



Foreign Direct Investment, Corruption, and Economic Growth in Nigeria

¹JIMOH IBRAHIM; ²SUNDAY BENJAMIN SHIDO-IKWU; ³FALOLA SAHEED; ⁴AMEARAH
AKOLO AUDU

^{1,2,3}Department of Economics and Development Studies, Federal University of Kashere, Gombe State, Nigeria.

⁴Department of Economics, University of Jos, Nigeria.

jimokibrahim@gmail.com, +234 7032747043

Abstract

Nigeria's struggle to achieve sustainable economic expansion and advancement has been compounded due to the two challenges of inadequate Foreign Direct Investment (FDI) and entrenched corruption, which have eroded investor confidence, stifled economic progress, and perpetuated poverty and inequality. This paper investigates the impacts of foreign direct investment and corruption on economic growth in Nigeria, using annual data from 1996 to 2023. The Autoregressive Distributed Lag (ARDL) approach was employed to examine the long-run and short-run dynamics among the variables. The result showed that foreign direct investment has a positive and significant impact on economic growth while corruption has a negative long-term effect on economic growth. The short-run dynamics demonstrate that foreign direct investment has a positive and significant impact on economic growth while corruption and inflation have negative impacts on economic growth in Nigeria. The study recommends that the Nigerian government should promote FDI, implement effective anti-corruption measures, and control inflation to achieve sustainable economic growth.

Keywords: Corruption, Economic Growth, Foreign Direct Investment.

JEL Code: F21, F23, O40, O55, K42

1.0 Introduction

Numerous factors, including market development, technological expertise, cost advantages, resource accessibility, and the possibility of higher returns on investment, are expected to contribute to Nigeria's economic growth (Akinola & Ohonba, 2024; Shido-Ikwu et al., 2023). Many advantages are anticipated from the *FDI* inflow for both the investment companies and the host nation. The benefits that are anticipated from the *FDI* inflow for both the investment companies and the host nation include technology transfer, infrastructure development, and job possibilities. According to Arezki et al., (2021). *FDI* is a major driver of export growth and technological diffusion, creating beneficial spillover effects that support overall economic expansion.

Despite this, global *FDI* flows have decreased due to the economic recession and geopolitical tensions, *FDI* flows in Nigeria have fluctuated significantly, with an 11% decline to \$1.5 trillion in 2024 (UNCTAD, 2025). Notably, while *FDI* inflows into Nigeria decreased from \$1.873 billion in 2023 to \$1.080 billion in 2024, outflows of Nigerian investments overseas increased significantly from \$256 million in 2023 to \$408 million in 2024 (United Nations Conference on Trade and Development, 2025).

FDI is widely regarded by policymakers in both developing and developed nations as a crucial component of a successful development plan (Pallan et al., 2023). *FDI* is the amount of money that foreign investors significantly infuse into the economy of the host nation, measured in US dollars. *FDI* frequently helps the manufacturing sector because it provides access to infrastructure, skilled workers, and advantageous business conditions. Similar to this, *FDI* is

drawn to the services industries, which include banking, telecommunications, and hospitality, due to their potential for large returns on investment and market expansion (UNCTAD, 2020). Due to its role in domestic investment, job creation, and technology transfer, foreign direct investment is widely acknowledged as being important in fostering economic growth (World Bank, 2018). Nigeria's economy has demonstrated resiliency recently, as evidenced by the GDP growth rate of 3.46 per cent in the third quarter of 2024, which exceeded the growth rate of 2.54 per cent in the same period in 2023 (NBS, 2024). With a growth rate of 4.32 per cent and a contribution of 58.04 per cent to the GDP overall, the services sector was the primary engine of this expansion (NBS, 2024).

The industry and agricultural sectors, on the other hand, improved as well, expanding by 2.19 per cent and 0.18 per cent, respectively (National Bureau of Statistics [NBS], 2024). In light of this, FDI and corruption are two important elements influencing Nigeria's economic expansion. According to the World Bank (2020), corruption is defined as the misuse of public office for one's own gain. Mauro (1995) stated that this act has a negative impact on economic growth. More so, corruption skews the distribution of resources, undermines public confidence, and discourages entrepreneurship (Rose-Ackerman, 1999). Nigeria has had severe corruption, which has affected public service delivery, economic growth, and government (Transparency International, 2021). The country has also faced significant economic difficulties, such as high rates of poverty, inflation, and inadequate infrastructural development. Many studies have studied the effects of corruption on Nigeria's economic development and growth, specifically, Awolaja et al., (2024), Danlami, (2024), Oyekale & Awolaja, (2024), Nwachukwu & Wasurum, (2024) and Anam et al., (2024). Nigeria has a governance score of 3 on the Country Policy and Institutional Assessment (CPIA), which indicates serious governance deficiencies (CPIA, 2024).

The research topic is important because pervasive corruption and inadequate FDI have made it difficult for Nigeria to achieve sustainable economic growth and development. These issues have undermined investor confidence, slowed economic progress, and increased poverty and inequality (Akinola & Ohonba, 2024). Nigeria has the potential to draw significant FDI, but due to corruption and governance deficiencies, there have been fluctuations in FDI inflows and outflows. The primary objective of the study is to investigate the relationship among FDI, corruption, and economic growth in Nigeria, with an emphasis on identifying the important elements that support these linkages and guiding policy measures to address them. The rest of the paper is segmented into literature review, methodology, results and discussion, conclusion, and suggestions.

2.0 Literature Review

2.1 Conceptual Review

This section provides concise review of FDI, Corruption and Economic Growth

2.1.1 Foreign Direct Investment

FDI, as defined by the OECD (2023), refers to an investment made by an individual or entity in one country (the direct investor) into a different country (the host economy) that secures the investor at least a 10 percent stake in a company located in the host economy, providing significant authority over its management. This type of investment typically involves obtaining majority ownership, or at least 10 percent of voting shares or common stock, which allows the investor to influence key policies and operations of the foreign enterprise. The Corporate Finance Institute (2024) describes FDI as an investment made by an entity in one nation into a business or corporation in another to establish a continuing interest. Saurav & Kuo (2020)

contend that FDI has become the primary source of external financing for many developing nations. FDI is also a major driving force behind globalization (Adegboye et al., 2020). FDI constitutes a complicated economic activity with various dimensions (Wang et al., 2021). This involves equity capital—funds that a foreign investor injects into a business when acquiring shares or equity in a foreign firm. Such capital is crucial for initiating or expanding business ventures in other countries.

2.1.2 Corruption

Corruption is a societal issue present in various "degrees and manifestations in all but the most primitive societies," as noted by Staats (1972). Ekiyor (2005), in his comprehensive perspective on corruption, described it as the illegal exploitation of official authority or influence by a government official, either for personal gain, to advance his agenda, or to benefit another individual, all at the expense of the public, violating his oath of office and/or contravening existing regulations or laws. It is particularly unfortunate that this scourge does not recognize any specific time or era; it can occur at any point in a nation's history. Supporting this, Gould and Kolb (1964) argue that corruption is not limited to a specific period in political history or to any single country; it is prevalent in both authoritarian and party-based systems of governance. Moreover, as further evidence that the history of corruption is as ancient as the world itself, Scott (1972) asserts that corruption "should be viewed as a regular, repetitive, and integral aspect of the functioning of most political systems."

2.1.3 Economic Growth

According to the Reserve Bank of Australia (2024), economic growth refers to the upward trajectory of a nation's economy over time. This growth is typically represented as a monetary figure that signifies the aggregate of all products and services produced within the economy, known as GDP. GDP represents the market value of all final goods and services produced within a country during a specified time frame. Dragoi (2020) characterizes economic growth as an increase in the amount of goods and services both produced and consumed within a nation's economy over time. Growth can occur through various means, such as advancements in education, the introduction of cutting-edge technologies, or adding more value to products and services within each sector of the economy. Economic growth, along with its associated societal development, calls for a complex approach to task organization where numerous extensive and multifaceted agents must collaborate and specialize in labor (Wang, 2019).

2.2 Theoretical Framework

This study is underpinned by Dunning's (1988) eclectic theory of international production, which states that internalization benefits, ownership, and location are important factors in FDI decisions. The impact of corruption on economic growth is explained by the "grease the wheels" theory (Leff, 1964; Huntington, 1968), the theory argues that corruption increases transaction costs and uncertainty, which hinders economic growth (Mauro, 1995; Shleifer and Vishny, 1993). According to the "Corruption Tolerable Level of Investment" (CTLI) idea, at a certain point corruption encourages FDI and it becomes counterproductive (Dreher and Gassebner, 2013).

2.3 Empirical Review

Research has explored the effects of foreign direct investment (FDI) on economic growth in Nigeria. Solomon and Mailamba (2024) determined that agricultural FDI positively and significantly influenced GDP growth, with a 1% rise in agricultural FDI associated with a 0.051% increase in GDP growth. Eberechukwu et al. (2024) found that both trade openness

and FDI provided long-term and short-term advantages for economic growth. Additional research has analyzed the connection between FDI and economic growth in Nigeria. Chike and Okeke (2024) discovered that FDI greatly impacts overall and urban unemployment, while Chijioke (2024) noted that FDI and remittances significantly contribute positively to economic progress.

Investigations have also underscored the significance of governance and the control of corruption in fostering economic growth. Awolaja et al. (2024) identified a direct relationship between political stability, voice and accountability, and corruption control with actual gross domestic product. Yahyaoui (2023) stressed the importance of effective public policies to reduce corruption and create a conducive environment for foreign investment.

Some analyses have produced contrasting findings. Omake et al. (2019) reported a negative long-term connection between FDI and economic growth in Nigeria, while Jalil et al. (2016) found that FDI positively influences economic growth, whereas corruption and inflation exert negative effects.

A thorough grasp of the complex relationship between FDI, corruption, and economic growth in Nigeria is provided by the synthesized literature. The present gap in the existing body of literature on the relationship among FDI, corruption and economic growth in Nigeria, particularly with regard to the years 1996-2023 and the use of these variables [Real GDP (Constant 2015 US\$), FDI, net inflows (Bop, current US\$), Consumer price index (a proxy for inflation) and Corruption perception index (a proxy for Corruption)]. Majority of research has used inadequate measurements of inflation and corruption. By examining the impacts of foreign direct investment and corruption on economic growth in Nigeria for the year 1996 - 2023, using modified measures of inflation and corruption, this study seeks to close the gap

3.0 Methodology

In order to understand the connection among FDI, corruption, and economic growth in Nigeria, this study used a quantitative research design. The analysis made use of yearly data from the World Bank's World Development Indicators and Transparency International for the years 1996 through 2023. The variables include Real GDP (Constant 2015 US\$), FDI, net inflows (Bop, current US\$), Consumer price index (a proxy for inflation) and Corruption perception index (a proxy for Corruption). The Autoregressive Distributed Lag (ARDL) approach, which was proposed by Pesaran and Shin (1995, 1999) and expanded upon by Pesaran et al., (2001), was the data analysis method employed to test for the existence of a relationship (cointegration). This approach is more effective in cases where the sample size is small than other approaches, such as the procedures developed by Engle and Granger (1987), Johansen (1988), and Johansen and Juselius (1990). The ARDL bounds F testing also has the flexibility to be used in situations where not all of the analysis's variables are integrated in mixed order [1(0), 1(1)], or a combination of both. According to Pesaran et al. (2001); Acaravci & Ozturk, (2012), the order of the variables must be at most one in order for the integration order to be valid.

3.1 Model Specification

The study uses an empirical growth model, similar to that used by Omake and Okwori (2019) to examine the relationship among economic growth, FDI, and openness to trade, exchange rate inflation and interest rate. The model developed by Omake and Okwori (2019) is as follow:

$$GDPCG_t = \beta_0 + \beta_1 FDI_t + \beta_2 TOPT_t + \beta_3 INF_t + \beta_4 INT_t + \varepsilon_t \dots \dots \dots (1)$$

The following is the updated model which was modified to include corruption and real GDP instead of GDP per capita growth:

$$RGDP_t = f(FDI_t, COR_t, INF_t) \dots \dots \dots (2)$$

Equation (2) shows that economic growth is the function of foreign direct investment, corruption and inflation

The above equation (2) can be transformed into a regression function and to a logged regression model as given below:

$$RGDP_t = \alpha_0 + \beta_1 FDI_t + \beta_2 COR_t + \beta_3 INF_t + \epsilon_t \dots \dots \dots (2)$$

$$\ln RGDP_t = \alpha_0 + \beta_1 \ln FDI_t + \beta_2 COR_t + \beta_3 INF_t + \epsilon_t \dots \dots \dots (3)$$

Where: RGDP =Economic Growth, FDI =Foreign Direct Investment, COR= Corruption, INF = Inflation, ϵ_t = stochastic error term. β_1 , β_2 and β_3 , are the coefficients of the explanatory variables. Every variable was transformed to log as extracted.

Pesarani (2001) model of ARDL is as follows for equation (3):

$$\begin{aligned} \Delta \ln RGDP C_t &= \alpha_0 + \sum_{i=1}^p \beta_1 \Delta \ln RGDP C_t + \sum_{i=1}^p \beta_2 \Delta \ln FDI_t + \sum_{i=1}^p \beta_3 \Delta COR_t - 1 \\ &+ \sum_{i=1}^p \beta_4 \Delta INF_t - 1 + \lambda_1 \ln RGDP C_t - 1 + \lambda_2 \ln FDI_t - 1 + \lambda_3 COR_t - 1 \\ &+ \lambda_4 INF_t - 1 + \epsilon_t \dots \dots \dots (4) \end{aligned}$$

The long-term relationship among the variables is shown by the range of values from λ_1 to λ_4 to the right, while the short-term relationship is shown by the range of values from β_1 and β_4 with the summation signs. The drift constant is represented by α_0 . and the disturbance term is represented by μ_t when looking at the other side of the equation. $H_0: \lambda_1 = \lambda_2 = \lambda_3 = \lambda_4 = 0$ denotes the equation (4) null hypothesis. This implies that there are no long-term partnerships at all. The alternative hypothesis is represented by $H_1: \lambda_1 \neq 0, \lambda_2 \neq 0, \lambda_3 \neq 0, \text{ and } \lambda_4 \neq 0$.

In order to avoid size bias, this study uses the critical values of fewer samples obtained from Narayan (2005) for bound testing. The no co-integration null hypothesis will be rejected if the F-calculated value is greater than the upper value, regardless of its degree of stationarity, that is, I(0) or I(1). The short-run dynamics and error correction model are represented below.

$$\begin{aligned} \Delta \ln RGDP C_i &= \beta_0 + \sum_{i=1}^p \beta_1 \delta_i \Delta \ln RGDP C_{t-1} + \sum_{i=1}^p \beta_2 \phi_i \Delta \ln FDI_{t-1} \\ &+ \sum_{i=1}^p \beta_3 \omega_i \Delta COR_{t-1} + \sum_{i=1}^p \beta_4 \lambda_i \Delta INF_{t-1} + \alpha ECM_{t-1} + Ut (5) \end{aligned}$$

After the model's short-run anomaly, the ECM assesses the equilibrium recovery rate over the long term (Onisanwa et al., 2018). According to Narayan (2005), the error correction model's coefficient must be both negative and less than zero for the system to eventually reach equilibrium.

4.0 Results and Discussion

4.1 Descriptive Statistics

The descriptive statistics shows the mean, median, maximum, minimum, standard deviation, skewness, kurtosis, jarque-bera, probability, sum and sum square deviation of the dependent variable.

Table 1: Descriptive Statistics Result

Measurement	RGDP	FDI	INF	COR
Mean	3.59E+11	3.38E+09	141.0213	21.46071
Median	3.72E+11	2.40E+09	93.95989	24.00000
Maximum	5.51E+11	8.84E+09	524.9054	28.00000
Minimum	1.61E+11	-1.87E+08	21.74804	6.900000
Std. Dev.	1.37E+11	2.67E+09	130.8861	5.849555
Skewness	-0.146015	0.657526	1.390999	-0.923692
Kurtosis	1.483507	2.290675	4.239965	2.776218
Jarque-Bera	2.782538	2.604585	10.82320	4.040058
Probability	0.248759	0.271908	0.004464	0.132652
Sum	1.00E+13	9.46E+10	3948.597	600.9000
Sum Sq. Dev.	5.05E+23	1.92E+20	462541.7	923.8668
Observations	28	28	28	28

Source: Authors' Computation using Eviews

Table 1 above the detail distribution of variables, RGDP has a mean of \$3.59 trillion and a median of \$3.72 trillion, indicating a slightly skewed distribution with considerable variability. FDI exhibits a mean of \$3.38 billion and a median of \$2.40 billion, suggesting a skewed distribution with substantial variability. Inflation rates are highly variable and skewed, with a mean of 141.02 and a median of 93.96. Corruption shows a mean of 21.46 and a median of 24.00, indicating moderate variability and a slightly skewed distribution. The Jarque-Bera results show for each variable provide insights into the normality of their distributions. RGDP, FDI, and corruption are approximately normally distributed, while inflation shows significant deviations due to high skewness and kurtosis, indicating the presence of extreme values in the dataset.

4.2 Unit Root Test Result

The ARDL Bound test by Pesaran et al. (2001) was used in the study to ascertain the link among the variables. But first, the degree of stationarity of the variables needed to be tested before moving further with the ARDL analysis. The variables must all be stationary at I (0) or I (1) and none at I (2) in order for the ARDL model to work. In order to do this, the study used the Augmented Dickey-Fuller (ADF) unit root test to determine whether the data series was stationary. All variables are non-stationary at their levels, I (0), according to the ADF test

results, which are shown in Table 2. This suggests the existence of unit roots. All variables, however, become stationary when the first difference, or I (1), is taken, signifying that they are integrated of order 1. This suggests that since these variables satisfy the condition of being stationary at either I (0) or I (1), the ARDL model can be used with them.

Table 2: Results of the Unit Root Test

Variable Trend	Constant	Const. & Trend
Levels I (0)		
LRGDP	0.2367	0.9976
LFDI	0.3183	0.7631
INF	0.9987	0.9304
COR	0.0000***	0.0866
First Difference 1(1)		
LRGDP	0.1108*	0.1253*
LFDI	0.0001***	0.0002***
INF	0.1892*	0.2436
COR	0.1855 *	0.1115*

(*) Significant at 10%; (**) Significant at 5 %; (***) significant at 1% and (no) Not Significant, lag length based on SIC and probability on MacKinnon's (1996) one-sided p-valued.

Source: Authors' Computation using Eviews

From the ADF results, COR was determined to be stationary at 5% and 1% when taking into account constant, whereas RGDP, FDI and INF were found not stationary at level for all tests. After correcting for the initial difference, all of the series were determined to be stationary for all tests, as shown in the second panel of table 2. None of the data series is I (2), however the data series are stationary at I (0) and I (1). Thus, the rationale behind employing the ARDL model.

4.3 ARDL Bounds Test

The ARDL Bounds Test was employed to estimate the presence of long-run cointegration among the variables. The test results, presented in Table 3, show the existence of a long-run equilibrium relationship among economic growth, foreign direct investment, inflation, and corruption.

Table 3: Bounds Test for Co-integration Result

F Statistics			
LRGDP = F (LFDI, LINF, LCOR)			8.4643
			(n=30, k=3)
Narayan (2005)	Critical Value	Lower Bound I (0)	Upper Bound I (1)
	1%	5.333	7.063
	5%	3.71	5.018
	10%	3.008	4.15

Critical values of Narayan (2005) were used.

Source: Authors' Computation using Eviews

At the 1% significance level, the F-Statistic (8.4643) surpasses the Upper Bound critical value (7.063), hence rejecting the null hypothesis that there is no cointegration. Furthermore, at the 5% and 10% significance levels, the F-Statistic exceeds the Upper Bound critical values, offering compelling proof of long-term cointegration among the variables. This result demonstrates that the ARDL model is a valid tool for determining the connections among inflation, foreign direct investment, economic growth, and corruption in Nigeria.

4.4 ARDL Long-run Estimate

The long-run coefficient estimates, presented in Table 4, reveal the relationships among foreign direct investment (FDI), corruption (COR), inflation (INF), and economic growth (RGDP).

Table 4: ARDL Long-run Result

Dependent variable: GDP			
Independent variable	Coefficient	t-ratio	probability
C	17.1748	4.4778	0.0065
LFDI	0.1664	11.0766	0.0001
INF	0.4932	15.1644	0.0000
COR	-0.4378	-4.1373	0.0090

Source: Authors' Computation using Eviews

The results indicate a positive and statistically significant relationship between foreign direct investment and economic growth with this positive relationship, the variable indicates that on average, the higher the FDI, the higher the economic growth (RGDP), ceteris paribus. While the results of corruption shows a negative and statistically significant relationship with economic growth; revealing that a 1% increase in corruption is associated with a 0.4378% decrease in economic growth, this indicates that on average, the higher corruption, the lower the economic growth, ceteris paribus. The findings are in line with studies (such as Eberechukwu et al. (2024); Chijioke (2024)); Danlami (2024)) whose outcomes suggest that FDI has impacted on economic growth and corruption affects economic growth in Nigeria. In contrast, the relationship between inflation and economic growth is positive and statistically significant, with a 1% increase in inflation leading to a 0.49% increase in RGDP in the long run.

4.5 ECM Short-run Estimate

The short-run coefficient estimates, presented in Table 5, reveal the relationships among foreign direct investment (D(FDI)), inflation (D(INF)), corruption (D(COR)), and economic growth (D(RGDP)).

Table 5: ECM Short-run Result

Dependent variable: D (GDP)			
Independent variable	coefficient	t-ratio	probability
C	17.1748	4.4778	0.0065
D (LFDI)	0.1283	5.3368	0.0031
D (LINF)	-0.2884	-3.2134	0.0236
D (LCOR)	-0.0909	-2.0430	0.0965
CointEg (-1)*	-0.7716	-7.3601	0.0007

Source: Authors' Computation

The results indicate a positive and statistically significant relationship between foreign direct investment and economic growth, with a 1% increase in FDI leading to a 0.1283% increase in RGDP in the short run. In contrast, the relationship among corruption, inflation and economic growth is negative and statistically significant, with a 1% increase in COR and INF leading to a 0.2884% and -0.0909 decrease in RGDP respectively in the short runs. One of the important outcomes of this short-run result, is the error correction term coefficient, CointEg (-1) which has the correct sign and as well as significant at 5 percent. In this case, CointEg (-1) is -0.7716, indicating that the disequilibria of the previous year's shock will return to the long-run equilibrium in the current year at the speed of 77.16 %.

4.6 Diagnostics Tests

Table 6: Diagnostics Tests Results

Test Statistics	Chi-square/LM Test	Probability Value
Serial Correlation	0.6257	0.1000
Normality	0.5115	0.7743
Heteroscedasticity	0.6208	0.5923
Ramsey RESET Test	1.2958	0.2984

Source: Authors' Computation using Eviews

The diagnostic test results, presented in Table 6, indicate the Lagrange multiplier test of residual serial correlation suggests that there is no significant serial correlation in the residuals, with a probability value of 0.1000. The test of normality based on skewness and kurtosis indicates that the residuals are normally distributed, with a probability value of 0.7743. The test of heteroscedasticity based on squared residuals and squared fitted values suggest that there is no significant heteroscedasticity in the residuals, with a probability value of 0.5923.

5. Conclusion and Recommendations

This paper sheds light on the connections among FDI, inflation, corruption, and Nigeria's economic growth. Empirical evidence indicates that FDI has a positive and significant impact on economic growth while corruption has a negative long-term effect on economic growth. The short-run dynamics demonstrate that FDI has a positive and significant impact on economic growth while corruption and inflation have a negative effect on economic growth in Nigeria. These results emphasize how critical it is to encourage foreign direct investment and combat corruption in order to achieve sustained economic progress in Nigeria. The study suggests that the Federal government of Nigerian should critically promote FDI by implementing policies that enhance the business environment and lower uncertainty, implement efficient anti-corruption measures to reduce impact of corruption on individuals and enterprises. For instance, monetary policies that support price stability and limit inflation.

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