IMPACT OF FOREIGN CAPITAL INFLOW ON ECONOMIC GROWTH IN NIGERIA

By

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Abstract

This study examined the impact of foreign capital inflows on economic growth in Nigeria from 1986-2022. Specifically, the study focused on the impact foreign direct investment, foreign portfolio investment and official development assistance on economic growth in Nigeria. The study adopted ex-post factor design, sourcing data from the central bank of Nigeria statistical bulletin, National Bureau of Statistics, World Bank data base, the Global Economy database and UN comtrade data base. The study employed the Vector Error Correction Model (VECM) for it estimation. The findings revealed that both foreign direct investment (FDI) and official development assistance (ODA), has positive and significant impact on real gross domestic product (RGDP). Conversely, foreign portfolio investment (FPI) has negative and insignificant impact on RGDP in Nigeria during the period under review. From the findings, the study concluded that foreign capital inflows are a veritable mechanism for attracting investments to developing economies like Nigeria for enhancement of economic growth. The study therefore, recommended that; for there to be sustained inflow of foreign capital in Nigeria government should pay attention on creating an environment that is conducive to attracting and facilitating foreign investors.

Keywords: Foreign Capital, Economic Growth, Foreign Direct Investment, Foreign Investment, Nigeria.

Introduction

The growth of foreign capital inflows to emerging world since the end of the 20th century has stimulated debate among the scholars. This is attributed to change in different economic fundamentals and country specific conditions across the globe. Foreign capital flows play an important role in the economy of every developing and emerging country. These flows bridge the investment gap and fill the capital needs of a country at the domestic and international level. In the present era of globalization and financial liberalization, foreign investors from various countries of the world are willing to invest in the rest of the world (Ibrahim et al., 2020). International capital inflows can play a useful role in development of every economy by adding to the savings of low and middle-income countries in order to increase the pace of investment. However, foreign investment also can prove unproductive to developing economies by exposing them to disruptions and distortions from abroad, and by subjecting them to surges of capital inflows or massive outflows of capital flight (Sethi, 2013).

Developing countries in particular, are striving to grow their economies. One of the ways to grow the economies is by attracting a substantial number of foreign capital investments. This notion is based on reported evidence by other authors (Mohammad, 2018; Kizito and Hooi, 2019; Jawaid and Saleem, 2017 and Foluso, 2022) that the benefits of transferring technology, international cooperation, and employment creation are better enhanced through attracting foreign capital inflows (OECD, 2008 & UNCTAD, 2015). An increasing amount of foreign capital inflows has been observed flooding into developing markets. Ekew & Injiama, (2013) argues that each country has its own attractions. Therefore, what may drive foreign capital investment in one region may not drive it in another.

Conversely, foreign capital inflows grown steadily over the years as a dynamism of the core economic underpinnings, given that several means are continuously being explored to attain economic goals. Foreign capital flows in form of Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), Official Development Assistance (ODA), and Official Remittance Inflows (ORI) have been on the increase to Africa. For instance, looking at the trend of flows, there has been more increase in FDI to developing countries from US$556.73 billion in 2014 to US$929.23 billion in 2021. Official development assistance (ODA) also increased from US$378.01 billion in 2014 to approximately US$540.27 billion in 2021. Official Remittances inflow, a growing form of private capital flows to developing countries have been on the rise

steadily from US$589.25 billion in 2014 to US$626.6 billion in 2021. Foreign portfolio investment net inflows, on the other hand, peaked at US$540.73 billion in 2021 from US$378.62 (World Bank, WDI 2021). However, controversy regarding the costs and benefits of capital flows through the concept of globalization has taken center stage in policy and academic circles.

Nigeria, like many other developing countries, seeks to achieve sustained economic growth to improve living standards, reduce poverty, and achieve broader development goals. Foreign capital inflows, including foreign direct investment (FDI), portfolio investment, and official development assistance (ODA), official remittance inflows (ORI), foreign loans (FLN), are often seen as potential catalysts for stimulating economic growth (Nkiru & Daniel, 2023). Nigeria's economy is heavily reliant on the extraction and export of natural resources, particularly oil. While this has brought significant revenue, it has also made the economy vulnerable to external shocks, commodity price fluctuations, and resource curse dynamics. The role of foreign capital inflows in diversifying the economy away from oil dependence is a critical consideration.

Over the years, successive Nigerian governments have viewed foreign capital inflows as a vehicle for political and economic domination of Nigeria and hence the thrust of government policy (indigenization policy) through the Nigeria Enterprise Promotion Degree (NEPD) was to regulate foreign investment, with a maximum of 40% foreign participation allowed. This resulted in a decline in both foreign private investment and foreign capital investment and therefore, slowed down growth in all sectors of the economy including the capital market and money market (Nkiru & Daniel, 2023). The poor and immature state of Nigerian capital and money markets coupled with government regulations may have been responsible for the poor inflow of foreign capital investment into Nigeria.

Although, efforts such as policy reforms and economic stability, infrastructure development, anti-corruption measures, exchange rate and monetary policies to stabilize the Nigerian naira and manage exchange rate volatility have been made in making these markets more effective, yet, they are not as sophisticated and vibrant as their counterpart in developed nations, thus cannot compete favourably for investment funds. The advents of technology and globalization have overcome boundary barriers to global investment and as such, the well-

developed capital and money markets in the world are attracting more foreign capital inflows than the emerging markets (Twerefou et al., 2020). It is against this background that this study seeks to address these background problems that requires comprehensive research, empirical analysis, and policy evaluation to understand the nuanced relationship between foreign capital inflows and economic growth in Nigeria, identify potential constraints and challenges, and formulate evidence-based policy recommendations.

The specific objectives of this study are to:

i. Assess the impact of foreign direct investment on economic growth in Nigeria.
ii. Ascertain the impact of foreign portfolio investment on economic growth in Nigeria.
iii. Determine the impact of official development assistance on economic growth in Nigeria.

The following null hypotheses guided the study;

Ho_1: Foreign direct investment has no significant impact on economic growth in Nigeria.

Ho_2: Foreign portfolio investment has no significant impact on economic growth in Nigeria.

Ho_3: Official development assistance has no significant impact on economic growth in Nigeria.

Literature Review

Conceptual Review

Foreign Capital Inflows

Foreign capital inflows refers to the movement of financial resources, investment, and assets from foreign sources into a country. This inflows penetrated into the economy in form of foreign direct investment (FDI), foreign portfolio investment (FPI), official development assistances (ODA), official remittances inflows (ORI), foreign loans (FLN) and among others. According Okafor et al. (2016), foreign capital inflow is a key indicator of a country's ability to attract external funds, and it a plays a significant role in stimulating economic growth, supporting infrastructure development, and contributing to the overall financial health of the recipient nation.

Capitals move into a country or region in form of diaspora or personal remittances from African migrants; foreign direct investment (acquisition of companies, security trading); official development assistance (funding offered by governments or aid agencies to

disadvantaged countries either free of charge or at rates below the market rate), and foreign or external debt (a fallout for borrowing from abroad) and earnings from exports. Evidences abound that developing countries make concerted efforts to stimulate growth by tapping into economic opportunities from foreign capital inflow and harnessing them in order to foster sustained growth and overall welfare, and development (Okafor et al., 2016).

The components of foreign capital inflows used in this study include: foreign direct investment, foreign portfolio investment and official development assistance. This are discuss hereunder:

Foreign direct investment (FDI) is a form of international investment where a business individual from one country makes a direct investment in assets or ownership stakes of a company located in another country. As per Anidiobu et al. (2020), foreign direct investment is the interest in which a firm secures a considerable controlling enthusiasm for an outside firm (over 10 percent offer) or sets up an auxiliary in an outside nation. According to Hannon and Reddy (2012), FDI involves mergers and acquisitions (M & As), construction of new offices, reinvesting benefits realized from foreign activities and intra organization credits.

Foreign direct investment is a cross-fringe venture made by an occupant in one economy (the immediate financial specialist) with the target of building up an enduring enthusiasm for an endeavor (the immediate speculation undertaking) that is inhabitant in an economy other than that of the immediate speculator (OECD, 2008). FDI is therefore, expected to enlarge local capital in this way by empowering the efficiency of residential speculations. Obayori et al. (2016) described foreign direct investment as an investment made by an investor or enterprises in another enterprise or equivalent in voting power or other means of control in another country with the aim to manage the investment and maximize profit.

Foreign portfolio investment (FPI) is an aspect of international capital flows comprising of transfer of financial assets: such as cash, stock or bonds across international borders in want of profit and growth. It occurs when investors purchase non-controlling interests in foreign companies or buy foreign corporate or government bonds, short-term securities or notes. Developing countries in particular, according to (OECD, 2008 & UNCTAD, 2015) are striving to grow their economies and one of the ways to grow these economies is by attracting a substantial number of foreign portfolio investments.

FPI consist financial papers held by foreign investors, it does not give the investor the right of direct ownership of financial assets, or direct management of the corporate entities invested in (Onyeisi, et al., 2016). Foreign portfolio investment consists of the acquisition of assets by a foreign national or company in a domestic stock/market. In order words, it refers to the holding of transferable securities (issued or guaranteed by the government of the importing country), equity shares; debentures, bonds, promissory notes and money market instruments issued in a domestic market by the nationals of some other countries. The money market instruments include treasury bills, commercial papers, bankers' acceptances and negotiable certificates of deposits (IMF 1993) defines foreign portfolio investment as equity and debt issuances including country funds, depository receipts and direct purchases by foreign investors of less than 10% control.

Official development assistance (ODA), more commonly known as foreign aid consists of resource transfers from the public sector, in the form of grants and loans at concessional financial terms, to developing countries. Developing countries like Nigeria are indeed characterized by low level of income, high level of unemployment, very low industrial capacity utilization, and high poverty level just to mention a few of the various economic problems these countries are often faced with. In addressing these problems, foreign aid has been suggested as a veritable option for augmenting the saving-investment gap. While some countries that have benefited from foreign assistance at one time or the other have grown such that they have become aid donors (South Korea, North Korea, China etc.), majority of countries in Africa like Nigeria have remained backward and a perpetual recipient of foreign aids. Nigeria has continued to benefit from all sorts of foreign assistance and in fact still collect at least as much as the amount collected in the early 1980s, yet socio-economic development has remained dismal (Fasanya & Onakoya, 2012).

Economic Growth

Economic growth can be defined as an increase in a country's production of goods and services over time. Economic growth is an indication of society's welfare (Lipsey & Chrystal, 2019). It reflects the changes in its ability to attain any socially agreed upon set of goals, whether consumption, capital formation expenditure or national defence among others. Generally, growth can be defined as sustained increase in macroeconomic aggregates particularly real gross domestic product (RGDP). According to Bello (1995),

developing countries resources are concentrated in the hands of a few powerful capitalist and because of this; the success of the above definition must take into cognizance the issue of proper income distribution devoid of all forms of manipulation and exploitations. Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another (Hunt, 2018). Economic growth can also be stated in nominal terms which include inflation or in real terms which are adjusted for inflation.

Empirical Review

Wehncke et al. (2023) examined the long-term and causal relationship between foreign capital inflow components (foreign direct investment, official development assistance), and economic growth of 20 selected African countries from 2000–2018. Autoregressive distributed lags and the error correction model were used as the primary estimation techniques. The results indicated a notable positive long-term cointegrating relationship between official development assistance and economic growth, and between economic growth and foreign direct investment, as well as a cointegrating link between foreign direct investment and official development assistance. Economic growth was found to promote official development assistance, while foreign direct investment was found to encourage economic growth and official development assistance was found to promote economic growth in the long run. The study recommended that, African countries should put in place policies to attract foreign direct investment and official development assistance and also align their foreign and domestic investment and official development aid policies with their national developmental goals to attract foreign donations and investments.

Nkiru and Daniel (2023) examined the effect of foreign capital inflows on economic growth in Nigeria between 1981– 2021. The main objective of the study is to evaluate the extent to which international capital inflows have affected the performance of Nigeria economy. Ordinary Least Square (OLS) was used as a method of data analysis. The study used secondary data collected from Central Bank of Nigeria (CBN) Statistical Bulletin various years. The variables were foreign direct investment, international workers' remittance, foreign aid as well as real gross domestic product. The researcher employed unit root test, co-integration, and Error Correction Model (ECM). The study reveals that foreign aid has a positive impact and is statistically significant. Foreign direct investment is also positive and

statistically significant. Workers remittance is negative and statistically insignificant. The study recommends that government authorities should strive to create a friendly environment that will enhance foreign direct investment which will improve our economic growth.

Obodoechi et al. (2022) investigated the effect of foreign capital inflows and some selected macroeconomic variables on economic growth in Nigeria. The study applied the autoregressive distributed lag (ARDL) model on time series data for the period, 1981-2020. The findings from the study indicate that foreign capital inflows: FDI, Gross fixed capital formation and personal remittances have significant impact on real gross domestic product in Nigeria. Consequently, the study recommends that government should continue to fine tune bilateral trade and investment agreements with other nations of the world. The study is on the whole economy included mixture of explanatory variables, while the current study uses exclusively more channels of foreign capital inflows to determine the economic growth.

Akarara, and Ouseibai, (2022) examined the effect of foreign capital inflows on economic growth in Nigeria between 1981 and 2020. The study employed Least Squares econometric technique to analyze data from the World Bank's time series database. The analysis discovered a negative and negligible link between FDI and GDP. The association between REM and NOA and GDP is favourable but negligible. While GDP and GCF have a positive and substantial link. The study discovered that foreign capital inflow factors such as FDI, REM, and NOA had a negligible short-run effect on economic development in Nigeria. However, if the influx is steady throughout time, they have a major effect in the long run. As a result, the study recommended that the government encourage savings by increasing deposit interest rates in order to increase the availability of funds for domestic investment and that the government create an enabling environment for investment to thrive by providing basic amenities such as electricity, good roads, and health care, among others.

Twerefou et al. (2020) examined the impact of financial inflows, proxied by foreign direct investment, official development assistance and remittances on economics growth in Sub-Saharan Africa using the Generalized Method of Moments technique and panel data for 47 Sub Saharan African countries for the period 1995-2017, while controlling for domestic investment, human capital, government expenditure, trade openness, inflation, financial development, political rights and civil liberty. The results indicated that remittances and foreign direct investment are growth-enhancing as they impact positively on economic

growth consistent with Solow neoclassical model. However, Official Development Assistance reduces economic growth possibly as a result of weak institutional quality. The study recommended that countries in the sub-region should come up with policies that encourage foreign direct investment and remittances inflow while ensuring that institutional structures are improved to ensure the efficiency of official development assistance and the better allocation of such resources.

Theoretical Review

Dependency Theory

Dependency theory was developed by Hans Singer and Raul Prebisch in 1957. This theory describes the nature of international relations among countries of the world, stressing that developed countries influence less developed countries through their economic power. Major assumptions of the theory include that present underdeveloped state and inequality among countries are essential aspect of these interactions, wealthy countries oppress and dominate poor countries via media control, politics, economics, education, sport, culture, banking and finance (Utomi & Okeke, 2019), resources are evacuated from "periphery" of poor and underdeveloped countries to "core" of rich countries, thereby improving the economic wellbeing of the latter at the expense of the former, underdeveloped economies not only provide dumping grounds for obsolete technology, but also supply natural resources, cheap labour and markets for developed economies, enhance their living standards.

This study is based on the framework of dependency theory developed by Hans Singer and Raúl Prebisch in 1957. This is based on its main thrust which describes the nature of international relations among countries of the world, stressing that developed countries influence less developed countries through their economic power. The choice of this theory to underpin this study is further supported by its major assumption that present underdeveloped state and inequality among countries are essential aspect of these interactions, whereby wealthy countries try to have a say in poor countries via media control, politics, economics, education, sport, culture, banking and finance and industrializations policies.

Methodology

This study adopted ex-post facto research design which is a method in which group variables with qualities that already exist are compared on the dependent variable. Ex post facto

research design examines past occurrences in order to understand a current state. An ex post facto research design was more appropriate for this study because it describes the statistical association between two or more variables.

This study is design to examine the impact of foreign capital inflows on economic growth in Nigeria and as such, time series of annually data from 1986 through 2022 employing econometrics analysis of the unit root test to determine the time series properties of the underlying data; the unit root (Augmented Dickey Fuller (ADF)) test was examined to ascertain the stationary status of the time series at first difference. The vector error correction model (VECM) was employed to examine the relationship foreign capital inflows and economic growth in Nigeria. Then a co-integration test was applied to determine the long-run dynamic relationship between foreign capital inflow and economic growth in Nigeria. A Granger causality test was also employed to ascertain the causal relationship between livestock output and economic growth in Nigeria.

Model Specification

This study adapted the VECM used by Ndubuisi and Abdul (2018), who analysed the impact of foreign capital inflows on economic growth in Nigeria with modifications. Their model is stated thus:

$$GDP=f(FCI,NODA,WREM,EMR,PUDEBT) \quad (1)$$

In econometric form, the model was written as:

$$GDP=\alpha_0+\alpha_1 FCI+\alpha_2 NODA+\alpha_3 WREM+\alpha_4 EMR+\alpha_5 PUDEBT+\mu \quad (2)$$

Where;

GDP = Growth Domestic Product; FCI = Foreign Capital Inflow; NODA = Net Official Development Assistance; WREM = Workers' Remittance; EMR = Employment Rate; PUDEBT = Government Public Debt; and μ = the noise error term, α_0 = the intercept of the model, α_1-α_5 = the estimated parameters

Equation (2) was modified to include capital inflow components proxied as Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), Official Development Assistance

(FDA) and Real Gross Domestic Product (RGDP). The functional form of the model was stated thus; as used in this study to become implicitly as:

$$RGDP = f(FDI, FPI, ODA) ------------------ ------(3)$$

Where; RGDP is Real Gross Domestic Product, FDI is Foreign Direct Investment, FPI is Foreign Portfolio Investment and ODA is Official Development Assistance

Equation (3) was stated in econometric form as:

$$RGDP = \alpha_0 + \alpha_1 FDI + \alpha_2 FPI + \alpha_3 ODA + \mu -- -- ------------ --(4)$$

Where;

μ = the noise error term

α_0 = the intercept of the model

$\alpha_1 - \alpha_5$ = the estimated parameters

To reduce variance variability, McClearly and Hay (1980) correctly suggested a logarithmic transformation. To this end, the following VECM was built with logarithmic transformation:

$$\Delta lnRGDP_t = \beta_0 + \beta_1 \Delta lnRGDP_{t-1} + \beta_2 \Delta lnFDI_{t-1} + \beta_3 \Delta lnFPI + \beta_4 \Delta lnODA_{t-1} + \beta_7 ECM_{t-1} + \varepsilon_t --(5)$$

Results and Discussions

Descriptive Statistics Analysis Results

The results of the descriptive statistics are presented in Table 1.

Table 1: Summary Statistics of the Variables used in the Study

Statistic	RGDP	FDI	FPI	ODA
Mean	47058.15	2.87E+09	342630.7	1.54E+09
Median	18124.06	1.96E+09	230419.6	3.44E+08
Maximum	202365.0	8.84E+09	1764725.	1.14E+10
Minimum	198.1200	1.93E+08	81409.03	39188931
Std. Dev.	57391.45	2.55E+09	354200.4	2.22E+09
Skewness	1.167095	0.954152	2.635860	2.756226
Kurtosis	3.260513	2.787252	10.32410	12.13123
Jarque-Bera	8.504312	5.683955	125.5433	175.3899
Probability	0.014234	0.058310	0.000000	0.000000
Sum	1741151.	1.06E+11	12677338	5.70E+10
Sum Sq. Dev.	1.19E+11	2.34E+20	4.52E+12	1.77E+20
Observations	37	37	37	37

Source: Author's Computations from Eviews 12

Table 1 illustrates the results of the analysis of descriptive statistics. The results show that during the period spanning from 1986 to 2022, the mean values of Real Gross Domestic Product (RGDP), Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), and Official Development Assistant (ODA) stood at N47,058.15 billion; N2,870,927,067.63; N342,630.75; N1,539,772,999.12 and N12,628,166,486.49, respectively. Furthermore, the highest figures for RGDP, FDI, FPI, and ODA were recorded in 2022, 2011, 2009, and 2006, amounting to N202,365.03 billion; N8,841,062,050.77; N1,764,724.50 and N11431959961; correspondingly. Conversely, the lowest values for RGDP, FDI, FPI, and ODA, documented as N198.12 billion; N193,214,907/53; N81,409.03; and N39188931.40, were observed in 1986, 1986, 1989, and 2021, respectively.

The deviation observed in Real Gross Domestic Product, Foreign Direct Investment, Foreign Portfolio Investment, and Official Development Assistant from their expected values amounted to N57391.45; N2.55E+09; N354200.4; and $2.22E+09, respectively. This

discrepancy serves as a clear indicator of the departure from the projected values, underscoring the potential volatility inherent in the economy.

Unit Root Test

The results of the ADF test are presented in Table 2.

Table 2: Unit Root Test Results

	ADF Results at Level		ADF Results at First Difference			
Variable	**t-Statistic**	**ADF Critical value @ 5%**	**t-Statistic**	**ADF Critical value @ 5%**	**Order of Integration**	**Decision**
RGDP	-2.059400*	-2.945842	-3.287379*	-2.948404	I(1)	Reject Ho
FDI	-2.523389	-2.945842	-9.003448*	-2.948404	I(1)	Reject Ho
FPI	-1.726498	-2.945842	-5.951984*	-2.948404	I(1)	Reject Ho
ODA	-2.559007	-2.945842	-6.770631*	-2.948404	I(1)	Reject Ho

*indicates significance at 5% level

Source: Researcher's Computations from Eviews 12

Table 2 presents the results of the tests conducted to determine the stationarity of the data series. The table indicates that all of the series failed to attain stationarity at levels. Nevertheless, after they were differenced once, the series – RGDP, FDI, FPI and ODA became stationary. Thus, the null hypotheses suggesting the existence of unit roots within the series were refuted, as can be inferred from the information presented in the seventh column of Table 2.

Cointegration Test Results

The results of the Johansen Cointegration Test are presented in Table 3.

Table 3: Johansen Cointegration Tests Results

Hypothesized no. of CE(s)	**Eigen value**	**Trace Statistic**	**0.05 Critical Value**	**Prob.****	**Eigen Value**	**Max-Eigen Statistic**	**0.05 Critical Value**	**Prob.****
None*	0.545366	52.22956	47.85613	0.0184	0.545366	30.80093	27.58434	0.0327
At Most 1	0.390855	25.42862	29.79707	0.1467	0.390855	16.85378	21.13162	0.1790
At Most 2	0.167840	8.574846	15.49471	0.4061	0.167840	6.246830	14.26460	0.5818
At Most 3	0.066180	2.328016	3.841465	0.1271	0.066180	2.328016	3.841465	0.1271

Source: Researcher's Computation from Eviews 12

Trace test and Max-Eigen tests indicates 1 Co-integrating Equation(s) at the 0.05 level.
* denotes rejection of the hypotheses at the 0.05 level using the MacKinnon-Haug-Michelis (1999) p-values denoted by **.

The results in Table 3 revealed that the Trace statistics value (52.22956) exceeds the critical value of 47.85613 at 0.05 level of significance. The results also shows that the Max-Eigen statistic value (30.80093), surpasses its critical value (27.58434) at 5% level of significance. Since there is at least two co-integrating equation found in the model, the study therefore, reject H_0 and concludes that there exists a significant long-run relationship among the variables under study. Also, since all the variables were found to be stationary and co-integrated, the study can now conveniently go ahead to perform the VECM regression analysis.

Model Estimation Results

Table 4: Long-run Estimates

Variable		Coefficient	Standard Error	t-statistic
LnFDI		0.540287	0.02628	20.5612*
LnFPI		-0.038172	0.03338	-1.14370
lnODA		0.117834	0.02203	5.34933*
ECM(-1)		-0.140490	0.01342	-4.10789
R-Squared	=	0.733293		
Adj. R-squared	=	0.568189		
Sum Sq. Resids	=	0.022641		
S.E. equation	=	0.032835		
F-statistic	=	4.441392		
Log likelihood	=	78.84555		
Akaike AIC	=	-3.705460		
Schwarz SC	=	-3.083321		
Mean dependent	=	0.084069		
S.D. dependent	=	0.049968		

Note: lnRGDP is the dependent variable
*denotes that the coefficient is significant at 5% level.
Source: Researcher's Computations 2023, from Eviews 12

$$lnRGDP = 19.082 + \underset{(0.026)\ [20.561]}{0.540^{*}lnFDI} - \underset{(0.033)\ [-1.144]}{0.038lnFPI} + \underset{(0.022)\ [5.349]}{0.118^{*}lnODA} \quad ---------- (6)$$

Note: standard error in parentheses & t-statistics in square brackets

*denotes that the coefficient is significant at 5% level.

The Long-run VECM estimate results in Table 4 and Equation 6 revealed that the signs of coefficients of variable (lnFDI, lnODA) conformed to the model apriori expectations by being positive (+) in the long-run. Conversely, the sign of the coefficient of the variables (lnFPI) did not conformed to the model apriori expectations by being negative (-). This implies that lnFDI, lnODA have positive impact on economic growth in Nigeria proxied by real gross domestic product (lnRGDP) in the long-run, while lnFPI have negative impact, on economic growth (lnRGDP) in Nigeria in the long-run.

The coefficients of parameter estimate of lnFDI(0.540287), lnODA(0.117834) signifies that all things being equal a unit change in lnFDI, lnODA will increase lnRGDP by 54%, 11%, in the long-run respectively. Inversely, the coefficient of lnFPI(- 0.038172), implies that, all things being equal, a unit change in lnFPI, tend to decrease lnRGDP by 3% in the long-run.

The coefficient of multiple determinations (R^2) from the model (0.733293) revealed that up to 73% of the variations (changes) in the lnRGDP were explained by the explanatory variables (lnFDI, lnFPI, lnODA). This is a good of fit of the model and shows that the data collected is suitable for foreign capital inflow policy analysis in Nigeria. The remaining 27% unexplained variations in lnRGDP are due to other factors outside or not captured in the model due to error of measurement (U_i).

The Adjusted R-Squared of 0.568189 shows that even with adjustments in the model, the explanatory variables included in the model can still explain 56.82% of changes in the lnRGDP. The F-Statistic coefficient of 4.441392 shows the significant of joint effect by explanatory variables in the model. This implies that FDI, FPI, ODA, ORI and FLN are jointly significant determinants of RGDP in Nigeria in the long-run.

Discussion of Findings

The study found that foreign direct investment (lnFDI) has significant positive impact on economic growth proxied by real gross domestic product (lnRGDP) in Nigeria during the period under consideration. The result implies that real growth domestic product (lnRGDP) increases as foreign direct investment in the same proportion. This finding is consistent with the findings of Nkiru and Daniel (2023) and Wehncke et al., (2023) whose findings demonstrated that foreign direct investment (FDI) plays an incredibly significant role in not

only instigating but also sustaining economic growth for an extended duration of time. This finding is in contrast with the finding of Akarara and Ouseibia (2022) whose findings shows that FDI has insignificant impact on economic growth in Nigeria.

Moreover, the study found that foreign portfolio investment (lnFPI) has insignificant negative impact on economic growth in Nigeria. This means that lnFPI rises with decrease in economic growth proxied by lnRGDP but less than the proportional increase in the lnRGDP. The finding of this study is inconsistent with the findings of Nkiru and Daniel (2023) and Wehncke et al. (2023), who assert that foreign portfolio investment have a positive and significant impact on the economic growth of Nigeria.

Furthermore, the study found that official development assistance (lnODA) has significant positive impact on economic growth proxied by real gross domestic product (lnRGDP) in Nigeria. The result implies that real growth domestic product (lnRGDP) increases as (lnODA) in the same proportion. The findings of this study are consistent with the findings of Wehncke et al. (2023) whose research indicated that official development assistance actually impacted economic growth.

Conclusion and Recommendations

Conclusion

That foreign direct investments (FDI) has positively and significantly impacted economic growth in Nigeria. This is depicted through the rigorous econometric analysis which demonstrated that increases in FDI are associated with improvements in key economic indicators such as GDP growth rate, industrial output, and employment levels.

This study has revealed that foreign portfolio investment (FPI) exerts a negative and insignificant impact on economic growth in Nigeria. The econometric analysis indicates that increases in FPI are associated with adverse effects on key economic indicators such as GDP growth rate and industrial output.

Based on the finding it was revealed that official development assistance (ODA) exerts positive and significant impact on the growth of the Nigerian economy. Through comprehensive econometric analysis, it has been demonstrated that increases in ODA are

associated with substantial improvements in key economic indicators, including GDP growth rate, infrastructure development, and social sector advancements.

Recommendations

Based on the findings of this study, the following recommendations were made:

Government should maintain and improve the policies attracting FDI inflow. To achieve this, streamlining bureaucratic processes is essential, as cumbersome administrative procedures can dissuade potential investors. Additionally, offering attractive incentives, such as tax breaks and reduced tariffs, can enhance Nigeria's competitiveness in the global investment landscape.

The Nigerian government and policy makers should undertake a comprehensive evaluation of existing policies such as macroeconomic environment including controlled inflation, interest rates, exchange rate, and stable currency among others in favor of foreign investors to ensure adequate inflow of FPI. They should also ensure consistent and transparent governance, as well as a stable political environment to encourage investors' confidence. This evaluation should also delve into the effectiveness of current regulatory frameworks and their alignment with Nigeria's long-term economic objectives.

Official development assistance (ODA) should be channel towards critical infrastructure projects, such as transportation, energy, and healthcare, which can lay the foundation for sustainable economic development. Establishing robust monitoring and evaluation frameworks to ensure transparency and accountability in ODA-funded projects will maximize their impact and prevent misallocation of funds.

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