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## AN EMPIRICAL EVALUATION OF THE EFFECT OF FOREIGN INVESTMENT INFLOWS ON ECONOMIC GROWTH IN NIGERIA

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**ABSTRACT:** *This study examined the effect of foreign investment inflows on economic growth of Nigeria, using secondary data for the period 2001 to 2018. The study adopted gross domestic product as the indicator of economic growth and the dependent variable, while foreign direct investment, foreign portfolio investment and exchange rate were used as explanatory variables. The data on the study variables covering the period 2001 to 2018 were collected from the CBN Statistical Bulletin. The study employed descriptive statistics and multiple regression analysis technique based on the E-view computer software for analyzing data. The results of analysis revealed that foreign direct investment, foreign portfolio investment and exchange rate had significant positive influence on gross domestic product. Based on the results of the empirical analysis, the study concluded that foreign investment inflows have made the desired positive impact on the growth of the Nigerian economy. However, a lot still need to be done to create conducive investment climate to attract sufficient amount of foreign investors into the productive sectors of the Nigerian economy. The study recommended that the regulatory authorities should formulate policies and create the enabling environment to attract foreign investments into Nigeria.*

**KEYWORDS:** direct, economic growth, exchange rate, foreign, inflows, investment, portfolio

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### INTRODUCTION

Foreign investment inflows is believed to be a catalyst for economic growth because it can bring about managerial skills, international production and access to international capital markets; and Nigeria with her vast natural resources qualify to be a major recipient of FDI in Africa (Abubakar, Hassan & Okowa, 2018). This is why government at all levels in Nigeria at various times, have directed their policies towards attracting foreign investments into the country with a view to boosting industrial development, and by extension, economic growth. For instance, Umah (2007) asserts that the Nigerian government has instituted various institutions, policies and laws aimed at encouraging foreign direct investment from 1985 when the Nigerian Investment Promotion Commission (NIPC) was established by Decree 16 of 1995. The issues in question are: have all the efforts of government in this direction yielded the desired objectives? This was the overriding concern in this study; in other words, to what extent has foreign investment inflows stimulated economic growth in Nigeria?

In public sector accounting and finance literature, foreign investments can come into Nigeria in two ways: either as foreign direct investments (FDI) through direct ownership of business entities;

or as foreign portfolio investments (FPI) by the purchase of capital stock in a foreign capital market. Foreign direct investment (FDI) relates to investment which allows the investor to enjoy a perpetual interest in an enterprise in a country other than his own country which takes the form of building a factory, purchase of equipment or establishment of plants, etc. It is also seen to include all forms of capital contributions and the reinvestment of earnings by a company incorporated abroad. Foreign direct investment increases investors commitment in the management of the enterprise as selling of such investment interest is usually difficult. FDI is an investment in form of a controlling ownership in a business in one country by an entity based in another country.

Foreign portfolio investment involves passive interest by an investor on securities such as foreign stocks, bonds or other financial assets, none of which entails active management or control of the securities issued by the investor. Unlike foreign direct investment, it is easier to sell securities and pull out foreign portfolio investment, making it more volatile to the economy than foreign direct investment. FPI is the entry of funds into a country where foreigners deposit money in a country's bank or make purchases in the country's stock and bond markets, sometimes for speculative purposes.

Several studies (Ugochukwu, Okore, and Onoh, 2013; Fry, 1992; Eke, 2003; Khan, 2007; Oyaide, 1977; Obadan, 2004; Shiro, 2009; Umah, 2007, etc) have examined the nature of relationship between foreign direct investment and economic growth. The lack of consensus indicates the existence of a research gap. This study is an extension of the debate on the link between foreign capital inflows and economic growth and a contribution to knowledge in this area. This study adopted gross domestic product (GDP) as proxy for economic growth and the dependent variable; while foreign direct investment (FDI) and foreign portfolio investment (FPI) representing foreign investment inflows are used as the independent variables. Exchange rate (EXR) was introduced as an intervening independent variable because of the effect of foreign exchange rate movements on capital flows. The purpose of this study, therefore, was to examine the effect of foreign direct investment, foreign portfolio investment and exchange rate on economic growth in Nigeria. This objective formed the basis of the hypotheses tested in the study; and the findings of this study will be useful for the formulation of investment and trade policies both for the government, investors; and for the academia this study would be a useful reference material for future studies.

The rest of the paper is divided into four parts. Part two which follows the introduction above is the review of related literature. The study methodology is covered in part three, while part four deals with the results of data analysis and discussion of findings. Finally, the summary, conclusion and recommendations are presented in part five.

## **REVIEW OF RELATED LITERATURE**

### ***Conceptual Clarifications***

#### **Foreign direct investment**

According to the International Monetary Fund's balance of payments and international investment position manual, FDI is the term used to represent the process of making a long-term investment

in an enterprise which operates in any other economy than that of the enterprise which is making this investment. In this action, intention of the investing firm is not just to get higher returns but also to gain some extent of managerial authority and control or an effective voice in the management of enterprise in which this investment will be made (IMF, 2009).

The first main component of FDI definition is that the two entities involved in this process must be residents of different countries. The enterprise making the investment is termed “parent enterprise or foreign direct investor (UNCTAD, 1999), and the country which it is a resident of is called home or source country (UNCTAD, 1999; Moosa, 2002). The other entity is the recipient of this investment, that is, the firm which is invested in and the term used to describe it is FDI enterprise, affiliate enterprise, or foreign affiliate. The country, to which this recipient enterprise belongs, is called host country. This is the process through which “multinational enterprises (MNEs) or multinational corporations (MNCs) are formed. Some researchers have used MNE and FDI synonymously claiming them to be one and the same. But others such as Dunning and Narula (1996) claimed that the two might be different, arguing that MNE’s role is becoming broader than that of FDI.

The second main component of the definitions of FDI is that through FDI the parent firm gains some kind of control over, or hold an effective voice in management of the affiliate firm (Jones and Wren, 2016). This effective voice refers to owning at least 10% of equity interest in the affiliate firm which gives these equity owners voting rights thus giving them some control and authority in the process of managerial decision making (OECD, 2008). Although, this 10% ownership interest is an internationally accepted standard but different countries use different criteria for this purpose (Razin and Sadka, 2012). To encourage FDI inflows, most countries ease restrictions on foreign direct investment, strengthened macro stability, privatization of state-owned enterprises, domestic financial reforms, capital account liberalization, and put in place tax incentives and subsidies.

### **Foreign portfolio investment**

Foreign direct investment was initially considered as part of portfolio investment and differences in rates of interest assumed as the main cause of capital inflows. It was believed that by influence of interest rate, capital moves to any economy with expected higher returns. The main distinguishing feature between FDI and foreign portfolio investment (FPI) is that FPI is the term used to describe short term investment in shares and bonds in host country and most of the times this is speculative in nature. Another important distinctive feature of FPI is the lack of control of the affiliate firm, because of which it is often categorized as an indirect investment (Jones & Wren, 2016).

### **Exchange rate**

Foreign exchange rate implies the price of one currency in terms of another. Ibenta (2012) defined exchange rate as the price of the unit of one country’s currency quoted in terms of another country’s currency. It is the mathematical, qualitative or quantitative expression of one country’s currency in terms of another. For Danladi and Uba (2016), exchange rate is the price of one country’s currency in relation to another country, or the required amount of units of a currency that can buy an amount of units of another currency. The exchange rate of currencies of different

countries is the intervening link between domestic and foreign prices of goods and services, which can either appreciate or depreciate; and this was the main reason for introducing it as a variable in this study.

### **FDI and economic growth**

Whether FDI promotes economic growth of host country or not is a subject of ongoing discussion. Research on the how it affects recipient economy's growth has produced extensive literature including many books but the evidence presented by these researchers is still contradictory. Because of the significant part played by the policies made by government of host economy in facilitating or hindering FDI flows, this is also considered as a topic of political interest. At one extreme it is claimed that FDI is vital for growth of host economy particularly in case of developing economies as has been evidenced by the phenomenal growth of Chinese economy following its liberalized trade policies promoting FDI (Zhang, 2006; UNCTAD, 2005).

### **Economic growth**

Economic growth is defined as a positive change in the national income or the level of production of goods and services by a country over a certain period of time. This is often measured in terms of the level of production within the economy. Economic growth means an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth is a process by which a nation wealth increases over time. The most widely used measures of economic growth is the rate of growth in a country's total output of goods and services gauged by the gross domestic product (GDP) Economic growth can also be refers to as the increase of per capita gross domestic product (GDP) or other measures of aggregate income, typically reported as the annual rate of change in the real GDP.

### **Empirical review**

Several studies have been conducted on FDI in the past; some investigated its determinants and factors causing its inflow into host countries while others have tried to identify what influence it creates on host economy. In Nigeria studies that were carried out on the relationship between foreign investment and economic growth have divergent results. The review of past empirical literature covered in this part was undertaken to provide a justification for this study. Okafor, Ezeaku and Eje (2015) investigated the effects of foreign investment inflows on economic growth in Nigeria. The study disaggregated foreign investment into foreign direct investment and portfolio investment in order to realize the objectives of the study using data spanning from 1987 to 2012 with OLS and granger causality econometric procedures. The findings of the study indicate that FDI and FPI have significant positive impact on economic growth in Nigeria. The study recommended that government should pursue policies that encourage foreign investment. Ugwuegbu, Modebe and Onyeonu (2014) investigated the impact of FDI on capital accumulation in Nigeria using secondary data collected from CBN Statistical Bulletin for the period 1986 to 2012. The study employed OLS multiple estimation techniques for data analysis and the results revealed that FDI, total credit to private sector and interest rate had insignificant positive effect on gross fixed capital formation in the short run. But all the variables had positive impact on gross fixed capital formation in the long run.

Uwazie, Igwemma, and Nnabu (2015) examined the causal relationship between foreign direct investment and economic growth in Nigeria from 1970 to 2013. The authors insist that the study was motivated by the obvious inability of several empirical studies to reach a consensus on the subject. The study employed vector error correction model method of causality to estimate the variables specified in the model. The result of the estimation indicates an equilibrium long run relationship between FDI and economic growth while the causality test indicates that both FDI and economic growth correlate significantly in the short and long run periods in Nigeria. The authors relying on the outcome of the result suggested the pursuance of aggressive policy reforms to boost investor's confidence and promote qualitative human capital development to attract foreign capital inflow into the Nigeria economy. Olotu and Jegbefume (2011) in their study of the place of foreign capital flows in the Nigerian economic growth equation with a bias in the foreign portfolio investment, and found that domestic investment is not statistically different from zero, openness has a negative value. They also found a close relationship between FDI and the real non-oil GDP.

Ugochukwu, Okore and Onoh (2013) examined the relationship between foreign direct investment and economic growth using time series data obtained from the Central Bank of Nigeria for the period 1981 to 2009. They employed OLS regression techniques and Granger causality test as the main statistical tools for the analysis of data. The results indicated that FDI had positive but insignificant effect on economic growth in Nigeria. Mojekwu and Ogege (2012) studied foreign direct investment and the challenges of a sustainable development in Nigeria and found that gross capital formation has a positive and significant relationship with economic growth in Nigeria.

Durham (2003) on the effects of foreign portfolio investment and "other" foreign investment on economic growth using cross-country data observes that FPI has no effect on economic growth and does not correlate positively with macroeconomic volatility. This result is in line with the study of Sethi and Patnaik (2004) on impact of international capital flows on India's financial markets and economic growth. By using monthly data, they find that FDI positively affects the economic growth, while the effect of Foreign Portfolio Investment is negative.

Balasubramanyam, Mohammad and Sapsford (1996) examined the relationship between FDI and economic growth in developing countries. He divided the selected countries into two categories based on the kind of trade policy regimes that they were following. One group included those countries which had implemented export promoting (EP) policy while the other group included countries following an import substituting (IS) policy. EP strategy is considered more effective in generating greater amounts of FDI inflows as compared to the IS strategy. The findings demonstrated that FDI to have positive influence in enhancing growth. In addition, he argued that in order to enjoy maximum advantages of FDI, it must be complemented and facilitated by the trade policy of host country. Borensztein, De Gregorio and Lee (1998) studied the influence of FDI on host country by analyzing twenty years FDI data of 69 developing countries which were receiving FDI inflows from industrial countries. They implemented a "cross country regression" framework in this analysis and found FDI to be relatively more important in causing growth as compared to domestic investment. They also claimed that full rewards of FDI can be received only

if the host country has already developed the capability to adopt and utilize the new techniques being transferred through this process.

In the period of 1978 to 2005 China's average economic growth rate was a very impressive 9% which is attributable mostly to high inflow of FDI (Zhang, 2006). No other economy has shown such level of growth in response to FDI as demonstrated in Chinese economy (UNCTAD, 2005). China's great economic growth was followed by the radical steps taken by their government to promote FDI inflows. This success led to massive amounts of literature examining the impact of FDI in causing economic growth with particular reference to the example of China including many books which have been written on this topic.

Wen (2003) empirically studied how FDI influenced growth and development in Chinese region and geographical differences among different regions of China magnified the effects of FDI, to utilize its full potential. He based his arguments on the regional differences in income in various regions of China which can be attributed to differing levels of FDI received by those regions. He found that the eastern region of China was geographically more favorable to exports which led to attracting more FDI into this region and FDI in turn helped increase exports. Therefore, he demonstrated that FDI and exports both are causing each other in eastern China thus contributing to its greater income level as compared to other regions.

Ozturk and Kalyoncu (2007) empirically examined how FDI relates to economic growth in a cross-country comparison of Pakistan and Turkey. Their findings suggested that FDI causes growth in Pakistan while the causal relationship is bidirectional in case of Turkey. Mun, Lin and Man (2009) also found FDI to have positive relationship with growth using time series data for Malaysia. Inward FDI has been found to increase competitiveness of affiliate enterprises by transfer of innovative technologies thus, making their operations better than those of the local firms.

Caikovic and Levine (2002) did an empirical cross-country comparison and found that there is no positive effect of FDI on economic growth if a number of different factors are also considered in the study. They claim that good economic policies of host country are useful in causing growth which leads to more FDI but their findings did not support the notion that FDI causes growth and development of host country. Durham (2003) analyzed data of two decades from eighty countries to examine how FDI impacts development and found no relationship of FDI with economic growth. Some of his findings suggested that FDI can create an influence on growth depending on the extent to which legal and financial institutions of host country have been developed but on the whole FDI was found to have no impact in causing development and in some cases it turned out to be hazardous for host economy.

Etale and Etale (2016) examined the relationship between exports, foreign direct investment and economic growth in Malaysia using secondary data from 1980 to 2013. The study adopted gross domestic product representing economic growth as the dependent variable, while exports and foreign direct investment were used as the explanatory variables. The employed OLS, ADF unit root test, Johansen-Juselius co-integration test and VECM as statistical tools for data evaluation. The results revealed significant bidirectional long run relationship between FDI and GDP, and a

unidirectional long run relationship between exports to FDI and exports to GDP. Based on the findings the study recommended that policy makers in Malaysia should formulate policies to encourage increased export opportunities and investment in the export sector.

#### Gap in Literature

The review of past empirical literature has clearly shown that there exists a gap in literature as the findings of past studies lack consensus which indicates the need for further studies. Although, a large number of studies suggest that FDI enhances development and growth of host country but there exists a lot of evidence that suggests otherwise. Many researchers have found that FDI plays no part in causing growth in the economy of recipient country. These contradictory findings by researchers regarding the role of FDI itself are a target of investigation. The main reasons of these contradictory findings have been attributed mainly to differences in methods of calculation of FDI by various countries and also to lack of a standardized methodology that can be adopted to analyze the relationship of economic growth of host country with the FDI (Moran, Graham & Blomstrom, 2005).

## METHODOLOGY

### Research design

This study employed the *ex-post facto* design as it attempts to correlate the effect of foreign investment inflows on the economic growth in Nigeria. An *ex-post-facto* research design is a systematic empirical inquiry that requires the use of variables which the researcher does not have the capacity to manipulate its state or direction in the course of the study. The study made use of secondary data based on historical events.

### Source of data

This study examined the effect of foreign investment inflows on economic growth in Nigeria using annual data for 18 years period from 2001 to 2018, obtained from Central Bank of Nigeria Statistical Bulletin. This source of data was considered the most reliable source for data on the variables adopted for the study; namely, gross domestic product (proxy for economic growth) as the dependent variable, while foreign direct investment (FDI), foreign portfolio investment (FPI) representing foreign investment inflows and exchange rate (EXR) as the explanatory variables.

### Model Specification

A multivariate linear regression model, widely used by other researchers such as Etale and Etale (2016) was adopted to test each of the null hypotheses proposed for the study. Based on the formulated hypotheses, the functional relationship between the dependent variable and the explanatory variables was stated as specified below:

$$GDP = f(FDI, FPI, EXR)$$

The above model was transformed into a functional econometric equation as follows:

$$GDP = \beta_0 + \beta_1 FDI + \beta_2 FPI + \beta_3 EXR + e \quad \text{equation 1}$$

Where,

*GDP* = Gross domestic product proxy for economic growth

*FDI* = Foreign direct investment

*FPI* = Foreign portfolio investment

*EXR* = Exchange rate

$\beta_0$  = intercept or constant

$\beta_1 \dots \beta_3$  = Coefficient of the independent variables

*e* = Error term of the equation

### Methods of data Analysis

The study employed multiple regression analysis technique based on the Ordinary Least Squares (OLS) method to analyze the secondary data collected from CBN Statistical Bulletin. Ordinary Least Squares (OLS) technique is used because it minimizes the error sum of squares and it also has a number of advantages such as unbiased-ness, consistency, minimum variance and efficiency. The statistical test of parameter estimates were conducted at 5% level of significance.

## RESULTS OF DATA ANALYSIS AND DISCUSSION OF FINDINGS

### Data presentation

The data showing the individual variables used in this study are presented in Table 1. GDP, FDI and FPI are indicated in billions of Naira (the Nigeria currency) while EXR is indicated in the Naira USD exchange rate.

Table 1: Data on the study variables

| Year | GDP<br>(N'b) | FDI<br>(N'b) | FPI<br>(N'b) | EXR<br>(N/\$) |
|------|--------------|--------------|--------------|---------------|
| 2001 | 8134.142     | 132.40       | 92.50        | 113.45        |
| 2002 | 11332.250    | 225.20       | 24.80        | 126.90        |
| 2003 | 13301.560    | 258.40       | 23.60        | 137.00        |
| 2004 | 17321.300    | 248.20       | 23.50        | 132.85        |
| 2005 | 22269.980    | 654.20       | 116.00       | 129.00        |
| 2006 | 28662.470    | 624.50       | 360.30       | 128.27        |
| 2007 | 32995.380    | 759.40       | 332.50       | 117.97        |
| 2008 | 39157.880    | 971.50       | 157.20       | 132.56        |
| 2009 | 44285.560    | 1273.80      | 70.90        | 149.58        |
| 2010 | 54612.260    | 905.70       | 556.60       | 150.66        |
| 2011 | 62980.400    | 1360.30      | 792.40       | 158.27        |
| 2012 | 71713.940    | 1113.50      | 2687.20      | 157.33        |
| 2013 | 80092.560    | 875.10       | 2130.20      | 157.26        |
| 2014 | 89043.620    | 738.20       | 832.40       | 169.68        |
| 2015 | 94144.960    | 602.10       | 498.10       | 197.00        |
| 2016 | 101489.500   | 1124.10      | 477.00       | 305.00        |
| 2017 | 113711.600   | 1069.42      | 2604.33      | 306.00        |
| 2018 | 127762.550   | 610.40       | 3834.50      | 307.00        |

Source: Central Bank of Nigeria (CBN) statistical bulletin



### Descriptive statistics

From Table 2, gross domestic product (GDP) has a mean value of 56278.44 with a maximum value of 127762.6 which occurred in the year 2018 and a minimum value of 8134.142 which occurred in the year 2001 for the period under study. Foreign direct investment (FDI) has a mean value of 752.5789 with a maximum value of 1360.300 which occurred in the year 2011 and a minimum value of 132.400 which occurred in the year 2001 for the period under study. Foreign portfolio investment (FPI) has a mean value of 867.4461 with a maximum value of 3834.500 which occurred in the year 2018 and a minimum value of 23.5000 which occurred in the year 2004 for the period under study. Exchange rate (EXR) has a mean value of 170.8767 with a maximum value of 307 which occurred in the year 2018 and a minimum value of 113.4500 which occurred in the year 2001 for the period under study.

The Jarque-Bera statistics reveal that Gross domestic (GDP) and foreign direct investment (FDI) are normally distributed with a probabilities of 0.508218 and 0.676842 respectively while foreign portfolio investment (FPI) and exchange rate (EXR) with probabilities of 0.034064 and 0.038253 respectively are not normally distributed.

Table 2: Descriptive statistics

|              | GDP      | FDI       | FPI      | EXR      |
|--------------|----------|-----------|----------|----------|
| Mean         | 56278.44 | 752.5789  | 867.4461 | 170.8767 |
| Median       | 49448.91 | 748.8000  | 418.6500 | 150.1200 |
| Maximum      | 127762.6 | 1360.300  | 3834.500 | 307.0000 |
| Minimum      | 8134.142 | 132.4000  | 23.50000 | 113.4500 |
| Std. Dev.    | 37896.17 | 369.9457  | 1140.187 | 65.31040 |
| Skewness     | 0.370847 | -0.157181 | 1.446462 | 1.449603 |
| Kurtosis     | 1.879816 | 2.029422  | 3.801871 | 3.545290 |
| Jarque-Bera  | 1.353691 | 0.780634  | 6.759006 | 6.527050 |
| Probability  | 0.508218 | 0.676842  | 0.034064 | 0.038253 |
| Sum          | 1013012. | 13546.42  | 15614.03 | 3075.780 |
| Observations | 18       | 18        | 18       | 18       |

Source: E-views 9.0 output

### Regression Results

From Table 3, foreign direct investment (FDI), foreign portfolio investment (FPI) and exchange rate (EXR) are all positively related to gross domestic product (GDP) with coefficients of 23.10294, 10.44363 and 341.0801 respectively. From Table 3, the econometric regression Equation (1) can be re-stated as specified below:

$$\text{GDP} = -28450.25 + 23.10294\text{FDI} + 10.44363\text{FPI} + 341.0801\text{EXR} + 15576.60$$

Overall, the results show r-squared of 0.860866 and adjusted r-squared of 0.831051 indicated that about 86.1 percent of changes in the dependent variable (gross domestic product) was accounted for by the combined changes in the explanatory variables; and the researchers can state with 83% confidence the regression model is a good and proper fit. That is, the explanatory variables are

useful in predicting changes in the dependent variable. Furthermore, F-statistic is 28.87410 with a probability of 0.000003, which is significant at 5 percent, indicating that the explanatory variables, taken together, have significant impact on the dependent variable. This means that foreign investment inflows have a significant impact on economic growth in Nigeria.

Table 3: Multiple Regression Results

Dependent Variable: GDP

Method: Least Squares

Date: 09/20/19 Time: 19:28

Sample: 2001 2018

Included observations: 18

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.  |
|--------------------|-------------|-----------------------|-------------|--------|
| C                  | -28450.25   | 12577.19              | -2.262051   | 0.0401 |
| FDI                | 23.10294    | 10.89216              | 2.121062    | 0.0523 |
| FPI                | 10.44363    | 4.336429              | 2.408348    | 0.0304 |
| EXR                | 341.0801    | 76.78323              | 4.442117    | 0.0006 |
| R-squared          | 0.860866    | Mean dependent var    | 56278.44    |        |
| Adjusted R-squared | 0.831051    | S.D. dependent var    | 37896.17    |        |
| S.E. of regression | 15576.60    | Akaike info criterion | 22.33806    |        |
| Sum squared resid  | 3.40E+09    | Schwarz criterion     | 22.53592    |        |
| Log likelihood     | -197.0425   | Hannan-Quinn criter.  | 22.36534    |        |
| F-statistic        | 28.87410    | Durbin-Watson stat    | 0.939656    |        |
| Prob(F-statistic)  | 0.000003    |                       |             |        |

Source: E-views 9.0 output

### Test of hypotheses

#### Hypothesis 1 (FDI and GDP)

Foreign direct investment has no significant impact on gross domestic product in Nigeria. From Table 3, foreign direct investment has a t-statistic of 2.121062 with a probability value of 0.0523, which is approximately 0.05, meaning that FDI has significant effect on GDP. The null hypothesis is therefore not rejected. The study concludes that foreign direct investment has significant impact on the growth of the Nigerian economy.

#### Hypothesis 2 (FPI and GDP)

Foreign portfolio investment has no significant impact on gross domestic product in Nigeria. Again, from Table 3, foreign portfolio investment has a t-statistic of 2.408348 with a probability value of 0.0304, which is less than 0.05, meaning that FPI has significant influence on GDP. The null hypothesis is therefore rejected. The study concludes that foreign portfolio investment has significant impact on the growth of the Nigerian economy.

#### Hypothesis 3 (EXR and GDP)

Exchange rate has no significant impact on gross domestic product in Nigeria.

Also, from Table 3, exchange rate has a t-statistic of 4.442117 with a probability value of 0.0006, which is less than 0.05, meaning that EXR has significant effect on GDP. The null hypothesis is therefore rejected. The study concludes that exchange rate has significant impact on the growth of the Nigerian economy.

## DISCUSSION OF FINDINGS

The study examines the impact of foreign investment inflows on economic growth in Nigeria. The dependent variable was gross domestic product (GDP), while three variables were selected as explanatory variables, namely: foreign direct investment (FDI), foreign portfolio investment (FPI) and exchange rate (EXR). The results of the analysis indicate that, taken individually: foreign direct investment is positively related to gross domestic product in Nigeria at 5% significant level; meaning FDI has significant positive impact on gross domestic product of Nigeria; while foreign portfolio investment and exchange rate also have positive significant impact on gross domestic product in Nigeria. Furthermore, all the three explanatory variables put together do have significant impact on economic growth in Nigeria. This is inconsistent with the results of Okafor, Ezeaku and Eje (2015) who found a positive relationship and significant impact of both foreign direct investment and foreign portfolio investment on economic growth for the period 1980 to 2012. This indicates that the economic conditions of the period used in this study may not have changed significantly from the economic conditions prevailing at the time of their study.

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

### Summary of findings

The main objective of this study is to examine the impact of foreign investment inflows on economic growth in Nigeria. The findings of the study are summarized below:

1. That foreign direct investment has significant positive impact on the growth of the Nigerian economy.
2. That foreign portfolio investment has a positive relationship with economic growth and a significant impact on the growth of the Nigerian economy.
3. That exchange rate has positive significant impact on the growth of the Nigerian economy.

### Conclusion

This study examined the effect of foreign investment inflows on economic growth of Nigeria, using secondary data for the period 2001 to 2018. The study adopted gross domestic product as the indicator of economic growth and dependent variable, while foreign direct investment, foreign portfolio investment and exchange rate were used as explanatory variables. The data on the study variables covering the period 2001 to 2018 were collected from the CBN Statistical Bulletin. The study employed descriptive statistics and multiple regression analysis technique based on the E-view computer software for analyzing data. The results of analysis revealed that foreign direct investment, foreign portfolio investment and exchange rate had significant positive influence on gross domestic product. Based on the results of the empirical analysis, the study concluded that foreign investment inflows have made the desired positive impact on the growth of the Nigerian

economy. However, a lot still need to be done to create conducive investment climate to attract sufficient amount of foreign investors into the productive sectors of the Nigerian economy.

### Recommendations

From the findings of the study, the following recommendations are made:

1. Government should create more investment opportunities particularly in the productive sectors of the economy.
2. Government should create the enabling environment (in terms of legal framework, security, and polity) in order to attract and retain foreign investors.
3. Financial market regulators should formulate policies and regulations that will encourage foreign participation in Nigeria's capital market.

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