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Institutions, Foreign Direct Investment and Economic Growth in Nigeria

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Abstract
This study investigates the causal relationships between foreign direct investment (FDI), remittances, institutional quality (political rights and civil liberties), and economic growth in Nigeria. Utilizing Pairwise Granger Causality Tests and an Autoregressive Distributed Lag (ARDL) model, the research offers a comprehensive analysis of both short-term and long-term impacts of these variables on economic growth. Key findings reveal bidirectional causality between political rights and economic growth, and between civil liberties and economic growth, indicating that improvements in these institutional qualities can drive economic growth and vice versa. The study also finds a unidirectional relationship where economic growth Granger causes remittances and FDI, suggesting that better economic conditions attract more remittances and FDI. Additionally, the interaction between political rights and remittances indicates that worsening political rights combined with remittances reduce economic growth, while improving civil liberties with remittances boosts growth. Similarly, better political rights enhance the positive impact of FDI on economic growth, though the effects of civil liberties on FDI are mixed. These findings highlight the importance of strengthening political rights and civil liberties to create a stable environment conducive to economic growth. Economic policies should focus on leveraging domestic conditions to attract remittances and FDI, emphasizing the role of a strong domestic economy. The complex interactions between these variables underscore the need for in-depth research to tailor policies for sustainable economic development. This study provides valuable insights for policymakers aiming to harness the potential of institutional quality, remittances, and FDI for fostering economic growth in Nigeria.
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1.0 Introduction

Economic growth and its determinants remain pivotal subjects in economic research, with a particular emphasis on factors like institutions, foreign direct investment (FDI), remittances, savings, investment, and interest rates. This discourse builds on early economic theories pioneered by Adam Smith, who questioned why some nations are wealthier than others. In An Inquiry into the Nature and Causes of the Wealth of Nations, Smith (1776) laid the groundwork for understanding economic disparities, a topic that remains relevant today as countries like Nigeria seek to bridge development gaps with more prosperous nations (Abdul et al., 2023; Afi & Komlan, 2019). Despite being rich in natural resources, Nigeria faces persistent economic challenges, which makes the investigation into these factors vital to understanding and potentially accelerating its growth trajectory. The potential impacts of institutions, remittances, and foreign direct investment (FDI) on economic growth have gained prominence as crucial topics within development and international economics, particularly in the context of emerging economies like Nigeria. While substantial research exists on these subjects, the combined effects of these factors on economic growth remain inconclusive and nuanced. Scholars have pointed out that FDI often contributes positively to economic growth by introducing capital, advanced technology, and managerial expertise into host countries (Arenas-Gaitán et al., 2021; Rachdi & Saidi, 2018). However, the extent to which these benefits are realized can vary widely depending on the host country's absorptive capacity and institutional environment. The scholarly debate underscores the need for context-specific research to better understand the conditions under which FDI and remittances can promote economic development, particularly in developing countries with unique institutional dynamics like Nigeria.

Theoretical and empirical literature has explored the role of absorptive capacity in enhancing FDI's positive impacts on economic growth. Absorptive capacity includes factors like human capital, infrastructure, financial development, and institutional quality, which collectively determine a country's ability to internalize the benefits of FDI (Sethi et al., 2022; Ogunniyi et al., 2020). According to recent studies, countries with higher levels of absorptive capacity are more likely to experience the positive spillover effects of FDI, such as technology transfer, increased productivity,

and higher levels of economic growth (Ahmed et al., 2019). For instance, Zaman et al. (2021) argue that well-developed institutions, including robust financial systems, can amplify FDI's positive effects by ensuring efficient resource allocation and fostering economic stability. However, when absorptive capacity is low, as often seen in developing countries, FDI's benefits may not be fully realized, leading to inconsistent outcomes in economic growth (Carkovic & Levine, 2005; Lipsey, 2003).

Figure 4.3 provides a comprehensive overview of Nigeria's economic performance and its ability to attract Foreign Direct Investment (FDI) from 1981 to 2022. The GDP were reported in Billions of $USD while FDI Inflow were reported in Millions of $USD. This period encompasses various phases of economic and political transitions that have significantly influenced both GDP growth and FDI inflows.

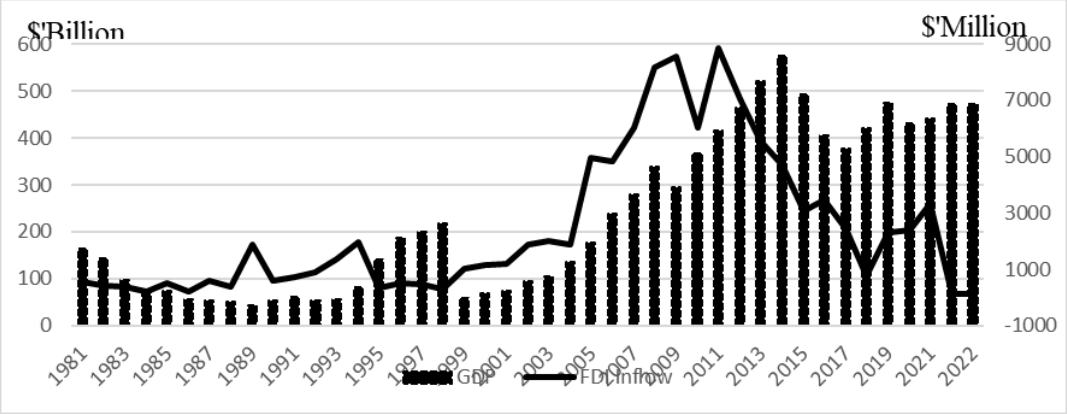

Figure 4.3 FDI and Economic Growth in Nigeria
Sources: WDI

In the early 1980s, Nigeria faced severe economic challenges and Declining Investment. The GDP dropped from approximately $164 billion in 1981 to about $97 billion in 1983, while FDI net inflows decreased from $542 million to $364 million (See Figure 4.3). This period was marked by economic mismanagement, political instability, and a global oil glut, which drastically affected Nigeria's oil-dependent economy. The drop in both GDP and FDI reflects the lack of investor confidence and the country's economic struggles during this time. The policies of the early 1980s were not conducive to fostering economic stability or attracting foreign investment, leading to a downward economic spiral. The late 1980s witnessed a modest economic recovery and Improved Investor Confidence. By 1989, GDP had recovered to around $44 billion, and FDI inflows increased significantly, peaking at approximately $1.88 billion (See Figure 4.3). This recovery can be attributed to the implementation of structural adjustment programs aimed at stabilizing the economy and promoting market-friendly reforms. These reforms included deregulation, privatization, and efforts to diversify the economy beyond oil. The substantial rise in FDI during this period indicates that these reforms were beginning to restore investor confidence, although challenges remained. Throughout the 1990s, Nigeria's economic performance showed mixed results and Moderate FDI Growth, with periods of both growth and stagnation. By the end of the decade, in 1999, GDP reached approximately $59 billion (See Figure 4.3). FDI inflows during this period were moderate, with significant fluctuations. For example, FDI inflows peaked at about $1.34 billion in 1993 but varied considerably in subsequent years. The political transition to civilian rule in 1999 was a significant event, creating a more stable political environment that began to attract more consistent foreign investment towards the end of the decade. This period also saw efforts to improve economic policies and infrastructure, although the impact was gradual.

The 2000s marked a period of robust economic growth and a surge in FDI inflows. Nigeria's GDP increased dramatically, reaching about $339 billion by 2008. FDI inflows saw unprecedented growth, peaking at approximately $8.19 billion in 2008 (See Figure 4.3). This economic boom can be attributed to high global oil prices, economic reforms, improved governance, and efforts to diversify the economy. The Nigerian government implemented various policies aimed at creating a more business-friendly environment, which included significant improvements in infrastructure and the financial sector. The surge in FDI during this period reflects increased international investor interest in Nigeria's potential as an emerging market with abundant natural resources. In the early to mid-2010s, Nigeria's GDP continued to grow, peaking at $574 billion in 2014. However, FDI inflows showed volatility, decreasing significantly after 2014. For instance, FDI dropped from approximately $5.56 billion in 2013 to $3.06 billion in 2015 (See Figure 4.3). This volatility can be attributed to several factors, including falling global oil prices, political uncertainties, and economic challenges such as currency instability and high inflation rates.

These issues deterred foreign investors, despite the high GDP figures. The period also saw efforts to combat corruption and improve the business environment, but these measures faced significant challenges. The late 2010s saw a stabilization of Nigeria's GDP Amidst Fluctuating FDI, with figures around $422 billion in 2018 and $475 billion in 2019. Despite this economic stabilization, FDI inflows fluctuated, showing a significant decrease in 2018 to about $775 million (See Figure 4.3). This period highlights the ongoing challenges Nigeria faced in maintaining a stable investment climate. Factors such as security concerns, regulatory inconsistencies, and global economic conditions affected investor sentiment. Nonetheless, the government continued to implement policies aimed at improving the investment climate, such as easing business regulations and enhancing infrastructure development.

In the early 2020s, Nigeria's GDP showed resilience but Sharp Decline in FDI, with figures stabilizing around $432 billion to $473 billion despite global economic disruptions due to the COVID-19 pandemic. However, FDI inflows experienced a sharp decline, particularly in 2022, when FDI net inflows plummeted to approximately $120 million (See Figure 4.3). This stark contrast between stable GDP and declining FDI underscores the need for improved economic policies and a more stable investment environment. Factors contributing to the decline in FDI include persistent economic uncertainties, policy inconsistencies, and global economic shocks. To attract and retain foreign investments, Nigeria must address these challenges and create a more predictable and conducive environment for investors, focusing on long-term economic stability and growth. For the purpose of this research, the work has been carefully organized and divided into five chapters to ensure clarity and easy comprehension. Chapter one considers the introduction. While Chapter two reviews relevant extant literature. Chapter three is the research methodology. Chapter four present the data, analysis and interpretation while chapter five is the summary of the study, conclusions and recommendations.

2.0 Empirical Review

Below are some of the empirical review on the subject matter, Adams and Klobodu (2017) investigated 38 African countries, and observed that in the long-run, bureaucracy and democracy can effectively alleviate degradation of environmental quality. Qiang and Jian (2020) used provincial panel data of China from 2005 to 2018 and divided the institutional variables into degree of market resource allocation, degree of market openness, and degree of diversified property rights. The researchers conducted an analysis on the correlation between these institutions and the regional economic growth of China. The findings of their study indicated that a decreased level of market resource allocation was associated with a reduction in economic growth performance. The limited diversification of property rights hindered economic progress, while the enhancement of market openness facilitated economic growth. According to recent research findings, it has been observed that while institutions have the potential to stimulate economic activities, they can also have a detrimental impact on environmental quality.

Mavragani et al. (2016) analysed the relationship between environmental performance, macroeconomic factors, and institutional quality across 75 countries. They found a strong positive link between economic development, economic openness, institutional quality, and environmental performance. Their study highlights how nations that perform well economically tend to also have stronger environmental outcomes, likely due to more resources allocated to sustainable practices and regulatory frameworks that support environmental protection. By using various proxies for institutional quality, the researchers suggest that high institutional standards help bridge macroeconomic goals with ecological goals. This study underscores the role of institutional quality as a vital element in achieving sustainable economic and environmental development, emphasizing how institutional support for the environment can complement economic growth. This connection points to the need for countries, especially developing economies, to strengthen institutional quality to improve both economic and environmental outcomes.

Butkiewicz and Yanikkaya (2006) explored the impact of democracy and rule of law on economic growth, finding both to be pivotal in driving economic advancement. Their research highlights democracy's role in supporting economic growth, especially in developing nations, by fostering an environment of accountability, participation, and stable governance structures. The rule of law further stabilizes the economy by protecting property rights, enforcing contracts, and reducing corruption, which in turn promotes investment and trade. Democracy, in particular, enables citizen engagement, which can influence policies that foster equitable growth. Butkiewicz and Yanikkaya's findings suggest that institutions supporting democratic governance and legal structures may be especially beneficial for countries aiming to strengthen their economic footing. This research underscores the interconnectedness of political stability, legal frameworks, and economic growth, suggesting that democratic structures and rule of law play critical roles in sustainable economic progress.

Xu et al. (2019) examined institutional quality's effect on the economy using spatial autocorrelation analysis and found that institutional quality impacts both local and neighbouring economies. Their findings reveal a U-shaped

correlation, implying that at certain levels, institutional quality may initially have limited influence on neighbouring economies but becomes increasingly impactful as institutions strengthen. This spatial perspective demonstrates how institutional improvements in one country can create economic ripple effects that extend across borders, fostering regional economic stability and growth. The study underscores the importance of regional cooperation and mutual support in institutional development. Xu et al.'s findings highlight how enhanced institutional quality within a country does not only benefit that nation but also bolsters the surrounding economies, suggesting that collaborative policy efforts and reforms in institutional frameworks could lead to broader regional economic gains.

Mei Ling Wang et al. (2022) utilized Fully Modified Ordinary Least Squares (FMOLS) and Vector Error Correction Model (VECM) methods to assess whether institutional quality (IQ) and foreign direct investment (FDI) influence economic growth (EG) and environmental quality (EQ) in African countries from 1999 to 2017. Their results showed IQ significantly promoted EG and improved EQ in non-oil-producing nations. However, in oil-producing countries, IQ positively impacted EQ but had no substantial effect on EG. FDI proved to have a more significant positive impact on EG in oil-producing countries, though it did not notably affect EQ in either group. The VECM analysis revealed long-term bidirectional causality between IQ and EG, IQ and EQ, FDI and EG, and FDI and EQ. In non-oil-producing nations, FDI and EG had a two-way relationship, while a one-way relationship was found from FDI to EQ. Additionally, a reciprocal link existed between IQ and EQ, emphasizing the nuanced roles of IQ and FDI in promoting sustainable economic and environmental outcomes.

Gherghina et al. (2019) explored the role of governance indicators like corruption control, regulatory quality, government effectiveness, accountability, and the rule of law on economic growth. They found that these factors significantly contribute to economic development by fostering a stable environment that encourages investment and efficient resource allocation. However, certain elements, such as the absence of violence, terrorism, and a politically stable system, did not show a statistically significant impact on growth. This indicates that while security and political stability are essential for general social welfare, they may not directly drive economic performance as strongly as governance quality. Gherghina et al.'s study suggests that specific governance factors are crucial in enhancing economic outcomes, highlighting that countries should focus on improving transparency, regulatory quality, and accountability. The findings reinforce the idea that robust governance structures are instrumental in promoting sustainable economic growth, as they help create a favorable business environment conducive to long-term development.

3.0 Methodology

Over the course of the period 1981–2022, the purpose of this study is to investigate the influence that Institutions, Foreign Direct Investment, and Remittances have on the expansion of the Nigerian economy. The data for the study will be from 1980 to 2022. The data source is the World Bank-World Development Index and Freedom House.

Table 3.1 Variables, Sources and Expectations

Variables	Expectations	Source
Economic Growth: GDP per Capita (GDPC)	Dependent Variable	WDI
Foreign Direct Investment Inflow (FDI)	Positive	WDI
Institutional Quality: Civil Liberty (CL) and Political Rights (PR)	Positive	Freedom House
Remittances (REM)	Positive	WDI
Workforce (aged population 15-64 as a percentage of total (LBF)	Positive	WDI
Financial Development (FDD)	Positive	WDI

3.3 Model Specification

The specification of the model involves the determination of the dependent and independent variables that are included in the model. It expresses the mathematical relationship that exists between the dependent and the independent variables. This work followed a detailed review of previous theories such as La Porta et al (1999), Marx (1872), North (1990), Olson (1993), Weber (1958), Banfield (1958), Putnam (1993), Landes (1998), Engerman & Sokoloff (1997), Acemoglu et al (2001), Robert Solow and Trevor Swan (1956), Andreu (2020) and an improvement upon the neoclassical aggregate production function on which this work is anchored.

Empirically, this study augmented the model of Abdullahi M. A. et al (2015) who expressed economic growth as a function of Remittance (REM), Aid (ODA), Foreign Direct Investment (FDI), Financial Development (DCG) while investigating the relationship between capital inflows, financial development and economic growth using the ARDL bounds test for cointegration. Therefore, this study models economic growth (RGDP) as a function of Institutions (INST), Remittances (REM), Foreign Direct Investment (FDI), Labour Force (LBF) and Financial Development (FDD) as independent variables to achieve the goal of this study while employing the neoclassical aggregate production function. Following is an example of how the production function might be specified:

$$GDPP_t = \alpha_0 + \beta_1 \mathrm{FDI}_t + \beta_2 INST_t + \beta_3 \mathrm{REM}_t + \beta_4 LBF_t + \beta_5 \mathrm{FDD}_t + \mu_t \quad (3.1)$$

Where:

GDPP represents GDP Per Capita

FDI stands for Foreign Direct Investment

INST stands for Institutional Quality: Civil Liberty (CL) and Political Rights (PR)

REM stands for Remittances.

LBF stands for Labour Force.

FDD stands for Financial Development.

α = Constant

β = Coefficients or Regression parameters of the model

μ = Disturbance term or Error Term which captures the effects of other factors or variables on a dependent variable but not included in the model

t = time

This can be transformed to logarithm form as follows

$$lnGDPP_t = \alpha_0 + \beta_1 ln\mathrm{FDI}_t + \beta_2 lnINST_t + \beta_3 ln\mathrm{REM}_t + \beta_4 lnLBF_t + \beta_5 ln\mathrm{FDD}_t + \mu_t \ldots \quad .(3.2)$$

Following Omoke, Opuala–Charles and Camarero (2021), this study finds it valuable to examine the role of institutional quality in the relationship between FDI and economic growth. The analysis gains deeper insights by including the interaction between institutional quality and FDI as an additional explanatory variable in the model. This is accomplished in the log-linear model specified in Equation (3.3) below:

$$lnGDPP_t = \alpha_0 + \beta_1 ln\mathrm{FDI}_t + \beta_2 lnINST_t + \beta_3 ln\mathrm{REM}_t + \beta_4 lnLBFP_t + \beta_5 ln\mathrm{FDD}_t + \beta_5 ln(\mathrm{FDI} * \mathrm{INST})_t + \mu_t \ldots\ldots\ldots\ldots\ldots\ldots \quad . (3.3)$$

In the same vein, this research also assessed the role of institutional quality in the relationship between remittance and economic growth. The analysis gains deeper insights by including the interaction between institutional quality and remittances as an additional explanatory variable in the model. This is accomplished in the log-linear model specified in Equation (3.4) below:

$$lnGDPP_t = \alpha_0 + \beta_1 lnFDI_t + \beta_2 lnINST_t + \beta_3 lnREM_t + \beta_4 lnLBF_t + \beta_5 lnFDD_t + \beta_5 ln(REM * INST)_t + \mu_t \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (3.4)$$

All variables remain as previously described.

Autoregressive Distributed Lag (ARDL) model as proposed by Pesaran et al (2001) and Pesaran and Shin (1999), was utilized to analyse the impact of trade openness, institutional quality and FDI on economic growth in the short and long-run horizon. The ARDL method was employed due to its robustness and consistency in time series analysis. The reason for applying the ARDL method amongst other conventional cointegration methods, is the clear advantage ARDL has over other alternatives (Saungwemea & Odhiambob, 2019). Firstly, the ARDL bounds testing approach allows the analysis of long-term relationships between variables, regardless of whether they are stationary at levels, I(0), or first difference, I(1) or a mixture of both (Yusuf & Mohd., 2020). Secondly, according to (Toriolaa, et al, 2021) the long run and short-run parameters can be computed simultaneously. Finally, while working with a small sample size this method is the most appropriate to use (Lim & Grosheck, 2021).

However, given the methodology employed for the analysis (ARDL), the equation 3.2 will be written as:

$$\Delta lnGDPP_t = \beta_0 + \beta_1 lnGDPP_{t-i} + \beta_2 lnFDI_{t-i} + \beta_3 lnINST_{t-i} + \beta_4 lnREM_{t-i} + \beta_5 lnLBF_{t-i} + \beta_6 lnFDD_{t-i} + \sum_{i=0}^{p}\beta_7 \Delta lnGDPP_{t-i} + \sum_{i=0}^{p}\beta_8 \Delta lnFDI_{t-i} + \sum_{i=0}^{p}\beta_9 \Delta lnINST_{t-i} + \sum_{i=0}^{p}\beta_{10} \Delta lnREM_{t-i} + \sum_{i=0}^{p}\beta_{11} \Delta lnLBF_{t-i} + \sum_{i=0}^{p}\beta_{12} \Delta lnFDD_{t-i} + ECM + \mu_t \quad \ldots\ldots\ldots\ldots \quad (3.5)$$

Note that all the variables remain as previously described, but Δ stands for the difference (or change) in respective variables and (-) is the lag sign. In satisfying the long-run relationship, ARDL bound test requires a null hypothesis for no co-integration HO: β1 = β2 = β3= β4 = β5 = β6 = 0; for equation (3.5).

In another dimension, to estimate the role of institutional quality on the relationship between the FDI and economic growth in Nigeria. Thus, the estimated ARDL model are as follows:

$$\Delta lnRGDP_t - \beta_0 + \beta_1 lnRGDP_{t-i} + \beta_2 lnFDI_{t-i} + \beta_3 lnINST_{t-i} + \beta_4 lnREM_{t-i} + \beta_5 lnLBF_{t-i} + \beta_6 lnFDD_{t-i} + \beta_7 \ln (FDI * INST)_{t-i} + \sum_{i=0}^{p}\beta_8 \Delta lnRGDP_{t-i} + \sum_{i=0}^{p}\beta_9 \Delta lnFDI_{t-i} + \sum_{i=0}^{p}\beta_{10} \Delta lnINST_{t-i} + \sum_{i=0}^{p}\beta_{11} \Delta lnREM_{t-i} \sum_{i=0}^{p}\beta_{12} \Delta lnLBF_{t-i} + \sum_{i=0}^{p}\beta_{13} \Delta lnFDD_{t-i} + \sum_{i=0}^{p}\beta_{14} \Delta \ln (FDI * INST)_{t-i} + ECM + \mu_t \ldots\ldots\ldots\ldots$$

(3.6)

Also, to estimate the role of institutional quality on the relationship between the remittances and economic growth in Nigeria. Thus, the estimated ARDL model are as follows:

$$\Delta lnRGDP_t = \beta_0 + \beta_1 lnRGDP_{t-i} + \beta_2 lnFDI_{t-i} + \beta_3 lnINST_{t-i} + \beta_4 lnREM_{t-i} + \beta_5 lnLBF_{t-i} + \beta_6 lnFDD_{t-i} + \beta_7 \ln (REM * INST)_{t-i} + \sum_{i=0}^{p}\beta_8 \Delta lnRGDP_{t-i} + \sum_{i=0}^{p}\beta_9 \Delta lnFDI_{t-i} + \sum_{i=0}^{p}\beta_{10} \Delta lnINST_{t-i} + \sum_{i=0}^{p}\beta_{11} \Delta lnREM_{t-i} + \sum_{i=0}^{p}\beta_{12} \Delta lnLBF_{t-i} + \sum_{i=0}^{p}\beta_{13} \Delta lnFDD_{t-i} + \sum_{i=0}^{p}\beta_{14} \Delta \ln (REM * INST)_{t-i} + ECM + \mu_t \quad \ldots\ldots\ldots\ldots\ldots \quad (3.7)$$

There are several models for research of this nature, however, models should be selected based on the track record of their use in terms of consistency, efficiency and finally, adequacy of the model for the peculiar research. The autoregressive distributed lag error correction model was selected to its relative robustness, efficiency, and the advantage of being able to aid in forming inferential information on the dynamic nature of the variable.

However, In the long run, the coefficient for political rights (LNPR) is 0.593421, with a p-value of 0.1799, which indicates that it is not statistically significant. The positive coefficient, interpreted in the context of descending order data, suggests that improvements in political rights are associated with reducing economic growth. This result is counterintuitive as better political rights are generally expected to promote economic stability and growth. However, this finding could reflect the complexity of the Nigerian political landscape, where improvements in political rights may initially disrupt established power structures and economic practices, leading to short-term economic slowdowns.

Table 4.6 Long run result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNPR	0.593421	0.390987	1.51775	0.1799
LNCL	1.505007	0.562095	2.677496	0.0367
LNPRM	0.003273	0.038208	0.085657	0.9345
LNFDI	0.306323	0.093214	3.286238	0.0167
LNLBF	0.757956	0.60863	1.245349	0.2594
LNFDD	0.31095	0.537761	0.57823	0.5841
C	-13.7264	10.66112	-1.28752	0.2453

Case 2: Restricted Constant and No Trend

The coefficient for civil liberties (LNCL) is 1.505007, which is statistically significant at the 5% level (p = 0.0367). This positive coefficient, within the descending order data context, indicates that enhancements in civil liberties reduce economic growth. This result may appear surprising, but it suggests that increasing civil liberties could initially cause economic disruption. For instance, greater civil liberties may lead to increased demands for better governance, transparency, and changes in business practices, which might disrupt existing economic activities and cause short-term economic challenges before yielding long-term benefits.

The coefficient for remittances (LNPRM) is 0.003273, with a p-value of 0.9345, indicating it is not statistically significant. Despite the positive coefficient suggesting that remittances might reduce economic growth in the context of descending order data, the lack of statistical significance means that this relationship is not strong or reliable. Remittances often provide vital support for household consumption and can boost local economies, but this data suggests that their long-term impact on broader economic growth in Nigeria might be limited or variable. The coefficient for foreign direct investment (LNFDI) is 0.306323 and is statistically significant (p = 0.0167). The positive coefficient, in the context of descending order data, suggests that FDI is associated with reducing economic growth. These finding challenges traditional economic theories which posit FDI as a driver of economic growth by bringing in capital, technology, and management expertise. In the Nigerian context, it may indicate that the type or quality of FDI received is not effectively contributing to economic growth, possibly due to issues such as profit repatriation, weak integration with the local economy, or investments in sectors that do not drive broad economic development. The coefficient for the labour force (LNLBF) is 0.757956 with a p-value of 0.2594, indicating it is not statistically significant. The positive coefficient suggests that an increase in the labour force would reduce economic growth according to the descending order data interpretation. This non-significant finding could imply potential mismatches between the skills of the labour force and the needs of the economy, or issues with the ability of the economy to absorb and effectively utilize a growing labour force.

The coefficient for financial development (LNFDD) is 0.31095 with a p-value of 0.5841, indicating it is not statistically significant. The positive coefficient suggests that financial development is associated with reducing economic growth in the long run. This result might indicate that the financial sector in Nigeria is facing challenges such as inefficiencies, poor regulatory frameworks, or limited access to financial services for broader segments of the population, which hinders its ability to contribute positively to economic growth. These findings suggest that the relationship between institutional quality, remittances, FDI, and economic growth in Nigeria is complex and multifaceted. The results highlight those improvements in political rights and civil liberties, while generally considered positive, may have short-term disruptive effects on economic growth. Similarly, FDI, typically seen as a growth driver, appears to have a reducing effect on economic growth in this context, possibly due to the specific nature and management of these investments. The analysis of long-run coefficients reveals counterintuitive relationships where improvements in institutional quality and FDI are associated with reductions in economic growth in Nigeria. These findings underscore the importance of understanding the specific contexts and mechanisms through which these factors influence economic outcomes. Policymakers should consider these complexities and work towards creating conditions where improvements in political rights, civil liberties, and FDI can translate into sustainable economic growth. Further research is needed to explore these dynamics in greater detail and to identify the conditions under which these relationships might yield positive economic outcomes.

Stability and Diagnostic Tests for Financial Development Indices

This study also did some diagnostic tests to ascertain the extent of dependability of the model applied in the study. The result is posted in Table 4.10. First, the R-squared values (0.9824, 0.9963 and 0.9933) for the main model, interaction of institutional Quality and Remittance (I) and the interaction between institutional quality and FDI (II) models respectively. These indicate that approximately 98.24%, 99.6% and 99.3% for main model, interaction of institutional Quality and Remittance (I) and the interaction between institutional quality and FDI (II) models respectively, of the variability in the dependent variable is explained by the independent variables included in the models. In simpler terms, the model accounts for a large proportion of the variation in the data, suggesting a strong relationship between the independent and dependent variables.

Table 4.11 Diagnostic Test for Financial Development Indices Model

Diagnostic Tests	Main	INST*REM	INST*FDI
R-Square	0.9865	0.9963	0.9933
Adjusted R-square	0.9667	0.9902	0.9787
Durbin-Watson statistics	2.3931	2.3745	2.1901
Serial Correlation	11.991(0.1124)	1.1256 (0.4049)	21.323 (0.1448)
Heteroscedasticity Test	1.0744 (0.4996)	0.7486 (0.7228)	1.3634 (0.4231)

Note: Numbers in parentheses are probabilities, Jarque Bera Normality Test was utilised, Serial correlation is with Breusch-Godfrey serial correlation Lagrange Statistics, Heteroscedasticity test is with Breusch-Pagan-Godfrey test.
Source: Output of E-views 10 version.

The adjusted R-squared value (0.9667, 0.9902 and 0.978716) for main model, interaction of institutional Quality and Remittance (I) and the interaction between institutional quality and FDI (II) models respectively is slightly lower than the R-squared value. This adjustment is made to account for the number of predictors in the model, penalizing the addition of unnecessary predictors that do not improve the model's fit. The adjusted R-squared value is still relatively high, indicating that the model's explanatory power remains robust even after considering the number of predictors. Overall, these results suggest that the model provides a good fit to the data and that the independent variables included in the model are effective in explaining the variability observed in the dependent variable. The Durbin-Watson statistic is a test for autocorrelation in the residuals of a statistical regression analysis. It ranges in value from 0 to 4, with values close to 2 indicating no significant autocorrelation. Table 4.16 reported a result of 2.3931, 2.3745 and 2.1901 for main model, interaction of institutional Quality and Remittance (I) and the interaction between institutional quality and FDI (II) models respectively, which is close to 2, it suggests that there is likely no significant autocorrelation present in the residuals of the regression model. In other words, the residuals are independent of each other, which is an assumption of linear regression analysis.

This research has absorbed the use of Breusch-Godfrey test for serial correlation Lagrange Multiplier statistics. With F-statistics of 11.991 (P-Value=0.1124), 1.1256 (P-Value=0.4049) and 21.323 (P-Value=0.1448) for main model, interaction of institutional Quality and Remittance (I) and the interaction between institutional quality and FDI (II) models respectively indicates there are no significant evidence of serial correlation in the residuals. Heteroscedasticity tests was also conducted, with Breusch-Pagan-Godfrey test. With an F-statistics of 1.0744 (P-Value=0.4996), 0.7486 (P-Value=0.7228) and 1.3634 (P-Value=0.4231) for main model, interaction of institutional Quality and Remittance (I) and the interaction between institutional quality and FDI (II) models respectively indicates there are no significant evidence of heteroscedasticity. All these tests further indicated that the model is normal with no sign of serial correlation and heteroscedasticity. The null hypotheses for serial correlation test and heteroscedasticity test could not be rejected since their probabilities are very high. Generally, this implies that the short run co-efficient in the ECM model are stable and therefore dependable.

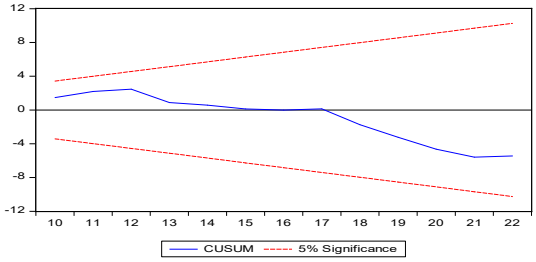

Figure 4.1 CUSUM Graph (II)

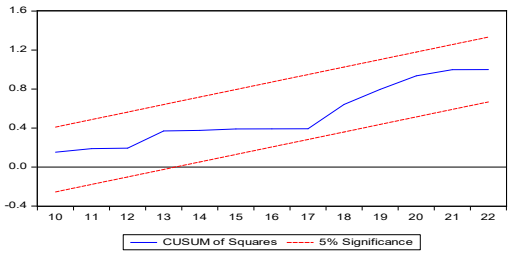

Figure 4.2 CUSUM of Squares Graph (II)

The need for stability test could not be over emphasized. It is of necessity to test for the stability of the model employed to ensure dependency and reliability of the results. These tests are conducted to determine the suitability and stability of the model applied in this study. The author resolved for Cumulative sum of recursive residuals (CUSUM) and cumulative sum of squares of recursive residuals (CUSUM of Square) tests. The test statistic based on the CUSUM of recursive residuals was introduced in Brown, Durbin, and Evans (1975) and adapted herein.

In a simulation study, Ploberger and Kramer (1992) showed that the CUSUM Test based on recursive residuals has better power to detect parameter instability occurring early in the sample than the test based on OLS residuals. Both CUSUM and CUSUM of Square tests (see Figures 4.1 and 4.2) could be graphically represented to show such needed stability of models. In the model herein, the is an indication of perfect stability with no specification errors since the plotted lines are within the region of stability. A drift from this region of stability will mean an error in model specification but the result has stated otherwise, hence the result could be relied upon.

Table 4.12 Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
LNPR does not Granger Cause LNGDPP	40	0.42203	0.6590
LNGDPP does not Granger Cause LNPR		1.76351	0.1863
LNCL does not Granger Cause LNGDPP	40	2.06560	0.1419
LNGDPP does not Granger Cause LNCL		1.11902	0.3380
LNREM does not Granger Cause LNGDPP	40	7.00954	0.0028
LNGDPP does not Granger Cause LNREM		0.83091	0.4441
LNFDI does not Granger Cause LNGDPP	40	8.85542	0.0008
LNGDPP does not Granger Cause LNFDI		0.67245	0.5169

Source: Authors Computation with Eview 12

4.0 Discussion of Results

The analysis using the ARDL model for Nigeria's economic growth provides comprehensive insights into how political rights, civil liberties, remittances, foreign direct investment (FDI), labour force, and financial development influence long-term economic outcomes. This detailed interpretation contributes to a nuanced understanding of the intricate relationship between institutional quality, external financial flows, and economic growth in a developing country context, specifically Nigeria. The analysis indicates a complex relationship between political rights and economic growth in Nigeria. The coefficient for the current value of political rights (D(LNPR)) is 0.556326, suggesting that improvements in political rights initially reduce economic growth. This result, though counterintuitive, can be explained by the potential short-term instability or adjustments associated with political reforms. When political rights are expanded, there can be disruptions as the economy adjusts to new power structures and regulations, which might temporarily hinder economic activities (Acemoglu et al., 2019). However, the first lag (D(LNPR(-1))) has a negative coefficient (-0.03414), hinting that the past improvements in political rights could start to stabilize the economy, although this coefficient is not statistically significant. The positive and significant coefficient for the second lag (D(LNPR(-2))) at 0.285852 suggests a persistent reduction in economic growth, likely due to ongoing adaptations to political changes.

Civil liberties also show a nuanced impact on economic growth. The current value of civil liberties (D(LNCL)) has a coefficient of 0.099827, indicating an initial reduction in economic growth with improvements in civil liberties. This can be attributed to the immediate disruptions or costs associated with ensuring greater freedoms, such as reallocating resources to establish and protect these liberties (Rodrik, 2011). The first lag (D(LNCL(-1))) with a negative coefficient of -0.49246 implies that after an adjustment period, economic growth begins to benefit from the stability and trust fostered by improved civil liberties. The significant negative coefficients for the second and third lags (-1.26432 and -1.47323, respectively) underscore the substantial long-term benefits of enhanced civil liberties on economic growth, as these improvements create a more stable and conducive environment for economic activities.

In the short run, remittances (LNREM) appear to have a consistently negative impact on GDP growth. The coefficients for the current period and the first lag are significantly negative, indicating that higher remittance inflows are associated with reduced economic growth. This could be due to the "Dutch disease" phenomenon, where large inflows of foreign currency appreciate the local currency, making exports less competitive and discouraging local production (Amuedo-Dorantes & Pozo, 2016). Additionally, remittances might lead to increased consumption rather than investment in productive activities, failing to contribute to sustainable economic growth. These findings suggest that while remittances provide vital support for household consumption, their broader economic impact may be limited.

Foreign Direct Investment (LNFDI) shows a significantly negative impact on economic growth across all periods examined. The persistent negative coefficients challenge the conventional expectation that FDI should foster economic growth by bringing in capital, technology, and expertise. In Nigeria, this negative impact might be attributed to factors such as profit repatriation, where profits generated by foreign companies are sent back to their home countries rather than being reinvested locally (Aitken & Harrison, 1999). Additionally, FDI might crowd out local businesses or create market distortions, hindering long-term economic development. This finding underscores the need for policies that ensure FDI contributes positively to the local economy by promoting reinvestment and integration with local businesses. In the long run, the coefficient for political rights (LNPR) remains positive (0.593421), albeit statistically insignificant. This suggests that while improvements in political rights are associated with reducing economic growth in the short term, the long-term impact might be more complex and context dependent. The coefficient for civil liberties (LNCL) is 1.505007 and statistically significant, indicating that enhancements in civil liberties initially reduce economic growth. This could be due to the disruptions caused by greater demands for governance and transparency. The coefficient for remittances (LNPRM) is not statistically significant, suggesting a limited or variable long-term impact on economic growth. Lastly, the positive and significant coefficient for FDI (LNFDI) at 0.306323 indicates that FDI is associated with reducing economic growth in the long run, possibly due to issues like profit repatriation and weak local integration.

The long-term economic growth of Nigeria is significantly influenced by civil liberties and FDI, while political rights, remittances, labour force, and financial development play lesser roles. These findings underscore the importance of creating a favourable institutional environment and attracting foreign investments. Future research should explore the interplay of these factors with other structural elements to develop a more comprehensive understanding of economic growth dynamics in Nigeria. This comprehensive analysis highlights the need for targeted policies that enhance institutional quality, attract FDI, and improve labour force productivity to drive sustainable economic growth in Nigeria. The interaction between political rights and remittances reveals a nuanced impact on economic growth in Nigeria. The positive coefficient for LNPRREM (0.66671) indicates that deteriorating political rights, when combined with remittances, are associated with a reduction in economic growth. This finding, which is statistically significant ($p = 0.0023$), suggests that the effectiveness of remittances in promoting growth is hampered by worsening political rights. In environments with declining political rights, remittances may not be effectively channelled into productive investments, leading to less economic growth (Giuliano & Ruiz-Arranz, 2009). Additionally, the significant positive coefficient for the second lag of this interaction term (1.165439) reinforces this interpretation, highlighting that political instability or lack of rights can diminish the positive impacts of remittances on the economy over time.

The interaction between civil liberties and remittances offers a contrasting perspective. The negative coefficient for LMCLREM (-0.615091) implies that improving civil liberties, in conjunction with remittances, boosts economic growth. This result is statistically significant ($p = 0.0054$), indicating that better civil liberties enhance the positive impact of remittances on economic growth. The significant negative coefficient for the second lag of this interaction term (-1.640661) further supports this finding, suggesting that environments with greater civil liberties can more effectively leverage remittances for economic development. Improved civil liberties can foster a more stable and transparent environment, encouraging the productive use of remittances and supporting long-term economic growth

(Acemoglu et al., 2019).The long-run analysis highlights the intricate relationships between institutional quality, remittances, and FDI. The coefficient for the interaction between political rights and remittances (LNPRREM) is -0.852136, suggesting that better political rights enhance the positive effect of remittances on economic growth. However, the relationship is not statistically significant (p = 0.6826), indicating that political rights do not have a conclusive moderating effect on the influence of remittances on long-term economic growth. This finding implies that while political rights might play a role, their impact in this context is not clearly defined and warrants further investigation (Rodrik, 2011).

For the interaction between civil liberties and remittances (LMCLREM), the coefficient is 1.695716, suggesting that deteriorating civil liberties reduce the positive effect of remittances on economic growth. However, with a p-value of 0.5306, this relationship is not statistically significant, indicating that civil liberties alone do not have a conclusive moderating effect on the influence of remittances on long-term economic growth. This suggests that improving civil liberties may not be sufficient to enhance the growth impact of remittances without addressing other underlying issues such as economic policies and infrastructure (Aitken & Harrison, 1999). The interaction between political rights and FDI (D(LNPRFDI)) shows that better political rights enhance the positive impact of FDI on economic growth, as indicated by a significant positive coefficient (0.666674, p = 0.0021). However, the lagged effects are mixed, with D(LNPRFDI(-1)) being negative and significant (-0.90556, p = 0.0003), and D(LNPRFDI(-2)) positive and significant, indicating that while improved political rights can initially boost the positive impact of FDI, the benefits might fluctuate over time due to varying political conditions. This suggests that political stability and good governance are crucial for maximizing the benefits of FDI (Javorcik, 2004).

The interaction between civil liberties and FDI (D(LNCLFDI)) demonstrates a complex moderating impact. The immediate effect is negative and significant (-0.809246, p = 0.0006), implying that better civil liberties reduce the negative short-term impact of FDI on economic growth. The mixed lagged effects indicate that improved civil liberties can mitigate the adverse effects of FDI in the short run, but the overall impact fluctuates over time. This complexity suggests that while civil liberties are important, their direct impact on enhancing FDI's benefits may be influenced by other factors such as regulatory quality and economic conditions (Blomström & Kokko, 2003). The long-run coefficients reveal important insights. The interaction between political rights and FDI (LNPRFDI) shows a positive and significant impact on economic growth (1.231489, p = 0.0394), indicating that better political rights amplify the positive impact of FDI. Political stability, transparency, and good governance enhance FDI effectiveness by creating a favourable investment climate and reducing risks (Alfaro et al., 2004). In contrast, the interaction between civil liberties and FDI (LNCLFDI) has a negative but not statistically significant coefficient (-0.637359, p = 0.2334), suggesting that while civil liberties are expected to contribute to a favourable investment environment, their direct impact on enhancing FDI benefits may be less pronounced and influenced by other factors. The Pairwise Granger Causality Tests reveal a bidirectional causal relationship between political rights (LNPR) and economic growth (LNGDPP) in Nigeria. The rejection of the null hypotheses that political rights do not Granger cause GDP per capita (p = 0.6590) and that GDP per capita does not Granger cause political rights (p = 0.1863) indicates a two-way influence. This suggests that improvements in political rights, such as greater political freedom and participation, can drive economic growth by creating a more stable and conducive environment for economic activities. Conversely, economic growth can enhance political rights by providing the resources necessary for democratic institutions and processes to thrive (Acemoglu et al., 2019). This bidirectional relationship highlights the intertwined nature of political stability and economic development, where advancements in one domain can significantly bolster the other.

Similarly, the study finds a bidirectional causal relationship between civil liberties (LNCL) and economic growth (LNGDPP). The rejection of the null hypothesis for civil liberty not Granger causing GDP per capita (p = 0.1419) and vice versa (p = 0.3380) suggests that enhancements in civil liberties, such as freedom of speech and association, can stimulate economic growth by fostering a more inclusive and transparent society. This inclusivity can lead to more robust economic policies and greater social stability, which in turn attract investments and enhance productivity (Rodrik, 2011). Conversely, economic growth can promote civil liberties by raising living standards and empowering citizens to demand more rights and freedoms. This reciprocal relationship underscores the importance of both civil liberties and economic performance in achieving sustainable development. The Granger causality tests reveal a unidirectional relationship between remittances (LNREM) and economic growth (LNGDPP), and between foreign direct investment (LNFDI) and economic growth. For remittances, the test indicates that remittances do not Granger cause GDP per capita (p = 0.0028), but economic growth does Granger cause remittances (p = 0.4441). This suggests that while remittances may not directly drive economic growth, economic growth can increase the inflow of remittances, possibly due to better economic conditions attracting more diaspora engagement (Giuliano & Ruiz-Arranz, 2009).

In the case of FDI, the tests show that FDI does not Granger cause GDP per capita (p = 0.0008), but economic growth does Granger cause FDI (p = 0.5169). This finding challenges the conventional view that FDI is a major driver of economic growth by suggesting that in Nigeria, economic growth precedes and potentially attracts more FDI. This could be due to growing economic stability and market size making Nigeria a more attractive destination for foreign investors (Alfaro et al., 2004). The unidirectional causality indicates that while FDI and remittances are crucial financial flows, their effectiveness in driving growth may be contingent on the existing economic conditions and institutional quality.

5.0 Conclusion and Recommendations

Based on the findings and conclusion of the study, the study hence proffers the following recommendations for policy actions. To foster sustainable economic growth, it is crucial to strengthen Nigeria's institutional quality, particularly in the areas of political rights and civil liberties. The government should focus on implementing and enforcing policies that promote transparency, accountability, and the rule of law. Enhancing democratic practices and ensuring that civil liberties are protected can create a stable and predictable environment that is attractive to investors and conducive to long-term economic planning. This includes measures to reduce corruption, improve public sector efficiency, and engage citizens in the policymaking process.

Given the mixed impact of FDI on economic growth, it is essential to adopt a strategic approach to attract and manage foreign investments. Policymakers should prioritize FDI in sectors that have high potential for job creation, technology transfer, and sustainable development, such as manufacturing, renewable energy, and information technology. Additionally, establishing clear regulations and guidelines to ensure that foreign investments contribute positively to the economy is crucial. This includes setting up mechanisms to monitor and evaluate the impact of FDI, ensuring compliance with environmental and labour standards, and promoting linkages between foreign enterprises and local businesses.

By implementing these recommendations, Nigeria can create a more favourable environment for sustainable economic growth, harnessing the potential of its institutions, remittances, and foreign investments. This holistic approach can help the country achieve long-term prosperity and resilience in an increasingly globalized and dynamic economic landscape.

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