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FOREIGN DIRECT INVESTMENT INFLOWS AND ITS IMPACT ON THE PERFORMANCE OF THE NIGERIAN ECONOMY (1981-2017)

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Abstract: This study empirically evaluated the impact of foreign direct investment on economic growth of Nigeria between 1981 and 2017. Auto Regressive Distributed Lag (ARDL) model and Bounds Test were adopted as the estimating techniques to verify the existence of long-run relationship between foreign direct investment and economic growth of Nigeria. Real gross domestic product was used as the dependent variable, while foreign direct investment, balance of trade and exchange rate were used as the explanatory or independent variables. Data used were extracted from the Central Bank of Nigeria statistical bulletin of 2018. The empirical results of Auto Regressive Distributed Lag (ARDL) model revealed that all the variables except exchange rate had positive and significant impact on real gross domestic product. Exchange rate had a negative and insignificant impact on real gross domestic product. This study recommended that government should create an enabling environment which would attract foreign investors into Nigeria, such as good, transparent and fair tax system, promotion of economic stability and the attainment of key macroeconomic objectives.

Key words: Foreign Direct Investment, Economic Growth, Exchange Rate, Balance of Payment, Auto Regressive Distributed Lag (ARDL) model, Real Gross Domestic Product

1. INTRODUCTION

1.1 Background to the Study

The term foreign direct investment may be defined as a type of investment which is made into certain sectors of an economy, which may include either the business or production sector from an individual or a company of one country to another. This may be achieved either through buying or acquiring a business firm in the country of interest that has been established in another country.

FDI is not very similar to Foreign Portfolio Investment (FPI) which happens to act as a passive investment securities attributed to a foreign country like investments that are made in the capital market. World Bank (1996) defined FDI as an investment established by an investor from another country in the host country for the purpose of full ownership.

In this era of global capital flows volatility, FDI sustainability or stability and its existence as a vital source of foreign capital from the developed economies to the developing economies have rekindled interest in its relation with sustainable economic growth. The inflows of FDI into African countries have significantly contributed to the better positioning of BOPs in many African countries including Nigeria.

In 2017, foreign reserves in African countries comprised 2.9% of global FDI inflows (in which Nigeria stood at 1.1%) compared to the 49.8% share for developed economies, 33.3% share for developing Asia, and 10.6% share for Latin America and the Caribbean (UNCTAD World Investment Report, 2018). FDI is now a major channel used for the transfer of resources from the developed economy to the developing economies.

Foreign direct investment in particular is an essential asset to the investors, this is because it is a mixture of both tangible and intangible assets and firms operating in the economy under the ambit of FDI are known to be the dictates in the world economy. FDI is thus seen as an important agent of economic growth and development which also helps to increase domestic investment both by capital inflows and facilities (Holger and Greenaway, 2004).

The importance of FDI as anticipated in the New Partnership for African's Development (NEPAD), is to transform the NEPAD's dream for Africa into existence i.e for economic growth and development. The inflow of FDI into Africa and other developing countries becomes necessary because they expect or require large external resources due to lack of internal savings thus, depending on foreign income for development that will move them out of abject poverty (Ayayi, 1999, 2000, 2003).

One important item of today's globalization is the fostering of business or investment between two different countries using TNCs as frontiers. Many countries including Nigeria now depend on FDI as a major source of income for both economic growth and development. This is possible because FDI is an embodiment of new capital, technology advancement and new management.

According 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 (Buckley, Clegg, Wang and Cross, 2002). In Nigeria, FDI is a business venture or a firm owned by a foreign investor or partly owned domestically.

1.2 Statement of the Problem

As discussed earlier, FDI is considered globally as a medium in which resources are channeled from developed economy to developing countries and foreign direct investment can affect economic growth and development of the host countries by increasing the strength of the domestic investment and facilities (Holger & Greenway, 2004).

Although, studies were carried out on FDI and economic growth in Nigeria, but the causal relationship between FDI and economic growth and the advantages associated with the relationship is very inconclusive (Ayadi, 2009). Many studies have attempted to study the impact of FDI on economic growth of Nigeria but in spite of a seemingly positive association existing between foreign direct investment and economic growth, the direction of this impact is yet to reach a general consensus.

This is because studies conducted by Oyinlola 1995 and Asogwa and Manasseh 2014, recorded a negative result while studies conducted by Ekpo 1995 and John 2016, was positive , leading to the notion that FDI could either be helpful or disastrous to economic growth. The principal driving force for this work is that for developing economies and for Nigeria in particular the issue of economic growth is an important one.

This is because Nigeria and other developing countries require a huge amount of resources which could come from FDI to fill the saving and foreign exchange gaps and move towards the attainment and sustainability of economic growth which will lead to the elimination from its current abject poverty (Ayaji, 1999, 2000, 2003). In Nigeria today, there are many factors that inhibit the proper inflow of FDI.

These include: insurgency, kidnapping, corruption, tax rate, tariff, weak public institutions and poor external image (Olokoyo, 2012). However, there is this conception that, although foreign direct investment provides: capital, new technology, marketing and management, they may also lower domestic savings, entrepreneurship and investment rates thus stifling competition through exclusive product agreements with host governments and also refusing to reinvest much of their profits in the host country.

Nigeria have been stimulating economic growth with the help of various technologies including policies that would aim at foreign capital and technology transfer. It is absolutely imperative to investigate if economic growth can be as a result of an increased inflow of FDI into the country over the period (1981-2017) under review.

It becomes natural therefore to ask if the economic growth which has been experienced in the economy for the past years was from the proceeds of foreign direct investment inflow in the country or if the country has already attained this economic growth level before attracting foreign direct investment? However, with all the FDI operating in the country, the economy is still lagging behind in technology and in knowledge transfer.

Due to this reason, it becomes very difficult to describe the actual direction of the relationship existing between foreign direct investment and economic growth in Nigeria. It is important to carry out a research to establish the causal relationship and interaction between FDI and economic growth. This, however provide a major incentive for this study.

1.3 Objectives of the Study

The main objective of this research is to examine the impact of foreign direct investment on economic growth of Nigeria, while the specific objectives are:

i. To examine the extent to which balance of trade influences economic growth in Nigeria.
ii. To examine the impact of Exchange Rate on economic growth in Nigeria.
iii. To determine the effect of foreign direct investment on economic growth in Nigeria.

1.4 Research Questions

The following research questions will be used as guide in the study.

i. What is the extent of the impact of balance of trade on economic growth in Nigeria?
ii. How does exchange rate impact on economic growth in Nigeria?
iii. What is the effect of foreign direct investment on economic growth in Nigeria?

1.5 Hypotheses

The following hypotheses will be tested in the study.

HO1: There is no significant impact of balance of trade on economic growth in Nigeria.
HO2.: Exchange rate does not have any significant impact on economic growth in Nigeria.
HO3.: There is no significant effect of foreign direct investment on economic growth in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Framework

Foreign direct investment is an investment made to acquire a lasting management interest, (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor defined according to residency (World Bank, 1996).

Foreign direct investment is also an investment made directly into production sector or business operation in a country either by an individual or company of another country. It could be by either buying or acquiring a business firm in the country of interest or by increasing the operations of business that has been established in the country of interest (Falki, 2009).

2.1.1 Types of Foreign Direct Investment

According to Sunanda (2010), FDI is divided into two broad categories which are Greenfield investment and Brownfield investment.

i. Greenfield Investment FDI This occurs when an individual or government establishes new business outlay by building its own structure in another region where the firm is headquartered.

Greenfield investments are used for promotion mainly in the newly targeted country. It assists in the creation of production capacity jobs, technology transfer and aid in bridging the global marketplace. It can only do this by control the industry: this is because the MNC shave the capacity to produce more goods in a cheap rate by using advanced technology and other resources like (labour, intermediate goods and so on).

ii. Brownfield Investment FDI This is a short-cut method of FDI.

In this method, foreign businesses do not take the pain of building a structure from the scratch in another country but they expand their businesses by either going for cross- border mergers or acquisitions. This allows them to start their heads-up right away without building anything from zero. Foreign direct investments are also categorized into three which are: horizontal, vertical and conglomerate.

i. Horizontal FDI are carried out by investors establishing the same type of business operation abroad as it operates at home.

ii. Vertical FDI occurs when a business entity operates differently but it has a linkage to the main business of the investor established or acquired in another country for the purpose of supplies of parts or raw materials required for the manufacturing company to make its products. iii. Conglomerate FDI is investment in which a company or an investor undertakes abroad in an area of business that is unrelated to already existing business operating in its country. It usually takes

a form of joint venture since the investor lacks the knowledge and the experience to run the new industry (livemint.com).

2.1.2 Economic Growth

Economic growth means the overall increase on the economic productivity that is measured by the GDP. Productivity in this context means the tendency of any state to produce goods and services from its own resources. Any rise in the productivity marks the increase in economic growth.

2.1.3 Types of Economic Growth

Economic growth is further divided into two, which are: real economic growth and nominal economic growth.

i. Real economic growth

Real economic growth occurs when the overall economic productivity of a state is rising. That is, if a state is capable or has the capacity to produce goods and services every year because of an increase in both natural and human resources or any other economic factors available, then it is presumed to have attained its real economic growth.

ii Nominal economic growth This is different from the real economic growth. This takes effect when the GDP of a given state is growing or rising merely because there is inflation in the economy. This is attributed to growth in numbers where there is no growth as there is no increase in natural and human resources or any other economic factors.

So this type of economic growth is as a result of inflation which may have a negative impact on economic growth. Total output cannot be the yardstick for the measurement of economic growth. Although that is what productivity is presumed or perceived to be, because some goods and services are more valuable than others.

It implies that the measurement criteria are not based on quantity, but on the quality and the value of goods and services produced. That is what is known to be real productivity. Apparently, economic growth is measured in U.S. dollars.

2.1.4 Factors Affecting Economic Growth

There are several factors that impair economic growth which include: unemployment, inflation, poverty, unavailability of natural resources/human resources and foreign investments, education setbacks, social evils, terrorism, disturbed law and order situation, poor healthcare facilities, bad living standard etc (Wikipedia, 2017).

2.1.5 Factors That Influence Foreign Direct Investment Decision Making

It is reasonable to suggest that the process of careful planning comes before the final decision making about FDI activity on the top level of multinational corporations (MNCs). According to economic theory and empirical evidence, finance flows from the low-profit to higher-profit regions, making the future profit anticipation (profit-seeking) one of the key motivation for undertaking investment activity (Carbaugh, 2000).

Although it is an important factor, but the expectation of high future profit should not be the most important factor that is taken into account. Other related factors influencing the decision to invest in a foreign country is divided into two broad groups - “company-specific” and “country-specific” factors. Company-specific factors are that they are not similar even among foreign companies of similar industry with regards to a specific country.

These are demand and cost factors although not totally limited to the aforementioned. By demand factors, a company may view FDI activity as a means of its market penetration or expansion (De Mello, 1997). Once there is a is strong foreign demand for a product of a

particular firm abroad, and it is seen and anticipated to be more profitable to engage in the production of such goods in that country rather than exporting them, FDI becomes imperative in that country.

Also, demand reason for FDI is eliminating foreign competition by acquiring a control package in a foreign firm, the process of globalization makes firm expand their market and operate overseas. Cost factors are concerned with the firm's struggle to increase profits by means of decreasing costs. However, if the cost of labour, cost of resources and final goods transportation are relatively low in a foreign country, the parent company may shift a part or even the entire production process to the foreign country (Carbaugh, 2000).

Other cost factors include economies of scale considerations, relative factors prices, and the use of capital in recipient country. Country specific factors have a similar impact on decision-making of foreign companies operating in any sector, with regards to a specific country (De Mello, 1997).

These are political stability, the development of democracy, a sound legislation base regulating FDI and enforcing contracts, the status of intellectual property rights, the degree of government intervention into economy, bureaucratic procedures, the system of taxation and tax incentives. Additionally, factors associated with economic stability and economic performance of a given country's economic activities is important, such as the degree of openness, availability of tax rebates, import and export regulations.

De Mello (1999), also pointed to such scale factors as BOP constraints, the domestic market size, all of which he refers to as the absorptive capacity of the economy. According to some studies of FDI in transitional economies, (Hirvensalo, 2001) indicated that according to the national investment promotion agencies in these economies is because of the prospect of economic growth itself.

This is followed by proximity to western markets, favourable investment climate, political stability, highly educated and productive workforce, well developed sectors of telecommunication and infrastructure. In addition, moving ahead with market oriented reforms, introducing inflation-stabilization policies, and adopting sound monetary and fiscal policies, are factors that are thought to reduce macroeconomic risks and stimulate capital inflows in many Eastern European countries (Calvo, Leiderman and Reinhart, 1996).

Some other factors that have been spurring FDI inflows into economies in transition are the process of privatization, with immense opportunities for foreign countries to acquire a controlling interest in newly privatised companies.

2.1.6 Factors That Determine Foreign Direct Investment Flow

There is no generally acceptable factor that determines the inflow of FDI.

The literature has provided abounding information on all the factors that may likely induce the flow of FDI anywhere, showing that a sound environment for domestic investment can replicate to FDI. These are the various factors that cause the movement of foreign direct investment to a given geographical location, say a country or a region.

In making decisions to invest abroad, firms are influenced by economic, political, geographic, social and cultural issue. However, it should be noted that though the factors are many, they may not have the same effect on different investors because every investors may have diverse factors. It is also true that some determinants may be useful another investor and not the other investor.

While the exact figure of quantity and the best quality to determine the inflow of FDI into a given location is not ascertained, it is also to be noted that a critical or vital minimum determinants must be on ground before FDI inflow begins to occur (Ngowi, 2001).

Discretionary, one would anticipate an investor to choose a location as regards to the profitability of that location.

The profitability of any investment can be either high or low due to specific factors surrounding such investment. Pointed out by Campos and Kinoshita (2002), market-seeking companies may be attracted to a country that has a large but fast growing market, while resources-seeking investors will search for a country with abundant national resources.

The flow of FDI into a region may be influenced by certain factors such as the market sizes, quality of labours present, good infrastructures and other institutions to the availability of resources. These and others are discussed below.

i. A number of studies lay emphasis on market size and growth as factors that attract FDI and it is a fact especially to FDIs that are market seeking.

In countries endowed with large market size, it is also expected that the stock of FDI should be as large as the market size since the market size is used as a measurement of market demand in the country (Pfefferman and Madarassy, 1992). This is true when the host country accepts economies of scale for import-substituting investment.

ii. Also, the cost of production and the availability of skilled labours are likewise identified as incentives that also attract FDI if based only on export (Wheeler and Mody, 1992; Mody and Srinivasan, 1998).

Sometimes, the relocation of some parts of the production process to a foreign country may be because of the cheap labour force present in the region. Apparently, studies have revealed the need for qualified human capital since FDI focuses on low cost of production, unskilled labour as well as technologically intensive activities are no more functional (Pigato, 2001). Thus, it creates an avenue for the investing firm to seek for qualified personnel.

It is generally believed that personnel with high educational skills are able to learn quickly and also adopt new technology faster, and retraining expense is also less. Base on the need for high quality labour, investors are most likely to target countries where the government maintains a liberal policy on the employment of expatriate staff.

This permits the investors to bring expatriate to their operation in order to bridge the gap in the skill of local personnel wherever it exists.

iii. Adequate infrastructures is well documented as a determinant of FDI regardless of any type of FDI. Thus, good infrastructure increases productivity or economic output and investment which results in stimulating FDI flows (Asiedu, 2002).

A study by Wheeler & Mody (1992), recorded that infrastructure is salient and necessary for developing countries. Infrastructures should not be only on road construction, but also in other sectors. This is because only one active sector cannot attract FDI inflow.

In addition, a good financial infrastructure could influence FDI inflow into any country. With a well-structuredfinancial infrastructure, such country is exposed to FDI and it complete benefits. From the study of Alfaro et al., (2001), they realized that FDI and it assumed benefits could be impeded by poor or sub-standard financial infrastructure.

According to Bhinda, Griffth-Jones and Martin (1999), they brought to fore that investors in other African countries like Uganda, Tanzania and Zambia were not seriously investing because of funds mobilization

iv. Return on investment (ROI) also plays an important role in the determinant of FDI inflows. This is so because FDI will be attracted to countries who pays or are willing to pay a high rate of return on capital employed.

Moreover, the actual rate of return on capital employed is always very difficult to be known in a developing country. This is as a result of the absence of a well-functioning capital market (Asiedo, 2002). Moreover, the tentative solution in practice in the implication of this is that and all things being equal, investments in a country with a higher per capita income should yield a lower return and the relationship existing between real GDP per capita and FDI in such a situation should be opposite (Asiedo, 2002).

The empirical findings on the relationship between FDI and real GDP per capita are both positive and negative. This is because from the works by Edwards (1990), and Jaspersen, Aylward and Knox, (2002), they found a negative relationship between real GDP per capita and FDI. Result of studies by Schneider and Frey (1985), Tsai (1994), are different as they found a positive relationship between real GDP per capita and FDI.

This is channeled to the argument that a higher GDP per capita will lead to a better opportunity for FDI in the host economy.

v. Openness of an economy proxy as balance of trade (BOT) also helps to promote and attract FDI inflows. As the balance of trade of any economy opens, the more attractive such an economy becomes to FDI.

vi. One of the requisite for FDI is the presence of natural resources. These places African countries in a good position and destination for FDI due to its abundant natural resources and large domestic market size in Africa, it has positioned many African countries in the terrain for FDI, making Africa the best prospect for FDI.

African countries are able to attract and sustained FDI successfully because of its abundant natural and mineral resources and also its large market size. Traditionally, about 60% of Africa's foreign direct investment is apportioned to oil as well as natural resources sectors (UNCTAD). African region possesses not only large reserve of oil, gold, diamonds and copper, but also above 80% of chromium and platinum.

A number of countries, including Angola, Nigeria, Cote d'lvoire, Botswana and Namibia, have been host to FDI because of these advantages. vii. Country risk is another determinant of FDI. The result from past studies has pointed to the direction of negative relationship between political and economic stability and FDI. This means that FDI in developing countries is negatively affected by economic and political instability.

In another study conducted to monitor the growth of foreign owned firms in Africa, Sachs & Sievers (1998), concluded that the greatest concern is political and macroeconomic stability, while Lehman (1999) and Jasperson et al., (2000), found that countries that are less risky attract more FDI. Perception of risk in Africa is still very high and continues to hinder Foreign Direct Investment.

2.2 Theoretical Review of Literature

2.2.1 Theories of Foreign Direct Investment

2.2.1.1 Macroeconomic FDI Theories

Lipsey (2004) described the macroeconomic view as seeing FDI as a measure that aid the flow of capital across national borders measured in BOP statistics. These FDI inflows increase the stocks and capital formation of the host economy, these include the investment value in firms, corporations controlled by a home-country investor, or where a home-country investor is given a right to own a share that gives the investor the voting rights.

Lipsey (2004) elucidates that interest is gotten from the financial capital inflow, the additional stock that is accumulated by the investing firms, and the flows of income from the investments. Macro-level determinants that affect the host country's ability to influence the inflow of FDI into

the host country includes the size of the market, GDP growth rate, economic growth rate, good infrastructures, natural resources, institutional factors such as the political stability of the country, amongst others. The various theories are discussed below.

2.2.1.2 Capital Market Theory

This theory, also known as "currency area theory", is traced to the earliest theories which explained FDI. Based on the study of Aliber (1970; 1971), it postulated that capital market imperfections give rise to FDI. Foreign direct investment emanated from the differences between the host and the home country currencies (Nayak and Choudhury, 2014).

According to Aliber (1970; 1971), weaker currencies have a higher FDI-attraction ability and are better able make use of the differences in the market capitalization rate, compared to stronger country currencies. Aliber (1970; 1971), further added that source country MNCs based in hard currency areas can borrow at the rate of interest that is much lower than the host country firms because portfolio investors may not consider the foreign country MNCs currency.

This gives source country firms the easier accessibility to cheaper borrowed funds for their investment abroad and subsidiaries than what local firms would access the same funds for. While this capital market theory is applicable to developed countries including the United States, United Kingdom and Canada, other scholars saw it differently as ignoring basic currency risk management fundamentals.

A major criticism of Aliber's postulation was another work by Lall (1979), when he pointed out that Aliber's theory is not applicable to the less developed countries where there is an existence of imperfect or absence of functional capital markets and to those with high foreign exchange rates regulation. Also Nayak & Choudhury (2014), alluded that Aliber's theory does not explain investment between two developed countries with similar strength in currencies, nor how MNCs from developing countries with weaker currencies are able to penetrate, adapt, invest and sustain in developed countries with much stronger currencies. This they exemplified using the case of Chinese firms with sizeable investments in USA and the UK.

2.2.1.3 Institutional FDI Fitness Theory

As developed by Wilhems and Witter (1998), the term FDI fitness focuses on a country's potential or resources to attracting, absorbing and retaining FDI. It is 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. The theory itself made an attempt to illustrate the meaning of uneven distribution of FDI distribution between the countries concern.

The institutional FDI fitness theory by Wilhem's is built on these fundamentals which are; Government, size of the market, educational skills and socio-cultural fitness. First on the pyramid are socio-cultural factors which according to Wilhelms 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.

The actual level of education is not the requisite for the inflow of FDI into a given region but on the essential skills needed for the projects to be undertaken. However, educational skills may affect productivity positively, effectiveness and the efficiency of FDI operations in the country it is operating. 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.

Government fitness requires the adoption of protective regulation to manage market fitness. Popovici and Calin (2014) opined that Government fitness is considered to include economic openness, a low degree of trade and exchange rate intervention, low corruption and greater transparency.

If policies implemented by the host government are inimical to the investors, they will not likely invest in such a country as the political instability increases the risk burden on their investments (Wilhelms and Witter, 1998). The authors came to a conclusion that though the pyramid is represented orderly, they are inter-related and interact in unison in different forms.

For instance, Government policies shape markets, education and socio-cultural activities; market forces impact on the Government, education and socio-culture; education affects human capital and hence Government, markets and socio-cultural norms and practices; and finally, socio-cultural systems are the origin of Government, markets and education, respectively (Wilhelms and Witter, 1998). It is on this institutional FDI fitness theory that my research work would be based.

This is because it encompasses all the requisites for a smooth FDI into any country. First on the pyramid is the government, which stands at the center in attracting FDI through its laws and policies. Secondly, is the market and Nigeria is seen as the largest market to be exploited by foreign investors. Thirdly, is educational factor. This factor may not directly influence FDI inflow but it could assist to nurture the growth and stability needed to attract FDI and will help to reduce the number of expatriates to be brought in and also reduces the cost implications as well. Lastly, is the socio-cultural factor which will inform the foreign investors of the belief and also the way of life of the host community.

Importantly, the theory of institutional FDI fitness has passed through an empirical test mainly in the African context. Muthoga (2003), (also cited by Popovici and Calin, 2014), investigated FDI determinants in Kenya for the period 1967-1999, in their Ph.D thesis. The author found that economic openness, GDP growth rate, level of domestic investment, internal rate of return and availability of credit - all proponents of Government economic policies - enhance a country's attractiveness to foreign investors.

2.2.1.4 The Eclectic Paradigm

The eclectic paradigm is a notable theory of FDI. As he proceeded to win the Nobel Prize, Dunning (1980), integrated various theories. According to Dunning (2001), he opined that for a firm to involve in foreign direct investment, it must simultaneously fulfill three conditions.

The firm should have net ownership control over other firms serving particular markets. This net ownership control should be both specific and exclusive to the firm, in the tangible and intangible form of assets as in trademarks, patents, information and technological advancement which will lead to the reduction in the cost of production to the locally owned firms to give them the edge over foreign firms. These advantages were also emphasised by Hymer (1976), & Kindleberger (1969), in their market imperfections' theories on firm-specific and monopolistic advantages, respectively. Also, it must be more profitable for the firm possessing this ownership control to exercise this advantages for itself (internalisation), instead of transferring it to foreign firms through licensing or management contracts (externalisation). Boddewyn (1985), refers to this as the internalisation condition.

Lastly, assuming that the preceding conditions are both met, it would be of a huge profit for the firm to exploit these advantages through production, in collaboration with additional input factors such as natural resources and human capital, outside its home country; failing which, the foreign markets would then be served through exports and local markets by domestic production.
Location-specific factors have to be carefully analyzed by the investing firms as discussed under the macroeconomic institutional FDI theories. Boddewyn (1985) emphasises that the more a country's firm enjoy ownership advantages, the greater the incentive they have to internalise them. Also, the more they can make profitable exploit in a foreign country also placed them in the probability of engaging in FDI and international production.
Because of the interrelatedness of the three assumptions, it becomes imperative that they should take place concurrently, else, there will be no activities of FDI. Apparently, it is on the note that the ownership, location and internalization (OLI) pattern is not applicable to all the firms equally thus the theory cannot be treated or considered in isolation of theories which affirm the importance of the host country characteristics.

2.3 Empirical Review of Literature

This section discusses the empirical studies which examined the impact of foreign direct investment on economic growth of Nigeria. Danmola, Olateju and Aminu (2017) in their studies on the impact of FDI on the Nigeria manufacturing sector. Using ordinary least square regression method, they came into a conclusion that FDI has helped to improve local manufacturing firms to produce goods not only for local market demands but also to seek for the expansion in the export markets.
John (2016), in a similar study on the effect of FDI on economic growth in Nigeria, with data sourced from CBN. He employed multiple regression technique as an analytical tool and it was seen that FDI has a positive and significant effect on GDP. Also, there was a positive but insignificant exchange rate effect on GDP.
Saibu and Keke (2014), in their paper on the impact of Foreign Private Investment on economic growth using annual time series data from Nigerian economy, they employed co-integration and Error Correction Mechanism (ECM) techniques to empirically analyze if there is any existing relationship between FPI and economic growth in Nigeria.
The paper revealed that there is a real feedback disequilibria existing between the long-run economic growth and FPI. It was also brought to the fore that a large amount of capital inflows were not productively invested, however, the left over capital that was invested, yielded a significant impact on Nigeria's economy.
The political environment was seen as unfavourable and overshadowed the significant and positive impact of FPI in Nigeria. Asogwa and Manasseh (2014), in their study they revealed a positive impact on economic growth in Nigeria as a result of FDI into the manufacturing and telecommunication sectors while FDI into agricultural sector showed a negative and insignificant impact in the economy.
Eravwoke and Imide (2013), analyzed: corruption, FDI and its impact on exchange rate of Nigerian economy. This study was centered on the empirical investigation of the impact of corruption, FDI and its impact on the exchange rate of the Nigerian economy.
In an attempt to achieve the objectives of the study, OLS, augmented dickey fuller unit root test and the co-integration test were used in the analysis. The variables were all stationary at first difference from the unit test result and corruption was seen at the extreme in Nigeria which in return depreciates the naira currency regarding its exchange value to the other currencies of the world.

Nwankwo, Ademola, & Kehinde, (2013), carried out a study on the impact of globalization on FDI in Nigeria. Using both descriptive and narrative method and secondary data for the analysis, the results indicated substantial benefits of FDI in Nigeria to include: the creation of employment opportunities, advancement in technology via technology transfer, encouragement of local enterprises etc. However, there are other factors that impede the full actualization of the benefits FDI in Nigeria.

Adejumo (2013), in his study, investigated the relationship existing between FDI and the extent of the associated value-added to the manufacturing sector in Nigeria. He used ARDL model to ascertain the relationship between FDI and manufacturing value-added to the economy and in the long-run, FDI showed both negative and insignificant result. He however, argued that multinationals presence in the host economy should also influence the private investment on their economy. Likewise, these investments should not be centered in one sector but should be extended to other sectors with comparative advantage too to avoid eroding or limiting the potentials and the capabilities of the nationals. He also instructed that FPI should appreciate the effort of the host country by providing them with technical know-how, additional skills and good wages.

Solomon and Eka (2013) carried out a study on the empirical relationship between FDI and economic growth in Nigeria. The study covers from 1981-2009 and data was collated from CBN statistical bulletin. The study used OLS method to ascertain the relationship between FDI and Nigerian economic growth. From the result, FDI impacted positively but insignificantly on Nigerian economic growth.

Okon, Augustine and Chuku (2012) from another perspective examined the feed-back relationship between FDI and economic growth in Nigeria. The method used for analysis was single and simultaneous equation systems and it was discovered that FDI and economic growth are jointly determined in Nigeria.

Egwaikhide (2012) similarly investigated the relationship between FDI and economic growth in Nigeria, using Johansen cointegration technique and VEC Method. It was noticed that the impact of the disaggregated FDI on the real growth in some sectors in Nigeria such as mining, agriculture, petroleum and manufacturing was very minute even beyond expectations but in exception of the telecommunication which shows a good sign in the long-run. Furthermore, past level of infrastructures can encourage FDI.

Omankhanlen (2011) in his study on the effect of FDI on the Nigerian economy covering 1980-2009. He specifically studied to ascertain if inflation and exchange rate have effect on FDI and FDI too has effect on GDP. An econometric model was developed to know the relationship between current account variables and FDI. It was discovered that FDI impacted positively and significantly on the current account balance in balance of payment. In other ways, inflation does not influence the inflows of FDI.

From anotherview, (Anyanwu, 2011) in his study on FDI, found the major determinants of FDI in Nigeria to include: domestic investment change, change in domestic market size, policy of indigenization and change in openness of the economy proxy as BOT. He affirmed that the abrogation of the indigenization policy in 1995 attracted more FDI inflows into Nigeria, adding that more should be done to improve the nation's economic growth so as to fascinate more FDI into the country. Unsatisfied with a narrow and short-run impact interpretation of the role of FDI, researchers have tried to incorporate other ways in which FDI influence growth in short and long-run. They do so using the framework of endogenous growth models. Whenever growth is endogenized, there are several ways in which FDI influences growth permanently.

Alejandro (2010) carried out another study on FDI and revealed the role played by FDI in the global business and economic growth. He further explained that FDI has the capacity to provide a firm with new markets and marketing channels, cheapest production facilities, provision of new technology, advancement in skills both in management and in labour application and more importantly finance for both the host country and the foreign firms. Additionally, it can provide the foreign firms with positive externalities and spillover that can foster strong economic growth. Osinubi and Amaghionyediwe (2010) in a different study, investigated the relationship existing between FPI and Nigerian economic growth. Their findings suggested that FPI, domestic investment growth, net export growth and the lagged error term were statistically significant in explaining variations in Nigeria's economic growth. Ayadi (2009) also in another study, investigated the relationship existing between FDI and Nigerian economic growth in, using granger causality test model. From the study result, the correlation and the causality between FDI and economic growth in Nigeria was weak leading to the recommendation that government should provide more infrastructures, more human capital required for operations and abrogation of rigid policies that could hinders the inflow of FDI. The causality test study between FDI and economic growth by Karimi and Zulkornain (2009) originated from the causality test study already done by Toda-Yamamoto. This test referred to Granger causality test is not relying on pre-testing evaluations. The study from 1970-2005 never seen any strong evidence of bi-directional causality instead, a long-run relationship was found meaning that FDI has an indirect effect on Malaysia's economy.

In addition, Turkan, Duman, and Yetkiner (2008) tested the endogenous relationship between the two variables using a panel dataset for 23 OECD countries for the period of 1975-2004. They treated economic growth and FDI as endogenous variables and estimated a two-equation simultaneous equation system with the Generalized Methods of Movements (GMM). They found out a contrary result from other scholars saying that all things being equal, FDI and growth are determinants of each other. Also, the rate of export growth is another important determinant of FDI and growth.

3. RESEARCH METHODOLOGY

3.1 Research Design

In this study, the *ex post facto* research design will be employed. This design is suitable for this study as it will be dealing with facts and matters that had already taken place and data are readily available for use.

3.2 Source of Data Collection

The data that will be used in this research are mainly secondary data. This is due to the nature of the study. Specifically, data was obtained from the Central Bank of Nigeria (CBN) statistical Bulletin (2018).

3.3 Data Estimation Technique

Data will be analyzed using both quantitative and qualitative approach. In the case of qualitative approach descriptive statistics will be used to compare variable numerically and to ascertain pattern in the data set. According to Sauder *et al.*, (2007), every statistics to describe data usually summarizes the information in the data by disclosing the average indicators of the variable used in the study.

For quantitative analysis, Autoregressive Distributed Lag (ARDL) otherwise known as bounds test proposed by Pesaran, Shin and Smith (2001) to model equation (1) will be used to analyze data. The ARDL approach is a valid asymptotic inference that examines the co-integration relationships among variable irrespective of the order on integration of data. The choice of the

model is based on three major considerations: First, it yields a consistent estimate of the long-run coefficient regardless of whether the underlying regressors are stationary of I(0) or I (1) or a mixture of both. Two, it provides unbiased estimates of the long-run model as well as valid t = statistics even if some of the regressors are endogenous and third, it is highly friendly to small sample size (Yaaba, 2013). Thus the equation becomes:

$$\Delta RGDP_t = \beta 0 \sum_{1=1}^{p} + \beta_1 \Delta RGDP_{t-1} + \sum_{1=0}^{p} \beta_2 \Delta FDI_{t-1} + \sum_{1=0}^{p} \beta_3 \Delta EXR_{t-1} + \sum_{1=0}^{p} \beta_4 \Delta BOT_{t-1} + W_1 GDP_{t-1} + W_2 FDI_{t-1} + W3EXR_{t-1} + W_4 BOT_{t-1} + \mu_t \text{ ..... equ (3.2)}$$

Where;
RDP = Real Gross domestic product
FDI = Foreign Direct Investment
EXR = Exchange rate
BOT = Balance of trade
μ = error term
t = time dimension
Δ = change
∑ = summation
P = Optimal lag
β_0 = constant
β_1 to β_3 = Coefficients of the short-run variables
W_1 to W_3 = The coefficient of the long-run component

According to Engle Granger Representation Theorem, all variables that have long-run relationship must also converge in the short-run (Engle and Granger, 1987). Hence the general error correction version (short-run version of the ARDL model) of equation (3.2) becomes:

$$\Delta RGDP_t = \beta 0 \sum_{1=1}^{p} + \beta_1 \Delta RGDP_{t-1} \sum_{1=0}^{p} \beta_2 \Delta FDI_{t-1} + \sum_{1=0}^{p} \beta_3 \Delta EXR_{t-1} + \sum_{1=0}^{p} \beta_4 \Delta BOT_{t-1+y} + ECM_{t-1} \text{ .. equ (3)}$$

Where;
RDP = Real Gross domestic product
FDI = Foreign Direct Investment
EXR = Exchange rate
BOT = Balance of trade
μ = error term
t = time dimension
Δ = change
∑ = summation
P = Optimal lag
β_0 = Constant
β_1 to β_3 = Coefficients of the short-run variables
W_1 to W_3 = the coefficient of the long-run component
ECM = the error correction version of equation (3.2)

3.4 Model Specification

To examine the impact of foreign direct investment on the economic growth of Nigeria over a 37 year period (1981-2017), this study will adapt and modify the empirical model used by Ugwuegbe, Okore and Onoh (2013). The model was used to analyze the impact of foreign direct investment on the Nigeria economy between 1981 and 2009. The model was specified as;

GDP=f(FDI,GFCF,INTR,EXR)……..... ..... (l)

This equation can be transformed into a linear function thus:
GDP=b0 + b1INTR+ b2FDI + b3GFCF + b4EXR + Ut .....(2)
Theoretically, the coefficients of equation (2) are expected to take these signs:
Where:
GDP = Gross Domestic Product
GFCF = Gross Fixed Capital Formation
FDI = Foreign Direct Investment
EXR = Exchange Rate
INTR = Interest Rate
b0 = the constant
b1- b4 = the coefficients of the explanatory variables
Ut = Error term
The econometric model for this paper is relatively different from the adapted model in the sense that the model for this study does not include interest rate and gross fixed capital formation as independent or explanatory variables. Also, gross domestic product is not used as dependent variable. Following both the theoretical and empirical literature earlier reviewed, the model which specified that economic growth (RDP) is significantly influence by the Foreign Direct Investment, Balance of Payment and Exchange Rate are formulated as follows:

RDP = $\beta_0 + \beta_1 FDI_t + \beta_2 EXR_t + \beta_3 BOP + \mu_t$...eqn (3.1)

RDP = Real Gross Domestic Product
FDI = Foreign Direct Investment
EXR = Exchange Rate
BOT = Balance of Trade
μ = error term
β0 = Constant
β_1 and β_2 = Coefficients of their respective variables
t = Time dimension

3.5 Description of Model Variables

Annual data extracted from the Central Bank of Nigeria (CBN) statistical Bulletin covering the period 1981 through 2017 will be used for the study. The study will utilize Foreign Direct Investment (FDI), Exchange Rate (EXR) as independent variable and Balance of Trade (BOT). The study also employed Real Gross Domestic Product (RDP) as dependent variable.

3.5.1 Dependent Variable

Real Gross Domestic Product (RDP): This is a monetary value of all the finished goods and services produced within a country's borders in a specific time period.

3.5.2 Independent Variables

Foreign Direct Investment (FDI): This is an investment in the form of a controlling ownership in a business in one country by an entity based in another country.

Exchange Rate (EXR): This is the price of a nation's currency in terms of another currency. In other word, it is a price for which the currency of a country can be exchanged for another country's currency.

Balance of Trade (BOT): This is the value of exported goods minus the value of imported goods.

3.6 Expected Results

Foreign Direct Investment is expected to have a positive and significant relationship with Real Gross Domestic Product.

Exchange rate is expected to have a negative and insignificant relationship with Real Gross Domestic Product.
Balance of trade is expected to have a positive and significant relationship with Real Gross Domestic Product.

4. DATA PRESENTATION AND RESULTS

4.1 Descriptive Statistic

The descriptive statistics which generally explore the characteristics of the data include: the mean, median, maximum, minimum, standard deviation as well as number of observations per each variable.

Table 4.1

	RGDP	FDI	EXR	BOT
Mean	32748.60	2.68E+09	97.62930	1356.909
Median	22449.41	1.59E+09	110.3917	231.4823
Maximum	69023.93	8.84E+09	254.8865	5822.589
Minimum	13779.26	7340000.	4.536700	-2230.910
Std. Dev.	18888.86	2.68E+09	68.13471	2030.575
Skewness	0.801840	0.931820	0.279914	0.784418
Kurtosis	2.141391	2.651199	2.531747	2.367547
Sum Sq. Dev.	1.28E+10	2.59E+20	167124.2	1.48E+08
Observations	37	37	37	37

Source: Author's analysis using e-view 9 output

The results indicated that the mean real gross domestic product (RGDP) was N32748.60 billion, while the average foreign direct investment was N26.8 billion, average balance of trade stood at N1356.909 and average exchange rate within the period under review was N97.6 to 1$.

The maximum amount of real gross domestic product was N69023.93 billion, while the minimum was N13779.26 billion. When the maximum foreign direct investment was N88.4 billion, the minimum stood at N734 million. The maximum of balance of trade and exchange rate were N5822.589 and N254.9 respectively, while their minimum stood at N-2230.9 and N4.54 respectively.

The deviations from the averages of these magnitudes signify that the real gross domestic product in Nigeria is not fix or static, but varies year in, year out. The study period covers 37 years, hence the number of observation of 37.

4.2 Correlation Matrix

Table 4.2

	RGDP	FDI	EXR	BOT

RGDP	1.000000			
FDI	0.805769	1.000000		
EXR	0.806063	0.575149	1.000000	
BOT	0.571146	0.810580	0.428509	1.000000

Source: Author's analysis using e-view 9 output

The correlation matrix for the variables is reported in Table 4.2 above in order to examine the correlation that exists among variables. The results show that there exist positive relationships amongst all the variables. Real gross domestic product had 81% correlation with foreign direct investment, while exchange rate had about 81% correlation with real gross domestic product. It was also discovered that balance of trade was correlated with real gross domestic product at 57%.

4.3 Unit Root Test Results (Summary).

Table 4.3 Unit Root Test Results

Variables	Levels					1st Difference					Order of Intergration
	ADF Statistics	Critical Values			P-Values	ADF Statistics	Critical Values			P Values	
		1%	5%	10%			1%	5%	10%		
RGDP	-1.874121	-4.243644	-3.544284	-3.204699	0.6464	-6.599081	-4.252879	-3.548490	-3.207094	0.0000	I(1)
BOT	-4.813942	-4.243644	-3.544284	-3.204699	0.0024						I(O)
EXR	-1.482566	-4.234972	-3.540328	-3.202445	0.8171	-4.527298	-4.243644	-3.544284	-3.204699	0.0049	I(1)
FDI	-2.079738	-4.234972	-3.540328	-3.202445	0.5392	-7.040358	-4.243644	-3.544284	-3.204699	0.0000	I(1)

Source: Author's analysis using e-view 9 output

The result in the table 4.3 above reveals that all the variables were not stationary at levels; only balance of trade was stationary at 5% significance level, real gross domestic product, foreign direct investment and exchange rate were all stationary after they had been differenced once at 5% significance level. The economic implication of non-stationary time series is that of a persistent shock if there is a disturbance on such variable. The result shows that the variables are able to withstand shock to a good extent.

4.4 Inferential Results

4.4.2 Results of Auto Regressive Distributed Lag Model (ARDLM)

Table 4.4.1 Result of ARDL Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
FDI(-1)	3.89E-07	1.72E-07	2.261491	0.0363*
BOT(-1)	0.541816	0.262720	2.062331	0.0539*
EXR(-2)	-27.05423	14.50444	-1.865238	0.0785
R-squared	0.999102	Mean dependent var		34964.43
Adjusted R-squared	0.998404	S.D. dependent var		18828.09
S.E. of regression	752.0961	Akaike info criterion		16.38656
Sum squared resid	10181673	Schwarz criterion		17.06679
Log likelihood	-255.3782	Hannan-Quinn criter.		16.61544
Durbin-Watson stat	1.925225			

Source: Author's analysis using e-view 9 output

* Significant @ 5% significant levels

N/B t-tabulated=2.04 at df = 30 and 95% confidence level

From the results of the (ARDLM) above, R^2 of 99% as well as the adjusted R^2 of 99% is an indication that the model is strongly represented. That is the independent variables explained about 99% variations in the dependent variable while the remaining 1% may be explained by variables not included in the model.

There existed significant positive impact in terms of t-stat. and p-value of foreign direct investment and balance of trade on real gross domestic product, while exchange rate had a negative and insignificant impact on real gross domestic product.

The results further suggested that a unit increase in foreign direct investment would bring about 3.89 unit increase in real gross domestic product, while a unit increase in balance of trade would bring about 0.542 unit increase in real gross domestic product. On the contrary, exchange rate had an inverse impact on real gross domestic product, such that a unit increase in exchange rate would bring about 27.1 unit decrease in real gross domestic product.

Put differently, a unit decrease in foreign direct investment would bring about a 3.89 unit decrease in real gross domestic product, while a unit decrease in balance of trade would result to 0.542 unit decrease in real gross domestic product. Also, a unit decrease in exchange rate would result to a 27.1 unit increase in real gross domestic product. This finding was in harmony with the findings of Omankhanlen, (2011), Solomon & Eka, (2013) and Obwona, (2001) who reported positive relationship between foreign direct investment and

economic growth and also in negation with the empirical documentations of Oyinlola, (1995), Asogwa & Manasseh, (2014) who reported negative relationship between foreign direct investment and economic growth

Durbin-Watson statistic of (2.0) suggests that there is no presence of autocorrelation among the variables.

4.4.3 Cointegration and Long Run Diagnostic

4.4.3.1 Cointegrating Form of (ARDLM)

Table 4.4.2 Cointergration Result

Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(FDI(-3))	0.000000	0.000000	2.098067	0.0503
D(BOT)	-0.397699	0.209767	-1.895908	0.0741
D(EXR(-2))	-19.519662	9.701710	-2.011982	0.0594
CointEq(-1)	-0.027033	0.024185	-1.117753	0.2784
Cointeq = RGDP - (0.0000*FDI -22.2985*BOT + 661.4419*EXR)				

Source: Author's analysis using e-view 9 output

Results from Table 4.4.3.1 shows the short-run dynamics otherwise referred to as the error correction model (ECM) of the estimated ARDL equation. The table demonstrates the relationship among the four variables in the short-run. From the results, foreign direct investment had a significant impact on real gross domestic product while both balance of trade and exchange rate had negative and insignificant impact on real gross domestic product

The negative and statistically significant coefficient of the error term further buttresses the cointegration among the variables in the long-run. More importantly, it shows that in case of distortions in the Nigerian economy that are capable of affecting real gross domestic product, equilibrium can be restored. Given the ECM of -0.027 , it explains that about 2.7 per cent of equilibrium can be restored on annual basis meaning that the restoration of equilibrium will take place in less than one year.

4.4.4.1 Long-Run Coefficients of the Estimated (ARDLM)

Table 4.4.3 Result of Long-Run Coefficients

Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
FDI	0.000015	0.000009	1.662066	0.1138
BOT	-22.298517	15.366624	-1.451101	0.1640
EXR	661.441944	420.438956	1.573218	0.1331

Source: Author's analysis using e-view 9 output

From the estimated long-run coefficients, all the variables except balance of trade had a positive impact on real gross domestic product in the long run. Balance of trade had a negative and insignificant impact on real gross domestic product. While, foreign direct investment and exchange rate had both positive and insignificant impact on real gross domestic product, exchange rate had a negative and insignificant impact on real gross domestic product in the long run within the study period.

4.5. Test of Research Hypotheses

In this section, the hypotheses earlier stated in chapter one of this study in their null form are tested using t-statistic. The critical or table value are compared with the computed t value to decide whether to reject or accept a hypothesis.

4.5.1 Test Results for Hypothesis 1

$HO_{1:}$ There is no significant impact of balance of trade on economic growth in Nigeria?

The researcher used ARDL model, data was analysed using e-views (version 8.0) to test the hypothesis. The data for the independent variables were regressed on the data for real gross domestic product, all in the Appendix. This was aimed at establishing the impact of foreign direct investment on economic growth of Nigeria.

Decision Rule

The decision rule is to reject the null hypothesis if calculated t-value is greater than the tabulated t value.

Decision

Based on the result of the ARDL Model, since the value of t-calculated for balance of trade of 2.1 is greater than the t-tabulated value of 2.04, the null hypothesis is rejected at 5% level of significance implying that, balance of trade has impacted positively and significantly on real gross domestic product in Nigeria.

4.5.2 Test Results for Hypothesis 2

$HO_{2:}$ Exchange rate does not have any significant impact on economic growth in Nigeria.

The researcher used ARDL model, data was analysed using e-views (version 8.0) to test the hypothesis. The data for the independent variables were regressed on the data for real gross domestic product (RGDP), all in the Appendix. This was aimed at establishing the impact of foreign direct investment on economic growth of Nigeria.

Decision Rule

The decision rule is to reject the null hypothesis if calculated t-value is greater than the tabulated t value.

Decision

Based on the result of the ARDL Model, since the value of t-calculated for exchange rate of -1.8652 is lesser than the t-tabulated value of 2.04, the null hypothesis is accepted at 5% level of significance implying that, exchange rate does not have significant impact on real gross domestic product in Nigeria.

4.5.3 Test Results for Hypothesis 3

$HO:_3$ There is no significant effect of foreign direct investment on economic growth in Nigeria.

The researcher used ARDL model, data was analysed using e-views (version 8.0) to test the hypothesis. The data for the independent variables were regressed on the data for real gross domestic product (RGDP), all in the Appendix. This was aimed at establishing the impact of foreign direct investment on economic growth of Nigeria.

Decision Rule

The decision rule is to reject the null hypothesis if calculated t-value is greater than the tabulated t value.

Decision

Based on the result of the ARDL Model, since the value of t-calculated for foreign direct investment of 2.261 is greater than the t-tabulated value of 2.04, the null hypothesis is rejected at 5% level of significance implying that, foreign direct investment has impacted positively and significantly on real gross domestic product in Nigeria.

4.6 Discussion of Findings

In the previous section, data were presented, analyzed and interpreted. These were done so as to reliably and accurately validate our hypotheses, and measure the correctness of the parameter estimates as well as the suitability and fitness of the estimated equation models, all in an attempt to solving the research problems and achieving the research objectives. The main objective of this research is to examine the impact of foreign direct investment on economic growth of Nigeria.

From the correlation matrix, the result shows that there exist positive relationships amongst all the variables. Real gross domestic product had 81% correlation with foreign direct investment, while exchange rate had about 81% correlation with real gross domestic product. It was also discovered that balance of trade was correlated with real gross domestic product at 57%.

The result of the ARDL Model revealed that there is a significant positive impact in terms of t-stat. and p-value existing between foreign direct investment and balance of trade on real gross domestic product, while exchange rate had a negative and insignificant impact on real gross domestic product.

The results further suggested that a unit increase in foreign direct investment would bring about 3.89 unit increase in real gross domestic product, while a unit increase in balance of trade would bring about 0.542 unit increase in real gross domestic product. On the contrary, exchange rate had an inverse impact on real gross domestic product, such that a unit increase in exchange rate would bring about 27.1 unit decrease in real gross domestic product.

These findings were in harmony with the findings of Omankhanlen, (2011), Solomon & Eka, (2013) and Obwona, (2001) who reported positive relationship between foreign direct investment and economic growth and also in negation with the empirical documentations of Onyinlola, (1995), Asogwa & Manasseh, (2014) who reported negative relationship between foreign direct investment and economic growth.

5. SUMMARY, CONLUSION AND RECOMMENDATION

5.1 Summary

The research has attempted to evaluate the impact of foreign direct investment on economic growth in Nigeria. It has been proven theoretically and scientifically in chapter four and the results were consistent with some works on foreign direct investment and economic growth, while also in negation with other related works on the subject matter.

Empirically, it was discovered that foreign direct investment and balance of trade had positive and significant impacts on real gross domestic product. It was also found that exchange rate had a negative and insignificant impact on real gross domestic product in Nigeria.

From the analysis, some findings were made. The findings are hereby summarized as follows:

1. Foreign direct investment had a positive and significant impact on real gross domestic product of Nigeria within the period under review.
2. Balance of trade also had a positive and significant impact on real gross domestic product of Nigeria.
3. Exchange rate had a negative and insignificant impact on real gross domestic product of Nigeria within the period under review.

5.2 Conclusion

This study was carried out to examine the impact of foreign direct investment on economic growth of Nigeria from the period 1981 - 2017. The study employed foreign direct investment, balance of trade and exchange rate as measures or proxies for foreign direct investment (independent variables), while real gross domestic product was employed as proxy for economic growth of Nigeria (dependent variable).

The result of (ARDL) Model revealed that all the explanatory variables barring exchange rate had positive and significant impact on economic growth of Nigeria, while exchange rate had a negative and insignificant impact on real gross domestic product.

In summary, from the results of the (ARDL) Model, inference can be drawn that foreign direct investment had impacted positively and significantly on economic growth of Nigeria within the period under review.

5.3 Recommendations

Based on our findings, summary and conclusion drawn there from, the following recommendations have been suggested.

1. The government should create an enabling environment which would attract foreign investors into Nigeria, such as good, transparent and fair tax system, promotion of economic stability and the attainment of key macroeconomic objectives.
2. The government should encourage and support local producers by giving out soft loans and grants to manufacturers to produce products and services of high standard capable of satisfying the demands of Nigerians and then export some in order to place Nigeria in a favourable balance of trade position.
3. Finally, government should come up with policies that would discourage excessive importation of products or services into Nigeria, since exchange rate had a negative impact on economic growth in Nigeria. The higher the exchange rate of N to $, the lower the economic growth of Nigeria.

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