Effect of Foreign Direct Investment on Nigeria's Economic Growth

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Abstract

Foreign Direct Investment has been held to provide developing nations including Nigeria with much needed capital for economic growth, Part of Foreign Direct Investment is the inflow of up to date technology and management skill. This paper investigates the effect of FDI on selected macro-economic variables of GDP, inflation and exchange.The study employed Secondary source of datafrom the Central Bank of Nigeria statistical bulletincovering the period of 1986 to 2017. It used the Least square to examine the relationship between the dependentand the independent variables.The findingsof the study reveal at the probability of interest rate at 27.27% that Foreign Direct Investment has significant effect to economic growth of Nigeria. Also, inflation rate and exchange rate were significant to influence the economic growth of Nigeria. The study therefore recommend that Government should re-strategies her policy by continuous improvement of business environment through the provision of the necessary infrastructure which will reduce the cost of doing business, increase productivity and enhance technological transfer and skill acquisition in Nigeria.

Keywords: Foreign Direct Investment, Gross domestic product, Inflation, Interest rate, Economic growth

INTRODUCTION

Foreign Direct Investment (FDI) has been recognized as a catalyst in the growth of developing countries in that it brings additional sources of capital investment and foreign savings. In addition to its primary aim as a source of capital formation, FDI also brings productive benefits which include employment creation, technology transfer, and associated spillover effects, skills development, trade and competitiveness and access to foreign markets. As such FDI is viewed in many studies as a key driver of economic growth since it enhances profitability of domestic investment, transforms the host country's ownership structure of total investment, complements funding for domestic investment and improves the productive sector of the economy. There is virtually no country in the world whose aims are not geared towards achieving economic growth and development. However, this is only possible if a country has adequate resources at its disposal (Chimobi&Igwe, 2010). In many developing countries, the resources to finance the optimal level of economic development are in short supply. This is because their economies are plagued with problems associated with vicious cycle of poverty, low domestic savings, low tax revenue, low productivity and limited foreign exchange earnings. As a result of this, developing countries inevitably resort to policy that will enhanced the flow of foreign finance to bridge the gap between the resources available to them and what is required for their advancement.

For a developing country like Nigeria, foreign direct investment is considered as a way of transferring technology and capital from other developed and even developing countries to the domestic economy. According to Yu, Ning, Tu, Younghong and Tan (2011), FDI is considered to be one of the major channels of technological transfer. Melnyk et al., (2014) believe that when foreign direct investment comes to a domestic country (in specific business), that firm receives a competitive advantage due to the usage of new knowledge, experience, ways of production and management. Adding that current successful economic growth of developing countries is explained by "catch up effect" in technological development with developed countries. According to Koojaroenprasit (2012), FDI is an important factor which contributes to economic growth through technology transfer. Capital accumulation and augmentation of human capital Rapid and sustained output growth of the domestic economy of Nigeria has since the political independence in 1960 been of paramount importance to successive governments in the country. Consequently, governments have implemented several national development plans and programmes aimed at boosting productivity, as well as, diversifying the domestic economic base. The goal of this is to attained high level of economic development that would translate into improvement in the living standards of the populace and hence a reduction in poverty through increase in the domestic output and the creation of employment, and thereby the maintenance of a favourable balance of payment position.

Attracting foreign investment is therefore crucial from a number of standpoints. First, consistent and regulated inflow of FDI provides an important source of foreign exchange earnings needed to supplement domestic savings and raise investment levels. Second, import substituting investment would serve to reduce the import bill as investments in export industries will directly increase the country's foreign exchange earnings. Probably persuaded by these overwhelmingly attractive theoretical benefits in support of FDI, authorities in Nigeria have, at various times, articulated a plethora of incentives aimed at attracting FDI into the country. According to Ayanwale (2007), the policies embarked on by the Nigeria government to attract foreign investors as a result of the introduction of the Structural Adjustment Programme (SAP) could be categorized into five: the establishment of the Industrial Development Coordinating Committee (IDCC) , investment incentive strategy, non-oil export stimulation and expansion, the privatization and commercialization programme, and the shift in macro-economic management in favour of industrialization, deregulation and market – based arrangements. Nigeria's economic development was anchored basically on agricultural and primary exports before independence. A purposive effort was made to alter the structure of the economy by increasing investment in other sectors on attainment of political independence in 1960. Since then and, specifically from the early 1950s, virtually all the productive sectors of the Nigerian economy were dominated by foreign investments and therefore ownership. Incentive measures were, thus, directly aimed at attracting foreigners, their capital, technology and skills.

The centrality of FDI as a prime mover in the growth process of the Nigerian economy has often been emphasized by the traditional neo-classical theory of the determinants of the growth process. FDI encourages the inflow of technology and skills and fills the gap between domestically available supplies of savings, foreign exchange and government revenue. It also encourages the inflow of technology and skills. Since the end of the World War II, foreign investment has been recognized as a very viable development path, especially for the developing countries (Oyeranti, 2003). The contributions of foreign investment to Japan after the World War II and in South Korea after the Korean War are of great importance. The emerging economic 'Tigers' of Asia namely Thailand, Singapore, Malaysia, Taiwan, Hong Kong and Indonesia owe their successes to heavy inflows of FDI over the years. The economic growth of these countries has been enhanced by providing the local economy with a source of foreign skill, technology, management expertise and human resource development through international training and collaboration. FDI has also substantially increased the capacity of these economies to sustain further developments from their own resources. However, Schoors, Roen, Van der Tol and Bartoldus (2002) suggest that FDI can have a negative impact on domestic economies. This could happen through repatriation of profit and market stealing effect. Also, Stanisic (2008) did not find any positive correlation between FDI inflows and economic. FDI is seen as an amalgamation of capital, technology, marketing and management. Funke and Nsouli (2003) assert that one of the pillars on which the New Partnership for African's development (NEPAD) was launched, was to increase available capital to US$64 billion through a combination of reforms, resource mobilization and a conducive environment for FDI which Nigeria is signatory. Nigeria as a country, given her natural resource base and large market size, qualifies to be a major recipient of FDI in Africa and indeed is one of the top three leading African countries that has consistently received FDI in the past decade (Asiedu, 2003). The UNCTAD World Investment Report (2003) showed Nigeria as the country second top FDI recipient after Angola in 2016 and 2017 in Africa also in 2016 UNCTAD shows that FDI inflow to West Africa is mainly dominated by inflow to Nigeria, who received 70% of the sub-regional total. However despite the enormous flow of FDI to Nigeria and the theoretical assumption that it contribute to developmental effort of the recipient country, her economy has been characterized by low manufacturing capacity utilization, high level of inflation, heavy debt burden, high unemployment rate, high level of income inequality, poverty to mention a few. Thus the objectives of this study is to; ascertain the effect of FDI on Economic growth represented by GDP in Nigeria, assess the effect of Foreign Direct Investment (FDI) on Exchange rate and to assess the effects of Foreign Direct Investment (FDI) on inflation in Nigeria.

LITERATURE REVIEW

Concept of Foreign Direct Investment

Foreign direct investment (FDI) occurs when a firm invests directly in facility to produce and/or market a product in foreign country. Foreign Direct investment can be classified into FDI stock and FDI flow, while the former is the accumulated amount of FDI at a given time, the latter refers to the amount of FDI undertaken over a given period of time usually annualized. FDI inflow is flows into a domestic economy and FDI outflows are flows away from a domestic economy. Johnson (2006) identified FDI flow to include flow of physical capital, labour, firm specific advantages (superior technology, scale economies, and management) knowledge capital (brand names, human capital, patents, trademarks and Technology) and externalities. Johnson (2006) categorized FDI into Greenfield and Brownfield, when FDI inflow results into the purchase or construction of new hitherto non existing production lines or market channels it is called Greenfield FDI, but acquisition of ownership powers of an existing production facility in a domestic economy by foreigners is called Brownfield. FDI is a key element in international economic integration. FDI creates direct, stable and long-lasting links between economies. It encourages the transfer of technology and know-how between countries, and allows the host economy to promote its products more widely in international markets. FDI is also an additional source of funding for investment and under the right policy environment it can be an important vehicle for development (OECD, 2012). The term FDI refers to the cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy. Amadi (2002) sees it as a distinctive feature of multinational enterprises. According to him, FDI is not simply an international transfer of capital but rather, the extension of enterprise from its home country. Mwilima (2003) describes FDI as investment made to acquire a lasting management interest (usually at least 10% of voting stock) and acquiring at least 10% of equity share in an enterprise operating in a country other than the home country of the investor. FDI has further been explained as the long-term investment reflecting a lasting interest and control, by a foreign direct investor (or parent enterprise), of an enterprise entity resident in an economy other than that of the foreign investor.

Expanded explanation on the meaning of FDI has been offered by Ayanwale (2007) as ownership of at least 10% of the ordinary shares or voting stock is the criterion for the existence of a direct investment relationship. Ownership of less than 10% is recorded as portfolio investment. FDI comprises not only merger and acquisition and new investment, but also reinvested earnings and loans and similar capital transfer between parent companies and their affiliates. However, the special merits of FDI and particularly the kinds of incentives offered to foreign firms in practice have begun to be questioned (Alfaro, 2003). Fueling this debate is that empirical evidence for FDI generating positive spillovers for host countries is ambiguous at both the micro and macro levels. In support of this fact, Hanson (2001) argues that evidence that FDI generates positive spillovers for host countries is weak. Although the theoretical work on FDI points to advantages, conceivably, spillovers could nevertheless be small. On the other hand it could be that we are looking in the wrong places. Feldstein (2002) argues that a number of advantages accrue to developing countries through FDI inflows. They include: FDI allows the transfer of technology especially in the form of new varieties of capital inputs, which cannot be achieved through financial investment or trade in goods and services. FDI is generally seen as a composite bundle of capital stock and technology, and can augment the existing stock of knowledge in the host economy through labor training, skill acquisition and diffusion, and the introduction of new managerial practices and organizational arrangements. Foreign direct investment can impact growth directly and indirectly. The impact of FDI can be seen to directly impact growth through capital accumulation, and the incorporation of new inputs and foreign technologies in the production function of the host country.

Empirical Review

Awolusi (2012) investigated the long-run equilibrium relationships among the international factors and economic growth, as well as, to assess the short-term impact of inward FDI, trade and domestic investment on economic growth in Nigeria from 1970 to 2010. A multivariate cointegration technique developed by Johansen and Juselius (1990) was employed to investigate the long-run equilibrium relationships. The results of the analysis affirmed the existence of cointegrating vectors in the systems of this country, during the study period. The variables in Nigeria models have a long-run equilibrium relationship with one another and were adjusting in the short-run via three identified channels. However, since the existence of cointegrating vectors (cointegration) in the system of a country only presumed the presence or absence of Granger-causality, which does not indicate the direction of causality between the variables, hence, the short-term impact of inward FDI, trade and domestic investment on economic growth in Nigeria was also tested via Granger Causality test, based on VECM. The results of the test revealed a short-run causal effect either running unidirectionally or bidirectionally among the variables for the country. Umoh, Jacob and Chuku (2012) investigated the relationship between foreign direct investment and economic growth in Nigeria between 1970 and 2008. The study makes the proposition that there is endogeneity, that is, bi-directional relationship between FDI and economic growth in Nigeria. Single and simultaneous equation systems are employed to examine if there is any sort of feed-back relationship between FDI and economic growth in Nigeria. The results obtained show that FDI and economic growth are jointly determined in Nigeria and there is positive feedback from FDI to growth and from growth to FDI. The overall policy implication of the result is that policies that attract more FDI to the economy, greater openness and increased private participation will need to be pursued and reinforced to ensure that the domestic economy captures greater spillovers from FDI inflows and attains higher economic growth rates.

Kareem et al. (2012) investigated the impacts of FDI in oil sector in Nigeria and its attendant impact on economic growth. The co-integration analysis was employed for the study. The results showed that FDI at current year is negatively associated with GDP possibly due to the fact that such investment needed to be allowed some time lag to translate to any significant impact. The impact of domestic capital formation is relatively small compared with the impact of FDI in the oil sector. This is a further evidence of the dominant role of foreign investors in the oil sector of the country. Therefore, addressing problems related to security, corruption, inadequate infrastructure and inconsistent regulations remains the key elements of Nigeria's future challenge of attracting more efficiency-seeking FDI that can promote her economic growth. The FDI is significant to the expectations of improvement of Nigeria's economy, as it is a way of growing the capital existing for savings. And the economic growth required lessens deficiency and elevate standards of living. Awe (2013) examined the impact of FDI on economic growth in Nigeria during the period 1976 – 2006, using the two-stage least squares (2SLS) method of simultaneous equation model. The findings of the study revealed a negative relationship between economic growth proxied by GDP and FDI as a result of insufficient FDI flow into the Nigerian economy. It is therefore, recommended that Nigeria should encourage domestic investment to accelerate growth rather than relying on FDI as a prime mover of the economy and develop a code of conduct on FDI to curb the restrictive business practice of multinationals and limit their repatriation of profits from Nigeria.

Adeleke, Olowe and Fasesin (2014) analyzed the impact of FDI on Nigeria economic growth over the period of 1999- 2013. The main type of data used in this study is secondary; sourced from various publications of CBN, such as; Statistical Bulletin, Annual Reports and Statement of Accounts. The regression analysis of the OLS is the estimation technique that is being employed in this study to determine the relationship between and impact of the FDI on economic growth. The findings revealed that economic growth is directly related to inflow of FDI and it is also statistical significant which implies that a good performance of the economy is a positive signal for inflow of FDI. This implies that FDI is an engine of economic growth. The study recommended that government should liberalize the foreign sector in Nigeria so that all barriers to trade such as arbitrary tariffs; import and export duties and other levies should be reduced so as to encourage investors. Uwazie, Igwemma and Eze (2015) determined the nexus between FDI and economic growth in Nigeria. The study employed VECM method of causality to analyze the annual data for the periods of 1970 to 2013. The ADF unit root test show presence of unit root at level but stationary after first difference. The Johansen cointegration test confirms that the variables are cointegrated while the granger causality test affirms that FDI and economic growth reinforce each other in the short run in Nigeria. Also, it is reported that FDI granger cause economic growth both in the short and long run in Nigeria. Based on these findings, the study advocates the adoption of aggressive policy reforms to boost investors' confidence and promotion of qualitative human capital development to lure FDI into the country. It also suggests the introduction of selective openness to allow only the inflow of FDI that have the capacity to spillover to the economy.

Ajala and Adesanya (2017) examined the impact of FDI in telecommunications on economic growth. The study uses data covering between 1985 and 2015. It employs the use of trend and descriptive analysis to show whether FDI in telecommunications has impact on the Nigeria's economic growth or not. The study found that FDI in telecommunications has a positive impact on the Nigerian economy. The study recommends that government should provide enabling environment for the investors in order to sustain the trend of inflow of FDI into the economy. Ghaith, Mohd and Zakaria (2017) investigated the impact of FDI and financial development on economic growth in Malaysia over the period of 1975-2014. According to autoregressive distributed lag bound test approach to co integration analyses, the results found that financial development plays an essential role in mediating the impact of FDI on economic growth in Malaysia. This implies that well-developed financial sectors lead to further and facilitate FDI spill over and hence yield economic growth, particularly for the case of Malaysia. Elias, Joseph and Odoh (2018) examined the effect of FDI on economic growth with specific reference in the Nigerian economy with exchange rate as an additional explanatory variable, among others. Multiple regression analysis technique was employed in estimating the model. The data used for the study were extracted from the CBN statistical bulletin from 1980 – 2012. The results of the study revealed that FDI has a positive relationship with Nigerian economic growth. The same positive relationship also exists between exchange rate and Nigerian economic growth. It was recommended among other things that the aspect of FDI which encourages transfer of technology be encouraged into the country.

Akinyemi, Muideen, Olusogo and Oluwaseun (2018) examined the sectoral impact of FDI in manufacturing, mining, oil and the telecommunications sectors on economic growth in Nigeria based on a theoretical framework founded on the standard growth accounting theory, the detailed analysis of the sectorial FDI (which is only available for over the period 1986-2009) was carried out. This involved the use of descriptive analysis, unit roots test, Johansen co-integration test, error correction mechanism, and fully modified least squares technique. The correlation analysis of aggregate FDI on sectoral GDP growth indicates that only the oil sector GDP has a significant positive correlation with aggregate FDI over the period 1981 and 2017. While the sectoral analysis revealed that only the flow of FDI into the communication sector has a positive and statistically significant impact on economic growth for the period considered. Given the positive significant growth impact for FDI in the telecommunication sector, and the negative significant growth impact of FDI in the manufacturing sector, the strategy for attracting and managing FDI in Nigeria must be sector specific and the National Bureau of Statistics must maintain a database of FDI on sectoral basis. Sokang (2018) investigated the impact of FDI on the economic growth of Cambodia by utilizing the time series data throughout 2006-2016. The correlation matrix and multiple regression analysis techniques were used to analyze the collected data. The results of the study revealed that FDI has a positive impact on the economic growth of Cambodia. The study recommends that government should bring reforms in the domestic market to attract more FDI in Cambodia.

Alabi (2019) investigated the impact of FDI on economic growth in Nigeria. Secondary source of data was employed in this study from 1986 to 2017 which were sourced from CBN Statistical Bulletin (2017) published in 2018 and World Development Indicator published in 2019. Descriptive and regression analyses were used as the estimation techniques. The findings of the study revealed that the coefficient value of LFDI is 0.633506 and its p-value is 0.0002 implying that a unit increase in LFDI will increase LGDP with the value of 0.633506. The coefficient value of RINTR is 0.004127 with p-value of 0.310 indicating that a unit increase in real interest rate will increase gross domestic product, but it is not significant. Also, LDI coefficient value is 1.758036 with p-value of 0.0688 implying that a unit increase in domestic investment will increase gross domestic product positively with the value of 1.758036 which is significant at 10% but not significant at 5% alpha level. The coefficient value of exchange rate is 0.835206 with the p-value of 0.0000 signifying that exchange rate is positive and significant to economic growth. It was concluded that foreign direct investment was positive and significant to economic growth of Nigeria while the domestic investment was also positive but not significant at 5% alpha level. Okegbe, Eejiofor and Ofurum (2019) evaluated the extent to which FDI has contributed to the GDP in Nigeria from 2000 to 2017. In the course of this study, three hypotheses were formulated in line with the objectives of the study. Ex-Post Facto research design was employed for the study. Regression analysis technique was adopted. The study revealed that FDI on financial sector has positive and significantly affected GDP in Nigeria. It also showed that FDI on oil sector has positive and significantly affected GDP in Nigeria. Another finding is that FDI on non-oil sector has positive and significantly affected Gross Domestic Product in Nigeria. The study therefore concludes that inflow of FDI into the Nigerian economy for the stipulated period this research was carried out (2000-2017), showed that FDI was a major contributor to economic growth of the nation. Based on the findings, the study recommended among other things that Policy makers should devise strategies to increase the FDI on financial sector and offer incentive for long investing and listing on the stock market so that the main objective of the government to stimulate growth will be fulfilled.

Obi-Nwosu, Ogbonna and Ibenta (2019) examined the role of FDI on manufacturing capacity in Nigeria. Secondary data were sourced from CBN Statistical bulletin of various years for foreign direct investment, exchange rate, inflation rate and manufacturing capacity for the period of 1984 to 2017 and were subjected to ADF Unit Root test, Johansen Co-integration and Multiple OLS Model. The study discovered that FDI and exchange rate were able to impact manufacturing capacity significantly while inflation rate were unable to play significant role on manufacturing capacity in Nigeria. There is also the presence of long run relationship between the variables of study within the period. Thus, the study concludes that FDI plays significant role on the manufacturing capacity in Nigeria. Hence, the study recommends improvement of the investment climate for existing domestic and foreign investors through infrastructure development, provision of services and changes in the regulatory framework by relaxing laws on profit repatriation, improve security situation, address issues that threaten the unity of the country, consider investment agenda of the economy above political interest or affiliation. Etale and Sawyerr (2020) examined the effect of FDI inflows on economic growth of Nigeria, using secondary data for the period 2001 to 2018. The study adopted GDP as the indicator of economic growth and the dependent variable, while FDI, foreign portfolio investment and exchange rate were used as explanatory variables. The data on the study variables covering the period 2001 to 2018 were collected from the CBN Statistical Bulletin. The study employed descriptive statistics and multiple regression analysis technique. The results of analysis revealed that FDI, foreign portfolio investment and exchange rate had significant positive influence on gross domestic product. Based on the results of the empirical analysis, the study concluded that foreign investment inflows have made the desired positive impact on the growth of the Nigerian economy. However, a lot still need to be done to create conducive investment climate to attract sufficient amount of foreign investors into the productive sectors of the Nigerian economy. The study recommended that the regulatory authorities should formulate policies and create the enabling environment to attract foreign investments into Nigeria.

Theoretical Framework

Dependency Theory

According to Aremu (2005), dependency theory maintains that, the poorness of developing countries is due to: imperial neglect; overdependence upon primary products as exports to developed countries; foreign investors„ malpractices, particularly through transfer of price mechanism; foreign firm control of key economic sectors with crowding-out effect of domestic firms; implantation of inappropriate technology in developing countries; introduction of international division of labour to the disadvantage of developing counties; prevention of independent development strategy fashioned around domestic technology and indigenous investors; distortion of the domestic labour force through discriminatory remuneration; and reliance on foreign capital in form of aid that usually aggravated corruption. Furthermore, the dependency theoristsalso focused on the several ways by which, FDI of multinational corporations distort developing nation's economy. Some scholars of this theory believed that, distortive factors include the crowding out of national firms, rising unemployment related to the use of capital-intensive technology, and a marked loss of political sovereignty (Umah, 2007). It has also been argued that FDI are more exploitative and imperialistic in nature, thus ensuring that the host country absolutely depends on the home country and her capital (Anyanwu, 1993). This theory from its points of analysis could be discovered that it creates negative relationship between FDI and economic growth of the developing countries. The theory is of great belief that the economic involvement of developed countries into developing nations under multinational companies and FDI will surely resort to economic disadvantages of developing nations.

Endogenous Growth Models Theory

This research work is anchored on endogenous growththeory credited to Romer (1986). Helpman (2004) argues thatendogenous growth theory emphasized two critical channelsfor investment to affect economic growth: Firstly, through theimpact on the range of available products, and secondly,through the impact on the stock of knowledge accessible forresearch and development. Economic models of endogenousgrowth have been applied to examine the effect of FDI oneconomic growth through the diffusion of technology (Khaliq & Noy, 2007).FDI can also promote economic growth through creation ofdynamic comparative advantages that leads to technological progress. Romer (1990) and Grossman and Helpman (1991)have worked on Romer's (1986) model and assume thatendogenous technological progress is the main engine ofeconomic growth. Romer (1990) argues that FDI acceleratseconomic growth through strengthening human capital, the most essential factor in Research and Development effort.

Grossman and Helpman (1991) emphasize that an increase incompetition and innovation will result in technologicalprogress and increase in productivity and, thus, promoteeconomic growth in long run.In contrast to all these positive conclusions, Reis (2001)formulated a model that investigates the effects of ForeignDirect Investment on economic growth when investmentreturns may be repatriated. She states that after the openingup to FDI, domestic firms will be replaced by foreign firm inthe Research and Development sector. This may decreasedomestic welfare due to the transfer of capital returns toforeign firms. Furthermore, Firebaugh (1992) lists severaladditional reasons why FDI inflows may be less profitablethan domestic investment and may even be detrimental. According to the study, the country may gain less from FDIinflows than domestic investment, because of multinationalsare less likely to contribute to government revenue; FDI isless likely to encourage local entrepreneurship;multinationals are less likely to reinvest profits; are lesslikely to develop linkages with domestic firms; and are morelikely to use inappropriately capital-intensive techniques.FDI may be detrimental if it crowds out domestic businessesand stimulates inappropriate consumption pattern.

Neoclassical Theory

Neoclassical theory assumes the notion that long term investment is a great determinant of the economic growth of the country, endogenous growth model theory explained that physical investment is not a measure of economic growth of a country but the effectiveness and efficiency in the use of these investments. Economic models of endogenous growth have been applied to examine the effects of FDI on economic growth through the diffusion of technology (Barro, 1991). Romer (1990) argues that FDI propels economic growth through strengthening human capital, the most essential factor in R&D effort; while Grossman and Helpman (1991) emphasize that an increase in competition and innovation will result in technological progress and increase productivity and, thus, promote economic growth in the long run. From the analyses made under this theory, it can be discovered that the theory suggests a better relationship between the FDI and economic growth of the developing countries.

METHODOLOGY

The study uses the Central Bank of Nigeria statistical Bulletin as a source of information in the quest to establishing the effect of Foreign Direct investment on Nigeria economy. Data used was in form of secondary data and the following data was used Inflation Rate, Exchange rate and GDP (Gross Domestic Product). The data was analyzed using Least Regression method and the Least Square Regression was used to establish the relationship between the Dependent variable Gross Domestic Product and the Independent variable- Exchange rate and Inflation rate.

The model specification is :
GDP = f (EXR+INFL) where
GDP = Gross Domestic Product used as proxy for FDI.
EXR Exchange Rate
INFL = Inflation Rates
The model has been expressed in an econometric function.
$GDP = a_o + a_1 + a_2EXR + a_3\ INFL + u$
Where a_o is the constant and a_1, a_2, a_3, are the coefficients of the independent variables while u is the stochastic error term.

4. RESULT AND DISCUSSIONS

Table 1: Descriptive Statistic

average

	GDP	EXR	INFR
Mean	28720.25	95.60707	20.36250
Median	9733.197	115.2551	12.55000
Maximum	113711.6	305.7901	72.80000
Minimum	202.4362	2.020575	5.400000
Std. Dev.	35400.52	79.07182	18.40563
Skewness	1.088748	0.557712	1.574602
Kurtosis	2.799582	2.852730	4.075764
Jarque-Bera	6.375543	1.687815	14.76634
Probability	0.041264	0.430027	0.000622
Sum	919048.0	3059.426	651.6000
Sum Sq. Dev.	3.88E+10	193823.0	10501.78
Observations	32	32	32

Table 1 present the descriptive statistics for both the dependent and explanatory variables of the study. The number of observations for the study reflects a value of 32 indicating that the number of observations for the study is made up of 32 years (1987-2017). The table also shows the mean of GDP EXR and INFR as 28720.25, 95.60707 and 20.36250. One important observation is that both the independent variables and the dependent variables has mean value higher than that of its standard deviation.

Table2

Dependent Variable: GDP
Method: Least Squares
Date: 03/30/21 Time: 15:00
Sample: 1986 2017
Included observations: 32

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EXR	350.0300	27.15157	12.89170	0.0000
INFR	-137.2340	122.8130	-1.117423	0.2727

R-squared	0.763870	Mean dependent var	28720.25
Adjusted R-squared	0.755999	S.D. dependent var	35400.52
S.E. of regression	17486.60	Akaike info criterion	22.43672
Sum squared resid	9.17E+09	Schwarz criterion	22.52833
Log likelihood	-356.9875	Hannan-Quinn criter.	22.46708
Durbin-Watson stat	0.167407		

HYPOTHESIS TESTING

The formulated hypothesis is stated below:
$H0_1$: Foreign Direct Investment does not have significant effect on exchange rate in Nigeria.
$Ho_{2:}$ (Hull) Foreign Direct investment does not have significant effect on inflation in Nigeria.

Decision Rule: if the p- value is less than 5% criticalvale the null hypothesis is rejected.
Based on the decision rule, for $H0_1$ since the p- value is greater than the critical value the null hypothesis is rejected. Based on the decision rule for $H0_2$ since the p- value is less than the critical value the null hypothesis is rejected, and we are accepting the alternative hypothesis which is that FDI have significant effect on Inflation in Nigeria. The table 2 reveals statistically insignificant relationship between interest rate, inflation rate and GDP. The test of goodness of fit reveals that the estimated relation has a positive fit. While both the R2 and adjusted R2 which stands at 76% and 75.59% respectively, reveal that about 75.59% of total variation in GDP can be explained by the regressors (EXR, INFL); the f-statistics, which reveals the joint significance of all estimated parameters in the predicting the values of GDP, Exchange rate and inflation is statistically significant with a value of 27.27 and P- value of 0.0000.

CONCLUSION AND RECOMMENDATION

The study undertook the effect of foreign Direct Investment on Nigeria Economic growth covering the period from 1986 to 2017. Related literature was reviewed as it relates to the subject matter. Based on the finding the study concluded that Foreign Direct Investment has significant effect to economic growth of Nigeria. Also, inflation and exchange rate were significant to influence the economic growth of Nigeria. The study therefore recommend that Government should re-strategies her policy by continuous improvement of business environment through the provision of the necessary infrastructure which will reduce the cost of doing business, increase productivity and enhance technological transfer in Nigeria. A related issue on the business environment is the importance of the fight against corruption. Institution such as Economic and Financial Crime Commission (EFCC) and others should be strengthened as this will convince the drivers of FDI that Nigeria is a safe place to channel their investment.

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