

Foreign Direct Investment: A Panacea for Nigeria Economic Growth

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Abstract

This paper critically examined the role of foreign direct investment (FDI) on Nigeria economy, with specific focus on past researches. This paper is based on empirical evidence from past researchers. The study found out that FDI positively influence Nigeria Economy system, that FDI funds can be used for long term development goal and therefore recommends that to promote growth and development in the economy, government should give priority to policies that could promote FDI inflows into the country such as tax holidays, infrastructural development, consistent power supply and good security outlet to address the issues of Boko Haram and their random bombing in some part of the country, kidnapping and militancy. This will go along way in creating Job opportunities for the unemployed youth band help in checkmating the high rate of poverty in the country thereby reducing the gap between rich and the poor.

Background to the Study

In recent time, federal government of Nigeria has grown much concern over the threat and challenges facing the country. To this, many policy reforms has been initiated in order to change the belief and the value system of people on the basis of Nigerian's social, economy and the political philosophy. For example, in 2007, former president of Nigeria, Alhaji Umaru Musa Yar'Adua (Late) initiated a policy reform called "Seven (7) point agenda" to address the problem of dilapidated infrastructural facilities and insecurity of lives and property. However, in 2011, President Goodluck Ebele Jonathan initiated a complementary policy tagged the transformation agenda. The agenda focused on non-inflationary growth, employment generation, poverty alleviation and value reorientation of the citizenry thereby challenging different arms and institutions of the government such as the national assembly, judiciary, electoral umpire and armed forces to stand on their feet to re-invent the wheel to property and human right protection and conducive business environment in order to exploit the inherent benefits of the agenda to promote economic growth of the country.

The relevance of foreign direct investment cannot be overemphasized. Its significant influence on the provision of new technologies, products, management skills and competitive business environment, overtime has been a strong impetus for economic growth. Many countries of the world, especially emerging economies favour policies that encourages the inflow of foreign direct investment because of it positive spillover associated with the provision of funds and expertise that could help smaller companies to expand and increase international sales and transfer of technology thus, forming new varieties of capital input (i.e. flow of services available for production from the stock of capital goods e.g. equipment, structures, inventories etc) that cannot be achieved through financial investments or trade in goods and services alone.

Nigeria is one of the economies with great demand for goods and services and has attracted many FDI over the years since the discovery of crude oil. According to the World Bank, from 1970 to 1979, Nigeria recorded an average ratio of foreign direct investment net inflow of about 1.579 to GDP while from 1980 to 1989, the average ratio of FDI net inflow to GDP recorded stood at 1.947. Thus, in 1994 and 1993, the country made a remarkable record of 8.28 and 6.3 respectively. Since 1993 and 1994, the record was not an issue to contend with. To the greatest dismay, from 1995 to 2010, FDI, net inflow as % of GDP in Nigeria has not gone beyond 4.0 except in 1996, 1997, 2005 and 2009 the country made a record of 4.51, 4.25, 4.44 and 5.08 respectively. World Bank research contained in global development finance 2008 shows that Thailand attracted \$9.6 billion in 2007 while Nigeria attracted just about \$6.03 billion. Also, CBN (2010) annual report also indicated that total foreign direct investment inflow into the Nigerian in 2010 was about \$5.99 billion. The breakdown of the amount according to the report shows that FDI portion was just 12.2 percent or \$668 million. This represents a 78.1 percent drop from \$3.31 billion in 2009. In light of the above, many Nigerians are lost in guesses of the likely causes of the insignificant inflow of FDI into the country. This has been a source of worry to both policy makers and government authorities. Amidst, Asiedu, (2005) asserted that the level of FDI

attracted by Nigeria is mediocre compared with the resource based and potential need, taken into cognizance of the fact that Nigeria is the 8th ranked most populous nation and 32nd biggest economy in the world (CIA World fact book) with the endowment to do better than its counterpart South Africa as the Africa biggest economy following the statement of investment giant Morgan Stanley.

In view of CBN (2010) report, poor state of infrastructural facilities, high level of corruption, poor business environment/insecurity, weak institutional/legal framework, and poor property right protection has been linked to the significant drop in FDI inflow into the country in recent years. This has influenced negatively, the impact on the desires of foreign investors for Nigeria's Paper assets, thus resulting to a sharp fall in portfolio investments by 87.1 percent to 65.5 percent (\$3.9 billion) capital inflows into the country in 2010. In support of this report, Zhang, (2001) asserts that the extent to which FDI contributes to growth depends on the economic and social condition or the quality of the environment of the recipient country. Hence, World Bank/IFC (2012) latest ease of doing business equally shows that Nigeria was ranked 133rd out of 183 countries and 4th (i.e. partly free) in the freedom of world country rating report associated with her political right and civil liberties while, the global anti-corruption body (Transparency International) yearly ranking of public sector transparency moved Nigeria up from 143rd in 2011 to 139 in 2012. Even though the Federal Government dismissed the rating by Transparency International (TI), saying it was a product of "synopsis of negative media reports (Emmanuel and Agande, 2012), the fact remains that a value system that aim at ordering and prioritizing the ethics and ideology is seriously need to shape the perceptions and thinking of foreign investors about the country and to step up the inflow of FDI into the country.

This Paper will answer the following questions: Has Foreign Direct Investment contributed in a Substantive sustained way to the financial needs and economic growth of Nigeria? Are the activities and cost of fund well suited for long term development? Could FDI inflows distabilize the Nigeria Economy? If so, how can it be averted? The rest of the paper is divided into four (4) sections namely: Literature Review, Conclusions, Policy Implication and Policy Recommendations.

Purpose and Objectives of the Study

The core purpose of this paper is to examine the effect of Foreign Direct Investment (FDI) on Economic Growth. In line with achieving this, the following set of objectives will be realized:

1. To determine if FDI serves as a substantive sustained way to the financial needs and economic growth of Nigeria.
2. To find out if FDI activities and Cost of Fund are well suited for long term development.
3. To investigate if FDI inflow destabilized the economy

Research Questions

The following are the researchable questions to be examined in this paper:

1. Has Foreign Direct Investment contributed in a Substantive sustained way to the financial needs and economic growth of Nigeria?
2. Are the activities and cost of fund well suited for long term development?
3. Could FDI inflows distabilize the Nigeria Economy?

Literature Review

Foreign Direct Investment: Overview

Foreign direct investment (FDI) is made into a business or a sector by an individual or a company from another country. It is different from portfolio investment, which is made more indirectly into another country's economy by using financial instruments, such as bonds and stocks. There are various levels and forms of foreign direct investment, depending on the type of companies involved and the reasons for investment. A foreign direct investor might purchase a company in the target country by means of a merger or acquisition, setting up a new venture or expanding the operations of an existing one. Other forms of FDI include the acquisition of shares in an associated enterprise, the incorporation of a wholly owned company or subsidiary and participation in an equity joint venture across international boundaries. Planning to engage in this kind of venture, you should determine first if it provides you and the society with maximum benefits. One good way to do this is evaluating its advantages and disadvantages.

List of Advantages of Foreign Direct

1. Economic Development Stimulation

Foreign direct investment can stimulate the target country's economic development, creating a more conducive environment for you as the investor and benefits for the local industry.

2. Easy International Trade

Commonly, a country has its own import tariff, and this is one of the reasons why trading with it is quite difficult. Also, there are industries that usually require their presence in the international markets to ensure their sales and goals will be completely met. With FDI, all these will be made easier.

3. Employment and Economic Boost.

Foreign direct investment creates new jobs, as investors build new companies in the target country, create new opportunities. This leads to an increase in income and more buying power to the people, which in turn leads to an economic boost.

4. Development of Human Capital Resources.

One big advantage brought about by FDI is the development of human capital resources, which is also often understated as it is not immediately apparent. Human capital is the competence and knowledge of those able to perform labor, more known to us as the workforce. The attributes gained by training and sharing experience would increase the

education and overall human capital of a country. Its resource is not a tangible asset that is owned by companies, but instead something that is on loan. With this in mind, a country with FDI can benefit greatly by developing its human resources while maintaining ownership.

5. Tax Incentives

Parent enterprises would also provide foreign direct investment to get additional expertise, technology and products. As the foreign investor, you can receive tax incentives that will be highly useful in your selected field of business.

6. Resource Transfer

Foreign direct investment will allow resource transfer and other exchanges of knowledge, where various countries are given access to new technologies and skills.

List of Disadvantages of Foreign Direct Investment

1. Hindrance to Domestic Investment

As it focuses its resources elsewhere other than the investor's home country, foreign direct investment can sometimes hinder domestic investment.

2. Risk from Political Changes

Because political issues in other countries can instantly change, foreign direct investment is very risky. Plus, most of the risk factors that you are going to experience are extremely high.

3. Negative Influence on Exchange Rates

Foreign direct investments can occasionally affect exchange rates to the advantage of one country and the detriment of another.

4. Higher Costs.

If you invest in some foreign countries, you might notice that it is more expensive than when you export goods. So, it is very imperative to prepare sufficient money to set up your operations.

Nature of Foreign Direct Investment in Nigeria

According to Odozi (2010) foreign private investments in Nigeria have crystallized in the form of foreign investment inflow for the establishment of new enterprises and foreign inflow through the existing enterprises. Foreign investment for the establishment of new enterprises is made up of machinery and equipment and foreign currency brought in at the initial establishment stage of the local enterprise. This play a major role in the expansion of production capacity. With the establishment of the Industrial Development Co-ordinating Committee (IDCC) in 1988 as a one – step agency for facilitating and attracting foreign investment inflow, FDI through newly established companies stood at \$5.01 billion in 2006, increased to \$6.03 billion in 2007 probably in response to the policy review and then dropped to \$3.31 billion in 2009 in response to adverse political climate and macroeconomic problems.

FDI through existing enterprises have crystallized in the form of changes in foreign capital due to a rise in paid-up capital of the local enterprises, reinvestment of retained earnings or ploughing back of earnings or unremitted profit, trade and suppliers net credit and the net liabilities to the head office of the parent companies in the form of royalties payable on technology and loans and other foreign liabilities of the local enterprise in the form of loans with third parties abroad or affiliates of the parent company.

However, Aremu (2012), divided various types of Foreign Direct Investment enterprise in Nigeria into five, namely: wholly foreign-owned, joint ventures, special contract arrangements, technology, management and marketing agreement and sub-contract, co-production and specialization.

Impacts of FDI on Developing Countries Growth and Development

There is a largeness of empirical studies which examined the role of FDI in the development of Less Developing Countries (LDC) ranging from its impact on the growth and distribution of national income to the economic desirability of technology brought in by MNC, its cultural and political impacts. This is still a controversial topic with empirical research showing both positive and negative impacts.

Chenery and Strout (2013), studied the impact of foreign assistance in economic development of a sample of thirty-one LDC during the period 1957-62 using a two-step basic model of the role of aid in transaction. They discovered that over the whole period of transition to self-sustaining growth, the use that was made up of successive increment in GNP was likely to be more important than the efficiency with which external assistance was utilized in the first instance. Other studies that have found a positive relationship between FDI and economic development are Lull and Streeten (2007), Reuber (2013), Bournschier et al (2018), Dolan and Tomlin (2010).

Some other studies focused on specific aspects of MNC operations in developing countries such as the economic desirability of the technology brought into the developing countries, appropriateness of the technology chosen by them, their employment effects, their impact on regional and human development and their balance of payment effect. These include Vaitso (2014), Helleiner (2017), Watanabe (2008), Andres (2016) and Kham (2010).

Studies that have given rise to controversies regarding the MNC contribution to the solution of the host developing countries balance of payments problems and their contribution to export includes Jenkins (2010), Whiling JR (2011), Lull and Mohammed (2011). MNC are also criticized on the ground that they create problems of transfer pricing which is difficult to document or control, and that they try to keep their declared profits low either to avoid high tax rate or restrictions on profit repatriation (Weiss, 2018). Several studies have also shown the negative non-economic effects of MNC on developing countries. These include Matlelort (2018), Jean Louis et al in UNESCO (2009) and Kobrin (2010). Several studies have sought to access the effect of MNC on the political structure of developing countries Leys (2015), Gerefi (2013), bennett and Sharpe (2012).

A large number of developing countries have already established and many more are in the process of establishing export processing zones (EPZ) in order to attract FDI, especially export oriented manufacturing. The establishment of EPZ has been a widely applied industrial policy approach in a broad range of developing countries. However, the ability of EPZ to attract FDI and the economic impact on host country are still controversial. The performance differed from country to country. It performed better in South Korea, Mauritius and Malaysia, but did not perform well in Philippine and other South Asian countries in terms. Its performance is yet to be accessed in Nigeria.

Impacts of FDI on Nigeria Economic Growth and Development

Odozi (2010) analyzed the factors affecting FDI flow in Nigeria unto pre-SAP and post-SAP era. Prior to the introduction of SAP, the harsh over protective investment policies in Nigeria (such as the Nigeria Indigenization Decree of 1972, amended 1977, and the Nigeria Enterprises Promotion Decree of 1989 among others) hindered it from maximizing its potentials when compared to the East Asian countries who have adopted open door policies towards the FDI since sixties. Added to these were other micro-economic factors such as destabilizing debt burden as well as socio-economic and political development, which mitigated against the inflow of FDI. The regulatory and institutional framework required before the approval and incorporation of foreign investors' companies (prior to January 1998 when IDCC was set up) contributed in no small way to discouraging FDI in Nigeria. This was aggravated by the promulgation of Nigeria Indigenization Decree (NID) in 1972 amended in 1977 and the Nigeria Enterprises Promotion Decree in 1989. This accounted for dwindling capital inflow and high capital outflow between 1970 and 1977. (See Table below).

Macro economic policies adopted in the management of Nigerian economy also posed as a great constraint to FDI inflow to Nigeria prior to the introduction of SAP, monetary policy was based on the strategy of mandatory credit ceiling on banks and administratively determined interest rates which discriminated among many sectors. Government operations resulted in persistent deficits financed by borrowing from the banking system, the real sector policies depended on price controls and a system of subsidies, while major basic enterprises were wholly-owned or controlled by government, thus the role of private indigenous or foreign investment was crowded out by the government. Exchanged control was highly regulated and naira overvalued, indigenous industrial protection was assured through outright ban of the importation of many commodities and the imposition of high tariff barriers. The adverse effects of these measures discouraged foreign investors, led to the proliferation and growth of parallel markets and sustained capital flight.

However, since the introduction of SAP, Nigerian government has churned out policies to attract foreign investors. These are categorized into five, namely: The establishment of the Industrial development coordinating committee (IDCC), investment incentive strategy, non-oil export stimulation and expansion, the privatization and commercialization programme and the shift in macroeconomic management in favour of

liberalization, deregulation and market-based arrangements. Studies that have found positive linkage between FDI and economic growth and development in Nigeria are Aluko (2012), Brown (2012), Obinna (2016).

Other studies have mixed results [Onitiri 2006, Olakanpo O. 2014, Endozien 2017, Oseghale et al 2018, Ariyanwu 2011]. Moreover, Endozien (2017) discussed the linkages and effects of foreign investment in Nigeria's economic development. According to him, foreign investors by bringing simultaneously into the country capital, technical and managerial know how can both quicken the process of economic development and make the process less painful. However, he also discussed the negative and positive impacts of these linkages in the economy. He discussed the linkage effects in terms of the Hirschman dichotomy: the backward and the forward linkage effects: he also identified the broad and specific effects of FDI. In Nigeria these effects have so far not been considerable. The broad linkage effects were found to be generally lower than the Chenery-Watanable average. For a long time, the major proportion of foreign investment was in the trading sector, which has both low backward and forward linkages: the manufacturing sector, which is a fast-growing sector, has its normally high linkage effects reduced because of the high import content of the output of the existing industries. The specific linkage effects were similarly found to be small. Oseghale et al (2018) examined the relationship between oil exports, foreign borrowing and direct foreign investment on the one hand and economic growth on the other hand, with specific reference to Nigeria between 1960 and 1984, using a simplified version of Chenery and Strout two-gap model. As regards FDI. They concluded that the greater the inflow of FDI the better the economic performance of the economy. However, the study revealed that foreign borrowing is negatively associated with economic performance although they inferred from the findings of the study that foreign debts have potential of being "engine growth" for LDC if the loans are efficiently managed.

Research Methodology

A descriptive research design was used in this study. The target population of this study comprises of data obtainable from CBN 1996 and 2012 bulletin, However, a sample size of 25 years FDI inflows and outflows was determined. This study is expected to produce qualitative data. This technique gives simple summaries about the sample data and present quantitative descriptions in a manageable form, Gupta (2004). Together with simple graphics analysis, descriptive statistics form the basis of virtually every quantitative analysis to data, Kothari (2004).

Table 1: Foreign Investment Flows through existing Enterprises (n Millions)

<i>Year</i>	<i>Total Inflow</i>	<i>Total Outflow</i>	<i>Inflow in Real Terms</i>	<i>Outflow in Real Terms</i>	<i>Inflows as proportion of GDP</i>	<i>Inflow as Proportion of Capital Form</i>	<i>Outflow as proportion of Capital Form</i>	<i>Outflow as proportion of GDP</i>
1970	251	129.4	10.8	5.6	4.4	28.4	14.7	2.3
1971	489.6	170	20.6	7.2	6.8	38.2	13.3	2.4
1972	432.8	184.5	17.9	7.6	5.5	30.9	13.3	2.4
1973	557.8	385.2	12.3	8.2	5.2	22.1	13.2	3.4
1974	507.1	458.8	8.9	8.1	2.7	16	14.7	2.5
1975	757.4	282	16.7	6.2	3.5	13.7	14.5	1.3
1976	521.1	474.8	9.9	9	1.9	6.1	5.1	1.7
1977	717.3	519.7	13.2	9.6	2.2	7.2	5.5	1.6
1978	664.7	332.9	9	4.5	1.8	6.7	5.2	0.9
1979	704	414.1	8.2	4.8	1.6	7.3	3.4	1
1980	786.4	319.4	8.9	3.6	1.6	6.9	4.3	0.6
1981	584.9	447.1	7	5.4	1.2	5	2.8	0.9
1982	2,193.4	568.5	23.3	6	4.2	22.5	3.9	1.1
1983	1,673.6	1,116.9	17	11.3	2.9	22.4	5.8	2
1984	1,385.3	850.5	13.9	8.5	2.2	32.5	14.9	1.3
1985	1,423.5	1,093.8	12.2	9.4	2	27.8	20	1.5
1986	4,024	1,524.4	24.8	9.4	5.5	52	21.3	1.1
1987	5,110.8	4,430.8	19	16.5	4.7	53.2	19.7	4.1
1988	6,236.7	4,891.1	20.8	16.3	4.3	66.4	46.2	3.4
1989	1,692.7	5,132.1	3.9	12	0.8	9.2	52.1	2.3
POST-SAP ERA (2005-2010) (\$ Billions)								
2005	4.08	1.1	0.2	0.4	0.1	0.5	0.9	0.8
2006	5.01	1.1	0.23	0.2	0.9	0.2	0.9	0.2
2007	6.03	2.2	0.6	0.8	0.7	0.2	0.9	0.2
2008	5.02	0.8	0.4	0.2	0.8	0.9	0.2	0.7
2009	3.31	1.22	0.2	0.4	0.9	0.2	0.7	0.4
2010	5.99	3.22	0.3	0.3	0.2	0.6	0.2	0.9

Source: Central Bank of Nigeria Statistical Bulletin 1996 and 2012.

Furthermore, Anyanwu (2011) focused on the economic determinants of FDI in Nigeria using co-integration techniques. His results reveal that domestic investment, change in GDP or domestic market size, openness of the economy, and indigenization policy explain Nigeria's FDI flows and represent significant long run and short run determinants of FDI. Important policy implications indicate that certain measures need to be adopted to increase domestic investment and economic growth. Uncontrolled trade liberalization must be avoided.

However, Oyinlola (2011)'s result opposed the use of FDI. He examined the contributions of foreign capital to the prosperity of poverty of LDC. Foreign capital, according to him, includes foreign loans, direct foreign investments and export earnings. Using Chenery and Strouts' two gap model, he concluded that FDI has a negative effect on economic development in Nigeria.

Implications of the Findings

The attempt to examine the impact of foreign direct investment on economic growth in Nigeria, the following key findings was realized based on empirical evidence:

1. Foreign direct investment contributed in a substantive way to the financial needs and economic growth of Nigeria. This implies that FDI has a major contribution to the Nigeria foreign capital and this has paved way for Government to generate revenue via tax (fiscal policy) and donations (corporate social responsibilities). This is evident from the study carried out by Oseghale et al (2018), They concluded that the greater the inflow of FDI the better the economic performance of the economy. However, the study revealed that foreign borrowing is negatively associated with economic performance although they inferred from the findings of the study that foreign debts have potential of being “engine growth” for LDC if the loans are efficiently managed.
2. The study also finds out that the cost of funds realized from FDI if properly managed and utilized is suited for a long term development. Thus, realizable funds if channeled to the appropriate budgets, there will be an accomplishment of development plan thereby leading to economy growth. This is evident from the study carried out by Aluko (2012), where he ascertained that foreign loans, revenue from FDI if utilized will stabilize Nigeria economy system and budgets.
3. The paper reveals that FDI inflows stabilize the Nigeria Economy as can be evident from 2005-2010 FDI inflow except that of 2009 when there was an economy uproar.

Conclusion

From the empirical evidence, we have been able to establish that foreign direct investment has a significant effect on Nigeria Economy System and its contributions cannot be over emphasized as it ranges from employment opportunities down to capital generations for the government. The paper also concluded that the funds realized from FDI if properly utilized has a significant effect on long term developmental goal. It is however worthy of notes that the post SAP era has caused a positive inflow to stabilize the economy. From the analysis of policies aimed at facilitating and fostering inflows examined, only the establishment of the Industrial Development Coordinating Committee as a one-step agency for facilitating FDI flow has a significant positive impact on FDI. Structural Adjustment Programme (SAP) has a negative effect on the inflow of FDI.

In conclusion, despite the fact that this paper has revealed a positive FDI-growth linkage, the effectiveness of FDI inflows can be improved if they are reapportioned in favour of productive activities such as investment and export at the expense of non-productive consumption and import.

Recommendations

The following are the policy suggested to improve FDI which in turn stimulates the Nigerian Economy:

1. Elimination of Foreign trade barriers should be encouraged by Nigerian Government. This implies that there should be an openness of FDI without strict policies that will hinder their performances.
2. Nigerian Government Should view FDI from the perspective of an investment center which can provide solutions to Unemployment, Infrastructural facilities, GDP/NI growth and increased in foreign reserves.
3. Therefore, to promote growth and development in the economy, government should give priority to policies that could promote FDI inflows into the country such as tax holidays, infrastructural development, consistent power supply and good security outlet to address the issues of Boko Haram and their random bombing in some part of the country, kidnapping and militancy. This will go a long way in creating Job opportunities for the unemployed youth band help in checkmating the high rate of poverty in the country thereby reducing the gap between rich and the poor.

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