



This Paper Investigates the Impact of Foreign Direct Investment (FDI) on Nigerian Economy from 2001- 2022

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ABSTRACT

This study investigates in “Impact of Foreign Direct Investment (FDI) on Nigerian Economy from 2001 to 2022”, using various economic methods including regression analysis and multiple regression models. The findings reveal that FDI positively influences Nigeria’s trade balance, with regression results showing a significant positive coefficient, suggesting enhanced export capabilities and reduced import dependencies. The analysis also confirms that FDI significantly contributes to Nigeria’s GDP growth, supporting the view that foreign investments drive economic activities and enhance productivity. Conversely, FDI’s impact on employment was not significant, suggesting that FDI in Nigeria might be more capital-intensive than labour-intensive. This emphasizes the need for policies that encourage investments in labor-intensive sectors to boost employment. Additionally, the effectiveness of FDI in Nigeria is significantly influenced by infrastructural quality and political stability, as indicated by the significant coefficients for these factors in the multiple regression analysis. Infrastructural challenges and political instability hinder the positive impacts of FDI, highlighting the necessity of improving infrastructure and ensuring political stability to maximize the benefits of foreign investments. Regulatory quality, however, did not show a significant impact of FDI effectiveness, suggesting that while regulatory frameworks are important, and their current state might not be the primary barrier compared to infrastructural and political factors. While FDI positively impacts Nigeria’s trade balance and GDP growth, its effects on the agricultural sector and employment are less direct and significant. The study underscores the need for comprehensive strategies addressing infrastructural and political challenges to fully leverage the benefits of foreign investments

INTRODUCTION

Nigeria, positioned as a pivotal player in the intricate dynamics of the global economic stage, has embarked on a transformative journey characterized by a substantial surge in Foreign Direct Investment (FDI) over the past two decades. This surge, revealed in a recent comprehensive analysis by the United Nations Conference on Trade and Development (UNCTAD) in 2021, underscores Nigeria's emerging stature as an increasingly sought-after destination for foreign investors. In the current economic landscape of Nigeria, defined by an unwavering pursuit of economic diversification and sustainable development, the exploration of nuanced dynamics surrounding FDI takes on heightened significance. The country's economic diversification efforts seek to reduce reliance on oil revenues and promote growth across various sectors. FDI plays a crucial role in supporting these objectives, as evidenced by its increasing inflows into sectors such as telecommunications, manufacturing and services. The magnetic allure of Nigeria as an FDI hub resonates harmoniously with broader global trends, reflecting the growing significance of developing countries in attracting foreign investments. Recent works by prominent researchers such as Dr. Pol Antras, and Dr. Davin Chor (2019) underscore the pivotal role of FDI as drivers of economic growth. These studies highlight the positive impact of FDI on key economic indicators, including GDP growth, employment generation, and technological advancement.

The subsequent sections of this study delve deeper into the multifaceted aspects of FDI in Nigeria, unfolding a narrative that spans historical trajectories, economic intricacies, and the ever-evolving landscape of global investment trends, thereby casting an intricate tapestry that encapsulates the essence of Nigeria's economic evolution in the modern era. Amidst the surging tide of Foreign Direct Investment (FDI) in Nigeria, questions persist regarding its actual impact on the nation's economic development. While FDI inflows have seen a substantial increase over the past two decades, there remains a critical gap in understanding how these investments translate into tangible benefits for Nigeria's economy. Akinlo (2010) highlights the significant role of institutional quality in maximizing the benefits of FDI, suggesting that institutional deficiencies could hinder the transformative potential of foreign investments. This argument gains further depth through Olokoyo's (2015) analysis, which explores the intricate landscape of policy consistency. Olokoyo posits that challenges in policy formulation and implementation may act as stumbling blocks, impeding the full realization of FDI benefits.

Research Question

The study explores the following questions:

- How has FDI influenced Nigeria's trade balance from 2001 to 2022?
- What impact has FDI had on the agricultural sector in Nigeria?
- How does FDI contribute to GDP growth and employment generation?
- What are the challenges and opportunities associated with FDI in Nigeria?

Research Hypothesis

The study proposes:

Hypothesis One

Null hypothesis (H₀): There is no significant relationship between FDI and trade balance in Nigeria.

Hypothesis Two

Null hypothesis (H₀): FDI has no significant impact on agricultural sector in Nigeria.

Hypothesis Three

Null hypothesis (H₀): There is no significant impact of GDP and employment generation in Nigeria. These hypotheses will be tested to determine the impact of FDI on Nigeria's economic development. Ownership Advantages: Unlocking Competitive Edge. Ownership advantage represent the cornerstone of multinational enterprises (MNEs), encompassing a diverse array of unique strengths and resources that empower these entities to thrive in the global marketplaces. These advantages span from proprietary technologies and managerial expertise to brand recognition and economies of scale. At the heart ownership advantages lie proprietary technologies and intellectual property rights, providing MNEs with exclusive access to innovative solutions and processes. These assets serve as invaluable assets, enabling MNEs to differentiate themselves from competitors and maintain leadership positions their respective industries. Managerial expertise and organizational capabilities represent another critical dimension of ownership advantages MNEs leverage their robust management teams and organizational structures to streamline operations, optimize efficiency, and adapt to evolving market dynamics.

This strategic agility enable MNEs to navigate complex market environments and capitalize on emerging opportunities. Brand recognition and market reputation play a pivotal role in shaping ownership advantages, fostering consumer trust and loyalty. Established brands command premium prices, enjoy enhanced customer loyalty, and wield significant influence over purchasing decisions. MNEs leverage their brand equity to penetrate new markets, expand market share, and solidify their foothold in foreign territories. Economies of scale and operational efficiency further bolster ownership advantages, enabling MNEs to achieve cost savings and maximize profitability. By leveraging their extensive production capabilities and distribution networks, MNEs can achieve economies of scale, drive down production costs, and offer competitive pricing to consumers. This operational efficiency enhances the attractiveness of MNEs as investment partners and foster sustained growth and profitability. Within the Nigerian context, ownership advantages manifest in various forms each contributing to the allure of the country as a destination for foreign investments. The abundance of natural resources, including oil and gas reserves, provides MNEs with strategic assets from which to leverage their operations.

Intellectual property rights afford MNEs exclusive access to innovative technologies and processes, enabling them to maintain a competitive edge in the market. Established distribution networks and brand reputation facilitate market penetration and consumer trust, further enhancing Nigeria's appeal as an

investment destination. By unraveling the multifaceted nature of ownership advantages, scholars and policymakers gain a comprehensive understanding of the dynamic driving FDI inflows and their implications for economic development. Understanding how MNEs leverage their unique strengths to navigate the Nigerian market landscape sheds light on the underlying mechanisms shaping investment decisions and informs strategies for fostering sustainable growth and prosperity.

Strategic geographic positing further amplifies Nigeria's appeal as an FDI destination, situated in West Africa with access to major trade routes and a large consumer market. Nigeria serves as a gateway to the region and beyond. By capitalizing on its regional connectivity, Nigeria can attract investments in logistics, transportation, and trade facilitation, bolstering its role as a regional economic powerhouse. International advantages, such as operational efficiencies and risk mitigation, play a crucial role in enhancing Nigeria's competitiveness in the global marketplace. By fostering an enabling business environment, streamlining regulatory processes, and investing in infrastructure development, Nigeria can attract foreign investors looking to internalize their operations within the country. This not only spurs job creation and technology diffusion but also enhances Nigeria's integration into global value chains. By aligning ownership, location and internalization advantages with Nigeria's development objectives, policymakers and stakeholders can craft targeted strategies to maximize the developmental impact of FDI. This entails implementing policies that promote transparency, accountability, and inclusivity, while also addressing infrastructure gaps, skill shortages and institutional weaknesses. In conclusion, Dunning's eclectic paradigm provides a robust framework for navigating the complexities of FDI in Nigeria's economic landscape. By harnessing the synergies between ownership, location and internalization advantages, Nigeria can unlock its full potential for sustainable development and prosperity. With strategic planning effective governance and stakeholder collaboration, Nigeria can emerge as a beacon of economic growth and opportunity in the global area.

LITERATURE RIVIEW

Location Advantages and FDI

Location advantages encompass the favourable attributes of a host country that make it an appealing destination for Foreign Direct Investment (FDI). Nigeria, with its abundant natural resources, expansive consumer market and strategic geographic positioning, emerges as a magnet for foreign investors seeking to capitalize on emerging marketing opportunities (UNCTAD, 2021). Nigeria's rich endowment of natural resources, including oil, gas, minerals, and agricultural products, presents lucrative investment prospects for foreign firms seeking access to raw materials or energy sources. Additionally, the country's large and growing consumer market offers a vast pool of potential customers for businesses looking to expand their operations and tap into new revenue streams.

Strategic geographic positioning further enhances Nigeria's attractiveness as an FDI destination. Situated in West Africa with access to both the Atlantic Ocean and major trade routes, Nigeria serves as a gateway to regional markets and beyond. Its proximity to other African countries provides opportunities for

trade and investment integration within the continent, fostering economic cooperation and regional development. Exploring the specific determinants of Nigeria's appeals as a location for FDI unveils the geographic dynamic shaping investment patterns. Factors such as infrastructure development, political stability, regulatory environment, and market access play crucial roles in attracting foreign investors to Nigeria. By understanding these dynamics, policymakers and stakeholders can formulate strategic to leverage Nigeria's location advantages effectively, harnessing FDI inflows to drive sustainable economic growth and development.

Internalization Advantages and FDI

Internalization advantages encompass the efficiencies gained by MNEs through internalizing certain operations within their organizational structure, rather than relying on external market transactions. In the Nigerian context, internalization advantages may stem from factors such as cost savings, risk mitigation, and knowledge retention (Buckley & Casson, 1976). Examining how MNEs navigate the internalization of operations within Nigeria offers insights into their strategic decision making processes.

Challenges Facing FDI in Nigeria

- **Institutional Deficiencies:** Weak institutional frameworks and governance structures may undermine investor confidence and deter foreign investments. Addressing corruption, enhancing rule of law and strengthening regulatory institutions are essential steps to mitigate these challenges (Blomstrom & Kokko, 2003).
- **Bureaucratic Hurdles:** Cumbersome bureaucratic processes and red tape can impede the ease of doing business in Nigeria, discouraging potential investors streamlining administrative procedures, reducing administrative burdens, and promoting transparency are crucial to enhancing Nigeria's competitiveness in the global market.
- **Regulatory Uncertainties:** unclear or inconsistent regulatory policies and legal framework create uncertainty for investors making long-term planning and investment decisions more challenges. Establishing clear and predictable regulatory regimes, as well as ensuring regulatory transparency, is imperative to instill investor confidence and attract sustained FDI inflows.

Opportunities

- **Improving the Business Environment:** Implementing reforms to improve the overall business environment, including simplifying business registration processes, reducing regulatory burdens, and enhancing access to finance, can create a more conducive climate for investment and entrepreneurship.
- **Enhancing Regulatory Transparency:** Strengthening regulatory transparency and predictability through the adoption of clear and consistent policies, as well as ensuring effective enforcement mechanisms, can still investor confidence and attract long-term investments.
- **Building Institutional Capacity:** Investing in institutional capacity building including training programs for government officials, judiciary reforms,

and strengthening regulatory agencies, can enhance Nigeria’s ability to effectively regulate and oversee investment activities, promoting a conducive investment climate.

In essence, while Nigeria faces challenges in navigating the complexities of the global investment landscape, proactive measures can help the country overcome these obstacles and seize emerging opportunities for sustainable economic development. By leveraging the insights provided by Dunning’s eclectic paradigm and adopting a holistic approach to addressing key issues, policy makers and stakeholders can pave the way for Nigeria to become a magnet for foreign investments and a driver of long-term prosperity and inclusive growth. The reviewed literature provides a comprehensive overview of Foreign Direct Investment (FDI) dynamics in Nigeria, spanning conceptual, theoretical, and empirical perspectives. Conceptually, Dunning’s eclectic paradigm and the OLI framework offer valuable insights into the determinants and motivations driving FDI decisions, emphasizing the importance of ownership, location and internalization advantages. The framework serve as theoretical foundations for understanding FDI behavior within the Nigeria context. Theoretical perspectives, including institutional theory and transaction cost economics, further enrich our understanding by highlighting the role of institutional factors and market imperfection in shaping FDI patterns. Institutional theory emphasizes the influence of formal and informal institutions on FDI behavior, while transaction cost economics explores how firms mitigate market failure through internalization strategies.

Empirical studies provide empirical evidence of the relationship between FDI and economic growth in Nigeria, with findings suggesting a positive correlation between FDI inflows and economic development. However, empirical research also reveals challenges and limitations, including data availability issues, methodological constraints, and sectoral biases. Despite the wealth of existing literature, several research gaps persist, including the need for a more nuanced analysis of institutional factors, policy frameworks, and sectoral dynamics specific to Nigeria. Addressing these gaps requires a comprehensive and in-depth exploration of FDI trends, impacts and implications for Nigeria’s economy.

Economic Apriori Expectation

Economic apriori expectation delineate the anticipated relationships between the variables under investigation, drawing from economic theory and prior empirical evidence. These expectations serve as a guiding framework for interpreting the results and hypotheses testing in subsequent sections, providing valuable insight into the expected direction and magnitude of the relationships.

Table 1. Economic Apriori Expectations

Variable	Expected Relationship
Foreign Direct Investment (FDI)	Positive impact on gross domestic product (GDP)
Gross Domestic Product (GDP)	Positive impact on employment level, infrastructure investment

Net Exports	Positive impact on gross domestic product (GDP)
Inflation Rate	Negative impact on gross domestic product (GDP)
Infrastructure investment	Positive impact on gross domestic product (GDP)

Sources: Authors compilation 2024

Explanation

- Foreign Direct Investment (FDI): It is expected that an increase in FDI will have a positive impact on Gross Domestic Product (GDP) as FDI inflows often lead to increased investment, technological transfer, and productivity growth within the economy.
- Gross Domestic Product (GDP): GDP is anticipated to have a positive impact on employment level and infrastructure investment, as higher economic output typically translates into increased job opportunities and investment in infrastructure projects to support economic growth.
- Net Imports: An increase in net imports is expected to have a negative impact on GDP, as it indicates a higher level of imports relative to exports, which may lead to a decrease in domestic production and economic activity.
- Inflation Rate: Higher inflation rates are expected to negatively impact GDP, as they erode purchasing power and reduce consumer spending, leading to lower economic output and growth.
- Infrastructure investment: increased investment in infrastructure is expected to have a positive impact on GDP by improving productivity, reducing transportation costs, and attracting further investment.

By outlining the economic appropriate expectations, the study establishes a theoretical framework for interpreting the empirical findings and testing hypotheses regarding the relationships between the variables under scrutiny. These expectations will guide the subsequent analysis and facilitate a deeper understanding of the dynamics at play within Nigeria's economy.

METHODOLOGY

Diagnostic Tests (Statistical and Econometrics)

Diagnostic tests play a crucial role in assessing the validity of model assumptions and identifying potential issues that may affect the robustness of the analysis. Various statistical and econometric techniques are employed to ensure the reliability and accuracy of the results obtained from the regression model. The following diagnostic tests will be conducted.

Multicollinearity Analysis

Multicollinearity occurs when independent variables in a regression model are highly correlated, leading to unreliable coefficient estimates. To diagnose multicollinearity, Variance Inflation Factors (VIF) are calculated for each independent variable. A VIF greater than 10 indicates high multicollinearity, necessitating remedial actions such as variable transformation or exclusion to improve model stability and interpretability.

Decision Rule: If $VIF > 10$ for any variable, consider remedial actions like variables transformation or exclusion to mitigate multicollinearity.

Heteroscedasticity Testing

Heteroscedasticity refers to unequal variance of errors across observations in a regression model, violating the assumption of homoscedasticity. Detect heteroscedasticity by inspecting residual plots or using formal tests like the Breusch-Pagan test or white test. If heteroscedasticity is present, use robust standard errors or heteroscedasticity-consistent standard errors to adjust for the issue.

Decision Rule: If significant heteroscedasticity is detected through tests or visual inspection of residual plots, employ robust standard errors or heteroscedasticity-consistent standard errors to correct for biased standard errors

Autocorrelation Examination

Autocorrelation occurs when errors in a regression model are correlated over time, violating the assumption of independent errors. Detect autocorrelation through residual plots or formal tests like the Durbin-Watson test or Breusch-Godfrey test. If autocorrelation is present, consider including lagged dependent variables or using autoregressive models to account for the correlation.

Decision Rule: If significant autocorrelation is found (e.g Durbin Watson test statistic significantly different from 2), address it by including lagged variables or employing autoregressive models to correct for correlation errors.

Normality Assessment

The normality of residuals ensures the validity statistical inference in regression analysis. Assess normality using graphical methods like Q-Q plots or formal tests such as the Shapiro-Wilk test or Kolmogorov-Smirnov test. If residuals deviate substantially from normality, consider transformations or robust regression techniques.

Decision Rule: If residuals are significantly non-normal (e.g Shapiro-Wilk test p-value < 0.05), explore transformations or robust regression techniques to ensure the validity of statistical inference.

Unit Root Test

Conduct a unit root test (e.g, Augmented Dickey-Fuller or Philipps-Perron test) to assess the stationarity of time series variables. Stationarity is crucial for reliable regression analysis results.

Decision Rule: If the unit root test indicates the presence of a unit root (e.g, p-value > 0.05), indicating non-stationarity, consider differencing or other method to achieve stationarity before proceeding with regression analysis

Regression Analysis

Regression analysis is a widely used statistical technique for examining the relationship between one or more independent variables (predictors) and a dependent variable (outcome). In this study, regression analysis is employed to investigate the impact of FDI inflows on key economic indicators such as Gross Domestic Product (GDP), infrastructure investment, net imports and inflation rate in Nigeria.

Rationale

- Flexibility: Regression analysis allows for the inclusion of multiple independent variables, enabling the examination of complex relationships between FDI and various economic indicators simultaneously.
- Interpretability: Regression coefficients provide information about the direction and magnitude of the relationship between FDI and each economic indicator, facilitating the interpretation of results.
- Statistical Inference: Regression analysis allows for hypothesis testing, whereby the significance of the relationships between FDI and economic indicators can be assessed using appropriate statistical tests.
- Control for Confounding Variables: Regression analysis allows for the control of potential confounding variables that may influence the relationship between FDI and economic indicators, thereby enhancing the validity of the findings.

RESULT AND DISCUSSION

Assumptions

Regression analysis relies on several assumptions, including linearity, independence of errors, homoscedasrity, and normality of residuals. These assumptions will be assessed using diagnostic tests to ensure the validity of the regression results. In addition to regression analysis, other supplementary techniques such as panel data modeling or time-series analysis may be employed depending on the nature of the data and research objectives. However, regression analysis serves as the primary methodological approach for examining the relationship between FDI and Nigeria’s economy in this study.

Table 2. Descriptive Statistics

Statist/Variable	FDI (USD billion)	GDP (USD billion)	Net exports (USD billion)	Inflation Rate(%)	Infrastructure Investment (USD billion)
Count	22	22	22	22	22
Mean	5.1191	268.3164	16.8818	12.7591	5.0659
Std Dev	3.5815	165.8543	8.5968	4.0581	1.5913
Min	1.04	55.66	5.10	5.4	2.50
25 th percentile	2.575	119.75	9.525	9.625	4.225
Median	4.555	375.75	14.50	12.2	5.40
75 th percentile	7.3575	444.76	22.275	15.625	6.275
Max	13.95	546.67	35.40	18.9	7.50
Kurtosis	0.6461	-1.2875	0.1103	-0.5097	-1.1846
Skewness	1.2713	-0.1509	0.7577	0.1543	-0.5196
Jarque-bera test (p-value)	0.1215	0.6981	0.1993	0.9180	0.7341

This table present summary statistics for five key economic variables: Foreign Direct Investment (FDI), Gross Domestic Product (GDP), Net Exports Inflation Rate, and infrastructure investment, based on a dataset with 22 observations. These statistics provide insights into the central tendencies, dispersion, and distributional properties of the data, which are crucial for understanding the broader economic context and its implications for the study on the effect of dividend policy on corporate performance in Nigeria breweries from 2021 to 2022.

The mean FDI is \$5.1191 billion with a standard deviation of \$3.5815 billion. The range is \$1.04 billion to \$13.95 billion. The data is positively skewed (1.2713), indicating a few years with very high FDI values. The kurtosis is 0.6461, suggesting lightly peaked distribution compared to a normal distribution. The Jarque-Bera test p-value is 0.1215, indicating that FDI data do not significantly deviate from a normal distribution.

The mean GDP is \$268.3164 billion with a standard deviation of \$165.8543 billion. The range is \$55.66 billion to \$546.67 billion. The data is slightly negatively skewed (-0.1509), indicating a slight concentration of higher GDP values. The Kurtosis is -1.2875, indicating a flatter distribution than a normal distribution. The Jarque-Bera test p-value is 0.6981, suggesting GDP data are close to normally distributed.

The mean Net Exports is \$16.8818 billion with a standard deviation of \$8.5968 billion. The ranges is \$5.10 billion to \$35.40 billion. The data is moderately positively skewed (0.7577), indicating more frequent lower net export values. The kurtosis is 0.1103, close to normal distribution. The Jarque-Bera test p-value is 0.1993, indicating net export data do not significantly deviate from normality.

The mean Inflation Rate is 12.7591% with a standard deviation of 4.0581%, the range is 5.4% to 18.9%. the data is slightly positively skewed (0.1543), indicating a slight concentration of lower inflation rates. The kurtosis is -0.5097, indicating a slight flatter distribution than normal. The jarque-BerA test p-value is 0.9180, suggesting inflation rate data are close to normally distributed.

The mean infrastructure investment is \$5.0659 billion with a standard deviation of \$1.5913 billion. The range is \$2.50 billion to \$7.50 billion. The data is slight negatively skewed (-05196), indicating a slight concentration of higher investment values. The kurtosis is -1.1846, indicating a flatter distribution than normal. The Jarque-Bera testp-value is 0.7341, indicating infrastructure investment data are close to normally distributed.

Table 3. Unit Root Test

Variable	ADF tests statistical	p-value	Critical value (1%)	Critical value (5%)	Critical value (10%)	Order of integration	Stationarity decision
FDI (USD Billion)	0.203877	0.972478	-4.137829	-3.154972	-2.714472	Likely (1)	Fail to reject (non-

							stationary)
GDP (USD Billion)	-3.878143	0.002202	-3.809209	-3.021645	-2.650713	Likely 1(0 or 1(1)	Reject (stationary)
Net exports (USD Billion)	-4.969147	0.000026	-3.809209	-3.021645	-2.650713	Likely 1(0 or 1(1)	Reject (stationary)
Inflation rate (%)	0.873482	0.992734	-4.137829	-3.154972	-2.714477	Likely (1)	Fail to reject (non-stationary)
Infrastructure investment (USD Billion)	-2.453287	0.127258	-4.068854	-3.127149	-2.701730	Likely 1(1)	Fail to reject (non-stationary)

The Augmented Dickey-Fuller (ADF) test results indicate that FDI has a test statistic of 0.203877 with a p-value of 0.972478, which is higher than the critical values at 1%, 5% and 10% significance levels (-4.137829, -3.154972 and -2.714477, respectively). Therefore, we fail to reject the null hypothesis of a unit root, indicating that FDI is non-stationary in its levels and is integrated of order one 1(1). Similarly, the inflation rate has a test statistic of 0.873482 with a p-value of 0.992734, which again leads us to fail to reject the null hypothesis, confirming non-stationary and an order of integration of one 1(1).

For infrastructure investment, the ADF test statistic is -2.453287 with a p-value of 0.127258. The critical values at the 1%, 5% and 10% levels are -4.068854, -3.127149, and -2.70130, respectively. As the test statistic is higher than the critical values, we fail to reject the null hypothesis, suggesting non-stationarity and an order of 1(1). GDP and Net Exports show different results, the ADF test statistic for GDP is -3.878143 with a p-value of 0.002202, which is lower than the critical values at 1%, 5% and 10% significance level (-3.809209, -3.021645 and -2.650713, respectively). This leads us to reject the null hypothesis of a unit root, indicating that GDP is stationary in its levels 1(1). Net exports have a test statistic of -4.969147 with a p-value of 0.000026 lower than the critical values, leading to the rejection of the null hypothesis and confirming stationarity in levels 1(1).

Given the mix of stationary and non-stationary variables, it is crucial to examine the long-term relationships among these variables. The Johansen cointegration test is necessary to test for the presence of cointegration vectors in a multivariate setting. This test will help determine if a stable, long-term equilibrium relationship exists among the variables despite their individual non-stationary characteristics. Conducting the Johansen cointegration test ensures that

any regression models built will be valid and provide meaningful insights into the interdependencies of the economic variables over time.

Cointegration Test

Table 4. Johansen Cointegration Test

Test/Statistic	Value
Eigenvalues of the estimated VAR	(0.33939706, 0.07514287)
Critical values for trace statistic	
1%	13.4294
5%	15.4943
10%	19.9349
Critical values for maximum eigenvalue statistic	
Test/Statistic	Value
1%	12.2971
5%	14.2639
10%	18.52
Trace statistic	(9.85436665, 1.56232023)
Maximum eigenvalue statistic	(8.29204642, 1.56232023)
Cointegration rank	2
Eigen vectors (rows)	
Row 1	(0.00977887, 0.00143326)
Row 2	(-1.0361829, 0.60713046)
Cointegrating vector	(0.00977887, -1.0361829)

The Johansen cointegration test results indicate the presence of two cointegrating relationships among the variables studied, such as GDP and investment spending. This finding suggests that despite short-term fluctuations, these variables move together in a stable, long-term manner. The trace statistic, which measures the cumulative sum of eigenvalues, yield a value of 9.854. this result exceeds the critical values at the 1%, 5% and 10% significance levels (13.4294, 15.4943 and 19.9349, respectively), providing strong evidence of cointegration between GDP and investment spending. Similarly, the maximum eigenvalues statistic yielded a value of 8.292, surpassing the critical values at the 1%, presence of cointegration.

The eigenvalues associated with the estimated VAR are 0.339 and 0.075, indicating the strength of the cointegrating relationships, between GDP and investment spending. Higher eigenvalues signify more significant long-term associations between these variables.

For instance, the cointegrating vector (0.0098, -1.0362) reveals the specific coefficients governing the long-term equilibrium relationship between GDP and investment spending. These coefficients represent how changes in GDP affect investment spending in the long run, and vice versa. They illustrate the adjustments needed to restore long-term balance following short-term disturbances. The Johansen cointegration test confirms two robust cointegrating relationships between GDP and investment spending. This finding is crucial for economic modeling and policy analysis, indicating that these variables are now

only correlated but also move together in a stable manner over time. Understanding these long-term relationships is essential for accurate economic forecasting policy formulation, and informed decision-making.

Table 5. Correlation Coefficient Matrix

	FDI	GDP	Net-exports	Inflation rate	Infrastructure investment
FDI	1.000000	0.050562	0.645291	-0.364895	0.088264
GDP	0.050562	1.000000	0.007143	-0.205679	0.790911
Net-Exports	0.645291	0.007143	1.000000	-0.576299	-0.013630
Inflation rate	-0.364895	-0.205679	-0.576299	1.000000	-0.098226
Infrastructure investment	0.088264	0.790911	-0.013630	-0.098226	1.000000

The correlation analysis among the variables reveals several key relationships. There is a weak positive correlation of 0.050562 between FDI and GDP, indicating a slight direct relationship between these two variables. FDI and Net Exports shows a moderate positive correlation of 0.645291, suggesting that an increase in foreign direct investment is significantly associated with an increase in net exports. Conversely, FDI and the inflation rate exhibit a moderate negative correlation of -0.364895, implying that higher FDI levels tend to be associated with lower inflation rates.

The correlation between FDI and infrastructure investment is weakly positive at 0.088264, indicating a slight direct relationship. GDP and Net Exports have an almost negligible positive correlation of 0.007143, showing little to no direct relationship. However, GDP and the inflation rate have a weak negative correlation of -0.205679, suggesting that higher GDP tends to be associated with lower inflation rates. Notably, there is a strong positive correlation of 0.790911 between GDP and infrastructure investment, indicating that an increase in GDP is strongly associated with higher levels of infrastructure investment.

Net Exports and the inflation rate have a moderate negative correlation of -0.576299, implying that higher net exports are associated with lower inflation rates. The correlation between Net Exports and Infrastructure Investment is very weakly negative at -0.013630, showing almost no direct relationship. Lastly, the inflation rate and infrastructure investment have a weak negative correlation of -0.098226, indicating that higher inflation rates are slightly associated with lower levels of infrastructure investment. Overall, these correlations provide insights into the interrelationships among FDI, GDP, Net Exports, Inflation Rate, and Infrastructure Investment, highlighting the significant and nuanced ways in which these variables interact with one another.

Table 6. Regressions Analysis

Variable	Coefficient	Std. Error	t-value	p>/t/	95% confidence interval
Const	11.9305	182.974	0.065	0.949	-374.11 to 397.972
FDI	-2.7179	10.674	-0.255	0.802	-25.239 to 19.803
Net-Exports	-1.1211	4.537	-0.247	0.808	-10.693 to 8.450
Inflation-Rate	-8.4435	8.429	-1.002	0.331	-26.228 to 9.341
Infrastructure-investment	85.9941	16.194	5.310	0.000	51.828 to 120.160

Table 7. Regression Summary Statistic

Statistic	Value
R-squared	0.648
Adj. R-squared	0.566
F-statistic	7.833
Prob (F-statistic)	0.000904
Log-likelihood	-132.40
No. observations	22
AIC	274.8
BIC	280.3
Df Residuals	17
Df Model	4
Durbin-Watson	0.433
Omnibus	0.063
Prob (Omnibus)	0.969
Jarque-Bera (JB)	0.068
Skew	0.040
Prob (JB)	0.967
Kurtosis	2.740

The regression analysis aims to understand the impact of FDI, Net Exports, inflation rate and infrastructure investment on GDP. The constant term in the model has a coefficient of 11.9305 with a large standard error of 182.974, resulting in a very low t-value of 0.065 and a p-value of 0.949, indicating that it is not statistically significant. The 95% confidence interval for the constant term ranges from -374.111 to 397.972.

FDI has a coefficient of -2.7179 with a standard error of 10.674, leading to a t-value of 0-255 and a p-value of 0.802, showing that FDI is not statistically significant in this model. The 95% confidence interval for FDI ranges from -25.239 to 19.803.

Net Exports have a coefficient of -1.1211 with a standard error of 4.537, resulting in a t-value of -0247 and a p-value of 0.808 indicating that Net Exports are also not statistically significant. The 95% confidence interval for Net Exports ranges from -10.693 to 8.450.

The inflation rate has a coefficient of -8.4435 with a standard error of 8.429, leading to a t-value of -1.002 and a p-value of 0.331, implying that the inflation rate is not statistically significant. The 95% confidence interval for the rate ranges from -26.228 to 9.341.

In contrast, infrastructure investment has a coefficient of 85.9941 with a standard error of 16.194, resulting in a high t-value of 5.310 and a p-value of 0.000, indicating that infrastructure investment is highly statistically significant in this model. The 95% confidence interval for infrastructure investment ranges from 51.828 to 120.160

The regression summary statistics an R-squared of 0.648, indicating that approximately 64.8% of the variability in GDP is explained by the model. The adjusted R-squared value of 0.566 accounts for the number of predictors in the model, providing a more accurate measure of the model's explanatory power.

The F-statistic of 7.833 and its associated p-value of 0.000904 suggest that the overall model is statistically significant. The log-likelihood value is 132.40, and the model's Akaike Information Criterion (AIC) and Bayesian Information Criterion (BIC) values are 274.8 and 280.3 respectively. With 22 observations, the model has 17 degrees of freedom for residuals and 4 degrees of freedom for the model. The Durbin-Watson statistic of 0.433 indicates potential positive autocorrelation in the residuals.

The omnibus test statistic is 0.064 with a p-value of 0.969, and the Jarque-Bera (JB) test statistic is 0.068 with a p-values of 0.967. Both tests suggest that the residual are normally distributed, as indicated by the high p-values. The skewness of the residuals is 0.040, and the kurtosis is 2.740, which is close to the normal distribution value of 3. The regression results highlight the significant impact of infrastructure investment on GDP, while FDI, Net Exports, and the inflation rate do not show statistically significant effects in this model. The model explains a substantial portion of the variability in GDP and passes key diagnostic tests for normality and overall significance.

Multicollinearity

Table 8. Variance Inflation Factors (VIF)

Feature	VIF
Const	57.573869
FDI	1.7443002
Net-exports	2.271973
Inflation-rate	1.524147
Infrastructure-investment	1.034715

The multicollinearity analysis reveals varying degree of correlation among the independent variables in the regression model. The constant term has a very high VIF of 57.573869, indicating severe multicollinearity. This suggests that the constant term is highly correlated with other variables in the model, which could lead to instability in the coefficient estimates and affect the overall reliability of the model. In contrast, FDI has a VIF of 1.743002, showing low multicollinearity. This value is well below the commonly accepted threshold of 10, indicating that

FDI is not highly correlated with the other independent variables in the model. This suggests that FDI can be reliably included in the model without significantly affecting the stability of the coefficient estimates.

Net Exports has a VIF of 2.271973, also indicating low multicollinearity. This value, like that of FDI, is below the threshold of 10, suggesting that Net Exports does not exhibit significant multicollinearity with the other predictors. As a result, the inclusion of net exports in the model is unlikely to cause instability in the coefficient estimates. The Inflation Rate has a VIF of 1.524147, reflecting low multicollinearity. This value indicating that the inflation rate is not highly correlated with the other independent variables, allowing for its inclusion in the model without adversely affecting the reliability of the coefficient estimates. Infrastructure investment has a VIF of 1.034715, indicating very low multicollinearity. This suggests that infrastructure investment is not significantly correlated with the other predictors in the model, ensuring that its inclusion does not lead to instability in the coefficient estimates.

Overall, the main predictors-FDI, Net Exports, inflation rate, and infrastructure investment-exhibit low multicollinearity, suggesting that these variables can be included in the regression model without significantly affecting the stability of the coefficient estimates. However, the very high VIF for the constant term indicates severe multicollinearity, which could pose a problem for the model's reliability. This warrants further investigation into the model specification or consideration of standardizing the variables to address potential multicollinearity concerns.

Autocorrelation

Table 9. Breusch-Godfrey Test

Test	p-value
Breusch-Godfrey Test	0.001180

The Breusch-Godfrey Test for autocorrelation indicates the presence of serial correlation in the residuals of the regression model. The test yields a p-value of 0.0001180, which is well below the common significance level of 0.05. This low p-value suggests that we reject the null hypothesis of no autocorrelation, indicating that there is significant evidence of autocorrelation in the residuals. Autocorrelation in the residuals means that the errors from one time period are correlated with the errors from previous time period. This violates one of the key assumptions of ordinary least squares (OLS) regression, which assumes that the residuals are independent of each other. When autocorrelation is present, it can lead to biased standard errors and invalid statistical tests, affecting the reliability of the regression results.

Normality

Table 10. Anderson-Darling Test

Test	P-value
Anderson-Darling test	0.041803

The Anderson-Darling test for normality yields a p-value of 0.041803. since this p-value is below the 0.05 significance level, we reject the null hypothesis that the residuals are normally distributed. This indicates that the residuals deviate significantly from a normal distribution.

Testing the Hypotheses

Hypothesis One: FDI has a Significant Positive Impact on Nigeria’s Trade Balance

Table 11. Hypothesis Two: FDI Significant Contributes to the Growth of Nigeria’s Agricultural Sector

Variable	Coefficient	P-value	Conclusion
FDI	0.35	< 0.05	Supports the hypothesis: FDI has a significant positive impact on Nigeria’s trade balance.

Table 12. Hypothesis Three: FDI Positively Influences GDP Growth and Employment in Nigeria

Variable	Coefficient	P-value	Conclusion
GDP	0.55	<0.01	Supports the hypothesis: FDI positively influences GDP growth.
Employment	0.25	> 0.05	Fails to reject the null hypothesis: FDI does not have a significant direct impact on employment.

Table 13. Hypothesis Four: Regulatory, Infrastructural and Political Challenges Significantly Affect the Effectiveness of Fdi in Nigeria

Variable	Coefficient	P-value	Conclusion
Infrastructural quality	0.30	<0.10	Rejects the null hypothesis: Infrastructural quality significantly affects FDI effectiveness.
Political stability	0.40	<0.05	Rejects the null hypothesis: political stability significantly affects FDI effectiveness.
Regulatory quality	0.22	> 0.05	Fails to reject the null hypothesis: regulatory quality does not have a significant long-term impact on FDI effectiveness.

Discussion of Major Findings

Findings Based on Research Question One:

The analysis using the ARDL model reveals that FDI positively impacts Nigeria’s trade balance. The results showed a significant positive coefficient, indicating that increased FDI inflows enhance Nigeria’s trade balance. This implies that foreign investments lead to improved export capabilities or reduced

import dependencies, contributing positively to the trade balance. This finding aligns with the notion that FDI can stimulate export-oriented industries and substitute imports with locally produced goods, thereby improving the trade balance.

Findings Based on Research Question Two:

The results indicate that FDI does not have a significant direct impact of the growth of Nigeria's agricultural sector. Despite a positive coefficient, the p-value exceeded the 0.05 threshold, leading to the conclusion that the relationship is not statistically significant. This suggests that while FDI might contribute to the agricultural sector, other factors such as local policies, infrastructure, and market conditions might play more critical roles. It emphasizes the need for complementary measures to enhance the agricultural sector's capacity to leverage foreign investments effectively.

Findings Based on Research Question Three

Regarding GDP growth, the analysis confirmed that FDI has a significant positive influence. The ARDL results indicated a substantial positive coefficient with a p-value well below 0.05, suggesting that FDI inflows contribute significantly to Nigeria's GDP growth. This finding supports the view that foreign investments drive economic activities, enhance productivity, and stimulate overall economic growth. However, the impact of FDI on employment was not found to be significant. Although the coefficient was positive, the p-value did not meet the 0.05 significance threshold. This indicates that while FDI contributes to GDP growth, it does not necessarily translate into proportional employment gains. It suggests that FDI in Nigeria might be more capital-intensive rather than labor-intensive, emphasizing the need for policies that encourage investments in labor-intensive sectors to enhance employment. For GDP growth, the regression analysis resulted in a coefficient of 0.55 with a p-value of 0.01. Since the p-value is less than 0.05, we reject the null hypothesis and accept the alternative hypothesis, confirming that FDI has a significant positive influence on GDP growth.

For employment, the regression analysis showed a coefficient of 0.25 with a p-value of 0.10. As the p-value is greater than 0.05, we fail to reject the null hypothesis, indicating that FDI does not have a significant positive influence on employment in Nigeria. Hypothesis Four: Regulatory, infrastructural, and political challenges significantly affect the effectiveness of FDI in Nigeria.

This hypothesis was tested using a multiple regression analysis with FDI effectiveness as the dependent variable and regulatory quality, infrastructural quality, and political stability as the independent variables. The regression results showed the following coefficients and p-values:

1. Regulatory quality: coefficient = 0.22, p-value = 0.20
2. Infrastructural quality: coefficient = 0.30, p-value = 0.08
3. Political stability; coefficient = 0.40, p-value = 0.03
4. Given the p-value, we fail to reject the null hypothesis for regulatory quality ($p > 0.05$), indicating that regulatory challenges do not significantly affect FDI effectiveness, however, we reject the null hypothesis for infrastructural quality ($p < 0.10$) and political stability ($p < 0.05$), suggesting that

infrastructural and political challenges significantly affect the effectiveness of FDI in Nigeria.

5. This study explored the impact of Foreign Direct Investment (FDI) on various economic facets of Nigeria, focusing on the trade balance, agricultural sector growth, GDP growth, employment, and the moderating roles of infrastructural quality, political stability, and regulatory quality. The analysis covered a period of extensive data collection and statistical testing, resulting in several key findings:
 - **Impact of Trade Balance:** The study revealed that FDI significantly improves Nigeria's trade balance. This positive effect is attributed to the enhancement of the country's export capabilities and reduction in import dependencies. Specifically, FDI has contributed to the development of export-oriented industries, which has led to an increase in export volumes and diversification of export products. This diversification is crucial for reducing the country's reliance on a narrow range of commodities and for mitigating the volatility associated with global commodity prices.
 - **Impact on Agricultural Sector Growth:** The relationship between FDI and agricultural sector growth was positive but not statistically significant. This finding suggests that while FDI may provide resources and technology that could potentially boost agricultural productivity, other factors such as inadequate infrastructure, limited access to finance, and market constraints play more critical roles in the sector's growth. The agricultural sector in Nigeria still faces significant challenges that require targeted interventions beyond FDI.
 - **Impact on GDP Growth and Employment:** FDI has a significant positive effect on GDP growth, underscoring its role in driving economic activities and productivity. The infusion of foreign capital has spurred investment in various sectors, leading to increased production capacity, technological advancements, and overall economic expansion. However, the impact of FDI on employment was not statistically significant, implying that FDI in Nigeria may be more capital-intensive rather than labor-intensive. This trend suggests that while FDI stimulates economic growth, it does not automatically translate into proportional job creation, highlighting the need for policies that encourage labor-intensive investments.
 - **Moderating Factors:** Infrastructural quality and political stability were found to significantly influence the effectiveness of FDI in Nigeria. Poor infrastructure, including inadequate transportation networks, unreliable power supply, and limited communication facilities, hinders the positive impacts of FDI by increasing operational costs and reducing efficiency. Political instability, characterized by governance challenges, security issues, and political risk, undermines investor confidence and deters potential investments. On the other hand, regulatory quality did not show a significant moderating effect, suggesting that while regulatory

frameworks are important, their current state may not be the primary for investors.

CONCLUSIONS AND RECOMMENDATIONS

In conclusion, this study has provided a comprehensive analysis of the impact of Foreign Direct Investment (FDI) on economic growth and employment in Nigeria from 2012 to 2022. The findings reveal significant insights into how FDI inflows have influenced various aspects of the Nigeria economy during the period under review.

Firstly, the analysis demonstrated a positive relationship between FDI inflows and economic growth in Nigeria. The empirical results indicated that higher levels of FDI are associated with increased Gross Domestic Product (GDP) growth rates, highlighting the role of foreign investments in stimulating overall economic activity. This finding underscores the importance of FDI as a driver of economic expansion, particularly in sectors such as manufacturing, telecommunications, and energy.

Secondly, the study examined the impact of FDI on employment generation within the Nigeria economy. The findings suggest that while FDI inflows contribute positively to job creation, the distributional effects across sectors and regions vary. Specifically, sectors like telecommunications and manufacturing experienced notable employment gains due to FDI, whereas other sectors may have seen more limited impacts. This underscores the need for targeted policies to enhance the employment-generating potential of FDI, particularly in labor-intensive industries.

Moreover, the analysis explored the sectoral composition of FDI inflows in Nigeria, revealing insights into the industries that attract significant foreign investment. The study identified sectors such as oil and gas, telecommunications, and banking as primary recipients of FDI, reflecting their strategic importance and attractiveness to foreign investors. Understanding the sectoral dynamic is crucial for policymakers aiming to optimize FDI inflows and promote diversification across the economy. development in Nigeria.

FURTHER STUDY

Based on the findings, the following recommendations are proposed to policymakers, stakeholders, and relevant authorities to optimize the impact of FDI in Nigeria:

1. **Enhance Infrastructure:** The government should prioritize infrastructure development, particularly in transportation, energy, and communication. Improved infrastructure will attract more FDI and ensure that existing investments are more productive and effective. Investment in modernizing ports, expanding road networks, and enhancing power generation and distribution system will reduce operational bottlenecks and improve the overall business environment.
2. **Ensure Political Stability:** efforts should be made to maintain a stable political environment. This includes addressing issues related to governance, security and political risk, which are critical for fostering investor confidence. Strengthening democratic institutions, ensuring transparent and fair

electoral processes and improving law enforcement can create a conducive environment for investments.

3. Support Agricultural Sector: To realize the potential benefits of FDI in the agricultural sector, policies should focus on creating a conducive environment for agribusiness, including access to finance, technological innovation, and market access. Programs aimed at improving rural infrastructure, providing affordable credit facilities, and enhancing agricultural research and extension services can boost productivity and attract more FDI into the sector.

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