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Unlocking Sustainable Development Through Enhancing Foreign Direct Investment In Nigeria's Non-Oil Sector

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Abstract: *This study explores the role of Foreign Direct Investment (FDI) in unlocking sustainable development in Nigeria's non-oil sectors, focusing on its impact on economic growth, job creation, and identifying constraints hindering FDI inflows. Nigeria's heavy reliance on oil necessitates diversification through strengthened non-oil sectors such as agriculture, manufacturing, and services, where FDI can play a transformative role. The study aimed to (1) examine how macroeconomic stability affects foreign investors' decisions, and (2) assess the economic impacts of FDI in the non-oil sector. Using a sample size of 385 respondents, the research employed regression analysis as a tool for analyzing quantitative data gathered from structured questionnaires. Qualitative data from interviews were analyzed using content analysis to identify recurring themes. Key findings revealed that macroeconomic stability significantly influences foreign investors' decisions, with GDP growth being a strong attractor and unstable exchange rates deterring investment. FDI was found to contribute significantly to GDP and job creation. Based on these findings, it is recommended that the Nigerian government prioritize macroeconomic stability by fostering exchange rate stability and moderating inflation and interest rates to attract FDI. Additionally, policies should be implemented to enhance infrastructure and address insecurity to create a more conducive investment environment. By addressing these challenges, Nigeria can leverage FDI to accelerate economic diversification and sustainable development in its non-oil sectors.*

Keyword: Foreign Direct Investment, Macroeconomic Stability, Non-Oil Sectors, Economic Diversification

1. INTRODUCTION

Nigeria, a country endowed with abundant natural and human resources, faces persistent challenges in achieving sustainable economic growth. Many states in Nigeria grapple with issues such as employment generation, poverty reduction, and income growth. Despite concerted efforts by the government and economic stakeholders, the country's economic growth remains sluggish. Various factors, including unstable power supply, insecurity, corruption, inconsistent governmental policies, and a cumbersome taxation system, have been identified as major contributors to this slow pace of development. These challenges have stifled the capacity of the economy to leverage its non-oil sectors for diversification and growth.

Economic experts argue that foreign direct investment (FDI) in non-oil sectors could serve as a vital instrument to catalyze economic diversification and sustainable development. This view aligns with the position of Bello, Jibir, and Ahmed (2018), who emphasize the critical role of small and medium enterprises (SMEs) in driving economic growth. SMEs are widely regarded as the backbone of any developing economy, given their potential to create jobs, increase income, and reduce poverty. According to Muritala, Awolaja, and Bako (2012), SMEs provide a platform for entrepreneurial development, rural transformation, and the efficient utilization of local resources.

However, the growth and development of SMEs in Nigeria are constrained by multiple factors, including inadequate financial resources, high interest rates, weak infrastructure, and limited access to credit facilities. For example, Jibir (2015) highlights the need for the establishment of robust funding mechanisms, such as Micro, Small, and Medium Scale Development Funds (MSMSDF), to support the growth of SMEs. Similarly, Ikpor, Nnabu, and Itumo (2017) trace Nigeria's industrialization strategies back to the 1970s, underscoring the country's historical reliance on capital-intensive, large-scale industrial projects. While these initiatives brought some benefits, they also highlighted the importance of a balanced approach that includes a focus on SMEs and foreign investments in non-oil sectors.

Efforts to promote the non-oil sectors in Nigeria date back several decades. Various institutions and initiatives, such as the Nigerian Industrial Development Bank (NIDB), Agricultural Credit Guarantee Scheme Funding (ACGSF), and the National Economic Reconstruction Fund (NERFUND), have been established to enhance access to finance and provide long-term loans to SMEs. According to Ikpor et al. (2017), the merger of NERFUND and NIDB into the Bank of Industry in 2002 was a strategic move to consolidate resources and strengthen support for industrial and SME development. Other initiatives, including the Rural Banking Initiative (RBI), People's Bank, and Family Economic Advancement Programme (FEAP), have also contributed to these efforts, albeit with varying degrees of success. Despite these interventions, the non-oil sectors remain underdeveloped, accounting for a disproportionately small share of Nigeria's gross domestic product (GDP) and employment. This imbalance is further exacerbated by the dominance of the oil sector, which continues to attract the lion's share of both domestic and foreign investments. The lack of significant FDI inflows into the non-oil sectors has hindered the country's ability to diversify its economy and achieve inclusive growth.

Globally, FDI has been recognized as a critical driver of economic growth and development. Countries like China, India, and the United States have leveraged FDI to expand their non-oil sectors, enhance industrial capacity, and create jobs. For instance, Deen (2003) observes that SMEs contribute over 50% of GDP and over 65% of employment in these developed economies. These examples demonstrate the transformative potential of FDI when harnessed effectively.

In the Nigerian context, attracting FDI to the non-oil sectors is essential for addressing structural imbalances in the economy. Sectors such as agriculture, manufacturing, technology, and renewable energy hold immense potential for growth and diversification. However, achieving this requires a favorable investment climate characterized by stable policies, robust infrastructure, and effective governance. The role of the government in creating such an environment cannot be overstated. Measures such as ensuring policy consistency, improving security, and addressing corruption are crucial for building investor confidence and enhancing Nigeria's competitiveness in the global market.

Furthermore, the integration of FDI with the development of SMEs offers a unique opportunity to amplify the benefits of investment in non-oil sectors. SMEs serve as critical channels for job creation, local resource utilization, and rural development. They also play a pivotal role in fostering entrepreneurship and innovation, which are essential for sustaining economic growth. According to Aka (2001), SMEs act as catalysts for the industrial and economic transformation of a nation. By promoting the growth of SMEs alongside FDI, Nigeria can create a more inclusive and sustainable economic model that benefits a broader segment of the population.

Another important dimension of FDI in the non-oil sectors is its potential to contribute to environmental sustainability. Investments in renewable energy, sustainable agriculture, and eco-friendly manufacturing practices can help Nigeria address pressing environmental challenges while achieving economic growth. This aligns with global trends towards sustainable development, which emphasize the integration of economic, social, and environmental objectives.

The need to enhance FDI inflows into Nigeria's non-oil sectors cannot be overemphasized. Such investments have the potential to drive economic diversification, create jobs, reduce poverty, and promote sustainable development. However, this requires concerted efforts by the government, private sector, and other stakeholders to address existing challenges and create an enabling environment for investment. By prioritizing non-oil sectors and fostering the growth of SMEs, Nigeria can unlock new opportunities for economic transformation and build a more resilient and inclusive economy.

1.1 Objectives of the Study

The primary objectives of this study are:

1. To examine the effect of macro-economic stability on foreign investors' decisions to invest in Nigeria's non-oil sectors.
2. To assess the economic impacts of FDI in non-oil sector.

1.2 Research Hypotheses

1. Macroeconomic stability does not significantly influence foreign investors' decisions to invest in Nigeria's non-oil sectors.

2. FDI in Nigeria's non-oil sector significantly contributes to economic growth through increased GDP and job creation.

2. LITERATURE REVIEW

2.1 Macroeconomic Stability and Foreign Investors' Decisions

Macroeconomic stability is a critical determinant of foreign direct investment (FDI) inflows. Stability in inflation rates, exchange rates, and fiscal policies creates a predictable environment for investors, reducing uncertainties and risks associated with investment decisions. According to Asiedu (2006), countries with low inflation rates and stable exchange rates are more likely to attract FDI because such conditions signal economic resilience and effective governance. Similarly, Onyeiwu and Shrestha (2004) argue that exchange rate volatility and inflation significantly deter FDI, especially in developing economies like Nigeria.

Nigeria's economic history has been marked by periods of macroeconomic instability, including high inflation, fluctuating exchange rates, and inconsistent fiscal policies. This instability discourages foreign investors, particularly in the non-oil sectors where returns may be less immediate compared to the oil sector. Meyer and Sinani (2009) posit that macroeconomic stability not only influences the quantity but also the quality of FDI, as investors in stable environments are more likely to bring in long-term investments with higher economic benefits.

Despite challenges, there have been efforts to stabilize Nigeria's macroeconomic environment through reforms such as the introduction of the Central Bank's autonomous exchange rate window. These measures aim to enhance investor confidence. The World Bank (2020) notes that countries with stable economic frameworks often experience diversified FDI inflows, which is essential for sectors beyond oil.

2.2 Macroeconomic Stability as a Catalyst for Investment

The role of macroeconomic stability as a catalyst for investment cannot be overstated. A stable economic environment provides the foundation for sustainable investment, particularly in sectors that are sensitive to fluctuations in inflation, exchange rates, and government fiscal policies. Research by Dunning (1993) on the determinants of FDI highlights macroeconomic stability as a core factor influencing the location and scale of foreign investments. In the context of Nigeria, periods of fiscal and monetary instability have significantly eroded investor confidence, especially in the non-oil sectors where returns are often long-term and heavily reliant on economic predictability.

Countries with stable macroeconomic frameworks, such as South Africa and Morocco, have demonstrated higher levels of diversified FDI inflows, underscoring the critical need for Nigeria to prioritize stability (World Bank, 2024). Key interventions such as inflation targeting by the Central Bank of Nigeria and stabilization funds from oil revenue surpluses could further reinforce investor confidence (Asiedu, 2006; Onyeiwu, 2015). Furthermore, empirical evidence from Onyeiwu and Shrestha (2004) shows that countries with stable exchange rates and low inflation attract more sustainable FDI, even in non-resource-intensive sectors.

2.3 Economic Impacts of FDI in the Non-Oil Sector

Foreign direct investment has been widely recognized as a driver of economic growth, especially in developing economies. It contributes to GDP growth, employment creation, technology transfer, and infrastructural development. In Nigeria's non-oil sector, FDI has the potential to diversify the economy, reduce dependency on oil revenues, and stimulate industrialization. Olofsdotter (1998) asserts that FDI can enhance productivity through knowledge spillovers and increased competition in local markets.

Empirical evidence supports the economic benefits of FDI in non-oil sectors. For instance, Anyanwu (2012) highlights that FDI in agriculture and manufacturing has significantly contributed to job creation and GDP growth in Nigeria. Similarly, Ezeoha and Cattaneo (2012) underscore the role of FDI in promoting economic diversification, particularly in sectors such as telecommunications, agriculture, and information technology.

However, the extent of these benefits is often dependent on the absorptive capacity of the host economy, including the availability of skilled labor, infrastructure, and regulatory support. Borensztein, Gregorio, and Lee (1998) argue that the positive impacts of FDI are amplified in countries with robust human capital development. In Nigeria, while some progress has been made, the non-oil sectors still face structural weaknesses that limit the full realization of FDI's economic benefits.

2.4 FDI as a Driver of Economic Diversification in Nigeria

Foreign direct investment (FDI) plays a pivotal role in the diversification of economies, especially in countries that rely heavily on a single sector for revenue generation. In the context of Nigeria, where the oil sector has historically dominated the economy, FDI in non-oil sectors is viewed as a critical mechanism for achieving sustainable economic growth and resilience. According to Anyanwu (2012), economic diversification through FDI enables countries to reduce vulnerability to global market shocks and enhances overall economic stability.

Nigeria's non-oil sectors, such as agriculture, manufacturing, and services, have witnessed incremental FDI inflows over the past decade, driven by efforts to implement structural reforms and liberalize markets. Oyejide and Adewuyi (2011) assert that FDI fosters diversification by introducing advanced technologies, managerial expertise, and access to global value chains. For instance, investments in the agricultural sector have facilitated the mechanization of farming, while the telecommunications sector has benefitted from technological innovations introduced by foreign investors.

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However, the full potential of FDI to drive diversification is often hindered by systemic issues such as inadequate infrastructure, inconsistent policies, and weak institutions. Meyer and Sinani (2009) argue that the diversification benefits of FDI are maximized in countries with robust institutional frameworks and proactive policy measures. In Nigeria, the implementation of industrial clusters and special economic zones (SEZs) has been suggested as a strategy to channel FDI into non-oil sectors, fostering industrial growth and export diversification (Ajayi, 2006).

To realize the full potential of FDI in driving economic diversification, targeted policy reforms are required. These include simplifying regulatory processes, enhancing security, and providing incentives for investment in underdeveloped sectors. Asiedu (2006) emphasizes that governments that prioritize investor-friendly policies and infrastructure development are better positioned to leverage FDI for economic diversification.

3. METHODOLOGY

The study employed a quantitative research design to examine the factors influencing foreign investors' decisions, assess the economic impacts of FDI, and identify barriers to FDI in Nigeria's non-oil sectors. A stratified random sample of 385 respondents was selected from foreign investors, government officials, and industry experts. Data were collected through structured questionnaires and semi-structured interviews. The analysis employed regression techniques derived from standard statistical procedures on the collected data. Qualitative data were analyzed using content analysis. Secondary data were sourced from official reports. Ethical considerations, including informed consent and confidentiality, were strictly followed.

4. RESULTS AND FINDINGS

Hypothesis 1

H_0: Macroeconomic stability does not significantly influence foreign investors' decisions.

H_1 Macroeconomic stability significantly influences foreign investors' decisions.

Table 1: Regression Analysis Results

Effect of macro-economic stability on foreign investors' decisions to invest in Nigeria's non-oil sectors

Metric	Value	Interpretation
R-squared	0.805	80.5% of the variability in foreign investors' decisions is explained by the model.
Adjusted R-squared	0.802	Confirms a strong fit of the model after adjusting for predictors and sample size.
F-statistic	391.1	Indicates the overall model is statistically significant
p-value (F-statistic)	3.04e-133 (< 0.05)	The likelihood of the results occurring by chance is negligible.
Observations (n)	385	Total number of data points used in the analysis.

Table 2: Significance of Variables:

Variable	Coefficient (β\betaβ)	t-Statistic	p-Value	Interpretation
Inflation Rate	0.5039	11.544	0.000	Positive and significant. Higher inflation attracts foreign investors slightly, likely due to higher returns in volatile markets.
Exchange Rate Stability	-0.2916	-33.174	0.000	Negative and significant. Unstable exchange rates discourage foreign investment.
GDP Growth Rate	1.2372	14.158	0.000	Positive and significant. Strong GDP growth encourages foreign investiment
Interest Rate	-0.3586	-8.224	0.000	Negative and significant; higher rates deter foreign investment

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The analysis reveals mixed effects of macroeconomic factors on FDI. Inflation rate ($\beta = 0.5039$, $p < 0.001$) and GDP growth rate ($\beta = 1.2372$, $p < 0.001$) positively and significantly attract investors, while exchange rate stability ($\beta = -0.2916$, $p < 0.001$) and interest rate ($\beta = -0.3586$, $p < 0.001$) negatively and significantly impact FDI inflows.

Decision:

Since the p-values for all predictors are less than 0.05, we reject the null hypothesis. This confirms that macroeconomic stability significantly influences foreign investors' decisions to invest in Nigeria's non-oil sectors.

Hypothesis Two

FDI in Nigeria's non-oil sector significantly contributes to economic growth through increased GDP and job creation

Table 3: Effect of FDI on GDP

Metric	Value	Interpretation
R-squared	0.988	98.8% of the variation in GDP is explained by FDI in the non-oil sector.
Adjusted R-squared	0.988	Confirms strong model fit, accounting for sample size and predictor count..
F-statistic	31.440	Indicates a highly significant relationship.
p-value (F-statistic)	< 0.001	FDI has a statistically significant impact on GDP.
Coefficient (β)	3.4924	A ₦1M increase in FDI is associated with a ₦3.49M increase in GDP.
p-value (β)	< 0.001	FDI is a significant predictor of GDP.

The regression analysis in table 3 indicates a strong and statistically significant relationship between FDI and GDP, with an R-squared of 0.988 and a p-value < 0.001. The coefficient ($\beta = 3.4924$) shows that a ₦1M increase in FDI leads to a ₦3.49M GDP increase, confirming FDI's critical role in economic growth.

Table 4: Effect of FDI on Job Creation

Metric	Value	Interpretation
R-squared	0.993	99.3% of the variation in job creation is explained by FDI in the non-oil sector.
Adjusted R-squared	0.993	Confirms a very strong model fit.
F-statistic	55.170	Indicates a highly significant relationship.
p-value (F-statistic)	< 0.001	FDI has a statistically significant impact on job creation.
Coefficient (β)	1.8072	A ₦1B increase in FDI is associated with a 1.81 thousand increase in job creation.
p-value (β)	< 0.001	FDI is a significant predictor of job creation.

The regression analysis in table 4 shows a very strong and statistically significant impact of FDI on job creation, with an R-squared of 0.993 and a p-value < 0.001. The coefficient ($\beta = 1.8072$) indicates that a ₦1B increase in FDI results in 1.81K jobs, highlighting FDI's critical role in employment growth.

Decision:

Since the p-values for all predictors are less than 0.05, we reject the null hypothesis and accept the alternative hypothesis that states that FDI in Nigeria's non-oil sector significantly contributes to economic growth through increased GDP and job creation.

5. CONCLUSION AND RECOMMENDATIONS

This study examined the factors influencing foreign direct investment (FDI) in Nigeria's non-oil sectors and assessed its economic impacts. The findings indicated that macroeconomic stability, including factors such as inflation control, exchange rate stability, and fiscal policy consistency, plays a significant role in shaping foreign investors' decisions to invest in Nigeria's non-oil sectors. Additionally, the study revealed that FDI has a positive and substantial impact on Nigeria's economic growth, particularly in terms of increasing GDP and job creation. The results underscore the importance of creating a stable and predictable economic environment to attract and sustain foreign investment in these sectors. These insights can guide policy reforms aimed at enhancing the potential of Nigeria's non-oil sectors for long-term economic diversification and growth.

Based on the findings, the study recommends the following:

1. The Nigerian government should prioritize stabilizing the macroeconomic environment by controlling inflation, ensuring exchange rate stability, and maintaining consistent fiscal policies. This will help improve investor confidence and attract more foreign investment into Nigeria's non-oil sectors.
2. To maximize the benefits of FDI, the government should implement targeted incentives, such as tax breaks, financing options, etc to encourage foreign investment in key non-oil sectors. This will boost job creation, GDP growth, and economic diversification.

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