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INFLUENCE OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN NIGERIA (1989- 2019)

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ABSTRACT: *The aim of this study is to determine the Influence of Foreign Direct Investment in Economic Growth and Deployment of Nigeria. The study employed Ordinary Least Square (OLS) method of estimation using multiple regression analysis. The data generated for this study comprises of Foreign Direct Investment (FDI), Real Gross Domestic Product (RGDP) and Exchange Rate (EXR). The data was sourced from Central Bank of Nigeria statistical bulletin spanning the period of 1989-2019 (30years). We found that FDI has positive and significant influence on real economic growth. EXR also has positive and significant impact on economic growth in Nigeria. Results also showed that the overall regression is significant at 5% level of significance given that the F-statistic is 0.0000 which is less than 0.05. Based on the results, the study recommends an improvement in the level of institutional development on which the inflow of FDI is based. The study also recommends that government should as a matter of urgency takes appropriate measures in order to stabilize the exchange rate that may attract more investors in the country for desired economic growth and Development.*

KEY WORDS: real gross domestic product, foreign direct investment, exchange rate and economic growth.

INTRODUCTION

It is a fact that Nigeria is an import dependent country with heavy reliance on Oil as the main export product/activity. The flow of Foreign Direct Investment (FDI) in Nigeria has been mainly from the extractive industries (Oil and Gas) as a result of lack of productive investment activities that could integrate the Nigerian economy into the global market chain. The focus of our government on crude oil exports subsequent to the oil boom has led to the abandonment of the agricultural sector and made irrelevance of Nigeria's agricultural sector in the global market, thus reducing the overall productive activities of the economy (Azeez, Dada & Aluko, 2014).

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FDI dates back to the era of colonial masters who came with the intention of exploiting Nigeria's oil resource. The colonial masters then made very little investment in Nigeria but with the discovery of oil, the flow of FDI increased (Macaulay, 2012 in Adeleke, Olowe & Oladipo, 2014). World Bank, (1996) regarded Nigeria as the second largest foreign direct investment recipient in Africa due to the nation's large endowment in oil. Overvaluation of the Naira during the oil boom also accounted for the large magnitude of FDI in the country. Korna, Tagher & Idyu (2013) opined that the exchange rate then was $1.49 to ₦1 and the consequent FDI activities resulted in $2414.8 million. The depletion and fall in oil prices have redirected attention from extractive industries to other manufacturing and productive activities as well as from import substitution to export promotion activities. This was mainly due to the recognition of the importance of foreign direct investment in filling the savings-investment gap that would enhance export activities. Various strategies involving incentive policies and regulatory measures were undertaken by the government to attract FDI in Nigeria such as the enactment of the Nigerian Investment Promotion Commission Act and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act in 1995 and the privatization of some companies which include telecommunication, electricity, transportation and manufacturing. These were completely or partly owned by and managed by private individuals or companies.

FDI has been an essential source of investment financing mostly in developing countries such as Nigeria. It was considered as an engine of economic growth and development whatever its resources were. These generated much needed revenues to the host country as well as increase revenues in areas of technology transfer including technical know-how, skills acquisition, raising productivity of domestic firms and human capital development which could spur economic growth .It Created favorable conditions to attract FDI for ensuring high development rates which was the priority of any country.

FDI had been attracted into the country through the activities of the Trans National Companies (TNCs) by establishing local companies through foreign associates. The foreign partners interacted with the local economy by building production facilities that where to hire and train workers. This process created a value chain between the affiliates and the TNCs locally and internationally. The backward linkages with the suppliers and the forward linkages were the distributors. Sales organizations kindled production as suppliers and distributing firms and organizations in the host country increased. This formed a channel for the transfer of technology. Through FDI growth,

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manufacturing/production of goods and services were enhanced. Foreign capital investments were the most proficient and safest way to integrate the world economy (Pelinescu & Radulescu, 2009).

Statement of the Problem

Foreign Direct Investment is expected to contribute to economic growth of a Country through capital accumulation of new productive activities into the host countries economy. However, accumulation of new capital is dependent upon certain level of macroeconomic and institutional development (Jude & Levieuge, 2013). Researchers such as Esew & Yaroson, (2014) have recognized the level of development index as human capital, markets size, business environment, political risks among others. This has been the problems and a source of worry to Nigerian economy due to the deficiencies in these institutional developments indices.

Presuming from the extensive studies on theoretical expectations on the role of FDI on economic growth in Nigeria which have formed one of the core study areas to scholars; foreign direct investment mostly made by multinational enterprises or by a foreigner in an enterprise of host beneficiary countries over which they have a control and/or earn private returns are referred to as net inflows of investment in a economy of a country is expected to serve as a means of balancing Nigeria's domestic resources in order to ensure speedy economic development. Unfortunately, in spite of all the effort to attract foreign direct investment, the growth of FDI in Nigeria remains an issue of concern to the nation. Nsofor (2016) opined that level of insecurity in the country; especially *Boko Haram* insurgency constitutes a major hindrance to multinational companies' influx with serious impediment to Foreign Direct Investment inflow. FDI is also hindered by other forms of insecurity, such as weak and bad governance, inefficient policy implementation, reversals, bureaucratic bottleneck and regulatory burden. As a result, foreign capitals which could have accrued to the country in form of technical skills and investments were discouraged. The underdeveloped nature of the financial markets in Nigeria retard capital formation geared towards economic growth and development in the country. The role of local financial markets in enabling/enhancing foreign direct investment (FDI) to promote growth through backward linkages between foreign and domestic firms to turn into FDI overflow were stressed by Alfaro, Chanda, Kalemli-Ozean and Sayek (2004). They stressed the importance of upfront capital investment to entrepreneurs in order to develop

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varieties of intermediate goods to operate a firm in an open economy where foreign and domestic firms could compete for skilled, unskilled and intermediate goods. In affirmation, Sharma and Singh (2016) noted that higher FDI will be attracted if the market size of the country is large.

Objective of the Study

The study is set out to examine the influence of Foreign Direct Investment on economic growth in Nigeria (1989 - 2019). However, the study is specifically aimed at determining the influence of foreign direct investment on Gross Domestic Product (GDP) as well as the effect of exchange rate on Gross Domestic Product in Nigeria.

Implication of the Study

The policy implication of this study is that if the objective set out is achieved, it will provide insight to the regulatory authorities on the overall contribution of foreign direct investment on the growth of Nigerian economy. And this however will elicit policy responses by the government in order to stimulate additional inflows of FDI into the country. Theoretically, the study will portray different inferential arguments/findings in relation to FDI as a guide to further studies.

LITERATURE REVIEW

Foreign direct investment: is an investment that reflects capital transaction(s) undertaken by a foreign direct investor resident in another country other than the host country’s economy and where the resident firm (direct investment enterprise) in the economy of the host country has a long-term relationship, reflecting a lasting interest and control. The organization for Economic Cooperation and Development (OECD, 2013) noted that a direct investor may be an incorporated or unincorporated private or public enterprise, an individual or a group of related individuals, a government, or a group of related incorporated and /or unincorporated enterprises which have a direct investment enterprise. Conversely, a direct investment enterprise is an incorporated or unincorporated enterprise in which a foreign investor has economic interests in the incorporated/unincorporated enterprise. Foreign direct investments as defined by World Bank, (2013) are the inflows of investments to acquire lasting management interest in an enterprise operating in an economy other than that of the investor. The interest should be

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10% or more of voting stock totaling of equity capital, reinvestments of earnings, other long-term capital, and short term capital as shown in the balance of payments. FDI are classified into horizontal and vertical. **Horizontal FDI** which is often a market expansion strategy of the investing company into potentially high growth economies is an investment made to carry out similar business operations as already operated by the foreign investor in other countries. **Vertical FDI** is the disintegration of the production process vertically by contracting out some production stages with different input requirements with the intention of maximizing profit margins. In this case, goods are not produced for sale to the country receiving FDI, but for export purposes. Vertical integration at times entails that the foreign associates source inputs and materials from the parent company.

Matjekana (2002) classified FDIs in terms directions of the flows as inward and outward FDI. He defined inward FDI as investment in which foreign capital is invested in local resources and outward FDI as investment of local capital invested in foreign countries. Barros, et al (2013) asserts that FDI is attracted through the activities of the multinational companies (MNCs). Improving (MNCs) returns can increase the host countries' savings and investment and improve technology. It also contributes to capacity building through the transfer of technical and management skills from the originating country. External firms train host countries personnel to specialize in area of their operations.

Empirical Review

Despite the point of views and evidence sustained in the positive impacts of foreign direct investment (FDI) on growth, some empirical findings suggest the contrary. Carkovic and Levine (2005) used the Generalized Method of Moment (GMM) dynamic panel data estimator with data from 1960 and 1995 for a sample of 68 countries to examine the impact of FDI to growth. Results show that FDI does not exert a strong and positive impact on economic growth.

Nduba (2015) examined whether 80% of all FDI channeled to the mining sector, could have an influence on the level of impact exerted by FDI on growth in Zambia. With the use of time series data from 1990 to 2013, the study finds that FDI contributed to increasing output in the mining sector due to recapitalization but this in turn has not resulted in active growth for the economy. The study concludes that FDI has not contributed to dynamic economic growth but has reinforced dependence on the mining sector.

Louzi and Abadi (2011), examined the FDI-led growth hypothesis of Jordan economy. The study was based on time series data from 1990-2009. The econometric framework of co-integration and error correction mechanism was used to capture two way linkages between variables interest. Result showed that FDI inflows do not exert an independent influence on economic growth.

Studies that revealed FDI contribution to economic growth include the study of Trojette (2016) on whether the effect of foreign direct investment on economic growth is dependent upon institutional level. A generalized method of moment (GMM) panel estimator covering the period from 1984-2013 revealed that with government stability and the respect of law and order FDI enhances GDP growth.

Tshepo (2014) studied the impact of FDI on economic growth and employment in South Africa for a period of 24 years from 1990-2013. The study made use of the Johansen Co-integration test to test for the existence of long-run relationship among the variables and the unit root test to test for stationarity. The result showed that there was a positive long-run relationship between FDI,GDP and employment. The Granger causality test results confirmed the direction of causality which runs from FDI to GDP.

Adeleke, et al (2014) analyzed the impact of foreign direct investment on Nigeria economic growth over the period from 1990-2013. With the use of regression analysis of the Ordinary Least Square (OLS), findings revealed that economic growth was directly related to inflow of foreign direct investment (FDI) and it also revealed that economic growth is directly related to inflow of foreign direct investment and it is also statistical significant at 5% level which implies that a good performance of the economy is a positive signal for inflow of foreign direct investment.

Adigwe, Ezeagba and Udeh,(2015) conducted a relationship study between FDI, exchange rate and gross domestic product in Nigeria from 2008-2015. With the use of Pearson Correlation, findings showed that there was a significant relationship between FDI, EXR and GDP. It indicates that economic growth in Nigeria is directly related to foreign direct investment and exchange rate. The paper recommends that there is need for

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government to be formulating investment policies that will be favorable to local investors in order to compete with the inflow of investment from foreign countries.

Antwi and Zhao (2013) carried out a study on the relationship between FDI and economic growth in Ghana from the period between 1980-2010 using time series data taken from the world banks' world development indicators. Co-integration methodology was employed to analyze data. Findings revealed that a long-run equilibrium and causal relationship exist between the FDI and the two independent variables under consideration namely GDP and Gross National Income.

Sohail, Sohail and Azeem (2014) examined the impact of foreign direct investment on economic growth in Pakistan. The study made use of data from 2000-2010 by using two-stage least square method of simultaneous equations estimation. The results showed that there exists a positive relationship between economic growth and FDI in Pakistan.

Ur Rahman (2014) employed multiple regression technique to examine the impact of foreign direct investment on economic growth of Pakistan with data covering 1981-2010. Foreign Direct Investment (FDI) and Consumer Price Index (CPI) were used as independent variables. The result indicates that there is a positive relationship between the FDI and GDP while there is negative relationship with CPI.

Gul and Imran (2015) examined the impact of FDI and trade openness on economic growth of Pakistan using time series data from 2008-2013. To test the long run relation and association among variables, co-integration analysis, regression analysis, correlation and Durbin Watson test were employed. It was found that FDI, trade openness and domestic capital are positively effecting the economic growth.

Contextual Review

Based on related literature, most studies on Foreign Direct Investment (FDI) in the context of Nigeria has always been looked at in relation to its impact on growth, most of which showed positive impact (see for example, Adeleke, et al 2014, Adigwe, et al 2015) whereas, most from other countries perspective does not exert strong and positive impact on growth (see Ndaba, 2015, Carkovic & Levine, 2015, Louzi & Abadi, 2012). As reported by UNCTAD (2013). In Nigeria FDI has witnessed growth in the past two decades with slight decrease during the global financial crises but has improvement

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steadily with potential for more growth. FDI has been gainful to the Nigerian economy in provision of capital to finance investment by filling the savings gap in the country. Onaji-Benson (2016) opines that foreign investment is an external source of investment in the theory of investment and savings is an important source of generating investment, employment and growth. Increased MNCs activities has been attracted in the country due to its market size with a population of about 190 million and an increasing middle class with a high propensity to consume (Mckinesy, 2010 in Onaji-Benson, 2016).

Notwithstanding, the economy has certain characteristics that deter FDI from taking place. These include political instability/Insurgency, heavy reliance on oil, regional disparity restricting FDI to a few areas, preventing a majority ownership to foreigners as well as requiring a local partner in a joint venture or to acquire privatized companies. Haruna Danja (2012) showed evidence that FDI has not contributed much to the growth and development of the Nigerian economy due to repatriation of profits, contract fees, and interest payment on foreign loans. Ademola, Olusuyi, Ibiyemi and Babatunde. (2013) sees FDI as a panacea the for slow rate of economic growth, which has been experienced in the country.

The impact of FDI on growth has been explained in literature with emphasis to other factors. Institutional quality, linkages to macroeconomic variables, constitutional factors and other externalities in relation to the host country in form of foreign technology through replication, entrants of foreign firms’ product and processes, creation of relationship between foreign and domestic firms and direct capital financing implies that FDI can play an important role in modernizing a nation’s economy and encourage economic development (Alfaro, et al 2004). Trojette (2016) opined that better institutions attract more FDI and encourage policy makers to upgrade the local institutional environment before engaging in FDI attraction policies. Saidi, Haouas and Ochi (2014) support the idea that FDI’s ability to increase long run growth rate depends on the complementarities conditions (local conditions and policies) such as: sophisticated financial market, well developed human capital and good governance, among other local characteristics.

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Theoretical Framework

Foreign direct investment and International capital flows as viewed by Neo-classical theories such as Heckscher-Ohlin model postulates that capital is expected to flow from capital endowed to capital poor countries to trade since capital is in limited supply in developing countries that would lead to gainful investment opportunities for capital generation in developing countries. The theory holds that rich capital country will produce and export capital intensive goods while a country that is endowed with labor will specialize in export labor intensive goods.

Vissak and Roolaht (2005) study shows that FDI in developing economies could occur through expansion in human resources and technological modification because through that more advanced technology will be used by host countries' firms. They argue that workers that are highly educated may leave the country due to lack of research and development activities that they can engage in the host country. FDI encourages domestic countries' growth through transfer in human capital and technological experience. Carkovica and Levine, (2005) opine that FDI is likely to improve by encouraging the incorporation of new inputs and technologies in production process of the domestic country.

Knowledge Gap

This study bridges the literature gap by providing an update on the impact of FDI on economic growth by employing exchange rate and foreign direct investment as independent variables. The study provides new evidence on the impact of these variables on economic growth proxy by GDP over the period covered. The study also contributed to existing state of knowledge on the impact of FDI on economic growth. However, efforts should be made to research on other variables that spur foreign direct investment in the country. This possibly offers enough scope for further study.

METHODOLOGY

Research Design

This study adopted *ex-post facto* research design. This involves historical events where data already exist. This research design is employed because of its suitability in research

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survey of this nature-where event under study has indeed already taken place. In this method of research design, variables cannot be manipulated.

Model Specification

The general regression model for the study is expressed thus;

RGDP =*f* (FDI, EXR)……………………………………………. (1).

However, linear expressions, with the inclusion of an error term are presented as follows:

$RGDP = b_o + b_1FDI + b_2EXR + \varepsilon_1$

Where;

RGDP = economic growth

FDI = foreign direct investment

EXR = exchange rate ε_1 = error term

Descriptive and Empirical Results

Table 1: OLS Regression Result

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	-4504.039	4331.565	-1.039818	0.3062
FDI	25.11018	12.10706	2.074011	0.0462
EXR	197.2968	76.96223	2.563554	0.0153
R-Squared	0.649153	Mean dependent variable		17827.15
Adjusted R-Squared	0.627225	S.D dependent variable		28092.36
S.E of Regression	17151.87	Akaike info criterion		22.41942
Sum squared resid.	9.41E+09	Schwarz criterion		22.55273
Log likelihood	-389.3398	Hannan-Quinn criterion		22.46544
F-statistic	29.60398	Durbin-Watson statistic		0.268437
Probability (F-statistic)	0.000000			

Results in Table.1: above reveals that FDI has positive and significant impact on GDP. This is evidenced in the coefficient value of FDI 25.1 which is positive and p-value 0.046

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which is less than 0.05 level of significance. EXR also has significant positive impact on GDP (coefficient = 197.3, p-value = 0.0153). The coefficient of determination (R^2) of 62.7% shows that variation in economic growth is explained by 62.7% variation in FDI and EXR while 38.3% is captured by other variables not included in the model. F-statistic is 29.60 and the probability of F-statistic is 0.000 which means that the overall regression is significant at 5% level given that the F-statistic is 0.00 which is less than 0.05.

Table 2: Descriptive Statistics

	RGDP	FDI	EXR
Mean	17827.15	326.5212	71.62906
Median	41889.250	110.4527	22.05106
Maximum	94144.96	1360.308	196.4865
Minimum	94.32502	0.264300	0.610025
Std. Dev.	28092.36	422.5601	66.47366
Skewness	1.688211	1.093160	0.234335
Kurtosis	4.405487	2.8122109	1.372472
Jarque-Bera	19.50612	7.022307	4.183225
Probability	0.000058	0.029862	0.123488
Sum	623950.4	11428.24	2507.017
Sum Sq. Dev.	2.68E+10	6070939	150237.4
Observations	30	30	30

Source: Researcher's view Result.

Table2. Reveals descriptive statistics of model variables. It shows that RGDP average 17827.15 from 1981-2015. The data shows that Nigeria recorded the highest RGDP of 94144.96 in 2015 while the lowest of 94.33 was recorded in 1981. The probability shows that the exchange rate is normally distributed at 0.1235 which is greater than 0.05. FDI

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was maximum at 1360.308 in 2011 and minimum at 0.264 in 1981while EXR was maximum at 196.49 in 2015 and lowest at 0.61 in 1981.

CONCLUSION AND RECOMMENDATIONS

This study analyzes the influence of FDI and EXR on economic growth using data for 30 years. Positive and significant impact was observed among the variables. Despite the point of views and evidence sustained in the positive impacts of foreign direct investment on growth, empirical literatures on most developed countries says contrary. However, foreign direct investment is an important factor growth emphasis on most economy, especially developing countries' economy. The impact of FDI on economic growth is country specific and the level of inflow modulated by institutional quality. The interaction between FDI and institutions can seriously hinder FDI influx where there is poor institutional development and the subsequent effect on the attraction of the multinational enterprises. FDI comes in different forms. It can be through creation of new productive units or through merger and acquisition which reflects a change of ownership of already existing firms.

Foreign Direct Investment is important in economic growth in Nigeria. Literature shows that FDI in relation with economic growth can be intermediated by several other variables such as exchange rate, government stability, financial market, socioeconomic conditions, trade liberalization, law and order, human capital development, democratic accountability and bureaucracy quality. Based on the findings, the following recommendations are made;

1. There is need for an in-depth investigation of economic and institutional forces that determine the composition of FDI inflows to developing countries and to work towards improving such forces.

2. Government should also take measures in order to stabilize the exchange rate system that may attract more investors into the country.

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APPENDIX ONE

Research Variables

YEAR	RGDP	FDI	EXR
1989	134.60	0.7	2.0206
1990	193.13	2.5	4.0179
1991	263.29	1.7	4.5367
1992	382.26	13.9	7.3916
1993	472.65	4.7	8.0378
1994	545.67	6.9	9.9095
1995	875.34	14.5	17.2984
1996	1089.68	29.7	22.0511
1997	1399.70	22.2	21.8861
1998	2907.36	75.9	21.8861
2099	4032.30	111.3	21.8861
2000	4189.25	110.5	21.8861
2001	3989.45	80.7	21.8861
2002	4679.21	92.8	92.6934
2003	6713.57	116.0	102.1052
2004	6895.20	132.4	111.9433
2005	7795.76	225.2	120.9702
2006	9913.52	258.4	129.3565
2007	11411.07	248.2	133.5004

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2008	14610.88	654.2	132.1470
2009	18564. 59	624.5	128.6516
2010	20657.32	759.4	125.8331
2011	24296.33	971.5	118.5669
2013	24794.24	1273.8	148.8802
2014	54612.26	905.7	150.2980
2015	62980.40	1360.3	153.8616
2016	71713,94	1113.5	157.4994
2017	80092.56	875.1	157.3112
2018	89043.62	738.2	158.5526
2019	94144.96	602.1	196.49

Source: CBN Statistical Bulletin, 2019

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APPENDIX TWO

OLS Regression Result

Dependent variable: RGDP
Included Observations: 30

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	-4504.039	4331.565	-1.039818	0.3062
FDI	25.11018	12.10706	2.074011	0.0462
EXR	197.2968	76.96223	2.563554	0.0153
R-Squared	0.649153	Mean dependent variable		17827.15
Adjusted R-Squared	0.627225	S.D dependent variable		28092.36
S.E of Regression	17151.87	Akaike info criterion		22.41942
Sum squared resid.	9.41E+09	Schwarz criterion		22.55273
Log likelihood	-389.3398	Hannan-Quinn criterion		22.46544
F-statistic	29.60398	Durbin-Watson statistic		0.268437
Probability (F-statistic)	0.000000			