

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Fiscal Policy and Foreign Direct Investment in Nigeria

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Abstract:

The study analyzed the effect of fiscal policy on foreign direct investment as well as the impact of Foreign Direct Investment on economic growth in Nigeria over the period of 1981-2017. The main type of data used in this study is secondary; sourced from various publications of Central Bank of Nigeria, such as; Statistical Bulletin and Annual Reports. The regression analysis of the co-integration is the estimation technique that is being employed in this study to determine the relationship between and impact of the fiscal policy on Foreign Direct Investment as well as the impact of Foreign Direct Investment on economic growth.

The findings revealed that corporate income tax as fiscal indicators has a positive effect on foreign direct investment and government expenditure as a fiscal indicator has a negative effect on foreign direct investment. It also revealed that foreign direct investment have a significant impact on economic growth, it is further revealed that corporate income tax and interest rate and exchange rate have a negative and significant relationship on economic growth. Government expenditure and inflation have a positive and significant relationship impact on economic growth. This implies that foreign direct investment is an engine of economic growth.

The paper recommended that the government should ensure a strict fiscal policy discipline and also government need to demonstrate high level of commitment to selectively choosing investors so as to favor the economy and not investor's selfish interest as this will promote economic growth. The project work is further recommended for further study.

Keywords: Direct Investment, Fiscal Policy, Government expenditure, exchange rate

1. Introduction

Foreign direct investment have been seen to affect growth but there is need even to know the effect of fiscal policy on FDI towards sustaining the growth of the Nigerian economy. Foreign direct investment is an investment made to run for a long period of time in a business enterprise operating in a country other than that of the investor. This type of investment involves not only a transfer of funds but also a whole package of physical, techniques of production, managerial and marketing expertise, products, advertising and business practices for the maximization of global profits. 'Foreign direct investment is an international investment within the balance of payment accounts. Essentially, a resident entity in one economy seeks to obtain a lasting interest in an enterprise resident in another country. A lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and an investor's significant influence on the management of the enterprise. A direct investment enterprise is one in which a direct investor owns 10% or more of the ordinary shares or voting rights (for an incorporated enterprise) or the equivalent for an unincorporated enterprise', Eurosat (2013). Foreign direct investment is a way of filling the gap between domestic available supplies of saving, government revenue, human capital skills and the desired level of resources needed to achieve growth and development targets.

Every country finds ways to improve its economy either through internal strategies or allowing external forces come to play. For a country to seek external approaches for enhancements, economic emancipation, and general improvements in its finances and economy, it is known as foreign investment. Many African countries including Nigeria have reformed their economic policy, investment laws and financial system, in order to provide a conducive environment for private investment (African Economic Outlook, 2006). Foreign direct investment has increased drastically in the past twenty years and it has become the generally accepted type of flow of capital across borders in both developed, underdeveloped and developing countries. Nigeria is in the forefront of African countries who depend fully on imported goods and services.

Foreign Direct Investment serves as a major catalyst for economic growth in a country [as it solves the problems of shortages of financial resources, technology, and skills. The most strategic factor influencing economic growth in any country is investment. The underdeveloped nature of the Nigerian economy that essentially hindered the pace of her economic development necessitated the need for FDI on the country. Aremu (1997). It has been asserted that FDI has emerged as the most important source of external resource flow to developing countries over the years and this has formed a huge part in apical formation of those countries. The host countries must not only have the natural and human resources that investors need and look for, they must understand the nature of the investment they are trying to attract

their economies as that investment could reduce the waste of resources. The host countries then have to be dynamic in their policies.

The fiscal policy is also a very important policy in an economy of a country. The fiscal policy of a country is most likely to influence FDI decisions such as aggregate demand, disposable income and economic activities, etc. The government over the years has embarked on various macroeconomic policy options to grow the economy in terms of economic growth and development and the policy employed is that of fiscal policy and in a bid to manipulate the economy and regulate the level of spending, the government makes use of fiscal policies. In order to attract FDI and more generally, encouraging investment-developing countries and economies in transition to enhance their location assets, which means investing in health care, infrastructures, power and transport etc. (United Nations. 2004). The two main instruments of fiscal policy are government taxation and government expenditure and they both affect FDI. It can also be seen as government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and governments spending. Since the fall of oil price in the 1980s, fiscal policies have had little or no effectiveness on Nigerian economic growth and development.

1.1. Statement of Problem

Foreign direct investment is a very important tool that drives the growth of an economy, because it has a long run effect. Fiscal policies are that which have been put in place by the host countries which in turn affect FDI decisions. A flexible fiscal policy structure can have impact on the movement of man, money and materials to invest in host country anywhere in the world. Again, several stakeholders believe that a flexible fiscal policy would encourage investment from abroad thus helping the host nation to curtail the tide of unemployment stimulate economic growth.

Analysts however, have some reservations in this proposition as some host countries implement fiscal policy resulting in high tax rates coupled with poor infrastructure. The situation becomes unchanged where insecurity and political disruption becloud other considerations. Some of these policies even when flexible have not been implemented effectively due to bribery of the government agencies and this affects investors negatively.

The highlights above become serious obstruction to compete for FDI and a drawback to economic growth. This forms the gap which necessitates this research. The study deems it quite timely and apt to empirically substantiate the impact of fiscal policy on foreign direct investment and economic growth.

The FDI flows have steadily declined in recent times, and it is seen that this emanated from fiscal instruments. To therefore achieve a sustainable output growth of the economy, a study on the specific categories of fiscal instruments on FDI and the channels through which the effects take place would be worked upon in the Nigerian economy. There have been studies done on the relationship between foreign direct investments and economic growth of the Nigerian economy, but little or no studies have shown the relationship between fiscal policy and foreign direct investment and how it affects economic growth.

1.2. Research Questions

- What is the effect and nature of relationship between foreign direct investment and fiscal policy?
- What is the effect and nature of relationship between foreign direct investment and economy growth?

1.3. Study Objectives

- Examine the effect and nature of relationship between foreign direct investment and fiscal policy;
- Examine the effect and nature of relationship between foreign direct investment and economic growth.

1.4. Research Hypotheses

- i. Ho: There is no significant effect and relationship between fiscal policy and foreign direct investment.
- ii. Ho: There is no significant effect and relationship between foreign direct investment and economic growth.

1.5. Conceptual Review

Foreign direct investment is basically when an investor has a company in a host country and it is competing with local companies. Foreign direct investment (FDI) is a major component of foreign investment. Portfolio investment is a collection of investments a corporation has in various business establishments. FDI is generally investment made to acquire lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being an effective voice in the management or control of an enterprise (IMF, 1977).

According to Ayanwale (2007), FDI is an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor defined according to residency. Foreign direct investments includes mergers and acquisition and new investment, asides these it also comprise of reinvested earnings and loans and there are capital transfers between the parent company and their affiliates. Olopoenia (1985) observed that foreign investment could be seen as an additional factor of production and as a supplement to the national savings effort of the capital importing country. This is meant to ease the foreign exchange and savings constraint on the growth rate of output in the host country.

According to Agada and Okpe (2012), FDI is an attempt by individuals, groups, companies and government of a nation to move resources of productive purpose across its country to another country with the anticipation of earning some surplus. It is believed that some factors that spurs foreign direct investments are natural resources, new market areas and efficiency seeking factors amongst the host of others. This investment involves not only a transfer of funds but

also a whole package of physical, techniques of production, managerial and marketing expertise, products, advertising and business practices for the maximization of global profits.

Foreign direct investment is described as investment made to acquire a lasting interest (usually at voting stock) and acquiring at least 10% of equity share in an enterprise operating in a country other than the home country of investors (Mwilima 2003). According to World Trade Organization New (WTON, 2001) foreign direct investment occurs when an investor based in one country, home country, acquire an asset in another country the host country with the intent to manage the asset. The United Nations defined FDI as investment in enterprise located in one country but effectively control by residents of another country. This definition not only considers foreign direct investment from an investment point of view, but also defines the status of corporate control.

1.5.1. Fiscal Policy

Fiscal policy has been defined as the planning of revenue and expenditure levels and pattern by government to influence the circular flow, or specifically to promote full employment production, price stability and national welfare (Fashola, 2001; Akanni and Osinowo, 2013). Governments directly and indirectly influence the way resources are used in the economy. Fiscal policy that increases aggregate demand directly through an increase in government spending is typically called expansionary or 'loose.' By contrast, fiscal policy is often considered contractionary or 'tight' if it reduces demand via lower spending (Horton and El-Ganainy, 2009; Akanni and Osinowo, 2013).

Government expenditure can provide an impulse for sector output growth, while on the other hand; it can be harmful if it results in budget deficits and leads to competition for scarce financial resources from the banking sector as the government seeks to finance the deficit (Ezeoha and Chibuike, 2005; Osinowo, 2015). The main instruments of fiscal policy are: federal government expenditure, Agriculture, Mining, Manufacturing, Building and Construction, Wholesale and Retail Trade, and Services sector, amongst others, in the economy.

1.5.2. Tax as a Fiscal Policy

According to Azubike (2009), tax is a major player in every society of the world. The tax system is an opportunity for government to collect additional revenue needed in discharging its pressing obligations. A tax system offers itself as one of the most effective means of mobilizing a nation's internal resources and it lends itself to creating an environment conducive to the promotion of foreign direct investment and economic growth P. Dotun (1996). Anyanwu (2007) defined taxation as the compulsory transfer or payment (or occasionally of goods and services) from private individuals, institutions or groups to the government. The main purpose of tax is to raise revenue to meet government expenditure and to redistribute wealth and management of the economy (Bhartia, 2009).

The Chartered Institute of Taxation of Nigeria (2002) view tax as an enforced contribution of money, enacted pursuant to legislative authority. Investors often emphasize the relative importance of the tax system in investment decision if compared with other considerations such as political and economic stability, availability of social infrastructure, security of life and property and the general cost of doing business and so on (Sanni, 2002). To the prospective investors, the general feature of tax system (tax base rate etc.) is more important than tax incentives. In many developing countries, the tax laws are not clearly written and may be subject to frequent review. This makes long time planning difficult for business and adds to the perceived risks of undertaking major capital intensive projects (Dotun, 2006).

1.5.3. Public Debt as a Tool of Fiscal Policy

Government debt contrast to the annual government budget deficit, which is a flow of variables that equals the difference between government receipt and spending in a single year (Bureau of public debt, 2010). According to Kimberly (2018), Public debt is how much a country owes to lenders outside of itself. This can include individual, businesses and even other government. The debt is a stock variable, measured at a specific point in time, and it's the accumulation of all prior deficit.

Public debt can be classified into different types such as long-term debt when the debt is expected to last for a longer period of time and short-term debt if debt is designed to last for one or two years only. Public debt is also group into external debt and domestic debt. External debt refers to any financial resources which government organization are using that are borrowed from the foreign countries other than the country own resource. External debt is also known as any kind of business funding you acquire from sources outside the country. Whether it is borrowing from Bank, investments from private individuals or investment firms, it has merit and demerit, therefore anyone who wants to borrow from international institutions should consider the advantages and disadvantages associated with it before set out to secure the fund. Domestic Debt is defined as debt that government borrowed within the country, it involves the same currency.

1.6. Public Expenditure as a tool of fiscal

Anyafa (1996) describes expenditure as an actual payment or the creation of an obligation to make a future payment for some benefit, items or service. Hale (1994) defines expenditure as payment, or promise of future payment and the obligation incurred thereunder, for goods and services delivered. Public expenditures were usually broadly categorized into recurrent and capital expenditures. The former, according to Lacey (1989), corresponded to government's purchase of current goods and services (labour, consumables, wages and salaries, etc.), while the latter would ideally include not merely investments in infrastructure (roads, schools, hospitals, etc.) but also all other expenditures that might contribute to development. In other words, while the recurrent expenditure refers to financial

outlays necessary for the day-to-day running of government businesses, the capital expenditure refers to investment outlets that increase the assets of the state.

1.7. Theoretical Review

Economic theories suggest that an increase in government expenditure on socio-economic and physical infrastructures encourages economic growth. For example, government expenditure on health and education raises the productivity of labour and increase the growth of national output. Similarly, expenditure on infrastructures such as roads, communications, power, etc., reduces production costs, increases private sector investment and profitability of firms, thus fostering economic growth (Osinowo, 2015). Expansion of government expenditure contributes positively to economic growth (Abdullah, 2000; Al-Yousif, 2000; Osinowo, 2015). However, increasing government expenditure promotes economic growth, but rather agreed that higher government expenditure may slowdown overall performance of the economy (Abu and Abdullahi, 2010; Osinowo, 2015).

1.8. Keynesian Theory on Fiscal Policy

In the simple Keynesian System contains the most extreme assumptions, monetary policy is not effective as a result of extreme assumptions. That means, even if money supply is increased this rise would not change the interest rate. As opposed due to the fact that monetary policy is ineffective, fiscal policy will be fully effective. In case of a rise in the government expenditures or a decrease in taxes, the effects are reflected completely on real income, and real income also rises due to the multiplier coefficient. Interest rate does not change, even if it does, and that change will not have an effect on the real income to fall. Also an important role in the efficiency of fiscal policy is as follows: if government expenditures are raised sufficiently or when taxes decrease sufficiently, full employment equilibrium will be reached sooner or later. Keynesian see the fiscal policy to be more effective than the monetary policy and the fiscal policy in Generalized Keynesian System would cause interest to increase and this would lead to a fall in private investments.

Keynesian theory highlights the potential of fiscal policy as a tool for reducing fluctuations in the economy, Keynesians argues that rather than balancing the budget annually they believe counter-cyclical policy should be used to offset fluctuations. This implies that government should plan budget deficits when the economy is weak. When the economy is operating below its potential output, the Keynesian economic model suggests that fiscal policy should be expansionary, that is increase in government purchases of goods and services or reduction in taxes and they suggest that when inflation is a potential problem,, Keynesian analysis suggests that fiscal policy should be more restrictive that is by reducing government spending or increase in tax.

Keynesian school of thought believes that aggregate demand is influenced by a host of economic decisions both public and private. The public decisions include more prominently those on monetary and fiscal policy. Keynes believes that fiscal policy affects aggregate demand. According to Keynes's theory of fiscal policy, an injection of government spending eventually leads to added business activity and even more spending. The broad objectives of Keynesian macroeconomic policy are not in dispute, these objectives are full employment, a stable price level, the absence of significant deviations of output from its equilibrium time path, a satisfactory rate of economic growth, an equitable distribution of income, and balance of payment equilibrium. Keynesian theory posits that removing spending from the economy will reduces level of aggregate demand and stabilizing prices

1.9. Savers-Spenders Theory

Savers-Spenders theory of fiscal policy was propounded by Mankiw (2000) is the new theory developed to explain the behavioral of fiscal policy in the economy. It was seen that new model needs a particular sort of heterogeneity. It should include both low-wealth households who fail to have smooth consumption overtime and high-wealth households who have smooth consumption not only from year to year but also from generation to generation. Some of the prepositions to this theory is that temporary tax changes have large effects on the demand for goods and services. Another preposition by Mankiw is that government debt need not crowd out capital in the long run. That is, if taxes are lump-sum, then the government debt does not influence the steady-state capital stock. Another preposition by the savers spenders' theory is that government debt increases steady-state inequality. A higher level of debt means a higher level of taxation to pay for the interest payments on the debts. The taxes talks on both spenders and savers, but the interest payments go entirely to the savers

1.10. Empirical Review on Foreign Direct Investment

Onu (2012) investigates the impact of foreign direct investment (FDI) on Economic Growth in Nigeria within the period 1986-2007. The paper employed multiple regression models to determine the impact of some external or macro variables on the gross domestic product (GDP) proxy for economic growth in Nigeria. The study found that FDI has the potential to positively impact upon the economy though its contribution to GDP was very low within the period under review. The multiple regression results also revealed that FDI, government tax revenue (GTR) and savings exerted positive but not significant impact, except savings, on GDP during the study period. However, foreign exchange and public expenditure on education (PEE) had inverse relationship with GDP. The study concluded that FDI induces the inflow of capital, technical know-how and managerial capacity which can stimulate domestic investment and accelerate the pace of economic growth.

Jerome and Ogunkola (2004) assessed the magnitude, direction and prospects of FDI in Nigeria. They noted that while the FDI regime in Nigeria was generally improving, some serious deficiencies remain. These deficiencies are mainly in the area of the corporate environment (such as corporate law, bankruptcy, labour law, etc.) and institutional

uncertainty, as well as the rule of law. The establishment and the activities of the Economic and Financial Crimes Commission, the Independent Corrupt Practices Commission, and the Nigerian Investment Promotion Commission are efforts to improve the corporate environment and uphold the rule of law.

Olokoyo, (2012) examined the effects of Foreign Direct Investment (FDI) on the development of Nigerian economy. The paper tried to answer the question: what are the FDI determinants in Nigeria and how do they affect the Nigerian economy? The study employed the use of Ordinary Least Square (OLS) regression technique to test the time series data from 1970 – 2007. The Cochrane-Orcutt iterative method was also used to correct for autocorrelation. The model used hypothesizes that there is a functional relationship between the economy development of Nigeria using the real gross domestic product (RGDP) and Foreign Direct Investment. The regression analysis results evidently do not provide much support for the view of a robust link between FDI and economic growth in Nigeria as suggested by extant previous literatures. Though the result does not imply that FDI is unimportant, the model analysis reduces the confidence in the belief that FDI has exerted an independent growth effect in Nigeria.

Otepolo (2002) also examined the importance of direct foreign investment in Nigeria. The study empirically examined the impact of FDI on growth. He concluded that FDI contributes significantly to growth especially through exports.

1.11. Empirical Review on Fiscal Policy

Phillips (1997) examined Nigeria's fiscal policy, 1998–2010 with a view to suggesting workable ways for the effective implementation of Vision 2010. He observes that budget deficits have been an abiding feature in Nigeria for decades. He notes that expect for the period 1971 to 1974, and 1979, there has been an overall deficit in the federal Government budgets each year since 1960 to date. The chronic budget deficits and their financing largely by borrowing, he asserts, have resulted in excessive money supply, worsened inflationary pressures, and complicated macroeconomic instability, resulting in negative impact on external balance, investment, employment and growth. He, however, contends that fiscal policy will be an effective tool for moving Nigeria towards the desired state in 2010 only if it is substantially cured of the chronic budget deficit syndrome it has suffered for decades (Osinowo, 2015).

Peter and Simeon (2011) investigated the impact of fiscal policy variables on Nigeria's economic growth between 1970 and 2009. The study employed Vector Auto Regression (VAR) and error correction mechanism techniques. The study revealed that there exist a long-run equilibrium relationship between economic growth and fiscal policy variables in Nigeria. Consequently, it was recommended that government should formulate and implement viable fiscal policy options that will stabilize the economy. This could be achieved through the practice of true fiscal federalism and the decentralization of the various levels of government in Nigeria (Osinowo, 2015).

Ogbole, Sonny and Isaac (2011) examined fiscal policy and its impact on economic growth in Nigeria. Secondary data used was sourced mainly from the Central Bank of Nigeria (CBN). Comparative analysis of the impact of fiscal policy on economic growth in Nigeria during regulation and deregulation periods was conducted as well as econometric analysis of time series data from Central Bank of Nigeria.

Sikiru and Umaru (2012) investigated the impact of fiscal policy on economic growth in Nigeria. Annual data covering 1977–2009 were utilized. Unit roots of the series were examined using the Augmented Dickey-Fuller technique after which the co-integration test was conducted using the Engle-Granger Approach. Error-correction models were estimated to take care of short-run dynamics. The study found that productive expenditure positively impacted on economic growth during the period of coverage and a long-run relationship exists between them as confirmed by the co-integration test and recommended the improvement in government expenditure on health, education and economic services, as components of productive expenditure, to boost economic growth (Osinowo, 2015).

2. Methodology

2.1. Theoretical Framework

This study adopted the profit maximization model developed by Jorgensen (1963) as its framework; Jorgensen's theory of investment behavior was based on the neoclassical theory of optimal accumulation of capital and reviewed by Jorgensen and Hall (1967) in their theories of investment behavior and optimum capital accumulation respectively. This model is considered the most useful in estimating the effects of taxation and investment incentives on foreign direct investment (Shah Zahir, 2003).

In his study of FDI in developing countries, Lucas (1993) also adopted Jorgensen's profit maximization model and the generalized Cobb-Douglas production function to evaluate the responsiveness of Foreign Direct Investment to production cost in selected Asian countries. A major motivational objective of a firm is the maximization of profit, with profit defined as the difference between current revenue and current outlay less the rental value of capital (Jorgenson & Hall, 1967). Embedded in this model is the assumption that a multinational-firm is able to maximize profit through product differentiation across plants and capital is exogenous. This assumption helps distinguish FDI, which is profit oriented and is not controlled by the host government from foreign aid, which is the assistance the governments of high-income countries provide poor countries in the form of food aid, technical assistance, and financing for construction projects (Beyond Economic Growth (BEG), 2004).

Starting with Jorgensen's functional-form premise that the demand for capital depends on price of capital goods, output, and cost of capital (represented with this equation):

$$K_t = f(P_t, Q_t, C_t) \dots \dots \dots (2.3.1)$$

Where:

K_t = the demand for capital stock at time t

P_t = price of capital goods at time t

Q_t = output at time t

C_t = cost of capital at time t , (and using here the exact phrase and equation Lucas used 1993), a profit maximizing firm will choose output in each host country (h) to satisfy:

$\text{Max } \sum_h p_h(q_h) q_h - c_h(q_h) q_h$	(2.3.2)
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Where;

q_h = Output in country h

p_h = Price of country's product h

c_h = Total production cost in h

Lucas expanded c_h in the profit maximization equation above by taking into account the expenses (z); wages, miscellaneous expenses, including political cost, etc. that can generally be associated with production.

The equation then becomes;

$$K_t = f(P_t, Q_t, Z_t, C_t) \dots \dots \dots (2.3.3)$$

Where;

Z_t = a range of expenses as noted above allocable to production in time t .

Since it is assumed that invested capital comes from outside the host country h , it is reasonable to assume that the firm also produces output mainly for export (export oriented market). The assumptions here point to FDI as the outside capital to distinguish from foreign aid, which is not profit oriented. The firm's production function becomes:

$$\text{FDI}_{ht} = f(P_{ht}, Q_{ht}, Z_{ht}, C_{ht}) \quad (2.3.4)$$

Where:

FDI_{ht} = Total FDI in country h in time t

P_{ht} = Price of product in country h in time t

Q_{ht} = Quantity of product in country h in time t

Z_{ht} = Production expenses in country h in time t

C_{ht} = Cost of capital in country h in time t .

As indicated in 2.3.3 and 2.3.4, foreign direct investment becomes a function of price of goods produced, the output of the firm, production expenses associated with this output, and the cost of capital, which are mainly interest and taxes.

By applying equation 2.3.4 using the selected independent variables determining FDI such as; Company income tax (CIT), Government Expenditure (TGE), Inflation Rate (INF), Interest Rate (INT), Exchange rate and Gross Domestic product (GDP). The model then become as follows;

$$\text{FDI} = f(\text{CIT}, \text{TGE}, \text{INF}, \text{INT}, \text{EXR})$$

2.2. Method of Data Analysis

The study examines the impact of public debt on economic growth of Nigeria, the trend of public debt in Nigeria and also the relationship that exist between the variables. In order to achieve this purpose, the study makes use of descriptive statistics (graph) and econometrics techniques. In explaining the first objective, descriptive statistics (graph) will be used to show the trend. While econometric techniques will be used to analyse the other objectives. Time series data covering a period of 36 years will be estimated using Vector Error Correction Model (VECM) approach to be computed by Eviews 10 which is an improvement on the classical ordinary least square technique (OLS). The following techniques of estimation are also employed in carrying out the Vector Auto Regressive Model (VECM) analysis:

2.3. Unit Root Test

It is used to determine the order of integration of a variable that is how many times it has to be differenced to become stationary. It is to check for the presences of a unit root in the variable i.e. whether the variable is stationary or not. The null hypothesis is that there is no unit root. This test is carried out using the Augmented Dickey Fuller (ADF) technique of estimation. The rule is that if the ADF test statistic is greater than the 5 percent critical value we reject the null hypothesis, that is, the variable is stationary but if the ADF test statistic is less than the 5 percent critical value, that is, the variable is non-stationary, hence, we go ahead to difference in order to induce stationarity. If the variable does not become stationary at first difference, we difference twice. The specification of ADF test is given as follows;

$$Y_t = \alpha + \beta_t + \rho Y_{t-1} + \sum \delta \Delta Y_{t-1} + \mu_t \dots \dots \dots (3.4)$$

Where Y_t is the level of the variable under consideration, t denotes time trend and μ_t is error term assumed to be normally and randomly distributed with zero mean and constant variance. The optimal lag length would be chosen on the basis of Akaike Information Criterion (AIC).

2.3.1. Co-integration

After the test for the order of integration, the next step is to test for co-integration. This test is used to check if long run relationship exists among the variables in the model. This will be carried out using the Johansen technique.

2.3.2. Vector Error Correction Model

The Vector Error Correction Model (VECM) shows the speed of adjustment from short-run to long run equilibrium. The a priori expectation is that the VECM coefficient must be negative and significant for errors to be corrected in the long run. The higher the VECM, the more the speed of adjustment.

2.4. Granger Causality Test

This is used to check for the direction of causality between two variables. The study aim is to test for a causal relationship between public debt and economic growth of Nigeria using Granger causality test. The rule states that if the probability value is between 0 and 0.05 there is a causal relationship. This technique will help to investigate so as to achieve the direction of causality objective of this study.

$$y_t = \alpha_1 + \sum_{i=1}^n \beta ixt - i + \sum_{i=1}^m \gamma iyt - i + e_{1t} \dots\dots\dots (3.7)$$

$$x_t = \alpha_2 + \sum_{i=1}^n \delta ixt - i + \sum_{i=1}^m \rho iyt - i + e_{2t} \dots\dots\dots (3.8)$$

2.5. Nature and Source of Data

The study would employ secondary data to be obtained from the Central Bank Statistical Bulletin and annual report. Secondary data has been regarded as data that are obtained from the already existing facts which might have been collected from some other sources.

Variables	Description	Measurement	Source
RGDP	Real gross domestic product	In billion Naira	Central Bank Statistical Bulletin 2018
CIT	Corporate income tax	% of GDP	Central Bank Statistical Bulletin 2018
INF	Inflation rate	Annual %	Central Bank Statistical Bulletin 2018
INT	Interest rate	Annual %	Central Bank Statistical Bulletin 2018
FDI	Foreign direct investment	% of GDP	Central Bank Statistical Bulletin 2018
EXCR	Exchange rate	Annual %	Central Bank Statistical Bulletin 2018
TGE	Total Government expenditure	% of GDP	Central Bank Statistical Bulletin 2018

Table 1: Data Measurement
Source: Author's Computation (2019)

3. Results and Discussion

3.1. Nature of Relationship between Foreign Direct Investment and Fiscal Policy in Nigeria

This section explain the second objective of the study and to achieve this, the study employs some pre-test of the series such as unit root test and Johansen co-integration test will be used to determine if co-integrating equation exist in the model. The Augmented Dickey-Fuller (ADF) statistic was employed to test for the existence of unit roots in the data. To determine the nature of relationship between foreign direct investment and fiscal policy, the Johansen co-integration test will be used to check for the long run relationship.

Variable	Variable at level form		Variable at first difference		Order of integration
	ADF Statistics	5% Critical value	ADF Statistics	5% Critical Value	
EXC	2.238121	-2.945842	-3.303320*	-2.948404	I(1)
INT	-2.304474	-2.945842	-5.094704*	-2.948404	I(1)
INF	-2.292347	-2.945842	-5.136866*	-2.948404	I(1)
LOGTGE	-1.232221	-2.945842	-7.213459*	-2.948404	I(1)
LOGCIT	-0.825708	-2.945842	-9.447886*	-2.948404	I(1)
LOGFDI	0.468994	-2.945842	-5.254512*	-2.948404	I(1)
LOGRGDP	0.032145	-2.945842	-3.339751*	-2.948404	I(1)

Table 2: Result of Unit Root Test

The test result indicated that the time series variables foreign direct investment (LOGFDI), real gross domestic product (LOGRGDP), company income tax (LOGCIT), government expenditure (LOGTGE), inflation (INF), interest rate (INT) and exchange rate (EXC), were found not to be stationary at levels. After taking the first difference of the various data, the study found that they were all stationary. Table above only shows the point where all variables employed in the study were stationary. We can therefore conclude that all the variables are stationary at first difference; hence, we reject the null

hypothesis 'no stationary'. This indicates that those incorporated series in the dynamic regression model have no unit-root or are stationary at first difference and this implies that these series in their first difference are mean reverting and convergences towards their long-run equilibrium.

Hypothesized No. of CE(s)	Eigen Value	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.850725	120.2612	69.81889	0.0000
At most 1 *	0.628437	57.49626	47.85613	0.0048
At most 2	0.392732	24.82506	29.79707	0.1678
At most 3	0.220849	8.365180	15.49471	0.4272
At most 4	0.003932	0.130026	3.841466	0.7184

Table 3: Test for Johansen Co-integration Using Trace Statistic
* indicates 5% level of Significance

Hypothesized No. of CE(s)	Eigen Value	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.850725	62.76489	33.87687	0.0000
At most 1 *	0.628437	32.67120	27.58434	0.0101
At most 2	0.392732	16.45988	21.13162	0.1991
At most 3	0.220849	8.235154	14.26460	0.3553
At most 4	0.003932	0.130026	3.841466	0.7184

Table 4: Test for Johansen Co-integration Using Max-Eigen Statistic
* indicates 5% level of Significance

Johansen co-integration test was used to test for the presence of co-integration between the series of the same order of integration. Johansen co-integration test for the series; LOGFDI and the explanatory variables; LOGCIT, LOGTGE, INF and EXC are summarized under table 2 and 3.

From table 2 above the result shows that the trace statistics reject the null hypothesis at 5% level of significance suggesting evidence of the presence of two co-integration vector. Johansen co-integration test shows this by comparing the trace statistics value with the critical value, a result is chosen at where the trace statistics is less than the corresponding critical value. Here it is clear that there is at most 2 co-integrating equation in the model with a trace statistics value of 57.49626 and critical values of 0.628437 at 5% level of significance. With this result, we reject the null hypothesis of no co-integration. This implies that there exists a long run relationship among variables LOGFDI, LOGCIT, LOGTGE, INF and EXC.

3.2. Effect of Fiscal Policies on Foreign Direct Investment in Nigeria

The Vector error correction model will help to determine the effect of fiscal policies on foreign direct investment. Also the vector error correction will help to determine the speed of adjustment of any disequilibrium in the model.

The result of co-integration test reveals that there is a long run relationship among the variables from the trace test result. This means that we can estimate VECM. VECM is designed for use with stationary series that are known to be co-integrated. The VECM has no co-integration relations built into the specification so that it restrict the long run behavior and endogenous variable to converge to their co-integrating relationships while allowing for short run adjustment dynamics. The use of methodology of co-integration and VECM add more quality, flexibility and versatility to the econometric modeling of dynamic systems and the integration of short run dynamics with the long run equilibrium. The results are of the co-integrating relationship amongst the variable within the VECM framework are presented in table below;

Variables	Coefficient	Standard Error	T- statistics
C	-12.33576		
LOGCIT (-1)	-0.066158	0.27386	-0.24157
LOGTGE (-1)	0.013688	0.27186	0.05035
INF (-1)	0.011860	0.00694	1.70991
EXC (-1)	-0.020346	0.00499	-4.08052**

Table 5: Long Run Co-integrating Equation for (VECM) Result
** indicates 5% level of Significance

The above table shows that corporate income tax (LOGCIT) has a negative and non-significant impact on foreign direct investment in Nigeria at $p < 0.05$ i.e. a one percent increase in corporate income tax will induce -0.066158 per cent decrease in foreign direct investment. This implies that if government increase corporate income tax it will reduce foreign direct investment in the economy.

Government expenditure has a positive and non-significant impact on foreign direct investment in Nigeria at $p < 0.05$ i.e. a 1 per cent increase in government expenditure will induce 0.013688 percent increase in foreign direct investment. This implies that if government increase her spending it will reduce the foreign direct investment of the economy.

Inflation rate (INF) has a positive and non-significant impact on foreign direct investment in Nigeria at $p < 0.05$ i.e. a unit increase in inflation rate will induce 1.1860 percent increase in foreign direct investment.

Exchange rate (EXC) has a negative and significant impact on economic growth in Nigeria at $p < 0.05$ i.e. a 1 unit increase in exchange rate will induce 2.0346 percent decrease in foreign direct investment. This implies that increase in exchange rate will lead to a decrease in the foreign direct investment.

Variable	Coefficient	Standard Error	T- Statistics
C	-0.299787	0.14023	-2.13784**
D(CIT) _{t-1}	-0.108739	0.12086	-0.89970
D(LOGTGE) _{t-1}	2.171872	0.49504	4.38725**
D(INF) _{t-1}	0.016062	0.00402	3.99537**
D(EXC) _{t-1}	-0.019791	0.00588	-3.36683**
ECM _{t-1}	-0.401436	0.11970	-3.35356**
R-squared	0.746104		
Adj R- squared	0.619156		
F-statistic	5.877238		

Table 6: Short Run Dynamic Vector Error Correction Result

** indicates 5% level of Significance

The table above shows the relationship between the variables in the short run to determine the impact of the fiscal policy on foreign direct investment in Nigeria. The lagged error correction foreign direct investment is negatively signed and significant.

Corporate income tax (LOGCIT) in the previous year has a positive and non-significant impact on foreign direct investment in the current year at $p < 0.05$ i.e. a percentage increase in corporate income tax in the previous year would induce -0.108739 percent increase in foreign direct investment.

Government expenditure (LOGTGE) in the previous year has a positive and significant impact on foreign direct investment in the current year at $p < 0.05$ i.e. a percentage government expenditure in the previous year would induce 2.171872 increase in Foreign direct investment.

Inflation (INF) in the previous year has a positive and significant impact on foreign direct investment in the current year at $p < 0.05$ i.e. a unit increase in inflation in the previous year would induce 1.6062 percent increase in foreign direct investment.

Exchange rate (EXC) in the previous year has a negative and non-significant impact on foreign direct investment in the current year at $p < 0.05$ i.e. a unit increase in exchange rate in the previous year would induce 1.9791 percent decrease in foreign direct investment.

3.3. Nature of Relationship between Foreign Direct Investment and Economic Growth in Nigeria

To determine the nature of relationship between foreign direct investment and economic growth, the Johansen co-integration test will be used to check for the long run relationship and the Vector error correction model will help to determine the effect of foreign direct investment on economic growth. Also the vector error correction will help to determine the speed of adjustment of any disequilibrium in the model.

Hypothesized No. of CE(s)	Eigen Value	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.900788	260.1487	125.6154	0.0000
At most 1 *	0.854621	181.5918	95.75366	0.0000
At most 2 *	0.815633	116.0258	69.81889	0.0000
At most 3 *	0.625705	58.53766	47.85613	0.0036
At most 4	0.361488	25.12550	29.79707	0.1570
At most 5	0.225352	9.872607	15.49471	0.2907
At most 6	0.034418	1.190841	3.841466	0.2752

Table 7: Test for Johansen Co-integration Using Trace Statistic

Hypothesized No. of CE(s)	Eigen Value	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.900788	78.55692	46.23142	0.0000
At most 1 *	0.854621	65.56601	40.07757	0.0000
At most 2 *	0.815633	57.48815	33.87687	0.0000
At most 3 *	0.625705	33.41216	27.58434	0.0079
At most 4	0.361488	15.25289	21.13162	0.2716
At most 5	0.225352	8.681766	14.26460	0.3136
At most 6	0.034418	1.190841	3.841466	0.2752

Table 8: Test for Johansen Co-integration Using Max-Eigen Statistic

From the table above the result shows that the trace statistics reject the null hypothesis at 5% level of significance suggesting evidence of the presence of four co-integration vector. Johansen co-integration test shows this by comparing the trace statistics value with the critical value, a result is chosen at where the trace statistics is less than the corresponding critical value. Here it is clear that there is at most four co-integrating equation in the model with a trace statistics value of 15.25289 and critical values of 21.13162 at 5% level of significance. With this result, we reject the null hypothesis of no co-integration. This implies that there exists a long run relationship among variables LOGRGDP, LOGFDI, LOGCIT, LOGTGE, INF and EXC.

3.4. Effect of Foreign Direct Investment on Economic Growth in Nigeria

The result of co-integration test reveals that there is a long run relationship among the variables from the trace test result. This means that we can estimate VECM. VECM is designed for use with stationary series that are known to be co-integrated. The VECM has no co-integration relations built into the specification so that it restrict the long run behavior and endogenous variable to converge to their co-integrating relationships while allowing for short run adjustment dynamics. The use of methodology of co-integration and VECM add more quality, flexibility and versatility to the econometric modeling of dynamic systems and the integration of short run dynamics with the long run equilibrium. The results are of the co-integrating relationship amongst the variable within the VECM framework are presented in table 4.4 below.

Variables	Coefficient	Standard Error	t- statistics
C	-6.914175		
LOGFDI(-1)	-0.045034	0.02533	-1.77772
LOGCIT (-1)	-0.336039	0.03533	-9.51043**
LOGTGE (-1)	0.226027	0.03028	7.46520**
INT(-1)	-0.032928	0.00415	-7.92631**
INF (-1)	0.007764	0.00103	7.56186**
EXC (-1)	-0.003665	0.00048	-7.66568**

Table 9: Long Run Co-integrating Equation for (VECM) Result

** indicates 5% level of Significance

The above table shows that foreign direct investment (LOGFDI) has a negative and non-significant impact on economic growth in Nigeria at $p < 0.05$ i.e. a one percent increase in foreign direct investment will induce -0.045034 per cent decrease in economic growth. This implies that if there is an increase in foreign direct investment it will reduce growth in the economy.

Corporate income tax has a negative and significant impact on economic growth in Nigeria at $p < 0.05$ i.e. a 1 per cent increase in corporate income tax will induce -0.336039 percent decrease in economic growth. This implies that if corporate income tax increases it will reduce the growth of the economy.

Government expenditure has a positive and significant impact on economic growth in Nigeria at $p < 0.05$ i.e. a 1 per cent increase in government expenditure will induce 0.226027 percent increase in economic growth. This implies that if government increase her spending there will be an increase the growth of the economy.

- Interest rate (INT) has a negative and significant impact on economic growth in Nigeria at $p < 0.05$ i.e. a unit increase in inflation rate will induce 3.2928 percent decrease in economic growth.
- Inflation rate (INF) has a positive and significant impact on economic growth in Nigeria at $p < 0.05$ i.e. a unit increase in inflation rate will induce 0.7764 increase in economic growth.
- Exchange rate (EXC) has a negative and significant impact on economic growth in Nigeria at $p < 0.05$ i.e. a 1 unit increase in exchange rate will induce 0.3665 percent decrease in economic growth. This implies that increase in exchange rate will lead to a decrease in the growth of the economy.

Variable	Coefficient	Standard Error	T- Statistics
C	0.072050	0.01861	3.87105**
D(LOGFDI) _{t-1}	0.007229	0.01573	0.45964
D(CIT) _{t-1}	-0.039358	0.02009	-1.95906
D(LOGTGE) _{t-1}	0.078319	0.03822	2.04905**
D(INT) _{t-1}	-0.002584	0.00299	-0.86467
D(INF) _{t-1}	0.001381	0.00044	3.15435**
D(EXC) _{t-1}	-0.001684	0.00059	-2.83278**
ECM _{t-1}	-0.214183	0.06596	-3.24741**
R-squared	0.710558		
Adj R- squared	0.469357		
F-statistic	2.945913		

Table 10: Short Run Dynamic Vector Error Correction Result

** indicates 5% level of Significance

The table above shows the relationship between the variables in the short run to determine the impact of the foreign direct investment on economic growth in Nigeria. The lagged error correction foreign direct investment is negatively signed and significant.

Foreign Direct investment (LOGFDI) in the previous year has a positive and non-significant impact on economic growth in the current year at $p < 0.05$ i.e. a percentage increase in foreign direct investment in the previous year would induce 0.007229 percent increase in economic growth.

Corporate income tax (LOGCIT) in the previous year has a negative and non-significant impact on economic growth in the current year at $p < 0.05$ i.e. a percentage increase in corporate income tax in the previous year would induce -0.039358 percent increase in economic growth.

Government expenditure (LOGTGE) in the previous year has a positive and significant impact on economic growth in the current year at $p < 0.05$ i.e. a percentage government expenditure in the previous year would induce 0.078319 percent increase in economic growth.

Interest rate (INT) in the previous year has a negative and non-significant impact on economic growth in the current year at $p < 0.05$ i.e. a unit increase in interest rate in the previous year would induce -0.2584 percent decrease in economic growth.

Inflation (INF) in the previous year has a positive and significant impact on economic growth in the current year at $p < 0.05$ i.e. a unit increase in inflation in the previous year would induce 0.1381 percent increase in economic growth.

Exchange rate (EXC) in the previous year has a negative and significant impact on economic growth in the current year at $p < 0.05$ i.e. a unit increase in exchange rate in the previous year would induce -0.1684 percent decrease in economic growth.

4. Conclusion and Recommendations

It is generally believed that fiscal policy is a tool that stimulates foreign direct investment. Foreign direct investment is often suggested as a means for developing countries to increase their long term growth rates. To increase foreign direct investments it is necessary to developing the host country's natural resources, there is also need to have a stable political and economic environment and improve on the critical infrastructure, level of security at all levels in the country, systems of governance should be is based on accountability, transparency, effective and efficient resource. Furthermore, government needs to liberalize the foreign sector in Nigeria so that all barriers to trade such as arbitrary tariffs; import and export duties and other levies should be reduced so as to encourage investors. In conclusion, foreign direct investment produced negative impact on economic growth and there exists a bi-directional causal relationship that exist between foreign direct investment and economic growth.

The following recommendations are given: Firstly, there should be focus placed in stabilizing the economy which should be pursued by Nigerian government. More so, regulators can undertake sustainability impact assessment and regulate microeconomic and local condition. This includes monitoring of benchmarks and business practice, voluntary guidelines, and transfer of environmentally sound technology. Regulation of investment is only as effective as a country's ability to enforce it.

Secondly, government should improve the investment climate for existing domestic and foreign investors through infrastructure development; the availability of power especially would go a long way because it would reduce the cost on alternative power supply. Provision of services and changes in the regulatory framework relaxing laws on profit repatriation will also encourage investors to increase their investments and also attract new investors. An improvement in the investment climate will also encourage Nigeria keep its wealth and reduce capital flight. Lastly, the government should ensure a strict fiscal policy discipline. Also government needs to demonstrate high level of commitment to policy consistency and implementation. This is the way forward to ensure a fiscal policy that would not only promote economic growth, but as well better or improve the standard of living of the general citizens.

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