ensuring a level playing field for all concerned parties. (Ozekhome, 2022).

Following this, the quality of institutions matter to tax harmonization as good institutions provides the legal backing and framework for harmonization policy and binding agreements. Notwithstanding the presumed benefits, tax harmonization could suppress competition and engender loss of tax independence, especially where it involves member countries in a regional grouping.

2.9. Empirical Literature

On the link between tax harmonization and investment competitiveness, Nnyanzi Babyenda and Bbale (2016) find positive relationship in East Africa. Bossuyt (2016), Diakité *et al.* (2017), Azuka (2017), Manriho and Mutava (2017), Velayos (2017), Kopits (2017), Clausing (2018). Specifically, Hageman and Schmitt (2014), using conceptual approach based on the US finds that in the absence of indirect tax harmonization, such as in sales and use tax (SUT), business, trade and investment is stifled.

Banderlipe (2015) examines the prospect of coordinated taxation policy in ASEAN Regime. He finds that coordination and harmonization of tax in the sub-region has greater business and trade prospect. International Monetary Fund (2015b) examines the impact of effective and efficient use of tax coordination and

incentives for investment in Central American countries. The findings show that the existence of a positive and significant link between tax harmonization and investment. Other studies that found positive links between tax harmonization and business competitiveness/investment are Gastaldi *et al* (2015), Nnyanzi *et al* (2016, and Bossuyt (2016), (2017), Diakité *et al.* (2017) and Quak (2018).

Azuka (2017) utilizes a conceptual and literature-based review approach to examine the nexus between tax harmonization and sustainable development in Africa, using Nigeria as a case study, as well as the potentials and paradoxes of the harmonization of tax based on the need for multiplicity of policy options when designing and implementing tax policies by governments. He finds that harmonization of tax is a critical variable for promoting business and competitiveness and cooperation in Africa Clausing (2018) finds similar evidence of a positive effect of tax harmonization on business and in the EU countries. Quak, (2018) He finds evidence that integration has facilitated the harmonization of tax. Omozuwa and Edosa (2023), using conceptual and review-based approach also concludes that tax harmonization fosters trade integration in the ECOWAS.

In Nigeria, Atawodi and Ojeka (2012) examined the relationship between tax policy, growth of SMEs and the Nigerian economy using business sustenance and expansion as indices for growth for SMEs in Zaria, North Central Nigeria. The findings revealed a significant but negative relationship between duplicative and conflicting tax and business ability to sustained itself and grow. They, therefore recommend an effective tax harmonization to drive SMEs and private investment in Nigeria.

Okolo *et al* (2016) assessed the effect of a non-harmonized tax system, in terms of multiple taxation on SMEs investment in Nigeria. The researchers used survey design with SMEs population of 80. Simple percentages were used for the data while ANOVA was used to test the research hypotheses. The findings revealed that multiple taxation has negative effect on SMEs investment. Further findings point to the existence of significant relationship between SMEs investment and its ability to pay taxes. Based on the findings, they recommend that a tax policy that augment for capital allowance when imposing taxes, as well as harmonization of tax be put in place by government.

Agot and Ugwuoke (2018) evaluated the impact of a non-harmonized tax on the growth of SMEs in Nigeria. They adopted the multinomial logistic regression using primary data collected through the administration of structured questionnaire.

A sample of 100 respondents was randomly selected. The result revealed that the incessant death of SMEs is due to high and complex tax system that pose harm instead of benefit to SMEs therefore increasing running costs and slowing down growth of SMEs. They therefore submit that for SMEs to flourish, a harmonization of tax is important. Studies that found negative harmful effect of tax harmonization include Gastaldi, Liberati and Sciala (2015). Gastaldi *et al* (2015), Boss (2016) and Simms and Simms (2017). According to these studies, tax harmonization engenders inefficiencies, financial weakness and concentration, and corruption.

Gap(s) in Literature

From the review of the literature, there is paucity of literature on the link between tax harmonization and FDI in Nigeria as the existing literature tend to have overwhelmingly dwell on cross-country analysis, with very few or no country-specific studies like Nigeria. Given the peculiarity of a country like in Nigeria as regards the existence of complexity of tax structures and administration and high incidence of duplicity/multiplicity of taxes, including conflicting and distortionary tax regimes and polices, and the objective of significantly driving FDI, this study become important as it represents a critical attempt to extend the literature and policy by addressing these gaps, using empirical/econometric investigation.

3. Methodology

3.1. Model Specification

Following the reviewed literature, the link between tax harmonization and FDI, is captured in the tax harmonization - FDI functional model in the form:

$$FDI_t = f(TH_t, X_t) \quad (1)$$

where, FDI denotes Foreign direct investment inflows to GDP percent; TH is Tax harmonization is measured by three variables: tax similarity index (TSI), which captures similarity of tax structures or rates across the three tiers of government in a federal structure in Nigeria (i.e. federal, state and local), with higher values, indicating greater tax harmonization; standard deviation of tax rates (SDTR), measuring the dispersion of tax rates across different tiers of government, with lower standard deviations greater tax harmonization (i.e stability and predictability of tax rates and structure) are attractive to foreign investors, while uncertainty and complexity in them-higher standard deviation) deters FDI, and a dummy variable

(tax harmonization dummy-THD) to capture the impact of specific harmonization policies on tax collection /tax reforms on economic outcomes, with 1 indicating high degree of harmonization and 0, otherwise; t , is time, and, X is a vector of other variables that influence FDI, that include:

INFR= Infrastructure development –measured as a composite index reflecting transport infrastructure, ICT infrastructure, such as telephone mainlines, mobile phones and internet subscribers per 1000 and other digital infrastructure that facilitate FDI attraction. The extended model, thus becomes

$$FDI_t = f(TSI_t, SDTR_t, THD_t, INF_t, GRGDP_t) \quad (2)$$

where the variables are as earlier defined.

Adding lagged FDI, the empirical form of the model is captured

$$FDI_t = \alpha_0 + \alpha_1 FDI_{t-1} + \alpha_2 TSI_t + \alpha_3 SDTR_t + \alpha_4 THD_t + \alpha_5 GRGDP_t + \alpha_6 INFR_t + \varepsilon_t \quad (3)$$

where ε is the unobserved error term.

Apriori expectation: $\alpha_1, \alpha_2, \alpha_3, \alpha_4, \alpha_5 > 0$.

Lagged FDI (i.e. FDI_{t-1}) measures the relationship between current FDI inflows and past FDI inflows. Findings have shown that due to information and knowledge sharing, the presence of FDI in a country would likely attract greater FDI flows from foreign investors OR Multinational Corporations (MNCs). (i.e agglomeration effect) (Mijiyawa, 2015). Agglomeration effect (economies) occurs when foreign investors are attracted to investing in countries with existing foreign investment, basing their investment decisions on information and knowledge on previous investment decisions by others as a good signal of favourable conditions to invest there too, in a bid to mitigate risk and uncertainty (Ayanwu & Yamèogo, 2015; Ozekhome, 2022). The inclusion of lagged FDI inflows as an explanatory variable, thus, allows for the control of initial conditions that may attract FDI to a country.

3.2. Estimation Procedure

For the fact that FDI and lagged FDI are likely to be contemporaneously correlated and some of the explanatory variable are likely to be correlated with the error term, a dynamic estimation strategy is best suited for this study. as the least squares estimates are likely to generate biased and inconsistent estimates. In addition, given the fact the time series nature of the data and the likelihood that the variables being integrated of different orders, the Autoregressive Distributed Lag (ARDL) bounds

testing approach developed by Pesaran *et al.* (2001) is employed. The justification of the ARDL is based on its ability to accommodate both I(0) and I(1) variables without requiring pre-testing for unit roots at the same level, provides estimates of both short-run and long-run relationships, corrects endogeneity by incorporating sufficient lags, and suitable for small sample studies of this nature,

3.3. Data Sources

The study utilizes annual time series data covering the period 1986- 2024. The data were sourced from various sources to include the Central Bank of Nigeria (CBN) Statistical Bulletin, and the UNCTAD. Specifically, tax data were sourced from several tax reports and the CBN Statistical Bulletin. The FDI data was obtained from the UNCTAD. The choice of the period is instructive as it the starting year (1986) marks the beginning of financial market liberalization in Nigeria. Second, the entire study period represents the period of greater financial market liberalization in Nigeria led to significant rise in FDI in Nigeria. The period has also witness greater fluctuation in FDI inflows and other domestic and international developments, with vast economic implications for FDI in Nigeria.

4. Empirical Results and Discussion

4.1. Descriptive Statistics

The descriptive statistics of the variables used for the analysis is presented in Table 1. The mean FDI- GDP percent is 3.85, with a median and standard deviation of 3.22 percent and 2.33 percent. The mean value of tax similarity index (TSI) is 2.07, indicating a low value of tax harmonization across the three tiers of government (Federal, state and local, indicating tax complexity, ambiguity and duplicity/ complexity. The corresponding average values for standard deviation of tax rate,

Table 1: Descriptive Statistics

	<i>Mean</i>	<i>Median</i>	<i>Max.</i>	<i>Min.</i>	<i>Std. Dev.</i>
FDI	3.85	3.22	9.50	-1.25	2.33
TSI	0.03	0.01	0.52	0.00	0.01
SDTR	11.25	9.25	15.30	4.72	11.26
THD	0.05	0.01	0.6	0.01	0.1
INFR	9.75	7.88	22.5	3.32	4.11
GDP	3.90	2.88	7.26	-1.28	4.22

Source: Authors' computation

tax harmonization dummy, infrastructure development and growth rate of GDP are 2.50, 11.25 percent, 0.05, 9.75, and 3.90 percent, respectively. Invariably, there is low level of tax harmonization in Nigeria, with completely different tax structures and rates across tiers and states, poor macroeconomic performance and infrastructure constraints.

4.2. Unit Root and ARDL Bounds Cointegration Tests

Unit root tests were conducted for all variables in the model, using the Augmented Dickey Fuller (ADF) and Phillip Perron (PP), and the results are presented in Table 2.

Table 2: Unit Root Tests

Variables	ADF	PP	ADF	PP	Remark
	LEVEL		First Difference		
FDI	-0.776	-1.072	-4.883**	-5.03**	I(1)
TSI	-1.063	-1.523	-5.220**	-5.443***	I(1)
SDTR	-4.650**	-4.874**	-	-	I(0)
INFR	-0.931	-1.115	-4.962**	-5.772***	I(1)
GDP	-1.083	-1.470	-4.552**	-4.973**	I(1)

***, ** significant at 1% and 5% respectively.

Source: Author's computation

In the results, standard deviation of tax rate (SDTR) is stationary at levels {(i.e I(0)}, using the ADF and PP tests. The remaining four variables attained stationary after first differencing, implying that they are integrated or order {i.e I(1)}. This mixed order of integration rules out the possibility of using either the Engle-Granger or Johansen cointegration techniques as both techniques require that all variables be I(I), thus justifying the use of the ARDL, which allows for the inclusion of mixed order of integrated variables {i.e I(0) and I(1)} in the same cointegrating equation. Following this, the ARDL Bounds test to cointegration is carried out in this study. The result is presented in Table 3.

Table 3: ARDL Bound Test Results

Test Statistics	Value	Lag	Significance Levels	Bound Critical Values (restricted intercept and trend)*	
F-Statistics	4.973	2		I(0)	I(1)
			1%	3.501**	4.24***
			5%	3.126**	3.78***

***, **, * indicates 1%, 5% and 10% respectively

Source: Authors' computation

From the results, the computed F-statistic of 4.972 is greater than the upper critical bound at the 1 percent (4.24) and 5 percent (3,78) significance levels, respectively, suggesting the existence of a plausible significant cointegration, and thus, a long-run equilibrium relationship among the variables. Given that there exist co-integrating equations and thus, along run relationship among the variables, the requirement for obtaining the long run coefficients is satisfied.

4.3. Long Run Model Results

The long run model results in presented in Table 4.

Table 4: Long Run Coefficients from ARDL Estimation -Dependent Variable: FDI

Variable	Coefficient	Probability
C	0.052 (0.53)	0.67
TSI	0.32(2.02)**	0.04
SDTR	-0.53 (1.83)*	0.08
THD	0.011 (1.20)	0.18
INFR	0.167(1.423)	0.16
GGDP	0.274 (3.12) ***	0.00
Diagnostics		
R-Squared	0.960	
Adjusted R-Squared	0.912	
Durbin-Watson Statistics	1.75	
F-statistics	32.21	
Probability	0.000	

***, **, * indicates 1%, 5% and 10% respectively. Figures in parentheses () are t-ratios

Source: Authors' computation

The diagnosis evidences for the long-run model suggest that 91.2 percent of the net systematic variation in FDI are explained by tax harmonization and other variables, indicating a good predictive capacity of the long-run model. The F-statistic of 32.2 (p-value of 0.000) is highly significant, passing the significance test at the 1% level, and; validating the hypothesis of a significant linear relationship between FDI and the regressors. This shows that the independent variables jointly explain FDI. The Durbin-Watson statistic of 1.75 shows that the model is free from the problem of autocorrelation model, making it fit for policy formulation and implementation purposes.

Tax similarity index (TSI) is positively related to FDI and passes the significance test at the 5 percent level, indicating that tax harmonization significantly drives foreign direct investment in the long-run, as it makes the macroeconomic environment certain, stable and less risky to investors. This finding support the findings of Clausing (2018) and Ozekhome (2022). A 1 percent increase in the degree of tax harmonization is associated with an increase in FDI inflows by 0.32 percent.

The coefficient of standard deviation of tax rate (SDTR) is negatively related to FDI, in line with theory and evidence and significant at a moderate level of 10 percent significance. Although lower standard deviations (dispersion) of tax rates indicate greater tax harmonization, there is completely different tax structures and rates across the various tiers and states in Nigeria, thus weakening the potency of FDI drive. This finding supports the findings of Gastaldi *et al* (2015), Boss (2016) and Simms and Simms (2017), and at variance with Ozekhome (2022). A 1 percent increase decrease standard deviation of tax rate, implying certainty, predictability, stability and consistency of tax rates corresponds to a 0.5. percent rise in FDI in the long-run.

The coefficient of tax harmonization (THD) is very low (close to 0) and statistically insignificant, suggesting very low levels of tax harmonization or no harmonization, an indication of high differential tax rate and structures, with complex and incongruent and non-synchronous tax regimes across the different levels of government in Nigeria. The result is consistent with the findings of Bettendorf *et al*, (2010) an at variance with the findings of Diakité *et al*. (2017), Azuka (2017).

Infrastructure variable is positively related to FDI but not significant, indicating infrastructure constraints in Nigeria. The finding supports the findings of UNCTAD (2022). Finally, growth rate of GDP (economic output/market size) is positively related to FDI and significant at the 1 percent level. Thus, greater economic output has a significant positive effect on FDI inflows in the long-run, as countries with expanding domestic market and economies tend to attract greater FDI inflows given that they offer better prospect for higher capital investment returns (return on investment-ROI). This finding is consistent with of Ayanwu and Yamèogo, (2015) and Mijayawa (2015) and Ozekhome (2022).

4.4. Error Correction Model (ECM) Results

The results of error correction model showing the short-run dynamics relationship is presented in Table 5.

Table 5: Error Correction Representation for ARDL Model

Dependent Variable: FDI

<i>Variable</i>	<i>Coefficient</i>	<i>Prob.</i>
C	0.07(1.22)	0.14
D(FDI (-1))	0.152 (2.22)**	0.03
D(TSI)	0.08 (2.15)**	0.03
D(SDTR)	-0.0634 (-1.77)*	0.02
D(THD)	0.083 (1.072)	0.03
D (INFRA)	0.042 (1.16)	0.13
GGDP	0.544 (2.782)**	0.02
ECM(-1)	-0.883(-3.22)	0.03
R-Squared	0.782	
Adjusted R-Squared	0.714	
Durbin-watson Statistics	1.672	
F-statistics	25.20	
Probability	0.000	
Post-Diagnostics		
Mean VIF	2.96	
Breusch-Godfrey Serial Correlation LM Test Statistic	1.632 (0.27)	

***, **, * indicates 1%, 5% and 10% respectively. Figures in parentheses () are t-ratios

Source: Authors' computation

The results of the error correction mode indicating the short-run dynamic dynamics between tax harmonization and to that of the long-run. The lagged FDI is positively signed and significant at the 5 percent level, indicating that FDI is persistent, in which the presence of FDI is likely to attract greater FDI in to a host economy/destination. The finding is constant with is in line with Ayanwu and Mijiyawa (2015). A 1 percent increase in previous FDI stimulates current/future FDI by 0.15 percent. It can be seen that all both results of the short-run and long-run are similar for the remaining variables in terms of signs and significance

The coefficient of the error correction term is appropriately negative in line with theory and significant. Approximately 88.3 percent of the temporary disequilibrium/perturbations in FDI in the short-run in the previous year are corrected for in the subsequent year, reflecting a high speed of adjustment to long-run equilibrium and stability The diagnostic evidence for robustness check indicates the absence of multi-collinearity, heteroscedasticity and serial correlation, making the short-run model results fit for policy formulation and implementation purposes.

5. Summary and Conclusion

The paper examines the link between tax harmonization and foreign direct investment (FDI) in Nigeria over the period 1986-2024, using the ARDL approach. The findings indicate that tax harmonization drives FDI in Nigeria in contrast to tax competition, ambiguity, and duplicative or multiple tax regimes that discourage private investment. Moreover, tax harmonization removes differential tax rates and structures, adopting a uniform administration that allows for tax equalization and a common definition of tax bases. To successfully implement tax harmonization, institutions in Nigeria need to be strengthened to create certain framework for tax synchrony. Tax reform is also crucial as both harmonization and reform are inter-twined.

A significant reform of Nigeria's tax system will likely bring about tax harmonization, creating a stable business and investment environment. Therefore, a revolutionary framework that harmonizes tax system and administration across all tiers of government (local, state, and federal). is essential for creating a favourable and predictable macroeconomic environment that attracts FDI in Nigeria.

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