Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2024): 8.431 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 11 | Issue:5 | May 2024 -Peer-Reviewed Journal

# THE EFFECT OF FOREIGN DIRECT INVESTMENT ON THE ECONOMIC DEVELOPMENT OF NIGERIA

**Omessah Obaro Roseline and Orubu Christopher .O.**
*Department Of Economics Faculty of Social Sciences Delta State University Abraka, Delta State*

**Article DOI: https://doi.org/10.36713/epra16781**
**DOI No: 10.36713/epra16781**

## ABSTRACT
*The study examined the effect of Foreign Direct Investment (FDI) on development in Nigeria. The ultimate goal of developing countries is to attain development. Most studies on the effect of Foreign Direct Investment on the development of the Nigerian economy used growth proxied by GPP as a measure of development. This study however uses the Human Development Index (HDI) which is a complementary measure of development as it considers the three aspect of development (health, knowledge and standard of living). Current data from secondary data source. were used Secondary data were collected and OLS estimation method was used for the analysis of data. The result shows that the stock of FDI inflow has a positive and statistically significant effect on Economic development in Nigeria. Therefore to experience sustainable development, government should aim at providing infrastructure and conducive trade and investment environment for both foreign and local investors.*

## INTRODUCTION
The effect of FDI has been debated upon in different literature. Some studies views FDI as having a positive effect on economic development (Adegbite and Ayadi, 2011) while others are of the opinion that it has contributed insignificantly to economic development of developing nations (Akinlo 2004). However the role sof FDI in any economy cannot be overemphasized.

All over the world there is so much difference between developed and less developed countries. However developing countries want to enjoy the position of security and offer high quality of living as advanced countries so their focus is development And to achieve the desired development, they need capital to invest in industry, technology, and on an educated population. Since this capital cannot be gotten from internal sources the need for Foreign Direct Investment (FDI) becomes imperative.

Over the years, Nigeria has been able to attract FDI significantly, despite her poor economic situation probably because of oil reserve and it's consumption potential of a large population. However, the problem is inspite of the increase in FDI inflow over time into the Nigeria economy the nation still, remains relatively underdeveloped. Recent reports from the World Bank (2022) says "deep structural reforms guided by evidence are urgently needed to lift millions of Nigerians out of the poverty". This is because over 40% Nigerians still live below the poverty line. So the question is, has Foreign Direct Investment any significant relationship to economic development as measured by Real Gross Domestic Product and Human Development Index? The situation calls for a critical examination of the effect of FDI on economic development in Nigerian.

## LITERATURE REVIEW AND THEORETICAL FRAMEWORK
### 2.1 Conceptual Issues on Foreign Direct Investment
Foreign Direct Investment (FDI) occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage the asset. The management dimension is what distinguishes FDI from portfolio investment in form of stocks, bonds and other financial instrument. In most instances, both the investor and the asset it manages abroad are business firms

Foreign Direct investment serves as a means of transferring technology, managerial skill, experience and new way of production from developed countries to developing countries. (Orji et al 2019). .However this is oppose to the view of Melnyk et al(2014)l who see additional inflow of FDI to have pushed out other firms without FDI.(Market stealing effect) .

Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2024): 8.431 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 11 | Issue:5 | May 2024 -Peer-Reviewed Journal

**2.2 Concept of Economic Growth and Development in Relation to FDI**
Economic growth is a rise in the production of Economic goods and services at a particular period compared with the former period (Charles 2023).It is triggered by steady increase in workforce, technology, human capital and production of capital goods (Max 2021) Economic Growth is concerned about quantity and can be achieved in a short while without any efforts from the government. (Byju's, 2023) One common measure of economic growth is the rate of growth of real gross national product (GNP).

Unlike economic growth, economic development is qualitative in nature and takes time to achieve i.e. it is only attained when there are policies from the government. It is multi-dimensional since it is not only concerned about increase in GDP but also about improvement in living standards. The area it covers is wider than that of growth. Growth is thus a sub-set of the development process. (Amarty Sen 2013)

**2.3. Empirical Literature on Foreign Direct Investment**
An investigation by Anetor (2019) found that FDI accounts for significant growth in the Nigerian economy compared with other capital inflow into the economy, using data from 1961-2016, estimated by using the structural vector autoregression model (SVAR) to evaluate the effect of pricate capital inflowin the growth of Nigeria economy.

Trany, Duc, Anh& Thang (2019) used VECM Fully Modified OLS (FMOLS) to analyse the impact of FDI in developing countries and found out thatFDI resulted growth in the long run but not in the short run. Sokang, (2018) noticed a positive effect of FDI on growth of Cambodia after using time series data between 2006 and 2016.He utilized correlation matrix and multiple regression to analyse the effect of FDI on growth

Benedict & Jignesh (2023)) investigated the relationship between foreign direct investment (FDI) inflows and economic growth in Tanzania during 1990–2020. using hte autoregressive distributed lag model and Granger causality tests to analyze the relationship. The findings show hat there exists a long-run relationship among the variables under considerations in Tanzania. Abab et al (2022 ) investigated the impact of foreign and domestic private investment over the period 1980–2022 witl evidence from developing and emerging economies..The findings clearly reveals that Disposable Income must be completed with adequate investment from foreign sources.

Bentrix et al (2023) examine the link between. FDI and economic growth using data from 1970 to 2018.The result shows that FDI has a positive and significant effect on growth .

Yusuf et al (2020) examined the role of Foreign Direct Investment, financial development, democracy and political (in)stability on economic growth in West Africa, using data from 1996 to 2016 and Pesaran (2007) technique. The findings shows that although there is not relationship between FDI and growth in the short run ,there exist a significant relationship in the long run, paffirming the the fact that FDI is a necessary avenue for the transfer of technology and managerial knowledge. Emako et al (2022)) investigated the impact of FDI on structural transformation in developing countries using panel data from 44 developing countries and four newly industrialized countries from 1990 to 2018, making use of the generalized method of moment approach of Arellano-Bond (1991) The results show that FDI has a positive significant effect on structural transformation in developing countries.

Burlea-Schiopoui et al (2021) examined the impact of FDI on the development of emerging countries in the European Union. The result of the findings show that the GDP of seven out of nine countries in the region were positively affected by the net FDI inflow. Antony Orji et al (2019) investigated the effect of foreign direct investments on the growth of the Nigerian economy from 1981 to 2017 using the autoregressive distributive lag modeling approach and ordinary least square in the analysis and found out that FDI has a positive in significant relationship with economic growth in Nigeria within the period. The study recommended that policies by the Nigerian economy should be formulated to attract more FDI in all sectors of the economy especially in the service and manufacturing sectors. The study also suggested government should make better educational policy to improve the stock of human capital so that that will influence the productivity of FDI in the economy

**2.4. Theoretical Framework**
The theoretical framework of the study is based on the Harrow Domar model, The model emphasizes that to propel economic growth or achieved growth sustainably, savings ratio has to rise or capital/output ratio has to fall (meaning capital is becoming more efficient).Assuming capital/output as given, what is critical to growth is the

Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2024): 8.431 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 11 | Issue:5 | May 2024 -Peer-Reviewed Journal

proportion of income a nation saves as a rise in savings can propel investment in developing countries. To close up the existing savings gap,developing countries look up to foreign sources. FDI is thus an indispensable tool needed for development. The focus of the study is whether FDI had had any significant impact on development in Nigeria, bearing in mind that growth is not all that matters because growth is a numerical measure.

## METHOD OF STUDY

### 3.1 Nature of the Research Design

The quantitative technique that is adopted in analyzing the data collected is ordinary least square (OLS) method using economic view package (E-View) Multiple regression equations was also adopted because multiple equations provide a picture of the real world which is better than a single equation model. Descriptive analysis, was in this research work also adopted in analyzing the trend of the different variables mentioned below over the time period specified.

### 3.2 Specification of the Model

The Research will be adapting the following model

$RGDP = \propto_0 + \propto_1 FDI + \propto_2 GCF + \propto_3 INF + \propto_4 EXR + \propto_5 EXD + U_{1+} \ldots (1)$

$HDI = \propto_0 + \propto_1 FDI + \propto_2 GCF + \propto_3 INF + \propto_4 EXR + \propto_5 EXD + U_{2+} \ldots (2)$

Where,

RGDP =Real Gross Domestic Product (per Capita)

FDI = Foreign Direct Investment Growth

EXR = Exchange Rate

EXD = External Debt

GCF= Gross Capital Formation (as a major of domestic investment

HDI= Human Development Index

GCF= Gross Capital Formation (as a major of domestic investment

INFR = Inflation Rate

$U_{1t}$ = Error term for model 1

$U_{2t}$ = Error term for model 2

The a priori expectation patterns of the behaviour of the independent variables in terms of their parameters to be estimated are:

$\propto_1 > 0$, $\propto_2 > 0$, $\propto_3 > 0$ and $\propto_4 < 0$

$b_1 > 0$, $b_2 < 0$, $b_3 > 0$ and $b_4 < 00$

### 3.3. Analytical Tools Adopted

The analytical tool adopted in the research work is the Ordinary Least Square (OLS) with aid of Economic View (Eview). After the main test other tests were done. Criteria for decision making under Regression Analysis involves the various tests that were carried out in order to derive information from our data analysis.

## DATA ANALYSIS

### 4.1.Descriptive Statistics

**Table 4.1 below presented the descriptive statistics of all the variables under consideration:**

| | RGDP | FDI | EXR | EXD | GCF | HDI | INFR |
|---|---|---|---|---|---|---|---|
| Mean | 47126.86 | 7781.575 | 146.9780 | 3119.795 | 3206.577 | 0.484067 | 18.55133 |
| Median | 34821.07 | 3318.325 | 130.7550 | 1509.415 | 1743.190 | 0.484500 | 12.55000 |
| Maximum | 102543.8 | 69880.00 | 414.0000 | 15855.23 | 9835.010 | 0.541000 | 72.84000 |
| Minimum | 17082.56 | 146.3500 | 17.30000 | 438.8900 | 71.11000 | 0.410000 | 5.380000 |
| Std. Dev. | 29014.64 | 12699.59 | 106.0281 | 3788.501 | 3389.936 | 0.045829 | 16.78257 |
| Skewness | 0.565806 | 4.075229 | 0.815137 | 1.970341 | 0.708805 | -0.128270 | 2.073673 |
| Kurtosis | 1.802255 | 20.43929 | 3.084584 | 6.414683 | 1.960434 | 1.572804 | 6.169012 |
| Jarque-Bera | 3.393925 | 463.1984 | 3.331188 | 33.98628 | 3.862896 | 2.628378 | 34.05391 |
| Probability | 0.183239 | 0.000000 | 0.189078 | 0.000000 | 0.144938 | 0.268692 | 0.000000 |
| Sum | 1413806. | 233447.3 | 4409.340 | 93593.84 | 96197.30 | 14.52200 | 556.5400 |
| Sum Sq. Dev. | 2.44E+10 | 4.68E+09 | 326016.7 | 4.16E+08 | 3.33E+08 | 0.060910 | 8167.987 |
| Observations | 30 | 30 | 30 | 30 | 30 | 30 | 30 |

**Table 4.1: Summary of Descriptive Statistics**

**Source: Researcher's Compilation (2022)**

From table 4.1 above, the mean values of RGDP, FDI, EXR, EXD, GCF, HDI, and INFR clearly indicates that, majority of the studied variables did not deviate much far away from their mean value.

Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2024): 8.431 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 11 | Issue:5 | May 2024 -Peer-Reviewed Journal

**4.2. Ordinary Least Square-OLS Regression Result**

Owing to the fact that, the study captured economic development using both real gross domestic product per capital and human development index, two models were stated. These two models' OLS estimates are presented in table 4.2 and 4.3 below:

Table 4.2: OLS Summary-Model One

RGDP = $\propto_0 + \propto_1$FDI + $\propto_3$ GCF + $\propto_4$ INF + $U_{1t}$ . . . (I)

Dependent Variable: RGDP
Method: Least Squares
Date: 12/01/22 Time: 12:30
Sample: 1992 2021
Included observations: 30

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 10.13618 | 1.878250 | 5.396608 | 0.0000 |
| FDI | 0.948963 | 0.064099 | 14.80470 | 0.0000 |
| GCF | 0.768926 | 0.071838 | 10.70368 | 0.0000 |
| EXR | 0.000333 | 0.002888 | 0.115290 | 0.9093 |
| EXD | -0.380649 | 0.045542 | -8.358133 | 0.0000 |
| INFR | -0.002147 | 0.002992 | -0.717795 | 0.4804 |
| R-squared | 0.957386 | Mean dependent var | | 10.56998 |
| Adjusted R-squared | 0.943827 | S.D. dependent var | | 0.633166 |
| S.E. of regression | 0.150065 | Akaike info criterion | | -0.655381 |
| Sum squared resid | 0.495432 | Schwarz criterion | | -0.281728 |
| Log likelihood | 17.83071 | Hannan-Quinn criter. | | -0.535846 |
| F-statistic | 70.60920 | Durbin-Watson stat | | 2.129939 |
| Prob(F-statistic | 0.000000 | | | |

Source: Researcher's Computation Based on E-Views 9.0 (2022)

The model one OLS estimate as reported in table 4.2 reported high explanatory power. The estimates show that, foreign direct investment inflows, and gross capital formation had a positive and high significant effect on economic development (RGDP) of Nigeria.

Table 4.3: OLS estimate-Model Two

HDI = $\propto_0 + \propto_1$FDI + $\propto_2$GCF + $\propto_3$INF + $\propto_4$ EXR +$\propto_5$ EXD+$U_{2t}$. . . (II)

| Dependent Variable: HDI | | | | |
|---|---|---|---|---|
| Method: Least Squares | | | | |
| Date: 12/01/22 Time: 14:25 | | | | |
| Sample: 1992 2021 | | | | |
| Included observations: 30 | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | -1.137881 | 0.026568 | -42.82921 | 0.0000 |
| FDI | 0.560039 | 0.153018 | 3.659949 | 0.0012 |
| GCF | 0.606909 | 0.273009 | 2.223038 | 0.0355 |
| EXR | -0.462752 | 0.149081 | -3.104031 | 0.0044 |
| EXD | 0.003003 | 0.003544 | 0.847453 | 0.4051 |
| INFR | -0.678815 | 0.182719 | -3.715066 | 0.0009 |
| R-squared | 0.985429 | Mean dependent var | | 0.484067 |
| Adjusted R-squared | 0.982393 | S.D. dependent var | | 0.045829 |
| S.E. of regression | 0.012705 | Akaike info criterion | | -5.716818 |
| Sum squared resid | 0.003874 | Schwarz criterion | | -5.436579 |
| Log likelihood | 91.75227 | Hannan-Quinn criter. | | -5.627167 |
| F-statistic | 324.6175 | Durbin-Watson stat | | 1.837161 |
| Prob(F-statistic | 0.000000 | | | |

**Source: Researcher's Computation Based on E-Views 9.0 (2022)**

The model 2 OLS estimate as reported in table 4.3 shows on the overall, foreign direct investment inflows is highly critical to economic development (RGDP) of Nigeria..

Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2024): 8.431 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 11 | Issue:5 | May 2024 -Peer-Reviewed Journal

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1Summary

The summary of the findings are given below:

☆Foreign direct investment has a positive but insignificant effect on exchange rate, exrternal debt, and inflation rate in Nigeria.

☆ Foreign direct investment has a significant positive effect on Domestic Investment (proxes by GCF) Gross domestic product, and human development index (HDI) in Nigeria. Therefore, foreign direct investment has a significant positive effect on economic growth and development in Nigeria

### 5.2 Policy Recommendations

Based on the above findings, the following recommendations are proposed:

i. The Nigerian government should ensure that a conducive environment for doing business is provided in Nigeria in order to attract more FDI inflows into all sectors of the economy.

ii. The federal government and policy makers should formulate policies that do not only aim at exploiting all the potentials of FDI in Nigeria but also put a check on the negative effects of FDI on the social and economic welfare of Nigerians.

### 5.3 Conclusion

At the present level of economic development in Nigeria, foreign assistance, in the form of FDI is necessary for a rapid economic development of Nigeria. Although the process of economic growth could be truncated by only a few elite in the society (Pettinger, 2021). The study therefore concludes that, foreign direct investment inflows are critical to the Nigerian economic development

### 5.4 Contribution to Knowledge

Development not just growth is the ultimate goal of developing nations.. Ceteris parabus, a constant rise in economic growth for a long period of time will bring about development as higher RGDP will enable a nation to spend on health care and education. The study therefore (1) provides a justification for a more even distribution of FDI among various sectors of the Nigerian Economy. (2) Re-affirms the significant positive effects of FDI on human capital development in Nigeria

### 5.5 Suggestion for Further Findings

From the result of the study FDI has been found to be beneficial hence it is important that further study should be carried out to maximize the impact of FDI

## REFERENCES

1. *Adriana Burlea- Schiopoui, SiminaBrostescu and LiviuPopescu (2021)).The impact of foreign direct investment on the economic development of emerging countries of the European Union*
2. *Agustin Benetrix, Hayley Pallan and Ugo Panizza (2023) The elusive link between FDI and economic growth*
3. *Akinlo A.E (2004) Foreign Direct Investment and Economic Growth in Nigeria: An Empirical Investigation.Journal of policy Modelling.6, 2627 – 637*
4. *Amarty Kumar Send (2013) Economic Development (Wikipedia) From the BBC Programme Start the Week, 7.*
5. *Anetor T K0 (2019) Economic Growth Effects of private capital inflow: A structural VAR approach for Nigeria.Journal of economics and Development 21(1) 18-29*
6. *Benedict Humima Peter Mwakabungu& JigneshKauangal , 2023 An empirical analysis of the relationship between FDI and economic growth in Tanzania*
7. *Byju"s (2023) Difference Between Economic Growth and Economic Development.*
8. *Charles Potters T and Katrina, Munichiello.(2023) .What is Economic Growth and How it is*
9. *Measured.Theinvestopedia Team Choi Y and Baek J (2017) Does Foreign Direct Investment Really matter to Economic Growth in Indian Economy*
10. *EzoEmako, SeidNiru and MesfinMenza (2022).The effect of foreign direct investment on structural transformation in developing countries Hammed Agboola Yusuf, WaliuOlawaleShittu, Saad BabatundeAkanbi, Habiba Mohammed Bello Umar and Idris*
11. *AbdulganiyuAbdulrahman (2020)The role of Foreign Direct Investment, financial development, democracy and political (in)stability on economic growth in West Africa. International Trade, Politics and Development, Vol.4 No. 1, pp.*
12. *Josephine Ofosu-Mensah Abab, Samuel KwakuAgyei. Anthony Q.Q. Aboagye ( 2022) Foreign and domestic private investment in developing and emerging economies: A review of literature*
13. *Max Roser (2021). What is Economic Growth and Why is it Important? Measure of Economic Development and Social Welfare: Poverty Index. https//www.topper.comEconomies problem & perspective in management 12(1)1-9*
14. *Melynk L.,Kabatko. And Pysarenko SA (2014) impact of FDI on Economic Growth: A case study of Communism*

Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2024): 8.431 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 11 | Issue:5 | May 2024 -Peer-Reviewed Journal

*Transition*
15. *Metaxas, Theodore and Kechagia, Polyxeni (2016) 'Literature Review of 100 Empirical Studies of Foreign Direct Investment: 1950 – 2015'*
16. *NajehBouchoucha and Walid Ali (2019) The Impact of Foreign Direct Investment on Economic Growth: Evidence from Tunsia*
17. *Orji A.,Oguagbor, J. E., Nwosu, E. O., Anthony-Orji, O. I., and Okpala, A. J., (2019) 'FDI Remittance Inflows, and Economic Development in a Developing Economy: what do Nigerian data Show?' journal of Academic Research in Economics 11(1): 27-45. http://www.jare-sch.com/current_issue.html*
18. *TejvanPettinger, (2021). Difference Between Economic Growth And Development.*
19. *Trang DT, Duc VH, Anh VT, & Thong NC (2019) FDI & Economic Growth in the Short Run and Long Run:*
20. *Empirical Evidence from Developing Countries. Journal of risk and Financial Management 12(176)1-11*
21. *World Bank Reports, (March 2022)*