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IMPACT OF FOREIGN DIRECT INVESTMENT INFLOW ON ECONOMIC GROWTH IN NIGERIA

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Abstract
The study seeks to examine the impact of foreign direct investment inflow on economic growth in Nigeria from 1986 to 2012. This period coincided with liberalisation and deregulation of the economy towards free market principles and private sector led development strategies. The methodology of the study engages both quantitative method of data analysis and descriptive statistics. For the quantitative method, the study adopts a macro-econometric model involving a multiple regression equation with ordinary least squares (OLS) used as the analytical technique. While the study utilises secondary time series data in ratios and percentages for the quantitative analysis; tables and figures are used for the descriptive statistics. The study reveals a negative impact of FDI inflows on growth in Nigeria. The empirical result shows that a unit change in FDI inflow to the oil sector would lead to about 80.37 unit decline in output growth if foreign investors continue to invest mainly in the oil economy. The study concludes that the neglect of agricultural and manufacturing sectors by foreign investors, coupled with insecurity, inadequate power, corruption, lack of patriotism and commitment to national development on the part of government and people of Nigeria as factors that led to the feeble performance of FDI inflows on growth in the country. This implies that the need for strong political, social and economic stability and policies in Nigeria to woo foreign investors into the real economy is urgent. The paper recommends amongst others that government should formulate policies that will make the agricultural sector a priority in order to attract foreign investors to invest in the sector, and consequently boost industrialisation in the country.

Keywords: *FDI, Inflows, Transnational Corporations, Economic Growth, Nigeria*

Background to the Study
The inflow and outflow of capital debt, portfolio equity, and direct and real estate investments between one country and others are recorded in the capital account of its balance of payments. Outflows include residents' purchase of foreign assets and repayment of foreign loans. Inflows include foreigners' investment in home-country product and financial markets, as well as loans to home country residents (Begg, Fischer and Dornbusch, 1994). Allowing capital to flow freely in or out of a country without controls or restrictions is known as capital account liberalisation. The inflow of it is foreign direct investment, and this is the focus of the paper. Nevertheless, the inflow of foreign direct investment to power the domestic economy is of major interest to this work. According to Goodluck (2012), the inflow of foreign direct investment is an indication of economic growth. The increase in inflows and outflows of foreign direct investment (FDI) is facilitated by the rapid globalisation of the world economy. The role of the private sector in economic development is increasingly expanding the frontier of FDI movements across countries of the world. The economic climate in Nigeria though had not been friendly or conducive to inflow of FDI in the past; it has improved considerably since 1999.

The experience of the Asian economies shows that foreign direct investment can accelerate the rate of growth and diversification of exports; not only by providing finance but also by giving access to technology and markets. FDI can be critical in introducing widespread technological change, improving the agility and competitiveness of firms, and providing access to skills and global markets. This is evident in China, and to a lesser extent in Bangladesh, India and Kenya, where FDI is increasingly generating spillover effects in many sectors. Successful cases such as this show the importance of having governments promote and welcome FDI, particularly in real sectors and infrastructure such as communications and energy. They also show the importance of avoiding excessive regulation and restrictions on expatriates and financial flows and the business activities of firms.

Further, there are strong aspirations for regional integration in Africa for the purpose of expanding trade and investment. Indeed, many countries are starting to coordinate and harmonize policies for investment, tariffs, taxation, and business regulations. But the biggest and most productive impetus to regional integration would come from removing the restrictions on movements of goods, capital, and people. These restrictions have severely limited trade and encouraged smuggling. In addition, there is considerable untapped potential for regional cooperation in power, transport, and the distribution of petroleum products (oil and gas) to reduce the costs of supplying these services. Regional integration is also likely to get a boost from the development of regional growth poles South Africa and Zimbabwe in the south, Cote d'Ivoire, Ghana, Nigeria and other ECOWAS member countries in the west, and Kenya, Tanzania and Uganda in the east. With proper unity and understanding, these could produce important pull effects on growth throughout the continent if the limitations and impediments on local and foreign investors and movements of goods, people and capital are removed. They would also help promote FDI by enlarging markets. However, regional integration should not be a substitute for opening up to the global economy. It should be seen as the way to help firms connect to global markets at lower cost.

Foreign direct investment has been widely accepted as a catalyst for economic transformation globally. Developing countries, including Nigeria are trapped in the low saving investment cycle and the aspiration to dependent on foreign capital inflows to stimulate economic growth in these economies has become a crucial need. The need for FDI is greatest in Sub-Saharan Africa, including Nigeria, but little has been received outside the enclaves of mining and oil. As a matter of fact, there is concern about considerable foreign disinvestment from Nigeria in response to the uncertain political and economic environment, the high cost of doing business due to unstable power, and the fears that policies and regulations discriminate against foreign investors, who have many other opportunities all over the world. FDI inflows and FDI stock already in the country would benefit from a more stable and dynamic environment, and a willingness to accept investment from all genuine investors and sources if the right policies are put in place.

The paper therefore, is structured into nine sections. The foregoing is an introductory section of the paper (section one). Research problem as well as the objective and significance of the study are given in section two. Section three describes the literature review, theoretical and conceptual issues. Section four discusses FDI inflow in Nigeria and FDI as channel of technology transfer. Section five states the hypothesis of the study. Section six specifically addresses the methodology and data sources, including the a priori expectation of the paper. Section seven interprets the empirical results and discusses the findings of the study. While conclusion is made in section eight, policy recommendations are offered in section nine.

Research Problem and Objective

The bulk of FDI inflows in Nigeria is to the oil and gas sector, while the real economy (agriculture and manufacturing) is utterly neglected. Insecurity, political and economic uncertainty as well as poor energy supply, have added to this problem. This implies that where the real sector is underdeveloped, growth and sustainable development would be constrained. The need to attract FDI inflows into the non-oil sector in Nigeria has become important. From the foregoing problem, the broad objective of the paper is to investigate the impact of FDI inflows on economic growth in Nigeria from 1986 to 2012. Specifically, the study examines the problems inhibiting the inflows of FDI to the real sector of the Nigerian economy, and offers policy recommendations that would attract FDI inflows into the non-oil sector in Nigeria. Significantly, the study contributes to existing literature on the linkage between inward FDI and economic growth in Nigeria. The study would provoke further debate both within and outside Nigeria concerning the method used and conclusions drawn. This implies an anticipation that further empirical researches would spring up from this study. The work would be a valuable asset to researchers and policymakers who are interested in economic growth and development in developing countries.

Literature Review, Conceptual and Theoretical Issues

Conceptual Clarifications

Foreign direct investment means acquiring a lasting interest in an enterprise, operating in an economy other than that of the investors, and the purpose of the investors is to have effective voice in the management of the enterprise (IMF, 1997). Foreign direct investment was viewed by Aremu (1997) as the inflows of new equity capital, change in foreign share capital, re-invested earnings (unremitted profits), trade and suppliers credit, net inflow of borrowing and other obligations from the parent company or its affiliates, as well as external obligations that are not in the above categories. Anyanwu (1993) defined FDI as the acquisition by institutions or individuals in one country of assets of a firm in another country. It consists of external resources, including capital, technological, managerial and marketing enterprise. From the foregoing, FDI is an attempt by individuals, groups or companies of a nation to move resources of productive purpose across its boundary to another country with the anticipation of earning some returns. According to Anyanwu, FDI facilitates the growth process of an economy.

Economic growth is described by Solow (1956) as the increase of per capita gross domestic product (GDP). Begg, Fischer and Dornbusch (1994) define economic growth as the percentage increase in the growth rate of GDP per annum, used in measuring the total output and total income of an economy resulting from production function or factors capital, labour, land, raw materials, technical knowledge or skills. This implies that technology transfer through FDI has become crucial especially in developing countries. Other scholars such as Elhanah (2004) and Achugudu and Igah (2008) portray economic growth as annual increases in a nation's total output of goods and services which could be achieved through macroeconomic stability, improvement in technology, export growth and market penetration, resulting in changes in the structure of output and in the allocation of inputs by sectors of the economy. This means that the accumulation of productive assets is the foundation of economic growth.

Empirical Evidence and Related Literatures

Various empirical studies have examined several channels through which FDI may positively or negatively affect economic growth in several countries. However, due to relatively small level of FDI to Africa, when compared with regions such as Latin America and Asia, not many studies have been reported on the impacts

of FDI on economic growth in Africa, including Nigeria (Akinlo, 2004). Moreover, most existing studies were based on economies where large share of FDI is concentrated on the manufacturing industries. To the authors' knowledge, empirical studies have scarcely focused on economies where inward FDI flows to the oil and gas sector, and Nigeria is an example of such economies. It implies that the role played by FDI is both an interesting and, from a policy point of view, crucial one. The study would contribute in this area.

Several empirical studies such as the works of Aitken, Hanson and Harrison (1997) and Blomstrom and Kokko (1997; 1998) have been provided on the causal relationship between FDI and growth. At the firm level, several studies have provided evidence of technological spillover and improved plant productivity (Weinhold and Klasen, 1991).At the macro level, FDI inflows in developing countries tend to "crowd in" other investments and are associated with an overall increase in total investment (UNCTAD, 1992). Most empirical studies have found that FDI inflow has led to higher per capita GDP, increased economic growth rate and higher productivity growth. For example, the casual link between Foreign Direct Investment (FDI), domestic investment and economic growth in China from 1988 to 2003 was empirically investigated by Tang and Selvanathan (2008) using the multivariate VAR and ECM approach. The results indicate a bi-directional causality between domestic investment and economic growth. They concluded that there is a higher level of complementation between FDI and domestic resources.

Other channels identified in empirical works through which FDI bolstered growth include higher export in host country and increased backward as well as forward linkages with affiliates to multinationals (Markusen and Venables, 1999). However, the productivity of foreign capital is dependent on initial conditions of host country (Akinlo, 2004). These conditions include introduction of advanced technology and the degree of absorptive capacity in the host country; sufficiently high level of human capital in a recipient economy and some degree of complementation between domestic investment and FDI; high savings rate and open trade regimes. Essentially, what the above reviewed empirical studies suggest is that ways in which FDI affect growth depends on the economic and technological conditions of the host country. However, it should be noted that most of the existing studies were focused mainly on economies with high manufacturing FDI. This study will fill this gap by focusing on Nigeria where high oil FDI inflow is dominant.

Carkovic and Levine (2002) opine that the economic rationale for offering special incentives to attract FDI frequently derives from the belief that foreign investment produces externalities in the form of technology transfers and spillovers. Curiously, the empirical evidence of these benefits both at the firm level and at the national level remains ambiguous. DeGregorio (2003) contributes in the debate on the importance of FDI to growth. DeGregorio notes that foreign direct investment may allow a country to bring in technologies and knowledge that are not readily available to domestic investors, and in this way increases productivity growth throughout the economy. FDI may also bring in expertise that a country does not have, and foreign investors may have access to global markets. DeGregorio finds that increasing aggregate investment percentage point of GDP by increased FDI is associated with higher economic growth in some countries, while this situation had also been seen as having higher incidence of economic crisis in some other countries.

Saggi (2002) observes that there are several important caveats to the expectation of positive contribution of foreign direct investment on host countries. Saggi argues that a positive correlation exist between the extent of foreign direct investment and economic growth in cross country, regression may simply reflect this fact

that countries that are expected to grow faster attract FDI because it yields higher returns. This implies that the causation could run from growth to foreign direct investment (FDI), suggesting the need to have a simultaneous equation system to resolve the issue of which one causes the other. Oyeranti (2003) views that foreign direct investment (FDI) cannot, and ought not to discriminate against both economic theory and recent empirical evidence, suggesting that FDI has likely potential positive impact in developing host countries. However, Nunnenkamp and Spatz (2003) criticize the view that developing countries should draw on foreign direct investment (FDI) to create economic development. According to them, domestic savings and investments are catalysts for economic prosperity.

Otepola (2002) examines the importance of foreign direct investment in Nigeria. The study concluded that FDI contributes significantly to growth especially through exports. However, the study did not show whether the flow of FDI is to the oil sector or the real economy. If the significant growth is oil driven it implies unsustainable growth in the country. Zhang (2001) echoes that foreign direct investment has positive growth impact that is similar to domestic investment along with partly alleviating balance of payment deficit in the current account. He opines that via technology transfer and spillover efficiency, the inflow of foreign direct investment might be able to stimulate a country's economic performance. Lall (2002) observes that FDI inflow affects many factors in an economy and these factors in turn affect economic growth. This review shows that the debate on the impact of FDI on economic growth is far from being conclusive.

The literatures above imply that 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. These studies reveal a positive relationship between FDI and economic growth in many countries between the period1983-2003. However, these researches are not very recent and they do not show the impact of FDI on economic growth in deregulation period and private sector led development era, taking into consideration the liberalisation of the Nigerian economy since 1986. Nevertheless, studies on FDI inflow in Nigeria are scanty. It is difficult to draw precise policy implications from these studies given the short period analysed especially on the Nigerian economy. This implies that the period from 2004 to 2012 (about a decade) has not been studied by these researches on FDI and growth given Nigeria's data. This paper would fill this gap by covering deregulation regime from1986 to 2012.

Theoretical Underpinning

The study tracks the theoretical basis in Akinlo (2004) who articulates the ways in which inward FDI can contribute to the growth of the host country's economy. Theoretically, some identified channels include increased capital accumulation in the recipient economy, improved efficiency of locally owned host country firms via contract and demonstration effects, and their exposure to fierce competition, technological change, and human capital augmentation and increased exports.

However, the extent to which FDI contributes to growth depends on the economic and social condition or in short, the quality of environment of the recipient country (Buckley, Clegg, Wang, and Cross, 2002). This quality of environment relates to the rate of savings in the host country, the degree of openness and the level of technological development. Host countries with high rate of savings, open trade regime and high technological product would benefit from increased FDI to their economies. In addition, Akinlo (2004) argues that FDI may have negative effect on the growth prospect of the recipient economy if they give rise to

a substantial reverse flows in the form of remittances of profits, and dividends and/or if the transnational corporations (TNCs) obtain substantial or other concessions from the host country. Classical economists would argue that international capital mobility allows countries with limited savings to attract financing for productive domestic investment projects, enables investors to diversify their portfolios, and spreads investment risk more broadly, and promotes inter-temporal trade the trading of goods today for goods in the future. In turn, higher rates of return can encourage saving and investment that deliver faster economic growth. This implies a positive relationship between FDI and economic growth. Most economies allow individuals, firms, organisations and multinational agencies, outside their countries to invest and trade in order to facilitate the inflow of foreign capital, technology and managerial capabilities. The purpose of this is to achieve economic growth and development (Achugudu and Igah, 2008).

Developing countries such as East Asian, Latin American and Eastern European economies with progressively more liberal trade policies are the ones with growing ratios of trade and inward investment to national income and with higher growth rates (Drabek and Laird, 1999). However, most developing countries including Nigeria are trapped in the low saving investment cycle, and are dependent on foreign capital inflows to stimulate economic growth. From pre-independence era to the early 1970s Nigeria was a net exporter of agricultural products. As the agricultural sector was growing, the manufacturing sector too (as at then) was equally expanding in number and output. Later, Nigeria became one of the leading oil exporting countries from the mid 1970s consequent upon which diminishing returns set-in in the agricultural sector of the economy (Dabwor, 2012). According to Dabwor, this has attracted enormous FDI inflows but largely to the oil sector and Nigeria had more FDI inflows than the other sub-Saharan African countries, but to the utter neglect of the economy's mainstay (agriculture).

Inward FDI and the Nigerian Economy

Types, Determinants, Costs and Benefits of FDI Inflow in Nigeria

There are four main forms of foreign investment inflow. These include wholly owned subsidiary, joint ventures or joint investments, licensing, and managerial contracts (Agada and Okpe, 2002). In the case of wholly owned subsidiary, the foreign investor is the sole owner of the branch or the subsidiary. This guarantees total inflow of capital, technology transfer and managerial expertise without undue interference by the host country, and the risk of losing control over competency is reduced. Joint ventures on the other hand, require the partial contribution by the foreign firms/investors concerned. It allows the host partner to bring in local knowledge and this may be valuable to the foreign investor who has no previous knowledge of the host country. This is the most common form of foreign investment undertaken in Nigeria by such companies as Julius Berger, John Holt and the Nigerian Bottling Company. The advantage of joint ventures is that it gives the foreign investor the opportunity of benefitting from the local partner's knowledge of the host community's competitive conditions, culture, language, political systems, business systems, connections and networking within the host country.

The licensing type of investment gives the local producer the right to produce similar goods of same brand for royalty payment. The advantage of licensing is that the investor does not have to bear the development cost and risks associated with opening a foreign market. This could also be an attractive option for companies that are willing to commit financial resources to an unfamiliar or politically volatile foreign market. However, lack of control over technology, instability to realise location and experience economies of scale, and the inability to engage in global strategic coordination could be its disadvantages. Under

managerial contract, the foreign firm brings in its operational efficiency into an organisation in which a domestic government had committed its own capital. Nonetheless, individuals, firms, multinational corporations or countries invest in other countries in order to increase profit, enter rapidly growing markets, reduce production and labour costs, consolidate on economies of scale and economic blocs by increasing trade and investment in countries that entered free trade agreement (trade blocs), and protect domestic markets by weakening potential competitive moves against their domestic business (defending home market against potential entrants). Another major reason why countries require FDI inflow is government policies to attract foreign investors. Further, the determinants of FDI include the size of the market, availability of raw materials, low labour and production costs, political stability, exchange rate stability, interest rate, macroeconomic policies, favourable regulatory authority as well as functional infrastructural facilities. Where these variables are inadequate, foreign investors are scared away (Achugudu and Igah, 2008).

FDI comes with its cost. The antagonists of free enterprise economy would argue that underlying every investment by foreigners are the huge profits that are bound to be repatriated. These foreign investors shy away from investing in high risk sectors of the economy like agriculture; where profits are uncertain and will tend to benefit the host country more. One cannot also neglect the fact that these foreign investors cannot be ruled out of subversive activities such as price rigging, mass poverty, unemployment and the ever-increasing gap between the rich and the poor in Nigeria. For example, the goods and services provided by most foreign investors in Nigeria are more or less meant for the middle and upper class a tiny minority of the population. The neglect of agriculture by these investors has attested to this suspicion. Foreign investors could interfere in the internal affairs of the host country by fuelling crisis or sponsoring agents of political and economic destabilisation for their selfish reasons or benefits.

Abuse of expatriate quotas is on the rise as jobs meant for Nigerians are taken over by expatriates who sometimes do not exist in records. Where they ever do, duties officially stated on their resident permits differ from the positions they occupy in these multinational companies. Several multinationals owned by foreign investors especially from India and China in the Health sector have been responsible for the importation, distribution and sales of fake and adulterated drugs in the country. It is important to express gratitude to the former Director General of NAFDAF, Prof Dora Akunyili who checkmated them to some extent. Furthermore, the activities of the oil multinationals in the Niger Delta region through oil spillage and gas flaring have adversely affected the socio-economic lives of the host communities. This has led to environmental degradation, increased crimes and social vices, political and ethnic crisis, instability in government and inadequate infrastructural development. The presence of foreign investors has polarised our customs, beliefs, traditions and values since most Nigerians now prefer imported goods and foreign culture to the African style. This has resulted in moral decay, increase in crimes and general degradation of societal values. These are evident in Nigeria. Despite these ills associated with these investments, the need for foreign direct investment to accelerate the pace of growth and development in Nigeria has become necessary.

Contributions of FDI Inflow to Growth and Development in Nigeria

FDI has both positive and negative effects on the Nigerian economy. Some of the positive contributions of FDI inflow in Nigeria include the exploration, discovery and exploitation of major mineral and natural resources, the development of major transportation networks, the introduction of investment banking, the

expansion in information and communication technology as a result of privatisation and the advent of FDI in the communication sector, improvement in GDP and increase in government revenue arising from foreign investments, as well as employment generation thereby reducing the rate of unemployment in the country. Other contributions of FDI inflow include technology transfer and managerial expertise, availability of goods and services, marketing techniques, modern branding and packaging, and infrastructural development. These have served as catalysts for economic development in the country.

For example, according to Achugudu and Igah (2008), the positive contributions of FDI to economic growth in Nigeria include exploration and discovery of mineral resources including oil, and the transfer of technology associated with crude oil exploration and refining. Without the multinationals like Shell BP, Mobil, AP, Unipetrol, Total, Texaco, Elf, Chevron and Agip, Nigeria would have been unable to extract crude oil and benefit from its by-product. Again, major transportation networks, construction of roads, bridges, and high rise buildings were mostly developed by foreign investors such as Julius Berger, RCC, Strabag, PW, etc. Others are developments in information and communication technology by telecoms giants such as MTN, Globacom, Airtel, etc. The contributions of these investors to the country's GDP, employment generation, variety of products and services are evident.

However, FDI has its negative effects on the Nigerian economy. These include over concentration of foreign investment in such sectors as oil and construction to the utter neglect of agriculture and small scale enterprises, which are the bedrock of the Nigerian economy. This means that agriculture has received severe negative attention from foreign investors. Same treatment is given to the health sector. Abuse of expatriate quotas is still on the rise as jobs meant for Nigerians are taken over by expatriates. The importation of foreign sub-standard goods by some foreign investors is worrisome. Agah (2007) summarises that Nigeria is unable to use FDI flows to stimulate growth in terms of its impact on domestic investment and the spillover effects, including the indirect links between FDI and poverty reduction through higher wages, generation of employment opportunities for the poor and FDI-induced increases in national income. Agah observes that FDI has been unable to produce the desired positive contributions in other areas like transfer of technology, particularly in the non-oil export sector and the development of human resources. For instance, Nigeria has the highest export levels in sub-Saharan Africa due to its abundant hydrocarbon deposits which has attracted the most FDIs in relative terms, although its FDI/Gross Domestic Product (GDP) was very low compared to other economies. Nigeria and Ghana have the lowest FDI/GDP among the five countries (Zambia, Mozambique, Ghana, Nigeria and Guinea) which were listed among the highest recipients of FDI in West Africa, notwithstanding the fact that they have the highest per capita income in the region (Ajibade, 2012). This implies that the importance of non-oil trade in relation to foreign direct investment is indispensable for sustainable growth and development.

Foreign Direct Investment as Channel of Technology Transfer

The bulk of technology dissemination is undertaken through internalized channels within the networks of transnational corporations (TNCs). Today, FDI has become an important source of new technology to the developing world, as illustrated by the amount of royalties and licensee fee receipts by developed-country TNCs from their foreign affiliates in developing countries (UNCTAD, 2011). However, the extent to which new, valuable technologies are transferred to host economies varies significantly between regions and countries. Some developing countries (e.g. China) have established certain technological capabilities with the help of FDI which countries of sub-Saharan Africa (including Nigeria) have failed to take advantage of the opportunity.

Nonetheless, there is little evidence of a significant contribution by FDI to technological capability accumulation in LDCs particularly countries of sub-Saharan Africa (UNCTAD, 2007). Japan provides an interesting example on the level of technology transferred and used by their affiliates abroad, compared with that of their parent firms. In host developing regions, the level of technology at affiliates is lower or at par with that at parent firms. However, when it comes to affiliates in newly industrializing economies in Asia, the technology level used there is not much different from that used in affiliates located in developed countries and four fifths of affiliates use the same level of technology at their parent firms in Japan as captured in table 1 below:

Table 1: Technological levels of Japanese manufacturing affiliates abroad: comparison with those of parent firms, 2008
(Distribution share)

	Level of technology		
Host region/country	Higher than in Japan	At par with Japan	Lower than in Japan
World	1.4	73.6	25.1
Developed countries			
European Union	3.9	86.7	9.4
United States	3.9	83.9	12.3
Developing countries			
Africa	-	33.3	66.7
Latin America and the Caribbean	1.9	68.5	29.6
West Asia	-	100.0	-
South, East and South-East Asia	0.7	71.1	28.2
China	0.9	69.7	29.4
Hong Kong, China	-	80.0	20.0
Memorandum:			
ASEAN4	0.5	70.6	28.8
NIEs3	-	79.5	20.5

Source: Japan, Ministry of Economy, Trade and Industry, 2010.

The acquisition of technology from parent firms is largely limited to some developing countries only. A few emerging economies (China, Mexico, Brazil, Republic of Korea, India and South Africa, in that order) were main technology recipients from United States TNCs, judging by data on payments of royalties and license fees (UNCTAD, 2011) as presented in Table 2 below:

Table 2: Royalties and licensee fee receipts by TNCs based in selected developed countries from their foreign affiliates, various years
(Millions of dollars)

Host region	Germany (2006)	Japan (2007)	United States (2009)
Total world	1 281	9 001	55 430
Developed countries	1 244	5 037	42 656
European Union	437	1 091	34 753
United States	652	3 400	-
Japan	70	-	3 276
Developing economies	30	3 965	12 774
Africa	3	15	522
Latin America and the Caribbean	6	148	5 011
West Asia	..	0	387
South, East and South-East Asia	9	3 354	6 854
South-East Europe and CIS	..	..	..

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Hypothesis

The hypothesis stated hereunder would guide the study:

H_0: Foreign direct investment inflow has no significant positive impact on economic growth in Nigeria

H_1: Foreign direct investment inflow has significant positive impact on economic growth in Nigeria

Decision rule: We accept H_0 if the coefficient value of FDI inflow with respect to GDP is greater than zero when regressed at 5% level of significance, otherwise we accept H_1. That is; $\Delta GDP/\Delta FDI > 0$.

Methodology and Data Sources

Secondary data collected from the statistical bulletin, annual reports and statement of accounts of the Central Bank of Nigeria (CBN), statistical reports of the National Bureau of Statistics (NBS) were used in the study. The data were annualised time series from 1986 to 2012. The choice of the period is to coincide with liberalisation and deregulation of the economy towards free market ideology and private sector led development policy of government. Both quantitative method of data analysis and descriptive statistics were used in the methodology. For the quantitative method, the study adopted a plain macro-econometric model of multiple regression equation with ordinary least squares (OLS) method used as the analytical technique. While the study utilised secondary annualised time series data for the quantitative analysis; tables and figures were used for the descriptive statistics. The macro-econometric model is as follows:

$\Delta GDP_t = f(\Delta FDIi_t, \Delta MOutp_t, \Delta MS/GDP_t, \Delta BD/GDP_t, \Delta GE/GDP_t)$ ... (1)

$\Delta GDP_t = \beta_0 + \beta_1\Delta FDIi_t + \beta_2\Delta MOutp_t + \beta_3\Delta MS/GDP_t + \beta_4\Delta GE/GDP_t + Dsap_t + \pi_t$ ... (2)

Where: ΔGDP_t = Change in gross domestic product as proxy for economic growth (the dependent variable)

$\Delta FDIi_t$ = Percentage change in Foreign Direct Investment inflow in Nigeria

$\Delta MOutp_t$ = percentage change in manufacturing output growth

$\Delta MS/GDP_t$ = change in the ratio of money supply to GDP (level of financial deepening)

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$\Delta GE/GDP_t$ = change in the ratio of government consumption expenditure to GDP

$_t$ = time trend (to capture secular trend in output growth during the period of study)

$Dsap_t$ = SAP dummy variable, β_0 = constant/intercept, β_1 = Parameter to be estimated, π_t = error term, f = functional notation

Note that $\Delta FDIi_t$, $\Delta MOutp_t$, $\Delta MS/GDP_t$, $\Delta BD/GDP_t$, and $\Delta GE/GDP_t$ are the explanatory variables.

A priori Expectation

Few other variables have been added to the explanatory power of FDI inflow on growth so as to get an appropriate fit for the r^2, and to determine their impacts on the growth of the economy. We anticipate that the estimating parameters β_1 and β_2 would be positive while β_3 and β_4 are indeterminate. If FDI inflow complements non-financial private sector investments in the real economy other than oil, β_1 will have positive sign, otherwise negative. It is thus expected that the coefficient β_1 would possess positive sign when estimated. This implies that the inflow of foreign direct investment is expected to drive growth in Nigeria. This is in consonance with economic theory where the ratio of change in GDP in response to a change in FDI inflow into the country is expected to be greater than zero.

Likewise, private sector investment in manufacturing sector is expected to have a positive impact on growth. It implies that β_2 would be positive. On the other hand, β_3 is indeterminate depending on whether financial deepening has reduces or increases capital flight. If it increases capital flight it will have negative sign, otherwise positive. Similarly, if government consumption expenditure compliments private consumption, β_4 would be positive, otherwise negative.

Table 3: Empirical Results of the Model

$\Delta GDP_t = 9.226420 - 80.36578\Delta FDIi_t + 0.387878\Delta Moutp_t - 0.068029\Delta MS/GDP_t - 21.85112\Delta GE/GDP_t$

S.td	(5.406926)	(76.77142)	(0.304118)	(0.134895)	(48.97037)
t*	(1.706408)	(-1.046819)	(1.275417)	(-0.504310)	(-0.446211)
P-value	(0.1034)	(0.3077)	(0.2168)	(0.6196)	(0.6602)
r^2= 0.54,		$\acute{r}^2$ = 0.44,		DW -stat 2.01,	N = 27

(Source: Regression results see appendix)

Table 4: Augmented Dickey Fuller (ADF) Unit Root Test Results

VARIABLES/ADF	LEVEL			FIRST DIFFERENCE		
	Intercept	Trend/Intercept	None	Intercept	Trend/Intercept	None
GDP	-3.72*	-3.91	-1.52	-3.83	-3.56	-3.94
FDI	-2.50	-3.43	-1.91	-3.36 *	-3.33*	-3.39*
MOUTP	-2.77	-2.65	-2.32	-7.58*	-7.98*	7.64*
MSGDP	-0.96	-1.84	0.16	-3.45	-3.77	-3.48
GEGDP	-6.69	-6.42	-5.87	-4.76*	-3.83	-5.24
CRITICAL VALUES (5%)	-2.99	-3.60	-1.96	-2.99	-3.60	-1.96

Source: Researchers Computation (e-view software output)

* ADF Stationarity of the data series at different levels of differencing.

Note that ADF values are taken in absolute terms and are greater than the critical values at the levels of difference

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Interpretation of Results and Discussion of Findings

Tables 3 and 4 give the regression results and the outcome of Augmented Dickey-Fuller test conducted to ascertain the stationarity level of the data series used in this study. From the unit root test in table 2, gross domestic product (GDP) and the ratio of government consumption expenditure to GDP shows stationarity at level. Nonetheless, percentage change in FDI inflow and percentage change in manufacturing output as well as the ratio of money supply to GDP (financial deepening) became stationary at the first level difference at intercept, trend and intercept, and at none respectively. However, their linear combination showed that the variables are stationary and cointegrated for a long run relationship. Durbin Watson statistic value of 2 is a clear indication that there is no autocorrelation in the model. The coefficient of determination r^2 is 0.54, meaning that about 54 percent of variation in GDP in Nigeria is caused by the explanatory powers of the independent variables. This means that 54% of GDP growth is explained by the explanatory power of the independent variables in the equation.

The coefficient of FDI inflow is -80.36578 with p-value of 0.3 which shows that inward FDI has impacted negatively on growth. The negative impact of FDI on economic growth in Nigeria could be attributable to neglect of agriculture and manufacturing by foreign investors. Since foreign investors are attracted to the oil economy, it implies that oil and gas proceeds do not reach majority of Nigerians (both directly and indirectly) and its contribution to growth is negative. This is exacerbated by huge capital flight and endemic corruption. Foreign investors often patronise the oil sector for cheap and quick returns from oil exploitation and easy repatriation of capital out of the country - a gross withdrawal from the circular flow. It therefore means that foreign investors are merely exploiting the economy and expatriating Nigeria's commonwealth without value addition. The investments in oil and gas have made Nigeria a rent-seeking economy where incentive for productivity is absent. This implies a negative relationship between GDP and FDI inflow in the country. A negative impact connotes disagreement with a priori expectation of the paper. This is worrisome to the economy's capacity to grow because a unit change in the inflow of FDI will translate into 80.37 unit decline in GDP in so far as oil and gas is the attraction. Therefore we accept the null hypothesis that FDI inflow has no significant positive impact on economic growth in Nigeria since the coefficient or slope of FDI inflow is negative or less than zero.

Moreover, the incessant security problems, including kidnapping and murder of foreign nationals have discouraged real investors from investing in the real economy. This situation is worsened by inadequate infrastructural facilities, corrupt practices, and lack of patriotism and commitment to national development (bad governance), the renter economy and Dutch disease, as well as inadequate energy and high cost of production in the country. The coefficient of manufacturing output growth (0.387878) has shown a positive but insignificant impact of manufacturing output on growth in Nigeria. This implies that if foreign investors invest in the manufacturing sector, the growth process of the economy would be enhanced since manufacturing has direct positive impact on growth in the country. Further, the ratio of money supply to GDP (level of financial deepening) depicts a negative impact on growth. It implies that money being supplied in the economy does not drive growth. Therefore, financial deepening possesses a negative sign because it increases capital flight in Nigeria. Government consumption expenditure also shows a negative impact on growth. This could be explained by government spending on unproductive investments wherein the greater proportion of which goes to corruption, waste, mismanagement and sub-standardisation. It implies that government expenditure does not compliment private consumption in the economy.

The coefficient of the SAP dummy (Dsap) gives a negative sign, meaning that structural adjustment or reform has not been able to drive economic growth in Nigeria. It means that liberal reforms have not enhanced growth in the economy. This suggests that the reforms were either irrelevant to Nigeria or were poorly implemented since adjustments did not enhance efficiency in the economy. Going by the trend analysis (stage of development) in the regression result, the trend of FDI inflow over time is positive but FDI movement predominantly to oil and gas is responsible for the negative impact of FDI in Nigeria.

Conclusion

The findings in this study have shown that FDI has not been utilised as channel of technology transfer in Nigeria. The poor state of industrialisation in Nigeria and uncompetitive nature of the economy in world trade has provided strong evidence to this conclusion. It is therefore important that Nigeria makes the necessary strategic policy choices in dynamic and new sectors in terms of trade and investment, based on a realistic assessment of the country's actual comparative advantage with respect to different sectors and in the context of the entire value chain since FDI inflows have enhanced growth in economies like China. This means that FDI inflow will promote technology transfer and accelerate growth only if appropriate FDI policies are put in place. Considering the volatility of FDI, the mobilisation of domestic resources as important instrument for financing investment and stimulating growth has become essential. This means that the primary responsibility for achieving growth and equitable development lies with the developing countries (including Nigeria) because the bulk of savings available for a country's investment will always come from domestic resources; whether the country is large or small, rich or poor. This point has been subscribed to by the United Nations (1967). It implies that FDI plays a complementary role when directed to productive sectors.

Policy Recommendations

Based on the findings in this study, we therefore recommend that government should as matters of priority formulate policies that will make the agricultural sector attractive in order to resuscitate the manufacturing sector and boost industrialisation in Nigeria. This will draw foreign investors to invest and transform the real economy because agricultural revolution is the foundation for sustainable development. Thus, FDI policies should be sector specific, with the real economy as the target. To achieve this, government and policymakers should for example implement a zero-tax incentive for the first five years to foreign investors that would like to invest in agricultural and manufacturing sectors in the country. Government should make attractive policies on FDI to lure foreign manufacturers to set up employment generating factories in the country. This could be achieved by granting subsidies such as preferential tax treatment, tax free regimes or free factory buildings and land to foreign investors. Government should also attract genuine foreign investors to invest in the health sector because a healthy people would drive a healthy and prosperous economy. This should be complimented by attitudinal change on the part of Nigerians because it is difficult to develop in an atmosphere of negative attitudes. Nigerian people should be most enterprising and productive in order to leverage on the FDI in the country. Above all, the appalling security challenges in the country should be addressed since foreign investors shun countries that are conflict-prone wherein their lives and investments are not secured. To achieve peace and security, government should therefore curb corruption (through death by hanging) and address the problems of unemployment, poverty and educational decadence in the country.

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Appendix:Regression Results

Dependent Variable: GDP
Method: Least Squares
Date: 07/31/13 Time: 12:25
Sample: 1986 2012
Included observations: 27

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.226420	5.406926	1.706408	0.1034
FDI	-80.36578	76.77142	-1.046819	0.3077
MOUTP	0.387878	0.304118	1.275417	0.2168
MSGDP	-0.068029	0.134895	-0.504310	0.6196
GEGDP	-21.85112	48.97037	-0.446211	0.6602
DSAP	-1.290611	2.641896	-0.488517	0.6305
T	0.135729	0.307008	0.442102	0.6632

R-squared	0.536749	Mean dependent var	5.093778
Adjusted R-squared	0.397773	S.D. dependent var	6.395934
S.E. of regression	4.963453	Akaike info criterion	6.260494
Sum squared resid	492.7173	Schwarz criterion	6.596452
Log likelihood	-77.51667	F-statistic	3.862187
DurbinWatson stat	2.010649	Prob(F-statistic)	0.010110