Effect of Foreign Direct Investment on Economic Development of Nigerian Economy

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ABSTRACT
This study centered on effect of Foreign Direct Investment (FDI) on economic development of Nigerian economy. The main objective of this study was to assess the effect of exchange rate on economic development of Nigerian economy; and to examine the effect of interest rate on economic development of Nigerian economy. Ex-facto research design was used in the study as the researcher relied heavily on secondary data that covered 31 years period (1990-20201). The formulated null hypotheses were analyzed using simple linear regression. Results from the study showed that exchange rate has a significant effect on economic development of Nigerian economy (R^2 = 0.340); and interest rate has an insignificant effect on economic development of Nigerian

economy (R^2 = 0.017). It was concluded that FDI has significant effect on economic development of Nigeria within the period under review. It was recommended exchange rate in the country should be properly regulated to prevent high exchange rate, which could deter FDI inflows in the country; and the state government should create an enabling environment that will encourage firms to borrow funds/capital from financial institutions at a considerate interest rate.

1.1 Background of the Study

Owing to the increasing globalization of the world economy and the liberalization of exchange rates and market access, there is a large amount of capital that moves across borders. Often, this is facilitated by most countries that encourage the free flow of capitals between countries. The rationale for such encouragement, as opined by Grossman and Helpman (2015) premised on the assertion that free flow of capital also assists in diversification of assets and reduction of the risks faced by capital owners. To Akujuobi and Ejitagha (2021), global mobility of capitals encourage the transfer of investment, especially countries that are regarded as developing countries. The perceived opportunities derivable from utilizing this form of foreign capital injection into the economy, to augment domestic savings and further promote economic development in most developing economies is known as Foreign Direct Investment (FDI). Overtime, this has increased studies of FDI and economic development of a nation.

As a construct, FDI is seen as an investment made by an individual with the aim of exercising long-term ownership and controlling interest (at least one-tenth of the equity) in the host country (World Bank, 2014). Altogether, FDI simply implies that an investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Mostly, when the deciding factors are available and functional, the ownership of businesses and other operations of foreign investors, unarguably enhances the propensities of economic growth and development of a country through increased employment opportunities, boost export and adequate transfer of products, technology and knowledge (Oyin, 2014).

Exchange rate, interest rate and company income tax are the proxies of FDI (Benson *et al*., 2019). An exchange rate is the rate at which one currency will be exchanged for another (Benson *et al.* 2019). It is also regarded as the value of one country's currency in relation to another currency. Interest rate is the amount of interest due per period, as a percentage of the amount lent, deposited or borrowed.

Accordingly, economic development implies an increase in the per capita income of every citizen. Economic development can also be referred to as the quantitative and qualitative changes in the economy (Christoffersen, 2013). Economic development is the sustained, concerted actions of policy makers and communities that promote the standard of living and economic health of a specific area. However, the most accurate method of measuring development is the Human Development Index which takes into account the literacy rates & life expectancy which affect productivity and could lead to Economic Growth.

Exchange rates, interest rates and company income tax, as the determinants of FDI are one of the reasons that a foreign investor would seek to invest in Nigeria, mostly that the Naira should be weaker than the currency of the home of the foreign investor. If a currency is weak, is it obvious that FDI will flow into that country. Equally, the effect of the instability of interest rate is very significant to foreign direct investment inflow to a developing nation like Nigeria. A rise in interest rate will cause an increase in current real exchange rate. Hence, the variation between exchange rate, interest rate and company income tax consistently correlates to Foreign Direct Investment inflows and thus amplified economic development. Nigeria is a developing country, like other developing economies. It needs investments from within and outside to develop. Once FDI has been attracted, it is expected to help the economy grow. Given the importance of this subject, this study is an attempt to assess the effect of FDI on national development of Nigerian economy, by looking at those factors that determine the inflow of Foreign Direct Investment into Nigeria.

1.2 Statement of the Problem

Nigeria as a country, given her natural resource-base and large market size, qualifies to be a major recipient of FDI in Africa. Capital may flow into a country because of speculative because of over-hyped view of economic prospects. Resultantly, this may attract more foreign capital in a self-perpetuating process. However, the level of FDI attracted by Nigeria is insignificant compared with the resource base and potential needs of the country. Realization of this fact may lead to investors in country withdrawing their investments, which will directly lead encourage capital flight. This will further generate disruptions in business cycles, increase in exchange rates, interest rates and company income tax, which affects economic development.

Prior studies have been carried out in this direction, however, the results are conflicting. For instance, the study carried out by Alfaro (2003) showed that FDI has no clear positive effect on economic growth and development of an economy; while the study of Akinola (2004) showed that FDI has little effect on the economic growth and development of an economy. To Noormamode (2008) there is no definite evidence to show that FDI affects the economic development of a country. Hence, these variations open up a window for a study in this direction.

1.3 Objectives of the Study

The main objective of this study this study is to assess the effects of FDI on economic development of Nigerian economy. Specific objectives of the study are:

i. To assess the effect of exchange rate on economic development of Nigerian economy; and
ii. To examine the effect of interest rate on economic development of Nigerian economy.

1.4 Research Questions

The research questions developed for this study are as follows:

i. What is the effect of exchange rate on economic development of Nigerian economy?
ii. What is the effect of interest rate on economic development of Nigerian economy?

1.5 Research Hypotheses

The following null hypotheses were formulated for this study:

i. **H_{01}:** Exchange rate has no significant effect on economic development of Nigerian economy; and
ii. **H_{02}:** Interest rate has no significant effect on economic development of Nigerian economy.

1.6 Significance of the Study

Findings from this study may be of benefit to federal government and policy makers in the country, domestic investors and students who would be conducting a study in this direction. To federal government and policy makers in Nigeria, the findings of this study help them in creating more avenues to attract foreign investors which will enhance technology transfer, and more job opportunities, and increase productivity into the economy. The domestic investors could equally benefit from the findings in this study as their contributions are needed to formulate policies that could attract and motivate existing and potential domestic investors in Nigeria. Students could as well benefit from the findings of the study as it could prove to be useful reference material in the course of their study.

1.7 Scope and Limitations of the Study

This study centered on the effects of FDI on economic development of Nigerian economy. The content scope of this study would be limited to the concept of FDI, antecedents of FDI, the concept of economic development, and FDI factors affecting economic development of Nigerian economy. Geographically, this study was carried out in Nigeria. Proxies of FDI that are assessed in this study are exchange rate, interest rate and company income tax. Equally, economic development was measured using Gross Domestic Product (GDP).

2.0 Review of Related Literature

2.1 Conceptual Framework

2.1.1 The Concept of Foreign Direct Investment (FDI)

Ijaiya (2001) described Foreign Direct Investment (FDI) has an increment in the book value of the met worth of investments in one country held by investors of another country, where the investment are under the central managerial control of the investors. Altogether, Foreign Direct Investment (FDI) is the process in which residents of one country (known as the source/home nation) gain ownership of resources in order to control the production, distribution and other activities of a company in another country known as the host nation/country (Moosa, 2002).

2.1.2 The Concept of Economic Development

Feldman and Francis (2003) opined that, economic development entails combined action and all-encompassing, long-term investment. Dafionone (2013) posit that for the country to lay claim on development through taxation, there must be an improvement of the quality of life of the citizens, as measured by the appropriate indices in economic social, political and environmental terms. Economic development is the development of economic wealth of countries or regions for the well-being of their inhabitants (Koojaroenprasit, 2012). In that sense, economic development implies improvements in a variety of indicators such as literacy rates, life expectancy, and poverty rates. It equally encompasses policies that governments undertake to meet broad economic objectives such as price stability, high employment, expanded tax base, and sustainable growth.

In the course of this study, exchange rate, interest rate and Company's income tax have been identified as proxies of Foreign Direct Investment (FDI). In this section of the study, the effects of each of these proxies on economic development were considered as shown hereunder:

2.1.2 Exchange Rate and Economic Development

Uddin *et al.* (2014) sees exchange rate as the domestic price of a unit of foreign currency and exchange rate can be called the conversion factor that determines the rate of change of currencies. For Danladi and Uba (2016), exchange rate is the price of one country's currency in relation to another country, or the required amount of units of a currency that can buy an amount of units of another currency. Exchange rate in whatever conceptualization, is not only an important relative price, which connects domestic and world markets for goods and assets, but it also signals the competitiveness of a country's exchange power vis-à-vis the rest of the world in a pure market.

Economist have pinpointed factors that determine the adoption of a particular exchange rate system. Interest rate, inflation, balance of payment, current account balance and debt burden have been adjudged to be the most influential elements facilitating the adoption of any exchange rate system. Other consideration include political stability, recession and speculation. Thus, exchange rate policy remain one of the most indices that determines economic growth and development especially for developing countries. Due to its impact on business and the economy at large, investors and businessmen would prefer a stable exchange rate to a volatile one; persistent fluctuations of exchange rate, which often results in continuous depreciation of the home currency is considered volatile in the exchange rate parlance (Danladi and Uba, 2016). More so, exchange rate of an economy affects economic development of an economy in the areas of domestic price indicator, profitability of traded goods and services, allocation of resources and investment decisions (Ajakaiye, 2001).

Furthermore, Exchange rate fluctuations can have significant effects on economic development of a country, for at least two reasons. First, short-term real exchange rate volatility can impose large welfare costs, especially as it reduces the level of international trade, affects investment decision, and hinders growth possibilities (Jongbo, 2014). Second, such welfare costs are magnified in the case of prolonged and sustained exchange rate fluctuation, which can badly distort resource allocation. It is therefore critical both to understand the main determinants of the real exchange rate and to use macroeconomic policies to smooth excessive short-term changes that may affect any emerging misalignment (Jongbo, 2014).

2.1.3 Interest Rate and Economic Development

Jhingan (2009) defines interest as the price which equates the supply of credit or savings plus the net increase in the amount of money in the period, to the demand for credit or investment plus net 'hoarding' in the period. This definition implies that an interest rate is the price of credit which like other price is determined by the forces of demand and supply; in this case, the demand and supply of loanable funds. Bernhardsen (2008) defined the interest rate as the real interest rate, at which inflation is stable and the production gap equals zero. That interest rate very often appears in monetary policy deliberations.

Low interest rate encourages investment borrowing, while high interest rate discourages it. In fact, high savings rate is bound to translate into high lending rates with attendant negative consequences on investment (Chizea, 1993). Thus, the more the interest rate, the more individual's opportunity costs of consumption, and the more he will save. Borrowers will be willing to invest as long as marginal benefit from investments equals marginal cost, or interest rate. However, if there is no inflation in the economy, there would be no difference to individuals whether interest rate is nominal or real.

Interest rate regulations have always been contained either in the federal Government annual budget document or the monetary policy circulars of the Central Bank of Nigeria from time to time. Unfortunately, in Nigeria the various interest rates regimes seem not be effective; because, the economy is still struggling under the shackles of under-development as a result of political and economic instability, infrastructural inadequacy and inconsistency government policies, making it difficult for interest rate policy to strive effectively in Nigerian economy. The work of Aliyu and Yusuf (2018) established that the economy had not been effectively stimulated by the interest rate policy; because of inconsistent monetary policies, inability to implement the formulated policies, failure of corporate governance in the financial institutions, corruption, economic and political instability in the country. This corroborates the work of Andabai and Chukwunulu (2018), which reveals that interest rate has a negative significant effect on economic growth in Nigeria.

2.1.6 Foreign Direct Investment (FDI) and Economic Development

Foreign Direct Investment (FDI) has been found by numerous studies to exert a positive impact on economic growth and development by boosting employment, productivity, technological development and reducing the difference seen between the desired gross domestic investment and gross domestic savings (Ehimare, 2011). More so, the rapid growth of interest in foreign direct investment (FDI) which comes from perceived opportunities derivable from utilizing foreign capital injection into the economy, helps to augment domestic savings and further promote economic development in most developing economies.

To Koojaroenprasit (2012), FDI plays a very big role in economic growth contribution via technology transfer. The increase in Capital and value addition to human capital is also associated to FDI inflows. Also, the study of Uwubamwen and Omoruyi (2018) revealed that capital inflow was significant in determining economic development in Nigeria. Furthermore, Ekwe and Inyiama (2014) found that foreign capital inflows had a positive and significant effect on economic development in Nigeria; while the studies of Okonkwo *et al*. (2015) and Nkwoma (2013) showed that export FDI has led to increase in export in Nigerian economy and there is a close link between employment and foreign direct investment in the manufacturing and servicing sectors and FDI in Nigeria.

2.2 Theoretical Framework

The institutional FDI fitness theory was used in this study. The theory and their relevance to the study are considered as shown hereunder:

2.2.1 The Institutional FDI Fitness Theory: This theory was developed by Wilhems and Witter in 1998. The term FDI fitness focuses on a country's potential or resources to attracting, absorbing and retaining FDI. Thus, the institutional FDI fitness theory by Wilhem and Witter explains a country's ability to meet up to both the internal and external expectations of its investors, which gives countries the upper-hand in harnessing FDI inflows. This means that countries, especially developing countries, do not just attract FDI. There are key determinants that enable them to achieve that.

The proponents of the theory looked at the key determinants using what they referred to as 'pyramid'. First on the pyramid are socio-cultural factors which, according to Wilhelm's and Witter (1998), are the oldest and also most complex of all institutions. The next is education, which the authors affirm to being necessary in ensuring an attractive environment for FDI as educated human capital enhances R&D creativity and information processing ability. Though education is not the requisite for the inflow of FDI into a given region, however, it is an essential skill that is needed for projects that could attract FDI to be undertaken. Thus, if educational skills could affect productivity positively, effectiveness and the efficiency of FDI operations in the country is equally possible. These influences from education such as the ability to speak, hear, and understand including other educational skills are keys for attracting FDI. The third on the pyramid is the market which accounts for a large percentage of both the economic and financial aspects of institutional FDI fitness, in the form of machinery (physical capital) and credit (financial capital). Well developed and functioning financial markets are hence a prominent feature in the MNC's investment decision-making process. The fourth and very important on the pyramid is the Government. The role of a country's political strength plays the biggest role in attracting FDI.

This study is anchored on the institutional FDI fitness theory. Globally, countries can hardly attract FDI if they do not have basic determinants that could attract MNC or foreign investors. As opined by the theory, the flow of FDI into some countries is anchored on the availability of those determinants such as level of education, trade liberalization, market openness, infrastructural development, among others. Building from this analogy, MNCs or foreign investors move to countries were the aforementioned features are in existence. Such countries are conceived as attractive places for FDI. On this basis, the institutional FDI fitness theory is seen as the best theory in explaining the relationship between brain drain and healthcare service delivery in tertiary hospitals.

2.3 Empirical Review

Previous studies have been carried out in this direction. In this section of the study, few of such studies were considered are shown hereunder:

i. Silva *et al.* (2022) examined National Security, FDI and Economic Development in Nigeria. The objective of the study was to assess the impact of national security on foreign direct investment and economic development in Nigeria. Ordinary least squares (OLS) technique was used in estimating the structural parameters in the equation. Findings from the study did show that the expenditure pattern of government on internal and external security during the period under study shows a negative influence in the inflows of FDI in Nigeria. This negativity may be explained in terms of institutional failing, corruption and embezzlement of resources allocated to internal security and defence which compromise the effectiveness of the security system. The researchers concluded that insecurity is a threat to development because it produces economic stagnation. It was recommended that government at all levels and key actors in policy formulation should adopt the culture of transparency such that funds allocated to the security sector are effectively utilized for equipping the security system to meet 21st century standard.

ii. Sekunmade (2021) studied FDI, Economic Freedom and Economic Growth of Nigeria. This paper investigates Foreign Direct Investment, Economic Freedom and Economic Growth of Nigeria (1995-2018). Time-series data were tested for stationary using the Augmented Dickey-Fuller Unit Root test method. Vector Autoregressive (VAR) estimation method was adopted to examine the effect of FDI, Economic Freedom on Economic growth. The interactive effect of FDI and Economic Freedom on Economic growth was determined using regression analysis while Granger Causality test method was adopted for determining the causality relationship among the variables. The result of regression analysis shows that the joint coefficient of both FDI and EF is negative and not significant. The researcher recommended that the federal government of Nigeria should adopt appropriate foreign trade strategies to enhance the impact of FDI on economic growth in Nigeria.

iii. Ugwuanyi *et al.* (2020) carried out a study on Impact of Foreign Direct Investment on Economic Development in Nigeria. The objective of the study was to ascertain the impact of foreign direct investment on economic development in Nigeria between 1981 and 2018. This study employed gross fixed capital formation as proxy for economic development in Nigeria, and exchange rate was employed as a controlled variable while data on foreign direct investment inflow to Nigeria was adopted as the explanatory variable. The multiple regression results revealed that foreign direct investment impacted positively but insignificantly on economic development in Nigeria between 1981 and 2018. The researchers recommended that government of Nigeria should provide enabling environment that will be conducive for doing business, so as to attract additional inflow of foreign direct investment. The researchers further recommended that government can provide enabling business environment by provision of steady supply of electricity and ameliorating or exterminating insurgent activities in the country and restore confidence of investors to come into Nigeria and invest.

iv. Kouassi (2019) assessed Foreign Direct Investment, Financial Development and Economic Growth in Africa: Evidence from Threshold Modeling. The objective of the study was to investigate the role of local financial development in facilitating the materialization of the growth-enhancing effect of foreign direct investment (FDI) in African countries. A panel smooth transition regression model (PSTR) which is able to deal with heterogeneity issue associated with cross-country data was used in the study. Based on a sample of 26 African countries over the period of 1990–2013, the results show that there is a minimum threshold level of financial development above which the growth-enhancing effect of FDI is unlocked in African countries. In other words, only countries that are located above a certain threshold level of financial development enjoy the growth-enhancing effect of FDI. It was recommended that effort should be made by financial policymakers in African countries to improve the local financial markets conditions in order to extract the economic gains from FDI.

v. Obi-Nwosu (2018) studied Effect of Foreign Direct Investment (FDI) Inflows on Economic Development in Nigeria: 1984-2016. This study evaluates the effect of Foreign Direct Investment (FDI) inflows on economic development of Nigeria. The main objective of the study is to evaluate the effect of FDI on economic development of Nigeria. The specific objectives of this study is to examine the effect of FDI inflows on Nigerian economic development variables: Gross Domestic Product (GDP), Manufacturing Capacity/Utilization (MU), Gross National Savings (GNS), Gross Domestic Fixed Capital Formation (GDFCF), Market Capitalization (MC) and Agricultural Production (AP). The findings of the study showed that the economic growth variables used were positively and significantly affected by FDI inflows. The study therefore concludes that FDI inflows affect the economic activities in Nigeria as shown in the economic growth variables considered in the study. Hence, it was recommended, among others that, image building via building political stability, improving investment policies, protection of life and property and advertisement of investment opportunities to attract further FDI inflows into the key areas of the Nigerian economy.

3.0 Methodology

3.1 Research Design

Ex-post facto research design was used in this study. *Ex-post facto* research, then, is a method of testing out possible and antecedent of events that have happened and cannot, therefore, be engineered or manipulated by the investigator. The researcher used *ex-post facto* research design because the data used already existed.

3.2 Source and Method of Data collection

The data for this study were obtained mainly from secondary sources. The secondary data that relates to Foreign Direct Investment (FDI) and on economic development of Nigeria were collected from the Central Bank of Nigeria statistical Bulletin (1990-2021). The data is made up of Exchange Rate (EXC), Interest Rate (INT), Companies Income Tax (CIT) and Human Development Index (HDI) of the various years.

3.3 Method of Data Analysis

To analyse the data obtained for this study, the descriptive statistics was used to trace the trends in the study variables over the years. This include computations like mean, standard deviation, range, minimum and maximum values. Simple linear regression model was used to test the hypotheses of the study as earlier formulated in chapter one of the study. All the computations (descriptive and inferential) were done with the aid of Statistical Package for Social Sciences (SPSS) application package version 23.

3.4 Method of Data Analysis

The primary data used for this study will be analyzed using descriptive and inferential analysis. Tables, frequencies and percentage analysis formed part of descriptive analysis that will be used in testing data on demographic information of the respondents. Simple linear regression formed part of the inferential analysis that will be used in analyzing data generated for testing the formulated null hypotheses.

The Simple linear regression models is presented thus:

Foreign Direct Investment (FDI) = f (HDI) Equation 1

Each Independent Variables and Regression parameters are presented and coded thus:

HDI	=	Human Development Index	(Y)
EXC	=	Exchange Rate	(X_1)
INT	=	Interest Rate	(X_2)
CIT	=	Company Income Tax	(X_3)
β_0	=	Regression Intercept	
β_1- β_3	=	Regression Parameters	
e	=	Stochastic Term	

The functional model will be presented as:

$Y = f(X_1, X_2, X_3)$ Equation 2

Where:

HSD = f (EXC, INT, CIT) Equation 3

The simple linear regression model with parameter estimates is decomposed thus:

$Y = \beta_0 + \beta_1 X_1 + \ldots\ldots\ldots\ldots\ldots e_0$ Equation 4

$Y = \beta_0 + \beta_2 X_2 + \ldots\ldots\ldots\ldots\ldots e_0$ Equation 5

$Y = \beta_0 + \beta_2 X_3 + \ldots\ldots\ldots\ldots\ldots e_0$ Equation 6

Recoded according to the variables in use:

$PS = \beta_0 + \beta_1 EXC + \ldots\ldots\ldots e_0$ Equation 7

$PS = \beta_0 + \beta_2 INT + \ldots\ldots\ldots e_0$ Equation 8

$PS = \beta_0 + \beta_3 CIT + \ldots\ldots\ldots e_0$ Equation 9

4.1 Data Analysis, Interpretation and Discussion of Findings

Hypothesis 1

H_{01}: Exchange rate has no significant effect on economic development of Nigerian economy.

Table 4.3: Regression Result of Hypothesis 1

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.584[a]	.340	.318	.163342

a. Predictors: (Constant), EXC

ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.413	1	.413	15.487	.000[b]
Residual	.800	30	.027		
Total	1.214	31			

a. Dependent Variable: HDI
b. Predictors: (Constant), EXC

Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	.208	.056		3.701	.001
EXC	.001	.000	.584	3.935	.000

a. Dependent Variable: HDI

Source: SPSS Result (2023)

Exchange rate returned an R square value of 0.318, implying that 31.8 percent of the changes in HDI are caused by exchange rate. The F-statistic 15.487 and p-value of 0.000 showed that the model was significant and that there is a linear relationship between exchange rate and HDI. The t-statistical outcome of 3.935 alongside the p-value of 0.000 showed that exchange rate has a significant effect on HDI within the period under review. By implication, this indicates that as there the more favourable the exchange rate is in Nigeria, the more FDI investment inflows in the country, which will translate to enhanced HDI. On this ground, the null hypothesis is therefore rejected, while the alternative hypothesis is accepted. This means that exchange rate has a significant effect on economic development of Nigerian economy.

Hypothesis 2

H_{02}: Interest rate has no significant effect on economic development of Nigerian economy.

Table 4.4: Regression Result of Hypothesis 2

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.129[a]	.017	-.016	.199462

a. Predictors: (Constant), INT

ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.020	1	.020	.505	.483[b]
Residual	1.194	30	.040		
Total	1.214	31			

a. Dependent Variable: HDI

b. Predictors: (Constant), INT

Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	.539	.202		2.666	.012
INT	-.006	.008	-.129	.710	.483

a. Dependent Variable: HDI

Source: SPSS Result (2023)

Table 4.4 shows the regression result of hypothesis two. From the Table, interest rate returned an R square value of 0.017, implying that 1.7 percent of the changes in HDI was caused by interest rate. The F-statistic 0.505 and p-value of 0.000 showed that the model was insignificant and that there is no linear relationship between interest rate and HDI. The t-statistical outcome of 0.710 alongside the p-value of 0.483 showed that interest rate has an insignificant effect on HDI within the period under review. By implication, this indicates that as there the higher the interest rate in the country, the more difficult it is in attracting FDI in the country, which will translate to poor enhancement of HDI. On this ground, the null hypothesis was accepted in favour of the alternative hypothesis is accepted. This means that interest rate has no significant effect on economic development of Nigerian economy.

4.3 Discussion of Findings

The major findings from this study were discussed in this section of the study. The discussion were done as shown hereunder:

4.3.1 Exchange Rate and Economic Development of Nigerian Economy

Exchange rate is an important Foreign Direct Investment (FDI) variable. In the course of the study, exchange rate has been conceived different from various authors. For instance, Adeniran *et al* (2014) sees it as the price of one country's currency expressed in terms of some other currency. Similarly, Ibenta (2012) defined it as the price of the unit of one country's currency quoted in terms of another country's currency. However it is conceived, exchange entails the price of one country's currency in relation to another country, or the required amount of units of a currency that can buy an amount of units of another currency.

Accordingly, the prevailing exchange rate in a given country significantly predicts the flow of FDI in such country. In a country such as Nigeria, there are many factors-political and socio-cultural-that are periodically unstable. Exchange rate in the country falls within that category. A fluctuating or unstable exchange rate encourage the situation of firms in the country, whether indigenous firms or foreign/multinational firms. As buttressed by Danladi and Uba (2016), due to its impact on business and the economy at large, investors and businessmen would prefer a stable exchange rate to a volatile one; persistent fluctuations of exchange rate, which often results in continuous depreciation of the home currency is considered volatile in the exchange rate parlance. Thus, exchange rate can have a significant effect on the development of an economy.

Regression result on hypothesis one corresponds with the above assertions. Evidence from the regression result showed that exchange rate has a significant effect on HDI in Nigerian within the period under review. Result of hypothesis one showed a β value of 0.584. This shows that favourable exchange rate in the country enhanced HDI by 58.4 percent. More so, t-value of 3.935 that is greater than p-value of 0.000 (t-stat >p-value) shows that the result from the model is significant. This necessitate the need to reject the null hypothesis in favour of the alternative hypothesis. This implies that, exchange rate has no significant effect on HDI. This choice of hypothesis corresponds with the view of Jongbo (2014). He submit that exchange volatility reduces the level of international trade, affects investment decision, and hinders growth possibilities.

4.3.2 Interest Rate and Economic Development of Nigerian Economy

Business decisions are often investment decisions. Individuals or firms that ventures into business may do so with borrowed funds from financial institutions. Within the period such funds/capital is borrowed, the creditor expects margin of interest from the individual or firm (Ibimodo, 2005; Bernhardsen, 2008). Formally, the percentage of interest a creditor expects from borrowed funds/capital is known as interest rate. Depending on the country, creditor and financial institution, interest rate is often not stable. Unstable interest rate in a country may discourage investors from investing in a particular economy. Thus, the more the interest rate, the more individual's opportunity costs of consumption, and the more he will save. Borrowers will be willing to invest as long as marginal benefit from investments equals marginal cost, or interest rate.

Table 4.4 depicts the regression result of hypothesis two. A look at the Table showed R-square value of 0.017, which shows a 1.7% effect of interest rate on HDI. More so, a β value of -.129 shows that interest rate contributed to the decrease in HDI within the period under review by -.129. Equally, t-value of 0.710 with a p-value of 0.48 shows that the result from the model is insignificant. Evidence from this result, therefore, calls for the acceptance of the null hypothesis as against the alternative hypothesis. This implies that, interest rate has a low and negative effect on HDI. This choice of this hypothesis corresponds with the assertion of Andabai and Chukwunulu (2018). They posit that interest rate has a negative significant effect on economic growth in Nigeria.

5.1 Conclusion

Foreign Direct Investment (FDI) is an important determinant of economic development of a state. In a developing economy such as Nigeria, the relevance of FDI in boosting the economic development of the country cannot be under estimated. However, findings from this study has shown that the propensity of FDI to positive influence Nigerian economic development hugely depends on exchange rate, interest rate and CIT in the country. However, evidence from the regression results showed that high exchange rate, interest rate and CIT could determine the efficacy of FDI in influencing HDI positively in the country. Hence, it was concluded that FDI has significant effect on economic development of Nigeria within the period under review.

5.2 Recommendations

Based on the major findings from this study, the following recommendations were made:

i. Exchange rate in the country should be properly regulated to prevent high exchange rate, which could deter FDI inflows in the country; and
ii. The state government should create an enabling environment that will encourage firms to borrow funds/capital from financial institutions at a considerate interest rate.

5.4 Business Implications of the Findings

For an extended period of time now, Nigeria as a country has overwhelmingly rely on crude oil as a major means of livelihood and enhancing the economic development of the country. This has actually blurred policy makers in the country from searching and identifying other means such as effective FDI administration through which the economic development of the country could be enhanced. Though effective FDI administration and management could contribute optimally to the economic development of the country, however, the administration must be carefully done. Thus, FDI and its administration must be properly carried out and managed in order to realize its full potentials on the economy of the country.

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