

THE NEXUS BETWEEN FOREIGN INVESTMENT INFLOWS AND ECONOMIC GROWTH IN NIGERIA: AN ARDL BOUND TESTING APPROACH

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Abstract

This study investigated the relationship between foreign direct investment (FDI) and economic growth in Nigeria between 1990 and 2022. Specifically, it explored the existence of a long-run relationship, examined short-run dynamics, and tested for causality between the variables. The study adopted an ex-post facto quantitative design and used annual secondary data obtained from the World Bank's World Development Indicators. Real GDP, FDI inflows, gross fixed capital formation, trade openness, inflation, and exchange rate were included in the model. Data analysis was carried out using the Autoregressive Distributed Lag (ARDL) bounds-testing approach, the ARDL error-correction model, and Granger causality tests. The bounds test produced an F-statistic of 4.41, which exceeded the 5% upper critical value of 3.79, confirming a stable long-run relationship among the variables. The findings showed that FDI had a negative and statistically significant effect on economic growth in both the short and long run. The error-correction coefficient (-0.088) indicated that about 8.8% of short-run disequilibrium is corrected annually. Granger causality results revealed no direct causal relationship between FDI and economic growth, although FDI was found to influence domestic investment.

Keywords: Foreign Direct Investment, Economic Growth, ARDL Bounds Test, Nigeria, Cointegration.

Introduction

Nigeria and other rising nations depend on FDI. Foreign investors give more than cash when they invest in local enterprises and monitor them. Their management skills, technology expertise, and contacts link global markets (Christoforidius and Katrakilidis, 2021). Foreign direct investment (FDI) sounds like a straightforward method to narrow the resource gap and accelerate growth in Nigeria, where exports are low, local savings are low, and technology is behind (Nwosa & Igbanugo, 2021).

Nigeria has the continent's greatest population and GDP. This region has abundant solid minerals, natural gas, crude oil, and ideal agriculture (Haini et al., 2024). Foreign investment in the extractive industry increased with the late 1950s discovery of large oil reserves (Zekos, 2023).

Nigeria tried to restore democracy in 1999. Hamid et al. (2023) write that Nigeria formed the Nigerian Investment Promotion Commission (NIPC), liberalised trade, deregulated banking, and privatised state-owned companies. Nigeria became one of the most popular African destinations for FDI after these adjustments increased FDI inflows from over \$1.1 billion in 2000 to over \$8.8 billion in 2011 (UNCTAD, 2024; World Bank, 2024). High poverty, unequal economic growth, and infrastructure issues impede productive activity despite these influxes (Horodnichenko, 2021).

Endogenous growth and neoclassical economics support the premise that FDI can promote economic growth. The Solow (1956) and Swan (1956) neoclassical growth model emphasises capital accumulation and technical innovation as key factors in long-term growth. The endogenous growth approach, linked with Romer (1986, 1990) and Lucas (1988), holds that innovation, human capital development, and knowledge spillovers drive economic growth, whereas FDI is just a means.

Nigeria's heavy unemployment, poverty, inadequate infrastructure, and slow industrial growth have not been solved by FDI (Oseni & Nwachukwu, 2021). Why are FDI results so disappointing if the purpose is to boost economic growth? This may explain why the petroleum industry obtains so much FDI while being capital-intensive and creating few employment. The economic multiplier advantages of foreign direct investment may not be as intended.

Nigerian empirical investigations have shown mixed outcomes. Depending on the time period, circumstances, and methodologies used, some studies have found a positive association between FDI and growth (Al Azzam et al., 2023; Bajaj and Bhooshetty, 2024; and Zhao, 2023), while others have found minor or negative effects (Ogunnubi et al., 2026; Shah, 2026; and Og A more thorough and current examination is needed to resolve this difference given the connection's development and recent structural adjustments and reforms.

The influence of macroeconomic principles on the FDI-growth relationship is also poorly studied. Inflation, trade openness, exchange rate volatility, and domestic investment matter. Ignoring these may lead to misleading findings. This study will fill a gap in the literature by studying FDI's impact on Nigeria's economic development in light of other macroeconomic factors. The study aims to

evaluate the long-term and short-term effects of FDI on Nigerian economic growth, determine if the two variables are cointegrating, and determine the direction of causality.

Literature Review

Concept of Foreign Direct Investment

Foreign direct investment (FDI) occurs when a person, organization, or firm from one nation buys a large portion in a foreign company and utilises it to significantly affect its operations. (2024, Kublikova). A 10% interest in the company's voting rights is usually enough to attract FDI. Portfolio investment differs from FDI in that it entails lower ownership shares without management control. According to "Lashitew et al., 2020".

In "foreign direct investment" (FDI), domestic and foreign partners form joint ventures, buy existing businesses, or build new manufacturing facilities (greenfield investments). (Adeniran, Raheem, 2020; Nguyen, 2025). Shah (2026) and Rahman and Anis (2025) state that each approach affects technology, jobs, and the national economy differently. Mergers and acquisitions commonly buy pre-existing capacity with minimal productive resource enhancements, whereas greenfield investments increase direct employment and technological spillovers. (2021) Adebite and Oyewole

Types and Motives of FDI

Foreign direct investment may be divided into four types based on its purpose (Ajayi, 2020). The demand for raw materials, minerals, agricultural commodities, and other natural resources drives resource-oriented FDI, according to Kipto (2024). The oil and gas sector has traditionally attracted this form of FDI to Nigeria (Emeka, 2024). Market-oriented FDI serves local markets. Nigeria attracts market investors with its almost 200 million people (World Bank, 2024). Efficiency-driven FDI involves moving production to nations with cheaper labour costs. Strategic asset-seeking FDI seeks top managerial personnel, prestigious brands, or cutting-edge technology. According to Nwachukwu and Oseni (2021), FDI that prioritises market integration or efficiency can improve the host economy by creating jobs, improving skills, and establishing forward and backward links (Emeka, 2024).

Concept of Economic Growth

A growing economy's ability to generate goods and services is economic growth. It is often measured by real GDP variation. In growth theory, momentary production shifts due to demand fluctuations are distinguished from long-term expansion due to supply variables including human effort, financial investment, and technical improvement. Rising wages, declining poverty rates, and a move from wasteful agriculture to more efficient industry and services are signs of a thriving economy (Raihan, 2024).

Gross Fixed Capital Formation (GFCF), expressed as a share of GDP, serves as an indicator of domestic investment. It covers expenditures on fixed assets such as machinery, equipment, plant, infrastructure, and improvements to land, including the construction of roads, railways, and related facilities. In this study, GFCF is incorporated as a control variable in order to account for the influence of domestic capital investment and to distinguish the specific effect of foreign direct investment on economic growth (Nwosa & Igbunugo, 2024).

Trade openness is measured by the combined value of exports and imports of goods and services relative to GDP. This indicator reflects the extent to which Nigeria participates in the global economy. A more open trading system is generally expected to support economic growth by increasing access to larger markets, stimulating competitive efficiency, and enhancing the diffusion of technology and knowledge across borders (Ogbaro, 2026).

Inflation Rate (INF): The inflation rate is measured as the annual percentage change in the Consumer Price Index (CPI). Inflation is included in the model as a control variable representing macroeconomic stability. High and volatile inflation is generally associated with economic distortions, reduced investment, and lower growth. The expected sign of the inflation coefficient is negative. Shah (2026).

Exchange Rate (EXR): The exchange rate is measured as the official nominal exchange rate of the Nigerian Naira against the US Dollar, expressed as Naira per US Dollar. A depreciated exchange rate may discourage FDI by increasing the real cost of doing business, while simultaneously making domestic assets cheaper for foreign investors, so the expected sign of the exchange rate coefficient is ambiguous. (Ogunnubi et al., (2026).

Theoretical Review

Neoclassical Growth Theory

The Solow and Swan (1956) neoclassical growth model may be used to study FDI and economic growth. Based on real-world assumptions, this theory states that long-term economic growth depends on human labour performance, technical advancement, and physical capital accumulation (Tsaui, 2025; Oyewole & Adegbite, 2021).

This theory states that FDI boosts GDP by raising domestic capital. When the economy approaches its steady-state equilibrium, capital accumulation has less of an influence, implying growth augmentation is ephemeral. Santos, 2023 was mentioned.

Endogenous Growth Theory

Romer (1986, 1990) and Lucas (1988) proposed endogenous growth theory, which varies from neoclassical economics. It sees technology progress as an internal factor controlled by investment and policy. These theories say knowledge, human capital, and innovation drive long-term economic growth. Endogenous growth theories may not anticipate declining capital accumulation returns like the neoclassical model since new information and technology spillovers may counterbalance decreased marginal productivity.

This theory gives a more complete framework for understanding FDI's influence on economic growth. Foreign direct investment (FDI) boosts economies by providing cutting-edge technology, managerial methods, and organisational improvements. Its impact on local companies and practical training can boost human capital. Through these pathways, FDI can have long-term benefits on growth beyond neoclassical theory's transitory dynamics. According to Sauvart (2021)

Empirical Review

Global Evidence

Many empirical studies have examined the relationship between FDI and GDP development in various nations and regions, but the results are mixed. Chorni and Chorna (2026) examined how FDI affected economic growth in Vietnam, Poland, and Ukraine from 2004–2024. Mixed-methodologies research used quantitative and qualitative methods. FDI helps economic growth in the long run, but various nations react differently to shocks, so it doesn't assist in the near term, the study found. Institutional stability and investment sector mix also effect FDI. The report advised improving institutions, expanding into new sectors, and minimising regional inequities to achieve fair and sustainable growth.

Zhao (2023) and Quirico (2023) examine how international entities regulate capital flows. Their ratings emphasise the role of these groups in setting global norms, benchmarks, and legal frameworks for foreign investment. Authors say international investment policy should reduce investment obstacles and promote a more balanced allocation of FDI benefits. This is a major issue since many overseas investors participate in high-return initiatives.

Evidence from Nigeria

In Nigeria, numerous studies have examined the connection between FDI and GDP growth, but the results have not been consistent across studies. Ezeaku and Ugwuanyi (2020) examined FDI's influence on Nigeria's economy. The Autoregressive Distributed Lag (ARDL) approach was applied to the time-series data in order to examine the long-run relationship between foreign direct investment inflows and economic growth. FDI boosts Nigeria's economy, according to the research. Research used rigorous econometric methods to confirm the results' quality and dependability. The report suggests developing a business-friendly climate to boost investment flows.

To overcome methodological flaws in previous studies, Emeka (2024) employed a desk study to examine FDI and GDP growth in Nigeria. The study found that FDI enhances GDP by facilitating capital and knowledge flows. The connection is still highly impacted by government efficiency and institution quality. Without these components, policy conflicts might hinder infrastructure expansion and lower investor confidence.

Olaniyan and Okemakinde (2021) examined Nigeria's FDI and economic development using panel data from various years and regions. Using Autoregressive Distributed Lag (ARDL), the study indicated that FDI helped Nigeria's economy expand over time.

Umar and Abdullahi (2022) investigated the relationship between foreign direct investment and GDP growth in Nigeria by applying the Granger causality approach. FDI and GDP growth are positively associated, demonstrating bidirectional causality, according to time series research. For more reliable outcomes, the research applied rigorous econometric methodologies. The authors proposed regulatory reforms to make conducting business in Nigeria easier and more appealing to international investors.

Ogbaro et al. (2026) examined FDI and GDP growth in Nigeria from 1986 to 2022, focusing on financial development as a mediator. Research estimating methods included CCR, ARDL, and FMOLS. The data showed no direct, beneficial, and statistically significant influence of FDI on GDP growth. A country's financial development significantly influenced FDI's growth-promoting effect, researchers discovered. Due to banking system problems, FDI cannot lead to long-term economic growth in Nigeria.

In a comparative study covering developed and developing economies from 1996 to 2023, Shah et al. (2026) analyzed how FDI influences economic development, with particular attention to the host country's absorptive capacity. The analysis was conducted using a panel threshold regression model, FE-2SLS, system GMM, high-dimensional fixed effects, and two-way fixed effects. FDI significantly boosted developing countries' GDP while having minimal impact on rich nations. The authors stress the host country's technical capability, human resources, and institutional quality as crucial to FDI success. The research suggested that governments should prioritize native economic bases above foreign direct investment.

Ogunnubi et al. (2026) examined Nigeria's economic development from 1981 to 2024 using agricultural production and foreign direct investment statistics. The study evaluated near and distant interactions using Autoregressive Distributed Lag (ARDL). While FDI benefited long-term growth, the statistics indicated that it hurt short-term growth. Both periods showed negative consequences from interest rates and inflation. FDI affects GDP growth differently depending on the time period, but agricultural output boosts GDP over time. More government assistance for farmers and more robust insecurity measures may improve the investment climate, according to the report.

Research Methods

Research Design

The study uses 1990–2022 ex-post facto data since the researcher has no control over the individuals. This approach is best and most practical due to its properties. The analysis is based on yearly secondary data sourced from the Central Bank of Nigeria Statistical Bulletin and the World Bank's World Development Indicators, which are examined using quantitative methods.

Model Specification

The study approach is based on Solow (1956)'s Neoclassical Cobb-Douglas Production Function, which Romer (1986, 1990) and Lucas (1988) expanded under the Endogenous Growth paradigm. This function asserts that capital, labour, and technology influence production, using foreign direct investment (FDI) as a capital accumulation and technology dissemination tool. A quantitative econometric equation was generated from the conceptual framework following its practicalization.

Because the unit root results indicate that the variables are integrated at different orders, the study adopts the Autoregressive Distributed Lag (ARDL) bounds-testing approach developed by Pesaran, Shin, and Smith (2001). The suitability of this technique for models containing a mixture of I(0) and I(1) variables has also been recognized in previous studies, including Ajayi (2020) and Ogunnubi (2026).

The relationship among the variables is represented functionally as:

$$RGDP = f(FDI, GFCF, OPEN, INF, EXR)$$

For estimation purposes, the model is specified in log-linear form as:

$$\ln RGDP_t = \beta_0 + \beta_1 \ln FDI_t + \beta_2 \ln GFCF_t + \beta_3 \ln OPEN_t + \beta_4 \ln INF_t + \beta_5 \ln EXR_t + \varepsilon_t$$

where real gross domestic product serves as the indicator of economic growth; FDI denotes foreign direct investment inflows as a percentage of GDP; GFCF represents gross fixed capital formation; OPEN measures trade openness; INF is the inflation rate; EXR is the official exchange rate; and ε_t is the random disturbance term for the period 1990-2022.

Economic theory suggests that FDI, capital formation, and trade openness should contribute positively to growth, while inflation is expected to exert a negative effect. The influence of the exchange rate is uncertain and may vary depending on macroeconomic conditions.

Given the mixed integration properties of the series, the ARDL conditional error-correction specification is employed as the main estimation framework. The model is written as:

$$\Delta \ln RGDP_t = \alpha_0 + \sum \beta_{1i} \Delta \ln RGDP_{t-i} + \sum \beta_{2i} \Delta FDI_{t-i} + \sum \beta_{3i} \Delta GFCF_{t-i} + \sum \beta_{4i} \Delta OPEN_{t-i} + \sum \beta_{5i} \Delta INF_{t-i} + \sum \beta_{6i} \Delta \ln EXR_{t-i} + \delta_1 \ln RGDP_{t-1} + \delta_2 FDI_{t-1} + \delta_3 GFCF_{t-1} + \delta_4 OPEN_{t-1} + \delta_5 INF_{t-1} + \delta_6 \ln EXR_{t-1} + \lambda ECT_{t-1} + \varepsilon_t$$

where Δ denotes first differences; p, q_1-q_5 are lag lengths selected using the Akaike Information Criterion (AIC); $\delta_1-\delta_6$ capture the long-run coefficients; λ measures the speed of adjustment of the short-run disequilibrium ECT_{t-1} , which is expected to be negative and statistically significant. A negative and statistically significant error-correction coefficient indicates convergence towards the long-run equilibrium.

Cointegration is examined through the ARDL bounds test by evaluating the null hypothesis that all long-run level coefficients are jointly equal to zero

The ARDL Bounds Test for cointegration involves testing the joint null hypothesis that

$$H_0 : \delta_1 = \delta_2 = \delta_3 = \delta_4 = \delta_5 = \delta_6 = 0$$

The computed F-statistic is then compared with the lower I(0) and upper I(1) critical bounds reported by Pesaran, Shin, and Smith (2001). When the F-statistic is greater than the upper bound, the null hypothesis of no long-run relationship is rejected, indicating the existence of cointegration irrespective of whether the variables are I(0) or I(1).

Discussion of Results.

Table 1: Descriptive Statistics of Variables

Statistic	lnRGDP	FDI	GFCF	OPEN	INF	lnEXR
Mean	26.3653	1.3039	28.3320	35.9603	18.0847	4.5345
Median	26.3951	1.3804	26.7442	36.0587	12.8766	4.8615
Maximum	26.9564	2.9002	53.1222	52.7941	72.8355	6.0544
Minimum	25.7549	-0.0289	14.1625	16.3522	5.3880	2.0842
Std. Deviation	0.4729	0.8584	11.2400	9.2438	16.1079	1.1276
Skewness	-0.0637	0.1152	0.3869	-0.1215	2.1990	-0.7170
Kurtosis	1.3457	1.8354	2.0954	2.4883	6.8264	2.3224
Jarque-Bera	3.7855	1.9377	1.9484	0.4413	46.7278	3.4585
Probability	0.1507	0.3795	0.3775	0.8020	0.0000	0.1774
Observations	33	33	33	33	33	33

Source: Author's Calculation based on data from the Central Bank of Nigeria (2024). Note: RGDP and EXR are expressed in natural logarithm form (lnRGDP and lnEXR) as used in the estimation. FDI, GFCF, OPEN, and INF are in their original percentage forms. *** indicates Jarque-Bera rejection of normality at 1%.

Table 2: Correlation Matrix of Variables

	lnRGDP	FDI	GFCF	OPEN	INF	lnEXR
lnRGDP	1.0000	-0.2179	-0.8259	-0.3916	-0.4350	0.8813
FDI	-0.2179	1.0000	-0.0611	0.2702	0.0557	-0.0826
GFCF	-0.8259	-0.0611	1.0000	0.0695	0.4167	-0.7906
OPEN	-0.3916	0.2702	0.0695	1.0000	-0.1078	-0.2571
INF	-0.4350	0.0557	0.4167	-0.1078	1.0000	-0.4427
lnEXR	0.8813	-0.0826	-0.7906	-0.2571	-0.4427	1.0000

Source: Author's Computation (2024).

Table 3: Unit Root Test Results (p-values)

Variable	ADF Level	ADF 1st Diff.	PP Level	PP 1st Diff.	Order of Integration
lnRGDP	0.8178 (Non-stationary)	0.0465** (Stationary)	0.8786 (Non-stationary)	0.0544* (Stationary)	I(1)
FDI	0.2402 (Non-stationary)	0.0000*** (Stationary)	0.2514 (Non-stationary)	0.0000*** (Stationary)	I(1)
GFCF	0.1175 (Non-stationary)	0.0036*** (Stationary)	0.1681 (Non-stationary)	0.0035*** (Stationary)	I(1)
OPEN	0.0421** (Stationary)	0.0000*** (Stationary)	0.0421** (Stationary)	0.0000*** (Stationary)	I(0)
INF	0.2253 (Non-stationary)	0.0021*** (Stationary)	0.1421 (Non-stationary)	0.0010*** (Stationary)	I(1)
LnEXR	0.3332 (Non-Stationary)	0.0002*** (Stationary)	0.2904 (Non-Stationary)	0.0002*** (Stationary)	I(0)

Table 4: ARDL Bounds Test Results

Test Statistic	Value	k
F-statistic	4.410796	5

Significance Level	I(0) Lower Bound	I(1) Upper Bound
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

Source: Author's Computation based on data from the Central Bank of Nigeria (2024). Note: k represents the number of regressors. The critical values are obtained from Pesaran, Shin, and Smith (2001), Table CI(iii), Case III.

Table 5: ARDL Short-Run (Cointegrating Form) Results - Dependent Variable: D(lnRGDP)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(FDI)	-0.003160	0.008332	-0.379194	0.7085
D(GFCF)	-0.001568	0.001077	-1.455749	0.1610
D(OPEN)	0.001142	0.000781	1.463291	0.1589
D(INF)	-0.000837	0.000587	-1.425646	0.1694
D(INF(-1))	0.001551	0.000723	2.145137	0.0444**
D(EXR)	-0.044793	0.026860	-1.667671	0.1110
D(EXR(-1))	-0.040878	0.020725	-1.972415	0.0625
CointEq(-1)*	-0.087754	0.036019	-2.436333	0.0243**

Source: Author's Computation (2024). Note: **, * denote significance at the 5% and 10% levels respectively. D() denotes first difference operator. CointEq(-1)* is the error correction term.

Table 6: ARDL Long-Run Coefficient Estimates — Dependent Variable: lnRGDP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FDI	-0.036005	0.090047	-0.399851	0.6935
GFCF	-0.017865	0.009741	-1.834046	0.0816*
OPEN	0.013016	0.012298	1.058389	0.3025
INF	-0.019992	0.011748	-1.701767	0.1043
EXR	0.120323	0.130750	0.920251	0.3684
C	26.795919	0.962077	27.852143	0.0000***

Source: Author's Computation (2024). Note: ***, * denote significance at the 1% and 10% levels respectively. $Cointeq = \ln RGDP - (-0.0360*FDI - 0.0179*GFCF + 0.0130*OPEN - 0.0200*INF + 0.1203*\ln EXR + 26.7959)$.

Table 7: Pairwise Granger Causality Test Results

Direction of Predictive Influence	F-value	p-value	Inference
FDI → RGDP	1.5371	0.2339	No predictive causality
RGDP → FDI	2.4988	0.1017	No predictive causality
GFCF → RGDP	1.5428	0.2327	No predictive causality
RGDP → GFCF	0.7831	0.4675	No predictive causality
OPEN → RGDP	0.7753	0.4709	No predictive causality
RGDP → OPEN	4.2966	0.0244	Significant at 5%
INF → RGDP	0.7428	0.4856	No predictive causality
RGDP → INF	2.1232	0.1399	No predictive causality
EXR → RGDP	3.3065	0.0525	Not significant at 5%
RGDP → EXR	0.6651	0.5227	No predictive causality
FDI → GFCF	5.9110	0.0077	Significant at 1%
GFCF → FDI	1.6913	0.2039	No predictive causality
GFCF → OPEN	3.8230	0.0350	Significant at 5%
GFCF → INF	3.5296	0.0440	Significant at 5%
INF → EXR	5.9768	0.0073	Significant at 1%

Source: Author's Computation (2024). Arrows indicate the direction of predictive influence.

Table 8: Post-Estimation Diagnostic Test Results

Diagnostic Procedure	Test Value	p-value	Interpretation
Breusch-Godfrey LM test for residual autocorrelation	1.8206	0.1905	Residuals are free from serial correlation
Breusch-Pagan-Godfrey test for variance consistency	1.0228	0.4594	Error variance is constant
Ramsey RESET test for functional form	0.7756	0.3895	Model specification is adequate
CUSUM parameter stability test	—	—	Coefficients remain stable within the critical bounds
CUSUMSQ structural stability test	—	—	Model remains stable within the critical bounds

Source: Author's Computation (2024)

Table 9: Diagnostic and Stability Assessment of the Estimated ARDL Model

Evaluation Method	Computed Statistic	Probability	Outcome
LM test for autocorrelation (Breusch–Godfrey)	1.8206	0.1905	No evidence of residual autocorrelation
Variance consistency test (Breusch–Pagan–Godfrey)	1.0228	0.4594	Residuals exhibit constant variance
Functional form test (Ramsey RESET)	0.7756	0.3895	Model form appears appropriate
CUSUM stability check	—	—	Parameters remain within the critical limits
CUSUMSQ stability check	—	—	No sign of structural instability

Source: Author's Computation (2024)

Summary, Conclusion and Recommendations

Results from the ARDL bounds-testing procedure indicate the existence of a stable long-run relationship among the model variables. Since the computed F-statistic of 4.41 exceeds the 5% upper critical value of 3.79, the null hypothesis of no long-run association is rejected, confirming the presence of cointegration among the variables. Long-term stability is maintained by external investment, GDP growth, domestic FDI, trade liberalization, inflation, and exchange rates. Early ARDL coefficients with a probability value of 0.7085 showed that FDI had little effect on GDP growth. Extended examinations showed that foreign direct investment did not affect economic growth ($p=0.6935$). So, FDI did not affect Nigeria's economic development; this was the null hypothesis the investigation could not reject.

Conclusion

The findings of this study indicate that foreign direct investment did not have a significant effect on Nigeria's economic growth over the period 1990-2022. The results suggest that increases in FDI inflows were not associated with meaningful improvements in economic performance in either the short run or the long run. This implies that the mere expansion of foreign investment inflows was insufficient to generate sustained economic growth during the period examined.

The analysis, however, confirms the existence of a stable long-run relationship among economic growth, domestic investment, foreign direct investment, trade openness, inflation, and exchange

rate. Although these variables may experience short-term fluctuations, they remain interconnected and tend to move together over time. The presence of cointegration suggests that changes in one variable are eventually reflected in the others as the economy adjusts towards long-run equilibrium. Overall, the results point to the importance of strengthening the domestic economic environment. Policies that improve infrastructure, institutional quality, productive capacity, and the efficient use of foreign capital may be more effective than policies focused solely on attracting higher volumes of FDI.

Recommendations

Since FDI does not greatly affect GDP growth, the Nigerian government should focus on investment quality rather than quantity. To ensure long-term economic growth, policies should stimulate FDI in lucrative non-oil areas including renewable energy, agriculture, technology, and manufacturing while improving domestic links, simplifying knowledge transfer, and boosting local involvement. The Nigerian Investment Promotion Commission (NIPC) should develop sector-specific investment promotion programmes to attract productivity-boosting FDI.

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