

## **IMPACT OF FOREIGN DIRECT INVESTMENT, AID AND TRADE ON ECONOMIC GROWTH IN NIGERIA**

*Sikiru Jimoh Babalola*

Universiti Sains Malaysia & Modibbo Adama  
University of Technology, Nigeria

*Saidatulakmal Mohd*

Universiti Sains Malaysia

*Kizito Uyi Ehigiamusoe*

Universiti Sains Malaysia

*Hammed Onikola*

ALBA Graduate Business School, Greece

### **ABSTRACT**

The inflows of foreign direct investment, foreign aid and foreign trade have been on the increase in Nigeria in the past three decades. However, the relationship between these variables and economic growth has not been thoroughly explored in Nigeria. But theoretical literature posits that foreign direct investment, foreign aid and foreign trade have the capacities to accelerate economic growth. Hence, this paper examines the impact of foreign direct investment, foreign aid and foreign trade on economic growth in Nigeria. It also determines the short-run and long-run causal relationships between these variables and economic growth. It employs the Autoregressive Distributed Lag (ARDL) model-bounds test to examine the cointegration relationship as well as the short-run and long-run impacts. It also utilizes the Error Correction Model (ECM) procedure to investigate both the short-run and long-run causal relationships between the variables. It uses annual time series data covering the 1980-2015 period. Evidence from the study indicates that the variables are cointegrated. It also reveals that foreign direct investment, foreign aid and foreign trade have positive long-run impacts on economic growth in Nigeria. In the short-run, only foreign aid has positive impact on economic growth. The Granger causality results provide evidence of both short-run and long-run causality running from foreign aid and foreign trade to economic growth. We also show that short-run causality runs from foreign direct investment to economic growth. The possible channels through which these variables enhance economic growth include improvement in the stock of physical, human and institutional capital, technological and knowledge transfers, improved competitiveness and creation of jobs in the recipient country which are capable of boosting the productive capacity of the economy. The economic implication of this study is that foreign direct investment, foreign aid and foreign trade are important determinants of economic growth in Nigeria. Hence, an increase in these variables will boost the Nigerian economy. Therefore, to accelerate economic growth, the government should strengthen policies that are capable of accelerating foreign direct investment, foreign aid and foreign trade. Further opening-up of the economy and the promotion of greater cooperation with development partners will enhance economic growth in Nigeria.

**JEL Classifications:** C32, E22, F35, F43, O47

**Keywords:** Foreign Direct Investment, Foreign Aid, Foreign Trade, Economic Growth, Nigeria

**Corresponding Author's Email Address:** [sjbabalola@yahoo.com](mailto:sjbabalola@yahoo.com)