FOREIGN DIRECT INVESTMENT AND ECONOMIC DEVELOPMENT: EVIDENCE FROM NIGERIA

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Abtract

FDI and other macroeconomic variables such as the exchange rate, economic openness, and public sector investment are significant macroeconomic variables that drive economic growth and development. As a result, every government's ability to sustain and maintain a balance among them is critical to long-term development. The study's goals were to establish the impact of foreign direct investment on Nigeria's economic development as well as the impact of the exchange rate on Nigeria's economic development. The ex-post facto research design was used in this study, as well as secondary data. The explanatory variable was Foreign Direct Investment, and the control variable was the exchange rate. The study spans the years 1981 through 2019. The explanatory variable was Gross Fixed Capital Formation, which is a proxy for economic progress, and the model was estimated using the Auto Regressive Distributed (ARDL) Model. The data for this study came from the World Bank Data Base's World Development Indicators of 2019 and the Central Bank of Nigeria's Statistical Bulletin of 2019. According to the study, a 1.4 unit increase in foreign direct investment leads to a 1.4 unit increase in gross fixed capital creation. In addition, a unit increases in the exchange rate causes a 0.03 unit fall in gross fixed capital formation, and vice versa. According to the findings, there is a negligible positive link between FDI and GFCF, but a strong negative relationship between EXR and GFCF. As a result, the

report suggests that FDI inflows be used to fund capital projects that are not for current consumption, such as good road networks, train lines across the country, and stable electricity supply. Without a doubt, this would lower the cost of doing business in Nigeria and boost profitability. According to our findings, while FDI alone cannot lead to economic growth and development, when other factors such as a favorable climate and simplified pre-investment procedures are available, more FDI will be drawn to key economic sectors, contributing to economic growth and development.

Keywords: Foreign Direct Investment (FDI), Exchange Rate, Economic Development, Nigeria

JEL Classification: F20, F21, F40, O10, O20, O30, O55

Introduction

Nigeria is the most important anglophone country in the west African sub-region, and it has long been one of the bloc's economic powerhouses (CBN, 2012a; Adediran et al, 2019). The entry of foreign direct investment (FDI) into Nigeria's economies has benefited the country substantially (Giwa, George & Okodua, 2019). To achieve the much-desired sustained growth and development in the region, African nations rely on FDI inflows from wealthy countries. Though the region has seen some significant growth in recent years, its ability to maintain that growth is a cause for concern. This is because one of the region's growth-enhancing elements has been in decline since 2015. According to available data (CBN, 2018), many of the region's countries have struggled to attract adequate FDI in recent years. Nigeria, for example, received $1,140,138 in FDI in 2000. Nigeria's FDI inflow surged to US$ 4,982 after half a decade. FDI inflows into Nigeria grew steadily until 2010, when they totaled US$ 6,026,232. FDI inflows into Nigeria fell by more than half to US$3,128,592 due to political and social concerns such as insecurity and pre-election uncertainty. Between 1972 and 1985, the government's FDI policy became more restricted. Between 1973 and 1988, the regulatory framework inhibited foreign participation, resulting in an annual average FDI of only 0.8 percent of GDP. Nigeria has made several efforts to improve the general investment climate through the adoption and implementation of foreign investment policies and programs, agreeing with the theoretical arguments that foreign resources can bridge the gap between targeted savings and the needed investments to bring about growth and development. These include the industrial policies of 1988, which were considerably different from the previous policies due to attempts to build a more streamlined, inclusive, and transparent FDI policy framework (Adediran et al, 2019; Dinh, Vo & Nguyen, 2019).

In many countries, a favorable climate for FDI is a requirement for its long-term viability. Other economic characteristics such as the currency rate, the economy's openness, consistent policies, and having a politically stable government system have a high chance of attracting FDI (Amoo, 2018; Zekarias, 2016). In comparison to other developing regions, Africa receives a tiny amount of foreign direct investment. Africa's part of FDI flows fell from 19 percent in the 1970s to 8% in 2006, whereas Asia and Oceania's share climbed from 33 percent to 62 percent during the same time period (World Bank, 2010). Since the implementation of SAP in 1986, Nigeria has taken an average of 10% of Africa's share of FDI through various reforms. Between 1973 and 1988, FDI accounted for barely 0.8 percent of GDP on average. The Industrial Development and Coordination Decree No. 36 of 1988 was enacted to address issues such as ambiguity and confusion, contradictory information from bureaucrats, and a plethora of government entities with whom foreign investors were forced to deal. An increase in the value of a country's currency will be beneficial to the economy. The more valuable a country's currency is, the more foreigners want to invest in it, and vice versa. The value of a country's currency rises when interest rates rise. Despite the African Union's New Partnership for Africa's Development (NEPAD) initiative in 2001 to pursue new priorities and approaches to the socio-economic and political transformation of Africa for sustainable development in the region through foreign investment, the initiative's impact has left much to be desired, which, aside from being disturbing at the moment, does not raise the possibility of a better future (Akpo &Hassan, 2015; Akiri, Vehe & Ijuo, 2016). Despite the relative increase in international flows such as FDI, trade, and foreign aid since the new millennium's turn in 2000, economic, social and environmental sustainability in both economies has continued to decline. Some significant questions occurred as a result of the previous. What, for example, is the effect of FDI inflows on Nigeria's economic development?

Statement of the Problem

The Nigerian economy has been around for a long time, almost as long as the country itself. The value and quality of productive investments have been a source of concern since the early 1980s (Uwubanwen & Ogiemudia, 2016). As a result, numerous Nigerian administrations have implemented various economic strategies targeted at achieving economic independence through increased production capacity. Industrial Inspectorate Act 1970, National Industrial Property Act 1979, National Office for Technology Acquisition and Promotion (NOTAP) 1992, and others are examples of such regulations. Although it is often said that FDI brings with it potential balance of payment (BOP) problems, their immense potential for speeding up the rate of economic advancement of developing nations (including Nigeria) cannot be overstated. For example, FDI brings capital, technological know-how, and foreign exchange, all of which are in short supply in this country.

However, there are disputes among economists and policymakers over the benefits of FDI in underdeveloped countries. While some fashions swear to its developmental importance, others see it differently (Flora & Agrawal, 2017; UNCTAD, 2018). Giwa, George and Okodua (2019) stated that the Nigerian economy faced a variety of issues following the oil boom's downturn in 1980: Problems such as unsustainable balance of payments deficits, rapidly expanding debt stock, and a high debt servicing burden arose in the foreign sector. Internally, large fiscal deficits, growing unemployment, and soaring inflation were all issues. In 1981, total domestic debt was N11, 192.60 million, while external debt was N2, 331.20 million. External debt, in particular, was quickly expanding until 1987, when it more than doubled from N41, 452.40 million in 1986 to N100, 789.10 million. Until 2005, when Nigeria's external debt reached N2, 695, 072.20 million, the same situation repeated itself. The debt relief program of 2006 lowered the debt burden to N451, 461.70 million. Since then, the debt has continued to rise, reaching N560, 900.00m in 2013. (CBN, 2013; CBN 2012b). Above all, manufacturing investment plummeted, resulting in lower real production and per capita real income (Adeolu, 2007). Despite the launch of the structural adjustment program (SAP) in 1986 and many policies aimed at encouraging FDI, these issues have persisted. Is it possible that Nigeria's share of FDI is insufficient to address these issues, or that what comes to Africa should have come to Nigeria to have a meaningful impact? Nigeria's real GDP growth rate was negative in the mid-1980s, falling from N205, 222.0 billion in 1981 to N201, 036.27 billion in 1985, with a little uptick to N204806.54 billion in 1986. From 1988 to 2013, real GDP has grown steadily, from N219875.63 billion in 1988 to 923,586.40 billion in 2013. (CBN, 2013). Due to the low level of income in Nigeria, the gap between domestic savings and investment is relatively significant. Economists have generally recognized the importance of investments in the growth process, and efforts are being made in Nigeria to revive investment. Inadequate finance for financing development projects has been a stumbling barrier in Nigeria's economic growth. In actual terms, Nigerian savings have steadily increased, from N14, 471.17 million in 1981 to N111, 112.31 million in 1992. This value grew to N878, 457.27 million in 2000, and then to 11,034,940.93 million in 2010. In 2013, the total amount saved was N17, 548,421.2m. Furthermore, Nigeria's reliance on a single-product export (oil), which is subject to price fluctuations in the international market, has resulted in years of financial volatility for the government and has hampered the successful implementation of national development objectives (CBN, 2013). Despite changes adopted by successive Nigerian administrations, little success has been gained in attracting FDI, despite the fact that FDI has been considered as a very crucial source of capital that can bridge both the saving and trade gaps in Nigeria. The mining industry has had the most FDI inflows, whereas agriculture, building, and construction have seen less. Several scholars have

attempted to investigate this topic using various estimating methodologies in order to identify characteristics that influence FDI influx and its impact on the Nigerian economy. The effect of FDI on the Nigerian economy is examined using Gross Fixed Capital Formation as the explained variable, which is a proxy for economic development. To reignite foreign investor interest in the Nigerian economy, an understanding of the factors of foreign direct investment is clearly required.

The Study's Objectives

i. To assess the impact of foreign direct investment on Nigeria's economic development.

ii. To investigate the impact of the Nigerian exchange rate on the country's economic progress.

The Study's Hypotheses

HO1: Foreign direct investment has no substantial impact on Nigeria's economic progress.

HO2: The exchange rate has no discernible impact on Nigeria's economic development.

Literature Review

Conceptual Review

Foreign Direct Investment

Increased Foreign direct investment and technological advancements result in increased productivity and efficiency in the host country as a result of foreign direct investment. Increased productivity and efficiency result in higher output production for both domestic and international demand (Peprah et al, 2019; Coccia, 2019). The export of goods and services generates foreign exchange money for the host country, allowing it to grow and flourish economically. Bitzer & Gorg (2009) posited that foreign direct investment (FDI) is the additional resource that a country requires to accomplish economic growth. Technology, marketing, capital, and management all play a role. It opens up new markets, marketing channels, and simple access to new technology, skills, products, financing, and production facilities for a company. Foreign direct investment (FDI) is described as a foreign investment that is a component or share of GDP that is fast growing, and it is rapidly becoming the most important source of capital flowing from developed to developing countries (Alfaro, 2017; World Bank, 2020). It is critical to underline that FDI reduces regional imbalances and increases the host region's competitiveness. By attaining the goal of improved value of the outcomes, efficient use of resources such as employment, technology, and cost results in a greater

production level (Bolanovsky, 2017; Choi & Baek, 2017). FDI also results in greater labor market wages (NSB, 2017; Masipa, 2018). Lower shipping costs and enhanced technology can also benefit investors (UNCTAD, 2019). According to Pandya and Sisombat (2017) FDI and spillover effects are closely linked. Their work, which focuses on FDI, has a positive influence on the host economy as local enterprises become more innovative. According to Bermejo and Werner (2018), one of the main reasons for investing directly in another country and controlling 100% of it is to have complete control over the technology, distribution networks, and profit margins.

Economic Growth and Foreign Direct Investment

There is broad agreement that FDI benefits local businesses by promoting expansion, which leads to increased productivity and efficiency. The developed world has agreed that productivity is the key to domestic enterprises' success. It is said that FDI's usefulness in export promotion is disputed, and that it is exclusively used for investment purposes. The fundamental agreement is that FDI spillover is dependent on the host country's ability to absorb the type of investment and foreign technology involved (Antwi et al, 2013). The relationship between economic growth and FDI is classified as conditional on the country through which it passes. The extent to which FDI contributes to growth is said to be dependent on the recipient country's economic and social conditions, or in other words, the quality of its environment (Anetor, 2019). As a result, FDI in the hosting nations creates job chances through direct employment in the domestic economy for operations, forward and backward connections, which leads to more job creation in the economy as a result of growth. Growth may be achieved by FDI, and a consistent pace of growth over time lessens poverty (World Bank, 2017).

Foreign Direct Investment Resource Seeking FDI Types and Rationales

A resource seeking FDI is enticed by the availability of low-cost trained and unskilled labor, strategic natural resources, and low-cost raw materials. This will undoubtedly lower production costs while also increasing profit margins. In the long run, it will also make room for the firm's activities to expand. The presence of important raw resources in abundance in the host country motivates FDI in this category, making it cheaper to engage in FDI than to importing the raw material from abroad. All of the FDI frontrunners are African countries that export oil (Nigeria, Angola, Algeria and Equatorial Guinea). Their proven oil reserves are over six times bigger than those of the European Union (World Bank, 2000). Although there is no statistics on FDI flows by sector for the countries stated above, Nigeria's oil sector, which is one of the country's plentiful natural resources, has the most FDI of any sector. Shell, Chevron, Mobil, Texaco, Total, and other oil firms are all involved in oil exploration and extraction in Nigeria's Niger Delta

region, which accounts for more than 80% of the country's revenue (Egbunike et al, 2018; NSB, 2017; Akiri, Vehe & Ijuo, 2016).

The Schumpeterian Growth Theory and Solow Growth Model

The Schumpeterian Growth Theory mainly emphasized on retaining old technologies without regards to innovation. The weak point of this economic model is that it does not take into cognizance that world population is growing at a faster rate and it can only be matched with continuous innovation and invention in technology for increased output to meet the increasing demand (Arrow, 1962). Solow growth model emphasized that an improved technology and efficiency of labor which accelerate economic growth while, the recipient countries provide conducive investment climate. Developing countries that wish to grow economically will have to put in place factors that can attract FDI (Domar, 1957). This model is therefore relevant for economic growth in Nigeria and other developing countries.

Research Gap

FDI is becoming a very important area of research in Nigeria. Studies have been carried out on the impact of FDI on the Nigerian economy and also on the determinants of FDI. Having examined some literatures, it was to observe that certain aspects of FDI were not examined thoroughly by past researches. Some of the findings from the literatures revealed that foreign direct investment has a positive impact on economic development (see Solokang (2018); Voica et al (2015); Evans and Kelikume (2018); Akinlo and Aremo (2013); Johnson and Mathew (2013); Alfaro (2017), Zekarias (2016), while others revealed a negative or inconclusive impact (see Shuaib et al, (2015); Malikane and Chitambara (2017). Different studies were done on the determinant of FDI and some of the variables revealed to have significant impact on FDI include Transport, Communication, Trade openness, Market size, stability of the current, deregulation and exchange rate (see Emmanuel (2016); Eltis and Lewis (2016), Acquah (2020); Amoo (2018). However, the effect of FDI on economic development and the effect of exchange rate on Nigeria economic development have not been well explored. Most of the researches carried out made use of ordinary least square regression which is a weak methodology for the study of FDI because it fails to capture the interdependency of macro-economic variables, hence Auto Regressive Distributed (ARDL) Model was employed for this study.

Methodology

This research employed the ex-post facto research design and the use of secondary data. Foreign Direct Investment was employed as the explanatory variable and exchange rate was adopted as the control variable. Gross Fixed Capital Formation

being a proxy for economic development was adopted as the explained variable, while the model was estimated using Auto Regressive Distributed (ARDL) Model (Michall, 2011; Brick 2014). Data for this study were extracted from World Bank Data Base- World Developmental Indicators of 2018 and Central Bank of Nigeria Statistical Bulletin of 2018. The study period covers 1981 through 2019. This study employed descriptive statistics, unit root test, correlation, serial correlation test, heteroskedasticity test, normality test and stability test. E-view 9.0 econometric statistical software package was employed for the analysis (Cresswell 2009; Easterby Smith et al 2011).

Model Specification

This research adapted the economic model previously used by Hanson (2020) that researched on foreign direct investment inflows and its effect on the performance of the Nigerian economy (1981-2018). The econometric model of this study, which had earlier been reviewed in the preceding section, is specified below:

RDP= β0+ β1 FDIt +β2 EXRt + β3BOT+ ųt…. …………………….. (1)

RDP = Real Gross Domestic Product

FDI = Foreign Direct Investment

EXR = Exchange Rate

BOT = Balance of Trade

ų = error term

β0 = Constant

β1 and β2 = Coefficients of their respective variables

t = Time dimension

However, this study adapted the scholars' work by replacing real GDP with gross fixed capital formation as the explained variable; balance of trade was also excluded in order not to over-stock the parameters of the model; exchange rate was maintained as a controlled variable. In that regard, the regression model is specified thus:

GFCF=β0+β1FDI+β2EXR+εi... (2)

Where; GFCF = Gross Fixed Capital Formation

ε = Error term and other acronyms in the model remain as explained above.

Decision Rule for Acceptance or Rejection of Hypotheses/ Expected Results

The decision rule is to reject the null hypothesis if the computed p-value is less than 5% significant level. On the contrary, accept the null hypothesis if the computed p-value is higher than 5% significant level. Foreign Direct Investment is expected to be positively signed. Exchange rate is expected to be negatively signed.

Data Analysis and Interpretation of Results

Estimation Test Result (Unit Root Test)

Table 1 Unit Root Test

Variables	Augmented Dickey-Fuller test statistic	Probability Value	Critical value at 5%	Integration order/Inference
GFCF	-3.450749	0.0153	-2.943427	I(0)
FDI	-7.267147	0.0000	-2.945842	I(1)
EXR	-3.537770	0.0125	-2.945842	I(1)

Source: Author's analysis using e-view 9 output

The unit root test from table 4.1 above shows that the integration order of the variables were a combination of I(1) and I(0). As such, the appropriate estimation technique to employ for analysis is the Auto Regressive Distributed Lag (ARDL) Model.

Descriptive Statistics

Table 2 Descriptive Statistics

	GFCF	FDI	EXR
Mean	36.47387	1.387343	104.4552
Median	35.36755	1.384466	111.1675
Maximum	89.38105	4.282088	306.1000
Minimum	14.90391	0.257422	4.536700
Std. Dev.	19.36187	0.855130	78.39935
Skewness	1.009675	1.208768	0.719999
Kurtosis	3.683025	5.208173	3.421495
Jarque-Bera	7.195132	16.97413	3.564487

Source: Authors' analysis using e-view 9 output

The result of the descriptive statistics in table 4.2 above reveals the aggregative averages such as mean, median, and the measures of spread and variation like standard deviation. Skewness which measures the degree of symmetry shows that GFCF, FDI, and EXR are positively skewed. As per the kurtosis which measures the peakedness of the observations, the values of GFCF, FDI, and EXR are above 3, hence lepturkotic. These skewness and kurtosis indicate departure from normality although such point is not strong enough to discredit the goodness of the dataset for the analysis in view.

Correlation Analysis

Table 3 Correlation matrix

	GFCF	FDI	EXR
GFCF	1.000000		
FDI	-0.193804	1.000000	
EXR	-0.515865	-0.262251	1.000000

Source: Author's analysis using e-view 9 output

From the result of correlation analysis in table 4.3 above, both FDI and EXR variables were negatively correlated with GFCF having about -19.4% and -52% for FDI and EXR respectively.

Inferential Result

Results of ARDL Model

Table 4 Results of ARDL Model

Variable Pro b.*	Coefficient	Std. Error	t-Statistic
GFCF(-3) 0. 0177	0.33 7967	0.13 4391	2.51 4808
FDI 0.2243	1.048775	0.844548	1.241819
EXR 0.0339	-0.027172	0.012206	-2.226156
C 0.0341	8.419416	3.786140	2.223747

R-squared	0.93 8564	Mean dependent var	32.4 2682
Adjusted R-squared	0.927971	S.D. dependent var	13.83630
S.E. of regression	3.713407	Akaike info criterion	5.616582
Sum squared resid	399.8924	Schwarz criterion	5.883213
Log likelihood	-92.29018	Hannan-Quinn criter.	5.708623
F-statistic	88.60685	Durbin-Watson stat	1.618465
Prob(F-statistic)	0.000000		

Source: Author's analysis using e-vie w 9 output

The ARDL result as shown in the table above suggests that exchange rate had a negative or inverse impact on gross fixed capital formation while foreign direct investment was recorded to have a positive impact on gross fixed capital formation in Nigeria. The result further revealed that a unit increase in foreign direct investment would bring about a 1.4 unit increase in gross fixed capital formation. Also, a unit increase in exchange rate would bring about approximately 0.03 unit decrease in gross fixed capital formation and vice versa. The Adjusted R-squared of approximately 0.94 showed that the explanatory variables accounted for about

94% variations in the explained variable. Put differently, about 94% variations in gross fixed capital formation was explained by the independent variables, while the remaining 6% may be attributed to variables not included in the model. F-statistic of 88.61 showed that the model is a good fit as confirmed by its corresponding probability value of 0.000000 which means that the model is significant both at 1% and 5% levels of significance. Model was free from auto correlation.

Test of Hypotheses

Table 5 Test of Hypothesis One

Variable Pro b.*	Coefficient	Std. Error	t-Statistic
FD 0. 2243	I 1.04 8775	0.84 4548	1.24 1819
C 0.0341	8.419416	3.786140	2.223747

Source: Extracted from table 4.4

HO1: There is no significant impact of foreign direct investment on gross fixed capital formation in Nigeria.

Since the p-value for foreign direct investment (FDI) of 0.2243 (22.4%) is >5% level of significance, the null hypothesis that there is no significant impact of foreign direct investment on gross fixed capital formation in Nigeria is accepted.

Table 6 Test of Hypothesis Two

Variable Prob.*	Coefficient	Std. Error	t-Statistic
EX R 0339	-0.02 7172	0.01 2206	-2.22 6156 0.
C 0.0341	8.419416	3.786140	2.223747

Source: Extracted from table 4.4

HO2. Exchange rate does not have any significant impact on Nigerian economic development.

Since the p-value for exchange rate (EXR) of 0.0339 (3.4%) is within the acceptable significance level of 5%, that is, < 5%, we reject the null hypothesis that Exchange rate does not have any significant impact on Nigerian economic

development. The result is evaluated based on economic theories and literatures in line with what is obtainable in Nigeria and what is applicable all over the world.

Discussions

This study was conducted to ascertain the effect of foreign direct investment on economic development in Nigeria. From the results, it can be deduced that there exists an insignificant positive relationship between FDI and GFCF, while there exists a negative significant relationship between EXR and GFCF. The findings of this study are in congruence with the studies of Egbunike et al, (2018) and Shuaib et al, (2015) but in negation to the studies of: Flora and Agrawal (2017), Coccia (2019), Anetor (2019). Until 1986, the Nigerian Enterprise Promotion Decree otherwise known as indigenization policy that was introduced in 1972 was still in force. The aim of the policy was to give full or partial transfer of equity of enterprises from foreigners to Nigerians. The period witnessed reduced inflow of FDI into Nigeria which in turn reduced the country's GDP growth rate. Foreign investors were withdrawing their capitals because of the indigenization policy of the government. Though evidence from the conceptual and empirical review of FDI on economic growth shows high and positive coefficient, it is not statistically significant within the sample period. The implication of this outcome is that the policy is considered anti FDI inflow. Instead of attracting investors, they were rather withdrawing their capitals. Empirical review result of FDI on economic growth in the Period of SAP Policy 1988-1994 shows low and positive coefficient, it is not statistically significant. This could be attributed to time lag required by foreign investors to study the content as well as adherence and sustenance of the policy by the government. Also the system of governance (military dictatorship) that was considered unpopular was another reason foreign investors did not respond promptly in bringing their capital to the country for investment. The impact of Nigeria Investment Promotion Commission on the economy was not felt immediately due to long period of political uncertainty that existed in the country. Hence the low and negative coefficient shows that some foreign investors were relocating e.g. Michelline Tyre Company and Volkswagen Assembling Company relocated within this period. Government ought to have handled the privatization/commercialization of public enterprises with caution so as not to give room for excessive capital flight in return for the capital invested. Following the successes achieved from the deregulation of the telecommunication sector, the federal government in early 2013 commenced the deregulation of the power sector to allow distribution companies take charge of electricity distribution to consumers in the country while government now restrict self to generation and transmission of electricity. The implication is that the privatization exercise was handled in a shoddy way, i.e. the public enterprises were corruptly undervalued.

Conclusion

This study examined the effects of FDI on Nigeria economic development. During the course of the study, the problems as well as the objectives of the study have been identified. So also research questions and their research hypotheses have been formulated. Theories regarding FDI and economic development have been explored extensively so as to give the research a clear path of proceeding. Also the methodologies and techniques used by the researcher are stated in which a number of econometric preliminary precautions have been employed. This shows that openness of the economy draws in more FDI into the country. Fiscal deficit if use in the provision infrastructure such as roads, railways and stable power supply will draw in more FDI. This result also shows that FDI alone cannot lead economic development without other variables such as macroeconomic, political stability and addressing the problem of corporate governance. In the light of the above, attention should be paid by policy makers on policies that can make Nigeria harness the economic gains of FDI. The policy on openness should be pursued with caution as one without some level of restriction can be counterproductive. This way, the problem of unemployment and high level of poverty in the country can be reduced to the barest minimum. In line with the Harrod- Domar theory (1939, 1946), this particular study has revealed that FDI has a positive impact on the Nigerian economic development. However, it must be noted that the impact is statistically insignificant. In emerging economies like Nigeria, lack of capital holds back economic, social, and environmental sustainability. Therefore, boosting FDI inflows could lead to sustainable development in Nigeria. The study's result supports the fact that social, environmental, and economic conditions are critical considerations for the inflows of FDI. On a practical note, the state plays a critical role in any economies' overall operations; as such, the government should provide adequate infrastructure and policy framework that will be guaranteed a conducive business environment for domestic and foreign investments to thrive.

Recommendations

Base on the research objectives and findings, the following recommendations are proffered:

- To encourage FDI inflows much of government expenditure should be used in financing capital projects such good road networks, rail lines across the country and stable power supply which are not for current consumption. This will no doubt reduce the cost of doing business in Nigeria and increase profitability. From our result, FDI alone cannot lead to economic growth and development, with the availability of other factor such conducive environment and simplified pre-investment procedures,

more FDI will be attracted to key economic sectors and contribute to economic growth.

- Also, the privatization exercise of the government should be handled in a transparent manner. This will convince foreign investors that their money will not go down the drain. If the approach and zeal exhibited in the deregulation process of telecommunication sector is extended to the power sector, similar success will be achieved. Institutions such as the anti-graft agencies of the government (EFCC and ICPC) should be strengthen in order to give more bites in their war against corruption. This will redeem the image of the country before the outside world.

- The policy of openness should be sustained and well guided as unguided one can lead to massive importation of intermediate goods which can seriously affect the balance of payment position of the country. Other factors like investment in human capital (IHC) which contributed positively to growth rate could be improved upon which could further increase growth rate of GDP.

- Finally, the Nigeria Investment Promotion Commission can still do more by showing foreign investors the potentials that abound in other sectors so as to give room for diversification of the economy.

Limitations and Future Directions

This study examined the effect of FDI and exchange rate on Nigeria economic development. However, the study has some limitations and criticisms that could form the basis of future research endeavors. The findings are based on two variables which are FDI and exchange rate, implying that the result may be difficult to generalize, although it is most likely that the findings apply to many emerging economies apart from Nigeria investigated. Future studies can focus on investigating the interactions between FDI, economic, social, and environmental sustainability by conducting cross-country analysis of this relationship to ensure generalization of their findings. Methodologically, future studies can improve on present study by employing more sophisticated analytical techniques such as VAR, ARIMA, ARDL, and Maximum Likelihood (ML). A scientifically developed theory needs to be formulated such that future empirical studies can either confirm or contradict the postulations of such a theory.

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