

Foreign Direct Investment, Tourism and Economic Growth in Nigeria

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ABSTRACT

The research examined foreign direct investment, tourism and Nigeria's economic growth. The yearly time series data from 1981 to 2023 was obtained from the 2023 bulletin of the Central Bank of Nigeria statistical bulletin. Gross domestic product was deployed as the explained variable while tourism revenue, foreign direct investment, inflation and gross capital formation were utilized as the explanatory variables. Auto regressive distributed lag (ARDL) model was used for the regression analysis. The results showed that foreign direct investment and tourism had a favorable implication on the growth of the economy in the short run and long run. The researcher recommended that Nigeria should create a peaceful atmosphere that will attract investment in the tourism, inflation should be tackled and the authorities should accelerate the tourism sector revenue by purchasing, replacing and repairing more tourism facilities that will attract tourists.

Keywords: Foreign Direct Investment, Tourism, Economic Growth, Nigeria

JEL Classifications: F21, L83, 040

1. INTRODUCTION

The main target of all global nations is to accomplish a stable economic development which is characterized by low unemployment rate, price stability, balance of payment equilibrium, income equality and low inflation rate like Canada, Germany, Italy, Great Britain, France and the United States of America. (Adanma and Ogunbiyi, 2024). Several nations have failed to reach the milestone of development due to corruption, increase in crime rate, unemployment, nepotism, military uprisings, anarchy and terrorism (Oduote and Bello, 2024). African countries are not exempted from these glaring anomalies with Nigeria as an example as the challenges have been happening for donkey years with successive governments trying their best to curtail the situation but has not produced the desired results.

Nigeria is filled with numerous natural resources that have yielded a lot of earnings for the government for several decades. The proceeds from the sales of these minerals have ended up in private

pockets and accounts due to the weakness of the institutions in tracking down those culprits (Frances et al., 2023). This had a negative implication on the tourism industry because our tourism centers which were once centers of attraction for local and foreign tourists are now in a pitiable state. Yankari Games Reserve in Bauchi state, Ikogosi warm springs in Ekiti state, the University of Ibadan Zoo and the Obudu Ranch in Cross River State are now living on past glories due to insecurity and volatility of exchange rate in the country.

Tourism sector is an important sector because it attracts foreign direct investment as some investors disguise as tourists to view the happenings in the tourism industry before they eventually invest in the lucrative sector (Seraj et al., 2025). If the government reduces interest rate and combats the level of insecurity in the nation through agencies and institutions, investors will be fully convinced to invest which will give the money-making industry a different outlook. Tourism is one of the key drivers of the wealth creation of any global nation as it is a vital money-making

avenue for the government due to its contribution to the GDP of the nation (Matthew et al., 2021). While tourism is seen among the ingredients for economic development. Recent works reveals its complex role in achieving a sustainable economic growth and development. Positive changes of the tourism sector need some enabling conditions like utilizing the revenue from tourism to improve the lives of the people in local suburbs and meeting the expectations of local and foreign tourists when they come around. In this context, a successful tourism sector of the economy is beneficial to the government and its citizens while fostering tourism experiences. Nigeria has a unique ability to branch out of its struggling economy to other sectors thereby reducing her over reliance on oil exports through tourism (Folorunsho and Adetoye, 2024). Tourism in Nigeria has been in existence since the 1600s as the sector witnessed a steady growth till 1962 when the Nigerian Tourist Association was established and the sector has been experiencing ups and downs since then. Despite challenges, tourism's foreign exchange potential came to a full glare of the public in 1987 when the government generated approximately N1.1billion from the money paid by 329,000 tourists (Apolo et al., 2024).

While the Nigerian republic has displayed a good prospect of economic growth, it has remained susceptible to several economic challenges which includes fluctuating growth rates and recession periods (Nwala and Gesiere, 2024). However, the United Nations World Tourism Organization (UNWTO, 2015) looked at the tourism sector flexibility in the stabilization of the economies throughout the globe. Tourism sector improvement depends on the financial and moral backing of the central authorities with international co-operation from foreign countries and bodies. This will elevate Nigerian tourist sites and accelerate the value of the cultural festivals in the nation which will finally attract significant national and international visitors.

The tourism subdivision of the Nigerian economy provided up to approximately N4 billion for the GDP of 2018 (Osinubi and Osinubi, 2020), This confirms an enormous prospect for a better economic elevation which is possible from continuous investments and overall prosperity. Despite several barriers such as poor facilities, ineffective laws, inadequate sponsorship, political unrest, and numerous lapses in the aspect of security, global sightseeing has increased tremendously for several decades. However, Nigeria's potentials in tourism are still untouched because of non-implementation of policies coupled with slow infrastructural development. The non-implemented Master Plan of the tourism sector of Nigeria which was proposed to foster the tourism sector advancement has been totally abandoned.

Nigeria has been perpetually dependent on crude oil for several decades. Though tourism is seen as a reliable revenue source, no meaningful positive addition to the financial growth of the state due to poor marketing, dilapidated infrastructure, and ineffective execution of tourism policies. This has led to the sorry state of domestic tourism and a drastic reduction in the tourism revenue generation. Because of this, the effect of tourism sector on the gross national income (GNI) of Nigeria is minimal which has slowed down economic development (Islam, 2025).

It has been proved by global researchers that Nigeria is the chief stakeholder of FDI in Sub-Saharan Africa, after Egypt and Ethiopia as Nigeria has experienced many trades at national and international levels which were targeted at diverting the nation away from the crude oil sector as mentioned earlier. These laws were focused on the educational advancement, transport efficiency, mining availability, tourism development and industrialization.

Foreign direct investment historical aspect can be connected to the colonial era when the intention of the colonial masters was to exploit and transport crude oil and other mineral resources of the Republic of Nigeria to their distant nations. They made little or no contribution to Nigeria's investment within that era but the FDI flow in the oil sector accelerated at high speed with the oil discovery in Oloibiri in 1956. The aim of this research is to assess the combined effect of foreign direct investment and tourism on the economic growth of Nigeria.

The paper is divided into five parts which comprises of the study background, review of literature, methodology, analysis of the data and discussion before the summary, conclusion and recommendations.

2. LITERATURE REVIEW

2.1. Conceptual Review

2.1.1. Economic growth

Economic growth is the persistent rise in a nation's income per capita of a nation (Chete et al., 2024). It is the increase in the nation's capacity in producing visible and invisible commodities (Islam, 2025). Essential drivers of economic growth includes increase in inputs, income equalities, balance of payment equilibrium and technological progress which brings a greater efficiency. Modern developments in the models of growth always lay emphasis on human capital investments, innovations and accumulation of knowledge on economic growth (Almutairi, 2024). However, rapid economic growth can result in structural imbalances, pressures of inflations and environmental concerns if it is not properly managed.

2.1.2. Tourism

Tourism is when people travel to a new environment for leisure, business and other purposes. Tourism can be in form of staying overnight in a secluded place. Tourism can be national or international depending on the decision of the tourist. Benefits of tourism are diverse which includes the generation of revenue for government, promotes the cultural heritage and traditions that have been there for centuries, promotes exchange of cultural values among different villages and towns in a particular vicinity and supports new initiatives in research and education. Tourism can be in form of business tourism, religious tourism, cultural tourism, entertainment tourism and eco-tourism.

2.1.3. Foreign direct investment

It occurs when an entity decides to invest in another economy. FDI is usually an investment that lasts for a long period as it involves the agreement with both countries or the individual and the country involved. There are different categories of foreign direct

investment which includes horizontal foreign direct investment, vertical Foreign Direct investment, conglomerate foreign direct investment etc. FDI had led to entry to new markets, technology transfer from one sovereignty to another and has boosted economic growth.

2.2. Theoretical Review

2.2.1. Harrod-Domar growth model

Harrod-Domar model was propounded in 1939 and 1946 by Roy Harrod and Evsey Domar. The theory says that the growth rate of the economy is stimulated by the rate of savings of the citizens and the ratio of the capital to output of the economy. This means that higher rate of savings gives room for more capital investment in the economy thereby accelerating the production capacity of the sectors of the economy. Investment also leads to a stock of capital increase. Savings becomes a reality through the influx of new investments which will lead to creation of more jobs for the people.

In connection to tourism and investment, higher revenue from tourism will accelerate investment which will automatically accelerate economic growth.

2.2.2. Spillover theory

Spillover theory looks at the happenings in an economy in one context that occurs because of different aspects in a seemingly unrelated context. Hospitality FDI spillovers refer to positive anomalies that leads to a rise in economic productivity among local industries due to the injection of FDI into the industry particularly the hospitality industry like hotels and tourists' centers in Nigeria. FDI spillovers happens when the productivity or technology of local industries changes as a result of a foreign presence without any market transactions that unexpectedly rewards a foreign firm for the possible benefits which are meant for to domestic firms (Chen et al., 2011). Foreign direct investment (FDI) has been eulogized as an important material for development especially for countries whose industrial development is at an abysmal level. Attracting conglomerates and multinational enterprises (MNEs) is viewed as a channel for bringing advanced industries into the worsened industrial climate in the nation, and, given an implicit assumption of automated diffusion mechanisms, the idea is that advanced production technology, skills at the managerial level, and acceptable and working practices will be shifted from foreign investors to local industries, boosting the productivity of local manufacturers.

2.2.3. Modernization theory

Modernization theory was postulated in the late 1950s due to the failure of previous development theories. Modernization Theory emphasizes on the importance economic development in a nation; it also encompasses social and cultural changes in the industrial and tourism atmosphere. Modernization theory has been viewed as a theory (Reyes, 2001) that uses an advanced system to transform undeveloped nations to developed nations. It is a United States and European development model. The aim of Modernization Theory is change directed at institutional structures in industrialized countries that are just coming up. Modernization is ideal for economic development which will bring an overall transformation in the tourism industry in Nigeria.

The technology spillover from FDI is needed for the resounding growth of the economy in developing countries because they don't have the needed blueprint of productivity in the aspect of human capital, free markets, stability at the social and economic level that drives inventions and talents in order to enhance productivity and foster growth. Apart from the technology and capital that came into the nation, FDI encourages the flow of resources and enables international firms to have a good access to marketing strategies that will improve their financial capabilities. It should be noted that modernization theory identifies FDI as a growth and development tool in an economy.

2.3. Empirical Review

Ananti et al. (2025) investigated the insecurity implications on Nigeria's foreign direct investment. Their research scope was from 2010 to 2024. Content analysis method was used for their research as their work looked at ethnic clashes, religious intolerance, menace of the Fulani herdsmen and militants terrorizing some strategic parts of the nation. Their findings showed that continuous insecurity was a serious barrier to the inpouring of the foreign direct investment and has distorted several activities in the economy inclusive of oil production, business activities and investment climate. They looked at how insecurity can impact FDI but failed to explain how FDI can foster tourism in Nigeria which is the main purpose of my research.

Seraj et al. (2025) looked at the contribution of tourism to the growth of the gross domestic product and sustainable African tourism development. The period of their study was from 1999 to 2020. The secondary data they utilized was from World development indicators (WDI). Six African countries were used for their research work as they employed the use of method of moment quantile regression for their analysis. Their findings showed that there was a significant positive and significant relationship between tourism on the growth of GDP and sustainable development. The researchers only looked at the effect on the growth of tourism on economic growth and development but failed to look at the relationship between tourism and foreign direct investment which is the purpose of this work.

Edy-Ewoh et al. (2024) carried out an investigation of the effect of tourism on the nation's economic growth from 1995 to 2021 which was a period of 26 years. Secondary data for the study was obtained from the world bank development indicators (WDI). The parameters that were used in this study includes GDP growth rate, receipts from tourism, arrivals from tourists etc. Augmented dickey fuller (ADF) and Phillip Perron were used to test for the unit root while the vector error correction model (VECM) explained the impact of tourism on Nigeria and South Africa's economic growth. The findings showed that tourism causality in Nigeria and South Africa in the long run. It also showed that a stable political economy is a crucial factor in the tourism sectors of both countries. The scholars looked at the impact of tourism in both Nigeria and South Africa but didn't focus on the tourism and foreign direct investment in Nigeria only.

Chekwa et al. (2023) investigated the drivers of foreign direct investment in Nigeria for the period of 1986-2020. Secondary

data for the work was from the statistical bulletin of the highest monetary authority in the nation. Ordinary least squares method of regression was used to analyze the time series data for that period and the findings showed that the parameters that were used in the model which are rate of interest, rate of currency and the real gross domestic product have an influence on the foreign direct investment flow in Nigeria as it will either encourage or discourage foreign investors. The owners of the work looked at the parameters that drive foreign direct investment but ignored the importance of foreign direct investment on tourism in Nigeria as it will boost economic growth.

Meivitanli (2022) analyzed the impact of foreign direct investment on tourism on economic growth in Indonesia for the period of 2000-2019. Secondary data was obtained from a tourism center in Indonesia and ordinary least squares regression was used to analyze the data. The results showed that foreign direct investment has a positive impact on tourism in the Asian country at the 5% level of significance and if foreign direct investment to the tourism sector is terminated, it can cause a serious damage to the sector. The author looked at the implication of foreign direct investment in Indonesia and it is not relevant to the impact of the foreign direct investment in Nigeria due to climatic, ideological, geographical, religious, cultural and financial differences of both countries as what works for Nigeria may not make a headway in Indonesia.

Ogbanje and Onoja (2022) commenced a full investigation on the effect of foreign direct investment of the agricultural sector in Nigeria for the period of 1981-2019. Secondary data for the research was retrieved from the datasets of food and agricultural organization (FAO) and the bulletin of the Nigerian apex bank. Autoregressive distributed lag (ARDL) was used to run he regression analysis while the Johansen cointegration test was used to test for the presence of the long run relationship among the parameters of the model. The findings showed that foreign direct investment went at a higher speed than the agricultural sector hence the FDI will have a positive impact on the agricultural sector of the economy at the long run. The academic scholars looked at the implications of foreign direct investment on the agricultural sector without making any mention of the tourism sector which proves the authenticity of this research work.

Iheanacho and Oziegbe (2021) looked at the assessing the input of foreign direct investment on the Nigeria and Ghana sustainable development. Their scope of study was from 2000 to 2018. Secondary data used for the study was retrieved from the world development indicators (WDI). Ordinary Least Square technique was used to test for the regression analysis and the findings revealed that Ghana performed better than Nigeria in the aspect of sustainability at the social level especially in the education and health sectors. The researchers only focused on Nigeria and Ghana in the aspect of tourism and sustainable development and left out tourism which is the gap that this study intends to cover.

Udemba et al. (2020) investigated modelling the nexus between emission of pollutants, consumption of energy, direct investment from the foreign angle and the economic growth with new ideas

from China for the 1995 of the first quarter to the 2016 of the fourth quarter. World Bank Indicators dataset was used for the work and the research used the autoregressive distributed lag (ARDL) for the regression analysis. The findings gave the favorable relationship between pollutant emissions and other parameters of the model with economic growth in absentia. This exposes China as a nation to the degrading environment in China as a result of the growth of the economy that is not cooperating. The research looked at the effect of foreign direct investment and other pollutants on economic growth in China but failed to look at the implications of tourism and foreign direct investment on economic growth in Nigeria.

Adeola et al. (2020) assessed the connectivity between foreign direct investment and African tourism development as their study scope was from 1995 to 2014. Secondary data used for the study was gotten from one of the world bank affiliates. Their study covered 44 African nations as panel autoregressive lag model was used for the research in order to find out the dynamics of their short run and long run. The findings showed a positive long run connectivity between foreign direct investment and tourism development while a negative short run connectivity happened between exchange rate and tourism development. The study looked at foreign direct investment and African tourism but did not focus it on only Nigeria which is the gap that the researcher is willing to cover.

3. METHODOLOGY

3.1. Theoretical Framework

Harrod-Domar growth theory examines a growth rate of the economy as it depends on people's savings and investment in that economy. Harrod and Domar were interested in finding out how the rate of income growth will be essential for the smooth and uninterrupted workings in a given economy like Nigeria. Therefore, the Harrod-Domar model of growth of the economy gives a vivid explanation of the usefulness of investment and savings as they are part of the key drivers of growth of the economy.

3.2. Data Requirement and Sources

Data that was utilized for this research comprises of data on gross domestic product, tourism expenditure in \$, foreign direct investment and gross capital formation for the duration of 1981-2023. The research paper used time series data which was retrieved from the Central Bank of Nigeria statistical bulletin. Data statistical properties were ascertained using the augmented dickey fuller and the Phillip Perron test.

3.3. Model Specification

The sole aim of this work is to examine the foreign direct investment, tourism and economic growth in Nigeria, the empirical study model is given as

$$GDP_t = f(TOUREV_t, FDI_t, INF_t, GFCF_t) \quad (1)$$

Since the variables are already logged, GDP stands for gross domestic product, TOUREV symbolizes tourism revenue. FDI

denotes foreign direct investment. INF is the abbreviation for rate of inflation while GFCF is the short form of Gross Capital Formation. β_0 represents constant, t stands for time and $\beta_1, \beta_2, \beta_3$ represents the coefficients of the explanatory variables while the ϵ_t is the error term.

Equation 1 will be logged as follows

$$\ln GDP_t = \alpha_0 + \beta_1 \ln TOUREV_t + \beta_2 \ln FDI_t + \beta_3 \ln INF_t + \beta_4 \ln GFCF_t \quad (2)$$

Where α_0 is the constant representing the model intercept t is the time while β_1 to β_4 are the coefficient of the independent variables

Apriori: we expect $\beta_1 > 0, \beta_2 > 0, \beta_3 > 0, \beta_4 > 0$.

3.4. Estimation Techniques

The study utilizes the autoregressive regressive distributed lag (ARDL) invented by Peseran et al. (2001). The ARDL model is applicable when the integration order of the series is at level and first difference. There is no restriction on the size of the sample as equation 3.

$$\begin{aligned} \Delta \ln GDP = & \alpha_0 \sum_{k=1}^n \alpha_1 \Delta \ln GDP_{t-k} + \sum_{k=1}^n \alpha_2 \Delta \ln TOUREV_{t-k} \\ & + \sum_{k=1}^n \alpha_3 \Delta \ln FDI_{t-k} + \sum_{k=1}^n \alpha_4 \Delta \ln AGINF_{t-k} \\ & + \sum_{k=1}^n \alpha_5 \Delta \ln GFCF_{t-k} + \beta_1 \ln GDP_{t-1} + \beta_2 \ln TOUREV_{t-1} \\ & + \beta_3 \ln FDI_{t-1} + \beta_4 \ln INF_{t-1} + \beta_5 \ln GFCF_{t-1} + \epsilon_t \end{aligned} \quad (3)$$

In equation 2 β_1 to β_5 are the long run parameters while α_1 to α_5 are the parameters of the short run. α_0 is the drift component, Δ is the operator difference while the ϵ_t symbolizes the error term. The ARDL cointegration test was used to test for the presence of a long run relationship among the variables and it revealed the comparison between the maximum limit and minimum limit with the F-Statistic figure. If the F-Statistic is more than the upper bound critical values, we discard the null hypothesis but if the value of the F-Statistic is less than the upper limit, we register the null hypothesis which means that cointegration is absent among the variables in the ARDL model. The error correlation coefficient representing the adjustment speed from the short run equilibrium is given in equation 4 which is as follows.

$$\begin{aligned} \Delta \ln GDP = & \alpha_0 \sum_{k=1}^n \alpha_1 \Delta \ln GDP_{t-k} + \sum_{k=1}^n \alpha_2 \Delta \ln TOUREV_{t-k} \\ & + \sum_{k=1}^n \alpha_3 \Delta \ln FDI_{t-k} + \sum_{k=1}^n \alpha_4 \Delta \ln INF_{t-k} + \\ & \sum_{k=1}^n \alpha_5 \Delta \ln GFCF_{t-k} + \varnothing ECM_{t-1} + \epsilon_t \end{aligned} \quad (4)$$

Where Δ symbolizes the first difference operator while \varnothing is the error term coefficient which gives the adjustment speed in the long run equilibrium of the long run after long run shocks.

4. EMPIRICAL FINDINGS

4.1. Descriptive Statistics

The descriptive statistics for the period 1981-2023 are shown in the Table 1. The results show that the trends that happened to the tourism sector. Gross domestic product (GDP) averaged \$39,865.7 billion with a minimum of \$16,211 billion with a maximum of \$76,346.28 billion. This showed the gross domestic product growth over many years. Tourism revenue (TOUREV) averaged \$50,162.56 billion with a bigger value of \$174.8334 million and a smaller value of \$3.41668 million. This revealed the abysmal patronage of the tourism sector for several years. Besides foreign direct investment (FDI) also had an average of \$2703.743 billion with an apex figure of \$8,840 million and a least figure of \$189.16 million. This is an indication that foreign direct investment on the tourism sector has not been encouraging for decades. The rate of Inflation also had a mean of \$19.08047 with a maximum value of \$19.08047 billion with a top figure of \$72.84% with the bottom figure of \$5.39%. This is too high for the Nigerian economy.

Finally, the mean of gross capital formation (GFCF) is \$8804.326 billion with a high quantity of \$15789.67 billion and a least amount of \$5668.868 which shows that the nation's gross capital formation has future prospect in the nation's economic growth.

4.2. Unit Root Test Result

The result of the augmented dickey fuller (ADF) and Philip-Perron unit root test presented in Table 2 shows that the gross domestic product, tourism expenditure and foreign direct investment were all integrated at first difference at the values of augmented dickey fuller (ADF) and Philip Perron.

Table 1 : Descriptive statistics

	GDP	TOUREV	FDI	INF	GFCF
Mean	39865.57	50.16256	2703.743	19.08047	8804.326
Median	31064.27	15.35365	1870	13.01	8385.965
Maximum	76346.28	174.8334	8840	72.84	15789.67
Minimum	16211.49	3.41668	189.16	5.39	5668.868
Std. Dev.	21586.38	63.12466	2609.178	16.28135	2108.277
Skewness	0.47877	0.98832	0.97405	1.867583	1.146369
Kurtosis	1.577309	2.183664	2.682457	5.473588	4.682529
Jarque-Bera	5.269171	8.19421	6.980203	35.95893	14.49019
Probability	0.071749	0.016621	0.030498	0	0.000714
Sum	1714219	2156.99	116261	820.46	378586
Sum Sq. Dev	1.96E+10	167358.3	2.86E+08	11133.45	1.87E+08

Source: Researchers computation 2025

Table 2: Unit root test (augmented dickey fuller and Phillip Perron)

VARIABLE	ADF		PP		ORDER OF INTEGRATION
	LEVEL	FIRST DIFFERENCE	LEVEL	FIRST DIFFERENCE	
LGDP	-1.385 (0.850)	-3.950 (0.001)***	-2.924 (0.166)	-3.796 (0.000)***	I(1)
LTOUREV	-2.536 (0.265)	-4.525 (0.002)***	-2.009 (0.279)	-4.519 (0.001)***	I(1)
LFDI	-2.536 (0.310)	-10.039 (0.000)***	-2.409 (0.370)	-10.039 (0.000)***	I(1)
LINF	-3.484 (0.001)***	-7.144 (0.000)***	-3.924 (0.000)***	-9.509 (0.000)***	I(0)
LGFCF	-5.378 (0.000)***	-5.355 (0.000)***	-5.679 (0.000)***	-6.032 (0.000)***	I(0)

Source: Researchers computation 2025

In contrast, rate of inflation and formation of gross capital were all integrated at levels at the values of both augmented dickey fuller and Phillip Perron Test therefore the mixture of level integration and first order integration justify the acceptability of the autoregressive distributed lag (ARDL).

4.3. Cointegration

The F-bound test figures in the Table 3 gives the results of a long run equilibrium relationship among the elements. The F-Statistic of 11.522 is more than the upper limit and lower limit critical values at all levels of significance of 1%, 5% and 10% respectively at 3.09, 3.49, 4.37 and 2.2, 2.56 and 3.29 respectively. This calls for the discarding of the null hypothesis of cointegration absence confirming a long run relationship between the parameters. This justifies using autoregressive lag (ARDL) method for modelling the short run and long run dynamics of the model.

4.4. Short Run Result

The short run result is presented in the Table 4 showed that tourism revenue exerted a positive connectivity with the gross domestic product as a 1% rise in tourism revenue by government led to the 0.035% increase in the gross domestic product at a 5% significance. This is in agreement with the expectation of the apriori as it attests to the fact that a rise in the government revenue from the tourism sector will make the government to have enough funds to revive the sector as it will regain its lost glory and foster an increase in revenue for the government.

Similarly, the 1 year lagged values of tourism revenue had a negative impact on the gross domestic product with a 1% increase in the tourism revenue in the previous year led to the reduction in the gross domestic product by 0.059% at a 10% level of significance. This disobeys the apriori expectation as the historical levels of tourism revenue did not support economic growth due to the fact that the high level of insecurity in the nation reduced the number of tourists to tourist sites in Nigeria.

In addition, foreign direct investment played a very essential part in the tourism sector as a 1% elevation in the foreign direct investment caused a 0.014% rise in the growth of the nation’s economy at a 5% level of significance. This obeys the apriori expectation because private and foreign investors play a great role in the economic growth of nation when they come to invest

Table 3: ARDL bound test

Test Statistic	Value	Significance.	I(0)	I(1)
F-statistic	11.522	10%	2.2	3.09
k	4	5%	2.56	3.49
		2.50%	2.88	3.87
		1%	3.29	4.37

Source: Researchers computation 2025

Table 4: Short run regression result

Variable	Coefficient	Std. Error	t-Stat.	Prob.
LTOUREV	0.035	0.030	1.155	0.026
LTOUREV(-1)	-0.059	0.032	-1.841	0.075
LFDI	0.014	0.007	2.111	0.043
DLGFCF	-0.005	0.034	-0.152	0.080
CointEq(-1)*	-0.155	0.017	-8.960	0.000

Source: Researchers computation 2025

in some assets in the economy with an enabling environment like good national security and reduction of interest rate.

Furthermore, the gross capital formation had a negative relationship with economic growth at a 10% significant significance as a 1% rise in the formation of gross capital caused a 0.005% dampening of the gross domestic product. This is against the expectation of the apriori especially when capital is tied up with unproductive projects that does not benefit the economy as the funds could have been invested in the tourism sector which would have boosted the economy.

Finally, the error correction term coefficient of -0.155 is at the 1% significance level which shows that 15.5% of any disequilibrium in the short run will be corrected yearly which shows a fast adjustment speed towards long run stability.

4.5. Long Run Result

The long run results presented in the table 5 revealed that tourism revenue had a favorable implication on economic growth as a 1% in tourism revenue accelerated the growth of the economy by 0.354% at a 1% level of significance. It obeys the apriori expectation as it will create jobs and enhance the development of infrastructures that leads to the tourism facility like roads, hospitals and street lights which will benefit the tourists and the areas surrounding the tourism center.

In addition, foreign direct investment (FDI) had a positive implication on the economic growth as a 1% rise in the foreign direct investment increased the gross domestic product by 0.234% at a 10% significance level. This is in accordance with the expectation of the apriori as foreign direct investments enhances a foreign capital inflow, creates many jobs and leads to a transfer of technology which will foster overall effectiveness and productivity in the tourism sector and the Nigerian economy.

Conversely, a long run negative effect of inflation on the Nigeria’s economic transformation existed at an insignificance level of 0.274 as a 1% rise in inflation will decrease the economy’s gross domestic product by 0.086%. This is in obedience with the apriori expectation as inflation increases the production cost of goods and services and discourages local and expatriate investors from investing their assets in the economy. This brings a decline to investment.

Lastly, gross capital formation causes a decline in economic growth as a 1% growth in the gross capital formation will bring a -1.108% fall in the growth of the economy. This is not in conformity with the apriori expectation as gross capital formation may be affected by corruption and mismanagement of funds

Table 5: Long run regression result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LTOUREV	0.354	0.047	7.497	0.000
LFDI	0.234	0.084	2.783	0.009
LINF	-0.086	0.077	-1.113	0.274
LGFCF	-1.108	0.678	-1.635	0.012
C	7.885	2.524	3.123	0.004

Source: Researchers computation 2025

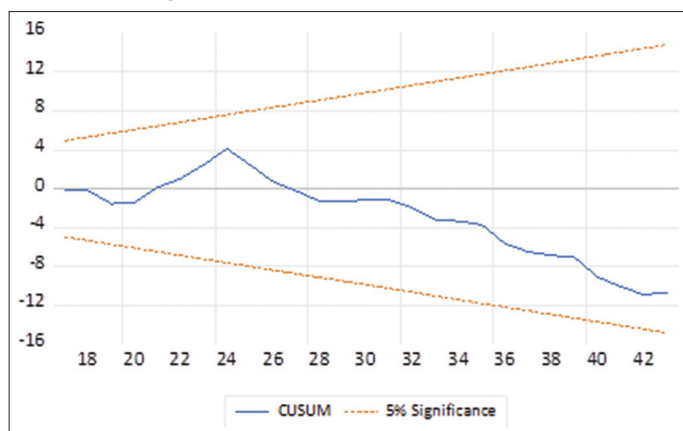
Table 6: Test for serial correlation

Breusch-Godfrey Serial Correlation LM Test:			
Null hypothesis: No serial correlation at up to 2 lags			
F-statistic	0.106	Prob. F(2,29)	0.900
Obs*R-squar	0.298	Prob. Chi-Square(2)	0.862

Table 7: Test for heteroscedasticity

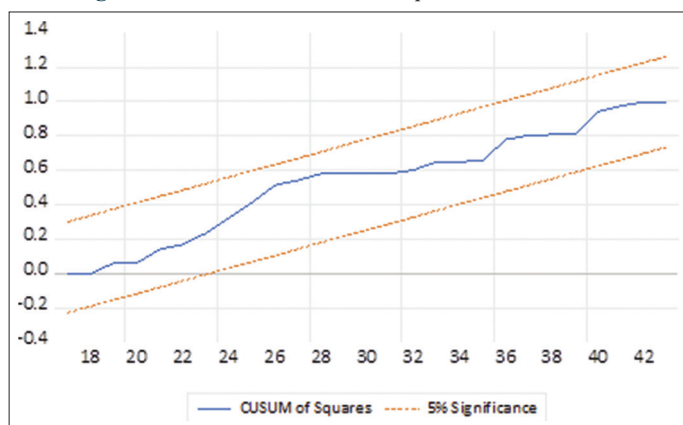
Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Null hypothesis: Homoskedasticity			
F-statistic	0.451	Prob. F(9,31)	0.896
Obs*R-squar	4.747	Prob. Chi-Square(9)	0.856
Scaled explai	2.275	Prob. Chi-Square(9)	0.986

Figure 1: Cumulative sum of the residuals



Source: Researchers computation 2025

Figure 2: Cumulative sum of the squares of the residuals



Source: Researchers computation 2025

which will have a direct negative implication on the growth of the Nigerian economy.

4.6. Diagnostic Test

The Breusch-Godfrey Serial Correlation LM Test (Table 6) and the Breusch-Pagan Godfrey heteroscedasticity test (Table 7) were used to check for the existence of serial correlation in the model and to examine the error variance constancy respectively. The F-statistic of the serial correlation LM test and that of heteroscedasticity test yielded 0.106 and 0.451 respectively with their probabilities more than the 5% significance level. This shows that the null

hypothesis of no serial correlation and that of homoscedasticity is accepted. This also shows that the model does not exhibit some autocorrelations and heteroscedasticity which confirms that the coefficients that were estimated are efficient, unbiased and suitable for policy inferences.

4.7. Stability Test

The cumulative sum of the residuals (CUSUM) and the cumulative sum of squares of the residuals (CUSUMSQ) tests results were explained in the Figures 1 and 2. The figures showed that the plotted CUSUM statistic remains inside the critical boundaries that are denoted by two lines that are red in colour. This shows that the model that was estimated maintains a structural stability over the period that was examined. The absence of substantial deviations beyond the bounds of confidence suggests that the parameters of the model does not display significant instability which reinforces the reliability of the estimates of regression for inference and formulation of policies.

5. CONCLUSION AND RECOMMENDATIONS

This research looked at the foreign direct investment, tourism sector and economic growth in Nigeria with the use of a yearly 1981-2023 times series data. Autoregressive distributed lag (ARDL) was deployed to assess the short run and the long run parameters. The findings showed a long run connectivity between foreign direct investment and economic growth and tourism revenue and economic growth. Tourism revenue and foreign direct investment had a favorable and statistically significant impact on the gross domestic product both in the long run and the short run. This shows that the authorities should increase the funding of the tourism sector so that the funds can be used to create jobs, repair and replace worn out tourism facilities so that it will generate revenue for the government. Government should find ways of tackling insecurity and so that investors can come and invest in the tourism sector to boost development. The government should resuscitate these ailing tourist centers by setting up a committee on tourism sector rehabilitation and making sure that the findings of the committee are fully implemented, the sector will go a long way in creating jobs for the people, attract industrialization and foster grants from foreign bodies and nations. The government should combat the level of insecurity in the nation through agencies and institutions, investors will be fully convinced to invest which will give the money-making industry a different outlook.

The authorities should also make the fiscal, trade and monetary policies to be favorable to the public which will attract foreign investors and attract long term capital. This will increase the level of the nation’s gross capital as well.

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