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RESEARCH ARTICLE

FOREIGN INVESTMENT INFLOW AND ECONOMIC PERFORMANCE IN NIGERIA

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Abstract: This study investigated the effect of foreign investment inflow on the economic performance of Nigeria for the period 2005-2022. The specific objectives of the study were to: determine the impact of foreign direct investment (FDI) on economic performance, investigate the impact of foreign portfolio investment (FPI) on economic performance, and examine the impact of foreign loans (FL) on economic performance of Nigeria. The study used time series data sources from the CBN statistical Bulletin. The study adopted the *ex post facto* research design and employed the vector error correction mechanism (VECM) method to analyze the data. The empirical result indicated that foreign direct investment has positive significant impact on economic growth of Nigeria, foreign portfolio investment has significant positive impact on the economic growth in Nigeria, and foreign loan has significant positive impact on the economic growth in Nigeria. The implication of the study is that foreign investment inflows are strategic to economic growth in Nigeria. The policy recommendations following the findings are: government should ensure a good ease of business in order to attract more direct investments into the country, this will enhance the performance of the economic sectors and improve aggregate output; there is need to strengthen the capital markets to be able to stimulate foreign portfolio investment inflow in the country to boost the economy; and the government could obtain more loans and ensure it is only directed towards growth generating investments that will boost economic growth.

Keywords: *Investment, Foreign inflow, Economic performance, Vector error Correction.*

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INTRODUCTION

One of the determinants of economic performance of a country is the volume of inflow of foreign investments. Foreign investment inflows in the form of foreign direct investment, foreign portfolio investment, and even foreign loans can also promote competition in the domestic input market. Recipients of foreign investment inflows often gain employee training in the course of operating the new businesses, which contributes to human capital development in the host country.

Profits generated by foreign investment inflow contribute to corporate tax revenues in the host country. In addition, foreign investment inflow can also have such other implications for the economic growth of the home country, benefit the economy by increasing its access to foreign markets, resources, and opportunities, as well as by improving its competitiveness, innovation, and learning.

The effect of foreign investment inflow on the economic performance of a developing country like Nigeria has been a topic of intense debate. Foreign investment inflows is believed to be a catalyst for economic growth because it can bring about managerial skills, international production and access to international capital markets; and Nigeria with her vast natural resources qualify to be a major recipient of foreign investment inflow in Africa (Abubakar, Hassan and Okowa, 2018).

This is why government at all levels in Nigeria at various times, have directed their policies towards attracting foreign investments into the country with a view to boosting industrial development, and by extension, economic growth.

For instance, Umoh, Jacobs and Chuku (2012) asserts that the Nigerian government has instituted various institutions, policies and laws aimed at encouraging foreign direct investment from 1985 when the Nigerian Investment Promotion Commission (NIPC) was established by Decree 16 of 1995. The issues in question are: have all the efforts of government in this direction yielded the desired objectives? This was the overriding concern in this study; in other words, to what extent has foreign investment inflows stimulated economic growth in Nigeria?

In public sector accounting and finance literature, foreign investments can come into Nigeria in two ways: either as foreign direct investments (FDI) through direct ownership of business entities; or foreign portfolio investment (FPI) through indirect ownership of a firm in the host economy or even through the inflow of capital in form of foreign loans.

The inflow of both FDI and FPI depend major on the existing foreign trade policy in the country. Foreign investment inflows refer to the investment made by foreign entities, such as individuals or corporations, into a domestic economy (Okafor, Ugochukwu and Chijindu, 2016). These investments can be made through various channels and have the potential to bring substantial benefits to both the investor and the recipient country.

Economic performance of nations is assessed by looking at long term outcomes, such as sustainable growth and development, or short term outcomes, such as how long an economy takes to stabilize after a sudden and unpredictable event. Economists measure economic performance through a wide range of economic indicators such as national income (GDP), spending, and output alongside wider measures of human development.

Maryam (2013) economic growth is the growth in real terms of gross Domestic Product (GDP) in a given year. Economies grow as a result of several factors, but growth in GDP is most critical because it signifies the output of domestic industries thereby creating wealth and employment. Nigeria's economy is one which has been and continues to be dominated by the oil sector.

The performance of the Nigerian economy has been judged to be poor (NBS, 2023) and this has been attributed to the weak macroeconomic framework in Nigeria which makes inflow of foreign investments difficult.

Oyegoke and Aras (2021) has observed that in Nigeria, the success of foreign investments in the country mainly is determined by the market size, human capital, and stable macroeconomic environment, and influenced largely by the pull factor and the push factors. Foreign investment inflow has been found to have positive influence on the country's economic output performance output, but not significant, suggesting the poor performance of inflows. According (Akanegbu and Chizea, 2017), the country's share of the global FDI is an insignificant percentage despite the various reforms which government have implemented with the goal of attracting more foreign investments

After more than 58years of independence, Nigeria is yet to attain industrialization status and consequently economic performance is affected; Nigeria still remains a net importer of raw materials and commodities and over 90% of export earnings and 70% of government revenues are derived from crude oil export, public policy analysts assets that Nigeria has been made indolent by crude oil and failed in sustaining far-reached market and social economic reforms (CBN, 2017).

Foreign investment inflow into Nigeria is under the influence of constraints that are making investors gradually to lose confidence in the stock market in the economy. These constraints were a signal to the delisting of Nigeria by JP Morgan from the list of emerging markets bond index in 2015 (Ventures Africa, 2016). On September 8th 2015, the United States-based lender, JP Morgan, said Nigeria would be phased out of its Emerging Market Government Bond Index (GBI-EM) by the end of October 2015 due to alleged lack of liquidity and transparency in the nation's foreign exchange market.

This announcement comes after JP Morgan earlier in 2015, placed Nigeria on a negative

index watch on its Government Bond Market Index. The broad objective of this study is to investigate the effect of foreign investment inflow on the economic performance of Nigeria. The specific objectives of the study are:

- To investigate the effect of foreign direct investment on the economic performance of Nigeria
- To find out the effect of foreign portfolio investment on the economic performance of Nigeria
- To determine the effect of foreign loans on the economic performance of Nigeria

LITERATURE REVIEW

Foreign Investment

Foreign investment is when a domestic investor decides to purchase ownership of an asset in a foreign country. It involves cash flows moving from one country to another to execute the transaction. If the ownership stake is large enough, the foreign investor may be able to influence the entity's business strategy. Foreign investments are often made by larger financial institutions hoping to diversify their portfolio or expand operations for one of their current companies internationally. It is often considered a move for scaling purposes or a catalyst to spur in economic growth.

For example, some companies may expand their offices worldwide to reach global talent and connections. Examples would include Goldman Sachs, J.P. Morgan, Morgan Stanley, and other large corporations. In other cases, some companies may open facilities or operations to capitalize on cheaper labor or production costs offered in specific countries.

For textile companies in particular, such as retail production, many factories are located in China and Bangladesh despite sales being focused on North America because material and labor are significantly cheaper there; thus, outsourcing would result in higher profitability. In other cases, some large corporations will prefer to conduct business in countries that have lower tax rates.

Foreign Investment Inflow

Foreign investment inflow is defined as the movement of money into a country for the purpose of investment, trade or business production, including the flow of capital within corporations in the form of investment capital, capital spending on operations and research and development (Ott, 1987). Foreign investment inflow is also defined as the movement into a country of capital resources for the purpose of investment, trade or business production (Chigbu & Uba, 2015). They further stressed that FCI play significant role for every national economy, regardless of its level of development.

For the developed countries it is necessary to support sustainable development while for the developing economies it is used to increase accumulation of and rate of investment to create conditions for accelerated economic growth. Investment inflow can help developing countries in economic development by furnishing them with necessary capital and technology which will be used to harness their local resources.

It also contributes in filling the resource gap in countries where domestic saving is inadequate to finance the required investment (Dauda, 2018). Foreign investment inflows consist of the movement of financial resources from one country into another. In this context, capital flow is a broad term which includes different kinds of financial transactions such as lending by governments and international organizations, bank lending, short and long term investments in public or private bonds, investment in equities or foreign portfolio investments and foreign direct investment, foreign aids, and workers remittances in productive capacity (Omojola & Awolusi, 2014).

Therefore, an analysis of the impact of foreign investment inflow on the economic performance of Nigeria will be more fruitful using multivariate approach which will include disaggregated components of foreign investment inflow which are foreign direct investment (FDI), foreign portfolio investment (FPI), and foreign loans (FOL)

Foreign Direct Investment

Foreign direct investment (FDI) is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy. Ownership of 10 percent or more of the voting power in an enterprise in

one economy by an investor in another economy is evidence of such a relationship. FDI is a key element in international economic integration because it creates stable and long-lasting links between economies. FDI is an important channel for the transfer of technology between countries, promotes international trade through access to foreign markets, and can be an important vehicle for economic development.

Foreign direct investment (FDI) is a component of foreign flows, it is defined as an investment from one country into another (normally by companies rather than governments) that involves establishing operations or acquiring assets including stakes in other businesses (Financial times 2018). Similarly, the IMF (2018) defines direct investment as a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy.

In this process, resident(s) of one country (i.e. home country) acquires ownership for the purpose of controlling production, distribution and other activities of a firm in the another country.(i.e. the host country), and is then regarded as a direct investor. The direct investor can be an individual, public or private enterprises (referred to multinational corporations or MNCs)) or Government.

In a narrow sense according to (Moghalu, 2017), foreign direct investment refers just to the building of new facility, and a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. The concept is one tree with many branches in terms of definition, thus the use of different vocabularies by scholars does not alter the meaning. For instance, the views shared by Orji et al (2015); Idoko and Taiga (2018); Adigun (2015) are not divergent to those above.

Foreign direct investment in Nigeria has relatively grown on average overtime. Growth of FDI is not surprising because government policies in government were tailor-made for foreign investors to benefit from the rapid industrialization drive of the country. However, Political and security conditions have not been good for business which instead of attracted many investors from all over the world, is scaring them away. The major jump in FDI can be seen during 1990-2010 which was primarily due to the investment in power sector and oil and gas sector. Later on, terrorism and militancy crisis brought gradual decline in FDI. Current government policies are directed towards attracting FDI in manufacturing sector to extract maximum long-term benefit out of such investments.

Foreign Portfolio Investment

Foreign portfolio investment refers to the short-term investments by foreign entity in the financial markets; these are indirect investments and include investment in tradable securities, such as shares, bonds, debenture of the companies. Foreign Portfolio investors don't exert management control on the enterprise in which they invest, thus clearly distinguishes it from foreign direct investment. The important objective of FPI is the appreciation of the capital investment regardless of any long-term relationship with enterprise. Usually, they are made with short-term speculative gains, and may include foreign institutional investment (investments made by foreign institutions like pension funds, foreign mutual funds etc. in the financial markets), off-shore funds, etc.

Foreign portfolio investment (FPI) refers to the purchase of securities and other financial assets by investors from another country. Examples of foreign portfolio investments include stocks, bonds, mutual funds, exchange traded funds, American depositary receipts (ADRs), and global depositary receipts (GDRs). Foreign portfolio investment (FPI) refers to investing in the financial assets of a foreign country, such as stocks or bonds available on an exchange. This type of investment is at times viewed less favorably than direct investment because portfolio investments can be sold off quickly and are at times seen as short-term attempts to make money, rather than a long-term investment in the economy.

Foreign Loan

Foreign loan according to World Bank (2012) is defined as debt owed by the government to non-residents repayable in terms of foreign currency, food or service. It is a source of financing foreign investment inflow of an economy.

Akpan and Eweke (2017) opined that the amount of capital available in most developing countries treasury is grossly inadequate to meet their economic growth needs mainly due to their low productivity, low savings and high consumption pattern.

The reported financial inadequacies lead countries to source for supplementary financing. Udoidem and Udofot (2014) noted that foreign loan is one major source of foreign investment inflows to developing nations. But the rate at which they borrow depends on the links among foreign and domestic savings, investment and economic growth so that the borrowing countries can increase their capacity output with the aid of foreign savings (Tang, 2015).

It is required that the borrowing nation should be able to invest the borrowed fund wisely especially in financing development projects like railway construction, electricity generation plants, road construction and any other major capital project of the economy. However, Tang (2015) pointed out that external debt can only be productive if well managed by making the rate of return higher than the cost of servicing the debt.

Based on the sources of Nigeria's external debt, Nigeria has contracted a number of debt obligations from external sources. These are international institutions funded by member nations. They include the World Bank and its affiliates- International Finance Corporation (IFC), International Development Association (IDA) and the Multilateral Investment Guarantee Agency (MIGA); International Monetary Fund (IMF); African Development Bank (ADB); European Investment Bank (EIB)**;** as well as International Fund for Agricultural Development (IFAD) that provide credit for development purposes, balance of payments support and private ventures.

The total external loans portfolio of N3.479 trillion (US$11.406 billion) outstanding as at the end-December, 2016, comprised the concessional debt obtained from multilateral and bilateral sources amounting to N2.90 trillion (US$9.499 billion) or 83.3 percent compared with N2.11 trillion (US$10.72 billion) or 83 percent in 2015, with the balance of N0.582 trillion (US$1.907 billion) or 16.7 percent constituting the non-concessional bilateral and commercial loans, compared to N0.375 trillion (US$1.90 billion) or 17.80 percent in 2015 (Hammed, Musibau & Agboola, 2017).

Economic Performance

Economic performance of a country is defined and measured in terms of economic growth. Economic growth is an increase in the production of economic goods and services in one period of time compared with a previous period. It can be measured in nominal or real (adjusted to remove inflation) terms. Traditionally, aggregate economic growth is measured in terms of gross national product (GNP) or gross domestic product (GDP), although alternative metrics are sometimes used. In simplest terms, economic growth refers to an increase in aggregate production in an economy, which is generally manifested in a rise in national income.

Economic growth of an economy is measured in terms of the gross domestic product. The Gross Domestic Product is also in turn measured in monetary terms of all goods and services during a period (Okafor, Ezeaku & Eje, 2015). The GDP provides important information to support evidence based policy making. It also helps to identify key drivers of economic growth and access the performance of an economy.

However, by revealing the structure of the economy, the contribution to the national output can be determined. Invariably gross domestic product is the sum of gross value added of all resident producer units (industries) within the economic boarders of the country during a given period of time including taxes, less subsidies, on products.

According to Emmanuel (2016), Gross domestic product is an economic assessment that quantifies the inflation adjusted market value of goods and services produced by an economic system during a given time. A business might use the gross domestic product of a nation to indicate the standard of living within that country that can help them determine whether or not their produces will be successful pointed. Gross domestic product is the total market value of all the finished goods and services produced within a country's borders in a specific time period. However as a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic wealth.

The most common measure of economic performance is the real GDP. This is the total value of everything, both goods and services, produced in an economy, with that value adjusted to remove the effects of inflation. Again, GDP, the most popular way to measure economic growth, is calculated by adding up all of the money spent by consumers, businesses, and the government in a given period.

Empirical Review

Danlardi (2022) investigated the effect of foreign direct investment on economic growth in Nigeria for the period from 1986 to 2020. Autoregressive Distributed Lag (ARDL) model was employed for the analysis. The study found that FDI has positive and significant effect on economic growth. Exchange rate also has a positive and significant effect on the economic growth. Findings also show that the regression is significant at 5% level of significance as F-statistic is less than 0.05. This entails that the growth effect of FDI is enhanced in the presence of a stable exchange rate. Based on the findings, the study suggests an improvement in the institutional quality so as to attract the further inflow of foreign direct investment in Nigeria. The study also suggests that government should make exchange rate stable so that more foreign investment can be attracted for desired economic growth and development in the country

Ugonna and Christian (2022) investigated foreign direct investment (FDI) and the economic growth in Nigeria between 1990 and 2021. It is based on the traditional theory of FDI. For the attainment of its objectives Oil related Foreign Direct Investment (OFDI) and Non-oil related Foreign Direct Investment (NFDI) were used as proxies for study's explanatory variable FDI while gross domestic product (GDP) was used to proxy the study's dependent variable economic growth in Nigeria. Secondary data from the Central Bank of Nigeria (CBN) statistical bulletin was obtained and employed in the study. In the study stationarity test was indulged in. The ordinary Least Square (OLS) approach was used to carry out the short-run analysis while Johansen co-integration test was employed to carry out the long-run analysis. Also, the Granger causality test was employed in the study so as to ascertain if a causal relationship exists between the study's variables. Our results reveal the following: Data were stationary at order one (1), positive and insignificant relationship between NFDI and economic growth in Nigeria, negative and insignificant relationship between OFDI and economic growth in Nigeria, positive and significant relationship between FDI and economic growth in Nigeria. The results also reveal the underlisted: In the short-run FDI largely determines economic growth in Nigeria, a long-run relationship between FDI and economic growth in Nigeria, and no causal relationship between FDI and economic growth in Nigeria. Lastly, the study made some recommendations so as to permit economic growth brought about by the inflow and survival of FDI in Nigeria.

Adeleke (2021) examined the effect of foreign direct investment on economic growth in Nigeria from the period 1990-2019. Making use of regression analysis of the Ordinary Least Square (OLS), results found that economic growth is directly linked to inflow of foreign direct investment (FDI) and it also found that economic growth is directly linked to inflow of foreign direct investment and it is also statistically significant at 5% level of significance which portrays that a good economic performance is a positive indicator for the inflow of foreign direct investment.

Theoretical Framework

There are a number of theories explaining foreign investment inflow. Except for the MacDougall-Kemp hypothesis, Foreign investment inflow theories are primarily based on imperfect market conditions while a few among them are based on imperfect capital market. Others consider non-economic factors. Still others explained the emergence of Multi-National Corporations, (MNCs) exclusively among developing countries. The theoretical framework adopted in the study is the location theory.

This theory was propounded by Hover in 1937.The theory is concerned with territorial allocation of resources within a country; it explains FCI in the context of the location specific factor differentials. Location theory assumed that supply (cost factors) and demand (market factor) variables that affect the distribution processes of firms. The comparative advantage, the availability of

raw materials and transportation cost are main determinants of foreign capital flows in this theory.

The basic assumptions of the theory are:

- That the availability and cost of inputs can explain the existence of FCI
- That marketing factors are the main factors that stimulate foreign firms to invest abroad and
- That direct investment is stimulated by the existence of trade barriers.

The location theory's explanation for foreign capital inflow can be discussed by the following factors: Firstly, availability and cost of inputs can explain the existence of FCI. A firm considers the source of input and cost of production in order to choose the location. Therefore, a firm investing abroad may be attracted by the availability in another country of some inputs, which are scarce at home, or by the lower cost of inputs abroad such as lower labor cost. A firm can get many advantages by locating a production plant near the market. Firms can conduct business smoothly due to locating the firm abroad, because the firm can better exploit the local market, tariff barriers can be avoided and transportation cost can be reduced.

Hood and Young, (1979) stress upon the location-specific advantages. They argue that since real wage cost varies among countries, firms with low cost technology move to low wage countries. Again, in some countries, trade barriers are created to restrict import. Multi-National Corporations (MNCs) invest in such countries in order to start manufacturing there and evade trade barriers. It is sometimes the availability of cheap and abundant raw material and human resources that encourages the MNCs to invest in such country.

The theory is relevant to this study in that it captures the cross-boundary movement of investment and the projected impact on the host economy. It also addressed the major variables of the study which attempts to investigate te impact of foreign investment inflows on the economy of Nigeria. Adopting this theory will also show how location specific characteristics could trigger the inflow of foreign investments and the benefits for the recipient economy.

Method, Data and Model

The study adopted the *ex-post facto* research design due to its suitability in forecasting time series variables. In this design, the use of past values to explain future outcomes is made possible; it combines theory and empirical exercises in estimating the impact of the explanatory variables on the explained variable. Time series data on the variables (the gross domestic product - GDP, foreign direct investment, foreign portfolio investment, and foreign loans) were collected from various sources such as the Central Bank of Nigeria (CBN) statistical bulletin, the Stock Exchange Group (NGX), and the Debt Management Office (DMO) Annual Reports for the period 1980 to 2021. To estimate the impact and test the hypotheses the study adopted the general formula for multiple regression. Hence the model for the study is specified functionally as:

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

Where; GDP = gross domestic product, FDI = foreign direct investment, FPI = foreign portfolio investment, and FOL = foreign loans. The econometric form of the model is:

$$GDP = \beta_0 + \beta_1 FDI + \beta_2 FPI + \beta_3 FOL + \mu t$$

β_0 = constant term, U_t = the error term, $\beta_1, \beta_2, \beta_3$, and β_4, are the coefficients of the estimate

The a priori assumptions of our model are: $\beta_1, \beta_2, \beta_3, \beta_5$ and $\beta_6 < 0$, while $\beta_4 > 0$.

The analytical techniques employed in the study include, the Augmented Dickey Fuller Unit Root test, the Bounds test of long-run relationship and the autoregressive distributed lag model (ARDL) estimation or the system equation estimation of the vector error correction estimates (depending on the outcome of the pre estimation tests), all using the E-views 10.0 environment. In this study, the decision making on the statistical significance of the results obtained for each of the research hypotheses rests on the probability values and the level/ direction of the coefficient. The test of hypothesis will follow three (3) steps (restatement of the null hypothesis, decision rule, and decision).

Step 1: Restatement of the Null Research Hypothesis

The null hypothesis is restated into the alternative hypothesis to be accepted in the

event the null hypothesis is rejected, and vice versa.

Step 2: Decision Rules

Decision Rule 1: Accept the alternate hypothesis and reject the null hypothesis if the P-value is less than the chosen level of significance (0.05). It implies that the estimated variable has significant impact on the dependent variable.

Decision Rule 2: Accept the null hypothesis and reject the alternate hypothesis if theP-value is greater than the chosen level of significance (0.05). It implies that the estimated variable has insignificant impact on the dependent variable.

Step 3: Decision

Decision is hereby taken depending on the outcomes following step 2 above.

RESULTS

Pre estimation test was first carried out to show some characteristics of the data employed in estimating the parameters. This was necessary in order to enhance the reliability of the outcome of the findings that will follow.

Unit Root Test of Stationarity

The ADF approach to unit root was first applied in order to show the suitability of the data set. Stationary time series are important because, if a time series is non-stationary; its behavior can only be investigated for the time period under consideration.

Table 1: Unit root test result

ADF Test @ Level				ADF Test @ 1st Difference			
Series	ADF	5% C.V	P-value	ADF	5% C.V	P-value	order
RGDP	-2.613226	-3.526609	0.2769	-3.538102	-3.529758	0.0491	1(1)
FDI	-2.688774	-3.526609	0.2464	-6.955731	-3.529758	0.0000	1(1)
FPI	-3.478432	-3.526609	0.2223	-8.937314	-3.529758	0.0000	1(1)
FOL	-2.544417	-3.526609	0.3065	-7.955053	-3.529758	0.0045	1(1)

Source: Researchers' computation 2024 (E-views)

The test for stationarity conducted using the Augmented Dickey Fuller Test (ADF) approach showed that the data on the dependent variable (RGDP) and the independent variables (FDI, FPI, and FOL) did not achieve stationarity @ level; hence they were subjected to first differencing. All achieved stationarity at first differencing. Differencing is done when the data set fails to be stationary @ level; stationarity is concluded if the ADF statistic is greater than the 5% critical value or if the probability value (P-value) is less than (0.05). Hence, stationarity and integration was achieved at order 1(1).

Cointegration Test of Long Run Relationship

When series are integrated of order 1(1), it is recommended to run the cointegration test to ascertain a long run tendency among the model variables. Stationary series are assumed to be cointegrated, this means that there is evidence of longrun relationship between stationary series in aa model. Hence, the Johnsen cointegration test was employed because the series were integrated of order 1(1). In testing for cointegaartion, the decision rule is:

Decision rule: there is cointegration (longrun relationship) if the trace statistic is greater than the 5%critical value.

The result is shown below:

Table 2: Cointegration Test Result

Unrestricted cointegration rank test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.696905	86.14162	69.81889	0.0015
At most 1	0.412577	40.78064	47.85613	0.1958
At most 2	0.320520	20.56429	29.79707	0.3854
Trace test indicates 1 cointegrating eqn(s) at the 0.05 level				

* denotes rejection of the hypothesis at the 0.05 level	
**MacKinnon-Haug-Michelis (1999) p-values	

Source: Researcher's computation 2024

As seen on table 2 above, one cointegrating equation was identified. The decision criteria for the presence of cointegration are the identification of at least one of cointegrating equation. The conclusion on the presence of cointegration is done using the trace statistics which must be greater than the 5% critical value, or the p-value of the trace stat is less than the level of significance 0.05).

The obtained trace-stats at identified cointegrating equation is greater than the 5% critical values (86.14162 > 69.81889), hence it is concluded that the variables show evidence of long-run relationship. This means that a long-run relationship exists between the foreign investment inflow and economic performance of Nigeria.

Estimation

Vector Error Correction Mechanism

The presence of long run relationship (cointegration) has the implication of short run errors in the system or over the periods, hence the need for the error correction mechanism. The study adopted the vector error correction mechanism because the study used a multivariate model.

Table 3: Vector error correction estimates

Error Correction:	D(RGDP)	D(FDI)	D(FPI)	D(TROPI)	D(GCF)
CointEq1	-0.046047	-0.001716	0.052363	7.982107	0.012309
	(0.02439)	(0.02750)	(0.02829)	(1.90106)	(0.00437)
	[-1.88787]	[-0.06242]	[1.85065]	[0.41857]	[2.81897]

Source: researcher's computation 2024

The error correction mechanism smoothens the short-run errors associated with variables which have long run relationship or co-integration properties and also shows the speed of adjustment of the errors.

The conditions for smoothening effects are that the error correction coefficient must be negative, fractional and significant. The result obtained indicated VECM coefficient of -0.046047 which means that about 4.60% of the short run errors are corrected each during each period. The conditions for error corrections are satisfied since the coefficient is negative, fractional and significant, and the error correction shows a fast speed of adjustment to the long-run equilibrium.

Estimation of the Effect of Foreign Investment Inflow on Economic Performance of Nigeria

Table 4: System equation estimation result

Dependent Variable: D(RGDP)				
Method: Least Squares (Gauss-Newton / Marquardt steps)				
	Coefficient	Std. Error	t-Statistic	Prob.
ECM	-0.046047	0.024391	-1.887871	0.0703
GDP-1	0.284859	0.197505	1.442288	0.1612
GDP-2	0.368685	0.193844	1.901972	0.0683
FDI-1	0.823132	0.229984	2.500583	0.0007
FPI-1	2.247029	0.201536	3.225733	0.0013
FOL-1	1388.008	196.3019	3.434606	0.0000
C(12)	649.8949	297.5022	2.184504	0.0381
R-squared	0.525887	Mean dependent var		1478.023
Adjusted R-squared	0.325300	S.D. dependent var		1485.021
S.E. of regression	1219.798	Akaike info criterion		17.30285
Sum squared resid	38685573	Schwarz criterion		17.81998
Log likelihood	-316.7541	Hannan-Quinn criter.		17.48684
F-statistic	2.621746	Durbin-Watson stat		1.863962
Prob(F-statistic)	0.021212			

Source: Researcher's computation 2024

From table 4, it could be observed that foreign direct investment (FDI), foreign portfolio investment (FPI), and foreign loans (FOL) conformed to their predicted sign (FDI + and > 0, FPI + and > 0, and FOL – and < 0). An increase in foreign direct investment (FDI) will lead to a decrease in the real domestic product (GDP) by 4.16 billion naira; an increase in the foreign portfolio investment (FPI) improves the size of gross domestic product by 12.00 billion naira. Similarly, an appreciation in the size of foreign loans (FOL) will lead to a decline in the aggregate economic output by 18.64 billion naira.

Initially, the individual variables were not stationary at level since the ADF statistic of the variables were less the 5% critical value, but they all became stationary after first differencing. From table 1.0 above, it is observed that the ADF test statistic of the individual variables is greater than the 5% critical values at first difference. Hence the study rejected the null hypothesis and concludes that all the variables are stationary and are integrated of the same order 1(1).

Since all the variables were integrated of the same order 1(1) implying cointegration, the Johansen cointegration test was conducted to test for the long run relationship between the variables. From the result presented, the trace statistic is greater than the5% critical value at none*. With at least one cointegrating equation, it is safe to conclude that a long run relationship exist in model; the study therefore rejects the null hypothesis and conclude that a longrun relationship exists between foreign direct investment economic growth in Nigeria.

The presence of long run relationship provides for short term fluctuations. These fluctuations are straightened out using the error correction mechanism (VECM) to tie the short run and the long run equilibrium relationships. The conditions to be satisfied are that the coefficient of the error correction term must be negative, fractional and significant.

The VECM result presented in table 3.0 above indicates that all three conditions have been fulfilled and it can be said that 0.046047 or 4.61% of the short-run errors are corrected each period.

Summary, Conclusion and Recommendations

The empirical value of the adjusted coefficient of determination (Adjusted R^2 = 0.515300) shows that 51.53% of the total variations in Nigeria's real gross domestic product (RGDP) is accounted for by variation in the foreign direct investment variables (foreign direct investment, foreign portfolio investment, trade openness and the gross capital formation) s modelled in this study, while the remaining 48.47% is attributed to the other economic aand growth factors that were not captured in the model.

The parameter estimate of (FDI) is (0.823132) while the p-value of the parameter estimate was (0.0007). This implied that that foreign direct investment has significant positive effect on the economic performance of Nigeria. In term of economic performance, the creation of jobs is the most obvious advantage of FDI, one of the most important reasons why a nation (especially a developing one) will look to attract foreign direct investment. FDI boosts the manufacturing and services sector which results in the creation of jobs and helps to reduce unemployment rates in the country.

Increased employment translates to higher incomes and equips the population with more buying powers, boosting the overall economy of a country. Human capital involved the knowledge and competence of a workforce. Skills that employees gain through training and experience can boost the education and human capital of a specific country. Through a ripple effect, it can train human resources in other sectors and companies.

From the table 4, the parameter estimate is indicated to be (2.247029), while the p-value of the parameter estimate is (0.0013). Hence, foreign portfolio investment has significant positive effect on the economic performance of Nigeria. Practically, the empirical results have revealed that the presence of a significant deficit of domestic savings in Nigeria creates obstacles to successful economic growth in the country both in the short and long term; but portfolio foreign investment is observed to accelerate economic growth in the long run to a greater extent. Foreign portfolio investment (FPI) involves an investor purchasing foreign financial assets.

The transaction of foreign securities generally occurs at an organized formal securities exchange or through an over-the-counter market transaction. Foreign portfolio investment is becoming increasingly more common as a means of portfolio diversification. Often, FPIs consist of securities and alternative foreign financial assets that are passively held by a foreign investor.

As indicated on table 4 above, the coefficient of the foreign loan variable (FOL) is (8.702937) while the p-value of the parameter is (0.0000). This is concluded to mean that foreign loans have significant positive effect on the economic performance of Nigeria. Foreign borrowing performs two roles in development (Eshag, 1983); first, it can increase resources available for investment by supplementing domestic savings, second, it can augment foreign exchange resources by supplementing export earnings. It was assumed that a developing economy like Nigeria has the potential to finance its investment requirement, if only the government would create an environment conducive for its mobilization and effective utilization.

Unfortunately, the optimistic expectations were not realize since the volume of savings was too low on account of the low income, or was not mobilized for lack of appropriate policies and/or lack of essential mechanism such as financial institutions, or was inappropriately utilized, etc., thus, giving rise to new approaches. The summary of the major findings of the study are: foreign direct investment has positive and significant impact on economic growth in Nigeria; foreign portfolio investment has significant and negative impact on economic growth in Nigeria; and foreign loan has significant and positive impact on economic growth in Nigeria. Based on the findings, the study concluded that foreign investment inflow has significant positive impact on the economic performance of in Nigeria.

Based on the outcome of the various tests carried out and the hypothesis evaluated, this research therefore makes the following recommendations: government should ensure a good ease of business in order to attract more direct investments into the country, this will enhance the performance of the economic sectors and improve aggregate output; there is need to strengthen the capital markets to be able to stimulate foreign portfolio investment inflow in the country to boost the economy; and the government could obtain more loans and ensure it is only directed towards growth generating investments that will boost economic growth.

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