Advance Journal of Current Research
Adv. J. C. Research
Vol. 8**;** Issue 7; 2023
July-2023
ISSN: 2323 – 1744
Impact Factor: 5.93
Advance Scholars Publication
Published by International Institute of Advance Scholars Development
https://aspjournals.org/Journals/index.php/ajcr/index

THE ESSENTIALITY OF FOREIGN INVESTMENT INFLOW AND ECONOMIC DEVELOPMENT IN NIGERIA.

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Keywords:
Economic Development, Foreign Investment Direct, Foreign Exchange, Reserves,Essentiality

Abstract: *The study examined selected external sector variables and economic development in Nigeria from 1980 to 2021.The objectives of the study was to: determine the impact of foreign exchange reserve rate and foreign direct investment (FDI) on economic development in Nigeria. Annual data was collected from CBN statistical bulletins and World Development Indicators (WDI) and the techniques of Augmented Dickey Fuller (ADF) unit root test and Autoregressive Distributed Lag (ARDL) model was used. The ADF results showed that, only foreign direct investment inflow (FDI) was integrated at order zero, I(0), while the remaining one variable was integrated at order one, I(1). The ARDL bound test results showed that, there is a long-run relationship amongst the variables. In the short-run, there is a positive relationship between foreign exchange reserves and economic development in Nigeria. Also, in the short-run, there is a positive and significant relationship between FDI and economic development in Nigeria. Given the findings, it was concluded that, FDI and foreign exchange reserves, contributed positively to economic development in Nigeria. Based on the findings, the study recommended that: - foreign exchange reserves should be well utilized with a view to enhance development of the country.*

1.0. Introduction

There is fundamentally no developing nation in the world without the sole aim of achieving economic growth and development, but this can only be achieved if such economy has adequate resources at its reach. In many developing nations, the resources to finance the optimal level of growth and development are in short supply as a result of the fact that, their economies are plagued with problems associated with vicious cycle of poverty, low domestic savings, low tax revenue, macroeconomic instability, political instability, unstable exchange rate, limited foreign exchange earnings and availability of natural resources amongst others (Obayori & George-Anukwuru, 2018). In view of the above, developing nations like Nigeria inevitably resort to policy that will enhance the flow of foreign direct investment in order to bridge the gap between the resources available to them at home and what is required to achieve economic

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growth and development. Therefore, foreign direct investment (FDI) is the investment made by an individual and company in one nation in business interests in other country in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company (Jhingan, 2013).

The contribution of foreign direct investment such as Barclays Bank, Leventis stores, Agip and many more to the Nigerian economy cannot be overstated. This is because; it is an important catalyst that promote new skills, reasonable business environment, growth and economic development. To this end and given the large market size, Nigeria as a nation has to rely much on investment inflow expand her businesses environment in order to enhance economic growth and development (Obayori, Obayori, Inimino & Tubotamuno, 2016).

Meanwhile, bureaucracy bottleneck such as obtaining visa entry to Nigeria by foreign investor has not been adequately taken care. In the same way, unimpressive rate of economic growth in the Nigerian economy has been inimical to the inflow of FDI in the country. In fact, in recent time, specifically between the year 2016 and 2018, the Nigerian economy witnessed recession as the economy reported negative growth rate. Also, insurgency in the North-East and kidnapping in the South-East and South-South parts of the nation have been inimical to the inflow of foreign investment in the nation. Nevertheless, the government at various level have done so much to ameliorate the aforementioned challenges in order to put the economy on the path of growth and development. One of the steps taken to ameliorate these problems include cash from the excess crude and this affect the nation foreign reserves.In response to the challenges, the research question is if the essentiality of foreign direct investment is a fortune to Nigeria Economic development?

Thus, the objective of this paper is to; examine the impact of foreign direct investment inflow on economic development in Nigeria.

The remaining parts of this study focused on literature review, methodology, results and discussion as well as conclusion.

2.0. Literature Review

2.1. Theoretical Review

The Accelerator Theory of Investment.

According to Lipsey and Crystal (2007) the accelerator theory of investment relates investment to GDP. It says that the possibility of systematic fluctuations arise because investment is assumed to be related to changes in the GDP. The demand for machineries and factories is obviously derived from the demand for the goods that the capital equipment is designed to produce, if there is a demand that is expected to persist and that cannot be met by increasing production with existing industrial capacity, then new plants and equipment was needed. The theory assumes fixed capital output ratio, meaning that firms always desire to keep a relatively fixed ratio of the existing stock of fixed capital assets to the level of output. It believes that a rise in output may prompt increased levels of investment as firms adjust to reach the new optimal capital stock level.

Gbanador (2007) observed that in the accelerator theory, the level of current net investment in fixed capital depends on the

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change in income or output in the previous year. Thus; $I_t = v(Y_t-Y_{t-1})$

Where 1_t = Net Current investment, Y_{t-1} = National Income of the Previous Year, v = Capital output ratio (the accelerator).

The accelerator theory is seen by many to be too mechanical due to its assumption that all firms reacts in the same way to increased demand for their outputs. This is because some firms may react promptly by purchasing more plants and machineries while some may wait to see if the increased demand will persist.

2.2. Empirical Literature

A number of studies on the FDI - growth nexus in both developed and developing countries exist in the literature. For instance, Nicholas (2021) analyzed the causal relationship between

inward foreign investment and economic growth in Kenya, using the ARDL-bound testing approach. The results display that the current burgeoning FDI inflows that Kenya attracted in recent years are largely driven by the strong economic growth and prudent macroeconomic policies. Also, Abdillahi and Mohd (2021) explored the impact of foreign direct investment inflows on Ethiopia's economic growth using 36 years' time series data. Osei and Kim (2020) found that the positive impact of FDI-EG depends on a country's level of financial market development, because it increases the efficiency of investment and lead to different phrases' increases in growth The vector auto regression (VAR) model found FDI to have a positive and significant effect on GDP advancement. Authors recommended policymakers to open up and restructure the financial and agriculture sectors so that Ethiopia can experience healthier growth. Obayori and George-Anokwuru (2018) examined the determinants of foreign direct investment inflow in Nigeria from 1980-2015 with the use of econometric techniques of ECM and Chow test. The parsimonious ECM result showed that exchange rate stability, political stability, economic growth as well as favourable corporate tax were positively and significantly related to FDI in Nigeria during the period of study. The structural break test showed that the determinants of the inflow of FDI in Nigeria before and after the era of stable democracy were significant in explaining the development of the economy. In another related findings Ojo and Aluko (2017) investigate the Empirical Analysis on the relationship between foreign direct investment and economic growth in Nigeria, using data from 1980 to 2015. The authors find that foreign direct investment has a positive and significant effect on economic growth in Nigeria.

Olawumi and Olufemi (2016) examined the influence of foreign direct investment inflows on economic growth in some selected African economies over 1980-2013 period. They used modified growth model, ordinary least squares and generalized method of moment's framework. FDI inflows in Central African Republic were found not to have any statistically significant influence on economic growth. The panel analysis showed that FDI impact on GDP growth in African countries was limited or negligible.

Gaurav (2015) investigated the relationship between foreign direct investment and economic growth in five countries namely:

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Brazil, Russia, India, China and South Africa, summary called BRICS countries over the period 1989-2012. After applying the panel cointegration approach and the causality analysis, results displayed that FDI and GDP growth have long run equilibrium linkage. It is thus important that policymakers remove obstacles to FDI and improve absorptive capacity in order to reap maximum growth effects.

Lawrence and Mohammed (2014) investigated the nature of foreign direct investment and its impact on sustainable economic growth in Nigeria. The study used co-integration and Error Correction Mechanism (ECM) to determine the relationship between FDI, its components and economic growth. The study found that continuous inflow of foreign direct investment in mining and quarrying, telecommunication, building and construction, trading and business and agricultural sectors have a robust impact on Nigeria's economics growth.

Also, Cookey, Otto and Adeneye (2014) examined the effect of foreign direct investment on economic growth in Nigeria between 1980 and 2012, using annual time series data obtained from secondary sources. The econometric techniques of Ordinary Least Squares (OLS) and Co-integration were used to analyze the data. The results of the analysis revealed that FDI inflow does not significantly impact on economic growth in Nigeria. Okon, Augustine and Chuku (2012) empirically investigate the relationship between foreign direct investment and economic growth in Nigeria between 1970 and2008. The study reveals that there is endogeniety i.e., bi-directional relationship between FDI and economic growth in Nigeria and the Single and simultaneous equation systems shows that FDI and economic growth are jointly determined in Nigeria and there is positive feedback from FDI to growth and from growth to FDI.

Fasanya (2012) studied the impact of foreign direct investment on economic growth in Nigeria for the period 1970-2010 making use of annual time series data through a neoclassical framework. The findings show that foreign direct investments have positive impact on economic growth in Nigeria and so does domestic investment.

Ray (2013) analyzed the causal relationship between Foreign Direct Investment (FDI) and economic growth in India for the period, 1990 to2011. The empirical analysis on basis of Ordinary Least Square Method suggests that there is positive relationship between foreign direct investment (FDI) and economic growth proxy by GDP. He asserted that for FDI to be a noteworthy provider to economic growth, India would do better by focusing on improving infrastructure, human resources, developing local entrepreneurship, creating a stable macroeconomic framework and conditions favourable for productive investments to augment the process of development. Louzi and Abadi (2011) examined FDI-led growth hypothesis in the case of Jordan. The study is based on time series data from 1990 to 2009. The econometric framework of cointegration and error correction mechanism was used to capture two way linkages between variables interest. The findings indicated that FDI inflows do not exert an independent influence on economic growth. However, domestic

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investment has a positive impact on economic growth.

3.0 Methodology

The study is secondary in nature in terms of data analysis and at such data on foreign direct investment inflow (FDI), foreign exchange reserves (FXR) were used as the explanatory variables. Similarly, human development index (HDI) was used as the dependent variable to capture economic development. All the data set covers the period of 1980-2021. Thus, the functional relationship is stated as follows:

EDP= f(FDI, FXR)

(1)

Accordingly, the econometric forms of the models were stated as:

$$EDP_t = \beta_0 + \beta_1 FDI + \beta_2 FXR_t + \mu_{2t}$$

(2)

Where; EDP = Economic Development, FDI = Foreign Direct Investment Inflow, FXR = Foreign Exchange Reserves

Also the study tried the log-linear specification on the relationship in equations (2). The log-linear specification was adopted in order to place all the variables in the models on the same scale or level and to minimize the problem of multicolinearity.

The Equation above was transformed from ARDL model approach to cointegration testing, thus:

$$\Delta EDP_{t,j} = C_0 + C_1 EDP_{t-1,j} + C_2 FDI_{t-1,j} + C_3 FXR_{t-1,j} + \sum_{i=1}^{n1} a_{1i,j} \Delta EDP_{t-1,j} + \sum_{i=0}^{n2} a_{2i,j} \Delta FDI_{t-1,j} + \sum_{i=0}^{n3} a_{3i,j} \Delta FXR_{t-1,j} + \text{ɯ} ECMt - 1 + \mu_t \quad (4)$$

Where; EDP is Economic development, FDI is Foreign direct investment inflow, FXR is Foreign exchange reserves, Σ is summation, C_1-C_3, a_1-a_3, = Constant terms ECM is error correction term lagged for one period, U_t is Random disturbance term, ɯ is error correction coefficients which measures the speed of adjustment and n is optimal lag length.

4.0. Results and Discussion

4.1 Descriptive Statistics for Underlying Series

The essence of the descriptive statistics is to ascertain stability of the time series

Table 1: Descriptive Statistics for Underlying Series.

Measurement	EDP	FXR	FDI
Mean	0.442779	27207.27	2.502000
Maximum	0.540000	405200.0	8.840000
Minimum	0.325000	119.0400	0.190000
Std. Dev.	0.063123	62206.22	2.564265
Skewness	-0.164348	5.513216	1.183961
Kurtosis	1.843661	34.07673	3.176184
Jarque-Bera	2.529029	1902.854	9.396823

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Probability	0.282376	0.000000	0.009110
Observations	42	42	42

Source: *Researcher's Computation from (E- view 12)*

The descriptive statistics reported in Table 1 indicated that, on the approximate mean of economic development (EDP), foreign exchange reserves (FEX) and foreign direct investment inflow (FDI) are; 0.44, ₦27207 million and ₦2.5billion respectively. The approximate standard deviation economic development (EDP), foreign exchange reserves (FEX), foreign direct investment inflow (FDI) are; 0.06, ₦62206 million and ₦2.56billion respectively. The analysis showed that, the dependent variables (EDP) converged around it mean, while the independent variables (FXR and FDI) do not converged around their means. The skewness result showed that all the variables except economic development have positive values, meaning that they have high tails. More so, the kurtosis results showed that, EDP is platykurtic relative to normal, since the approximate value for kurtosis which is 1.8 is less than 3. This suggested that the variables have short and thin tail, and the central peak is lower and broader. Meanwhile, FXR and FDI all have leptokurtic distributions relative to normal, since the approximate values for kurtosis are more than 3. This indicated a flatter than normal distribution and the variables have large tails. That is, their central peaks are higher and sharper. Moreover, the probability values of Jarque-Bera statistics suggest that the null hypothesis of normal distribution for economic development was upheld while the null hypotheses for, foreign exchange reserves and foreign direct investment inflow were rejected at 5% level. Therefore, it was concluded from the statistical properties of the time series that the variables are largely non-normally distributed, which may have resulted from the problem of unit root. This necessitated the stationarity test of the time series.

Stationarity Test Results

This unit root test conducted via the Augmented Dickey Fuller (ADF) established the order of integration or stationarity of the variables. The ADF test was conducted based on constant and time trend; at level and first difference at 5 percent critical values. The stationarity status of the data series are presented in Table 2.

Table 2: Results of ADF Unit Root Test for the Model

Variables	**Unit Root Test @ Level**		**Unit Root Test @ First difference**		**Order of integration**
	ADF Statistics	**5% Critical Value**	**ADF Statistics**	**5% Critical Value**	
FDI	-5.650620	-2.938987	Stationary @ level		1(0)
FXR	-2.121695	-2.938987	-7.151420	-2.938987	1(1)
EDP	-1.046625	-2.938987	-7.833104	-2.938987	1(1)

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Source: Computed by the Researcher's from E-Views 12.

Note: EDP=Economic development, FDI = Foreign direct investment inflow, FXR=Foreign exchange reserves

The test of stationarity via the Augmented Dickey Fuller (ADF) unit root test for the variables in the estimated model showed that only one variable (FDI) is stationary at level or order zero. This is because the ADF test statistic value is greater than the critical value at 5%. However, variables such as EDP and FXR which were not stationary at level, were differenced once and became stationary at first differences; 1(1). The stationarity of the variables at order zero and one is the requirement for using an ARDL approach to test for both long run and short run relationship is satisfied

4.3 ARDL Bound Test for Economic Development Model

The ARDL bound test for co-integration helps to determine the long-run relationship among the variables in the estimated model. The results of the ARDL bounds test is presented in the table below

Table 3: ARDL Bounds Test Result for Economic Development Model

Model		**F-Statistic =** 5.72876
F(FDI), (FXR)		K = 2
Critical Values	Lower Bound	Upper Bound
10%	2.618	3.532
5%	3.164	4.194
1%	4.428	5.168

Source: Computed by the researcher's from E-Views 12.

Note: EDP=Economic development, FDI = Foreign direct investment inflow, FXR=Foreign exchange reserves

The bound test using economic development (EDP) as the dependent variable showed that the F-statistic value of 5.72876 is higher than the upper bound critical value of 4.194 at 5% level of significance using restricted intercept and no trend in specification for the model. The result showed that all the explanatory variables which measures external sector (FDI and FXR) as well as economic development have long run relationship in Nigeria.

4.4 ARDL Estimates and Long run Parameters Model

The essence of the ARDL estimate long run parameters is to ascertain if the coefficient of the explanatory variables have the right sign and statistical significant in the long run.

Table 4: Estimated ARDL Long Run Coefficients for Economic Development Model.
Dependent Variable: EDP ARDL (3, 0, 0).

Regressors	**Coefficient**	**t-Statistic**	**P-Value**
LOG(FXR)	0.31830	0.719117	0.4782
LOG(FDI)	0.15271	0.386719	0.7020
C	-1.126966	-2.843200	0.0084

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Source: Computed by the researcher's from E-Views 12.

Note: EDP=Economic development, FDI= Foreign direct investment inflow, FXR=Foreign exchange reserves

Table 4 showed the estimated ARDL long run coefficients to determine the relationship between selected external sector variables and economic development in Nigeria. The estimated result showed that foreign exchange reserve has positive relationship with economic development in Nigeria. This means that, a percentage increase in foreign exchange reserves will lead to an increase in economic development by 0.31830%. Similarly, the estimated result showed that FDI inflow has positive relationship with economic development in Nigeria. This means that, a percentage increase in FDI inflow will lead to increase in economic development by 0.15271%. Meanwhile, the value of the t-statistic for the coefficients of foreign exchange reserves and FDI inflow were not statistically significant in explaining the level of increase in economic development in Nigeria. Thus, the influence of the explanatory variables on economic development in the long-run will not be too noticeable in Nigeria.

4.5 Short-Run ARDL Estimates for Unemployment Rate Model

The essence of the error correction estimate of the ARDL model was to determine the dynamic short-run behaviors of the independent variables and as well determine the speed of adjustment of the estimated model. The ARDL estimates and short-run parameters for the quality of life model are presented in Tables 5.

Table 5: Error Correction Representation for the Economic Development Model Dependent Variable EDP; ARDL Selected Lags (3, 0, 0)

Regressors	Coefficients	t-Statistic	P-Value
Log(EDP)	-0.340893	-1.359257	0.1354
Log(FXR)	0.13715	0.600895	0.5529
Log(FDI)	0.5680	2.036064	0.0034
ECM (-1)	-0.330893	-4.204755	0.0003
C	-0.485602	-1.124711	0.2706
Adjusted R^2 = 0.618849	Prob(F-stat) = 0.00001	Durbin-Watson Stat	2.0054

Source: Computed by the researcher's from E-Views 12.

Note: EDP=Economic development, FDI= Foreign direct investment inflow, FXR=Foreign exchange reserves

The short-run dynamic model presented on Table 5 showed that the coefficient of adjusted R-squared is 0.618849. Meaning that, the dynamic model is a good fit. Therefore, the variation in economic development brought about by the explanatory variables is about 62%. Also, given that the probability value of f-statistic (0.00001) which is less than 5% level of significant, the study affirms that the

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explanatory variables are significant in explaining economic development in Nigeria during the period of study. The coefficient of the ECM has the hypothesized negative sign of -0.330893 and statistically significant at 5% level. Thus, the deviations from the short-term in economic development adjusted to long run equilibrium at a speed of 33.1%. Also, the coefficient of the Durbin Watson (DW) test is 2.0054 which is very close to 2.0; based on rule- of-thumb, implies that there exists a lesser degree of serial autocorrelation in the model.

Meanwhile, the estimated result showed that, a percentage change in the lag value of economic development will cause a 3.40893percent decrease in the previous value of economic development. The coefficient of foreign exchange reserve showed that, a percentage increase in foreign exchange reserves will improve the economic development by 0.1383%. But the foreign exchange reserves does not impacted on economic development during the period of study. Thus, the null hypothesis which state that, there is no significant relationship between foreign exchange reserves and economic development was accepted and the alternative hypothesis rejected. The finding is in line with the empirical work of Makamii and Rizwan (2016) who that averred that net foreign reserves/net foreign assets and trade integration have positive long run relationship with economic growth of Pakistan. Similarly, FDI inflow has positive relationship and significant impact on economic development during the period of study as a result of the fact that the p-value of 0.0032 which is less than the critical value at 5%. Thus, the alternative hypothesis which state that, there is a significant relationship between FDI inflow and economic development was accepted. The result supports the view of Obayori et al (2016) on long run relationship between FDI inflow and the Nigerian economy.

4.6 Post Estimation Tests Results

The study employed the Breusch-Godfrey (B-G) Lagrange Multiplier (LM) test for serial correlation and normality test and stability test as the post-estimation tests to validate the ARDL short and long run estimations tests.

Table 6: Post-Estimation Tests Results for Serial Correlation Test

Test type	Test Stat.	P-value	Critical Value
Serial Correlation	Chi Square (X^2)	0.6948	0.05

Source: *Researchers' Computed Result from (E-views 12)*

Based on the serial correlation using Breusch-Godfrey test LM test, to test the null hypothesis of no serial correlation, against the alternative hypothesis of serial correlation in the estimated short-run model at 5% level. The result showed that, serial autocorrelation does not exist in the estimated model. This is because the chi-square p-values for both models which are; 0.6948 is greater than the critical value probability of (0.05).

Normality Test

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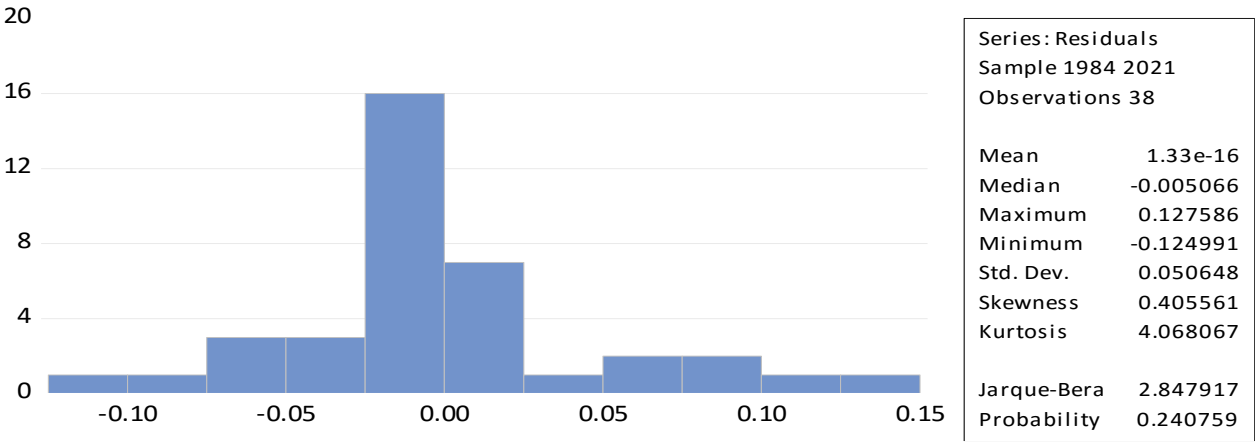

Figure 1 Normality Test for Economic Development Model

The normality test result also showed that, the error term is normally distributed at 5% level of significance. This is because, the probability value of the Jarque- Bera statistic is 0.83984; and this value is greater than 5% critical value. Meaning that, the Jarque-Bera statistic hypothesis of normally distributed residuals in the model is accepted.

Stability Test

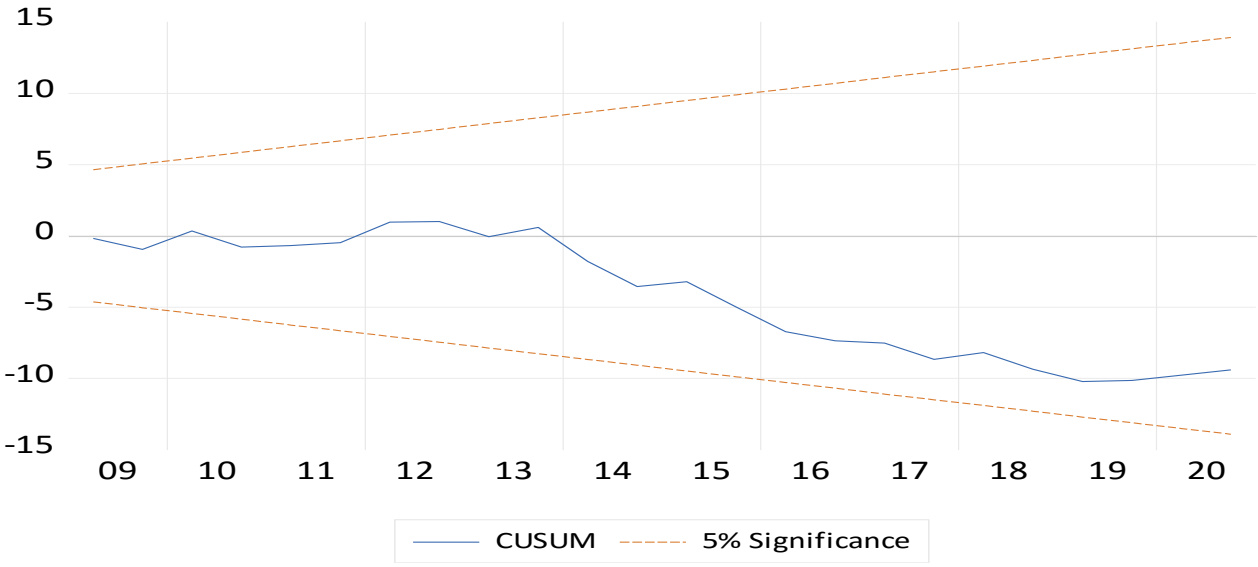

Figure 2: Stability Test for the Estimated Model

The essence of the stability test is to determine if the parameter estimate is stable. The CUSUM test is use to determine the stability of the estimated model. Thus, the plot of the CUSUM must be between the 5% critical bound lines, as depicted in Figure 2. The stability test results showed that the estimated ARDL model is stable. This is because the plot of CUSUM for the model under study is within the 5% critical bound as indicated by two lines that bounded the trend curve. The implication of this is that, the parameters of the model do not suffer from

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any structural instability over the period of study. Therefore, the estimated model is stable and useful for policy decision.

5.0. Conclusion and Recommendations

This study used ARDL approach to examine foreign direct investment inflow and economic development in Nigeria during the period of 1980 to 2021. As Nigeria strives achieve increase economic growth, improved quality of life and low inflation rate which are constituent of economic development, there is the need for increase in the inflow of foreign direct investment to the economy. Based on the empirical results, there is a positive long-run relationship between FDI inflow and economic development. In the short run, there is a positive and significant relationship between FDI inflow and economic development in Nigeria. Thus, increase in FDI inflow and huge foreign reserves will help to promote economic development in Nigeria. Based on this, it was recommended that, foreign exchange reserves should be well utilized with a view to increasing the rate of employment and quality of life. Government should ensure an investment friendly environment in order to encourage increase in the inflow of both foreign and domestic investors. This will expand the production base and hence an increase in exports of manufactured goods, which will turn drive increase in economic development via better quality of life and reduction in unemployment rate.

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