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Foreign Direct Investment and Economic Growth: The Nigerian Context

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Abstract

Despite the flow of FDI in Nigeria, there is still high rate of unemployment, leading to greater level of insecurity, banditry, kidnapping etc. Until adequate economic investments are actualized, it will be difficult to achieve and measure both human and material resources. The study investigated the relationship between foreign direct investment and economic growth in Nigeria using ex-post-facto research design. The time series data used covered the time period 1990-2022. The data were obtained from the Annual Statistical Bulletin of the Central Bank of Nigeria. The population for this study consists of the national economic data that is pertinent to this research. However, this limitation applies specifically to foreign direct investment, which includes both oil and non-oil foreign direct investment, as well as economic growth measured by real gross domestic product (RGDP). In line with the positivist investigation ethic and quantitative design, this study use parametric statistics as the technique for inferential analysis. This technique involves the utilisation of quantitative models to determine the connection between two variables. It uses sample-based parameters as metrics to make inferences about the population being studied. The analysis was conducted with linear regression. The analysis confirmed a substantial correlation between characteristics related to foreign direct investment and economic growth. Consequently, the study demonstrated a substantial and favourable correlation between variables related to foreign direct investment and economic growth. Hence, the study recommends that policymakers should formulate policies that both encourage foreign investment and safeguard and enhance domestic production and investment. These policies should align with the development objectives of the host countries. The Nigerian government should prioritise substantial investments in non-oil sectors like agriculture and mining to generate a multiplier effect and boost the productive capacity of non-oil exports. This will contribute to the long-term economic growth and sustainability of Nigeria.

Keywords: Foreign direct investment, Economic Growth, Nigeria.

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1. INTRODUCTION

Foreign Direct Investment (FDI) and its relationship with economic growth in Nigeria have been topics of considerable interest and debate among scholars, policymakers, and stakeholders. Nigeria, as Africa's largest economy, has attracted significant FDI inflows over the years, particularly in sectors such as oil and gas, telecommunications, and banking. The potential of FDI to stimulate economic growth, enhance productivity, create employment opportunities, and facilitate technology transfer has been widely acknowledged. However, the extent to which FDI contributes to sustainable economic growth in Nigeria remains subject to empirical investigation and analysis.

While some studies suggest a positive correlation between FDI and economic growth, others highlight the challenges and complexities involved, such as governance issues, infrastructure deficits, policy inconsistencies, and macroeconomic instability (Bhatti et al., 2024; Cao & Du, 2024). Understanding the dynamics of FDI and its implications for economic growth in Nigeria is essential for formulating effective policies and strategies to harness its potential and promote inclusive and sustainable development.

The income of a country is indeed influenced by its levels of export and import of goods and services, which in turn can impact employment rates. Higher demand for exports often necessitates increased production, leading to the employment of more people, as noted by Esiaka et al. (2021). Moreover, a favorable balance of trade and balance of payment position can be achieved if exports exceed imports, highlighting the crucial role of exportation in enhancing revenue and fostering economic growth and development. Investments, particularly Foreign Direct Investment (FDI), also play a significant role in economic development. FDI serves as a means of earning foreign reserves, technology transfer, and capital formation, as well as facilitating trade among countries. The presence of Multinational Corporations (MNCs) in various sectors, including oil and non-oil sectors, demonstrates the importance of FDI in economies like Nigeria (Sam et al., 2021). FDI inflows are essential for developing countries to support economic growth and development (Wang et al., 2021).

In Nigeria, efforts have been made to diversify the economy away from reliance on oil revenue through various trade policies aimed at improving the industrial sector. However, fluctuations in FDI inflows, as seen in the decrease from 2017 to 2018, highlight the impact of such policies on investment trends (Oyegoke & Aras, 2021). Despite these challenges, foreign investment remains a crucial determinant of economic growth, with FDI having a significant influence on the economy's growth trajectory (Quoc et al., 2021). While FDI is traditionally viewed as a mechanism for enhancing recipient economies and fostering growth and development, empirical analyses have yielded mixed results. Some studies suggest a negative relationship between FDI and economic growth, while others indicate a positive correlation, particularly when FDI leads to increased output productivity (Emmanuel, 2016).

Expanding on these ideas, it's important to consider the potential spillover effects of FDI, including technology transfer, skill development, and market access, which can contribute to the overall development of the host country's economy. Additionally, policy frameworks and institutional structures play a crucial role in determining the efficacy of FDI in driving economic growth and development. Ensuring a conducive investment climate, addressing infrastructure deficits, and implementing sound regulatory frameworks are essential for maximizing the benefits of FDI.

Furthermore, beyond FDI, fostering domestic investment and entrepreneurship can complement foreign investment inflows, contributing to a more robust and sustainable economic growth trajectory. Encouraging local businesses and startups through supportive policies, access to finance, and capacity-building initiatives can amplify the positive impacts of both domestic and foreign investment on economic development. While FDI remains a critical component of economic development strategies, its effectiveness depends on various factors including policy coherence, infrastructure development, and institutional capacity. By addressing these challenges and leveraging both domestic and foreign investment opportunities, countries like Nigeria can unlock their full economic potential and achieve sustainable growth and development.

1.2 Statement of the problem

It is true that some emerging countries face challenges in accessing foreign direct investment (FDI) and effectively utilizing it for economic development. This limitation can stem from various factors such as political instability, inadequate infrastructure, regulatory hurdles, and limited market access. The inability to attract and harness FDI can hinder overall economic growth and development prospects for these nations.

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Economic development encompasses the holistic improvement of a country's economic sectors, aiming to enhance the overall well-being of its population. This involves creating employment opportunities, increasing income levels, and addressing basic needs such as healthcare, education, and housing. However, despite the flow of FDI into Nigeria, persistent high rates of unemployment contribute to social challenges such as insecurity, banditry, and kidnapping, as noted by Oyegoke & Aras (2021). The prevalence of insecurity can deter potential investors and undermine economic stability, creating further hardships for the populace.

In many cases, FDI serves as a means to supplement domestic investment and address deficits in capital formation resulting from limited savings capacity within the economy. As highlighted by the World Investment Report (2021), global FDI flows experienced a significant decline in 2020, which has impacted countries like Nigeria. The National Bureau of Statistics (2022) reported a 31% year-on-year decline in capital importation into Nigeria in 2021, the lowest in five years. Factors contributing to this decline include recessionary pressures, adverse foreign exchange policies by the Central Bank of Nigeria (CBN), and widespread insecurity caused by insurgent activities.

To mitigate the challenges associated with declining FDI inflows and promote economic stability, Nigeria must address the underlying issues that deter investment. This includes implementing sound macroeconomic policies, enhancing security measures, improving infrastructure, and fostering a conducive business environment. Additionally, efforts to diversify the economy away from heavy reliance on oil revenues can attract a broader range of investors and stimulate sustainable economic growth across various sectors.

Furthermore, enhancing transparency and governance practices can build investor confidence and attract long-term FDI commitments. Collaborative efforts between the government, private sector, and international partners are essential to overcome these challenges and unlock Nigeria's full economic potential.

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1.3 Research Objective

The study investigated the relationship between foreign direct investment and economic growth in Nigeria. The specific objectives were to:

1. Investigate the relationship between oil foreign direct investment and real gross domestic product in Nigeria.
2. Investigate the relationship between non-oil foreign direct investment and real gross domestic product in Nigeria.

1.4 Research Question

The following specific questions were raised:

i. What is the relationship between oil foreign direct investment and real gross domestic product in Nigeria.

ii. What is the relationship between non-oil foreign direct investment and real gross domestic product in Nigeria.

1.5 Research Hypotheses

The following specific null hypotheses were tested:

H01: There is significant relationship between oil foreign direct investment and real gross domestic product in Nigeria.

H02: There is significant relationship between non-oil foreign direct investment and real gross domestic product in Nigeria.

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2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Foreign Direct Investment (FDI)

FDI is the act of a corporation or individual from one country investing in commercial ventures based in another country, with the purpose of building a long-term stake and exerting substantial control over the foreign corporate entity (Arp, 2024). Foreign Direct Investment (FDI) in Nigeria has been instrumental in shaping the country's economic landscape, albeit amid challenges and fluctuations. Nigeria, as an oil-rich nation, has historically attracted significant FDI inflows, particularly in the oil and gas sector, where multinational corporations play a prominent role (Soto, 2024). However, the country's overreliance on oil revenues has underscored the need for diversification efforts to attract FDI across other sectors such as agriculture, manufacturing, and infrastructure development. Despite policy initiatives aimed at improving the investment climate and encouraging private sector participation, Nigeria still faces persistent challenges including inadequate infrastructure, bureaucratic hurdles, and security concerns, which have hindered FDI inflows (Cao & Du, 2024). Additionally, fluctuations in global oil prices and economic uncertainties have further impacted FDI trends in Nigeria. Nevertheless, the government's commitment to economic reform, coupled with ongoing efforts to improve the business environment, holds promise for attracting diversified FDI inflows and unlocking the country's economic potential.

2.1.2 Oil foreign direct investment (FDI)

This refers to the inflow of foreign capital into a country's oil sector, typically through investments in exploration, production, refining, and distribution activities (Tang & Jiang, 2024). For oil-rich countries like Nigeria, FDI in the oil sector plays a crucial role in driving economic growth, generating revenue, and providing employment opportunities. However, it also poses challenges such as environmental degradation, revenue volatility, and over-reliance on a single commodity. Additionally, the geopolitics surrounding oil FDI can influence foreign policy decisions and international relations, making it a complex and sensitive issue. Effective management of oil FDI requires transparent regulatory frameworks, sustainable development strategies, and efforts to diversify the economy to reduce dependency on oil revenues.

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2.1.3 Non-oil foreign direct investment (FDI)

This pertains to foreign investment inflows into sectors of an economy other than oil, such as manufacturing, agriculture, services, and infrastructure (Shin & Park, 2024). For countries like Nigeria, diversifying FDI away from the oil sector is crucial for sustainable economic development and reducing vulnerability to fluctuations in global oil prices. Non-oil FDI can contribute to job creation, technology transfer, skill development, and overall economic growth. However, attracting and harnessing non-oil FDI requires a conducive investment climate, including transparent regulatory frameworks, stable political environment, infrastructure development, access to finance, and investor-friendly policies. Promoting non-oil FDI can enhance productivity, competitiveness, and resilience of the economy, ultimately leading to inclusive growth and improved living standards for the population.

2.1.4 Economic growth

Economic growth is the long-term increase in a nation's output of goods and services, usually measured by increases in gross domestic product (GDP). It indicates improvements in the general quality of life and well-being of the people (Tsaurai, 2022). Economic growth in Nigeria is characterized by a mix of opportunities and challenges. As Africa's largest economy, Nigeria possesses abundant natural resources, including oil, which historically has been a significant contributor to its economic growth (Liu et al., 2024). However, the country's heavy reliance on oil exports has made its economy vulnerable to fluctuations in global oil prices, exposing structural weaknesses and hindering diversification efforts. Persistent challenges such as inadequate

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infrastructure, limited access to finance, corruption, and insecurity have impeded sustained and inclusive economic growth. Despite these challenges, Nigeria remains a country with immense potential, driven by a large and youthful population, growing consumer markets, and efforts to promote non-oil sectors such as agriculture, manufacturing, and services (Perugini, 2024). To achieve sustainable economic growth, Nigeria must address its structural challenges, improve governance and regulatory frameworks, enhance investment climate, and prioritize human capital development.

2.1.5 Real Gross Domestic Product (GDP)

This represents the total value of all goods and services produced within a country's borders, adjusted for inflation to reflect changes in purchasing power over time (Klein & Yang, 2024). As a key measure of economic performance, real GDP provides insights into the overall health and growth trajectory of an economy. It serves as a critical indicator of the standard of living, productivity, and economic welfare of a nation's citizens (Gomes, 2024). By accounting for inflation, real GDP enables policymakers, investors, and analysts to accurately assess changes in economic output, identify trends, and formulate appropriate policy responses to promote sustainable growth and stability.

2.2 Theatrical review

2.2.1 Traditional Theory

This investigation is anchored on “Traditional theory”, which is based on the idea that savings from foreign economies, particularly developed countries, can be exported to other economies and used to enhance output production, generate employment, acquire skills, improve productivity, and enhance technical efficiency. According to the hypothesis, implementing these specified courses of actions will result in enhanced economic growth in developing nations (Nnamdi, 2018). Emmanuel-Amadi and Christian (2022) argue that the traditional view fundamentally denies the existence of any limitations or regulations on the movement of capital. The idea implies a condition of unrestricted capital movement to economies that are meritorious and offer higher returns. Furthermore, this statement asserts that neoclassical economists, in accordance with this theory, anticipate the movement of capital from advanced and industrialised economies to less developed economies. This is based on the assumption that there are more lucrative investment opportunities and higher returns on investment in the latter.

The theoretical framework concerning foreign direct investment (FDI) and economic growth in Nigeria underscores the significance of FDI as a catalyst for economic development, albeit within a context of multifaceted challenges. While FDI theoretically offers avenues for capital formation, technology transfer, and market integration, the practical implications in Nigeria reveal a complex interplay of factors influencing its effectiveness. The country's heavy reliance on oil revenue, coupled with fluctuating global oil prices and inadequate diversification efforts, underscores the vulnerability of its economy to external shocks, impacting FDI inflows. Additionally, structural deficiencies such as inadequate infrastructure, regulatory bottlenecks, and security concerns pose significant barriers to FDI absorption and utilization, limiting its potential contributions to economic growth. Thus, while theoretical frameworks emphasize the positive correlation between FDI and economic growth, the Nigerian context highlights the imperative for targeted policy interventions to address systemic constraints and leverage FDI effectively as a driver of sustainable development.

2.3 Empirical review

The study by Emmanuel-Amadi and Christian (2022) examined “the relationship between foreign direct investment (FDI) and Nigeria's economic growth from 1990 to 2021. The data showed a positive but insignificant association between NFDI and economic growth, while a negative and insignificant relationship existed between OFDI and economic growth. The study concluded that FDI plays a significant role in short-term economic growth, but not in the long term. The study also

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provided recommendations for facilitating economic expansion resulting from FDI influx and sustainability".

The study by Ireti and Clement (2022) examined the relationship between foreign direct investment (FDI) and Nigeria's GDP from 1981 to 2020. The Autoregressive Distributed Lag Bound approach (ARDL) was used to analyze the data. The results showed a significant long-term association between FDI and GDP, with FDI and real exchange rates showing significant positive effects. However, interest rates and trade openness had minimal impact. The study recommends the government adopting a new strategy for FDI, including interest-free loans and credit facilities, and promoting Nigerian product exports through an export-promotion decree.

Eze (2020) conducted a study on the relationship between foreign direct investment and national growth in Nigeria. The study utilised primary and secondary data and focused on the time period from 1983 to 2003. The researcher employed the Taro-square and ANOVA approaches to analyse the data and meet the study's objectives. The analysis revealed a decrease in oil prices and a rise in government spending, resulting in economic instability in Nigeria over the study's time period. It was observed that a decrease in foreign direct investment and related issues contributed to financial difficulties in Nigeria.

Giwa et al (2020) conducted a study to analyse the impact of foreign direct investment (FDI) on the Nigerian real gross domestic product (RGDP) from 1981 to 2017. They employed the robust generalised method of moments (GMM) technique for their analysis. The study found that the quality of labour had a significant positive impact on Real Gross Domestic Product (RGDP), while the usage of capital had a negative effect on RGDP in Nigeria throughout the specified time period. Hence, the influx of external resources could facilitate the attainment of objectives aimed at bolstering the growth of developing economies.

In their study, Darazo and Adaramola (2021) analysed the relationship between foreign commerce and the Nigerian economy from 1981 to 2018, employing the ARDL estimate technique. Based on the results, exports were found to have minimal effects on economic growth compared to other variables such as imports, Foreign Direct Investment, and exchange rates. Furthermore, it was revealed that imports had a little effect on economic growth. Subsequently, the study determined that the influence of foreign exchange on the Nigerian economy was shown to be negligible.

The study by Esiaka et al (2021) examined "the impact of non-oil foreign trade on Nigeria's economic growth from 1986 to 2018. The research used the Vector Error Correction Model (VECM) to analyze the long-term and short-term effects of non-oil foreign trade on GDP. The results showed that an increase in non-oil exports and imports would lead to a decline in GDP over time. In the short term, an increase in non-oil imports would increase GDP, while an increase in non-oil exports would lead to a decline. The study suggests that Nigeria should allocate resources to non-oil high-yielding sectors like agriculture and mining to boost non-oil exports and promote sustainable economic development".

3. METHODOLOGY

This study employed an ex-post-facto research design, utilising historical financial data. The utilised time series data spanned from 1990 to 2022. The data were obtained from the Central Bank of Nigeria's Annual Statistical Bulletin. The population of this study consists of the national economic data that is pertinent to this research. Nevertheless, this limitation applies exclusively to foreign direct investment, specifically in the oil and non-oil sectors, as well as economic growth measured by GDP. In line with the positivist research ethic and quantitative design, this study use parametric statistics as the technique for inferential analysis. This technique involves the utilisation of quantitative models to build connections between two variables. It uses sample-based parameters as metrics to make inferences about the entire population being studied. The analysis was conducted with linear regression. In line with the study objective, the required functional relationship to test the developed hypotheses is presented as follows:

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RGDP= f (OFDI, NOFDI)………………………………… (1)

Its econometric expression becomes

RGDP t = β0 + β1 OFDIF t + β2 NOFDI t + et ………………………………… (2)

Where;

RGDP = Real Gross Domestic Product (Proxy for economic growth)

OFDI = Oil foreign direct investment

NOFDI = Non-oil foreign direct investment

β0 = Constant

β1, β2, β3, β4 = Coefficients attached to explanatory variables

t = Time Period

e = Stochastic Error Term

4. DATA ANALYSIS AND DISCUSSION

4.1 Data analysis

The descriptive statistics presented in table 4.1 below comprises the variables, mean, minimum, maximum, standard deviation and the number of observations. It shows the result of the data used to estimate the relationship between the predictor variables and real gross domestic product in Nigeria from 1990 to 2022.

Table 4.1 Descriptive statistics on the items of foreign direct investment and economic growth of Nigeria.

Descriptive Statistics

	N	Min	Max	Mean	Std. Dev.	Skewness		Kurtosis	
	Stat.	Stat.	Stat.	Stat.	Stat.	Statistic	Std. Error	Statistic	Std. Error
RGDP	33	4.28	4.84	4.5619	.21460	-.017	.421	-1.730	.821
OFDI	33	3.39	7.35	5.2711	.83682	-.169	.421	.418	.821
NOFDI	33	3.34	5.92	4.9772	.74021	-.692	.421	-.550	.821
Valid N (listwise)	33								

The factors employed in this study are analysed and shown in Table 4.1. The table indicates that the greatest value for gross domestic product in Nigeria during the study period is 4.84 billion, as displayed in the table. Also, the maximum values for oil foreign direct investment and nonoil foreign direct investment in Nigeria are 7.35 billion and 5.92 billion, respectively. However, the lowest value for gross domestic product in Nigeria during the period of study is 4.28 billion while the lowest value for oil foreign direct investment and non-oil foreign direct investment in Nigeria in Nigeria are 3.39 billion and 3.34 billion, respectively. On the average, the value of gross domestic product in Nigeria is 4.561 9billion while mean values of oil foreign direct investment and non-oil foreign direct investment in Nigeria are 5.2711 billion and 4.9772 billion, respectively.

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions		
				(Constant)	OFDI	NOFDI
1	1	2.984	1.000	.00	.00	.00
	2	.014	14.347	.96	.05	.03
	3	.002	42.959	.04	.95	.97

a. Dependent Variable: RGDP

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Table 4.2 tests the presence of collinearity problem in the model. The table revealed none existence of collinearity problem since VIF value for variables are between the acceptable regions. Therefore, foreign direct investment does not have collinearity problem on economic growth.

Table: 4.3 Model Summary

Mode l	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.903[a]	.816	.803	.09533
a. Predictors: (Constant), NOFDI, OFDI				

Table 4.4 ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.127	2	.564	62.003	.000[b]
	Residual	.254	28	.009		
	Total	1.382	30			

a. Dependent Variable: RGDP

b. Predictors: (Constant), NOFDI, OFDI

Table 4.5 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.272	.118		27.656	.000
	OFDI	.106	.056	.414	1.912	.066
	NOFDI	.147	.063	.506	2.334	.027

a. Dependent Variable: RGDP

According to the data in table 4.3 and 4.4 above, it can be seen that there is a significant and positive correlation between foreign direct investment and economic growth (RGDP) of Nigeria (R-value = 0.903 and p-value = 0.000 > 0.05 level of significance). The coefficient of determination (R2) = 0.816 indicates that changes in the predictor variables (oil-related foreign direct investment and non-oil related foreign direct investment) account for 81.6% of the variation in criterion variable (RGDP), leaving other variables not included in the model to account for the remaining 18.4%.

Test of Hypotheses

Statement of Hypotheses

H01: There is significant relationship between oil foreign direct investment and real gross domestic product in Nigeria.

H02: There is significant relationship between non-oil foreign direct investment and real gross domestic product in Nigeria.

Decision Rule: Accept Ho if P > 0.05. Otherwise reject Decision:

The results presented in Table 4.3 indicated a probability value of 0.000, which is lower than the alpha threshold of 0.05. Consequently, we have refuted the null hypothesis and embraced the alternative hypothesis, indicating a substantial positive correlation between foreign direct investment variables and economic growth (RGDP).

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5. CONCLUSIONS AND RECOMMENDATIONS

The study examined the correlation between foreign direct investment and economic growth in Nigeria from 1990 to 2020, employing an ex-post-facto research design that relied on historical financial data. The utilised time series data spanned from 1990 to 2022. The data were obtained from the Central Bank of Nigeria's Annual Statistical Bulletin. The population under consideration for this study comprises the pertinent national economic data. However, this limitation applies specifically to foreign direct investment, including both oil and non-oil foreign direct investment, as well as economic growth measured by GDP. In line with the positivist investigation ethic and quantitative design, this study use parametric statistics as the technique for inferential analysis. This technique involves the utilisation of quantitative models to build connections between two variables. It employs sample-based parameters as metrics to make inferences about the entire population being studied. Linear regression was employed for the analysis. The study concluded that there is a substantial correlation between characteristics related to foreign direct investment and economic growth. Consequently, the study demonstrated a substantial and favourable correlation between variables related to foreign direct investment and economic growth.This study employed an ex-post-facto research design, utilising historical financial data. The utilised time series data spanned from 1990 to 2022. The data were obtained from the Annual Statistical Bulletin of the Central Bank of Nigeria. The population under investigation comprises the pertinent national economic statistics for this study. However, this limitation applies specifically to foreign direct investment, which includes both oil and non-oil sectors, as well as economic growth measured by GDP. In line with the positivist research ethic and quantitative design, this study use parametric statistics as the technique for inferential analysis. This technique involves the utilisation of quantitative models to create correlations between two variables. It uses sample-based parameters as metrics to make inferences about the population being studied. The analysis was conducted with linear regression. Consequently, the study suggested that:

1. Policy-makers should formulate policies that both encourage foreign investment and safeguard and enhance domestic production and investment, while also aligning with the development objectives of the host countries.
2. The Nigerian government should make substantial investments in non-oil productive sectors, such as agriculture and mining, in order to generate a multiplier effect and enhance the productive capacity of non-oil exports. This will contribute to sustainable economic development in Nigeria.

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