

Foreign Direct Investment and Non-Oil Exports in Nigeria

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Abstract

This study focuses on foreign direct investment and non-oil exports in Nigeria. The study examined data from 1986 to 2020, obtained from the CBN statistics report for 2020. Ordinary Least Squares (OLS) is an econometrics approach used in this study. The findings indicate that FDI influence on non-oil export is positive but not statistically significant. The exchange rate favourable influence on NOE, was not statistically significant. Following a thorough assessment of the study's data, it is clear that investment in non-oil industries has a greater practical influence on economic growth than the oil business. A state of emergency is being declared in the non-oil business, emphasising the importance of diversification in order to avoid overdependence on oil. It is recommended that the government and financial institutions take rapid regulatory action to boost the impact of foreign direct investment (FDI) on Nigeria's non-oil export income.

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Background to the Study

Foreign investment is the cross-border investment of people, businesses, and governments in physical or financial assets with the main purpose being the maximization of their goals. According to Abegunde & Oniyinde (2020), there are two primary classifications for this kind of investment: direct investment and portfolio investment. Unlike foreign portfolio investment (FPI), which includes making investments in equities and other markets, foreign direct investment (FDI) refers to the movement of cash across international borders. While portfolio investments carry greater risks for the host nation since investors may withdraw their money at any time, foreign direct investment (FDI) usually entails long-term commitments like building factories (Martinez & Pina, 2009).

Nigeria had a USD 909.54 million rise in foreign direct investment (FDI) during the second quarter of 2019. From 2007 to 2019, the average foreign direct investment (FDI) in Nigeria was USD 1233.61 million. It peaked in the fourth quarter of 2012 at USD 3084 million and fell to a low of USD 314.44 million in the same quarter the previous year. Nigeria has always sought measures to draw foreign direct investment (FDI); yet, the country's rating in the World Bank's Doing Business index – 146th out of 190 – remains relatively low. For Nigeria to fully benefit from foreign direct investment (FDI), including economic development, increased domestic investment, technology infusion, job creation, and positive externalities, an investment-friendly climate is essential (Abegunde & Oniyinde, 2020).

Nigeria faces difficulties despite its attempts to enhance the economic climate, including poor infrastructure, security issues, and a dearth of often signed International Investment Treaties (IITs) (Oguh, 2016). With their promises of tax benefits, expedited clearance procedures, transparent dispute resolution procedures, and capital repatriation guarantees, IITs and BITs play a crucial role in luring in foreign investment. Global value chains are significantly shaped by international commerce and foreign direct investment (FDI); yet, research on FDI tends to concentrate more on flows from developed to developing nations than from developed to developed (Alabi, 2019).

FDI is an important source of capital input that boosts productivity, helps create new technologies and manufacturing methods, and brings in money for the federal government in the form of taxes. Given its benefits, it is not unexpected that FDI is acknowledged as a tool for growth and development (Pegkas, 2015; Umeora, 2013).

Proponents of higher exports other than oil contend that this industry has the capacity to propel Nigeria's economic expansion. In particular, the value chain approach to agriculture is seen to be a way to encourage industrialization, provide jobs, and support a variety of other activities. Nigerian governments have pursued a number of policies to increase exports other than oil, including import substitution in the 1960s, trade liberalization through the Structural Adjustment Programme in the mid-1980s, and incentives to export in the 1990s, which targeted Small and Medium Scale Enterprises

(SMEs) to boost exports of local products and increase productivity. On the other hand, critics raise doubts about the substantial boost to GDP that non-oil exports provide, highlighting the necessity of improving local content and technology transfer in the sector that depends on oil. Divergent viewpoints on the optimal course of action are reflected in the continuing discussion.

With its wealth of natural and people resources, Nigeria has the potential to become the greatest economy in Africa and a major participant in the world. By effectively utilizing these resources, Nigeria might create a thriving economy, significantly lower rates of poverty, and provide universal healthcare for its people. However, the over-reliance on oil has made it difficult to achieve these goals and has caused the decline of important productive sectors. The non-oil sector, which has historically been the main source of income for the country, has been particularly hard hit by this overdependence (Odo, S.I., et. al., 2016) The persistent reduction in budgetary allocation, decreased agricultural output, and the conviction that a strategic focus may bring the sector back to its previous level of importance have prompted research into alternate approaches, such as foreign direct investment, to boost the non-oil economy.

The purpose of this article is to fill in the knowledge gaps that currently exist on the relationship between non-oil exports and FDI in Nigeria. The study primarily looks at whether the body of research on the subject validates the ideas that increasing foreign direct investment (FDI) and careful analysis of the non-oil sector may lead to economic growth (Oniyinde, 2020).

A lot of research has been done on the flow of foreign direct investment (FDI) from rich to developing nations, but not much has been written on Nigeria in relation to FDI, currency rates, and economic growth. In light of the importance of FDI and non-oil exports, this study investigates the actual relationship between FDI and non-oil exports in Nigeria.

FDI and Non-Oil Exports

The categories of economic activity that are either unrelated to or separate from the petroleum and gas sector are included in non-oil foreign direct investment. It is made up of industries like real estate, construction, manufacturing, agriculture, telecommunication, services, finance, tourism, and health. Since the 1970s, focus has been diverted from non-oil foreign direct investment to a "petroleum mono-cultural economy" due to the commercial discovery of crude oil. The export of petroleum was increasing while exports of non-oil products were decreasing, which accelerated and increased the dominance of oil exports over non-oil products. Particularly noticeable was Nigeria's shift from being a net exporter of agricultural items to being a significant importer of those same commodities between 1973 and 1982.

Nominal non-oil export revenues decreased from N363.5 million in 1973 to N203.2 million in 1982, according to Osuntogun et al. (1997). In comparison, oil exports increased

dramatically during the same time, from around N2 billion to over N8 billion in nominal terms. The drop was considerably more pronounced in real terms. According to Onwualu (2009), the following are the main barriers to the non-oil sector's expansion: Poor infrastructure that presented a significant problem for the country. Another militating element is supplying side limitations brought on by poor technological sophistication. This limitation is especially noticeable in the agriculture industry. Other factors include inadequate access to financing, a weak institutional structure, and a low degree of human capital development. As a result, administrations in Nigeria have worked to expand the economy's non-oil sector throughout time by enacting laws and providing incentives that promote economic diversification.

Foreign Direct Investment in the Nonoil Sectors in Nigeria

Various findings and submissions have been obtained from research on foreign direct investment (FDI) and growth in Nigeria (Roberts, 2016). Studies have also demonstrated the prevalence of FDI overconcentration in the extractive and oil industries. Numerous academics have offered numerous reasons for this tendency they have seen (Aje, 2008). Numerous oil-producing nations have historically had procyclical fiscal policies (Akindoyemi, 2011). Following a prolonged decline in prices, government spending, investment, and consumption—all buoyed by high commodity prices—fall precipitously (Ebekozi, 2015).

Even though Nigeria's consecutive governments have promoted an excessive amount of foreign direct investment (FDI) in the oil sector, FDI in non-oil sectors has been supported at a moderate and modest rate. For example, the building industry plays a central role in every country's economy as it plays a significant role in the process of growth. Every time the economy needs a boost, the building industry is the one that provides it (Adigwe, 2015). As a result, the building sector plays a crucial role in the development of a country's economy, particularly in Less Developed Countries (LDCs) like Nigeria. Therefore, in order to accelerate economic growth, particularly in the areas of building and construction, infrastructure, investment, and development, as well as to raise GDP, Nigeria needs a significant amount of foreign investment in the construction sector (Idoko, 2015). In the first quarter of 2019, the construction industry contributed 4.09 percent of Nigeria's GDP, while manufacturing contributed 9.20 percent (GDP Report, 2019).

Internalization Theory of Foreign Direct Investment

An alternate viewpoint on foreign direct investment (FDI) was offered by Buckley and Casson (1976), who moved the emphasis from country-specific variables to industry- and firm-level determinants. Building on Coase's 1937 broad-based framework, their concept—known as internalization theory—emphasized the significance of intermediate inputs and technology in the formation of Multinational Corporations (MNCs). Three fundamental tenets form the basis of the theory:

- a. In an imperfect market, businesses aim to maximize profits.
- b. Internal markets are encouraged by flaws in the intermediary product marketplaces.

- c. MNCs are the product of the global internalization of markets.

Due to high transaction costs, it may be difficult for a company engaged in research and development to transfer new technology, create a new process, or generate inputs, or to sell inputs to unaffiliated enterprises. When faced with this obstacle, a company may choose to internalize by integrating backward and forward. This is using technology produced by one subsidiary across other subsidiaries or using one subsidiary's product as an input for another. Foreign Direct Investment is the result of internalization across national borders (FDI). Five types of market imperfections that lead to internalization were identified by Buckley and Casson (1976). These imperfections included the need for discriminatory pricing in order to effectively exploit market power, unstable bargaining situations in bilateral monopolies, the difficulty for buyers to accurately estimate the prices of goods, and government interventions creating incentives for transfer pricing in international markets. Although Buckley and Casson acknowledged the possibility of host government involvement, they did not investigate how various industries might be affected by this risk's varying degrees.

Empirical Literatures

There is an ongoing debate regarding the impact of Foreign Direct Investment (FDI) on non-oil exports in various economies, resulting in conflicting evidence. Several studies contribute to this discussion:

A traditional content analysis of the literature on non-oil foreign direct investment (FDI) in Nigeria from 1981 to 2009 was carried out by Sagagi & Aliyu (2016). Their research cast doubt on assertions linking Nigeria's recent economic expansion to the non-oil sector and suggested that regulatory bodies create programs to direct foreign direct investment (FDI) toward the expansion of the non-oil sector.

From 1986 to 2016, Akpan, et. al. (2017) looked at the connection between FDI and productivity in Nigeria's agriculture subsector. Livestock sub-sector productivity showed a negative association with FDI over the long term, but crop sub-sector productivity showed a favorable relationship. The report suggested implementing international best practices in national policies to draw foreign direct investment and steady macroeconomic fundamentals.

Odo, et. al., (2017) looked into how foreign direct investment (FDI) affected Nigeria's economic growth between 1981 and 2013, and found a substantial, robust, and positive correlation between FDI and GDP. The report suggested that in order to draw in more FDI, a favorable business climate be created.

Okumoko, et. al., (2018) looked at how foreign direct investment (FDI) affected Nigeria's economic expansion between 1981 and 2016. The study's finding that FDI had little effect on GDP highlights the necessity of strong infrastructure in luring FDI and promoting economic expansion and performance.

Abegunde and Oniyinde (2020) Nigeria's non-oil sectors and found that FDI was excessively concentrated in the extractive and oil industries. In order to draw in investors, the research recommended a shift toward non-oil industries including tourism, information technology, agriculture, transportation, education, and health.

The long-term link between the currency rate, foreign direct investment, and economic development in Nigeria was investigated by Onabote et al. (2022) using the Autoregressive Distributive Lag (ARDL) approach from 1981 to 2018. The study concluded that foreign direct investment (FDI) positively contributed to economic growth and suggested measures to increase investor confidence as well as establish a supportive atmosphere for private enterprises. Acknowledging the limitations of existing studies, this current research aims to bridge the gap by studying the relationship between FDI and non-oil exports in Nigeria from 1982 to 2022.

Methodology

This study utilized a quasi-experimental research methodology in order to examine the connection between Nigeria's non-oil exports and foreign direct investment. For this study, secondary data were used from the National Bureau of Statistics (NBS), the Central Bank of Nigeria (CBN) annual report, and the Statistical Bulletin (2021). Time series data make up the majority of the gathered data, and the dependent variables are non-oil exports and non-oil export earnings. The inflation rate, exchange rate, and foreign direct investment are the independent variables.

Model Specification

To examine the relationship between foreign direct investment and non-oil exports in Nigeria, this study used an ordinary least squares regression model using non-oil exports, exchange rate (EXR), inflation rate (INFR), and foreign direct investment (FDI) as variables, as well as the error term (u). The model is stated in the following functional form:

Foreign direct investment (FDI) and the exchange rate (EXR) together influence GDP. That means: The formula for calculating

$$\text{NOE is } F(\text{FDI, EXR}) \dots \dots \dots 1$$

However, expressing equations (1 and 2) in econometric terms yields equations (3 and 4) as follows:

$$\text{NOE} = \beta_0 + \beta_1 \text{FDI} + \beta_2 \text{EXR} + u \dots \dots \dots 2$$

- Where;
- NOE denotes non-oil exports.
- FDI means Foreign Direct Investment.
- EXR = Exchange Rate.
- U = error term.
- β_0 : Intercept/constant term.

The economic a priori expectation for the model parameters is: $\beta_1 > 0$, $\beta_2 < 0$, and $\beta_3 < 0$.

Analysis and Results

Table 1: Augmented Dickey -Fuller unit root test results

VARIABLES	ADF STAT	1 ST DIFF	CV	OI
NOE	-3.990460	-	-2.935673	I(0)
FDI	-2.595421	-5.076382	-2.935673	I(1)
EXR	1.305403	-5.284137	-2.935673	I(1)
ECM	-5.814145	-	-2.935673	I(0)

Source: EViews outputs

Not all the variables were found to be stationary at level (0), according to the results of the Augmented Dickey Fuller test for unit root, which showed that all the variables were evaluated. In particular, it was discovered that Non-Oil Exports (NOE) were stationary at level I (0), suggesting that they are integrated of order 0. Conversely, the Exchange Rate and Foreign Direct Investment (FDI) remained steady at the first difference I (1), indicating that they are integrated of order 1, having undergone one difference, which made them stable.

To ascertain whether or not a long-run relationship existed between the dependent variable and the set of independent variables, a co-integration test was necessary in light of the results of the stationary tests. Given the possibility of coinciding orders of integration between the dependent variable and two of the independent variables, this step is essential to preventing a misleading regression scenario.

Table 2: Johansen Co integration Test

Unrestricted Cointegration Rank Test (Trace)

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.555977	40.80537	29.97707	0.0029
At most 1	0.232917	12.37949	15.94471	0.1340
At most 2	0.008497	0.317195	3.481466	0.5394

Source: EViews Output

It is clear from the co-integration table that the variables under investigation have at least one co-integrating equation. The null hypothesis (as presented in Table 3) that there is no co-integrating connection has a p-value of less than 0.05 when compared to the trace statistics. This suggests that there is enough data to rule out the null hypothesis.

Moreover, the trace statistic value (40.70536) is greater than the crucial value (29.79707) at the significance level of 0.05. This finding supports the null hypothesis' rejection by showing that there is, in fact, a co-integrating connection between the variables. In conclusion, the statistical data points to the existence of at least one co-integrating equation for the variables under investigation.

Table 3: Parsimonious ECM test
Dependent Variable: D(NOEX)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(NOEX(-1))	-0.480479	0.107550	-4.467496	0.0001
C	-1.657397	0.552543	-2.999578	0.0058
D(EXR)	0.058549	0.030484	1.920659	0.0654
D(EXR(-1))	0.057945	0.030004	1.931224	0.0640
D(EXR(-2))	0.053785	0.027053	1.988158	0.0570
D(FDI)	0.159159	0.106503	1.494404	0.1467
D(FDI(-3))	-0.077467	0.111721	-0.693392	0.4940
ECM(-1)	-1.347385	0.175028	7.698108	0.0000
R-squared	0.745932	Mean dependent var		0.314944
Adjusted R-squared	0.680063	S.D. dependent var		3.900246
Prob(F-statistic)	0.000001			

Source: EViews Output

The unit root Augmented Dickey Fuller test reveals that not all variables were steady at level 0. In example, the currency rate and foreign direct investment (FDI) were constant at the first difference I (1), indicating that they are of order 1, although non-oil exports (NOE) remained stationary at level I (0).

The co-integration table indicates that there is at least one co-integrating equation among the variables. The trace statistics have a p-value of less than 0.05, hence the null hypothesis of no co-integrating relationship is rejected. This rejection is further confirmed by the trace statistic value being higher than the critical value, indicating that the variables are co-integrating. With a convergence speed of 134.7 percent, the error correction term (ECM) suggests a strong adjustment of real GDP to equilibrium one period later. The error correction model is used because the ECM (-1) coefficient is statistically significant and negative.

The findings indicate that Nigeria's non-oil exports (NOE) are positively impacted by foreign direct investment (FDI), but statistically not significantly. The Exchange Rate influences NOE positively but not significantly. With an adjusted R-squared of 0.680063, the independent variables that are included account for 68% of the changes in NOE. At

the 5% level, the F-ratio is very significant, indicating that the model fits the data well. With a Durbin Watson (DW) value of 1.689402, the model appears to have little to no autocorrelation.

Conclusion

The study's findings suggest that investment in non-oil industries has a bigger practical impact on economic development than the oil business. A state of emergency is declared in the non-oil industry, emphasising the importance of diversification in avoiding over-reliance on oil. Our findings indicate that the exchange rate and foreign direct investment have a minor but positive influence on GDP. The report emphasises the importance of timing in policy implementation and proposes regulatory tools to drive FDI into non-oil industries. To support the growth of non-oil exports, prompt action is required to regulate foreign direct investment and eliminate exchange rate volatility. It is advised that the government and financial agencies take prompt regulatory action to improve the impact of foreign direct investment (FDI) on Nigeria's non-oil export revenues. Such rules should be constructed in such a manner that they encourage prospective business owners while also increasing economic production levels. This may be achieved by streamlining FDI, speeding up approval processes, and providing financial incentives for non-oil industry investments. To limit exchange rate fluctuations in the Nigerian economy, the government should implement realistic steps. For Nigeria and other nations to maintain balanced trade relations, the currency rate must stay stable. This can be accomplished by implementing solid monetary policies, intervening in the foreign exchange market, and taking other steps to ensure currency rate stability and predictability. A stable currency rate facilitates international trade and boosts investor confidence.

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