**THE IMPACT OF FDI ON ECONOMIC GROWTH OF NIGERIA (1970-2014)**

**By**

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**ABSTRACT**

It is expedient to note that despite the existing theoretical postulation suggesting that Foreign Direct Investment (FDI) remains a key factor in promoting growth via direct and indirect effects of FDI, yet developing countries and Nigeria in particular, records high unemployment rate, inflation, weak manufacturing sector, low level of research and development (R&D) despite the said high FDI inflows. Strikingly, existing literature on the FDI-growth subject matter pertaining Nigeria economy shows mixed results. In other words, it is important to dwell on the above problem since amere increase in growth of an economy might not be attributed to increase in FDI inflows. Also, it is of utmost importance to investigate and empirically ascertain as to whether or not FDI do stimulate growth since previous studies are inconclusive. In the methodology, the study set to investigate the impact of FDI on Nigerian economic growth. In addition, the ARDL model shows the long run relationship among the variables while the Error Correction Model (ECM) portrays the short-run dynamics among the variables depicting the speed of adjustment towards equilibrium. The diagnostic test of CUSUM and CUSUMQ and Wald Test are conducted to see the stability of the model and confirm the existence of cointegration among the variables entered. Consequently, the study finds that lags of FDI significantly but negatively affects GDP growth in the short-run, however, in the long run the effect is direct, significant and positive. Furthermore, it is found that during the period under review, FDI determinants include; money supply, domestic market size, infrastructure and liberalization. Furthermore, FDI crowds-out domestic investment in the short run but in the long run FDI crowds-in domestic investment while causality was found to run from GDP growth to FDI and not vice versa. Invariably, the implication of the study is that it appears the overall impact of FDI is likely to improve with diversification of the economy which could attract more FDI since the effect of FDI is negative in the short run. Also, as FDI crowds-in domestic investment in the long run but crowds it out in the short-run, it is possible that short run adjustments could lead to FDI crowding-in domestic investment in both short and long run. Therefore, considering the result of FDI determinants, Nigeria is likely to record more inflow of FDIs given the current move to revolutionize power, agriculture and solid minerals subsector.

**KEY WORDS:**  FDI, ARDL, Growth, Domestic Investment, Nigeria

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**DEGREE AWARDED:** Doctor of Philosophy (Ph.D) in Economics

**YEAR OF GRADUATION:** 2016