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FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN NIGERIA (1988 –2023) (ERROR CORRECTION MODEL APPROACH)

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Abstract

The study investigated the impact of foreign direct investment (FDI) on economic growth of Nigerian from 1988 to 2023. The objective of the study was to examine the impact of foreign direct investment and domestic investment measured by gross fixed capital formation (GFCF) on economic growth of Nigeria. A long-run relationship between the variables was confirmed by the unit root test, which was used in the study. The co-integration test and the error correction model (ECM) were used in the data analysis. The results of the ECM indicated that the coefficient values for GFCF and LFDI are 0.077662 and 0.27282, with corresponding critical values of 0.27282 and 2.65898. This suggests that FDI has a positive and significant impact on economic growth, while GFCF has a positive and insignificant impact on Nigeria's economic growth during the review period. Hence, the report recommended that government should reinforce existing policies and plan on investment to attract more foreign direct investment and promote local businesses in Nigeria.

Keywords: *Foreign direct investment, economic growth, domestic investment*

INTRODUCTION

An open and efficient international economic system depends on foreign direct investment (FDI). It is thought to be one of the main forces behind economic expansion, particularly in developing nations. Foreign Direct Investment refers to a range of cross-border investment categories linked to a multinational corporation (MNC) situated in a nation that possesses control or a significant degree of control over the management of a company situated in a different nation. This occurs when a foreign investor who resides in one nation (referred to as the parent company) owns at least 10% of the stock of a business that is based in another nation (referred to as the affiliate) (Chauvin & Alfaro 2017). According to Shenai and Jaiblai (2019), foreign direct investment refers to a long-term partnership that expresses an investor's ongoing interest in and influence over a company that operates in an economy other than their own. Through the development of new skills, the activation of innovation, the creation of new jobs, and the improvement of living standards for citizens of the host country, foreign direct investment plays a critical role in accelerating economic growth of the host nation. Domestic companies can access global value chains and worldwide markets by means of foreign direct investment (FDI). This might come to pass in situations where local businesses engage in business activities with

multinational corporations (MNCs) (OECD, 2019).The actions of multinational corporations across borders benefit the businesses that operate in both the parent and the host countries. Multinational corporations (MNCs) provide knowledge transfer, human skill enhancement, and operational system improvement to their host companies. Additionally, MNCs help parent companies integrate into the global economy through market expansion and improved profits from foreign affiliates, which positively impact capital stock and the balance of payments.

Multinational Corporations (MNCs) engage in a variety of activities, such as moving investments from their home country to a foreign country, which can result in a trans-border capital flow. Transnational investment can take two distinct forms: brownfield investment and greenfield investment. A greenfield investment is when a multinational corporation establishes new facilities, employment possibilities, and manufacturing capacity in the host nation. On the other hand, the Brownfield investment is made through mergers and acquisitions (M&A), which entail the purchase of an established domestic business. For improved performance, the foreign business modifies the production and operational procedures of the purchased company (Kusek & Qiang, 2020).Since Greenfield investment has made up an average of 62 percent of global investment over the past 20 years, while brownfield investment has made up an average of 38 percent of international investment, greenfield investment is seen as the primary driver of economic growth (UNCTAD 2020). Research has demonstrated that relationships and spillover effects between foreign direct investment and the socioeconomic activities of the host nations occur. This is due to the fact that the presence of MNCs in a host nation would intensify competition between local and foreign-owned firms, encouraging the latter to modernize their technology in order to streamline operations and improve worker skills, all of which translate into higher-quality goods and services at lower prices (OECD 2019).Research has demonstrated that companies engaged in cross-border investment and trade provide more inventive and productive production methods than companies that do not. This is made feasible by MNC supply networks in host economies, which may disseminate technology and knowledge to local firms. Knowledge and technology transfer would lower production costs for local firm and initiate a number of socioeconomic initiatives that would help the host nation's population. This would, however, rely on the macroeconomic and policy environment of the host nation. (OECD, 2019).

When it comes to filling the gap left by inadequate domestic capital formation and investment to promote economic growth in the host nations, foreign direct investment (FDI) is essential. Over the past few decades, this has led to a growth in the volume of cross-border capital movements. According to (Shenai and Jaiblai 2019), global FDI flows increased from US$1821 billion in 2015 to US$1430 billion in 2017. According to the 2017 estimate, capital inflows into developed countries (Europe and North America) totaled US$712 billion, while capital inflows into developing countries (Africa, Asia, and Latin America and the Caribbean) totaled US$4671 billion. Other capital inflows into transition economies were estimated to be US$47 billion. Total capital movements across international borders as of the end of 2020 were US$ 859 billion, down 42% from US$1.5 trillion in 2019 OCED (2020). The three largest economies in Africa, Nigeria, Egypt, and South Africa, drew a total of US$2.6 billion, US$2.5 billion, and US$5.5 billion in foreign direct investment (FDI) in 2020, accounting for 859 billion US dollars in worldwide FDI inflows. UNCTAD (2021)

The transfer of physical capital, new production technology, enhanced managerial skills, high-quality goods and services, marketing know-how, advertising, and improved business organizational processes are some of the ways that foreign direct investment (FDI), also known as technological and managerial spillover or externalities, boosts the economies of the host countries (Odhiambo and Mahembe, 2014). In addition to directly shifting capital from parent company to affiliate firms, which has a positive impact on macroeconomic outcomes like wages, exports, and volatility in different economic sectors, multinational companies also indirectly boost local firms' productivity through competition and their presence in the host countries. Due to the competition, local businesses would be encouraged to modernize and adopt more effective business practices. This would put them in a better position to collaborate with MNCs and benefit from the knowledge and technology diffusion that would result from this relationship (Chauvin and Alfaro 2017). The transfer of cutting-edge technology, improved management techniques, and specialized knowledge from parent companies to affiliate firms operating in the host countries is one of the externalities associated with the entry of multinational corporations. They claimed that upgrades, linkages, and spillover would help related and same-sized businesses in the host nations. However, these advantages would be dependent on the host business's ability to adopt and use the increased managerial and technological capabilities made possible by the presence of multinational corporations. Local firms that are unable to survive the fierce competition created by multinational corporations will leave the market, while those that are able to do so will adapt to survive and benefit from the externalities or spillover that come with the entry of large corporations.

Natural resource availability and market size have been the primary drivers of multinational corporations' expansion into host nations, particularly developing nations (UNTAD 2021). For example, the largest FDI flows to Africa were drawn to Nigeria, Egypt, and South Africa because to their vast markets, infrastructure development, and plenty of natural resources. According to (Chauvin & Alfora 2017), market size and the availability of natural resources do not guarantee the benefits that are meant to result from FDI inflows. They contended that the degree of a nation's enterprise, trade openness, competitiveness, regulatory and macroeconomic framework, technology, educational attainment, and infrastructure development all influence how much the host countries would gain from the entry of multinational corporations (MNCs). FDI would promote economic growth in the host nations when these characteristics are present at sufficient levels and there is a robust, transparent legal and macroeconomic framework supporting MNCs.

According to Kusen and Zhenei (2020), the advantages of having multinational corporations (MNCs) in the host nation rely on a variety of factors, such as the degree of the macroeconomic framework, the state of the infrastructure, and the legal and regulatory framework of the nation. As a result, host nations must establish an atmosphere that encourages multinational corporations to operate there and have faith in the local economic structure. In order to mitigate risks that could negatively impact multinational corporations, the host nation should provide a more stable macroeconomic environment and enhance its legal and regulatory structure. This is so that their property rights may be recognized and effectively enforced by investors, who depend on the legal and regulatory system of the host nation. Additionally, increasing the clarity of the legal and regulatory environment pertaining to MNC entry can help to make corporate operations more predictable by reducing the amount of discretion left to bureaucrats. Qiary and Kusek (2020).The nature of the fixed and irreversible setup costs as well as the business climate of

the nation in which an investor plans to make an investment determine how an investor will react to fresh investment opportunities. Investors would be eager to invest where these are beneficial, and vice versa. Because of this, almost all foreign investors are keen to learn about and comprehend the economic climate of the host nation in which they plan to invest in order to protect their business from harsh and unwelcoming economic policies as well as bureaucratic roadblocks.

With approximately US$ 3.3 billion in FDI received in 2019, Nigeria is one of the top recipients of FDI in Africa, according to a World Bank report (2020). The majority of emerging economies, including Nigeria, view foreign direct investment (FDI) inflows as a way to bridge the gap left by domestic investment's insufficient ability to spur economic growth. According to Chauvin and Alfora (2017), Alabi (2019), and Bajrami and Zegin (2019), foreign direct investment (FDI) can spur economic growth by establishing new, viable economic systems, advance technological advancements, and diversify the economies of host nations by fostering connections and the transfer of cutting-edge managerial techniques and technology. This might be accomplished by the establishment of new businesses (greenfield investment) or the merger and acquisition (brownfield investment) of already-existing businesses. One of the most common ways for parent companies to transfer private capital to host nations is through foreign direct investment. This would assist the host nation in meeting its budgetary needs and bolster its case for the investments required to demonstrate economic growth. Nigeria has therefore made an effort to adopt different policy and regulatory frameworks in an effort to foster an environment that is favorable and enabling to attract FDI. For example, the Nigerian Investment Promotion Commission Act of 1995 was created to eliminate decades of restrictions on foreign direct investment (FDI) and to allow 100% foreign ownership of all sectors of the economy, with the exception of the petroleum sector World Bank Report (2020). In order to encourage MNCs to operate, Nigeria has also undertaken a number of measures and provided regulatory framework, including tax policy incentives and cost-based tax incentives (Etim, Jeremiah, and Jeremiah 2019).

The erratic trend behavior of the level of foreign direct investment (FDI) flows to Nigeria in recent decades and the fluctuating economic growth of Nigeria over the past few years seem to indicate that, despite all of Nigeria's efforts, these efforts have not appeared to have produced the desired results. For example, foreign direct investment (FDI) inflow to Nigeria was US$3.5 billion at the end of 2017, US$1.9 billion in 2018, and US$2.6 billion at the end of 2019. (Oyegoke, & Aras (2021, and Ndugbu, Duruchi, & Ojiegbe 2017). Additionally, between 2015 and 2016, the average annual increase of real GDP per capita fell to -0.01 from 2.43 percent in 2011–2014 (Akinkunmi 2017).The question remains, have the liberalized rules and policies adapted by Nigeria be able to attract the needed FDI to stimulate economic growth? This issue under discussion has inspired this research study.

Objectives of the Study

The cardinal objective of the study is to examine the impact of Foreign Direct Investment (FDI) on economic growth of Nigeria. Specifically, the objectives include to:

i. Analyses the impact of foreign direct investment on economic growth in Nigeria.

ii. Investigate the impact of domestic capital investment on economic growth in Nigeria.

Statement of Hypothesis

Hypothesis One:

H_{o1}: There is no statistical positive impact of foreign direct investment on Gross Domestic Product in Nigeria.

Hypothesis Two:

H_{O2}: There is no statistical positive impact of domestic capital investment and economic growth in Nigeria.

LITERATURE REVIEW

To assess the impact of FDI on growth, numerous researchers have conducted empirical studies to ascertain the correlation between FDI and economic growth. Among them are the works of Alab (2019), Loots (2012), Shanai and Jaibai (2019), and Ezemenari et al. (2016).

Okonkwo, Egbunike, and Ude (2015) examined the impact of foreign direct investment (FDI) on the Nigerian economy from 1990 to 2012 using ordinary Least Square (OLS). The research used GDP as the dependent variable and FDI, import/export, inflation rate, and exchange rate as the explanatory factors. The findings demonstrated that whereas FDI, import, and inflation rate are negatively correlated with economic growth, export, exchange rate, and technology are positively correlated with it. Ezemenari, Tiruneh, and Wamboye (2016) looked into the influence of national investments in Africa's growing economies. The study used the system generalized method of movements approach (SGMM) to estimate the model's variables and modified the neoclassical growth model. Trade, human capital, foreign direct investment, and governance were employed as independent factors, while growth in labor productivity (measured by GDP) was used as the dependent variable. According to the report, foreign direct investment (FDI) boosts economic growth in Africa, and human capital is a key factor in both labor productivity and economic expansion in the continent. The study's conclusion states that increased FDI flows to Africa have improved job growth and the development of human capital.

Alabi (2019) examined the impact of FDI on Nigeria's economic growth from 1986 to 2017 using the multiple regression approach of econometric technique. The study used foreign direct investment (FDI), interest rates, currency rates, and domestic investment as independent variables and the gross domestic product as the dependent variable. The results demonstrated that FDI significantly and favorably affects Nigeria's economic growth. Additionally, favorable effects on economic growth are seen in interest rates, domestic investment, and exchange rates; however, these effects are not significant at the five percent level. Grounded on the results, the study came to the following conclusions: foreign direct investment (FDI), interest rates, currency rates, and domestic investment have all contributed to Nigeria's economic growth, with FDI having a major impact.

Using an econometric technique, Shanai and Jaibiai (2019) investigated the factors influencing foreign direct investment inflows into twelve sub-Saharan African countries: Liberia, Sierra Leone, Ivory Coast, Ghana, Nigeria, Mali, Niger, Mauritania, Cameroon, and Senegal. Their research covered the years 1990 to 2019. A set of cross-sectional data covering the years 1990 and 207 was used in the study. To determine economic growth and factors influencing FDI flows to these nations, the following variables were used as independent variables: inflation, GDP, Gross National Income, exchange rate, trade openness, and infrastructure. FDI and GDP were used as dependent variables. The results indicated that while trade openness, market size, and exchange rate were all positively

correlated but not significantly correlated with these nations' economic growth, solid infrastructure and market size had a positive and substantial long-term impact on the dependent variable (FDI). In contrast, inflation has a detrimental effect on the growth of the economy during the examined time. According to the study's findings, market size and infrastructure have a crucial role in determining FDI flow to Africa, and FDI has boosted the economies of these nations.

Ndugbu, Duruchi, and Ojiegbe (2017) investigated foreign direct investment in Nigeria as well as macroeconomic policy variables. Regression analysis was utilized in the study to estimate the model's variable, and a quasi-experimental research method was adopted. FDI was the dependent variable, while the explanatory factors included FDI, GDP, imports, exchange rate, and interest rate. The results indicate that FDI and GDP are positively correlated, but FDI and inflation, interest rates, and trade openness are negatively correlated. The study suggests, based on the data, that the macroeconomic variables taken into account—especially the exchange rate and gross domestic product—have a considerable impact on foreign direct investment.

Ogegoke and Aras (2021) examined the impact of foreign direct investment on economic growth in Nigeria by employing the ordinary lest square (OLS) approach. The study looked at how Nigeria's economic growth was impacted by inflows and outflows of foreign direct investment between 1970 and 2019. To measure economic growth, the gross domestic product was employed, with foreign direct investment serving as the explanatory factor. The study's findings demonstrated a positive correlation between Nigeria's GDP and FDI influx. The study indicated that foreign direct investment (FDI) had a considerable positive impact on Nigeria's economic growth throughout the reviewed period, based on the findings.

The studied literature suggests that opinions on how foreign direct investment affects economic growth are divided. A portion of the results are still unclear and inconsistent with theory, particularly in the research on the Nigerian economy. Thus, this request for additional research on the topic.

Theoretical Foundation

The Neoclassical Exogenous Growth Theory

Robert Solow is given credit for the theory. The hypothesis was made in 1956. According to the idea, exogenous, or external, factors have a greater influence on an economy's growth than endogenous ones (Chawdhury 2020). According to the theory, economic growth cannot be achieved without constant variables such as foreign direct investment inflow, and technological advancement has a big impact on the economy. The exogenous growth paradigm postulates that external variables like foreign direct investment (FDI), as opposed to internal causes, govern economic growth. The three forces that propel neoclassical theory are labor, capital, and technology.

Y f(L.K,T)…….(1)

where

Y = growth

L = Labour

K = Capital

T = Technology

According to theory, these external factors have a major role in determining how best to maximize economic growth and production. The function becomes Y = (k), or GDP is the function of investment, when the other variables are held constant. The model illustrates how changes in foreign direct investment (FDI) and domestic investment, as determined by gross fixed capital formation (GFCF), impact changes in the gross domestic product by confining the theory to the study. In math, GDP is equivalent to F(FDI, GFCF).

METHODOLOGY

Model Specification

According to the theoretical and empirical literature that was examined, the study's model, which shows how the variables relate to one another, is separated into dependent and independent variables. Because of the independent variables foreign direct investment (FDI) and gross fixed capital formation (GFCF), the GDP, which measures economic growth, is a dependent variable. The functional, mathematical, and econometric representations of the model are provided below to enable the equation to be analyzed. GDP = (FDI, GFCF) is the model's functional form.

$GDP = a_o + a_1FDI + a_2 GFCF$ mathematical form of the model

$GDP = a_0 + a_1FDI + a_2GFCF + e$ econometric form of the model

Where:

GDP = Gross Domestic product

FDI = foreign direct investment

GFCF = Gross Fix Capital Formation

a_0 = the intercept

$a_1 – a_2$ = are the slop

RESULT AND DISCUSSION

A number of diagnostic tests were carried out as part of the study, including regression analysis, auto correlation, stationarity, co-integration, and heteroscedasticity. This is to guarantee that the study's data are accurate, dependable, and compliant with the fundamentals of classical linear regression.

Descriptive Analysis

Table 1: Presents Descriptive Result of the Data

	LGDP	LGFCF	LFDI
Mean	4.363943	2.646452	5.307442
Median	4.587876	2.832731	5.595959
Maximum	4.880544	3.390658	6.133637
Minimum	2.499137	1.366610	3.235074
Std. Dev.	0.701608	0.562383	0.777350
Skewness	-1.829503	-0.735556	-1.030218
Kurtosis	4.873665	2.488480	3.080251
Jarque-Bera	25.34842	3.638733	6.377750
Probability	0.000003	0.162128	0.041218
Sum	157.1019	95.27227	191.0679
Sum Sq. Dev.	17.22889	11.06960	21.14956
Observations	36	36	36

Source: *e-view output 2024*

The result of descriptive analysis that is presented 1 above indicates that a total of 36 observations are analyzed in the study. The result shows that the mean value of LGDP,

which is dependent variable and as a measure for economic growth, is 4.363943.Thisimplies that with the explanatory variables used in the study, the mean of LGDP can be predicted to be 4.36. LGDP and deviation from mean is 0.761608 which is low. The maximum and minimum value of LGDP is 4.886544 and 2.499137 respectively. The LGFCF which is a proxy for domestic investme4nt, is 2.64657 with deviation of 0.562383 and has maximum value of 3.390058 and minimum value of 1.366610.the LFDI has a mean value of 5.307447, with a deviation value of 0.777350 and maximum and minimum values of 6.133637 and 3.235074 respectively. The medium values for LGDP, LGFCF and LFDI ARE 4.587870, 2.832731 and 5.595959 respectively. This is an indication that the median values of the study variables do not deviate much from their average values. Further analysis of the result reveals that the values for skewness of the variables (LGDP, LGFCF, and LFDI) are -1.829503, -073556 and -1.030218 which indicates that they are skewed to the left. The value for kurtosis of LGDP and LFDI are 4.873665 and 3.080261 which are grater that 3. This is an indication that these two variables are leptokurtic, while the value of LDFCF is 2.455480 which is less than 3 and therefore is platykurtic. The Jarque-Bera statistics values for LGDP, LGFCF and LFDI are 25.34842, 3.638733 and 6.377750 which is greater than the values for their respective probability of 0.000003, 0.162128 and 0.041218. this indicates that all the variables included in the model are normally distributed within the review period.

Test for Stationarity

The unit root test is conducted for the stationarity property of the variables since time series data are usually non – stationary and regressing time series data without stabilizing it could result to spurious or meaningless result. Hence, the study adopted Augumented – Dickey – Fuller (ADF) unit root test as shown in table 1.2 below.

Table 2: Presents Unit Root Test of Variables at First Difference

Variables	ADF statistics	Critical value	Lag value	Remark
LGDP	-5.257775	-2951125	0	Stationary
LGFCF	-5.058644	-2951125	0	stationary
LFDI	-.9.535482	-2951125	0	stationary

Source: *Researcher's compilation from E-view result 2024*

Table 2 result shows that all variables namely LGDP, LGFCF and LFDI are stationary at first difference. Since all the series are integrated of the same order 1(1), the Jahhansen co-integrated test becomes necessary which suggests co-integration test to determine the long run relationship between variables.

Jahansen Co–Integration Test

To determine whether the computed model parameters have long-term association, the study employed Janansen co-integration test to ascertain long run relationship existing between variables If the trace statistic is greater than critical value, the null hypothesis is rejected and alternative hypothesis accepted and vice versa**.**

Table 3: Present the Result of Co-Integration

Date 09/09/2024: Time 14.23
Sample (Adjusted) 1990 -2023
Included observation 34 after adjustment
Trend assumption: Linear deterministic trend
Log interval (in first difference 1 to 1
Unrestricted co-integration rank test (Trace)

Hypothesized No of CEs	Ergenvalue	Trace statistic	0.05 critical value	Prob.**
None	0.356519	29.79471	29.69707	0.0500
At Most 1*	0.235885	16.80539	15.49471	0.0633
At most 2*	0.153305	5.66118	3.841466	0.0174

Trace test indicates 2 co integration at the 0,05 level
*Denotes rejection of the hypothesis at the 0.05 level
**Mackinnon-haug-Michells (1999) p-values

Source: *Researcher's compilation from E-view result 2024*

The result of co-integration test in table 1.3 indicated 2 co-integrating equations. This is shown by the values of trace statistic of 29.79471, 16.80539, and 5.66118 which are greater than the critical values of 29.69707, 15.49471 and 3.841466. The co-integration equations are also reveals in the Mackinnon probability value of 0.0400, 0.04633 and 0.0174 which are lower than 5 percent level of significance.

Error Correction Mechanism Short Run Result

Table 4: presents the short run error correction estimation result

Vector error correction estimates
Date 09/09/24 Time: 15 :23
Sample (Adjusted) 1991 -2023
Included observation 33 after Adjustment

Variables	Coefficient	Std. error	t-statistic
C	-3.288333		
LGFCF	-0.094153	0.789129	-0.11899
LFDI	-0.169734	0.60587	-.0.28015

Source: *Researcher's compilation from E-view result 2024*

The short-term ECM result is shown in Table 4. The outcome reveals that constant (C) has a value of -3.288333. This suggests that, when all other factors are held equal, GDP growth as a measure of economic growth falls by about 3.28 percent. The t-statistics for LGFCF and LFDI are -.11899 and -0,28015, respectively, with a confidence level of less than five percent. The coefficients are -0.094153 and -0.169734, respectively. This suggests that in the short term, both the LGFCF and LFDI have a negative and negligible influence on economic growth. This indicates that a unit increase in LGFCF lowers short-term economic growth by roughly 0.119 percent while keeping other factors constant. When all other factors are held constant, a unit increase in LFDI short-term slows economic growth by about 0.280 percent.

Table 5: presents the result of error correction model in the long run

error correction estimates
Date 09/09/24 Time: 15 :23
Sample (Adjusted) 1991 -2023
Included observation 33 after Adjustment

Variables	Coefficient	Std. error	t-statistic
C	0.057043	1.33122	0.04285
LGFCF (-1)	0.077662	0.28467	0.27282
LFDI (-1)	0.227223	1.16898	0.19705
ECM (-1)	-0.341459	-0.378948	0.09011
R Square (R^2)	0.819922	Mean dependent	0.065244
Adjusted R^2	0.807500	S D Dependent	0.240910
S.E. equation	0.207595	Akakike AIC	-0.099240
Log likelihood	9.637458	Schnarz S. C	0.263550
F- Statistic	2.586377		

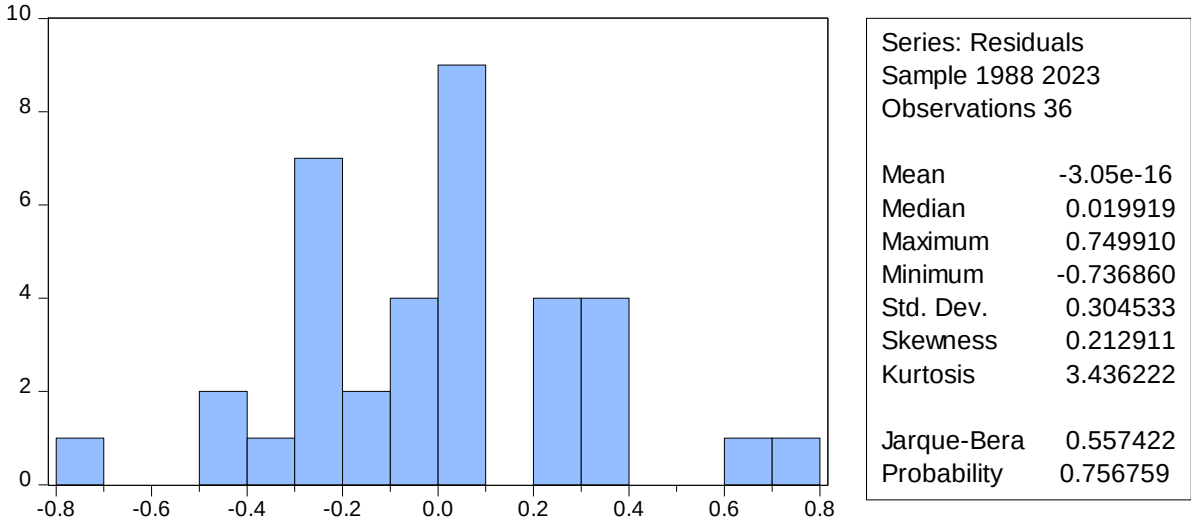
Source: *Researcher's compilation from E-view result 2024*

The long run error correction model result in table 5 reveals that the value of R^2 and adjusted R^2 square are 0.819922 and 0.807500 respectively. The result shows that both R^2 and adjusted R^2 are above 80 percent. This implies that 80 percent changes in economic growth are explained by independent variables (FDI and GFCF) included in the model, while the remaining 19 percent are explained by other variables not included in the model The value of constant (C) is 0.057043. This implies that without the explanatory variables included in the model, the country's economy will grow at the rate of 0.05 percent. The study's coefficient values for foreign direct investment and domestic investment are 0.227223 and 0.77662, respectively, and their corresponding critical values are 2.65898 and 0.28467, according to more analysis. This suggests that while foreign direct investment has a positive and significant impact on Nigeria's economic growth, domestic investment has a positive and insignificant impact. This means that, when all other factors are held constant, a unit increase in domestic investment boosts economic growth by about 0.0778 percent. While a unit increase in foreign direct investment boosts economic growth by roughly 0.2272, other factors being held constant. At the five percent significance level, the error correcting mechanism's coefficient, which has a right sign (-0.341459), is significant. This suggests that any shock's short-term adjustment speed will eventually be adjusted by 34%. The long-term equilibrium link between economic growth and the explanatory variables, foreign direct investment and domestic investment, was explained by the relevance of the ECM.

Normality Test

Jarque –Bera test statics is used to examine if the variables in the model are normally distributed. The result is shown in figure 1 below

Figure 1: LGDP = LGFCF+LFDI



Source: *From e view report 2024*

The result in figure 1 reveals that that the calculated Jarque –Bera statistical value is 0.557422 with p-value of 0.756759 which is above 0.05 critical value. The result implies the rejection of null hypothesis and the acceptance of alternative hypothesis that the data used in the study are taken from normally distributed population.

SUMMARY, CONCLUSION AND RECOMMENDATION

Summary

The study used several statistical tests, such as descriptive statistics, unit root test, co-integration, error correction mechanism, and normality test, to investigate the effects of foreign direct investment and domestic investment on economic growth in Nigeria from 1998 to 2023. The unit root result demonstrates that all of the model's variables are cointegrated throughout the long term and stationery at first difference. The short-term ECM results show that, with a one-year lag, the coefficient values of foreign direct investment (FDI) and domestic investment, as measured by gross fixed capital formation (GFCF), are -094153 and -0.169734, respectively. According to the findings, economic growth is reduced by 0.094 percent for every percent rise in GFCF and 0.169 percent for every percent increase in FDI. In the long run multiplier impact, GFCF and FDI have coefficient values of 0.077662 and 0.227223, respectively, at a one-year lag. According to the results, economic growth will increase by 0.077 percent for every unit increase in GFCF and 2.27 percent for every unit increase in FDI. Based on the adjusted R^2 (0.807500) and coefficient value of R^2 (0.819922), the outcome indicates that 81 percent of the variation in economic growth can be attributed to foreign direct investment and domestic investment, with the remaining 19 percent coming from variables not included in the model. Additionally, the model's output shows that the model's data were distributed appropriately.

Conclusion and Recommendation

1. The study comes to the conclusion that foreign direct investment made a major and positive contribution to Nigeria's economic growth. Therefore, the study suggests that in order to increase FDI inflow into the nation, the government should step up its current policies and initiatives. Along with bringing more technology and effective administrative practices to the host nation, this will also expand employment prospects and boost consumption spending, speeding up the nation's economic growth.

2. The study concludes with the conclusion that domestic investment positively and marginally impacted Nigeria's economic growth. The report suggests that the government create policies and initiatives to support current domestic investors and draw in new ones. This can be through various government incentives such as free tax, lower borrowing interest rate, and free import charge on imported raw materials. This would lower operating costs and improve employment possibilities, which would raise consumer spending and highlight Nigeria's economic progress.

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