FOREIGN DIRECT INVESTMENT AND NIGERIA ECONOMY: AN EMPIRICAL RE –EVALUATION

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Abstract: The study examined the effect of Foreign Direct Investment (FDI) on the Nigeria economy. Secondary data were collected through extraction from the Central Bank of Nigeria's statistical bulletins. The data collected covered 14years (2000 – 2013) which encompassed Foreign Direct Investment (FDI) and Foreign Reserves (FR) (as independent variables) and Gross Domestic Product (GDP) (as the dependent variable) signifying the Nigeria economy. The data were analysed through the use of linear regression and correlation techniques. The formulated hypotheses were tested with the use of t-test and F-ratio. Findings suggest that the independent variables (FDI and FR) have positive impact on the independent variable (GDP). This means that any increase in FDI or FR will have a commensurable increase in the GDP and vice versa. It was therefore recommended that sustainable reforms like the National Economic Empowerment Development Strategy (NEEDS) should be a continuous policy in Nigeria and the government should fix the dilapidated infrastructure in the country in order to bring home more investors. It was also suggested that the economy should be made more secured for lives and property. All these will go a long way to boost the FDI and in turn boost the GDP of Nigeria.

Key Words: Foreign Direct Investment, Foreign Exchange, Foreign Reserves, Investors, Infrastructure.

1. INTRODUCTION:

It is a known fact that investment plays a major role in the growth and development of a country's economy and it helps immensely in the provision of employment opportunities and creation of wealth for the citizens. Investment is the engine that drives the wheels of growth and development of many nations (Asiedu, 2002).

The Foreign Direct Investment (FDI) in Nigeria was intended to reposition the economy as a result of series of economic reforms put in place by the elected government of President Olusegun Obasanjo in 1999 after many years of military rule. The main thrust of Obasanjo's economic policy was the national economic empowerment and development strategy (NEEDS) which aimed at empowering Nigerians and classified Nigeria as an investment friendly country.

It was on this basis that the various governments championed by Obasanjo have embarked on Liberalisation of key sectors of the economy through privatization, putting in place, incentives and enabling environment that would attract foreign and local investments. Appreciable foreign investment has been recorded following the sale of government shares in banks, non performing companies' upstream petroleum sector and parastatals. (David, 2001).

However, in spite of the achievement of the consecutive democratic governments of Nigeria, in striking to create an enabling environment to attract foreign direct investment flows, little has been achieved. A critical analysis of foreign direct investment in the country so far has revealed only a limited number of multinationals and their subsidiaries patronizing the Nigerian Economy.

Therefore the paper is written to:

i. To examine the problems and prospects of foreign direct investment in Nigeria
ii. To examine the pattern and trend of foreign direct investment in the Nigerian economy; and
iii. To investigate the effect of foreign direct investment on the Nigeria economy.

2.2. LITERATURE REVIEW:

2.2.1 The Concept of Foreign Direct Investment (FDI)

Foreign Direct investment arises when a home country invests its assets in another country, thus taking the form of capital down in the importing country of a subsidiary company of the investing country (Kosteleton and Liargovas 2000).

According to Blandom (2001), foreign direct investment is an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor.

The need for foreign direct investment is rolled out in the views that developing countries could neither save nor import enough goods from abroad to satisfy their investment requirements which led to some development in foreign investment in order to achieve their objectives. Many countries and continents therefore see foreign direct investment as an important element in their strategy for economic development because this type of investment is seen as an amalgamation of capital, technology, marketing and management (UNCTAD, 2000)

2.2.2 Types of Foreign Investment

i. Public Foreign Investment-: This refers to the investment of foreign government and government agencies in the economy of a developing nation. Here, the foreign government places some investments on capital items in the developing countries which may bring about their development. This can be done by financing the project directly (direct investment) or through an agent in the developing country (indirect investment) who finances the project on behalf of the foreign government. The investment can be in Agriculture, industrial or commercial sector, construction of roads or in terms of managerial services with the aim of making life more bearable for the citizens of the developing countries.

ii. Private Foreign Investment – This is the investment of private foreign funds in the economy of a developing nation, usually in form of import substitution industries by Multinational Corporations which carry with them technology of production, management service, diverse business practices including cooperation arrangement, advertising and transfer pricing on the resources.

2.2.3 An Evaluation of Foreign Direct Investment on the Nigerian Economy

According to Asiedu (2002), international flows of capital reduce the risk faced by owners of capital by allowing them to diversify their lending and investment. The global integration of capital market can in turn contribute to the spread of best practices in corporate governance, accounting rules and legal tradition. This global mobility of capital also limits the ability of government to pursue bad policies. This is yet to be adhered to by the Nigerian government.

Also, foreign direct investment could play a role in supplementing domestic relationship and induce local people with resources to engage in entrepreneurship activity (Nunenkamp and Spatz, 2003).

However, many factors have affected foreign direct invest in Nigeria. The factors are:

i. Political Instability – In a country where the atmosphere is not conducive politically, foreign direct investment are not likely to invest. Any investor should have future prospect of the economy he is investing in. This has affected the inflows of capital into Nigeria economy in the recent time.

ii. Facilities for the remittance of profit, dividend and interest. If an investor is coming to a country, he must be sure of repatriating his income with ease, no matter how much the investor loves such country. This factor has not affected Nigeria negatively.

iii. Foreign exchange control – This has to do with the foreign exchange rules and regulations and their effects on the investors before an investment can be made.

iv. Security of Investment – In case of investment decision in a country, the fear of whether the company to be sited in the country will be indigenized by way of promulgation of laws, acts or decree is always thought of. This also impacted on the decision making of the investor.

v. Manpower – The provision of labour and the technical skill of the labour force of the country are very critical when making foreign investment decision. The level of return on profit will be low due to the small size of effective market and the difficulty of getting expertise.

Therefore to encourage foreign investment in Nigeria, the government of the country for the past two decades, has introduced some incentives in form of allowing 100% ownership of business by foreign investors where there is no discriminating restriction, allowing full repatriation of profit by foreign inventors; and investing heavily in improving infrastructure, especially power and transportation aimed at reducing the cost of doing business in Nigeria (CBN, 2013).

In Nigeria today, Foreign Direct Investment is seen to be a major source of foreign capital flow compared with other foreign investments such as portfolio investment, which is negligible in Nigeria (Obamuyi, 2002). This trend has assisted in building up the country's reserves over the years, though, the impact has been grossly depleted by the constant depreciation of the national currency (naira) against the hard currencies of the world.

3. METHODOLOGY:

Secondary data were used in the study. The data were collected through extraction from the Central Bank of Nigeria annual reports and statistical bulletins covering 14 years (year 2000 to year 2013).

Model Specification

The study entails the determination of the positive or negative relationship between the gross domestic products of Nigeria, (the variable representing Nigerian economy) and the inflow of both foreign direct investment and foreign reserves.

The model is as stated below:

$Y = f(X_1)$ and $Y = f(X_2)$

Where Y = Gross Domestic Product (GDP)

X_1= Foreign Direct Investment (FDI)

X_2= Nigerian Foreign Reserves (FR)

The formula above can be expressed further as:

$Y = B_o + B_1 X_1 + B_2 X_2 + U$

Where:

Y =Gross Domestic Product

X_1=Foreign Direct Investment

X_2= Foreign Reserve

B_1, B_2 = Parameters representing regression coefficients

B_o = the intercept

U = Stochastic variable

4. DATA ANALYSIS:

The Ordinary Least Square (OLS) technique of regression analysis was employed in determining the values of the variables established in the study.

The data were as shown below.

Table 1. GROSS DOMESTIC PRODUCT (GDP), FOREIGN DIRECT INVESTMENT (FDI) AND FOREIGN RESERVES (FR) (2000 -2013)

Year	GDP (N'm	FDI(N'm	FR (N'm
2000	6,713.57	6,453.60	1,090,148.00
2001	6,895.20	4,937.00	1,181,652.00
2002	7,795.76	8,988.50	1,013,514.00
2003	9,913.52	13,534.20	1,065,093.00
2004	11,411.07	20,064.40	2,478,620.00
2005	14,610.88	14,195.70	3,835,433.00
2006	18,564.59	15,931.40	5,617,317.00
2007	20,657.32	4,324.86	6,548,921.00
2008	24,296.33	4,659.16	7,334,295.00
2009	24,794.24	3,810.25	6,543,628.00
2010	54,204.80	3,812.60	4,953,779.00
2011	63,258.58	5,304.11	5,426,974.00
2012	71,186.53	3,199.89	6,994,308.00
2013	80,222.13	6,740.00	6,837,540.00

Source: Central Bank of Nigeria, Statistical Bulletins 2000 -2013.

5. TEST OF HYPOTHESIS:

The following hypotheses were tested using the students t –test and the F- ratio to establish the relationship among the variables and to check whether our test is statistically significant.

Hypothesis 1.

H_0: Foreign investment does not have any significant effect on the Nigerian economy

H_1: Foreign investment has a significant effect on the Nigerian economy

Model Summary

Model	R.	R –Square	Adjusted R-Square	Std. Error of the Estimate
1	.533[a]	.284	.224	22843.84257

a. Predictors: (Constant) , FDI

ANOVA[b]

Model	Sum of Squares	Df	Mean Square	F	Sig.
1.Regression	2.479E9	1	2.479E9	4.751	0.49[a]
Residual	6.262E9	12	5.218E8		
Total	8.741E9	13			

a. Predictors : (Constant), FDI
b. Dependant Variable : GDP

Coefficients[a]

Model	Unstandardized Coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	beta		
1.Constant FDI	51035.355 2.382	11572.181 1.093	2.479E9 5.218E8	4.410 2.180	.001 .049

a. Dependent variable: GDP.

From the above analysis the R value 0.533 shows the level of correlation between the GDP and FDI while the R^2 value of 0.284 implies that 28.4 percent variation in the GDP growth is explained by FDI values. The p – value < 0.05 level of significance which makes the test statistically significant.

Also, the F – statistic value of 4.751 is greater than the F – critical value of 4.747. Based on this, the null hypothesis is rejected while the alternative one is accepted; meaning that the foreign direct investment has a significant effect on the Nigerian economy.

Hypothesis 2

H_o: Foreign Reserve (FR) does not have any significant impact on the Nigerian economy.

H_I: Foreign Reserve (FR) has significant impact on the Nigeria economy.

Model summary

Model	R	R – square	Adjusted R – square	Std. error of the estimate
1.	.656[a]	.430	.383	20371.67835

a. predictors: (constant), FR

ANOVA[b]

Model	Sum of square	Df	Mean square	F	Sig.
Regression	3.761E9	1	3.761E9	9.063	.011
Residual	4.980E9	12	4.150E8		
Total	8.741E9	13			

a. Predictors: (constant), FR
b. Dependent variable: GDP

Co-efficient[a]

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std Error	Beta		
1.(constant)	-3.024	11242.753		.000	1.000
FR	.007	.002	.656	3.010	0.011

a. Dependent Variable: GDP

From the result above, the R- value of 0.656 shows the level of correlation between FR and the Nigerian GDP, and the 0.430 value of R^2 implies that 43% variation in the rate of GDP growth is explained by the foreign reserve while the remaining 77% variation in GDP growth was determined outside the foreign reserve variable. The p-value of 0.011 which is less than 0.05 level of significance makes the test statistically significant.

Also from the Anova table, the F statistic of 9.063 depicts a greater value than the F critical value of 4.747 which suggests that the null hypothesis should be rejected while the alternative hypothesis is accepted; meaning that foreign reserve (FR) has significant impact on the Nigerian economy.

6. CONCLUSION AND RECOMMENDATION:

It is a known fact that Nigeria has been a major recipient of foreign direct investment under the democratic dispensation been witnessed in Nigeria. However, the values as shown in the table are of dwindling trend which has not been encouraging.

The study also revealed that the foreign direct investment (FDI) has significant impact on the aggregate Gross domestic product (GDP), though the share of FDI impact on the total gross domestic product is just of moderate value (i.e. 53.3%, the R value). This can be due to the underdevelopment of the economy in terms of infrastructure and insecurity challenges which have not encouraged investors.

It was also discovered from the study that the foreign reserve has positive impact on the GDP of Nigeria with 0.656 correlation coefficient between the two variables.

Generally, from the result of F-ratio in both cases, the tests have been statistically significant, and hence it can be concluded that FDI has contributed meaningfully to the growth of GDP in Nigeria so also is the foreign reserve.

Based on the above, the researcher recommends as follows:

(i) The Nigerian government should try and make the economy investment – friendly by fixing the decapitated infrastructures and by tacking the high level of insecurity so that the economy can be patronized by would- be investors.

(ii) Sustainable economic reform like the national economic empowerment development strategy (NEEDS) should be made irreversible, as this would guarantee inflow of foreign direct investment.

(iii) The government as a matter of urgency should strengthen its civil and political institution to firmly secure economic and social stability in the long run and diversity the economy to become multiproduct type.

(iv) The government should not rest on its oars in fighting the corruption that has nearly engulfed the various sectors of Nigerian economy. This could go a long way to portray Nigeria in the good records of foreign nations and foreign investors.

Therefore, if all the above – mentioned recommendations are implemented, it is believed that, there will be a sustainable increase in the foreign direct investment in Nigeria and an increase in the foreign reserves which will in turn boost the Gross domestic product (GDP).

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