


# Chapter 8

## Impact of Foreign Direct Investment Inflows on Economic Growth in Nigeria

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### **ABSTRACT**

*This study examines the effect of foreign direct investment (FDI) inflows on economic growth in Nigeria from 2010 to 2019. Using the ordinary least square regression methodology, the findings reveal that foreign direct investment inflows do not have a significant effect on economic growth in Nigeria. The result holds when different measures of economic growth and different measures of foreign direct investment inflows are employed. Meanwhile, population size, real interest rate, domestic private credit and the inflation rate are significant determinants of economic growth in Nigeria while gross capital formation is an insignificant determinant of economic growth in Nigeria. The implication of the findings is that policy makers in Nigeria should focus on other drivers of economic growth other than foreign direct investment inflows when developing policy initiatives to stimulate economic growth in Nigeria.*

### **1. INTRODUCTION**

The objective of the study is to investigate the effect of foreign direct investment inflows on economic growth in Nigeria from 2010 to 2019. Nigeria is a major recipient of foreign direct investment (FDI) inflows in Africa, even though Nigeria's share

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of global FDI inflows lags behind other African countries. FDI inflows to Nigeria have witnessed a downward trend in recent years. In 2017, FDI net inflows reached US\$3.5 billion (0.9% of GDP). In 2018, FDI net inflows declined to US\$1.99 billion (0.5%). In 2019, FDI net inflows reached 0.74% of GDP. In nominal terms, FDI inflows to Nigeria have decreased over the years. Some studies in the literature argue that the decrease in FDI inflows to Nigeria is attributable to small market size, lack of economic freedom, volatile exchange rate and low economic growth rate (Jibir and Abdu, 2017; Aderemi et al, 2020).

Recently, great attention has been paid to the determinants of economic growth in the economic literature, and there is much emphasis on the effect of FDI inflows on economic growth (see, for example, Jebli et al, 2019; Dinh et al, 2019; Owusu-Nantwi and Erickson, 2019; Yeboua, 2019; Hagan and Amoah, 2019). Such studies commonly investigate the determinants of economic growth while controlling for other important factors affecting economic growth. Several studies document mixed results on the effect of FDI on economic growth. A positive relationship between FDI and economic growth is documented in Alabi (2019), Bakari et al (2018), Appiah-Otoo et al (2023), Emako et al (2022), and Hasan and Ringim (2017), while Okumoko et al (2018) found an insignificant effect of FDI on economic growth. These mixed results suggest that the effect of FDI on economic growth of the recipient country may be influenced by other factors in the recipient country.

This study contributes to the literature in several ways. It contributes to the existing literature by relying on recent data and using alternative proxies of economic growth and foreign direct investment inflows. To the best of my knowledge, this study is among the first studies to examine the impact of FDI inflows on economic growth using recent data and using different measures of economic growth and foreign direct investment in the case of Nigeria.

The rest of the article is structured as follows. Section 2 presents the literature review. Section 3 presents the methodology. Section 4 discuss the results. Section 5 concludes the study.

## **2. LITERATURE REVIEW**

The theoretical literature argues that there is a link between foreign direct investment and economic growth. Proponents of FDI argue that FDI can be used for the acquisition of new plants and equipment from local suppliers, which will have positive “spillovers” to the local economy (Doytch and Uctum, 2011; Gurkov et al., 2020). FDI can also be used to purchase ownership stakes in existing local firms and the funds can be used to train employees to improve competition which is beneficial for growth (Colen et al., 2012). However, FDI also have a negative effect on

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