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Full Length Research Paper

Impact of Foreign Direct Investment (Fdi) on the Growth of the Nigerian Economy

Fatima Mai Hamza

Yobe State Government, Yobe, Nigeria.

Email: fatimamaihamza@yahoo.com

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Abstract

The need for Foreign Direct Investment (FDI) both to host and receiving countries cannot be over emphasized, this is as a result of the financial returns, bilateral or multilateral good relations, etc. This research has contended that Foreign Direct Investment (FDI) can have important positive effects on a host country's development effort. In addition to the direct capital financing it supplies, FDI can be a source of valuable technology and technical know-how while fostering linkages with local firms that help jumpstart an economy. Based on these arguments, industrialized and developing countries have offered incentives to encourage Foreign Direct Investments (FDI) in their economies. We examine the future policies for Nigeria and possible way outs.

Keywords: Investment, economy, growth, Nigeria.

INTRODUCTION

Background To The Study

The need for Foreign Direct Investment (FDI) both to host and receiving countries cannot be over emphasized, this is as a result of the financial returns, bilateral or multilateral good relations etc. Researchers have contended that Foreign Direct Investment (FDI) can have important positive effects on a host country's development effort. In addition to the direct capital financing it supplies, FDI can be a source of valuable technology and technical know-how while fostering linkages with local firms that help jumpstart an economy. Based on these arguments, industrialized and developing countries have offered incentives to encourage Foreign Direct Investments (FDI) in their economies.

Evidently, the special merits of FDI and particularly the kinds of incentives offered to foreign firms in practice have begun to be questioned. In a recent survey of the

literature, Hanson (2001) argues that evidence has shown that FDI generates positive spillovers for host countries is weak. In a review of micro data on spillovers from foreign-owned to domestically owned firms, Gorg and Greenwood (2002) conclude that the effects are mostly negative. This research emphasizes the FDI and economic growth relationship by examining the role FDI inflows play in promoting growth in the main economic sectors, namely primary, manufacturing, and services in Nigeria. Often-mentioned benefits, such as transfers of technology and management know-how, introduction of new processes, and employee training tend to relate to the manufacturing sector rather than the agriculture or mining sectors.

Findlay (1978) and Wang and Blooms (1992) stressed the importance of FDI as a conduit for transferring technology, as it relates to the Foreign Investment inflows to manufacturing or service. Also the absence of linkages as it relates to foreign investments could limit effect in spurring growth in an economy. The grudge against what

has become known as the 'enclave' type of development," he wrote, "is due to this ability of primary products from mines, wells, and plantations to slip out of a country without leaving much of a trace in the rest of the economy." About the consequences in potential linkages effects differences in manufacturing and agriculture, Hirschman (1958:110) wrote, "The absence of direct linkage effects of primary production lends to these views (enclaves) a plausibility that they do not have in the case of foreign investment in manufacturing sector. Thus, in the remaining part of this study, we shall be examining Foreign Direct Investment (FDI) as it relates to the domestic sources and economic effect of policies in the areas of trade, immigration, investment, and exchange rates.

Statement of the problem

Although, much has been written on the concept of Nigerian Foreign Direct Investment (FDI), little is known concerning the impact which these investments has had on the economic growth as well as bilateral and multilateral relations which Nigeria has towards other countries in the international community. It is on the basis of the above that this research seeks to fill the vacuum, which is yet to receive the attention of scholars of International Relations (Ahmed,1993). Issues relating to how a nation should manage its economic ties with the rest of the world, how should the government regulate the flow of goods, people, and investment to and from foreign nations? Etc., has dominated the front of public discuss. Debates over Foreign Direct Investment are a recurring, often volatile feature of national politics in all countries. Indeed, how governments should now be dealing with the multiple facets of 'globalization' is perhaps the single most pressing political issue of our time. It is an issue that has been debated in international institutions, national legislatures, and lecture halls across the world.

Attitudes and government policies towards FDI as well its characteristics have varied considerably over time. From 1880 and until the first decades of the twentieth century, for example, FDI grew exponentially and became heavily concentrated in the exploitation of natural resources. Between the 1930s and the 1970s, there was a worldwide growth in restrictions because governments became more concerned about the impact FDI had on their economies. After decades of skepticism, in the 1980s international events reshaped the attitude towards FDI as the debt crisis severed developing countries' access to credit and portfolio investment. In addition, there was a shift in the industries in which foreign firms were active compared to the post war period, which involved mostly the exploitation of oil and natural resources, towards manufacturing, services, and high technology. Governments began to ease restrictions on FDI and increasingly offer incentives in an effort to

attract investment. During the 1990s, FDI soared, growing more than 20% per year. This recent surge of FDI had its own distinctive characteristics: more than 50% of new investments were in the service sector.

Research Questions

- a). What are the relationship between Foreign Direct Investment (FDI) and economic growth in Nigeria?
- b). What are some of the negative effects of excessive reliance on Foreign Direct Investment (FDI)?
- c). What are some of the challenges facing Foreign Direct Investment (FDI) in Nigeria?

Objective of Study

The broad objective of the study is to examine the Impact of Foreign Direct Investment (FDI) and it's role on growth of the Nigerian economy, with special emphasis on the role of International Monetary Fund (IMF). Notwithstanding this research also intends to: while, the specific objectives include;

- i.Toexamine the relationship between Foreign Direct Investment (FDI) and economic growth,
- ii.Examine the negative effects of excessive reliance on Foreign Direct Investment,
- iii.Examine the challenges of Foreign Direct Investment in Nigeria,

Research Hypothesis

- H_0 : Exchange rate has no significant impact on Foreign Direct Investment
- H_0 : Openness has no significant effect on Foreign Direct Investment
- H_0 : Foreign Direct Investment has no significant impact on economic growth

Significance of the Study

The issue of Foreign Direct Investment (FDI) has over the years been one of the dominant topic of public discuss. Writers, researchers, journalist, and the media have tried to lay emphasis on the need for Nigeria to strengthen its foreign economic ties in other to improve its economic status. For many developing countries, FDI inflows are a major source of external financing and thereby provide important means of implementation of sustainable development goals and growth of the private sector. Moreover, FDI is typically less volatile than foreign portfolio investment. In many cases, FDI also contributes to the transfer (spill-over) of technology and improvement of labor and management skills. Sustained increases in FDI inflows are often a sign of an improved investment climate. Although the largest share of FDI goes from high

income economies to other high income economies, flows to developing countries are increasing and are very important in helping to support sustainable development. They now dwarf flows of official development assistance. In recent year, FDI flows between developing countries have also increased.

Thus, in line with these, this study thus becomes pertinent. It's believed that at the end of this research, its recommendations will enable policy makers, and those piloting the foreign economic base of the nations to form relevant structural policy framework that will enable the country improve on its economic development. Also the outcome of the research will throw more light on the evil of continuous reliance on international monetary fund (IMF) as a base for the economic growth of the country. However, most especially the research will proffer ways on how a nation should manage its economic ties with the rest of the world and how the government should regulate the flow of goods, people, and investment to and from foreign nations.

Scope of the Study:

A research as important as this should have to cover extensively contemporary issues relating to Nigeria's Foreign Direct Investment (FDI) from independence till date, but the work will be too bulky and cumbersome, and will require a lot of funds which the researcher is not disposed to. Thus, the work will only cover the period of 1990- 2012.

Plan of Study

The organization of this research is as follows: Chapter one which contains introduction, statement of problem, scope and limitation, significance of the study, organization of the study, etc. Chapter two includes review of literatures by earlier writers. Chapter three provides insight the relevance of Foreign Direct Investment (FDI) to a developing country like Nigeria, etc. Chapter four analyses the challenges of Foreign Direct Investment (FDI) in Nigeria. And finally chapter five summarizes the whole work, concludes and provides relevant recommendations on ways of improving Nigeria's Foreign Direct Investment (FDI) to foster greater economic development for the country.

LITERATURE REVIEW

Conceptual Framework

Foreign Direct investment (FDI) is investment made to acquire a lasting interest in or effective control over an enterprise operating outside of the economy of the investor. FDI net inflows are the value of inward direct

investment made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, net of repatriation of capital and repayment of loans. FDI net outflows are the value of outward direct investment made by the residents of the reporting economy to external economies, including reinvested earnings and intra-company loans, net of receipts from the repatriation of capital and repayment of loans (Odozie, 1995).

The internationally accepted definition of FDI is provided in the fifth edition of the IMF's Balance of Payments Manual (1993). Under this definition FDI has three components: equity investment, reinvested earnings, and short- and long-term inter-company loans between parent firms and foreign affiliates. The components of direct investment capital transactions are recorded on a directional basis (i.e., resident direct investment abroad and nonresident direct investment in the recording economy). The FDI net inflow records the net flow of nonresident direct investment in the recording economy, while the FDI net outflows records the net flow of resident direct investment abroad. Distinguished from other kinds of international investment, FDI is made to establish a lasting interest in or effective management control over an enterprise in another country. As a guideline, the IMF suggests that investments should account for at least 10 percent of voting stock to be counted as FDI. In practice, many countries set a higher threshold. Also, many countries fail to report reinvested earnings, and the definition of long-term loans differs among countries

For many developing countries, FDI inflows are a major source of external financing and thereby provide important means of implementation of sustainable development goals and growth of the private sector. Moreover, FDI is typically less volatile than foreign portfolio investment. In many cases, FDI also contributes to the transfer (spill-over) of technology and improvement of labor and management skills. Sustained increases in FDI inflows are often a sign of an improved investment climate. Although the largest share of FDI goes from high income economies to other high income economies, flows to developing countries are increasing and are very important in helping to support sustainable development. They now dwarf flows of official development assistance. In recent year, FDI flows between developing countries have also increased (Romer, 1986).

Foreign Direct Investment

The most widely accepted definition of FDI is known as "the IMF/OECD benchmark definition" because it was provided by a joint workforce of these two international organizations with the objective of providing standards to national statistical offices for compiling FDI statistics. The gist of the definition is that FDI is an international venture

in which an investor residing in the home economy acquires a long-term “influence” in the management of an affiliate firm in the host economy (Romer, 1986).

According to the definition, the existence of such long-term influence should be assumed when voting shares or rights controlled by the multinational firm amount to at least 10 percent of total voting shares of rights of the foreign firm.

Aggregate FDI flows are the sum of equity capital, reinvested earnings, and other direct investment capital; hence, aggregate FDI flows and stocks include all financial transfers aimed at financing of new investments, plus retained earnings of affiliates, internal loans, and financing of cross-border mergers and acquisitions. FDI flows can be observed from the perspective of the host economy, which records them as inward FDI along with other liabilities in the balance of payments, or from the perspective of the home economy, which records them as outward FDI, a category of assets.

Concept of Investment

In Keynesian terminology, investment refers to real investment, which adds to capital equipment. It leads to increase in level of income and production by increasing the production and purchase of capital goods. Investment thus includes new plant and equipment, construction of public works like roads, dams, buildings, e.t.c., In the words of John Robinson, “By investment, is meant an addition to capital, such as addition to capital, such occurs when a new house is being built or a new factory is built. Investment means making an addition to the stock of goods in existence (Romer, 1986).

Types of Investment

Induced Investment

Induced investment is profit or income motivated. Factors like prices, wages and interest changes, which affect profits, influence induced investment. Similarly demand also influences it. When income increases, consumption demand also increases and to meet this investment also increases.

Autonomous Investment

This investment is independent of the level of income and is thus income inelastic. It is influenced by exogenous factors like innovations, inventions, and growth of population and labour force, e.t.c. But it is not influenced by changes in demand; rather, it influences the demand. The Keynesian Theory of investment places emphasis on the importance of interest rates in investment decisions. But other factors also enter into the model-not least the expected profitability of an investment project.

Changes in interest rates should have an effect on the level of planned investment undertaken by private Sector businesses in the economy. However, a fall in interest rates should decrease cost of investment relative to the potential yield and as a result planned capital investment projects on the margin may become worthwhile. There is inverse relationship between investment and rate of interest.

Empirical Review

There is a preponderance of empirical studies on the FDI-growth nexus and the determinants of FDI inflows. Early empirical works on the FDI-growth nexus modified the growth accounting method introduced by Solow (1957). This approach defined an augmented Solow model with technology, capital, labour, inward FDI and a vector of ancillary variables such as import and export volumes. Following this theory, most of the empirical works on the effects of FDI, focused on their impacts on output and productivity, with a special attention on the interaction of FDI with human capital and the level of technology (Vu and Noy, 2009).

However, recent empirical works have been influenced by Mankiw et al. (1992) pioneering research which adds education to the standard growth equation as a proxy for human capital. Blomstrom et al. (1994) and Coe et al. (1997) found that for FDI to have positive impacts on growth, the host country must have attained a level of development that helps it reap the benefits of higher productivity. In contrast, De Mello (1997) finds that the correlation between FDI and domestic investment is negative in developed countries. Li and Liu (2005) found that FDI not only affects growth directly, but also indirectly through its interaction with human capital. Further, they find a negative coefficient for FDI when it is regressed with the technology gap between the source and host economy using a large sample, Borensztein et al. (1998) found similar results i.e. that inward FDI has positive effects on growth with the strongest impact, coming through the interaction between FDI and human capital. De Mello (1997) found positive effects of FDI on economic growth in both developing and developed countries, but concludes that the long-run growth in host countries is determined by the spillovers of knowledge and technology from investing countries to host countries.

Similarly, Balasubramanyam et al. (1996) found support for their hypotheses that the growth effect of FDI is positive for export promoting countries and potentially negative for import-substituting ones. Alfaro *et al.*, (2004) and Durham (2004) focused on the ways in which the FDI effect depends on the strength of the domestic financial markets of the host country. They both found that only countries with well-developed banking and financial systems benefit from FDI. In addition, Durham (2004) found that only countries with strong institutional and

investor-friendly legal environments are likely to benefit from FDI inflows. In another work, Hsiao and Shen (2003) add that a high level of urbanization is also conducive to a positive impact of FDI on growth.

Comparing evidence from developed and developing countries, Blonigen and Wang (2005) argued that mixing wealthy and poor countries is inappropriate in FDI studies. They note that the factors that affect FDI flows are different across the income groups. Interestingly, they find evidence of beneficial FDI only for developing countries and not for the developed ones, while they find the crowding-out effect of FDI on domestic investment to hold for the wealthy group of nations. Recently, Vu and Noy (2009) carried out a sectoral analysis of foreign direct investment and growth in developed countries. They focused on the sector specific impacts of FDI on growth. They found that FDI has positive and no statistically discernible effects on economic growth through its interaction with labour.

Moreover, they found that the effects seem to be very different across countries and economic sectors. Carkovic and Levine (2005) argue that the positive results found in the empirical literature are due to biased estimation methodology. When they employed a different estimation techniques i.e. Arellano-Bond Generalized. Moment of Methods (GMM), they found no robust relationship between FDI inflows and domestic growth. In line with the notion that there is an endogenous relationship between FDI and economic growth, Ruxanda and Muraru (2010) investigated the relationship between FDI and economic growth in the Romanian economy, using simultaneous equation models. They obtained evidence of the bi-directional connection between FDI and economic growth, meaning that incoming FDI stimulates economic growth and in its turn, a higher GDP attracts FDI.

In a paper most similar to this work, Li and Liu (2005) investigated the relationship between FDI and economic growth based on a panel of 84 countries, using both single equation and simultaneous equation systems. They found that FDI affects growth indirectly through its impact on human capital. This work is similar to their own in that we use both single equation and simultaneous equation systems. However, our work is different in that it is country specific (Nigeria) and involves a longer time frame (1970-2008). The consensus in the literature seems to be that FDI increases growth through productivity and efficiency gains by local firms. The empirical evidence is not unanimous, however. Available evidence for developed countries seems to support the idea that the productivity of domestic firms is positively related to the presence of foreign firms (Globerman, 1979; Imbriani and Reganati, 1997). The results for developing countries are not so clear, with some finding positive spillovers (Blomstrom and Sjöholm, 1999; Kokko, 1994) and others such as Aitken *et al.*, (1997) reporting

limited evidence. Still others find no evidence of positive short-run spillover from foreign firms.

Some of the reasons adduced for these mixed results are that the envisaged forward and backward linkages may not necessarily be there (Aitken *et al.*, 1997) and that arguments of MNEs encouraging increased productivity due to competition may not be true in practice (Ayanwale, 2007). Other reasons include the fact that MNEs tend to locate in high productivity industries and, therefore, could force less productive firms to exit (Smarzynska, 2002). Caves (1996) also postulate the crowding out of domestic firms and possible contraction in total industry size and/or employment. However, crowding out is a more rare event and the benefit of FDI tends to be prevalent (Cotton and Ramachandran, 2001). Further, the role of FDI in export promotion remains controversial and depends crucially on the motive for such investment (World Bank, 2009). The consensus in the literature appears to be that FDI spillovers depend on the host country's capacity to absorb the foreign technology and the type of investment climate (Obwona, 2004).

The review here and in the references provided, shows that the debate on the impact of FDI on economic growth is far from being conclusive. The role of FDI seems to be country specific and can be positive, negative or insignificant, depending on the economic, institutional and technological conditions in the recipient countries. Most studies on FDI and growth are cross-country evidences, while the role of FDI in economic growth can be country specific. Further, only a few of the country specific studies actually took conscious note of the endogenous nature of the relationship between FDI and growth in their analyses, thereby raising some questions on the robustness of their findings (Jelilov, Gylych; Kachallah Ibrahim, Fatima; Onder, Evren, 2016).

Finally, the relationship between FDI and growth is conditional on the macroeconomic dispensation the country in question is passing through. In fact, Zhang (2001) asserts, "the extent to which FDI contributes to growth depends on the economic and social condition or in short, the quality of the environment of the recipient country". In essence, the impact FDI has on the growth of any economy may be country and period specific and as such there is the need for country specific studies. This discovery from the literature is what provides the motivation for this study on the relationship between FDI and economic growth in Nigeria.

Theoretical Review

There are several Nigeria-specific studies on the relationship between FDI and economic growth in Nigeria. Some of the pioneering works include Aluko (1961), Brown (1962) and Obinna (1983). These authors separately reported that there is a positive

linkage between FDI and economic growth in Nigeria. Edozien (1968) discussed the linkage effect of FDI on the Nigerian economy and submits that these have not been considerable and that the broad linkage effects were lower than the Chenery-Watanabe average (Jelilov, Gylych; Onder, Evren, b 2016). Oseghale and Amonkhienan (1987) found that FDI is positively associated with GDP, concluding that greater inflows of FDI will spell a better economic performance for the country.

Odozi (1995) placed special emphasis on the factors affecting FDI flows into Nigeria in both pre and post Structural Adjustment Programme (SAP) eras and found that the macro policies in place before SAP were discouraging investors. This policy environment led to the proliferation and growth of parallel markets and sustained capital flight. Adelegan (2000) explored the Seemingly Unrelated Regression model (SUR) to examine the impact of FDI on economic growth in Nigeria and found out that FDI is pro-consumption, pro-import and negatively related to gross domestic investment. In another paper, Ekpo (1995) reported that political regime, real income per capita, inflation rate, world interest rate, credit rating and debt service were the key factors explaining the variability of FDI inflows into Nigeria. Similarly, Ayanwale and Bamire (2001) assessed the influence of FDI on firm level productivity in Nigeria and reported positive spillover of foreign firms on domestic firm productivity (Jelilov, Gylych; Chidigo, Mary; Onder, Evren, 2016).

Ariyo (1998) studied the investment trend and its impact on Nigeria's economic growth over the years. He found that only private domestic investment consistently contributed to raising GDP growth rates during the period considered (1970-1995). Furthermore, there is no reliable evidence that all the investment variables included in his analysis have any perceptible influence on economic growth. He therefore suggested the need for an institutional rearrangement that recognizes and protects the interest of major partners in the development of the economy. A common weakness that has been identified in most of these studies is that they failed to control for the fact that most of the FDI inflows to Nigeria has been concentrated on the extractive industry (to oil and natural resources sector). According to Ayanwale (2007), these works invariably assessed the impacts of FDI inflows to the extractive industry on Nigeria's economic growth (Jelilov, Gylych; Muhammad Yakubu, Maimuna, 2015).

Akinlo (2004) specifically controlled for the oil - non-oil FDI dichotomy in Nigeria. He investigated the impact of foreign direct investment (FDI) on economic growth in Nigeria, using an error correction model (ECM). He found that both private capital and lagged foreign capital have small and not a statistically significant effect on economic growth. Further, his results support the argument that

extractive FDI might not be growth enhancing as much as manufacturing FDI (Jelilov, Gylych; Onder, Evren, a 2016). Examining the contributions of foreign capital to the prosperity or poverty of LDCs, Oyinlola (1995) conceptualized foreign capital to include foreign loans, direct foreign investments and export earnings. Using Chenery and Stout's two-gap model (Chenery and Stout, 1966), he concluded that FDI has a negative effect on economic development in Nigeria. Further, on the basis of time series data, Ekpo (1995) reported that political regime, real income per capita, rate of inflation, world interest rate, credit rating and debt service were the key factors explaining the variability of FDI into Nigeria.

Anyanwu (1998) paid particular emphasis on the determinants of FDI inflows to Nigeria. He identified change in domestic investment, change in domestic output market size, indigenization policy and change in openness of the economy as major determinants of FDI inflows into Nigeria and that it effort must be made to raise the nation's economic growth so as to be able to attract more FDI. Ayanwale (2007) investigated the empirical relationship between non-extractive FDI and economic growth in Nigeria and also examined the determinants of FDI inflows into the Nigeria economy. He used both single-equation and simultaneous equation models to examine the relationship. His results suggest that the determinants of FDI in Nigeria are market size, infrastructure development and stable macroeconomic policy. Openness to trade and human capital were found not to be FDI inducing. Also, he found a positive link between FDI and growth in Nigeria. Our work is similar to that of Ayanwale (2007), in that we seek to examine the determinants and impact of FDI on growth in the Nigerian economy (Jelilov, 2016). However, our work is improved because we consider a longer time frame (1970-2008), whereas that of Ayanwale was (1970-2002) and we use a more robust system of equation i.e. three stage least squares, 3SLS estimation methodology.

Foreign Direct Investment and Economic Growth Globally

The consensus in the literature seems to be that foreign direct investment increases growth through productivity and efficiency gains. The empirical evidence is not unanimous. However, available evidence for developed countries seems to support the idea that the productivity of domestic firms is positively related to the presence of foreign firms (Globeram, 1979; Imbriani and Reganeti, 1997). The results for developing countries are, not so clear, with some finding positive spillovers (Blomstrom, 1986; Kokko, 1994) and others such as (Atiken *et al.*, 1997) reporting limited evidence. Still others find no evidence of positive short run spillover from foreign firms. Some of the reasons adduced for these mixed results are that the envisaged forward and backward linkages may

not necessarily be there (Atiken et al.; 1997) and that arguments of transnational companies encouraging increased productivity due to competition may not be true in practice (Atiken *et al.*, 1999). Other reasons include the fact that transnational companies tend to locate in high productivity industries and, therefore, could force less productive firms to exit (Smarzynska, 2002). Cobham (2001) also postulates the crowding out of domestic firms and possible contraction in the total industry and or employment (Jelilov, Gylych; Musa, Muhammad; 2016).

However, crowding out is a more rare event and the benefit of foreign direct investment in export promotion remains controversial and depends crucially on the motive for such investment (World Bank, 1998). The consensus in the literature appears to be that foreign direct investment spillovers depend on the host country's capacity to absorb the foreign technology and the type of investment climate (Jelilov, Gylych; Abdulrahman, Samira; Isik, Abdulrahman; 2015).

The review shows that the debate on the impact of foreign direct investment on economic growth is far from being conclusive. The role of foreign direct investment seems to be country specific, and can be positive, negative or insignificant, depending on the economic, institutional and technological conditions in the recipient countries.

Most studies on foreign direct investment and growth are cross-country evidences, while the role of foreign direct investment in economic growth can be country specific. Further, only a few of the country specific studies actually took conscious note of the endogenous nature of the relationship between foreign direct investment and growth in their analysis, thereby raising some questions on the robustness of their findings. Finally, the relationship between foreign direct investment and growth is conditional on the macro-economic dispensation the country in question is passing through. In fact, Zhang (2001) asserts, that "the extent to which foreign direct investment contributes to growth depends on the economic and social condition or in short, the quality of the new environment of the recipient country". In essence, the impact foreign direct investment has on the growth of any economy may be country and period specific. And as such there is the need for country specific studies (Jelilov, Kalyoncu, & Isik, Currency Substitution: Evidence from Nigeria, 2015).

Theoretical Framework

Renewed research interest in Foreign Direct Investment (FDI stems from the change of perspective among policy makers from "hostility" to "conscious encouragement", especially among developing countries. Foreign direct investment had been seen as "parasitic" and retarding the development of domestic industries for export promotion until recently. However, Bende-Nabende and

Ford (1998) submit that the wide externalities in respect of technology transfer, the development of human capital and the opening up of the economy to international forces, among other factors, have served to change the former image.

Caves (1996) observes that the rationale for increased efforts to attract more foreign direct investment stems from the belief that foreign direct investment has several positive effects. Among these are productivity gains, technology transfers, the introduction of new processes, managerial skills and know how in the domestic market, employee training, international production networks, and access to markets. Borenstein *et al.*, (1998) sees foreign direct investment as an important vehicle for the transfer of technology, contributing to growth in larger measure than domestic investment. Findlay (1978) postulates that foreign direct investment increases the rate of technical progress in the host country through a "contagion" effect from the more advanced technology, management practices and so on, used by foreign firms (Jelilov, Gylych; Waziri, Fadimatu; Isik, Abdulrahman; 2016).

On the basis of these assertions, governments have often provided special incentives to foreign firms to set up companies in their countries. Carkovic and Levine (2002) note that the economic rationale for offering special incentives to attract foreign direct investment frequently derives from the belief that foreign investments produces externalities in the form of technology transfers and spillover. Curiously, the empirical evidence of these benefits both at the firm level and at the national level remains ambiguous. De Gregorio (2003), while contributing to the debate on the importance of foreign direct investment, notes that foreign direct investment may allow a country to bring technologies and knowledge that are not readily available to domestic investors, and in this way increases productivity growth throughout the economy. Foreign direct investment may also bring in expertise that the country does not possess, and foreign investors may have access to global markets. In fact, he found that increasing aggregate investment by one percentage point of gross domestic product (GDP) increased economic growth of Latin American countries by 0.1% to 0.2% a year, but increasing foreign direct investment by the same amount increased growth by approximately 0.6% a year during the period 1950-1985, thus indicating that foreign direct investment is three times more efficient than domestic investment.

A lot of research interest has been shown on the relationship between foreign direct investment and economic growth, although most of such work is not situated in Africa. The focus of the research work on foreign direct investment and economic growth can be broadly classified into two. First, foreign direct investment is considered to have direct impact on trade through which the growth process is assured (Markussen and Vernables, 1998). Secondly, foreign direct investment is

assumed to augment domestic capital thereby stimulating the productivity of domestic investments (Borensztein *et al.*, 1998; Driffield, 2001). These two arguments are in conformity with endogenous growth theories (Romer, 1990) and cross country models on industrialization (Chenery *et al.*, 1986) in which both the quantity and quality of factors of production as well as the transformation of the production processes are ingredients in developing a competitive advantage. Foreign direct investment has empirically been found to stimulate economic growth by a number of researchers (Borensztein *et al.*, 1998; Glass and Saggi, 1998). Dees (1998) submits that foreign direct investment has been important in explaining China's economic growth, while De Mello (1997) presents a positive correlation for selected Latin American countries. Inflows of foreign capital are assumed to boost investment levels.

Blomstrom *et al.*, (1994) reports that foreign direct investment exerts a positive effect on economic growth, but that there seems to be a threshold level of income above which foreign direct investment has positive effect on economic growth and below which it does not. The explanation was that only those countries that have reached a certain income level can absorb new technologies and benefit from technology diffusion, and thus reap the extra advantages that foreign direct investment can offer. Previous works suggest human capital as one of the reasons for the differential response to foreign direct investment at different levels of income. This is because it takes a well educated population to understand and spread the benefits of new innovations to the whole economy. Borensztein *et al.* (1998) also found that the interaction of foreign direct investment and human capital had important effect on economic growth, and suggests that the differences in the technological absorptive ability may explain the variation in growth effects of foreign direct investment across countries. They suggest further that countries may need a minimum threshold stock of human capital in order to experience positive effects of foreign direct investments (Jelilov, 2015).

Balasubramanyan *et al.*, (1996) report positive interaction between human capital and foreign direct investment. They had earlier found significant results supporting the assumption that foreign direct investment is more important for economic growth in export-promoting than import-substituting countries. This implies that the impact of foreign direct investment varies across countries and that trade policy can affect the role of foreign direct investment in economic growth. In summary, UNCTAD (1999) submits that foreign direct investment has either a positive or negative impact on output depending on the variables that are entered alongside it in the test equation. These variables include the initial per capita gross domestic product, education attainment, domestic investment ratio, political instability,

terms of trade, black market, exchange rate premiums, and the state of financial development. Examining other variables that could explain the interaction between foreign direct investment and growth, Olfsdotter (1998) submits that the beneficiary effects of foreign direct investments are stronger in those countries with a higher level of institutional capability. He therefore emphasized the importance of bureaucratic ideas in enabling foreign direct investment effects.

The neoclassical economists argue that foreign direct investment influences the amount of capital per person. However, because of diminishing returns to capital, it does not influence long run economic growth. Bengos and Sanchez-Robles (2003) assert that even though foreign direct investment is positively correlated with economic growth, host countries require minimum human capital, economic stability and liberalized markets in order to benefit from long term foreign direct investment inflows. Interestingly, Bende-Nabende *et al.*, (2002) found that direct long term impact of foreign direct investment on output is significant and positive for comparatively economically less advanced Phillipines and Thailand but negative in the more economically advanced Japan and Taiwan. Hence, the level of economic development may not be the enabling factor in the foreign direct investment growth nexus. On the one hand, the endogenous school of thought opines that foreign direct investment also influences long run variables such as research and development (R&D) and human capital (Romer, 1986; Lucas, 1988).

Foreign direct investment could be beneficial in the short term but not in the long term. Durham (2004), for example, failed to establish a positive relationship between foreign direct investment and growth, but instead suggests that the effects of foreign direct investment are contingent on the "absorptive capability" of host countries. Obwona (2001) notes in his study of the determinants of foreign direct investment and their impact on growth in Uganda that macro economic and political stability and policy consistency are important parameters determining the flow of foreign direct investment into Uganda and that foreign direct investment affects growth positively but insignificantly. Ekpo (1995) reports that the political regime, real income per capita, rate of inflation, world interest rate, credit rating and debt service explain the variance of foreign direct investment in Nigeria. For non-oil foreign direct investment, however, Nigeria's credit rating is very important in drawing the needed foreign direct investment into the country.

Further-more, spill-over effects could be observed in the labor markets through learning and its impact on the productivity of domestic investments (Sjoholm, 1999). Sjoholm suggests that through technology transfer to their affiliates and technological spill over to unaffiliated firms in host economy, transnational corporations (TNCs)

can speed up development of new intermediate products varieties, raise the quality of the product, facilitate international collaboration on research and development (R&D), and introduce new forms of human capital. Foreign direct investment also contributes to economic growth via technology transfer.

Transnational companies can transfer technology either directly (internally) to their Foreign Owned Enterprises (FOE) or indirectly (externally) to domestically owned and controlled firms in the host country (Blomstrom *et al.*, 2000; UNCTAD, 2000). Spillovers of advanced technology from foreign owned enterprises can take any of four ways: vertical linkages between affiliates and domestic suppliers and consumers; horizontal linkages between the affiliates and firms in the same industry in the host country (Lim, 2001; Smarzynska, 2002); labor turnover from affiliates to domestic firms; and internationalization of research and development (Hanson, 2001; Blomstrom and Kokko, 1998). The pace of technological change in the economy as a whole will depend on the innovative and social capabilities of the host country, together with the absorptive capacity of other enterprises in the country (Carkovic and Levine, 2002).

Other than the capital augmenting element, some economists see foreign direct investment as having a direct impact on trade in goods and services (Markussen and Vernables, 1998). Trade theory expects foreign direct investment inflows to result in improved competitiveness of host countries' exports (Blomstrom and Kokko, 1998). Transnational companies can have a negative impact on the direct transfer of technology to the foreign owned enterprises, however, and thereby reduce the spillover from foreign direct investment in the host country in several ways. They can provide their affiliate with too few or the wrong kind of technological capabilities, or even limit access to the technology of the parent company. The transfer of technology can be prevented if it is not consistent with the transnational company's profit maximizing objective and if the cost of preventing the transfer is low. Consequently, the production of its affiliates could be resistant to low-level activities and the scope for technical change and technological learning within the affiliate reduced. This would be by limiting downstream producers to low value intermediate products, and in some cases a "crowding out" local producer to eliminate competition. They may also limit exports to competitors and confine production to the needs of the transnational companies. These may also ultimately result in a decline in the overall growth rate of the "host country and worsened balance of payment situation" (Blomstrom and Kokko, 1998).

Moreover, the classical theory claims that foreign direct investment and multinational corporations are very vital and contribute to the development of host countries through several channels. These channels include; the

transfer of capital, advanced technological equipment and skills, improvement in the balance of payments, the expansion of the tax base and foreign exchange earnings, creation of employment, infrastructural development and the integration of the host economy into international markets (Zein, 2006).

The product life cycle theory posits that foreign direct investment exist because of the search for cheaper cost of production. It states that many manufactured products will be produced first in the countries in which they were researched and developed, these countries are typically industrialized and overtime the production will tend to become capital intensive and production will shift to foreign locations. So over time, a product initially introduced in a country and exported from that country may end up becoming a product produced elsewhere and then imported back into that country. The product life cycle theory assumes the following dimensions: The introduction stage which has to do with innovation, production and sales in the original country.

The second stage is referred to as the growth stage, which is characterized by increase in export by the innovating country, more competition, and increase in capital intensity and some foreign production. The maturity stage is the third stage, which has to do with decline in exports from the innovating country, more product standardization, more capital intensity and increased competitiveness of price. This stage is the decline stage, which is characterized by concentration of production in less developed countries (LDC's) and innovating country becoming net importer. The limiting criterion of the product life cycle theory is that the growing process of globalization and integration of the world economy however invalidates this theory. This is because since globalization is aimed at breaking trade barriers the innovating country can easily employ cheap factors of production from the less developed countries. However, this theory is also in line with the classical theory. The shift of production from one country to another leads to the transfer of capital, advanced technological equipments and skills, improvement in the balance of payments, the expansion of the tax base and foreign exchange earnings, creation of employment, infrastructural development and the integration of the host economy into international markets.

Foreign direct investment consists of external resources, including technology, managerial and marketing expertise and capital. All these generate a considerable impact on host nation's productive capabilities. At the current level of gross domestic product, the success of government's policies of stimulating the productive base of the economy depends largely on her ability to control adequate amount of foreign direct investments comprising of managerial, capital and technological resources to boost the existing production capabilities. Foreign direct investment is

therefore supposed to serve as a means of augmenting Nigeria's domestic resources in order to carry out effectively her development programmes and raise the standard of living of her people (Shiro, 2005).

According to Nwankwo (1998), factors responsible for the increased need for foreign direct investment by developing countries are: The world recession of the late 1970's and early 1980's and the resultant fall in the terms of trade of developing countries, this averaged about 11% between 1980 and 1982. High real interest rate in the international capital market, which adversely affected external indebtedness of these developing countries.

RESEARCH METHODOLOGY

This chapter is concerned with the method adopted by the researcher in gathering data and making analysis for this research work. This is aimed at examining the impact of Foreign Direct Investments (FDI) on the growth on Nigerian economy. This is an impact study therefore the method adopted is a multiple regression analysis with Ordinary Least Square (OLS) econometric technique on a time series secondary data from 1990 to 2010 obtained from CBN Statistical Bulletin, Volume 19, 2008. This will enable us reach conclusions on the Impact of Foreign Direct Investments on the growth on Nigerian economy.

Nature and Sources of Data

The study applies time series data drawn from Foreign Direct Investment, exchange rate investment in infrastructure, openness, gross domestic in Nigeria. The Gross Domestic Product (GDP) was used to capture the economic growth, our study as stated earlier covers the period of 1990-2012. The data were sourced from Central Bank of Nigeria statistical bulletin.

Technique of Data Analysis

The technique adopted for data analysis in the study is a multiple regression analysis with Ordinary Least Square (OLS) econometric technique on a time series secondary data from 1990 to 2010 obtained from CBN Statistical Bulletin, Volume 19, 2008.

Model specification

Before we specify our model, it will be nice to point out here that our endogenous or dependent variable is Gross Domestic Product (GDP). It will be regressed on the following exogenous variables thus; Infrastructural Development (IFD), exchange rate (EXR), and Openness (OPN). Based on the aforementioned our model is stated thus;

GDP=F(FDI, exch, openness,)
 $GDP_t = P_0 + B_1 fdi_t + p_2 exch_t + B_3 open_t + E_t$
 FDI = Foreign direct investment
 EXR = Exchange rate
 OPN = Openness
 GDP = Gross domestic product
 T= time trend
 E_t = error

Statement of the 'Apriori' Expectations of the Parameters

B_0 , b_1 , b_2 and b_3 are the parameters to be estimated. Statistical criteria will be based on checking T-value for the statistical significance the F-test will be used to check the overall regression whether the model has goodness of fit. The R^2 will be used to determine the explanatory variables.

DATA ANALYSIS AND INTERPRETATION OF RESULTS

This chapter primarily presents data and results of analysis in a generally acceptable format that enhances understanding. Similarly, findings and its implications are also deduced from this chapter for recommendations accordingly.

Data Presentation

Source: Statistical Bulletin and Annual Report of CBN, Various Issues of NBS.

Result of the Estimated Model

$\text{LogGDP} = 11.50 + 0.15 \text{logFDI} + 0.006 \text{exch} - 0.125 \text{logOPE}$
 SE (0.5922) (0.0904) (0.0008) (0.09612)
 p-values (0.0000) (0.1193) (0.0000) (0.2080)
 $R^2 = 0.90$, Adjusted $R^2 = 0.89$ F = 59.43
 Fprob.=0.00000 DW = 0.6414 AkaikeInfo.C = -0.9619,
 RSS = 0.1383

Interpretation of Results

From the above results, it shows that at least one of the regressors explained 89 percent of the variations occurring on the regresand(GDP) proxy of growth. As a result, a percent change in Foreign Direct Investment (FDI) and level of openness would lead to potential rise and decline by 0.15 and 0.13 percentage points respectively on growth holding exchange rate constant. The word potential is justified by their inability to become significant yet. On the other hand, a unit change in exchange rate would lead to 0.06×100 or 6 percent change on growth holding other variables constant.

Summary of the Stationarity test results

	-5.59453			Stationary @ first difference for all the critical values
				" " " " " " " "
LogGDP	3.55096	0	1 (1)	" " " " " " " "
LogFDI		0	1 (1)	" " " " " " " "
LogOpenness	-4.85413	0	1 (1)	" " " " " " " "
Exchrates		0	1 (1)	" " " " " " " "
Residual	-4.18325	0	1 (0)	
	-4.12579			Stationary at level

In summary, the estimated model from the result can therefore be arguably used for prediction-see Akaike information Criterion value and the p-value of the F-statistic respectively. The above result is consistent with Odozi (2005) and Adebayo (2000). Although both exchange rate and FDI exhibited a priori expectations but openness value negates 'a priori' theoretical exceptions on growth; this could be explained by the type of foreign economic policies being dished out by the government overtime.

Policy and Implications of Findings

Coincidentally, openness of the Nigeria economy aimed at attracting FDI for speedy domestic growth through potentially viable but rather than the expected gains lost it, to the Nigeria disproportionate share of Foreign Trade Benefits (FTB) within the period predicted. Secondly, the study found that exchange rate only would have impacted the growth in the period under review. Therefore, efforts are to be geared towards efficient management of the rate. Finally, FDI was found not be currently efficient which can be explained out in the Manner at which it was applied

SUMMARY

The study examines an analysis of the Impact of Foreign Direct Investment on Nigeria's economic growth over the years. The findings revealed that economic growth is directly related to inflow of Foreign Direct Investment, although the result shows that it is statistical non-significant implying that a good performance of the economy is not hinged on inflow of Foreign Direct Investment.

CONCLUSION

This work determines the Impact of Foreign Direct Investment on Nigeria economy. We discovered from our research work that Nigeria has the potentials to attract

FDI. This reflects in the results of the variables included in our regression analysis. Therefore, efforts are to be geared towards efficient management of the rate. Finally, FDI was found not be currently efficient which can be explained out in the Manner at which it was applied.

RECOMMENDATIONS

In the light of the above findings, the followings, i.e. recommendations are proposed to encourage and improve the inflow of Foreign Direct Investment in Nigeria:

- Government should provide adequate infrastructure and policy framework that will be conducive for doing business in Nigeria, so as to attract the inflow of FDI.
- There is need for government to be formulating investment policies that will be favorable to local investors in order to complement the inflow of investment from abroad.
- Given the causal link among exchange rate – export growth economically at the Nigerian economy, favorable exchange rate policies should be formulated and implemented.

This study also recommends an improvement in state infrastructure especially energy (power), ensuring sound, and stable macroeconomic environment, enthrone a stable social political environment among others. Furthermore, technological changes through knowledge spillover should be encouraged. This can take place through imitation, competition, linkage and training, Kinoshita (1998), Sjöholm (1999). If it can work in Asian Tiger countries, it can work well in Nigeria. We need to encourage and improve in it.

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