ECONOMIC GROWTH AND FDI NEXUS IN NIGERIA: A NEW EVIDENCE

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Abstract

This study examined the relationship between foreign direct investment and economic growth in Nigeria from 1981 to 2021 as well as the effects of FDI on economic growth in Nigeria. A linear model and an autoregressive distributed lag model were used for estimation. Many of the variables were stationary at the first difference I(1), whereas foreign direct investment and inflation were stationary at level I(0). This study showed that foreign direct investment, real gross domestic product, trade openness, inflation, exchange rate, and education (human capital) exhibit a long-run relationship. The results of this study also indicate that foreign direct investment affects a nation's economic growth positively and significantly. The study concludes that, the Nigerian government should develop arrangements to draw foreign direct investment to all sectors of the economy, primarily service and manufacturing. In addition to improving infrastructure and goods production, the country should also increase its educational policy and work ethic to build human capital. Furthermore, the Nigerian government should devise arrangements for attracting foreign direct investment, primarily in the service and manufacturing sectors. It should also improve its infrastructure, production of goods, and education policy to increase its human capital stock.

Keywords: Foreign Direct Investment, Economic growth, ARDL

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1 Introduction

Foreign direct investment refers to an investment by an entity from another country in a business in a specific nation. In FDI, new facilities are built, profits from abroad tasks are reinvested, and intercompany loans are made (Ogbuabor, et al 2020 and Orji et al 2019). Open economies often attract foreign direct investments due to their talented workforce and development opportunities for financial specialists that are higher than expected. Additionally, it may include management or technology provisions, in addition to capital (Orji et al, 2021). International monetary fund (IMF, 1993) and Organisation for Economic Cooperation and Development (1996) indicate that direct investment refers to an inhabitant substance from one economy (a direct investor) investing in an endeavor occupying another economy (the direct enterprise). A direct investment occurs when a foreign individual or organization needs to control, oversee, or impact a foreign enterprise directly. A growing number of developing nations have been attracting considerable and rising measures of foreign direct investment for over two decades. There are various channels through which foreign direct investment can benefit the economy in most economic theories

Foreign direct investment is widely recognized by policymakers throughout the world to increase productivity and improve economic growth and development. Foreign direct investment acknowledges positive externalities through the acquisition of technology and specialized skills through the appropriation of foreign capital (Alfaro, Chanda, Kalemli-Ozcan, Sayek, 2006). According to the Asian Development Outlook (ADB, 2004), FDI has been significantly expanding due to a variety of factors, such as rapid innovation, the rise of international production and marketing networks, bilateral investment treaties, multilateral development banks proposals, and positive evidence from developing nations.

Nigeria's economy is driven by the energy sector. The country is one of the largest oil-producing nations in Africa (World Bank, 2010). The Economic Intelligence Unit (EIU, 2010) predicts modest oil sector growth and stronger non-oil performance will support Nigerian economic growth. Nigeria's real GDP is projected to grow from 5.4% in 2009 to 6.2% in 2010, surpassing the world averages of 3.6% and 3.5%. Stock foreign direct investment inflows reached a record US$83 million in 2008 and have since increased (FDI net, 2010).