

## EFFECT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN NIGERIA

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**ABSTRACT:** There have been debates on the impact of foreign direct investment on the economic growth of the host country. Some researchers identified a favorable effect, while others discovered a negative effect. This study looked at the impact of foreign direct investment on Nigeria's economic growth in this context. As a result, the study determined that foreign direct investment had a beneficial impact on Nigeria's economic growth, contrary to the conclusions and beliefs of certain experts and other stakeholders who believe that foreign direct investment has a detrimental impact. The government should upgrade the country's infrastructure in order to promote real investments in the economy, according to the report.

**KEYWORDS:** Foreign Direct Investment, Economic Growth.

### INTRODUCTION

Many scholars, economists, and policy analysts have debated the relationship between economic growth and foreign direct investment (FDI), particularly in developing nations. It's crucial to understand whether FDI inflows lead to economic growth and whether a country with a higher GDP rate attracts more FDI inflows. The role of foreign direct investment (FDI) inflows in host country economic growth has been extensively researched. While the majority of studies show that FDI has a favorable impact on economic growth in the host country, the argument is far from resolved. Empirical studies on the impact of FDI on economic growth have yielded diverse results.

### THE MAIN FINDINGS AND RESULTS

Many policymakers and researchers believe that foreign direct investment (FDI) can have a significant positive impact on the development of a host economy. Aside from providing direct financial financing, FDI can also provide vital technology and know-how; as well as strengthen ties with local businesses, all of which can assist a country's economy thrives. Industrialized and

developing countries have offered incentives to stimulate foreign direct investment in their economies based on these considerations (Melnyk, Kubatko, and Pysarenko, 2014). Foreign Development Investors are typically recruited by transition and developing countries with the hope that the positive experience from established countries will be transferred to their local economies through this international activity (Silvio, and Ariel, 2009). As a result, as a country's foreign direct investment flows increase, so does its export volume (Pulatova, 2016). Using extensive sectoral data on FDI inflow to Indonesia from 1997 to 2006, Khaliq and Noy (2007) investigated the influence of foreign direct investment on economic growth. Farm food crops, livestock products, forestry, fisheries, mining and quarrying, non-oil and gas industry, electricity, gas and water, construction, retail and wholesale trade, hotels and restaurants, transportation and communications, and other private and services sectors are among the sectors investigated. According to their findings, FDI has a beneficial effect on economic growth at the aggregate level. When the differences in average growth performance across sectors are taken into account, however, the positive benefit of FDI is lost. When looking at diverse impacts across sectors, estimation results suggest that the composition of FDI matters for its impact on economic growth, with only a few sectors showing a positive impact of FDI and one industry (mine and quarrying) even exhibiting a robust negative impact of FDI inflows. Alfaro, Chanda, Kalemli-Ozcan, and Sayek (2006) investigated how foreign direct investments enhance economic growth by looking at how financial markets affect linkages. They discovered that a) when the extent of foreign presence is held constant, financially developed economies grow at nearly twice the rate of financially underdeveloped economies, b) increases in the share of FDI or the relative productivity of the foreign firm leads to higher additional growth in financially developed economies than in financially underdeveloped economies, and c) other local conditions such as market structure and humour lead to higher additional growth in financially developed economies than in financially underdeveloped economies.

According to Suanes and Roca-Sagalés (2015), FDI creates inequality via determining FDI levels. Basu and Guariglia (2007) claimed that while FDI boosts growth, it also promotes inequality. Lessmann (2013) found that FDI promotes inequality in low and middle-income countries in a recent study. This conclusion can be applied to Latin America, which has the world's highest level of inequality. Similarly, this region is specialized in the extraction of raw minerals for export markets, with FDI mostly focused on this extraction (UNCTADSTAT, 2016).

**CONCLUSION**

As a result, this study showed that foreign direct investment has a favorable impact on Nigeria's economic growth. This goes against certain stakeholders' and experts' beliefs that foreign direct investment has a negative impact on the economy's growth. The controversies concerning the impact of FDI on Nigeria's economy have been dispelled by this research paper. In contrast to certain reports that FDI has a negative impact on the domestic economy, this research found the opposite.

Further research in this area, however, should analyze the many sectors of the national economy separately to determine the impact of FDI on each of them.

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