Analysis of Foreign Direct Investment and Exchange Rate on the Nigerian Economic Growth

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ABSTRACT

The study investigated the effect of foreign direct investment and exchange rate on the Nigerian economic growth. The Secondary data used include the aggregate annual time series at current prices for gross domestic product, GDP, INTR, INFLR, EXR, and total net inflows for Foreign Direct Investment, FDI covering the period 1980-2022. The study made used Autoregressive Distributed Lag Model (ARDL) to determine both the short-run and the long-run relationship between the variables. The coefficient of determination (R^2) showed the percentage of variations in the dependent variable that can be explained by the independent variables. The R^2 of 0.997101 or 99% showed that Economic development can be explained by changes in the explanatory variables as shown in the model and the remaining 1% is explained by the dummy variable. The F-statistic which measures the overall significance of the model indicated that it is significant at 5%. This is indicated by the F-statistics and its probability (44.85634 and 0.004642) respectively. We therefore conclude that there is a significant relationship between foreign direct investment and exchange rate on economic growth in Nigeria. The study recommends among other things that Government should give tax holiday to the newly established industries, as that will encourage indigenous industry thereby leading to economic growth, government also needs to subsidies industrial farm inputs as such will help producers to produce goods at affordable prices thereby reducing inflation in the economy.

INTRODUCTION

The ability to meet the demand for products and services through increasing production size and improved productivity is what is known as economic growth. A currency's price in relation to another is referred to as its exchange rate. For example, the naira to US dollar exchange rate is the amount of naira required to obtain a specific amount of US dollars. The cross-border transfer of capital and technological know-how from one country to another is known as foreign direct investment, or FDI. Additionally, foreign direct investment is defined as an investment made by a person or business in another country with a business interest. This investment can take the form of establishing a business operation, such as owning or controlling a foreign organization, or it can take the form of purchasing business assets in other countries. Notably, an increase in the exchange rate may result in the cost of domestic items rising, discouraging consumers and causing them to switch to less expensive foreign goods, which would lower domestic production.

On the other hand, FDI is a well-studied component of foreign investment that has been identified as a key means of bringing in the capital required to promote quicker economic growth in developing nations (Kenny, 2020). An entity based in another nation can engage in a business enterprise in another country by acquiring a controlling ownership stake. This is known as foreign direct investment, or FDI.

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A foreign investor's purchase of an asset in another country with the intention of managing it is known as foreign direct investment, or FDI. In order to create a profit, this investment entails not only the transfer of money but also the transfer of tangible capital, production techniques, and knowledge in product development, advertising, and business procedures.

Foreign Direct Investment (FDI) is a strategy used by the majority of developing nations to generate foreign reserves through economic ventures, investments, and subsidies from developed nations. FDI is regarded as a viable medium for international trade, a significant source of capital formation and finance, and a transfer of technology and expertise. Nigeria is one of the receiving countries to which innovations and inventions can be transferred thanks to the spillover effect. Although the Sustainable Development Goals' requirement for faster growth is not entirely clear, cross-border trade is essential for economies to experience inclusive and sustainable development (UNCTAD, 2019).

As a major stimulus for the global economy and globalization, foreign direct investment (FDI) can be defined as the transfer of capital resources that involve both ownership and control between countries. FDI is a major driver of economic development for both the host and home countries, and it is also regarded as a growth booster in developing economies. This is because it boosts capital creation, encourages domestic investment, and ensures technological transfer across nations, all of which have an impact on economic growth (Falki 2009) in (Ogu, 2019). Falki cited increased employment, increased productivity, enhanced exports, and a high rate of technology transfer as some of the main ways that FDI affects the host economy. He went on to say that the implementation of modern organizational and advertising tools, the facilitation of the exploitation and use of local natural resources, the provision of external inflow that can be used to find current account defiant, and the provision of a platform for increasing the stock of human capital via on-the-job training are all potential benefits that the host economy could receive from FDI.

Interest in Foreign Direct Investment (FDI) has grown quickly due to the projected benefits of using this type of foreign capital infusion to boost domestic savings and advance economic growth in most developing economies. In their study of FDI inflow patterns in Nigeria's construction industry, Ebekozien, Ugochukwu, and Okoye (2015) proposed that the Nigerian government had created the EFCC, ICPC, and NIPC to address these shortcomings and enhance the cooperative environment. However, their research indicates that although the industrial sector has a good link with foreign direct investment (FDI), it has not drawn much FDI to the nation.

It is commonly asserted that both foreign and domestic investments are vital to economic progress. However, empirical research on how foreign direct investment (FDI) affects economic growth focuses on either the overall impact on growth (or net welfare) or specific facets of how FDI affects trade, employment, technology, entrepreneurship, and other economic sectors like infrastructure, education, and health. The current empirical evidence about the underlying relationship between foreign direct investment and economic growth and the related benefits is highly inconclusive, despite the abundance of studies on FDI and economic growth in Nigeria. The empirical research has not agreed on the trend of this influence, despite the apparent positive correlation between FDI and economic growth. This suggests that FDI may have a positive or negative impact on economic growth. Furthermore, not much research has been done on the subject in the context of emerging nations like ours. The main motivation behind this work is the importance of the economic growth issue for emerging nations, especially Nigeria. Through a variety of strategies, such as legislation aimed at transferring technology and foreign finance, these nations have been promoting growth. Therefore, it is worthwhile to look into whether the beginning of growth may be linked to a rise in foreign direct investment (FDI) into the nation throughout the reviewed period. Therefore, it makes sense to wonder if the economy's recent expansion was due to foreign direct investment or if the nation had already reached this growth level before luring in foreign direct investment. According to recent theoretical advances in the field of economic growth, successful emerging nations were able to expand in large part because they were able to "catch up" in terms of

technology. Foreign direct investment is one of the main ways that these countries are able to obtain modern technologies.

LITERATURE REVIEW

Foreign Direct Investment

The World Bank (1996, Gilbert, 2017) defined foreign direct investment as an investment intended to acquire a long-term management of roughly 10% of voting stock in a company that operates in a country other than the investor's home country. Companies may be seeking lower resource costs, aiming for market share, and increasing sales in foreign nations, according to the reasoning behind FDI. Depending on the situation, it may be aimed at providing foreign companies with input resources or at taking advantage of their assets. FDI is an investment intended to get a long-term interest in a business venture that operates outside of the investor's economic shores, according to André (2008) in Gilbert (2017). "A transnational or offshore corporation is a combination of a domestic business and a foreign affiliate," he noted. For an investment to be considered foreign direct investment (FDI), the investor must grant the parent company control over its foreign affiliate. This control is present when the parent company owns 10% or more of the common stock or voting rights of an incorporated company, or the equivalent for an unincorporated company. This type of investment is referred to as a portfolio investment.

According to the World Bank (1996), foreign direct investment is an investment made to obtain a long-term management stake (often 10% of voting stock) in a business firm operating in a country other than the investor's home country (Ogu, 2019). These investors can take one of two forms: merger and acquisition, which involves purchasing an existing interest rather than making a new investment, or "greenfield" investment. Thus, a measure of foreign ownership of productive assets like mines, factories, and land is called foreign direct investment. According to Gansonuou (2008), one indicator of increasing economic integration and globalization is rising foreign investment (Ogu, 2019). The traditional concept of foreign direct investment, as mentioned above, has undergone significant alteration in the last ten years. Nonetheless, the notion of altering the conventional meaning must be preserved within the proper context. It is clear that over two-thirds of direct foreign investment still goes toward buildings, machinery, fixtures, and other equipment.

Foreign direct investment is a topic that many governments, both in developed and developing countries, closely monitor because they think that the inflow and outflow of capital could significantly affect growth (Asiedu, 2009) in (Ogu, 2019). However, the number of technology start-ups has skyrocketed, and this, along with the growing popularity of internet usage, has led to a growing shift in the patterns of foreign investment.

Exchange Rate

This is the rate at which the value of the currencies of two different countries is compared. A country's lower exchange rate's purchasing power is impacted if one country's exchange rate is greater than the other. For instance, because the value of the Nigerian naira is lower than that of the US dollar, an American will be able to buy more than a Nigerian.

Because it lowers the unit cost of the host nation's factor of production, enhances the relative wealth position of foreign investors, and devalues the host nation's assets, currency devaluation as measured by the exchange rate is likely to promote inward foreign direct investment (FDI) in the host nation (Froot and Stein, 2011; Globerman and Shapiro, 2013). The counterargument, however, also maintains that foreign investors may restrict investment if they perceive a declining domestic currency as an indication of future depreciation (Globerman and Shapiro, 2013). Furthermore, as it raises the foreign exchange value of the profits and dividends sent back to the parent business, Ramirez (2006) in Aliyu, Olalekan, and Olusegun (2022) contends that the appreciation of the domestic currency may draw in foreign direct investment. The impact of currency rates on foreign direct investment is the subject of conflicting empirical research in developed nations. There is a positive correlation between the two variables in four studies, a negative correlation in four studies, and no correlation in four research. As stated by Pilbeam (1998) in Aliyu, Olalekan, and Olusegun (2022), the exchange rate is the relative price of one currency to another, i.e., the amount of foreign money that can be

acquired for one unit of domestic currency or the cost of acquiring one unit of foreign currency in domestic currency. The international monetary system is described by this rate, which is the rate at which one currency is exchanged for another.

Meanwhile, foreign exchange is a monetary asset that is utilized on a daily basis to settle international transactions and fund deficits in a nation's balance of payments, according to Anifowose (1994) in Aliyu, Olalekan, and Olusegun (2022). It is a crucial part of a nation's external reserve holdings. Special Drawing Rights (SDRs) and the possession of monetary gold are further elements. To settle international commitments, a nation may get foreign exchange through exporting goods and services, direct investment inflow, or external loans, grants, and aid (Obaseki, 1991) in (Aliyu, Olalekan, and Olusegun 2022). Foreign exchange reserves may be under strain when there is an imbalance in the foreign exchange market brought on by a lack of foreign services. Insufficient foreign reserves have the potential to worsen into balance of payments issues. While a declining exchange rate may be both expansionary and inflationary, an increasing exchange rate may be either deflationary or contractionary. A nation's economy's cyclical position in the output gap and inflationary pressure is monitored by the level of the exchange rate. The real effective exchange rate (REER), which compares the pricing of local goods to a basket of foreign commodities, has been used to compare the price of domestic goods to that of partners' goods (Gour and Mohammad, 2011). China has been investing mostly in the textile, automotive, rail transportation, and aerospace sectors, whereas Nigeria has been drawing significant inflows from American businesses in the transportation and telecommunications sectors (World Bank, 2020).

The Indirect Impact of FDI on Economic Growth

Foreign businesses have given preferential treatment to a number of developing economies. The reasoning is based on the idea that foreign direct investment (FDI) generates externalities through knowledge transfer (Aitken and Harrison, 2011). The requirement for access to technology that are not developed by domestic companies may be understood by the nations that attracted multinational corporations. These advantages only apply to spillovers. Despite this, the benefits of foreign direct investment (FDI) do not accrue automatically and uniformly across nations, industries, and local communities (OECD 2002) (Gilbert, 2017). FDI is especially significant since it is viewed as a collection of both intangible (technological augmentation, organizational structure, and skill acquisition and know-how) and tangible (capital accumulation, physical and human, and technological advancements) assets (Ajayi 2006) (Gilbert, 2017). In addition to boosting growth and productivity inside the recently joined multinational corporations, these resources may also have a knock-on effect on other businesses in the host nation. Additionally, through indirect or spillover effects, promote welfare economic growth in these nations (Colen et al. 2010). One of the main ways that technology is transferred is through foreign direct investment (FDI). The spread of best practices throughout the local economy as a whole determines the subsequent impact of FDI on domestic economic growth (Ajayi 2006) in (Gilbert, 2017). MNCs have the ability to create a variety of spillover effects, and they can occur through a variety of channels. The increase in domestic firms' productivity is the sole factor driving the attraction of multinational corporations (MNCs) and related foreign direct investment (FDI) to the host economy.

Determinants of Foreign Direct Investment

Due to the unpredictable nature of autonomous FDI flows, both in terms of magnitude and direction, a significant amount of research has been done to determine the main factors that influence them. Numerous studies that are mostly based on three methods—aggregate econometric analysis, survey evaluation of the views of foreign investors, and industry-level economic research—have not been able to reach an agreement. This is partially because most empirical work has analyzed FDI drivers by polling nations that may be structurally varied, and because there is a dearth of trustworthy data, especially at the sectoral level. Rather than industry-specific characteristics, this section focuses on analyzing the factors that influence the investment's destination: host country determinants.

(1) Size of the Market

The size of the market (as measured by the GDP) and several of its attributes (such as average income levels and growth rate) are known to be correlated with foreign direct investment (FDI), according to economic

research involving a variety of nations. Some studies revealed that GDP growth rate was a significant explanatory variable, whereas GDP was not. This suggests that growth performance, as a measure of market potential, may be more relevant to FDI decisions in areas where the current size of national income is extremely modest. Without a doubt, the enormous FDI flows that China has drawn since the early 1980s may be largely explained by the size of its market. Small market size need not be a barrier in resource-endowed, export-oriented economies, even if Bhattacharya et al. (1998) in Gilbert (2017) noted GDP growth as a key factor attracting FDI in sub-Saharan Africa.

(2) Openness

Access to particular markets, as measured by their size and growth, is crucial, but local market considerations are evidently far less significant for international companies who prioritize exports. Numerous studies indicate that there is a general belief that "open" economies attract greater international investment. The proportional size of the export industry is one measure of openness. According to Singh and Jun's (1995) research, which Gilbert (2017) cites, exports—especially manufacturing exports—are a major factor in FDI flows, and tests reveal compelling evidence that exports come before FDI flows. The export industry has seen a significant influx of foreign investment, particularly from China. On the other side, Bangladesh's manufacturing sector has drawn foreign investments due to its lack of growth in exporting textiles and apparel to the US and EU markets.

(3) Low cost of Productivity

Additionally, empirical studies have shown that relative labor costs are statistically significant, especially for subsidiaries focused on exports and foreign investment in labor-intensive industries. For instance, the low wage rate that is now in place has had a significant impact on the decision to invest in China. The availability of inexpensive labor has also been cited as the main factor behind Vietnam's fast rise in foreign direct investment. On the other hand, it has been noted that India's labor market rigidities and comparatively high formal sector wages are discouraging any substantial inflows into the export industry in particular. Additionally, empirical studies have shown that relative labor costs are statistically significant, especially for subsidiaries focused on exports and foreign investment in labor-intensive industries. For instance, the low wage rate that is now in place has had a significant impact on the decision to invest in China. The availability of inexpensive labor has also been cited as the main factor behind Vietnam's fast rise in foreign direct investment. On the other hand, it has been noted that India's labor market rigidities and comparatively high formal sector wages are discouraging any substantial inflows into the export industry in particular.

(4) Political Risk

Uncertainty surrounds the relative importance of political risk among FDI factors. There may be no need for additional incentives in nations with an abundance of natural resources, as is the case in politically turbulent nations like Nigeria and Angola, where lucrative sectors appear to offset political unrest. Generally, a foreign nation will keep investing as long as it is certain that it can run its business profitably without taking unnecessary risks with its money and people.

(5) Infrastructure

However, inadequate infrastructure can be viewed as a barrier to foreign investment as well as a chance. In most low-income nations, it is frequently mentioned as one of the main obstacles. However, if host governments allow for greater foreign involvement in the infrastructure sector, international investors also highlight the possibility of drawing sizable FDI.

(6) Incentives and operating Conditions

The majority of empirical data backs up the claim that certain incentives, such reduced taxes, don't significantly affect foreign direct investment, especially when they are viewed as restitution for persistent competitive disadvantages. Removing restrictions and creating favorable business operating conditions, on the

other hand, are typically seen as beneficial. In China, the initial influx of foreign direct investment was facilitated by the "open-door" policy and improved incentives for investing in the special economic zones.

(7) Privatization

Although there have been some recent foreign investment flows into privatization (such as Nigeria in 1993 and Ghana in 1995), most low-income countries are still making modest progress, especially because the sale of state assets is a contentious political issue.

(8) Trade Barrier and Trade Openness

Due to trade barriers, FDI may be conducted in order to obtain access to the host country's market. As a result, high trade barriers in the host nation encourage foreign direct investment while discouraging exports. As a result, open economies should get less foreign FDI since it is seen as a replacement for trade (Moosa, 2002) (Gilbert, 2017). More recent research, however, suggests that trade openness may improve the business environment by raising expectations for economic development possibilities, which in turn may attract more foreign direct investment (FDI) into open nations (Lim, 2011). However, other studies on developed countries do not show any substantial association, and only a small number of empirical investigations on developed countries confirm the above claim. Yang et al. (2000) in Gilbert (2017) contend that inward FDI is a substitute for trade and is used to circumvent trade barriers, while Filippaioset al. (2013) contend that the negative relationship between trade openness and inward FDI shows that inward FDI is used to serve the local market in the host countries.

The Origin and Development of FDI in Nigeria

The Royal Niger Company (RNC) was awarded a charter in 1886 to transport palm oil from Nigeria to Liverpool and then import the processed palm oil back into Nigeria as soap. This is where foreign direct investment (FDI) in Nigeria began and grew. After merging with African and Eastern Trading Corporation, this business created the United African Trading Company (UAC), a Unilever affiliate in Nigeria. Other companies that had a big influence on the growth of foreign direct investment in Nigeria were Shell and BP, which began exporting oil in 1958. Gulf Oil (now Chevron), Mobil, ELF, Agip, and Texaco are a few companies that come after this. SCOA, John Holts, UTC, and Julius Bergers are examples of other sectors (Baridam, 1990 in Gilbert, 2017). Oil corporations first appeared in Nigeria during the civil war, and the years 1973–1979 saw a surge in foreign direct investment, which gave the nation its highest revenue ever—roughly $7.5 billion annually. Nigeria was regarded as the richest black African nation based on this amount of revenue. With N30 billion or N50 billion in expenditures, the third National Development Plan (1975–1980) was used as a test run for evaluating Nigeria. Both domestic and foreign investors found this amount of spending to be a bountiful environment. 300 Nigerian businesses and 57 foreign nations attended the first-ever international trade show in 1977. There were 6000 exhibitions overall. Following this incident, foreign direct investment (FDI) in Nigeria skyrocketed, involving Ford Motors, IBM, Dupon, Chase Mahathan, and ITT. etc.

Impact of FDI on Economic Growth in Nigeria

One of the few nations in Africa to consistently profit from foreign direct investment is Nigeria. From 24.19% in 1990 to a low of 5.88% in 2001 to 11.65% in 2002, Nigeria's proportion of foreign direct investment inflow to Africa averaged about 10%. After Angola in 2001 and 2002, Nigeria was the continent's second-largest receiver of foreign direct investment (FDI), according to UNCTAD (2003). Between 1992 and 1996, the total FDI inflow was between N20.5 million and N122.6 million. Compared to the 1980s downturn, this represented a rise in real terms. Although it only makes up a small portion of the country's GDP (gross domestic product), foreign direct investment (FDI) rose from 7.56% in 1992 to 41.74% in 1996, then dropped to 37.38% in 2003 before rising from 2004 to 2007 when it reached a peak of 87.11%. Overall, it accounted for roughly 46.10% of GDP over the 1992–2015 study period. Nigeria is currently Sub-Saharan Africa's leading and the continent's third host economy for foreign direct investment. Nigeria has recently seen a number of trade initiatives designed to diversify the country's economy away from oil earnings. The goal of these programs is to boost the industrial sector, which naturally leads to austerity. The government received approximately USD 1.9 billion

in foreign direct investment (FDI) in 2018, compared to USD 3.5 billion in 2017. This decline was caused by the austerity measures that were implemented in 2018. FDI accounted for just 3.37% (USD 200.08 million) of the overall capital inflow during the third quarter of 2019.

Factors that Influence FDI Decision Making

On the top level of transnational businesses (MNCs), it makes sense to propose that the process of meticulous preparation comes before the ultimate choice about FDI activity. According to economic theory and empirical evidence, money moves from low-profit to high-profit areas, therefore anticipating future profits—also known as profit-seeking—is a major driving force behind investment activity (Carbaugh, 2000) in Adewumi (2016). High future profit expectations are a significant consideration, but they are not the only one. It is possible to conditionally categorize additional factors that affect the choice to invest abroad into two sizable groups: "company-specific" and "country-specific" factors. The characteristics that vary amongst international businesses in the same or comparable industries with respect to a particular nation are known as company-specific attributes. Demand and cost considerations are among these criteria, but they are not the only ones. A corporation may consider foreign direct investment (FDI) as a way to expand its market, according to demand variables (de Mello, 1997 in Gilbert, 2017). A company may invest foreign direct investment in a country if there is a high demand for its product abroad and it makes more sense to manufacture the items there rather than export them. Eliminating international competition by purchasing a control package in a foreign company is another requirement for FDI. As a result of globalization, businesses are forced to expand their markets and conduct business abroad. In the case of cost factors, the processes of privatization have been driving FDI inflows into economies in transition, with enormous opportunities for foreign countries to acquire a controlling interest in newly privatized companies. Undoubtedly, these factors will differ for firms belonging to different sectors of the economy, but may be similar for firms in one particular field.

The Role of FDI

Apart from the advantages that foreign direct investment (FDI) offers investors, the focus of FDI research is on the consequences that follow from FDI. There is disagreement in the empirical literature over whether foreign direct investment (FDI) has a positive effect on economic growth, despite the seeming widespread belief that FDI promotes economic growth rather than hinders it. FDI is thought to have a multifaceted effect on the recipient economy since it is a composite bundle of capital stock, technology, management, and know-how. Foreign direct investment (FDI) can boost economic growth in a number of ways. First, FDI is anticipated to boost growth through capital accumulation, since more fresh inputs are added to production (Buckley, 2012). A greater variety of intermediate items in FDI-related production may also lead to economic growth.

Second, FDI is regarded as a significant driver of technological advancement and the expansion of human capital (Buckley et al, 2011). As new types of knowledge-based capital goods are introduced, technological change happens simultaneously through the process of capital deepening and through the augmentation of human capital, which happens as productivity rises through labor training, the acquisition of new skills, alternative advanced management techniques, and organizational innovations.

The transmission of ideas and new technologies, productivity spillovers, the sharing and application of know-how, and information transfer are all significant components of economic development, and FDI is the primary driver of this phenomenon. Technological development happens not just in the company that receives FDI, but also in the economy as a whole because of the positive externalities and other spillover effects that FDI enhances. FDI is also seen to increase the efficiency of locally owned businesses. In general, there are two approaches to improve the efficiency of businesses in the host economy: directly and indirectly.

However, the direct result was that FDI would raise the productivity of the industry a foreign company works in. According to (Schoors et al., 2010) in (Gilbert, 2017), productivity is low in open sector businesses that are owned domestically. They get a competitive edge by using inexpensive labor. Foreign-owned businesses in the same industries, on the other hand, employ more costly labor but enjoy greater productivity. However,

whenever technological diffusion takes place and labor and knowledge are transferred from one industry to another, cross-sector, or indirect, effects also exist. Furthermore, more successful overseas businesses encourage healthy rivalry in the home market. Apart from the above stated reasons, foreign direct investment (FDI) is seen to be particularly significant for economies in transition since these nations possess a large amount of potential human capital but lack the capital and technology required for development and expansion. It is believed that FDI stimulates technology transfer and capital accumulation in these economies.

Theoretical Framework

Exogenous Growth Theory

Solow (1956) was the pioneer of the exogenous growth theory, also referred to as the neo-classical growth model or the Solow Swan growth model. According to this theory, labor and the stock of capital accumulation are examples of external elements of production functions that contribute to economic growth. According to Gilbert (2017), Barro and Sala-I-Martin (1995) show that capital accumulation and economic growth are positively correlated over time. As stated in Elboiashi (2011), this theory states that economic growth is only impacted in the short term by the stock of capital accumulation, which is determined by the saving rate and the rate of capital depreciation. It also states that an increase in the stock of investment accumulation will lead to an increase in growth, provided that the amount of labor and the level of technology remain constant (Barro and Sala-I-Martin 1995; De Jager 2004). Regarding location advantage, Wall and Ress (2004) in Ogu (2019) believed that a company's ownership advantage in a different area than its home market must be more profitable. This might be due to either market, cultural, or economic advantages. Businesses can take full advantage of the ownership advantage that arises from knowing how to market a product or offer a service through internalization. It also gives them the chance to protect that information, which they believe is essential to their competitiveness (Sean-Leigh, 2004) (Aliyu, Olalekan, and Olusegun, 2022).

EMPIRICAL REVIEW OF LITERATURE

With varying degrees of causality, the empirical relationship between FDI, EXCR, and economic growth has been widely recognized in both developed and developing nations. These factors have been linked to both macroeconomic and political aspects of the economy in question.

Using the Gregory-Hansen and Bayer-Hanck cointegration techniques, Aliyu, Olalekan, and Olusegun (2022) investigated the long-term relationship between foreign direct investment (FDI) inflows and the exchange rate (EXC) in Nigeria from 1980M01 to 2019M12. The outcome demonstrated that there is a long-term correlation between foreign direct investment and the Nigerian exchange rate. The effect of FDI on the currency rate was determined using the Dynamic Ordinary Least Square (DOLS) technique. There was a negative correlation between the two factors. This suggests that the Naira appreciates in response to a rise in FDI and vice versa. According to the report, the Nigerian government should make an effort to recruit foreign investors to companies, particularly in the oil industry, in order to reduce the amount of Naira that leaks out. Massive dollar infusions could result from this move, such as banning oil refineries from extracting and exporting crude oil, which would reduce the amount of USD entering the economy.

By using the OLS technique to examine how GDP, exchange rate, and inflation rate responded to foreign direct investment inflows into Bangladesh between 2000 and 2019, Dey, Datta, Amin, Roy, and Ali (2021) found a positive and statistically significant correlation between FDI and exchange rate. Given that FDI inflows remove more Bangladeshi Taka in exchange for USD, this indicates that FDI creates Dutch illnesses syndrome in Bangladesh during their investigation.

Foreign Direct Investment and exchange rate volatility in Nigeria are assessed by Ogu (2019). Examining how foreign direct investment in Nigeria is impacted by interest rates, inflation, gross fixed capital formation, and gross domestic product was the aim of this study. Using the ordinary least square (OLS) approach and the computer program E-View, secondary data from the CBN statistical bulletin covering the years 1980–2016 were gathered for this study. The findings showed that foreign direct investment and exchange rate volatility are positively correlated. Additionally, the results indicated that while factors like gross fixed capital formation

and gross domestic product had a negative link with foreign direct investment in Nigeria, interest rates and inflation had a favorable impact. Removing the government's monopoly on important industries was suggested. Additionally, the government should support financial and infrastructure development that would not only promote greater financial inclusion in rural areas but also draw in new investors from the solid mineral, agricultural, and agro-allied industries.

Gilbert (2017) examined how Nigeria's economic growth was affected by foreign direct investment between 1972 and 2015. This study's secondary data came from a variety of World Economic Outlook (WEO) and Central Bank of Nigeria publications, including statistics bulletins, annual reports, and statement of accounts. To find out how foreign direct investment and Nigerian economic growth are related, regression analysis based on the OLS technique was used with the standard package for social sciences. As all of the hypotheses were found to be below statistical significance at the 5% level, the results demonstrate a direct correlation between economic growth and foreign direct investment inflow. This suggests that a strong economy is a sign that foreign direct investment is a driving force behind economic expansion. Accordingly, the report suggests that the Nigerian government liberalize the country's foreign sector, lowering all trade restrictions like unreasonable tariffs, import/export taxes, and other levies to attract foreign investment. It also suggests that the government create policies that will make it easier for foreign investors to invest in the country's economy and improve the quality of exportable commodities to make goods more competitive internationally. Nigerian commodities from the public and commercial sectors should both have significant value addition that attracts investors. The creation of indigenous technologies can help achieve this.

Using annual series and time series regression analysis, Adewumi (2016) investigates the role of foreign direct investment (FDI) in economic growth in Africa over the years 1970–2003. Although FDI is not statistically significant, he finds that it has a beneficial impact on economic growth in the majority of countries. Adewumi (2016) argues that although FDI's influence on economic growth cannot be quantified directly, it does affect it through its contributions to other economic determinants. He also assumed that the inadequate sample size and methods employed were the cause of the detrimental effect of FDI on economic growth. Furthermore, FDI inflow to Africa is comparatively minimal, which could explain why its contributions are so minor. In addition, it could take a while for FDI to have an effect on economic expansion. This is particularly true if foreign direct investment (FDI) is used in non-oil industries where profits may be hard to come by.

METHODOLOGY

The aggregate annual time series at current prices for GDP, INTR, INFLR, EXR, and gross domestic product covering the years 1980–2022 are among the secondary data used in this study. Information was taken from World Economic Outlook (WEO) and the Central Bank of Nigeria. Because of their steady nature and qualities, aggregate time series data were employed for this study. Basic descriptive statistics will be used as one of the statistical tools for data analysis in this study. Inferential statistics, such as the findings of OLS regression and tests of correlation between the various versions, must be used equally.

Model Specification

GDP= F (FDI + EXCR + INTR +INF + Ut)

ARDL (p,q); Yt = α0 + X q j=0 βjL jXt + X p i=1 γiL iYt + ²t

Where; L represents the lag operator

The model specification proposed for the study is as follows therefore:

$GDP = b_0 + b_1FDI + b_2\ EXCR + b_3\ INTR + b_4\ INFL + Ut$

Where;

GDP_ = Gross Domestic Product

FDI = Foreign Direct Investment

EXCR = Exchange Rate

INTR = Interest Rate

INFL = Inflation Rtae

b0 = the constant

b_1- b_4 = the coefficients of the explanatory variables

Ut = Error term

RESULTS AND DISCUSSION

Unit root test

Although it isn't always the case, the universal assumption in economics when testing economic models is that the variables are stationary. Therefore, we will look for the time series features of the data before estimating the research model. At the 5% level of significance, the Augmented Dickey-Fuller test was used to determine the unit root. Lag length (7) was selected and applied consistently to all variables. The result is shown in the table below:

Table 1: Summary of the Augmented Dickey-Fuller Test

Variables	ADF Statistics	5% Critical value	Probability	Order of integration	Remark
EXCR	**-3.679488**	**-2.963972**	**0.0098**	**1(1)**	**Stationary**
GDPg	**-3.625979**	**-2.960411**	**0.0109**	**1(0)**	**Stationary**
INF	**-4.511443**	**-2.963972**	**0.0012**	**1(1)**	**Stationary**
FDI	**-3.484243**	**-2.960411**	**0.0153**	**1(0)**	**Stationary**
INTR	**-4.182208**	**-2.976263**	**0.0031**	**1(1)**	**Stationary**
Sources: Authors computation using Eview 10					

The table above shows the results of the unit root test. The decision rule state that if the Augmented Dickey Fuller statistics is > than the critical value at 5% then there is no unit root in the data, but its stationary. The findings indicate that whereas INFL, INTR, and EXCR were stationary at the first difference, GDPg and foreign direct investment were stationary at level. As a result, the data is stationary. according to the methodology of Pesaran & Pesaran (1997). Only two of the variables in the research model are stationary at 1(0), while the other three are stationary at first difference1(1), according to the ADF unit root test for this study. Only two variables are stationary when evaluated at levels, according to the results in table 1 above; the other variables are not. Next, differentiate the corresponding variables and apply the unit root test to each of the resulting time series. This process is justified by Box and Jenkins' (1976) contention that non-stationary time series can achieve stationarity by differencing. The Autoregressive Distributed Lag Model is appropriate for this type of data.

Autoregressive Distributed Lag Model (Ardl) Result

The ARDL method was chosen because, with small sample sizes, its test statistics typically outperform those calculated using the asymptotic formula, which explicitly accounts for the fact that the regressors are 1(1). It enables the combination of the various integration orders (1(1)) and (1(0)) for the variables in the model. The following represents the models' ARDL results:

Table 3: showing the ARDL result

Dependent Variable: GDPG				
Method: ARDL				
Date: 20/05/25 Time: 12:04				
Sample (adjusted): 1994 2020				
Included observations: 27 after adjustments				
Maximum dependent lags: 4 (Automatic selection)				
Model selection method: Akaike info criterion (AIC)				
Dynamic regressors (4 lags, automatic): FDI EXCR INTR INFL				
Fixed regressors: C				
Number of models evalulated: 2500				
Selected Model: ARDL(4, 3, 4, 4, 4)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
FDI	-24.33298	7.672454	-3.171473	0.0504
EXCR	-0.184510	0.045055	-4.095190	0.0263
INTR	0.678975	0.197464	3.438466	0.0413
INFL	-0.118701	0.138866	-0.854792	0.4555
C	31.85214	3.357632	9.486490	0.0025
R-squared	0.997101	Mean dependent var		4.440370
Adjusted R-squared	0.974872	S.D. dependent var		3.861239
S.E. of regression	0.612078	Akaike info criterion		1.436640
Sum squared resid	1.123920	Schwarz criterion		2.588495
Log likelihood	4.605357	Hannan-Quinn criter.		1.779147
F-statistic	44.85634	Durbin-Watson stat		1.964713
Prob(F-statistic)	0.004642			
*Note: p-values and any subsequent tests do not account for model				
selection.				

The coefficient of the constant intercept β_0 is 31.85214 which show that if all the explanatory variables were held constant, the GDP will be positively affected as 3185214, an increase in economic development in the economy. In relation to our apriori expectation, it is expected that there should be a direct positive relationship between Gross Domestic Product and the independent variables (EXCR and INF) in Nigeria. The coefficient does not conform to the apriori expectation. However, the coefficient of interest rate as percentage of GDP conformed to the apriori expectation. The coefficient (β_3=0.678975, P=0.0413) shows a positive and a

significant relationship between INTR and economic development in Nigeria. Its shows that a unit change in INTR will lead to 68% increase in economic development in Nigeria.

Consequently, the coefficient of Exchange Rate shows that it does not conformed to the apriori expectation of a positive relationship. This is proving by the coefficient of (β_2=-0.184510, P=0.0263). The result is negative and significant at 5%. This shows that a unit change in Exchange Rate will lead to a decrease in GDP by 18% in the economy. There is a negative relationship between EXCR and economic development.

Furthermore, the coefficient of Inflation rate also does not conformed to the apriori expectation of a positive relationship. This is shown by the coefficient (β_4= -0.118701, P=0.4555) which indicates that a unit increase in Inflation Rate will lead to a 12% decrease in economic development.

Lastly, the coefficient of FDI conformed to the apriori expectation of a negative relationship. This is proving by the coefficient of (β_1=-24.33298, P=0.0504). The result is negative and significant at 5%. The result shows that a unit change in FDI will lead to a 2433% reduction in Economic Development in Nigeria.

The coefficient of determination (R^2) showed the percentage of variations in the dependent variable that can be explained by the independent variables. The R^2 of 0.997101 or 99% showed that Economic development can be explained by changes in the explanatory variables as shown in the model and the remaining 1% is explained by the dummy variable. The F-statistic which measures the overall significance of the model indicated that it is significant at 5%. This is indicated by the F-statistics and its probability (44.85634 and 0.004642) respectively. We therefore conclude that there is a significant relationship between foreign direct investment and exchange rate on economic growth in Nigeria. The Durbin Watson statistics is approximately 2 which show that there is no serial correlation. This means that the value of the random term in any particular period is uncorrelated with its preceding values which indicate the absence of autocorrelation.

DISCUSSION OF FINDINGS

Based on this outcome, the regression demonstrates that there was a strong and negative correlation between foreign direct investment and economic growth in Nigeria. According to this, a 5% change in FDI will result in a 2433% decline in Nigeria's economic growth. This can occur because foreign investment is leaving Nigeria or because foreigners are sending their earnings back to their home countries, which would have a detrimental effect on the Nigerian economy. Ugochukwu, Amah, and Onoh (2013) and Ogu (2019), who discovered a positive and significant correlation between GDP and FDI in Nigeria, are not in agreement with the results. The outcome also indicates that there is a weak and negative correlation between Nigeria's economic growth and the country's inflation rate. that the rate of economic growth will drop by 12% for every unit increase in inflation. This demonstrates that it deviates from Ogu's (2019) findings, which indicated a positive correlation between inflation and economic growth in Nigeria. The tendency of the public inflation rate to stimulate economic growth has been thwarted by a number of factors, including egregious financial mismanagement, the high cost of agricultural inputs like fertilizer and farm equipment like tractors, which deterred farmers from large-scale production and consequently decreased economic output. This is the cause of the inflation rate's negative and negligible coefficient. However, the interest rate demonstrates that there is a substantial and positive correlation with GDP. This was in line with Ogu's (2019) findings that interest rates and economic growth are positively correlated. At 5%, the exchange rate's coefficient is negative and significant. This indicates that a unit shift in the exchange rate will result in an 18% drop in the economy's GDP. EXCR has a negative correlation with economic growth. This does not conform to Ogu (2019) who found a positive relationship between exchange rate and economic growth in Nigeria.

According to the results of the regression, foreign direct investment and exchange rates have a favorable and considerable impact on Nigeria's economic growth. The goodness of fit of 99% GDP growth, which results from a change in the independent factors, and 1% growth due to the disturbance variables, demonstrate this. The F-statistic which measures the overall significance of the model indicated that it is significant at 5%. This is indicated by the F-statistics and its probability (44.85634 and 0.004642) respectively. We therefore reject the null hypothesis and conclude that there is a significant relationship between foreign direct investment and exchange rate on economic growth in Nigeria.

CONCLUSION AND RECOMMENDATIONS

This study assessed how foreign direct investment affected Nigeria's economic development and growth. This study's primary goal is to investigate how Nigeria's economic growth is impacted by foreign direct investment and exchange rates. Determining the causal relationship between foreign direct investment and exchange rates and their impact on Nigeria's economic growth is the specific goal. Analytical methods such as Granger causality, the cusum of squares, Autoregressive Distributed Lag, and others have been used to accomplish these. The findings of the study are as follows:

The impact of foreign direct investment on Nigeria's economic growth and development was evaluated in this study. Examining the effects of currency rates and foreign direct investment on Nigeria's economic growth is the main objective of this study. The specific objective is to ascertain the degree to which currency rates and foreign direct investment are causally related to Nigeria's economic growth. To do so, analytical techniques including Autoregressive Distributed Lag, Granger causality, and the cusum of squares have been employed.

It also reveals that INTR and economic growth have a little but positive link, while INFL and GDP in Nigeria have a small but negative relationship. The data are regularly distributed, according to the Jarque Bera test.

Conclusion

This study has addressed the role of currency rates and foreign direct investment in boosting economic growth in Nigeria. According to the report, Nigeria's economic growth was greatly aided by foreign direct investment. The study comes to the conclusion that exchange rates ought to be controlled in a way that will benefit the Nigerian economy.

Recommendations

Based on the result of this research study, the following recommendations are made:

The government should grant tax holidays to recently founded businesses since this will support domestic industry and boost the economy.

Reducing the amount of money in circulation through appropriate bank reserve requirements will help to control the economy whenever the money supply is increased or decreased.

Because the rate of inflation is hurting the economy, the government must subsidize agricultural and industrial inputs because doing so will enable manufacturers to make items at competitive rates, which will lower inflation overall.

Investing in nations with strong currencies might strengthen the exchange rate.

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