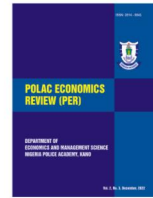




POLAC ECONOMICS REVIEW (PER)
DEPARTMENT OF ECONOMICS AND MANAGEMENT SCIENCE
NIGERIA POLICE ACADEMY, WUDIL-KANO



IMPACT OF FOREIGN DIRECT INVESTMENT (FDI) ON ECONOMIC GROWTH IN NIGERIA

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Abstract

This study investigated the impact of Foreign Direct Investment on Economic Growth in Nigeria, implication for poverty reduction, using data over the periods of 1988 – 2019. It is based on secondary data which was collected from the central Bank of Nigeria, National Bureau of Statistics, the World Bank, UNCTADs database, World development indicators and other related journals. ARDL bound test to cointegration was the technique employed to analyses the data, also Vector Error Corrections Model (VECM) were employed for the analysis. The results confirmed the existence of a long-run relationship among the variables. Foreign Direct Investment (FDI) had a positive and significant relationship with RGDP, and hence does have the potential of reducing poverty in the country. A unit increase in FDI will increase RGDP by 0.28 units. But Poverty on the other hand has a negative but insignificant relationship with RGDP. A unit increase in POVR will decrease RGDP by – 0.356 units in the long run and has insignificant impact of poverty reduction on the Nigerian economy. The findings also show that there is a causal relationship among the variables. The study concludes by recommending that: (i) To achieve economic growth in Nigeria, there is a need to improve the business environment, `with the provision `of necessary infrastructures and political stability in the country. (ii) A related issue on the business environment is the importance of consciously curbing corruption. Agencies established to fight corruption such as the Economic and Financial Crime Commission(EFCC) and Independent Corrupt Practice Commission(ICPC), should be seen to do their job to convince both foreigners and Nationals that Nigeria is a safe to invest. (iii) Policy measures by government towards the combat of poverty should be strengthened towards employment generation as this will go a long way in reducing poverty rate thereby developing the Nigerian economy

Key words: Foreign Direct Investment; Economic Growth, Poverty and ARDL Model

1. Introduction

In most developing countries, Foreign Direct Investment (FDI) serves as a means of earning foreign reserves via investments, businesses and foreign aids from advanced countries. FDI is considered a valuable source of finance and capital formation, Technology-Transfer and know-how, as well as a viable medium for trade among countries. The Spillover effect also allows for the transfer of innovations and invention to the receiving countries, one of which Nigeria belongs. According to the requirement for accelerated growth in association with the Sustainable Development Goals is not completely clear, however, for economies to experience

sustainable and inclusive development, cross-border trade is paramount (UNCTAD, 2019) in (Oyegoke, & Aras,2021)

Presently, Nigeria is the first host economy of FDI in Sub Saharan Africa, and the third in the continent behind Egypt and Ethiopia.. Recently, Nigeria has witnessed several trade policies which aim at diversifying the economy away from oil revenue. These policies are focused on improving the industrial sector, and of course, results in austerity. In 2018, the total FDI inflow to the country was around USD 1.9 billion, while in 2017; FDI inflow was around USD 3.5 billion, showing a decrease due to the consequence of the austerity measures imposed in 2018. At the third quarter of 2019,

the FDI was only 3.37% (USD 200.08 million) of the total capital inflow for the period (UNCTAD, 2019)

A key feature of foreign direct investment is that it establishes effective control of the foreign business. Foreign Direct Investment, or FDI, is one of the most crucial channels of direct investments between countries. Unlike Foreign Portfolio Investment or FPIs, an investor in one country can hold a controlling stake of any business or organisation in a foreign country that receives the investment. FDI is also a significant and insightful indicator of a certain country's political and socio-economic stability.

2. Literature Review

In Nigeria, the performance of the FDI has been low; this is as a result of the weak macroeconomic framework in Nigeria. The success of foreign investments in the country mainly is determined by the Market size, Natural and human resources endowments, cost and productivity of labour, openness to international trade and so on

2.1 Conceptual Review

Concept of Foreign Direct Investment (FDI): FDI refers to an investment made by an investor either corporate bodies or individuals in a country other than the domestic country of origin of the investor in creating business or buying an asset in the country. (John, 2016) posits that foreign direct investment is seen as a process of moving technology and capital from a nation either developed or developing countries to another nation. (Farrell, 2018) posits that foreign direct investment refers to the package of technology, capital, management, and entrepreneurship that firm uses to operate and provide goods and services in a foreign market.

World Bank (2015), defines Foreign direct investment enterprise as an incorporated or unincorporated enterprise in which a single foreign investor either owns 10 per cent or more of the ordinary shares or voting power of an enterprise (unless it can be proven that the 10 per cent ownership does not allow the investor an effective voice in the management) or own less than 10 percent of the ordinary shares or voting power of an enterprise, yet still maintains an effective voice management.

Concept of Poverty: Poverty has remained a threat and challenge to humanity in all ramifications. It is complex, multidimensional and multifaceted with manifestations in the economic, social, political, environmental and every realm of human existence. The conceptualization of poverty over the years is changing with emerging perspectives in different contexts. Bhalla and Lapeye (2016) relate it to the concept of social exclusion as an emerging phenomenon in both developed and developing contexts. Bradshaw and Main (2016) discuss child poverty, addressing how the well-being of children is affected by the indices of poverty. Room (2016) analyses the new poverty in the European community, indicating the existence of poverty in even the most advanced societies. Poverty remains a significant topic of discourse in Africa (Beegle, Christiaensen & Gaddis, 2016)

Exchange Rate: This is the rate at which the naira is converted to the US dollar. A country with relatively weak currency attracts than one with a strong currency. Conceptually, an exchange rate implies the price of one currency in terms of another. The exchange rate is the ratio between a unit of one currency and the amount of another currency for which that unit can be exchanged at a particular time (Ngerebo & Ibe, 2013). In other words, the exchange rate is the price of one currency vis-à-vis another and is the number of units of a currency required to buy another currency (Mordi, 2016). Exchange rate of the currency is the link between domestic and foreign prices of goods and services. Also, the exchange rate can either appreciate or depreciate. Appreciation in the exchange rate occurs if less unit of domestic currency exchanges for a unit of foreign currency while depreciation in exchange rate occurs if more unit of domestic currency exchanges for a unit of foreign currency (Aliyu, 2009).

Economic Growth: Economic growth is the increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the per cent rate of increase in real gross domestic product, or real GDP, usually in per capita terms (CBN, 2015).

According to Balami(2006), Economic growth which is always proxy by GDP is often conceptualized as an increase in output of an economy's capacity to produce goods and services needed to improve the welfare of the country's citizens. Growth is seen as a steady process which involves raising the level of output of

goods and services in the economy, for example, rise in the Gross Domestic Product (GDP). Growth is meaningful when the rate of growth is much higher than population growth because it has to lead to an improvement in human welfare. Therefore, growth is seen as a steady process of increasing the productive capacity of the economy and hence, of increasing national income, is characterized by higher rates of increase of per capita output and total factor productivity, especially labour productivity.

2.2 Theoretical Review

For most developing countries, investments come in different forms either foreign or local investment, one of the foreign means is the FDI which is a form of direct investment by foreign multinational companies (MNC) with headquarters in developed countries. This study is supported by the Harrod-Domar theory of growth which states that for any economy to grow, a proportion of its GDP must be saved and invested. In other words, the capital-output ratio and savings available to a country determine the economic growth level.

The Solow – Swam Neoclassical Growth Theory is based on the production function with foundations from earlier work of Harrod (1939) and Domar (1946). Modeling economic growth starts with the earlier foundations in the Harrod - Domar Model.

Specifically, in this case there is no government intervention, the growth rate of the national income is positively/directly related to savings-and investment whereby higher savings rate increases growth, and inversely or negatively related to the capital-output ratio, whereby a capital increase reduces the GDP growth rate. The main obstacle to growth according to the Harrod Dormar's growth model is a low capital formation which brings about low savings-investment; however, the main criticism of this theory is that it is a necessary but not sufficient condition for growth. It is a kick-off requirement for growth, but not sufficient enough to drive growth.

The H –D model (which is closed model) also disregards the role of technology in the production process. Therefore, given these assumptions, it implies that in the total output (in the H-D model) can only be increased by increasing the rate of savings and investment.

2.3 Empirical Review

A more recent study by (Anetor, 2019) found that FDI accounts for the significant variation in Nigeria economic growth compared to other capital inflow into

the country. Using quarterly data from 1961Q1-2016Q4, estimated using the Structural Vector Autoregression model (SVAR), to evaluate the effects of shocks of private capital inflow on the growth of the Nigerian economy. The result shows that shocks of FDI and portfolio investment inflow have a positive and direct relationship on economic growth Nigeria and is statistically significant.

According (Akanegbu & Chizea, 2017), the country's share of the global FDI is an insignificant percentage regardless of the various reforms. Using annual time series data from 1991-2014, and the neoclassical production function (whereby FDI, capital and labour are all taken as production inputs), the study employed the Ordinary Least Square estimation technique to determine the impact of FDI on economic growth in Nigeria, the result shows a positive but insignificant impact of FDI on output productivity in Nigeria.

(Pulstova, 2016), studied the effects of foreign direct investment and firm export on economic growth in Uzbekistan. The study covered the period 1990 – 2014 and the descriptive method was adopted. He found that an increase in FDI may cause firms to increase their export of products.

Uwubanmwun and Ogiemudia (2016) examined the effect of foreign direct investment on economic growth in Nigeria using annual time series data covering the period 1979 to 2013. The data were analyzed using the Error Correction Model. The results reveal that FDI has both immediate and time lag effect on the Nigeria economy in the short run but has a non-significant negative effect on the Nigeria economy in the long run

Muntah, Khan, Haider and Ahmad (2015) studied the impact of foreign direct investment on the economic growth of Pakistan covering the period 1995 to 2011. The data were sourced from World Bank, Economy of Pakistan Books, Index Monde and Economic Survey of Pakistan. Regression analysis was used in the study. They found that FDI impacts positively on the economic growth of Pakistan

Marshal and Solomon (2015) investigated foreign private investment and developing economies. The study seeks to test the hypothesis that foreign private investment (FDI and FPI) has no impact on the Nigeria economy within the periods under review.

Kunle, Olowe and Oluwafolakemi (2014) found that FDI does not have an impact in the Republic of Guinea. Antwi and Zhao (2013) indicate that FDI does not have a significant relationship on economic growth in Ghana. Obwona's (1998) results indicated that although FDI was positively related, the coefficient was insignificant.

Iqbal, Ahmad, Haider and Anwar (2014) examined whether FDI has the tendency to stimulate the growth of Pakistan from 1983 to 2012. The results indicated FDI directly relates to gross domestic product (GDP); hence, FDI has a growth-stimulating effect on Pakistan.

3. Methodology

This Paper is aimed as examine the impact of Foreign Direct Investment (FDI) on economic growth in Nigeria by(i.) investigate the short – run and long – run relationship between FDI and other macroeconomic variables (Economic growth, poverty rate, exchange rate and trade openness) in Nigeria, and(ii.) examine the causal relationship among Foreign Direct Investment (FDI), Economic Growth, poverty rate, Exchange rate and Trade openness in Nigeria

The variables under consideration are FDI, poverty rate, exchange rate, trade openness and economic growth for the period 1988 to 2019.

3.1 Method and Sources of Data Collection

This study adopts the exploratory and ex post facto design. The exploratory design will be used to gather relevant materials from text books, journal articles and so on while the ex post research design was adopted for this study. The ex post facto was adopted on the basis that it does not provide the study an opportunity to control the variables mainly because they have already occurred and cannot be manipulated. The justification for the use of this method is that required data are not manipulated. The paper predominantly used secondary source of data. The data were sourced from World Bank indicator (2019 version), Central Bank of Nigeria Statistical bulletins of 2019 National Bureau of Statistics, the UNCTADs database, and other related journals. In analyzing the data gathered, this paper incorporates a drift parameter and a stochastic error term in employs ARDL Model approach to co – integration analysis. This ARDL Model was adopted from the study conducted by Ambia and Sujarwato (2018) for Indonesian economy. ARDL model which was first used by Pesaran and Shin (1995) and later Pesaran, Shin and Smith (2001). The choice of the ARDL modeling approach over OLS was informed by the appealing

properties of the ARDL approach. First, it has the appealing feature of small sample size, it provides two sets of critical values, low and upper value bounds for all classification of explanatory variables into pure I (1), pure I (0) or mutually cointegrated. Certainly, these critical values are generated for various sample sizes. Secondly, Johansen's procedure requires that the variables should be integrated of the same order, but ARDL has the merit of been used irrespective of the order of stationarity in the series (that is, whether the series is stationary at level or first difference and perhaps even if it is the combination of both). Finally, the ARDL model has the potential of providing information about the long – run relationships between the variables while retaining the information about short – run adjustment in the variables.

3.2 Model Specification

The empirical model for this study is based on the work of Ambia and Sujarwato (2018) for Indonesian economy. We specified the model for this paper as follows:

$$GDP = f(FDI, POV, EXR, TO) \dots\dots(1)$$

Where GDP = Real Gross Domestic Product

FDI = Foreign direct investment at time t

POV = Real Gross Domestic Product

EXR = Exchange rate

TO = Trade openness

The structural form of the model is:

$$RGD = f(FD, PO EX, T,) \dots\dots\dots(2)$$

Where,

= Real Gross Domestic Product at time t,

Foreign direct investment at time t

= Poverty rate at time t

Exchange rate at time t and

= Trade openness at time

The specification of the econometric model which the model is given as follows (3)

Where,

= Real Gross Domestic Product at time t,

Foreign direct investment at time t

= Poverty rate at time t

Exchange rate at time t

= Trade openness at time t . The drift parameter is denoted by μ while ε_t stochastic error term.

In estimation of the model, the ARDL model developed by Pesaran, Shin & Smith is now represented as follows:

To replicate equation into an unrestricted error correction ARDL model which will enable the researcher to determine the rate of adjustment of the variables to long run equilibrium. The model is constructed in this form

Now the stated hypothesis of the ARDL model is given by The which suggests the absence of long – run relationship among the variables and it will be tested against the that suggests the presence of co – integration among the variables. The F- statistics computed from wald test – coefficient diagnostics will be used to draw

the inference, as will be presented in the next section of the paper.

4. Results and Discussion

4.1 Pre- Diagnostic Tests

Before estimation of this study, first, tests for unit roots were conducted. Therefore, the Augmented Dickey-Fuller (ADF) (1979), Phillips Perron (PP)(1988) and Kwiatkowski-Phillips-Schmidt-Shin (KPSS) (1992) unit root tests were used to determine the stationarity of the data to complement each other. The essence of using the three tests is for confirmatory testing. The results summaries were presented below in table 1, 2, 3 respectively

The results of the ADF tests at level and first difference are summarized below:

Table1: Summary of Unit Root Test Using Augmented Dickey-Fuller (ADF) Test

Augmented Dickey-Fuller (ADF) Test							
LEVELS				FIRST DIFFERENCE			
Variable	t- statistic	Critical value	p- value	t- statistic	Critical value	p- value	Order of integration
RGDP	2.963972	-3.665776	1.0000	-4.252364	-3.574244**	0.0114	I(1)
FDI	1.407219	-2.963972	1.407219	-5.778319	-2.967767***	0.0001	I(1)
POVR	-2.976263	-3.394303	1.23341	-3.860609	-2.967767***	0.0064	I(1)
EXR	3.443245	3.543212	1.20231	-5.47783	-2.96397***	0.0001	I(1)
TOP	-3.66213	4.234511	1.432097	-5.941102	-2.976263**	0.0000	I(1)

Source: Authors computation using E-views 10 (2020)

Note: ** and *** represent 1 %, 5% level of significance respectively

Since the series are not stationary when tested at the level as well as constant and trend, it is concluded that the series are non-stationary at levels. (Table 1)

But the series was stationary when tested at first difference as seen in Table 1 However, ADF tests are often affected by the choice of the lag length()and lose power while estimating a large sample. As such, the ADF tests results are validated by the Phillips–Perron (PP) test and KPSS test.

4.2.3 The Phillips-Perron Test for Unit Roots

Phillips and Perron (1988) developed the PP test employed in this study that is similar to ADF tests. However, the advantage of the PP test over the ADF test is that the test corrects any heteroscedasticity and serial correlation in the errors terms (Also, PP tests do not require lag selection and are based on a serially correlated regression error term.

Similar to the ADF tests, the conclusions and hypothesis for the PP tests are the same. The results of the PP test are indicated in Table 2.

Table 2: Summary of Unit Root Test Using Phillips-Perron (PP) Test

Phillips-Perron (PP) Test							
LEVELS				FIRST DIFFERENCE			
Variable	t- statistic	Critical value	p- value	t- statistic	Critical value	p- value	Order of integration

RGDP	3.673134	-2.963972	1.0000	-5.652363	-4.374264**	0.0124	I(1)
FDI	1.821176	-2.863982	1.3072	-5.775301	-3.968263***	0.0001	I(1)
POVR	-1.861788	-2.963972	0.3449	-3.881260	-2.967767***	0.0061	I(1)
EXR	-2.96397	-5.47783	1.20231	-5.47783	-2.96397***	0.0001	I(1)
TOP	-3.66213	4.234511	1.432097	-5.941102	-2.976263**	0.0000	I(1)

Source: Authors computation using E-views 10 (2020)

Note: ** and *** represent 1 %, 5% level of significance respectively

The results in table 2 indicate that the series are non-stationary at level but stationary at first difference, when the t- statistic is greater than the critical value and the corresponding probability value less than 5%, the next step involves validating the ADF and PP tests by the KPSS tests.

4.2.4 The Kwiatkowski-Phillips-Schmidt-Shin (KPSS) Unit Root Test

Kwiatkowski, Phillips, Schmidt and Shin (KPSS) test, developed by Kwiatkowski et al. (1992). This procedure of model validation has been used by a number of

studies that include Gupta and Yang (2011), Kipkoech (2015) and Asuamah (2016).

The KPSS test is a Lagrange Multiplier (LM)-based test, based on the null hypothesis that the series is stationary. The null for KPSS is that the data is stationary. The null is rejected when KPSS test statistic is greater than the critical value

The advantage of the KPSS test over the ADF and PP tests is that this is an LM Test. The KPSS is tested based on the null that series is stationary. The results of the KPSS tests are shown in table 3.

Table 3: Summary of Unit Root Test Using Kwiatkowski, Phillips, Schmidt and Shin (KPSS) test

Kwiatkowski, Phillips, Schmidt and Shin (KPSS) test						
LEVELS			FIRST DIFFERENCE			
Variable	t- statistic	Critical value	t- statistic	Critical value		Order of integration
RGDP	0.673941	0.463000	0.521905	0.463000		I(0)
FDI	0.673404	-2.863982	0.496275	0.673000		I(1)
POVR	0.252329	0.463000	0.101227	0.463000		I(1)
EXR	0.166438	0.463000	0.500000	0.463000		I(1)
DTOP	0.584629	0.463000	0.169906	0.463000		I(0)

Source: Authors computation using E-views 10 (2020)

In table 3, the KPSS tests confirm that all series or variables are mixture of order I(0) and I(1) variables. Hence, ARDL method which accommodates such a

specification remains the most appropriate methodology for this analysis and it means the researcher can proceed with the bound test

Table 4: ARDL Bound Test for co-integration for RGDP

F- Bounds Test Null hypothesis: No levels relationship

Test Statistic	Value	Significance.	I(0)	I(1)
F – Statistic	6.597000	10 %	2.45	3.52
K	4	5 %	2.86	4.01
Actual sample size	30	2.5 %	3.25	4.49
		1 %	3.75	5.06

Source: Authors computation using E-views 10 (2020)

The cointegration test using RGDP as the dependent variable shows that the F- statistic is higher than the upper bound critical value at 5% level significance (table 4. using restricted intercept and no trend in

specification for the model. This indeed implies that all the independent variables and real gross domestic product are bound by a long –run relationship in Nigeria. Meaning that, the variables included in the

model shared long-run relationships among themselves.

Table 5 Estimated Long Run Coefficients. ARDL (1, 0, 0, 0, 0)

Dependent variable: RGDP

Regressor	Coefficient	t-Statistic	P-value
TOP	0.332111	0.894315	0.3800
EXR	-0.000753	-0.481970	0.6342
POVR	-0.271410	-0.552742	0.0122
FDI	0.196798	3.538565	0.0017

Source: Author' Computed Result from (E-views 10 version.

Table 5 shows the long run estimates on the basis of selected ARDL (1,0,0,0,) model. Results shows the coefficient of foreign direct investment is positive and has significant relationship with Real Gross Domestic Product. This confirms to a priori expectations. Meaning that a unit increase in foreign direct investment will increase Gross Domestic Product by 0.196798. It also means that there is a significant relationship between foreign direct investment and gross domestic product in Nigeria. Trade openness

though has positive relationship with gross domestic product but statistically not significant, while poverty and exchange have negative relationship with real gross domestic product, but poverty rate is statistically significant to real gross domestic product. While on the other hand exchange rate has non-significance relationship with gross domestic product.

Post Estimation test

Table 6 post Estimation Tests

Test Statistics	F – Statistics	Prob.
Autocorrelation	1.129069	0.3597
Normality Test	0.221939	0.8950
Heteroskedasticity	3.5634	0.2248

Table 6 presents the post estimation test for ARDL model; the result for autocorrelation test indicates that there is no problem of autocorrelation because the P – Value of autocorrelation is 0.3597 which is greater than 0.05. similar test for normality test shows normal distribution among the residuals with a P – Value of 0.8950 which is greater than 0.05. Moreover, the P- Value for heteroskedasticity test is 0.2248 which is greater than 0.05 as such the null hypothesis is accepted and concluded that there is constant variance among the error terms therefore, no problem of heteroskedasticity in the residual of the model.

The result of the long-run relationships shows that FDI had a positive and significant relationship with RGDP. A unit increase in FDI will increase RGDP by 0.28 units. This result is in line with Pulstova(2016),Uwubanmwun and Ogiemudia (2016), Muntah, Khan, Haider and Ahmad (2015), Otto and Ukpere (2014) and Al Khathlan (2014), and Kubatko and Pysarenko(2014) and Njeru (2013) where positive and significant results were found. But these findings contradicted the findings of Marshal and Solomon (2015) and Kunle, Olowe and Oluwafolakemi (2014) and Nkechi (2013) where negative and non-significant results were found.

Poverty too had a negative but significant relationship with RGDP. A unit increase in POVR will decrease RGDP by -5.55664 units in the long run. This result is in line with Oseni, 2015), Steinberg, and Syed, 2013; de Janvry & Sadoulet, 2010. Where negative and non-significant results were found between FDI and economic growth. But the findings contradicted the findings of Wieser and Chen(2011) & Ravallion(2008), where positive and significant relationship exist between poverty and economic growth. Exchange rate had a negative but significant relationship with RGDP. A unit increase in Exchange rate will decrease RGDP by -0.025 units in the long run. This result is in line with Bruno and Pugh (2016), Kandil (2014) and Engel (2014), their findings show an increase in exchange rate had a negative but significant relationship with RGDP. But this results contradicted the findings of Jimoh (2016) and Bah and Amusa(2014) that found positive relationship between exchange rate and economic growth.

The result shows that trade openness has a positive and significant relationship with Economic growth. A unit change in DTOP will increase RGDP by 2.064 units. This result is in line with Sunde (2017), Keho (2017), Tsaurai (2017) and Vogiatzoglou and Nguyen (2016). Their studies found the existence of a positive and

significant relationship between trade openness and economic growth. But these result contradicted the findings or studies by Lawal, Nwanji, Asaleye, and Ahmed (2016), Hye, Wizarat, and Lau (2016), where a negative and insignificant relationship between trade openness and economic growth were found.

5. Conclusion and Recommendations

This study examined the impact of foreign direct investment (FDI) on economic growth in Nigeria, implication for poverty reduction, using the sample period 1987 -2018. The main aim of the study was to investigate the impact of Foreign Direct Investment (FDI) on economic growth in Nigeria. While the specific objectives include (i) Ascertain both the short- run and long – run relationship between FDI and other macroeconomic variables (FDI, Exchange rate, Trade openness and Economic Growth) in Nigeria. (ii)Analyze the impact of FDI on economic growth in Nigeria. (iii)Investigate whether there is a causal relationship among the macroeconomic variables (FDI, Exchange rate, Trade openness, poverty rate and Economic Growth) in Nigeria.

The paper used five variables Real Gross Domestic Product (RGDP) as dependent variable, while variables such as poverty, foreign direct investment (FDI). Exchange rate and trade openness served as independent variables. The empirical results show that, depending on the proxy used to measure Real Gross Domestic Product (RGDP), the impact of foreign direct investment (FDI) on economic growth varies between the short run and the long run. When VECM was conducted the results show that FDI had a positive and significant impact on economic growth in Nigeria in the short – run. This finding is consistent with theoretical literature because Nigeria is a developing country. So increases foreign capital inflows positively affect the level of investment; the consumption level is also increase because of foreign capital inflows. The increase in investment and consumption will increase the gross domestic product in the short – run. The result is consistent with the findings of many previous studies that claimed that foreign direct investment contributed positively to economic growth. But poverty on the other hand had negative but significant impact on economic growth in Nigeria. Therefore, poverty reduction has significant impact in increasing the growth of real GDP in Nigeria. Therefore, the negative relationships that exist between poverty level and economic growth implies that increase in the poverty level means a large number of labor force are

unproductive in the country and thus has negative effects on the growth of Nigerian GDP.

However, when the exchange rate was used as a proxy for Real Gross Domestic product (RGDP), the study failed to find any support for the positive relationship between exchange rate and economic growth. This implies that business cycle, monetary policy, and fiscal policy of developed countries have impact on the economies of developing countries like Nigeria and this depends on exchange rate policy of a country. Experience has shown that high levels of exchange rate volatility can be disruptive to exports and investment thereby affecting economic growth in Nigeria. Exchange rate policy plays a vital role in economic growth of developing countries like Nigeria. Countries that pursue major and appropriate exchange rate reform to eliminate real exchange misalignment are very likely to record gains in real per capita RGDP. When capital from foreign economies move into Nigerian economy, it will lead to appreciation of the naira exchange as the in-flow of capital will require the demand for naira, and increase in the inflow of capital is synonymous to increase in importation and ultimately the demand of Nigerian naira. Although for capital to flow into the Nigerian economy it might be either due to low price level relative to that of the foreign economy or low exchange rate.

Based on these findings and conclusions from the paper, the following recommendations were made and they include:

- i. There is a strong need for improvement in the nation's business environment in order to attract more foreign investors by consciously curbing corruption through intensified and improved efforts of the anti-graft agencies like Economic and Financial Crimes Commission (EFCC), and the Independent Corrupt Practices Commission (ICPC). These agencies should do their job to convince the international communities and nationals that Nigeria is a safe place to do business. This would definitely increase foreign direct investment in Nigeria thereby increase in Real Gross Domestic Product(RGDP).
- ii. In as much as FDI helps in boosting growth, care must be taken not to allow FDI displace infant industrial development in the country. Government target always should be to achieve industrial revolution. From the result of Vector Error Corrections Model, (VECM), the degree of openness had a negative impact on trade; the

Nigeria government should try to liberalize trade by strengthening Nigerians comparative advantage especially in labor-intensive sectors. It is likely to deepen Nigerian's integration in the international segmentation of production process, and at the same time concentrating on its specialization in labour-intensive stages of production while diversifying its export capacities towards more technologically advanced products. The liberalization policies needed should also have to correspond with the improvement of basic infrastructure, do away with the protectionist sentiment, and instituting macroeconomic stability by strictly adhering to its structural transformation. The structuring transformation should be geared towards transportation and energy, for these two make up the largest part of indirect costs for businesses.

This is essential to reducing the transaction cost in producing goods and services in the country.

- iii. Though the high exchange rate in the country which is supposed to attract foreign investors is not favourable for growth in the country, our result still shows a negative and non-significant impact of exchange rate on FDI. The result on exchange rate implies that a highly volatile currency would discourage foreign investors to engage in FDI in Nigeria. The federal government and the central bank of Nigeria should have a strong policy on the exchange rate that would help the manufacturers in producing rather than buying goods from outside the country. In doing this, in the long run, naira would gain value and gain stability.

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