FOREIGN DIRECT INVESTMENT, PORTFOLIO FLOWS AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT: *This research focuses on the impact of Foreign Direct Investment and Portfolio Flows on Economic growth in Nigeria. The research covers the period between 1980 and 2018. Secondary data were collected from the Central Bank of Nigeria statistical bulletin and various issues of World Bank Publications as well as Nigerian Bureau of Statistics (NBS) The period being understudied encompasses the period of massive government efforts to attract foreign investors into the country as well as period of turbulent macroeconomic indicators such as high unemployment and low level of per capita income in Nigeria. The parsimonious Error Correction Modelling (ECM) result shows that Foreign Direct Investment, Foreign Portfolio Investment, Labour force and Gross Fixed Capital Formation have a positive and significant impact on the level of Economic Growth in Nigeria. The Johanson cointegration test result shows a long-run relationship among Foreign Direct Investment, Foreign Portfolio Investment, Labour Force, Gross Fixed Capital Formation in Nigeria. The result from the variance decomposition reveals that shocks to Foreign Direct Investment, Foreign Portfolio Investment, and Labour Force and Gross Fixed Capital formation did not explain a significant proportion of the changes in economic growth in Nigeria within the period of the study. It was recommended that government should put in place policies to encourage foreign investors to go into the agricultural and manufacturing sectors which are key to job creation and for sustainable economic growth.*

KEYWORDS: economic growth, capital flight, non-stationary variables**,** co-integrating relationship**,** parsimonious model**.**

INTRODUCTION

With the end of oil boom in 1980, Nigeria found herself in an economic quagmire. In the external sector, the problems included unsustainable balance of payment deficit, rapidly escalating debt stock and a crushing debt service burden (crowding out effect). Internally, the economic problems included annual fiscal deficit, rising unemployment and galloping inflation (Iyoha, 1998).To address these challenges, the country embarked on various economic stabilisation measures as reflected in the Economic stabilization Act of 1981. The economic stabilisation measures were highly unsuccessful because of poor policy mix to the extent that the growth rate of GDP was negative in 1984. The aggregated investment income ratio which achieved a peak of 31.5% in 1976 collapsed to less than 9% in 1985 (Iyoha 1998).

It is amazing to know that more than thirty-nine years after the oil glut of 1980, Nigeria is still in search of solutions to address the challenges thrown up by the fall in revenue accruing to the country due to fall in oil price. Even with the opening of the economy to give room for foreign investment in flow, most Nigerians still continue to wallow in abject poverty. Inflation and unemployment is still tearing he citizens apart. This has motivated the researcher to carry out

this study with a view to finding out if there is any impact of foreign direct investment and portfolio inflow on economic growth in Nigeria.

From literatures available many studies have been carried out on this subject matter, but none has combined foreign direct investment and foreign portfolio investment in a single model to investigate their impact on the economy, this is the gap this study seeks to fill. The problem identified here is that portfolio investment inflow does not necessarily create direct jobs. Also foreign direct investment inflow are not made in sectors with the highest job creating potentials such as agricultural and manufacturing (Emmanuel, 2015). The foreign, capital inflow are mainly in the oil and gas sector with very high return on investment but high technical skill for which there is deficit in local manpower output (Okon et al, 2012).

Objectives

The main objective of the study is to empirically investigate (the impact of Foreign Direct Investment and Portfolio investment on Economic Growth in Nigeria. The specific objectives include To:

i.   investigate the impact of Foreign Direct Investment on Economic Growth in Nigeria.
ii. examine the effect of Foreign Portfolio Investment on Economic Growth in Nigeria.
iii. ascertain the impact of Labour Force on Economic Growth in Nigeria
iv. evaluate the impact of Gross fixed Capital Formation on Economic Growth in Nigeria.

Hypotheses of the study

The following hypotheses were tested. They are stated in the null form below:

(Ho$_1$)   There is no significant Positive relationship between
         Foreign Direct Investment and Economic Growth in
         Nigeria.
(Ho$_2$)   There is no significant Positive relationship between
         Foreign Portfolio Investment and Economic Growth in
         Nigeria.
(Ho$_3$)   There is no significant Positive relationship between
         Labour Force and Economic Growth in Nigeria.
(Ho$_4$)   There is no significant Positive relationship between
         Gross Fixed Capital Formation and Economic Growth in
         Nigeria.

REVIEW OF RELATED LITERATURES

The Central Bank of Nigeria (1998) defined Foreign Direct Investment (FDI) as the accumulation of external real capital goods, technology, managerial and market expertise received by a country to assist in production of goods and services. This is a major source of investment into developed and even developing countries. But owing to the inconsistency in government policies, FDI to Nigeria had been ups and down averaging 771.5 Million dollars in the manufacturing sector and 151.6 million dollars in the trade and business services subsector respectively for the period between 2001 and 2017

Foreign Portfolio Investment (FPI) is a clustery financial investment instruments. These financial instruments are easy to trade and may not be long term interest. They give the

investors dividend payment, voting rights and part ownership of the company(Vivados,2004).According to National Bureau of statistics (NBS) These financial assets are highly volatile in nature hence it can easily be converted into cash anytime. The growth of FPI in Nigeria has been unstable. As a percentage of GDP the net average of FPI to GDP stood at 1.53% between 1980 and 1990. This rose to 14.23% average in the period 1991 – 2000. The position has increased substantially with an average of 37.28% of FPI to GDP in the period 2000 to 2017. During the past decades a large number of hypotheses have been offered regarding the interaction of capital account liberalization and economic growth. Hong (2008) in his work "Addressing Casuality in the effect of capital Account Liberalization" using cointegration technique concluded that capital account liberation has a positive effect on economic growth and increases the well being of the citizens. According to him, the advantages of mobility of capital are clear; a better efficient allowance of savings, new additional sources for the financing of the domestic projects, new opportunities for diversification of risks and promotion of financial development. Also, Quinn (1997) in his study "The correlates of change in international financial Liberalization" using correlation analysis affirms that capital account opening is positively related to economic growth using similar methodology. According to Bussierer and Fratzscher (2008), in their work "Financial openness and Growth" using Regression analysis concluded that the benefits of liberalization come from access to the external funding sources but like first stage, the country in question must eradicate all the domestic restriction. Those authors made use of 45 countries, including 12 of Asia and 8 of Latin America. Over the period 1980 – 2002 and they concluded that capital account openness increases the economic growth in right of 1.5% during the first five years. Bekaert et al (2005) in their work "Financial openness, International trade and Economic Growth", using cointegration technique showed through an empirical study on 95 countries that capital market liberalization offers the opportunity to foreign investors to invest in domestic equities. A study worked out by the Bank for international settlements in 2006 showed that portfolio investments flow passed for 6.2 billion dollars in 1987 to 37.2 billion dollars in 1992, then 211.6 billion dollars during the period 2000 – 2006.

MATERIALS AND METHODS

The design adopted in this study is the archival documentary review design because the study mainly utilised historical data.This study made use of secondary data sourced from the Central Bank of Nigeria Statistical Bulletin, the National Bureau of Statistics as well as World Bank indicators for Nigeria from World Bank Website.The researcher made use of an econometric soft ware known as E-Views to anlayse the time series data using the Johansen technique. The test statistics adopted was the multiple regression approach which is compatible with co-integration analysis of this study.The Johanson technique allows us to estimate a dynamic error correction specification which provides estimates of both the short and long run dynamics.To generate an equation linking FDI and economic growth, we follow Akinlo (2003), Balasubramanyam et al (2006) and de Mello (1997) and make use of a modified production function which incorporate FDI as an input. The augmented production function is written as:

$$Y = f(k_d, K_f, L)$$

where Y is output, K_d is domestically-owned capital stock, kf is foreign-owned capital stock (or the stock of FDI) and L is labour. The model extracted from the above theoretical framework is thus stated below:

$$GDP = \beta_0 + \beta_1 GFCF + \beta_2 FDI + \beta_3 LF + Vt$$

The econometric model to be estimated is therefore stated below:
This model however differs from the one adopted from the theoretical frame work since it decomposes foreign investment into foreign Direct investment and foreign portfolio investment. $RGDP = \beta_o + \beta_1 GFCF + \beta_2 FDI + \beta_3 FPI + \beta_4 LF + Vt$
$$\beta_1, \beta_2, \beta_3, \beta_4 > 0$$
where
RGDP =   Real Gross Domestic product
GFCF =   Gross Fixed Capital formation
FDI =   Foreign Direct Investment
FPI =   Foreign Portfolio Investment
LF =   Labour force
Vt =   Error term.

Descriptive statistic
The result of the descriptive statistic is shown in the table below:

Table 1: Summary of Results of Descriptive Statistic

	RGDP	FPI	FDI	GFCF	IF
Mean	12.686360	10.244300	8.506423	10.536400	1.616520
Median	12.590470	9.3360210	8.539111	10.591500	1.593194
Maximum	14.530810	15.206470	11.556960	11.869780	4.601106
Minimum	10.359230	7.475169	6.228708	7.508348	3.106826
Std. Dev.	0.7653650	2.180595	1.619825	0.882339	0.329691
Skewness	-0.337759	0.471551	0.0251640	-1.156164	0.558323
Kurtoss	4.269635	2.247421	1.724865	5.435644	0.345198
Jarque-Bera	3.188628	2.244381	2.510606	17.388380	2.106011
Probability	0.203048	0.325566	0.284989	0.000168	0.348888
Sum	469.395500	379.043800	314.737700	389.846900	133.811200
Sum Sq. Dev.	21.088180	171.179800	94.457980	28.026770	3.913053
Observations	37	37	37	37	37

Source: Author computation using software.

The descriptive statistic is concerned with the analysis of the average trend quantitative variables. The assessment of the maximum and minimum (highest and lowest values gives an idea of the range of the data. The mean of RGDP is 12.69 which is higher than the median value of 12.59. This implies that in the period of the study, economic growth is encouraging because of the positive value of the range. The maximum or the highest and minimum or lowest value for RGDP are 14.53 and 10.36 respectively. This shows the relevant range value. The standard deviation has a value of 0.77 indicates a minimal deviation from the means. The average value for FPI is 10.24 which is positive and higher than the median value of 9.34. An

indication that the FPI improved during the period under review. The highest and lowest value which represents the range for FPI are 15.21 and 7.42 respectively. A minimum deviation is suggested by the standard deviation of 2.18. The mean value for FDI is 8.51 and the standard deviation is 1.62. The mean is lower than the median indicating non improvement in FDI within the period of the study. The standard deviation shows minimum deviation. The mean for GCFC is 10.54 which is less than the median indicating that the GFCF did not improve significantly during the study period. The mean of LF is 3.62 which greater than the median of 3.59. This indicates that the labour force improved during the study period. The highest and value for LF are 4.60 and 3.11 which represents the range. The Skeweness which measures the asymmetry of the series has values greater than O in most of the study period indicating that the series is positively skewed to the right. That is, the series has a long right tail only RGDP and GFCF were negatively skewed. The kurtosis which measures the peakedness or flatness of the series with an approximate value of 3 indicates that the LF satisfy this condition. The Jorque-bera which tests normality of the series indicate probability value, that are greater than 5 percent in most cases indicating the errors are normally distributed.

Correlation Matrix
The correlation matrix is used to identify the pattern of relationship among the variables. The variables could be dependent or independent. It tells us the direction of such association. It has values between -1 and 1. The closer to 1 the correlation coefficient, the more closely related the variable are and the more possibility of multicolinearity among such variables. The reverse is the case if the values are closer to -1. Thus, the signs and magnitude of the coefficient are used to measure the degree of association. The result of the correlation matrix is shown in the table below:

Table2: Result of Correlation Matrix

	RGDP	FPI	FDI	GFCF	LF
RGDP	1	0.284403519	0.2674049770	-0.248241386	0.352875271
FPI	0.284403519	1	0.1264283410	-0.150277254	0.054148090
FDI	0.267404977	0.126428341	1	-0.271367029	0.109686061
GFCF	0.248241380	-0.150277254	-0.2713670295	1	-0.267575623
LF	0.352875270	0.054148090	0.1096860610	-0.267575623	1

Source: Author computation using software.

The values in diagonal measures the self correlation which equals unity in all the cases. The FPI with a coefficient of 0.28 has a weak correlation with the PGDP.   Also the correlation between RGDP and FPI is 0.27 which indicates a weak correlation. The correlation between the RGDP and GFCF has value or -0.25 indicating a negative correlation. The correlation coefficient between RGDP and LF is 0.35 which indicates a weak correlation. In all the result indicates a weak correlation among the variables.   This indicates the absence of multicollinearity among the variables.

Unit Root Test.
The Augemented Dickey fuller (ADF) Unit root test was used to test whether the variables are stationary or not and their order of integration. The result of the ADF unit root test is shown in the table below:

Table 3: Summary of ADF Unit Root Test Result

Variables	Level Data	First difference	Order of integration
LF	-1.33	-9.91*	I(1)
GFCF	-2.21	-3.34**	I(1)
FDI	-0.98	-8.36**	I(1)
FPI	0.64	-8.35*	I(1)
RCDP	1.61	-3.54**	I(1)

NB: (1) *and ** indicate stationery at the 1 percent and 5
percent levels.
     (2) 10% critical valve = -2.95, 1 percent critical value
          = -3.63

The result indicates that all the variables were not originally stationary. They however become
stationary after the first difference was taken. The result indicates further that LF and FPI were
stationary after the first difference was taken while the GFCF, FDI and RGDP were stationary
at the 5 percent level.

Cointegration Test
The Johansen cointegration test was used to analyse run equilibrium relationship among
the variables. The result of the Johnasen cointegration test is shown in the table below:

Table 4: Johnasen Cointegration Test Result

No. of CE(s)	`H Hypothesized Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.866460	114.2373	69.81889	0.0000
At most 1	0.566926	43.76997	47.85613	0.1149
At most 2	0.233719	14.48031	29.79707	0.8126
At most 3	0.136941	5.163112	15.49471	0.7913
At most 4	0.000245	0.008570	3.841466	0.9259

No. of CE(s)	Hypothesized Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.866460	70.46736	33.87687	0.0000
At most 1 *	0.566926	29.28966	27.58434	0.0299
At most 2	0.233719	9.317201	21.13162	0.8061
At most 3	0.136941	5.154542	14.26460	0.7222
At most 4	0.000245	0.008570	3.841466	0.9259

Source: Author computation using software.

The result of the trace statistic indicate one cointegrationequation and here a
rejection of the null hypothesis of no cointegration. The result of the Max-Eigen

indicate two cointegrating equations indicating a rejection of the will hypothesis of no cointegration in two cases. The result thus indicates the existence of a long run equilibrium relationship among the variables.

Overparameterize Error Correction Mechanism (ECM) Result
The result of the overparameterize Error Correction Mechanism (ECM) is shown in the table below:

Table 5: Summary of Overparameterize ECM Result

Dependent Variable:. RGDP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LFPI	0.696280	0.211308	3.295101	0.0034
LFPI(-1)	0.501987	0.255697	1.963206	0.0630
LFPI(-2)	1.202437	0.333163	3.609154	0.0016
LFDI	0.192359	0.131136	1.466871	0.1572
LFDI(-1)	0.157536	0.123674	1.273794	0.2167
LFDI(-2)	0.282536	0.128481	2.199043	0.0392
LGFCF	0.149420	0.159465	0.937005	0.3594
LGFCF(-1)	0.896275	0.200892	4.461485	0.0001
LGFCF(-2)	0.066044	0.149875	0.440661	0.6640
LLF	4.018270	1.263355	3.180633	0.0045
LLF(-1)	0.321558	0.854114	0.376481	0.7103
LLF(-2)	0.036635	0.882864	0.041496	0.9673
ECM(-1)	-0.257759	0.047305	-5.448906	0.0001
C	6.359066	5.123452	1.241168	0.2282

R2 = 0.58, AIC = 1.97, 5c = 2.59, DW = 2,32 t critical = 1.96
Source: Author computation using software.

The overparameterize ECM shown above includes two lags each of the independent variables.

Parsimonious ECM Result
The parsimonious ECM result was gotten by deleting the insignificant variable from the overparameterize ECM. The Akaike information criteria (AIC) and the schwarz criteria were used to select the appropriate lag length. The result of the parsimonious ECM is shown in table 4.6 below.

Table 6: Summary of parsimonious ECM result.
Dependent Variable LRGDP.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LFPI	0.583689	0.177841	3.282091	0.0028
LFPI(-2)	0.643940	0.175053	3.678555	0.0010
LFDI(-2)	0.521198	0.256808	2.029524	0.0520
LGFCF(-1)	0.559195	0.257539	2.171304	0.0385
LLF	1.797458	0.746954	2.406385	0.0230
ECM(-1)	-0.890346	0.047046	-18.92488	0.0000
C	9.076972	2.377212	3.818327	0.0007

$R^2 = 0.87$, AJC = -1.94, Sc = -2.26, Dw = 2.30 t critical = 1.96
Source: Author computation using software. See Appendix 2

The R^2 which is the coefficient of determination indicates that 87percent of the total variation in the RCDP has been explained by the FPI, FDI, GFCF and the LF taken together. This is a good fit since only 13 percent of the total variation is explained outside the model. The result indicates that the FPI, two period lag FPI, two period lag FDI, two period by FPI one period lag GFCF and LF have positive relationship with the GDP. An increase in the FPI, one period lag GFCF and LF by 1 unit increases the RGDP by 0.58, 0.64, 0.52, 0.57, and 1.79 respectively. The result indicates further that the FPI, two period lag FPI, two period lag FDI, one period lag GFCF and LF with t valves of 3.28, 3.88 2.03, 2.17 and 2.41 with probabilities of 0.0028, 0.0010, 0.0520, 0.385 and 0.0230 are statistically significant in explaining the changes in the RGDP. The ECM is statistically significant and it indicates that 89 percent of the errors are corrected in each period.

Hypotheses Testing :
The result of the t statistic in the parsimonious ECM Result of table 6 will be used to test the hypothesis. The decision rule is to validate the alternative hypothesis if the t calculated is greater than the t critical and vice versa.

Test of Hypothesis One:
The first hypothesis and research questions are restated below:
Hoi: There is no significant relationship between Foreign Direct Investment and economic growth in Nigeria.Since the t calculated of 2.03 is greater than the t critical of 1.96, the alternative hypothesis: That the there is a significant relationship between foreign Direct Investment and the level of economic growth in Nigeria is therefore validated. The null hypothesis is rejected.

Test of Hypothesis Two.
The second hypothesis is stated below:
Ho2: There is no significant positive relationship between foreign portfolio investment and the level of economic growth.The t calculated of 3.68 >t critical

of 1.96, thus, the validation of the alternative hypothesis that there is a significant positive relationship between foreign portfolio investment and the level of economic growth in Nigeria. This gives an affirmative response to the second hypothesis that FPI has influenced growth.

Test of Hypothesis Three
The third hypothesis is restated below:
Ho3: There is no significant positive relationship between labour force and economic growth in Nigeria The null hypothesis of no significant positive relationship between labour force and the levels of economic growth is rejected since the t calculated of 2.41 > t critical of 1.96. The alternative hypothesis of a significant positive relationship between labour force and the level of economic growth is thus validated.

Test of Hypothesis Four.
Ho4: There is no significant positive relationship between Gross fixed Capital formation and Economic growth in Nigeria.Since the t calculated 2.17 > t critical of 1.96, the alternative hypothesis of a significant positive relationship between Gross Fixed Capital formation and Economic growth is validated.

Diagnostic Check
The diagnostic checks include those of normality, serial correlation, heteroskedasticidy and stability. The result of the diagnostic checks are show in the table and figures below:
Table 7: Diagnostic checks result

	F Statistic	Probability
Jarque-bera	1.98	0.37
Breoshe-Godfrey Serial correlation LM test	1.75	0.19
While Heteroskedesticity	0.78	0.71

Source: Authors Computation

The Jarque-Bera normality test result indicates that the errors or residuals are normally distributed. The Brevsch-Godfrey serial correlation test indicates that the residuals or errors are not serially correlated. The result of the white heteroskedasticity test indicates that the residuals are homoskedastic (constant variance).

A further analysis was explored in order to track the behaviour of the variables when subjected to shocks in the long-run. One tool under Johansen technique which we have employed to do this work is the Choleskyvariance decomposition.

Table 8 :Variance Decomposition Result

Variance Decomposition of LRGDP:

Period	S.E.	LRGDP	LFPI	LFDI	LGFCF	LLF
1	0.737376	100.0000	0.000000	0.000000	0.000000	0.000000
2	0.780684	93.41620	1.081005	0.214159	2.778855	2.509778
3	0.805766	90.31031	3.036863	0.224911	3.137571	3.290341
4	0.937171	87.03265	2.275885	0.804231	7.454095	2.433141
5	1.016095	87.97060	1.949744	0.707646	7.246836	2.125171
6	1.049551	87.65915	1.859158	0.664820	6.801662	3.015213
7	1.101274	86.50661	1.722925	1.100385	7.408123	3.261958
8	1.153960	86.09933	1.813481	1.333034	7.766828	2.987328
9	1.203579	87.08157	1.682178	1.229526	7.229338	2.777384
10	1.250259	87.47707	1.591976	1.146852	6.728554	3.055547

Variance Decomposition of LFPI:

Period	S.E.	LRGDP	LFPI	LFDI	LGFCF	LLF
1	0.638270	4.699461	95.30054	0.000000	0.000000	0.000000
2	0.790397	6.282013	87.06477	0.379030	3.268692	3.005499
3	1.047624	3.888759	73.66228	4.625464	15.31957	2.503927
4	1.163839	5.201671	72.65576	3.879512	16.07335	2.189704
5	1.265218	6.088800	73.96988	3.422390	14.48817	2.030758
6	1.362986	5.470213	76.69224	3.134592	12.49902	2.203934
7	1.429670	4.971986	74.23977	3.206954	15.21748	2.363810
8	1.509239	4.806889	73.81268	3.481882	15.77521	2.123341
9	1.583568	5.623208	74.82118	3.162690	14.46276	1.930158
10	1.650906	5.310459	75.77210	3.039998	13.62159	2.255849

Variance Decomposition of LFDI:

Period	S.E.	LRGDP	LFPI	LFDI	LGFCF	LLF
1	0.793714	0.657234	3.301636	96.04113	0.000000	0.000000
2	0.907135	1.814174	11.46615	76.53571	1.058133	9.125829
3	0.991549	2.437304	16.62526	72.34857	0.931775	7.657089
4	1.383264	1.552283	41.80738	52.17807	0.526545	3.935726
5	1.447404	2.483434	38.26985	53.03324	2.597888	3.615586
6	1.613925	2.169980	37.69159	52.54003	4.153646	3.444757
7	1.737914	4.191070	39.60415	47.25281	5.076880	3.875097
8	1.799343	4.374789	38.71136	48.29686	4.741346	3.875650
9	1.918481	4.384862	38.96265	48.65690	4.508057	3.487528
10	1.974824	4.279979	37.75131	48.99458	5.160068	3.814071

Variance Decomposition of LGFCF:

Period	S.E.	LRGDP	LFPI	LFDI	LGFCF	LLF
1	0.853992	4.575617	24.40755	0.712757	70.30408	0.000000
2	0.930159	14.23223	23.54264	0.647063	61.17326	0.404808
3	0.947740	14.46403	23.05551	2.296787	59.79202	0.391654
4	1.061754	14.47179	29.21583	6.157233	49.76885	0.386304
5	1.098109	13.63419	30.95252	7.938397	46.74716	0.727732
6	1.167128	12.10227	33.01414	10.05748	43.79145	1.034662
7	1.202445	12.51653	33.23546	11.93055	41.33315	0.984310
8	1.220964	12.29317	33.54827	13.03885	40.08883	1.030878
9	1.244938	12.02266	34.23490	13.74853	38.86902	1.124894

| 10 | 1.267602 | 11.76969 | 34.36169 | 14.99188 | 37.58207 | 1.294671 |

Variance Decomposition of LLF:

Period	S.E.	LRGDP	LFPI	LFDI	LGFCF	LLF
1	0.065385	1.270066	33.83069	0.083454	0.012730	64.80306
2	0.121237	0.630168	65.25630	0.036599	0.442109	33.63482
3	0.171013	4.567207	67.74686	0.258825	2.283284	25.14382
4	0.181361	9.613548	64.38370	0.230267	3.307729	22.46475
5	0.228361	7.270940	48.82923	7.803015	21.56984	14.52698
6	0.252356	8.735721	43.61341	6.505952	22.97629	18.16863
7	0.265705	11.60374	43.05743	5.902495	21.52400	17.91233
8	0.277880	11.02666	46.75184	5.624736	19.83948	16.75728
9	0.288251	10.28897	43.59826	5.649728	24.47112	15.99192
10	0.303486	9.707687	40.93830	6.229478	26.18937	16.93516

RESULTS AND DISCUSSION

Adams (2009) analysed the impact of FDI growth in sub-Saharan African for the period 1990 – 2003 and found that FDI is positively and significantly related to output growth. On their part, Bussierer and Fratzscher (2008) analysed the impact of FDI and FPI on economic growth with different models and concluded that FDI and FPI are positively and significantly correlated with economic growth when using the ordinary least square estimation. The implication of the above discovery by Bussierer and Fratzscher (2008) is that the result obtained above (test of hypotheses 1–4) are good at least to the extent that equilibrium will continue to hold .But when the dependent and independent variables are subjected to shocks, the equilibrium collapses . Hence a further analysis was explored in order to track the behaviour of the variables when subjected to shocks in the long-run. One tool under Johansen technique which the researcher has employed to do this work is the cholesky variance decomposition.

We can imply from the results above that labour as one of the active factors of production has not played a supportive role for the Foreign Direct Investments that have been flowing into the country to have a long-run impact on the well being of Nigerians. For example, from the variance decomposition analysis; shocks to labour force explained 0% of changes in GDP in first period and 19% in the last period. Also shocks to gross fixed capital formation explained 1% changes in GDP in most of the study period.

Therefore gross fixed capital formation which in our model represents the country investment in capital goods which by extension lead to better infrastructural facilities has been grossly inadequate over the years.

We therefore hold low human capital which is the productive segment of labour force and inadequate gross fixed capital formation as the reason why in spite of constant flow of FDI into the country not much impact has been felt by Nigerians in terms of value addition to production of goods and services and by extension standard of living of Nigerians. This is in line with earlier findings by (Borensztein et al (1998) in a study involving sixty-nine developing countries where they found that countries with more skilled workforce are better equipped to take advantages of the advanced technologies that might be gained as a result of receipt of FDI.

Also according to the World Bank report , human capital development provides a measure of Human Development Index. The latest ranking by the World Bank shows that Nigeria is ranked 156th among 187 countries around the world. The findings of the study is also in line with Blomstrom et al (2004) which discovered that FDI has a significant effect on growth in higher-income and developed countries, implying that countries have to pass a certain development threshold in order to benefit from FDI. From the foregoing therefore, we can conclude that Nigeria is yet to achieve the development threshold that can enable her take full advantage of FDI that has been flowing into the country over the years.

Also, the performance of FDI in the variance decomposition was very insignificant. It accounted for 11% of changes in economic growth in most of the study period. This goes to confirm that even though FDI has been flowing into the country the quantity has not been significant enough to make the desired impact on the economy. The performance of the last explanatory variable which is FPI was not better than the others. Shocks to foreign portfolio investment explained 1% changes in economic growth in the second period and marginally increased to 14% in the last period. This performance was not significant enough to make its impact felt by Nigerians within the period of the study.

CONCLUSION

In conclusion we say that even though there has been inflow of FDI and FPI, such flow has not been adequate or significant enough to make the desired impact on economic growth in the long-run, so as to improve the standard of living of Nigerians.

Recommendations

No economy has ever grown without a significant contribution of foreign investors. Therefore the right policies should be put in place to encourage them to go into the agricultural and manufacturing sector (Real Sector) which is still very under developed.

It is now clear that the education we received from our colonial masters laid too much emphasis on paper qualifications rather than acquisition of practical skills. It is therefore recommended that emphasis should now be placed on acquisition of vocational and entrepreneurial skill which are not only relevant for employment and job creation but also for technical transfers.

The role a well-developed stock exchange like London, New York and Tokyo stock exchange can play in economic growth cannot be overemphasized. Therefore the Nigerian stock exchange should be more proactive in its operations, especially to curb activities of insider trading and other unhealthy practices so as to attract and retain foreign capital.

Although it has been agreed by experts that government has no business in business, but suffice to say that government must create the enabling environment by provision of basic infrastructural facilities like good roads, electricity, water, security of lives and property etc. By so doing, foreigners will not only be attracted to bring in their capital but also encouraged to retain and increase it from time to time.

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