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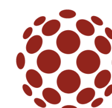

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Foreign Direct Investment and Economic Growth Of Nigeria (1980-2018)

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Abstract
This work examined the impact of foreign direct investment on the economic growth of Nigeria from 1980-2018, secondary data from CBN statistical bulletin of various issues were used. Regression analyses was carried out using the OLS method, it was found out that R2 was found to be 81.4%, which shows that the model was highly fitted, while Adjusted R2 was 80.9%, which shows that the model was highly correlated, because the 80% change in RGDP, is explained by Foreign direct investment and employment level in the economy during the period under review, the other19.1% may be explained by other variables not included in the model.

Keywords: Investment, Economic Growth, Inflow

INTRODUCTION

The need for foreign capital to compliment domestic resources in the economic growth process of an economy cannot be over emphasized; it has been welcomed as a catalyst for development. Its significant influence on the provision of new technologies, products, management skills and competitive business environment, and employment generation overtime has been a strong impetus for economic growth. Many countries of the world, especially emerging economies, favor policies that encourage the inflow of foreign direct investment because of its positive impact on provision of funds and expertise that could help smaller companies to expand and increase international sales and transfer of technology, thus forming new varieties of capital input that cannot be achieved through financial investment or trade in goods and services alone. Foreign direct investment is perceived as a way of filling gaps between domestically available supplies of saving (domestic investors), foreign exchange, government revenue, skills and planned level of these resources necessary to achieve economic development. Unfortunately, the experience of Nigeria in the accumulation of foreign direct investment has been unsatisfactory, hence, the accumulation of huge external debt in relation to gross domestic product and faced with serious debt servicing problems in terms of foreign exchange flow and also wallowing in abject poverty. Therefore this work will investigate the impact of FDI and the level of employment generation on real gross domestic product in Nigeria.

LITERATURE REVIEW

In recent years, foreign direct investment has gained renewed importance as a vehicle for transferring resources and technology across national borders. FDI is argued to increase the level of domestic capital formation, and a means of attaining competitive efficiency by creating a meaningful network of global interconnections.

CONCEPTUAL LITERATURE

Foreign direct investment (FDI) is defined as the process where people in one country obtain ownership of assets for the purpose of gaining control over the production, distribution and other activities of a firm in a foreign country (Moosa; 2002).

Anyanwale (2007) defines foreign direct investment as the transfer of resources which is available in developed countries to the less developed countries (LDCs). These developed countries supply scarce capital in form of private foreign investment so as to encourage economic growth in those countries. Foreign direct investment is a tool used by foreign investors to generate foreign exchange through the production of exports in less developed countries.

FDI can take the form of green field investment, mergers and acquisition and joint ventures. Green field investment is the process whereby the investing company establishes new production and distribution facilities in a foreign country because the firm creates new employment opportunities and high value added output, the host country is generally positive to green field investments. An acquisition of, or a merger with an already existing company in a foreign country is another form of FDI. Mergers are cheaper than Green field investments and makes it easier for the investors to get quick market access, but M&As can be harmful to the host country because they may only imply a transfer of ownership that is followed by layoffs and closing of advantageous activities. Moreover, compared to green field investments, the acquisition of companies in the host country is generally not welcomed since the majority of countries prefer to maintain control over domestic companies.

THEORITICAL FRAMEWORK

Foreign direct investment represents a veritable source of foreign exchange and technological transfer, especially to a developing economy like Nigeria. It can be analyzed in terms of inflow of new equity capital (change in foreign share capital), re-invested earning (unremitted profit) (Nwachukwu , 2013).

The Production Life Cycle Theory

This theory states that, foreign direct investment (FDI) exists because of the search for cheaper cost of production. Stating that many manufactured products will be produced first in the countries in which they were researched and developed and these countries are typically industrialized. Over the product life cycle, production will tend to become capital intensive and producers will shift production to foreign locations. So, over time, a product initially introduced and produced in a particular country and exported from that country may end up becoming a product produced elsewhere (in a different country) and then imported back into that country which it was originally introduced and produced in.

THE FATORS INFLUENING THE FLOW OF FDI

1. Market size and growth have proven to be the most prominent determinants of FDI, particularly for those FDI flows that are market seeking. In countries with large markets, the stock of FDI is expected to be large since market size is a measure of market demand in the country.
2. The costs as well as the skills of labor are identified as the major attractions for FDI. The cost of labor is important in location considerations, especially when investment is export oriented (Wheeler and Mody, 1992; Mody and Srinivasan, 1998). Lower labor cost reduces the cost of production, all other factors remaining unchanged. Sometimes the availability of cheap labor justifies this relocation of a part of the

production process in foreign countries. Recent studies however have shown that with FDI moving forward technologically intensive activities, low cost unskilled labor is not in vogue. Rather, there is demand for qualified human capital (Pigato: 2001). Thus, the investing firm is also concerned about the quality of the labor force. It is generally believed that highly educated personnel are able to learn and adopt new technology faster and the cost of retaining is also less. As a result of the need for high quality labor, investors are most likely to target countries where the government maintains a liberal policy on the employment of expatriate staff. This is to enable investors to bring in foreigners to their operation in order to bridge the gap in the skill of local personnel wherever it exists.

3. It is often stated that good infrastructure increases the productivity of investment and therefore stimulate FDI inflows (Asiedu, 2002). A study by Wheeler and Mody (1992) found infrastructure to be very important and dominant for developing countries. In talking about infrastructure, it should be noted that this is not limited to roads alone but includes also, communication system, to facilitate communication between the host and home countries. In addition to physical infrastructure is important for FDI flow.
4. Economic and political stability. Several studies have found FDI in developing countries to be affected negatively by economic and political uncertainty. There is abundant evidence to show the negative relationship between FDI and political and economic instability. In a study on foreign owned firms in Africa, Sachs and Sievers (1998) concludes that the greatest concern is political and macro-economic stability while Lehman (1999) and jaspersen (2000), found that countries that are less risky attract more FDI. Perception of risk in Africa is still very high and continues to hinder foreign direct investment.
5. Openness of an economy is also known to foster the flows of FDI. The more open an economy is, the more likely it is that it would follow appropriate trade and exchange rate regimes and the more it would attract FDI.
6. The availability of natural resources is a critical factor in attracting FDI. This is particularly so in Africa where a large share of FDI has been in countries with abundant natural resources. In some cases, the abundance of natural resources has been combined with large domestic market. African countries that have been able to attract most FDI have been those with natural and mineral resources as well as large domestic markets. A number of countries including Angola, Nigeria, Cote d'ivore, Botswana and Namibia, have been host to FDI because of this advantage.

EMPHERICAL LITERATURE

Agrawal (2015) assessed the relationship between foreign direct investment and economic growth in five economies, namely Brazil, Russia, India, China and South Africa over the period 1989-2012 co integration and causality analysis were applied. The results indicate that foreign direct investment and economic growth are co integrated at the panel level, indicating the presence of long run equilibrium relationship between them. Results from causality tests indicate that there is long run causality running from foreign direct investment to economic growth in these economies.

Uwubanwen and Ogieudia (2016) examined the effect of foreign direct investment on economic growth in Nigeria using annual time series data covering the period 1979 to 2013. The data were analyzed using Error Correction Model. The results revealed that FDI has both immediate and time lag effect on Nigeria economy in the short run but has a non significant negative effect on the Nigeria economy in the long run.

Pulstova (2016) studied the effects of foreign direct investment and firm export on economic growth in Uzbekistan. The study covered the period 1990-2014, descriptive method was adopted. He found that an increase in FDI may cause firms to increase their export of products.

METHODOLOGY

Secondary data from various CBN statistical bulletins were used, the data were subjected to the least square method of regression analysis.

The hypotheses are stated in null forms.
HO_1 foreign direct investment does not impact any significant impact on Real Gross Domestic Product.
HO_2 Employment level does not exact any significant influence on RGDP.

Model Specification
GDP =f (FDI,EMPL)

Dependent Variable: RGDP
Method: Least Squares
Date: 01/25/20 Time: 13:44
Sample: 1981 2018
Included observations: 38

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FDI	5.208298	0.309644	16.82027	0.0000
EMP	622.2308	49.54075	12.55998	0.0000
C	-3601.827	765.2120	-4.706967	0.0000

R-squared	0.814196	Mean dependent var	4171.145
Adjusted R-squared	0.809035	S.D. dependent var	6348.672
S.E. of regression	2774.338	Akaike info criterion	18.74541
Sum squared resid	2.77E+08	Schwarz criterion	18.83160
Log likelihood	-354.1628	Hannan-Quinn criter.	18.77607
F-statistic	157.7531	Durbin-Watson stat	1.426455
Prob(F-statistic)	0.000000		

From the analysis, R^2= 81.4% shows that the model was highly fitted because about 81.4% of the model fell on the regression line while the remaining 8.6% fell below and above the regression line. Adjusted R^2=80.9% shows that the model was highly correlated because 80% change in RGDP was explained by the explanatory variables (FDI and employment) while the remaining 9.1% was due to exogenous variable(s). t_{bo} =-4.7, t_{b1} =16.82 and t_{b2}=12.55 shows a positive relationship between RGDP, FDI and EMP. Durbin Watson=1.426455 shows the presence of positive auto correlation because it is less than 2. Prob(F-statistic)=0.00000 shows that the overall model was statistically significant at 5% level of significance. Therefore, foreign direct investment has a significant impact on the Nigerian economy for the periods under study.

CONCLUSION

This study attempted to estimate the impact of Foreign Direct Investment on Economic Growth for the period 1980-2018, it was found that FDI has a positive and significant impact on RGDP for the period under review, therefore the following recommendations are made.

RECOMMENDATIONS

- The government should provide an enabling environment to attract foreign direct investment by ensuring peace and safety of lives and property, therefore the killings and spilling of blood in the country should be stopped by reprimanding and bringing to book all the evil perpetrators.
- There should be infrastructural development; to encourage production, this means that good roads should be provided to move products from the place of production to the market. There should also be adequate supply of electricity to aid production process.
- Large market should be created for such products by creating awareness sensitization by the government.

- Government should make concerted efforts to attract foreign investors into Nigeria so as to encourage production and generate employment opportunities, since FDI bears a positive relationship with employment generation.

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YEAR	FDI	UNEMP	RGDP
1981	0.33	5.2	94.33
1982	0.29	4.3	101.01
1983	0.26	6.4	110.06
1984	0.36	6.2	116.27
1985	0.43	6.1	134.59
1986	0.15	5.3	134.6
1987	2.45	7	193.13
1988	1.72	5.1	263.29
1989	13.88	4.5	382.26
1990	4.69	3.5	472.65
1991	6.92	3.1	545.67
1992	14.46	3.5	875.34
1993	29.66	3.4	1089.68
1994	22.2	3.2	1399.7
1995	75.9	1.9	2907.36
1996	111.3	2.8	4032.3
1997	110.5	3.4	4189.25
1998	80.7	3.5	3989.45
1999	92.8	17.5	4679.21
2000	116	18.1	6713.57
2001	132.4	13.7	6895.2
2002	225.2	12.2	7795.76
2003	258.39	14.8	9913.52
2004	248.2	11.8	11411.07
2005	3432.5	11.9	14610.88
2006	4007.5	12.3	18564.59
2007	4403.8	12.7	20657.32
2008	6041.8	14.7	24296.33
2009	8111.4	19.7	24794.24
2010	9088.8	21.1	54612.26
2011	10958.9	23.9	62980.4
2012	11917.4	26.7	71713.94
2013	12786.7	25.1	80092.56
2014	14706.4	24.3	89043.62
2015	17633	28.7	94144.96
2016	17842.1	28.8	101489.5
2017	17901	29	113719
2018	18123	29.3	127762.6