Developing Country Studies
ISSN 2224-607X (Paper) ISSN 2225-0565 (Online)
Vol.5, No.17, 2015

FDI, Foreign Debts and Growth in Developing Countries: Evidence from Nigeria

Kudaisi, B.V Idharhi, K. F
Department of Economics, Adekunle Ajasin University, Akungba-Akoko, Ondo State, Nigeria

Abstract
As no government is an island of its own and as such it would require foreign aids in form of foreign investment and external debt so as to perform effectively and efficiently. Hence, the study examines the impact of foreign direct investment and external debt on the economic growth of Nigeria. It adopts the debt-cum-growth model of Oke and Sulaimon (2012) with a little modification of the model so as to accommodate the FDI data within the period covered by the study. The econometrics techniques of Augmented-Dickey Fuller unit root test, Johansen co-integration test and ECM were used to empirically analyse the model. The empirical result of the study shows that FDI and external debt have a statistically significant effect on the economic growth of Nigeria. The study recommend among other things that the government should be responsive enough to make the borrowed fund meant for capital project would not be diverted into private pockets so as to achieve optimal use of the fund. In addition, government must endeavour to crate an enabling environment for domestic investors to thrive.
Keywords: FDI, Foreign debt, growth, Nigeria

1.0. INTRODUCTION

At this stage of human civilization, no country is so disadvantage as to necessitate permanent damage on its citizen's standard of living. In our interdependent world, each society has its own natural resources, human traits, weather conditions, and other peculiar endowment which gives it relative advantage and can be exploited for the development of its people, and in a world where knowledge is global and learning is encouraged, modern techniques and technology are freely available for common use, and considering the fact that, no country is an island of it own, the need for foreign capital in form of foreign investment and foreign debt, particularly in the less developed countries like Nigeria can not be over emphasized. Taking a critical look at the meaning of the words 'debt' and 'investment', the word "debt" seem like a genetic plague that must be avoided with all sense of prudence and modesty, but some economics and financial pundits are quick to make recommendation for foreign debt, thereby pointing out why external debt must be allowed in developing country like Nigeria, without negating the importance of foreign investment to the developing economies. By definition, foreign or external debt refers to that portion of a country debt that was borrowed from foreign lender including commercial banks, governments and / or international financial institutions like the World Bank and the International Monetary Found (IMF) (Ajayi and Khan, 2000).

As it has been stated earlier that no government is an island of its own and as such it would require foreign aids in form of foreign investment and external debt so as to perform effectively and efficiently. The motive behind external debts is due to the fact that countries especially with sufficient internal financial resource call for foreign aids in the form of external debt and thus incur debts in the country. In most cases, such funds are not properly channelled into the development driven project. In corollary with this, Soludo (2003) also stated that countries borrow for two broad categories, macro-economic reason (higher investment, higher consumption i.e. education and health) or to finance transitory balance of payment deficit in order to lower nominal interest rate abroad, lack of domestic long term credit or to circumvent hard budget constraint. However, economy borrows to boost economic growth and reduce poverty, do not suffer from macro-economic instability or sizeable adverse shocks. As a result, growth is likely to increase and allow for timely debt payment. When the circle is maintained for a period, growth will affect per capital positively which is a pre requisite for poverty reduction. Again, another motive for external borrowing is as a result of the scarcity of resources and the law of comparative advantages. Due to this, countries depend on each other by borrowing to foster economic growth and development. The necessity for government to borrow in order to finance a deficit budget also led to the development of external debt. Thus, external debt becomes a method through which countries finance their deficit and carry out economic projects that are capable of increasing peoples' standard of living and promote sustainable economic growth and development.

On the other hand, foreign direct investment is also seen has a major economic growth and development driver. An agreed framework definition of foreign direct investment exists in literature. That is 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, (World Bank, 1996). Also according to the IMF and OECD definitions, it reflects the objective of obtaining a lasting interest by a resident entity in one economy, in an entity resident in an economy other than that of the investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises both incorporated and unincorporated.

Many continents and countries now see attraction of FDI as an important element in their strategy for economic growth and development. This is most probably because FDI is seen as an amalgamation of capital, technology, marketing and management. Economic and financial pundits too tend to favour the free flow of capital across national borders in order to seek the highest return to capital. It is against this backdrop that multi national companies seek investment in foreign countries with reasonable risk. Based on this, Nigeria like many other Sub-Sahara African countries now has to depend very much on foreign direct investment for so many reasons which include the fact that the inflow of a foreign capital may be significant in not only raising the productivity of a given amount of labour but also allowing a large labour force to be employed. The effort by several African countries like Nigeria to improve their business climate stems from the desire to attract foreign direct investment. In fact, one of the pillars on which the New Partnership for African Development (NEPAD) was launched is to increase available capital to 64 billion US Dollars through a combination of reforms, resources mobilization and a conducive environment for FDI (Funke and Nsouli, 2003).

Also, the need for foreign direct investment, especially in the third world countries is born out of the underdeveloped nature of these countries and the desire to be among the developed nations of the world. The underdeveloped nature of the less developed countries has substantially hindered the pace of their economic growth and development. Economic analysts argue that there are four basic requirements for economic development and they are investment capital, technical skills, enterprise and natural resources. Without these components, economic and social development of the country would be a process lasting for many years. The provision of the first three necessary components presents a huge problem for developing countries like Nigeria. This is because of the fact that there is low level of income that prevents savings, big enough to stimulate investment capital domestically or to finance training in modern techniques and technology. The only way out of this economic and social morass is through the acceleration of the economy by external sources of funds, that is, foreign investment, and technical expertise. Foreign direct investment is therefore suppose to serve as means of augmenting the domestic resources of developing countries like Nigeria, in order to carry out effectively and efficiently, their development programmes and raises the standard of living of their citizens.

Generally, the policies and strategies of the developing countries like Nigeria towards foreign investments are shaped by two principal objectives, which are the desire for economic independence and the demand for economic development. For instance, since the enthronement of democracy in 1999, the government of Nigeria has taken a number of measures necessary to woo foreign investors into Nigeria. These measures include the repeal of laws that are inimical to foreign investment growth, promulgation of investment laws, various overseas trips for image laundry by the President and other top government officials, among others. Despite these measures to attract foreign direct investment, Asiedu (2003) is of the opinion that the level of FDI attracted by Nigeria is mediocre compared with the resource base and potential need of the citizens. He argued that Nigeria as a country, given her natural resource base and large market size, qualifies to be a major recipient of foreign direct investment in Africa and indeed is one of the top three leading African countries that constantly received FDI in the past decade. The reason(s) for the little level of FDI attracted by Nigeria is due to the fact that the country is considered a high risk market for investment because of factors such as bad governance, unstable macro economic policies, insecurity like the recent Boko-Haram insurgence in the North etc.

From the fore going, it is a known fact that FDI is a major economic growth booster and development driver. But some economic pundits have shown through their studies that the impact of FDI on an economy is still ambiguous. According to Amna Tasneem and Babar Aziz (2011), the impact of FDI on the economy of the host country, as a whole, may be positive or negative. According to recent empirical studies, this depends on a number of factors like privatization and globalization of production, the degree of political stability the nature of government policies, trade and investment regime, openness of the host countries and size of the market. In a separate study, Okon *et al* (2010) opined that while the FDI growth linkage is still ambiguous, most macro economic studies nevertheless support the notion of a positive role of foreign direct investment within particular economic conditions. According to them, there are three main channels through which FDI can bring about economic growth. The first is through the release it affords from the binding constants of domestic savings. In this case, foreign direct investment augments domestic savings in the process of capital accumulation. Second, FDI is the main conduit through which technology spill over lead to an increase in factor productivity and efficiency in the utilization of resources which leads to growth. Third, FDI leads to increase in exports as a result of increased capacity and competitiveness in domestic production. This linkage is often said to depend on another factor, called "absorptive capacity", which includes the level of human capital development, type of trade regimes and degree of openness (Ajayi, 2006). In summary, the proposition of Okon *e tal*, in their study is that FDI facilitates economic growth on the one hand and on the other hand, economic growth attracts more foreign investment into Nigeria

1.1. STATEMENT OF PROBLEM
Comparisons have been made between foreign direct investment and external debt on the economic performance of developing countries like Nigeria. Economic and financial analysts are divided on which of the two economic variables impact a country positively and leave the country better- off. Is it the attraction of more FDI or accruing more external debts? The extents to which these two variables positively impact the economy have been the subject of several empirical investigations and studies. In Nigeria, successive government have adopted various policies to address both variable but there seem to be no end to the myriad of economic problems like unemployment, insecurity and the likes, which are facing this country (Nigeria). It can then, be concluded that economic policies formulated in the past were established or formulated to meet the conditionality of external bodies and the imperial powers that be. And as such, economic policies in Nigeria have never had the full-phased implementation required to drive the country to the promised land of prosperity.

The genesis of Nigeria's debt can be traced to 1958 when 28 million US dollar was contracted from the World Bank for the construction of railway. Between 1958 and 1977, the need for external debt was on the low side due to the discovery of oil and the consequent increase in global oil prices. However, due to the fall in oil price in 1978 which exerted a negative influential shock on government finances, it became necessary and pertinent to borrow to correct balance of payment difficulties and finance projects. The first major borrowing of 1 billion US dollar referred to as the "jumbo loan" was contrasted from the International Capital Market (ICM) in 1978 increasing the total to 2.2 billion US dollar. The spate of borrowing increased thereafter with the entry of the state government into external loan contractual obligation. According to the Debt Management Office (DMO), Nigeria external debt outstanding stood at ₦17.3 billion. In 1986, Nigeria had to adopt a World Bank and International Monetary Fund (IMF) sponsored Structural Adjustment Programme (SAP), with a view to revamping the economy, making the country better-able to service her debt (Ayadi and Ayadi, 2008).

Despite the enticing motive for external borrowing stated above, economic history and historiography in modern time have shown that developing countries are not better off, rather they are worse off economically. The decades of the 1950's and 1960's are often described as golden years for developing countries in most economic development literature because the rate of growth of these economies was not just high but was mostly internally generated. In those decades, the less developed countries (LDC'S) increase their investment with less reliance on external resources, and on the contrary, most of the growth in the 1970's was "debt- led" as the countries maintain persistent current account deficit and borrow heavily from the International Money and Capital Market to finance economic projects. According to the World Bank, the total external debt of the developing countries has increased from 411.4 billion US Dollar to 523.4 billion US Dollar over the period of 1990-2002 (World Development lndex, 2004). This creates a great hindrance in the economic growth of these countries due to high interest payments on the external debt, heavy public expenditures, and foreign exchange to repay the debts. Nigeria for instance external debts amounted to

In view of the foregoing and careful juxtaposing of the definitions of foreign investment and foreign debt, and the careful examination of these two economic variables thus far, one is tempted to ask the following questions. Does Nigeria perform better economically when more external debts are incurred or when more foreign direct investments are attracted? To what extent does the level of external debt and foreign investment significantly affect the economic growth and development of Nigeria, if any? These and more are the questions that this study is tailored towards finding answers to. The study seeks to thoroughly investigate empirically the consequential effect of Nigeria's external debt level and the volume of her foreign direct investment on her economy and arrive at a very clear and logical conclusion.

1.2. OBJECTIVE OF THE STUDY
The aim of the study is to empirically investigate and examine the effect of foreign direct investment and foreign debt on the economic performance of developing countries with a specific focus on the Nigerian economy.
Specifically the objectives of the study are;
1. To investigate the impact of external debt on the economic growth of Nigeria.
2. To investigate the impact of FDI on the economic growth of Nigeria.

1.3. SCOPE OF THE STUDY/PLAN OF THE STUDY
The study focuses majorly on the effect of FDI and foreign debt on the economic performance of Nigeria within the period of years 1970-2010. The rest of the work is formatted thus: section2 contains the literature review, while section three is the theoretical framework/methodology, model specification and interpretation of results and section in the summary, conclusion and policy implication of the study.

2.0 LITERATURE REVIEW
Nigeria, like most other developing countries has been classified by the World Bank among the severely indebted low income poorest countries of the world since 1992. The nation's inability to meet all her debt service

payment, coupled with the mediocre state of the FDI been attracted, constitutes one of the serious obstacles to the economic growth and development of the country. The accumulation of huge debt service arrears which is being compounded with penalty interest has not permitted reduction in the debt service arrears which is being compounded with penalty interest has not permitted reduction in the debt stock, despite the fact that government has been servicing its external debt annually, the mass movement of foreign expatriate companies out of Nigeria into neighbouring west Africa countries like Ghana, due to the epileptic power supply and high cost of production being experienced here in Nigeria, has not helped matters, thereby increasing the spate of unemployment in the country. Furthermore, the current situation of insecurity especially in the Northern part of the country is militating against the attraction of FDI, thereby hampering the economic growth and development of the country. Hence, in this section, efforts shall be made to review relevant theories and empirical literature on the topics in order to ascertain its relevance to the Nigeria situation.

2.1. REVIEW OF THEORIES

There are various theories that have been propounded by several scholars to explain the subject of foreign direct investment and external debt. One of such theories include the dual-gap theory which explained that development is a function of investment and that such investment which requires domestic saving is not sufficient to ensure that such development takes place. And in order to ensure this development, there must be the possibility of obtaining from abroad foreign loan i.e. the amount that can he invested in any country is identical with the amount that is saved. Furthermore, if the domestic resources are to be supplemented from abroad, such as excess of import over export (i.e. M>E)

$$I\text{-}S$$
$$M\text{-}E$$
$$\text{Hence, } I - S = M - E.$$

In national income accounting, an excess of investment over domestic saving is equivalent to an excess of import over export. The underlying basis of the dual gap theory is that the country requires saving, investment and good import to achieve a particular rate of growth. If the available domestic saving falls short of the level necessary to achieve the target rate of growth, a saving investment gap is said to exist on a similar note. Also, on the other hand, if the maximum import requirement needed to achieve the growth rate target is greater than the maximum possible level of export, then there is an export - import origin of the exchange gap.

On the other hand, theories of foreign investment include the production cycle theory developed by Vernon in 1966 which was used to explain certain types of foreign direct investment made by U.S. companies in Western Europe after the Second World War in the manufacturing industry. Vernon believes that there are four stages of production cycle: innovation, growth, maturity and decline. According to Vernon, in the first stage the U.S. trans-national companies create new innovative products for local consumption and export the surplus in order to serve the foreign markets. According to the theory of the production cycle, after the Second World War, Europe has increased demand for manufactured products like those produced in USA. Thus, American firms began to export, having the advantage of technology on international competitors.

If in the first stage of the production cycle, manufacturers have an advantage by possessing new technologies, as the product develops also the technology becomes known. Manufacturers will standardize the product, but there will be companies that will copy it. Thereby, European firms have started imitating American products that U.S. firms were exporting to these countries. US companies were forced to perform production activities on the local markets to maintain their market shares in those areas. This theory managed to explain certain types of investments in Europe made by U.S. companies between 1950-1970. Although there are areas where Americans have not possessed the technological advantage and foreign direct investments were made during that period.

Another theory of foreign investment is the eclectic theory. The eclectic theory developed by Professor Dunning is a mix of three different theories of direct foreign investments (OLI):

"O" stands for ownership advantages: This refer to intangible assets, which are, at least for a while exclusive possesses of the company and may be transferred within trans-national companies at low costs, leading either to higher incomes or reduced costs. But TNC's operations performed in different countries face some additional costs. Thereby to successfully enter a foreign market, a company must have certain characteristics that would triumph over operating costs on a foreign market. These advantages are the property competences or the specific benefits of the company. The firm has a monopoly over its own specific advantages and using them abroad leads to higher marginal profitability or lower marginal cost than other competitors. (Dunning 1973, 1980, 1988).

There are three types of specific advantages:

a. Monopoly advantages in the form of privileged access to markets through ownership of natural limited resources, patents, trademarks;
b. Technology, knowledge broadly defined so as to contain all forms of innovation activities

c. Economies of large size such as economies of learning, economies of scale and scope, greater access to financial capital;

"L" stands for location: When the first condition is fulfilled, it must be more advantageous for the company that owns them to use them itself rather than sell them or rent them to foreign firms. Location advantages of different countries are de key factors to determining who will become host countries for the activities of the trans-national corporations.

The specific advantages of each country can be divided into three categories

i. The economic benefits consist of quantitative and qualitative factors of production, costs of transport, telecommunications, market size etc.
ii. Political advantages: common and specific government policies that affect the flows
iii. Social advantages: includes distance between the home and home countries, cultural diversity, attitude towards strangers etc.

"I" stands for internalisation: Supposing the first two conditions are met it must be profitable for the company the use of these advantages, in collaboration with at least some factors outside the country of origin (Dunning, 1973, 1980, 1988). This third characteristic of the eclectic paradigm OLI offers a framework for assessing different ways in which the company will exploit its powers from the sale of goods and services to various agreements that might be signed between the companies. As cross-border market internalization benefits is higher the more the firm will want to engage in foreign production rather than offering this right under license, franchise. Eclectic paradigm OLI shows that OLI parameters are different from company to company and depend on context and reflect the economic, political and social characteristics of the host country. Therefore the objectives and strategies of the firms, the magnitude and pattern of production will depend on the challenges and opportunities offered by different types of countries.

According to the classical liberal theory, economic development is understood as economic growth and capital formation. According to this school of thought, economic growth is triggered by capital formation- This led to the emphasis on investment on large - scale infrastructural project and on foreign loans. Social theories emphasized the importance of human capital in the development and growth process of the nation. The key to economic growth, according to the social school of thought include education, health, and fertility. They shifted concerns from the overall rate of economic growth to consideration of poverty, inequality, urbanization, and other social ills.

2.2 REVIEWS OF EMPIRICAL LITERATURE

2.2.1 FOREIGN DEBT- GROWTH NEXUS IN NIGERIA

Empirical studies on external debt- economic growth relationship are numerous in the literature in both the developed and less developed countries. Theoretically, external debt is widely believed to enhance economic growth and development. That is the basic reason why the debt is usually borrowed in the first place. It is a commonsensical fact that both developed and less developed countries seek for external debt to boost their economic performance. Available statistics have shown that the United States of America is the biggest debtor country in the world but yet the country enjoyed a significant level of economic growth and development taken the global financial meltdown aside (Blakely and Leigh, 2009). Nigeria, on the other hand has been utilizing the external debt to the extent that the debt becomes so huge to water down substantial part of the country's revenue. Despite the increasing nature of the debt stock, until the recent decline due to debt cancellation and relief in 2002, the economic development of Nigeria is not encouraging especially looking at the economic development in terms of its basic component such as employment creation and poverty reduction (Ayadi, 2008).

Other studies on external debt revealed divergent view on the implication of external debt to the debtor country. Ajayi and Oke (2012) examined the effect of external debt on economic growth and development of Nigeria and inferred that external debt burden had an adverse effect on the nation income and per capital income of the nation. They argued further that high level of external debt led to devaluation of the national currency, increase in retrenchment of workers, continuous industrial strike, and poor educational system. This led to the economy of Nigeria getting depressed. Based on their finding, they suggested that debt service obligation should not be allowed to rise than foreign exchange earning and that the loan contracted should be invested in profitable venture which will generate a reasonable amount of money for debt repayment.

Abubakar (2010), carried out an empirical investigation on external debt and Nigerian economic development and concluded that external debt in Nigeria has made both positive and negative contribution to the economic development of the country during the period (2000-2009) covered by his study. He however, stressed that the Nigeria government should investigate the reasons behind the non-contribution of external debt to the GDP per capital of then country with a view to unveiling the bottlenecks and corrects them. In another study conducted by Sulaiman and Azeez (2012), the study investigated the effect of external debt in the economic growth of Nigeria and concluded in their finding from the error correction method that external debt has contributed positively to the Nigerian economy. The study went on to recommend that government should ensure economy and political stability, and external debt should be acquires largely for economic reasons rather than social or political reasons. Ogunmuyiwa (2011), in his study "Does external debt promote economic growth in Nigeria", revealed that causality does not exist between external debt and economic growth as causation between debt and growth was found to be weak and insignificant in Nigeria.

Audu (2004) studied the effect of external debt on economic growth and public investment in Nigeria. His study concluded that debt servicing pressure in Nigeria has had a significant adverse effect on the growth process of the country. He added that Nigeria frequently divert resources to take care of pressing debt service obligations instead of being allocated to the development of infrastructures that would improve the well being of the citizen. Osinubi and Olaleru (2006) examined how the rise of budget deficits as an instrument of stabilization leads to the accumulation of external debt with the attending effects on the economic growth in Nigeria between 1970-2003, and concluded that if debt financed budget deficit are operated in order to stabilized the debt ratio at the optimum sustainable level, debt over hang problem would be avoided and the benefits of external borrowing would be maximize.

Adepoju, Salau and Obayelu (2007) studied the effects of external debt management on sustainable economic growth and development in Nigeria. They concluded that, though debt is an important resource needed to support sustainable economic growth, a huge external debt without servicing as it is the case for Nigeria before year 2000 constituted a major impediment to the revitalization of her shattered economy as well as the alleviation of the debilitating poverty being experienced in the country. Their study concentrated on the management aspect of external debt. However, according to the study carried out by Ayadi and Ayadi (2008), external debt has a more positive impact on the South African economy than Nigeria. He concluded that external debt perform better in South Africa than Nigeria as it contributed positively to the growth of the south African economy. He however did not bring out the impact on the component of economic growth and neglected the long- run impact on the economic development.

Other studies that have tested the debt - economic growth relationship includes Fosu (1996) which examined the relationship between economic growth and external debt in Sub-Sahara African countries over the period 1970-1986 using the Ordinary Least Square method. The study examined the direct and indirect effect of debt hypothesis. Using a debt burden measure, the study reveals that direct effect of debt hypothesis shows that Gross Domestic Product (GDP) is negatively influenced in a diminishing marginal productivity of capital. The study also finds that on the average, a high debt country face about one percent reduction in GDP growth annually. In another study conducted by Fosu (1999), he employed an augmented production function to investigate the impact of external debt on the economic growth of Sub-Saharan African countries for the period of 1980-1990. The author tested whether external debt has negative effect on economic growth and the finding of the study shows that debt exhibits a negative co-efficient. Also in the same vein, Amoateng and Amoako-Ako (1996) investigated the relationship between external debt and economic growth for 35 African countries using the granger casualty test. The result shows that there is a unidirectional and positive casual relationship between debt service and economic growth.

In summary, countries experiencing fiscal deficit especially developing ones like Nigeria borrow to improve their economic growth. Government borrows in principle to finance public good that increased and maximizes welfare, and promoted economic growth (Ogunmuyiwa, 2011). Due to the fact that the domestic financial resources are inadequate, borrowing is acquired from foreign sources. The amount of fund provided by these foreign sources coupled with the concessional rate of interest constitutes the external debt of the nation. In Nigeria, external debt is sourced from multinational agencies, pairs club of creditors, London club of creditors, promissory note holders, and other creditors. In essence, external debt is one of the sources of financing capital formation in any country (Ayadi and Ayadi 2008). External debt is acquired to contribute meaningfully to the economy but the future debt services payment poses a threat to economic growth especially to the less developed countries like Nigeria due to numerous factors, as some researchers have highlighted.

2.2.2 FOREIGN DIRECT INVESTMENT (FDI) - GROWTH NEXUS IN NIGERIA.

There are preponderance of empirical studies on the FDI-growth nexus and the determinant of FDI in Nigeria. Some of the pioneering works include Aluko (1961), Brown (1962), and Obinna (1983). These authors separately reported that there is a positive linkage between FDI and economic growth in Nigeria. However, for the purpose of this, the empirical literature will focus on Nigeria authors.

In the work of Okon, Augustine and Chuku (2011), they investigated the endogenous effects of foreign direct investment on the economic growth in Nigeria between 1970-2008 and concluded that FDI and economic growth are jointly determined in Nigeria and there is positive feedback from FDI to growth and from growth to FDI. The overall policy implication of the result is that policies that attract more foreign direct investments to the economy, greater openness and increased private participation will need to be pursued and reinforced to ensure that the domestic economy captures greater spill over from FDI inflows and attains higher economic growth rates. In another study,

Odozi (1995) on his part placed special emphasis on the factors affecting foreign direct investment flows into Nigeria in both the pre and post SAP eras, and found that the macro economic policies of the pre-SAP era were highly discouraging to investors. The policy environment led to the proliferation and growth of parallel markets and sustained capital flight. Ariyo (1998) studied the investment trend and it impacts on Nigeria's economic growth over the years. He found that only private domestic investment consistently contributed to raising GDP growth rates during period considered 1970-1995. Furthermore there is no reliable evidence that all the investment variable evidence variables included in his analysis have any perceptible influence on the economic growth of Nigeria. He therefore suggested the need for an institutional re-arrangement that recognizes and protects the interest of major partners in the growth and development of the economy.

Examining the contributions of foreign capital to the prosperity or poverty of developing countries, Oyinlola (1995) conceptualized foreign capital to include foreign loans, direct foreign investments and exports earning. Using Chenery and Stouts two- gap model, he concluded that foreign direct investment has a negative effect on economic growth and development in Nigeria. On the basis of time series data, Adelegan (2000) explore the seemingly unrelated regression model to examine the impact of foreign direct investment (FDI) on the economic growth of Nigeria and found out that foreign direct investment (FDI) is pro-consumption and pro-import and negatively related to the gross domestic product of the nation. Akinlo (2004) on his part found that foreign capital has a small and not statistically significant effect on economic growth in Nigeria.

Much of other empirical works on foreign direct investment in Nigeria is centred on examination of its nature, determinants, and potentials. Anyanwu (1998) paid particular emphasis on the determinants of foreign direct investment inflows to Nigeria. He identified change in domestic investment, change in domestic output or market size, indigenization policy and change in openness of the economy as major determinants of foreign direct investment inflows into Nigeria and that efforts must be made to raise the nation's economic growth so as to be able to attract more foreign direct investment. Ayanwale (2007) investigated the empirical relationship between non- extractive foreign direct investment and economic growth in Nigeria and also examined the determinants of FDI inflows into the Nigeria economy. He used both the single equation and simultaneous equation models to examine the relationship; his results suggest that the determinants of FDI in Nigeria are market size, infrastructure development and stable economic policy. Openness to trade and human capital were found not be FDI inducing. Also, he found a positive link between FDI and growth in Nigeria.

Egbo, M. D. (2011), in his own study affirms that the empirical linkage between FDI and economic growth in Nigeria is yet unclear, despite the numerous studies that have examined the influence of FDI on Nigeria's economic growth with varying outcomes. He affirmed that the relationship between FDI and growth may be country and period specific. Asiedu (2001) submits that the determinants of FDI in one region may not be the same for other regions. In the same vein, the determinants of FDI in countries within a region may be different from one another and from period to another. The result of studies carried out on the linkage between FDI and economic growth in Nigeria are not unanimous in their submissions. Based on this, he asserted that a closer examination on these previous studies reveals that conscious efforts was not made to take care of the fact that more than 60% of the FDI inflow into Nigeria is made into the extractive oil industry. Hence these studies actually modeled the influence of natural resources on Nigeria's economic growth.

In summary, a common weakness that has been identified in most of these studies is that they failed to identify the fact that most of the FDI inflow to Nigeria has been concentrated on the extractive industry, that is, to oil and natural resources sector.

2.2.3. FDI-FOREIGN DEBTS-GROWTH NEXUS IN NIGERIA

There are some studies that seek to find the relationship that exist between foreign debt, investment and the economic growth of developing countries. Some studies examined the effect of external debt on economic growth and found one or more variable to be significantly and negatively correlated with investment or growth depending on the focus of the study. A study carried out by the International Monetary Fund (IMF) in 1989 on investment behaviour and environment found investment to be very low in heavily indebted countries and after analysing the different explanation in the decline in investment concluded that poor performance of investment in countries with debt servicing problem in the face of inadequate foreign earning or investment leads to severe import strangulation. Import strangulation holds back export growth, thus perpetuating import shortages. The debt overhang created by the debt situation further depresses the investment environment and behaviour of the nation.

Oke and Suleiman (2012) examine the level of external debt, investment, and economic growth in Nigeria during 1980-2008 by adopting a debt-cum-growth model along with the investment model. The result of their analysis indicates that, there exists a positive relationship between external debt, investment, and economic growth. The finding of the study further revealed that the current external debt ratio of GDP stimulates growth in the short term while investment, which is a measure of real and tangible development shows a decline. Ezirim *et al* (2006) examined the impacts of external debt burden and FDI remittances on economic growth of Nigeria during 1970-2001. The authors used granger causality procedure to test the causal relationship between external debt crisis and foreign investment crisis plaguing the country, Nigeria and also x-ray the relationship between these two variables and the GDP of the country. The results indicate the existence of dual causality between external debt and foreign investment burdens in the country.

Onah (1994), in his study, also opined that the debt burden can depress any form of investment, and economic growth through illiquidity and disincentive effects. The illiquidity effects result from the fact that there are only limited resources to be divided among consumption, investment and external transfers to service existing debt. He then concluded that disincentive arise because expectation of future burdens tend to discourage current investment. In the study conducted by lyoha (1997), he was of the opinion that heavy debt burden acts to reduce investment through both debt overhang and the crowding-out effect. From the above, relationship between debt, investment and growth stated or highlighted thus far, it can be inferred obviously that, it is not the acquisition of debt that is the major obstacle of economic growth, but the appropriate application of such funds coupled with the mediocre or meagre level of investment vis-à-vis poor investment behaviour. Debt service payment thus, reduces export earnings and other resources, and therefore, retards growth. The mechanism through which external debt affect economic growth is investment in capital project and investment behaviours are adversely affected by debt servicing too, especially in heavily indebted economy. In addition, unless the problem of mismanagement and private siphoning of the public investment are dealt with, there would be no how the borrowed funds can yield growth in country like Nigeria.

The major uniqueness of this study is that while most previous studies on the subject matter focuses on the effect of either external debt or foreign direct investment on economic growth, this study examine the impact of both on the economic growth of Nigeria and by so doing, attempt to compare and contract on both variable in order to know which is better for the economic growth and development of the country. After that, the study shall render concise and insightful conclusion and policy recommendation on which is better to improve the macro-economic environment proxy by the economic growth of the Nigeria economy.

3.0. THEORETICAL FRAMEWORK AND METHODOLOGY

3.1. THEORETICAL FRAMEWORK.

From the previous section analytical bird's eye-view of several theories of FDI and debt - investment - growth theories and for the purpose of this study, the classical, liberal and social theories are adopted because they recognise and incorporate human capital into their definition and measurement of economic growth and development. According to the Classicists, development can be achieved through capital formation i.e. investment in infrastructural project which can be aided by foreign private investment and/or foreign loan. The study then uses the index of foreign private investment and foreign debt to measure the economic growth of the nation as this can be used to measure both economic and human development.

3.2. Data and Methodology

This study empirically investigates the relationship between foreign investment, external debt and economic growth. The study covers the period from 1970- 2013. The reason behind the choice of the study period hinges on the mixed fortune of occurrence to the Nigeria economic-political environment within the said period. In order to find the impact or effect of foreign investment and external debt on the economic growth of Nigeria, the economic growth is proxy by the Gross Domestic Product (GDP) of the nation. However, the data employed in this study are mainly secondary data. The data have been obtained from relevant publications such as Central Bank of Nigeria, Debt Management Office, National Bureau of Statistics and the National Planning Commission. Other includes various journals.

Model Specification

For the purpose of this study, the debt-investment-growth model shall be adopted to analyze the impact of foreign investment and external debt on the economic growth of Nigeria. The model is specified thus,

GDP = F (FDI, ExtD)

Where:

GDP is used as a proxy of economic growth.

ExtD is the external debts of the country

The above function can be expressed in the econometrics form below;

$GDP = \beta_0 + \beta_1 FDI + \beta_2 ExtD + e$

Where β_0 = intercept of the relationship in the model

$\beta_{1} - \beta_2$ = co efficient of each exogenous variable.

e = error term

Stating the error correction model (ECM) from the above equation, the model becomes;

$\triangle LogGDP_{t-1} = \beta_0 + \beta_1 \pounds log\ FD1_{t-1} + | \beta_2 \pounds\ log\ ExtD_{t-1} + \pounds ECM_{t-1} + \pounds_t$

Where £ ECM = error correction term

t-1 = variable lagged by one period

The hypothesis for co- integration test is stated as follows,
Null hypothesis (H_O): $\beta_1 = \beta_2 = 0$ (no co-integration)
Alternative hypothesis (H_1): $\beta_1 \neq \beta_2 \neq 0$ (co-integration exist)

Estimation Techniques.
The methods of estimation of techniques include the Ordinary Least Square (OLS) method, Augmented Dickey - Fuller (ADF) Unit root test, Johansen Co-integration test, Error correction Method (ECM).

The estimation technique follows a three step modelling procedure,

1. The stationary of data must be established and the order of integration determined. This is done by employing the Augmented Dickey- Fuller (ADF) unit root test.
2. After establishing the stationary of data, Johansen co-integration test is applied. The co-integration test determines whether a long-run equilibrium relationship exist between the variables.
3. When variables are found to be co-integrated, ECM is developed which involves leading and lagging of the variables.

Discussion of Results
This section focuses on the discussion of empirical result obtains from the regression analysis. The regression analysis contain one model, which is explained in this earlier on with a test stationarity, unit root, co-integration to determine the long-run equilibrium level that exist between the dependent and independent variables in each of the model. The study examines the problem of serial correlation (Autocorrelation).

Test of Stationarity for Model
A stationary time series with no deterministic component has an Autoregressive Moving Average (ARMA) representation that can be approximated by a finite process. Thus, if a non-stationary time series(X) needs to be transferred (D) times until reaching stationary, then the time series will be non stationary integrated process.
In order to test for stationary under this research work, the Augmented Dickey–Fuller (ADF) (1980) unit root test was used because of its superiority over the Dickey Fuller Test because it adjusts approximately for the occurrence of serial correlation. The ADF test decision rule is that the ADF test statistic must be values in absolute term before one can accept stationary.

Going by this, we can test for the stationary of the variables in the model as represented in the table below:

Analysis of the Unit Root Test
In order to test for stationarity under this research work, the Augmented Dickey – Fuller (ADF) unit root test was used because of its superiority over the Dickey Fuller Test because it adjusts approximately for the occurrence of serial correlation. The ADF test decision rule is that the ADF test statistic must be values in absolute term before one can accept stationarity. In the light of the above, the tables below show the results for the test for stationarity in respect of the model

Table1: Analysis of the Unit Root Test at Level

VARIABLES	TEST STATISTIC	5% CRITICAL VALUE	LEVEL	S/NS
EXT	**/1.599391/**	**/2.960411/**	1(0)	NS
GDP	/3.675545/	/2.954021/	1(0)	S
FDI	/1.673124/	/2.936942/	1(0)	NS

Source: Researcher's Computation 2014

Table 2: Analysis of the Unit Root Test at First Difference

VARIABLES	TEST STATISTIC	5% CRITICAL VALUE	LEVEL	S/NS
EXT	/7.108050/	/2.960170/	1(1)	S
FDI	/5.126160/	/2.938987/	1(1)	S

Source: Researcher's Computation 2014

The dependent variable GDP is not characterized by unit root problem since it is stationary at level while all other variables are not stationary (NS) at level 1(0) given that the statistics are less than the critical values at 5% level of significance in absolute term. However, at first difference 1(1) the other explanatory variables are free from unit root tangle, since the t-statistics are more than the critical values at 5% level of significance in absolute term in the table 2 above

Table 3: Co-integration Result for the Model
Date: 04/22/14 Time: 11:54
Sample (adjusted): 1972 2010
Included observations: 39 after adjustments
Trend assumption: Linear deterministic trend
Series: GDP EXT FDI
Lags interval (in first differences): 1 to 1

Unrestricted Co-integration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigen value	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.818561	82.87987	29.79707	0.0000
At most 1 *	0.292159	16.31335	15.49471	0.0376
At most 2	0.070172	2.837472	3.841466	0.0921

Trace test indicates 2 co-integrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values
Source: Researcher's Computation

Table above shows that there is a long run equilibrium relationship between the dependent and independent variables since the trace statistics of half of the variables show heavy greater than values over the critical values at 5% level of significance. From the above computation, Eigen value test indicated that there are 2 co-integrating equations at 5% level. The result also shows that there is a strong relationship between FDI and growth and between foreign debt and growth in Nigeria which is evidence in the p-value. But FDI strongly influence growth in the Nigeria.

Parsimonious Error Correlation Mechanism
Using the parsimonious Error Correlation Mechanism, we have the result as presented below:

Table 4: Parsimonious ECM result
Dependent Variable: GDP
Method: Least Squares
Date: 04/22/14 Time: 11:57
Sample: 1970 2010
Included observations: 41

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FDI	79.41692	4.894099	16.22708	0.0000
EXT	1.955407	0.453003	4.316547	0.0001
C	-1070737.	563628.9	-1.899720	0.0651

R-squared	0.886352	Mean dependent var	4519623.
Adjusted R-squared	0.880370	S.D. dependent var	7962205.
S.E. of regression	2753931.	Akaike info criterion	32.56531
Sum squared resid	2.88E+14	Schwarz criterion	32.69070
Log likelihood	-64.58890	Hannan-Quinn criter.	32.61097
F-statistic	148.1824	Durbin-Watson stat	0.321314
Prob(F-statistic)	0.000000		

Source: Author's Computation

From table above, the lagged error term ECM (-1) is included in the model to investigate the long run dynamics between the variables. The result shows that the co-integrating series is correctly signed and statistically significant. Hence, the co-efficient showed adjustment of 64 percent from actual variations in the previous year. The adjustment means that errors were corrected within the one or lesser than one year exhibited in the model. The error correction mechanism (ECM) likewise revealed long run equilibrium relationship between response and predictor variables in the model. Thus, the adjustment is symptomatic of the tendency for the error to get corrected within one year. A long run relationship between the explanatory and dependent variables is thus shown by the built-in ECM of the model.

The positive coefficient of foreign investment and foreign debt shows that they are the major determinant of gross domestic product, implying that increase in the foreign direct investment will encourage saving and hence increase the gross domestic product and also an increase in the foreign debt will automatically decrease the gross domestic product hence, economy growth in Nigeria.

A unit percent increase in foreign direct investment will bring about 0.69 or 69% decrease in gross domestic product, this may be as a result of capital flight, because investment resources of the country will be transfer abroad and improve economy of the capital importing country against the Nigeria economy. And also a unit percent increase in external debt will be bring about 1.9 or 190% decrease in the gross domestic product, this maybe as a result of interest rate and other borrowing cost charge on the borrowed funds from abroad.

4.0. Summary, Conclusion and Recommendations

4.1. Summary

In summary, attempt was made to bring into focus, the effect of foreign private investment and external borrowing (debt) on the Nigerian economy. The study began with introduction of foreign private investment and external debt, thereafter statement of problems that led to the objective of the study, scope and limitation of the study, and plan of the study. The literature review comprises of the empirical review. It discusses foreign private investment, external debt, and economic growth and development. In research methodology, the data used is secondary data analysed using E-view and was interpreted.

Conclusion

Foreign investment and external debt are theoretically known to augment the domestic financial resources of a country. With the increased inflow of foreign capital to Nigeria, the country is still characterized by low per capita income, high unemployment rate, and low and falling growth rate of GDP. This has stimulated a lot of arguments in the literature. Among the findings of this study is that foreign private investment and external debt were non-stationary. During the course of this research, it was found that both foreign investment and external debt have positive co-efficient. This means that they both contributed to the economic growth of Nigeria. But their rate of contribution differs. This can be seen in the where for every unit increase in foreign direct investment; there is 0.69 or 69% decrease in the GDP of the country probably due to the issue capital flight from Nigeria to abroad. Also, for every unit increase in the volume of external debt incurred, there is 1.9 or 190% decrease in the GDP of the country due to issues of interest rate, borrowing cost and probably due to the diversion of the borrowed funds into private pockets for non-economic reasons.

Based on the above, it can deduced that though the experience of other developing countries give contradicting reports on the effects of foreign private investment and external debt, the Nigerian case is a bit different in that both variables have a statistically significant effect on the GDP growth rate of Nigerian. By implication, issues on foreign private investment and external debt should not be ignored in policy decision making process aimed at promoting the economic growth and development of Nigeria.

Recommendations

This section is structured not as a diagnostic exercise but more as a curative one. That is why it is aimed at looking at solution that can be of practical applicability to the problems identified in previous chapters and sections of this study. The solutions to these problems are at two levels which we describe as urgent reactive and future proactive and they are:

Someone says: “the factor that most distinguishes the level of development as we move from one country to another is not the wealth of resources but the wealth of leadership”. Consequently, those countries with democratic culture and a history of selfless, enlightened and progressive leadership make rapid progress while those with opposing qualities lag behind. In lieu of this, the Nigerian leaders should be more responsive enough to make sure that external loans that are meant for capital project are not diverted into private pockets. Nigerian leaders must make frantic effort to repay external loans as they constitutes a threat even to the generations yet unborn. Because the Nigerian politico-economic environment needs to be revitalized, leaders that are resourceful, responsive and with focus; which can be vouched for, and not egocentric and planless leaders are who we need in Nigeria.

With the continuous inflow of foreign capital to Nigeria, the country is still characterized by low per capita income, high unemployment rate, high rate of poverty etc. It is against this backdrop that the government must as a matter of urgency and expediency create an enabling environment for domestic investors to thrive. This is possible if the following are done;

a. Greater involvement of stakeholders in the maintenance of law and order through the consolidation of community policing and the implementation of criminal justice reforms. This will help stamp the menace of various crimes and also aid in the reduction of the current Boko-Haram insurgency in the North which is causing serious unrest and hindering investment prospect in the North and other parts of the country. Also, there is need to integrate properly screened private security outfits into the security system of the country. Again, there should be intensification of advocacy and awareness programmes targeted at re-orientating the citizens and fostering mutually shared values to achieve safe and secured neighbourhoods.
b. Though, the Power Holding Company of Nigeria (PHCN) has finally been un-bundled and transferred to private investors last year November yet the electric power supply needed to constantly drive the economic engine of the country efficiently has remained epileptic and as such, proper evaluation and correlation of energy demand and supply should be undertaken. This can be done by upgrading of energy infrastructure, independent power plants, distribution networks, gas plants etc, and the promotion of environment-friendly energy policies through the pursuit of renewable energy and conservation programmes.
c. Accelerate the upgrading of slum areas and the provision of walkways open green areas in all commercial cities of the country to a world standard. This will require the active involvement and participation of the state governments in order to boost not just domestic investment but also foreign investment. Cities like Dubai and Abu-Dhabi with less endowment have become prime tourists and investment destinations of global acclaim because of the serene environment and cleanliness of those cities.
d. In formulating policies aimed at promoting economic growth and development in Nigeria, there is need for a holistic view of human capital development through linkage of skills to values and adequate investment in education at all levels. There is an urgent need to change the University curriculum, so as to train job creators and not job seekers, and also to train people to respond to areas of need like power generation, oil exploration, renewable energy sources and so much more.
e. Foreign expatriate companies should be made to be more socially responsible to the plights of the Nigerian citizens and also reduce the issue of capital flight from the country.

In addition, if Nigeria must be properly integrated into modern society, all tiers and levels of government in Nigeria must ensure proper plan implementation and execution. This is because the truly life changing and enduring advances of modernisation are but product of planning. Take for instance, the conception of those cities and countries that are held as models- the futuristic splendour of ancient Rome (Italy), the grand boulevard of Buenos Aires (Argentina), the magnificent harbour and opera houses of Sydney (Australia), the timeless Eiffel tower and cultural spots of Paris (France), the multicultural and cosmopolitan modernity of Montreal (Canada), even the futuristic and superlative creativity of Dubai (UAE). All these are products of meticulous planning dogged attention to details in execution. The Nigeria government can also achieve this if consideration is given to such planning.

Finally, the government can achieve this by first increasing the warmth among all tiers and levels of government. This would be one primary source of confidence in the administration to affect a paradigm economic and development shift in the country. Secondly, the government must offer good governance, remain accountable to the people and be transparent in all its affairs. Also, the government should also endeavour to enact policies that would help to reinforce the appropriacy of its development methods because Nigeria can not be watched and allowed to regress into a dysfunctional state.

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