DOI: 10.52950/ES.2022.11.2.008

# FOREIGN DIRECT INVESTMENT AND INCLUSIVE GROWTH: THE ROLE OF THE FINANCIAL SECTOR DEVELOPMENT

*EMEKA NKORO, AHAM KELVIN UKO*

## Abstract:

This study examined the role of the domestic financial sector development in the relationship between foreign direct investment (FDI) inflows and inclusive growth in Nigeria over the period, 1981-2020 using annual time series. Analytically, the study employed the autoregressive distributed lag approach of cointegration. The bound test result shows that there is a long-run relationship between inclusive growth and financial sector development, as well as the other underlying variables. Empirically, the result reveals that the FDI exerted a significant positive effect on inclusive growth when the domestic financial sector has reached a certain minimum level of development. The result further shows that the FDI alone has a significant negative effect on inclusive growth. This means that FDI alone does not necessarily increase the well-being of the people, except when a certain minimum level of financial sector development is attained. This is evidence that the domestic financial sector development is a pre-condition for FDI to effectively promote inclusive growth in Nigeria. Therefore, the study recommends that the development of the domestic absorptive capacity-financial sector development should be extended by promoting reforms that will translate FDI inflow into inclusive growth.

## Keywords:

Inclusive Growth, Foreign Direct Investment, Financial Sector Development, Threshold Level, ARDL Approach.

**JEL Classification:** E44, F21, F43

## Authors:

EMEKA NKORO, University of Port Harcourt, Nigeria, Email: nkoro23@yahoo.co.uk
AHAM KELVIN UKO, Ministry of Finance, Abia State, Nigeria, Email: ahamuko@yahoo.com

## Citation:

EMEKA NKORO, AHAM KELVIN UKO (2022). Foreign Direct Investment and Inclusive Growth: The Role of the Financial Sector Development. International Journal of Economic Sciences, Vol. XI(2), pp. 144-162., 10.52950/ES.2022.11.2.008

Copyright © 2022, EMEKA NKORO et al., nkoro23@yahoo.co.uk 

## Introduction

Foreign direct investment (FDI) is the net inflows of investment that acquires a long-term management interest in an enterprise operating in a country other than that of the investor. Scholars (Markusen & Venables, 1997; Javorcik, 2004) are of the view that FDI is known to positively affect the economy of a host country, by increasing the domestic capital formation, productivity, creating knowledge, and technology spillovers. Also, they are of the view that FDI promotes forward and backward linkages with local economic agents- leading to employment growth. This implies that FDI contributes to the development of the host country by reducing the saving-investment gap and job creation. However, according to Kang & Martinez-Vazquez (2021), the extent of these benefits largely depends on the absorptive capacity of the host country. This means that a country with an improved absorptive capacity benefits more from FDI inflows than a country with a lower absorptive capacity.

Empirical studies (Belderbos et al., 2001; Nunnenkamp & Spatz, 2003; Alfaro et al., 2004; Amendolagine et al., 2013; Kang & Martinez-Vazquez, 2021) have shown that the effect of FDI on growth critically depends on the host country's conditions or characteristics, such as a developed financial system, the level of human capital, a reliable legal system, quality of the infrastructure and manufacturing sector, GDP per capita, level of education, and openness to trade, technology, etc. These studies were of the view that foreign firms that have a high knowledge base compared to the local economy's absorptive capacity are less likely to interact with domestic economic agents.

Between 1970 and the 1990s, Nigeria accounted for more than 30 percent of all FDI inflows to Africa. However, in 2007, Nigeria accounted for about 16 percent of all FDI inflows to Africa. Similarly, in the 1970s Nigeria attracted about half the FDI inflows into the Economic Community of West African countries (ECOWAS) group. Since 2001, Nigeria has been the major recipient of FDI within the group and accounted for over 70 percent of the group inflows. The increased FDI inflows reflect Nigeria's economic and institutional conditions, such as an improved macroeconomic environment and reforms to the business environment (United Nations Conference on Trade and Development, UNCTAD, 2009). With these conditions, it is expected that the increased FDI inflows into Nigeria will have a positive influence on employment, income, poverty (lift hundreds of millions out of poverty), and economic growth. Given these, it becomes imperative to know the conditions or characteristics of the Nigerian economy that significantly drive the interaction between foreign firms and local economic agents. Specifically, this study investigates the role of the domestic financial sector development in examining the relationship between foreign direct investment and inclusive growth in Nigeria.

The rest of the paper is organized as follows: Following the introduction is the literature review which is in section two, and section three focuses on the method of analysis. Section four deals with empirical results and analysis while section five dwells on concluding remarks.

Copyright © 2022, EMEKA NKORO et al., nkoro23@yahoo.co.uk 

## Literature Review

### Conceptual Clarification

### Inclusive Growth

There is no consensus in the literature on how inclusive growth should be defined and measured. Therefore, it is a multidimensional and complex concept. Given the multidimensional concept of inclusive growth, scholars have divided the measure of inclusive growth into four main groups in line with the OECD factors used in measuring inclusive growth. The groups are: growth and ensuring equitable sharing of benefits from growth; inclusive and well-functioning markets; equal opportunities and foundations of future prosperity; and governance (Stawska & Jabłonska, 2021). For this study, we shall dwell on the first group. Under this group-Growth and ensuring equitable sharing of benefits from growth, the following variables are listed: GDP per capita growth (%); Median income growth and level (%; USD PPP); 80/20 share of income as a ratio; Bottom 40% wealth share and top 10% wealth share (% of household net wealth); Life expectancy (number of years); Mortality from outdoor air pollution (deaths per million inhabitants); and Relative poverty rate (%). The World Bank Development Report (2000/2001) classified this- Growth and ensuring equitable sharing of benefits from growth into income and non-income measures of poverty. The income indicator of poverty measures the percentage of the population that cannot afford to buy a basic basket of goods. Similarly, the non-income indicator measures the percentage of the population that does not reach the defined threshold (Nkoro, 2017).

### Foreign Direct Investment

Foreign direct investment (FDI) is the net inflows of investment that acquires a long-term management interest (10 percent or more of the voting stock) in an enterprise operating in a country other than that of the investor. Scholars (Markusen & Venables, 1997; Javorcik, 2004) are of the view that FDI is known to positively affect the economy of a host country, by creating knowledge, productivity, and technology spillovers and, forward and backward linkages with local economic agents that lead to employment growth and local economic growth. Foreign direct investment as a percentage of GDP is used to capture FDI inflow. It reflects net inflows (new investment inflows less disinvestment) from foreign investors in the reporting country and is divided by GDP.

### Foreign Direct Investment and Domestic Financial Sector

A century ago, Schumpeter (1911) acknowledged the importance of a well-developed domestic financial system in boosting technological innovation, capital accumulation, and economic growth. MacKinnon (1973) also observed that a well-developed domestic financial market is important to foster the adoption of new technologies and know-how. Underdeveloped financial market limits access to credit, this, in turn, restricts domestic firms' ability to adopt new technologies made available by FDI. Financial market foster both the financing of investment and day-to-day business activities of domestic firms. The absence of a well-developed financial market limits the potential positive FDI externalities as it relates to the domestic firms' adoption of new technologies made available by FDI, and productivity (Alfaro, *et al.* 2004). Therefore, a developed domestic financial market encourages local enterprise activities and output and attracts more FDI. The countries with strong financial market development tend to benefit more from FDI in promoting their

Copyright © 2022, EMEKA NKORO et al., nkoro23@yahoo.co.uk 

inclusive growth. Alfaro, *et al.* (2004) were of the view that an improved domestic financial sector efficiency tends to reduce the threshold level of local enterprise. They further emphasized that the lack of development of the domestic financial market can limit the ability of an economy to take the advantage of potential FDI spillovers. This implies that an improved domestic financial sector efficiency increases the social marginal product of FDI. Therefore, a strong and efficient financial market can enhance the impact of FDI on output.

A strong domestic financial market may help reduce the risks associated with domestic firms' adoption of new technologies introduced by foreign firms. The speed of technological spillover may be positively affected by a strong and efficient financial market, thereby boosting economic growth (Huang & Xu, 1999). This technological spillover can occur when domestic firms are willing to compete with foreign firms based on the demonstration effect.

Hermes & Lensink (2003) argue that the development of the domestic financial system is an important pre-condition for FDI to positively impact economic growth. The financial system enhances the efficient allocation of resources and, helps to improve the absorptive capacity of a country concerning FDI inflows. FDI may crowd in domestic investment through the backward and forward linkages further pushing economic growth. FDI boosts the domestic investment if the local suppliers, subcontractors, service providers (backward linkage), and distributors and service agents (forward linkage) are engaged by the foreign firms. FDI may raise employment in the local firms if the foreign firms buy raw materials, spare parts, components, and services from the local entities and, use the local distributors to distribute their products. This will help the local firms to extend their operations. The extension of the local firms' operations can be made possible if there is a strong and efficient financial market that will foster both the financing of investment and the day-to-day business activities of the domestic firms. Also, FDI may induce the host countries to invest in infrastructures like roads, bridges, and electricity supply which will raise the domestic total capital formation and, further increase economic growth which in turn translates into inclusive growth/poverty reduction. The lack of a strong domestic financial market can limit the ability of the economy to take the advantage of potential FDI spillovers. On this note, it is clear that a strong and efficient financial market promotes economic growth that may relate to inclusive growth by absorbing the benefits of FDI. However, this calls for an empirical investigation.

**Empirical Review**

Different studies have examined the conditions under which FDI leads to inclusive growth using various techniques and data in different countries. Studies such as Nunnenkamp (2004); Meyer (2004); and, Meyer & Sinani (2009) investigated the spillovers and linkages of FDI on the host country and found that the spillovers and linkages effects of FDI are maximized when the host country has sufficient absorptive capacity as that of the home country of the foreign firms in the form of technology, knowledge, institutions, economic development, etc. While De Mello (1997) found that a larger technological gap between the host and foreign country leads to a smaller impact of FDI on economic growth. Rodriguez-Clare (1996) examined the impact of multinationals in developing countries, by studying the generation of backward and forward linkages. Among others, the result revealed that the linkage effect is more significant when the host country is economically developed as the home country. Also, Alfaro et al. (2004) in their study discovered that for spillovers and linkages from FDI to materialize a developed financial system is key.

In their study, Nunnenkamp and Spatz (2003) found that the relationship between FDI and growth largely depends on the host economy's conditions, such as GDP per capita, level of education, and openness to trade. In the same vein, Belderbos et al. (2001) analyzed the factors behind the backward linkages created by Japanese electronics manufacturing affiliates in 24 countries and they found that good quality infrastructure and a large manufacturing sector brought about a positive effect on the creation of local linkages.

On their part, Kang & Martinez-Vazquez (2021) investigated the conditions under which FDI can effectively lead to inclusive growth in 68 countries, and their study revealed that FDI exhibited a positive effect on inclusive growth through the prevailing domestic conditions, such as a large manufacturing sector and a developed infrastructure base in the host country. Similarly, Borensztein et al. (1998); Khan (2007); Wurgler (2000); Alfaro et al. (2004); Hermes and Lensink (2003); Varahrami et al. (2019) explored the conditions under which FDI can influence economic growth using different techniques and data and in different countries. Their results showed that the economic conditions or characteristics of a country, such as the financial market development, the levels of GDP per capita, level of education, gross fixed capital formation, manufacturing sector, state of the infrastructure, openness to trade, the level of technology are important preconditions for FDI to have a significant impact on economic growth. It has also been found that instituions are crutial for FDI inflow in a country (Cermakova et al., 2020) and any institutional shock affects negatively the flow of FDI (Ouechtati et al., 2020). Developing economies and economies in transition also face the challenge of developing stable and balanced financial markets as underdeveloped financial sectors may represent an important obstacle for FDI inflow and economic development (Rod et al., 2016). Contrary to the above findings, Herzer (2010) found that the conditions, such as per capita income, human capital, openness, and financial market development cannot explain the growth effects of FDI.

Foreign direct investment also significantly affect the residential market in individual countries (Hromada et al., 2021). FDI causes the price level to rise to a level that ordinary households cannot afford. Ordinary households are thus forced to prioritize rental housing (Horak et al., 2021). Foreign direct investments are then carried out mainly in richer regions of the states, which causes an increase in income and property inequality between individual regions and an increase in social tension in society (Machova et al., 2022).

From the empirical literature reviewed, studies examined the relationship between the FDI and economic growth as well as inclusive growth based on the host country's economic and industrial conditions using different methods of analysis and data. The studies, except Herzer (2010) concluded that the impacts of FDI inflows on the economy of the host country are premised on certain economic and industrial conditions as mentioned in the studies. However, to the best of our knowledge, no study has investigated how these conditions may have influenced the relationship between FDI and inclusive growth in Nigeria. The previous studies (Oluseye & Gabriel, 2017; Anand et al., 2013; Afolabi, 2020; Ozegbe et al., 2019; Oluwadamilola et al., 2018) only examined the effect of macroeconomic variables, like FDI on economic growth or inclusive growth in Nigeria. This study is to contribute to the existing literature on the relationship between FDI and inclusive growth as it reflects the level of absorptive capacity in Nigeria. Specifically, this study examines the relationship between FDI and inclusive growth in Nigeria by introducing the role of financial sector development.

# Methodology

## Data and Sources

The data for this study was basically from secondary sources. Specifically, the data were sourced from the *World Bank's World Development Indicators (WDI) and the Central Bank of Nigeria Statistical Bulletin.* The data covered the period 1981 - 2020. The period covered is due to the availability of data.

## Analytical Framework

The empirical studies revealed that the benefits of FDI inflows only materialize under certain economic, financial, industrial, and institutional conditions. Under the financial condition, domestic financial sector development becomes one of the preconditions for FDI to have a significant effect on the host country's economy. The rapid development of the financial sector leads to enhanced knowledge and technological compatibility between the local and foreign firms. These enhanced technology, knowledge, productivity and skills, and employment serve as links through which FDI promotes inclusive growth. With these, income and welfare will improve and poverty will reduce. These spillovers effect is as a result of FDI inflows. That is, with these created linkages, the host countries will now have the absorptive capacity to benefit from the technological and knowledge spillovers brought by FDI. Therefore, to increase inclusive growth, FDI inflows and the domestic financial market must be complementary for the enhancement of the process of technological spillovers (Hermes & Lensink, 2003). The FDI effect on inclusive growth is positively linked to a developed domestic financial market. This means that the more the financial market deepens, the more the effect of FDI inflows on the host country's economy. Given this, it becomes obvious that the state of the domestic financial market development determines the extent to which the domestic firms adopt new technologies made available by FDI, as well as the extent to which the foreign firms will have to borrow to expand their technological innovative activities in the host country. Therefore, we hypothesize that FDI will significantly promote inclusive growth (wellbeing of the people) when the domestic financial sector of the host country reaches a certain minimum level of development. This is the hypothesis the study tested for the case of Nigeria for the period, 1981-2020.

In testing the hypothesis, the study adopts the Khan (2007) and Kang & Martinez-Vazquez (2021) approaches, but with modifications. The work of Khan (2007) tested the hypothesis that the positive effects of FDI on economic growth will increase when there is a well-developed domestic financial market in the host country while Kang & Martinez-Vazquez (2021) tested the hypothesis that the positive effects of FDI on inclusive growth will increase when there is a well-developed manufacturing sector and infrastructure base in the host country. This study differs from Khan (2007) in the area of variable and place. Khan (2007) focused on economic growth in Pakistan while this study focuses on inclusive growth in Nigeria. In the area of financial sector development, this study uses Private sector credit and market capitalization as measures of financial sector development indicators while Khan (2007) only used private sector credit, but analytically, this study follows Khan (2007). However, this study differs from Kang & Martinez-Vazquez (2021) in the area of the conditions that determine the extent to which FDI influences inclusive growth. Kang & Martinez-Vazquez (2021) focused on a large manufacturing sector as a measure of industrialization and gross capital formation as a measure of developed infrastructure while this study focuses on financial development indicators- the ratio of credit to the private sector to gross

domestic product (GDP) and the ratio of market capitalization to GDP as measures of domestic financial market development. In terms of analysis, Kang & Martinez-Vazquez (2021) used panel data and therefore applied fixed-effect methods of analysis while this study uses time-series data and employed Autoregressive Distributed Lag (ARDL) framework.
The base estimation model is given as:

$$LnGDPPC_t = \beta_0 + \beta_1 LnFDI_t + \beta_2 LnFD_t + \beta_3 LnX_t + \beta_4 (LnFDI_t * LnFD_t) + \mu_t \qquad 1$$

Where LnGDPPC is the log of gross domestic product per capita, it measures the well-being of the entire population. LnFDI is the log of the ratio of foreign direct investment to GDP. It captures the depth of FDI. LnFD represents the domestic financial sector development. LnFD include, private sector credit (LnPSC) (captures the money market) and stock market capitalization (LnMC)(captures the capital market). LnPSC is the ratio of private sector credit to GDP, and LnMC is the log of the ratio of stock market capitalization to GDP. The other variables (LnX) included in equation 1 are variables that have played a significant role in determining inclusive growth. They include the log of total government expenditure (LnGEX) which captures the fiscal options and, the log of the ratio of adjusted gross fixed capital formation to GDP which is used as a proxy for infrastructure (LnIFRA). The adjusted gross fixed capital formation is arrived at by subtracting FDI from total gross fixed capital formation, and the log of the ratio of manufacturing, value-added to GDP (LnMAN) which captures the industrial base of the economy. LnFDI*LnFD is the interaction between foreign direct investment (LnFDI) and domestic financial market development (LnFD). The interaction term is used to examine the validity of the hypothesis that financial sector development complement FDI in promoting inclusive growth(improving welfare) through technological innovations, employment, and productivity created by domestic financial market development channels.

**Method of Data Analysis**
To test the hypothesis earlier stated, this study employed the Autoregressive Distributed Lag (ARDL) approach of cointegration introduced by Pesaran, *et al.* (2001). The reasons for the adoption of this approach according to Nkoro & Uko (2016) are first, the other approaches, such as Johansen and Juselius (1990) are more appropriate for a large sample size while the ARDL approach of cointegration is relatively more appropriate and efficient for a small sample size. *Secondly*, irrespective of whether the underlying variables are I(0) or I(1), or a combination of both, the ARDL approach can still be applied. That is, the ARDL approach avoids the pre-testing of unit roots. Thirdly, endogeneity is less of a problem, since each of the underlying variables stands as a single equation.

The ARDL model approach to cointegration testing is:

$$\Delta LGDPPCV_t = \beta_0 + \beta_1 LGDPPCV_{t-1} + \beta_2 LFDI_{t-1} + \beta_3 LFD_{t-1} + \beta_4 LX_{t-1} + \beta_5 (LFDI_t * LFD_t)_{t-1} + \sum_{i=1}^{k} \beta_6 \Delta LGDPPC_{t-1} + \sum_{i=0}^{k} \beta_7 \Delta LFDI_{t-1} + \sum_{i=0}^{k} \beta_8 \Delta LFD_{t-1} + \sum_{i=0}^{k} \beta_9 \Delta LX_{t-1} + \sum_{i=0}^{k} \beta_{10} \Delta (LFDI_t * LFD_t)_{t-1} + \varepsilon_t \qquad 2$$

However, before the model was estimated, the properties of the variables were examined to ensure that they never exhibited order two integration, I(2), and to substantiate the long-run relationship between the underlying variables. In the case of unit root, the Augmented Dickey-

Fuller (ADF) was used to test the order of integration of each variable. To test the long-run relationship between inclusive growth and the underlying variables, we imposed zero restriction on the coefficients of the one-period lagged-level (lag 1) variables in the unrestricted error correction model (UECM) (equation 2), and a joint significance test was carried out as:

$H_o$: $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = 0 \rightarrow$ The null hypothesis of no cointegration between the examined variables
$H_1$: $\beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 \neq \beta_5 \neq \beta_6 \neq 0 \rightarrow$ The alternative hypothesis.

The joint significance test was based on the one-period lagged-level (lag 1) variables in equation 2. The long-un relationship test followed the bounds test procedure which is based on F-statistic. If the F- statistic of the restricted coefficients falls above the Pesaran et al. (2001) upper bound critical value rejects the null hypothesis of no long run relationship and vice versa.

## Results and Discussion

### Unit Root Test

The properties of the series were examined using Augmented Dickey-Fuller (ADF). Table 1 reveals that the LnGDPPC, LnMAN, LnIFRA, LnGEX, LnFDI*LnPSC, and LnFDI*LnMC are stationary at order I(1) while LnFDI, LnPSC, and LnMC are stationary at order I(0). Given the unit root properties of the variables, we proceeded to establish whether or not there is a long run relationship among the variables in equation 1 using ARDL bound cointegration test.

**Table 1: The ADF Unit Root Test Result**

| Variable | Constant/Trend | Level | First Difference | Order of Integration |
|---|---|---|---|---|
| **LnGDPPC** | Constant and Trend | -3.193123 | -4.590455* | I(1) |
| **LnFDI** | Constant | -3.832463* | -8.127888* | I(0) |
| **LnPSC** | Constant and Trend | -4.108069** | -4.763543* | I(0) |
| **LnMC** | Constant | -3.452822*** | -5.963655* | I(0) |
| **LnMAN** | Constant and Trend | -1.125177 | -7.545921* | I(1) |
| **LnIFRA** | Constant and Trend | -2.145732 | -5.149909* | I(1) |
| **LnGEX** | Constant and Trend | -0.340647 | -7.833149* | I(1) |
| **LnFDI*LnPSC** | Constant | -3.015722 | -7.165270* | I(1) |
| **LnFDI*LnMC** | Constant | -2.225848 | -7.404837* | I(1) |

*Note:* *, ** and *** indicate significance at the 1 percent, 5 percent and 10 percent levels of significance, respectively.
Source: Author's Computation.

### ARDL Cointegration Bounds Test

In testing the hypothesis of no long-run relationship between inclusive growth (GDPPC) and the underlying variables, first, the ordinary least squares (OLS) method was used to estimate equation 2, and the results of the unrestricted error correction models (UECM) are presented in Tables 2 and 3. The estimated UECM scaled through the post estimation tests such as the Breusch-Godfrey Serial Correlation LM test, ARCH test, the Ramsey RESET test, and the stability test as revealed in panel B, Tables 2 and 3, and figures 1 and 2. The Breusch-Godfrey Serial Correlation LM tests suggest that the residuals are not serially correlated. The ARCH tests suggest that the residuals are homoscedastic while the Ramsey RESET tests show that there are

no specification errors. The reliability of these results is based on the F- statistics. The results imply that the models are efficient, also the estimates are reliable.
Thereafter, a zero restriction was imposed on the coefficients of the one-period lagged-level (lag 1) variables in equation 2 (UECM), and a joint significance test was carried out. The joint significance test was based on the one-period lagged-level (lag 1) variables. The results of the joint significance test are presented in Table 4. The long-run relationship tests followed the bounds test procedure which is based on F-statistic. This study adopted the critical value provided by Narayan (2005) against the critical value provided by Pesaran et al. (2001), given that the sample size is small (<100 observations).

The results in Table 4 show that there is a long-run relationship among the variables in the models, since the F- statistics of the restricted coefficients fall above the upper bound critical value provided by Narayan (2005). Therefore, the hypothesis of no long-run relationship between inclusive growth and the underlying variables is rejected at the one percent level of significance.
But the focus of the study is to find the threshold level of the domestic financial sector development at which FDI will lead to improved inclusive growth in Nigeria. Therefore, the study focuses only on the FDI and the interactive term (FDI*FD) as presented in the short and long-run model of the ARDL.

**Table 2: FDI and Inclusive Growth: The Role of Money Market**

**Panel A**

**Private Sector Credit (PSC) Interaction with FDI**

**Dependent Variable: D(LNGDPPC)**
**Method: Least Squares**
**Sample (adjusted): 1985 2020**
**Included observations: 36 after adjustments**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 17.20681 | 4.091194 | 4.205816 | 0.0023 |
| LNGDPPC(-1)* | -0.583009 | 0.156768 | -3.718924 | 0.0048 |
| LHFDI(-1) | -2.617445 | 0.669003 | -3.912455 | 0.0036 |
| LPSC(-1) | -2.253271 | 0.613692 | -3.671663 | 0.0051 |
| LHMAN(-1) | -0.934783 | 0.617452 | -1.513937 | 0.1643 |
| LHIFRA(-1) | -1.607490 | 0.600374 | -2.677481 | 0.0253 |
| LFDPSC(-1) | 0.998120 | 0.284862 | 3.503870 | 0.0067 |
| D(LNGDPPC(-1)) | -0.181002 | 0.206851 | -0.875032 | 0.4043 |
| D(LNGDPPC(-2)) | 0.639639 | 0.285716 | 2.238723 | 0.0520 |
| D(LHFDI) | -2.393314 | 0.668526 | -3.579984 | 0.0059 |
| D(LHFDI(-1)) | -0.551926 | 0.543673 | -1.015179 | 0.3365 |
| D(LHFDI(-2)) | -0.926845 | 0.652690 | -1.420039 | 0.1893 |
| D(LHFDI(-3)) | -0.671145 | 0.566534 | -1.184650 | 0.2665 |
| D(LPSC) | -1.154276 | 0.399266 | -2.890992 | 0.0179 |
| D(LPSC(-1)) | 0.084181 | 0.344257 | 0.244530 | 0.8123 |
| D(LPSC(-2)) | -0.005248 | 0.317103 | -0.016549 | 0.9872 |
| D(LPSC(-3)) | 0.484849 | 0.301296 | 1.609213 | 0.1420 |
| D(LHMAN) | -0.037291 | 0.418826 | -0.089037 | 0.9310 |
| D(LHMAN(-1)) | 1.632527 | 0.578993 | 2.819595 | 0.0201 |
| D(LHMAN(-2)) | 1.208024 | 0.470660 | 2.566660 | 0.0304 |
| D(LHIFRA) | -0.696698 | 0.421681 | -1.652191 | 0.1329 |
| D(LHIFRA(-1)) | 0.126496 | 0.369145 | 0.342673 | 0.7397 |
| D(LHIFRA(-2)) | 0.720964 | 0.269313 | 2.677048 | 0.0253 |
| D(LFDPSC) | 1.120433 | 0.329770 | 3.397623 | 0.0079 |
| D(LFDPSC(-1)) | 0.482371 | 0.301288 | 1.601030 | 0.1438 |
| D(LFDPSC(-2)) | 0.635260 | 0.357291 | 1.777992 | 0.1091 |

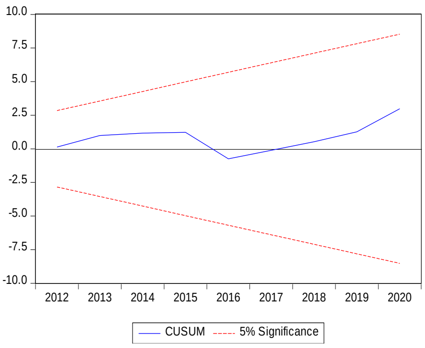
| | | | | |
|---|---|---|---|---|
| D(LFDPSC(-3)) | 0.388359 | 0.284351 | 1.365773 | 0.2052 |
| **R-squared** | | 0.997363 | **Mean dependent Var** | 6.911253 |
| **Adjusted R-squared** | | 0.990769 | **S.D. dependent Var** | 0.755080 |
| **S.E. of regression** | | 0.072547 | **Akaike info criterion** | -2.245649 |
| **Sum squared resid** | | 0.052631 | **Schwarz Criterion** | -1.101997 |
| **Log likelihood** | | 66.42169 | **Hannan-Quinn Criter.** | -1.846484 |
| **F-statistic** | | 151.2608 | **Durbin-Watson Stat** | 2.546246 |
| **Prob(F-statistic)** | | 0.000000 | | |
| | | **Panel B Post Estimation Tests** | | |
| **Breusch-Godfrey Serial Correlation LM Test** | | | | **F- Stat 2.800[0.128]** |
| **ARCH Test** | | | | **F- Stat 0.061[0.806]** |
| **Ramsey RESET Test** | | | | **F- Stat 0.626[0.452]** |
| | | **Panel C Coefficient Restrictions Test/Bound Test** | | |
| **F-statistic** | | | | **118.5990 [0.0000]** |

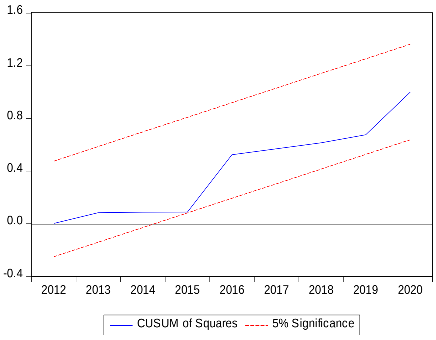
**Note:** The LM test for serial correlation, ARCH test for heteroscedasticity, RESET test for functional form and CUSUM and CUSUMSQ for structural stability. The Breusch-Godfrey LM-test, ARCH test, and RESET test are based on F-statistics. The p-values are stated in [ ].

Source: Author's Computation.

The stability test is conducted on the estimated UECM of Table 2 to see how stable the model is using the cumulative sum (CUSUM) and cumulative sum squares (CUSUMSQ). From figure 1, it is observed that neither the graphical plots of the CUSUM nor the CUSUMSQ crossed the five percent critical lines. Therefore, we conclude that the estimated parameters are stable.

Figure 1: Plots of CUSUM and CUSUMSQ Stability Tests for Table 2.




Source: Author's Computation.

**Table 3: FDI and Inclusive Growth: The Role of Capital Market**

**Panel A**

**Market Capitalization (MC) Interaction with FDI**

**Dependent Variable: D(LNGDPPC)**
**Method: Least Squares**
**Sample (adjusted): 1985 2020**
**Included observations: 36 after adjustments**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 8.909220 | 1.430859 | 6.226485 | 0.0001 |
| LNGDPPC(-1) | -0.455554 | 0.124528 | -3.658244 | 0.0044 |
| LHFDI(-1) | -1.060094 | 0.198199 | -5.348629 | 0.0003 |
| LHMC(-1) | 0.057981 | 0.263743 | 0.219839 | 0.8304 |
| LHTGEX(-1) | 0.122521 | 0.075083 | 1.631819 | 0.1338 |
| LHIFRA(-1) | 0.446563 | 0.217202 | 2.055981 | 0.0668 |
| LFDMC(-1) | 0.666095 | 0.112531 | 5.919197 | 0.0001 |
| D(LNGDPPC(-1)) | -1.278938 | 0.256548 | -4.985188 | 0.0005 |
| D(LNGDPPC(-2)) | 0.349023 | 0.234286 | 1.489730 | 0.1671 |
| D(LHFDI) | -0.268434 | 0.110226 | -2.435312 | 0.0351 |
| D(LHFDI(-1)) | 0.570590 | 0.142569 | 4.002211 | 0.0025 |
| D(LHFDI(-2)) | 0.344107 | 0.125965 | 2.731771 | 0.0211 |
| D(LHFDI(-3)) | 0.097569 | 0.030158 | 3.235264 | 0.0089 |
| D(LHMC) | 0.695380 | 0.149302 | 4.657545 | 0.0009 |
| D(LHMC(-1)) | 0.010248 | 0.209445 | 0.048931 | 0.9619 |
| D(LHMC(-2)) | 0.316315 | 0.141586 | 2.234092 | 0.0495 |
| D(LHMC(-3)) | -0.418838 | 0.140094 | -2.989693 | 0.0136 |
| D(LHTGEX) | -0.393096 | 0.133276 | -2.949488 | 0.0145 |
| D(LHTGEX(-1)) | -0.781206 | 0.194243 | -4.021799 | 0.0024 |
| D(LHTGEX(-2)) | -0.719288 | 0.179127 | -4.015524 | 0.0025 |
| D(LHIFRA) | 1.997533 | 0.384326 | 5.197503 | 0.0004 |
| D(LHIFRA(-1)) | 0.497131 | 0.291841 | 1.703433 | 0.1193 |
| D(LHIFRA(-2)) | 1.735434 | 0.356858 | 4.863100 | 0.0007 |
| D(LFDMC) | 0.109509 | 0.059280 | 1.847314 | 0.0945 |
| D(LFDMC(-1)) | -0.399140 | 0.086792 | -4.598838 | 0.0010 |
| D(LFDMC(-2)) | -0.156660 | 0.067357 | -2.325815 | 0.0424 |

| | | | |
|---|---|---|---|
| R-squared | 0.997363 | Mean dependent Var | 6.911253 |
| Adjusted R-squared | 0.990769 | S.D. dependent Var | 0.755080 |
| S.E. of Regression | 0.072547 | Akaike info criterion | -2.245649 |
| Sum squared Resid | 0.052631 | Schwarz Criterion | -1.101997 |
| Log likelihood | 66.42169 | Hannan-Quinn Criter. | -1.846484 |
| F-statistic | 151.2608 | Durbin-Watson Stat | 2.546246 |
| Prob(F-statistic) | 0.000000 | | |

**Panel B**
**Post Estimation Tests**

| | |
|---|---|
| Breusch-Godfrey Serial Correlation LM Test | F- Stat 1.891[0.213] |
| ARCH Test | F- Stat 1.623[0.209] |
| Ramsey RESET Test | F- Stat 2.793[0.129] |

**Panel C**
**Coefficient Restrictions Test/Bound Test**

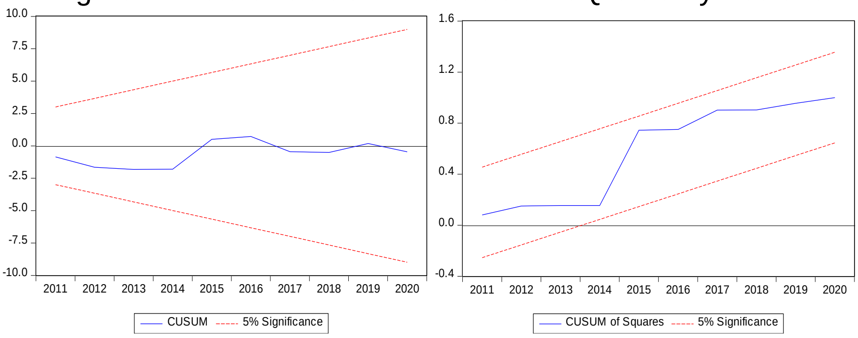
| | |
|---|---|
| F-statistic | 160.3456 [0.0000] |

**Note:** The LM test for serial correlation, ARCH test for heteroscedasticity, RESET test for functional form and CUSUM and CUSUMSQ for structural stability. The Breusch-Godfrey LM-test, ARCH test, and RESET test are based on F-statistics. The p-values are stated in [ ].

Source: Author's Computation.

The stability test is conducted on the estimated UECM of Table 3 to see how stable the model is using the cumulative sum (CUSUM) and cumulative sum squares (CUSUMSQ). From figure 2, it is observed that neither the graphical plots of the CUSUM nor the CUSUMSQ crossed the five percent critical lines. Therefore, we conclude that the estimated parameters are stable.

Figure 2: Plots of CUSUM and CUSUMSQ Stability Tests for Table 3.




Source: Author's Computation.

Table 4, panel A, shows that the hypothesis of no long-run relationship between inclusive growth (GDPPC) and, private sector credit (PSC), foreign direct investment (FDI), manufacturing base (MAN), infrastructural base (IFRA), and the interaction between foreign direct investment and private sector credit (FDI*PSC) is rejected at the one percent level of significance since the computed F-stat (118.60) is greater than the Narayan (2005) upper bound critical value (6.250). Table 4, Panel B reveals that the hypothesis of no long-run relationship between inclusive growth and, foreign direct investment (FDI), market capitalization (MC), government expenditure (GEX), infrastructural base (IFRA), and the interaction between foreign direct investment and market capitalization (FDI*MC) is rejected at the five percent level of significance, given that the computed F-stat (160. 35) is greater than the upper bound of the critical value (6.250). The conclusion drawn from these results is that there exists a long-run relationship between inclusive growth and the underlying variables. An economic interpretation of the long-run model (of equation 1) is derived by normalizing the estimates of the cointegrating equations. The short and long-run estimates of the cointegrating equations are presented in Table 5.

**Table 4: ARDL Cointegration Bound Test**

| Model | F- Statistics | |
|---|---|---|
| ***Panel A: LnGDPPC = f(LnFDI, LnPSC, LnMAN, LnIFRA, LnFDI*LnPSC)*** | F- Stat = 118.5990* | |
| Narayan (2005) | **k = 4, n=40** | |
| **Critical Value** | **Lower Bound** | **Upper Bound** |
| **1%** | 4.428 | 6.250 |
| **5%** | 3.202 | 4.544 |
| **10%** | 2.660 | 3.838 |
| ***Panel B: LnGDPPC = f(LnFDI, LnMC, LnTGEX, LnIFRA, LnFDI*LnMC)*** | F- Stat = 160.3256* | |
| Narayan (2005) | **k = 4, n=40** | |
| **Critical Value** | **Lower Bound** | **Upper Bound** |
| **1%** | 4.428 | 6.250 |
| **5%** | 3.202 | 4.544 |
| **10%** | 2.660 | 3.838 |

Notes: *, **, and *** denote significant at 10%, 5%, and 1% levels, respectively. Critical values are obtained from Narayan (2005).

Source: Author's Computation.

Since the aim of this study is to investigate the hypothesis that FDI will significantly impact on inclusive growth under a certain level of domestic financial sector development with respect to improving the process of technological inflows, therefore, the study focuses on the FDI and the interactive terms (LnFDI*LnPSC and LnFDI*LnMC). Based on this, the study derives the threshold level of the domestic financial sector development (PSC and MC) above which FDI will begin to impact positively on inclusive growth. The derivation of the threshold levels is done using

Copyright © 2022, EMEKA NKORO et al., nkoro23@yahoo.co.uk 

the short and long-run coefficients of inclusive growth in Table 5, with respect to FDI. Before the derivation of the threshold levels, the short and long-run coefficients of inclusive growth are derived from the results in Tables 2, 3, and 4. The short-run coefficients are derived by summing the significant values of the lagged differenced coefficients of each variable while the long-run coefficients are derived through the normalization of coefficients of one-period lagged-level variables by dependent variable (Khan, 2007).

**Table 5: Short- and Long-Run Coefficients of Inclusive Growth**

| | **Panel A: Money Market (PSC) Interaction with FDI** | | **Panel B: Capital Market (MC) Interaction with FDI** | |
|---|---|---|---|---|
| **Variable** | **Short-Run Coefficients** | **Long-Run Coefficients** | **Short-Run Coefficients** | **Long-Run Coefficients** |
| **Constant** | - | 29.514 | - | 19.557 |
| **LnFDI** | -2.393** | -4.490** | -0.744** | -2.327* |
| ***LnPSC*** | *-1.154*** | *-3.865*** | - | - |
| ***LnMC*** | - | - | *-0.812*** | *-0.127*** |
| ***LnMAN*** | *2.841*** | *-1.603*** | - | - |
| ***LnGEX*** | - | - | *-1.894*** | *0.269* |
| ***LnIFRA*** | *0.721*** | *-2.751*** | *3.733*** | *0.980* |
| ***LnFDI*LnPSC*** | *1.120*** | *1.712*** | - | - |
| ***LFDI*LnMC*** | - | - | *-0.446*** | *1.462*** |

***Note***: *, **, and *** indicate significance at the 1 percent, 5 percent, and 10 percent levelsof significance, respectively. The long-run coefficients are derived through the normalization of coefficients of lagged level variables by the dependent variable from equation 2. The short-run is derived by summing the significant values of the lagged differenced coefficients of each variable from equation 2.
**Source:** Author's Computation.

Table 5, panel A, the result shows that FDI alone exerted a significant negative impact on inclusive growth in the short and long-run, while the interactive term (LnFDI*LnPSC) exerted a positive and significant impact on inclusive growth both in the short and long run. This result is in line with the hypothesis that FDI impacts positively on inclusive growth only when the domestic financial sector development has reached a certain minimum level, else FDI will have a non-significant impact on inclusive growth in Nigeria. This is evidence that the domestic money market development is a pre-condition for FDI to increase inclusive growth. This clearly shows that the financial sector (money market) acts as a link through which the benefits of FDI are transformed into promoting inclusive growth.

In panel B of Table 5, the short-run capital market result shows that FDI positively impacts inclusive growth while the long-run result reveals that FDI impacted inclusive growth negatively. Also, the interactive term (LnFDI*LnMC) exerted a significant negative and positive impact on inclusive growth in the short and long run, respectively. This result implies that in the short run, FDI inflows significantly contributed to inclusive growth without the complementing the capital market development (domestic financial sector development), while in the long run, the capital market complements FDI inflows in contributing to inclusive growth. The positive relationship between FDI inflows and inclusive growth in the short run may be explained by the fact that FDI can still contribute to inclusive growth directly by having a positive impact on the overall growth (economic growth), given the verifiable role of economic growth in poverty reduction (Dollar & Kraay, 2001). This may also be explained by the fact that FDI may induce government investment in infrastructure in local areas that benefit the local poor, also, FDI contributes to government revenue (tax income) that facilitates government-led programmes for the poor, etc. However, the long-run result supports the hypothesis that FDI impact positively on inclusive growth only when the domestic financial sector development has reached a certain minimum level. This is evidence that the domestic capital market development is one of the pre-conditions for FDI to contribute to inclusive growth. Therefore, the capital market acts as a link through which the benefits of FDI are transformed into promoting inclusive growth in Nigeria.

In panel A of Table 5, the financial sector (PSC) has a significant negative effect on inclusive growth in the short and in the long run. This negative significant effect of the financial sector development (money market development) on inclusive growth could be that the developments in the financial sector (PSC) are not translated to economic activities as funds are not being channeled to investment purposes. This could be that private sector credit is not based on production consideration. This is evident in the money market allocation of funds to government institutions and selective individuals against economic consideration. This may have been responsible for the accumulation of huge debts which in most cases are termed as non-performing loans (bad debts) leading to the economic and financial crime institutions chasing after them. Also, the negative significant effect of the domestic financial sector (PSC) on inclusive growth could be attributed to the inclusion of the interaction term (LnFDI*LnPSC), as it captures an important allocation function that a well-developed financial sector performs in people's wellbeing (inclusive growth) (Khan, 2007).

In panel B of Table 5, the financial market (MC) has a significant negative and non-significant effect on inclusive growth in the short and long-run, respectively. These effects could be attributed to the high internationalization of the Nigerian capital market, as it exposes the domestic financial sector (capital market) to external shock. This may be true because in the 2007 global financial crisis, it was found that the crisis-induced massive withdrawal of foreign investors' portfolio investment from the Nigeria financial system in order to service financial problems in the home country. This led to naira depreciation and a fall in foreign exchange reserve, in turn, this imposed higher importation costs, as well as production costs on manufacturing. This rising cost of production fueled inflation and unemployment in Nigeria. Evidence of the employment crisis that resulted from the global financial crisis is that of a quoted company like Dunlop Nigeria PLC. This company closed down, and over 5,000 staff were laid off in 2009 due to losses suffered (Nkoro and Uko, 2012). According to International Labour Organization (2009), over 51 million people were fired and additional 40 million people were at risk of being out of a job due to the global economic and financial crisis. Thus, the exposure of the capital market to external shock negated the fundamental influence of the domestic financial sector on inclusive growth.

However, these results do not connote that the financial system is not important in achieving inclusive growth in Nigeria, but the results are capable of informing policy actions, especially when there is evidence of FDI leading to inclusive growth after including the effect exerted by the financial sector development.

In Table 5, LnMAN which captures the industrial base of the economy has a negative effect on inclusive growth in the long run through the FDI spillover efficiency. This is contrary to the belief that a developed industrial base will have a positive impact on inclusive growth. In pane A and B of Table 5, the infrastructure (LnIFRA) has a significant negative and non-significant effect on inclusive growth, respectively. This could be attributed to the high level of infrastructural decay in Nigeria.

Copyright © 2022, EMEKA NKORO et al., nkoro23@yahoo.co.uk 

Given the coefficients of LnFDI, and the coefficients of the interactive terms, the study determined the threshold values of LnPSC and LnMC above which FDI begins to exact positive impact on inclusive growth. In calculating the threshold values, the study adopted Durham's (2004) approach as used by Khan (2007). The threshold value is calculated by differentiating the equations in Table 5 with respect to LnFDI and equate to zero. That is the derivation of the threshold levels is done using the short-and long-run coefficients of inclusive growth in Table 5, with respect to LnFDI.

**Money Market Development**

**The Short Run Equation: PSC interaction with FDI**

$$LnGDPPC = - 2.393LnFDI – 1.154LnPSC + 2.841LnMAN + 0.721LnIFRA + 1.120LnFDI*LnPSC$$

$$\Delta LnGDPPC/\Delta LnFDI = -2.393 + 1.120LnPSC = 0$$

$$LnPSC = 2.393/1.120 = 2.137$$

The threshold level for the short-run equation is derived by taking the antilog of 2.137 which is *8.471.*

. **The Long Run Equation: PSC interaction with FDI**

$$LnGDPPC = 29.514 – 4.490LnFDI – 3.865LnPSC – 1.603LnMAN – 2.751LnIFRA + 1.712LnFDI*LnPSC$$

$$\Delta LnGDPPC/\Delta LnFDI = -4.490 + 1.712LnPSC = 0$$

$$LnPSC = 4.490/1.712 = 2.623$$

The threshold level for the long-run equation is derived by taking the antilog of 2.623 which is *13.772.*

**Capital Market Development**

**The Short Run Equation: MC interaction with FDI**

$$\Delta LnGDPPC/\Delta LnFDI = 0.744 – 0.446LnMC = 0$$

$$LnMC = 0.744/0.446 =$$

The threshold level for the short-run equation is derived by taking the antilog of 1.668 which is *5.302*.

. **The Long Run Equation: MC interaction with FDI**

$$\Delta LnGDPPC/\Delta LnFDI = -2.327 + 1.462LnMC = 0$$

$$LnMC = 2.327/1.462 =$$

The threshold level for the long run equation is derived by taking the antilog of 1.592 which is *4.912.*

From the above calculation, the threshold levels for the short and long-run money market (PSC) models are 8.471 and 13.772, respectively. This result indicates that FDI will impact inclusive growth positively only when the percentage of private sector credit to gross domestic product (LnPSC) is above 8.5 percent and 13.8 percent in the short and long run, respectively. This implies that the percentage of private sector credit to gross domestic product (LnPSC) will have to be above 8 percent (for the short-run) and 14 percent (long-run) for foreign direct investment to have a significant positive impact on inclusive growth. Similarly, the threshold level for the long-run capital market (MC) model is 4.912 percent. This result indicates that FDI will impact on inclusive growth positively only when the percentage of market capitalization to gross domestic product (LnMC) is above 4.9 percent in the long run. This implies that the percentage of market capitalization to gross domestic product (LnMC) will have to be above 4.9 percent (long run) for foreign direct investment to have a significant positive impact on inclusive growth. These results

Copyright © 2022, EMEKA NKORO et al., nkoro23@yahoo.co.uk 

suggest that the host country will benefit significantly from FDI with a high level of money market development threshold while at the same time benefit from FDI with a moderate level of capital market development threshold.

## Concluding Remarks

This study examined the role of the domestic financial sector development in the relationship between foreign direct investment (FDI) inflows and inclusive growth in Nigeria over the period, 1981-2020 using annual time series. Analytically, the study employed the Autoregressive Distributed Lag (ARDL) framework. Based on the analysis, the study found:

- That the FDI exerted a positive effect on inclusive growth in the short and long-run when the domestic financial sector has reached a certain minimum level of development. This suggests that the domestic financial sector development is a pre-condition for FDI to effectively promote inclusive growth in Nigeria.
- That the FDI alone has a significant negative effect on inclusive growth both in the short and long run. This implies that FDI alone does not necessarily contribute to the improvement of welfare. The host country can only benefit from the positive effects of FDI when the efficiency and development of the domestic financial sector reach a certain minimum level.
- The industrial base (LnMAN) of the economy has a negative effect on inclusive growth through the FDI spillover efficiency contrary to the belief that a developed industrial base will have a positive impact on inclusive growth. Also, the infrastructure (LnIFRA) has a significant negative and non-significant effect on inclusive growth, respectively. This could be attributed to the level of infrastructural decay in Nigeria.

Based on the findings, the following suggestions are made:

- **The Development of the Domestic Absorptive Capacities-Financial Sector Development**: For FDI to positively impact on inclusive growth, the development of the domestic absorptive capacities has to be an integral part of the Nigeria policy agenda. The policymakers need to extend the financial sector development by further promoting reforms that will translate FDI inflows into inclusive growth. With this, financial services should be extended to many private sector entities for them to be able to meet up with the demand as well as compete with their foreign counterparts. In this case, jobs will be retained, income increased, and welfare improved. Lack of domestic absorptive capacities is the reason why most countries have not fully benefited from FDI, despite the influx of FDI, thereby struggling in poverty.
- **Further Research**: It would be desirable to disaggregate the data into different modalities of FDIs, to know how the different modalities of FDI affect inclusive growth in Nigeria.

## References


Afolabi, J.O. (2020). Impact of Financial Inclusion on Inclusive Growth: An Empirical Study of Nigeria. *Asian Journal of Economics and Empirical Research*, 7(1):8-14.

Alfaro, L., Chanda, A., Kalemli-Ozcan, S., & Sayek, S. (2004). FDI and Economic Growth: The Role of Local Financial Markets. *Journal of International Economics*, *64*(1), 89–112. https://doi.org/https://doi.org/10.1016/S0022-1996 (03)00081-3.

Amendolagine, V., Boly, A., Coniglio, N., Prota, F., & Seric, A. (2013). FDI and Local Linkages in Developing Countries: Evidence from Sub-Saharan Africa. *World Development*, *50*(C), 41–56. Retrieved from https://econpapers.repec.org/RePEc:eee:wdevel:v:50:y:2013:i:c:p:41-56

Anand, R., Mishra, S., & Peiris, S. J. (2013). Inclusive growth: Measurement and Determinants IMF Working Paper Asia Pacific Department Inclusive Growth: Measurement and Determinants.

Belderbos, R., Capannelli, G., & Fukao, K. (2001). Backward Vertical Linkages of Foreign Manufacturing Affiliates: Evidence From Japanese Multinationals. *World Development*, *29*(1), 189–208. Retrieved from https://econpapers.repec.org/RePEc:eee:wdevel:v:29:y:2001:i:1:p:189-208

Borensztein, E., De Gregorio, J., & Lee, J.-W. (1998). How Does Foreign Direct Investment Affect Economic Growth? *Journal of International Economics*, *45*(1), 115–135. https://doi.org/https://doi.org/10.1016/S0022-1996(97)00033-0.

Central Bank of Nigeria (CBN) Statistical Bulletin (Various Years).

Cermakova, K., Prochazka, P., Kurekova, L., & Rotschedl, J. (2020). Do Institutions Influence Economic Growth? *Prague Economic Papers*, *29*(6), 672-687. doi: 10.18267/j.pep.749 https://pep.vse.cz/pdfs/pep/2020/06/03.pdf

De Mello, L.R. (1997). Foreign Direct Investment in Developing Countries and Growth: A Selective Survey, The Journal of Development Studies, Vol. (34), pp.1-34. https://doi.org/10.1080/00220389708422501

Dollar, D. & Kraay, A. (2001). Growth is Good for the Poor, *Policy Research Working Paper 2587*, World Bank, Washington DC.

Durham, J. B. (2004). Absorptive Capacity and the Effects of Foreign Direct Investment and Equity Foreign Portfolio Investment on Economic Growth. *European Economic Review*. 48, 285–306.

Hermes, N, and Lensink, R. (2003). Foreign Direct Investment, Financial Development and Economic Growth. *The Journal of Development Studies* 40:1, 142–163. https://doi.org/10.1080/00220380412331293707

Herzer, Dierk (2010). How Does Foreign Direct Investment Really Affect Developing Countries' Growth?, *IAI Discussion Papers, No. 207*, Georg-August-Universität Göttingen, Ibero-America Institute for Economic Research (IAI), Göttingen

Horak, J., Hromada, E., Cermakova, K., Krulicky, T., Machova, V., Mitwallyova, H. (2021). Labour market and housing unavailability: Implications for regions affected by coal mining. *Acta Montanistica Slovaca*, (26), pp. 404–414. doi: 10.46544/ams.v26i3.02

Hromada, E. et al. (2021). Residential construction with a focus on evaluation of the life cycle of buildings. *Buildings*, 11(11), p. 524. doi: 10.3390/buildings11110524

Huang, H., and Xu, C. (1999) Institutions, Innovations and Growth. *American Economic Review* 89:2, 438–443.

International Labour Organization (2009). *World Employment Report*, Geneva.

Javorcik, B. S. (2004). Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers Through Backward Linkages. *The American Economic Review*, *94*(3), 605–627.

Johansen, S. and Juselius, K (1990) Maximum Likelihood Estimation and Inference on Cointegration—With Application to the Demand for Money. *Oxford Bulletin of Economics and Statistics* 52, 169–210.

Kang, H. & Martinez-Vazquez, J. (2021). When Does Foreign Direct Investment Lead to Inclusive Growth? *Georgia State University International Center for Public Policy Working Paper 21-04.*

Khan, M. A. (2007). Foreign Direct Investment and Economic Growth: The Role of Domestic Financial Sector, *Pakistan Institute of Development Economics Islamabad (PIDE) Working Papers 2007:18*

Machova, V. et al. (2022). Comparison of property price development in regions affected by mining with other regions of the CR. *Acta Montanistica Slovaca*, (27), pp. 491–504. doi: 10.46544/ams.v27i2.16.

MacKinnon, R. I. (1973). *Money and Capital in Economic Development*. Washington, D.C.: Brooking Institute.

Markusen, J. R., & Venables, A. J. (1997). Foreign Direct Investment as a Catalyst for Industrial Development. *National Bureau of Economic Research Working Paper Series*, *No. 6241*. https://doi.org/10.3386/w6241

Meyer, K. E. (2004). Perspectives on Multinational Enterprises in Emerging Economies. *Journal of International Business Studies*, *35*(4), 259–276. https://doi.org/10.1057/palgrave.jibs.8400084

Meyer, K. E., & Sinani, E. (2009). When and Where Does Foreign Direct Investment Generate Positive Spillovers? A Meta-Analysis. *Journal of International Business Studies*, *40*(7), 1075–1094. https://doi.org/10.1057/jibs.2008.111.

Narayan, P. K. (2005). The Saving and Investment Nexus in China: Evidence from Cointegration Tests. *Applied Economics, 37(17), 1979 – 1990.* 1979-1990. http://dx.doi.org/10.1080/00036840500278103.

Nkoro, E & Uko, A.K. (2016). Autoregressive Distributed Lag (ARDL) Cointegration Technique: Application and Interpretation, *Journal of Statistical and Econometric Methods, Vol.5(4), pp. 63-91.*

Nkoro, E. (2017). Does Economic Growth Reduce Poverty? Evidence From Nigeria, *African Journal of Applied and Theoretical Economics (Special Edition), November.*

Nunnenkamp, P. (2004). How to Improve the Developmental Impact of Foreign Direct Investment: A Review. *Review of World Economics*, 140 (3), 525-533. https://doi.org/10.1111/j.0378-5920.2004.00620.x

Nunnenkamp, P., & Spatz, J. (2003). Foreign Direct Investment and Economic Growth in Developing Countries: How Relevant are Host-Country and Industry Characteristics? *(Kiel Working Papers*). Kiel Institute for The World Economy (Ifw). Retrieved From Https://Econpapers.Repec.Org/Repec:zbw:ifwkwp:1176

Ohiorhenuan, J.F.E. (1990). The Industrialization of Very Late Starters: Historical Experience, Prospects and Strategic Options for Nigeria. *Institute of Development Studies. Discussion Paper No. 273.*

Oluseye, I. C., & Gabriel, A. A. (2017). Determinants of Inclusive Growth in Nigeria: An ARDL Approach. *American Journal of Economics*, *7*(3), 97–109. https://doi.org/10.5923/j.economics.20170703.01.

Oluwadamilola, O., Akinyemi, O. & Oluwasogo Adediran, O. (2018). Human Capital Development and Inclusive Growth: Implications For Achieving SDG-4 in Nigeria, African Population Studies Vol 32, No 1, (Supp.)

Ouechtati, I. (2020). Institutions and foreign direct investment: A Panel VAR approach. International Journal of Economic Sciences, Vol. IX(2), pp. 55-70, DOI:10.52950/ES.2020.9.2.004 https://eurrec.org/ijoes-article-25609

Ozegbe, A, E., Ogunlana, O. F., Nwani, S. E. & Onochie, S. N. (2019).Achieving Inclusive Growth in Nigeria through Exports: An Empirical Investigation, *South Asian Journal of Social Studies and Economics 3(1): 1-14, 2019; Article No.SAJSSE.47114*

Pesaran, M. H., Shin, Y. and Smith, R. J. (2001) Bounds Testing Approaches to the Analysis of Level Relationships. *Journal of Applied Econometrics* 16, 289–326.

Rod, A., Cermakova, K. (2016). Retail banking in the Czech Republic – a comparison of consumer prices between 2011 and 2014. International Journal of Economic Sciences, Vol. V(2), pp. 42-54. , DOI: 10.52950/ES.2016.5.2.003 https://eurrec.org/ijoes-article-461

Rodriguez-Clare, A. (1996). Multinationals, Llinkages, and Economic Development. *The American Economic Review*, *86*(4), 852–873.

Schumpeter, J.A. (1911). *The Theory of Economic Development*, New York: Oxford University Press.

Stawska, J., & Jabłonska, M. (2021). Determinants of Inclusive Growth in the Context of the Theory of Sustainable Finance in the European Union Countries. *Sustainability* 2022, *14, 100*. https://doi.org/10.3390/ su14010100.

UNCTAD (2009). Investment Policy Review of Nigeria. New York and Geneva.

Varahrami, V., Novin Vajari, A. (2019). FDI, Government Budget and Efficiency of Public Infrastructure Capital. International Journal of Economic Sciences, Vol. VIII (2), Pp. 148-158. , DOI: 10.52950/ES.2019.8.2.010.

World Bank (2000/2001). *World Development Report: Attacking Poverty*, Washington DC.

World Bank's PovcalNet database, **http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx.**

World Bank's World Development Indicators (WDI)

Wurgler, J. (2000) Financial Markets and the Allocation of Capital. *Journal of Financial Economics* 58, 187–214.