The Impact of Foreign Direct Investment on the Nigeria Economic Growth

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ABSTRACT
The study analyzed the impact of foreign direct investment on the Nigeria economic growth over the period of 1987- 2017. The type of data used in this study is secondary; sourced from various publications of Central Bank of Nigeria, such as; Statistical Bulletin, Annual Reports and Statement of Accounts. The regression analysis of the Augmented Dickey Fuller Unit Root Test (ADF) and Auto-Regressive Distributive Lag (ARDL) were the estimation technique employed in this study to determine the stationarity order of integration and the relationship between Foreign Direct Investment and economic growth. The findings revealed and concluded that there exists a long run relationship between foreign direct investments on the Nigeria economic growth. That is, economic growth is directly related to inflow of foreign direct investment and it is also statistically significant at 5% level. This implies that foreign direct investment is an engine of economic growth. The paper recommends 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.

KEYWORDS: *Gross Domestic Product (GDP), Foreign Direct Investment (FDI), Exchange Rate (EXR), Export (XE)*

SECTION ONE
INTRODUCTION

1.1 Background to study

Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. World Bank (1996) conceptualized Foreign Direct Investment (FDI) as investment that is made to acquire a lasting management interest (usually 10% of voting stock) in an enterprise and operating in a country other than that of the investors (define according to residency) the investors purpose being an effective voice in the management of earning either long term capital or short term capital as shown in the nations balance of payments account statement, (Macaulay, 2012). Broadly, foreign direct investment includes

mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans. In a narrow sense, foreign direct investment refers to building new facilities. Todaro, (1977) believed that 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. Onu, (2012) asserted that the contributions of foreign investment to Japan after the World War II and in South Korea after the Korean War has tremendously assisted the economic growth of these countries by providing the local economy with a source of foreign skill, technology, management expertise and human resource development through international training and collaboration. Macaulay, (2012) asserted that Nigeria's foreign investment can be traced back to the colonial era, when the colonial masters had the intention of exploiting our resources for the development of their economy. There was little investment by these colonial masters. With the research and discovery of oil foreign investment in Nigeria, but since then, Nigeria's foreign investment has not been stable. The Nigerian governments have recognized the importance of FDI in enhancing economic growth and development and various strategies involving incentive policies and regulatory measure have been put in place to promote the inflow of FDI to the country.

According to Lall, (2002), privatization was also adopted, among other measures, to encourage foreign investments in Nigeria. This involved transfer of state-owned enterprises (manufacturing, agricultural production, public utility services such as telecommunication, transportation, electricity and water supply), companies that are completely or partly owned by or managed by private individuals or companies. Shiro (2009) noted that since the enthronement of democracy in 1999, the government of Nigeria has taken a number of measures necessary to woo foreign investors into Nigeria. These measures, he noted, include the repeal of laws that are inimical to foreign investment growth, promulgation of investment laws, various oversea trips for image laundry by the President among others.

1.2 STATEMENT OF PROBLEM

Foreign direct investment plays important role in bringing innovative technology, marketing techniques, up to date management and encouragement of national economic development. Foreign direct investment in East African Countries can never be underestimated (Mwega and Ngugi, 2007). Despite the efforts done by the government of Tanzania on creating jobs, alleviating poverty and growing the economy but still there is little emphasis on definitive policy to create lucrative packages that would attract more FDI inflow. According to African Trade Policy (2005), foreign direct investment could push domestic firms into bankruptcy due to increased competition or could lead to loss of political sovereignty and environmental degradation. Moss, Ramachandran, and Shah (2004) argued that much of African doubt toward foreign direct investment is rooted during post -independence period, history and ideology. The role of foreign direct investment as the source of finance has increasingly become important to Nigeria government as the income level and domestic saving in the country are very low and therefore more external funds is needed to boost domestic savings so as to encourage investment and economic growth. Also for local Nigerian entrepreneurs, foreign currency inflows from foreign direct investment have become a major concern as the high inflows of funds from foreign investors gives them a competitive edge in the economic activities of the country. This is because foreign direct investors are considered as the part of the large international organization with a huge capital base as in any form of market competition they are capable of pulling in more funds for the means of subsidizing operations.

1.3 OBJECTIVES OF THE STUDY

1. To ascertain the effect of foreign direct investment on GDP.
2. To examine the relationship between EXR and GDP.
3. To find out the nature of relationship between XE and GDP.

SECTION TWO
REVIEW OF LITERATURE

Several theories have explained the reasons why firms choose to locate in certain geographic areas but the lack of generally accepted theoretical framework has led many researchers to rely on empirical evidence for describing FDI's emergence. (Hymer 1960, Caves 1982 and Ajayi 2006) argue that there is no agreed model providing the basis for empirical work even if there has been considerable theoretical work on foreign direct investment.

2.1 THEORETICAL OVERVIEW

2.1.1 ECLECTIC PARADIGM THEORY

A most popular conceptualization and theoretical framework for determinants of foreign direct investment is the 'Eclectic Paradigm Theory' assign to Dunning (1993). It provides a framework for explaining and analyzing the determinants of international production. The framework proposes that firms invest abroad to look for three sets of advantages namely; Ownership advantage, the Internalization advantage, and the Location advantage. Location advantage theory provides a framework using three main categories that are economic, social or cultural factors and political environment to identify important variables that attract foreign direct investment. Regardless of the disadvantage of being a foreign firm, Ownership specific advantages allow the firm to compete with others in the market it serves because it is able to have access to and exploit and export the resources based products and natural resources. Internalization advantage emerges from exploiting imperfection in the external market including reduction of transaction costs and uncertainty so as to generate knowledge effectively more together with the reduction of state generated imperfection such as foreign exchange control, tariffs, and subsidies. Dunning (1998) also identified four types of motives for foreign direct investment that is resources seeking, market seeking and efficiency seeking. The market-seeking is concern about market growth, market size and per capita income which means that foreign direct investment is expected to go to those host countries that have high per capita income, large market size, and market growth. Resources -seeking means investors tend to invest their businesses abroad where there is the availability of cheap labor, raw materials, and natural resources in order to reduce the cost of production. Investors seek to maximize profit, therefore, FDI efficiency seeking is more likely to bring in technology and know-how which is well matched to the level of development of the host country so as to enable competitors and local suppliers to benefit from imitation and adaptation.

2.1.2 PRODUCT LIFE CYCLE THEORY

Product life cycle theory (Vernon 1966) gives a clear understanding on how and why export is replaced by foreign direct investment. The theory provides the significant contribution for the analysis of FDI as it analyzed four production stages that beginning with the creation of new product. His work was based on the United States companies for the domestic market and later on moved to international market. He tried to understand the reason for companies to shift to the international market and international investment. At the initial stage, firms try to focus more on

the domestic market and when the product get matures, firms start exporting to developed countries. Firms standardized its product when the demand increases and in this stage, companies think to expand more of its production in less developed countries. Labour cost, transportation and economies of scale are among the determinant factors for location choice. According to Vernon, not only low-cost location is leading firms to decide and invest in other countries as he argued that any threat to the companies can be seen as the stimulating forces for the action.

2.1.3 INTERNALIZATION THEORY

The functions and existence of Multinational companies have been briefly explained by Buckley and Casson in 1976 who has developed the theory called Internalization Theory. According to his theory, some transaction costs can be reduced by producing within a company rather than between companies, in other words, internalized operations. Through this, the return on assets (ROA) of the company will increase with fewer costs. The other reason of internalization is to replace the external markets which are imperfect. For example, Multinational companies from developed countries invest in developing markets where there is lack of skilled personnel. According to Krugman (2003), sometimes internalized operation may create conflict between buyer and producer especially when each party has the monopoly position and different ideas on product price setting.

2.1.4 EARLY NEOCLASSICAL THEORY

According to this theory of foreign direct investment, multinational companies (MNCs) relocate to capital-poor and backward technology countries from capital rich and advanced technology countries. Early neoclassical work on foreign direct investment allows the movement of international capital as a theory; simply assume that the outflow of capital from a labour scarce and capital surplus economy like the United States to a labor surplus and capital scarce economy like Mexico will eventually lead to the development of both economies through equalization of interest and wages.

2.2 EMPERICAL FRAMEWORK

Jenkin and Thomas (2002) are of opinion that FDI is expected to contribute to economic growth include the provision of foreign capital as well as crowding in additional domestic investment. By promoting both forward and backward linkages with the domestic economy, additional employment is indirectly created and further economic activity stimulated.

Adegbite and Ayadi (2010) stated that FDI helps fill the domestic revenue-generation gap in a developing economy, given that most developing countries' governments do not seem to be able to generate sufficient revenue to meet their expenditure needs. Other benefits are in the form of externalities and the adoption of foreign technology. Foreign direct investment includes; external resources including technology, managerial and marketing expertise and capital. All these generate a considerable impact on host nation's productive capabilities and the success of government policies of stimulating the productive base of the economy depend largely on her ability to control adequate amount of FDI comprising of managerial, capital and technological resources to boast the existing production capacity, Omankhanlen, (2011).

Foreign direct investment represents a veritable source of foreign exchange and technological transfer, especially to a developing economy like Nigeria. It can be analyzed in

terms of inflow of new equity capital (change in foreign share capital), re- invested earning (unremitted profit), trade and supplier's credit, net inflow of borrowing and other obligations from the parent company or its affiliates Nwankwo et al, (2013).

Agada and Okpe (2012) saw FDI as an attempt by individuals, groups, companies and government of a nation to move resources of productive purpose across its country to another country with the anticipation of earning some surplus.

Otepola (2012), asserted that FDI has emerged as the most important source of external resource flows to developing countries over the years and has become a significant part of capital formation in these countries, though their share in the global distribution of FDI continue to remain small or even declining. Caves (1996) also observed that the rationale for increased efforts to attract more FDI stems from the belief that FDI has several positive effects. Among these are productivity gains, technology transfers, and the introduction of new processes, managerial skills and know-how in the domestic market, employee training, international production networks, and access to markets.

Previous studies on the Foreign Direct Investment (FDI) and economic growth in Nigeria and other countries provided inconclusive evidence. Lall (2002) opined that FDI inflow affects many factors in the economy and these factors in turn affect economic growth. This review shows that the debate on the impact of FDI on economic growth is far from being conclusive. The role of FDI seems to be country specific and can be positive, negative or insignificant, depending on the economic, institutional and technological conditions in the recipient countries.

For instance, Solomon and Eka (2013) investigated the empirical relationship between Foreign Direct Investment and economic growth in Nigeria. The work covered a period of 1981-2009 using an annual data from Central Bank of Nigeria statistical bulletin. A growth model via the Ordinary Least Square method was used to ascertain the relationship between FDI and economic growth in Nigeria. The result of the OLS techniques indicated that FDI has a positive but has insignificant impact on Nigerian economic growth for the period under study.

Alejandro (2010) explained that FDI plays an extra ordinary and growing role in global business and economics. It can provide a firm with new markets and marketing channels, cheaper production facilities access to new technology products, skills and financing for a host country or the foreign firms which investment, it can provide a source of new technologies, capital processes products, organization technologies and management skills and other positive externalities and spillover that can provide a strong impetus to regional economic growth.

Obwona (2001) noted in his study of the determinants of FDI and their impact on growth in Uganda that macroeconomic and political stability and policy consistency are important parameters determining the inflow of Foreign Direct Investment (FDI) into Uganda and that Foreign Direct Investment (FDI) affects growth positively but insignificant. Foreign Direct Investment (FDI) also contributes to economic growth via technology transfer.

Zhang (2001) argued that Foreign Direct Investment has positive growth impact that is similar to domestic investment along with partly alleviating balance of payment deficit in the current account. He opined that via technology transfer and spillover efficiency, the inflow of direct foreign investment might be able to stimulate a country economic performance.

Ewe-Ghee Lim (2001) summarized recent arguments and findings on FDI and its correlation with economic growth focusing on literature regarding spillovers from FDI and found that while substantial support exists for positive spillovers from FDI, there is no consensus on casualty.

Otepola (2002) also examined the importance of direct foreign investment in Nigeria. The study empirically examined the impact of FDI on growth. He concluded that FDI contributes significantly to growth especially through exports. Ricardo, Hwang and Rodrick (2005) argued that Foreign Direct Investment (FDI) provide a path for emerging nations to export the products developed economies usually sell, in effect increasing their export sophistication. Many developing countries pursue FDI as a tool for export promotion, rather than production for the domestic economy. Typically foreign investors build plants in nations where they can produce goods for export at lower costs.

Bende-Nabende (2002) also found that direct long term impact of Foreign Direct Investment (FDI) on output is significant and positive for comparatively economically less advanced Philippines and Thailand, but negative in the more economically advanced Japan and Taiwan. In the same line, Ariyo (1998) studied the investment trend and its impact on Nigeria's economic growth over the years. He found that only private domestic investment consistently contributed to raising GDP growth rates during the period considered (1970–1995).

However, Alfaro, Chanda,Kalemi-Ozean and Sayek (2003), affirmed that the contribution of FDI to growth depends on the sector of the economy where the FDI operates. He claimed that FDI inflow to the primary sectors tends to have a negative effect on growth, however, as for the service sector, the effect of DFI inflow is not so clear. Durharm (2004) for example, failed to establish a positive relationship between Foreign Direct Investment (FDI) and growth but instead suggests that the effects of Foreign Direct Investment (FDI) are contingents on the absorptive capability of host countries. Nwankwo, Ademola, and Kehinde, (2013), investigated the impact of globalization on foreign direct investment in Nigeria-since the world has become a global village. The methodology used is purely descriptive and narrative and the data used is secondary. It was found out that foreign direct investment (FDI) has been of increased benefit to Nigeria in the area of employment, transfer of technology, encouragement of local enterprises etc. But there are certain impediments to the full realization of the benefits of foreign direct investment. Adelegan (2000) also explored the seemingly unrelated regression model to examine the impact of FDI on economic growth in Nigeria and found out that FDI is pro-consumption and pro-import and negatively related to gross domestic investment. In the same line, Ogiogio (1995) reported negative contributions of public investment to GDP growth in Nigeria for reasons of distortions.

Omankhanlen, (2011) deals with the effect of Foreign Direct Investment on the Nigerian economy over the period 1980-2009. He examined empirically if the following growth determining variables in the economy-Balance on current account (Balance of payment), Inflation and Exchange rate have any effect on Foreign Direct Investment, also if Foreign Direct Investment have any effect on Gross Domestic Product (GDP). The study developed Econometric models to investigate the relationships between the aforementioned variables and foreign direct investment. Based on the data analysis it was discovered that foreign direct investments have positive and significant impact on current account balance in Balance of payment. While inflation was seen not to have significant impact on foreign direct investment inflows.

Olokoyo, (2012) examined the effects of Foreign Direct Investment (FDI) on the development of Nigerian economy. The paper tried to answer the question: what are the FDI

determinants in Nigeria and how do they affect the Nigerian economy? The study employed the use of Ordinary Least Square (OLS) regression technique to test the time series data from 1970 – 2007. The Cochrane-Orcutt interactive method was also used to correct for autocorrelation. The model used hypothesizes that there is a functional relationship between the economy development of Nigeria using the real gross domestic product (RGDP) and Foreign Direct Investment. The regression analysis results evidently do not provide much support for the view of a robust link between FDI and economic growth in Nigeria as suggested by extant previous literatures. Though the result does not imply that FDI is unimportant, the model analysis reduces the confidence in the belief that FDI has exerted an independent growth effect in Nigeria.

Eravwoke and Imide (2013) analyzed corruption, foreign direct investment and its impact on exchange of the Nigerian economy. The ultimate objective of this study centers on an empirical investigation of the impact of corruption, foreign direct investment and its impact on exchange rate of the Nigerian economy. In order to achieve these objectives the study used the ordinary least squares regression analyses, augmented dickey fuller unit root test and the co-integration test. The unit root test revealed that all the variables were stationary at first difference and the short run result revealed that corruption is very high in Nigeria and that have helped to depreciate the currency of the country with regards its exchange to other currencies.

Saibu and Keke (2014) examined the impact of Foreign Private Investment on economic growth using annual time series data from Nigerian economy. The paper employed Co-integration and Error Correction Mechanism (ECM) techniques to empirically analyze the relationship between foreign private investment and economic growth and to draw policy inferences on the observed relationship. The study revealed that there was a substantial feedback of 116% and 78% from previous disequilibria between long-run economic growth and foreign private investment respectively. The findings also indicated that a substantial proportion of capital inflow were not productively invested however the relatively small proportion (22%) of net capital inflows invested, contributed significantly to economic growth in the Nigerian economy. The political environment was found to be unfavorable and overwhelmed the positive impact of foreign private investment.

SECTION THREE
RESEARCH METHODOLOGY
3.1 SOURCES OF DATA COLLECTION

The main type of data used in this study is secondary; sourced from various publications of Central Bank of Nigeria, such as; Statistical Bulletin, Annual Reports and Statement of Accounts. The models used in this study are estimated using data on Direct Foreign Investment, Gross Domestic Product, Exchange Rate and Export.

3.2 MODEL SPECIFICATION

Model which specifies that economic growth (GDP) is significantly influenced by the Foreign Direct Investment indices (Direct foreign investment, Export and Exchange Rate) are formulated as follows;

$GDP = f(FDI, EXR, XE)$

$GDP = \beta 0 + \beta 1FDI + \beta 2EXR + \beta 3XE + e_t$

GDP = Gross Domestic Product

FDI = Direct Foreign Investment

EXR = Exchange Rate
XE = Export
e_t= Error term
β = intercept
β1 – β3 = Coefficient of the independent variables

3.3 TIME SERIES DATA

Time series data were used from 1987– 2018 for the estimation. The data used were obtained from the World Development Indicators (2018). The method of data analysis employed in this study is basically analytical. However, to derive consistent, unbiased, and efficient estimators of the structural equation, the hypothesis was tested using ordinary least square (OLS) regression technique. Since the data employed are time series data, we therefore conduct time series analysis. And in order to avoid "spurious regression", we first test for the stationarity of the individual series by conducting unit root test to find the exact time series technique to be used. We then test for the order of integration using the Augmented Dickey-Fuller (ADF) test for unit root because it is the most commonly used in empirical research.

SECTION FOUR
4.0 DATA PRESENTATION AND ANALYSIS
4.1 DATA PRESENTATION

Data on our selected variables such as Gross Domestic product (GDP), Exchange Rate (EXR), Foreign Direct Investment (FDI) and Export (XE) in Nigeria from 1987 to 2017

4.0 DATA ANALYSIS AND INTERPRETATION
4.1 Unit Root Test

In this study, the Augmented Dickey-Fuller (ADF) unit root test was employed to test for the time series properties of the model variables. This is necessary as it helps to avoid spurious regression results. The ADF tests the null hypotheses that the series has a unit root (not stationary) as against the alternative that the variable has no unit root. The choice of lag length was based on Akaike and Schwartz-Bayesian information criteria and was selected automatically by E-views. The decision rule is to reject the null hypothesis if the ADF statistic value exceeds the critical value at a chosen level of significance (in absolute term). These results are presented in table 1 below.

Table 1: Summary of ADF test results at 1% and 5% critical value

Variables	ADF Statistics		ADF Critical Value		Optimum Lag Length	Order of Integration	Remark
	Level	Ist Diff	1%	5%			
GDP	-3.7482		-3.6702	-2.9640	0	I(0)	Stationary
FDI		-8.9639	-3.6793	-2.9677	0	I (1)	Stationary
EXR		-5.4670	-3.6793	-2.9678	0	I (1)	Stationary

XE		-4.5597	-3.6892	-2.9719	1	I (1)	Stationary

Source: Computed by the Researcher with Eview 10

From table 1 above, observe that the variables FDI, EXR, and XE were not stationary at level form but became stationary after first difference which implies that the variables are integrated of order one (I ~ (1)) whereas the variables GDP was integrated of order zero (I ~ (0)) as they were stationary at level form. The decision was based on the fact the ADF statistics was greater than the critical values at 5% significance level. Since the variables are integrated of order one and zero and none of the variables is integrated of order two. We therefore, applied the ARDL bound co-integration test.

4.2 ARDL Bound Co-integration Test

A necessary condition for testing ARDL bound co-integration test is that the variables be integrated of either of order one or zero or both (Pesaran, Shin and Smith, 2001). Since all the variables were integrated of order one and zero, we proceeded to estimate the ARDL bound test. The null hypothesis of ARDL bound co-integration is that the variables are not co-integrated as against the alternative that they are co-integrated. The decision rule is to reject the null hypothesis if the F-statistics is greater than the upper bound critical values at chosen level of significance. The result of the ARDL bound co-integration test is shown in table 2 below.

Table 2: ARDL Bound Co-integration Test Result

F-Statistics	**K**	**Significance level**	**Critical Bound Value**	
			10 (Lower Bound)	**11 (Upper Bound)**
5.273397	3	5%	2.79	3.67
		1%	3.65	4.66

Source: Author's computation

From table 2 the F-statistics is greater than the upper bound at 5% level of significance. Thus, we reject the null hypothesis and conclude that there exists a long run relationship between foreign direct investments on the Nigeria economic growth. Therefore, we estimate the parsimonious result of the relationships.

4.3 Autoregressive Distributed Lag (ARDL) Result

4.3.1. Short Run Parsimonious ARDL Result

The summary of Short Run Parsimonious ARDL result of the impact of Foreign Direct Investment on the Nigeria Economic Growth is presented in table 3.

Table 3: Summary of Short Run Parsimonious ARDL Result
ARDL Model (4, 4, 2, 2)

	Dependent Variable D(GDP)			
Variables	Coefficient	**Std. Error**	**t-statistics**	**Probability**
D(GDP(-1))	-0.000677**	0.156423	-0.004327	0.9966
D(EXR)	0.149303***	0.049068	3.042806	0.0112
D(EXR(-1))	0.068675**	0.049280	1.393572	0.1910

D(XE)	0.142189***	0.031880	4.460205	0.0010
D(XE(-1))	-0.068324***	0.031213	-2.188983	0.0511
D(FDI)	0.097190***	0.029483	3.296458	0.0071
D(FDI(-1))	0.044252**	0.026043	1.699198	0.1174
ECT(-1)	-0.115193***	0.019211	-5.996247	0.0001
	R-squared = 0.919977; Adj R-Squared = 0.861293			

[**] *denotes significant of variable at 1% [5%] significance level respectively.
Source: Author's Computation

Short Run Result Interpretation

The result in table 4 shows the short run parsimonious result. The lag value of GDP is negatively and insignificantly influencing its current value which suggests that a decrease in the immediate past state of GDP will reduce the present GDP in the country. The coefficient of current EXR is 0.07 which means that a one per cent increases on inflation will lead to about 0.07 decreases in GDP in Nigeria. However, the coefficient of export at lag one is negative and significant. More so, the coefficient of FDI at lag 1 is 0.04 which is positive and insignificant.

Nwankwo, Ademola, and Kehinde, (2013), investigated the impact of globalization on foreign direct investment in Nigeria-since the world has become a global village. The methodology used is purely descriptive and narrative and the data used is secondary. It was found out that foreign direct investment (FDI) has been of increased benefit to Nigeria in the area of employment, transfer of technology, encouragement of local enterprises etc. But there are certain impediments to the full realization of the benefits of foreign direct investment. Adelegan (2000) also explored the seemingly unrelated regression model to examine the impact of FDI on economic growth in Nigeria and found out that FDI is pro-consumption and pro-import and negatively related to gross domestic investment. In the same line, Ogiogio (1995) reported negative contributions of public investment to GDP growth in Nigeria for reasons of distortions.

Product life cycle theory (Vernon 1966) gives a clear understanding on how and why export is replaced by foreign direct investment. The theory provides the significant contribution for the analysis of FDI as it analyzed four production stages that beginning with the creation of new product. His work was based on the United States companies for the domestic market and later on moved to international market. He tried to understand the reason for companies to shift to the international market and international investment. At the initial stage, firms try to focus more on the domestic market and when the product get matures, firms start exporting to developed countries. Firms standardized its product when the demand increases and in this stage, companies think to expand more of its production in less developed countries. Labour cost, transportation and economies of scale are among the determinant factors for location choice. According to Vernon, not only low-cost location is leading firms to decide and invest in other countries as he argued that any threat to the companies can be seen as the stimulating forces for the action.

The coefficient of determination R-Square and its adjusted R-Square are 0.91 and 0.86 respectively. This shows a good fit of the model and further suggests that about 91% of the variations in GDP position is explained by changes in the variables (exchange rate, export, and Foreign Direct Investment) included in the model while the remaining 9% of the variations is

captured by the error term. The coefficient of error correction term which measures the speed of adjustment to the long run equilibrium is appropriately signed and significant.

4.3.2 Long Run ARDL Result

The summary of Long Run ARDL result of the impact of foreign direct investment on the Nigeria Economic Growth is presented in table 4

Table 4: Long Run ARDL Result

	Dependent Variable BOP			
Variables	Coefficient	**Std. Error**	**t-statistics**	**Probability**
Constant	5.042864	10.14628	0.497016	0.6290
EXR	-0.263313	0.611603	-0.430528	0.6751
XE	0.943778	0.546891	1.725716	0.1123
FDI	-0.010405	0.540190	-0.019261	0.9850

******[**] denotes significant of variable at 1% [5%] significance level respectively.***

Source: Author's Computation

Long Run Result Interpretation

The long run result in table 4 shows that exchange rate and FDI have negative and insignificant impact on GDP rate while export has positive and insignificant influence on GDP position in Nigeria. Otepola (2002) also examined the importance of direct foreign investment in Nigeria. The study empirically examined the impact of FDI on growth. He concluded that FDI contributes significantly to growth especially through exports. Ricardo, Hwang and Rodrick (2005) argued that Foreign Direct Investment (FDI) provide a path for emerging nations to export the products developed economies usually sell, in effect increasing their export sophistication. Many developing countries pursue FDI as a tool for export promotion, rather than production for the domestic economy. Typically foreign investors build plants in nations where they can produce goods for export at lower costs.

Bende-Nabende (2002) also found that direct long term impact of Foreign Direct Investment (FDI) on output is significant and positive for comparatively economically less advanced Philippines and Thailand, but negative in the more economically advanced Japan and Taiwan. In the same line, Ariyo (1998) studied the investment trend and its impact on Nigeria's Furthermore, The Export exhibits satisfactory results in terms of correct signs and statistical significant of the explanatory variables with the exception of FDI which showed correct sign but insignificant due to a number of factors which have been responsible for poor FDI in Nigeria. And these factors are as follows: Doubt owing to partisan volatility: macroeconomic volatility and absence of strategy limpidity, Unwelcoming governing atmosphere, Meager groundwork, High tariff barriers, High requirement on merchandises, Enlarged opposition, Fraud and frail supremacy and Reduced and unproductive promoting approach

SECTION FIVE
CONCLUSION AND RECOMMENDATION
5.1 CONCLUSION

The result of the analysis however, shows that exchange rate, export and FDI all have long run positive and negative impact on the Nigerian Economic Growth, while import has negative and insignificant effect on gross domestic product within the period under review. The study thus, concludes that foreign direct investment has positive effect on economic growth in Nigeria within the period under review. This is because foreign direct investors are considered as the part of the large international organization with a huge capital base as in any form of market competition they are capable of pulling in more funds for the means of subsidizing operations.

5.2 RECOMMENDATIONS

In the light of the above findings, the followings, i.e. recommendations are proposed:-

1. Government should provide enabling environment that will be conducive for doing business in Nigeria, so as to attract the inflow of FDI.
2. There is need for government to be formulating investment policies that will be favorable to local investors in order to compete with the inflow of investment from foreign countries.
3. Favorable exchange rate policies should be formulated and implemented to facilitate exchange rate – export growth economically at the Nigerian economy.

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